Letshego Holdings Limited

Consolidated Annual Financial Statements

For the year ended 31 December 2019

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Details

GROUP CORPORATE INFORMATION

Letshego Holdings Limited is incorporated in the Republic of Botswana
Registration number: UIN BW00000877524 and previously Co. 98/442
Date of incorporation: 4 March 1998
A publicly listed commercial entity whose liability is limited by shares

Company Secretary and Registered Office
Lawrence Khupe (appointed 1 January 2018 and resigned 26 February 2019)
Dumisani Ndebele (appointed 26 February 2019 and resigned 27 March 2019)
Matshidiso Kimwaga (appointed 27 March 2019)
Second Floor
Letshego Place
Plot 22 Khama Crescent
Gaborone, Botswana

Independent External Auditors
Ernst and Young
2nd Floor, Plot 22
Khama Crescent
Gaborone, Botswana

Transfer Secretaries
PricewaterhouseCoopers (Pty) Limited
Plot 50371
Fairground Office Park
Gaborone, Botswana

Attorneys and Legal Advisors
Armstrongs
Acacia House
Plot 53438
Cnr Khama Crescent Extension and PG Matante Road
Gaborone, Botswana

DIRECTORS' REPORT

The Directors have pleasure in submitting to the Shareholders their report and the audited consolidated financial statements of Letshego Holdings Limited (the Company) and its subsidiaries (together "the Group") for the year ended 31 December 2019.

Nature of business
The Group embarked on a focused transformation process in 2014, with a key focus on sustainable inclusive financial services and diversification from its unsecured lending model to civil servants, combined with African expansion. This new focus has so far resulted in the Group expanding its footprint to 11 African countries with representation in East, West and Southern Africa. Also, 6 out of the 11 subsidiaries now operate with deposit taking licences which is a priority in achieving the Group's ambition to create a world class retail finance services organisation.

Stated capital
Stated Capital of the Group at 31 December 2019 amounted to P862, 621,720 (31 December 2018: P862, 621,720).

There were no ordinary shares issued in terms of the Group`s Long Term Incentive Plan during the current year. Treasury shares of 19, 054,190 (2018: 19, 054,190) remained unchanged.

In the prior year on 28 March 2018, 5,345,810 ordinary shares were issued in terms of the Group`s Long Term Incentive Plan. These were issued from shares held as treasury shares and the remaining treasury shares at the end of the year were 19, 054,190. This resulted in an increase in stated capital of P12, 776,486.

Dividends
An interim dividend of 4.3 thebe per share (prior year: 8.7 thebe per share) was declared on 28 August 2019.

A second and final dividend of 7.7 thebe per share (prior year: 3.3 thebe) was declared on 26 February 2020 and will be paid on or about 15 May 2020.

Directors
The following persons were directors of the company:

Non-executive

Name	Details	Nationality
E.N Banda	Chairman	South Africa
S. Price		UK
H. Karuhanga		Uganda
J.de Kock	Resigned and appointed as Acting Group Chief Financial Officer on 5 March 2019 till 31 March 2020	South Africa
Dr G.Somolekae		Botswana
C. G. Van Schalkwyk	Resigned 2 May 2019	South Africa
R. N. Alam		USA
C. Lesetedi		Botswana
G. Van Heerde		South Africa
P. Odera	Appointed 12 December 2019	Kenya
A. Odubola	Appointed 12 December 2019	Nigeria
R. Hoekman	Appointed 22 January 2020	Holland

Directors (continued)

Executive

Name	Position	Nationality
P.J.S Crouse	Group Chief Executive Officer - appointed 24 September 2018 and resigned 27 March 2019	South Africa
C. W. Patterson	Group Chief Financial Officer – resigned 2 March 2019	Ireland
D. Ndebele	Interim Chief Executive Officer – appointed 27 March 2019 and resigned 30 January 2020	Botswana
A.F. Okai	Group Chief Executive Officer - appointed 01 February 2020	Ghana

Directors' shareholdings

The aggregate number of shares held directly by Directors at 31 December 2019 were at P4, 014,987 (31 December 2018: P6, 276,026). Full details of this shareholding are available at the registered office of the Company or at the office of the transfer secretaries.

Long Term Incentive Plan

The Group operates an equity-settled conditional Long-Term Incentive Plan (LTIP), which was approved by shareholders at an Extraordinary General Meeting held on 20 December 2005. Under the plan, conditional share awards are granted to management and key employees. The estimation of shares to vest for a year is based on internal projections as to the specified non-market conditions being achieved. Shares are awarded in the holding company, Letshego Holdings Limited, which is listed on the Botswana Stock Exchange.

DIRECTORS' RESPONSIBILITY STATEMENT

For the year ended 31 December 2019

The Directors are responsible for the preparation of the consolidated annual financial statements of Letshego Holdings Limited the "Group" that give a true and fair view, comprising the consolidated statement of financial position at 31 December 2019, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the Botswana 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 effective system of risk management, as well as the preparation of the supplementary schedules included in these financial statements.

The Directors have made an assessment of the ability of the Group to continue as a going concern and have no reason to believe the businesses will not be a going concern in the year ahead.

The external auditor is responsible for reporting on whether the consolidated annual financial statements give a true and fair view in accordance with International Financial Reporting Standards.

Approval of the consolidated annual financial statements:

The consolidated annual financial statements of Letshego Holdings Limited as identified in the first paragraph, were approved by the Board of Directors on 24 April 2020 and is signed on its behalf by:

E.N. BANDA
GROUP CHAIRMAN

A.F. OKAI
GROUP CHIEF EXECUTIVE

Building a better
working world

Firm of Chartered Accountants
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Plot 22, Khama Crescent
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Independent Auditor's Report

To the Shareholders of Letshego Holdings Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Letshego Holdings Limited and its subsidiaries ("the group") set out on pages 15 to 77, which comprise the consolidated statement of financial position at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the group at 31 December 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Botswana Companies Act.

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 Financial Statements* section of our report. We are independent of the group in accordance with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants (IESBA Code)* and other independence requirements applicable to performing the audit of the group. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of the group. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key Audit Matter	
Uncertain tax positions in respect Income Tax Liabilities and Expenses relating to multiple jurisdictions	**How the matter was addressed in the audit**
The group is subject to income tax in multiple jurisdictions. Significant judgement is involved in determining the provision for income taxes due to the interpretation of the different tax laws and regulations applied in the different jurisdictions. This results in transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business in respect of IFRIC 23, uncertainty over income tax treatments. The group recognises liabilities for known tax exposures based on estimates of the taxes due. As at 31 December 2019, the group had a number of unresolved tax issues emanating from prior years, which required audit attention. As at the reporting date, the group had a provision of P45 million in an East Africa subsidiary, P40 million provision in a West African subsidiary and P22 million for the Botswana subsidiary, all with potential current income tax liabilities arising from prior years. This was as a result of ongoing tax revenue authority audits and tax health checks initiated by management across the group. Where the final outcome of these matters is different from the amounts initially recognised, these differences are recognised in the period in which the outcome has materialised.	**Our audit procedures included amongst others the following:** ➢ We involved an internal tax specialist to evaluate the measurement of the group's tax liabilities which included a review of the income tax calculations for compliance with the respective tax legislation and regulations and the review of the transfer pricing for group tax reporting purposes. ➢ We assessed the reasonableness of the assumptions applied in determining the group's exposures to uncertain tax positions which included a review of correspondence with the respective tax authorities, the status of ongoing tax audits and subsequent to the reporting date outcome of these positions, where applicable. ➢ We recalculated the mathematical accuracy of the provisions and expenses included in the tax computations, based on application of our understanding of tax legislations against positions taken by management. ➢ We assessed the adequacy of the disclosures related to IFRIC 23, Uncertainty over income tax treatments and IAS 12, Income taxes, in the notes to the consolidated financial statements.

Given the judgement and estimation involved in the interpretation of tax laws and regulations applied in the various jurisdictions in which the group operates, and the impact tax expenses have on the group's profitability, the calculation of the group's income tax exposures was considered to be a key audit matter in our audit of the consolidated financial statements. Refer to Use of Estimates and Judgements in note 2 and note 24 on Taxation to the consolidated financial statements for disclosures associated with the estimates and judgements applied in determining the group's tax liabilities.	
Recoverability of deferred tax assets	
The Group recognised a deferred tax asset of P145 million at the reporting date. The deferred tax asset comprises of tax losses and other temporary differences identified between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base in respect of IAS 12, *Income Taxes*. The utilisation of these deferred tax assets is subject to the group generating sufficient taxable income in the future to offset these tax losses and temporary differences. The estimation of the group's future taxable profits is inherently uncertain and is subject to significant judgement and estimates, including the expected timing of these future taxable profits. This estimation uncertainty is further increased by the ongoing volatility in geographical sectors in respect of economic planning in which the group operates. Given the judgement and estimates involved in determining the amount and timing of the group's future taxable income required for the utilisation of the group's deferred tax assets which differs based on the tax legislation in each jurisdiction, the valuation of the group's deferred tax assets was considered to be a key audit matter in our audit of the consolidated financial statements.	**Our audit procedures included amongst others the following:** ➢ We recalculated the mathematical accuracy of management's estimated future taxable income calculations. ➢ We assessed the reasonableness of the estimated future taxable income and assumptions used in calculating these estimates by: - Comparing these estimates to historic results and outcomes, considering our understanding of the industry and the group's specific circumstances; and - Considering the impact of the group's strategic objectives on the estimated future taxable income. ➢ We assessed the likely timing of the expected taxable income against the applicable tax legislation and regulations to determine whether the tax losses will be utilised within the specified timeframe. ➢ We assessed the adequacy of the disclosures related to IAS 12, Income taxes, in the notes to the consolidated financial statements.

Refer to note 2 and note 24 on Deferred taxation to the consolidated financial statements for disclosures associated with deferred tax.	
Impairment of Loans and Advances	
Loans and advances represent 83% of the group's total assets. The associated impairment provisions are significant in the context of the consolidated financial statements in respect of IFRS 9, Financial Instruments. The estimation of credit losses is inherently uncertain and is subject to significant judgement and estimates. Furthermore, models used to determine credit impairments are complex, and certain inputs used in the models are not fully observable. Any model and data deficiencies are compensated for by applying overlays to the outputs. The calculation of these overlays is highly subjective. This estimation uncertainty is further increased by ongoing volatility in geographical sectors in which the group operates. The expected credit loss model requires the application of forward-looking information in determining key inputs such as economic variables that affect the output of the model. Forward looking information inherently involves judgement and estimates supported by historical experience and analysis in determining the inputs in the variables, that affect the Probabilities of Default (PD), Loss Given Default (LGD) and Exposure at Defaults (EAD) risk factors of the loan considering the loan portfolio as well as the forecasted values of those risk factors over a period of time depending on the expected life of the portfolio.	**Our audit procedures included amongst others the following:** ➢ We obtained an understanding of the design and implementation of the loan advances process and tested the operating effectiveness of internal controls relating to the authorisation and disbursement of loans and advances to customers including: - internal controls over credit approval for loans and advances to customers; - the review of the expected credit loss models and input data by those charged with governance; and - the monitoring of credit exposures. ➢ We involved internal specialists to assess the appropriateness of the model used by the group in determining the group's expected credit losses on loans and advances in accordance with IFRS 9, Financial Instruments, including an assessment as to whether the model was consistently applied throughout the group.

ECL Measurement basis The ECLs are measured using the 3stage model which determines how the loss allowance for ECLs is measured and how the effective interest income on the financial asset is calculated. The ECL model requires degree of judgement in determining Significant Increase in Credit Risk thresholds, classification of exposures between Stage 1 and Stage 2 and the degree of judgement applied by management in determining the forward looking information that is an input into the ECL calculations. Given the combination of inherent subjectivity in the preparation of the excepted credit loss models, and the judgement and estimates involved in determining the inputs into the models, we considered the calculation of the expected credit losses in accordance with IFRS 9, Financial Instruments as applicable to the group's loans and advances to be a key audit matter in our audit of the consolidated financial statements. The disclosures associated with impairment of loans and advances are set out in the consolidated financial statements in note 1.3 Credit risk and note 4 Advances to Customers	➢ We evaluated the reasonableness of key data inputs into the model by performing the following: -A comparison of forward-looking information to relevant independent data sources. -recalculated the past due days per the system which is used in identifying the stage of impairment; - evaluated the allocation of loans and advances between the impairment stages against the group's policies and compliance with IFRS 9, Financial Instruments; and - evaluated the loan data inputs, including employer categories and effective interest rates within the underlying agreements. ➢ We challenged the appropriateness of the post- model overlays applied in the finalisation of the expected credit loss provisions by reviewing historical data and current economic data supporting these overlays. ➢ We assessed the adequacy of the disclosures related to IFRS 9, Financial Instruments, in the notes to the consolidated financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the Group Corporate Information, the Directors' Report, the Directors' Responsibility Statement, the Five Year Financial History, the Group Value Added Statement and the Analysis of Shareholding which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, 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.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Directors for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the directors are responsible for assessing the group'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 or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 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 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 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 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 to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 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.

Other Matter

The consolidated financial statements of the group for the year ended 31 December 2018, were audited by another auditor who expressed an unmodified opinion on those statements on 30 April 2019.

Ernst + Young

Ernst & Young
Practising Member: Francois J Roos
Membership number: 20010078
Partner
24 April 2020

LETSHEGO HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

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	Note	31 December 2019 P'000	31 December 2018 P'000
ASSETS			
Cash and cash equivalents	3	1,035,513	1,188,402
Advances to customers	4	9,071,484	8,698,831
Other receivables	5	247,996	252,491
Financial assets at fair value through other comprehensive income	9	53,591	53,591
Income tax receivable		39,499	19,074
Property, plant and equipment	6	99,671	80,532
Right-of-use assets	7	61,436	-
Intangible assets	8	45,221	45,488
Goodwill	10	68,233	106,229
Deferred tax assets	24.1	144,699	211,651
Total assets		**10,867,343**	**10,656,289**
LIABILITIES AND EQUITY			
Liabilities			
Customer deposits	11	426,673	497,718
Cash collateral	14	21,721	27,028
Trade and other payables	12	552,849	492,225
Lease liabilities	13	64,760	-
Income tax payable		239,743	232,132
Borrowings	15	4,982,175	5,329,319
Deferred tax liabilities	24.1	805	3,205
Total liabilities		**6,288,726**	**6,581,627**
Shareholders' equity			
Stated capital	16	862,621	862,621
Foreign currency translation reserve		(713,418)	(696,276)
Legal reserve	17	195,793	73,519
Share based payment reserve	18	24,304	18,089
Retained earnings		3,836,578	3,500,317
Total equity attributable to equity holders of the parent company		**4,205,878**	**3,758,270**
Non - controlling interests		372,739	316,392
Total shareholders' equity		**4,578,617**	**4,074,662**
Total liabilities and equity		**10,867,343**	**10,656,289**

LETSHEGO HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	31 December 2019 P'000	31 December 2018 P'000
Effective interest income	19	2,974,839	2,718,257
Effective interest expense	20	(931,164)	(654,079)
Net interest income		**2,043,675**	**2,064,178**
Fee and commission income	21	59,451	30,735
Other operating income	21.1	273,018	267,421
Operating income		**2,376,144**	**2,362,334**
Employee benefits	22	(454,023)	(390,177)
Other operating expenses	23	(622,737)	(590,158)
Net income before impairment and taxation		**1,299,384**	**1,381,999**
Expected credit losses	4	(169,101)	(361,491)
Profit before taxation		**1,130,283**	**1,020,508**
Taxation	24	(438,781)	(510,026)
Profit for the year		**691,502**	**510,482**
Attributable to :			
Equity holders of the parent company		620,034	438,639
Non - controlling interest		71,468	71,843
Profit for the year		**691,502**	**510,482**
Other comprehensive income, net of tax			
Items that may be reclassified to profit or loss net of tax			
Foreign operations - foreign currency translation differences		(11,284)	(48,688)
Total comprehensive income for the year		**680,218**	**461,794**
Attributable to :			
Equity holders of the parent company		602,892	422,780
Non - controlling interest		77,326	39,014
Total comprehensive income for the year		**680,218**	**461,794**
Earnings per share			
Basic earnings per share – (thebe)	25	29.2	20.7
Diluted earnings per share – (thebe)	25	28.6	20.3

LETSHEGO HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Stated capital	Retained earnings	Share based payments reserve	Foreign currency translation reserve	Legal reserve	Non - controlling interests	Total
		P'000	P'000	P'000	P'000	P'000	P'000	P'000
Balance at 01 January 2019		**862,621**	**3,500,317**	**18,089**	**(696,276)**	**73,519**	**316,392**	**4,074,662**
Total comprehensive income for the year								
Profit for the year		-	620,034	-	-	-	71,468	691,502
Other comprehensive income, net of income tax								
Foreign currency translation reserve		-	-	-	(17,142)	-	5,858	(11,284)
Transactions with owners, recorded directly in equity								
Allocation to legal reserve	17	-	(122,274)	-	-	122,274	-	-
Allocation to share based payment reserve	18	-	-	6,215	-	-	-	6,215
Dividends paid by subsidiary to minority interests		-	-	-	-	-	(20,979)	(20,979)
Dividends paid to equity holders	26	-	(161,499)	-	-	-	-	(161,499)
Balance at 31 December 2019		**862,621**	**3,836,578**	**24,304**	**(713,418)**	**195,793**	**372,739**	**4,578,617**
Balance at 31 December 2017		**849,845**	**3,709,308**	**38,840**	**(680,417)**	**39,607**	**313,309**	**4,270,492**
Impact of adopting IFRS 9	4	-	(178,951)	-	-	-	(12,923)	(191,874)
Recognition of deferred tax on IFRS 9 adjustment	24.1	-	38,133	-	-	-	1,880	40,013
Adjusted balance 1 January 2018		**849,845**	**3,568,490**	**38,840**	**(680,417)**	**39,607**	**302,266**	**4,118,631**
Total comprehensive income for the year								
Profit for the year		-	438,639	-	-	-	71,843	**510,482**
Other comprehensive income, net of income tax								
Foreign currency translation reserve		-	-	-	(15,859)	-	(32,829)	**(48,688)**
Transactions with owners, recorded directly in equity								
Acquisition of Non-controlling interest - Tanzania Bank	32.2	-	(9,611)	-	-	-	(5,936)	**(15,547)**
Allocation to legal reserve	17	-	(33,912)	-	-	33,912	-	-
Allocation to share based payment reserve	18	-	-	(7,975)	-	-	-	**(7,975)**
New shares issued from long term incentive scheme	18	12,776	-	(12,776)	-	-	-	**-**
Dividends paid by subsidiary to minority interests		-	-	-	-	-	(18,952)	**(18,952)**
Dividends paid to equity holders	26	-	(463,289)	-	-	-	-	**(463,289)**
Balance at 31 December 2018		**862,621**	**3,500,317**	**18,089**	**(696,276)**	**73,519**	**316,392**	**4,074,662**

LETSHEGO HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	31 December 2019 P'000	31 December 2018 P'000
OPERATING ACTIVITIES			
Profit before taxation		1,130,283	1,020,508
Adjustments for :			
- Net interest income		(2,043,675)	(2,064,178)
- Amortisation of intangible assets	8	14,293	11,847
- Depreciation property, plant and equipment	6	35,170	24,444
- Depreciation right of use assets	7	35,473	-
- Disposal and write off of plant and equipment		36	15,214
- Impairment and write off charge	4	352,868	508,211
- Impairment of goodwill	10	38,737	22,000
- Net foreign exchange differences		(58,326)	(42,575)
- Long term incentive plan provision		6,215	(7,975)
Changes in working capital:			
Movement in advances to customers		(700,851)	(1,591,944)
Movement in other receivables		4,495	(138,946)
Movement in trade and other payables		60,624	230,474
Movement in customer deposits		(71,045)	269,286
Movement in cash collateral		(5,307)	(291)
Cash used in operations		**(1,201,010)**	**(1,743,925)**
Interest received		2,974,839	2,718,257
Interest paid		(920,748)	(654,079)
Income tax paid	24.3	(387,043)	(478,948)
Net cash flows generated from / (used in) operating activities		**466,038**	**(158,695)**
INVESTING ACTIVITIES			
Proceeds on disposal of plant and equipment		54	-
Purchase of property, plant and equipment and intangible assets		(69,960)	(29,891)
Net cash flows used in investing activities		**(69,906)**	**(29,891)**
FINANCING ACTIVITIES			
Dividends paid to equity holders		(161,499)	(463,289)
Dividends paid to subsidiary non-controlling interest		(20,979)	(18,952)
Conditional subsequent payment relating to the investment in AFB Ghana	32.1	(2,577)	-
Lease payments	13	(42,565)	-
Payment for purchase of non-controling interest	32.2	-	(15,547)
Finance obtained from third parties	15	1,135,522	1,938,071
Repayment of borrowings	15	(1,415,529)	(638,687)
Net cash (used in) / generated from financing activities		**(507,627)**	**801,596**
Net movement in cash and cash equivalents		**(111,495)**	**613,010**
Movement in cash and cash equivalents			
At the beginning of the year		1,100,342	492,367
Movement during the year		(111,495)	613,010
Effect of exchange rate changes on cash and cash equivalents		(16,724)	(5,035)
At the end of the year	3	**972,123**	**1,100,342**

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2019

Reporting entity

Letshego Holdings Limited (the Company) is a limited liability company incorporated and domiciled in Botswana. The address of the company is Letshego Place, Plot 22 Khama Crescent, Gaborone, Botswana. The consolidated financial statements of the Company as at and for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").The Group embarked on a focused transformation process in 2014, with a key focus on sustainable inclusive financial services and diversification from its unsecured lending model to civil servants, combined with African expansion. This new focus has so far resulted in the Group expanding its footprint to 11 African countries with representation in East, West and Southern Africa. Also, 6 out of the 11 subsidiaries now operate with deposit taking licences which is a key priority in achieving the Group's ambition to create a world class retail finance services organisation.

