LETSHEGO HOLDINGS (NAMIBIA) LIMITED

INTEGRATED ANNUAL REPORT 2020

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ABOUT
OUR INTEGRATED REPORT

This is the year-end report of Letshego Holdings (Namibia) Limited ('LHN', 'Letshego', 'the Company', or 'the Group') to its stakeholders. It is intended to give a balanced and accurate assessment of the Group's performance in the financial year under review, namely 1 January 2020 to 31 December 2020. LHN is listed on the Namibia Stock Exchange.

WHO IS THIS REPORT FOR?

The content of this report is relevant to all our stakeholders, including our staff, customers, investors, funders, strategic partners, governments, regulators, and the members of the communities in which we operate.

WHAT IS OUR REPORTING BOUNDARY AND SCOPE?

The 2020 Integrated Annual Report covers the 12-month period from 1 January 2020 to 31 December 2020. The report examines the forms of capital used to create sustainable value, trade-offs mitigated, significant material matters raised by our stakeholders during this 12-month period, and Letshego's response to the material matters raised. Letshego considers as material those matters, opportunities, and challenges that are likely to affect the delivery of our strategic intent and ability to create value in the short, medium, and long term for relevant stakeholders.

Letshego applies principles of stakeholder inclusiveness, sustainability, materiality, and completeness when assessing which information to include in the Integrated Annual Report. Letshego also applies the principles of accuracy, balance, clarity, comparability, reliability, and timeliness when assessing information for this report.

The 2020 Integrated Annual Report covers both our core business operations: Letshego Bank (Namibia) Limited (LBN) and Letshego Micro Financial Services (Namibia) (Pty) Limited (LMFSN). Collectively, the entities are referred to as Letshego Holdings (Namibia) Limited (LHN).

WHAT ARE OUR REPORTING PRINCIPLES AND FRAMEWORKS?

The standards used in Letshego's annual integrated reporting align with global protocols. They also reflect key risks and opportunities and show how these factors affect our strategy, financial and non-financial performance, and the impact we have on the markets in which we operate. We have endeavoured to provide a concise, balanced, and transparent commentary on the progress we have made during the year on our strategy, performance, operations, governance, and reporting.

The Integrated Report serves to provide a balanced and holistic summary of LHN's performance.

This Integrated Report and previous reports are available for download from our website at

https://www.letshego.com/namibia

Feedback on this report

We welcome your feedback on this report. Please email your comments to the LHN company secretary, Chriszelda Gontes on ChriszeldaM@letshego.com

In preparing this report, Letshego followed the principles of the International Integrated Reporting Framework by the International Integrated Reporting Council (IIRC), the King Code of Governance Principles for South Africa (King IV), and the Namibian Stock Exchange (NSX) Listing Requirements. In addition, Letshego also strives to adhere to the 'core' Global Reporting Initiative (GRI) Standards.

RESTATEMENTS OR CHANGES FROM THE PRIOR PERIOD

Included in the financial statements is a prior year restatement of the loan to preference share conversion done in March 2018 within the Letshego Group. LHN issued a cautionary statement to inform the relevant stakeholders about the restatement and its adverse effect on the company profits, and the LHN Board has passed restatement resolutions.

BOARD APPROVAL

The LHN Board of Directors acknowledges its responsibility for ensuring the integrity of the report by sanctioning its preparation and presentation.

The Board committees responsible for corporate accountability and risk management, combined assurance, and integrated reporting have overseen the production of this report. They are satisfied with its accuracy, completeness, and integrity and believe that it reflects our use of different forms of capital.

The Board approved the annual report on 8 June 2021.

Maryvonne Palanduz
Chairperson: LHN and LBN Boards of Directors

A NOTE ON DISCLOSURES

Letshego Holdings Limited affirms the following terms with respect to its annual integrated reporting strategy:

- Letshego adhered to the principle of non-disclosure of confidential data, such as granular data on remuneration, yields and margins, where the information is deemed to be competitively sensitive. Letshego encourages official and direct enquiries in relation to any aspect of the Company's competitively sensitive operations that may not have been publicly disclosed
- Infographics are used to report various metrics, while retaining proprietary information
- All monetary figures used in the report are in Namibian Dollars (N$), unless otherwise indicated.

FORWARD-LOOKING STATEMENTS

are based on beliefs and assumptions relative to information currently available to Letshego's management. There can be no assurance that such statements will be accurate and actual results and future events could differ materially from those anticipated in such statements. For purposes of this report, the words 'believe', 'anticipate', 'estimate', 'expect', 'intend' and similar expressions are intended to identify forward-looking statements. Forward-looking statements are subject to certain risks, uncertainties and assumptions. These risks include, but are not limited to, general market conditions, our ability to manage growth, performance and changes in the regulatory environment, among others.

Letshego undertakes no obligation to update forward-looking statements to reflect subsequently occurring events or circumstances or to reflect unanticipated events or developments.

SPOTLIGHT ON 2020

INTEREST INCOME (NAD'000)
625 704
FY19: 625 198

NET INTEREST INCOME (NAD'000)
526 954
FY19: 515 187

CREDIT LOSS (NAD'000)
(43 652)
FY19: (9 236)

PROFIT AFTER TAX (NAD'000)
320 889
FY19: 524 209

COST TO INCOME RATIO (%)
33
FY19: 29

RETURN ON EQUITY (%)
12
FY19: 17

TOTAL ASSETS (NAD'000)
4 398 041
FY19: 3 426 026

CAPITAL ADEQUACY RATIO (%)
85
FY19: 98

EARNINGS PER SHARE (NAD'000)
64
FY19: 80

SERVICES AND SOLUTIONS

- LOANS
- DEPOSITS
- TRANSACTIONS

16 CUSTOMER ACCESS POINTS

75 936 CUSTOMERS

50 421 BORROWERS

27 216 SAVERS

DIGITAL TRANSFORMATION

LOAN TRANSACTIONS VIA DIGITAL CHANNELS INCREASED TO **64%**

Responding to COVID-19

N$ 1.1m
DONATION TO COVID-19 RELIEF FUND

35%
EMPLOYEES ENABLED TO WORK REMOTELY DURING MARCH/APRIL 2020

ZERO
RETRENCHMENTS OR SALARY CUTS DURING LOCKDOWN PERIODS

CHAIRPERSON'S REVIEW

MARYVONNE PALANDUZ

Letshego Holdings Namibia (LHN) comprises Letshego Micro Financial Services (Namibia), which has been trading for over two decades, and Letshego Bank (Namibia) (LBN), which was formally registered in 2016.

Diversification of our client solutions and market segment beyond lending to government employees remains top of mind with significant opportunity leveraging our brand in our target market that extends to Non-Government Institutions and individuals. Delivering a banking capability in a mature financial sector is no easy fete, but one that we remain committed to and are proud of the good progress made in extending our offering to banking solutions.

COVID-19 created a unique opportunity to leap-frog our digital transformation strategy, but it has also dampened our progress in growing our private sector portfolio. In these unprecedented times we have taken an offensive approach to grow our market share with due care in protecting our asset quality and capacitating the business approving key roles as we invest in our future. We have made good progress in setting up the foundation to diversify our balance sheet and self-insure segments of our asset portfolio that we expect will improve our net interest margin going forward while we maintain and grow client value. We continue to review and adapt our corporate governance as the business transforms and the Namibian regulatory, governance, and sustainability landscape evolves.

We refine our balanced scorecard on an ongoing basis to ensure that there is alignment between the strategy, implementation, and stakeholder reward within our risk appetite with emphasis on sustainable performance and ethical corporate citizenship.

The Board approved the restatement of the 2018 and 2019 amounts, pertaining to the loan to preference share conversion transaction done in 2018, in the current year financial statements. Although this has an adverse earnings impact, the restatement has unlocked value through improved tax efficiency.

Without the commitment of our various stakeholders that include our clients, shareholders, regulators, funders, management staff and board members it would not be possible to achieve our vision to become a world class financial institution. We thank you for your ongoing support as we evolve from a micro lending operation to a financial service institution.

OPERATING ENVIRONMENT

The banking sector often experiences the brunt of economic or societal changes due to shifts in business and consumer confidence. These shifts impacted volumes of loan applications, transactions, and savings accounts, which materially affects Letshego's balance sheet.

COVID-19

COVID-19 had a massive societal and economic impact on Namibia and its commercial activities. Although Letshego's relatively secure government-centric customer base provided more stability than many of our peers experienced, the pandemic certainly impacted our clients and the extended communities they support.

The first positive COVID-19 case in Namibia was announced on 14 March 2020. The national state of emergency was cdeclared on 17 March 2020 with heavily restricted personal movement and commercial activity. Priority at this stage was to ensure the health and safety of our staff by implementing new protocols and adopting a digitalisation strategy that was aligned to shifting customer realities. Letshego also needed to remain updated with constantly changing regulations, mostly in response to the pandemic. Learnings and practices from Letshego's subsidiaries across Africa in this time of crisis gave us significant advantage over our peers.

