Letshego Holdings Limited

Consolidated Annual Financial Statements

For the year ended 31 December 2020

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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
Matshidiso Kimwaga
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

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 2020.

Nature of business
Letshego Group is a retail financial services organisation involved in banking and microfinance activities in 11 African countries across East, West and Southern Africa. Six of the 11 operations have deposit-taking licenses with the rest being microfinance institutions. The Group's ambition is to increase its deposit taking capabilities across the footprint.

Stated capital
Stated capital of the Group at 31 December 2020 amounted to P872,169,337 (31 December 2019: P862,621,720).

On the 6th April 2020, 4,483,050 ordinary shares were issued in terms of the Group's Long Term Incentive Plan. These were issued from shares currently held as treasury shares and the remaining treasury shares at the end of the year were 14,571,140 (2019: 19,054,190).

In the prior year no ordinary shares were issued in terms of the Group`s Long Term Incentive Plan.

Dividends
An interim dividend of 3.9 thebe per share (prior year: 4.3 thebe per share) was declared on 27 August 2020.

A second and final dividend of 8.3 thebe per share (prior year: 7.7 thebe) was declared on 26 February 2021 and will be paid on or about 12 May 2021.

Directors
The following persons were directors of the Group:

Non-executive

Name	**Details**	**Nationality**
E.N Banda	Chairman	South Africa
S. Price		UK
H. Karuhanga		Uganda
Dr G.Somolekae		Botswana
R. N. Alam		USA
C. Lesetedi		Botswana
G. Van Heerde		South Africa
P. Odera		Kenya
A. Odubola		Nigeria
R. Hoekman	Appointed 22 January 2020	Holland

Directors (continued)

Executive

Name	Position	Nationality
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
G.T Muteiwa	Group Chief Financial Officer – appointed 24 March 2020	Zimbabwe

Directors' shareholdings

The aggregate number of shares held directly by Directors at 31 December 2020 were at 28,987 (31 December 2019: 4,014,987). 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.

LETSHEGO HOLDINGS LIMITED

DIRECTORS' RESPONSIBILITY STATEMENT

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 2020, and the consolidated statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of 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 25 March 2021 and are signed on its behalf by:

E.N. BANDA	**A.F. OKAI**
CHAIRMAN	**GROUP CHIEF EXECUTIVE**

EY
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Firm of Chartered Accountants
2nd Floor
Plot 22, Khama Crescent
PO Box 41015
Gaborone, Botswana

Tel: +267 397 4078 / 365 4000
Fax: +267 3 7 4079
Email: eybotswana@za.ey.com
Partnership registered in Botswana
Registration No: 10829
VAT No: P03625401112
www.ey.com

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 12 to 76, which comprise the consolidated statement of financial position as at 31 December 2020, 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 the 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 Letshego Holdings Limited as at 31 December 2020, 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 Companies Act (CAP 42:01).

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 Code of Ethics for Professional Accountants (IESBA Code)* together with other ethical requirements that are relevant to our 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 consolidated 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 consolidated financial statements.

The key audit matters apply only to the audit of the consolidated financial statements.

Key Audit Matter	How the matter was addressed in the audit
Estimation of expected credit losses related to loans and advances /// ECL	
Loans and advances to customers amounted to P10.162 billion at the reporting date (2019: P9.833 billion), representing 83% of the Group's total assets. The estimated credit loss allowance for advances to customers amounted to P578 million at the reporting date (2019: P 761 million). The estimation of expected credit losses related to loans and advances is required by IFRS 9, Financial Instruments, the estimation is inherently judgemental and separate considerations for the inputs and assumptions over the 11 jurisdictions	**With the support of our internal valuation specialists we performed the following audit procedures amongst others:** ➢ We obtained an understanding of the Group's credit policy and evaluated and tested the design and the operating effectiveness of the key controls over the processes of credit assessment, loan classification and loan impairment assessment. ➢ We assessed the appropriateness of the model and methodologies against accounting standards and

in which the Group operates is necessary. This resulted in a key audit matter in the current year due to the extent of auditor effort required in evaluating the modelling assumptions and relevance of jurisdictive specific input data used in the ECL model due to the significant number of regions across which the Group operates. In addition, the judgements in the models also required significant auditor attention and necessitated the involvement of internal valuation specialists. Specifically, this was required for the evaluation of: • The application of judgemental management overlays in circumstances where existing models do not fully incorporate factors which impact on the ECL model. • The repercussions of COVID-19 and resultant payment holidays delaying and masking stage migrations subjectively impacting the ECL model. The disclosures associated with expected credit losses related to loans and advances are set out in the consolidated financial statements in Note 1.3 *Credit risk* and Note 4 *Advances to Customers* in the Consolidated Financial Statements.	generally accepted industry principles. ➢ We reconciled the data from the core banking systems of each jurisdiction to the relevant ECL models. ➢ We evaluated the appropriateness of the forecasted information developed by management for each jurisdiction by comparing it against the relevant historical data in relation to the support measures implemented (payment holidays) due to the effects of COVID-19 on customers, and taking into account the other macroeconomic factors of the various jurisdictions which we have benchmarked against external evidence. ➢ We reperformed the staging distribution for a sample of loans and advances to assess the accuracy of the staging applied in the models against the criteria indicated by management. ➢ We evaluated management's criteria used to allocate the loans and advances between stage 1, 2 or 3 in accordance with the guidance provided in IFRS 9. ➢ We evaluated the impact of COVID-19 support measures such as payment holidays on the staging of various types of portfolios and its effect on the ECL model. ➢ We evaluated management's rationale for the variable overlays to the models, as well as whether additional overlays should be applied to the model and evaluated them against our understanding of the factors used based on independent data. ➢ Based on our judgement, we performed sensitivity analyses to assess the impact of the changes to the inputs on the valuation of the ECL. ➢ We assessed the adequacy of the disclosures related to IFRS 9, *Financial Instruments*, in the notes to the consolidated financial statements.
Uncertain tax positions in respect Income Tax Liabilities and Expenses relating to multiple jurisdictions	
The Group is exposed to income tax from tax authorities in the multiple jurisdictions in which it operates. There are various open tax matters from prior years due to the interpretation of tax laws and/or tax audits, consequently resulting in tax provisions raised across jurisdictions. In the current year there was an unwinding and	**With the support of our internal tax specialists across the various jurisdictions we performed the following audit procedures amongst others:** ➢ We inspected management's Group tax risk register and their determination and assessment of uncertain tax positions as well as completeness of provisions

settlement of these provisions resulting in a decreased tax exposure for the Group. Management makes use of legal and tax specialists to determine provisions and unwinding thereof in these uncertain tax positions. This resulted in a key audit matter in the current year due to significant auditor attention required in the assessment of the settlement/unwinding of tax provisions and evaluating the completeness of the remaining tax exposure. This required the involvement of our own internal tax specialists due to the number of jurisdictions the Group operates and thus required specialized knowledge over the tax legislation in these regions. Refer to *Use of Estimates and Judgements* in note 2 and note 26 on *Taxation* in the consolidated financial statements for disclosures associated with the estimates and judgements applied in determining the Group's tax liabilities.	raised and the application of IFRIC 23, Uncertainty over income tax treatments. Specifically, we inspected management's documentation of their assessment of "probable or not" and its impact on the respective provisioning. ➢ We inspected the tax assessments/health checks performed by management's external and internal specialists and impact on tax exposures relating to the various jurisdictions. ➢ We evaluated the tax and legal opinions obtained by management from independent and internal tax advisors, in relation to the income tax exposures identified to determine whether the treatment is consistent in terms of quantum and interpretation of legislation with evaluations performed in the current year by our internal tax specialists. ➢ For the remaining uncertain tax positions at year end, we evaluated management's level of accuracy in determining the estimation of the prior year uncertain tax positions for those positions which have unwound in the current year. We then considered whether this impacted the remaining exposures in the current year. ➢ We evaluated any changes in the current year to local tax legislation across the relevant jurisdictions for its potential impact on the uncertain tax positions and unwinding thereof. ➢ We assessed the competence and objectivity of external specialists utilized by management in their tax assessments. ➢ 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.

Other Information

The directors are responsible for the other information. The other information comprises the Group Corporate Information, the Directors' Report and the Directors' Responsibility Statement, 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 identified above 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 Companies Act (CAP 42:01), 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.

Those charged with governance are responsible for overseeing the Group's financial reporting processes.

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.

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- 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 actions taken to eliminate threats or safeguards applied.

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.

Ernst + Young

Ernst & Young
Practicing member: Francois Roos
Partner
Certified Auditor
Membership number: 20010078
Gaborone

31 March 2021

LETSHEGO HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

	Note	31 December 2020 P'000	Restated 31 December 2019 P'000	Restated 31 December 2018 P'000
ASSETS				
Cash and cash equivalents	3	1,043,864	1,035,513	1,188,402
Advances to customers	4	10,161,534	9,071,484	8,698,831
Other receivables	5	263,202	247,996	252,491
Financial assets at fair value through profit or loss	6	140,804	-	-
Financial assets at fair value through other comprehensive income	10	59,408	53,591	53,591
Income tax receivable		102,633	82,741	44,829
Property, plant and equipment	7	94,229	99,671	80,532
Right-of-use assets	8	131,703	61,436	-
Intangible assets	9	39,091	45,221	45,488
Goodwill	11	65,598	68,233	106,229
Deferred tax assets	26.1	124,139	144,699	201,088
Total assets		**12,226,205**	**10,910,585**	**10,671,481**
LIABILITIES AND EQUITY				
Liabilities				
Financial liabilities at fair value through profit or loss	12	152,855	15,390	13,902
Customer deposits	13	664,393	426,673	497,718
Cash collateral	16	18,838	21,721	27,028
Trade and other payables	14	714,548	553,772	492,584
Lease liabilities	15	133,377	64,760	-
Income tax payable		103,057	239,743	232,132
Borrowings	17	5,649,561	4,966,785	5,315,417
Deferred tax liabilities	26.1	-	805	3,205
Total liabilities		**7,436,629**	**6,289,649**	**6,581,986**
Shareholders' equity				
Stated capital	18	872,169	862,621	862,621
Foreign currency translation reserve		(885,673)	(675,885)	(653,010)
Legal reserve	19	214,835	195,793	73,519
Fair value adjustment reserve	10	5,817	-	-
Share based payment reserve	20	31,295	24,304	18,089
Retained earnings		4,133,314	3,823,280	3,454,814
Total equity attributable to equity holders of the parent company		**4,371,757**	**4,230,113**	**3,756,033**
Non - controlling interests		417,819	390,823	333,462
Total shareholders' equity		**4,789,576**	**4,620,936**	**4,089,495**
Total liabilities and equity		**12,226,205**	**10,910,585**	**10,671,481**

**Refer to note 27 for details on the restatement*

LETSHEGO HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	31 December 2020 P'000	Restated 31 December 2019 P'000
Interest income at effective interest rate	21	2,712,278	2,974,839
Interest expense at effective interest rate	22	(819,324)	(913,909)
Other interest expense	22.1	(31,640)	(9,905)
Net interest income		**1,861,314**	**2,051,025**
Fee and commission income	23	71,033	59,451
Other operating income	23.1	212,536	273,018
Operating income		**2,144,883**	**2,383,494**
Employee benefits	24	(493,497)	(454,023)
Other operating expenses	25	(595,308)	(622,737)
Net income before impairment and taxation		**1,056,078**	**1,306,734**
Expected credit losses	4	(25,771)	(169,101)
Profit before taxation		**1,030,307**	**1,137,633**
Taxation	26	(399,434)	(411,295)
Profit for the year		**630,873**	**726,338**
Attributable to :			
Equity holders of the parent company		575,718	652,239
Non - controlling interest		55,155	74,099
Profit for the year		**630,873**	**726,338**
Other comprehensive income, net of tax			
Items that may be reclassified to profit or loss net of tax			
Fair value adjustment of financial asset	10	5,817	-
Foreign operations - foreign currency translation differences		(219,197)	(18,634)
Total comprehensive income for the year		**417,493**	**707,704**
Attributable to :			
Equity holders of the parent company		371,747	629,364
Non - controlling interest		45,746	78,340
Total comprehensive income for the year		**417,493**	**707,704**
Earnings per share			
Basic earnings per share – (thebe)	28	27.1	30.7
Diluted earnings per share – (thebe)	28	25.7	30.1

**Refer to note 27 for details on the restatement. In addition refer to note 22 on the reclassification of interest expense.*