The consolidated financial statements for the year ended 31 December 2019 have been approved for issue by the Board of Directors on 25 March 2020.

The following principal accounting policies, which are consistent with prior years except for the adoption of new / amended accounting standards, have been adopted in the preparation of these consolidated annual financial statements.

Statement of compliance

The consolidated annual financial statements have been prepared in accordance with the International Financial Reporting Standards and the requirements of the Botswana Companies Act.

Basis of preparation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").The consolidated annual financial statements are presented in Botswana Pula, which is the Group's reporting currency and the Company's functional currency. Except where indicated, financial information presented in Pula has been rounded to the nearest thousand.

The consolidated annual financial statements have been prepared on the historical cost basis except for certain financial instruments which are disclosed at fair value.

Adoption of new accounting standards

The Group has adopted IFRS 16 – Leases for the first time in the current reporting period (previously IAS 17 – Leases: recognition and measurement was applied). As a result, accounting policies applicable to leases have been amended accordingly (page 31). The other standards that became effective during the current year did not have any material impact.

Basis of consolidation

Investments in subsidiaries

Subsidiaries are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that are presently exercisable are taken into account. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value, as are the identifiable assets acquired and liabilities assumed. Transaction costs are expensed as incurred except if it relates to the issue of debt or equity securities.

Goodwill
The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. The carrying amount of goodwill is assessed annually for impairment. An impairment loss recognised on goodwill is not reversed in a subsequent period.

Transactions eliminated on consolidation
Intra group balances and any unrealised income and expenses arising from intra group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non – controlling interest
Non-controlling interest (NCI) are shown separately in the consolidated statement of financial position and statement of profit and loss and other comprehensive income. NCIs are viewed as equity participants of the Group and all transactions with minorities are therefore accounted for as equity transactions and included in the consolidated statement of changes in equity. NCI is measured at proportionate share of the acquiree's identifiable net assets.

Loss of control
When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained is measured at fair value when control is lost.

Change in the Group's interest in subsidiaries
The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with the equity owners of the Group. A change in ownership in interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect the relative interests in the subsidiary. Any differences between the amount of the adjustment to non-controlling interests and any consideration paid or received is recorded in equity.

Property, plant and equipment
Property, plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment / losses.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of the plant and equipment. The estimated useful lives for current and prior periods are as follows:

Computer equipment	3 years
Office furniture and equipment	4 – 5 years
Motor vehicles	4 years
Land and building	30 - 50 years

Land and buildings are stated on the historical cost basis and not depreciated as these assets are considered to have indefinite economic useful lives. Repairs and maintenance are recognised in profit or loss during the financial period in which these costs are incurred, whereas the cost of major renovation is included in the carrying amount of the related asset when it is probable that future economic benefits will flow to the Group.

The residual value and useful life of each part of plant and equipment, if not insignificant, is reassessed annually. Depreciation costs are recognised on a prorate basis from the date the asset is available for use.

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

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gains and losses on disposal of property, plant and equipment items are determined by comparing proceeds with the carrying amounts and recognised in profit or loss.

Work in progress

Work in progress comprises of:

- Costs incurred in the system development currently on-going in respect of the customised lending and financial reporting module of the Group. The costs associated with this development process is recognised as work in progress until a time the systems are available for use at which point the respective element will be transferred to an appropriate category of equipment and/or intangible assets and depreciated over the useful life of the asset.
- Costs incurred in acquisition and development of property until the property is available for use, at which point the respective property will be transferred to an appropriate property category and depreciated over the estimated life of the property.

Foreign currency transactions

Transactions conducted in foreign currencies are translated to Pula at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Pula using the closing exchange rate at the reporting date. Foreign exchange differences arising on translation are recognised in profit or loss.

Foreign operations' financial statements

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Botswana Pula using the closing exchange rate at the financial period end. The income and expenses of foreign operations are translated to Botswana Pula at rates approximating those exchange rates at the dates of the transactions. Foreign currency differences are recognised directly in equity in the foreign currency translation reserve. When a foreign operation is disposed of, either in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

Foreign currency translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Operating leases (prior to 1 January 2019 and applicable to the comparative balances)

The Group classifies leases as operating leases if the lessor effectively retains the risks and rewards of ownership of the leased asset. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense.

Leases (applicable with effect from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

• Property 2 to 5 years

Leases (applicable with effect from 01 January 2019) - continued

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, 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.

Short-term leases and leases of low-value assets

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 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.

Intangible assets – computer software

Software acquired by the Group is measured at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development.

The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is measured at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful life of software for current and prior periods is three to ten years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

An intangible asset – computer software is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gains and losses on disposal of these intangible asset items are determined by comparing proceeds with the carrying amounts and recognised in profit or loss.

Intangible assets – Brand value and core deposits

Brand value and core deposits acquired in a business combination are recognised at fair value at the acquisition date. Brand value is the right to use the trade name and associated brands of the acquired entity and core deposits relates to the customer relationships attributable to customer deposits of the acquired entity. These are carried at cost less accumulated amortisation at each reporting period. Amortisation is recognised in profit or loss using the straight-line method over their estimated useful lives.

Intangible assets – Brand value and core deposits (continued)

Brand value is amortised over its expected useful life of 7 years whereas core deposits are amortised over its useful life of 8 years. These intangible assets are tested for impairment annually at the cash generating unit level.

An intangible asset – brand value and core deposits is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gains and losses on disposal of these intangible asset items are determined by comparing proceeds with the carrying amounts and recognised in profit or loss.

Provisions
Provisions are recognised when the Group has a present legal obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Income tax
Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case the related income tax is also recognised in equity.

Current tax comprises tax payable/refundable calculated on the basis of the expected taxable income for the year, using tax rates enacted at the reporting date, and any adjustment of tax payable/refundable for previous years.

Deferred tax
Deferred tax is provided on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised in profit or loss except to the extent that it relates to a transaction that is recognised directly in equity, or a business combination. The effect on tax of any changes in tax rates is recognised in profit or loss, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Interest income
Interest income is recognised in profit or loss at amortised cost using the effective interest 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 is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual / behavioural 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 group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income
Administration fees - lending
The Group earns fee and commission income from a diverse range of financial services it provides to its customers. Where fees and commissions form an integral part of the effective interest on a financial asset or liability these are included and measured based on effective interest rate. Fees and commissions, which relate to transaction and service fees where the performance obligation is satisfied over a period of time are recognised on an accrual basis as the service is rendered.

Credit life insurance commission
Where the Group is acting as an agent, commissions and fees earned on the sale of insurance products to customers on behalf of the insurer are recognised on a time-apportionment basis over the period the service is provided.

Early settlement fee
This is a settlement penalty fee which is levied on customers when they settle their loans before the maturity date and are recognised in profit or loss as and when these loans are settled.

Interest expense
Interest expense is recognised in profit or loss using the effective interest method as describe under the interest income policy above. Foreign currency gains and losses on interest earning financial liabilities are recognised in profit or loss, as part of interest expense, as they are incurred.

Interest from bank deposits
Interest from bank deposit is earned on an accruals basis at the agreed interest rate with the respective financial institution.

Other income
Other income comprises income from statement fees and other non-core income streams and are recognised in profit and loss as and when they are earned.

Dividend income
The Group recognises dividends when the Group's right to receive payment is established. This is on the 'last day to trade' for listed shares, and on the 'date of declaration' for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares. Dividend income is presented in profit or loss.

Legal reserve
According to the commercial code applicable to certain subsidiaries, a non-distributable legal reserve of the subsidiaries' annual profits is transferred till the reserve is equal to the subsidiaries' share capital.

Stated capital
Stated capital is recognised at the fair value of the consideration received. Incremental costs that are directly attributable to the issue of an equity instrument are deducted from initial measurement of the equity instrument.

Treasury shares is where the Group purchases its own stated capital. The consideration paid, including any directly attributable incremental costs, is deducted from total shareholders' equity as treasury shares until they are re-issued or sold. Where the shares are subsequently sold or re-issued, any consideration received net of any directly attributable incremental costs, is included in shareholders' equity.

Dividends paid
Dividends on ordinary shares are recognised against equity in the period in which they are approved by the Directors. Dividends declared after the reporting date, are not recognised as a liability in the consolidated statement of financial position.

Employee benefits
Short term employee benefits are expensed as the related services are provided. Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is recognised for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date. The Group operates a defined contribution retirement benefit fund. A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised in the profit or loss as an expense when they are due in respect of service rendered before the end of the reporting period. Under the defined contribution plans in which the Group and its employees participate, the Group and the employees contribute fixed percentages of gross basic salary on a monthly basis.

The Group also operates a staff incentive bonus scheme. The provision for employee bonus incentive is based on a predetermined group policy and is recognised in trade and other payables. The accrual for employee bonus incentives is expected to be settled within 12 months to 36 months.

Payroll administration costs
Administration costs are charged by employers for payroll deduction facilities. These costs are set-off against recoveries made from clients. Where the Group is not able to recover in full such administration costs, they are recognised in profit or loss as incurred.

Share-based payment transactions
The Group operates an equity-settled conditional Long Term Incentive Plan (LTIP). Conditional awards are granted to management and key employees. The Group also grants its own equity instruments to employees of its subsidiary as part of group share-based payment arrangements. The number of vesting awards is subject to achievement of specific performance metrics.

The grant date fair value of awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the actual number of awards that vest.

The fair value of the options is determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each reporting date, the Group revises its estimate of the number of options expected to vest.

The Group recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Amounts recognised for services received if the options granted do not vest because of failure to satisfy a vesting condition, are reversed through profit or loss. If options are forfeited after the vesting date, an amount equal to the value of the options forfeited is debited against the share based payment reserve and credited against retained earnings.

The proceeds received net of any attributable transaction costs are credited to stated capital when the options are exercised.

Determination of fair value of equity instruments granted
The share price of Letshego Holdings Limited (as quoted on the Botswana Stock Exchange) of the Group's equity instruments at grant date is the estimated fair value of the share options granted. No adjustments are made for non-market vesting conditions as there are none. Therefore, no valuation techniques are therefore used (Monte Carlo / Black Scholes etc.) as the quoted price at grant date is the fair value.

Segment reporting
A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on geographical segments. Segment results include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Earnings per share
The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit for the period attributable to ordinary shareholders by the weighted average number of shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of shares outstanding for the effects of all dilutive potential ordinary shares arising from the Long Term Incentive Plan (LTIP) awards.

Headline earnings per share
The Groups' headline earnings per share (HEPS) is calculated based on the Johannesburg Stock Exchange (JSE) rules per Circular 1/2019.

Dividend per share
Dividend per share is calculated by dividing the earnings attributable to ordinary equity holders by the number of shares outstanding at the end of a period. The number of shares used to calculate the dividend per share excludes shares held as treasury shares.

Contingent liabilities
The Group disclosed 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.

Financial assets and liabilities

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Financial assets and liabilities (continued)
Financial assets (continued)

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

The Group's financial assets and liabilities consist of the following significant items.

Financial assets at amortised cost
Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets at amortised cost consists of advances to customers, other receivables and cash and cash equivalents.

Advances to customers
Advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. Advances to customers are initially measured at fair value plus incremental direct transaction costs, and are subsequently measured at their amortised cost using the effective interest method.

Other receivables
Other receivables comprise deposits and other recoverables which arise during the normal course of business. These are initially measured at fair value plus incremental direct transaction costs, and are subsequently measured at their amortised cost using the effective interest method.

Cash and cash equivalents
For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with financial institutions. Bank overdrafts, which are repayable on demand and form an integral part of the Group's cash management, are included as a component of cash and cash equivalents. Cash and cash equivalents are measured at amortised cost in the consolidated statement of financial position.

Financial assets at amortised cost
Financial assets at fair value through OCI
Financial assets at fair value through OCI are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within twelve months of the end of the reporting period. Financial assets at fair value through OCI are subsequently measured at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in equity until the asset is disposed of or determined to be impaired. Dividends received from financial assets at fair value through OCI equity instruments are recognised in profit or loss when the Group's right to receive payment is established.

Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities measured at fair value through profit or loss, or financial liabilities measured at amortised cost.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, customer deposits, cash collateral and trade and other payables.

Financial assets and liabilities (continued)
Financial liabilities (continued)

Subsequent measurement
For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortised cost
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings including trade and other payables, customer deposits and cash collateral are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest amortisation is included as finance costs in profit or loss.

Financial liabilities at amortised cost includes borrowings, customer deposits, cash collateral and trade and other payables.

Borrowings and deposits from customers
Borrowings and customer deposits are the Group’s sources of funding. These are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Trade and other payables
Liabilities for trade and other amounts payable, which are normally settled on 30 to 90 day terms, are measured at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Cash collateral
Cash collateral consist of cash received as security for advances to customers and is held until the customer loan is fully settled, at which point the balance is refunded to the customer. The cash collateral is set off against a loan balance only when the loan balance is deemed irrecoverable from the customer.

Recognition
The Group initially recognises financial assets and liabilities on the date that they are originated or on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities (continued)

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Offsetting

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

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques.

Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. The Group uses widely recognised valuation models for determining the fair value of common and simpler financial instruments like interest rate swaps. For these financial instruments, inputs into models are market observable.

When entering into a transaction, the financial instrument is recognised initially at fair value. The best evidence of fair value of a financial instrument at recognition is normally the transaction price, the fair value of the consideration given or received. The value obtained from the valuation model may differ from the transaction price. This initial difference, usually an increase in fair value indicated by valuation techniques, is recognised in income depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments measured at fair value.

Financial assets and liabilities (continued)

Identification and measurement of impairment for financial assets
At each reporting date the Group assesses whether there is objective evidence that financial assets not measured at fair value through profit or loss are impaired.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the Group.

In assessing impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against the financial asset. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Designation at fair value through profit or loss
The Group may designate financial assets and liabilities at fair value through profit or loss when either:

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

Insurance arrangements
The Group has credit and disability cover in place in most markets. Under this arrangement premiums are collected from customers and paid on to the insurer with the Group earning a fee or profit share. In addition, comprehensive insurance is in place in Namibia and Mozambique and profit from the underlying insurance arrangements is shared between the underwriter and the Group.

Cell captive 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 agreement with insurance providers under which the insurance provider set up an insurance cell within its legal entity, for example a corporate entity subscribes 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 profit after deduction of the insurers' fees, allocation taxes and other costs payable to the Group.

Derivatives held for risk management purposes
Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position and are included in borrowings. Changes in its fair value are recognised immediately in profit or loss.

Impairment for non-financial assets
At each reporting date, the Group reviews the carrying value for its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment. The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less cost to sell. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment for non-financial assets (continued)

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. Impairment losses in respect of goodwill are not reversed. For assets excluding goodwill, if there is an indication of impairment, the Group estimates the assets recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the assets is considered impaired and is written down to its recoverable amount.

New standards or amendments that were effective for the first time during the year

The Group applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Several other amendments and interpretations apply for the first time in 2019 including IFRIC 23. These amendments and interpretations did not have a material impact on the consolidated financial statements. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 Leases

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. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

The Group has lease obligations for the rental of premises and operating equipment. These leases were previously measured in accordance with IAS 17. The Group adopted IFRS 16 using the modified retrospective approach, with the date of initial application of 1 January 2019. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

Nature of the effect of adoption of IFRS 16 to the Group

In addition an assessment was done to review the composition of the lease payments in all subsidiaries to determine if there are any non-lease components. In some cases the lease payments include an additional amount for services charges and these were considered to be non-lease components as they relate to utilities, garbage collection etc.

The Group did not early adopt IFRS 16 and as such the effective date of adoption is 1 January 2019 and noted below is the detailed approach:

Overall impact
The Group has lease obligations for the rental of premises and operating equipment. These leases were previously measured in accordance with IAS 17. The Group has opted not to reassess if these leases meets the definition of a lease on initial adoption of IFRS 16 and as such the leases were considered to have met the definition of a lease.

In addition an assessment was done to review the composition of the lease payments in all subsidiaries to determine if there are any non-lease components. In some cases the lease payments include an additional amount for services charges and these were considered to be non-lease components as they relate to utilities, garbage collection etc. The Group has taken the option to separate lease and non-lease components.

Statement of financial position
IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. Leases are ‘capitalised’ by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. Furthermore, the present value of the future lease payments is recognised as a financial liability if lease payments are made over time.

Nature of the effect of adoption of IFRS 16 to the Group (continued)

Statement of profit or loss and other comprehensive income
IFRS 16 replaces the straight-line operating lease expense for those leases applying IAS 17 with a depreciation charge for the lease asset (included within operating costs) and an interest expense on the lease liability (included within finance costs). This change aligns the lease expense treatment for all leases. Although the depreciation charge is typically even, the interest expense reduces over the life of the lease as lease payments are made. This results in a reducing total expense as an individual lease matures.

Approach adopted by the Group
The standard allows for two approaches in the adoption being the full retrospective approach and the modified retrospective approach. The full retrospective requires the restatement of the prior year reported numbers whilst in the latter the adjustment as a result of the adoption of the standard are effected in the current year.

The Group has opted for the modified retrospective approach and as such the effect of the new standard has been accounted for in the current year.

Discount factor
Under IFRS 16 'Leases', discount rates are used to determine the present value of the lease payments used to measure a lessee's lease liability. Discount rates are also used to determine lease classification for a lessor and to measure a lessor's net investment in a lease. For lessees, the lease payments are required to be discounted using:

• the interest rate implicit in the lease if readily determinable, or
• the lessee's incremental borrowing rate.

Right of use asset
This is the lessee's right to use an asset over the life of the lease. The right of use asset were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised and is depreciated over the lease term.

Lessee's incremental borrowing rate
Where the lessee is unable to readily determine the interest rate implicit in the lease, the discount rate will be the lessee's incremental borrowing rate. The incremental borrowing rate is an interest rate specific to the lessee that reflects:

- the credit risk of the lessee
- the term of the lease
- the nature and quality of the security
- the amount 'borrowed' by the lessee, and
- the economic environment (the country, the currency and the date that the lease is entered into) in which the transaction occurs.

The Group has adopted the incremental borrowing rate as the discount factor and the applicable rates were determined per country. The discount factors take into account the interest rates on the existing facilities where applicable and commercial rates that Group entities could be offered by their lenders if they were to source funding.

Group adopted the practical expedient that allows entities to apply the same discount rate to a portfolio of leases that have similar characteristics. The practical expedient has been applied per country as its effect is reasonably expected to be materially the same as the assessment of the discount rate on a lease-by-lease approach.

The weighted average incremental borrowing rate of 15% was applied across the Group in recognising the lease liabilities at the date of initial application.

The Group applied the available practical expedients as follows:

- used a single discount rate to a portfolio of leases per subsidiary with reasonably similar characteristics
- relied on its assessment of whether leases are onerous immediately before the date of initial application
- excluded the direct cost from the measurement of the right of use asset at the date of initial application

Nature of the effect of adoption of IFRS 16 to the Group (continued)

Short term leases

Group has elected not to recognise assets and liabilities for lease with a lease term of up to 12 months. This election only applies where the total portfolio of similar leases are of that tenor and has been adopted in Uganda only.

Low value leases

The Group has also opted not to recognise assets and liabilities for low value leases for operating equipment.

