**Letshego Holdings Limited**

Consolidated Annual Financial Statements

For the year ended 31 December 2018

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**Details**

## GROUP CORPORATE INFORMATION

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

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

**Independent External Auditors**
PricewaterhouseCoopers
Plot 50371
Fairground Office Park
Gaborone, Botswana

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

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

## DIRECTORS' REPORT

The Directors have pleasure in submitting to the Shareholders their report and the audited consolidated financial statements of Letshego Holdings Limited (the Company) and its subsidiaries (together "the Group") for the year ended 31 December 2018.

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

**Stated capital**
Stated Capital of the Group at 31 December 2018 amounted to P862, 621,720 (31 December 2017: P849, 845,234).

On 28 March 2018, 5,345,810 ordinary shares were issued in terms of the Group`s Long Term Incentive Plan. These were issued from shares currently held as treasury shares and the remaining treasury shares at the end of the year were 19,054,190 (2017: 24,400,000). This resulted in an increase in stated capital by P12, 776,486.

In the prior period on 01 March 2017, 9,281,250 ordinary shares were issued at various prices in terms of the Group`s Long Term Incentive Plan. In addition, 24,400,000 ordinary shares were repurchased by the company in October 2017 and are held as treasury shares. This resulted in a net decrease in stated capital by P25, 793,392.

**Dividends**

An interim dividend of 8.7 thebe per share (prior year: 8.5 thebe per share) was declared on 29 August 2018.

A second and final dividend of 3.3 thebe per share (prior year: 9.0 thebe per share and an additional special dividend of 4.1 thebe per share as distribution of proceeds from the Namibia IPO) was declared on 1 March 2019 and paid on 2 April 2019.

**Directors**
The following persons were directors of the company during the year:

**Non-executive**

| | | |
|---|---|---|
| E.N Banda | Chairman | South Africa |
| S. Price | | UK |
| R. Thornton | Resigned 2 August 2018 | USA |
| H. Karuhanga | | Uganda |
| J.de Kock | Resigned and appointed as Acting Group Chief Financial Officer on 5 March 2019 | South Africa |
| Dr G.Somolekae | | Botswana |
| C. G. Van Schalkwyk | | South Africa |
| R. N. Alam | Appointed 19 January 2018 | USA |
| C. Lesetedi | | Botswana |
| G. Van Heerde | | South Africa |

## Directors (continued)

### Executive

| | | |
|---|---|---|
| A.C.M. Low | Group Chief Executive Officer - resigned 2 August 2018 | UK |
| P.J.S Crouse | Group Chief Executive Officer - appointed 24 September 2018 and resigned 27 March 2019 | South Africa |
| C. W. Patterson | Group Chief Financial Officer – resigned 2 March 2019 | Ireland |
| D. Ndebele | Interim Chief Executive Officer – appointed 27 March 2019 | Botswana |

### Directors' shareholdings

The aggregate number of shares held directly by Directors at 31 December 2018 were at 28,987 (31 December 2017: 6,568,775). Full details of this shareholding are available at the registered office of the company or at the office of the transfer secretaries.

### Long Term Incentive Plan

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

## DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for the preparation and fair presentation of the consolidated annual financial statements of Letshego Holdings Limited the "Group", comprising the consolidated statement of financial position at 31 December 2018, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards.

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 16 April 2019 and is signed on its behalf by:

**E.N. BANDA**
**CHAIRMAN**

**S. PRICE**
**DIRECTOR**

**INDEPENDENT AUDITOR'S REPORT**
**TO THE SHAREHOLDERS OF LETSHEGO HOLDINGS LIMITED**

*Our opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Letshego Holdings Limited (the "Company") and its subsidiaries (together the "Group") as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

**What we have audited**

Letshego Holdings Limited's consolidated financial statements set out on pages 15 to 61 comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the significant accounting policies; and
- the notes to the consolidated financial statements.

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

**Independence**

We are independent of the Group in accordance with the *Botswana Institute of Chartered Accountants' Code of Ethics (the "BICA Code")* and other independence requirements applicable to performing audits of financial statements in Botswana. We have fulfilled our other ethical responsibilities in accordance with these requirements and the BICA Code. The BICA Code is consistent with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (Parts A and B).

*Our audit approach*

**Overview**

**Overall group materiality**

- Overall group materiality: P45,000,000, which represents 4.5% of profit before taxation

**Group audit scope**

Group audit scope has been determined based on indicators such as the contribution to consolidated profit before tax and consolidated revenue from each component. The Group consists of 17 components. We performed full scope audits on three financially significant components and the holding company, and audit procedures on one or more account balances and transactions at seven other components.

**Key Audit Matters**

- Impairment of advances to customers
- Recognition of deferred tax asset on tax losses
- Provision for income tax

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Country Senior Partner: B D Phirie
Partners: [illegible]

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

## Materiality

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

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

| | |
|---|---|
| *Overall group materiality* | P45,000,000 |
| *How we determined it* | 4.5% of the profit before taxation |
| *Rationale for the materiality benchmark applied* | We chose profit before taxation as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users and is a generally accepted benchmark. We chose 4.5%, which is lower than the quantitative materiality thresholds used for profit-oriented companies in this sector, because the Group has significant exposure to listed bond liabilities, with related debt covenant requirements. |

## How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. Our scoping assessment included consideration of the financial significance of the Group's components as well as taking into consideration the sufficiency of work planned to be performed over material line items in the consolidated financial statements. We identified three financially significant components in the Group, namely Letshego Financial Services (Proprietary) Limited – Botswana, Banco Letshego S.A. and Letshego Holdings Namibia Limited. We included seven other components in the scope of our Group audit based on indicators such as the contribution to consolidated profit before taxation and consolidated revenue. The remainder of the components were considered to be insignificant to the Group individually and in aggregate.

For the financially significant components, and the holding company, we performed a full scope audit and for the other in-scope components, we performed audit procedures on one or more account balances and transactions. Analytical review procedures were performed on insignificant components. This, together with additional procedures performed at the Group level, including testing of consolidation journals and intercompany eliminations, provided us the audit evidence we needed for our opinion on the consolidated financial statements as a whole.

In establishing the overall approach to the Group audit, we determined the extent of the work that needed to be performed by us, as the Group engagement team, or by component auditors from other PwC network firms operating under our instruction, in order to issue our audit opinion on the consolidated financial statements of the Group. Where the work was performed by component auditors, we determined the level of involvement necessary in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group financial statements as a whole.

Detailed Group audit instructions were communicated to all component auditors at in-scope components, and the Group engagement team has been involved in determining the component audit approaches. Throughout the audit, various planning, execution and completion calls and discussions were held with the component auditors.

*Key audit matters*

Key audit matters are those matters that, in our professional judgment, 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.

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| ***Impairment of advances to customers*** | |
| The Group has adopted IFRS 9 - *Financial Instruments* (IFRS 9) for the first time in the 2018 reporting period (previously IAS 39 - *Financial Instruments: Recognition and Measurement* was applied). As a result, the accounting policies applicable to financial instruments have been amended accordingly.<br><br>The introduction of the impairment requirements of IFRS 9 requires the impairment allowance to be considered on an expected credit loss basis and as a result has a material impact on the Group's financial position.<br><br>With the adoption of IFRS 9, the Group developed its own impairment model to calculate Expected Credit Losses (ECLs). In determining the ECLs on the advances to customers using this model, the following has been considered by the Group:<br><br>*Forward looking information*<br>Forward looking information inherently involves management judgement in determining key inputs such as economic variables that affect Probabilities of Default (PD), Loss Given Default (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.<br><br>The Group has performed historical analysis and identified key economic variables impacting credit risk and ECLs at subsidiary level. These economic variables are approved by the credit committee. | Our audit addressed the impairment of advances to customers by performing the following:<br>We assessed the accounting policies relating to the impairment of advances to customers and found these to be in accordance with the requirements of IFRS 9.<br><br>We obtained an understanding of and tested the relevant controls relating to advances to customers which included:<br>• the processes over credit approval for advances to customers; and<br>• the monitoring of credit.<br><br>We utilised our valuation expertise to assess the appropriateness of the model used by the Group, including IFRS 9 compliance, and ensured that the model was consistently applied across the group. We noted that the models were appropriate and there were no inconsistencies across the Group. We evaluated the reasonableness of key judgemental inputs used in the model, including comparison of forward looking information to relevant data sources. We are satisfied that the judgements applied and forward looking information used are in line with our understanding.<br><br>We tested the inputs into the model by performing the following procedures on sample basis:<br>• we assessed whether the system is calculating the past due days correctly, as this is the key driver in identifying the stage of impairment, noting no exceptions; |

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| *Significant increase in credit risk (SICR)*<br>The Group considers either 12 month or lifetime ECLs, depending on whether there has been a significant increase in credit risk (SICR) since initial recognition. Indicators of SICR include any of the following:<br>• 30 days past due rebuttable presumption;<br>• historical delinquency behaviour of accounts that are up to date and accounts in 1-30 days category; and<br>• significant adverse changes in business, financial and/or economic conditions in which the client operates, including for example retrenchment of the customer and closure of a sponsoring employer.<br><br>*ECL measurement basis*<br>The ECLs are measured using a 3 stage model which determines how the loss allowance for ECLs is measured and how the effective interest income on the financial asset is calculated.<br><br>The impairment of advances to customers was considered to be of most significance to the current year audit due to the following:<br>• The first time adoption of IFRS 9 by the Group.<br>• The degree of judgement applied by management in determining the SICR thresholds;<br>• The degree of judgement applied in the classification of exposures between Stage 1 and Stage 2, and<br>• The degree of judgement applied by management in determining the forward looking information that is an input into the ECL calculations.<br><br>*Refer to the significant accounting policies on page 19, use of estimates and judgements on page 46, credit risk note on page 32 and advances to customers note on page 48.* | • we evaluated the categorisation between the impairment stages against the Group policy, and found that categorisations are consistent with the Group policy;<br>• we compared the inputs used in the model, such as the type of product (e.g. employer category) and the effective interest rate with the information in the underlying accounting records and found no inconsistencies;<br>• we have independently derived a macroeconomic model based on the correlation observed between historical default rates and economic variables used. We have also used independent forecasted values of economic variables to predict future PDs for a range of scenarios. Our testing did not identify material differences;<br>• we recalculated the Exposure at Default and compared against the Group's data. We did not identify any significant variations.<br>• we compared the observable data underpinning the PD and LGD calculation to relevant data sources and found no material exceptions.<br><br>We assessed the reasonableness of the judgement applied by management in determining the SICR attribution by discussing with management to obtain an understanding, and by comparing this understanding with financial information available and other publicly available information. We also examined correspondence between the Group and the relevant sponsoring employers, legal advice obtained by the Group and specific actions taken by the Group to mitigate against potential losses. We found management's assessment of SICR to be appropriate. |

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| *Key audit matter* | *How our audit addressed the key audit matter* |
| --- | --- |
| ***Recognition of deferred tax asset on tax losses*** | |
| The Group recognised a deferred tax asset of P212 million in its statement of financial position. Deferred tax assets arise from the recoverable tax losses and temporary differences such as staff cost provisions and credit impairment provisions, and vary based on requirements of the specific tax jurisdictions in which these losses and differences arise.<br><br>The ultimate realisation of such deferred tax assets depend largely on the ability of the Group to generate taxable income in each relevant jurisdiction in order to utilise these losses and differences.<br><br>Out of the total deferred tax asset, P50 million relates to the tax losses of the Group holding company, Letshego Holdings Limited. The Group holding company did not recognise deferred tax assets on tax losses amounting to P31 million as it was uncertain whether there were opportunities to generate sufficient taxable profits before these losses expire.<br><br>Historically, the Group holding company did not generate sufficient taxable income as its most significant revenue source (dividend income) does not form part of taxable income, nor does the existing operating model for the Group holding company indicate that sufficient taxable income will be generated in the immediate future.<br><br>Accordingly, the Group assesses the recoverability of the deferred tax asset arising at Letshego Holdings Limited based on available tax planning opportunities, which will allow the Group holding company to increase taxable income before the expiry of tax losses (being five years from the originating tax year).<br><br>The discretionary nature of implementation of such tax planning opportunities increases the risk that the recognised deferred tax asset may not be fully realised before it expires.<br><br>The quantum of the deferred tax asset on tax losses at the group holding company, combined with the significant uncertainties in the measurement of the asset, resulted in this being a matter of most significance to the audit. | With respect to the deferred tax asset recognised at Letshego Holdings Limited, management provided us with a written summary of tax planning opportunities which the Group intends to implement in order to utilise available income tax losses before these expire. These tax planning opportunities relate mainly to the raising of charges by the Group holding company on the operating entities.<br><br>With the assistance of our local tax specialists, we evaluated the reasonableness of the tax planning opportunities outlined in this summary with reference to income tax advice which had been received by the Group in the previous years, and which formed the basis from which the Group's proposed transfer pricing strategies had been developed, and concurred with management's assertion.<br><br>We also:<br>• obtained confirmation from the Board of Directors that it has approved implementation of the proposed tax planning opportunities, commencing from the financial year ending 31 December 2019;<br>• obtained written representation from the Group Executive Management that the Group will start implementation of the proposed tax planning opportunities during the financial year ending 31 December 2019 and that the Group has the necessary capacity and managerial ability to complete implementation of these plans to allow for the utilisation of income tax losses before these expire; and<br>• compared management's past intention to recover the recognised deferred tax asset on tax losses against the plans implemented during the year and noted that all planned actions had been either implemented or where not implemented, have been explained with proposed actions to implement them going forward.<br><br>The results of our procedures supported management's assertion that the Group demonstrably had the intent and ability to implement the proposed tax planning strategies to recover the deferred tax asset recognised. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *The disclosures associated with deferred taxes are set out in the consolidated financial statements in note 2.3 – Use of Estimates and Judgements, Recognition of deferred tax assets (page 46), and note 23.1 – Deferred taxation (page 56).* | |
| ***Provision for income tax*** | |
| The Group is subject to taxes in various jurisdictions. Significant judgement is required in determining the 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 known 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 differences will be recognised in the period in which such determination is made.<br><br>As at 31 December 2018, the Group has a provision of P45.3 million in an East African subsidiary for potential current income tax liabilities arising from prior years. This was in response to ongoing revenue authority audits that were not finalized at the time of the authorisation of the financial statements.<br><br>The Group has reviewed the matters raised by the revenue authority and carried out its own assessment of the potential liabilities based on currently enacted tax legislation and believe the provision made is adequate to cover any possible exposures.<br><br>The significant judgement exercised by management in determining the provision for prior year under provision of income tax in the East African subsidiary, and the quantum of the provision resulted in this being a matter of most significance to the audit.<br><br>*The disclosures associated with current income taxes are set out in the consolidated financial statements in note 2.4 – Use of Estimates and Judgements, Income tax expense (page 47)* | With respect to the current tax liability provisions made in an East African subsidiary for liabilities arising from prior years, we reviewed correspondence between the Group and the relevant local revenue authority to understand the nature of the issues that give rise to the under provision of prior year tax liabilities.<br><br>Based on this understanding, and with the assistance of our local tax specialists, we examined the calculation done by the Group which included:<br>• testing of rationale for instances where the Group believes that they do not need to provide for additional taxes by applying our knowledge and interpretation of the relevant law and practice; and<br>• independently recomputing the probable tax liability based on currently enacted legislation.<br><br>Our testing did not identify any material differences. |

*Other information*
The directors are responsible for the other information. The other information comprises the information included in the *Letshego Holdings Limited Consolidated Annual Financial Statements for the year ended 31 December 2018*, which we obtained prior to the date of this auditor's report, and the other sections of the *Letshego 2018 Integrated 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 and will 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 that we 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.