In response to lockdown regulations, we swiftly capacitated employees with the tools to maintain, and sometimes even improve, productivity. We also implemented a cohort working arrangement, dividing our staff into two teams that alternate in working from their offices. While many employees are happy to work from home, others still seek out the office environment. LHN is catering to both preferences to maintain productivity and employee satisfaction.

Due consideration is given to business continuity that was tested at another scale this past year. The Board is pleased with how quickly management and staff were able to reorganise operations and continue doing business that is testimony to adaptiveness and agility. We could leverage our digitalisation strategy to onboard clients and improve our internal processes in response to the pandemic and the operational challenges that comes with it.

While our customer engagement approach became more innovative and intuitive for customers, many of our peers reverted to a defensive and more conservative approach. This competitive advantage added impetus to Letshego Namibia's excellent results under the circumstances.

By adopting the best COVID-19 learnings and practices from Letshego's subsidiaries across Africa, our strategic approach to the crisis gave us a significant advantage over our peers.

CHAIRPERSON'S REVIEW continued

ECONOMIC UNCERTAINTY

While the national government's first aim was to protect citizens, it attempted to limit the pandemic's impact on the economy by relaxing its lockdown restrictions as soon as deemed prudent. Nevertheless, an economic slowdown was unavoidable, and Namibia's gross domestic product (GDP) contracted by 8.0% in 2020. While Letshego's exposure to some of the worst-affected sectors such as tourism was limited, we did not achieve the increase in corporate or institutional customers that we had projected prior to COVID-19.

INCREASING COMPETITION

We are experiencing increasing competition in the microfinance sector, a trend that may be partially due to competitors witnessing LHN'S ongoing success in this area. While LHN remains the market leader due to our years of experience, combined with among the lowest costs and fastest onboarding times in the industry, new entrants have gained market share. We are countering our competitors by exploring strategic alliances and new product offerings.

RISK AND COMPLIANCE

Letshego Holdings Namibia (LHN) is steadily advancing along its compliance journey.

A material risk to note is around our deduction at source (DAS) capabilities whereby the deduction code as provided by the Minister of Finance which enables LHN to collect loan repayments directly from the national government payroll system is due for renewal in 2022. While it is a critical component of LHN's DAS model, its provision is currently in contravention of the payment system determination (PSD) 7 requirement. The Bankers Association of Namibia is facilitating talks with the Bank of Namibia (BoN) to find a solution. At the same time, we continue advancing alternative repayment collection models.

On the micro-lending side, regulations dictate that our microlending licence needs to be renewed annually. We have submitted the licence application and are waiting for it to be finalised, while working under the watchful eye of our risk committee to ensure that we resolve any outstanding requirements. LHN is constantly engaging with Namibia Financial Institutions Supervisory Authority (NAMFISA) to discuss progress.

Upon granting our banking licence, the Bank of Namibia (BoN) stipulated that we reach a minimum of 45% Namibian shareholding within four years of obtaining the licence. LHN was granted an extension to this deadline in 2020, given the challenging environment presented by COVID-19. LHN was granted until 31 December 2023 and have already localised approximately 22% of our shareholding. We are confident that the full localisation requirement can be met by the due date.

Operational readiness to implement regulatory changes introduced by NAMFISA end 2019 resulted in increased credit risk on uninsured new business to 30 April 2020. The uninsured book amounts to N$1.2 million OR 30%of the total loans and advances or 30% of our total loans and advances, down from Rn$1.5 million due to successful campaigns to reinsure these loans by incentivising customers with lower interest rates and risk cover. LHN is also making good progress to risk pool and insure these unsecured loans with also considering self-insuring these loans.

ETHICS, LEADERSHIP AND CORPORATE GOVERNANCE

In 2020, LHN restructured its Governance, Risk, and Compliance Department to enhance focus and efficiency also insourcing the company secretarial function thereby segregating the Legal and Governance portfolio from the Chief Risk and Compliance Officer. We also revised our organisational design (OD) to align with the implementation of our strategy, strengthening and continuing to localise core capabilities such a Treasury and Product Management with increased emphasis on taking these new solutions to market.

Our focus on digitalisation makes IT governance a key priority. The Board delegated this responsibility to the Information Technology Management Committee for oversight, which meets monthly to review risks and escalate important issues to the Audit and Risk Committee (ARC).

We are also working to enhance our Board composition to ensure independence. LHN is currently in the process of appointing two new independent non-executive directors, while the new LHN CFO will join the Board as an executive director in accordance with Namibia's Corporate Governance Code (NamCode). This will enhance the Board's size, skills and diversity.

PROSPECTS

The Board's priorities are guided by the Annual Work Plan, reviewed quarterly, alongside the company strategy as presented and approve in the final quarter of 2020. As part of this plan:

- the Board is currently finalising adequate strategic key performance indicators to measure the management team's performance during the year. Regulatory compliance, especially in the 45% localisation in terms of ownership required by 2023, will be a key focus;
- the launch of LBN's new products, including the home loans, as well as the drive to improve LBN's deposit book will attract keen Board interest in the months to come;
- we have secured alternative sources of funding to support growth projections with the local asset now unencumbered following the terminations of the LMFSN in the SSA;
- we are currently performing a comprehensive governance review given the changing landscape and will affect the necessary changes.; and
- we are reviewing our dividend policy considering the balance sheet restructure and remain committed to paying dividends that is in line with the sustainable performance of the business.

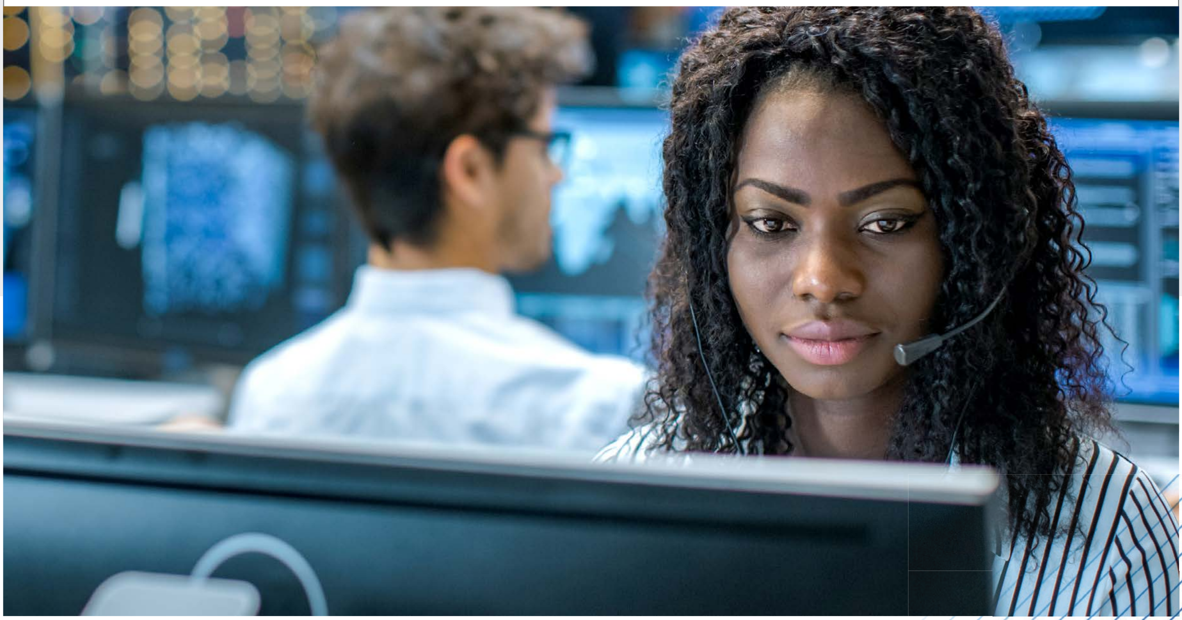
THANKS

We want to thank the management team for leading LHN during the COVID-19 pandemic and safeguarding Letshego's staff, while simultaneously laying the groundwork for our strategy. Your collective performance has been the epitome of excellence during this trying time.

Furthermore, we are obliged to the regulators and government departments who are continuously engaging with us in the interest of fairness, governance, and best practise.

And most important a sincere word of thanks to our customers who have remained loyal as we evolve to better service you and provide you with more value.

Maryvonne Palanduz
Chairperson: LHN and LBN Boards of Directors



WHO WE ARE

OUR JOURNEY

1998 – Edu Loan opened its doors as provider of financial assistance to support studies in the Education sector

2008 – LHL acquires 100% stake in Edu Loan and introduced the Letshego brand in the Namibian market as Letshego Financial Services Namibia (LFSN)

2009 – 15% Shareholding sold to Kumwe Investments

2011 – LFSN doubles its customer base since LFSN acquisition (220%)

2014 – Granted a Provisional Banking License by Bank of Namibia

2015 – Moves into new Head office building in Windhoek

OUR STORY

Letshego is a Setswana word meaning "support". This encapsulates the Group's ability to partner with individuals as well as Micro and Small Entrepreneurs (MSE) by providing appropriate financial services. The Letshego logo depicts a three legged artefact such as those used to support traditional cooking pots. It symbolises trust, self-sustenance and life improvement.

