

LETSHEGO HOLDINGS (NAMIBIA) LIMITED

Registration number: 2016/0145

ISIN: NA000A2DVV41

SHARE CODE (NSX): LHN

**ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2019**

LETSHEGO HOLDINGS (NAMIBIA) LIMITED
ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2019

COMPANY INFORMATION

Registration number:	2016/0145
Registered address:	18 Schwerinsburg Street P. O. Box 11600 Windhoek Namibia
Company Secretary:	Bonsai Secretarial Compliance Services P. O. Box 90757 Windhoek, Namibia
Auditor:	PricewaterhouseCoopers P. O. Box 1571 Windhoek, Namibia
Sponsoring Broker:	IJG Securities (Pty) Limited P. O. Box 186 Windhoek, Namibia
Transfer Secretary:	Transfer Secretaries (Pty) Limited P. O. Box 2401 Windhoek, Namibia

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LETSHEGO HOLDINGS (NAMIBIA) LIMITED
ANNUAL FINANCIAL STATEMENTS
DIRECTORS' RESPONSIBILITY STATEMENT
for the year ended 31 December 2019

The directors are responsible for the preparation and fair presentation of the consolidated annual financial statements and annual financial statements of Letshego Holdings (Namibia) Limited, comprising the statements of financial position at 31 December 2019, and the statements of comprehensive income, changes in equity and 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, and the directors' report, in accordance with International Financial Reporting Standards, and in the manner required by the Namibian Companies Act.

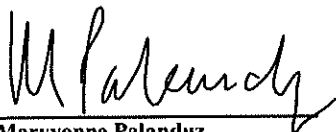
The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk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

The directors have made an assessment of the ability of the company and the group 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.

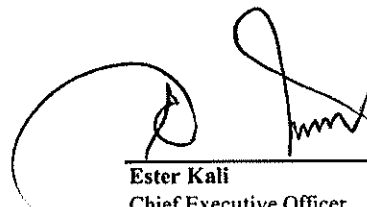
The auditor is responsible for reporting on whether the consolidated and separate annual financial statements are fairly presented in accordance with International Financial Reporting Standards, and in the manner required by the Namibian Companies Act.

Approval of the annual financial statements

The annual financial statements of Letshego Holdings (Namibia) Limited, as identified in the first paragraph, set out on pages 9 to 57, were approved by the directors on 26 May 2020 and signed on their behalf by:



Maryvonne Palanduz
Chairperson



Ester Kali
Chief Executive Officer



Independent auditor's report

To the Members of Letshego Holdings (Namibia) Limited

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Letshego Holdings (Namibia) Limited (the Company) and its subsidiaries (together the Group) as at 31 December 2019, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of Namibia.

What we have audited

Letshego Holdings (Namibia) Limited's consolidated and separate financial statements set out on pages 9 to 57 comprise:

- the directors' report for the year ended 31 December 2019;
 - the consolidated and separate statements of financial position as at 31 December 2019;
 - the consolidated and separate statements of comprehensive income for the year then ended;
 - the consolidated and separate statements of changes in equity for the year then ended;
 - the consolidated and separate statements of cash flows for the year then ended; and
 - the notes to the financial statements, which include a summary of significant accounting policies.
-

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 consolidated and separate financial statements* section of our report.

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

Independence


We are independent of the Group in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants (Revised July 2016)*, parts 1 and 3 of the International Ethics Standards Board for Accountants *International Code of Ethics for Professional Accountants (including International Independence Standards) (Revised July 2018)* (Code of Conduct) and other independence requirements applicable to performing audits of financial statements in Namibia. We have fulfilled our other ethical responsibilities in accordance with the Code of Conduct and in accordance with other ethical requirements applicable to performing audits in Namibia.

PricewaterhouseCoopers, Registered Auditors, 344 Independence Avenue, Windhoek, P O Box 1571, Windhoek, Namibia Practice Number 9406, T: + 264 (61) 284 1000, F: +264 (61) 284 1001, www.pwc.com/na

Country Senior Partner: R Nangula Uaandja
Partners: Louis van der Riet, Anna EJ Rossouw, Chantell N Husselmann, Gerrit Esterhuysen, Samuel N Ndahangwapo, Hans F Hashagen, Johannes P Nel, Trofimov Shapange, Hannes van den Berg

Our audit approach

Overview

	<p>Overall group materiality</p> <ul style="list-style-type: none"> Overall group materiality: N\$29,880,000, which represents 5% of consolidated operating profit before taxation.
	<p>Overall audit scope</p> <ul style="list-style-type: none"> The group audit scope included the audit of Letshego Holdings (Namibia) Limited and both of its subsidiaries, being Letshego Bank (Namibia) Limited and Letshego Micro Financial Services (Namibia) (Proprietary) Limited.
	<p>Key audit matter</p> <ul style="list-style-type: none"> Expected credit losses on advances to customers.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the group overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	N\$29,880,000.
How we determined it	5% of consolidated operating profit before taxation.
Rationale for the materiality benchmark applied	We chose consolidated operating profit before taxation as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.



How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The consolidated financial statements are a consolidation of the Company and its two subsidiaries (each a “component”) for purposes of our group audit scope. A full scope-audit was performed on the two subsidiaries, Letshego Bank (Namibia) Limited and Letshego Micro Financial Services (Namibia) (Proprietary) Limited.

Key audit matters

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

Consolidated financial statements

Key audit matter	How our audit addressed the key audit matter
<p>Expected credit losses on advances to customers</p> <p>IFRS 9- <i>Financial Instruments</i> requires the recognition of expected credit losses (ECLs) on all financial assets within the scope of its impairment model.</p> <p>The Group’s advances to customers typically comprise of high volume and lower values, therefore a significant portion of the impairment is calculated on a portfolio basis. Management considered the segmentation of the loan book and determined that the loan consists of only one segment, namely Government employees. The non-government segment (which is expected to have a different risk profile), is less than 2% of the total portfolio (which is the threshold used in the model), thus management has not identified that segment as a separate segment for the purpose of the impairment assessment.</p> <p>Management measures the ECLs using a ‘three-stage’ model for impairment based on changes in credit quality since initial recognition.</p> <p>Stage 1 is not credit-impaired on initial recognition but is monitored by the group. If there is an increase in credit risk, financial assets move to Stage 2 and a lifetime credit risk model is applied. Advances in Stage 3 are credit impaired if it meets one or more of certain quantitative and qualitative criteria as disclosed in the financial statements.</p> <p>The inputs into the model process requiring significant management estimation and judgement include:</p> <ul style="list-style-type: none"> The probability of default (PD) , which is developed by using data and assumptions from historical default experience and incorporating forward looking information. 	<p>Our audit procedures addressed the key areas of significant judgement and estimation in determining the ECL on advances as follows.</p> <p>Using our valuations expertise:</p> <ul style="list-style-type: none"> We assessed the accounting policies and impairment methodologies applied by management, and found the methodologies to be consistent with the requirement of IFRS 9. We tested the accuracy of the impairment models by building our own independent models and comparing our results to those of management. We found management’s estimate of the ECL allowance on advances to customers to be within an acceptable range of our independently calculated estimate in the context of an expected credit loss model. We assessed the reasonability of the transfers between stages by calculating a 12-month transfer ratio which represents the volume of accounts that are expected to move from performing to 30 days past due or worse over the next 12 months for at least 2 consecutive months. This was compared to the transferred performing Stage 2 accounts as a proportion of all performing accounts. We evaluated management’s processes for identifying stage 3 exposures by selecting a sample of exposures not classified at stage 3 to assess whether the loans older than 90 days were classified as stage 3. Our results did not identify material deviations. We evaluated the proposed PD by independently calculating a PD term structure to capture the PD over the entire life of the accounts on a collective basis. The PD term

- The loss given default (LGD) which is determined using judgement around estimation of timing and amount of forecasted cash flows.
- Exposure at default (EAD), based on expected payment profile, considering contractual repayment terms and expected drawdowns with a credit conversion factor.
- Forward looking information incorporated into the ECL model includes the Consumer Price Index (CPI), which management considers to be the most significant economic variable. This includes forecasting the economic variables and estimating the scenario weightings.

To mitigate credit risk, loans are covered under a cell captive insurance arrangement between Letshego Holdings (Namibia) Ltd and the cell insurer, and between Letshego Micro Financial Services (Namibia) (Pty) Ltd and the cell insurer. This arrangement was changed in October 2019, after which new loans were not covered by insurance.

We considered this area to be a matter of most significance in our audit of the current year due to the magnitude of the advances to customers account balance, and the degree of judgement applied by management in determining the ECL.

The disclosures associated with expected credit losses on advances to customers are set out in the consolidated financial statements in the following notes:

- Note 6.1.1 – Financial Risk Factors, Credit Risk (page 27); and
- Note 10 – Advances to Customers (page 43).

structure captures the default risk for the first 12 months, i.e. the 12 month PD, as well as the default risk for year 2, 3, etc., i.e. the lifetime PD. Our results did not identify material deviations.

- We tested the process and timing of recoveries and developed an independent range of recoveries based on historical data. We found management's recoveries to be within our reasonable range. For insured advances, we assessed the inclusion of insurance recoveries in the LGD assessment.
- We assessed the EAD by independently estimating an amortisation schedule to outstanding balances for the full behavioural lifetime, and comparing this to management's assessment. We found management's EAD to be in an acceptable range of our estimate.
- We compared management's CPI assumptions to the forecasted CPI per the Bank of Namibia, and found them to be comparable.
- In addition to management's macroeconomic assumptions around CPI, we have independently assessed a second macroeconomic impact based on the Namibian government credit rating and found that it did not materially change the assessment.
- We assessed the appropriateness of the loan segmentation and the need for including any additional segments. Through inspection of loan agreements, we noted that the Government is listed as the employer in more than 98% of loans granted, and that inclusion of another segment would not materially change the ECL.
- For a sample of advances, we tested the accuracy of their aging by agreeing the underlying data to loan contracts and recalculating the aging, and found no exceptions;
- We tested whether Letshego Bank (Namibia) Ltd loans are covered under cell captive insurance arrangement between Letshego Holdings (Namibia) Ltd and the cell insurer, and between Letshego Micro Financial Services (Namibia) (Pty) Ltd, by agreeing loan agreements to insurance cover, on a sample basis, and found that loans were covered by insurance, where stated.



Separate financial statements

We have determined that there are no key audit matters in respect of the separate financial statements to communicate in our report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled “*Letshego Holdings (Namibia) Limited Annual Financial Statements for the year ended 31 December 2019*”. The other information does not include the consolidated or the separate financial statements and our auditor’s report thereon.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate 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 consolidated and separate financial statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and 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 Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 Group’s and 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 Group’s and 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 consolidated and separate 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 Group and / or Company to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate 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.

A handwritten signature in black ink, appearing to read 'Louis van der Riet', is written over a faint, larger version of the PwC logo.

PricewaterhouseCoopers
Registered Accountants and Auditors
Chartered Accountants (Namibia)
Per: Louis van der Riet
Partner
Windhoek
Date: 26 May 2020

LETSHEGO HOLDINGS (NAMIBIA) LIMITED
ANNUAL FINANCIAL STATEMENTS
DIRECTORS' REPORT
for the year ended 31 December 2019

The directors present their report to the members, together with the audited annual financial statements of Letshego Holdings (Namibia) Limited ("the company") and the audited consolidated annual financial statements of the company and its subsidiaries ("the group") for the financial year ended 31 December 2019.

1. Reporting entity

Letshego Holdings (Namibia) Limited ("LHN") was incorporated in the Republic of Namibia on 24 February 2016.

2. Nature of business

Letshego Holdings (Namibia) Limited is a listed public company, which operates within the Republic of Namibia. Its main business is holding its investment subsidiaries, namely Letshego Bank Namibia Limited ("LBN") and Letshego Micro Financial Services Namibia (Pty) Ltd ("LMFSN"). LHN holds 99.99% of the issued share capital in LBN and 100% of the issued share capital in LMFSN. The Group provides banking and other financial services to Namibian residents.

3. Share capital

There was no change in the authorised and issued share capital of the company during the year under review.

4. Dividends

A dividend of 23.5 cents per ordinary share was declared and paid during the year under review (2018: 19.2 cents).

5. Directors and secretary

The following persons were directors during the period under review:

Maryvonne Palanduz**	Independent Non-executive; Chairperson
Ester Kali**	Executive
Rairirira Mbakutua Mbetjiha**	Non-executive
John Eugene Shepherd**	Independent Non-executive (resigned 30 April 2019)
Sven von Blottnitz^*	Independent Non-executive
Rosalia Martins-Hausiku**	Independent Non-Executive
Mythri Sambasivan-George^^	Non-executive

** Namibian

^^ Indian

^* German

The secretary of the company is Bonsai Secretarial Compliance Services.

Business address:

18 Schwerinsburg Street
 Windhoek
 Namibia

Postal address:

P O Box 11600
 Windhoek
 Namibia

6. Holding company

As at year-end, Letshego Holdings Limited (incorporated in the Republic of Botswana) holds 78.46% of the issued share capital, while Kumwe Investment Holdings Limited holds 12% of the issued share capital. The rest of the issued share capital is held by members of the public (retail investors) as well as corporate entities.

7. Financial results

The financial results of the Company and the Group are set out in these financial statements.

8. Borrowing powers

In terms of the Memorandum and Articles of Incorporation, the company has limited borrowing powers.

The total borrowings of the Group at 31 December 2019 are N\$432 million (2018: N\$464 million). Full details of the borrowings are shown in notes 15 and 16 to the consolidated annual financial statements.

9. Major capital expenditures

The Group made additions to its capital assets of N\$17.1 million during the financial year.

10. Going concern

The directors have satisfied themselves that the Group and the separate company is in a sound financial position and that sufficient borrowing facilities are accessible in order to enable the company to meet its foreseeable cash requirements. In addition, there has been no material change in the markets in which the Group and the separate company operates and it has the necessary skills to continue operations. On this basis the directors consider that the Group and the separate company has adequate resources to continue operating for the foreseeable future and therefore deem it appropriate to adopt the going concern basis in preparing the company's financial statements for this reporting period.

LETSHEGO HOLDINGS (NAMIBIA) LIMITED
ANNUAL FINANCIAL STATEMENTS
DIRECTORS' REPORT (continued)
for the year ended 31 December 2019

11. Investment in subsidiaries

Subsidiaries of Letshego Holdings (Namibia) Limited	Number of shares held	Issued ordinary share capital and premium NS'000	Effective holding	
			2019 %	2018 %
Letshego Bank (Namibia) Limited	999,994	100	99.9	99.9
Letshego Micro Financial Services (Namibia) (Pty) Ltd	1,000,000	140,100	100	100
	2019 NS'000	2018 NS'000	2019 NS'000	2018 NS'000
Financial details of subsidiaries	Aggregate income of subsidiaries before tax		Total investment	
Letshego Bank (Namibia) Limited	84,344	42,682	100	100
Letshego Micro Financial Services (Namibia) (Pty) Ltd	441,490	549,602	570,100	570,100

12. Compliance with BID-2

The Group's annual financial statements comply with the Bank of Namibia's Determination On Asset Classification, Suspension of Interest and Provisioning (BID-2).

13. Material post reporting date events

A dividend of 22.5 cents per ordinary share has been declared since the end of the reporting period.

Since the reporting date, there has been global outbreak of the coronavirus (COVID-19). The directors have evaluated the financial impact of COVID-19 on the Group and cannot identify a going concern risk within the medium term. The Group has identified the health of its employees as the most critical risk factor during the pandemic and has implemented sufficient measures to mitigate these risks. An estimate of the financial impact of COVID-19 on the Group cannot be made due to uncertainties regarding how long the pandemic will last and its overall effects on the local economy. Notwithstanding, the Group does not expect any major adverse effects on its advances portfolio directly resulting from COVID-19 as the majority of its customers are employed by the Government and are not expected to lose their employment in the foreseeable future. Apart from this, the directors are not aware of any matters or circumstances arising since the end of the financial period and up to the date of this report, that would require adjustment of, or disclosure in these annual financial statements.

14. Auditors

PricewaterhouseCoopers was appointed as auditor in 2020 for purposes of the 2019 financial year audit, subsequent to the resignation of Ernst & Young who had been appointed in 2019 with the approval of the shareholders in accordance with the Namibian Companies Act.