LETSHEGO HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Stated capital	Retained earnings	Share based payments reserve	Fair value reserve of financial assets at FVOCI	Foreign currency translation reserve	Legal reserve	Non - controlling interests	Total
		P’000	P’000	P'000	P'000	P’000	P’000	P’000	P’000
Balance at 01 January 2020 - Restated		**862,621**	**3,823,280**	**24,304**	**-**	**(675,885)**	**195,793**	**390,823**	**4,620,936**
Total comprehensive income for the year									
Profit for the year		-	575,718	-		-	-	55,155	630,873
Other comprehensive income, net of income tax									
Other comprehensive income		-	-	-	5,817	-	-	-	5,817
Foreign currency translation reserve		-	-	-	-	(209,788)	-	(9,409)	(219,197)
Transactions with owners, recorded directly in equity									
Allocation to legal reserve	19	-	(19,042)	-	-	-	19,042	-	-
Recognition of share based payment reserve movement	20	-	-	16,539	-	-	-	-	16,539
New shares issued from long term incentive scheme		9,548	-	(9,548)	-	-	-	-	-
Dividends paid by subsidiary to minority interests		-	-	-	-	-	-	(18,750)	(18,750)
Dividends paid to equity holders	29	-	(246,642)	-	-	-	-	-	(246,642)
Balance at 31 December 2020		**872,169**	**4,133,314**	**31,295**	**5,817**	**(885,673)**	**214,835**	**417,819**	**4,789,576**
Balance at 31 December 2018 - as previously reported		**862,621**	**3,500,317**	**18,089**	**-**	**(696,276)**	**73,519**	**316,392**	**4,074,662**
Prior year adjustment	27	-	(45,503)	-	-	43,266	-	17,070	14,833
Balance at 31 December 2018 - Restated		**862,621**	**3,454,814**	**18,089**	**-**	**(653,010)**	**73,519**	**333,462**	**4,089,495**
Total comprehensive income for the year									
Profit for the year		-	652,239	-	-	-	-	74,099	726,338
Other comprehensive income, net of income tax									
Foreign currency translation reserve		-	-	-	-	(22,875)	-	4,241	(18,634)
Transactions with owners, recorded directly in equity									
Allocation to legal reserve	19	-	(122,274)	-	-	-	122,274	-	-
Recognition of share based payment reserve movement	20	-	-	6,215	-	-	-	-	6,215
Dividends paid by subsidiary to minority interests		-	-	-	-	-	-	(20,979)	(20,979)
Dividends paid to equity holders	29	-	(161,499)	-	-	-	-	-	(161,499)
Balance at 31 December 2019 - Restated		**862,621**	**3,823,280**	**24,304**	**-**	**(675,885)**	**195,793**	**390,823**	**4,620,936**

**Refer to note 27 for details on the restatement*

LETSHEGO HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	31 December 2020 P'000	Restated 31 December 2019 P'000
OPERATING ACTIVITIES			
Profit before taxation		1,030,307	1,137,633
Adjustments for :			
- Interest income at effective interest rate		(2,712,278)	(2,974,839)
- Interest expense		850,964	923,814
- Amortisation of intangible assets	9	14,402	14,293
- Depreciation property, plant and equipment	7	35,406	35,170
- Depreciation right-of-use assets	8	35,183	35,473
- Disposal and write off of plant and equipment		683	36
- Impairment and write off charge	4	224,400	352,868
- Impairment of goodwill	11	-	38,737
- Net foreign exchange differences		(238,697)	(65,676)
- Net change in market adjustments on foreign currency swaps		3,846	-
- Net change in market adjustments on interest currency swaps		(7,184)	1,488
- Long term incentive plan provision		16,539	6,215
Changes in working capital:			
Movement in advances to customers		(1,308,390)	(700,851)
Movement in other receivables		(15,206)	4,495
Movement in trade and other payables		160,776	61,188
Movement in customer deposits		237,720	(71,045)
Movement in cash collateral		(2,883)	(5,307)
Cash used in operations		**(1,674,412)**	**(1,206,308)**
Interest received		2,712,278	2,974,839
Interest paid		(837,911)	(913,398)
Income tax paid	26.3	(536,257)	(387,607)
Net cash flows (used in) / generated from operating activities		**(336,302)**	**467,526**
INVESTING ACTIVITIES			
Proceeds on disposal of plant and equipment		-	54
Purchase of property, plant and equipment and intangible assets		(45,320)	(69,960)
Net cash flows used in investing activities		**(45,320)**	**(69,906)**
FINANCING ACTIVITIES			
Dividends paid to equity holders		(246,642)	(161,499)
Dividends paid to subsidiary non-controlling interest		(18,750)	(20,979)
Conditional subsequent payment relating to the investment in AFB Ghana	34.1	-	(2,577)
Payment of capital and interest on leases	15	(49,886)	(42,565)
Finance obtained from third parties	17	1,273,785	1,134,034
Repayment of borrowings	17	(519,042)	(1,415,529)
Net cash generated from / (used in) financing activities		**439,465**	**(509,115)**
Net movement in cash and cash equivalents		**57,843**	**(111,495)**
Movement in cash and cash equivalents			
At the beginning of the year		972,123	1,100,342
Movement during the year		57,843	(111,495)
Effect of exchange rate changes on cash and cash equivalents		(43,432)	(16,724)
At the end of the year	3	**986,534**	**972,123**

**Refer to note 27 for details on the restatement*

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 2020 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group is a retail financial services organisation involved in banking and microfinance activities in 11 African countries across East, West and Southern Africa. Six of the 11 operations have deposit-taking licenses with the rest being microfinance institutions. The Group's ambition is to increase its deposit taking capabilities across the footprint.

The consolidated financial statements for the year ended 31 December 2020 have been approved for issue by the Board of Directors on 25 March 2021.

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.

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) is 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.

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.

Leases

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

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.

Leases (continued)

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.

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.

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 uses 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.

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.

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.

Interest income (continued)

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 and disability 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 other operating income 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, market to market gains on foreign currency swaps and other non-core income streams which are recognised in profit and loss as and when they are earned.

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 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 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 assets at fair value

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss 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 and issued for management of short term currency exposures. Financial assets at fair value through profit or loss are recorded and measured in the statement of financial position at fair value. Gains and losses arising from changes in fair value are recognised in profit or loss. Interest or income is recognised in the profit or loss when the contract comes to an end or when the right to payment has been established.

Financial assets and liabilities (continued)

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, financial liabilities at fair value through profit or loss and trade and other payables.

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.

Financial assets and liabilities (continued)

Financial liabilities (continued)

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.

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.

Financial assets and liabilities (continued)

Fair value measurement (continued)

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.

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. The net profit share is recognised as income in profit or loss.

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 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 below new amendments and interpretations that took place during the year did not have a material impact on the condensed consolidated financial statements.

- 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

The below accounting standard was amended during the year and management is assessing its impact to the Group:

- Amendment to IAS 39, IFRS 7, IFRS 9 in respect of IBOR – effective 1 January 2020

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 2020. 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.

- Covid-19 Related rent concessions – Amendment to IFRS 16 - effective 1 June 2020
- IBOR phase 2 – effective 1 January 2021
- Onerous contracts- Costs to fulfil a contract – effective 1 January 2022
- IFRS 17- effective 1 January 2023
- Classification of liabilities as Current or Non-current – Amendments to IAS 1 – effective 1 January 2023

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:

- Property, Plant and Equipment : Proceeds before intended use – Amendments to IAS 16 – effective 1 January 2022

1 FINANCIAL RISK MANAGEMENT

1.1 Introduction and overview

Amidst the current economic pressures arising from the Covid-19 pandemic headwinds and tailwinds, Letshego Holdings Limited (''the Group'') embarked on a new journey to strengthen the foundations of risk management across the entire Group. In 2020, the Group enhanced its Enterprise Risk Management Framework (ERMF) to align to the Group's new Transformational Strategy.The enhanced framework provides minimum requirements for sound risk management practices with the main aim of embedding an integrated risk management approach that adequately identifies,assesses, measures, monitors and controls the constantly evolving risks. The framework further articulates the Group's Risk Culture and Philosophy anchored on creating an environment of transparency and openness in the management of risks among staff, management and the Board. The Group through the framework, manages risks proactively using Agile practices. ERMF assigns risk management responsibilities to staff across the Group on the basis of Three Lines of Defence - first line, second line and third line.

The Board of Directors has the ultimate responsibility for providing overall strategic direction to the Group through reviewing and approving the Group Transformational Strategy, ERM Framework, Policies and related Risk Appetite.The Board is supported by the following reconstituted Board Committees in achieving its mandate:

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

The Group Executive Committee through its OneExec meetings is fully involved in the activities of the Group and its subsidiaries and ensures that appropriate policies, controls, and risk monitoring systems are in place and that accountability and lines of authority are clearly delineated. The Committee rationalised and reconstituted the following management committees during the year to support its mandate:

- Group Technology and Operations Committee
- Group Management Risk Committee
- Group Sustainability Committee
- Group Management Credit Portfolio Review Committee
- Group Tax Committee
- Group Corona Crisis Committee

In line with the enhanced Group Enterprise Risk Management (ERM) Framework, the Group reviewed its risk taxonomy and material risks during the year and increased its primary or principal risks to include data, digital, people, Information Technology and product risks. The Risk Owner Frameworks and supporting policies for the upgraded primary risks were under consideration for approval by the Board at year end and will be fully covered in next year's reports. Under the ERMF, Group policies are implemented through standards and procedure

Top primary risks for the Group in 2020 are discussed in detail in the following sections 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.

Enterprise Risk Management plays a critical role in assisting Management and the Board in aligning the overall Business Strategy to the vision and purpose.

The Board is responsible for approving the Group Transformational Strategy in line with the approved Group Risk Appetite Statement. In addition to understanding the possibility that strategy might not align to the vision and purpose, Management and the Board further consider the implications from the strategy chosen through enterprise risk management.

Whilst reputational risk was previously considered as a secondary risk under strategic risk, Management and the Board upgraded the risk to primary risk status during the year. Against that background, the Group developed the Reputational Risk Framework supported by a robust Reputational Risk Policy in line with the Group's ERM Framework. All primary risks have risk owner frameworks that are supported by policies per risk type. Below the policies are standards or guidelines and procedures to complete the hierachy of the documents under each primary risk.

1 FINANCIAL RISK MANAGEMENT (continued)

1.3 Financial risk

In line with the enhanced 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.

As a predominantly Government Deduction at Source (DAS) business, Letshego was able to remain resilient to the worst effects of Covid-19. This was mainly due to the fact that governments had chosen to take a countercyclical approach and not retrench, so as not to worsen any downward economic trends. As such our collection rate was 98% for DAS and 81% for MSE. This was demonstrated by a double digit loan book growth, loan loss rate and Stage 3 ratio which are well below market trends. This was underpinned by strong collection and recoveries strategies inclusive of experienced front-office ,risk management teams with sector expertise and long-standing government/customer relationships. Non performing loans therefore improved to 5.3% against a long standing target of 5%.(FY 2019 :6.9%) . Early Performance indicators (30 days past due) also improved positively from 10.2% in FY 2019 to 8.3% in FY 2020, reflecting good underwriting and booking quality.

Key metrics	YoY Trend	2020	2019
Growth in gross advances to customers (%)	↑	9%	3%
Loan loss rate (%)	↓	0.3%	1.7%
Non-performing loans as a percentage (%) of gross advances	↓	5.3%	6.9%
Stage 3 coverage ratio (%)	↓	98%	105%

Loan loss rate % - cost of risk	**2020 P'000**	**2019 P'000**
Impairment expense	25,771	169,101
Average gross advances to customers	10,286,205	9,687,427
	0.3%	**1.7%**
***Non performing loans %**		
Non performing loans	560,474	678,127
Gross advances to customers	10,621,549	9,772,116
	5.3%	**6.9%**

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

Impairment

The Group demonstrated strong FY 2020 credit performance despite the COVID-19 pandemic. Expected Credit Losses as a percentage of Gross Advances reduced from 7.7% in December 2019 to 5.4% in December 2020 in line with impaired portfolio (Stage 3). The Group recorded a low loan loss ratio of 0.3%, down from 1.7% for 2019, attributable to:

• Release of Informal loans provisions of P105.3million

With ongoing credit scorecard optimisation, informal loans provisions reduced by P105.3 million, with the portfolio enjoying increased stability and continued enhancements in credit risk management. The informal loan portfolio exposure in Ghana was reduced to mitigate portfolio risk, with portfolio value now at P313 million (FY 2019: P339 million; FY 2018: P507 million).

• Reversal of COVID provisions on the back of repayment holidays

Repayment holidays were granted for loans amounting to P683.6 million at 30 June comprising of 7% of the Group's total loan portfolio, with additional relief provided via loan restructures. MSE customers made up 90% of payment relief recipients, with the balance being non-government Deduction at Source customers. COVID-19 provision of P70 million taken in the first half of the year was then reversed (P86 million at H1 2020) as the repayment period came to an end in December 2020. 60% of MSE accounts in repayment holiday continued to pay, even during the relief months.

• Recovery of single exposure employer partners

The Group recovered P35 million during the financial period, with major contributions from improved employer contributions in Eswatini and general provision reversals post closure of payment holiday support.

• Improvement in asset quality, collections and recoveries

The provisions decrease was driven by an uptick in collections and recoveries from the Group's delinquent book, and once-off policy write-offs. In 2020, the Group continued its prioritisation of asset quality as well as initiated a review of historic defaults in write-offs. This resulted in increased collections and recoveries, particularly in the second half of the year. Non performing loans coverage ratio (provisions against PAR90 loans), was adequate at 98% (FY 2019: 112%). Overall, non performing loans improved to 5.3% against a target of 5% (FY 2019: 6.9%). Our Deduction at Source (DAS) portfolio has remained resilient with a collection rate of 98%, as governments sought to minimise retrenchments despite the pandemic. MSE collections rate improved to 81% (FY2019: 75%), supported by focused collection and recovery strategies as well as customer support mechanisms, including repayment holidays and structured repayment plans.

1 FINANCIAL RISK MANAGEMENT (continued)

1.3.1 Credit risk (continued)

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 has not 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 Group has adopted a holistic approach to managing credit risk in line with its Group Enterprise Risk Management (ERM) Framework and ensures that credit risk management remains a key component of its integrated approach to the management of its financial risks. In view of the above, the Group Credit Risk Management Framewrok is implemented throughout the Group via Credit Risk Policies, Credit Risk Standards, Credit Risk Process and systems designed and established according to the Group's nature of business and level of sophistication of its operations. The credit risk management systems enables the Group and its subsidiaries to clearly identify, assess, monitor and control credit risk and ensure that adequate capital resources are available to cover the risks underwritten.