Adjustments recognised of adoption of IFRS 16:	**P'000**
Opening lease commitments disclosed as at 31 December 2018	38,562
Commitment relating to short - term leases	(1,970)
	36,592
New leases as at 1 January 2019	30,545
Operating leases subjected to changes in lease terms	62,078
Discounted using the lessee's incremental borrowing rate at the date of initial application	(32,191)
Lease liability recognised as at 1 January 2019 (note 13)	**97,024**
Operating lease commitments at 31 December 2018:	
Not later than 1 year	14,852
Later than 1 year and not later than 5 years	23,710
	38,562

Standards issued but not yet effective at the reporting date

A number of new standards and amendments to standards are issued but not yet effective for year ended 31 December 2019. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards or amendments to standards early. These will be adopted in the period that they become mandatory.

Other standards/amendments to standards
The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements:

- Presentation of financial statements Amendments to IAS 1 – effective 1 January 2020
- Definition of Material – Amendments to IAS 1 and IAS 8 - effective 1 January 2020
- The Conceptual Framework of Financial Reporting - effective 1 January 2020
- Amendments to IFRS 3 – Business combinations – effective 1 January 2020

1 FINANCIAL RISK MANAGEMENT

1.1 Introduction and overview

Letshego Holdings Limited (''the Group'') continued to maintain a risk management culture in response to the changing operating environment in order to deliver the Group's objectives.

The Group Board of Directors has the ultimate responsibility for ensuring that an adequate risk management system is established and maintained. The Board delegated its responsibilities to the following Board Committees and the terms of reference are outlined in the Board Charter:

- Group Audit Committee
- Group Risk Committee
- Group Governance, Nominations, Social and Ethics Committee
- Group Remuneration Committee
- Group Investment Committee

In addition to the above board committees, the Group has the following Management Committees to assist the Board in the effective management of risk:

- Group Executive Committee
- Group Risk Management Committee
- Group Innovation Management Committee
- Group Business Growth Committee
- Group Asset and Liability Management Committee
- Group Technical and Operations Committee
- Group Sustainability Committee
- Group Tax Committee

The primary risks to which the Group is exposed and which it continues to effectively manage are detailed below.

1.2 Strategic risk

Strategic risk refers to the current and/or prospective impact on the Group’s earnings, capital or business viability arising from adverse business decisions and implementation of strategies which are inconsistent with internal factors and the external environment.

In line with the Group’s Enterprise-wide Risk Management framework, strategic risk management enables the mitigation of risks and protects the stability of the Group. It also acts as a tool for planning systematically about the future and identifying opportunities.

In order to effectively manage strategic risk, the Board of Directors and the Group Executive Committee established appropriate internal structures for implementation of strategic plans. The Group strategic plans are supported by appropriate organisational and functional structures, skilled and experienced personnel, as well as risk monitoring and controlling systems.

According to the Group’s reporting structures, reputational risk is a primary risk categorized under strategic risk. Reputational risk arises when a situation, occurrence, business practice or event has the potential to materially influence the public and stakeholder’s perceived trust and confidence in the Group or its subsidiaries. This risk may also result from the Group’s failure to effectively manage any or all of the other risk types.

The Group Business Strategy is cascaded throughout the subsidiaries to ensure that their strategies are fully aligned to the Group strategy and risk appetite.

1 FINANCIAL RISK MANAGEMENT (continued)

1.3 Financial risk

In line with the Group's ERM framework, financial risk includes credit risk, liquidity risk, interest rate risk and foreign currency rate risk.

1.3.1 Credit risk

Credit risk is the risk that a borrower or counterparty will fail to meet obligations in accordance with agreed terms. The Group is exposed to credit risk from a number of financial instruments such as loans and inter-bank transactions from its subsidiaries.

Key metrics	YoY Trend	2019	2018
Growth in gross advances to customers (%)	↑	3%	17%
Loan loss rate (%)	↓	1.7%	4.1%
Non-performing loans as a percentage (%) of gross advances	↓	6.9%	7.1%
Stage 3 coverage ratio (%)	↔	105%	115%

	2019	2018
Loan loss rate % - cost of risk	**P'000**	**P'000**
Impairment expense	169,101	361,491
Average gross advances to customers	9,687,427	8,856,635
	1.7%	**4.1%**

***Non performing loans %**		
Non performing loans	678,127	660,547
Gross advances to customers	9,772,116	9,346,841
	6.9%	**7.1%**

**Note that the above excludes the aggregated collateral associated with Ghana mobile loans.*

Impairment

In 2019, the Group prioritised improvement in asset quality. This initiative delivered an overall credit loss rate of 1.7% for the year against 4.1% in 2018 which is a significant improvement towards earnings quality. The below factors also contributed to the overall reduced ECL:
• 25% year on year increase in post write off recoveries from P146.7 million in 2018 to P183.8 million in 2019 at the back of intense focus on collections and recoveries
• bad debts write offs increased from P298.3 million in 2018 to P434.6 million in 2019 as part of the Group's write off policy mainly on the non -government portfolio.

In addition there were three once-off items included in the 2018 results.
• the adoption of IFRS 9,
• a specific credit provision against one loan portfolio in East Africa and
• a higher contribution to the informal (mobile) loan segment in West Africa.
If the above were normalised out of the 2018 results, the credit loss rate would have been 2.0% (2019: 1.7%).

Full year 2019 impairment charge is P169.1million, a reduction from 2018 (P361 million) and Stage 3 Coverage ratio reduced slightly from 115% to 105% from 2018 to 2019, with non-performing loans as a percentage of the total loan book reducing year on year from 7.1% in 2018 to 6.9% in 2019.

Write-off policy

The Group subsidiaries write off loan balances, and any related allowances for impairment losses, when there is determination that the loan is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure. All workable written off accounts are fully followed up for recovery through internal debt collection and third party collection partners. The Group writes off an account when in Contractual delinquency 12 (CD12) i.e. 12 payments in arrears and the policy hasn't been changed with the implementation of IFRS 9 in the prior year. Write off point analysis was done in view of write off being a derecognition under IFRS 9 and this resulted in no change in policy .

Approach to managing credit risk

The Board of Directors is ultimately responsible for the management of credit risk and has delegated responsibility for the oversight of credit risk to the Group Risk Management Committee and Country Executive Committees. It is the responsibility of Group Credit Risk and each CEO to ensure that the Group's policies regarding credit risk, credit scoring, collateral contribution, affordability levels and minimum take home pay is complied with at all times. The Group manages credit risk in accordance with its credit risk policies, guidelines and procedures which provide for the maintenance of a strong culture of responsible lending that promotes inclusive finance.

1 FINANCIAL RISK MANAGEMENT (continued)

1.3.1 Credit risk (continued)

Credit risk mitigation

The Group offers credit insurance to all its clients, which covers the repayment of the outstanding capital balances on the loan to Group in the event of death or permanent disability of the customer. In addition, comprehensive insurance cover is in place in certain markets covering such risks as loss of employment, employer default, absconding and even temporary disability. Further to this, for part of the customer advances portfolio that is not extended through deduction from source, the Group applies credit scoring and customer education in advance of the extension of credit to customers and conduct regular reviews of the credit portfolio.

• Group writes off loans which have remained in the loss category for four consecutive quarters.
• Group will restructure loans (modify contractually agreed terms) to increase the chances of full repayment of credit exposure in certain instances.
• Restructuring is expected to minimise future risk of default. Examples are where clients are in financial difficulty, either caused by external or internal factors such as disability/death/theft/accidents/changes in Government policies.
• Restructured loans are treated as non-performing, for provision purposes only, until 6 consecutive payments have been received.
• No loan may be restructured more than twice (system controlled). Loans restructured a second time are classified as “loss” and provisions raised accordingly.
• There are no additional charges applied to restructured loans.
• Customers cannot take a ‘top up’ loan if they are in arrears.

The Group does rephase (re-age) accounts where instalments are missed, through no fault of the borrower, and subsequently reinstated due to operational issues. Rephasement involves altering the end date of the loan but not the number of repayments or the loan amount.

The Group adheres to rules / legislation around affordability. In most countries in which the Group operates an independent ‘central registry’ or ‘gatekeeper’ ensures that affordability rules are adhered to in addition to internal controls in place.

Credit risk stress testing

The Group recognises possible events or future changes that could have a negative impact on the credit portfolios and affect the Group’s ability to generate more business. Stress testing is an integral part of our overall risk management and governance culture across the Group. This feeds into the decision making process at management and Board level.

The overlay approach followed by the Group is outlined below:

General steps considered by the Group in considering impairment

The following illustrates the steps that the Group follow in calculating impairment of financial assets:

1. Establish the appropriate definition of default
2. Determine the level of assessment (individual vs. collective assessment)
3. Determine indicators/measures of significant increase in credit risk
4. Define the thresholds for significant increase in credit risk
5. Determine whether the “low credit risk assumption” will be applied to certain loans
6. Identify relevant forward-looking information and macro-economic factors
7. Identify appropriate sources of relevant forward-looking information and macro-economic factors
8. Incorporate forward-looking information and multiple scenarios in staging assessments of loans
9. Stage loans based on the forward-looking assessment of significant increase in credit risk
10. Determine the method to be used for measuring Expected Credit Losses
11. Determine the estimation period – the expected lifetime of the financial instrument
12. Establish the respective Probability of Default for loans in Stage 1 and Stage 2
13. Calculate the Exposure at Default
14. Identify relevant collateral and credit enhancements
15. Develop calculations for Loss Given Default (incorporating collateral and credit enhancements)
16. Consider the time value of money and calculate Expected Credit Losses
17. Identify modifications that occurred during the period and determine if each modification results in derecognition or no derecognition
18. Calculate the modification gain or loss and include the modified loan (or new loan)
19. Establish and document the appropriate processes, internal controls and governance for estimating Expected Credit Losses (ECL)

1 FINANCIAL RISK MANAGEMENT (continued)

1.3.1 Credit risk (continued)

The impairment requirements are complex and require management judgements, estimates and assumptions. Key concepts and management judgements taken into consideration are as below:

Determining a significant increase in credit risk since initial recognition (SICR)

IFRS 9 requires the recognition of 12 month expected credit losses (the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date) if credit risk has not significantly increased since initial recognition (stage 1), and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (stage 2) or which are credit impaired (stage 3).Group will assess when a significant increase in credit risk has occurred based on quantitative and qualitative assessments.

Indicators of SICR include any of the following:
• 30 days past due rebuttable presumption;
• historical delinquency behaviour of accounts that are up to date and accounts in 1-30 days category
• significant adverse changes in business, financial and/or economic conditions in which the client operates, including for example retrenchment of the customer, closure of the sponsoring employer, etc.

Two types of PDs are considered under IFRS 9:
o Twelve-month PDs – This is the estimated probability of a default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12-month ECL, which are applicable to Stage 1 financial instruments.
o Lifetime PDs – This is the estimated probability of a default occurring over the remaining life of the financial instrument which is applicable to Stage 2.

Exposures will move back to stage 1 once they no longer meet the criteria for a significant increase in credit risk and when any cure criteria used for credit risk management are met. This is subject to all payments being up to date and the customer evidencing ability and willingness to maintain future payments.

The IFRS 9 requirements for the staging of loans is summarized in the two diagrams below

Diagram 1

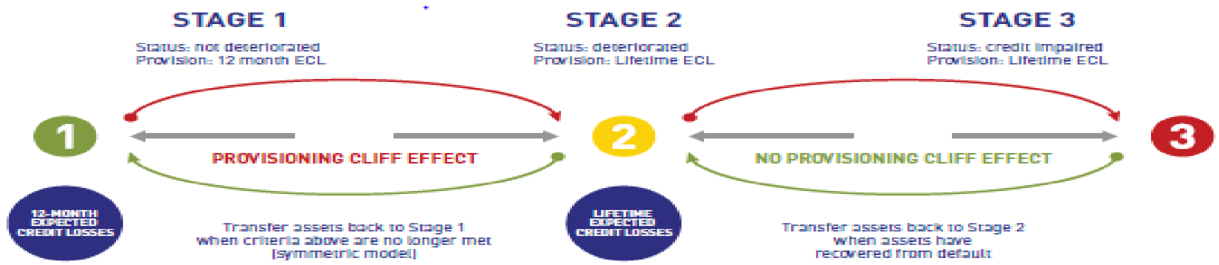
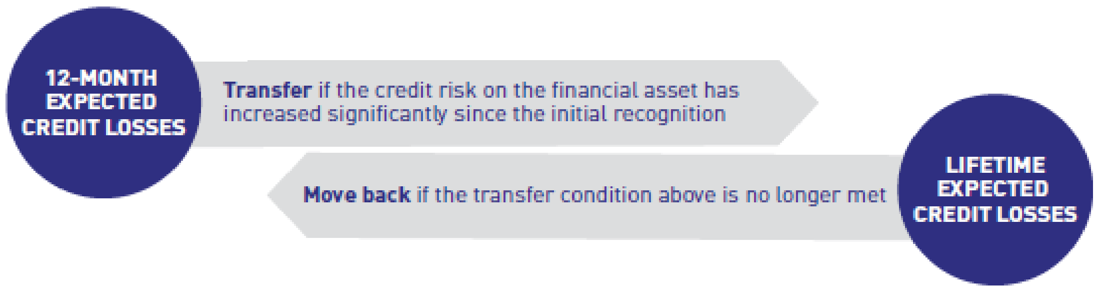


Diagram 2



• **Stage 1:** relates to a 12-month ECL allowance on financial assets that are neither credit impaired on origination nor for which there has been a SICR.
• **Stage 2:** relates to a lifetime ECL allowance on financial assets that are assessed to display a SICR since origination.
• **Stage 3:** relates to a lifetime ECL allowance on financial assets that are assessed to be credit impaired.

1 FINANCIAL RISK MANAGEMENT (continued)

1.3.1 Credit risk (continued)

Forward-looking information

The IFRS 9 measure of ECL is an unbiased probability-weighted amount that is determined by evaluating a range of possible outcomes and using 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. IFRS 9 requires the use of forward-looking factors, or predictive indicators, in the calculation of ECL, including the staging assessment.

Forward-looking information inherently involves management judgment in determining key inputs such as macroeconomic factors that affect PD, LGD and Exposure at Default (EAD) risk factors of a loan, rating category or portfolio, as the case may be, as well as the forecasted values of those risk factors in one, two or more years forward (depending on the expected life of the portfolio).
Source of the forward looking information will vary from country to country and all macro economic factors used will be approved at high level by the credit committee. This is also based on the correlation exercises done.

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:
• Unemployment rates
• Consumer Price Index
• Gross Domestic Product (GDP)
The working group approved the three core factors as the starting point for all subsidiary regression calculations. Management overlays on Macroeconomic variables will only apply in cases were the above three variables have no statistical significance and an alternative variable with a good correlation will then be applied. The forward looking economic expectations are updated on an annual basis or more regularly when deemed appropriate.

Definition of default, credit impaired assets, write-offs, and interest income recognition
Default is not defined under IFRS 9.The Group is responsible for defining this for themselves and it should be based upon its own definition used in the Group's internal risk management. Careful consideration of how default is defined is important as the definition impacts the calculation of PDs, LGDs and EADs, hence impacting the ECL results.
The simplest definition is that of failure to meet a scheduled payment of principal or interest, however, that definition has modifications depending upon the loan product. The definition of default has to be consistent with that used for internal credit risk management purposes for the relevant financial instrument and has to consider qualitative indicators, e.g. breaches of covenants, when appropriate. Inability to pay may also be considered in making the qualitative assessment of default.
Indications of inability to pay include:

o the credit obligation is placed on non-accrued status;
o the Group makes a specific provision or charge-off due to a determination that the obligor’s credit quality has declined (subsequent to taking on the exposure);
o the Group sells the credit obligation or receivable at a material credit related economic loss;
o the Group agrees to a distressed restructuring resulting in a material credit related diminished asset stemming from such actions as material forgiveness or postponement of payments or repayments of amount owing;
o the Group has filed for the obligor’s bankruptcy in connection with the credit obligations; and
o the obligor has sought or been placed in bankruptcy resulting in the delay or avoidance of the credit obligation’s repayment.

There is a rebuttable presumption within IFRS 9 that default does occur once a loan is more than 90 days past due. The Group has adopted this presumption.

Discounting
Expected credit losses are discounted at the effective interest rate (EIR) at initial recognition or an approximation thereof and consistent with income recognition. For loan commitments the EIR is that rate that is expected to apply when the loan is drawn down and a financial asset is recognised.

Modelling techniques
Expected credit losses (ECL) are calculated by multiplying three main components, being the PD, LGD and the EAD, discounted at the original effective interest rate.
For the IFRS 9 impairment assessment, Group Impairment Models are used to determine the PD, LGD and EAD. For stage 2 and 3, Group applies lifetime PDs but uses 12 month PDs for stage 1. The ECL drivers of PD, EAD and LGD are modelled at an account level which considers vintage, among other credit factors. Also, the assessment of significant increase in credit risk is based on the initial lifetime PD curve, which accounts for the different credit risk underwritten over time.

Renegotiated loans treatment
Both performing and non-performing restructured assets are classified as stage 3 except where it is established that the concession granted has not resulted in diminished financial obligation and that no other regulatory definitions of default criteria has been triggered, in which case the asset is classified as Stage 2. The minimum probationary period is 6 months to move to cure state (Stage 1).

1 FINANCIAL RISK MANAGEMENT (continued)

1.3.1 Credit risk (continued)

Maximum exposure to credit risk

(a) Advances to customers

31 December 2019	Gross advances P'000	Stage 1 P'000	Stage 2 P'000	Stage 3 P'000	Net advances P'000	Security held P'000
Southern Africa	7,258,863	(42,844)	(23,994)	(190,980)	7,001,045	-
East and West Africa	2,574,025	(105,820)	(68,129)	(329,637)	2,070,439	(21,721)
	9,832,888	**(148,664)**	**(92,123)**	**(520,617)**	**9,071,484**	**(21,721)**

31 December 2018	Gross advances P'000	Stage 1 P'000	Stage 2 P'000	Stage 3 P'000	Net advances P'000	Security held P'000
Southern Africa	6,706,990	(41,672)	(19,586)	(250,267)	6,395,465	-
East and West Africa	2,834,976	(126,322)	(81,060)	(324,228)	2,303,366	(27,028)
	9,541,966	**(167,994)**	**(100,646)**	**(574,495)**	**8,698,831**	**(27,028)**

Security held relates to cash received as security for advances to customers and is held until the customer loan is fully settled, at which point the balance is refunded to the customer (note 14).

(b) Others	31 December 2019 P'000	31 December 2018 P'000
Cash and cash equivalents	1,035,513	1,188,402
Other receivable accounts	213,847	212,701
Right-of-use assets	61,436	-
	1,310,796	**1,401,103**

Below is a summary of the expected credit losses as at 31 December 2019:

Operating Segments 31 December 2019 P'000	IFRS 9 ECL Provisions at 31 December 2019				IFRS 9 ECL Provisions at 31 December 2018			
	Stage 1: 12-month ECL allowance	Stage 2: Lifetime ECL allowance – not credit-impaired	Stage 3: Lifetime ECL allowance – credit-impaired	Total ECL on 31 December 2019	Stage 1: 12-month ECL allowance	Stage 2: Lifetime ECL allowance – not credit-impaired	Stage 3: Lifetime ECL allowance – credit-impaired	Total ECL on 31 December 2018
Financial assets								
Botswana	22,390	14,238	130,772	**167,400**	23,341	14,755	201,680	**239,776**
Namibia	6,200	1,110	13,917	**21,227**	5,297	876	12,316	**18,489**
Mozambique	4,420	3,240	13,482	**21,142**	8,582	994	17,150	**26,726**
Lesotho	6,558	4,989	28,500	**40,047**	3,280	1,764	15,724	**20,768**
Swaziland	3,276	417	4,309	**8,002**	1,170	1,198	3,397	**5,765**
Kenya	13,063	7,885	125,033	**145,981**	10,033	6,407	111,964	**128,404**
Rwanda	706	190	1,617	**2,513**	2,638	259	5,670	**8,567**
Uganda	7,336	5,071	35,402	**47,809**	13,716	6,838	29,141	**49,695**
Tanzania	24,287	9,056	63,505	**96,848**	32,572	14,271	107,746	**154,589**
Nigeria	2,226	1,947	10,208	**14,381**	7,014	4,504	12,131	**23,649**
Ghana	58,202	43,980	93,872	**196,054**	60,351	48,780	57,576	**166,707**
Total	**148,664**	**92,123**	**520,617**	**761,404**	**167,994**	**100,646**	**574,495**	**843,135**

**Note that in the prior year the above had been disclosed as per the following segments: Botswana, Namibia, Mozambique, Other Southern Africa, Tanzania, Other East Africa and West Africa. In the current year these have been disclosed at a country level and there has not been any impact on the balances previously reported.*

Maximum exposure to credit risk

	At 31 December 2019 (IFRS 9)	At 31 December 2018 (IFRS 9)
	P'000	P'000
Gross advances to customers	**9,832,888**	**9,541,966**
Of which stage 1 and 2	**9,107,150**	**8,808,593**
Of which stage 3	**725,738**	**733,373**
Expected credit loss provisions	**(761,404)**	**(843,135)**
Of which stage 1 and 2	**(240,787)**	**(268,640)**
Of which stage 3	**(520,617)**	**(574,495)**
Net advances to customers	**9,071,484**	**8,698,831**
Of which stage 1 and 2	**8,866,363**	**8,539,953**
Of which stage 3	**205,121**	**158,878**
Impairment (ECL) Coverage Ratio	**8%**	**9%**
Stage 3 coverage ratio	**105%**	**115%**

1 FINANCIAL RISK MANAGEMENT (continued)

1.3.1 Credit risk (continued)

Credit quality

Group asset quality has shown improvement over the period with non-performing loans (NPLs) at 6.9% (Dec 2019) compared to 7.1% for same period last year (Dec 2018). Sub optimal loan book quality is being addressed by key focus on collections and recoveries, robust portfolio management, early fraud detection and tightening on underwriting to improve new booking quality.