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

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

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

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

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

PricewaterhouseCoopers

**Practicing Member: Lalithkumar Mahesan**
**Membership number: 20030046**

**Gaborone**
**30 April 2019**

**LETSHEGO HOLDINGS LIMITED**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**AT 31 DECEMBER 2018**

-

| | Note | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 3 | 1,188,402 | 492,367 |
| Advances to customers | 4 | 8,698,831 | 7,768,904 |
| Other receivables | 5 | 252,491 | 201,605 |
| Available-for-sale financial asset | 8 | 53,591 | 53,591 |
| Income tax receivable | | 19,074 | 17,967 |
| Property, plant and equipment | 6 | 80,532 | 92,061 |
| Intangible assets | 7 | 45,488 | 55,340 |
| Goodwill | 9 | 106,229 | 122,280 |
| Deferred tax assets | 23.1 | 211,651 | 156,655 |
| **Total assets** | | **10,656,289** | **8,960,770** |
| | | | |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Customer deposits | 11 | 497,718 | 228,432 |
| Cash collateral | 13 | 27,028 | 27,319 |
| Trade and other payables | 12 | 492,225 | 261,751 |
| Income tax payable | | 232,132 | 182,879 |
| Deferred tax liabilities | | 3,205 | 5,290 |
| Borrowings | 14 | 5,329,319 | 3,984,607 |
| **Total liabilities** | | **6,581,627** | **4,690,278** |
| **Shareholders' equity** | | | |
| Stated capital | 15 | 862,621 | 849,845 |
| Foreign currency translation reserve | | (696,276) | (680,417) |
| Legal reserve | 16 | 73,519 | 39,607 |
| Share based payment reserve | | 18,089 | 38,840 |
| Retained earnings | | 3,500,317 | 3,709,308 |
| Total equity attributable to equity holders of the parent company | | **3,758,270** | **3,957,183** |
| Non - controlling interests | | 316,392 | 313,309 |
| **Total shareholders' equity** | | **4,074,662** | **4,270,492** |
| **Total liabilities and equity** | | **10,656,289** | **8,960,770** |

**LETSHEGO HOLDINGS LIMITED**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

| | Note | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|---|
| Interest income | 18 | 2,718,257 | 2,252,636 |
| Interest expense | 19 | (654,079) | (470,630) |
| **Net interest income** | | **2,064,178** | **1,782,006** |
| Fee and commission income | 20 | 30,735 | 38,596 |
| Other operating income | 20.1 | 267,421 | 234,169 |
| **Operating income** | | **2,362,334** | **2,054,771** |
| Employee benefits | 21 | (390,177) | (367,057) |
| Other operating expenses | 22 | (590,158) | (446,952) |
| **Net income before impairment and taxation** | | **1,381,999** | **1,240,762** |
| Impairment of advances | 4 | (361,491) | (237,149) |
| **Profit before taxation** | | **1,020,508** | **1,003,613** |
| Taxation | 23 | (510,026) | (322,367) |
| **Profit for the year** | | **510,482** | **681,246** |
| **Attributable to :** | | | |
| Equity holders of the parent company | | 438,639 | 637,663 |
| Non - controlling interest | | 71,843 | 43,583 |
| **Profit for the year** | | **510,482** | **681,246** |
| **Other comprehensive income, net of tax** | | | |
| ***Items that may be reclassified to profit or loss*** | | | |
| Foreign operations - foreign currency translation differences | | (48,688) | (39,163) |
| **Total comprehensive income for the year** | | **461,794** | **642,083** |
| **Attributable to :** | | | |
| Equity holders of the parent company | | 422,780 | 591,539 |
| Non - controlling interest | | 39,014 | 50,544 |
| **Total comprehensive income for the year** | | **461,794** | **642,083** |
| **Earnings per share** | | | |
| Basic earnings per share – (thebe) | 24 | 20.7 | 29.8 |
| Diluted earnings per share – (thebe) | 24 | 20.3 | 29.2 |

**LETSHEGO HOLDINGS LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

| | Note | Stated capital | Retained earnings | Share based payments reserve | Foreign currency translation reserve | Legal reserve | Non - controlling interests | Total |
|---|---|---|---|---|---|---|---|---|
| | | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Balance at 1 January 2018** | | **849,845** | **3,709,308** | **38,840** | **(680,417)** | **39,607** | **313,309** | **4,270,492** |
| Impact of adopting IFRS 9 | 4 | - | (178,951) | - | - | - | (12,923) | (191,874) |
| Recognition of deferred tax on IFRS 9 adjustment | 23.1 | - | 38,133 | - | - | - | 1,880 | 40,013 |
| **Adjusted balance 1 January 2018** | | **849,845** | **3,568,490** | **38,840** | **(680,417)** | **39,607** | **302,266** | **4,118,631** |
| **Total comprehensive income for the year** | | | | | | | | |
| Profit for the year | | - | 438,639 | - | - | - | 71,843 | 510,482 |
| **Other comprehensive income, net of income tax** | | | | | | | | |
| Foreign currency translation reserve | | - | - | - | (15,859) | - | (32,829) | (48,688) |
| **Transactions with owners, recorded directly in equity** | | | | | | | | |
| Acquisition of Non-controlling interest - Tanzania Bank | 31.1 | - | (9,611) | - | - | - | (5,936) | (15,547) |
| Allocation to legal reserve | 16 | - | (33,912) | - | - | 33,912 | - | - |
| Allocation to share based payment reserve | 15 | - | - | (7,975) | - | - | - | (7,975) |
| New shares issued from long term incentive scheme | 15 | 12,776 | - | (12,776) | - | - | - | - |
| Dividends paid by subsidiary to minority interests | | - | - | - | - | - | (18,952) | (18,952) |
| Dividends paid to equity holders | 25 | - | (463,289) | - | - | - | - | (463,289) |
| **Balance at 31 December 2018** | | **862,621** | **3,500,317** | **18,089** | **(696,276)** | **73,519** | **316,392** | **4,074,662** |
| | | | | | | | | |
| **Balance at 1 January 2017** | | **875,639** | **3,383,983** | **35,835** | **(634,293)** | **32,189** | **192,799** | **3,886,152** |
| **Total comprehensive income for the year** | | | | | | | | |
| Profit for the year | | - | 637,663 | - | - | - | 43,583 | 681,246 |
| **Other comprehensive income, net of income tax** | | | | | | | | |
| Foreign currency translation reserve | | - | - | - | (46,124) | - | 6,961 | (39,163) |
| **Transactions with owners, recorded directly in equity** | | | | | | | | |
| Sale of interest to non-controlling interest in Letshego Holdings Namibia Limited | 31.2 | - | 16,687 | - | - | | 70,791 | 87,478 |
| Allocation to legal reserve | 16 | - | (7,418) | - | - | 7,418 | - | - |
| Allocation to share based payment reserve | | - | - | 25,279 | - | - | - | 25,279 |
| New shares issued from long term incentive scheme | 15 | 22,274 | - | (22,274) | - | - | - | - |
| Share buy back - held as treasury shares | 15 | (48,068) | - | - | - | - | - | (48,068) |
| Dividends paid by subsidiary to minority interests | | - | - | - | - | - | (825) | (825) |
| Dividends paid to equity holders | 25 | - | (321,607) | - | - | - | - | (321,607) |
| **Balance at 31 December 2017** | | **849,845** | **3,709,308** | **38,840** | **(680,417)** | **39,607** | **313,309** | **4,270,492** |

**LETSHEGO HOLDINGS LIMITED**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

| | Note | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit before taxation | | 1,020,508 | 1,003,613 |
| *Adjustments for :* | | | |
| - Net interest income | | (2,064,178) | (1,782,006) |
| - Amortisation of intangible assets | 7 | 11,847 | 9,636 |
| - Depreciation | 6 | 24,444 | 23,164 |
| - Disposal and write off | | 15,214 | - |
| - Impairment and write off charge | 4 | 508,211 | 376,909 |
| - Impairment of goodwill | 2.5 | 22,000 | - |
| - Long term incentive plan provision | | (7,975) | 25,279 |
| Changes in working capital: | | | |
| Movement in advances to customers | | (1,634,519) | (1,259,207) |
| Movement in other receivables | | (138,946) | (31,002) |
| Movement in trade and other payables | | 230,474 | (36,453) |
| Movement in customer deposits | | 269,286 | 120,736 |
| Movement in cash collateral | | (291) | (11,906) |
| **Cash used in operations** | | **(1,743,925)** | **(1,561,237)** |
| Interest received | | 2,718,257 | 2,252,636 |
| Interest paid | | (654,079) | (470,630) |
| Income tax paid | | (478,948) | (290,590) |
| **Net cash flows utilised in operating activities** | | **(158,695)** | **(69,821)** |
| **INVESTING ACTIVITIES** | | | |
| Payment for acquisition subsidiaries | 10 | - | (90,719) |
| Cash acquired from acquisitions | 10 | - | 25,864 |
| Proceeds from sale of property, plant and equipment | | - | 2,340 |
| Purchase of property, plant and equipment and intangible assets | | (29,891) | (42,725) |
| **Net cash flows used in investing activities** | | **(29,891)** | **(105,240)** |
| **FINANCING ACTIVITIES** | | | |
| Dividends paid to equity holders | 25 | (463,289) | (321,607) |
| Dividends paid to subsidiary non-controlling interest | | (18,952) | (825) |
| Share buy back | 15 | - | (48,068) |
| Payment for acquisition of interest in a subsidiary | 31.1 | (15,547) | - |
| Proceeds from sale of interest in a subsidiary | 31.2 | - | 87,478 |
| Finance obtained from third parties | 14 | 1,938,071 | 1,039,889 |
| Repayment of borrowings | 14 | (638,687) | (607,853) |
| **Net cash generated from financing activities** | | **801,596** | **149,014** |
| **Net movement in cash and cash equivalents** | | **613,010** | **(26,047)** |
| **Movement in cash and cash equivalents** | | | |
| At the beginning of the year | | 492,367 | 529,476 |
| Movement during the year | | 613,010 | (26,047) |
| Effect of exchange rate changes on cash and cash equivalents | | (5,035) | (11,062) |
| **At the end of the year** | 3 | **1,100,342** | **492,367** |

**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 2018 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").The Group embarked on a focused transformation process in 2014, with a key focus on sustainable inclusive financial services and diversification from its unsecured lending model to civil servants, combined with African expansion. This new focus has so far resulted in the Group expanding its footprint to 11 African countries with representation in East, West and Southern Africa. Also, 6 out of the 11 subsidiaries now operate with deposit taking licences which is a key priority in achieving the Group's ambition to become Africa's leading inclusive finance provider.

The consolidated financial statements for the year ended 31 December 2018 have been approved for issue by the Board of Directors on 16 April 2019.

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

**Statement of compliance**

The consolidated annual financial statements have been prepared in accordance with the International Financial Reporting Standards.

**Basis of preparation**

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

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

**Adoption of new accounting standards**

The Group has adopted IFRS 9 – Financial instruments ('IFRS 9") for the first time in 2018 reporting period (previously IAS 39 – Financial instruments: recognition and measurement was applied). As a results, accounting policies applicable to financial instruments have been amended accordingly. The other standards that became effective during the current year did not have any material impact.

**Use of judgements and estimates**

The preparation of consolidated annual financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Significant judgements made by management in the application of International Financial Reporting Standards consist mainly on loans and advances, impairments and share based payment calculations. Judgement is also applied to the valuation of goodwill recognised and probability of having sufficient taxable profits against which deferred tax assets may be utilised (note 2).

**Basis of consolidation**

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

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

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

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

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

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

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

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

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

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

**Property, plant and equipment (continued)**

Land and buildings are stated on the historical cost basis. 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.

Gains and losses on disposal of property 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 appropriate category of equipment and/or intangible assets and depreciated over the useful life of the asset.
- Costs incurred in acquisition and development of property until the property is available for use, at which point the respective property will be transferred to an appropriate property category and depreciated over the estimated life of the property.

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

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

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

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

**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.

**Intangible assets – computer software (continued)**

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.

**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.

**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 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 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.

**Interest income (continued)**

When calculating the effective interest rate, the Group estimates cash flows considering all contractual / behavioural terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and administration charges paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**Fee and commission income**

Fees and commissions are recognised on an accrual basis when the service has been provided. Commission and fees arising from group credit life insurance scheme are recognised on a time-apportion ate basis over the period the service is provided.