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 conducts 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 follows 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

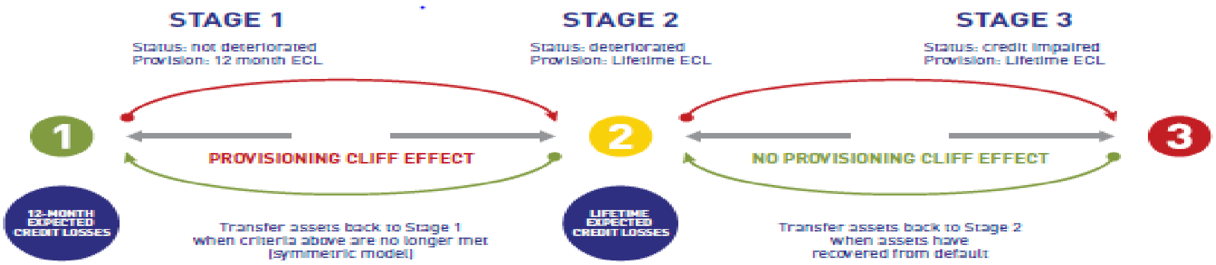
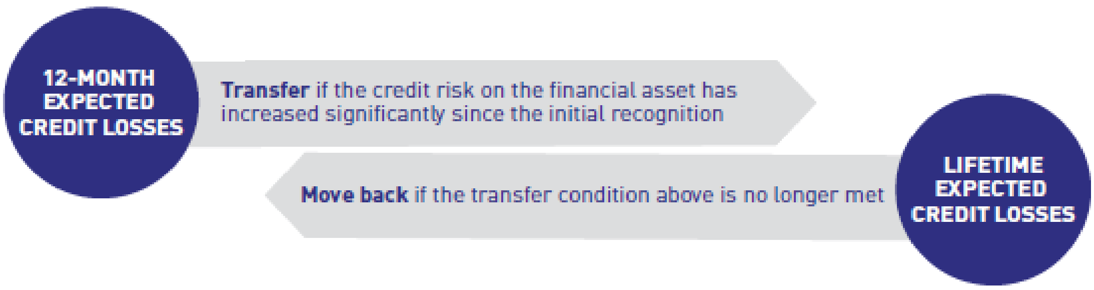


Diagram 2



• **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 where 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
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 2020	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	7,862,559	(63,468)	(18,335)	(138,001)	7,642,755	-
East and West Africa	2,876,962	(150,153)	(55,100)	(152,930)	2,518,779	(18,838)
	10,739,521	**(213,621)**	**(73,435)**	**(290,931)**	**10,161,534**	**(18,838)**

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)**

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 16).

(b) Other financial assets

	31 December 2020 P'000	31 December 2019 P'000
Cash and cash equivalents	1,043,864	1,035,513
Other receivable accounts	215,496	213,847
	1,259,360	**1,249,360**

Below is a summary of the expected credit losses as at 31 December 2020:

Operating Segments 31 December 2020 P'000	IFRS 9 ECL Provisions at 31 December 2020				IFRS 9 ECL Provisions at 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 2020	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
Financial assets								
Botswana	21,799	4,010	85,075	**110,884**	22,390	14,238	130,772	**167,400**
Namibia	16,752	9,690	16,429	**42,871**	6,200	1,110	13,917	**21,227**
Mozambique	13,423	1,614	9,090	**24,127**	4,420	3,240	13,482	**21,142**
Lesotho	7,789	769	10,756	**19,314**	6,558	4,989	28,500	**40,047**
Swaziland	3,704	2,252	16,653	**22,609**	3,276	417	4,309	**8,002**
Kenya	88,182	5,604	43,778	**137,564**	13,063	7,885	125,033	**145,981**
Rwanda	1,144	727	766	**2,637**	706	190	1,617	**2,513**
Uganda	13,028	3,522	22,559	**39,109**	7,336	5,071	35,402	**47,809**
Tanzania	15,966	3,304	25,221	**44,491**	24,287	9,056	63,505	**96,848**
Nigeria	2,631	2,388	15,091	**20,110**	2,226	1,947	10,208	**14,381**
Ghana	29,203	39,555	45,513	**114,271**	58,202	43,980	93,872	**196,054**
Total	**213,621**	**73,435**	**290,931**	**577,987**	**148,664**	**92,123**	**520,617**	**761,404**

As at 30 June 2020, the Group took additional P36 million for a single employer exposure in Eswatini which had six months outstanding repayments. As at 31 December 2020, all outstanding repayments had been received and therefore the provision was released. Furthermore, an additional Covid-19 provision of P70 million taken in the first half of the year was reversed (P86 million at H1'20) as the repayment period came to an end. ECL 's are down from P761 million in the end of 2019 to P578 million in December 2020. This was driven by increased write offs from August to October 2020 (FY 2020 : P408 million) causing release of provisions coupled with positive rate update impact from Ghana, Mozambique, Tanzania Faidika and Uganda Consumer Finance on the back of improved asset quality. The Group for the first time since 2014 has meet the Non performing loan (NPL) target of 5% as it was 5.3% at the end of December 2020 (FY 2019: 6.9%).

The impact of the Covid 19 pandemic is a signifcant matter for reporting in 2020. The outbreak affected most businesess across the continent and the world at large. Letshego's operations were also affected as a result of the lockdowns introduced by governments to protect its citizens from the pandemic, although the impact was curbed by the nature of Letshego's product offering. The loan book comprises 88% Deduction at Source (DAS), 9% Micro to Small Enterprises (MSE) and 3% informal loans. In 2020, no governments in our countries of operation retrenched employees and a 98% collection rate was maintained to the end of the year on the DAS book.

1 FINANCIAL RISK MANAGEMENT (continued)

1.3.1 Credit risk (continued)

During the year 2020, Covid-19 has resulted in the slowdown of most economies in Africa. Letshego's Medium-to-Small Enterprises (MSE) segment in East and West Africa suffered the greatest impact. As part of mitigation measures to sustain the portfolio, the Group introduced a three-month repayment holiday as well as Covid -19 related collection and recovery strategies. 90% of MSE customers mainly in the travel and tourism, manufacturing, trade and the education sectors applied for the repayment holiday. The MSE segment makes up 9% of the Group's total loan portfolio. The Deduction at Source (DAS) portfolio accounts for 88% of the loan portfolio and remained relatively resilient as governments have supported employees and sought to minimise retrenchments.

Impairment expense reduced by P142.5 million from December 2019 to December 2020, driven by informal loans which reduced by P105.3m following implementation of our turnaround strategy which included scorecard optimisation. The portfolio has since normalised and had no once -offs. In previous reporting periods (2018/2019) the main drivers of increase in provisons were in East and West Africa as credit risk deteriorated on the MSE portfolio.

Below is a summary of the informal loans expected credit losses as at 31 December 2020

Expected credit losses (mobile lending)	Dec-20	Dec-19
Stage 1	14,164	48,613
Stage 2	37,074	33,517
Stage 3	25,111	28,460
Total	**76,349**	**110,590**

Covid-19 ECL: In June 2020, stress testing led to staging amendments and therefore additional provision taken to cover 7% of the portfolio on repayment holiday (P684 million exposure at risk). MSE portfolio consisting 84% of the total accounts offered repayment holiday was impacted heavily at sector level with reduction in cash flows, constrained collections and recoveries environment during lockdowns, slowdown in the foreclosure processes and deterioration of forward looking outlook. However 88% of our portfolio is government deduction at source and we leveraged from government continue to pay salaries and offering subsidies. However, customers offered repayment holiday continued to pay even during the stress relief period, with 80% of the portfolio ending the repayment period in July 2020 and the rest in December 2020 hence a minimal impact on overall book performance at the back of enhanced relationship based collection strategy.

Below is a summary of the accounts offered repayment holiday at 31 December 2020:

	As at 30 June 2020		As at 31 December 2020	
In BWP '000	No of Accounts	Balance	No of Accounts	Balance
MSE Total	9,917	575,400	1	274
DAS Total	8,090	108,200	0	0
Grand Total	**18,007**	**683,600**	**1**	**274**

Based on the sensitivity analysis done at the end of 31 December 2020, a 5% increase in LGD and PD will result in additional expected credit losses of P30 million - P60 million. Alternatively a 5% decrease in LGD and PD will result in a release of expected credit losses of P30 million - P60 million.

1 FINANCIAL RISK MANAGEMENT (continued)

1.3.1 Credit risk (continued)

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

- Transfers between Stage 1 and Stage 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent “step up” or “step down” between 12-months and lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on measurement of ECL due to changes in PDs, EADs, and LGDs in the period arising from regular refreshing of inputs into models;
- Impact on the measurement of ECL due to changes made to models and assumptions;

Discount unwind within ECL due to passage of time, as ECL is measured on a present value basis;

- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognized during the period and write-offs of allowances related to assets and were written off during the period.

The following table depicts changes in the gross carrying amount of the consumer and microfinance portfolio to explain their significance in the loss allowance for the same portfolio as discussed above:

	ECL Staging				
31 December 2020	**Stage 1 12-month ECL P'000**	**Stage 2 Lifetime ECL P'000**	**Stage 3 Lifetime ECL P'000**	**Purchased Credit Impaired P'000**	**Total P'000**
Gross-carrying amounts:					
At 1 January	**148,664**	**92,123**	**520,617**	**-**	761,404
Transfers:					-
Transfers from Stage 1 to Stage 2	(9,524)	9,524	-	-	-
Transfers from Stage 1 to Stage 3	(55,508)	-	55,508	-	-
Transfers from Stage 2 to Stage 3	-	(37,029)	37,029	-	-
Transfers from Stage 3 to Stage 2	-	(2,123)	2,123	-	-
Transfers from Stage 2 to Stage 1	(1,947)	1,947	-	-	-
New assets originated or purchased	142,823	-	-	-	142,823
Payments or assets derecognised	(10,887)	8,993	83,471	-	81,577
Write-offs	-	-	(407,817)	-	(407,817)
	213,621	**73,435**	**290,931**	-	**577,987**

	ECL Staging				
31 December 2019	**Stage 1 12-month ECL P'000**	**Stage 2 Lifetime ECL P'000**	**Stage 3 Lifetime ECL P'000**	**Purchased Credit Impaired P'000**	**Total P'000**
Gross-carrying amounts:					
At 1 January	**167,994**	**100,646**	**574,495**	**-**	**843,135**
Transfers:					
Transfers from Stage 1 to Stage 2	(15,829)	15,829	-	-	-
Transfers from Stage 1 to Stage 3	(76,855)	-	76,855	-	-
Transfers from Stage 2 to Stage 3	-	(48,381)	48,381	-	-
Transfers from Stage 3 to Stage 2	-	(2,178)	2,178	-	-
Transfers from Stage 2 to Stage 1	797	(797)	-	-	-
New assets originated or purchased	146,178	-	-	-	146,178
Payments or assets derecognised	(73,621)	27,004	253,307	-	206,690
Write-offs	-	-	(434,599)	-	(434,599)
	148,664	**92,123**	**520,617**	-	**761,404**

1 FINANCIAL RISK MANAGEMENT (continued)

1.3.1 Credit risk (continued)

Maximum exposure to credit risk

	At 31 December 2020 (IFRS 9)	At 31 December 2019 (IFRS 9)
	P'000	**P'000**
Gross advances to customers	**10,739,521**	**9,832,888**
Of which Stage 1	9,652,640	8,642,478
Of which Stage 2	496,482	464,671
Of which Stage 3	590,399	725,739
Expected credit loss provisions	**(577,987)**	**(761,404)**
Of which Stage 1	(213,621)	(148,664)
Of which Stage 2	(73,435)	(92,123)
Of which Stage 3	(290,931)	(520,617)
Net advances to customers	**10,161,534**	**9,071,484**
Of which Stage 1	9,439,020	8,493,815
Of which Stage 2	423,046	372,548
Of which Stage 3	299,468	205,121
Impairment (ECL) Coverage Ratio	**5%**	**8%**
Stage 3 Coverage Ratio	**98%**	**105%**

Expected credit losses: Stress Testing and Sensitivity Analysis

As a mostly Government Deduction at Source (DAS) business, Letshego was able to remain resilient to the worst effects of Covid-19. This was mainly due to the fact that governments had chosen to take a countercyclical approach and not retrench, so as not to worsen any downward economic trends.

Model recalibrations were performed in 2020 at two points, in April and October 2020. The period between April and October saw the pinnacle of the economic effects of the pandemic. This was the period that had the most severe lockdowns, curfew measures and border restrictions, affecting the ease of doing business. The Group put in a number of measures to mitigate the impact of these conditions which included repayment holidays and loan restructures.

Loss given default (LGD)

The absolute value shift in LGDs between April and October 2020 was 6.4%. This gave an indication of the sensitivity of our LGDs under economic duress. We were therefore comfortable with setting the LGD shocks for upside and downside at 10%, for prudence sake.

Probability of default (PD)

Since PD's are modelled using a Point-In-Time (PIT) approach, each account is assigned an individual PD. This creates a distribution of PDs for each portfolio. When creating shocks for a portfolio of PIT PD's, a standard margin of adding and subtracting static numbers would not be suitable for creating scenarios. Therefore an approach using percentiles is used to create a cap and a floor for the distributions. A lower percentile is used as the cap for upside, and a higher percentile is used as a floor for downside.