Letshego Holdings (Namibia) Limited (Letshego Namibia, LHN, the Company, or the Group) started in 1998 as Edu Loan Namibia, providing consumer and micro-lending services. In August 2008, Letshego Holdings Limited (LHL), a Botswana Stock Exchange (BSE) listed entity, acquired 100% of the company, soon after which the company re-branded to Letshego Financial Services Namibia. After obtaining a full commercial banking licence in 2016, LHN was introduced as a holding company.

We focus on low to middle income earners in the economy, through the provision of financially inclusive solutions. Previously, we only offered payroll loans through the deduction at source (DAS) model, but after receiving our commercial banking licence, we started rolling out deposit and transactional solutions to customers across the country. These solutions bear our hallmarks: responsive to needs of the people, simple to understand, accessible by way of innovative new channels, and above all, ethical solutions that enable savings and sustainable economic growth.

Letshego Namibia's success is attributed to its commitment to upholding good corporate governance, customer experience, innovation, stakeholder engagement and people development. It demonstrates its commitment to empowering Namibian nationals by employing a truly Namibian workforce and investing in skills development.

Today, Letshego boasts as a proudly listed company on the Namibian Stock Exchange and with a market capitalisation of NAD1'330 million, representing 4.85% as of 31 December of the NSX's primary listings market capitalisation.

2016

Granted full Commercial Banking License

Incorporated Letshego Holdings Namibia (LHN) as the holding company of Letshego Bank (Namibia) and Letshego Micro Financial Services (Namibia)

2017

Listed LHN on the Namibia Stock Exchange

2018

Launched our LetsGo value proposition in Windhoek and Katutura branches

2020

Expedited our digitalisation journey. WebForm applications became the de facto standard for applications of DAS loans

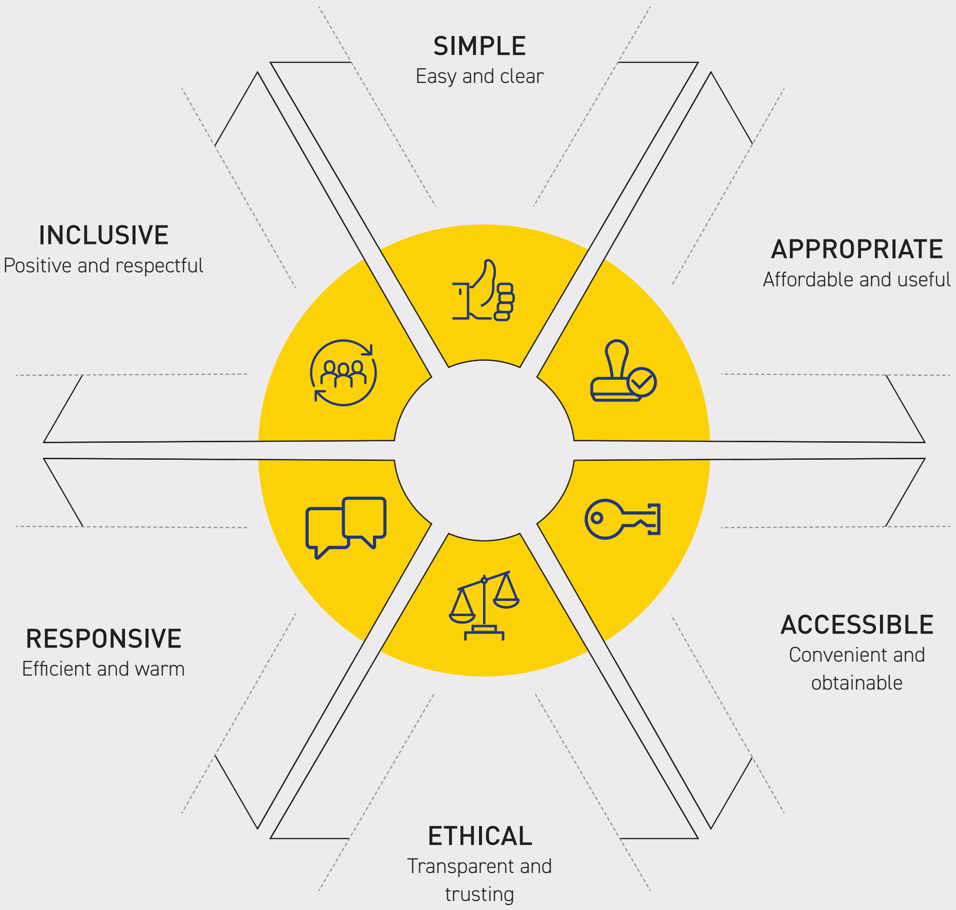
WHO WE ARE continued

OUR VISION

Our vision is to become a world-class retail financial services organisation, empowering underserved customer segments.

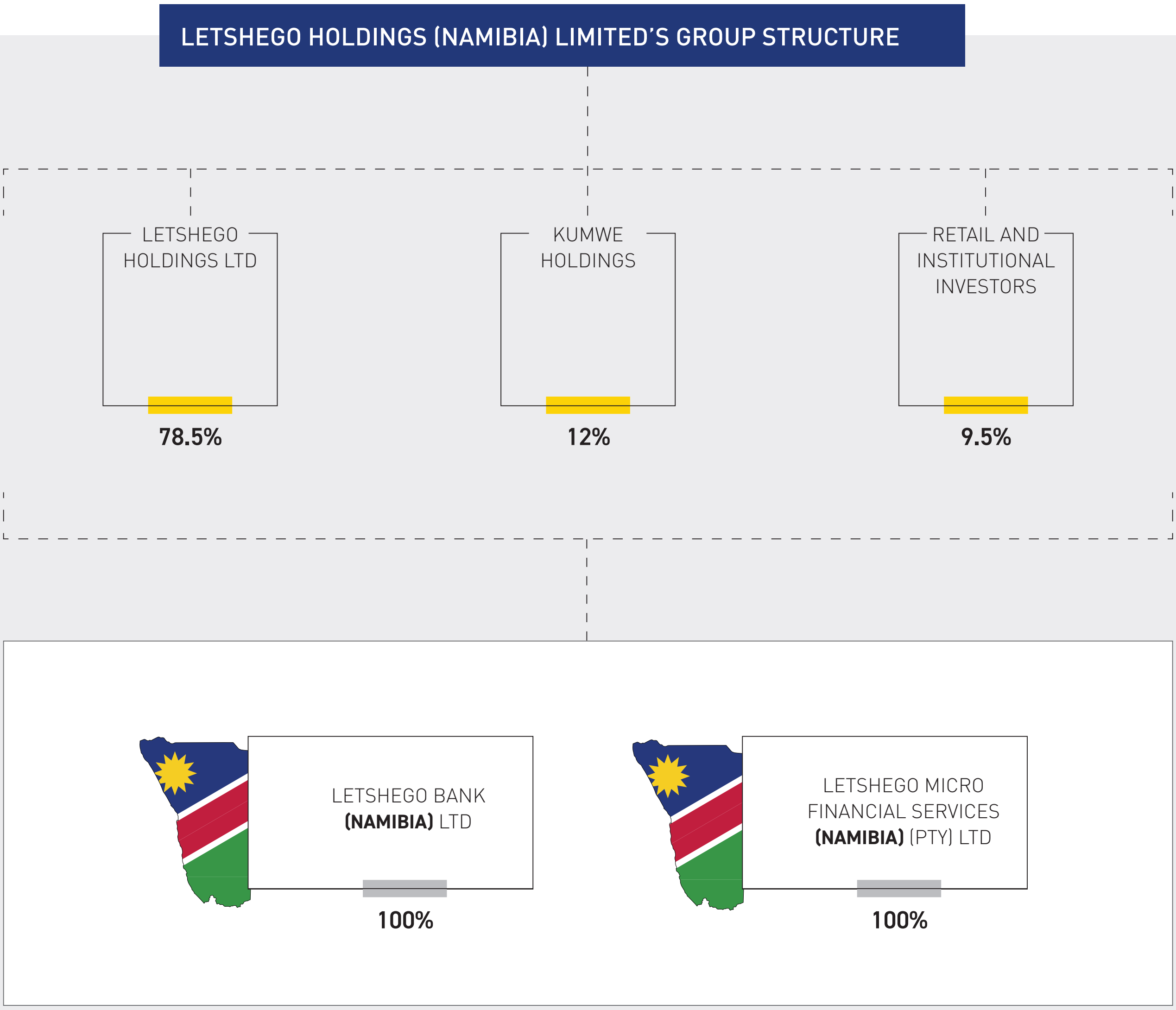
OUR VALUES

Letshego's commitment to our brand is expressed through the fundamental beliefs upon which our behaviours towards our business are built – we call these values "our uniquenesses". They define the way we think, work and act, and helps us to build a strong and sustainable culture that resonates with our customers while supporting an engaged and energetic workforce. Through our uniqueness, we create value that distinguishes us from our competitors and build a stronger brand in the market.