The loan loss rate is 1.7% compared to 4.1% in the prior year after applying the total impairment charge of P169.1 million.

The table below presents an analysis of the Group's gross advances based on the customer segments to which the Group is exposed:

Formal: - these are government and non-government payroll deduction at source.

Micro finance: - micro and small entrepreneurs mainly associated with health, housing, agriculture and education segments.

Informal: - short-term loans via mobile platforms

Analysis of exposure by segment as at 31 December 2019	Formal	Micro finance	Informal	Total gross advances
	P'000	P'000	P'000	P'000
Southern Africa	**7,214,004**	**40,305**	**4,554**	**7,258,863**
Botswana	2,748,111	20,535	-	2,768,646
Namibia	2,226,635	-	-	2,226,635
Mozambique	1,361,205	126	-	1,361,331
Lesotho	398,937	-	-	398,937
Swaziland	479,116	19,644	4,554	503,314
East and West Africa	**1,382,961**	**852,076**	**338,988**	**2,574,025**
Kenya	243,377	471,466	-	714,843
Rwanda	1,273	40,179	-	41,452
Uganda	268,849	123,604	-	392,453
Tanzania	299,049	147,667	-	446,716
Nigeria	62,600	57,664	-	120,264
Ghana	507,813	11,496	338,988	858,297
Gross advances	**8,596,965**	**892,381**	**343,542**	**9,832,888**
Impairment provision	(428,959)	(202,474)	(129,971)	(761,404)
Net advances	**8,168,006**	**689,907**	**213,571**	**9,071,484**

Analysis of exposure by segment as at 31 December 2018	Formal	Micro finance	Informal	Total gross advances
	P'000	P'000	P'000	P'000
Southern Africa	**6,688,697**	**18,293**	**-**	**6,706,990**
Botswana	2,684,065	18,293	-	2,702,358
Namibia	1,920,415	-	-	1,920,415
Mozambique	1,291,433	-	-	1,291,433
Lesotho	357,831	-	-	357,831
Swaziland	434,953	-	-	434,953
East and West Africa	**1,397,507**	**930,497**	**506,972**	**2,834,976**
Kenya	241,848	477,179	-	719,027
Rwanda	2,200	51,892	-	54,092
Uganda	226,375	133,272	-	359,647
Tanzania	376,832	175,188	-	552,020
Nigeria	24,786	80,314	-	105,100
Ghana	525,466	12,652	506,972	1,045,090
Gross advances	**8,086,204**	**948,790**	**506,972**	**9,541,966**
Impairment provision	(573,989)	(149,863)	(119,283)	(843,135)
Net advances	**7,512,215**	**798,927**	**387,689**	**8,698,831**

1 FINANCIAL RISK MANAGEMENT (continued)

1.3.1 Credit risk (continued)

Expected Credit Loss (ECL) are categorised as either **'Performing - Stage 1'**, **'Underperforming -Stage 2',** or **'Non-Performing-Stage 3'.**

Stage 1: Performing
- when a significant increase in credit risk since initial recognition has not occurred, a 12-month ECL is recognised for all Stage 1 financial assets.

Stage 2 : Underperforming
- when a significant increase in credit risk since initial recognition has occurred, a lifetime ECL is recognised.

Stage 3: Non-Performing / Impaired
- when objective evidence exists that an asset is credit impaired, a lifetime ECL is recognised. The Group's definition of default is 90 days past due ("DPD") which is similar to the rebuttable presumption under IFRS 9.

The table below presents an analysis by geographic location of the credit quality based on staging:

31 December 2019	**Expected Credit Loss**			
	Stage 1 P'000	**Stage 2 P'000**	**Stage 3 P'000**	**Total ECL P'000**
Southern Africa				
Formal	42,053	21,846	189,769	253,668
Micro finance	481	2,087	1,051	3,619
Informal	311	61	160	532
	42,845	**23,994**	**190,980**	**257,819**
East and West Africa				
Formal	30,571	14,942	129,778	175,291
Micro finance	35,650	13,606	149,599	198,855
Informal	39,598	39,581	50,260	129,439
	105,819	**68,129**	**329,637**	**503,585**
Total Portfolio				
Formal	72,624	36,788	319,547	428,959
Micro finance	36,131	15,693	150,650	202,474
Informal	39,909	39,642	50,420	129,971
	148,664	**92,123**	**520,617**	**761,404**

31 December 2018	**Expected Credit Loss**			
	Stage 1 P'000	**Stage 2 P'000**	**Stage 3 P'000**	**Total ECL P'000**
Southern Africa				
Formal	41,092	18,980	247,298	307,370
Micro finance	578	607	2,969	4,154
	41,670	**19,587**	**250,267**	**311,524**
East and West Africa				
Formal	25,966	25,061	215,592	266,619
Micro finance	30,303	34,151	81,255	145,709
Informal	70,055	21,847	27,381	119,283
	126,324	**81,059**	**324,228**	**531,611**
Total Portfolio				
Formal	67,058	44,041	462,890	573,989
Micro finance	30,881	34,758	84,224	149,863
Informal	70,055	21,847	27,381	119,283
	167,994	**100,646**	**574,495**	**843,135**

1 FINANCIAL RISK MANAGEMENT (continued)

1.3.1 Credit risk (continued)

Movement in gross exposures and impairment allowance

A reconciliation of changes in gross carrying amount and corresponding allowances for ECL by stage for Group is as follows:

Loans and advances at amortised cost

31 December 2019	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
	P'000	P'000	P'000	P'000	P'000	P'000	P'000	P'000
As at 1 January 2019	**8,274,537**	**167,994**	**534,056**	**100,646**	**733,373**	**574,495**	**9,541,966**	**843,135**
New assets originated or purchased	1,240,459	91,874	362,096	60,387	9,285,213	351,298	10,887,768	503,559
Payments and assets derecognised	(1,602,209)	(25,893)	(971,009)	(16,045)	(9,970,878)	(90,675)	(12,544,096)	(132,613)
Changes to PD and LGD rates	745,659	(3,530)	545,660	(2,187)	1,090,530	(12,361)	2,381,849	(18,078)
Write offs	(15,968)	(81,781)	(6,132)	(50,678)	(412,499)	(302,140)	(434,599)	(434,599)
As at 31 December 2019	**8,642,478**	**148,664**	**464,671**	**92,123**	**725,739**	**520,617**	**9,832,889**	**761,404**

31 December 2018	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
	P'000	P'000	P'000	P'000	P'000	P'000	P'000	P'000
As at 1 January 2018	**6,855,536**	**106,148**	**761,726**	**60,313**	**554,042**	**235,939**	**8,171,304**	**402,400**
New assets originated or purchased	1,425,584	95,245	368,659	57,619	8,380,712	717,752	10,174,955	870,616
Payments and assets derecognised	(1,904,897)	(20,223)	(971,009)	(11,310)	(8,053,417)	(90,177)	(10,929,323)	(121,710)
Changes to PD and LGD rates	1,899,564	(2,757)	375,079	(1,987)	148,684	(5,130)	2,423,327	(9,874)
Write offs	(1,250)	(10,419)	(399)	(3,989)	(296,648)	(283,889)	(298,297)	(298,297)
As at 31 December 2018	**8,274,537**	**167,994**	**534,056**	**100,646**	**733,373**	**574,495**	**9,541,966**	**843,135**

The table below presents an analysis by geographic location of the credit quality of advances based on arrears:

31 December 2019	Up-to-date	1-30 days past due	31-60 days past due	61-90 days past due	91 or more days past due	Total Gross advances
Southern Africa	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**
Formal	6,451,267	243,983	80,614	67,134	371,006	7,214,004
Micro finance	21,295	12,886	4,597	35	1,492	40,305
Informal	3,646	449	164	135	160	4,554
	6,476,208	**257,318**	**85,375**	**67,304**	**372,658**	**7,258,863**
East and West Africa						
Formal	767,538	334,411	55,241	39,113	186,658	1,382,961
Micro finance	576,098	119,136	26,877	16,149	113,816	852,076
Informal	210,365	28,875	23,354	23,788	52,606	338,988
	1,554,001	**482,422**	**105,472**	**79,050**	**353,080**	**2,574,025**

1 FINANCIAL RISK MANAGEMENT (continued)

1.3.1 Credit risk (continued)

31 December 2018	Up-to-date	1-30 days past due	31-60 days past due	61-90 days past due	91 or more days past due	Total Gross advances
Southern Africa	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**
Formal	5,886,383	286,587	74,249	62,880	378,598	6,688,697
Micro finance	12,122	1,800	598	511	3,262	18,293
	5,898,505	**288,387**	**74,847**	**63,391**	**381,860**	**6,706,990**
East and West Africa						
Formal	1,044,612	87,784	55,171	30,691	179,249	1,397,507
Micro finance	647,799	138,666	33,773	21,101	89,158	930,497
Informal	377,513	53,304	28,371	20,404	27,380	506,972
	2,069,924	**279,754**	**117,315**	**72,196**	**295,787**	**2,834,976**

LGD represents an estimate of the percentage of EAD that will not be recovered, should the obligor default occur and below is an analysis by segments. However in Southern Africa, Letshego Namibia and Letshego Mozambique have credit insurance in place and for the year ended 31 December 2019 this was included as part of recoveries in the calculation of LGD's. Informal loans used a rate of 100% for both Letshego Ghana and Letshego Swaziland mobile loans.

Segments	**2019 LGD**	**2018 LGD**
Southern Africa	46%	54%
East and West Africa	85%	79%

PD represent an estimate of the probability that balances in less than 90 days categories would fall into default (91 or more days past due).

Stage 1 - 12 month PD		
31 December 2019	**PD 0**	**PD 1**
Southern Africa	2%	9%
East and West Africa	4%	17%

Stage 1 - 12 month PD		
31 December 2018	**PD 0**	**PD 1**
Southern Africa	2%	5%
East and West Africa	7%	21%

Lifetime PD				
31 December 2019	**PD 0**	**PD 1**	**PD 2**	**PD 3**
Southern Africa	2%	10%	30%	43%
East and West Africa	10%	24%	38%	45%

Lifetime PD				
31 December 2018	**PD 0**	**PD 1**	**PD 2**	**PD 3**
Southern Africa	2%	6%	22%	35%
East and West Africa	9%	26%	43%	50%

PD 0 - up to date
PD 1 - 1 - 30 days past due
PD 2 - 31 - 60 days past due
PD 3 - 61 - 90 days past due

1 FINANCIAL RISK MANAGEMENT (continued)

1.3.1 Credit risk (continued)

Financial assets renegotiated

Restructuring

Restructuring activities include extended payment arrangements, modification and deferral of payments. Following restructuring a previously overdue/delinquent loan is reset to current/normal status and managed together with other similar accounts. There are Group restructuring policies in place and these are kept under continuous review.

31 December 2019	Total gross advances	Restructured loans	Expected Credit Loss held on Restructured loans	Restructured
	P'000	P'000	P'000	%
Southern Africa	7,258,863	15,180	12,366	0.2
East and West Africa	2,574,025	6,162	6,116	0.2
	9,832,888	**21,342**	**18,482**	**0.2**

31 December 2018	Total gross advances	Restructured loans	Expected Credit Loss held on Restructured loans	Restructured
	P'000	P'000	P'000	%
Southern Africa	6,706,990	15,945	14,781	0.2
East and West Africa	2,834,976	21,730	17,384	0.8
	9,541,966	**37,675**	**32,165**	**0.4**

Rephasing

The Group however does rephase (re-age) accounts where installments are missed, through no fault of the borrower, and subsequently reinstated due to operational issues. Rephasement involves altering the end date of the loan but not the number or amount of the installments. Refer to the analysis below.

Rephased loans analysis

31 December 2019	Total gross advances	Rephased loans	Expected Credit Loss held on Rephased loans	Rephased
	P'000	P'000		%
Southern Africa	7,258,863	614,218	140,299	8.5
East and West Africa	2,574,025	69,944	42,919	2.7
	9,832,888	**684,162**	**183,218**	**7.0**

31 December 2018	Total gross advances	Rephased loans	Expected Credit Loss held on Rephased loans	Rephased
	P'000	P'000		%
Southern Africa	6,706,990	218,602	153,021	3.3
East and West Africa	2,834,976	57,608	40,326	2.0
	9,541,966	**276,210**	**193,347**	**2.9**

1 FINANCIAL RISK MANAGEMENT (continued)

1.3.2 Liquidity risk

Liquidity risk is the risk of financial loss to the Group arising from its inability to fund increases in assets and/or meet obligations as they fall due. The formality and sophistication of the Group's liquidity risk management processes reflect the nature, size and complexity of its activities. The Group has a thorough understanding of the factors that could give rise to liquidity risk and has put in place mitigating controls.

Liquidity risk framework and governance

The framework for managing liquidity risk is anchored on an effective board and senior management oversight, formulation of a liquidity strategy, adequate policies and procedures, effective internal controls and independent reviews, as well as a sound process for identifying, measuring, monitoring and controlling liquidity risk.

The Group does not treat liquidity risk in isolation as it is often triggered by consequences of other financial risks such as credit risk and market risk. The Group's liquidity risk management framework is therefore designed to ensure that its subsidiaries have adequate liquidity to withstand any stressed conditions. To achieve this objective, the Board of Directors through the subsidiaries boards is ultimately responsible for liquidity risk management. The responsibility for managing the daily funding requirements is delegated to the Head of Group ALM and Country Heads of Finance respectively with independent day to day monitoring being provided by Group Governance, Risk, Legal and Compliance functions.

Cash flow and maturity profile analysis

The table below analyses Group's financial liabilities into relevant maturity grouping based on the remaining period at the reporting date to the contractual maturity date:

31 December 2019

Contractual maturities of financial liabilities	From 1 to 12 months	From 1 year to 3 years	From 3 years and above	Total
Customer deposits	426,673	-	-	426,673
Cash collateral	21,721	-	-	21,721
Trade and other payables	436,798	-	-	436,798
Lease liabilities	25,856	22,433	16,471	64,760
Borrowings	2,421,433	2,476,324	1,177,921	6,075,678
	3,332,481	**2,498,757**	**1,194,392**	**7,025,630**

31 December 2018

Contractual maturities of financial liabilities	From 1 to 12 months	From 1 year to 3 years	From 3 years and above	Total
Customer deposits	497,718	-	-	497,718
Cash collateral	27,028	-	-	27,028
Trade and other payables	389,048	-	-	389,048
Borrowings	1,881,408	3,606,120	1,325,176	6,812,704
	2,795,202	**3,606,120**	**1,325,176**	**7,726,498**

Liquidity contingency plans

The Group's Liquidity Risk Management Policy is supported by a robust Liquidity Contingency Plan. This is to ensure the Group's safety, soundness and compliance with regulatory requirements in countries in which it operates. The plans clearly outline early warning indicators which are supported by clear and decisive crisis response strategies. The crisis response strategies are created around the relevant crisis management structures and address both specific and market crises relative to the size of the entity.

Liquidity stress testing

The Group's subsidiaries with deposit taking licenses are required to conduct stress testing on a regular basis to ensure that they have adequate liquidity to withstand stressed conditions. This is done in line with the local regulatory requirements in the countries in which the Group operates.

1 FINANCIAL RISK MANAGEMENT (continued)

1.3.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the fair value or future cash flows of a financial instrument. Market risk exists wherever Letshego Holdings Limited (the Group) or its subsidiaries have trading, banking or investment positions.

The Group uses a collection of risk measurement methodologies to assess market risk that include loss triggers, repricing gap and traditional risk management measures. The Group's market risk is largely concentrated on foreign exchange and interest rate risk from its investments.

Foreign exchange rate risk

Foreign exchange rate risk is the current or prospective risk to earnings and capital arising from adverse movements in currency exchange rates. The potential for loss arises from the process of revaluing foreign currency positions on both on- and off- balance sheet items, in Botswana Pula terms. This risk is largely concentrated at Group Level.

Foreign exchange loss for the year ended 31 December 2019 were P5.4 million (foreign exchange gain for the year ended 31 December 2018: P7.8 million).This loss resulted mainly from appreciation of the currencies that the Group operates against the Botswana Pula and was mainly driven by the South African Rand on the net liablity position held by the Group during the year and at year end.

As at 31 December 2019 if the foreign currencies that the Group is exposed to had weakened or strengthened by 1% against the respective functional currencies with all other variables held constant, profit for the year would have been P0.98 million (2018: P1.2 million) higher / lower, mainly as a result of foreign exchange gains and losses on translation of foreign currency denominated assets and liabilities.

Interest rate risk

Interest rate risk analysis is based on time to pricing and time to maturity. Interest rate risk arising from the Group's assets and liabilities remained within the Group's risk appetite during the year. The table below shows the Group's repricing gap as at 31 December 2019.

31 December 2019

Buckets P'm	< 1 month	1 - 12 months	1 - 3 years	> 3 years	Total
Rate sensitive assets					
Short term investments	27,241	-	-	-	27,241
Loans and advances to customers	168,045	516,742	4,304,192	4,082,505	9,071,484
	195,286	516,742	4,304,192	4,082,505	9,098,725
Rate sensitive financial liabilities					
Customer deposits	47,186	379,487	-	-	426,673
Borrowings	1,598,935	1,734,216	1,538,904	110,120	4,982,175
	1,646,121	2,113,703	1,538,904	110,120	5,408,848
Gap	**(1,450,835)**	**(1,596,961)**	**2,765,288**	**3,972,385**	**3,689,877**
Cumulative Gap	**(1,450,835)**	**(3,047,796)**	**(282,508)**	**3,689,877**	

31 December 2018

Buckets P'm	< 1 month	1 - 12 months	1 - 3 years	> 3 years	Total
Rate sensitive assets					
Short term investments	277,445	-	-	-	277,445
Loans and advances to customers	387,691	596,423	1,325,181	6,389,536	8,698,831
	665,136	596,423	1,325,181	6,389,536	8,976,276
Rate sensitive financial liabilities					
Customer deposits	56,297	441,421	-	-	497,718
Borrowings	2,072,900	1,819,891	961,076	475,452	5,329,319
	2,129,197	2,261,312	961,076	475,452	5,827,037
Gap	**(1,464,061)**	**(1,664,889)**	**364,105**	**5,914,084**	**3,149,239**
Cumulative Gap	**(1,464,061)**	**(3,128,950)**	**(2,764,845)**	**3,149,239**	

1 FINANCIAL RISK MANAGEMENT (continued)

1.3.3 Market risk (continued)

Market risk framework and governance

The market risk framework outlines or discloses the methodology by which the Group identifies, measures, monitors, controls and reports on its market risk profile for every operation overseen by the Group. Effective board oversight of the Group's exposure to Market Risk is the cornerstone of an effective market risk management process. The Board and Senior Management understands the nature and level of market risk assumed by the Group and its subsidiaries and how this risk profile fits within the overall business strategies.

The Board of Directors is ultimately accountable and approves the market risk appetite for all types of market risk. The Board delegated the effective management of market risk to the Group Risk Management Committee and Group Asset and Liability Management Committee (ALM). On a day-to-day basis, market risk exposures are managed by the Head of Group ALM and appropriate management reports are generated. Group Governance, Risk, Legal and Compliance function provides independent oversight.

Market risk measurement

Generally, measurement tools in use at any point in time are commensurate with the scale, complexity, and nature of business activities and positions held by the Group or its subsidiaries. The tools and techniques used to measure and control market risk include the repricing gap, scenario analysis on net interest income, stop loss limits and stress testing. In addition, the Group also performs ratio analysis on the key ratios of the Group and each subsidiary.