LETSHEGO HOLDINGS (NAMIBIA) LIMITED
ANNUAL FINANCIAL STATEMENTS
STATEMENTS OF FINANCIAL POSITION
as at 31 December 2019

	Notes	Group		Company	
		31 December 2019 N\$	31 December 2018 N\$	31 December 2019 N\$	31 December 2018 N\$
ASSETS					
Cash and cash equivalents	7	147,586,155	750,860,322	179,513	1,119,927
Financial assets at amortised cost	8	13,978,808	-	-	-
Other receivables	9.1	202,409,064	131,287,964	50,211,880	18,203,676
Intercompany receivable	9.2	-	-	15,315,541	1,355,073
Advances to customers	10	2,935,341,149	2,555,621,590	-	-
Current taxation	14.4	23,825,717	22,347,358	7,204,141	7,233,463
Investment in subsidiaries	30	-	-	1,914,353,808	1,914,353,808
Property, equipment and right-of-use assets ¹	11	31,671,627	9,643,952	-	-
Deferred tax assets ²	14.3	17,825,861	9,713,498	-	-
Total assets		3,372,638,381	3,479,474,684	1,987,264,883	1,942,265,947
LIABILITIES AND EQUITY					
Liabilities					
Deposits due to customers	17	43,360,856	74,748,898	-	-
Trade and other payables	12	50,288,075	50,906,611	294,978	258,868
Lease liabilities ¹	13	14,207,102	-	-	-
Borrowings	15	290,771,872	341,050,891	-	-
Amounts due to parent company	16	140,951,508	123,398,691	-	17,831,009
Deferred tax liabilities ²	14.3	18,959,024	14,015,331	-	-
Total liabilities		558,538,437	604,120,422	294,978	18,089,877
SHAREHOLDERS' EQUITY					
Share capital	18	100,000	100,000	100,000	100,000
Retained earnings		1,430,488,761	1,162,814,840	642,716,097	579,922,262
Capital reorganisation reserve	29	701,024,198	701,024,198	1,344,153,808	1,344,153,808
Equity settled share based payment reserve	19	2,143,979	1,072,218	-	-
		2,133,756,938	1,865,011,256	1,986,969,905	1,924,176,070
Non-controlling interest		680,343,006	1,010,343,006	-	-
Total equity		2,814,099,944	2,875,354,262	1,986,969,905	1,924,176,070
Total liabilities and equity		3,372,638,381	3,479,474,684	1,987,264,883	1,942,265,947

1 The Group has, as permitted by IFRS 16 Leases (IFRS 16), elected not to restate its comparative annual financial statements. Comparability will therefore not be achieved as the comparative annual financial information has been prepared on an IAS 17 Leases (IAS 17) basis. Refer to note 3 for more detail on the adoption of IFRS 16.

2 The net of the Group's deferred tax assets and liabilities was previously presented under a single line item. During the year, the Group has disclosed the deferred tax assets and the deferred tax liabilities separately.

LETSHEGO HOLDINGS (NAMIBIA) LIMITED
ANNUAL FINANCIAL STATEMENTS
STATEMENTS OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

	Notes	Group		Company	
		31 December 2019 N\$	31 December 2018 N\$	31 December 2019 N\$	31 December 2018 N\$
Interest income calculated using the effective interest income method ¹	23	625,198,158	618,157,907	85,572	24,149
Interest expense ²	23	(36,617,530)	(32,866,178)	-	-
Net interest income	23	588,580,628	585,291,729	85,572	24,149
Credit impairment (charge) / release	10	(9,235,614)	(18,225,673)	-	-
Net interest income after impairment		579,345,014	567,066,056	85,572	24,149
Dividend income		-	-	120,882,783	-
Fee income	24	2,102,415	1,175,997	-	-
Other operating income	25	229,998,977	255,340,167	73,694,645	37,803,295
Employee benefits	21	(63,889,116)	(49,263,424)	(40,324)	(60,739)
Other operating expenses ²	22	(149,954,055)	(145,936,115)	(1,970,766)	(1,667,994)
Operating profit before taxation	20	597,603,235	628,382,681	192,651,910	36,098,711
Taxation	14	(146,497,396)	(159,510,070)	(12,358,075)	(4,465,952)
Profit for the year		451,105,839	468,872,611	180,293,835	31,632,759
Other comprehensive income, net of tax		-	-	-	-
Total comprehensive income for the period		451,105,839	468,872,611	180,293,835	31,632,759
Basic earnings per share (cents)	34	90	94	36	6
Fully diluted earnings per share (cents)	34	90	94	36	6

¹ The Group's other interest income was previously presented separately in the statement of comprehensive income. However, management considers it to be more relevant if all interest income is presented in one line item in the statement of comprehensive income. Prior year comparatives as at 31 December 2018 have been restated by reclassifying NAD21,464,747 from other interest income to Interest income calculated using the effective interest income method.

² As a result of the implementation of IFRS 16, the interest expense amount includes interest on the lease liabilities of N\$1.6m and the other operating expenses include depreciation on right-of-use assets of N\$4.6m.

LETSHEGO HOLDINGS (NAMIBIA) LIMITED
ANNUAL FINANCIAL STATEMENTS
STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 December 2019

	Share capital N\$	Equity settled share based payment reserve N\$	Retained earnings N\$	Capital reorganisation reserve N\$	Ordinary shareholders' reserve	Non-controlling interest * N\$	Total equity N\$
GROUP							
As at 1st January 2019	100,000	1,072,218	1,162,814,840	701,024,198	1,865,011,256	1,010,343,006	2,875,354,262
Total comprehensive income for the period							
Profit and total comprehensive income for the year	-	-	451,105,839	-	451,105,839	-	451,105,839
Transactions with equity holders, recorded directly in equity							
Ordinary share dividend paid	-	-	(117,500,000)	-	(117,500,000)	-	(117,500,000)
Preference share dividend paid	-	-	(65,931,918)	-	(65,931,918)	-	(65,931,918)
Preference shares redeemed	-	-	-	-	-	(330,000,000)	(330,000,000)
Share based payment transactions	-	1,071,761	-	-	1,071,761	-	1,071,761
As at 31 December 2019	100,000	2,143,979	1,430,488,761	701,024,198	2,133,756,938	680,343,006	2,814,099,944
As at 1st January 2018	100,000	1,970,626	877,938,995	701,024,198	1,581,033,819	215,084,843	1,796,118,662
Total comprehensive income for the period							
Profit and total comprehensive income for the year	-	-	468,872,611	-	468,872,611	-	468,872,611
Transactions with equity holders, recorded directly in equity							
Ordinary share dividend paid	-	-	(96,000,003)	-	(96,000,003)	-	(96,000,003)
Preference share dividend paid	-	-	(87,996,763)	-	(87,996,763)	-	(87,996,763)
Preference shares issued	-	-	-	-	-	897,053,038	897,053,038
Preference shares redeemed	-	-	-	-	-	(101,794,875)	(101,794,875)
Share based payment transactions	-	(898,408)	-	-	(898,408)	-	(898,408)
As at 31 December 2018	100,000	1,072,218	1,162,814,840	701,024,198	1,865,011,256	1,010,343,006	2,875,354,262
* The Non-controlling interest relates to the preference share holders who do not share in the profit. As at 31 December 2019, the balance is made up of N\$215,084,843 irredeemable, non cumulative preference shares (2018: N\$215,084,843) and N\$465,258,163 redeemable non-cumulative preference shares (2018: N\$795,258,163). The non-cumulative preference shares were originally created by converting a loan from Letshego Holdings Limited into non-cumulative preference shares. This transaction was ratified by the minority shareholders of LHN and is pending approval by the High Court.							
COMPANY							
As at 1st January 2019	100,000	-	579,922,262	1,344,153,808	1,924,176,070	-	1,924,176,070
Total comprehensive income for the year							
Profit and total comprehensive income for the period	-	-	180,293,835	-	180,293,835	-	180,293,835
Transactions with equity holders, recorded directly in equity							
Ordinary share dividend paid	-	-	(117,500,000)	-	(117,500,000)	-	(117,500,000)
As at 31 December 2019	100,000	-	642,716,097	1,344,153,808	1,986,969,905	-	1,986,969,905
As at 1st January 2018	100,000	-	644,289,506	1,344,153,808	1,988,543,314	-	1,988,543,314
Total comprehensive income for the year							
Profit and total comprehensive income for the period	-	-	31,632,759	-	31,632,759	-	31,632,759
Transactions with equity holders, recorded directly in equity							
Ordinary share dividend paid	-	-	(96,000,003)	-	(96,000,003)	-	(96,000,003)
As at 31 December 2018	100,000	-	579,922,262	1,344,153,808	1,924,176,070	-	1,924,176,070

LETSHEGO HOLDINGS (NAMIBIA) LIMITED
ANNUAL FINANCIAL STATEMENTS
STATEMENTS OF CASH FLOWS
for the year ended 31 December 2019

	Notes	Group		Company	
		31 December 2019 N\$	31 December 2018 N\$	31 December 2019 N\$	31 December 2018 N\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Operating profit before taxation		597,603,235	628,382,681	192,651,910	36,098,711
Adjusted for:					
- Net interest income	23	(588,580,628)	(585,291,729)	(85,572)	(24,149)
- Dividends received		-	-	(120,882,783)	-
- Depreciation ¹	11	12,856,171	5,052,299	-	-
- Impairment allowance on advances	10	5,945,126	13,023,260	-	-
- Equity settled share based payment transactions	19	1,071,761	(898,408)	-	-
- Loss on disposal of plant and equipment		-	689,272	-	-
Movement in financial assets at amortised cost	8	(13,978,808)	-	-	-
Movement in advances to customers	10	(385,664,685)	(140,468,916)	-	-
Movement in other receivables	9.1	(71,121,100)	(5,413,308)	(32,008,204)	1,471,092
Movement in trade and other payables	12	(618,536)	7,460,733	36,110	170,243
Movement in customer deposits	17	(31,388,042)	(15,456,161)	-	-
		(473,875,506)	(92,920,277)	39,711,461	37,715,897
Interest received		625,198,158	618,157,907	85,572	24,149
Interest paid - customer deposits	23	(5,794,464)	(3,205,081)	-	-
Tax paid	14.4	(151,144,425)	(165,921,582)	(12,328,753)	(4,465,952)
Net cash flow from operating activities		(5,616,237)	356,110,967	27,468,280	33,274,094
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment (excluding to right-of-use assets)	11	(17,116,020)	(4,281,737)	-	-
Dividend received		-	-	120,882,783	-
Net cash (used in) / from investing activities		(17,116,020)	(4,281,737)	120,882,783	-
CASH FLOWS FROM FINANCING ACTIVITIES					
Preference shares issued during the year		-	897,053,038	-	-
Preference shares redeemed during the year		(330,000,000)	(101,794,875)	-	-
Ordinary share dividend paid		(117,500,000)	(96,000,003)	(117,500,000)	(96,000,003)
Preference share dividend paid		(65,931,918)	(87,996,763)	-	-
Borrowings received		100,000,000	325,000,000	-	-
Borrowings repaid		(150,279,019)	(47,504,845)	-	-
Interest paid - borrowings and lease liabilities ¹		(30,823,066)	(29,661,097)	-	-
Increase in intercompany loans	16	99,552,817	(658,740,663)	(31,791,477)	39,307,308
Repayments of intercompany loans		(82,000,000)	(125,000,000)	-	-
Principal element of lease payments		(3,560,724)	-	-	-
Net cash generated from financing activities		(580,541,910)	75,354,792	(149,291,477)	(56,692,695)
Net movement in cash and cash equivalents		(603,274,167)	427,184,022	(940,414)	(23,418,601)
Movement in cash and cash equivalents					
At the beginning of the year		750,860,322	323,676,300	1,119,927	24,538,528
Movement during the year		(603,274,167)	427,184,022	(940,414)	(23,418,601)
At the end of the period	7	147,586,155	750,860,322	179,513	1,119,927

¹ As a result of the implementation of IFRS 16 interest paid includes interest on the lease liabilities of N\$1.6m and depreciation includes depreciation on right-of-use assets of N\$4.6m.

LETSHEGO HOLDINGS (NAMIBIA) LIMITED
CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
SIGNIFICANT ACCOUNTING POLICIES
for the year ended 31 December 2019

1. Reporting entity

Letshego Holdings (Namibia) Limited is a Company domiciled in Namibia. The address of the Company's registered office is 18 Schwerinsburg Street, Windhoek, Namibia. The consolidated financial statements of Letshego Holdings Namibia Limited as at and for the year ended 31 December 2019 comprise the Company and the interest in its two subsidiaries, namely, Letshego Bank (Namibia) Limited and Letshego Micro Financial Services (Namibia) (Pty) Ltd. The Group is primarily engaged in the provision of banking and other financial services to members of the public.

2. Basis of preparation

a) These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented except where changes in accounting policies have been adopted as described in Note 3.

b) **Functional and presentation currency**

These financial statements are presented in Namibia Dollar, which is the Group's functional currency and are rounded to the nearest Namibia Dollar.

c) **Key assumptions and critical judgements**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying amounts of assets and liabilities that are not apparent from other sources.

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and the future periods if the revision affects both current and future periods. Information about significant areas of estimation, uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in Notes 6 and 10.

Going concern

As stated in the directors' responsibility section, the annual financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

Impairment of advances to customers

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 6.1.1, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 6.1.1.

Current and deferred taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation in which the Group operates. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is

LETSHEGO HOLDINGS (NAMIBIA) LIMITED
CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
for the year ended 31 December 2019

2. Basis of preparation (continued)

e) Key assumptions and critical judgements (continued)

Provisions and other contingent liabilities

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it may be involved in various litigation, arbitration and regulatory investigations and proceedings, arising in the ordinary course of the Group's business.

When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Group is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group does not include detailed, case-specific disclosures in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

Effective Interest Rate (EIR) method

The Group's EIR methodology, as explained in Note 4.f), recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle. This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to the base rate and other fee income/expense that are integral parts of the instrument.

3. Changes in accounting policies

The Group has adopted IFRS 16 as issued by the IASB in January 2016 with a transition date of 1 January 2019, which resulted in changes in accounting policies.

As permitted by the transitional provisions of IFRS 16, the Group elected to adopt the new rules using the modified retrospective approach and recognised the cumulative effect of initially applying the new standard on 1 January 2019.

Set out below are disclosures relating to the impact of the adoption of IFRS 16 on the Group. Further details of the specific IFRS 16 accounting policies applied in the current period are described in more detail in section 4. below.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 12%.

The Group had no leases which were previously classified as finance leases.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

Measurement of lease liabilities

	2019 NS
Operating lease commitments disclosed as at 31 December 2018	17,172,545
Discounted using the lessee's incremental borrowing rate of at the date of initial application	16,279,768
Add: finance lease liabilities recognised as at 31 December 2018	-
(Less): short-term leases not recognised as a liability	(2,358,431)
(Less): low-value leases not recognised as a liability	-
Add/(less): contracts reassessed as lease contracts	-
Add/(less): adjustments as a result of a different treatment of extension and termination options	-
Add/(less): adjustments relating to changes in the index or rate affecting variable payments	-
Lease liability recognised as at 1 January 2019	13,921,337
Of which are:	
Current lease liabilities	3,456,276
Non-current lease liabilities	10,465,061
	13,921,337

3. Changes in accounting policies (continued)

Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a modified retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase by N\$13.9 million
- lease liabilities – increase by N\$13.9 million.

The net impact on retained earnings on 1 January 2019 was nil.

Lessor accounting

The Group did not have assets held as lessor and did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

4. Significant accounting policies

Except for the changes explained in Note 3 above, the accounting policies set out below have been applied consistently to all periods presented in these financial statements.

a) Basis of consolidation

Interest in subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its investment with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

The acquisition method of accounting is used to account for all business combinations meeting the definition of a business. A business is defined as an integrated set of activities and assets that are capable of being conducted and managed for the purpose of providing a return. It is presumed that a business exists if goodwill is present in the acquired set of assets and activities. Evidence to the contrary would need to overcome this presumption. The consideration transferred for the acquisition comprises the:

- fair values of the assets transferred
- liabilities incurred to or assumed from the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Contingent consideration is classified either as equity, financial asset or a financial liability. Such amounts classified as a financial assets or financial liability are subsequently re-measured to fair value with changes in fair value recognised in profit or loss.

Acquisition-related costs are expensed as incurred.

The excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquired entity, and the acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill.

If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase (negative goodwill).

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

4. Significant accounting policies (continued)

a) Basis of consolidation (continued)

If the business combination is achieved in stages, the acquisition date carrying amount of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Capital re-organisation reserve accounting

In a capital reorganisation, the new company's consolidated financial statements include the existing entity's full results (including comparatives), even though the reorganisation may have occurred part of the way through the year. This reflects the view that the transaction involves two entities controlled by the same controlling party – the financial statements reflect the numbers from the perspective of that party and they reflect the period over which that party has had control.

b) Foreign currency transactions

Transactions in foreign currencies are translated to Namibia Dollar at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Namibia Dollar at the foreign exchange rate applicable for settlement as at that date. The foreign currency gain or loss on the monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortised cost in the foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to Namibia Dollar at the foreign exchange rate ruling at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Namibian Dollar at foreign exchange rates ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in other comprehensive income.

c) Revenue recognition

Revenue comprises interest income and non-interest income.

i) Interest income

Interest income is recognised in profit or loss at amortised cost using the effective interest method.

Collection fees on loans granted and commission paid to sales agents

Collection fees on loans granted and commission paid to sales agents are charged upfront and capitalised into the loan. These fees are primarily based on the cost of granting the loan to the individual. In accordance with IFRS 9, these collection fees on loans granted and commission paid to sales agents are considered an integral part of the loan agreement and are therefore recognised as an integral part of the effective interest rate and are accounted for over the shorter of the original contractual term and the actual term of the loan using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. 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 net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group and Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and administration charges paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a collection of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the original effective interest rate to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income from cash and cash equivalents is earned on the effective interest method at the agreed interest rate with the respective financial institution.

LETSHEGO HOLDINGS (NAMIBIA) LIMITED
CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
for the year ended 31 December 2019

4. **Significant accounting policies (continued)**

c) **Revenue recognition (continued)**

ii) **Fee income**

Fees are measured based on consideration specified in a contract with a customer and exclude amounts collected on behalf of third parties. Fees are recognised on an accrual basis when the service has been rendered / control over a good or service has been transferred to the customer.

The following table provides 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 obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail banking and microlending services	<p>The Group provides banking services to retail and corporate customers, including account management, provision of overdraft facilities and servicing fees.</p> <p>Where applicable, fees for ongoing account management are charged to the customer's account on a monthly basis. The Group sets the rates on an annual basis.</p> <p>Transaction-based fees for interchange and overdrafts are charged to the customer's account when the transaction takes place.</p> <p>Where applicable, servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Group.</p> <p>There is no financing component.</p>	<p>Revenue from account service and servicing fees is recognised over time as the service is provided.</p> <p>Revenue related to transactions is recognised at the point in time when the transaction takes place.</p> <p>Non-refundable up-front fees are recognised as revenue over the period for which a customer is expected to continue receiving the service or utilising the facility.</p>

iii) **Dividend income**

Dividends are recognised in profit in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the subsequent events note.