OUR STRUCTURE

LHN is owned by its parent Company, Letshego Holdings Limited (LHL), along with private investors and individuals. LHN is the holding Company for Letshego Bank (Namibia) Limited (LBN) and Letshego Micro Financial Services (Namibia) (Pty) Limited (LMFSN).



WHO WE ARE continued

WHERE WE OPERATE

LHN has its headquarters in Windhoek, Namibia and was incorporated in the Republic of Namibia on 24 February 2016. We operate exclusively in Namibia through 16 customer service points across Namibia, four converted into full deposit taking branches.

OUR SOLUTIONS

The primary purpose of our solutions is to provide access to credit finance and give customers a safe place to save and make their payments, ultimately improving lives.

TARGET AUDIENCE

While the bulk of our customer base are Government employees, our financial solutions are also marketed to the informal sector and corporates.

OUR PRODUCTS

Letshego's solutions include deduction at source (DAS) loans to government and non-government employees, savings solutions, and accessible transaction solutions for consumers through our banking operations as LBN. Our principal financial solutions are short-term and long-term loans ranging from N$1 000 to N$300 000.

1 LOANS

Providing access to capital

Our loans empower customers to improve their living standard and grow their income in a sustainable way, thereby also lifting the community's economic wellbeing. Our affordable interest rates and convenient delivery channels make us one of the best in the market.

Most of our loans are deduction at source (DAS) solutions to the employed sector, both in government and non-government.

2 TRANSACTIONS

Facilitating simple and secure payments

Technology-based money transfers are increasingly the most effective way to provide financial services and drive Namibia's financial inclusion aspirations. Our banking branches, Master Cards, unstructured supplementary service data (USSD) and internet banking solutions all contribute to customer convenience in accessing our service.

3 DEPOSITS

Mobilising savings for the future

Having a savings account with competitive interest rates helps our customers to prepare for contingencies and fulfil their dreams in future. With Letshego's savings accounts (TermSave and FlexiSave), our customers are guaranteed access to their money whenever they need it.

ACCESS CHANNELS

Letshego's financial inclusion strategy is to expand both physical and digital (or mobile) access to customers. As a result, customers can conduct their banking activity through USSD and cards. Increases in these payment channels helped to increase retail deposits.

Transaction facilities enable customers to make payments to suppliers, pay bills or receive payments from other bank accounts.

OUR SUSTAINABLE BUSINESS MODEL

RESOURCES | **INPUTS** | **VALUE CREATION ACTIVITIES**

FINANCIAL RESOURCES

The pool of funds supporting business operations, including equity finance and debt.

- N$2.4 billion equity capital
- N$1.4 billion debt capital
- N$187.8 million customer deposits

HUMAN RESOURCES

The competencies, capabilities and experience of our employees and how they innovate, collaborate and align with Letshego's objectives.

- 152 skilled, customer-centric people
- Experienced and ethical leadership team
- Performance management system
- Various training courses

MANUFACTURED RESOURCES

The facilities and general infrastructure that enables Letshego to support business operations. (tangible assets)

- 16 physical access points
- Call centres
- Online and mobile platforms
- IT hardware

INTELLECTUAL RESOURCES

The intangibles that sustain the quality of our product and service offering, which provide Letshego's competitive advantage, such as our innovations, systems and reputation. (intangible assets)

- A deliberately shaped, agile culture
- A trustworthy brand that resonates with consumers
- Marketing campaigns and initiatives
- IT systems and enterprise architecture
- Balance sheet management
- Market and data analysis

SOCIAL AND RELATIONSHIP RESOURCES

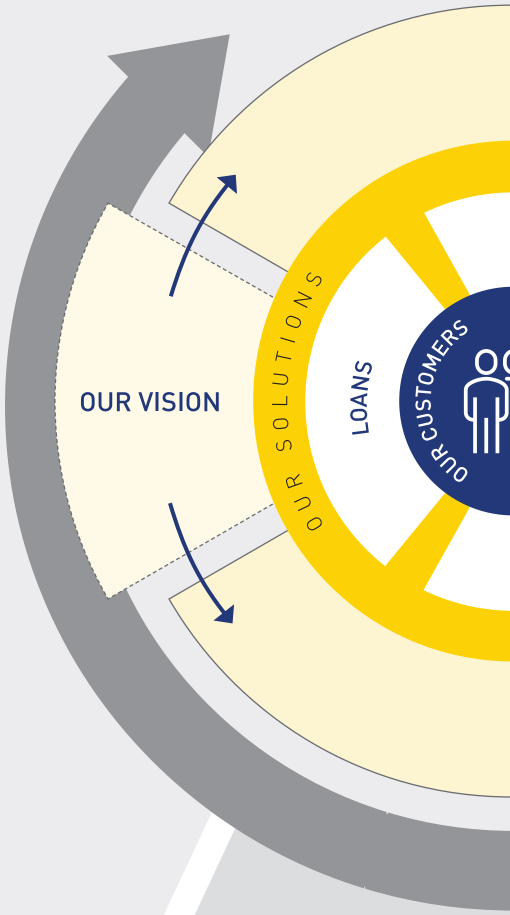
The relationships and collaborations we create with our customers, stakeholders and communities.

- Relationships with all stakeholder groups, including 75 936 customers
- Sustainable business practices to meet the SDGs as well as responsible ESG practices

NATURAL RESOURCES

Renewable and non-renewable resources used by Letshego to function.

- Electricity
- Water
- Fuel
- Land

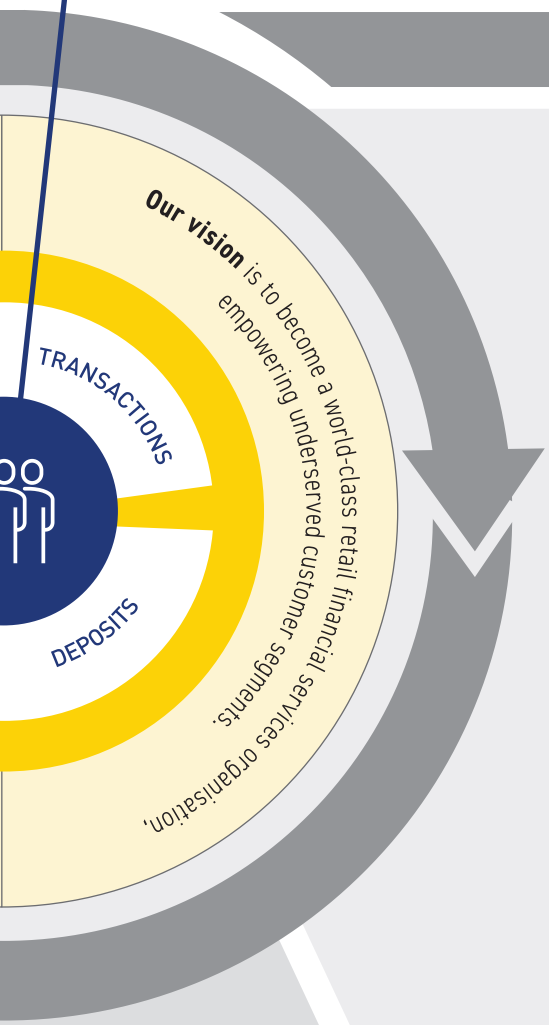


Our value creation process is underpinned by:

ACCESS CHANNELS
Branches
Agency outlets
Digital and mobile platforms

SUPPORT FUNCTIONS
Human resources
Transformative technologies

Letshego aims to improve lives by focusing on underserved market segments



OUTPUTS	OUTCOMES
› Revenue: N$625.7 million › Operating profit: N$423.1 million › Dividends distributed: N$112.5 million › Operational expenditure: N$234.7 million › Finance costs: N$98.7 million › Taxes paid N$101.2 million	We leverage financial capital to invest in our business and grow our competitive market position. This has a positive impact on human, intellectual and the social and relationship capitals.
› Excellent customer service › N$70 429 million paid in salaries and benefits › 93 employees trained during FY20 › Talent pipeline › 6.6% turnover rate › Increased diversity through hiring people locally	Significant people-related investments was conduced during 2020. These investments had a negative impact on our financial capital in the short term but positively impacts our human, social and relationship capital. Over the longer term this enables us to have the people and capabilities required to deliver our strategy and performance targets.
› Infrastructure spend (branches) N$1 438 941.62 › N$14 638 825.88 invested in our technology platform › Increased adoption of digital banking platforms › Staff work from home capability	Although digital adoption is increasing as a result of the COVID-19 pandemic, we retained our physical access points to allow our customers face-to-face engagement. However, we have not added to our physical access points during the period under review. Automation of routine tasks through technology may reduce human capital.
Letshego is developing a range of distinctive capabilities that cannot be easily replicated by competitors – this will ensure coherent value creation. › Better responses to changing consumer needs › Brand reinforcement and market communication › Accelerated deployment of new technologies › Agile project management › Effective controls and processes › Improved business practices	Ongoing investment in business processes and new systems is growing our intellectual capital and indirectly benefiting our human, and social and relationship capitals, but negatively impacting financial capital in the short term.
› Brand reinforcement and market communication › Understanding our customers › Networking and partnerships › Focused and committed corporate social investment (N$495 291.41 spent in FY20)	Stakeholder-related investments in initiatives reduces our financial capital in the short term but positively impacts our social and relationship capital, which, over the longer term, enables us to have the community of stakeholders that are loyal and supportive to our brand and provide our social license to operate.
› Responsible management of waste and emissions › Focus on sustainable use of our resources › Maximising digital reduces our carbon footprint	While certain business activities impact our natural capital (for example, use of fossil fuels and related emissions), these positively impact human, social and relationship and the financial capitals.