**Interest expense**

Interest expense is recognised in profit or loss using the effective interest method as describe under 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 insurance arrangements, loan settlement fees and other non-core income streams and are recognised in profit and loss as when they are earned.

**Dividend income**

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

**Legal reserve**

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

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

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

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

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

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

*Determination of fair value of equity instruments granted*

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

**Segment reporting**

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

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

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

**Contingent liabilities**
The Group recognises a contingent liability where, it has a possible obligation from past events, the existence of which will be confirmed only by the occurrence of one or more uncertain events not wholly within the control of the Group.

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

***Loans and receivables***
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables 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 carried at amortised cost in the statement of financial position.

*Available-for-sale financial asset*
Available-for-sale assets 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. Available-for-sale financial asset 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. Dividend received on available-for-sale equity instruments are recognised in the statement of comprehensive income when the company's right to receive payment is established.

***Financial liabilities at amortised cost***
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; they are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

**Financial assets and liabilities (continued)**

**Financial liabilities at amortised cost (continued)**

*Trade and other payables*

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

*Cash collateral*

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

***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.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position.

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.

**Financial assets and liabilities (continued)**

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

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

***Identification and measurement of impairment***
At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

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 collective 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 advances to customers. 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 cell's assets, with any profit after deduction of the insurers' fees, allocation taxes and other costs payable to the corporate entity.

**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 other assets, an impairment loss is reversed only to the extent that the asset's carrying amount that would have been determined if no impairment loss had been recognised.

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

**IFRS 9 Financial Instruments**
The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. The Group has also elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail on page 29 and note 1.3.1.

**IFRS 15 Revenue from Contracts with Customers**
IFRS 15 establishes a comprehensive framework for revenue recognition. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes.* IFRS 15 was effective from 1 January 2018 and the overall impact to Group was immaterial.

Other than the above there were no new standards or amendments that had a material impact on the operations of the Group.

### Standards issued but not yet effective at year end

A number of new standards and amendments to standards are issued but not yet effective for period ended 31 December 2018. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early. These will be adopted in the period that they become mandatory.

### IFRS 16 Leases

IASB and FASB decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment. This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019 and the Group is in the process of assessing the potential impact to the financial statements.

### Other standards/amendments

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

- Presentation of financial statements Amendments to IAS 1 **–** effective 1 January 2020.
- Employee benefits Amendments to IAS 19 **–** effective 1 January 2019
- Uncertainty over income tax treatments IFRIC 23 **–** effective 1 January 2019
- Amendments to IFRS 3 **–** Business combinations **–** effective 1 January 2020
- Amendments to IFRS 9 **–** Financial instruments **–** effective 1 January 2019

**Adoption of IFRS 9 Financial Instruments: Impairment**

**Transition**

As permitted by the transitional provisions of IFRS 9, Letshego Group has elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition have been recognised in the opening retained earnings and other reserves at 1 January 2018. The following table illustrates the impact on opening reserves on transition to IFRS 9.

**Impact of opening reserves on transition to IFRS 9**

| P'000 | Balance at 31 December 2017 | IFRS 9 transitional adjustments | Adjusted balance at 1 January 2018 |
|---|---|---|---|
| **Shareholder's equity** | | | |
| Stated Capital | 849,845 | - | 849,845 |
| Foreign currency translation reserve | (680,417) | - | (680,417) |
| Legal reserve | 39,607 | - | 39,607 |
| Share based payment reserve | 38,840 | - | 38,840 |
| Retained earnings | 3,709,308 | (140,818) | 3,568,490 |
| **Total equity attributable to equity holders of the parent** | **3,957,183** | **(140,818)** | **3,816,365** |
| Non-controlling interests | 313,309 | (11,043) | 302,266 |
| **Total equity** | **4,270,492** | **(151,861)** | **4,118,631** |

Segment wise reconciliation of the closing IAS 39 Impairment Provision to the opening IFRS 9 Provision is given below.

| Operating Segments 31 December 2018 P'000 | IAS 39 Impairment Provisions at 31 December 2017 | | | IFRS 9 ECL Provisions at 1 January 2018 | | | | |
|---|---|---|---|---|---|---|---|---|
| | Portfolio impairment | Specific impairment | Total IAS 39 provision | Stage 1: 12-month ECL allowance | Stage 2: Lifetime ECL allowance – not credit-impaired | Stage 3: Lifetime ECL allowance – credit-impaired | Total ECL on 1 January 2018 | ECL impact |
| ***Financial assets*** | | | | | | | | |
| Botswana | 14,992 | 132,883 | 147,875 | 26,982 | 18,945 | 179,047 | 224,974 | (77,099) |
| Namibia | 2,351 | 8,049 | 10,400 | 2,943 | 549 | 3,761 | 7,253 | 3,147 |
| Mozambique | 3,122 | 10,449 | 13,571 | 3,755 | 678 | 11,066 | 15,499 | (1,928) |
| Other Southern Africa | 1,675 | 7,238 | 8,914 | 5,876 | 924 | 12,369 | 19,169 | (10,255) |
| Tanzania | 31,670 | 68,137 | 99,807 | 33,395 | 21,239 | 106,435 | 161,069 | (61,262) |
| Other East Africa | 54,383 | 33,177 | 87,560 | 19,808 | 14,380 | 87,441 | 121,629 | (34,069) |
| West Africa | 28,793 | 5,480 | 34,273 | 13,390 | 3,598 | 27,693 | 44,681 | (10,408) |
| **Total** | **136,986** | **265,414** | **402,400** | **106,149** | **60,313** | **427,812** | **594,274** | **(191,874)** |

**Maximum exposure to credit risk**

| | At 31st December 2018 (IFRS 9) | At 1st January 2018 (IFRS 9) |
|---|---|---|
| | **P'000** | **P'000** |
| **Gross advances to customers** | **9,541,966** | 8,171,304 |
| Of which stage 1 and 2 | **8,808,593** | 7,617,262 |
| Of which stage 3 | **733,373** | 554,042 |
| | | |
| **Expected credit loss provisions** | **(843,135)** | (594,274) |
| Of which stage 1 and 2 | **(268,641)** | (166,462) |
| Of which stage 3 | **(574,494)** | (427,812) |
| | | |
| **Net advances to customers** | **8,698,831** | 7,577,030 |
| Of which stage 1 and 2 | **8,539,952** | 7,450,800 |
| Of which stage 3 | **158,879** | 126,230 |
| | | |
| **Impairment (ECL ) coverage ratio** | **9%** | 7% |
| **NPL (Stage 3 ) coverage ratio** | **115%** | 107% |

## 1 FINANCIAL RISK MANAGEMENT

### 1.1 Introduction and overview

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

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

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

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

- Group Management Committee / Executive Committee (Exco)
- Group Risk Management Committee
- Group Innovation Management Committee
- Group Business Growth Committee
- Group Asset and Liability Management Committee
- Group Technical and Operations Committee
- Group Sustainability Committee

The Group Risk and Assurance Function and the Legal and Compliance Function were restructured during 2017 to report under the Group Governance, Risk, Legal and Compliance Function. This function remains independent of the business functions with the Group Internal Audit function reporting directly to the Group Audit Committee. The Group Head of Governance, Risk, Legal and Compliance assumed the responsibility for the implementation of the Group ERM framework (that includes the Legal and Compliance Framework) and the Group Governance Framework approved by the Board. Group Internal Audit is responsible for providing independent assurance that the overall Governance, ERM and IT Governance frameworks are adequately designed, implemented and monitored. Within the regular audit activity, Group Internal Audit is also responsible for providing assurance that the systems of internal control are operating effectively.

Significant progress was made during the year in embedding the enhanced Enterprise-wide Risk Management (ERM) framework across the Group. The ERM framework emphasises the five key elements that the Group would like to achieve and maintain namely, adequate board oversight, adequate senior management oversight, sound risk management policies and operating procedures, strong risk measurement, monitoring and control capabilities and adequate internal controls.

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

### 1.2 Strategic risk

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

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

**1 FINANCIAL RISK MANAGEMENT (continued)**

**1.2 Strategic risk (continued)**

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

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

During 2017, the Group Business Strategy was cascaded throughout the subsidiaries to ensure that their strategies are fully aligned to the group strategy and risk appetite. The Group is undergoing a significant change process through the focus on customer centric change culture to ensure that we are adequately equipped to deliver our strategic agenda.

**1.3 Financial risk**

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

**1.3.1 Credit risk**

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

| Key metrics | YoY Trend | 2018 | 2017 |
|---|---|---|---|
| Growth in gross advances to customers (%) | ⇨ | 17% | 17% |
| Loan loss Rate (%) | ⬆ | 4.1% | 3.1% |
| Non-performing loans as a percentage (%) of gross advances | ⬆ | 7.1% | 6.8% |
| Non-performing loans coverage ratio (%) | ⬆ | 115% | 70% |

**Impairment**

Full year 2018 impairment charge is P361m, an increase from 2017: P237million with the loan loss rate increasing from 3.1% to 4.1%. The increase has been driven by transition to IFRS 9 with an impact of P192 million. There has been a charge in geographic and business risk with weaker credit risk quality evident in the East and West Africa region . Overall non-performing loan Impairment coverage increased from 70% to 115% from 2017 to 2018, with non-performing loans as a percentage of the total loan book increasing year on year from 6.8% in 2017 to 7.1% in 2018.

**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 write offs an account when in Contractual deliquency 12 (CD12 ) i.e. 12 payments in arrears and the policy hasnt been changed with the implementation of IFRS 9.

**Approach to managing credit risk**

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

**Credit risk mitigation**

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

- Group writes off loans which are 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 six consecutive full 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.
- No special treatment is given to renegotiated loans in terms of provisioning. These will however be catered for in IFRS9.
- Customers cannot take a 'top up' loan if they are in arrears

Letshego 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.

We adhere to rules / legislation around affordability. In most countries in the Group 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 recognizes 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 a requirement for all our deposit taking subsidiaries and now forms an integral part of our overall governance and risk culture in the Group. This feeds into the decision making process at management and Board level.

**1 FINANCIAL RISK MANAGEMENT (continued)**

**1.3.1 Credit risk (continued)**

**Impairment : IFRS 9 Financial Instruments**
The introduction of the impairment requirements of IFRS 9 Financial Instruments, implemented on 1 January 2018, requires impairment loss allowances to be considered on an expected credit loss basis and on a broader scope of financial instruments than is the case under IAS 39 and as a result has a material impact on the Group's financial condition. Measurement involves increased complex judgement and risk review.

**The overlay approach followed by Group is outlined below:**

***General steps considered by Group in applying IFRS 9 Impairment***
The following steps illustrates the general steps that Letshego are considering when implementing IFRS 9 Impairment.

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. Incorporate forward-looking information and multiple scenarios in staging assessments of loans
17. Consider the time value of money and calculate Expected Credit Losses
18. Identify modifications that occurred during the period and determine if each modification results in derecognition or no derecognition
19. Calculate the modification gain or loss and include the modified loan (or new loan)
20. Establish and document the appropriate processes, internal controls and governance for estimating Expected Credit Losses (ECL)

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 (SICR) since initial recognition***

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**

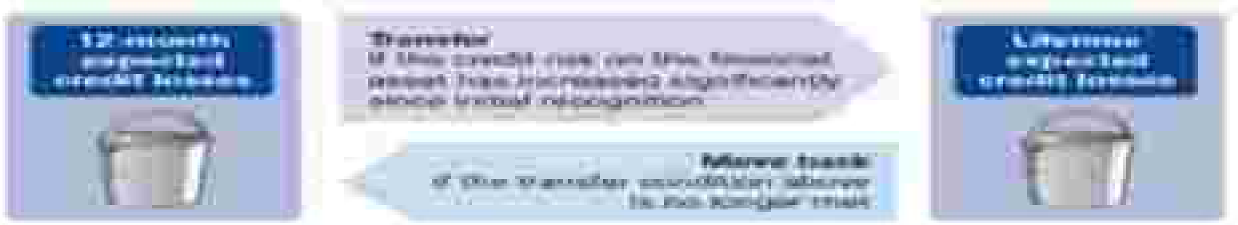
**Diagram 1**

**1 FINANCIAL RISK MANAGEMENT (continued)**

**1.3.1 Credit risk (continued)**

**The IFRS 9 requirements for the staging of loans is summarized in the two diagrams below (continued)**

**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.

***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 economic variables 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).

The Group has performed historical analysis and identified key economic variables impacting credit risk and ECLs at subsidiary level. These economic variables are approved by the credit committee.

***Definition of default, credit impaired assets, write-offs, and interest income recognition***

Default is not defined under IFRS 9.The Group is responsible for defining this for themselves and it should be based upon its own definition used in the Group's internal risk management. Careful consideration of how default is defined is important as the definition impacts the calculation of PDs, LGDs and EADs, hence impacting the ECL results.
The simplest definition is that of failure to meet a scheduled payment of principal or interest, however, that definition has modifications depending upon the loan product. The definition of default has to be consistent with that used for internal credit risk management purposes for the relevant financial instrument and has to consider qualitative indicators, e.g., breaches of covenants, when appropriate. Inability to pay may also be considered in making the qualitative assessment of default.
Indications of inability to pay include:
o the credit obligation is placed on non-accrued status;
o the Group makes a specific provision or charge-off due to a determination 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 obligation 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 the standard that default does occur once a loan is more than 90 days past due, the Group has adopted this presumption.

Credit impairment is expected to be when the exposure has defaulted which is also anticipated to align to when an exposure is identified as individually impaired under the incurred loss model of IAS 39. Write-off polices are not expected to change from IAS 39. Write-off polices are not expected to change from IAS 39.