1 FINANCIAL RISK MANAGEMENT (continued)

1.3.3 Market risks (continued)

The following table shows the assets and liabilities of the Group in the respective currencies (Pula equivalent) at the reporting date.

31 December 2019	SA Rand P'000	Eswatini Emalangeni P'000	Namibian Dollar P'000	Lesotho Loti P'000	Tanzanian Shillings P'000	Ugandan Shillings P'000	Mozambican Metical P'000	Kenya Shillings P'000	Rwandan Francs P'000	Nigerian Naira P'000	Ghana Cedi P'000	Great Britain Pound P'000	United States Dollars P'000	Botswana Pula P'000	Eurozone Euro P'000	Total Pula P'000
Cash and cash equivalents	11,861	21,885	195,742	20,683	122,196	105	281,338	39,006	20,213	30,207	93,044	979	20,760	176,076	1,418	1,035,513
Advances to customers	-	495,312	2,205,408	358,890	349,868	344,644	1,340,189	568,862	38,939	105,883	662,243	-	-	2,601,246	-	9,071,484
Financial assets at fair value through OCI	-	-	-	-	-	-	-	-	-	-	-	-	-	53,591	-	53,591
Right-of-use assets	-	1,982	9,953	1,295	807	-	15,794	7,827	5,263	2,024	2,862	-	-	13,629	-	61,436
Other receivables	-	23,890	110,989	401	7,614	55	16,342	7,998	581	159	31	-	-	45,787	-	213,847
Total assets	11,861	543,069	2,522,092	381,269	480,485	344,804	1,653,663	623,693	64,996	138,273	758,180	979	20,760	2,890,329	1,418	10,435,871
Customer deposits	-	-	32,764	-	32,406	-	285,921	-	23,214	41,062	11,306	-	-	-	-	426,673
Cash collateral	-	-	-	-	-	4,325	-	17,396	-	-	-	-	-	-	-	21,721
Borrowings	511,170	274,252	219,830	45,475	-	157,554	360,381	315,590	3,809	-	454,308	-	100,456	2,453,276	86,074	4,982,175
Trade and other payables	2,167	4,410	48,828	1,742	12,391	4,674	14,368	106,811	3,251	6,641	154,323	-	-	77,192	-	436,798
Total liabilities	513,337	278,662	301,422	47,217	44,797	166,553	660,670	439,797	30,274	47,703	619,937	-	100,456	2,530,468	86,074	5,867,367
Net exposure	(501,476)	264,407	2,220,670	334,052	435,688	178,251	992,993	183,896	34,722	90,570	138,243	979	(79,696)	359,861	(84,656)	4,568,504
Exchange rates at 31 December 2019 - mid: BWP 1.00 =	1.32	1.32	1.32	1.32	216.30	344.52	5.79	9.53	88.78	34.11	1.86	0.07	0.09	1.00	0.08	

31 December 2018	SA Rand P'000	Eswatini Emalangeni P'000	Namibian Dollar P'000	Lesotho Loti P'000	Tanzanian Shillings P'000	Ugandan Shillings P'000	Mozambican Metical P'000	Kenya Shillings P'000	Rwandan Francs P'000	Nigerian Naira P'000	Ghana Cedi P'000	Great Britain Pound P'000	United States Dollars P'000	Botswana Pula P'000	Eurozone Euro P'000	Total Pula P'000
Cash and cash equivalents	9,220	22,702	559,239	12,596	68,880	11,244	142,264	138,088	50,761	36,742	68,911	189	48,766	18,752	48	1,188,402
Advances to customers	-	429,188	1,901,926	337,063	397,431	309,952	1,264,707	594,219	45,526	79,741	876,495	-	-	2,462,583	-	8,698,831
Financial assets at fair value through OCI	-	-	-	-	-	-	-	-	-	-	-	-	-	53,591	-	53,591
Other receivables	-	16,916	98,746	500	8,175	-	1,210	2,300	743	1,686	19,420	-	-	63,005	-	212,701
Total assets	9,220	468,806	2,559,911	350,159	474,486	321,196	1,408,181	734,607	97,030	118,169	964,826	189	48,766	2,597,931	48	10,153,525
Customer deposits	-	-	55,532	-	55,753	-	205,139	-	51,919	24,243	105,132	-	-	-	-	497,718
Cash collateral	-	-	-	-	-	4,185	-	22,843	-	-	-	-	-	-	-	27,028
Borrowings	573,645	95,146	254,081	77,808	32,213	174,798	273,379	449,674	7,365	-	543,751	-	190,432	2,567,105	89,922	5,329,319
Trade and other payables	1,596	7,572	32,600	2,322	1,406	8,414	12,886	17,786	1,443	12,416	193,194	-	-	97,413	-	389,048
Total liabilities	575,241	102,718	342,213	80,130	89,372	187,397	491,404	490,303	60,727	36,659	842,077	-	190,432	2,664,518	89,922	6,243,113
Net exposure	(566,021)	366,088	2,217,698	270,029	385,114	133,799	916,777	244,304	36,303	81,510	122,749	189	(141,666)	(66,587)	(89,874)	3,910,412
Exchange rates at 31 December 2018 - mid: BWP 1.00 =	1.34	1.34	1.34	1.34	214.30	346.48	5.72	9.50	82.36	33.97	2.21	0.07	0.09	1.00	0.08	

1 FINANCIAL RISK MANAGEMENT (continued)

1.4 Operational risks

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk exists in all products and business activities.

These risks are managed by the Group through the following key measures:
• Effective Board and Senior Management oversight at both Group and country level;
• Sound risk management practices that are in line with best practice and local regulations in the countries in which the Group operates;
• Effective segregation of duties across the footprint;
• Established processes in risk identification, assessment, controls and monitoring; and
• Fostering a better risk awareness culture.

Group’s approach to managing operational risk

The Group's approach to managing operational risk is to implement simple and appropriate fit for purpose operational risk practices that assist the originators of risk events to understand their inherent risk and reduce their risk profile, in line with the Group's risk appetite, while maximizing the shareholders’ value.

Operational risk framework and governance

The operational risk management framework provides the mechanism for the overall operational risk strategic direction and ensures that an effective operational risk management and measurement process is adopted throughout the Group.

The ultimate responsibility for operational risk management rests with the Board of Directors. To discharge this responsibility, the Group Risk Committee (GRC) understands the major aspects of the Group’s operational risk as a distinct category of risk that should be managed and approves the operational risk strategy as part of a comprehensive risk management strategy for the Group. GRC meets on a quarterly basis to review all other major risks including operational risks. At management level, the Group Risk Management Committee reviews and monitors significant operational risk events and ensure that the control environment is adequate to prevent recurrence.

The management and measurement of operational risk

The operational risk management framework includes qualitative and quantitative methodologies and tools to assist management to identify, assess and monitor operational risks and to provide management with information for determining appropriate controls and mitigating measures.

The Group identifies and assesses operational risk inherent in all material products, activities, processes and systems. It ensures that before new solutions (products), activities, processes and systems are introduced or undertaken, the operational risk inherent in them is subjected to adequate assessment by the Group Innovation Management Committee.

The Group conducts risk assessments in line with the Group’s risk appetite based on core processes. The Group Operational Risk Manual has been designed to cover the operational risk processes in detail and it seeks to embed a process by which key operational risk events, key causes and key controls are identified, assessed and reported in a consistent and structured manner within the Group.

The Group’s Operational Risk Management framework comprises several elements of which the Risk and Control Self Assessments (RCSAs), Key Risk Indicators (KRI) and Incident Management (IM) are the primary components.

Risk and Control Self Assessments (RCSAs)

The purpose of the RCSA process is to identify and effectively manage operational risks that could jeopardise the achievement of business objectives. The RCSA process identifies the appropriate controls to mitigate risk, and allows the Group support functions and subsidiaries to rate the level of inherent as well as residual risk taking consideration of the adequacy and effectiveness of controls.

Each year, an annual RCSA plan is approved for implementation. All key group and subsidiary functions are required to conduct RCSAs and all the risks identified are logged in the risk registers for effective tracking and resolution.

Key Risk Indicators (KRIs)

Key Risk Indicators (KRI's) are defined by the Group as indicators that provide early warning of a change in risk exposure and highlight control weaknesses or potential failures. All Group support functions and subsidiaries are required to establish relevant measures (qualitative and quantitative) which will enable them to regularly monitor their exposure to operational risk.

1 FINANCIAL RISK MANAGEMENT (continued)

1.4 Operational risks (continued)

Incident management

The Group continues to implement operational risk incident reporting of all its subsidiaries during the year. Operational risk incidents are collected, analysed, monitored and reported in accordance with the Group Incident Management Policy.

Business continuity management and Crisis Management

The Group continues to embed the Business Continuity Management (BCM) framework to ensure that essential functions of the Group are able to continue in the event of an attack or adverse circumstances. BCM training covering all staff is conducted via e-learning modules. The responsibility for testing business continuity plans and simulating crisis management plans at subsidiary level resides with the Country Management Committees.

Operational risk and Basel II implementation

The Group continues to enhance its risk management systems and processes as part of Basel II implementation in some of the deposit taking subsidiaries. In line with the nature of business and level of complexity of the Group's operations, some structures, processes and systems continue to be aligned to Basel II requirements.

1.5 Financial assets and liabilities measured at fair value disclosed by category

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount					Fair value			
	Fair value - through OCI P'000	Fair value - through profit and loss P'000	Financial Assets at amortised cost P'000	Financial liabilities at amortised cost P'000	Total P'000	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
31 December 2019									
Financial assets measured at fair value									
Financial assets at fair value through OCI	53,591	-	-	-	53,591	-	-	53,591	53,591
Financial assets not measured at fair value									
Cash and cash equivalents	-	-	1,035,513	-	1,035,513				
Advances to customers	-	-	9,071,484	-	9,071,484				
Right-of-use assets	-	-	61,436	-	61,436				
Other receivables	-	-	213,847	-	213,847				
	-	-	10,382,280	-	10,382,280				
Financial liabilities measured at fair value									
Borrowings - currency swap	-	15,390	-	-	15,390	-	15,390	-	15,390
Financial liabilities not measured at fair value									
Trade and other payables	-	-	-	436,798	436,798				
Lease liabilities	-	-	-	64,760	64,760				
Customer deposits	-	-	-	426,673	426,673				
Cash collateral	-	-	-	21,721	21,721				
Borrowings	-	-	-	4,966,785	4,966,785				
	-	-	-	5,916,737	5,916,737				

	Carrying amount					Fair value			
31 December 2018	Fair value - through OCI P'000	Fair value - through profit and loss P'000	Financial Assets at amortised cost P'000	Financial liabilities at amortised cost P'000	Total P'000	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
Financial assets measured at fair value									
Financial assets at fair value through OCI	53,591	-	-	-	53,591	-	-	53,591	53,591
Financial assets not measured at fair value									
Cash and cash equivalents	-	-	1,188,402	-	1,188,402				
Advances to customers	-	-	8,698,831	-	8,698,831				
Other receivables	-	-	212,701	-	212,701				
	-	-	10,099,934	-	10,099,934				
Financial liabilities measured at fair value									
Borrowings - Interest rate and currency swaps	-	13,240	-	-	13,240	-	13,240	-	13,240
Financial liabilities not measured at fair value									
Trade and other payables	-	-	-	389,048	389,048				
Customer deposits	-	-	-	497,718	497,718				
Cash collateral	-	-	-	27,028	27,028				
Borrowings	-	-	-	5,316,079	5,316,079				
	-	-	-	6,229,873	6,229,873				

The carrying amount of items measured at amortised cost approximate their fair values.

1 FINANCIAL RISK MANAGEMENT (continued)

1.5 Financial assets and liabilities measured at fair value

Measurement of fair values

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identifiable assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value is observable
- Level 3 - Valuation technique for which the lowest level input that is significant to the fair value measurement is unobservable

Reconcilation of fair value measurement categorises within level 3 of the fair value hierachy

Financial assets - Level 3	**31 December 2019 P'000**	**31 December 2018 P'000**
Opening balance	53,591	53,591
Total gain / loss in comprehensive income	-	-
	53,591	**53,591**

The following tables show the valuation techniques used in measuring fair values, as well as significant unobservable inputs used.

Financial instruments measured at fair value

Type	**Valuation technique**		**Significant unobservable inputs**
Interest rate swap	Fair value cash flow	Level 2	Discount factor used to derive present value of cash flow (12.5%)
Currency swap	Fair value cash flow	Level 2	Based on BWP, EURO and USD risk free rates.
Fair value - through other comprehensive income	Since market values are not available from an observable market, as this is an investment in private equity, the recent transaction price has been considered as an approximate to fair value	Level 3	Based on recent price per share

Master netting or similar agreements

The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other.

The ISDA agreements do not meet the criteria for offsetting in the consolidated statement of financial position. This is because the Group does not have any currently legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

1.6 Summary of all financial risks and potential impact

The table below summarises each of the risks raised in this note, along with the anticipated impact should the risks crystallise.

	31 December 2019 P'000	**31 December 2018 P'000**
Interest rate risk		
Average cost of borrowings	*12.0%*	*12.1%*
Effect of increase in average borrowing cost by 1%		
- increase in interest expense	49,668	55,905
Effect on profit before tax	*4.4%*	*5.5%*
Currency risk		
Effect of BWP appreciation by 1%		
- Effective movement in foreign exchange rates	(980)	1,164
- Effect on profit before tax	-0.1%	*0.1%*

Summary

Impact of all above risks on profit before tax:

The impact of changes in variables in the opposing direction would be equal and opposite to the values shown above. The Group constantly evaluates these key risks through the process of governance, devises responses to risks as they arise, that are approved by the Group Management Committee and Board of Directors.

2 USE OF ESTIMATES AND JUDGMENTS

The preparation of consolidated annual financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and 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 which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed by management on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

Significant judgements made by management in the application of International Financial Reporting Standards consist mainly on loans and advances, impairments and share based payment calculations. Judgement is also applied to the valuation of goodwill recognised and probability of having sufficient taxable profits against which deferred tax assets may be utilised.

2.1 Impairment of advances to customers

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group regularly reviews its loan portfolio (note 4) and makes judgments in determining whether an impairment loss should be recognised in respect of observable data that may impact on future estimated cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce the differences between loss estimates and loss experience.

The below summarises the sensitivity analysis on impairment losses for changes in LGD and PD :

December 2019	Existing impairment Provision	Impact on changes in LGD		Impact on changes in PD	
		(+) 5%	(-) 5%	(+) 5%	(-) 5%
Stage 1: 12-month ECL allowance	148,664	156,360	140,346	313,867	75,223
Stage 2: Lifetime ECL allowance – not credit-impaired	92,123	96,402	87,723	102,559	82,128
Stage 3: Lifetime ECL allowance – credit-impaired	520,617	552,634	488,280	523,130	518,103
Total	**761,404**	**805,396**	**716,349**	**939,556**	**675,454**

December 2018	Existing impairment Provision	Impact on changes in LGD		Impact on changes in PD	
		(+) 5%	(-) 5%	(+) 5%	(-) 5%
Stage 1: 12-month ECL allowance	167,994	175,164	153,676	363,063	73,812
Stage 2: Lifetime ECL allowance – not credit-impaired	100,646	105,891	68,452	115,170	62,713
Stage 3: Lifetime ECL allowance – credit-impaired	574,495	619,566	530,444	574,493	574,493
Total	**843,135**	**900,621**	**752,572**	**1,052,726**	**711,018**

The sensitivity analysis has been calculated to show the impact of a 5% increase or decrease in the LGD and PD rates on the provision level. Therefore based on the above an increase in LGD or PD would have an adverse impact to Group profits. Measures are in place as per the risk governance framework to address this including portfolio management, which is inclusive of collection and recoveries, strategic focus and the risk appetite framework (note 1.3.1).

2.2 Share-based payment transactions

The Group operates an equity settled conditional Long Term Incentive Plan (LTIP). The plan is now only based on non market conditions. These non market performance conditions are determined by the Remuneration Committee. The number of awards to vest are assessed and adjusted for the attrition in participants as well as the extent of achievement of those conditions at the reporting dates. The assumption is that there will be a 55% (2018: 60%) vesting probability. Based on historical experience, the estimated achievement of conditions is considered accurate.

Sensitivity analysis

The table below details the impact on the profit following a deviation from the 55% (2018: 60%) vesting probability.

	31 December 2019 P'000	31 December 2018 P'000
Impact of a 10% deviation	4,458	3,014
Impact of a 25% deviation	11,144	7,535
Impact of a 50% deviation	22,289	15,069

In the event that more than 55% of the shares vest the impact would be adverse to profit. In the event that less than 55% of the shares vest, the impact would be favourable to profit.

USE OF ESTIMATES AND JUDGMENTS (continued)

2.3 Deferred tax asset

The Group has recognised a deferred tax asset of P145 million (2018: P212 million) which arises from tax losses and other temporary differences that are available to set-off against future taxable income and other deductible temporary differences. The Group expects to generate sufficient taxable profits to utilise the deferred tax assets based on historical probability trends, management's plan on future business prospects and through the use of various tax planning opportunities which are available to the Group. In addition the Group reviews the carrying amount of the deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Of the above deferred tax asset, P6.1 million (2018: P50 million) relates to tax losses in respect of Letshego Holdings Limited (LHL). Tax losses in Botswana have to be utilised within five years from the year of origination. In the current year tax planning strategies of the Group which include appropriate transfer pricing policies driven by the Group Tax Committee, show that LHL should generate adequate taxable income in the future. LHL took a conservative approach by writing off a portion of the asset held until all the processes have been embedded and there is a turnaround in the profitability levels. Refer to the analysis below for LHL:

Deferred tax asset movement on tax losses	**31 December 2019 P'000**	**31 December 2018 P'000**
Opening balance	49,926	95,079
Recognised during the year	-	5,300
Utilised during the year	(3,789)	(1,414)
Written off	(40,035)	(30,636)
Tax losses fallen away	-	(18,403)
Balance at the end of year	**6,102**	**49,926**

Summary of LHL Company tax losses	**Year of expiry**		
December 2015	2020	-	17,149
December 2016	2021	27,736	27,809
December 2017	2022	-	35,056
December 2018	2023	-	266,899
		27,736	**346,913**

2.4 Income tax expense

The Group is subject to income taxes in various jurisdictions. The Group applies significant judgement in identifying uncertainties over income tax treatments in line with IFRIC 23 which came into effect in 2019. Since the Group operates in multinational environments, it assessed whether the interpretation had an impact on its consolidated financial statements. Significant judgement is required in determining provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit 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 recognised, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made. The interpretation did not have an impact on the consolidated financial statements of the Group.

2.5 Estimating the incremental borrowing rate used in lease liabilities

The Group applied judgement in determining the interest rate implicit in its lease liabilities. The Group uses its incremental borrowing rate, which reflects what the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. This requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the incremental borrowing rate using observable inputs, such as comparable market interest rates for similar financed transactions (where and when available), and is required to make certain entity specific estimates, such as the adjustments to the rates for the subsidiaries' stand-alone credit rating and country specific risks.

2.6 Estimates in determining deferred revenue and related commissions

The Group recognises interest income using the effective interest method. The effective interest is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual / behavioural terms of the financial instrument. This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well as other fee income / expense that are integral parts of the instrument.

USE OF ESTIMATES AND JUDGMENTS (continued)

2.7 Estimates and judgements in determining impairment of financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- the Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment
- the segmentation of financial assets when their ECL is assessed on a collective basis
- development of ECL models, including the various formulas and the choice of inputs
- determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models
- model adjustments and overlays will persist under IFRS 9 to account for localized impacts on the portfolio that are either not picked up by the model or late breaking news where running the ECL model would not be feasible
- as the ECL model is more quantitative in nature the formulation of provision overlay is backed by detailed analysis. The Group ensures that the following is done;
  - o rationale as to why overlay is appropriate is provided
  - o documentation of methodology and data used to determining the overlay is in place
  - o persistent overlays to be incorporated into the ECL model at a future date where applicable

2.8 Goodwill

As required by IAS 36 Impairment of assets, the goodwill was assessed for impairment at year end. This goodwill arose from acquisition of Letshego Holdings Namibia Limited, Letshego Tanzania Limited, Letshego Kenya Limited, Letshego Bank (T) Limited, Letshego Microfinance Bank Nigeria Limited and Letshego Ghana Plc. For the purpose of assessing goodwill for impairment, the relevant entities are considered to be cash generating units. Such impairment assessment was done using a discounted cash flow model incorporating budgets approved by those charged with governance. Cash flows beyond the period covered by approved budgets were forecasted based on projected growth rates for the relevant cash generating unit. The evaluation was based on a five year forecast and terminal value.