CONTROL FUNCTIONS
▷ Compliance
▷ Risk management
▷ Audit

CORPORATE GOVERNANCE
▷ Overseeing strategic execution
▷ Setting the ethical tone

OUR EXTERNAL OPERATING ENVIRONMENT

COVID-19

On 14 March 2020, Namibia reported its first cases of COVID-19. On 17 March 2020, President Hage Geingob declared a state of emergency with measures that included the closure of all borders, suspension of gatherings, and economic related resolutions. The Ministry of Health and Social Services also established an Emergency Response team to intensify the surveillance of COVID-19 in the country, especially at the Namibian borders. On 28 March 2020, the country went into a full lockdown.

Namibia recorded a notable increase in cases after 20 May 2020, followed by a second and more dramatic rise in infections in July 2020 after restrictions were relaxed in several regions. To date (as at 31 May 2021), Namibia has recorded over 55 000 positive cases.

SAFEGUARDING THE HEALTH OF OUR EMPLOYEES AND CUSTOMERS

Letshego rapidly introduced health and safety protocols throughout our operations in line with national and international health directives. The measures included remote working, social distancing within our premises, and ensuring that our workspaces have the necessary health interventions such as regular disinfection, hand sanitisers, face masks and awareness posters. Social distancing is achieved within our branches and outlets by monitoring the number of entrants in line with national guidelines, and all our staff and guests are subject to temperature screenings.

Four of Letshego's retail branches, namely Windhoek, Katutura, Rundu and Swakopmund remained open during lockdown to assist customers in need. However, customers were urged to use alternative channels wherever possible. Letshego Namibia employees supported customers through digital channels like SMS, WhatsApp, email, and video conferencing.

THE IMPACT OF COVID-19 ON NAMIBIAN BUSINESSES

The extreme measures taken by the national government to save lives had a profound effect on the livelihoods of both businesses and their employees. While it is clear that the hard lockdown period during the first few weeks of the pandemic had a significant effect on most businesses deemed "non-essential" (so that they were not allowed to operate from a central premises), the true impact of the pandemic is yet to be determined.

According to surveys conducted in the months following the implementation of lockdown, nearly all businesses felt that the pandemic has had a serious impact on their financial well-being. Most businesses listed inadequate cash flow and lower demand as their biggest challenges.

By the end of Q3 2020, 64% of businesses reported a revenue loss of over 50%. The most-battered sectors included manufacturing, transport, tourism (including restaurants and hotels), and construction. This suggests that many households will remain under severe financial pressure for some time to come.

According to the Ministry of Labour, Industrial Relations and Employment Creation, 12 000 workers from 896 companies were retrenched in 2020. However, only 2 842 of the retrenchments were due to COVID-19, while the rest were caused by other economic factors.

INCREASED CREDIT RISK AND BUSINESS RESILIENCE

COVID-19 resulted in reduced household cash flows and subsequent financial stress to our borrowers. We conducted stress tests and sensitivity analyses from the outset of the pandemic to map potential downside scenarios and their financial impact on our business. Understanding the impact of lockdowns and other restrictions on individuals and businesses, Letshego provided repayment holidays and other debt relief measures, as well as the aforementioned the options for customers to access digital services.

The Letshego business remained resilient in the face of the COVID-19 outbreak. Letshego's deduction at source (DAS) segment, that accounts for over 90% of the Letshego loan portfolio, remained relatively stable as government endeavoured to support employees and minimise retrenchments. Despite the impact of Namibian lockdowns, we expect our business to gain momentum from ongoing enhancements and investment into both our system and access channel strategies.

MACRO ECONOMIC DEVELOPMENTS

The COVID-19 pandemic had a severe impact on Namibia's economy - GDP contracted by 8.0% (compared to a decline of 0.6% in 2019) due to declines in tourism, retail, trade and investments, health, and education. This is in line with poor performances in previous years. The economy contracted in 2019 and 2017, while registering low growth in 2018 due to poor performance in construction and mining, persistent drought, and the weakening demand for Namibian exports.

The Bank of Namibia (BoN) has maintained an accommodative policy stance to support a revival of the domestic economy. It reduced the policy rate by a cumulative 275 basis points to 3.75% in 2020. The fiscal deficit is estimated to widen to 12.5% of GDP in 2020 from 4.9% in 2019, due to a surge in pandemic-related spending and lower revenues. The increased expenditure in 2020 and subsequent fiscal deficit will require large public debt financing, with the public debt-to-GDP expected to rise substantially in financial years 2021/22.

The economy is projected to grow by 2.7% in 2021 and 3.3% in 2022, on the back of a steady recovery in financial services, tourism, retail and wholesale trade, and the mining industries combined with an improvement in the regional and global economic environment. However, the economy still faces substantial risks and challenges in the short to medium term. For instance, if the pandemic continues, the revival of critical sectors such as tourism, agriculture, and retail and wholesale trade would be slower than anticipated. Furthermore, sluggish global economic growth would suppress exports and foreign direct investment inflows. Other factors that risk eroding Namibia's economic outlook include high unemployment levels and widening income inequality, which have been exacerbated by the pandemic.

REGULATORY ENVIRONMENT

Letshego is regulated by the Bank of Namibia (BoN) and the Namibia Financial Institutions Supervisory Authority (NAMFISA).

EXTENDING FINANCIAL RELIEF DURING COVID-19 AND PRESERVATION OF CAPITAL RESERVES

Although regulatory changes had a significant impact on LHN in 2020, we engaged regularly with the Bank of Namibia (BoN) regarding an effective approach to dealing with the risks presented by COVID-19 to the country's economy and banking system. We also appreciate the support and guidance provided by the Bank of Namibia (BoN) during the year, which enabled the banking sector to extend relief to clients during this difficult time.

Bank of Namibia (BoN) strategies to provide a reprieve to the banking institutions and customers during 2020 included:

- BID-5: The Capital conservation buffer rate was reduced to zero, thus bringing the regulatory minimum to 10%. Letshego considers a strong and efficient capital position to be a priority. Our capital ratios are well above the regulatory requirement at 85% (98% 2019).
- BID-4: The concentration risk limit/single borrower limit was changed back to 30% from 25%. This does not have bearing impact on LHN due to our loans being limited to N$300 000.
- BID-2: A loan repayment holiday for a period ranging between 6 months and 24 months, based on thorough assessment of economic and financial condition of individual borrower, was required.

During August 2020, Bank of Namibia (BoN) issued a letter requesting banks to consider restricting the declaration of dividends and payment of bonuses to the shareholders and executive management. The Bank of Namibia (BoN) put forward this request in response to the adverse effect of COVID-19 on the Namibian economy and the banking sector with specific mention of ensuring the perseveration of capital reserves of banking institutions amid the current challenging economic conditions. LHN, comfortable that we met the requirements outlined by Bank of Namibia (BoN), declared dividends.

NAMIBIA'S NEW ELECTRONIC FUND TRANSFER (EFT) SYSTEM

The Payment Association of Namibia, in partnership with local banking institutions and payment service providers, are introducing a new payment solution, called NamPay. The new payment solution will result in a major enhancement to the National Payment System (NPS) for Electronic Fund Transfers (EFT) and impact all stakeholders directly or indirectly who utilize this service. This was driven by a legislative need for greater efficiency in the processing of payments in the NPS.

The most prominent feature of NamPay would be that debit orders will no longer be deducted from clients' accounts in a specific, predetermined prioritised order. NamPay will assign random sequences to debit orders submitted for collection in the national payment system. This implies that debit orders will be deducted from a customer's bank account in a different order every month. NamPay will also have a feature called credit tracking. The result is that a debit order, which has not been paid for at the time when it was submitted to a customer's account for payment, will be deducted as soon as enough funds have been paid into the specific customer's account within a 14-day period.

The existing EFT system, managed by Namclear and the domestic banks, will be replaced by the state-of-the-art, internationally recognised messaging standard (ISO-20022) solution that introduces greater efficiency, safety and effective control of the domestic EFT component of the NPS.

The NamPay solution will comprise of three new payment streams across debit orders, credit payment transfers and near-to-real-time credit payment transfers that will transform all EFT processing in Namibia. Given the impact that NamPay will have on Namibia as a whole, all banking consumers will be transitioned from using the existing system to the new processing standard over the course of 18 months from the date of implementation.

The implementation ensures compliance with the Bank of Namibia (BoN) directive to ensure efficiency within the National Payments System.

COMPETITIVE LANDSCAPE

> ***Letshego*** has traditionally differentiated its market offering by focusing on the underserved mass and middle-income segments. The foundation of our business is the DAS model, which accounts for the bulk of our loan portfolio.