***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.

## 1 FINANCIAL RISK MANAGEMENT (continued)

### 1.3.1 Credit risk (continued)

**Maximum exposure to credit risk**

**(a) Advances to customers**

| 31 December 2018 | Gross Advances P'000 | Specific Provision P'000 | Portfolio Provision P'000 | Net Advances P'000 | Security Held P'000 |
|---|---|---|---|---|---|
| Southern Africa | 6,706,990 | (279,222) | (32,301) | 6,395,467 | - |
| East and West Africa | 2,834,976 | (274,850) | (256,762) | 2,303,364 | (27,028) |
| | **9,541,966** | **(554,072)** | **(289,063)** | **8,698,831** | **(27,028)** |

| 31 December 2017 | Gross advances P'000 | Specific provision P'000 | Portfolio provision P'000 | Net advances P'000 | Security held P'000 |
|---|---|---|---|---|---|
| Southern Africa | 6,215,928 | (158,620) | (22,140) | 6,035,167 | - |
| East and West Africa | 1,955,376 | (106,794) | (114,846) | 1,733,737 | (27,319) |
| | **8,171,304** | **(265,414)** | **(136,986)** | **7,768,904** | **(27,319)** |

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 13).

| (b) Others | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|
| Cash and cash equivalents | 1,188,402 | 492,367 |
| Other receivable accounts | 212,701 | 168,344 |
| Available-for-sale financial asset | 53,591 | 53,591 |
| | **1,454,694** | **714,302** |

**Credit quality**

Group asset quality has deteriorated with non-performing loans (NPLs) rising to 7.1% (FY 2018) compared to 6.8% (FY 2017). While there is a rise in NPLs across the Group, the increase is more pronounced in East and West Africa which have higher risk products in the microfinance and informal portfolios. NPL impairment coverage ratios have increased to 115% (FY 2018) in comparison to 70% (FY 2017) at the back of full implementation of IFRS 9.

**Key risks:**

East and West Africa's higher NPLs is also a result of slower economic activity in these markets which has put pressure on disposable income. These economic constraints are evident in East and West Africa where we are seeing continued deterioration in portfolio quality despite significant efforts in portfolio management as well as collections and recoveries.

**1 FINANCIAL RISK MANAGEMENT (continued)**

**1.3.1 Credit risk (continued)**

**Credit quality (continued)**

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 2018**

| | Formal | Micro finance | Informal | Total gross advances |
|---|---|---|---|---|
| | **P'000** | **P'000** | **P'000** | **P'000** |
| Southern Africa | 6,688,697 | 18,293 | - | 6,706,990 |
| East and West Africa | 1,397,507 | 930,497 | 506,972 | 2,834,976 |
| **Gross advances** | **8,086,204** | **948,790** | **506,972** | **9,541,966** |
| Impairment provision | (573,989) | (149,865) | (119,281) | (843,135) |
| **Net advances** | **7,512,215** | **798,925** | **387,691** | **8,698,831** |

**Analysis of exposure by segment as at 31 December 2017**

| | Formal | Micro finance | Informal | Total gross advances |
|---|---|---|---|---|
| | **P'000** | **P'000** | **P'000** | **P'000** |
| Southern Africa | 6,213,450 | 2,478 | - | 6,215,928 |
| East and West Africa | 1,068,566 | 840,064 | 46,746 | 1,955,376 |
| **Gross advances** | **7,282,016** | **842,542** | 46,746 | **8,171,304** |
| Impairment provision | (251,863) | (145,980) | (4,557) | (402,400) |
| **Net advances** | **7,030,153** | **696,562** | **42,189** | **7,768,904** |

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. This requirement did not exist under IAS 39 and has resulted in higher impairment provisions as an ECL has been recognised on all performing financial assets.

***Stage 2 : Underperforming***
- when a significant increase in credit risk since initial recognition has occurred, a lifetime ECL is recognised. This concept did not exist under IAS 39 and therefore it will result in an increased impairment provision as a result of recognising a lifetime ECL for financial assets that are not considered to be credit impaired.

***Stage 3: Non-Performing / Impaired***
- when objective evidence exists that an asset is credit impaired, a lifetime ECL is recognised. This is similar to the incurred loss approach under IAS 39; the group definition of default is 90 days past due ("DPD") same as the rebuttable presumption under IFRS 9.

The table below presents an analysis by geographic location of the expected credit loss (ECL):

| **31 December 2018** | **Expected Credit Loss** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total ECL** |
| **Southern Africa** | **P'000** | **P'000** | **P'000** | **P'000** |
| Formal | 33,094 | 26,975 | 247,299 | 307,368 |
| Micro finance | 579 | 607 | 2,969 | 4,155 |
| | **33,673** | **27,583** | **250,268** | **311,523** |
| **East and West Africa** | | | | |
| Formal | 33,964 | 17,065 | 215,592 | 266,621 |
| Micro finance | 30,303 | 34,151 | 81,255 | 145,709 |
| Informal | 70,055 | 21,847 | 27,379 | 119,281 |
| | **134,322** | **73,063** | **324,226** | **531,611** |
| **Total Portfolio** | | | | |
| Formal | 67,057 | 44,040 | 462,891 | 573,988 |
| Micro finance | 30,882 | 34,759 | 84,223 | 149,864 |
| Informal | 70,055 | 21,847 | 27,379 | 119,281 |
| | **167,994** | **100,646** | **574,493** | **843,133** |

**1 FINANCIAL RISK MANAGEMENT (continued)**

**1.3.1 Credit risk (continued)**

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

| **1 January 2018** | **Expected Credit Loss** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total ECL** |
| **Southern Africa** | **P'000** | **P'000** | **P'000** | **P'000** |
| Formal | 39,551 | 20,967 | 204,809 | 265,327 |
| Micro finance | 5 | 129 | 1,434 | 1,567 |
| | **39,556** | **21,096** | **206,243** | **266,894** |
| **East and West Africa** | | | | |
| Formal | 30,507 | 27,606 | 129,789 | 187,902 |
| Micro finance | 34,002 | 10,954 | 91,780 | 136,736 |
| Informal | 2,083 | 657 | - | 2,740 |
| | **66,592** | **39,217** | **221,569** | **327,378** |
| **Total Portfolio** | | | | |
| Formal | 70,058 | 48,573 | 334,598 | 453,229 |
| Micro finance | 34,008 | 11,083 | 93,214 | 138,305 |
| Informal | 2,083 | 657 | - | 2,740 |
| | **106,149** | **60,313** | **427,812** | **594,274** |

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

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

| **31 December 2017** | **Up-to-date** | **1-30 days past due** | **31-60 days past due** | **61-90 days past due** | **91 or more days past due** | **Total Gross advances** |
|---|---|---|---|---|---|---|
| **Southern Africa** | **P'000** | **P'000** | **P'000** | **P'000** | **P'000** | **P'000** |
| Formal | 5,328,644 | 444,258 | 66,472 | 49,383 | 324,693 | 6,213,450 |
| Micro finance | 125 | 304 | 158 | 204 | 1,687 | 2,478 |
| | **5,328,769** | **444,562** | **66,630** | **49,587** | **326,380** | **6,215,928** |
| **East and West Africa** | | | | | | |
| Formal | 734,581 | 83,693 | 52,993 | 42,937 | 154,362 | 1,068,566 |
| Micro finance | 642,596 | 87,731 | 21,452 | 14,985 | 73,300 | 840,064 |
| Informal | 46,746 | - | - | - | - | 46,746 |
| | **1,423,923** | **171,424** | **74,445** | **57,922** | **227,662** | **1,955,376** |

## 1 FINANCIAL RISK MANAGEMENT (continued)

### 1.3.1 Credit risk (continued)

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 for Southern Africa, Namibia and Mozambique have credit insurance in place and for the year ended 31 December 2018 this was included as part of recoveries in the calculation of LGD's.

| Segments | 2018 LGD | 2017 LGD |
|---|---|---|
| Southern Africa | 54% | 45% |
| East and West Africa | 79% | 90% |

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).

| 12 month PD | | | | |
|---|---|---|---|---|
| **31 December 2018** | **PD 0** | **PD 1** | **PD 2** | **PD 3** |
| Southern Africa | 2% | 5% | 16% | 27% |
| East and West Africa | 7% | 21% | 36% | 45% |

| 12 month PD | | | | |
|---|---|---|---|---|
| **31 December 2017** | **PD 0** | **PD 1** | **PD 2** | **PD 3** |
| Southern Africa | 1% | 4% | 21% | 39% |
| East and West Africa | 3% | 15% | 39% | 55% |

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

| Lifetime PD | | | | |
|---|---|---|---|---|
| **31 December 2017** | **PD 0** | **PD 1** | **PD 2** | **PD 3** |
| Southern Africa | 1% | 4% | 21% | 39% |
| East and West Africa | 3% | 15% | 39% | 55% |

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

**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. As at 31 December 2017, there were no restructured loans . Note below position as at 31 December 2018. Restructured facilities are treated differently under IFRS 9 .

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

**Rephasing**

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

**Rephased loans analysis**

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

| 31 December 2017 | Total gross advances | Rephased loans | Expected Credit Loss held on Rephased | Rephased |
|---|---|---|---|---|
| | P'000 | P'000 | | % |
| Southern Africa | 6,215,928 | 637,632 | 31,882 | 10.3% |
| East and West Africa | 1,955,376 | 91,698 | 91,698 | 4.7% |
| | **8,171,304** | **729,330** | **123,579** | **8.9%** |

## 1 FINANCIAL RISK MANAGEMENT (continued)

### 1.3.2 Liquidity risk

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

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

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

**Cash flow and maturity profile analysis**
The table below analyses Group's financial liabilities into relevant maturity grouping based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

**31 December 2018**

| Contractual maturities of financial liabilities | From 1 to 12 months | From 1 year to 3 years | From 3 years and above | Total |
|---|---|---|---|---|
| Customer deposits | 497,718 | - | - | 497,718 |
| Cash collateral | 27,028 | - | - | 27,028 |
| Trade and other payables | 398,759 | - | - | 398,759 |
| Borrowings | 1,881,408 | 3,606,120 | 1,325,176 | 6,812,704 |
| | **2,804,913** | **3,606,120** | **1,325,176** | **7,736,209** |

**31 December 2017**

| Contractual maturities of financial liabilities | From 1 to 12 months | From 1 year to 3 years | From 3 years and above | Total |
|---|---|---|---|---|
| Customer deposits | 228,432 | - | - | 228,432 |
| Cash collateral | 27,319 | - | - | 27,319 |
| Trade and other payables | 189,379 | - | - | 189,379 |
| Borrowings | 2,279,069 | 1,745,272 | 976,302 | 5,000,643 |
| | **2,724,199** | **1,745,272** | **976,302** | **5,445,773** |

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

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

## 1 FINANCIAL RISK MANAGEMENT (continued)

### 1.3.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the fair value or future cash flows of a financial instrument. Market risk exists wherever the 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, interest rate risk and 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 gains for the year ended 31 December 2018 were P7.8m (December 2017 P4.2m).This gain resulted mainly from appreciation of the currencies that the group operates against the Botswana Pula and this was mainly driven by the South African Rand on the net liablity position held by the Group at year end.

As at 31 December 2018 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 P1.2 million (2017: P8.6 million) higher / lower, mainly as a result of foreign exchange gains and losses on translation of foreign currency denominated assets and liabilities

**Interest rate risk**

Interest rate risk analysis is based on time to pricing and time to maturity. Interest rate risk arising from the Group's assets and liabilities remained within the Group's risk appetite during the year. The table below shows the Group's repricing gap as at 31 December 2018.

**31 December 2018**

| Buckets | < 1 month | 1 - 12 months | 1 - 3 years | > 3 years | Total |
|---|---|---|---|---|---|
| **Rate sensitive assets** | | | | | |
| Short term investments | 277,445 | - | - | - | 277,445 |
| Loans and advances to customers | 387,691 | 596,423 | 1,325,181 | 6,389,537 | 8,698,832 |
| | 665,136 | 596,423 | 1,325,181 | 6,389,537 | 8,976,277 |
| **Rate sensitive financial liabilities** | | | | | |
| Customer deposits | 56,297 | 441,421 | - | - | 497,718 |
| Borrowings | 2,072,900 | 1,819,891 | 961,076 | 475,452 | 5,329,319 |
| | 2,129,197 | 2,261,312 | 961,076 | 475,452 | 5,827,037 |
| **Gap** | **(1,464,061)** | **(1,664,889)** | **364,105** | **5,914,085** | **3,149,240** |
| **Cumulative Gap** | **(1,464,061)** | **(3,128,950)** | **(2,764,845)** | **3,149,240** | |

**31 December 2017**

| Buckets | < 1 month | 1 - 12 months | 1 - 3 years | > 3 years | Total |
|---|---|---|---|---|---|
| **Rate sensitive assets** | | | | | |
| Short term investments | 10,967 | 14,437 | - | - | 25,404 |
| Loans and advances to customers | 1,254 | 308,469 | 1,187,029 | 6,272,152 | 7,768,904 |
| | 12,221 | 322,906 | 1,187,029 | 6,272,152 | 7,794,308 |
| **Rate sensitive financial liabilities** | | | | | |
| Customer deposits | 65,043 | 162,485 | 904 | - | 228,432 |
| Borrowings | 1,387,850 | 1,623,883 | 423,522 | 549,352 | 3,984,607 |
| | 1,452,893 | 1,786,368 | 424,426 | 549,352 | 4,213,039 |
| **Gap** | **(1,440,672)** | **(1,463,462)** | **762,603** | **5,722,800** | **3,581,269** |
| **Cumulative Gap** | **(1,440,672)** | **(2,904,135)** | **(2,141,531)** | **3,581,269** | |

## 1 FINANCIAL RISK MANAGEMENT (continued)

### 1.3.3 Market risk (continued)

**Market risk framework and governance**

The market risk framework outlines or discloses the methodology by which the Group identifies, measures, monitors, controls and reports on its market risk profile for every operation overseen by the Group. Effective board oversight of the Group's exposure to Market Risk is the cornerstone of an effective market risk management process. The Board and Senior Management understands the nature and level of market risk assumed by the Group and its subsidiaries and how this risk profile fits within the overall business strategies. The Group's Foreign Exchange Risk Policy was reviewed and approved by the Board during 2017.