The Group assessed the recoverable amount of goodwill, and determined that there was sufficient headroom in respect of all cash generating units with the exception of Letshego Microfinance Bank Nigeria Limited for which a P23.7 million (2018: P22 million) and Letshego Bank (T) Limited for which a P15 million impairment write down were recognised during the year.

The recoverable amount of the cash generating units was determined with reference to the value in use. The growth rate is estimated based on past experience and anticipated future growth. The discount rate used is the weighted average cost of capital adjusted for specific risks relating to the entity. Refer to note 10 for the carrying value of each cash generating unit at the reporting date.

The table below shows the discount and growth rates used in calculating the value in use of each cash generating unit:

	31 December 2019		31 December 2018	
Entity	**Discount rates**	**Long term growth rates**	**Discount rates**	**Long term growth rates**
Letshego Holdings Namibia Limited	24%	4%	25%	8%
Letshego Tanzania Limited	25%	5%	18%	6%
Letshego Kenya Limited	19%	5%	18%	7%
Letshego Bank (T) Limited	19%	5%	16%	6%
Letshego Microfinance Bank Nigeria Limited	25%	10%	24%	8%
Letshego Ghana Plc	23%	7%	24%	6%

Key assumptions used in value in use calculations and sensitivity to change in assumptions

The calculation of value in use for each cash generating unit is most sensitive to:

- discount rates
- inflation rate
- long term growth rates used to extrapolate cash flows beyond the forecast period

USE OF ESTIMATES AND JUDGMENTS (continued)

2.8 Goodwill (continued)

Discount rates
Discount rates represent the current market assessment of the risks specific to each cash generating unit, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group’s investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

A rise in the pre-tax discount rate by 0.5% - 1% for each cash generating unit would result in a further impairment.

Inflation rate
Estimates are obtained from published indices for the each country and forecast figures are used if data is publicly available.

If inflation rates increased by an average of 0.5% - 1% more than the forecast price inflation, the Group will have a further impairment.

Long term growth rates used to extrapolate cash flows beyond the forecast period
When using industry data for growth rates, these assumptions are important because management assesses how each subsidiary position, relative to its competitors, might change over the forecast period. Management also reviews each subsidiary's previous years' performance against performance targets and an average performance rate is used to extrapolate future cash flows.

An increase in the growth rate assumption will result in a decrease in impairment whereas a decrease in growth rate will have a further impairment.

	31 December 2019 P'000	31 December 2018 P'000
3 CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	944,882	822,897
Statutory cash reserve	63,390	88,060
Short term investments	27,241	277,445
	1,035,513	**1,188,402**
Cash and cash equivalents for the purpose of the statement of cash flow	**972,123**	**1,100,342**

Short term bank deposits constitute amounts held in fixed deposit with external financial institutions. The deposits attract interest ranging between 1.0% - 5.0% per annum (31 December 2018: 1% - 5.0%). Cash at bank is held with reputable financial institutions with good credit standing. Statutory cash reserve relates to cash held by the Central Bank for the respective subsidiaries based on the average customer deposits and therefore not available for day to day operations.

4 ADVANCES TO CUSTOMERS

	2019	2018
Gross advances to customers	9,832,888	9,541,966
Less : Expected credit losses	(761,404)	(843,135)
- Stage 1	(148,664)	(167,994)
- Stage 2	(92,123)	(100,646)
- Stage 3	(520,617)	(574,495)
Net advances to customers	**9,071,484**	**8,698,831**
Maturity analysis		
Maturing within one year	1,599,287	1,216,284
Maturing after one year within five years	4,824,809	5,169,353
Maturing after five years	3,408,792	3,156,329
Total gross advances to customers	**9,832,888**	**9,541,966**

Certain advances to customers are pledged as security to borrowings as set out in note 15.

	2019	2018
Impairment of advances		
Balance at the beginning of the year	843,135	402,400
Impairment charge for the year	(177,777)	209,914
Impairment on informal loans	96,046	38,947
Impact of adoption IFRS 9	-	191,874
Balance at the end of the year	**761,404**	**843,135**

An analysis of net advances by credit risk, including related impairment provisions, is contained in Note 1.3.1 to these financial statements.

	2019	2018
Charges to profit or loss		
Amounts written off	434,599	298,297
Recoveries during the year	(183,767)	(146,720)
Expected credit losses (reversed) / raised during the year	(81,731)	209,914
	169,101	**361,491**

	2019	2018
5 OTHER RECEIVABLES		
Deposits and prepayments	33,744	38,909
Receivable from insurance arrangements	160,084	147,331
Withholding tax and value added tax	405	881
Deferred arrangement fees	14,593	16,365
Clearing and other receivables	39,170	49,005
	247,996	**252,491**

Due to the short-term nature of the current receivables, their carrying amount approximates their fair value.

6 PROPERTY, PLANT AND EQUIPMENT

Cost	Motor vehicles P'000	Computer equipment P'000	Office furniture & equipment P'000	Land & building P'000	Work in progress P'000	Total P'000
Balance at 1 January 2018	8,445	61,894	68,879	18,425	17,268	174,911
Additions	3,325	11,408	7,056	-	4,454	26,243
Transfers	-	9,241	1,296	-	(10,424)	113
Disposals	(1,004)	(9,851)	(3,063)	-	(5,487)	(19,405)
Forex translation	237	1,869	1,337	(936)	(343)	2,164
Balance at 31 December 2018	**11,003**	**74,561**	**75,505**	**17,489**	**5,468**	**184,026**
Accumulated depreciation						
Balance at 1 January 2018	4,968	42,614	35,219	49	-	82,850
Charge for the year	1,812	10,199	12,433	-	-	24,444
Disposals	(729)	(4,213)	(1,172)	-	-	(6,114)
Forex translation	121	1,760	1,511	(1,078)	-	2,314
Balance at 31 December 2018	**6,172**	**50,360**	**47,991**	**(1,029)**	**-**	**103,494**
Net book value at 31 December 2018	**4,831**	**24,201**	**27,514**	**18,518**	**5,468**	**80,532**

Cost	Motor vehicles P'000	Computer equipment P'000	Office furniture & equipment P'000	Land & building P'000	Work in progress P'000	Total P'000
Balance at 1 January 2019	11,003	74,561	75,505	17,489	5,468	184,026
Additions	2,213	41,381	10,379	-	5,437	59,410
Transfers	1,350	(4,138)	1,280	-	(3,653)	(5,161)
Disposals	(574)	(1,560)	(606)	-	-	(2,740)
Forex translation	(882)	(628)	(2,309)	221	(152)	(3,750)
Balance at 31 December 2019	**13,110**	**109,616**	**84,249**	**17,710**	**7,100**	**231,785**
Accumulated depreciation						
Balance at 1 January 2019	6,172	50,360	47,991	(1,029)	-	103,494
Charge for the year	2,637	19,851	12,682	-	-	35,170
Disposals	(572)	(1,547)	(531)	-	-	(2,650)
Forex translation	(899)	(1,159)	(1,842)	-	-	(3,900)
Balance at 31 December 2019	**7,338**	**67,505**	**58,300**	**(1,029)**	-	**132,114**
Net book value at 31 December 2019	**5,772**	**42,111**	**25,949**	**18,739**	**7,100**	**99,671**

Work in progress comprises of assets acquired but not yet commissioned for use relating to strategic projects.

7 RIGHT OF USE ASSET

Cost	Property P'000	Total P'000
Balance at 1 January 2019	-	-
Implementation of IFRS 16	97,024	97,024
Forex translation	(155)	(155)
Balance at 31 December 2019	**96,869**	**96,869**
Accumulated depreciation		
Balance at 1 January 2019	-	-
Charge for the year	35,473	35,473
Forex translation	(40)	(40)
Balance at 31 December 2019	**35,433**	**35,433**
Net book value at 31 December 2019	**61,436**	**61,436**

8 INTANGIBLE ASSETS

Cost	Computer Software P'000	Brand value P'000	Core deposit P'000	Total P'000
Balance at 1 January 2018	78,908	4,505	9,098	92,511
Additions	3,648	-	-	3,648
Transfer from work in progress	(113)	-	-	(113)
Disposals	(2,788)	-	-	(2,788)
Forex translation	497	(9)	342	830
Balance at 31 December 2018	**80,152**	**4,496**	**9,440**	**94,088**
Accumulated amortisation				
Balance at 1 January 2018	30,289	1,675	5,207	37,171
Charge for the year	10,632	458	757	11,847
Disposals	(865)	-	-	(865)
Forex translation	447	-	-	447
Balance at 31 December 2018	**40,503**	**2,133**	**5,964**	**48,600**
Net book value at 31 December 2018	**39,649**	**2,363**	**3,476**	**45,488**

Cost	Computer Software P'000	Brand value P'000	Core deposit P'000	Total P'000
Balance at 1 January 2019	80,152	4,496	9,440	94,088
Additions	10,550	-	-	10,550
Transfer from work in progress	5,161	-	-	5,161
Disposals	(798)	-	-	(798)
Forex translation	(1,077)	(465)	16	(1,526)
Balance at 31 December 2019	**93,988**	**4,031**	**9,456**	**107,475**
Accumulated amortisation				
Balance at 1 January 2019	40,503	2,133	5,964	48,600
Charge for the year	13,276	280	737	14,293
Disposals	(798)	-	-	(798)
Forex translation	159	-	-	159
Balance at 31 December 2019	**53,140**	**2,413**	**6,701**	**62,254**
Net book value at 31 December 2019	**40,848**	**1,618**	**2,755**	**45,221**

Brand value is amortised over its expected useful life of 7 years. Core deposit relates to the intrinsic value of a stable deposit base and is amortised over its useful life of 8 years.

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2019 P'000	31 December 2018 P'000
Investment	**53,591**	**53,591**
% shareholding	**2.3%**	**3.1%**

The Group's shareholding in a financial services organisation is as noted above and the year on year reduction was as a result of rights issues in which the Company did not participate in. The fair value of this investment at year end does not materially vary to its carrying value, hence no fair value gains or losses were recognised in the year. Refer to note 1.5 on the valuation technique applied.

10 GOODWILL

Goodwill on the acquisition of:	31 December 2019 P'000	31 December 2018 P'000
Letshego Holdings Namibia Limited	23,111	22,774
Letshego Tanzania Limited	1,874	1,891
Letshego Kenya Limited	33,238	33,367
Letshego Bank (T) Limited	-	15,130
Letshego Microfinance Bank Nigeria Limited	-	23,942
Letshego Ghana Plc	10,010	9,125
	68,233	**106,229**
Movement in goodwill		
Balance at the beginning of the year	106,229	122,280
Impairment on goodwill	(38,737)	(22,000)
Conditional subsequent payment relating to the investment in AFB Ghana (note 32.1)	2,577	-
Effect of exchange rate changes	(1,836)	5,949
Balance at the end of the year	**68,233**	**106,229**

The Group performs its annual impairment test in December and when circumstances indicated that the carrying value may be impaired. Goodwill was translated using reporting date exchange rates to reflect the changes in foreign currencies. The Group assesses the recoverable amount of goodwill in respect of all cash generating units noted above to determine indications of impairment.

The key assumptions used to determine the recoverable amount for the different cash generating units are disclosed in note 2.6. In the current year an impairment provision of P38.7 million was recognised for goodwill arising from acquisition of Letshego Microfinance Bank Nigeria Limited (P23.7 million) and Letshego Bank Tanzania (T) Limited (P15 million).

11 CUSTOMER DEPOSITS

	31 December 2019 P'000	31 December 2018 P'000
Demand accounts	67,155	29,143
Savings accounts	67,381	110,343
Call and term deposits	292,137	358,232
	426,673	**497,718**

These are deposits from customers and are short-term in nature.

		31 December 2019 P'000	31 December 2018 P'000
12	**TRADE AND OTHER PAYABLES**		
	Insurance premium payable	36,184	65,547
	Payroll related accruals	37,201	25,890
	Staff incentive accrual (note 12.1)	66,732	65,547
	Other provisions	59,573	60,866
	Guarantee funds	194,582	168,215
	Trade and other payables	119,677	91,790
	Value added tax / withholding tax payable	38,900	14,370
		552,849	**492,225**

Guarantee funds relates to deposits received by the Group from a strategic partner for the funding of the mobile loans in Ghana. Trade and other payables relates to clearing accounts and unpaid supplier invoices at the reporting date and due to the short - term nature, their carrying amount approximates their fair value.

		31 December 2019 P'000	31 December 2018 P'000
12.1	**Movement in staff incentive accrual**		
	Balance at the beginning of the year	65,547	50,942
	Current period charge (note 22)	40,280	54,466
	Paid during the year	(39,095)	(39,861)
	Balance at the end of the year	**66,732**	**65,547**

13	**LEASE LIABILITIES**	**Carrying amount at 01 January 2019**	**Implementation of IFRS 16**	**Interest expense**	**Cash payments**	**Forex translation**	**Carrying amount at 31 December 2019**
	Lease liabilities	-	97,024	10,416	(42,565)	(115)	64,760

	31 December 2019 P'000	31 December 2018 P'000
The following are the amounts recognised in the profit or loss:		
Depreciation expense of right of use asset	35,473	-
Interest expense on lease liabilities	10,416	-
Expense relating to short-term leases	9,018	-
Expense relating to low value assets	6,891	-
	61,798	-

The Group has entered into commercial leases for premises and operating equipment. The leases have an average life of between one and five years. The Group elected not to recognise assets and liabilities with a lease term of up to 12 months and low value leases for operating equipment. There are no restrictions placed upon the lessee by entering into these. The Group's leases are mainly non-cancellable and refer to the ageing of future lease payments as at 31 December 2019:

	31 December 2019 P'000	31 December 2018 P'000
Within one year	25,856	-
After one year but not more than three years	22,433	-
More than three years	16,471	-
	64,760	-

14	**CASH COLLATERAL**		
	Balance at the beginning of the year	27,028	27,319
	Utilised during the year	(5,307)	(291)
	Closing balance	**21,721**	**27,028**

Cash collateral represents payments made by loanees as security for loans taken. In accordance with the loan agreements, the amounts are refundable upon the successful repayment of loans by loanees and at the time a loanee leaves the loan scheme. The amounts are utilised to cover loans in the event of default. This relates only to Letshego Kenya, Rwanda and Uganda subsidiaries.

	31 December 2019 P'000	31 December 2018 P'000
15 BORROWINGS		
Commercial banks	1,920,085	2,504,294
Note programmes	1,729,542	1,787,303
Development Financial Institutions	1,118,927	887,655
Pension funds	213,621	150,067
Total borrowings	**4,982,175**	**5,329,319**
Contractual maturity analysis		
Maturing within one year	1,882,077	1,349,130
Maturing after one year within three years	2,215,382	2,933,154
Maturing after three years	884,716	1,047,035
Total borrowings	**4,982,175**	**5,329,319**
Contractual interest on borrowings to maturity at reporting date	1,093,503	1,483,385
Total contractual cash flows on interest bearing loans and borrowings	**6,075,678**	**6,812,704**
Movement in borrowings		
Balance at the beginning of the year	5,329,319	3,984,607
Finance obtained from third parties	1,135,522	1,938,071
Repayment of borrowings	(1,415,529)	(638,687)
Effect of exchange rate changes	(67,137)	45,328
Balance at the end of the year	**4,982,175**	**5,329,319**

Note programmes

The Group has issued medium term note programmes of P1.7 billion (2018: P1.8 billion) of which P527 million (2018 P550 million) are listed on the Johannesburg Stock Exchange, P304 million (2018: P300 million) on the Botswana Stock Exchange and P454 million (2018: P524 million) on the Ghana Stock exchange at the reporting date.

Security

Pula 1.9 billion (31 December 2018: P2.4 billion) of the borrowings is secured by the advances to customers of:
- Letshego Micro Financial Services (Namibia) (Pty) Limited
- Letshego Financial Services (Pty) Limited (Botswana)
- Letshego Financial Services Swaziland (Pty) Limited

The aggregated net advances to customers of the above is P4.3 billion (31 December 2018: P4.7 billion) by way of a Security Sharing Agreement.

The Group Security Sharing agreement has the following covenants:
- Bad debts ratio
- Cash collection ratio
- Capitilisation ratio and,
- Secured property ratio.

The Group has complied with all the above debt covenants for both current and prior period.

Pula 3.0 billion (31 December 2018 P2.6 billion) relates to loans that are secured by a corporate guarantee from Letshego Holdings Limited. During the current year a number of subsidiaries sourced in-country and foreign funding which was guaranteed by Letshego Holdings Limited.

15 BORROWINGS (continued)

Interest rate

Pula 1.98 billion (31 December 2018: P2.0 billion) of the borrowings are at fixed interest rates. P3.0 billion (31 December 2018: P3.3 billion) are loans issued at variable interest rates, including rates linked to each country's prime lending rate, 3 months JIBAR, 3 months US Libor, 182 days T-bill and 3 months BoB'c rates.

Interest and currency rate swaps

The company entered into an interest rate swap agreement which was valid from June 2016 to June 2019 with a Botswana financial institution under which it made periodic payments on its behalf over an agreed period of time based on a nominal amount of ZAR 335 million. This swap allowed for conversion of ZAR floating rate liability into a ZAR fixed rate liability. The interest rate swap hedged the variable factor of the interest coupons payable on the medium term note programme listed on the Johannesburg Stock Exchange.

Letshego Holdings Limited paid the coupon interest on these bonds every quarter and the counter party for the swap settled the difference on the fixed rate per swap and the variable coupon payment. Management evaluated the effective cash flow and applicable payments on the bond coupon and discounted these to calculate the fair value of the interest rate swap. The fair value at 31 December 2018 was P1.654 million and any movements were recognised in profit or loss.

In October 2018, Letshego Holdings Limited and Letshego Financial Services (Proprietary) Limited Botswana entered into currency swap agreements with a financial institution in respect of foreign currency denominated funding listed below. The currency swap hedges the variable factor of the capital and interest coupons payable on these. Management evaluates the effective cash flow and applicable payments on the capital and coupon payments and discounts these to calculate the fair value of the currency swap.

Entity	**Currency**	**P'000**
Letshego Holdings Limited	Euro	7,000
Letshego Holdings Limited	USD	9,000
Letshego Financial Services (Proprietary) Limited Botswana	USD	9,167

The fair value at 31 December 2019 is P15.39 million unfavourable (2018: P13.24 million unfavourable) and this movement was recognised through profit or loss.

16 STATED CAPITAL

	31 December 2019 P'000	31 December 2018 P'000
Issued: 2,144,045,175 ordinary shares of no par value (2018: 2,144,045,175) of which 19,054,190 shares (2018: 19,054,190) are held as treasury shares	**862,621**	**862,621**

31 December 2019	**Number of shares in issue**	**Shares held as treasury shares**	**Total number of shares**
Number of shares at the beginning of the year ('000)	2,124,991	19,054	2,144,045
Shares issued during the year ('000)	-	-	-
Number of shares at the end of the year ('000)	**2,124,991**	**19,054**	**2,144,045**

31 December 2018	**Number of shares in issue**	**Shares held as treasury shares**	**Total number of shares**
Number of shares at the beginning of the year ('000)	2,119,645	24,400	2,144,045
Shares issued during the year ('000)	5,346	(5,346)	-
Number of shares at the end of the year ('000)	**2,124,991**	**19,054**	**2,144,045**

In terms of the Group LTIP (note 18), no shares (2018: P12.78 million) vested at Group level during the current year. Therefore the number of shares in issue remained at 2,125 million (2018: 2,125 million) and shares held as treasury shares were 19.054 million (2018: 19.054 million).

Every shareholder shall have one vote for every share held subject to the rights of the holders of any shares entitled to any priority, preference or special privileges. All dividends shall be declared and paid to the members in proportion to the shares held by them respectively.

CAPITAL MANAGEMENT

The Group monitors its debt to equity ratio and return on equity as key metrics of capital management.

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

• To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

• To maintain a strong capital base to support the development of its business.

The Group's capital consists of shareholders' funds (stated capital and reserves) and long term borrowings. The Group monitors the adequacy of its capital using internally measured benchmarks such as capital adequacy, return on equity, debt to equity and forecasts of asset and profitability performance. These measures are broadly in line with, or more stringent than, industry norm. A risk based approach is also adopted whereby balances with counterparties are required to be supported by capital to a greater extent than other internally held assets.

	31 December 2019	31 December 2018
Capital adequacy ratio	36%	33%
Return on equity	16%	12%
Debt to equity	109%	131%

Certain subsidiaries are regulated for capital requirements by the respective in-country regulators. Group maintains sufficient capital in its subsidiaries in order to meet the requirements of local jurisdictions. These are monitored constantly and actions are taken as an when required. During the year the subsidiaries have complied with the capital requirements.