Big banking institutions have recognised that our portfolio offers some lucrative opportunities – their large balance sheets and lower cost of funding creates the greatest opportunity for them to compete with Letshego on product pricing. They are making forays into our market segments, but have not yet built up the relationships and capacity that Letshego takes pride in. At the same time, new fintech companies are stepping into the competitive arena, using their comparatively smaller size to offer products quickly and conveniently to gain market share.

OUR EXTERNAL OPERATING ENVIRONMENT continued

OUR KEY RELATIONSHIPS

The interaction and integration of global economies means there are multiple people, customers, investors, funders, communities, companies, governments, regulators, and economies that are affected by Letshego's operations, and thus have either a direct or indirect interest in our strategy and success.

We consider these stakeholders integral to achieving our vision of becoming a world class retail financial services organisation. Letshego is committed to working with each of its diverse stakeholder groups to understand their unique objectives, as well as where we can collaborate and achieve collective benefit for the communities in which operate.

We maintain two-way communication with our stakeholders. Their feedback helps us to mould and enhance our strategy and operations to deliver more tangible value. Our stakeholder engagement framework is managed by Letshego's leadership and supported by the Board of Directors.

CUSTOMERS AND COMMUNITIES

Our customers are the reason we are in business. Our ability to deliver on our vision and strategic objectives depends on our continued ability to offer them appropriate solutions.

As competition in the banking sector intensifies, it is more important than ever that we communicate in a way that is relevant to them and offer the right solutions.

Our activities not only impact our customers, but the broader communities where we operate. Communities gain indirect benefit from our operations, as we seek to improve the lives of our customers on a sustainable basis.

EMPLOYEES

Our people are key to delivering value to our customers and stakeholders, so that the business can grow. Our corporate culture is a strategic differentiator for us, and a contributing factor toward being an employer of choice. We attract, develop and retain high-performing people that deliver on our brand promise to Let's Improve Lives.

INVESTORS AND FUNDERS

Our investors and funders provide the capital and financial support that enables Letshego to deliver appropriate financial solutions for our customers, as well as facilitate investment into our operations and channels to enhance our differentiators and deliver more impactful value to our customers and communities for the longer term.

Investors and Funders are valued ambassadors in extending our message and value proposition to broader audiences internationally.

STRATEGIC PARTNERS

Sustainable and effective strategic commercial partnerships facilitate Letshego's ability to deliver a differentiated customer value proposition, differentiated customer experience and ultimately, success in building a world class retail financial services organisation.

GOVERNMENTS

With the majority of our customer base being Government employees, Governments remain a key stakeholder both from a customer value perspective, and as a valued partner in enabling Letshego to achieve a tangle social impact in the economies where we operate.

Effective government partnerships enable Letshego to provide simple, accessible and appropriate financial solutions that support national mandates to increase financial inclusion.

REGULATORS

Regulators not only provide the framework for a robust and productive financial sector, but also offer an opportunity for collaboration and partnership as private and public sectors work together to secure the interest and benefits for all participants within a financial ecosystem. Achieving the highest level of compliance with the regulations and legislative policies helps to build confidence, trust, brand reputation, and ease of doing business.

OUR RISKS AND OPPORTUNITIES

TOP RISKS (AS AT 31 DEC 2020)

LOCAL OWNERSHIP

LHN to increase its local ownership to 45% by 31 December 2023 as required by the regulator.

The granting of the banking license to LBN by the Bank of Namibia (BoN) was conditional on the Company achieving a minimum of 45% Namibian shareholders within four years of obtaining the banking license. However, an extension was granted to LBN on 2 July 2020 until 31 December 2023. LHN is required to provide Bank of Namibia (BoN) with the required annual update by 31 July 2021 on the progress made towards achieving local ownership requirement.

- LHN Board also plans to establish an independent board that will advise on the introduction of an Employee Share Ownership Plan (ESOP) to assist with meeting the requirement.

  LHN Board will receive LHL Shareholder Reduction Proposal for shareholder approval at the next annual general meeting as soon as it is obtained and finalised.

UNINSURED LOANS AND ADVANCES

Potential increase in credit risk due to uninsured loan book

There was an increase in credit risk arising from the unsecured loans issued during the period of 15 October 2019 to 30 April 2020. This was due to core banking system upgrades that needed to be performed in line with Regulations. The value of the uninsured loans amounts to approximately 34% of the total loans and advances. This poses an increased credit risk and an overall negative impact on the earnings might be experienced..

- The Head of Consumer Division initiated top up campaigns with the aim to reinsure these loans as our top up rates are more than 45%.

  The decrease in the Prime rate ensured that clients are affordable for top up loans.

MICRO-LENDING LICENCE

Renewal of LMFSN's microlending license

When the Microlending Act was enacted, one of the requirements was that an organisation's micro licence needs to be renewed annually. Section 10 (6) of the Microlending Act of 2018 states that "If the application for renewal is submitted to NAMFISA in terms of subsections (2) or (3) but the microlender is not in full compliance with the provisions of this Act before the date of expiry of the term of registration, the registration of the microlender must be cancelled in terms of section 13." LMFSN is in the process of resolving some of the Microlending Act requirements to ensure compliance and license renewal by NAMFISA.

- Application for the license renewal has been submitted in line with legislation and diligence assessment.
- Senior management engages with NAMFISA to provide progress updates on the key outstanding micro-lending requirements.
- Progress updates are tracked internally through the risk committee meetings.

ONSITE INSPECTION

Closure of issues identified during the Bank of Namibia (BoN) 2019 onsite inspection

Bank of Namibia (BoN) raised several findings against LHN during their 2019 inspection. Of these findings, only two findings remain that still need to be addressed, centering around product diversification and monitoring of system downtime.

- Product diversification is a strategic priority and is addressed as part of our 6-2-5 plan.
- Regular progress updates are provided to the regulator and tracked at the monthly management committee meetings.
- We are confident that all findings will be resolved by the end of the current financial year.

OUR RISKS AND OPPORTUNITIES continued

OUR TOP OPPORTUNITIES

Digitalisation

Financial transactions, such as loans and cash deposits, were traditionally performed in secure, brick and mortar facilities by helpful staff members. However, these kinds of premises are rapidly becoming redundant as online banking becomes more sophisticated and secure. The ability to access financial services without needing to leave home is one of the biggest benefits to consumers and has a significant impact on the financial services industry.

One of Letshego's competitive advantages is our quick turnaround time on customer applications and queries. Digitalisation will enhance our competitive edge, particularly from the perspective of onboarding customers and streamlining the loan application process. Agile digitalisation reduces the possibility of errors, improves service levels and frees up employees to undertake more fulfilling work.

Partnerships

Fintechs are rapidly dealing with challenges in areas such as mobile payments, insurance and lending which banks and other financial services players have historically been slow to solve. Rather than competing with fintechs and mobile network operators, Letshego recognises that we must partner or cooperate with them to release immense synergies.

To deliver on our strategy we will need to continue developing strategic partnerships, and leverage partnerships that currently exist within LHN. Our focus will be on partnerships that support new capabilities in line with our strategy, extend our reach and grow our customer base.

Deposit mobilisation

Letshego's traditional business was micro-lending, but as funding costs increased, we started exploring opportunities to obtain deposit-taking licences so that we could diversify our funding base. Our ultimate goal is to go "beyond banking" to offer customers market-leading and individualised financial choices.

Our deposit solution offering contributes to increasing financial inclusion, and the Bank of Namibia (BoN) October 2019 Banking Fees Report reflects that we offer the lowest fee accounts across a wide range of customer segments. In addition, our savings accounts offer interest on low balances, which incentivises a savings culture in the underserved market.

Customer-centric automation

One of the biggest ways that technology is disrupting business is through customer service. In the past, a good customer service team was vital for any company involved in finance. Anything that involved the handling of money or financial matters required trained staff to resolve problems and provide assistance. However, chatbots are rapidly becoming the norm. Artificial Intelligence (AI) is evolving, although it still lacks the human touch.

Banks are now using technology to replace the mundane work which is normally left to staff. Robotic process automation (RPA) software is designed to automate a wide range of processes that tend to be repetitive and labour-intensive, such as reconciling general ledger accounts.

Automation and Artificial Intelligence (AI) are not intended to drive up unemployment, but to free human resources from mindless tasks and give them interesting, thoughtful targets. The intention should be to increase the efficiency and effectiveness of the workforce rather than eliminating it. Over time, organisations could see lower staff turnover, higher morale, and increased internal innovation.

Upskilling staff through e-learning

Skills shortages and competition for critical competencies are rising globally, particularly for technology-related roles.

To drive an innovative and passionate working culture, LHN is looking forward to bringing on board an e-learning platform that gives staff access to over 4 000 courses, helping staff to improve their skill-sets and drive our business to the next level.

The use of mobile, social and analytical tools is permeating the length and breadth of every function across businesses today. Unlike the past, the impact of these digital technologies and tools is felt not just in the IT department.