Macroeconomic analysis

Country	INFLATION	GDP	CPI	UER
Botswana				
Ghana				
Kenya				
Lesotho				
Mozambique				
Namibia				
Nigeria				
Rwanda				
Swaziland				
Tanzania				
Uganda				

Country Macro-analysis : 2019 - 2020

1 FINANCIAL RISK MANAGEMENT (continued)

1.3.1 Credit risk (continued)

Macroeconomic analysis (continued)

Inflation

With the exception of Botswana and Ghana, all subsidiaries' headline Inflation rates have increased YOY. However, the consumer price index (CPI) has increased across all the subsidiaries.

Gross domestic product (GDP)

With the exception of Namibia, Gross Domestic Product (GDP) has decreased across all the subsidiaries.

Unemployment rate (UER)

Unemployment rates have reduced for Kenya, Lesotho, Mozambique, Namibia, Nigeria and Swaziland. Ghana, Tanzania and Uganda have experienced an increase in unemployment rates, while Botswana and Rwanda's unemployment rates remained flat.

Country	INFLATION	GDP	CPI	UER
Botswana				
Ghana				
Kenya				
Lesotho				
Mozambique				
Namibia				
Nigeria				
Rwanda				
Swaziland				
Tanzania				
Uganda				

Country Macro-analysis : 2015 - 2020

The Government Deduction at Source (DAS) portfolio is the largest portfolio and constitutes more than 88% of the total loan portfolio. In general, the macroeconomic environment was on a downturn due to pressure from the Covid-19 pandemic. However, Governments were reluctant to retrench. Therefore, although the Group was operating in a difficult macroeconomic environment, clients continued to honor their financial obligations.

Influence of economic variables on estimate of ECL

A behavioural scorecard is used to incorporate forward looking macroeconomic variables into lifetime PDs. A weighted score is calculated based on the outlook of economic conditions of each country and is updated when there is a change. These weighted scores are used to convert 12-month PDs into Lifetime PDs for accounts in Stage 2 (Stage 3 PD is standard at 100%).

A macro-induced regression analysis is used to model a Macro-Induced (MI) LGD for accounts in Stage 2 and 3. This involves identifying how economic conditions influence recovery rates and applying this to forecasted economic outlooks.

Expected credit losses: Forward looking

Macro economic forward looking factors were all stressed to downside heavy for Consumer Price Index (CPI), Inflation, Gross Domestic Product (GDP) and unemployment rate in line with Fitch Solutions' revised outlook for the period ending 31 December 2020.

The table below summarises the ECL impact of the sensitivity analysis after application of forward looking factors for the period ending 31 December 2020.

BWP'000	Base case	Upside		Downside		Probability Weighted ECL	Weighted Impact*
	ECL	ECL	Impact	ECL	Impact	ECL	Impact
Consumer	256,318	291,557	35,238	532,041	275,722	365,948	109,630
MSE	245,320	96,371	(148,949)	90,610	(154,710)	230,486	(14,834)
Informal	76,349	-	-	14,442	(61,907)	17,461	(58,888)
Total	**577,987**	**387,928**	**(113,711)**	**637,093**	**59,105**	**613,895**	**35,908**

**The probability weighted ECL is derived by assigning weights to the base, upside and downside scenarios based on management projections. The weights used are 50%, 20% and 30% respectively for Deduction at source portfolio that holds a low credit risk and 30%, 20% and 50% respectively for MSE and Informal portfolio.*

1 FINANCIAL RISK MANAGEMENT (continued)

1.3.1 Credit risk (continued)

Expected credit losses: Forward looking (continued)

The total weighted impact of P35.9m is distributed to operating subsidiaries as follows:

Country	Base ECL	Probability Weighting	Impact BWP'000
	BWP'000	BWP'000	
Botswana	110,884	121,202	10,318
Ghana	114,272	119,520	5,248
Kenya	137,565	137,589	24
Lesotho	19,314	21,061	1,747
Mozambique	24,127	28,588	4,461
Namibia	42,871	46,480	3,609
Nigeria	20,110	21,665	1,555
Rwanda	2,637	3,514	877
Swaziland	22,609	24,657	2,048
Tanzania - Bank	26,289	28,003	1,713
Tanzania - Faidika	18,691	19,276	585
Uganda	38,618	42,340	3,723
Group	**577,987**	**613,895**	**35,908**

The Group, therefore estimates an additional ECL impact of P35.9 million as at December 2020 should the Group not have any mitigation in place.

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 5.3% (Dec 2020) compared to 6.9% for same period last year (Dec 2019). 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 0.3% compared to 1.7% in the prior year after applying the total impairment charge of P25.77 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 2020

	Formal P'000	Micro finance P'000	Informal P'000	Total gross advances P'000
Southern Africa	**7,800,352**	**56,211**	**5,996**	**7,862,559**
Botswana	2,908,735	28,395	-	2,937,130
Namibia	2,714,213	-	-	2,714,213
Mozambique	1,268,176	-	-	1,268,176
Lesotho	428,787	-	-	428,787
Swaziland	480,441	27,816	5,996	514,253
East and West Africa	**1,686,792**	**877,160**	**313,010**	**2,876,962**
Kenya	239,832	497,611	-	737,443
Rwanda	514	32,795	-	33,309
Uganda	289,459	128,840	-	418,299
Tanzania	305,379	153,933	-	459,312
Nigeria	92,310	59,253	-	151,563
Ghana	759,298	4,728	313,010	1,077,036
Gross advances	**9,487,144**	**933,371**	**319,006**	**10,739,521**
Impairment provision	(372,343)	(129,295)	(76,349)	(577,987)
Net advances	**9,114,801**	**804,076**	**242,657**	**10,161,534**

Analysis of exposure by segment as at 31 December 2019

	Formal P'000	Micro finance P'000	Informal P'000	Total gross advances 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	507,814	11,496	338,988	858,298
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**

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 2020	**Expected Credit Loss**			
	Stage 1	**Stage 2**	**Stage 3**	**Total ECL**
Southern Africa	**P'000**	**P'000**	**P'000**	**P'000**
Formal	62,107	17,821	122,852	202,780
Micro finance	471	228	14,402	15,101
Informal	890	286	747	1,923
	63,468	**18,335**	**138,001**	**219,804**
East and West Africa				
Formal	109,726	5,490	54,347	169,563
Micro finance	27,153	12,822	74,219	114,194
Informal	13,274	36,788	24,364	74,426
	150,153	**55,100**	**152,930**	**358,183**
Total Portfolio				
Formal	171,833	23,311	177,199	372,343
Micro finance	27,624	13,050	88,621	129,295
Informal	14,164	37,074	25,111	76,349
	213,621	**73,435**	**290,931**	**577,987**

31 December 2019	**Expected Credit Loss**			
	Stage 1	**Stage 2**	**Stage 3**	**Total ECL**
Southern Africa	**P'000**	**P'000**	**P'000**	**P'000**
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**

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 2020	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 2020	**8,642,478**	**148,664**	**464,671**	**92,123**	**725,739**	**520,617**	**9,832,888**	**761,404**
New assets originated or purchased	1,476,454	121,905	407,316	51,791	9,200,307	287,040	11,084,077	460,736
Payments and assets derecognised	(1,366,212)	4,138	(925,789)	(24,641)	(10,055,785)	(154,932)	(12,347,786)	(175,435)
Changes to PD and LGD rates	981,656	26,500	590,880	(10,783)	1,005,623	(76,618)	2,578,159	(60,901)
Write offs	(81,736)	(87,586)	(40,596)	(35,055)	(285,485)	(285,176)	(407,817)	(407,817)
As at 31 December 2020	**9,652,640**	**213,621**	**496,482**	**73,435**	**590,399**	**290,931**	**10,739,521**	**577,987**

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**	**9,832,888**	**761,404**

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

31 December 2020	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	7,306,536	218,892	102,985	49,087	122,852	7,800,352
Micro finance	8,213	16,804	15,669	1,123	14,402	56,211
Informal	4,353	592	188	116	747	5,996
	7,319,102	**236,288**	**118,842**	**50,326**	**138,001**	**7,862,559**
East and West Africa						
Formal	1,507,402	84,509	23,855	16,679	54,347	1,686,792
Micro finance	623,535	117,808	37,011	24,587	74,219	877,160
Informal	242,206	17,688	14,070	14,682	24,364	313,010
	2,373,143	**220,005**	**74,936**	**55,948**	**152,930**	**2,876,962**

1 FINANCIAL RISK MANAGEMENT (continued)

1.3.1 Credit risk (continued)

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**

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 this is included as part of recoveries in the LGD calculations. Informal loans used a rate of 100% for both Letshego Ghana and Letshego Swaziland informal loans.

Segments	2020	2019
	LGD	**LGD**
Southern Africa	65%	46%
East and West Africa	88%	85%

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 2020	**PD 0**	**PD 1**
Southern Africa	1%	4%
East and West Africa	8%	16%

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

Lifetime PD				
31 December 2020	**PD 0**	**PD 1**	**PD 2**	**PD 3**
Southern Africa	1%	4%	28%	36%
East and West Africa	8%	16%	38%	41%

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%

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 2020	Total gross advances	Restructured loans	Expected Credit Loss held on Restructured loans	Restructured
	P'000	P'000	P'000	%
Southern Africa	7,862,559	10,067	8,506	0.1
East and West Africa	2,876,962	108,168	95,475	3.8
	10,739,521	**118,235**	**103,981**	**1.1**

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**

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 2020	Total gross advances	Rephased loans	Expected Credit Loss held on Rephased loans	Rephased
	P'000	P'000	P'000	%
Southern Africa	7,862,559	455,287	81,156	5.8
East and West Africa	2,876,962	119,111	22,949	4.1
	10,739,521	**574,398**	**104,105**	**5.3**

31 December 2019	Total gross advances	Rephased loans	Expected Credit Loss held on Rephased loans	Rephased
	P'000	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**

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.

The Group manages Liquidity risks through the following ways:
• Effective Board and Senior Management oversight at both Group and country level;
• Adequate policies and procedures;
• Formulation of a liquidity strategy;
• Effective internal controls and independent reviews; and
• 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 Treasury and Country Heads of Finance respectively with independent day to day monitoring being provided by Group Market Risk.

Liquidity Risk Measurement
The Group applies various tools and techniques to measure and control liquidity. These techniques include contractual and behavioural liquidity gaps, ratios, and stress testing.

Liquidity contingency plans
The Group Treasury/ALM 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.

Cash flow and maturity profile analysis
The table below analyses Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date:

31 December 2020

Contractual maturities of financial liabilities	From 1 to 12 months	From 1 year to 3 years	From 3 years and above	Total
Financial liabilities at fair value through profit or loss	144,649	8,206	-	152,855
Customer deposits	664,393	-	-	664,393
Cash collateral	18,838	-	-	18,838
Trade and other payables	593,717	-	-	593,717
Lease liabilities	38,208	64,523	108,964	211,695
Borrowings	2,549,739	3,195,907	1,100,291	6,845,937
	4,009,544	**3,268,636**	**1,209,255**	**8,487,435**

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
Financial liabilities at fair value through profit or loss	-	15,390	-	15,390
Customer deposits	426,673	-	-	426,673
Cash collateral	21,721	-	-	21,721
Trade and other payables	437,721	-	-	437,721
Lease liabilities	36,272	43,265	47,719	127,256
Borrowings	2,421,433	2,476,324	1,177,921	6,075,678
	3,343,820	**2,534,979**	**1,225,640**	**7,104,439**

The year on year growth in deposits by 56%,demonstrates the Group's resilience against the backdrop of Covid-19 impact.

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 2020 were P18.6 million (foreign exchange gain for the year ended 31 December 2019: P1.99 million). This loss resulted mainly from depreciation of the currencies that the Group operates against the Botswana Pula during the year due to economic pressures posed by Covid-19.

As at 31 December 2020 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 P3.84 million (2019: P0.98 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

Methodology

The Group's interest rate risk methodology is largely based on re-pricing risk and endowment risk. Interest rate risk arises from timing differences in the maturity and re-pricing of assets and liabilities. This is the main source of interest rate risk for the Group. Endowment risk is interest rate risk exposure due to rate insensitive assets or liabilities, for example capital, non-interst earning assets or non-interest paying liabilities.

The main objective of applying these methodologies across the Group is largely to identify, measure, monitor and control interest rate risk in line with the operating model.

Management is guided by the approved interest rate risk policy and maintain internal guidelines for measuring interest rate risk. Group Treasury and Group Business Risk Functions review this on a monthly basis. The Group has adequate risk management systems for measuring interest rate risk relative to its operating model and plans are in place to enhance the management information systems in line with its digitalisation agenda.

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 2020.

31 December 2020

Buckets P'm	< 1 month	1 - 12 months	1 - 3 years	> 3 years	Total
Rate sensitive assets					
Short term investments	68,250	-	-	-	68,250
Loans and advances to customers	318,988	534,493	4,778,633	4,529,420	10,161,534
	387,238	534,493	4,778,633	4,529,420	10,229,784
Rate sensitive financial liabilities					
Customer deposits	64,930	599,463	-	-	664,393
Borrowings	2,242,608	2,055,704	838,445	512,804	5,649,561
	2,307,538	2,655,167	838,445	512,804	6,313,954
Gap	**(1,920,300)**	**(2,120,674)**	**3,940,188**	**4,016,616**	**3,915,830**
Cumulative Gap	**(1,920,300)**	**(4,040,974)**	**(100,786)**	**3,915,830**	

1 FINANCIAL RISK MANAGEMENT (continued)

1.3.3 Market risk (continued)

Interest rate risk (continued)

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**	

Market risk framework and governance

The ALM / Treasury 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 Management Risk Committee and Group Balance sheet Management Committee. On a day-to-day basis, market risk exposures are managed by the Head of Group Treasury . Group Market Risk 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, and stress testing.