17 LEGAL RESERVE

	31 December 2019 P'000	31 December 2018 P'000
Balance at the beginning of the year	73,519	39,607
Movement for the period – allocated from retained earnings	122,274	33,912
Balance at the end of the year	**195,793**	**73,519**

Legal reserve relates to non-distributable reserves and may be used to increase capital. This is applicable to the following:

- Letshego Financial Services Mozambique	Central Bank regulation requires a 15% transfer of annual profits.
- Letshego Ghana Plc	Central Bank regulation requires a 50% transfer of annual profits.
- Letshego Tanzania Limited	Companies act regulation requires a transfer to the capital reserve where shares have been redeemed without issue of new shares.
- Letshego Uganda Limited	Microfinance regulator requires a transfer of annual profits to be based on the difference between provisioning per IFRS 9 and as per the regulator.

18 SHARE INCENTIVE SCHEME

Shares granted in terms of the Long Term Incentive Plan (LTIP) may not exceed 10% of the issued ordinary shares of the holding company. 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.

As at 31 December 2019, 39 618 700 total awards were outstanding (31 December 2018: 41 956 100) at grant date share prices of P2.13, P1.88 and P1.65 for 2017, 2018 and 2019 awards respectively (31 December 2018: P2.50, P2.13 and P1.88 for 2016, 2017 and 2018 awards respectively).

	31 December 2019		31 December 2018	
Reconciliation of outstanding awards	**Fair values**	**No. of awards**	**Fair values**	**No. of awards**
Outstanding at the beginning of the year	P2.50/P2.13/P1.88	41,956,100	P2.39/P2.50/P2.13	46,347,400
Granted during the year	P1.65	27,288,800	P1.88	19,991,000
Exercised during the year	P2.50	-	P2.39	(5,345,810)
Forfeited due to not meeting performance	P2.50	(11,029,700)	P2.39	(5,694,690)
Forfeited due to resignations	P2.13/P1.88/P1.65	(18,596,500)	P2.50/P2.13/P1.88	(13,341,800)
Outstanding at the end of the year	**P2.13/P1.88/P1.65**	**39,618,700**	**P2.50/P2.13/P1.88**	**41,956,100**

The amounts outstanding at 31 December 2019 and 31 December 2018 have average vesting periods of 3,15 and 27 months. The expense recognised during the period is disclosed in note 22.

The outstanding share based incentive scheme as at 31 December 2019 was P24.3 million (2018: P18.1 million)

Movement in share based payment reserve	**31 December 2019 P'000**	**31 December 2018 P'000**
Opening balance	18,089	38,840
Charge / release during the year (note 22)	6,215	(7,975)
New shares issue during the year	-	(12,776)
Closing balance	**24,304**	**18,089**

The vesting conditions for the Group's Long Term Incentive Plan is premised on non-market performance conditions. No specific market conditions are applied. Accordingly the share price of Letshego Holdings Limited shares (as quoted on the Botswana Stock Exchange) is used as the fair value of the share options granted.

The fair value of the services received in return for the share options granted is based on the fair value of the share options granted, measured using the Botswana Stock Exchange closing price of Letshego Holdings Limited's shares at the grant date.

		31 December 2019 P'000	31 December 2018 P'000
19	**EFFECTIVE INTEREST INCOME**		
	Advances to customers	2,504,158	2,466,385
	Interest income on risk informal / mobile loans	193,786	140,503
	Interest income on non-risk informal / mobile loans	250,414	83,535
	Interest income from deposits with banks	26,481	27,834
		2,974,839	**2,718,257**
20	**EFFECTIVE INTEREST EXPENSE**		
	Overdraft facilities and term loans	663,495	566,797
	Interest adjustment on non-risk informal / mobile loans	250,414	83,535
	Interest expense on leases	10,416	-
	Market to market adjustment on foreign currency swaps	1,488	11,586
	Foreign exchange loss / (gain)	5,351	(7,839)
		931,164	**654,079**
21	**FEE AND COMMISSION INCOME**		
	Administration fees - lending	53,213	24,769
	Credit life insurance commission	6,238	5,966
		59,451	**30,735**
21.1	**OTHER OPERATING INCOME**		
	Early settlement fees	52,627	41,241
	Income from insurance arrangements	195,026	213,483
	Sundry income	25,365	12,697
		273,018	**267,421**
22	**EMPLOYEE BENEFITS**		
	Salaries and wages	364,146	313,382
	Staff incentive (note 12.1)	40,280	54,466
	Staff recruitment costs	8,152	2,666
	Staff pension fund contribution	27,106	17,913
	Directors' remuneration – for management services (executive)	8,124	9,725
	Long term incentive plan	6,215	(7,975)
		454,023	**390,177**

LETSHEGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

		31 December 2019 P'000	31 December 2018 P'000
23	**OTHER OPERATING EXPENSES**		
	Accounting and secretarial fees	687	1,084
	Advertising	15,941	17,421
	Audit fees	5,565	4,836
	- Audit services	5,265	4,675
	- Covenant compliance fees	237	161
	- Tax advisory services	63	-
	Bank charges	7,208	7,305
	Computer expenses	12,317	18,599
	Consultancy fees	50,308	46,116
	Corporate social responsibility	3,266	4,138
	Collection commission	50,636	49,700
	Direct costs	39,844	27,561
	Direct costs - informal loans	44,370	32,817
	Data centre decommissioning	-	5,000
	Depreciation and amortization	49,463	36,291
	Depreciation - right of use	35,473	-
	Directors' fees – non executive	6,474	7,105
	Directors' fees – subsidiary boards	5,832	4,892
	Government levies	26,789	22,876
	Insurance	9,359	10,136
	Impairment of goodwill (note 10)	38,737	22,000
	Impairment of cash accounts	6,039	-
	Office expenses	22,043	24,301
	Operating lease rentals - property	15,909	48,115
	Other operating expenses	86,098	91,324
	- Claim expenses - cell captive	-	5,726
	- Entertainment	576	1,057
	- IT costs	5,222	15,325
	- Loss on disposal of plant and equipment	36	6,351
	- Motor vehicle expenses	6,196	6,192
	- Printing and Stationery	8,145	7,673
	- Repairs and Maintenance	6,111	3,806
	- Storage costs	1,940	1,496
	- Subscriptions and licenses	5,282	3,953
	- Other expenses	52,590	39,745
	Payroll administration costs	2,234	2,066
	Professional fees	27,465	42,643
	Telephone and postage	29,261	26,471
	Travel	31,419	37,361
		622,737	**590,158**

		31 December 2019 P'000	31 December 2018 P'000
24	**TAXATION**		
	Amounts recognised in profit or loss		
	Current taxation	**374,229**	**527,094**
	- Basic taxation	292,783	368,684
	- WHT tax credits adjustments	72,041	107,110
	- *Under provision in respect of prior years	9,405	51,300
	Deferred tax	**64,552**	**(17,068)**
	- Origination and reversal of temporary differences	64,552	(41,778)
	- Under provision in respect of prior years	-	24,710
		438,781	**510,026**

**This includes a provision of P45.3 million made in respect of a potential tax exposure of an East African subsidiary for the year ended 31 December 2018.*

24 TAXATION (continued)

		31 December 2019 P'000	31 December 2018 P'000
24.1	**Deferred taxation**		
	Balance at the beginning of the year	208,446	151,365
	IFRS 9 day 1 adjustment	-	40,013
	Current year movement	(64,552)	17,068
	Balance at the end of the year	**143,894**	**208,446**
	Deferred tax assets	144,699	211,651
	Deferred tax liabilities	(805)	(3,205)
		143,894	**208,446**

The Group expects to generate sufficient taxable profits to utilise the deferred tax asset based on historical profitability trends and management judgement on future business prospects.

	31 December 2019 P'000	31 December 2018 P'000
Deferred taxation arises from temporary differences on the following items:		
Property and equipment	(12,508)	(8,344)
Lease liability	21,371	-
Right of use asset	(20,274)	-
Share based payment provision	5,123	3,991
Staff incentive provision	13,770	15,501
General impairment provision	125,104	137,239
Taxation losses	6,102	59,136
Deferred rent provision	-	515
Leave pay provision	1,836	754
Severance pay	-	80
Deferred income / (expenditure)	5,810	(251)
Prepayments	(1,833)	(728)
Unrealised exchange (gain) / loss	(607)	553
	143,894	**208,446**

		31 December 2019 P'000	31 December 2018 P'000
24.2	**Reconciliation of current taxation**		
	Profit before taxation	1,130,283	1,020,508
	Tax calculated at Botswana statutory rate of 22%	248,662	224,512
	Foreign income taxed at 15%	9,760	12,795
	Effect of tax rates in foreign jurisdictions	61,939	59,727
	Expenses and revenues not deductible for tax purposes	(3,061)	(19,167)
	WHT tax credits adjustments	72,041	107,110
	Tax losses not recognised and fallen away (note 2.3)	40,035	49,039
	Under provision in respect of prior year	9,405	76,010
		438,781	**510,026**
24.3	**Reconciliation of income tax paid**		
	Opening balance	213,058	164,912
	Income tax charge for the year	**374,229**	**527,094**
	- Tax charge per profit or loss	438,781	510,026
	- Movement in deferred tax asset	(66,952)	54,996
	- Deferred tax assets on IFRS 9 day 1 adjustment	-	(40,013)
	- Movement in deferred tax liabilities	2,400	2,085
	Closing balance	(200,244)	(213,058)
	Income tax paid	**387,043**	**478,948**

25 EARNINGS PER SHARE

The calculation of basic earnings per share is based on after taxation earnings attributable to ordinary shareholders and the weighted average number of shares in issue during the period as follows:

	31 December 2019 P'000	31 December 2018 P'000
Earnings attributable to ordinary equity holders of the parent	**620,034**	**438,639**
Weighted number of shares:		
At beginning of year	2,124,991	2,119,645
Effect of shares issued (31 December 2019 - no shares issued: 31 December 2018 - 5,346 million shares)	-	4,072
Weighted number of shares at end of year	2,124,991	2,123,717
Basic earnings per share (thebe)	**29.2**	**20.7**

The calculation of diluted earnings per share is based on after taxation earnings attributable to ordinary shareholders and the weighted average number of shares in issue during the year, adjusted for the effects of dilutive potential ordinary shares as follows:

Weighted number of shares:		
Weighted number of shares at end of year	2,124,991	2,123,717
Dilution effect - number of shares (note 18)	39,619	41,956
	2,164,610	2,165,673
Diluted earnings per share (thebe)	**28.6**	**20.3**

25.1 HEADLINE EARNINGS PER SHARE

Headline earnings per share is calculated below:

31 December 2019	Gross	Tax	Net
Earnings attributable to ordinary equity holders of the parent	-	-	**620,034**
Loss on disposal of plant and equipment	36	(36)	-
Impairment of goodwill	38,737	-	38,737
Provision for reorganisational and restructuring costs	22,000	-	22,000
Impairment of cash accounts	6,039	-	6,039
Headline earnings	**66,812**	**(36)**	**686,810**
Headline earnings per share (thebe)			**32.3**
Diluted headline earnings per share (thebe)			**31.7**

The was no impact on non-controlling interest on headline earnings for the year ended 31 December 2019.

31 December 2018	Gross	Tax	Net
Earnings attributable to ordinary equity holders of the parent	-	-	**438,639**
Loss on disposal of plant and equipment	6,039	(6,039)	-
Impairment of goodwill	22,000	-	22,000
Specific tax provision	45,300	-	45,300
Specific credit provision - East Africa	75,000	(22,500)	52,500
Headline earnings	**148,339**	**(28,539)**	**558,439**
Headline earnings per share (thebe)			**26.3**
Diluted headline earnings per share (thebe)			**25.8**

The was no impact on non-controlling interest on headline earnings for the year ended 31 December 2018.

26 DIVIDEND PAID		31 December 2019 P'000	31 December 2018 P'000
Previous year final dividend paid during the year		70,125	278,373
Interim dividend paid		91,374	184,916
Total dividend paid to equity holders		**161,499**	**463,289**
Dividends per share : Interim (thebe)	- paid	4.3	8.7
: Final (thebe)	- proposed	7.7	3.3

27 SEGMENT INFORMATION

Following the introduction of the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Group Chief Operating Officer (the Chief Operating Decision-Maker), who is responsible for allocating resources to the reportable segments and assessing performance. Operating segments are reviewed and reported geographically to the CODM. All reported segments used by the Group meet the definition of a reportable segment.

The Group operates in eleven countries, namely Botswana, Ghana, Kenya, Lesotho, Mozambique, Namibia, Nigeria, Rwanda, Swaziland, Tanzania and Uganda.

In the prior year activities of individual country segments that are not individually quantitatively significant, but have similar economic characteristics (nature of services rendered, class of customers, distribution methodology and similarity in regulatory requirements) had been aggregated into:
- Other Southern Africa includes : Lesotho and Swaziland
- Other East Africa includes: Kenya, Rwanda and Uganda
- West Africa includes: Nigeria and Ghana

These had been previously segmented as follows: Botswana, Namibia, Mozambique, Other Southern Africa, Tanzania, Other East Africa, West Africa and Holding company.

In the current year these have been reported at a country level in order to align with the reporting expectations of the new management team including the Chief Operating Decision-Maker, which in the case of the Group is considered to be the Group Chief Executive Officer. This will provide more granular information on each of the country operations inline with the disclosures in the risk management section. These have been reported as follows: Botswana, Namibia, Mozambique, Lesotho, Swaziland, Kenya, Rwanda, Uganda, Tanzania, Nigeria, Ghana and Holding Company.

The performance of the Holding Company is evaluated using proportionate consolidation and its financing and income taxes are managed on a Group basis and are not allocated to operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. No operating segments have been aggregated to form the following reportable operating segments:

27 SEGMENT INFORMATION (continued)

Reportable segments

31 December 2019	Botswana	Namibia	Mozambique	Lesotho	Swaziland	Kenya	Rwanda	Uganda	Tanzania	Nigeria	Ghana	Holding company or eliminations	Total
	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000
Operating income	**669,189**	**561,126**	**316,740**	**88,591**	**67,452**	**156,116**	**9,414**	**142,348**	**168,278**	**53,430**	**284,979**	**(141,519)**	**2,376,144**
Profit / (loss) before taxation	**527,892**	**423,836**	**198,742**	**42,078**	**38,310**	**55,232**	**2,678**	**42,096**	**90,386**	**7,162**	**14,161**	**(312,290)**	**1,130,283**
Taxation - consolidated													(438,781)
Profit - consolidated													**691,502**
Gross Advances to customers	2,768,646	2,226,635	1,361,331	398,937	503,314	714,843	41,452	392,453	446,716	120,264	858,297	-	9,832,888
Impairment provisions	(167,400)	(21,227)	(21,142)	(40,047)	(8,002)	(145,981)	(2,513)	(47,809)	(96,848)	(14,381)	(196,054)	-	(761,404)
Net Advances	**2,601,246**	**2,205,408**	**1,340,189**	**358,890**	**495,312**	**568,862**	**38,939**	**344,644**	**349,868**	**105,883**	**662,243**	**-**	**9,071,484**
Total assets	**2,887,109**	**2,576,107**	**1,680,227**	**397,833**	**547,946**	**676,075**	**70,451**	**379,592**	**543,901**	**150,122**	**807,153**	**150,827**	**10,867,343**
Borrowings	**1,163,526**	**348,212**	**404,866**	**260,410**	**348,696**	**319,143**	**15,281**	**218,503**	**20,900**	**850**	**503,509**	**1,378,279**	**4,982,175**
Total liabilities	**1,277,310**	**456,181**	**761,757**	**267,792**	**356,921**	**457,272**	**48,989**	**234,105**	**121,133**	**53,623**	**702,088**	**1,551,555**	**6,288,726**

31 December 2018	Botswana	Namibia	Mozambique	Lesotho	Swaziland	Kenya	Rwanda	Uganda	Tanzania	Nigeria	Ghana	Holding company or eliminations	Total
	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000
Operating income	**655,835**	**577,985**	**226,515**	**87,480**	**56,479**	**137,288**	**11,602**	**136,364**	**203,902**	**57,503**	**240,192**	**(28,811)**	**2,362,334**
Profit / (loss) before taxation	**457,854**	**447,740**	**109,225**	**57,168**	**32,698**	**(22,034)**	**(772)**	**37,210**	**95,358**	**14,320**	**43,148**	**(251,407)**	**1,020,508**
Taxation - consolidated													(510,026)
Profit - consolidated													**510,482**
Gross Advances to customers	2,702,359	1,920,415	1,291,433	357,831	434,953	722,623	54,093	359,647	552,020	103,390	1,043,202	-	9,541,966
Impairment provisions	(239,776)	(18,489)	(26,726)	(20,768)	(5,765)	(128,404)	(8,567)	(49,695)	(154,589)	(23,649)	(166,707)	-	(843,135)
Net Advances	**2,462,583**	**1,901,926**	**1,264,707**	**337,063**	**429,188**	**594,219**	**45,526**	**309,952**	**397,431**	**79,741**	**876,495**	**-**	**8,698,831**
Total assets	**2,565,550**	**2,604,616**	**1,428,333**	**359,331**	**472,236**	**786,410**	**104,809**	**355,601**	**535,179**	**132,944**	**1,006,948**	**304,332**	**10,656,289**
Borrowings	**1,010,044**	**362,793**	**370,122**	**240,003**	**292,313**	**536,614**	**27,361**	**174,797**	**32,766**	**-**	**552,203**	**1,730,303**	**5,329,319**
Total liabilities	**1,064,987**	**447,016**	**614,191**	**247,505**	**300,974**	**584,602**	**84,497**	**222,115**	**143,781**	**49,922**	**889,257**	**1,932,780**	**6,581,627**

28 RELATED PARTY TRANSACTIONS

Relationships:

Letshego Holdings Limited	Parent Company
Subsidiaries	Refer to note 32

The Group identifies a related party if an entity or individual:

- directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with the entity (this includes parent companies and subsidiaries);
- has an interest in the entity whether it gives it significant control or not;
- has control over the entity;
- is an associate company, joint venture or is jointly controlled; or
- is a member of key management personnel of the Group. Key management personnel comprise the executive directors.

28.1 Related party transactions

The Company 'Letshego Holdings Limited' is listed on the Botswana Stock Exchange. The Group partnered with Sanlam (SEM) to be its preferred insurance provider by offering innovative stand alone and embedded insurance solution. Sanlam owns 59% of Botswana Insurance Holdings Limited (BIHL) which is a shareholder of Letshego Holdings Limited and there were no transactions with BIHL. However loans and advances of Letshego Financial Services Botswana (Pty) Ltd are insured through Botswana Life Insurance Limited which is a subsidiary of BIHL and no commission is earned.

	31 December 2019 P'000	31 December 2018 P'000
28.2 Compensation paid to key management personnel (executive directors)		
Paid during the period		
- Short-term employee benefits	8,124	9,725
	8,124	**9,725**

In terms of the Long Term Incentive Scheme there were no awards granted to executive directors relating to the 31 December 2019 and 2018 financial years.

29 OPERATING LEASE COMMITMENTS

The group operates a number of branches and office premises under operating lease. Lease payments are generally increased annually to reflect the market rentals. The future minimum lease payments under non-cancellable building operating leases are as follows:

	31 December 2019 P'000	31 December 2018 P'000
No later than 1 year	-	14,852
Later than 1 year and no later than 5 years	-	23,710
	-	**38,562**

The above disclosure is relevant for prior year as per IAS 17 and in the current year this has been reported under IFRS 16. Refer to pages 31 - 33 on the effects of adopting IFRS 16 by the Group.

30 CAPITAL COMMITMENTS

Authorised by the directors:		
- Not contracted for	**97,740**	**41,909**

The above commitments are wholly in respect of capital expenditure and funds to meet these will be provided from the Group's internal resources.

31 SUBSEQUENT EVENTS

Dividend declaration

A second and final dividend of 7.7 thebe per share was declared on 26 February 2020.

Appointment of Group CEO

Andrew Okai was appointed as the Group CEO with effect from 01 February 2020.

Initial assessment on the impact of Covid-19

The Covid-19 (coronavirus) outbreak occurred at a time close to the Group's reporting date and the condition has continued to evolve throughout the time line crossing 31 December 2019. In late 2019, a cluster of cases displaying the symptoms of a "pneumonia of unknown cause" were identified in Wuhan, the capital of China's Hubei province. On 31 December 2019, China alerted the World Health Organisation (WHO) of this new virus. On 30 January 2020, the International Health Regulations Emergency Committee of the WHO declared the outbreak a "Public Health Emergency of International Concern". Since then, more cases have been diagnosed, also in other countries. Measures were taken, and policies imposed by China and other countries. Gradually more information became available.