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

**Market risk measurement**

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

## 1 FINANCIAL RISK MANAGEMENT (continued)

### 1.3.3 Market risks (continued)

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

| **31 December 2018** | SA Rand P'000 | Swaziland Emalangeni P'000 | Namibian Dollar P'000 | Lesotho Loti P'000 | Tanzanian Shillings P'000 | Ugandan Shillings P'000 | Mozambican Metical P'000 | Kenya Shillings P'000 | Rwandan Francs P'000 | Nigerian Naira P'000 | Ghana Cedi P'000 | Great Britain Pound P'000 | United States Dollars P'000 | Botswana Pula P'000 | Eurozone Euro P'000 | Total Pula P'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 9,220 | 22,702 | 559,239 | 12,596 | 68,880 | 11,244 | 142,264 | 138,088 | 50,761 | 36,742 | 68,911 | 189 | 48,766 | 18,752 | 48 | 1,188,402 |
| Advances to customers | - | 429,188 | 1,901,926 | 337,063 | 397,432 | 309,951 | 1,264,707 | 594,219 | 45,526 | 79,742 | 876,494 | - | - | 2,462,583 | - | 8,698,831 |
| Available-for-sale financial asset | - | - | - | - | - | - | - | - | - | - | - | - | - | 53,591 | - | 53,591 |
| Other receivables | 337 | 17,707 | 102,149 | 852 | 11,433 | 4,230 | 2,650 | 9,785 | 2,770 | 3,867 | 26,532 | - | - | 70,179 | - | 252,491 |
| Total assets | 9,557 | 469,597 | 2,563,314 | 350,511 | 477,745 | 325,425 | 1,409,621 | 742,092 | 99,057 | 120,351 | 971,937 | 189 | 48,766 | 2,605,105 | 48 | 10,193,315 |
| Customer deposits | - | - | 55,532 | - | 55,753 | - | 205,139 | - | 51,919 | 24,243 | 105,132 | - | - | - | - | 497,718 |
| Cash collateral | - | - | - | - | - | 4,185 | - | 22,843 | - | - | - | - | - | - | - | 27,028 |
| Borrowings | 573,645 | 95,146 | 254,081 | 77,808 | 32,213 | 174,798 | 273,379 | 449,674 | 7,365 | - | 543,751 | - | 190,432 | 2,567,105 | 89,922 | 5,329,319 |
| Trade and other payables | 1,596 | 8,064 | 42,287 | 4,407 | 5,483 | 11,196 | 16,822 | 20,839 | 5,218 | 14,567 | 196,180 | - | - | 165,566 | - | 492,225 |
| Total liabilities | 575,241 | 103,210 | 351,900 | 82,215 | 93,449 | 190,179 | 495,340 | 493,356 | 64,502 | 38,810 | 845,063 | - | 190,432 | 2,732,671 | 89,922 | 6,346,290 |
| Net exposure | (565,684) | 366,387 | 2,211,414 | 268,296 | 384,296 | 135,246 | 914,281 | 248,736 | 34,555 | 81,541 | 126,874 | 189 | (141,666) | (127,566) | (89,874) | 3,847,025 |
| Exchange rates at 31 December 2018 - mid: BWP 1.00 = | 1.34 | 1.34 | 1.34 | 1.34 | 214.30 | 346.48 | 5.72 | 9.50 | 82.36 | 33.97 | 2.21 | 0.07 | 0.09 | 1.00 | 0.08 | |

| **31 December 2017** | SA Rand P'000 | Swaziland 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 | 34,933 | 3,817 | 257,722 | 3,689 | 63,051 | 18,857 | 41,266 | 10,904 | 15,129 | 32,503 | 8,301 | 1,025 | 42,940 - | 41,816 | 46 | 492,367 |
| Advances to customers | - | 370,227 | 1,929,665 | 403,344 | 473,445 | 301,682 | 1,013,373 | 515,807 | 42,835 | 53,603 | 346,365 | - | - | 2,318,558 | - | 7,768,904 |
| Available-for-sale financial asset | - | - | - | - | - | - | - | - | - | - | - | - | - | 53,591 | - | 53,591 |
| Other receivables | - | 12,578 | 97,502 | 346 | 6,882 | 10,126 | 13,458 | 5,972 | 2,810 | 2,867 | 3,397 | - | - | 45,667 | - | 201,605 |
| Total assets | 34,933 | 386,622 | 2,284,889 | 407,379 | 543,378 | 330,665 | 1,068,097 | 532,683 | 60,774 | 88,973 | 358,063 | 1,025 | 42,940 | 2,376,000 | 46 | 8,516,467 |
| Customer deposits | - | - | 71,843 | - | 68,987 | - | 11,949 | - | 28,351 | 24,110 | 23,192 | - | - | - | - | 228,432 |
| Cash collateral | - | - | - | - | - | 3,610 | - | 23,168 | 541 | - | - | - | - | - | - | 27,319 |
| Borrowings | 640,757 | 24,413 | 50,598 | - | 30,793 | 135,359 | 273,984 | 218,503 | 18,367 | - | 215,710 | - | - | 2,376,123 | - | 3,984,607 |
| Trade and other payables | 548 | 5,358 | 31,157 | 4,959 | 10,533 | 4,886 | 10,168 | 15,416 | 5,936 | 11,094 | 33,906 | - | - | 127,790 | - | 261,751 |
| Total liabilities | 641,305 | 29,771 | 153,598 | 4,959 | 110,313 | 143,855 | 296,101 | 257,087 | 53,195 | 35,204 | 272,808 | - | - | 2,503,913 | - | 4,502,109 |
| Net exposure | (606,372) | 356,851 | 2,131,291 | 402,420 | 433,065 | 186,810 | 771,996 | 275,596 | 7,579 | 53,769 | 85,255 | 1,025 | 42,940 | (127,913) | 46 | 4,014,358 |
| Exchange rates at 31 December 2017 - mid: BWP 1.00 = | 1.26 | 1.26 | 1.26 | 1.26 | 227.53 | 369.19 | 5.99 | 10.48 | 85.78 | 36.56 | 2.17 | 0.08 | 0.10 | 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 Boards and Senior Management oversight at both Group and country level;
• Sound risk management practices that are in line with best practice and local regulations in the countries in which the Group operates;
• Effective segregation of duties across the footprint;
• Established processes in risk identification, assessment, controls and monitoring; and
• Fostering a better risk awareness culture.

**Group’s approach to managing operational risk**

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

**Operational risk framework and governance**

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

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

**The management and measurement of operational risk**

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

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

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

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

**Risk and Control Self Assessments (RCSAs)**

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

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

**Key Risk Indicators (KRIs)**

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

## 1 FINANCIAL RISK MANAGEMENT (continued)

### 1.4 Operational risks (continued)

**Incident management**

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

**Business continuity management and Crisis Management**

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

**Operational risk and Basel II implementation**

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

### 1.5 Financial assets and liabilities measured at fair value and 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 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Available-for-sale financial asset P'000 | Fair value - through profit and loss P'000 | Financial assets at amortised cost P'000 | Financial liabilities at amortised cost P'000 | Total P'000 | Level 1 P'000 | Level 2 P'000 | Level 3 P'000 | Total P'000 |
| **31 December 2018** | | | | | | | | | |
| **Financial assets measured at fair value** | | | | | | | | | |
| Available-for-sale-financial asset | 53,591 | - | - | - | 53,591 | - | - | 53,591 | 53,591 |
| **Financial assets not measured at fair value** | | | | | | | | | |
| Cash and cash equivalents | - | - | 1,188,402 | - | 1,188,402 | | | | |
| Advances to customers | - | - | 8,698,831 | - | 8,698,831 | | | | |
| Other receivables | - | - | 212,701 | - | 212,701 | | | | |
| | - | - | 10,099,934 | - | 10,099,934 | | | | |
| **Financial liabilities measured at fair value** | | | | | | | | | |
| Borrowings - interest rate swap | - | 13,240 | - | - | 13,240 | - | 13,240 | - | 13,240 |
| **Financial liabilities not measured at fair value** | | | | | | | | | |
| Trade and other payables | - | - | - | 398,759 | 398,759 | | | | |
| Customer deposits | - | - | - | 497,718 | 497,718 | | | | |
| Cash collateral | - | - | - | 27,028 | 27,028 | | | | |
| Borrowings | - | - | - | 5,316,079 | 5,316,079 | | | | |
| | - | - | - | 6,239,584 | 6,239,584 | | | | |

| | Carrying amount | | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Available-for-sale financial asset P'000 | Fair value - through profit and loss P'000 | Loans and receivables P'000 | Financial liabilities at amortised cost P'000 | Total P'000 | Level 1 P'000 | Level 2 P'000 | Level 3 P'000 | Total P'000 |
| **31 December 2017** | | | | | | | | | |
| **Financial assets measured at fair value** | | | | | | | | | |
| Available-for-sale financial asset | 53,591 | - | - | - | 53,591 | - | - | 53,591 | 53,591 |
| **Financial assets not measured at fair value** | | | | | | | | | |
| Cash and cash equivalents | - | - | 492,367 | - | 492,367 | | | | |
| Advances to customers | - | - | 7,768,904 | - | 7,768,904 | | | | |
| Other receivables | - | - | 168,344 | - | 168,344 | | | | |
| | - | - | 8,429,615 | - | 8,429,615 | | | | |
| **Financial liabilities measured at fair value** | | | | | | | | | |
| Borrowings- interest rate swap | - | 4,113 | - | - | 4,113 | - | 4,113 | - | 4,113 |
| **Financial liabilities not measured at fair value** | | | | | | | | | |
| Trade and other payables | - | - | - | 189,379 | 189,379 | | | | |
| Customer deposits | - | - | - | 228,432 | 228,432 | | | | |
| Cash collateral | - | - | - | 27,319 | 27,319 | | | | |
| Borrowings | - | - | - | 3,980,494 | 3,980,494 | | | | |
| | - | - | - | 4,425,623 | 4,425,623 | | | | |

The carrying amount of loans and receivables and 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
- Level 3 - Valuation technique for which the lowest level input that is significant to the fair value measurement is unobservable

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

**Financial instruments measured at fair value**

| Type | Valuation technique | | Significant unobservable inputs |
|---|---|---|---|
| Interest rate swap | Fair value cash flow | Level 2 | Discount factor used to derive present value of cash flow (12.5%) |
| Currency swap | Fair value cash flow | Level 2 | Based on BWP, EURO and USD risk free rates. |
| Available-for-sale financial asset | Since market values are not available from an observable market, as this is 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 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 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|
| **Interest rate risk** | | |
| Average cost of borrowings | *12.1%* | *11.8%* |
| Effect of increase in average borrowing cost by 1% | | |
| - increase in interest expense | 55,905 | 40,101 |
| *Effect on profit before tax* | *5.5%* | *4.0%* |
| **Currency risk** | | |
| Effect of BWP appreciation by 1% | | |
| *- Effective movement in foreign exchange rates* | 1,164 | 8,640 |
| *Effect on profit before tax* | *0.1%* | *0.9%* |

**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

### 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 as at 31 December 2018 for changes in LGD  and PD :

| P'000 | Existing impairment Provision | Impact on changes in LGD | | Impact on changes in PD | |
|---|---|---|---|---|---|
| | | (+) 5% | (-) 5% | (+) 5% | (-) 5% |
| Stage 1: 12-month ECL allowance | 167,995 | 175,164 | 153,676 | 363,063 | 73,812 |
| Stage 2: Lifetime ECL allowance – not credit-impaired | 100,646 | 105,891 | 68,452 | 115,170 | 62,713 |
| Stage 3: Lifetime ECL allowance – credit-impaired | 574,493 | 619,566 | 530,444 | 574,493 | 574,493 |
| **Total** | **843,134** | **900,621** | **752,572** | **1,052,726** | **711,018** |

Therefore based on the above an increase in LGD or PD would have an adverse impact to Group profits.

### 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 assumptions are that there will be an 60% vesting probability. Although 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 60% vesting probability.

| | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|
| Impact of a 10% deviation | 3,014 | 6,474 |
| Impact of a 25% deviation | 7,535 | 16,185 |
| Impact of a 50% deviation | 15,069 | 32,369 |

In the event that more than 60% of the shares vest the impact would be adverse to profit. In the event that less than 60% of the shares vest, the impact would be favourable to profit.

### 2.3 Recognition of deferred tax asset

The Group recognised a deferred tax asset of P212 million (2017: P157 million) in its statement of financiial position. Deferred tax assets arise from recoverable tax losses and deductible temporary differences such as staff cost provisions and credit impairment provisions and vary based on requirements of the specific tax jurisdictions in which these losses and differences arise.The ultimate realisation of such deferred tax assets depend largely on the ability of the Group to generate taxable income in each relevant jurisdiction in order to utilise these losses and differences.

Of the total deferred tax asset, P50 million (2017: P95 million) relates to tax losses in respect of the Group holding company, Letshego Holdings Limited (LHL). Tax losses in Botswana have to be utilised within five years from the year of origination and during the current financial year P18 million deferred tax fell away as the Company did not generate suffiicient taxable income. In addition the Group holding company did not recognise deferred tax assets on tax losses amounting to P31 million as it was uncertain whether there were opportunities to generate sufficient taxable profits before these losses expire.

The newly formed Group Tax Committee (GTC) has come up with robust strategies which will ensure that LHL generates substantial income in order to utlise the losses going forward. They will also be driving the review of  the Transfer Pricing Policies to ensure that value is assigned where activities are performed in line with the Organisation for Economic Co-operation and Development (OECD) best practice. With the Group Tax Committee at the helm of driving tax compliance and tax excellence in the Group, the current strategies should see LHL generating adequate taxable income before the tax losses fall away. Refer to analysis below for Letshego Holdings Limited:

| **Movement in deferred tax asset on tax losses** | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|
| Opening balance | 95,079 | 61,564 |
| Recognised during the year | 5,300 | 41,044 |
| Utilised during the year | (1,414) | (7,529) |
| Tax losses not recognised | (30,636) | - |
| Tax losses fallen away | (18,403) | - |
| **Balance at the end of year** | **49,926** | **95,079** |

### 2.4 Income tax expense

The Group is subject to income taxes in various jurisdictions. 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 known 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 be recognised in the period in which such determination is made.