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 2020	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	1,519	17,267	346,901	(641)	71,410	22,019	169,879	45,007	18,347	22,228	196,919	172	25,518	107,251	68	1,043,864
Advances to customers	-	491,644	2,671,342	409,473	418,821	382,883	1,244,049	603,878	30,672	135,453	962,765	-	-	2,810,554	-	10,161,534
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	140,804	-	140,804
Financial assets at fair value through OCI	-	-	-	-	-	-	-	-	-	-	-	-	-	59,408	-	59,408
Right-of-use assets	-	1,317	6,846	1,379	4,872	4,011	11,873	6,339	765	1,774	13,742	-	-	78,785	-	131,703
Other receivables	-	5,011	134,563	197	4,544	5,903	22,887	1,545	2,056	105	32	-	-	38,653	-	215,496
Total assets	1,519	515,239	3,159,652	410,408	499,647	414,816	1,448,688	656,769	51,840	159,560	1,173,458	172	25,518	3,235,455	68	11,752,809
Financial assets at fair value through profit or loss	76,753	-	-	-	-	-	-	-	-	-	-	-	67,896	8,206	-	152,855
Customer deposits	-	-	137,822	-	45,273	-	363,390	-	17,889	48,967	51,052	-	-	-	-	664,393
Cash collateral	-	-	-	-	-	4,452	-	14,386	-	-	-	-	-	-	-	18,838
Borrowings	349,659	200,642	619,796	21,537	-	161,968	149,607	361,445	309	-	531,166	-	101,845	3,056,277	95,310	5,649,561
Trade and other payables	49	7,281	105,749	4,271	14,107	6,372	17,841	105,522	2,425	5,337	265,817	-	-	58,946	-	593,717
Total liabilities	426,461	207,923	863,367	25,808	59,380	172,792	530,838	481,353	20,623	54,304	848,035	-	169,741	3,123,429	95,310	7,079,364
Net exposure	(424,942)	307,316	2,296,285	384,600	440,267	242,024	917,850	175,416	31,217	105,256	325,423	172	(144,223)	112,026	(95,242)	4,673,445
Exchange rates at 31 December 2020 - mid: BWP 1.00 =	1.36	1.36	1.36	1.36	214.87	338.21	6.92	10.11	91.47	35.66	1.84	0.07	0.09	1.00	0.08	

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
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	15,390	-	15,390
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	2,437,886	86,074	4,966,785
Trade and other payables	2,167	4,410	49,751	1,742	12,391	4,674	14,368	106,811	3,251	6,641	154,323	-	-	77,192	-	437,721
Total liabilities	513,337	278,662	302,345	47,217	44,797	166,553	660,670	439,797	30,274	47,703	619,937	-	100,456	2,530,468	86,074	5,868,290
Net exposure	(501,476)	264,407	2,219,747	334,052	435,688	178,251	992,993	183,896	34,722	90,570	138,243	979	(79,696)	359,861	(84,656)	4,567,581
Exchange rates at 31 December 2019 - 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 an improved 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 on shareholder value.

Operational risk framework and governance

The Operational Risk Management Framework outlines the overall risk management approach for Operational Risk in the Group, 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. This framework is maintained by the Group Chief Risk Officer and formally reviewed after every two years in line with the Group's risk appetite. Furthermore, the approval authority for this framework and revisions thereto is mandated to the Group Risk, Social and Ethics Committee.

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

It is the responsibility of the Risk Owners to ensure that the risk culture, oversight and resources deployed are such that there is a capability to ensure adherence to the relevant policies, standards and procedures. The Risk Owners' purpose is to ensure the quality, integrity and reliability of operational risk management and internal control and to provide an opinion accordingly.

The management and measurement of operational risk

The operational risk framework forms the basis for the embedding of operational risk management into the day-to-day business processes and practices. This 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 products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is subjected to adequate assessment by the risk owners and control owners.

The Group conducts risk assessments in line with the Group's risk appetite based on core objectives and processes. The Risk Identification and Control Process Manual is being enhanced to cover the Group Operational Risk processes in detail and 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 enhanced Group Operational Risk 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 Risk Owners and Control Owners to rate the level of inherent as well as residual risk taking consideration of the adequacy and effectiveness of controls.

All key functions under the Group are compelled to perform RCSAs at least once a year with oversight from Group Operational Risk and use Risk Registers to assess daily risks and report to Group EXCO through the Group Chief Risk Officer on a monthly basis.

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 key functions within the Group are required to establish relevant measures (qualitative and quantitative) which will enable them to regularly monitor their exposure to operational risk. KRIs are reviewed by management annually or when necessary and are identified for key business processes. The Group Operational Risk Function oversees the quality of KRIs and provides some level of challenge to those that appear incomplete or are inconsistent with the risk profile.

1 FINANCIAL RISK MANAGEMENT (continued)

1.4 Operational risks (continued)

Impact of Covid-19 to the Group Operations

As all organizations adjusted to the new normal of living with Covid-19 during the year, no significant operational losses were incurred during the year. However, uncertainty in the full unrestricted operation of sectors such as MSE had negative impact on the overall performance of the Group's loan book. In mitigating against this exposure, the Group strengthened its Management Credit Portfolio Review Committees and trained its credit staff in effective collections and recoveries strategies in the new normal. Furthermore, appropriate measures were put in place around safety, health and environment factors affecting employees, customers and business operations across the Group. These include:

- Provision of personal protective equipment (PPE) to employees.
- Educating employees and customers on Covid-19 transmission.
- Emergency response plan which includes employee communications, simulations and work place procedures.
- Working with authorities and providing local support/health facility to affected employees and their families.
- Remote working guidelines put in place and cohort working established.
- Continuous communication with employees

Incident management

The incident management process is supported by the Incident Management Policy and the Operational Risk Manual. Management and Staff respond appropriately to risk events or incidents and adopt relevant, timely actions to minimize their impact. During the year, the Group enhanced its incident management approach that defines the specific actions to be taken upon occurrence of a risk event. Under the enhanced ERM Framework, all key functions under the Group will maintain and complete records of all risk events, perform impact assessment and review risk and controls.

Business continuity management and Crisis Management

The Group established the Group Corona Crisis Committee (CCC) during the year in response to the pandemic as part of its overall Business Continuity Management (BCM) framework. In line with the enhanced ERM Framework, all related BCM training covering all staff will be conducted via e-learning modules. Group Operations provides the central co-ordination, reporting and monitoring of all Group-wide BCM initiatives, BCM Capability, including the Group-wide BCM program of work as approved by Group Management Risk Committee with oversight from the Group Chief Operating Officer.

1 FINANCIAL RISK MANAGEMENT (continued)

1.4 Operational risks (continued)

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	Fair value - through profit and loss	Financial Assets at amortised cost	Financial liabilities at amortised cost	Total	Level 1	Level 2	Level 3	Total
	P'000	P'000	P'000	P'000	P'000	P'000	P'000	P'000	P'000
31 December 2020									
Financial assets measured at fair value									
Financial assets at fair value through OCI	59,408	-	-	-	59,408	-	-	59,408	59,408
Financial assets at fair value through profit or loss	-	140,804	-	-	140,804	-	140,804	-	140,804
	59,408	140,804	-	-	200,212	-	140,804	59,408	200,212
Financial assets not measured at fair value									
Cash and cash equivalents	-	-	1,043,864	-	1,043,864				
Advances to customers	-	-	10,161,534	-	10,161,534				
Other receivables	-	-	222,846	-	222,846				
	-	-	11,428,244	-	11,428,244				
Financial liabilities measured at fair value									
Financial liabilities at fair value through profit or loss	-	152,855	-	-	152,855	-	152,855	-	152,855
Financial liabilities not measured at fair value									
Trade and other payables	-	-	-	605,680	605,680				
Lease liabilities	-	-	-	133,377	133,377				
Customer deposits	-	-	-	664,393	664,393				
Cash collateral	-	-	-	18,838	18,838				
Borrowings	-	-	-	5,649,561	5,649,561				
	-	-	-	7,071,849	7,071,849				

	Carrying amount					Fair value			
31 December 2019	Fair value - through OCI	Fair value - through profit and loss	Financial Assets at amortised cost	Financial liabilities at amortised cost	Total	Level 1	Level 2	Level 3	Total
	P'000	P'000	P'000	P'000	P'000	P'000	P'000	P'000	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	-	-	1,035,513	-	1,035,513				
Advances to customers	-	-	9,071,484	-	9,071,484				
Other receivables	-	-	213,847	-	213,847				
	-	-	10,320,844	-	10,320,844				
Financial liabilities measured at fair value									
Financial liabilities at fair value through profit or loss	-	15,390	-	-	15,390	-	15,390	-	15,390
Financial liabilities not measured at fair value									
Trade and other payables	-	-	-	447,217	447,217				
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				
	-	-	-	5,927,156	5,927,156				

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 2020 P'000	31 December 2019 P'000
Opening balance	53,591	53,591
Gain included in other comprehensive income	5,817	-
	59,408	**53,591**

Sensitivity of fair value measurements to changes in unobservable market data.

Based on the above a change in the value per share (based on company valuation), which is usually conducted during a rights issues changes by 1% - 5% will result in a fair value gain or loss of P0.6m and P3m respectively. Where the fair value of this investment does not materially vary to its carrying value, gains or losses will not be recognised.

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
Financial assets and liabilities at fair value through profit or loss	Valued by discounting the future cash flows using market interest rate applicable at that time. The sum of the cash flows denoted in the foreign currencies are converted with the spot rate applicable at the reporting date.	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 2020 P'000	31 December 2019 P'000
Interest rate risk		
Average cost of borrowings	*12.5%*	*12.0%*
Effect of increase in average borrowing cost by 1%		
- increase in interest expense	50,724	49,668
Effect on profit before tax	*4.9%*	*4.4%*
Currency risk		
Effect of BWP appreciation by 1%		
- Effective movement in foreign exchange rates	(3,840)	(980)
- Effect on profit before tax	-0.4%	*-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 occur 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 2020	Existing impairment Provision	Impact on changes in LGD		Impact on changes in PD	
		(+) 5%	(-) 5%	(+) 5%	(-) 5%
Stage 1: 12-month ECL allowance	213,621	212,235	172,601	388,204	107,184
Stage 2: Lifetime ECL allowance – not credit-impaired	73,435	69,100	24,873	72,521	22,222
Stage 3: Lifetime ECL allowance – credit-impaired	290,931	308,946	236,611	293,617	251,930
Total	**577,987**	**590,281**	**434,085**	**754,342**	**381,336**

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**

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).

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

USE OF ESTIMATES AND JUDGMENTS (continued)

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% (2019: 55%) 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% (2019: 55%) vesting probability.

	31 December 2020 P'000	31 December 2019 P'000
Impact of a 10% deviation	5,690	4,458
Impact of a 25% deviation	14,225	11,144
Impact of a 50% deviation	28,451	22,289

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.

2.3 Deferred tax asset

The Group has recognised a deferred tax asset of P124 million (2019: P145 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.

In the current year Letshego Holdings Limited (LHL) took a conservative approach and did not recognise any deferred tax assets on tax losses (2019: P6.1 million). The Company will recognise these at a point in which it can demonstrate it will generate adequate taxable income in the future. Tax losses in Botswana have to be utilised within five years from the year of origination.

Deferred tax asset movement on tax losses		31 December 2020 P'000	31 December 2019 P'000
Opening balance		6,102	49,926
Recognised during the year		-	-
Utilised during the year		(6,102)	(3,789)
Written off		-	(40,035)
Tax losses fallen away		-	-
Balance at the end of year		**-**	**6,102**
Summary of LHL Company tax losses recognised	**Year of expiry**		
December 2016	2021	-	27,736
		-	**27,736**

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. 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.

During the year the Group carried out an internal tax assessment of its subsidiaries and based on this a provision was recognised for a subsidiary in East Africa.

Furthermore there was release of a tax provision in respect of a tax exposure for an East African subsidiary based on revised tax assessments.

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.

USE OF ESTIMATES AND JUDGMENTS (continued)

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 / behavioral 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 an integral parts of the instrument.

2.7 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.

In light of the current economic factors as a result of Covid-19 the Group assessed the recoverable amount of goodwill for the entities and determined that they were profitable with positive growth expected, indicating sufficient headroom to cushion against any future variations or pressures. However, in the prior year there was an impairment write down of goodwill to nil in Letshego Microfinance Bank Nigeria Limited of P23.7 million and Letshego Bank (T) Limited of P15 million.