4. Significant accounting policies (continued)

d) Leases

i) Group and Company acting as a lessee

The Group and Company changed its accounting policy for leases where the Group / Company is the lessee. The new policy is described below. The impact of the change is disclosed in Note 3 above.

The Group leases various office buildings. Rental contracts are typically made for fixed periods of 2 years to 5 years but may have extension options as described below.

Contracts may contain both lease and non-lease components. The Group and Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until 31 December 2018, leases of property, plant and equipment were classified as either finance leases or operating leases. Where the group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the group under residual value guarantees;
- the exercise price of a purchase option if the group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses recent third-party financing received/offered by external third parties as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

When the Group or lessor terminates or cancels a lease, the right of use asset and lease liability are derecognised. On derecognition of the right of use asset and lease liability, any difference is recognised as a derecognition gain or loss in profit or loss.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. Right-of-use buildings held by the Group are not subject to revaluation.

4. Significant accounting policies (continued)

d) Leases (continued)

i) Group and Company acting as a lessee (continued)

The Group applies the short-term lease recognition exemption to its short-term leases of property (i.e., those leases that have a lease term of 12 months or less from the commencement date). It also applies the lease of low-value assets recognition exemption to leases of office equipment, computer equipment and furniture that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

e) Taxation

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the profit or loss, except to the extent that it relates to items recognised directly in equity or other comprehensive income.

i) Current taxation

Current taxation is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods. Taxable income is determined by adjusting the profit before taxation for items which are non-taxable or disallowed in terms of tax legislation.

Current tax is charged or credited to profit or loss, except to the extent that it relates to items charged or credited directly to the statement of changes in equity, in which case the tax is also dealt with in equity.

ii) Deferred taxation

Deferred taxation is provided using the statement of financial position liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date.

The principal temporary differences arise from depreciation on property, equipment and right-of-use assets, allowances provisions for originated loans, deferred fees on borrowings and provisions for the equity settled share based payments scheme. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

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.

Unrecognised deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis and their tax assets and liabilities will be realised simultaneously.

f) Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at 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 loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired (see definition on Note 6.1.1) at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- (a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
- (b) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'Stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

4. Significant accounting policies (continued)

f) Financial assets and liabilities (continued)

Measurement methods (continued)

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, as described in Note 6.1.1, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

i) Financial assets

1. Classification and subsequent measurement

From 1 January 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

The classification of financial assets and financial liabilities depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- (i) the Group's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- *Amortised cost:* Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in Note 6.1.1. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- *Fair value through other comprehensive income (FVOCI):* Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
- *Fair value through profit or loss:* Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

4. Significant accounting policies (continued)

f) Financial assets and liabilities

Measurement methods

i) Financial assets (continued)

1. Classification and subsequent measurement (continued)

Debt instruments (continued)

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a Group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Group's business model for the advances book is to hold to collect contractual cash flows, with no intention to sell these loans under securitisation or similar arrangements.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the 'Net trading income' line in the statement of profit or loss.

2. Impairment

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 6.1.1 provides more detail of how the expected credit loss allowance is measured.

Write-off

The Group and Company writes off a loan or an investment in debt securities, partially or fully, and any related provision for impairment loss, when it is determined that there is no realistic prospect for recovery. This is generally the case when the Group and Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group and Company's procedures for recovery of amounts due.

4. Significant accounting policies (continued)

f) Financial assets and liabilities

Measurement methods

i) Financial assets (continued)

3. Modification of loans

When the Group renegotiates or otherwise modifies the contractual cash flows of loans to customers, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). The difference between the new gross carrying amount and the original gross carrying amount is recognised as a modification gain or loss within credit impairments (for distressed financial asset modifications) or in other gains and losses on financial instruments within other operating income (for all other modifications).

4. Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group may enter into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach.

Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

4. Significant accounting policies (continued)

f) Financial assets and liabilities

Measurement methods

ii) Financial liabilities

1. Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies, see Note 4.f)i)4; and
- Financial guarantee contracts and loan commitments.

2. Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

iii) Offsetting

Financial assets and financial liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group and Company has a legal right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability

iv) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with the Central Bank and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of change in their fair value, and are used by the Group and Company in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

v) Other receivables

Financial instruments

Other receivables comprise dividends receivable and deposits and sundry debtors which arise during the normal course of business. Other receivables are recognised when the Group and Company obtains control of a resource as a result of past events and from which future economic benefits are expected to flow to the Group and Company within the financial year.

Other receivables are initially measured at fair value, which include transaction costs. Subsequent to initial recognition, other receivables are measured at amortised cost using the effective interest method, less accumulated impairment losses.

Non-financial instruments

Non-financial other receivables comprise of prepayments. Non-financial other receivables are recognised at cost.

vi) Trade and other payables

Trade and other payables are initially recognised at the fair value of the consideration to be paid in future for goods or services that have been received or supplied and invoiced or formally agreed with the supplier. Subsequently these are carried at amortised cost. Trade and other payables that are of a short-term nature are not discounted due to the insignificance of the amortisation charge. Trade and other payables are expected to be settled within twelve months.

4. Significant accounting policies (continued)

g) Property, equipment and right-of-use assets

Property and equipment are measured at cost less accumulated depreciation and any impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of equipment is capitalised as part of equipment.

If the significant parts of an item of property, equipment and right-of-use assets have different useful lives, these items are accounted for as a separate item of property, equipment and right-of-use assets.

Gains and losses on disposal are calculated by the difference between the net disposal proceeds and the carrying amount of the item determined by comparing the revenue obtained with the carrying amount and are recognised within other income in net profit or loss.

Subsequent costs are capitalised only when it is probable that the future economic benefits of expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as they are incurred.

The leasehold improvements are depreciated over the shorter of the lease contract term and their useful lives. The leasehold improvements relate to the improvements that are made in leased properties.

Depreciation is calculated to write-down the cost of items of property, equipment and right-of-use assets, less their estimated residual values, using the straight-line method over the estimated useful life, and it is generally recognised in profit or loss. Qualifying leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. The estimated useful life of significant items of property, equipment and right-of-use assets are as follows:

Computer equipment	3 years
Furniture and fittings	4 years
Office equipment	5 years
Leasehold improvements	5 years
Motor vehicles	4 years
Right-of-use assets - Buildings	Shorter of useful life or lease term

Depreciation methods, useful lives and residual values are reassessed at each financial year end and adjusted if appropriate.

h) Impairment of non-financial assets

The carrying amounts of the Group and Company's non-financial assets are reviewed at each reporting date to determine whether there is any objective evidence of impairment. If any such indications exist, the assets' recoverable amounts are estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less cost 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 assets.

i) Employee benefit costs

Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which the entity pays fixed contributions into a separately managed and owned pension fund and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit or loss when they are due in respect of service rendered before the end of the reporting period.

Leave days

Employee entitlements to annual leave are recognised when they accrue to employees. A liability is recognised for the estimated obligation for annual leave as a result of services rendered by employees up to the reporting date.

Employee incentives and bonus schemes

The Group and Company also operates an employee incentive and bonus scheme. The provision for employee bonus incentive is based on a predetermined Group and Company policy and is recognised in trade and other payables. The accrual for employee bonus incentive is expected to be settled within twelve months.

Short-term benefits

The employees' short-term benefits are expensed as the related service is provided. A liability is recognised by the expected value to be paid if the Group has a current legal or constructive obligation to pay this amount on the basis of past service provided by the employee and if the obligation can be estimated reliably.

j) Share based payment transactions

The Group and Company operates an equity-settled conditional Long Term Incentive Plan (LTIP). Conditional share awards are granted to management and key employees. The number of vesting share awards is subject to achievements of certain non-market conditions. The grant date fair value of share awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become conditionally entitled to the share awards.

k) Provisions

Provisions represent liabilities of uncertain timing or amount and are measured at the expenditure or cash outflow required to settle the present obligation.

A provision is recognised if, as a result of a past event, the Group and Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
for the year ended 31 December 2019

4. Significant accounting policies (continued)

l) **Equity**

Equity is the residual interest in the assets of the Group after deducting all liabilities of the Group.

All transactions relating to the acquisition and sale or issue of shares in the Group, together with their associated costs, are accounted for in equity.

m) **Share capital and reserves**

Share capital is recognised at the fair value of the consideration received and any excess amount over the nominal value of shares issued is treated as share premium.

Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

n) **Dividends**

Dividends on ordinary shares are recognised as a liability in the period in which they are declared and are accounted for as a movement in reserves in the statement of changes in equity. Dividends declared after the statement of financial position date are not recognised as a liability in the statement of financial position.

o) **Contingent liabilities**

The Group and Company recognises a contingent liability where it has a possible obligation from past events, the existence of which will be confirmed only by the occurrence of one or more uncertain events not wholly within the control of the Group and Company, or it is not probable that an outflow of resources will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

p) **Related parties**

Related parties comprise directors and key management personnel of the Group and Company and companies with common ownership and/or directors.

q) **Investment in subsidiaries**

In the company, investments in subsidiaries are accounted for at cost less impairment.

r) **Cell accounting**

A cell captive structure represents an agreement between an insurance entity and the group to facilitate the writing of insurance business. The Group has entered into an agreement with an insurance company under which the insurance company has set up an insurance cell within its legal entity, and the Group has subscribed for a separate class of share. The arrangement provides that all claims arising from insurance contracts written by cell are paid out of the cell's assets, with any profits after deduction of the insurer's fees, an allocation taxes, and other costs payable to the Group. In this arrangement, the Group is not required to maintain the solvency of the cell. Thus, customers of the Group do not transfer significant insurance risk and thus an insurance contract does not exist. This arrangement is akin to a profit sharing agreement and thus accounted for as an executory contract in terms of IAS 37. The Group recognises a financial asset in the financial statement line "Other receivables" for the right to receive these vested profits that have not been declared but only to the extent they have performed in terms of the shareholders agreement.

The income is recognised in "Other operating income".

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SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
for the year ended 31 December 2019

5. New standards and amendments to standards

a) New standards and interpretations and amendments effective for the first time for 31 December 2019 year-end

Standard/Interpretation	Effective date	Executive Summary
Amendments to IFRS 9 – ‘Financial instruments’ on prepayment features with negative compensation and modification of financial liabilities.	Annual periods beginning on or after 1 January 2019	<p>The narrow-scope amendment covers two issues:</p> <ul style="list-style-type: none"> • The amendments allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss. It is likely to have the biggest impact on banks and other financial services entities. • How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowings.
IFRS 16 – Leases	Annual periods beginning on or after 1 January 2019 – earlier application permitted if IFRS 15 is also applied. (published January 2016)	<p>This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular.</p> <p>Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a ‘right-of-use asset’ for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.</p> <p>For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard.</p> <p>At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, 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.</p> <p>IFRS 16 supersedes IAS 17, ‘Leases’, IFRIC 4, ‘Determining whether an Arrangement contains a Lease’, SIC 15, ‘Operating Leases – Incentives’ and SIC 27, ‘Evaluating the Substance of Transactions Involving the Legal Form of a Lease’.</p>
Amendments to IAS 19, ‘Employee benefits’ on plan amendment, curtailment or settlement.	Annual periods on or after 1 January 2019 (issued February 2018)	<p>These amendments require an entity to:</p> <ul style="list-style-type: none"> • Use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and • Recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus (recognised or unrecognised). This reflects the substance of the transaction, because a surplus that has been used to settle an obligation or provide additional benefits is recovered. The impact on the asset ceiling is recognised in other comprehensive income, and it is not reclassified to profit or loss. The impact of the amendments is to confirm that these effects are not offset.

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CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
for the year ended 31 December 2019

5. New standards and amendments to standards (continued)

a) New standards and interpretations and amendments effective for the first time for 31 December 2019 year-end (continued)

Amendments to IAS 28, 'Investments in associates and joint ventures' – long-term interests in associates and joint ventures.	Annual periods beginning on or after 1 January 2019 (published October 2017)	The amendments clarified that companies account for long-term interests in an associate or joint venture, to which the equity method is not applied, using IFRS 9. The amendments are effective from 1 January 2019, with early application permitted.
Annual improvements cycle 2015-2017	Annual periods beginning on or after 1 January 2019 (published December 2017)	These amendments include minor changes to: • IFRS 3, 'Business combination' - a company remeasures its previously held interest in a joint operation when it obtains control of the business. • IFRS 11, 'Joint arrangements' - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business. • IAS 12, 'Income taxes' - the amendment clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. • IAS 23, 'Borrowing costs' - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.
IFRIC 23, 'Uncertainty over income tax treatments'	Annual periods beginning on or after 1 January 2019 (published 7 June 2017)	IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. The Interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management should assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting.

b) New standards and interpretations and amendments issued but not effective for 31 December 2019 year-end

Standard/Interpretation	Effective date	Executive Summary
IFRS 17 – Insurance contracts	Annual periods beginning on or after 1 January 2023	IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements.
IAS 1 and IAS 8 (amendments)	The amendments are effective 1 January 2020.	The amendments clarify the definition and application of material and how it should be applied by including in the definition guidance that had previously featured elsewhere in the IFRS Standards. The amendments ensure that the definition of material is consistent across all IFRS Standards.

Impact assessments

IFRS 17 - Insurance contracts:

- The Group currently does not hold any insurance contracts that would be subject to IFRS 17. The Group will continue to assess the impact of IFRS 17 going forward.

IAS 1 and IAS 8 amendments:

- The amendment is not expected to have a significant impact on the annual financial statements of the Group.

6. Financial risk management

The Group is exposed to market risks (interest rate risks and currency risks), credit risks and liquidity risks. The Board of Directors is responsible for the overall process of risk management, as well as forming an opinion on the effectiveness of the risk management process. Management is accountable to the Board of Directors for designing, implementing and monitoring the process of risk management.

6.1 Financial risk factors

6.1.1 Credit risk

'Credit risk' is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and other Groups, and investment debt securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure – e.g. individual obligor default risk, country and sector risk.

Credit risk exists due to the fact that advances granted to customers are unsecured. The risk is however mitigated by the direct salary deduction collection mechanism for the bulk of the loans advanced.

Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its Credit Committee. A separate Credit department, reporting to the Board Credit Committee, is responsible for managing the Group's credit risk, including the following:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by the Board Credit Committee, or the Board of Directors, as appropriate.
- Reviewing and assessing credit risk: The Credit function assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Developing and maintaining the Group's risk gradings to categorise exposures according to the degree of risk of default. The current risk grading framework consists of 7 grades reflecting varying degrees of risk of default. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews by the Risk function.
- Developing and maintaining the Group's processes for measuring incurred credit losses (ICL). This includes processes for:
 - initial approval, regular validation and back-testing of the models used; and
 - incorporation of forward-looking information.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Group Credit, which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

Each business unit is required to implement Group credit policies and procedures, with credit approval authorities delegated from the Group Credit Committee.

Regular audits of business units and Group Credit processes are undertaken by Internal Audit.

The Group holds 200 "Class H" shares, of par value NS0.01 each and 200 "Class L" shares, of par value NS0.01 each, in Holland Alternative Risk Transfer (Pty) Ltd, a cell captive which provides insurance cover for qualifying credit loss events on the entity's customer advances portfolio. To mitigate credit risk, loans are covered under a cell captive insurance arrangement between Letshego Holdings (Namibia) Ltd and the cell insurer, and between Letshego Micro Financial Services (Namibia) (Pty) Ltd and the cell insurer. Loans originated as from 15 October 2019 amounting to NAD930m were not covered under the cell captive insurance arrangement.

Credit risk measurement - Loans and advances

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9. Refer to the "Expected credit loss" section below for more details.

Credit risk grading

The Group uses an internal CS ("Collectability Status") classification for the purposes of reflecting its assessment of the probability of default of individual counterparties. The CS is defined as the number of days that an account is in arrears. The credit grades are calibrated such that the risk of default increases exponentially as the credit grades deteriorate. After initial recognition, the payment behaviour of the borrower is monitored on a periodic basis in order to derive the CS.

The Group's rating method comprises 7 rating levels. The rating methods are subject to an annual validation and recalibration so that they reflect the latest projections in the light of actually observed defaults. The Group's internal rating scale is set out below:

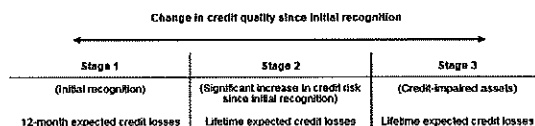
Collectability Status	No of Days overdue	Rating
01	Current	Minimal risk
02	Current	Low risk
03	31 – 60 days	Medium risk
04	61 – 90 days	Medium risk
05	91 – 180 days	Special monitoring
06	181 – 360 days	Doubtful
07	> 360 days	Doubtful

Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to the "Significant increase in credit risk" section below for a description of how the Group determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to the "Definition of default and credit-impaired assets" section below for a description of how the Group defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to the "Measuring ECL – Explanation of inputs, assumptions and estimation techniques" section below for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. The "Forward-looking information incorporated in the ECL models" section below includes an explanation of how the Group has incorporated this in its ECL models.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):



6.1 Financial risk factors (continued)

6.1.1 Credit risk (continued)

Management of credit risk (continued)

Expected credit loss measurement (continued)

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

Significant increase in credit risk (SICR)

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria:

The remaining Lifetime PD at the reporting date has increased, compared to the residual Lifetime PD expected at the reporting date when the exposure was first recognised if the delinquency position has deteriorated since initial recognition. For example, the migration of a loan from the 30 days past due bucket would indicate a significant increase in credit risk.