Letshego Holdings Limited and their clients have been impacted by the outbreak or by the measures taken in preventing the spread of the disease. The critical judgement and evaluation that management made is whether and, if so, what event in this series of events provides evidence of the condition that existed at the end of the reporting period for the Group's activities or its assets and liabilities. When making this judgement, the Group took into consideration all available information about the nature and the timeline of the outbreak and measures taken.

Management has assessed whether the event is adjusting or non-adjusting and has concluded that the cause of the shut down in the series of events that led to the shutdown is not the outbreak itself, but rather the measures taken by the respective governments in the various jurisdictions the Group operated in after the reporting date. As a result the event is considered a non-adjusting event and cannot be reflected in the Group's assets and liabilities as at 31 December 2019.

Albeit the fact that management has concluded that the event is a non-adjusting event, the impact of this non-adjusting event is material. The Group disclosed the nature of the event and an estimate of its financial effect. In the case of Letshego Holdings Limited, 10 out of 11 countries in which the Group's subsidiaries operate from have been directly affected by the virus and the outbreak has affected its operations through the lockdowns that have been effected by the various governments to protect citizens from further spreading of the disease. Botswana has recently confirmed a few cases of this epidemic, and operations have slowed down due to the governmental measures imposed to curb the spread of the disease into the country and there is a likelihood of a shutdown to be imposed in April 2020.

In the early stages of the outbreak, the high level of uncertainties due to the unpredictable outcome of this disease may make it difficult to estimate the financial effects of the outbreak. The significant estimates and judgements applied to determine the financial position at 31 December 2019 have been included as part of the accounting policies of the Group. The estimates applied, relating to the calculation of Expected Credit Losses, were based on forward looking factors referencing a range of forecast economic conditions as at that date. The outbreak of covid-19 has resulted in disruption to business activities globally, since mid-January 2020 with a material impact being noted from March 2020.

In March 2020, the Group conducted a stress testing / sensitivity analysis on the Group's Expected Credit Loss (ECL) models as applied to the Group's portfolios as at 29 February 2020. The downside scenarios were stressed with negative multipliers and downside heavy allocation for all countries. The variables adjusted were Consumer Pricing Index, Gross Domestic Product and Unemployment Rate and the stress testing / sensitivity analysis was done for a forward-looking period of 12 months. The metrics applied in these instances were the worst-case forecasts for these variables as provided by the Group's data research team. The analysis was designed to estimate the additional ECL provision that would be required for those Group portfolios by 30 June 2020 as a result of the disruption caused to the business by Covid-19. The conclusion of this analysis was that an estimated additional ECL of P31 million will be required in relation to the 29 February 2020 Group portfolios.

Covid-19 impact was modelled over a three month period as per table below which shows the impact of the sensitivity analysis by Stages 1, 2 and 3. We will continue to assess the impact on ECL going forward.

31 SUBSEQUENT EVENTS (continued)

The below summarises the sensitivity analysis on Expected Credit Losses based on a 3 months outcome period:

Group	Feb 2020 Expected Credit Losses	Impact on changes Forward looking factors	Impact on changes LGD rates	Total Expected Credit Losses	Total Impact
	P'000	P'000	P'000	P'000	P'000
Stage 1: 12-month ECL allowance	134,219	115,125	28,781	143,906	9,687
Stage 2: Lifetime ECL allowance – not credit-impaired	93,224	90,994	22,748	113,742	20,518
Stage 3: Lifetime ECL allowance – credit-impaired	572,244	453,191	119,968	573,159	915
Total	**799,687**	**659,310**	**171,497**	**830,807**	**31,120**

Refer to country ECL breakdown below:

Country	Increase in ECL P'000
Botswana	4,175
Ghana	2,897
Kenya	3,001
Lesotho	3,818
Mozambique	2,675
Namibia	4,175
Nigeria	3,001
Rwanda	109
Swaziland	694
Tanzania	4,255
Uganda	2,320
Group	**31,120**

Other financial risks and potential impact

The impact of Covid-19 was evaluated subsequent to the reporting date and management's estimates with regards to market risk (per note 1.3.1) and estimates (per note 2) were updated with the expected impact as per below:

Interest rate risk

The interest profile of Group's loans and advances to customers are fixed in nature. As of 29 February 2020, 53% of the Group's borrowing had variable interest rate profiles (P2,636m of P4,952m). 62% of the Group's deposit balances had a variable interest rate profile (P281m of P456m). Sensitivity analysis performed thereof indicated that a 100 basis points adjustment to all reference floating rates would impact the Group's Net Interest Margin by P30.8m.

The below summarises the country-wise impact if interest rates were increased by 100 basis points on profit before taxation on an annualized basis:

Country	Decrease in rates
Botswana	(11,096)
Ghana	(4,562)
Kenya	(747)
Lesotho	(455)
Mozambique	(6,585)
Namibia	(2,450)
Nigeria	(465)
Rwanda	(217)
Swaziland	(2,356)
Tanzania	(390)
Uganda	(1,467)
Group	**(30,790)**

Based on the above analysis an increase in interest rates by 100 basis points would result in a decrease in profits by P31 million and note that a decrease in interest rates by 100 basis points would result in an increase in profits of P31 million.

31 SUBSEQUENT EVENTS (continued)

Other financial risks and potential impact (continued)

Interest rate risk

Average cost of borrowings during 2019 The impact of an increase in external borrowing costs of 1% is given above.	12.0%
Effect of increase in average borrowing costs ranging between 2% - 3% due to new uncertainties (P'000)	99,000 - 150,000

When assuming an increase in average borrowing costs ranging between 2% - 3% the estimated impact would be a decrease in profit before tax ranging between 9% - 13%. Similarly, a decrease in average borrowing costs within the same range would result in an increase in profit before tax for the year ended 31 December 2019 ranging between 9% - 13%.

Currency risk
We have seen significant pressure on many currencies in the first quarter of 2020 as a result of the outbreak of the Covid-19 however, the full impact on currencies is still unknown and we do expect the currency volatility to continue.

The Group's main foreign currency exposure is on the South African Rand (ZAR) (both assets and liabilities) and during the first quarter of 2020 we have seen it depreciate by at least 13% as at end of March 2020 against the Botswana Pula. Based on these prevailing trends, the continued depreciation of the South African Rand against the Botswana Pula by 10% - 15% would result in foreign exchange gain and an increase the Group's profit before taxation by approximately P8 million - P12 million. Similarly, if the ZAR appreciated at the same levels, the impact on the Group's profit before taxation would be a foreign exchange loss of P8 million - P12 million for the year 2020.

Impact on goodwill
Key assumptions used in the assessment of goodwill include inflation rates, long term growth rates and discount rate. We have seen a number of countries reducing the prime lending rates and as such we expect inflation and long-term growth rates to be more volatile, at least in the short term, in response.

The carrying value of goodwill at 31 December 2019 related to profitable subsidiaries and the impairment assessment conducted had significant headroom that would be able to cushion any future variations or pressures. At this time we do not know of any material impact of changes to business operations that will arise from the Covid-19.

Other than the above there were no other changes in the affairs of the Group between the 31 December 2019 year end and the date of the approval of these financial statements.

32 INVESTMENTS IN SUBSIDIARY COMPANIES

The Group determines control over any operating entity largely by virtue of power over the investee, exposure to variable returns from its involvement with the investee and the ability to use its power over the investee to effect the amount of the investor's returns. Details of subsidiaries of the Group are shown below:

Subsidiary company	Country of incorporation	Nature of business	31 December 2019 % holding	31 December 2018 % holding
Letshego Financial Services (Proprietary) Limited	Botswana	Unsecured consumer lending	100	100
Letshego Ghana (Plc)	Ghana	Unsecured consumer lending and deposit licensed	100	100
Letshego Kenya Limited	Kenya	Group lending, MSE and unsecured consumer lending	100	100
Letshego Financial Services Lesotho	Lesotho	Unsecured consumer lending	95	95
Letshego Financial Services Mozambique, SA	Mozambique	Unsecured consumer lending and deposit licensed	98	98
Letshego Holdings Namibia Limited	Namibia	Unsecured consumer lending and deposit licensed	78	78
ERF 8585 (Pty) Limited	Namibia	Property	100	100
Letshego Microfinance Bank Nigeria (Proprietary) Limited	Nigeria	Unsecured consumer lending and deposit licensed	100	100
Letshego Financial Services Swaziland Limited	Swaziland	Unsecured consumer lending	85	85
Letshego Tanzania Limited	Tanzania	Unsecured consumer lending	100	100
Letshego Bank (T) Limited	Tanzania	Unsecured consumer lending and deposit licensed	100	100
Letshego Uganda Limited	Uganda	Unsecured consumer lending	85	85
Letshego South Africa Limited	South Africa	Support services	100	100
Letshego Mauritius Limited	Mauritius	Unsecured consumer lending and deposit licensed	100	100

Group Structure

The Group has an intermediate holding company structure in Mauritius and will continue to explore its ownership structure over the years. This does not result in any change in the ultimate ownership of the subsidiaries, it will however allow for a more tax efficient movement of dividends within the Group.

32.1 *Conditional subsequent payment relating to the investment in AFB Ghana*

In January 2017 Letshego acquired 100% shareholding in AFB Ghana Plc a deduction at source business lending to Government employees with a deposit taking license. The financial results of AFB Ghana were incorporated in the Group results for the year ended 31 December 2017 financial year for the first time. The purchase consideration was P91 million.

At the date of acquisition there was a pending petition with the tax authorities on the assessment of a tax asset. This contingent asset was not included in the purchase price allocation of the Company. In terms of IFRS 3, an estimate should have been made in the 2017 financial year of the potential further consideration and capitalised in 2017 to the investment, while also creating a contingent consideration. The omission of the contingent consideration in 2017 did not have an impact on profit or loss or the statement of changes in equity. The purchase agreement included a provision stating that if the subject matter was resolved within three years and in the favour of AFB Ghana the tax asset will be shared equally between the seller and buyer. Refer to the details below:

32.1 *Conditional subsequent payment relating to the investment in AFB Ghana (continued)*

	31 December 2018 P '000
Total tax asset	**5,155**
50% conditional subsequent payment	**2,577**

32.2 *Acquisition of additional interest in a subsidiary*

In September 2018, the Group acquired the remaining 25% of the issued shares of Letshego Bank Tanzania Limited for a purchase consideration of P15.6 million. The Group now holds 100% of the equity share capital of the entity and it derecognised non-controlling interest and recorded a decrease in equity. The effect of changes in the ownership are summarised as follows:

	31 December 2018 P '000
Consideration paid to non-controlling interest	15,547
Carrying amount of non-controlling interests acquired	(5,936)
Excess of consideration paid recognised in Group's equity	**9,611**

32.3 Non-controlling interest (NCI)

Set out below is summarised financial information for Letshego Holdings Namibia Limited, which has a material non-controlling interest to the Group. The amounts disclosed are before inter-company elimination and will not tie back to the segment report (note 27) as it includes an investment property in Namibia.

Summarised statement of financial position	31 December 2019 P'000	31 December 2018 P'000
Assets	2,559,616	2,589,142
Liabilities	1,041,221	1,303,245
Net assets	**1,518,396**	**1,285,897**
Accumulated non-controlling interest	**329,699**	**278,267**
Summarised statement of profit or loss and other comprehensive income		
Revenue	562,528	581,384
Profit for the year	287,054	295,065
Profit allocated to non-controlling interest	**63,152**	**64,914**
Summarised statement of cash flows		
Cash flows from operating activities	70,230	267,687
Cash flows used in investing activities	(12,940)	(140,266)
Cash flows from financing activities	(440,591)	190,826
	(383,301)	**318,247**

32.3 Non-controlling interest (NCI) (continued)

Non-controlling interest in the below markets are not material to the Group and their carrying values were as follows:

Non-controlling interest	31 December 2019 P'000	31 December 2018 P'000
Letshego Financial Services Lesotho	6,500	5,590
Letshego Financial Services Mozambique, SA	1,720	2,555
Letshego Financial Services Swaziland Limited	28,430	25,567
Letshego Uganda Limited	6,390	4,413
	43,040	**38,125**
Total accumulated non-controlling interest	**372,739**	**316,392**

Significant restrictions
The Group does not have significant restrictions on its ability to access or use its assets to settle liabilities.

33 INVOLVEMENT WITH UNCONSOLIDATED ENTITIES

The table below shows the types of entities that the Group does not consolidate but in which it holds an interest:

Type	Nature and purpose	Interest held by the Group
Comprehensive insurance through cell captive arrangement ("cell captive")	To mitigate against the Group's credit risk in Mozambique and Namibia	The cell captive declare dividends to Group

	31 December 2019 P'000	31 December 2018 P'000
Total assets	115,594	87,309
Total liabilities	4,188	3,713
Net assets	**111,406**	**83,596**

The cell captive is not consolidated as the Group does not have control over these entities. The net assets of the cell captive are included as part of other receivables (receivable from insurance arrangements) and payables (insurance premium payable) as disclosed in note 5 and note 12. There are no significant risks, nor expected changes therein, associated with the Group's interest in the cell captive.

LETSHEGO HOLDINGS LIMITED

FIVE YEAR FINANCIAL HISTORY

STATEMENTS OF FINANCIAL POSITION

	2019 December P'000	2018 December P'000	2017 December P'000	2016 December P'000	2015 December P'000
Assets					
Cash and cash equivalents	1,035,513	1,188,402	492,367	529,476	526,290
Advances to customers	9,071,484	8,698,831	7,768,904	6,689,740	6,311,678
Other receivables	247,996	252,491	201,605	166,717	177,585
Income tax receivable	39,499	19,074	17,967	17,250	27,570
Financial assets at fair value through other comprehensive income	53,591	53,591	53,591	53,591	-
Property, plant and equipment	99,671	80,532	92,061	76,034	76,030
Right-of-use assets	61,436	-	-	-	-
Intangible assets	45,221	45,488	55,340	52,609	61,312
Goodwill	68,233	106,229	122,280	129,408	170,868
Deferred tax assets	144,699	211,651	156,655	106,961	68,000
Total assets	**10,867,343**	**10,656,289**	**8,960,770**	**7,821,786**	**7,419,333**
Liabilities					
Customers deposits	426,673	497,718	228,432	107,696	154,495
Deposits from banks	-	-	-	-	77,364
Cash collateral	21,721	27,028	27,319	39,225	44,667
Trade and other payables	552,849	492,225	261,751	294,416	175,493
Lease liabilities	64,760	-	-	-	-
Income tax payable	239,743	232,132	182,879	99,373	73,494
Deferred tax liabilities	805	3,205	5,290	808	2,006
Borrowings	4,982,175	5,329,319	3,984,607	3,394,116	2,768,412
Total liabilities	**6,288,726**	**6,581,627**	**4,690,278**	**3,935,634**	**3,295,931**
Shareholders' equity					
Stated capital	862,621	862,621	849,845	875,639	989,487
Foreign currency translation reserve	(713,418)	(696,276)	(680,417)	(634,293)	(254,293)
Legal reserve	195,793	73,519	39,607	32,189	22,178
Share based payment reserve	24,304	18,089	38,840	35,835	19,705
Retained earnings	3,836,578	3,500,317	3,709,308	3,383,983	3,197,534
Total equity attributable to equity holders of the company	4,205,878	3,758,270	3,957,183	3,693,353	3,974,611
Non-controlling interests	372,739	316,392	313,309	192,799	148,791
Total equity and liabilities	**10,867,343**	**10,656,289**	**8,960,770**	**7,821,786**	**7,419,333**

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2019 December P'000	2018 December P'000	2017 December P'000	2016 December P'000	2015 December P'000
Effective interest income	2,974,839	2,718,257	2,252,636	1,963,129	1,753,556
Effective interest expense	(931,164)	(654,079)	(470,630)	(352,362)	(326,694)
Net interest income	**2,043,675**	**2,064,178**	**1,782,006**	**1,610,767**	**1,426,862**
Fee and commission income	59,451	30,735	38,596	24,617	28,699
Other operating income	273,018	267,421	234,169	209,724	229,390
Total income	**2,376,144**	**2,362,334**	**2,054,771**	**1,845,108**	**1,684,951**
Employee benefits	(454,023)	(390,177)	(367,057)	(309,016)	(212,487)
Other operating costs	(622,737)	(590,158)	(446,952)	(407,873)	(297,106)
Operating income before impairment	**1,299,384**	**1,381,999**	**1,240,762**	**1,128,219**	**1,175,358**
Expected credit losses / impairment expense	(169,101)	(361,491)	(237,149)	(180,649)	(138,864)
Operating income before taxation	**1,130,283**	**1,020,508**	**1,003,613**	**947,570**	**1,036,494**
Taxation	(438,781)	(510,026)	(322,367)	(337,500)	(311,891)
Profit for the year	**691,502**	**510,482**	**681,246**	**610,070**	**724,603**
Appropriations					
Dividends	(463,289)	(321,607)	(371,685)	(371,685)	(370,450)
Retained income	**228,213**	**188,875**	**309,561**	**238,385**	**354,153**
Attributable to :					
Equity holders of the parent company	620,034	438,639	637,663	568,145	665,179
Non-controlling interests	71,468	71,843	43,583	41,925	59,424
	691,502	**510,482**	**681,246**	**610,070**	**724,603**

The supplementary information presented does not form part of the annual financial statements of the group, and is unaudited.

LETSHEGO HOLDINGS LIMITED

GROUP VALUE ADDED STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	31 December 2019 P'000	31 December 2018 P'000
Value added		
Value added is the wealth the Group has created by providing loans to clients		
Interest income	2,974,839	2,718,257
Cost of services	(931,164)	(654,079)
Value added services	2,043,675	2,064,178
Fee and commission income	59,451	30,735
Other operating income	273,018	267,421
Other operating costs	(573,274)	(553,867)
Impairment of advances	(169,101)	(361,491)
	1,633,769	**1,446,976**
Value allocated		
To employees		
Staff costs	454,023	390,177
To expansion and growth		
Retained income	530,003	47,193
Depreciation	35,170	24,444
Amortisation	14,293	11,847
Deferred tax	64,552	(17,068)
	644,018	66,416
To Government		
Taxation	374,229	527,094
To providers of capital		
Dividends to shareholders	161,499	463,289
	1,633,769	**1,446,976**

Summary	%	%
Employees	27.8	27.0
Expansion and growth	39.4	4.6
Government	22.9	36.4
Providers of capital	9.9	32.0
	100.0	**100.0**

LETSHEGO HOLDINGS LIMITED

ANALYSIS OF SHAREHOLDING

FOR THE YEAR ENDED 31 DECEMBER 2019

Top ten shareholders	**31 December 2019 Shares held ('000) Number**	**%**	**31 December 2018 Shares held ('000) Number**	**%**
• Botswana Life Insurance (Pty) Ltd	597,236	27.9	561,036	26.2
• African Alliance	284,901	13.3	264,575	12.3
• Botswana Insurance Fund Management Limited (BIFM)	251,357	11.7	208,924	9.7
• ADP I HOLDING 2	180,484	8.4	180,484	8.4
• Allan Grey	108,843	5.1	108,843	5.1
• BMO Investment : Former Lloyd George Investment Company	87,325	4.1	116,510	5.4
• Investec	74,356	3.5	83,023	3.9
• HSBC : Substainable Capital Africa Alpa Fund	59,405	2.8	59,405	2.8
• Standard Chartered Bank of Botswana Nominees (Pty) Ltd - Kuwait Investment Authority	49,440	2.3	30,650	1.4
• Standard Chartered Bank of Botswana Nominees (Pty) Ltd - NTGSLUX 010/03 Ashmore Emerging Markets	39,743	1.9	52,854	2.5
	1,733,090	80.8	1,666,304	77.7
Other corporate entities, nominees and trusts and individuals	410,955	18.3	458,687	21.4
Treasury shares	19,054	0.9	19,054	0.9
Total	**2,144,045**	**100.0**	**2,144,045**	**100.0**

Directors' shareholdings	**31 December 2019 Shares held Number ('000)**	**%**	**31 December 2018 Shares held Number ('000)**	**%**
• *Christopher Low	-	-	2,261	0.1
• **Colm Patterson	3,986	0.2	3,986	0.2
• Harrington Karuhanga	29	0.0	29	0.0
	4,015	**0.2**	**6,276**	**0.3**

*Christopher Low the Group Chief Executive Officer resigned from the Board on 02 August 2018.
**Colm Patterson the Group Chief Financial Officer resigned from the Board on 5 March 2019.