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 11 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 2020		31 December 2019	
Entity	**Discount rates**	**Long term growth rates**	**Discount rates**	**Long term growth rates**
Letshego Holdings Namibia Limited	22%	4%	24%	4%
Letshego Tanzania Limited	24%	6%	25%	5%
Letshego Kenya Limited	19%	6%	19%	5%
Letshego Bank (T) Limited	-	-	19%	5%
Letshego Microfinance Bank Nigeria Limited	-	-	25%	10%
Letshego Ghana Plc	26%	7%	23%	7%

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)

2.7 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 2020 P'000	31 December 2019 P'000
3 CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	918,284	944,882
Statutory cash reserve	57,330	63,390
Short term investments	68,250	27,241
	1,043,864	**1,035,513**
Cash and cash equivalents for the purpose of the statement of cash flow	**986,534**	**972,123**

Short term investments constitute amounts held in fixed deposit with external financial institutions. The deposits attract interest ranging between 1.0% - 5.0% per annum (31 December 2019: 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

	31 December 2020 P'000	31 December 2019 P'000
Gross advances to customers	10,739,521	9,832,888
Less : Expected credit losses	(577,987)	(761,404)
- Stage 1	(213,621)	(148,664)
- Stage 2	(73,435)	(92,123)
- Stage 3	(290,931)	(520,617)
Net advances to customers	**10,161,534**	**9,071,484**
Maturity analysis		
Maturing within one year	853,482	1,599,287
Maturing after one year within five years	5,333,124	4,824,809
Maturing after five years	4,552,915	3,408,792
Total gross advances to customers	**10,739,521**	**9,832,888**

Certain advances to customers are pledged as security to borrowings as set out in note 17.

	31 December 2020 P'000	31 December 2019 P'000
Impairment of advances		
Balance at the beginning of the year	761,404	843,135
Impairment charge for the year	(174,155)	(177,777)
Impairment on informal loans	(9,262)	96,046
Balance at the end of the year	**577,987**	**761,404**

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

	31 December 2020 P'000	31 December 2019 P'000
Charges to profit or loss		
Amounts written off	407,817	434,599
Recoveries during the year	(198,629)	(183,767)
Expected credit losses reversed during the year	(183,417)	(81,731)
	25,771	**169,101**

5 OTHER RECEIVABLES

	31 December 2020 P'000	31 December 2019 P'000
Deposits and prepayments	46,951	33,744
Receivable from insurance arrangements	168,029	160,084
Withholding tax and value added tax	755	405
Deferred arrangement fees	19,418	14,593
Settlement and clearing accounts	23,619	34,745
Other receivables	4,430	4,425
	263,202	**247,996**

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

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2020 P'000	31 December 2019 P'000
Foreign currency swap	140,804	-
	140,804	**-**

This relates to a short term foreign currency swap arrangement with a financial institution, where the Group paid a specified amount in one currency and received a specified amount in another currency to reduce its exposure on currency risk. These were translated using reporting date exchange rates to reflect the changes in foreign currencies. The related financial liability at fair value through profit or loss is in note 12.

7 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 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**

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 2020	13,110	109,616	84,249	17,710	7,100	231,785
Additions	1,938	19,680	10,138	-	9,444	41,200
Transfers	539	(5,190)	4,561	-	(5,243)	(5,333)
Disposals	(353)	(127)	(2,426)	-	-	(2,906)
Forex translation	(994)	(4,497)	(2,408)	(1,915)	(909)	(10,723)
Balance at 31 December 2020	**14,240**	**119,482**	**94,114**	**15,795**	**10,392**	**254,023**
Accumulated depreciation						
Balance at 1 January 2020	7,338	67,505	58,300	(1,029)	-	132,114
Charge for the year	2,406	21,673	11,327	-	-	35,406
Disposals	82	(119)	(2,186)	-	-	(2,223)
Forex translation	(679)	(2,088)	(2,736)	-	-	(5,503)
Balance at 31 December 2020	**9,147**	**86,971**	**64,705**	**(1,029)**	**-**	**159,794**
Net book value at 31 December 2020	**5,093**	**32,511**	**29,409**	**16,824**	**10,392**	**94,229**

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

8 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 RIGHT OF USE ASSET (CONTINUED)

Cost	Property P'000	Total P'000
Balance at 1 January 2020	96,869	96,869
Additions	111,863	111,863
Forex translation	(5,753)	(5,753)
Balance at 31 December 2020	**202,979**	**202,979**
Accumulated depreciation		
Balance at 1 January 2020	35,433	35,433
Charge for the year	35,183	35,183
Forex translation	660	660
Balance at 31 December 2020	**71,276**	**71,276**
Net book value at 31 December 2020	**131,703**	**131,703**

9 INTANGIBLE ASSETS

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**

Cost	Computer Software P'000	Brand value P'000	Core deposit P'000	Total P'000
Balance at 1 January 2020	93,988	4,031	9,456	107,475
Additions	4,120	-	-	4,120
Transfer from work in progress	5,333	-	-	5,333
Disposals	-	-	-	-
Forex translation	(1,703)	49	(198)	(1,852)
Balance at 31 December 2020	**101,738**	**4,080**	**9,258**	**115,076**
Accumulated amortisation				
Balance at 1 January 2020	53,140	2,413	6,701	62,254
Charge for the year	13,343	470	589	14,402
Disposals	-	-	-	-
Forex translation	(671)	-	-	(671)
Balance at 31 December 2020	**65,812**	**2,883**	**7,290**	**75,985**
Net book value at 31 December 2020	**35,926**	**1,197**	**1,968**	**39,091**

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.

10 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2020 P'000	31 December 2019 P'000
Balance at the beginning of the year	53,591	53,591
Fair value gain recognised through other comprehensive income	5,817	-
	59,408	**53,591**
% shareholding	**2.3%**	**2.3%**

The Group entered into a strategic partnership with a financial services organisation in 2016 and acquired 2.3% shareholding at P53.6 million. A fair value assessment is performed annually. In previous years the fair value of this investment did not materially vary to its carrying value and no gains or losses were recognised.
A valuation of the financial services organisation was carried out by an independent valuer during the current year as part of a rights issue. Management assessed the Group's investment and determined its value to be P59.4 million. This resulted in a fair value gain of P5.8 million recognised above.

11 GOODWILL

	31 December 2020 P'000	31 December 2019 P'000
Goodwill on the acquisition of:		
Letshego Holdings Namibia Limited	22,489	23,111
Letshego Tanzania Limited	1,886	1,874
Letshego Kenya Limited	31,349	33,238
Letshego Ghana Plc	9,874	10,010
	65,598	**68,233**
Movement in goodwill		
Balance at the beginning of the year	68,233	106,229
Impairment on goodwill	-	(38,737)
Conditional subsequent payment relating to the investment in AFB Ghana (note 34.1)	-	2,577
Effect of exchange rate changes	(2,635)	(1,836)
Balance at the end of the year	**65,598**	**68,233**

The Group performs its annual impairment test in December and when circumstances indicated that the carrying value may be impaired the assessment is done bi-annually. 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.

In light of current economic factors as a result of Covid 19 the Group performed an impairment assessment as at 31 December 2020 for all the above cash generating units and no indications of impairment were noted.

The key assumptions used to determine the recoverable amount for the different cash generating units are disclosed in note 2.7. In the prior 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).

12 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2020 P'000	31 December 2019 P'000
Foreign currency swap	144,649	-
Interest currency swap	8,206	15,390
	152,855	**15,390**

In the current year P144.6 million relates to a short term foreign currency swap arrangement with a financial institution, where the Group paid a specified amount in one currency and received a specified amount in another currency to reduce its exposure on currency risk (the assets is disclosed in note 6).

12 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

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 2020 is P8.21 million favourable (2019: P15.39 million unfavourable) and this movement was recognised through profit or loss.

13 CUSTOMER DEPOSITS

	31 December 2020 P'000	31 December 2019 P'000
Demand accounts	106,384	67,155
Savings accounts	107,669	67,381
Call and term deposits	450,340	292,137
	664,393	**426,673**

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

		31 December 2020 P'000	31 December 2019 P'000
14	**TRADE AND OTHER PAYABLES**		
	Insurance premium payable	146,530	36,184
	Payroll related accruals	14,204	37,201
	Staff incentive accrual (note 14.1)	75,968	66,732
	Accruals (note 14.2)	58,167	59,573
	Guarantee funds	291,961	194,582
	Trade and other payables	94,818	119,677
	Value added tax / withholding tax payable	32,900	39,823
		714,548	**553,772**

Guarantee funds relates to deposits received by the Group from a strategic partner for the funding of the mobile loans in Ghana and funds held as collateral for a Portfolio in Kenya. 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.

14.1	**Movement in staff incentive accrual**		
	Balance at the beginning of the year	66,732	65,547
	Current period charge (note 24)	75,053	40,280
	Paid during the year	(65,817)	(39,095)
	Balance at the end of the year	**75,968**	**66,732**
14.2	**Movement in accruals**		
	Balance at the beginning of the year	59,573	60,866
	Paid during the year	(1,406)	(1,293)
	Balance at the end of the year	**58,167**	**59,573**

15 LEASE LIABILITIES	**Carrying amount at 01 January 2020**	**Additions**	**Interest expense**	**Cash payments**	**Forex translation**	**Carrying amount at 31 December 2020**
Lease liabilities	64,760	111,863	13,053	(49,886)	(6,413)	133,377

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

	2020 P'000	2019 P'000
The following are the amounts recognised in the profit or loss:		
Depreciation expense of right of use asset	35,183	35,473
Interest expense on lease liabilities	13,053	10,416
Expense relating to short-term leases	7,325	9,018
Expense relating to low value assets	2,852	6,891
	58,413	**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 2020:

	31 December 2020 P'000	31 December 2019 P'000
Within one year	25,155	25,856
After one year but not more than three years	38,417	22,433
More than three years	69,805	16,471
	133,377	**64,760**

16	**CASH COLLATERAL**		
	Balance at the beginning of the year	21,721	27,028
	Utilised during the year	(2,883)	(5,307)
	Closing balance	**18,838**	**21,721**

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 2020 P'000	31 December 2019 P'000
17	**BORROWINGS**		
	Commercial banks	2,588,765	1,904,695
	Note programmes	1,555,891	1,729,542
	Development Financial Institutions	1,339,680	1,118,927
	Pension funds	165,225	213,621
	Total borrowings	**5,649,561**	**4,966,785**
	Contractual maturity analysis		
	Maturing within one year	2,074,631	1,866,687
	Maturing after one year within three years	2,514,968	2,215,382
	Maturing after three years	1,059,962	884,716
	Total borrowings	**5,649,561**	**4,966,785**
	Contractual interest on borrowings to maturity at reporting date	1,196,376	1,108,893
	Total contractual cash flows on interest bearing loans and borrowings	**6,845,937**	**6,075,678**
	Movement in borrowings		
	Balance at the beginning of the year	4,966,785	5,315,417
	Finance obtained from third parties	1,273,785	1,134,034
	Repayment of borrowings	(519,042)	(1,415,529)
	Effect of exchange rate changes	(71,967)	(67,137)
	Balance at the end of the year	**5,649,561**	**4,966,785**

Note programmes

The Group has issued medium term note programmes of P1.6 billion (2019: P1.7 billion) of which P350 million (2019: P527 million) are listed on the Johannesburg Stock Exchange, P325 million (2019: P304 million) on the Botswana Stock Exchange and P484 million (2019: P454 million) on the Ghana Stock exchange at the reporting date.

Security

Pula 2.3 billion (31 December 2019: P1.9 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 which was retired on the 29th September 2020.
The aggregated net advances to customers of the above is P4.34 billion (FY 2019 P4.3 billion) by way of a Security Sharing Agreement.

The Group Security Sharing agreement has the following covenants:
• Bad debts ratio
• Cash collection ratio
• Capitalisation ratio and
• Secured property ratio
The Group has complied with all the above debt covenants for both current and prior period.

Pula 4.1 billion (31 December 2019 P3.0 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.

Interest rate

Pula 1.95 billion (31 December 2019: P1.97 billion) of the borrowings are at fixed interest rates. P3.7 billion (31 December 2019: P3.0 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.

Libor linked funding

As at 31 December 2020, the Group had borrowings of P280 million that were linked to the London Interbank Offered Rate (LIBOR). The LIBOR is expected to be phased out in 2021 and therefore the Group will go through an exercise to adopt new transaction based reference rates with lenders in line with market conventions. The lenders reserve the right to vary the interest margin should there be any material adverse change in the risk profile of the Group or any major change in market conditions.

18 STATED CAPITAL

	31 December 2020 P'000	31 December 2019 P'000
Issued: 2,144,045,175 ordinary shares of no par value (2020: 2,144,045,175) of which 14,571,140 shares (2019: 19,054,190) are held as treasury shares	**872,169**	**862,621**

31 December 2020	**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)	4,483	(4,483)	-
Number of shares at the end of the year ('000)	**2,129,474**	**14,571**	**2,144,045**

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**

In terms of the Group LTIP (note 20), 4.483 million shares (2019: nil) vested at Group level during the current year and were issued from the treasury shares. Therefore the number of shares in issue increased to 2,129 million (2019: 2,125 million) and shares held as treasury shares reduced to 14.571 million (2019: 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 2020	31 December 2019
Capital adequacy ratio	34%	36%
Return on equity	13%	17%
Debt to equity	118%	107%

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.

19 LEGAL RESERVE

	31 December 2020 P'000	31 December 2019 P'000
Balance at the beginning of the year	195,793	73,519
Movement for the period – allocated from retained earnings	19,042	122,274
Balance at the end of the year	**214,835**	**195,793**

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.

20 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 2020, 108,526,021 total awards were outstanding (31 December 2019: 39,618,700) at grant date share prices of P1.88, P1.65, P0.71, P0.86 and P0.90 for 2018, 2019 and 2020 awards respectively (31 December 2019: P2.13, P1.88 and P1.65 for 2017, 2018 and 2019 awards respectively).