Qualitative criteria:

For Retail portfolios, if the borrower meets one or more of the following criteria:

- In short-term forbearance
- Direct debit cancellation
- Extension to the terms granted
- Previous arrears within the last 6 months

For Wholesale and Treasury portfolios, if the borrower is on the Watch-list and/or the instrument meets one or more of the following criteria:

- Significant increase in credit spread
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default
- Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans

The assessment of SICR incorporates forward-looking information (refer to the "Forward-looking information incorporated in the ECL models" section below) and is performed on a quarterly basis at a portfolio level for all Retail financial instruments held by the Group. In relation to Wholesale and Treasury financial instruments, where a Watch-list is used to monitor credit risk, this assessment is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Backstop:

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria:

The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria:

The borrower meets unlikelihood to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenant(s)
- An active market for that financial asset has disappeared because of financial difficulties
- Material concessions have been made by the Group relating to the borrower's financial difficulty
- It is becoming probable that the borrower will enter bankruptcy
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD, which is developed by applying a maturity profile of how defaults develop from initiation through the lifetime of the loan, represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.
- The Group's advances to customers typically comprise of high volume and lower values, therefore a significant portion of the impairment is calculated on a portfolio basis. Management considered the segmentation of the loan book and determined that the loan consists of only one segment, namely Government employees. The non-government segment (which is expected to have a different risk profile), is less than 2% of the total portfolio (which is the threshold used in the model), thus management has not identified that segment as a separate segment for the purpose of the impairment assessment.

6.1 Financial risk factors (continued)

6.1.1 Credit risk (continued)

Management of credit risk (continued)

Expected credit loss measurement (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. Refer to the "Forward-looking information incorporated in the ECL models" section below for an explanation of forward-looking information and its inclusion in ECL calculations.

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on a quarterly basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the Group's Economics team on a quarterly basis and provide the best estimate view of the economy over the next five years. After five years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used, which means that economic variables tend to either a long run average rate (e.g. for unemployment) or a long run average growth rate (e.g. GDP) over a period of two to five years. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

In addition to the base economic scenario, other possible scenarios along with scenario weightings are also provided. The number of other scenarios used is set based on the analysis of each major product type to ensure non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Group measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Economic variables:

Consumer Price Index (CPI) - CPI is the rate at which the general price level for goods and services is rising and consequently, the purchasing power of money is falling. In periods of high inflation, goods and services often increase in price at a faster pace than wage growth. Borrowers can have a harder time paying back loans as inflation rises. Their living expenses go up during inflationary periods and if wages do not keep pace with inflation they may reach a point where they cannot pay all of their obligations. This scenario may lead to an increase in the probability of loan defaults as individuals experience a decrease in their relative purchasing power. CPI is thus the most significant economic variable affecting the ECL allowance for the retail portfolio.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

The following table shows the main macroeconomic factor used to estimate the expected credit loss allowance on loans. The model is based on a weighting of 50/30/20 for the Base, Upside and Downside scenario. The remaining forecast period is 4 years.

Macroeconomic factor	Base scenario		Upside scenario		Downside scenario	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
2019 Namibia CPI (%)	3.14	3.86	1.57	1.93	4.71	5.79

Sensitivity analysis of IFRS 9 ECL

The following table shows a comparison of the Group's expected credit loss allowance under IFRS 9 as at 31 December 2019 based on the probability weightings (Base: 50%, Upside: 30%, Downside: 20%) of the above-mentioned three scenarios against the expected credit loss allowance resulting from simulations of each scenario being weighted at 100%.

	Expected credit loss		% change of expected credit loss provision
	NS		
Current expected credit loss provision	28,077,902		
Scenarios:			
Base	28,042,091		-0.13%
Upside	26,967,787		-3.95%
Downside	29,832,598		6.25%

Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data to use for modelling purposes. The delinquency status is used to determine the groupings.

6.1 Financial risk factors (continued)

6.1.1 Credit risk (continued)

Management of credit risk (continued)

Credit risk exposure

Maximum exposure to credit risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

	Advances to customers				2018 Total N\$
	2019				
	Stage 1 12-month ECL N\$	Stage 2 Lifetime ECL N\$	Stage 3 Lifetime ECL N\$	Total N\$	
Credit grade					
Low risk (CS01 - CS02)	2,793,378,367	-	-	2,793,378,367	2,402,203,845
Medium risk (CS03 - CS04)	-	24,985,605	-	24,985,605	61,533,115
Special monitoring (CS05)	-	20,319,487	-	20,319,487	26,543,726
Doubtful (CS06 - CS07)	-	-	124,735,592	124,735,592	87,473,680
Gross carrying amount	2,793,378,367	45,305,092	124,735,592	2,963,419,051	2,577,754,366
Loss allowance	(15,753,951)	(889,406)	(11,434,545)	(28,077,902)	(22,132,776)
Carrying amount	2,777,624,416	44,415,686	113,301,047	2,935,341,149	2,555,621,590

Information on how the Expected Credit Loss (ECL) is measured and how the three stages above are determined is included in the 'Expected credit loss measurement' section above.

Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period [see Note 4.0(i)].

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Advances to customers	Stage 1	Stage 2	Stage 3 *	Total
	12-month ECL N\$	Lifetime ECL N\$	Lifetime ECL N\$	N\$
Loss allowance as at 1 January 2019	4,170,894	1,154,167	16,807,715	22,132,776
Transfers between stages				
Transfer from Stage 1 to Stage 2	(53,556)	443,730		390,174
Transfer from Stage 1 to Stage 3	(119,062)		4,604,101	4,485,039
Transfer from Stage 2 to Stage 3		(172,811)	745,682	572,871
Transfer from Stage 3 to Stage 1	1,085		(29,138)	(28,053)
Transfer from Stage 3 to Stage 2		10,537	(50,851)	(40,314)
Transfer from Stage 2 to Stage 1	5,438	(40,439)		(35,001)
Net ECL raised / (released)	11,749,152	(505,778)	89,084,407	100,327,781
Impaired accounts written off			(99,727,371)	(99,727,371)
Loss allowance as at 31 December 2019	15,753,951	889,406	11,434,545	28,077,902
Loss allowance as at 1 January 2018	4,056,027	245,325	8,761,991	13,063,342
Transfers between stages				
Transfer from Stage 1 to Stage 2	(40,078)	495,731		455,653
Transfer from Stage 1 to Stage 3	(147,381)		9,166,142	9,018,761
Transfer from Stage 2 to Stage 3		(133,194)	793,225	660,031
Transfer from Stage 3 to Stage 1	5,413		(220,338)	(214,925)
Transfer from Stage 3 to Stage 2		9,215	(60,386)	(51,171)
Transfer from Stage 2 to Stage 1	6,989	(57,814)		(50,825)
Net ECL raised / (released)	289,925	594,904	89,642,826	90,527,655
Impaired accounts written off			(91,275,745)	(91,275,745)
Loss allowance as at 31 December 2018	4,170,894	1,154,167	16,807,715	22,132,776

* Includes interest in suspense

Significant changes in the gross carrying amount of financial assets that contributed to changes in the loss allowance were as follows:

- The write-off of loans with a total gross carrying amount of NAD 99.7 million (2018: NAD 91.3 million) which resulted in the reduction of the Stage 3 loss allowance by the same amount.

6.1 Financial risk factors (continued)

6.1.1 Credit risk (continued)

Management of credit risk (continued)

Loss allowance (continued)

The following table further explains changes in the gross carrying amount of the advances portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

Advances to customers	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	N\$	N\$	N\$	N\$
Gross carrying amount as at 1 January 2019	2,402,203,845	88,076,841	87,473,680	2,577,754,366
Transfers:				
Transfer from Stage 1 to Stage 2	(22,915,038)	22,915,038	-	-
Transfer from Stage 1 to Stage 3	(55,495,255)	-	55,495,255	-
Transfer from Stage 2 to Stage 3	-	(8,939,776)	8,939,776	-
Transfer from Stage 3 to Stage 1	302,275	-	(302,275)	-
Transfer from Stage 3 to Stage 2	-	537,223	(537,223)	-
Transfer from Stage 2 to Stage 1	2,081,391	(2,081,391)	-	-
Financial assets derecognised during the period other than write-offs	(1,687,495,993)	(188,793,489)	-	(1,876,289,482)
New financial assets originated	2,154,697,142	133,590,646	73,393,750	2,361,681,538
Write-offs	-	-	(99,727,371)	(99,727,371)
Gross carrying amount as at 31 December 2019	2,793,378,367	45,305,092	124,738,592	2,963,419,051
Gross carrying amount as at 1 January 2018	2,341,584,173	29,977,891	65,723,387	2,437,285,451
Transfers:				
Transfer from Stage 1 to Stage 2	(16,873,695)	16,873,695	-	-
Transfer from Stage 1 to Stage 3	(57,306,656)	-	57,306,656	-
Transfer from Stage 2 to Stage 3	-	(4,747,857)	4,747,857	-
Transfer from Stage 3 to Stage 1	1,262,405	-	(1,262,405)	-
Transfer from Stage 3 to Stage 2	-	344,079	(344,079)	-
Transfer from Stage 2 to Stage 1	2,059,425	(2,059,425)	-	-
Financial assets derecognised during the period other than write-offs	(1,428,600,631)	-	-	(1,428,600,631)
New financial assets originated	1,560,078,824	47,688,458	52,578,009	1,660,345,291
Write-offs	-	-	(91,275,745)	(91,275,745)
Gross carrying amount as at 31 December 2018	2,402,203,845	88,076,841	87,473,680	2,577,754,366

The Group's exposure to credit risk can be divided into two categories

- Advances
 - Financial assets other than advances
- Balances with the central bank are not subjected to ECL considerations due to the rigorous regulatory requirements of these transactions and its link to the underlying entities ability to operate as a bank. These amounts represent deposits placed in legal tender as issued by the central bank.

Due to historical experience intercompany receivables measured at amortised cost are regarded as a low probability of default and the ECL in respect of these is considered immaterial.

Due to the short term nature of cash and cash equivalents and other receivables as well as historical experience, these assets measured at amortised cost are regarded as having a low probability of default and the ECL in respect of these is considered immaterial.

Advances

The Group's principle business is to provide loans to individuals in both the formal and informal sector. Customers are assessed in full every time they apply for credit to determine if their credit profile remains acceptable in terms of the credit policies of the Group. All of the Group's business is conducted in the Republic of Namibia. The demographic credit characteristics of the customer base expose the Group to systemic credit risk. The Group mitigates this risk by applying the Group's application scorecard, a set of business rules and affordability assessments.

The nature of the loan book is such that it is made up of smaller sized loans across a spectrum of economic sectors and provinces. Loans granted at origination range from a minimum of N\$1,000 to a maximum of N\$300,000 and repayment periods ranging from a minimum of 6 months to a maximum of 60 months. By its nature, the carrying amount at year end for unsecured loans represents the Group's maximum exposure to credit risk. The Group does have insurance cover to credit events arising from the death of customers; permanent and temporary disability and retrenchments.

Credit philosophy

The credit philosophy of the Group is to pay primary emphasis of the credit decision on the borrower's ability to service the loan. It is therefore critical to establish the customer's ability to service their loan instalments.

The assessment of the customer affordability is done in two parts, the first ensuring compliance with the regulatory guidelines, and second the Group employs its own credit risk model affordability calculation, based on a repayment to income ratio model. A minimum of the affordability assessment and the credit risk model is used to determine the maximum instalment the customer can be offered, limited to the product maximum limits.

Credit risk assessment

The Group calculates credit scores for applicants and further groups these scores into risk groups (which have similar risk expectations). The credit scoring engine is configured with the credit policy parameters and is embedded in the system, preventing human intervention which can result in breach of policy. The verification and inputs into the credit score system include:

- Physical identification of the customer via their identification document and proof of address;
- The customer's 3 month income, monthly living expense, declaration of financial obligations, wage frequency, employer and bank details are captured;
- Electronic Credit Bureau data obtained;
- The captured details, the customer's bureau record, and the customers' historical performance on existing loans is used by the Application Scorecard to determine the customers' risk;
- The customer is then assessed against the business rules; and
- To mitigate against fraud, compliance and credit risk, the customer's completed application flows to the Quality Control Department.

Credit monitoring

The Group utilises various reporting and monitoring tools to engage in and control ongoing credit risk within the credit life-cycle. These include the following:

- Real time monitoring on application volumes, approval rates and processing quality;
- Credit efficiency reports;
- Vintage collection reports to establish the initial recovery process efficiency;
- Credit aging reports to manage and control loan delinquency and provisioning;
- Active payment, collection and integrity trend analysis to control and manage underlying risks and movement within the day to day operational procedures.

The Group's credit management team reviews exception reports produced by the reporting and monitoring tools on a daily, weekly and monthly basis, depending on the type of exception report produced by the credit monitoring system and acts as early warning indicators which the credit management team actively manages. The respective credit management team members report directly to the senior credit executive. Trends and early warning indicators identified are discussed at Risk Committee meetings and where necessary preventative action is initiated, if not done so already by the senior credit executive.

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6.1 Financial risk factors (continued)

6.1.1 Credit risk (continued)

Management of credit risk (continued)

Advances (continued)

Collection and restructures

The collections function within the Group relates to the effective collections of any monies due and payable by the customer. Core to the collection function is the monitoring of the payment patterns of accounts and to encourage customers to pay their accounts timeously and pay their arrears in the shortest timeframe as possible. Deduction mandates are obtained from customers in their loan contracts and are made from their primary bank account (where the customer's salary is deposited). Where collection is unsuccessful, arrears follow up is performed initially through the call centre.

The Group operates two types of restructures – namely, informal indulgences and formal restructures. Informal indulgences are where customers request a lower repayment/instalment amount referred to as a promise to pay. Formal restructures relate to debt counselling, administration orders and court orders.

External recovery

The Transfer Policy prescribes when an account will move into the Legal Collections division. Once an account has been transferred into Legal Collections, the account will be allocated to a department either in In-house or Outsourced Collections based on current internal business rules.

Credit quality

	GROUP		COMPANY	
	31 December 2019 Advances NS	31 December 2018 Advances NS	31 December 2019 Advances NS	31 December 2018 Advances NS
Analysis of credit quality				
Financial assets that are neither past due nor specifically impaired				
Stage 1	2,793,378,367	2,402,203,845	-	-
Past due and specifically impaired				
Stage 2	45,305,092	88,076,841	-	-
Stage 3	124,735,592	87,473,680	-	-
Total credit exposure	2,963,419,051	2,577,754,366	-	-
Total impairments				
Stage 1	(15,753,951)	(5,133,243)	-	-
Stage 2	(889,406)	(983,431)	-	-
Stage 3	(11,434,545)	(16,016,102)	-	-
Net advances	2,935,341,149	2,555,621,590	-	-
Impairment as a % of gross advances				
Stage 1	0.56%	0.21%	0.00%	0.00%
Stage 2	1.96%	2.94%	0.00%	0.00%
Stage 3	9.17%	16.41%	0.00%	0.00%
Total impairment as a % of total gross advances	0.95%	0.86%	0.00%	0.00%
Reconciliation of allowance account				
Balance at the beginning of the year	22,132,776	13,063,342	-	-
IFRS 9 remeasurement adjustment	-	(3,953,826)	-	-
Impairment provision raised (note 10)	105,672,497	104,299,007	-	-
Impairment provision released upon write-offs of underlying exposure	(99,727,371)	(91,275,747)	-	-
Balance at the end of the year	28,077,902	22,132,776	-	-

6.1 Financial risk factors (continued)

6.1.1 Credit risk (continued)

Management of credit risk (continued)

Advances (continued)

Credit risk impacts

Credit quality of advances neither past due nor impaired:

For public sector employee loans the only credit risk being faced by loans in the group is default of the Namibian government and termination of employment on a voluntary basis or dismissal that cannot be seen as retrenchment. Insurance would cover losses in the event of death, permanent disability, involuntary retirement or retrenchment. The performing book (i.e. no instalments in arrears) is not further segmented into risk categories.

Concentration Risk

Credit concentration risk is the risk of loss to the Group arising from an excessive concentration of exposure to a single counterparty, industry, market, product, region or maturity. This concentration typically exists when a number of counterparties are engaged in similar activities and have similar characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions.

Although the Group is exposed to unsecured personal loans, the Group's credit risk portfolio is well diversified across individuals who are geographically spread across the country's regions.

The following table breaks down the Group's credit exposure at carrying amount as categorised by loan size and original loan advanced.

Average loan value (at inception)	Number of loans	% of total number of loans	Carrying amount (net of impairment) N\$	% of total carrying amount
2019 - Group				
< 5 000	1,661	2.06%	4,098,139	0.14%
5 000 - 10 000	7,365	9.14%	36,574,468	1.25%
10 000 - 20 000	14,556	18.07%	143,337,660	4.88%
20 000 - 50 000	45,666	56.68%	1,418,477,498	48.32%
> 50 000	11,326	14.05%	1,332,853,384	45.41%
Total	80,574	100.00%	2,935,341,149	100.00%

Average loan value (at inception)	Number of loans	% of total number of loans	Carrying amount (net of impairment)	% of total carrying amount
2018 - Group				
< 5 000	2,553	2.41%	6,571,542	0.26%
5 000 - 10 000	11,536	10.88%	60,914,631	2.38%
10 000 - 20 000	22,099	20.84%	228,055,684	8.92%
20 000 - 50 000	69,520	65.57%	2,210,593,872	86.50%
> 50 000	316	0.30%	49,485,861	1.94%
Total	106,024	100.00%	2,555,621,590	100.00%

The concentration risk per employer is as follows:

- Public sector	98%
- Other employers	2%

No collateral is held for these advances.