As at 31 December 2018, the Group has a provision of P45.3 million in an East African subsidiary for potential current income tax liabilities arising from prior years. This was in response to on-going revenue authority audit that were not finalised at the time of authorisation of the financial statements.

The Group has reviewed the matters raised by the revenue authority and carried out its own assessment of the potential liabilities based on currently enacted tax legislation and believe the provision made is adequate to cover any possible exposures.

### 2.5 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 AFB Ghana Plc. For the purpose of assessing goodwill for impairment, the relevant entities are considered to be cash generating units. Such impairment assessment was done using a discounted cash flow model incorporating budgets approved by those charged with governance. Cash flows beyond the period covered by approved budgets were forecasted based on projected growth rates for the relevant cash generating unit. The evaluation was based on a five year forecast and terminal value.

The Group assessed the recoverable amount of goodwill, and determined that there was sufficient headroom in respect of all cash generating units with the exception of Letshego Microfinance Bank Nigeria Limited where a P22 million impairment provision was made during the year.

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

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

| | 31 December 2018 | |
|---|---|---|
| **Entity** | **Discount rates** | **Long term growth rates** |
| Letshego Holdings Namibia Limited | 25% | 8% |
| Letshego Tanzania Limited | 18% | 6% |
| Letshego Kenya Limited | 18% | 7% |
| Letshego Bank (T) Limited | 16% | 6% |
| Letshego Microfinance Bank Nigeria Limited | 24% | 8% |
| AFB Ghana Plc | 24% | 6% |

| | | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|---|
| **3** | **CASH AND CASH EQUIVALENTS** | | |
| | Cash at bank and in hand | 822,897 | 454,378 |
| | Statutory cash reserve | 88,060 | 12,585 |
| | Short term investments | 277,445 | 25,404 |
| | | **1,188,402** | **492,367** |

Short term bank deposits constitute amounts held in fixed deposit with external financial institutions. The deposits attract interest ranging between 1.0% - 5.0% per annum (31 December 2017: 1% - 5.0%). Cash at bank is held with reputable financial institutions with good credit standing. Statutory reserve relates to cash held by the Central Bank for the respective subsidiaries based on average customer deposits, and not available for day to day operations.

| | | | |
|---|---|---|---|
| | **Cash and cash equivalents for the purpose of cashflow statements** | **1,100,342** | **492,367** |
| **4** | **ADVANCES TO CUSTOMERS** | | |
| | Gross advances to customers | 9,541,966 | 8,171,304 |
| | Less : impairment provisions - specific | (554,072) | (265,414) |
| | : impairment provisions - portfolio | (289,063) | (136,986) |
| | **Net advances to customers** | **8,698,831** | **7,768,904** |
| | **Maturity analysis** | | |
| | Maturing within one year | 1,216,284 | 659,045 |
| | Maturing after one year within five years | 5,169,353 | 5,045,433 |
| | Maturing after five years | 3,156,329 | 2,466,826 |
| | **Total gross advances to customers** | **9,541,966** | **8,171,304** |

Certain advances to customers are pledged as security to borrowings as set out in note 14.

| | | |
|---|---|---|
| **Impairment of advances** | | |
| Balance at the beginning of the year | 402,400 | 273,216 |
| Impairment charge for the year | 209,914 | 102,240 |
| Impairment on informal loans | 38,947 | - |
| Impact of adoption IFRS 9 | 191,874 | - |
| Impairment acquired through business combinations | - | 26,944 |
| **Balance at the end of the year** | **843,135** | **402,400** |

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

| | | | |
|---|---|---|---|
| | **Charges to profit or loss** | | |
| | Amounts written off | 298,297 | 274,669 |
| | Recoveries during the year | (146,720) | (139,760) |
| | Impairment adjustment | 209,914 | 102,240 |
| | | **361,491** | **237,149** |
| **5** | **OTHER RECEIVABLES** | | |
| | Deposits and prepayments | 38,909 | 33,073 |
| | Receivable from insurance arrangements | 147,331 | 141,722 |
| | Withholding tax and value added tax | 881 | 188 |
| | Other receivables | 65,370 | 26,622 |
| | | **252,491** | **201,605** |

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

## 6 PROPERTY, PLANT AND EQUIPMENT

| Cost | Motor vehicles P'000 | Computer equipment P'000 | Office furniture & equipment P'000 | Land & building P'000 | Work in progress P'000 | Total P'000 |
|---|---|---|---|---|---|---|
| Balance at 1 January 2017 | 5,937 | 48,928 | 64,845 | 19,718 | 4,852 | 144,280 |
| Additions | 2,080 | 15,678 | 10,771 | - | 7,268 | 35,797 |
| Business combination - acquisition | 4,073 | 2,035 | 7,202 | - | - | 13,310 |
| Disposals | (125) | (1,132) | (2,231) | - | (255) | (3,743) |
| Forex translation | (3,520) | (3,615) | (11,708) | (1,293) | 5,403 | (14,733) |
| **Balance at 31 December 2017** | **8,445** | **61,894** | **68,879** | **18,425** | **17,268** | **174,911** |
| **Accumulated depreciation** | | | | | | |
| Balance at 1 January 2017 | 4,176 | 34,636 | 28,274 | 1,160 | - | 68,246 |
| Business combination - acquisition | 1,411 | 1,184 | 2,504 | - | - | 5,099 |
| Charge for the year | 1,435 | 10,484 | 11,236 | 9 | - | 23,164 |
| Disposals | 27 | (780) | (650) | - | - | (1,403) |
| Forex translation | (2,081) | (2,910) | (6,145) | (1,120) | - | (12,256) |
| **Balance at 31 December 2017** | **4,968** | **42,614** | **35,219** | **49** | **-** | **82,850** |
| **Net book value at 31 December 2017** | **3,477** | **19,280** | **33,660** | **18,376** | **17,268** | **92,061** |

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

## 7 INTANGIBLE ASSETS

| Cost | Computer Software P'000 | Brand value P'000 | Core deposit P'000 | Total P'000 |
|---|---|---|---|---|
| Balance at 1 January 2017 | 74,837 | 1,186 | 10,472 | 86,495 |
| Additions | 6,928 | - | - | 6,928 |
| Business combination - acquisition | 5,315 | 3,749 | - | 9,064 |
| Disposals | - | - | - | - |
| Forex translation | (8,172) | (430) | (1,374) | (9,976) |
| **Balance at 31 December 2017** | **78,908** | **4,505** | **9,098** | **92,511** |
| **Accumulated amortisation** | | | | |
| Balance at 1 January 2017 | 28,075 | 1,186 | 4,625 | 33,886 |
| Charge for the year | 8,565 | 489 | 582 | 9,636 |
| Business combination - acquisition | 1,711 | - | - | 1,711 |
| Forex translation | (8,062) | - | - | (8,062) |
| **Balance at 31 December 2017** | **30,289** | **1,675** | **5,207** | **37,171** |
| **Net book value at 31 December 2017** | **48,619** | **2,830** | **3,891** | **55,340** |

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

Brand value relates to Ghana which was acquired in 2017 and is being amortised over an expected useful life of 7 years. Core deposit is amortised over its useful life of 8 years.

| | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|
| **8 AVAILABLE-FOR-SALE FINANCIAL ASSET** | | |
| Investment | **53,591** | **53,591** |

The Group acquired 3.1% shareholding in a financial services organisation.The fair value of this investment at year end does not materially vary to its carrying value, hence no fair value gains or losses were recognised in the year.

## 9 GOODWILL

| | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|
| **Goodwill on the acquisition of:** | | |
| Letshego Holdings Namibia Limited | 22,774 | 24,336 |
| Letshego Tanzania Limited | 1,891 | 1,781 |
| Letshego Kenya Limited | 33,367 | 30,245 |
| Letshego Bank (T) Limited | 15,130 | 14,250 |
| Letshego Microfinance Bank Nigeria Limited | 23,942 | 42,684 |
| AFB Ghana Plc | 9,125 | 8,984 |
| | **106,229** | **122,280** |
| **Movement in goodwill** | | |
| Balance at the beginning of the year | 122,280 | 129,408 |
| Goodwill on acquisition of AFB Ghana Plc | - | 10,204 |
| Impairment on goodwill | (22,000) | - |
| Effect of exchange rate changes | 5,949 | (17,332) |
| **Balance at the end of the year** | **106,229** | **122,280** |

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 the current year an impairment provision of P22 million was recognised for goodwill arising from acquisition of Letshego Microfinance Bank Nigeria Limited.

## 10 BUSINESS COMBINATIONS

**Acquisition of AFB (Ghana) Plc**

During the prior year, 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 were incorporated in the Group results for the year ended 31 December 2017 financial year for the first time. The purchase consideration was P91m. AFB Ghana has over 42,000 customers, 233 members of staff and 25 customer access points. It contributed P119m to Group revenues, P36 million to the pre-tax profits, and its loans to customer's portfolio was P346 million.

| | AFB Ghana Plc P'000 |
|---|---|
| **Purchase consideration** | |
| Cash paid | **90,719** |
| **The assets and liabilities recognised as a result of the acquisition are as follows:** | |
| Cash and cash equivalents | 25,864 |
| Advances to customers (note 10.1) | 226,274 |
| Prepayment and other assets | 3,886 |
| Property, plant and equipment | 8,211 |
| Intangible assets - software | 3,604 |
| Deferred tax asset | 1,025 |
| Brand value | 3,749 |
| Trade and other payables | (3,787) |
| Income tax payable | (6,821) |
| Borrowings | (181,490) |
| **Net identifiable assets acquired** | **80,515** |
| Add: Goodwill | 10,204 |
| **Total** | **90,719** |

The goodwill is attributable to acquired customer base, economies of scale and synergies expected from combining operations. This will not be deductible for income tax purposes. However the above Goodwill of P10.2 million has been revalued to reflect the impact of changes in foreign currencies using the reporting date exchanges rate and the translated amount is as reflected in (note 9) and the forex impact was P1.2 million.

### 10.1 Advances to customers

The fair value of acquired advances to customer is P226 million. The gross contractual receivable amount is P249 million of which P23 million is expected to be impaired.

| | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|
| **11 CUSTOMER DEPOSITS** | | |
| Demand accounts | 29,143 | 23,069 |
| Savings accounts | 110,343 | 74,674 |
| Call and term deposits | 358,232 | 130,689 |
| | **497,718** | **228,432** |

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

| | | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|---|
| **12** | **TRADE AND OTHER PAYABLES** | | |
| | Trade and other payables | 426,678 | 210,809 |
| | Staff incentive accrual (note 12.1) | 65,547 | 50,942 |
| | | **492,225** | **261,751** |

Due to the short-term nature of the trade payables, their carrying amount is considered to be the same as their fair value.

| | | | |
|---|---|---|---|
| **12.1** | **Movement in staff incentive accrual** | | |
| | Balance at the beginning of the year | 50,942 | 37,868 |
| | Current period charge (note 21) | 54,466 | 51,174 |
| | Paid during the year | (39,861) | (38,100) |
| | Balance at the end of the year | **65,547** | **50,942** |
| **13** | **CASH COLLATERAL** | | |
| | Balance at the beginning of the year | 27,319 | 39,225 |
| | Utilised / received during the year | (291) | (11,906) |
| | Closing balance | **27,028** | **27,319** |

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 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|---|
| **14** | **BORROWINGS** | | |
| | Commercial banks | 2,504,294 | 1,684,654 |
| | Note programmes | 1,787,303 | 1,910,428 |
| | Development Financial Institutions | 887,655 | 253,703 |
| | Pension funds | 150,067 | 135,822 |
| | **Total borrowings** | **5,329,319** | **3,984,607** |
| | **Maturity analysis** | | |
| | Maturing within one year | 1,328,235 | 1,840,416 |
| | Maturing after one year within five years | 3,729,288 | 1,807,837 |
| | Maturing after five years | 271,796 | 336,354 |
| | **Total borrowings** | **5,329,319** | **3,984,607** |
| | **Movement in borrowings** | | |
| | Balance at the beginning of the year | 3,984,607 | 3,394,116 |
| | Finance obtained from third parties | 1,938,071 | 1,039,889 |
| | Repayment of borrowings | (638,687) | (607,853) |
| | Borrowing acquired through business acquisition | - | 181,490 |
| | Effect of exchange rate changes on cash and cash equivalents | 45,328 | (23,035) |
| | **Balance at the end of the year** | **5,329,319** | **3,984,607** |

**Note programmes**

The Group has issued medium term note programmes of P1.8 billion (2017 1.9 billion) of which P550 million (2017 P630 million) are listed on the Johannesburg Stock Exchange, P300 million (2017 P300 million) on the Botswana Stock Exchange and P524 million (2017 P201 million) on the Ghana Stock exchange at the reporting date .

**Security**

Pula 2.4 billion (31 December 2017 P2.14 billion) of the borrowings is secured by the advances to customers of:
- Letshego Micro Financial Services (Namibia) (Pty) Limited
- Letshego Financial Services (Pty) Limited (Botswana)
- Letshego Financial Services Swaziland (Pty) Limited

The aggregated net advances to customers of the above is P4.7 billion (31 December 2017: P4.36 billion) by way of a Security Sharing Agreement.

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

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

Pula 2.6 billion (31 December 2017 P282 million) 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 guarnteed by Letshego Holdings Limited.

## 14 BORROWINGS (continued)

**Interest rate**

Pula 2.0 billion (31 December 2017: 2.3 billion) of the borrowings are at fixed interest rates. Pula 3.3 billion (31 December 2017: 1.3 billion) are loans issued at variable interest rates, linked to each country's prime lending rate.

**Interest rate swap**

The company entered into an interest rate swap agreement with a Botswana financial institution under which it makes periodic payments on its behalf at an agreed period of time based on a nominal amount of ZAR 335 million. This swap allows for conversion of ZAR floating rate liability into a ZAR fixed rate liability. The interest rate swap hedges the variable factor of the interest coupons payable on the medium term note programme listed on the Johannesburg Stock Exchange.