	31 December 2020		31 December 2019	
Reconciliation of outstanding awards	**Fair values**	**No. of awards**	**Fair values**	**No. of awards**
Outstanding at the beginning of the year	P2.13/P1.88/P1.65	39,618,700	P2.50/P2.13/P1.88	41,956,100
Granted during the year	P0.71	72,385,263	P1.65	27,288,800
Sign on awards	P0.71/P0.86/P0.90	10,313,857	-	-
Exercised during the year	P2.13	(4,483,050)	P2.50	-
Forfeited due to not meeting performance	P2.13	(3,667,950)	P2.50	(11,029,700)
Forfeited due to resignations	P1.88/P1.65/P0.71	(5,640,800)	P2.13/P1.88/P1.65	(18,596,500)
Outstanding at the end of the year	**P1.88/P1.65/P0.71/P0.86/P0.90**	**108,526,020**	**P2.13/P1.88/P1.65**	**39,618,700**

The amounts outstanding at 31 December 2020 and 31 December 2019 have average vesting periods of 3,15 and 27 months.

The outstanding share based incentive scheme as at 31 December 2020 was P31.3 million (2019: P24.3 million)

Movement in share based payment reserve	**31 December 2020 P'000**	**31 December 2019 P'000**
Opening balance	24,304	18,089
Charge during the year (note 24)	16,539	6,215
New shares issue from treasury shares during the year	(9,548)	-
Closing balance	**31,295**	**24,304**

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 2020 P'000	31 December 2019 P'000
21	**INTEREST INCOME AT EFFECTIVE INTEREST RATE**		
	Advances to customers	2,426,509	2,504,158
	Interest income on risk informal / mobile loans	78,346	193,786
	Interest income on non-risk informal / mobile loans	185,271	250,414
	Interest income from deposits with banks	22,152	26,481
		2,712,278	**2,974,839**
22	**INTEREST EXPENSE AT EFFECTIVE INTEREST RATE**		
	Overdraft facilities and term loans	634,053	663,495
	Interest adjustment on non-risk informal / mobile loans	185,271	250,414
		819,324	**913,909**
22.1	**OTHER INTEREST EXPENSE**		
	Interest expense on leases	13,053	10,416
	Market adjustment loss on interest currency swaps	-	1,488
	Foreign exchange loss / (gain)	18,587	(1,999)
		31,640	**9,905**
		850,964	**923,814**

In the prior year interest expense was disclosed collectively as effective interest expense. In the current financial year interest expense has been disaggregated and presented as interest expense at effective interest rate and other interest expense.

		2020 P'000	2019 P'000
23	**FEE AND COMMISSION INCOME**		
	Administration fees - lending	64,443	53,213
	Credit life insurance commission	6,590	6,238
		71,033	**59,451**
23.1	**OTHER OPERATING INCOME**		
	Early settlement fees	42,156	52,627
	Income from insurance arrangements	153,925	195,026
	Market adjustment gain on interest currency swaps	7,184	-
	Sundry income	9,271	25,365
		212,536	**273,018**

Income from insurance arrangement is earned in Namibia and Mozambique. In October 2019, changes to the Usury Act and new regulations from the Namibia Financial Institutions Supervisory Authority (NAMFISA), the non-bank regulating body, resulted in a cap on the rates that banks and microfinance institutions could charge clients. Interest rates in banks were capped at 16.8% while microfinance institutions were capped at an all – in rate of 21%.To comply with the all- in rates stipulated by the new legislation, the insurance arrangements were terminated. In April 2020 credit life insurance was re-introduced at a lower rate of 3.5% (previously 5.79%) and in August 2020 the short term insurance was resumed at 5.21% (previously 6.21%).

24 EMPLOYEE BENEFITS

	2020 P'000	2019 P'000
Salaries and wages	361,782	364,146
Staff incentive (note 14.1)	75,053	40,280
Staff recruitment costs	2,184	8,152
Staff pension fund contribution	28,669	27,106
Directors' remuneration – for management services (executive)	9,270	8,124
Long term incentive plan	16,539	6,215
	493,497	**454,023**

25 OTHER OPERATING EXPENSES

	31 December 2020 P'000	31 December 2019 P'000
Accounting and secretarial fees	641	687
Advertising	22,078	15,941
Audit fees	5,732	5,565
- Audit services	5,575	5,265
- Covenant compliance fees	157	237
- Tax advisory services	-	63
Bank charges	10,497	7,208
Computer expenses	17,005	12,317
Consultancy fees	59,650	50,308
Corporate social responsibility	4,912	3,266
Collection commission	61,033	50,636
Direct costs	50,305	39,844
Direct costs - informal loans	22,969	44,370
Depreciation and amortization	49,808	49,463
Depreciation - right of use	35,183	35,473
Directors' fees – non executive	8,581	6,474
Directors' fees – subsidiary boards	7,746	5,832
Government levies	27,142	26,789
Insurance	18,688	9,359
Impairment of goodwill (note 11)	-	38,737
Impairment of cash accounts	-	6,039
Office expenses	23,161	22,043
Short term leases - property	7,325	9,018
Rental expense for low value assets	2,852	6,891
Other operating expenses	80,668	86,098
- Entertainment	338	576
- IT costs	8,000	5,222
- Loss on disposal of plant and equipment	683	36
- Motor vehicle expenses	6,554	6,196
- Printing and Stationery	7,745	8,145
- Repairs and Maintenance	4,292	6,111
- Storage costs	2,271	1,940
- Subscriptions and licenses	5,919	5,282
- Other expenses	44,866	52,590
Payroll administration costs	2,086	2,234
Professional fees	24,972	27,465
Telephone and postage	32,995	29,261
Travel	19,279	31,419
	595,308	**622,737**

26 TAXATION

	31 December 2020 P'000	31 December 2019 P'000
Amounts recognised in profit or loss		
Current taxation	**379,679**	**357,306**
- Basic taxation	278,929	275,860
- WHT tax credits adjustments	78,766	72,041
- * Release of prior years tax provision	(14,401)	-
- Under provision in respect of prior years	36,385	9,405
Deferred tax	**19,755**	**53,989**
- Origination and reversal of temporary differences	19,755	53,989
	399,434	**411,295**

**This relates to a release of a tax provision of P14.4 million in respect of a tax exposure for an East African subsidiary based on revised tax assessments.*

		31 December 2020 P'000	31 December 2019 P'000
26	**TAXATION (continued)**		
26.1	**Deferred taxation**		
	Balance at the beginning of the year	143,894	197,883
	Current year movement	(19,755)	(53,989)
	Balance at the end of the year	**124,139**	**143,894**
	Deferred tax assets	124,139	144,699
	Deferred tax liabilities	-	(805)
		124,139	**143,894**

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 2020 P'000	31 December 2019 P'000
	Deferred taxation arises from temporary differences on the following items:		
	Property and equipment	(7,480)	(12,508)
	Lease liability	22,164	21,371
	Right of use asset	(21,889)	(20,274)
	Share based payment provision	5,998	5,123
	Staff incentive provision	20,746	13,770
	Expected credit losses	100,971	125,104
	Taxation losses	-	6,102
	Leave pay provision	1,979	1,836
	Deferred income	538	5,810
	Prepayments	(2,591)	(1,833)
	Unrealised exchange loss / (gain)	3,703	(607)
		124,139	**143,894**
26.2	**Reconciliation of current taxation**		
	Profit before taxation	1,030,307	1,137,633
	Tax calculated at Botswana statutory rate of 22%	226,668	250,279
	Foreign income taxed at 15%	8,899	9,760
	Effect of tax rates in foreign jurisdictions	55,274	32,836
	Expenses and revenues not deductible for tax purposes	7,843	(3,061)
	WHT tax credits adjustments	78,766	72,041
	Tax losses not recognised and fallen away (note 2.3)	-	40,035
	Release of prior year provision	(14,401)	-
	Under provision in respect of prior year	36,385	9,405
		399,434	**411,295**
26.3	**Reconciliation of income tax paid**		
	Opening balance - net of receivables and payables	157,002	187,303
	Income tax charge for the year	**379,679**	**357,306**
	- Tax charge per profit or loss	399,434	411,295
	- Movement in deferred tax asset	(20,560)	(56,389)
	- Movement in deferred tax liabilities	805	2,400
	Closing balance - net of receivables and payables	(424)	(157,002)
	Income tax paid	**536,257**	**387,607**

27 PRIOR YEAR ADJUSTMENT

Letshego Holdings Limited (LHL) is the majority shareholder of Letshego Holdings Namibia Limited (LHN), with a shareholding of 78%. LHN in turn has two wholly- owned subsidiaries, Letshego Micro Financial Services Namibia Ltd (LMFSN) and Letshego Bank Namibia (LBN).

In August 2011, Letshego Holdings Limited granted a shareholder loan to Letshego Micro Financial Services Namibia Ltd (LMFSN) of N$600 million, increasing the loan amount over the years. On 1 March 2018, in order to support the growth of the Namibian business, LHL made a decision to convert the outstanding shareholder loan of N$897.1 million into 1000 redeemable non-cumulative preference shares of N$1.00 each, at par value plus a premium.

During 2019, it was determined that the conversion had not been completed in accordance with the Companies Act 2004 and the Listing Requirements of the Namibia Stock Exchange, thereby making the transaction irregular and therefore null and void.

The Group sought external legal counsel to assess the options available and the way forward on this transaction. Two alternatives were given, as follows:
1. regularise and validate the conversion through the court process.
2. maintain the conversion as null and void and therefore reverse the transaction from the date of conversion. This would entail reinstating the shareholder loan retrospectively from 1 March 2018.

Following deliberations and consultation, the LHL Board opted to reverse the transaction and restate the LHN and LHL company financial statements for the years 2018 and 2019.

The restatement entails recalculation of interest on the loan from 1 March 2018 and adjusting for the difference between loan interest and coupon on the preference shares, adjustment for the difference in the tax treatment of the two financial instruments as well as foreign currency effect. The effect of the restatement on the Letshego Holdings Limited Group financial statements is shown below:

Statement of financial position - extract	**At 31 Dec 2018 Audited - (as previously stated)**	**Increase / Decrease**	**At 31 Dec 2018 Restated**	**At 31 Dec 2019 Audited - (as previously stated)**	**Increase / Decrease**	**At 31 Dec 2019 Restated**
Balance Sheet	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**
Income tax receivable	19,074	25,755	44,829	39,499	43,242	82,741
Deferred tax asset	211,651	(10,563)	201,088	144,699	-	144,699
Total assets	**10,656,289**	**15,192**	**10,671,481**	**10,867,343**	**43,242**	**10,910,585**
Trade and other payables	492,225	359	492,584	552,849	923	553,772
Total liabilities	**6,581,627**	**359**	**6,581,986**	**6,288,726**	**923**	**6,289,649**
Foreign currency translation reserve	(696,276)	43,266	(653,010)	(713,418)	37,533	(675,885)
Retained earnings	3,500,317	(45,503)	3,454,814	3,836,578	(13,298)	3,823,280
Total equity attributable to equity holders of the parent company	**3,758,270**	**(2,237)**	**3,756,033**	**4,205,878**	**24,235**	**4,230,113**
Non-controlling interests	316,392	17,070	333,462	372,739	18,084	390,823
Total shareholders' equity	**4,074,662**	**14,833**	**4,089,495**	**4,578,617**	**42,319**	**4,620,936**

Statement of profit or loss and other comprehensive income - extract	**At 31 Dec 2019 Audited - (as previously stated)**	**Increase / Decrease**	**At 31 Dec 2019 Restated**
	P'000	**P'000**	**P'000**
Effective interest expense	(931,164)	7,350	(923,814)
Profit before taxation	**1,130,283**	**7,350**	**1,137,633**
Taxation	(438,781)	27,486	(411,295)
Profit for the year	**691,502**	**34,836**	**726,338**

	At 31 Dec 2018 Audited - (as previously stated)	**Increase / Decrease**	**At 31 Dec 2018 Restated**	**At 31 Dec 2019 Audited - (as previously stated)**	**Increase / Decrease**	**At 31 Dec 2019 Restated**
Basic earnings per share (thebe)	20.7	(2.2)	18.5	29.2	1.5	30.7
Fully diluted earnings per share (thebe)	20.3	(2.2)	18.1	28.6	1.5	30.1

Basic and diluted earnings per share for the prior years have also been restated and noted above.

28 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 2020 P'000	31 December 2019 P'000
Earnings attributable to ordinary equity holders of the parent	**575,718**	**652,239**
Weighted number of shares:		
At beginning of year	2,124,991	2,124,991
Effect of shares issued (31 December 2020 - 4,483 million shares : 31 December 2019 - no shares issued)	3,304	-
Weighted number of shares at end of year	2,128,295	2,124,991
Basic earnings per share (thebe)	**27.1**	**30.7**

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	2,128,295	2,124,991
Dilution effect - number of shares (note 20)	108,526	39,619
	2,236,821	2,164,610
Diluted earnings per share (thebe)	**25.7**	**30.1**

28.1 HEADLINE EARNINGS PER SHARE

Headline earnings per share is calculated based on offsetting once off specific provisions. Refer to the Group's calculations below:

31 December 2020	**Gross**	**Tax**	**Net**
Earnings attributable to ordinary equity holders of the parent	-	-	**575,718**
Disposal and write off of plant and equipment	683	(205)	**478**
Headline earnings	**683**	**(205)**	**576,196**
Headline earnings per share (thebe)			**27.1**
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 2020.