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6.1 Financial risk factors (continued)

6.1.1 Credit risk (continued)

Management of credit risk (continued)

Financial assets other than advances

All financial assets other than advances are made up of cash and cash equivalents, statutory assets, derivative assets and trade receivables. All financial assets other than advances, excluding trade receivables and loans to affiliate companies are placed with reputable counterparties.

The Group maintains cash and cash equivalents and short term investments with various financial institutions and in this regard it is the Group's policy to limit its exposure to any one financial institution. Cash deposits are placed only with banks which have an approved credit limit, as recommended by the ALCO and approved by the Board Audit and Risk Committee.

Trade receivables are evaluated on an entity by entity basis. The Group limits the tenure and size of the debt to ensure that it does not pose a material risk to the Group. For further information refer to Note 9.1.

At balance sheet date the international long-term credit rating, using Moody's ratings was as follows for cash and cash equivalents:

	Total carrying amount NS	Single largest exposure to a single counter- party NS	Aaa to A3 NS	Baa1 to Baa3 NS	Below Baa3 NS	Not rated NS
2019 - Group						
Cash and cash equivalents	99,477,373	70,752,178	99,477,373	-	-	-
Deposits with Bank of Namibia	48,108,782	48,108,782	48,108,782	-	-	-
Financial assets at amortised cost	13,978,808	13,978,808	13,978,808	-	-	-
Other receivables	188,179,708	132,766,764	-	-	-	188,179,708
Total	349,744,671	265,606,532	161,564,963	-	-	188,179,708
2018 - Group						
Cash and cash equivalents	681,985,751	442,408,971	681,985,751	-	-	-
Deposits with Bank of Namibia	68,874,571	68,874,571	68,874,571	-	-	-
Other receivables	131,287,964	117,148,723	-	-	-	131,287,964
Total	882,148,286	628,432,265	750,860,322	-	-	131,287,964
2019 - Company						
Cash and cash equivalents	179,513	179,513	179,513	-	-	-
Other receivables	50,211,880	50,211,880	-	-	-	50,211,880
Intercompany receivable	15,315,541	15,315,541	-	-	-	15,315,541
Total	65,706,934	65,706,934	179,513	-	-	65,527,421
2018 - Company						
Cash and cash equivalents	1,119,927	1,119,927	1,119,927	-	-	-
Other receivables	18,203,676	18,203,676	-	-	-	18,203,676
Intercompany receivable	1,355,073	1,355,073	-	-	-	1,355,073
Total	20,678,676	20,678,676	1,119,927	-	-	19,558,749

6.1 Financial risk factors (continued)

6.1.2 Market risk

'Market risk' is the risk that changes in market prices – e.g. interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) – will affect the Group's income or the value of its holdings of financial instruments. Market risk arises from open positions in interest rates and foreign currencies, both which are exposed to general and specific market movements and changes in the level of volatility. The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Group's solvency while optimising the return on risk.

6.1.2.1 Interest rate risk management

The Group separates its exposure to market risks between trading and non-trading portfolios. Trading portfolios include positions arising from market making, together with financial assets and financial liabilities that are managed on a fair value basis. Currently, the Group only has a non-trading portfolio.

Interest rate risk for the purposes of IFRS is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group has interest rate risk arising in its financial assets and from its holdings in cash and cash equivalents. However the Group's most significant financial asset is its fixed rate advances portfolio.

For the purposes of IFRS 7, the Group is not exposed to interest rate risk on the fixed rate advance portfolio, since neither the carrying amount nor the future cash flows will fluctuate because of changes in market interest rates. The Group seeks to achieve funding that is at a similarly fixed rate as that of the advances portfolio.

It is not always feasible to raise fixed rate funding and therefore the Group may have a mix of fixed and variable rate funding instruments. Variable rate funding instruments expose the Group to interest rate risk for the purposes of IFRS. Currently, the Group's funding is mainly from the variable interest rate loan from the ultimate holding company.

Risk measurement and management

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO). ALCO sets up limits for each type of risk in aggregate and for portfolios, with market and liquidity risks being primary factors in determining the level of limits set for trading portfolios.

ALCO is the monitoring body for compliance with these limits and is assisted by Management in its day-to-day monitoring activities. These day-to-day activities include monitoring changes in the Group's interest rate exposures, which include the impact of the Group's outstanding or forecast debt obligations.

ALCO is responsible for setting the overall hedging strategy of the Group. Management is responsible for implementing that strategy by putting in place the individual hedge arrangements.

The ALCO views interest rate in the banking book to comprise of the following:

- Re-pricing risk (mismatch risk), being the timing difference in the maturity (for fixed) and re-pricing (for floating rate) of the Group's assets and liabilities; and
- yield curve risk, which includes the changes in the shape and slope of the yield curve.

ALCO monitors and manages these risks in adherence to the Group's risk appetite and meets on a monthly basis to analyse the impact of interest rate risk on the Group and reports directly to the Board Audit and Risk Committee on a quarterly basis. The techniques used to measure and control interest rate risk by the ALCO includes re-pricing profiles, sensitivity/scenario analysis and stress testing.

In the context of re-pricing profiles, instruments are allocated to time periods with reference to the earlier of the next contractual interest rate re-pricing date and the maturity date. Instruments which have no explicit contractual re-pricing or maturity dates are placed in time buckets based on the most likely re-pricing behaviour.

Sensitivity and stress testing consists of a combination of stress scenarios and historical stress movements.

Given the extent of the risk and the current risk mitigants, a more sophisticated (e.g. value-at-risk) analysis is not considered necessary.

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6.1 Financial risk factors (continued)

6.1.2 Market risk (continued)

6.1.2.1 Interest rate risk management (continued)

Interest rate sensitivity analysis

Two separate interest rate sensitivity analyses for the Group are set out below in the table below, namely the re-pricing profile and the potential effect of changes in the market interest rate on earnings for floating rate instruments.

i) Re-pricing profile

The tables below summarise the re-pricing exposure to interest rate risk through grouping assets and liabilities into re-pricing categories, determined to be the earlier of the contractual re-pricing or maturity date, using the carrying amount of such assets and liabilities at balance sheet date.

	Demand and up to 1 month NS	Greater than 1 month up to 3 months NS	Greater than 3 months up to 12 months NS	Greater than 12 months up to 24 months NS	Greater than 24 months NS	Non-interest sensitive items NS	Non-financial instruments NS	Total NS
2019 - GROUP								
Assets								
Cash and cash equivalents	147,586,155	-	-	-	-	-	-	147,586,155
Financial assets at amortised cost	-	-	13,978,808	-	-	-	-	13,978,808
Other receivables	-	-	-	-	-	188,179,708	14,229,356	202,409,064
Net advances	4,423,586	2,809,789	53,909,113	159,573,011	2,714,625,650	-	-	2,935,341,149
Current taxation	-	-	-	-	-	-	23,825,717	23,825,717
Property, equipment and right-of-use assets	-	-	-	-	-	-	31,671,627	31,671,627
Deferred tax assets	-	-	-	-	-	-	17,825,861	17,825,861
Total assets	152,009,741	2,809,789	67,887,921	159,573,011	2,714,625,650	188,179,708	87,552,561	3,372,638,381
Liabilities and equity								
Deposits due to customers	32,939,965	11,028	10,409,863	-	-	-	-	43,360,856
Trade and other payables	-	-	-	-	-	32,617,601	17,670,474	50,288,075
Borrowings	5,771,872	-	275,000,000	10,000,000	-	-	-	290,771,872
Lease liabilities	355,256	742,514	3,580,853	4,555,593	4,972,886	-	-	14,207,102
Intercompany payables	-	-	-	-	138,049,450	2,902,058	-	140,951,508
Deferred tax liabilities	-	-	-	-	-	-	18,959,024	18,959,024
Ordinary shareholders' equity	-	-	-	-	-	-	2,814,099,944	2,814,099,944
Total liabilities and equity	39,067,093	753,542	288,990,716	14,555,593	143,022,336	35,519,659	2,850,729,442	3,372,638,381
On balance sheet interest sensitivity	112,942,648	2,056,247	(221,102,795)	145,017,418	2,571,603,314	-	-	-
2018 - GROUP								
Assets								
Cash and cash equivalents	750,860,322	-	-	-	-	-	-	750,860,322
Other receivables	-	-	-	-	-	128,469,415	2,818,549	131,287,964
Net advances	1,779,651	2,931,232	70,663,140	184,436,795	2,295,810,772	-	-	2,555,621,590
Current taxation	-	-	-	-	-	-	22,347,358	22,347,358
Property, equipment and right-of-use assets	-	-	-	-	-	-	9,643,952	9,643,952
Deferred tax assets	-	-	-	-	-	-	9,713,498	9,713,498
Total assets	752,639,973	2,931,232	70,663,140	184,436,795	2,295,810,772	128,469,415	44,523,357	3,479,474,684
Liabilities and equity								
Deposits due to customers	74,748,898	-	-	-	-	-	-	74,748,898
Trade and other payables	-	-	-	-	-	38,431,341	12,475,270	50,906,611
Borrowings	12,713,082	-	-	275,000,000	53,337,809	-	-	341,050,891
Intercompany payables	-	-	-	-	120,451,975	2,946,716	-	123,398,691
Deferred tax liabilities	-	-	-	-	-	-	14,015,331	14,015,331
Ordinary shareholders' equity	-	-	-	-	-	-	2,875,354,262	2,875,354,262
Total liabilities and equity	87,461,980	-	-	275,000,000	173,789,784	41,378,057	2,901,844,863	3,479,474,684
On balance sheet interest sensitivity	665,177,993	2,931,232	70,663,140	(90,563,205)	2,122,020,988	-	-	-

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6.1 Financial risk factors (continued)

6.1.2 Market risk (continued)

6.1.2.1 Interest rate risk management (continued)

Interest rate sensitivity analysis (continued)

i) Re-pricing profile (continued)

	Demand and up to 1 month NS	Greater than 1 month up to 3 months NS	Greater than 3 months up to 12 months NS	Greater than 12 months up to 24 months NS	Greater than 24 months NS	Non-interest sensitive items NS	Non-financial instruments NS	Total NS
2019 - COMPANY								
Assets								
Cash and cash equivalents	179,513	-	-	-	-	-	-	179,513
Other receivables	-	-	-	-	-	50,211,880	-	50,211,880
Intercompany receivable	15,315,541	-	-	-	-	-	-	15,315,541
Current taxation	-	-	-	-	-	-	7,204,141	7,204,141
Investment in subsidiaries	-	-	-	-	-	-	1,914,353,808	1,914,353,808
Total assets	15,495,054	-	-	-	-	50,211,880	1,921,557,949	1,987,264,883
Liabilities and equity								
Trade and other payables	-	-	-	-	-	19,629	275,349	294,978
Ordinary shareholders' equity	-	-	-	-	-	-	1,986,969,905	1,986,969,905
Total liabilities and equity	-	-	-	-	-	19,629	1,987,245,254	1,987,264,883
On balance sheet interest	15,495,054	-	-	-	-	-	-	-

	Demand and up to 1 month NS	Greater than 1 month up to 3 months NS	Greater than 3 months up to 12 months NS	Greater than 12 months up to 24 months NS	Greater than 24 months NS	Non-interest sensitive items NS	Non-financial instruments NS	Total NS
2018 - COMPANY								
Assets								
Cash and cash equivalents	1,119,927	-	-	-	-	-	-	1,119,927
Other receivables	-	-	-	-	-	18,203,676	-	18,203,676
Intercompany receivable	1,355,073	-	-	-	-	-	-	1,355,073
Current taxation	-	-	-	-	-	-	7,233,463	7,233,463
Investment in subsidiaries	-	-	-	-	-	-	1,914,353,808	1,914,353,808
Total assets	2,475,000	-	-	-	-	18,203,676	1,921,587,271	1,942,265,947
Liabilities and equity								
Trade and other payables	-	-	-	-	-	166,117	92,751	258,868
Amounts due to parent company	17,831,009	-	-	-	-	-	-	17,831,009
Ordinary shareholders' equity	-	-	-	-	-	-	1,924,176,070	1,924,176,070
Total liabilities and equity	17,831,009	-	-	-	-	166,117	1,924,268,821	1,942,265,947
On balance sheet interest	(15,356,009)	-	-	-	-	-	-	-

6.1 Financial risk factors (continued)

6.1.2 Market risk (continued)

6.1.2.1 Interest rate risk management (continued)

ii) Potential effect of changes in the market interest rate on earnings for floating rate instruments.

Sensitivity analysis based on a 200 basis point increase in interest rates

The sensitivity analyses have been determined based on the exposure to interest rates for financial instruments at the statement of financial position date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at statement of financial position date was outstanding for the whole year. A 200 basis point movement for NAD exposures is used when reporting interest rate risk internally and represents management's assessment of the reasonably possible change in interest rates. The sensitivity analysis below is based on an increase in rates. Given the structure of the Group's portfolio, a 200 basis point increase in interest rates would result in a corresponding increase of NAD 2.1 million in net income (before tax).

	Carrying amount at end of year NS	Amount exposed to market risk NS	Index to which interest rate is linked NS	Statement of profit or loss impact (pre-tax) NS
2019 - GROUP				
Financial assets				
Cash and cash equivalents	147,586,155	147,586,155	Namibia Prime	2,951,723
Advances	2,935,341,149	-	N/A	-
	<u>3,082,927,304</u>	<u>147,586,155</u>		<u>2,951,723</u>
Financial liabilities				
Intercompany payables	140,951,508	138,049,450	Namibia Prime	(2,760,989)
	<u>140,951,508</u>	<u>138,049,450</u>		<u>(2,760,989)</u>
Net effect on the statement of total comprehensive income				<u>190,734</u>

	Carrying amount at end of year NS	Amount exposed to market risk NS	Index to which interest rate is linked NS	Statement of profit or loss impact (pre-tax) NS
2018 - GROUP				
Financial assets				
Cash and cash equivalents	750,860,322	750,860,322	Namibia Prime	15,017,206
Advances	2,555,621,590	-	N/A	-
	<u>3,306,481,912</u>	<u>750,860,322</u>		<u>15,017,206</u>
Financial liabilities				
Intercompany payables	123,398,691	120,451,975	Namibia Prime	(2,409,040)
	<u>123,398,691</u>	<u>120,451,975</u>		<u>(2,409,040)</u>
Net effect on the statement of total comprehensive income				<u>12,608,166</u>

	Carrying amount at end of year NS	Amount exposed to market risk NS	Index to which interest rate is linked NS	Statement of profit or loss impact (pre-tax) NS
2019 - COMPANY				
Financial assets				
Cash and cash equivalents	179,513	179,513	Namibia Prime	3,590
Intercompany receivable	15,315,541	-	N/A	-
	<u>15,495,054</u>	<u>179,513</u>		<u>3,590</u>
Financial liabilities				
Trade and other payables	294,978	-	N/A	-
	<u>294,978</u>	<u>-</u>		<u>-</u>
Net effect on the statement of total comprehensive income				<u>3,590</u>

	Carrying amount at end of year NS	Amount exposed to market risk NS	Index to which interest rate is linked NS	Statement of profit or loss impact (pre-tax) NS
2018 - COMPANY				
Financial assets				
Cash and cash equivalents	1,119,927	1,119,927	Namibia Prime	22,399
Intercompany receivable	1,355,073	-	N/A	-
	<u>2,475,000</u>	<u>1,119,927</u>		<u>22,399</u>
Financial liabilities				
Trade and other payables	258,868	-	N/A	-
	<u>258,868</u>	<u>-</u>		<u>-</u>
Net effect on the statement of total comprehensive income				<u>22,399</u>

6.1 Financial risk factors (continued)

6.1.2 Market risk (continued)

6.1.2.1 Foreign currency risk management

Foreign currency risk is the risk of financial loss resulting from adverse movements in foreign currency exchange rates. Currency risk in the Group arises as a result of holding foreign currency denominated borrowings and foreign currency in cash.

The Group's primary risk objective is to protect the net earnings against the impact of adverse exchange rate movements. ALCO is mandated to manage this risk by application of appropriate foreign currency derivatives, exposure limits and other appropriate strategies to ensure adherence to the Group's risk appetite.

At present, neither the Group's assets, liabilities nor cash flows are denominated in foreign currency, hence the Group is not exposed to foreign currency risk.

6.1.2.3 Other price risk management

The Group has a low market risk appetite. For this reason, the Group does not typically trade in any marketable securities and holds any required marketable securities until maturity and is therefore not exposed to price risk associated with these marketable securities.

6.1.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations as they fall due. These payment obligations could result from a mismatch in the timing and/or magnitude of cashflows associated with assets and liabilities, depositor withdrawals, lower than expected receipts from customers, higher than expected pay-out to customers, higher than expected operational, tax or dividend flows, or the inability to roll over maturing debt. Another form of liquidity risk is that in a stressed liquidity event, the Group would be unable to sell assets, without incurring an unacceptable loss, in order to generate cash required to meet payment obligations.

The Board of Directors sets the Group's strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. Management manages the Group's liquidity position on a day-to-day basis and reviews reports covering the liquidity position of the Group. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO. ALCO monitors and controls adherence to the risk appetite and regulatory requirements.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The key elements of the Group's liquidity strategy are as follows:

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- Simulating future cash flow projections.
- Monitoring liquidity ratios, maturity mismatches, behavioural characteristics of the Group's financial assets and financial liabilities, and the extent to which the Group's assets are encumbered and so not available as potential collateral for obtaining funding.
- Stress testing of the Group's liquidity position. Liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. The scenarios are developed taking into account both Group-specific events (e.g. a rating downgrade) and market-related events (e.g. prolonged market illiquidity).