Letshego Holdings Limited pays the coupon interest on these bonds every quarter and the counter party for the swap will settle the difference on the fixed rate per swap and the variable coupon payment. Management evaluate the effective cash flow and applicable payments on the bond coupon and discounts these to calculate the fair value of the interest rate swap. The fair value at 31 December 2018 is P1.654 million unfavourable (2017: P4.113 million) and any movements are recognised through profit or loss.

In October 2018, Letshego Holdings Limited and Letshego Financial Services (Proprietary) Limited entered into currency swap agreements with a local 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 | USD | 9,167 |

The fair value at 31 December 2018 is P11,586 million unfavourable and this movement was recognised through profit or loss.

| **15 STATED CAPITAL** | **31 December 2018 P'000** | **31 December 2017 P'000** |
|---|---|---|
| Issued: 2,144,045,175 ordinary shares of no par value (2017: 2,144,045,175) of which 19,054,190 shares (2017: 24,400,000) are held as treasury shares | **862,621** | **849,845** |

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

| **31 December 2017** | **Number of shares in issue** | **Shares held as treasury shares** | **Total number of shares** |
|---|---|---|---|
| Number of shares at the beginning of the year ('000) | 2,134,764 | - | 2,134,764 |
| Share buy back ('000) | (24,400) | 24,400 | - |
| Shares issued during the year ('000) | 9,281 | - | 9,281 |
| **Number of shares at the end of the year ('000)** | **2,119,645** | **24,400** | **2,144,045** |

In terms of the Group LTIP (note 17), shares with a value of P12.78 million (2017: P22.27 million) vested at Group level. The 5.35 million shares were issued from shares held as treasury shares and these reduced from 24.40 million to 19.05 million at the end of the year. In the prior year 9.28 million shares had been issued and these increased the number of shares in issue.

During the current year, there was no share back done. Whereas in the prior year 24.40 million ordinary shares were repurchased by the company at an average price of P1.97 per share amounting to P48.07 million and these are being held as treasury shares and therefore included in the number of shares above.

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.

## 15 STATED CAPITAL (continued)

**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 2018 | 31 December 2017 |
|---|---|---|
| Capital adequacy ratio | 33% | 43% |
| Return on equity | 12% | 17% |
| Debt to equity | 131% | 93% |

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.

## 16 LEGAL RESERVE

| | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|
| Balance at the beginning of the year | 39,607 | 32,189 |
| Movement for the period – allocated from retained earnings | 33,912 | 7,418 |
| **Balance at the end of the year** | **73,519** | **39,607** |

Legal reserve relates to Letshego Financial Services Mozambique and AFB Ghana Plc. Central Bank regulation in Mozambique is that the company is required to transfer 15% whereas Ghana is required to transfer 50% of its annual profit to the legal reserve until the reserve is equal to its share capital. This is a non-distributable reserve but may be used to increase capital.

## 17 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 2018, 41 956 100 total awards were outstanding (31 December 2017: 46 347 400) at grant date share prices of P2.50 , P2.13 and P1.88 for 2016, 2017 and 2018 awards respectively (31 December 2017: P2.39, P2.50 and P2.13 for 2015, 2016 and 2017 awards respectively).

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| **Reconciliation of outstanding awards** | **Fair values** | **No. of awards** | **Fair values** | **No. of awards** |
| Outstanding at the beginning of the period | P2.39/P2.50/P2.13 | 46,347,400 | P2.40/P2.39/P2.50 | 40,433,300 |
| Granted during the year | P1.88 | 19,991,000 | P2.13 | 22,290,000 |
| Exercised during the year | P2.39 | (5,345,810) | P2.40 | (9,281,250) |
| Forfeited due to not meeting performance | P2.39 | (5,694,690) | P2.40 | (1,968,750) |
| Forfeited due to resignations | P2.50/P2.13/P1.88 | (13,341,800) | P2.39/P2.50/P2.13 | (5,125,900) |
| **Outstanding at the end of the year** | **P2.50/P2.13/P1.88** | **41,956,100** | **P2.39/P2.50/P2.13** | **46,347,400** |

The amounts outstanding at 31 December 2018 and 31 December 2017 have average vesting periods of 3,15 and 27 months. The expense recognised during the period is disclosed in note 22.

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 the Groups shares at the grant date.

| | | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|---|
| **18** | **INTEREST INCOME** | | |
| | Advances to customers | 2,690,423 | 2,235,902 |
| | Other - deposits with banks | 27,834 | 16,734 |
| | | **2,718,257** | **2,252,636** |
| **19** | **INTEREST EXPENSE** | | |
| | Overdraft facilities and term loans | 650,332 | 474,798 |
| | Market to market adjustment on currency and interest rate swap contracts | 11,586 | - |
| | Foreign exchange gain | (7,839) | (4,168) |
| | | **654,079** | **470,630** |
| **20** | **FEE AND COMMISSION INCOME** | | |
| | Administration fees - lending | 24,769 | 31,328 |
| | Credit life insurance commission | 5,966 | 7,268 |
| | | **30,735** | **38,596** |
| **20.1** | **OTHER OPERATING INCOME** | | |
| | Early settlement fees | 41,241 | 34,390 |
| | Income from insurance arrangements | 213,483 | 182,379 |
| | Sundry income | 12,697 | 17,400 |
| | | **267,421** | **234,169** |
| **21** | **EMPLOYEE BENEFITS** | | |
| | Salaries and wages | 316,048 | 268,326 |
| | Staff incentive (note 12.1) | 54,466 | 51,174 |
| | Staff pension fund contribution | 17,913 | 13,961 |
| | Directors' remuneration – for management services (executive) | 9,725 | 8,317 |
| | Long term incentive plan | (7,975) | 25,279 |
| | | **390,177** | **367,057** |

## 22 OTHER OPERATING EXPENSES

| | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|
| Accounting and secretarial fees | 1,084 | 2,197 |
| Advertising | 17,421 | 18,755 |
| Audit fees - audit services | 4,675 | 4,148 |
| Bank charges | 7,305 | 7,599 |
| Computer expenses | 18,599 | 19,948 |
| Consultancy fees | 46,116 | 40,747 |
| Corporate social responsibility | 4,138 | 5,895 |
| Collection commission | 82,517 | 58,909 |
| Data centre decommissioning | 5,000 | - |
| Depreciation and amortisation | 36,291 | 32,800 |
| Directors' fees – non executive | 7,105 | 6,887 |
| Direct cost | 27,561 | 10,795 |
| Government levies | 22,876 | 14,693 |
| Insurance | 10,136 | 11,919 |
| Impairment of goodwill | 22,000 | - |
| Office expenses | 24,301 | 19,649 |
| Operating lease rentals - property | 48,115 | 48,864 |
| Other operating expenses | 96,377 | 59,736 |
| - Claim expenses - cell captive | 5,726 | - |
| - Directors fees - Subsidiary boards | 4,892 | 3,823 |
| - Entertainment | 1,057 | 944 |
| - IT costs | 15,325 | 10,680 |
| - Loss on disposal of fixed assets | 6,351 | 104 |
| - Motor vehicle expenses | 6,192 | 5,464 |
| - Printing and Stationery | 7,673 | 7,278 |
| - Repairs and Maintenance | 3,806 | 4,417 |
| - Storage costs | 1,496 | 1,292 |
| - Subscriptions and licenses | 3,953 | 2,469 |
| - Other expenses | 39,906 | 23,265 |
| Payroll administration costs | 2,066 | 2,161 |
| Professional fees | 42,643 | 23,980 |
| Telephone and postage | 26,471 | 22,253 |
| Travel | 37,361 | 35,018 |
| | **590,158** | **446,953** |

## 23 TAXATION

| | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|
| **Amounts recognised in profit or loss** | | |
| **Current taxation** | **527,094** | **366,554** |
| - Basic taxation | 368,684 | 302,405 |
| - WHT tax credits adjustments | 107,110 | 64,149 |
| - *Under / over provision in respect of prior years | 51,300 | - |
| **Deferred tax** | **(17,068)** | **(44,187)** |
| - Origination and reversal of temporary differences | (41,778) | (44,187) |
| - Under provision in respect of prior years | 24,710 | - |
| | **510,026** | **322,367** |

* This includes a provision of P45.3 million made in respect of a potential tax exposure of an East African subsidiary.

### 23.1 Deferred taxation

| | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|
| Balance at the beginning of the year | 151,365 | 106,153 |
| Business combination - acquisition (note 10) | - | 1,025 |
| IFRS 9 day 1 adjustment | 40,013 | - |
| Current year movement | 17,068 | 44,187 |
| **Balance at the end of the year** | **208,446** | **151,365** |
| Deferred tax assets | 211,651 | 156,655 |
| Deferred tax liabilities | (3,205) | (5,290) |
| | **208,446** | **151,365** |

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.

**Deferred taxation arises from temporary differences on the following items:**

| | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|
| Property and equipment | (8,344) | 1,333 |
| Share based payment provision | 3,991 | 8,002 |
| Staff incentive provision | 15,501 | 9,158 |
| General impairment provision | 137,239 | 35,165 |
| Taxation losses | 59,136 | 101,325 |
| Deferred rent provision | 515 | (63) |
| Leave pay provision | 754 | 1,780 |
| Severance pay | 80 | 91 |
| Deferred income / (expenditure) | (251) | (6,810) |
| Prepayments | (728) | (1,176) |
| Unrealised exchange gains | 553 | 2,560 |
| | **208,446** | **151,365** |

### 23.2 Reconciliation of current taxation

| | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|
| Profit before taxation | 1,020,508 | 1,003,613 |
| Tax calculated at Botswana statutory rate of 22% | 224,512 | 220,795 |
| Foreign income taxed at 15% | 12,795 | 11,092 |
| Effect of tax rates in foreign jurisdictions | 59,727 | 55,615 |
| Expenses and revenues not deductible for tax purposes | (19,167) | (39,136) |
| WHT tax credits adjustments | 107,110 | 64,149 |
| Tax losses not recognised and fallen away | 49,039 | - |
| Under / over provision in respect of prior years | 76,010 | 9,852 |
| | **510,026** | **322,367** |

## 24 EARNINGS PER SHARE

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

| | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|
| Earnings attributable to ordinary equity holders | **438,639** | **637,663** |
| ***Number of shares:*** | | |
| At beginning of period | 2,119,645,175 | 2,134,763,925 |
| Effect of share buy back (31 December 2018 - Nil ; 31 December 2017 - 24 400 000) | - | (5,548,493) |
| Effect of shares issued (31 December 2018 - 5 345 810 shares ; 31 December 2017 - 9 281 250 shares) | 4,071,603 | 7,780,993 |
| Weighted number of shares for the year | 2,123,716,778 | 2,136,996,425 |
| ***Basic earnings per share (thebe)*** | **20.7** | **29.8** |

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

| | | |
|---|---|---|
| ***Number of share:*** | | |
| Weighted number of shares | 2,123,716,778 | 2,136,996,424 |
| Dilution effect - number of shares (note 17) | 41,956,100 | 46,347,400 |
| | 2,165,672,878 | 2,183,343,824 |
| ***Diluted earnings per share (thebe)*** | **20.3** | **29.2** |

## 25 DIVIDEND PAID

| | | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|---|
| Previous year final dividend paid during the year | | 278,373 | 139,363 |
| Interim dividend paid | | 184,916 | 182,244 |
| **Total dividend paid to equity holders** | | **463,289** | **321,607** |
| Dividends per share : Interim (thebe) | - paid | 8.7 | 8.5 |
| : Final (thebe) | - proposed | 3.3 | 9.0 |
| : *Special dividend (thebe) | - paid | - | 4.1 |

*In the prior year the Board declared and paid a special dividend of 4.1 thebe per share as distribution of the proceeds from the Namibia IPO to its Shareholders.

## 26 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 Managing Director (the Chief Operating Decision-Maker) ("CODM"), who is responsible for allocating resources to the reportable segments and assessing performance. Operating segments are reviewed and reported geographically to the CODM. All reported segments used by the Group meet the definition of a reportable segment.

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

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

Accordingly, the Group's reportable segments are as follows: Botswana, Namibia, Mozambique, Other Southern Africa, Tanzania, Other East Africa, West Africa and Holding company.

## 26 SEGMENT INFORMATION (continued)

**Reportable segments**

| 31 December 2018 | Botswana | Namibia | Mozambique | Other Southern Africa | Tanzania | Other East Africa | West Africa | Holding company | Total |
|---|---|---|---|---|---|---|---|---|---|
| | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 |
| **Operating income** | **655,835** | **577,985** | **226,515** | **154,663** | **203,902** | **285,255** | **297,695** | **(39,516)** | **2,362,334** |
| **Profit before taxation** | 457,854 | 447,740 | 109,225 | 89,583 | 95,358 | 14,404 | 57,468 | (251,124) | 1,020,508 |
| Taxation - consolidated | | | | | | | | | **(510,026)** |
| **Profit - consolidated** | | | | | | | | | **510,482** |
| Gross Advances to customers | 2,702,359 | 1,920,415 | 1,291,433 | 792,784 | 552,020 | 1,136,362 | 1,146,593 | - | 9,541,966 |
| Impairment provisions | (239,776) | (18,489) | (26,726) | (26,533) | (154,588) | (186,666) | (190,357) | - | (843,135) |
| **Net Advances** | **2,462,583** | **1,901,926** | **1,264,707** | **766,251** | **397,432** | **949,696** | **956,236** | **-** | **8,698,831** |
| **Borrowings** | **1,010,044** | **362,793** | **370,122** | **532,462** | **43,597** | **765,279** | **563,109** | **1,681,913** | **5,329,319** |

| 31 December 2017 | Botswana | Namibia | Mozambique | Other Southern Africa | Tanzania | Other East Africa | West Africa | Holding company | Total |
|---|---|---|---|---|---|---|---|---|---|
| | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 |
| **Operating income** | **598,626** | **526,329** | **166,536** | **141,547** | **214,443** | **257,255** | **154,648** | **(4,613)** | **2,054,771** |
| **Profit before taxation** | 461,435 | 435,894 | 74,963 | 99,584 | 48,382 | 12,259 | 38,494 | (167,398) | **1,003,613** |
| Taxation - consolidated | | | | | | | | | **(322,367)** |
| **Profit - consolidated** | | | | | | | | | **681,246** |
| Gross Advances to customers | 2,466,433 | 1,940,065 | 1,026,944 | 782,485 | 573,252 | 947,884 | 434,241 | - | 8,171,304 |
| Impairment provisions | (147,875) | (10,400) | (13,571) | (8,914) | (99,807) | (87,560) | (34,273) | - | (402,400) |
| **Net Advances** | **2,318,558** | **1,929,665** | **1,013,373** | **773,571** | **473,445** | **860,324** | **399,968** | **-** | **7,768,904** |
| **Borrowings** | **546,878** | **791,365** | **338,074** | **512,109** | **33,781** | **509,158** | **218,779** | **1,034,463** | **3,984,607** |

## 27 RELATED PARTY TRANSACTIONS

**Relationships:**

| | |
|---|---|
| Letshego Holdings Limited | Parent Company |
| Subsidiaries | Refer to note 31 |

*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.