GROUP CHIEF EXECUTIVE REVIEW

ESTER KALI

2020 was a defining year for Letshego, in more ways than one. COVID-19 is one of the biggest business disruptors the world has seen since the rise of the internet and personal computers. It took the globe by storm and shook up private and public organisations across most sectors. It has shaken up Letshego's way of thinking and our approach to business.

We had to adjust to working from home and find ways to reaching the customers who would normally visit our branches. Letshego learned to challenge itself, realising that the status quo was not necessarily the best way to do things. Our business model proved resilient and with more than 97% of our customers being government employees using our deduction at source (DAS) loans, rising unemployment resulting from the pandemic did not affect loan repayments as it might otherwise have done.

COVID-19 coincided with a major shift inside the entire Letshego Group as well as its Namibian operations. Plan 6, the first part of the LHL's new five-year strategy toward becoming a world-class retail financial services organisation, created a new framework to bolster us for the future.

In effect, COVID-19 fast-tracked a digitalisation process that was already underway. We are delighted that our customers can now easily apply for loans through digital channels.

OUR JOURNEY TOWARD DIGITAL

Firstly, digitalisation became a core focus area. Our internal processes needed to be digitalised and standardised so that we can scale them, with robotic process automation (RPA) helping us achieve the most efficient way of working. Our support functions were strengthened considerably in 2020 as COVID-19 forced the business to find innovative routes to supporting our employees and customers remotely.

We are also preparing for a future in which most of our customers will prefer to communicate via mobile phone – the traditional bank branch will no longer be the primary form of engagement. In effect, COVID-19 fast-tracked a digitalisation process that was already underway. We are delighted that our customers can now easily apply for loans through digital channels, including the web and WhatsApp. These new channels would normally take years to build, yet were rolled out in a few months. This feat was made possible by the new and agile mindset that is being embedded in Letshego's corporate culture.

GROWING OUR CUSTOMER BASE

Secondly, we are delighted to have achieved a 24% increase in our advances book. The business initially took a knock when the pandemic arrived in Q2 2020 and our branches closed, but diligent marketing spearheaded greatly improved growth in the second half of the year. Normally, this growth spurt would have delivered stellar revenue improvements, but COVID-19 determined otherwise. Over the course of the year The Bank of Namibia (BoN) cut the Namibian repo rate by 275 basis points to alleviate the financial pressure on consumers during COVID-19. Practically, this meant that we had to work harder for every dollar of interest income we received. LHN's interest income, which is currently our main source of revenue, only grew by 0.1%, while the net interest margin grew by 2%.

On the plus side, LHN recorded a 333% increase in deposits. Since establishing the bank in 2016, LBN's ability to onboard customers quickly has taken us from strength to strength. We have doubled our customer transactions over the past few years, with steady uptake in digital transactions like ATM, card, USSD, and mobile. We are presently satisfied with the volumes achieved.

Overall, LHN's revenues declined by 20% and our cost to income ratio increased by 18%. This result is considerably better than we expected during the Q2 crisis period and I am proud of the dedication shown by the entire Letshego Namibia team over this time. Everyone worked together, collaborating to find ways that can help LHN endure a profoundly unpredictable year. It is thanks to this team that operating through a real-life crisis scenario had the effect of continually improving LHN's business continuity.

THE NEXT LEVEL: PLAN 2

Plan 2, which is scheduled until the end of 2022, promises to be no less exciting. It will build on the agile mindset, the digital capabilities, and the deposit mobilisation that Plan 6 put in place for us.

Product diversification

LHN aims to diversify and grow its non-core revenue by expanding our selection of service and product offerings to customers. While our traditional focus on the DAS model and government employees has stood us in good stead for many years, our sustainability as a business requires that we diversify into new markets. This priority has motivated us to intensify the marketing of Letshego's transactional and savings solutions to build our base of deposits. As deposits grow, our cost of funds reduces and improves profitability.

At the same time, we are diversifying our loan offerings to include more solutions outside of the DAS portfolio. LHN is poised to release new home loan, short-term loan and overdraft offerings to the Namibian market. Namibia's government payment system determination (PSD) 7, which negates the practice of prioritising debit orders to certain creditors, thereby levelling the playing field, is an opportunity for us to increase the number of debit order customers.

Digitisation: the key to unlocking new markets and efficiencies

Our drive towards digital adoption is intended to ease and expand the customer's journey with LHN, commencing with our USSD and WhatsApp onboarding platforms. The new Letshego App to be known as the Digital Mall, scheduled to be launched in Namibia in June 2021, provides new opportunities for customers to engage with us. We are also in talks with potential strategic partners who could accelerate our digital accessibility. Our ultimate aim is for personal branch visits by customers to be a rare occurrence.

GROUP CHIEF EXECUTIVE REVIEW continued

Internally, LHN is adapting to the changes on several fronts and we are close to finalising our streamlined organisational structure. At the same time, the business's vision and practical planning for the year ahead is ingrained in our collective mindset. The core leadership team attends our weekly executive plan meetings (or Elevations) and our employees are empowered to help us innovate. LHN's back-office function is being centralised, Robotic Process Automation initiatives are ongoing and our new Process Improvement Committee interrogates our processes to ensure these comply with regulations, protect the customer, and enhance the customer experience.

Automating our processes frees up our branches to focus on customer-facing activities. Staff training, something that I am particularly passionate about, will soon include employee access to an e-learning platform providing over 4 000 courses, so that each employee can select and build the skills they need to help drive Letshego into our future.

Ultimately, LHN must generate sustainable shareholder value. This means reducing the cost of funding, finding funders that are aligned to our business, vision and model, and making sure that we improve our return on equity (ROE).

Our transformational journey started with the multi-country LHL, our primary shareholder, which has supported LHN as we picked up the baton to commence Namibia's lap on the road to Namibian and Group-wide sustainability.

RISKS AND CHALLENGES

Despite living daily with the worrying reality of COVID-19, we have keenly embraced the journey ahead and the ambitious goals our business units are working to achieve. This does not mean that the road will always be easy. Besides the commercial challenges of our markets, regulatory compliance is a fundamental aspect of banking. At this time LHN faces regulatory challenges, but we are confident that these can and shall be resolved.

IN APPRECIATION

Our deep appreciation for everyone at Letshego goes beyond words and these pages. Our staff brought us where we are today and I am incredibly proud of how they have internalised the Letshego vision and are running with it. The evolution from a micro-lender into a bank was a giant step up, and it is simply unbelievable to see how supportive our people have been through this uncomfortable process.

Our sincere gratitude also goes to our regulators and the various arms of government who provide a conducive environment for us to work in. COVID-19 was a difficult year and difficult decisions needed to be made, but we are grateful for your support during this time. The Bank of Namibia, in particular, has welcomed our digitalisation proposal and the governor's door is always open, while NAMFISA is continually ready to engage. The Minister of Finance, too, is lending us his ear and discussing thorny issues with LHN.

Last, but definitely not least, we thank our customers for standing with us during this difficult year and during the transition. We are here for you.

Ester Kali
CEO: Letshego Holdings Namibia (LHN)
and Letshego Bank (Namibia) (LBN)

STRATEGY AT A GLANCE

Letshego's strategy remains consistent in providing access to simple and appropriate financial solutions to emerging consumers, in line with our brand promise to Improve Lives.

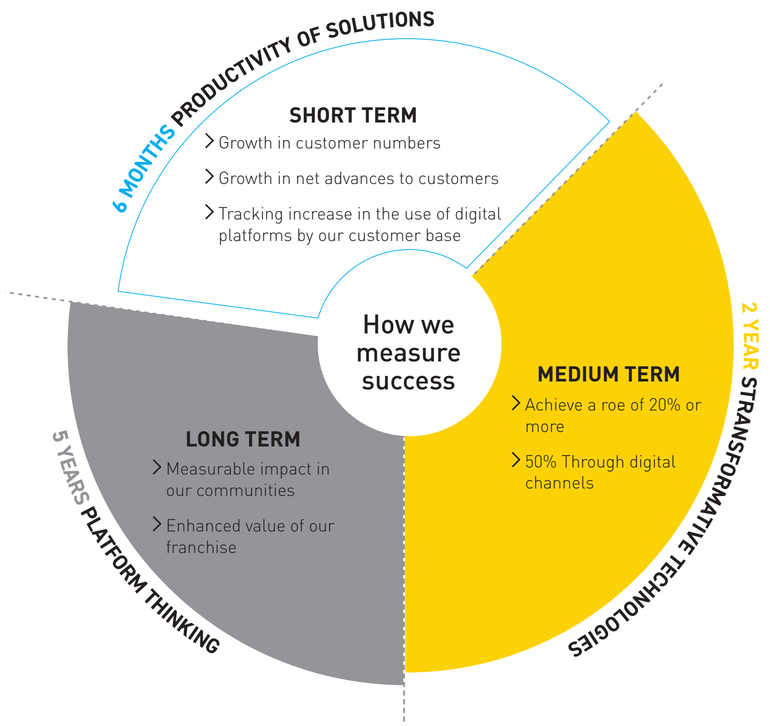
Our vision is clear, **to become a world class retail financial services organisation.** How do we get there? Our 6-2-5 plan provides the framework to achieve our strategic objectives for the short, medium and long term.