The following tables analyse the Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The total ties back to the balance sheet.

The matching and controlled mismatching of the maturities and interest rates of financial assets and liabilities are fundamental to the management of risk within the Group. It is unusual for the Group ever to be completely matched since the business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss. The maturities of financial assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates.

Assets and liabilities maturities as at 31 December 2019

	Demand and up to 1 month	Greater than 1 month up to 3 months	Greater than 3 months up to 12 months	Greater than 12 months up to 24 months	Greater than 24 months	Non-financial assets and liabilities	Total
	NS	NS	NS	NS	NS	NS	NS
2019 - GROUP							
Assets							
Cash and cash equivalents	147,586,155	-	-	-	-	-	147,586,155
Financial assets at amortised cost	-	-	13,978,808	-	-	-	13,978,808
Other receivables	-	188,179,708	-	-	-	14,229,356	202,409,064
Net advances	74,317,050	139,139,862	594,393,048	60,414,331	2,067,076,858	-	2,935,341,149
Current taxation	-	-	-	-	-	23,825,717	23,825,717
Property, equipment and right-of-use assets	-	-	-	-	-	31,671,627	31,671,627
Deferred tax assets	-	-	-	-	-	17,825,861	17,825,861
Total assets	221,903,205	327,319,570	608,371,856	60,414,331	2,067,076,858	87,552,561	3,372,638,381
Liabilities and equity							
Deposits due to customers	32,939,965	11,028	10,409,863	-	-	-	43,360,856
Trade and other payables	32,617,601	-	-	-	-	17,670,474	50,288,075
Borrowings	5,771,872	-	275,000,000	10,000,000	-	-	290,771,872
Lease liabilities	355,256	742,514	3,580,853	4,555,593	4,972,886	-	14,207,102
Intercompany payables	-	2,902,058	-	-	138,049,450	-	140,951,508
Deferred tax liability	-	-	-	-	-	18,959,024	18,959,024
Ordinary shareholders' equity	-	-	-	-	-	2,814,099,944	2,814,099,944
Total liabilities and equity	71,684,694	3,655,600	288,990,716	14,555,593	143,022,336	2,850,729,442	3,372,638,381
Net liquidity gap	150,218,511	323,663,970	319,381,140	45,858,738	1,924,054,522	-	-

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6.1 Financial risk factors (continued)

6.1.2 Liquidity risk (continued)

Assets and liabilities maturities as at 31 December 2019 (continued)

	Demand and up to 1 month NS	Greater than 1 month up to 3 months NS	Greater than 3 months up to 12 months NS	Greater than 12 months up to 24 months NS	Greater than 24 months NS	Non-financial assets and liabilities NS	Total NS
2018 - GROUP							
Assets							
Cash and cash equivalents	750,860,322	-	-	-	-	-	750,860,322
Other receivables	-	131,287,964	-	-	-	-	131,287,964
Net advances	69,867,116	135,455,320	574,667,859	69,404,522	1,706,226,773	-	2,555,621,590
Current taxation	-	-	-	-	-	22,347,358	22,347,358
Property, equipment and right-of-use assets	-	-	-	-	-	9,643,952	9,643,952
Deferred tax assets	-	-	-	-	-	9,713,498	9,713,498
Total assets	820,727,438	266,743,284	574,667,859	69,404,522	1,706,226,773	41,704,808	3,479,474,684
Liabilities and equity							
Deposits due to customers	74,748,898	-	-	-	-	-	74,748,898
Trade and other payables	38,431,341	-	-	-	-	12,475,270	50,906,611
Borrowings	12,713,082	-	-	275,000,000	53,337,809	-	341,050,891
Intercompany payables	-	2,946,716	-	-	120,451,975	-	123,398,691
Deferred tax liability	-	-	-	-	-	14,015,331	14,015,331
Ordinary shareholders' equity	-	-	-	-	-	2,875,354,262	2,875,354,262
Total liabilities and equity	125,893,321	2,946,716	-	275,000,000	173,789,784	2,901,844,863	3,479,474,684
Net liquidity gap	694,834,117	263,796,568	574,667,859	(205,595,478)	1,532,436,989	-	-

	Demand and up to 1 month NS	Greater than 1 month up to 3 months NS	Greater than 3 months up to 12 months NS	Greater than 12 months up to 24 months NS	Greater than 24 months NS	Non-financial assets and liabilities NS	Total NS
2019 - COMPANY							
Assets							
Cash and cash equivalents	179,513	-	-	-	-	-	179,513
Other receivables	-	50,211,880	-	-	-	-	50,211,880
Intercompany receivable	15,315,541	-	-	-	-	-	15,315,541
Current taxation	-	-	-	-	-	7,204,141	7,204,141
Investment in subsidiaries	-	-	-	-	-	1,914,353,808	1,914,353,808
Total assets	15,495,054	50,211,880	-	-	-	1,921,557,949	1,987,264,883
Liabilities and equity							
Trade and other payables	19,629	-	-	-	-	275,349	294,978
Ordinary shareholders' equity	-	-	-	-	-	1,986,969,905	1,986,969,905
Total liabilities and equity	19,629	-	-	-	-	1,987,245,254	1,987,264,883
On balance sheet interest	15,475,425	50,211,880	-	-	-	-	-

	Demand and up to 1 month NS	Greater than 1 month up to 3 months NS	Greater than 3 months up to 12 months NS	Greater than 12 months up to 24 months NS	Greater than 24 months NS	Non-financial assets and liabilities NS	Total NS
2018 - COMPANY							
Assets							
Cash and cash equivalents	1,119,927	-	-	-	-	-	1,119,927
Other receivables	-	18,203,676	-	-	-	-	18,203,676
Intercompany receivable	1,355,073	-	-	-	-	-	1,355,073
Current taxation	-	-	-	-	-	7,233,463	7,233,463
Investment in subsidiaries	-	-	-	-	-	1,914,353,808	1,914,353,808
Total assets	2,475,000	18,203,676	-	-	-	1,921,587,271	1,942,265,947
Liabilities and equity							
Trade and other payables	166,117	-	-	-	-	92,751	258,868
Amounts due to parent company	17,831,009	-	-	-	-	-	17,831,009
Ordinary shareholders' equity	-	-	-	-	-	1,924,176,070	1,924,176,070
Total liabilities and equity	17,997,126	-	-	-	-	1,924,268,821	1,942,265,947
On balance sheet interest	(15,522,126)	18,203,676	-	-	-	-	-

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6.1 Financial risk factors (continued)

6.1.3 Liquidity risk (continued)

The following table represents the Group's undiscounted cash flows of liabilities per remaining maturity and includes all cash flows related to the principal amounts as well as future payments. The analysis is based on the earliest date on which the Group can be required to pay and is not necessarily the date at which the Group is expected to pay.

2019 - GROUP Financial liabilities	Carrying amount	Up to 1 month NS	Greater than 1 month up to 6 months NS	Greater than 6 months up to 12 months NS	Greater than 1 year up to 2 years NS	Greater than 2 years up to 5 years NS	Greater than 5 years NS	Total NS
Lease liabilities	14,207,102	497,327	2,552,022	3,084,493	5,456,783	5,660,152	-	17,250,777
Borrowings	290,771,872	1,965,000	14,340,000	289,667,500	10,982,500	-	-	316,955,000
Intercompany payables	140,951,508	1,438,015	10,092,134	8,628,091	17,256,181	155,305,631	-	192,720,052
	445,930,482	3,900,342	26,984,156	301,380,084	33,695,464	160,965,783	-	526,925,829

2018 - GROUP Financial liabilities	Carrying amount	Up to 1 month NS	Greater than 1 month up to 6 months NS	Greater than 6 months up to 12 months NS	Greater than 1 year up to 2 years NS	Greater than 2 years up to 5 years NS	Greater than 5 years NS	Total NS
Borrowings	341,050,891	17,294,163	21,785,613	26,402,585	326,154,210	231,390,004	-	623,026,575
Intercompany payables	123,398,691	1,243,273	9,163,082	7,459,639	14,919,279	176,544,799	-	209,330,072
	464,449,582	18,537,436	30,948,695	33,862,224	341,073,489	407,934,803	-	832,356,647

6.1 Financial risk factors (continued)

6.1.4 Assets and liabilities measured at fair value or for which fair values are disclosed

6.1.4.1 Valuation models

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the group determines fair values using other valuation techniques.

The Group measures fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1 fair value measurements are those derived from quoted market prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk free and benchmark interest rates, credit spreads and other factors used in estimating discounting rates, foreign currency exchange rates, bond and equity prices, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Fair value for disclosure

For instruments measured and presented at amortised cost, in determining the fair value for disclosure purposes, the Group uses its own valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include advances and certain funding loans for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and selection of appropriate discount rate.

Fair value estimates obtained from models include adjustments to take account of the credit risk of the Group and the counterparty where appropriate.

General

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions and experiences. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair values, and management judgement is required to select the most appropriate point in the range.

Level 3 fair value disclosure – Advances

The fair value of the advances book has been derived using a discounted cash flow technique. The Group has modelled the expected future cash flows by extrapolating the most recent observed cash flows on the advances book.

Amortised cost and fair value are both based upon present value of future cash flow techniques, however the following significant differences exist between the impairment (amortised cost) and fair value methodologies:

- Fair value includes all expected cash flows, whereas impairments under IAS 39 are limited to incurred loss events;
- The impairment cash flows are not reduced by the net insurance premiums the Group expects to pay across to insurance providers;
- The impairment cash flows are not reduced by expected cost of collection.

Amortised cost requires the future cash flows to be discounted at the advance's effective interest rate whereas the fair value methodology discounts the expected cash flows at a required rate of return.

6.1.4.2 Assets and liabilities for which fair value is disclosed*

	Level 1 NS	Level 2 NS	Level 3 NS	Total NS	Carrying amount NS
2019 - GROUP					
Financial assets					
Net advances	-	-	3,059,917,661	3,059,917,661	2,935,341,149
Total	-	-	3,059,917,661	3,059,917,661	2,935,341,149
Financial liabilities					
Borrowings	-	-	290,771,872	290,771,872	290,771,872
Intercompany payables	-	-	140,951,508	140,951,508	140,951,508
Total	-	-	431,723,380	431,723,380	431,723,380
2018 - GROUP					
Financial assets					
Net advances	-	-	2,569,751,842	2,569,751,842	2,555,621,590
Total	-	-	2,569,751,842	2,569,751,842	2,555,621,590
Financial liabilities					
Borrowings	-	-	341,050,891	341,050,891	341,050,891
Intercompany payables	-	-	123,398,691	123,398,691	123,398,691
Total	-	-	464,449,582	464,449,582	464,449,582

*The following items' fair value is not disclosed as these assets and liabilities closely approximate their carrying amount due to their short term or on demand repayment terms:

- Cash and cash equivalents;
- Accounts receivables and other assets;
- Deposits due to customers
- Creditors and accruals
- Intercompany receivable

The fair value of the net advances is based on the expected future cash flows, discounted using market related rates.

The fair value of the intercompany payables is based on the expected future cash flows, discounted using variable prime overdraft rate plus 2%.

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6.1 Financial risk factors (continued)

6.1.5 Analysis of financial assets and liabilities

Financial assets and financial liabilities are measured either at fair value or at amortised cost. The principal accounting policies describe how the class of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The following tables analyses the financial assets and financial liabilities in the balance sheet per class and category of financial instrument to which they are assigned. An estimate of the fair value per class of the financial instrument is also provided.

	Amortised cost NS	Total NS	Up to 12 months NS	Greater than 12 months NS
2019 - GROUP				
Financial assets				
Cash and cash equivalents	147,586,155	147,586,155	147,586,155	-
Financial assets at amortised cost	13,978,808	13,978,808	13,978,808	-
Other receivables	188,179,708	188,179,708	188,179,708	-
Net advances	2,935,341,149	2,935,341,149	61,142,488	2,874,198,661
Total financial assets	3,285,085,820	3,285,085,820	410,887,159	2,874,198,661
Financial liabilities				
Deposits due to customers	43,360,856	43,360,856	43,360,856	-
Trade and other payables	32,617,601	32,617,601	32,617,601	-
Borrowings	290,771,872	290,771,872	280,771,872	10,000,000
Lease liabilities	14,207,102	14,207,102	4,678,623	9,528,479
Intercompany payables	140,951,508	140,951,508	2,962,058	138,049,450
Total financial liabilities	521,908,939	521,908,939	364,331,010	157,577,929

	Amortised cost NS	Total NS	Up to 12 months NS	Greater than 12 months NS
2018 - GROUP				
Financial assets				
Cash and cash equivalents	750,860,322	750,860,322	750,860,322	-
Other receivables	131,287,964	131,287,964	131,287,964	-
Net advances	2,555,621,590	2,555,621,590	75,374,023	2,480,247,567
Total financial assets	3,437,769,876	3,437,769,876	957,522,309	2,480,247,567
Financial liabilities				
Deposits due to customers	74,748,898	74,748,898	74,748,898	-
Trade and other payables	38,431,341	38,431,341	38,431,341	-
Borrowings	341,050,891	341,050,891	12,713,082	328,337,809
Intercompany payables	123,398,691	123,398,691	2,946,716	120,451,975
Total financial liabilities	577,629,821	577,629,821	128,840,037	448,789,784

	Amortised cost NS	Total NS	Up to 12 months NS	Greater than 12 months NS
2019 - COMPANY				
Financial assets				
Other receivables	50,211,880	50,211,880	50,211,880	-
Intercompany receivable	15,315,541	15,315,541	15,315,541	-
Total financial assets	65,527,421	65,527,421	65,527,421	-
Financial liabilities				
Trade and other payables	294,978	294,978	294,978	-
Borrowings	-	-	-	-
Intercompany payables	-	-	-	-
Total financial liabilities	294,978	294,978	294,978	-

	Amortised cost NS	Total NS	Up to 12 months NS	Greater than 12 months NS
2018 - COMPANY				
Financial assets				
Other receivables	18,203,676	18,203,676	18,203,676	-
Intercompany receivable	1,355,073	1,355,073	1,355,073	-
Total financial assets	19,558,749	19,558,749	19,558,749	-
Financial liabilities				
Trade and other payables	258,868	258,868	258,868	-
Borrowings	-	-	-	-
Intercompany payables	17,831,009	17,831,009	17,831,009	-
Total financial liabilities	18,089,877	18,089,877	18,089,877	-

6.1 Financial risk factors (continued)

6.1.6 Capital management

Capital adequacy risk is the risk that the Group will not have sufficient reserves to meet materially adverse market conditions beyond that which has already been assumed within the impairment provisions and reserves.

The Group strives to maintain a strong capital base. Managed capital comprises of share capital, common control reserve, share based payment reserve and retained earnings. The Group's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group's strategic focus is to maintain an optimal mix of available financial resources, while continuing to generate sufficient capital to support the growth of the Group's operations within the parameters of the risk appetite set by the Board. It is the Group's objective to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

External regulatory capital management - Banking Operations

Regulatory capital adequacy is measured by expressing available qualifying capital as a percentage of risk-weighted assets. The Banking Institutions Act (No 2 of 1998) and supporting regulations, read together with specific requirements for the banking operations, specify the minimum capital required to be held in relation to risk weighted assets. Ancillary regulatory requirements include the Basel II leverage ratio.

The banking operations regulatory capital is divided into two tiers:

- Tier 1 capital: Share capital, share premium, irredeemable preference shares, share based payment reserve, retained earnings and reserves created by appropriations of retained earnings.

- Tier 2 capital: qualifying subordinated loan capital and general loan loss provisions.

The Bank of Namibia requires each bank or banking group to maintain the following capital adequacy ratios:

- Tier 1 capital to total assets, at a minimum of 6%, referred to as the leverage capital ratio;
- Tier 1 capital to the risk-weighted assets at the minimum of 7%, referred to as Tier 1 risk-based capital ratio; and
- The total regulatory capital to risk-weighted assets as a minimum of 10%, referred to as total risk-based capital ratio.

In addition to the above minimum capital requirements, the Bank of Namibia requires the bank to perform an internal capital adequacy and assessment process (ICAAP) in terms of Pillar II of Basel II, which has been documented and approved by the board. The process results in:

- The identification of all significant risk exposures to the banking group;
- The quantification of risk appetites for the major risks identified; and
- Control measures to mitigate the major risks.

ALCO is mandated to monitor and manage capital, which includes:

- meeting minimum Basel II regulatory requirements and additional capital add-ons and floors as specified by the Bank of Namibia ("BoN");
- ensure adequate capital buffers above the aforementioned criteria to ensure sustainability in both a systemic and idiosyncratic stress event as set out by the Group's risk appetite;
- test the Group's strategy against risk appetite and required capital levels;
- on an annual basis to review and sign-off the Group's Internal Capital Adequacy Assessment Process, prior to the submission to the Audit and Risk Committee, the Board and BoN; and
- to ensure compliance with other prudential regulatory requirements in respect of non-banking entities within the Group, most notably the capital requirements of these non-banking entities.

The debt covenant requirements attached to the Group's borrowings in note 15 are:

- Bad Debts Ratio does not exceed 10%
- Cash Collection Ratio exceeds 85%
- Capitalisation ratio exceeds 30%

The Group has complied with these covenants throughout the reporting period.