### 27.1 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. 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.

Letshego Holdings Company entered into a strategic partnership with a financial services company and acquired 3.1% of its shareholding which is classified as an available for sale financial asset (note 8). During the year certain subsidiaries of the Group entered into a number of transactions with the Company all of which were on an arm's length basis and is normal course of business.

| | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|
| **27.2 Compensation paid to key management personnel (executive directors)** | | |
| Paid during the period | | |
| - Short-term employee benefits | 9,725 | 8,317 |
| | **9,725** | **8,317** |

In terms of the Long Term Incentive Scheme there were no awards that vested relating to the 31 December 2018 financial year. In the prior period, 1,202,511 and 614,692 ordinary shares vested to ACM Low and C Patterson respectively during March 2018 that related to the 31 December 2017 financial period.

## 28 OPERATING LEASE COMMITMENTS

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

| | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|
| No later than 1 year | 14,852 | 18,720 |
| Later than 1 year and no later than 5 years | 23,710 | 22,291 |
| | **38,562** | **41,011** |

## 29 CAPITAL COMMITMENTS

| | | |
|---|---|---|
| Authorised by the directors: | | |
| - Not contracted for | **41,909** | **106,181** |

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

## 30 SUBSEQUENT EVENTS

**Dividend declaration**

On the 27 March 2019 the Group Chief Executive Officer P.J.S Crouse resigned and D. Ndebele was appointed as the Interim Group Chief Executive Officer.

A second and final dividend of 3.3 thebe per share was declared on 1 March 2019.

There were no other material changes in the affairs of the Group between the 31 December 2018 year end and the date of the approval of these financial statements.

## 31 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 2018 % holding | 31 December 2017 % holding |
|---|---|---|---|---|
| Letshego Financial Services (Proprietary) Limited | Botswana | Unsecured consumer lending | 100 | 100 |
| AFB 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 | 75 |
| 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 |

### 31.1 *Acquisition of additional interest in a subsidiary*

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

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

### 31.2 Sales of interest in Letshego Holdings Namibia Limited

On 28 September 2017 Letshego Holdings Namibia Limited (LHN) was successfully listed on the Namibia Stock exchange (NSX) and Group disposed of 7% interest out of the 85% interest held in LHN for a net consideration of P87 million. The effect of changes in the interest of LHN on the equity attributable to owners of Group during the year is summarised as follows:

| | 31 December 2017 P'000 |
|---|---|
| Consideration received from the sale of interest | 87,478 |
| Carrying amount of non-controlling interests disposed | (70,791) |
| **Excess of consideration received recognised in Group's equity** | **16,687** |

## 31 INVESTMENTS IN SUBSIDIARY COMPANIES (continued)

### 31.3 Non-controlling interest (NCI)

Set out below is summarised financial information for Letshego Holdings Namibia Limited, which has a material non-controlling interest to the Group. The amounts disclosed are before inter-company elimination.

| | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|
| **Summarised balance sheet** | | |
| Assets | 2,589,142 | 2,305,740 |
| Liabilities | 1,303,245 | 1,085,179 |
| **Net assets** | **1,285,897** | **1,220,561** |
| **Accumulated non-controlling interest** | 278,267 | 262,937 |
| **Summarised statement of comprehensive income** | | |
| Revenue | 581,384 | 527,312 |
| Profit for the year | 295,065 | 307,386 |
| **Profit allocated to non-controlling interest** | **64,914** | **51,468** |
| **Summarised cash flows** | | |
| Cash flows from operating activities | 267,687 | 178,822 |
| Cash flows used in investing activities | (140,266) | (93,786) |
| Cash flows from financing activities | 190,826 | 45,562 |
| | **318,247** | **130,598** |

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

## 32 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 | Total net assets P'000 |
|---|---|---|---|
| Comprehensive insurance through cell captive arrangement ("cell captive") | To mitigate against the Group's credit risk in Mozambique and Namibia | The cell captive declare dividends to Group | 83,596 |

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

**LETSHEGO HOLDINGS LIMITED**

**FIVE YEAR FINANCIAL HISTORY**

**STATEMENTS OF FINANCIAL POSITION**

| | 2018 December P'000 | 2017 December P'000 | 2016 December P'000 | 2015 December P'000 | 2014 December P'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 1,188,402 | 492,367 | 529,476 | 526,290 | 320,544 |
| Advances to customers | 8,698,831 | 7,768,904 | 6,689,740 | 6,311,678 | 5,686,796 |
| Other receivables | 252,491 | 201,605 | 166,717 | 177,585 | 135,582 |
| Income tax receivable | 19,074 | 17,967 | 17,250 | 27,570 | 11,178 |
| Available-for-sale financial asset | 53,591 | 53,591 | 53,591 | - | - |
| Property, plant and equipment | 80,532 | 92,061 | 76,034 | 76,030 | 51,762 |
| Intangible assets | 45,488 | 55,340 | 52,609 | 61,312 | 45,592 |
| Goodwill | 106,229 | 122,280 | 129,408 | 170,868 | 55,250 |
| Deferred tax assets | 211,651 | 156,655 | 106,961 | 68,000 | 25,866 |
| **Total assets** | **10,656,289** | **8,960,770** | **7,821,786** | **7,419,333** | **6,332,570** |
| | | | | | |
| **Liabilities** | | | | | |
| Customers deposits | 497,718 | 228,432 | 107,696 | 154,495 | 3,995 |
| Deposits from banks | - | - | - | 77,364 | - |
| Cash collateral | 27,028 | 27,319 | 39,225 | 44,667 | 41,692 |
| Trade and other payables | 492,225 | 261,751 | 294,416 | 175,493 | 209,521 |
| Income tax payable | 232,132 | 182,879 | 99,373 | 73,494 | 60,406 |
| Deferred tax liabilities | 3,205 | 5,290 | 808 | 2,006 | - |
| Borrowings | 5,329,319 | 3,984,607 | 3,394,116 | 2,768,412 | 1,937,844 |
| **Total liabilities** | **6,581,627** | **4,690,278** | **3,935,634** | **3,295,931** | **2,253,458** |
| | | | | | |
| **Shareholders' equity** | | | | | |
| Stated capital | 862,621 | 849,845 | 875,639 | 989,487 | 975,510 |
| Foreign currency translation reserve | (696,276) | (680,417) | (634,293) | (254,293) | (2,189) |
| Legal reserve | 73,519 | 39,607 | 32,189 | 22,178 | 5,108 |
| Share based payment reserve | 18,089 | 38,840 | 35,835 | 19,705 | 21,246 |
| Retained earnings | 3,500,317 | 3,709,308 | 3,383,983 | 3,197,534 | 2,925,000 |
| **Total equity attributable to equity holders of the company** | 3,758,270 | 3,957,183 | 3,693,353 | 3,974,611 | 3,924,675 |
| Non-controlling interests | 316,392 | 313,309 | 192,799 | 148,791 | 154,437 |
| **Total equity and liabilities** | **10,656,289** | **8,960,770** | **7,821,786** | **7,419,333** | **6,332,570** |

**STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

| | 2018 December P'000 | 2017 December P'000 | 2016 December P'000 | 2015 December P'000 | 2014 December P'000 |
|---|---|---|---|---|---|
| Interest income | 2,718,257 | 2,252,636 | 1,963,129 | 1,753,556 | 1,454,907 |
| Interest expense | (654,079) | (470,630) | (352,362) | (326,694) | (167,582) |
| **Net interest income** | **2,064,178** | **1,782,006** | **1,610,767** | **1,426,862** | **1,287,325** |
| | | | | | |
| Fee and commission income | 30,735 | 38,596 | 24,617 | 28,699 | 23,137 |
| Other operating income | 267,421 | 234,169 | 209,724 | 229,390 | 183,684 |
| **Total income** | **2,362,334** | **2,054,771** | **1,845,108** | **1,684,951** | **1,494,146** |
| | | | | | |
| Employee benefits | (390,177) | (367,057) | (309,016) | (212,487) | (207,034) |
| Other operating costs | (590,158) | (446,952) | (407,873) | (297,106) | (225,500) |
| **Operating income before impairment** | **1,381,999** | **1,240,762** | **1,128,219** | **1,175,358** | **1,061,612** |
| Impairment loss | (361,491) | (237,149) | (180,649) | (138,864) | (91,480) |
| **Operating income before taxation** | **1,020,508** | **1,003,613** | **947,570** | **1,036,494** | **970,132** |
| Taxation | (510,026) | (322,367) | (337,500) | (311,891) | (263,801) |
| **Profit for the year** | **510,482** | **681,246** | **610,070** | **724,603** | **706,331** |
| | | | | | |
| **Appropriations** | | | | | |
| Dividends | (321,607) | (371,685) | (371,685) | (370,450) | (254,648) |
| **Retained income** | **188,875** | **309,561** | **238,385** | **354,153** | **451,683** |
| | | | | | |
| **Attributable to :** | | | | | |
| Equity holders of the parent company | 438,639 | 637,663 | 568,145 | 665,179 | 659,394 |
| Non-controlling interests | 71,843 | 43,583 | 41,925 | 59,424 | 46,937 |
| | **510,482** | **681,246** | **610,070** | **724,603** | **706,331** |

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 2018**

| | 31 December 2018 P'000 | 31 December 2017 P'000 |
|---|---|---|
| **Value added** | | |
| Value added is the wealth the Group has created by providing loans to clients | | |
| **Interest income** | 2,718,257 | 2,252,636 |
| Cost of services | (654,079) | (470,630) |
| Value added services | 2,064,178 | 1,782,006 |
| Fee and commission income | 30,735 | 38,596 |
| Other operating income | 267,421 | 234,169 |
| Other operating costs | (553,867) | (414,152) |
| Impairment of advances | (361,491) | (237,149) |
| | **1,446,976** | **1,403,470** |
| **Value allocated** | | |
| **To employees** | | |
| Staff costs | 390,177 | 367,057 |
| **To expansion and growth** | | |
| Retained income | 47,193 | 359,639 |
| Depreciation | 24,444 | 23,164 |
| Amortisation | 11,847 | 9,636 |
| Deferred tax | (17,068) | (44,187) |
| | 66,416 | 348,252 |
| **To Government** | | |
| Taxation | 475,794 | 366,554 |
| **To providers of capital** | | |
| Dividends to shareholders | 463,289 | 321,607 |
| | **1,395,676** | **1,403,470** |

| **Summary** | % | % |
|---|---|---|
| Employees | 28.0 | 26.2 |
| Expansion and growth | 4.8 | 24.8 |
| Government | 34.1 | 26.1 |
| Providers of capital | 33.2 | 22.9 |
| | **100.0** | **100.0** |

**LETSHEGO HOLDINGS LIMITED**

**ANALYSIS OF SHAREHOLDING**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

| **Top ten shareholders** | **31 December 2018 Shares held ('000) Number** | **%** | **31 December 2017 Shares held ('000) Number** | **%** |
|---|---|---|---|---|
| • Botswana Life Insurance Ltd | 561,036 | 26.2 | 561,036 | 26.2 |
| • First National Bank of Botswana Nominees (Pty) Ltd- AA BPOPF | 260,669 | 12.2 | 260,669 | 12.2 |
| • ADP I HOLDING 2 | 180,484 | 8.4 | 180,484 | 8.4 |
| • First National Bank of Botswana Nominees (Pty) Ltd- BIFM BPOPF EQUITY | 122,340 | 5.7 | 108,587 | 5.1 |
| • BMO Investment : Former Lloyd George Investment Company | 116,510 | 5.4 | 52,096 | 2.4 |
| • Stanbic Nominees Botswana (Pty) Ltd - Botswana Insurance Fund Management Limited | 65,895 | 3.1 | 62,114 | 2.9 |
| • First National Bank Nominees (Pty) Ltd - BPOPF Allan Gray | 60,288 | 2.8 | 61,682 | 2.9 |
| • HSBC : Substainable Capital Africa Alpa Fund | 59,405 | 2.8 | 33,491 | 1.6 |
| • Standard Chartered Bank of Botswana Nominees (Pty) Ltd - NTGSLUX 010/03 | 52,854 | 2.5 | 53,471 | 2.5 |
| • First National Bank of Botswana Nominees (Pty) Ltd- IAM BPOPFP | 43,721 | 2.0 | 48,320 | 2.3 |
| | 1,523,202 | 71.0 | 1,520,242 | 66.3 |
| Other corporate entities, nominees and trusts and individuals | 620,843 | 29.0 | 623,803 | 33.7 |
| **Total** | **2,144,045** | **100.0** | **2,144,045** | **100.0** |

| **Directors' shareholdings** | **31 December 2018 Shares held Number ('000)** | **%** | **31 December 2017 Shares held Number ('000)** | **%** |
|---|---|---|---|---|
| • *Christopher Low | - | - | 3,169 | 0.1 |
| • **Colm Patterson | - | - | 3,371 | 0.2 |
| • Harrington Karuhanga | 29 | 0.0 | 29 | 0.0 |
| | **29** | **0.0** | **6,569** | **0.3** |

*Christopher Low the Group Chief Executive Officer resigned from the Board on 02 August 2018.
**Colm Patterson the Group Chief Financial Officer resigned from the Board on 2 March 2019.