31 December 2019	**Gross**	**Tax**	**Net**
Earnings attributable to ordinary equity holders of the parent	-	-	**652,239**
Loss on disposal of plant and equipment	36	(36)	-
Impairment of goodwill	38,737	-	38,737
Specific tax provision	22,000	-	22,000
Specific credit provision - East Africa	6,039	-	6,039
Headline earnings	**66,812**	**(36)**	**719,015**
Headline earnings per share (thebe)			**33.8**
Diluted headline earnings per share (thebe)			**33.2**

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

29 DIVIDEND PAID		**31 December 2020 P'000**	**31 December 2019 P'000**
Previous year final dividend paid during the year		163,624	70,125
Interim dividend paid		83,018	91,374
Total dividend paid to equity holders		**246,642**	**161,499**
Dividends per share : Interim (thebe)	- paid	3.9	4.3
: Final (thebe)	- proposed	8.3	7.7

30 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, Namibia, Mozambique,Lesotho, Eswatini, Kenya, Rwanda, Uganda, Tanzania, Nigeria, Ghana and offereing Deduction at source (DAS), MSE and Informal loans to its customers.

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:

30 SEGMENT INFORMATION (continued)

Reportable segments

31 December 2020	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	652,661	489,087	314,075	85,240	77,949	159,475	6,112	134,659	145,826	61,892	187,040	(169,133)	2,144,883
Profit / (loss) before taxation	471,412	333,581	197,177	60,845	29,992	60,803	614	21,669	64,682	5,935	115,732	(332,135)	1,030,307
Taxation - consolidated													(399,434)
Profit - consolidated													630,873
Gross Advances to customers	2,937,130	2,714,213	1,268,176	428,787	514,252	737,442	33,309	418,300	459,312	151,564	1,077,036	-	10,739,521
Impairment provisions	(110,884)	(42,871)	(24,127)	(19,314)	(22,609)	(137,564)	(2,637)	(39,109)	(44,491)	(20,110)	(114,271)	-	(577,987)
Net Advances	2,826,246	2,671,342	1,244,049	409,473	491,643	599,878	30,672	379,191	414,821	131,454	962,765	-	10,161,534
Total assets	2,990,027	3,253,380	1,470,446	418,628	524,822	714,571	54,682	445,039	583,025	167,920	1,213,506	390,159	12,226,205
Borrowings	1,257,184	1,076,369	199,468	245,757	319,341	372,997	12,696	291,989	18,234	1,860	683,704	1,169,962	5,649,561
Total liabilities	1,376,416	1,333,001	604,966	258,504	332,572	504,844	34,070	309,802	112,469	62,515	1,048,203	1,459,267	7,436,629

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	555,601	316,740	88,591	67,452	156,116	9,414	142,348	168,278	53,430	284,979	(128,644)	2,383,494
Profit / (loss) before taxation	527,892	418,311	198,742	42,078	38,310	55,232	2,678	42,096	90,386	7,162	14,161	(299,415)	1,137,633
Taxation - consolidated													(411,295)
Profit - consolidated													726,338
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	2,619,349	1,680,227	397,833	547,946	676,075	70,451	379,592	543,901	150,122	807,153	150,827	10,910,585
Borrowings	1,163,526	348,212	404,866	260,410	348,696	319,143	15,281	218,503	20,900	850	503,509	1,362,889	4,966,785
Total liabilities	1,277,310	457,104	761,757	267,792	356,921	457,272	48,989	234,105	121,133	53,623	702,088	1,551,555	6,289,649

31 RELATED PARTY TRANSACTIONS

Relationships:

Letshego Holdings Limited	Parent Company
Subsidiaries	Refer to note 34

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.

31.1 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 2020 P’000	31 December 2019 P’000
31.2	**Compensation paid to key management personnel (executive directors)**		
	Paid during the period		
	- Short-term employee benefits	9,270	8,124
		9,270	**8,124**

In terms of the Long Term Incentive Scheme there were no awards granted to executive directors relating to the 31 December 2020 and 2019 financial years.

32 CAPITAL COMMITMENTS

Authorised by the directors:		
- Not contracted for	**188,988**	**97,740**

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

33 SUBSEQUENT EVENTS

Dividend declaration

A second and final dividend of 8.3 thebe per share (prior year: 7.7 thebe per share) was declared on 26 February 2021 and will be paid on or about 12 May 2021.

Outlook post year-end

The economic impact of the Covid-19 second wave and the new strains identified in various parts of the world for 2021 remains to be seen. With the rollout of vaccines, infection rates are likely to start coming down but of importance will be the rollout of these vaccines across the African continent. What prevailed at the beginning of 2021 was the general preference by African governments for restricted trading hours and daily curfews as opposed to total lockdowns, which could further hurt economies still recovering from the 2020 national lockdowns.

East and West Africa are expected to record improved economic growth in 2021, with West Africa being a key growth driver. Recovery is expected in Ghana, Nigeria, and Kenya. We will continue to monitor earnings performance across all our markets and assess the impact of changes to the competitive landscape, changes in government policy and legislation as well as any changes in customer behavior on the Group's revenues.

34 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 2020 % holding	31 December 2019 % 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.

34.1 *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:

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

	31 December 2019 P '000
Total tax asset	**5,155**
50% conditional subsequent payment	**2,577**

34.2 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 30) as it includes an investment property in Namibia.

Summarised statement of financial position	31 December 2020 P'000	31 December 2019 P'000
Assets	3,182,318	2,590,176
Liabilities	1,558,691	783,250
Net assets	**1,623,627**	**1,806,926**
Accumulated non-controlling interest	**373,881**	**347,783**
Summarised statement of profit or loss and other comprehensive income		
Revenue	497,570	384,583
Profit for the year	233,849	299,491
Profit allocated to non-controlling interest	**52,766**	**65,784**
Dividends paid to non-controlling interest	**16,542**	**19,296**
Summarised statement of cash flows		
Cash flows from operating activities	(60,046)	(4,247)
Cash flows used in investing activities	(2,172)	(12,940)
Cash flows from financing activities	298,131	(438,907)
	235,914	**(456,094)**

34.2 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 2020 P'000**	**31 December 2019 P'000**
Letshego Financial Services Lesotho	8,005	6,500
Letshego Financial Services Mozambique, SA	1,512	1,720
Letshego Financial Services Swaziland Limited	28,732	28,430
Letshego Uganda Limited	5,689	6,390
	43,938	**43,040**
Total accumulated non-controlling interest	**417,819**	**390,823**

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

35 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 declares a profit share to Mozambique and Namibia

	31 December 2020 P'000	**31 December 2019 P'000**
Total assets	145,897	115,594
Total liabilities	56,295	4,188
Net assets	**89,602**	**111,406**

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 14. 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

	2020 December P'000	Restated 2019 December P'000	Restated 2018 December P'000	2017 December P'000	2016 December P'000
Assets					
Cash and cash equivalents	1,043,864	1,035,513	1,188,402	492,367	529,476
Advances to customers	10,161,534	9,071,484	8,698,831	7,768,904	6,689,740
Other receivables	263,202	247,996	252,491	201,605	166,717
Income tax receivable	140,804	-	-	17,967	17,250
Financial assets at fair value through profit or loss	59,408	53,591	53,591	-	-
Financial assets at fair value through other comprehensive income	102,633	82,741	44,829	53,591	53,591
Property, plant and equipment	94,229	99,671	80,532	92,061	76,034
Right-of-use assets	131,703	61,436	-	-	-
Intangible assets	39,091	45,221	45,488	55,340	52,609
Goodwill	65,598	68,233	106,229	122,280	129,408
Deferred tax assets	124,139	144,699	201,088	156,655	106,961
Total assets	**12,226,205**	**10,910,585**	**10,671,481**	**8,960,770**	**7,821,786**
Liabilities					
Financial liabilities at fair value through profit or loss	152,855	15,390	13,902	-	-
Customers deposits	664,393	426,673	497,718	228,432	107,696
Cash collateral	18,838	21,721	27,028	27,319	39,225
Trade and other payables	714,548	553,772	492,584	261,751	294,416
Lease liabilities	133,377	64,760	-	-	-
Income tax payable	103,057	239,743	232,132	182,879	99,373
Borrowings	5,649,561	4,966,785	5,315,417	3,984,607	3,394,116
Deferred tax liabilities	-	805	3,205	5,290	808
Total liabilities	**7,436,629**	**6,289,649**	**6,581,986**	**4,690,278**	**3,935,634**
Shareholders' equity					
Stated capital	872,169	862,621	862,621	849,845	875,639
Foreign currency translation reserve	(885,673)	(675,885)	(653,010)	(680,417)	(634,293)
Legal reserve	214,835	195,793	73,519	39,607	32,189
Fair value adjustment reserve	5,817	-	-	-	-
Share based payment reserve	31,295	24,304	18,089	38,840	35,835
Retained earnings	4,133,314	3,823,280	3,454,814	3,709,308	3,383,983
Total equity attributable to equity holders of the company	**4,371,757**	**4,230,113**	**3,756,033**	**3,957,183**	**3,693,353**
Non-controlling interests	417,819	390,823	333,462	313,309	192,799
Total shareholders' equity	**4,789,576**	**4,620,936**	**4,089,495**	**4,270,492**	**3,886,152**
Total equity and liabilities	**12,226,205**	**10,910,585**	**10,671,481**	**8,960,770**	**7,821,786**

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2020	2019	2018	2017	2016
Interest income at effective interest rate	2,712,278	2,974,839	2,718,257	2,252,636	1,963,129
Interest expense	(850,964)	(923,814)	(709,558)	(470,630)	(352,362)
Net interest income	**1,861,314**	**2,051,025**	**2,008,699**	**1,782,006**	**1,610,767**
Fee and commission income	71,033	59,451	30,735	38,596	24,617
Other operating income	212,536	273,018	267,421	234,169	209,724
Total income	**2,144,883**	**2,383,494**	**2,306,855**	**2,054,771**	**1,845,108**
Employee benefits	(493,497)	(454,023)	(390,177)	(367,057)	(309,016)
Other operating costs	(595,308)	(622,737)	(589,996)	(446,952)	(407,873)
Operating income before impairment	**1,056,078**	**1,306,734**	**1,326,682**	**1,240,762**	**1,128,219**
Expected credit losses / impairment expense	(25,771)	(169,101)	(361,491)	(237,149)	(180,649)
Operating income before taxation	**1,030,307**	**1,137,633**	**965,191**	**1,003,613**	**947,570**
Taxation	(399,434)	(411,295)	(495,091)	(322,367)	(337,500)
Profit for the year	**630,873**	**726,338**	**470,100**	**681,246**	**610,070**
Appropriations					
Dividends	(246,642)	(161,499)	(463,289)	(321,607)	(371,685)
Retained income	**384,231**	**564,839**	**6,811**	**359,639**	**238,385**
Attributable to :					
Equity holders of the parent company	575,718	652,239	393,335	637,663	568,145
Non-controlling interests	55,155	74,099	76,765	43,583	41,925
	630,873	**726,338**	**470,100**	**681,246**	**610,070**

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 2020

	31 December 2020 P'000	31 December 2019 P'000
Value added		
Value added is the wealth the Group has created by providing loans to clients		
Interest income	2,712,278	2,974,839
Cost of services	(850,964)	(931,164)
Value added services	1,861,314	2,043,675
Fee and commission income	71,033	59,451
Other operating income	212,536	273,018
Other operating costs	(545,500)	(573,274)
Impairment of advances	(25,771)	(169,101)
	1,573,612	**1,633,769**
Value allocated		
To employees		
Staff costs	493,497	454,023
To expansion and growth		
Retained income	384,231	530,003
Depreciation	35,406	35,170
Amortisation	14,402	14,293
Deferred tax	19,755	64,552
	453,794	644,018
To Government		
Taxation	379,679	374,229
To providers of capital		
Dividends to shareholders	246,642	161,499
	1,573,612	**1,633,769**
Summary	%	%
Employees	31.4	27.8
Expansion and growth	28.8	39.4
Government	24.1	22.9
Providers of capital	15.7	9.9
	100.0	**100.0**

LETSHEGO HOLDINGS LIMITED

ANALYSIS OF SHAREHOLDING

FOR THE YEAR ENDED 31 DECEMBER 2020

Top ten shareholders	**31 December 2020 Shares held ('000) Number**	**%**	**31 December 2019 Shares held ('000) Number**	**%**
• Botswana Life Insurance (Pty) Ltd	597,236	27.9	597,236	27.9
• African Alliance	293,820	13.7	284,901	13.3
• Botswana Insurance Fund Management Limited (BIFM)	274,698	12.8	251,357	11.7
• ADP I HOLDING 2	180,484	8.4	180,484	8.4
• Allan Grey	88,763	4.1	108,843	5.1
• Investec	66,163	3.1	74,356	3.5
• Standard Chartered Bank of Botswana Nominees (Pty) Ltd - Kuwait Investment Authority	47,870	2.2	49,440	2.3
• Business Doctor Investment Limited	47,684	2.2	-	-
• The Bank of New York Mellon	44,480	2.1	52,964	2.5
• Anadkat	39,885	1.9	-	-
	1,681,083	78.4	1,599,581	74.6
Other corporate entities, nominees and trusts and individuals	448,391	20.9	525,410	24.5
Treasury shares	14,571	0.7	19,054	0.9
Total	**2,144,045**	**100.0**	**2,144,045**	**100.0**

Directors' shareholdings	**31 December 2020 Shares held Number ('000)**	**%**	**31 December 2019 Shares held Number ('000)**	**%**
• *Colm Patterson	-	-	3,986	0.2
• Harrington Karuhanga	29	0.0	29	0.0
	29	**0.0**	**4,015**	**0.2**

*Colm Patterson the Group Chief Financial Officer resigned from the Board on 2 March 2019.