Regulatory capital

	GROUP		BANK	
	31 December 2019 NS	31 December 2018 NS	31 December 2019 NS	31 December 2018 NS
Tier 1 capital				
Ordinary share and premium	100,000	100,000	59,624,010	59,624,010
Irredeemable preference share capital	215,084,843	215,084,843	215,084,843	215,084,843
Retained earnings	1,430,488,761	1,162,814,840	640,268,549	580,425,501
Ordinary shareholders' reserves	793,168,177	702,096,416	2,326,724	1,254,963
Total tier 1 capital	2,348,841,781	2,080,096,099	917,304,126	856,389,317
Tier 2 capital				
Redeemable preference share capital	465,258,163	795,258,163	-	-
General allowance for credit impairments	21,051,332	7,332,082	13,929,276	1,410,026
	486,309,495	802,590,245	13,929,276	1,410,026
Total qualifying capital	2,835,151,276	2,882,686,344	931,233,402	857,799,343

Risk-weighted assets

Credit risk	2,364,763,235	2,262,988,022	1,113,423,602	536,083,909
Market risk	-	-	-	-
Operational risk	83,864,958	648,173,403	103,955,584	168,227,419
Total risk-weighted assets	2,448,628,193	2,911,161,425	1,217,379,186	704,311,328

Capital adequacy ratios

	Minimum regulatory requirement	Internal limit	31 December 2019	31 December 2018
	%	%	%	%
GROUP				
Total capital adequacy ratio	10	15	116	99
Tier 1 capital adequacy ratio	7	9	96	71
Tier 1 leverage ratio	6	8	69	59
BANK				
Total capital adequacy ratio	10	15	76	122
Tier 1 capital adequacy ratio	7	9	75	122
Tier 1 leverage ratio	6	8	54	90

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	Group		Company	
	31 December 2019 N\$	31 December 2018 N\$	31 December 2019 N\$	31 December 2018 N\$
7. Cash and cash equivalents				
Cash and balances with banks	77,953,208	427,312,769	179,513	1,119,927
Money market placements	21,524,165	254,672,982	-	-
Balances with the central bank other than mandatory reserve deposits	47,538,370	68,725,655	-	-
Included in cash and cash equivalents	147,015,743	750,711,406	179,513	1,119,927
Mandatory reserve deposits with the central bank	570,412	148,916	-	-
	<u>147,586,155</u>	<u>750,860,322</u>	<u>179,513</u>	<u>1,119,927</u>

Money market placements constitute amounts held in money market unit trust with external financial institutions on a short-term basis. These placements are highly liquid, readily convertible and have an insignificant risk of change in value.

For the purpose of the statement of cash flows, the period-end cash and cash equivalents comprise the following:

Bank balances	142,124,681	750,214,394	179,513	1,119,927
Cash on hand	5,461,474	645,928	-	-
	<u>147,586,155</u>	<u>750,860,322</u>	<u>179,513</u>	<u>1,119,927</u>

Due to the short term nature of cash and cash equivalents as well as historical experience, these balances measured at amortised cost are regarded as having a low probability of default and the ECL in respect of these is considered immaterial.

At period-end, the carrying amounts of cash and cash equivalents approximate their fair values due to the short-term maturities of these assets. There are no restrictions or pledges on cash and cash equivalents as at the reporting date.

8. Financial assets at amortised cost

Treasury bills	13,980,205	-	-	-
Gross financial assets at amortised cost	13,980,205	-	-	-
Less expected credit loss allowance	(1,397)	-	-	-
Net financial assets at amortised cost	<u>13,978,808</u>	<u>-</u>	<u>-</u>	<u>-</u>
Current	13,980,205	-	-	-
Non-current	-	-	-	-
Gross financial assets at amortised cost	<u>13,980,205</u>	<u>-</u>	<u>-</u>	<u>-</u>

Due to the short term nature of these financial assets at amortised cost as well as historical experience, these assets measured at amortised cost are regarded as having a low probability of default and the ECL in respect of these is considered immaterial.

9. Receivables

9.1 Other receivables

Financial				
- Profit share receivable from cell captive	132,766,764	117,148,723	50,154,077	18,167,593
- Deposits	8,587,899	1,383,259	57,803	36,083
- Sundry receivables	46,825,045	1,591,080	-	-
Non-financial				
- Deferred fees	6,829,682	8,346,353	-	-
- Prepayments	7,399,674	2,818,549	-	-
	<u>202,409,064</u>	<u>131,287,964</u>	<u>50,211,880</u>	<u>18,203,676</u>

At year end, the carrying amounts of accounts receivable approximate closely to their fair values due to the short-term maturities of these assets.

Due to the short term nature of other receivables as well as historical experience, these assets measured at amortised cost are regarded as having a low probability of default and the ECL in respect of these is considered immaterial.

9.2 Intercompany receivable

Financial				
- Intercompany current account - Letshego Micro Financial Services (Namibia) Ltd	-	-	1,315,541	1,355,073
- Intercompany current account - Letshego Bank (Namibia) Ltd	-	-	14,000,000	-
	<u>-</u>	<u>-</u>	<u>15,315,541</u>	<u>1,355,073</u>

The above intercompany receivables are unsecured and currently bear no interest. These loans are of a short-term nature and have no fixed repayment terms.

Due to historical experience intercompany receivables measured at amortised cost are regarded as a low probability of default and the ECL in respect of these is considered immaterial.

At recognition and at year end, the carrying amounts of accounts receivable approximate closely to their fair values due to the short-term maturities of these assets.

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	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	N\$	N\$	N\$	N\$
10. Advances to customers				
Gross advances to customers	2,963,419,051	2,577,754,366	-	-
Less: Impairment allowance on advances	(28,077,902)	(22,132,776)	-	-
Net advances to customers	2,935,341,149	2,555,621,590	-	-
Impairment allowance on advances				
Balance at the beginning of the period	22,132,776	13,063,342	-	-
IFRS9 remeasurement adjustment to opening balance	-	(3,953,826)	-	-
Impairment adjustment - increase/(decrease) for the period	5,945,126	13,023,260	-	-
Balance at the end of the period	28,077,902	22,132,776	-	-
The balance at the end of the period consists of the following:				
Stage 1 impairment	21,051,332	7,332,082	-	-
Stage 2 - 3 impairment	7,026,570	14,800,694	-	-
	28,077,902	22,132,776	-	-
(Reversals)/Charges in the profit or loss				
Amounts written off	105,672,497	104,299,007	-	-
Recoveries during the period	(96,436,883)	(86,073,334)	-	-
	9,235,614	18,225,673	-	-
Exposure to credit risk				
Net advances to customers	2,935,341,149	2,555,621,590	-	-
Maximum exposure to credit risk	2,935,341,149	2,555,621,590	-	-

Refer to note 6.1.1 for more information on credit risk management, credit quality, credit concentration risk and sensitivity of assumptions and estimates.

The Group performed a detailed assessment of the provision of the impairment allowance during the year. Actual historic write-off losses and wider credit risk associated with lending to public sector employees were considered and the credit impairment adjusted accordingly.

11. Property, equipment and right-of-use assets

	Furniture and fittings N\$	Office equipment N\$	Computer equipment N\$	Motor vehicles N\$	Leasehold improvements N\$	Right-of-use assets - Buildings N\$	Total N\$
GROUP							
At 31 December 2019							
Cost	5,085,202	6,391,175	33,629,404	482,298	4,136,017	17,767,826	67,491,922
Accumulated depreciation	(3,882,173)	(4,779,338)	(19,620,274)	(333,327)	(2,601,750)	(4,603,433)	(35,820,295)
Carrying amount	1,203,029	1,611,837	14,009,130	148,971	1,534,267	13,164,393	31,671,627
At 31 December 2019							
Opening net amount at 1 January 2019	746,929	1,775,239	5,690,087	269,545	1,162,152	-	9,643,952
IFRS 16 initial adoption adjustment	-	-	-	-	-	13,921,337	13,921,337
Restated net opening amount	746,929	1,775,239	5,690,087	269,545	1,162,152	13,921,337	23,565,289
Additions	926,004	921,774	14,194,072	-	1,074,170	3,846,489	20,962,509
Depreciation charge	(469,904)	(1,085,176)	(5,875,029)	(120,574)	(702,055)	(4,603,433)	(12,856,171)
Carrying amount	1,203,029	1,611,837	14,009,130	148,971	1,534,267	13,164,393	31,671,627
At 31 December 2018							
Cost	4,159,198	5,469,401	19,435,332	482,298	3,061,847	-	32,608,076
Accumulated depreciation	(3,412,269)	(3,694,162)	(13,745,245)	(212,753)	(1,899,695)	-	(22,964,124)
Carrying amount	746,929	1,775,239	5,690,087	269,545	1,162,152	-	9,643,952
At 31 December 2018							
Opening net amount at 1 January 2018	1,251,421	2,439,062	5,733,868	390,120	1,289,316	-	11,103,787
Additions	311,904	357,561	3,165,284	-	446,988	-	4,281,737
Disposals	-	(23,016)	(666,257)	-	-	-	(689,272)
Depreciation charge	(816,396)	(998,369)	(2,542,808)	(120,575)	(574,152)	-	(5,052,300)
Carrying amount	746,929	1,775,238	5,690,087	269,545	1,162,152	-	9,643,952

COMPANY

The company does not carry property, equipment and right-of-use assets.

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	N\$	N\$	N\$	N\$
12. Trade and other payables				
Financial				
- Trade payables	25,377,298	35,346,193	16,441	24,319
- Accruals	4,902,724	2,542,518	-	-
- Other payables	2,337,579	542,630	3,188	105,798
- Dividend payable	-	36,000	-	36,000
Non-financial				
- Audit fee provision	1,150,000	393,055	275,349	92,751
- Personnel related	12,370,622	9,588,214	-	-
- Value Added Taxation	3,724,375	1,114,360	-	-
- Withholding Tax	425,477	1,343,641	-	-
	<u>50,288,075</u>	<u>50,906,611</u>	<u>294,978</u>	<u>258,868</u>
13. Lease liabilities				
<i>Amounts recognised in the statement of financial position</i>				
Current lease liabilities	4,678,623	-	-	-
Non-current lease liabilities	9,528,479	-	-	-
	<u>14,207,102</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Reconciliation of lease liabilities</i>				
Opening balance	-	-	-	-
IFRS 16 initial adoption adjustment	13,921,337	-	-	-
Additions/modification	3,846,489	-	-	-
Interest expense	1,601,772	-	-	-
Payments	(5,162,496)	-	-	-
Closing balance	<u>14,207,102</u>	<u>-</u>	<u>-</u>	<u>-</u>
There were additions of N\$3,846,489 to right-of-use assets during the 2019 financial year.				
<i>Amounts recognised in the statement of comprehensive income</i>				
Depreciation charge on right-of-use assets - Buildings	4,603,433	-	-	-
Interest expense on lease liabilities	1,601,772	-	-	-
	<u>6,205,205</u>	<u>-</u>	<u>-</u>	<u>-</u>
14. Taxation				
14.1 Income tax expense				
Current tax expense	149,666,066	158,660,926	12,358,075	4,465,952
Deferred tax (income)/expense :				
- Origination and reversal of temporary differences	(3,168,670)	849,144	-	-
Total Income tax expense	<u>146,497,396</u>	<u>159,510,070</u>	<u>12,358,075</u>	<u>4,465,952</u>
14.2 Reconciliation of current taxation				
Profit before taxation	597,603,235	628,382,681	192,651,910	36,098,711
Tax calculated at standard rate - 32%	191,233,035	201,082,458	61,648,611	11,551,588
Income not subject to tax - dividends	(46,518,987)	(43,795,690)	(49,927,523)	(7,638,477)
Non-deductible expenses	1,783,348	2,223,302	636,987	552,841
	<u>146,497,396</u>	<u>159,510,070</u>	<u>12,358,075</u>	<u>4,465,952</u>
Effective tax rate	24.51%	25.38%	6.41%	12.37%
14.3 Deferred taxation				
The net of the Group's deferred tax assets and liabilities was previously presented under a single line item. During the year, the Group has disclosed the deferred tax assets and the deferred tax liabilities separately.				
Deferred tax assets				
<i>The balance comprises:</i>				
- Provisions	15,289,901	8,374,053	-	-
- Share based payments	686,073	401,588	-	-
- Income received in advance	1,849,887	937,857	-	-
	<u>17,825,861</u>	<u>9,713,498</u>	<u>-</u>	<u>-</u>
<i>Deferred tax assets reconciliation</i>				
Deferred tax assets balance at the beginning of the year	9,713,498	6 055 509	-	-
Originating temporary differences for the year - Provisions	6,915,848	3 007 623	-	-
Originating temporary differences for the year - Share based payments	284,485	(287 491)	-	-
Originating temporary differences for the year - Income received in advance	912,030	937 857	-	-
Deferred tax assets balance at the end of the year	<u>17,825,861</u>	<u>9,713,498</u>	<u>-</u>	<u>-</u>
Deferred tax assets balance				
- Current	8,647,683	5,279,290	-	-
- Non-current	9,178,178	4 434 208	-	-
	<u>17,825,861</u>	<u>9,713,498</u>	<u>-</u>	<u>-</u>

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	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	N\$	N\$	N\$	N\$
14.3 Deferred taxation (continued)				
Deferred tax liabilities				
<i>The balance comprises:</i>				
- Property, equipment and right-of-use assets	(6,191,526)	(1,367,474)	-	-
- Prepayments and deferred expenses	(3,243,648)	(3,058,274)	-	-
- EIR adjustment	(9,523,850)	(9,589,583)	-	-
	<u>(18,959,024)</u>	<u>(14,015,331)</u>	-	-
<i>Deferred tax liabilities reconciliation</i>				
Deferred tax liabilities balance at the beginning of the year	(14,015,331)	(9,508,198)	-	-
Originating temporary differences for the year - Property, equipment and right-of-use assets	(4,824,052)	(75,150)	-	-
Originating temporary differences for the year - Prepayments and deferred expenses	(185,374)	(2,649,988)	-	-
Originating temporary differences for the year - EIR adjustment	65,733	(1,781,995)	-	-
Deferred tax liabilities balance at the end of the year	<u>(18,959,024)</u>	<u>(14,015,331)</u>	-	-
Deferred tax liabilities balance				
- Current	(6,296,645)	(4,547,035)	-	-
- Non-current	<u>(12,662,379)</u>	<u>(9,468,296)</u>	-	-
	<u>(18,959,024)</u>	<u>(14,015,331)</u>	-	-
Deferred income taxes for the Company and Group are calculated on all the temporary timing differences under the comprehensive method using a tax rate of 32% (2018: 32%) except where the initial recognition exemption applies. The profit or loss debits/credits are the result of timing differences between the accounting and tax treatments of items recognised in the statement of financial position.				
Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. A deferred tax asset is recognised based on the assumption that the company will continue producing a taxable income in the foreseeable future against which it can be set off.				
14.4 Current taxation				
Opening balance	(22,347,358)	(15,086,702)	(7,233,463)	(7,233,463)
Charge to profit or loss	149,666,066	158,660,926	12,358,075	4,465,952
Payments made during the period	(151,144,425)	(165,921,582)	(12,328,753)	(4,465,952)
Taxation (asset)/liability	<u>(23,825,717)</u>	<u>(22,347,358)</u>	<u>(7,204,141)</u>	<u>(7,233,463)</u>
15. Borrowings				
First National Bank of Namibia Loan 1	-	12,713,082	-	-
First National Bank of Namibia Loan 2	<u>65,771,872</u>	<u>103,337,809</u>	-	-
Loan 1 from First National Bank of Namibia is guaranteed by Letshego Holdings Limited and bears interest at Namibia prime less 0.3%. The loan is repayable in quarterly instalments and matures on 31 January 2019.				
Loan 2 from First National Bank of Namibia is unsecured and bears interest at Namibia prime plus 2.6%. The loan is repayable in quarterly instalments and matures on 28 June 2021.				
Standard Bank Namibia Limited Loan	<u>225,000,000</u>	<u>225,000,000</u>	-	-
The loan from Standard Bank Namibia Limited is guaranteed by Letshego Holdings Limited and bears interest at 3 month JIBAR plus 4%. Interest on the loan is repayable quarterly and the loan matures on 31 December 2020.				
Total borrowings	<u>290,771,872</u>	<u>341,050,891</u>	-	-
- Current	280,771,872	12,713,082	-	-
- Non-current	<u>10,000,000</u>	<u>328,337,809</u>	-	-
	<u>290,771,872</u>	<u>341,050,891</u>	-	-

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	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	N\$	N\$	N\$	N\$
16. Intercompany payables				
16.1 Amounts due to parent company - Letshego Holdings Limited	138,049,450	120,451,975	-	-
The loan from Letshego Holdings Limited is unsecured and interest is calculated monthly in arrears at a variable rate of Namibia prime plus 2%. The loan is repayable in variable instalments and matures on 30 November 2024.				
16. Intercompany payables (continued)				
16.2 Intercompany payable - Erf 8585 (Pty) Ltd	2,902,058	2,946,716	-	-
The intercompany loan with Erf 8585 (Pty) Ltd is unsecured and currently does not bear interest and has no fixed repayment terms. At year end, the carrying amount of the intercompany payable approximates closely to its fair value due to the short-term nature of the balance.				
16.3 Intercompany payable - Letshego Bank (Namibia) Ltd	-	-	-	17,831,009
The intercompany payable Letshego Bank (Namibia) Ltd is unsecured, of a short-term nature and currently does not bear interest and has no fixed repayment terms. At year end, the carrying amount of the intercompany payable approximates closely to its fair value due to the short-term nature of the balance.				
Total intercompany payables	140,951,508	123,398,691	-	17,831,009

Banking facilities

There were no overdraft facilities in place at the end of the financial period, (2018: N\$ Nil).

17. Deposits due to customers				
Current accounts	32,824,067	3,420,830	-	-
Term deposits	10,536,789	71,328,068	-	-
Total deposits due to customers	43,360,856	74,748,898	-	-
18. Share capital				
<i>Authorised share capital</i>				
500 000 000 ordinary shares of 0.02 cents each (2018: 500 000 000 ordinary shares of 0.02 cents each)	100,000	100,000	100,000	100,000
<i>Issued share capital</i>				
500 000 000 ordinary shares of 0.02 cents each (2018: 500 000 000 ordinary shares of 0.02 cents each)	100,000	100,000	100,000	100,000

19. Equity settled share based payment reserve

Under the conditional Long Term Incentive Plan (LTIP), conditional share awards are granted to management and key employees. The number of vesting share awards (currently outstanding) is subject to certain non-market conditions. Shares are issued and settled in the holding company, Letshego Holdings Limited, which is listed on the Botswana Stock Exchange. The fair value of the shares is valued according to the listed price on the Botswana Stock Exchange at grant date. Letshego Holdings Limited is liable to fulfil the obligation to the employees on the awards granted.

Shares granted in terms of the plan may not exceed 10% of the issued ordinary shares of the holding company, Letshego Holdings Limited. The maximum number of shares which can be allocated to any individual participant under the scheme is 1% of the issued ordinary shares of the holding company.

The allocation of share awards under the plan relating to management of Letshego Bank (Namibia) Limited was made on 1 February 2013, 2014 and December 2014 respectively. The vesting period of the share awards from grant date is three periods.

	Company		Group			
	December 2019	December 2018	December 2019		December 2018	
	Number of share awards	Number of share awards	Number of share awards	Exercise price	Number of share awards	Exercise price
Granted during prior periods	-	-	2,178,699	3.20./2.73/2.42	1,878,000	NAD 3.06/3.20./2.73
Granted in current period	-	-	1,070,700	NAD 2.24	868,200	NAD 2.42
Exercised during the period	-	-	-	NAD 3.40	(274,784)	NAD 3.06
Forfeited during the period	-	-	(596,299)	NAD 3.25	(292,717)	NAD 3.06
Exercisable and outstanding at the end of the period	-	-	2,653,100	3.40./2.90/2.56	2,178,699	NAD 3.20./2.73/2.42
Fair value of awards exercisable and outstanding at the end of the period	-	-	2,143,979		1,072,218	

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	31 December	31 December	31 December	31 December
	2019	2018	2019	2018
	N\$	N\$	N\$	N\$
20. Profit before taxation				
The following items have been recognised in arriving at profit before taxation:				
Advertising and promotions	847,769	3,629,752	312,431	334,409
Auditors' remuneration	2,368,592	779,000	498,150	86,000
- Audit services	2,368,592	779,000	498,150	86,000
- Other services	-	-	-	-
Consultancy costs - professional services	7,568,795	8,454,680	854,431	1,103,183
Computer services costs	2,294,697	3,138,708	-	-
Depreciation	12,856,171	5,052,300	-	-
Directors' emoluments				
- for services as director	1,822,427	1,540,883	-	-
- for management services	2,810,127	2,650,665	-	-
Rental - premises, computer and office equipment	-	5,976,822	-	-
Rental - low value and short-term leases	2,358,431	-	-	-
Employee benefit expense	61,078,989	46,612,759	40,324	60,739
21. Employee benefit expense				
Salaries	37,047,295	25,426,146	40,324	60,739
Key management personnel	9,755,348	9,029,118	-	-
Pension fund contributions	4,263,137	3,255,916	-	-
Medical aid contributions	2,584,899	1,718,713	-	-
Social security	144,972	122,306	-	-
Incentive bonuses	10,070,503	9,691,195	-	-
Staff training and welfare	22,962	20,030	-	-
	63,889,116	49,263,424	40,324	60,739
22. Operating expenses by nature				
Sales related expense	10,048,315	5,842,383	317,631	334,409
Auditors remuneration - audit services	2,368,592	779,000	498,150	86,000
Collection fees	37,177,491	35,542,919	-	-
Consulting and secretarial	7,568,795	8,454,680	854,431	1,103,183
Management fees	34,739,273	35,884,220	-	-
Employee benefit expense	61,090,247	46,612,759	40,324	60,739
Depreciation (note 11)	12,881,773	5,052,299	-	-
Net (recovery) / impairment of bad debts on financial assets	9,235,614	18,225,673	-	-
Directors' remuneration - for services as directors	1,822,427	1,540,883	-	-
Directors' remuneration - for management services	2,810,127	2,650,665	-	-
Computer related expenses	2,294,697	3,138,708	-	-
Office rental	2,358,431	5,976,822	-	-
Travel and accommodation	2,519,113	1,864,680	-	12,310
Social responsibility projects	1,163,634	1,588,093	150,719	15,000
Arrangement fees	-	4,950,099	-	-
Telephone & Fax	2,918,114	2,672,044	-	-
Guarantee fees	4,669,864	2,382,192	-	-
Subscriptions	7,865,743	7,249,578	144,452	105,466
VAT expense	9,651,995	15,001,976	-	-
Other operational expenses	9,894,540	8,015,539	5,383	11,625
	223,078,785	213,425,212	2,011,090	1,728,732
23. Finance income and costs				
Interest income calculated using the effective interest income method - Advances to customers	599,896,317	596,693,160	-	-
<i>Other interest income:</i>				
- Interest received on short term bank deposits	25,301,841	21,464,747	85,572	24,149
Total interest income calculated using the effective interest income method	625,198,158	618,157,907	85,572	24,149
<i>Interest paid:</i>				
- Borrowings	(29,221,294)	(29,661,097)	-	-
- Deposits due to customers	(5,794,464)	(3,205,081)	-	-
- Lease liabilities	(1,601,772)	-	-	-
Net interest income	588,580,628	585,291,729	85,572	24,149
The Group's other interest income was previously presented separately in the statement of comprehensive income. However, management considers it to be more relevant if all interest income is presented in one line item in the statement of comprehensive income. Prior year comparatives as at 31 December 2018 have been restated by reclassifying NAD21,464,747 from other interest income to Interest income calculated using the effective interest income method.				
24. Fee income				
Postage fees	360,845	922,706	-	-
Fees and commission earned from services to customers	1,741,570	253,291	-	-
	2,102,415	1,175,997	-	-
25. Other operating income				
Dividend income - cell captive	229,998,977	256,029,440	73,694,645	37,803,295
(Loss)/Profit on disposal of plant and equipment	-	(689,273)	-	-
	229,998,977	255,340,167	73,694,645	37,803,295
26. Operating lease commitments				
The future minimum lease payments under non-cancellable operating leases are as follows:				
Low value assets and short-term leases (IFRS 16)				
Not later than 1 year	2,476,353	-	-	-
After 1 year but within 5 years	11,207,060	-	-	-
Property and equipment (IAS 17)				
Not later than 1 year	-	4,943,691	-	-
After 1 year but within 5 years	-	12,228,855	-	-
	13,683,413	17,172,546	-	-

Short-term and low value lease commitments relate to computer & office equipment. Lease commitments with respect to buildings are recognised under right-of-use assets.

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	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	N\$	N\$	N\$	N\$
27. Related parties				
	Letshego Micro Financial Services (Namibia) (Proprietary) Limited (Subsidiary)			
	Letshego Bank (Namibia) Limited (Subsidiary)			
Lease agreements:	Erf Eight Five Eight Five (Proprietary) Limited (Subsidiary of Ultimate Parent Company)			
Management services agreements:	Letshego Holdings Limited (Ultimate Parent Company)			
Key management personnel:	Ester Kali (Chief Executive Officer) Gregory Madhimba (Chief Financial Officer) O'Rute Uandara (Chief Operating Officer) James Damon (Head of Credit) Aletta Shifotoka (Head of Internal Audit) Barend Kruger (Head of Consumer Division) Diana Mokhatu (Head of Human Resources) Chriszelda Gontes (Chief Risk Officer)			
Directors:	Rairiira Mbakutua Mbeljiba Ester Kali Rosalia Martins-Hausiku Sven von Blottnitz Maryvonne Palanduz Mythri Sambasivan-George			
27.1 Related party balances				
Loan accounts - Owing to related parties				
Letshego Holdings Limited - loan	138,049,450	120,451,975	-	-
Erf 8585 (Pty) Ltd	2,902,058	2,946,716	-	-
Total related party balances	140,951,508	123,398,691	-	-
The loan from Letshego Holdings Limited is unsecured and interest is calculated monthly in arrears at a variable rate of Namibia prime plus 2%. The loan has no fixed repayment terms.				
The intercompany loan with Erf 8585 (Pty) Ltd is unsecured and currently does not bear interest and has no fixed repayment terms.				
Advances				
Advances to key management personnel	1,134,440	1,302,985	-	-
No impairment has been recognised in respect of loans granted to key management personnel in the current or prior year.				
Deposits				
Deposits from key management personnel and directors	254,812	355,062	-	-
Deposits include current and savings accounts.				
27.2 Related party transactions				
Interest paid to related parties				
Letshego Holdings Limited	-	18,252,025	-	-
Key management personnel and directors	9,169	13,448	-	-
Interest received from related parties				
Key management personnel	128,049	157,355	-	-
Dividend on preference shares paid to related parties				
Letshego Holdings Limited	65,931,918	87,996,763	-	-
Rent paid to related parties				
Erf Eight Five Eight Five (Proprietary) Limited	1,387,779	1,526,004	-	-
Guarantee fees paid to related parties				
Letshego Holdings Limited	4,669,864	2,382,192	-	-
Management fees paid to related parties				
Letshego Holdings Limited	34,739,273	35,884,220	-	-
The amount classified as management fees under note 22 is made up as follows:				
Fees payable to Letshego Holdings Limited	31,265,346	32,295,798	-	-
Withholding tax paid on imported management services	3,473,927	3,588,422	-	-
	34,739,273	35,884,220	-	-

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	31 December	31 December	31 December	31 December
	2019	2018	2019	2018
	N\$	N\$	N\$	N\$
27.2 Related party transactions (continued)				
Arrangement fees paid to related parties				
Letshego Holdings Limited	-	-	-	-
Compensation paid to key management personnel				
Salaries and short-term benefits	12,723,029	12,754,404	-	-
Post employment benefits	927,010	962,591	-	-
	<u>13,650,039</u>	<u>13,716,995</u>	<u>-</u>	<u>-</u>
Compensation paid to directors				
Sitting fees paid to non-executive directors	1,822,427	1,540,883	-	-
	<u>1,822,427</u>	<u>1,540,883</u>	<u>-</u>	<u>-</u>

Transactions with related parties take place on terms that are market related and at arms' length in nature.

28. Security

NAD 1.53 billion of the customer advances portfolio (note 10) is registered as security for a Medium Term Note programme floated by the ultimate holding company on the Johannesburg Stock Exchange. The programme in issue is for a combination of fixed and floating rate notes which mature respectively February 2021 (ZAR 432 million) and February 2022 (ZAR 33 million), bearing a weighted average rate of 11.6% nominal annual interest cost.

29. Capital reorganisation reserve

The capital reorganisation reserve arose on 5 July 2016 when Letshego Holdings (Namibia) Limited acquired 99,999% of the issued share capital of Letshego Bank Namibia Ltd.

This transaction was a capital re-organisation in the form of a common control combination. As a result, for purposes of consolidation, the transaction was treated as if the combination had taken place at the beginning of the earliest comparative period presented at the time, which was 01 January 2015. Details of the purchase consideration, the net assets acquired and negative goodwill are as follows:

	N\$		N\$	
	Group	Company	Group	Company
	As at 01 January 2015:		As at 01 January 2015:	
<i>Carrying value of assets and liabilities acquired:</i>				
Cash	48,033,443	45,762,296		
Other receivables	63,969,852	112,824,643		
Intercompany receivable	20,516,997	53,552,071		
Advances to customers	1,607,217,895	1,932,258,251		
Deferred taxation	3,343,381	1,251,260		
Current taxation	(14,818,738)	6,728,020		
Property, plant and equipment	5,904,067	10,814,235		
Trade and other payables	(53,893,908)	(32,263,100)		
Intercompany payable	-	(1,198,181)		
Borrowings	(764,063,948)	(785,475,687)		
Non-controlling interest - Preference shares attributable to Ultimate Parent Company	(215,084,843)	-		
Capital reorganisation reserve	(701,024,198)	(1,344,153,808)		
Net assets acquired	<u>100,000</u>	<u>100,000</u>		
	Group		Company	
	31 December	31 December	31 December	31 December
	2019	2018	2019	2018
	N\$	N\$	N\$	N\$
Capital reorganisation reserve	<u>701,024,198</u>	<u>701,024,198</u>	<u>1,344,153,808</u>	<u>1,344,153,808</u>

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	31 December	31 December	31 December	31 December
	2019	2018	2019	2018
	N\$	N\$	N\$	N\$
30. Investment in subsidiaries				
Investment in Letshego Micro Financial Services (Pty) Limited at cost	-	-	570,100,000	570,100,000
Investment in Letshego Bank Namibia Limited at cost	-	-	1,344,253,808	1,344,253,808
	-	-	1,914,353,808	1,914,353,808
31. Capital commitments				
Authorised but not contracted for	17,813,000	11,500,000	-	-

The capital commitments will be funded by the Group's cash resources.

32. Segment information

The Group considers its banking and other financial services operations as one operating segment. There are no other components. This is in a manner consistent with the internal reporting provided to the chief operating decision-maker, identified as the Chief Executive Officer of the Group. The chief operating decision-maker is the person that allocates resources to and assesses the performance of the operating segment(s) of an entity.

In assessing the performance of the banking and other financial services operation, the Chief Executive Officer reviews the various aggregated revenue streams, the total costs and the assets and liabilities related to the banking activity, which have been disclosed in the various notes to the consolidated financial statements.

32.1 Entity-wide disclosures

32.1.1 Products and Services

Operating segment
• Banking operations

Brand
• Letshego

Description
• Regulated financial services provider, focusing on the low to middle income earners in the Namibia.

Products and services
• Letshego conducts business as a registered bank and provides micro-lending services.

32.1.2 Geographical segments

There are no segment operations outside Namibia as the group operates within the borders of Namibia.

32.1.3 Major customers

Segment reporting requires the disclosure of an entity's reliance on its major customers, if revenue from transactions with a single customer is ten percent or more of the entity's revenue. The group does not have customers that contribute ten percent or more to its revenue and is therefore not reliant on a single major customer.

33. Net debt reconciliation

The net debt is made up of cash, borrowings and lease liabilities. Other changes include non-cash movements, including accrued interest expense which will be presented as operating cash flows in the statement of cash flows when paid. At year-end, net debt is constituted as follows:

Cash and cash equivalents	147,586,155	750,860,322	179,513	1,119,927
Borrowings repayable within one year (including lease liabilities)	(288,352,553)	(15,659,798)	-	-
Borrowings repayable after one year (including lease liabilities)	(157,577,929)	(448,789,784)	-	-
Net debt	(298,344,327)	286,410,739	179,513	1,119,927
Cash and cash equivalents	147,586,155	750,860,322	179,513	1,119,927
Gross debt - fixed interest rates	-	-	-	-
Gross debt - variable interest rates	(445,930,482)	(464,449,582)	-	-
Net debt	(298,344,327)	286,410,739	179,513	1,119,927

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	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	N\$	N\$	N\$	N\$
34. Earnings and headline earnings per share				
Basic earnings per share is calculated by dividing the Group's profit for the year/period by the weighted average number of ordinary shares in issue during the year/period, excluding ordinary shares purchased by the company and held as treasury shares.				
Headline earnings per share is calculated by dividing the Group's profit for the year/period, after excluding identifiable remeasurements, net of tax, by the weighted average number of ordinary shares in issue during the year/period, excluding ordinary shares purchased by the company and held as treasury shares.				
<i>Earnings</i>				
Profit for the period	451,105,839	468,872,611	180,293,835	31,632,759
Headline adjustments				
Remeasurement included in equity accounted earnings	-	-	-	-
<i>Headline earnings</i>	451,105,839	468,872,611	180,293,835	31,632,759
Number of ordinary shares in issue at year end (note 18)	500,000,000	500,000,000	500,000,000	500,000,000
Weighted average number of ordinary shares in issue during the period	500,000,000	500,000,000	500,000,000	500,000,000
Diluted weighted average number of ordinary shares in issue during the period	500,000,000	500,000,000	500,000,000	500,000,000
<i>Earnings per ordinary share (cents)</i>				
Basic	90	94	36	6
Fully diluted	90	94	36	6
<i>Headline earnings per ordinary share (cents)</i>				
Basic	90	94	36	6
Fully diluted	90	94	36	6

35. Events occurring after the reporting date

COVID-19

Since the reporting date, there has been global outbreak of the coronavirus (COVID-19). The directors have evaluated the financial impact of COVID-19 on the Group and cannot identify a going concern risk within the medium term. The Group has identified the health of its employees as the most critical risk factor during the pandemic and has implemented sufficient measures to mitigate these risks. An estimate of the financial impact of COVID-19 on the Group cannot be made due to uncertainties regarding how long the pandemic will last and its overall effects on the local economy. Notwithstanding, the Group does not expect any major adverse effects on its advances portfolio directly resulting from COVID-19 as the majority of its customers are employed by the Government and are not expected to lose their employment in the foreseeable future. Apart from this, the directors are not aware of any matters or circumstances arising since the end of the financial period and up to the date of this report, that would require adjustment of, or disclosure in these annual financial statements.

Dividend

A dividend of 22.5 cents per ordinary share has been declared subsequent to the reporting date.