6-2-5 PLAN

PRODUCTIVITY OF SOLUTIONS — 6 MONTHS

TRANSFORMATIVE TECHNOLOGIES — 2 YEARS

PLATFORM THINKING — 5 YEARS



6 MONTHS: STRENGTHEN OUR FOUNDATION

In 2020, we focused on strengthening our foundation. We continue to leverage our success and legacy expertise in deduction at source, while diversifying our solution and funding base.

Two measures of success are the growth of our existing loan book and increase in asset quality.

2 YEARS: BECOME CUSTOMER LED

Through strategic investment in targeted, emerging transformative technologies that enhance our solutions and elevate customer experience, we will become a more customer-led organisation. The alignment of our organisational structure with our strategic objectives, as well as the adoption of Agile Enterprise methodologies into the way we work, will unlock greater operational efficiencies, collaboration and measurable outputs.

5 YEARS: CREATE A FUTURE ORGANISATION

In the longer term, our plan is to create a 'future organisation' with a platform of relentless innovation in digitalisation strategies that align with our clear strategic objectives. This phase is platform-led, with the development of innovation hubs and digital eco systems that enable us to track, record and report the commercial and social impact we are achieving through our brand promise to Improve Lives, and commitment to deliver sustainable value to all our stakeholders.

STRATEGY AT A GLANCE continued

PLAN 2 AND OUR FIVE TRANSFORMATIONAL CONVERSATIONS

In line with the LHL transformational conversations, LHN have built our strategy around five key focus areas, or transformational conversations.

PRODUCT DIVERSIFICATION

Product diversification provides the impetus for expanding into new markets and building our customer base as we focus on our non-core services. Deposit mobilisation and increasing transactional revenue are key to strengthening our banking capabilities, and we are excited about introducing new product offerings in 2021 that include home loans and short-term loans. Cross-selling between our existing products, including LetsGo, TermSave, and FlexiSave, is also an opportunity to improve our revenues.

REGIONAL REBALANCING

As we seek to deepen our customer base across the entire country, including the more rural areas, we have divided Namibia into three regions:

- North/West
- Central South
- North/East/Erongo

The regional customer growth targets are based on each region's capacity.

DIGITALISATION

The Fourth Industrial Revolution is here, and it brings tremendous opportunity to engage with our customers through digital channels. Digital onboarding initiatives offer customers a quick and convenient way to sign up for Letshego products, while our digital and card transactions are monitored as we encourage our clients to use these channels. We aim to increase the number of Enterprise Active Customers (EAC) and improve our digital transaction fee income. Both of these goals rely on achieving our next major milestone: deploying the Letshego Digital Mall in Namibia.

ENTERPRISE AGILITY

The Agile mindset infuses every area of our operations, making Letshego Namibia more flexible with faster response times on key deliverables. This enables us to respond to market trends quickly while enhancing the customer experience. Simplifying our processes through robotic process automation (RPA) and implementing the changes to our organisational design are some of the milestones for this journey. We track our employee satisfaction scores to make sure our people are on board with the changes taking place.

SUSTAINABLE SHAREHOLDER VALUE

Ultimately, Letshego Namibia needs to be financially sustainable and provide value to those who invest in our business. We aim to increase profits and return on equity (ROE), reduce our Cost to Income Ratio (CIR), and improve our Loan Loss Ratio (LLR). On the cost front, internal cost savings campaigns and competitions are driving cost awareness among our staff contingent, while automation initiatives help to reduce overtime.

PERFORMANCE

FINANCIAL HIGHLIGHTS

Letshego Holdings Namibia (LHN) is pleased with our performance, given the turbulent year with the COVID-19 pandemic.

2020 HIGHLIGHTS

GROWING OUR DEPOSIT BOOK BY OVER **300%**

IMPROVEMENT IN COST OF FUNDS BY **47%**

GROWING THE LOAN BOOK BY **24%**

GROWTH IN OUR NET INTEREST INCOME OF **2%**

	2020	2019	2018	2017
PBMT (N$'m)[1]	458	559	448	436
Net disbursements (N$ 'm)	1 278	692	559	647
Net advances (N$ 'm)	3 609	2 935	2 556	2 424
LLRs[2] to average advances (%)	0.87%	0.2%	0.7%	0.9%

PERFORMANCE

	2020	2019	% change
Interest income (N$'000)	625 704	625 198	0%
Net interest income (N$'000)	526 954	515 187	△ 2%
Other operating income (N$'000)	167 744	229 999	▽ 27%
Operating expense (N$'000)	(234 72)	(213 843)	△ 10%
Profit after tax (PAT) (N$'000)	320 889	401 198	▽ 20%
Earnings per share (cents)	64	80	▽ 20%
Cost of funds	6%	12%	▽ 47%
Non-funded income ratio	24%	31%	▽ 22%
Cost to Income Ratio	33%	29%	△ 18%
Effective tax rate	24%	23%	△ 3%

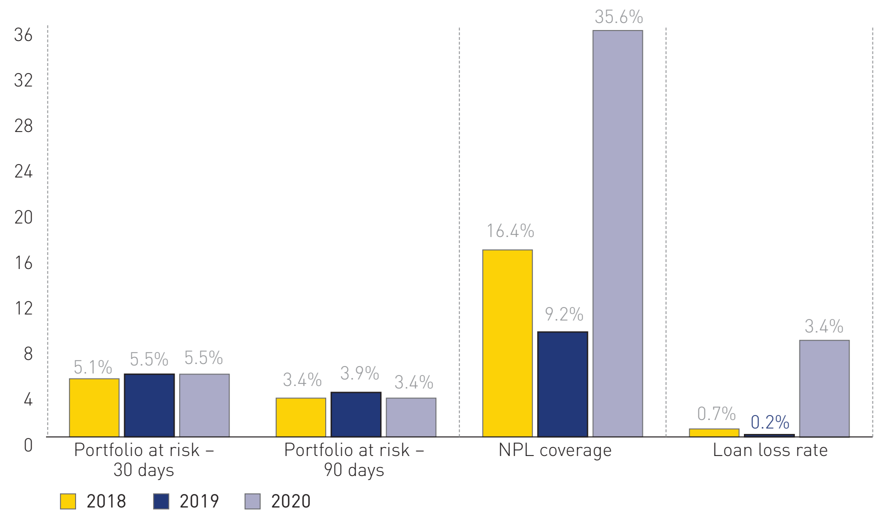
PERFORMANCE continued

BALANCE SHEET

	2020	2019	% change
Gross Advances (N$'000)	3 679 272	2 963 419	△ 24%
Impairment Provision (N$'000)	71 004	28 078	△ 153%
Equity (N$'000)	2 598 534	2 390 021	△ 9%
Borrowings (N$'000)	1 429 876	907 969	△ 57%
Deposits (N$'000)	187 893	43 361	△ 333%
Yield on advances	17.01%	21.10%	▽ 19%
Provision coverage	1.93%	0.95%	△ 104%
Debt/Equity	55%	38%	△ 45%
Return on Equity	12%	17%	▽ 26%
Capital Adequacy Ratio	85%	98%	▽ 13%

After a subdued start to the year with the arrival of COVID-19 in Namibia during the first quarter, our marketing efforts delivered a very pleasing growth of 24% in gross advances and a 333% increase in deposits. However, the national repo rate cut of 275 basis points resulted in only a 0.1% increase in interest income and a 20% decline in PAT. Considering the disruptions caused by the pandemic, our financial performance is better than expected. Our Capital Adequacy Ratio (CAR), although 13% lower compared to 2019, remains substantially higher than the 10% minimum prescribed by regulation and we intend to continue improving our capital structures.

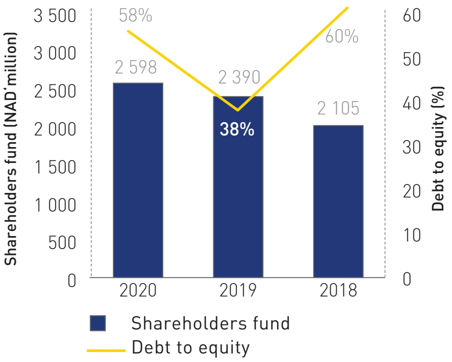
Asset quality



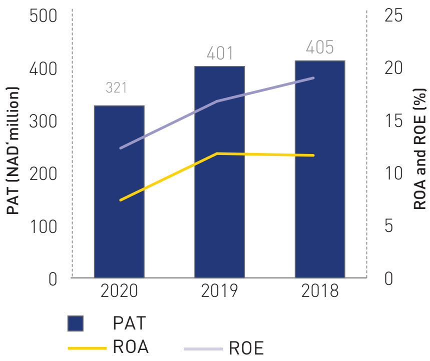
SHAREHOLDER RETURNS

During 2020, the Bank of Namibia formally requested that banks to consider restricting the declaration of dividends of shareholders, as well as the payment of bonuses to executive management, to preserve capital amid the challenging economic conditions. However, our strict internal capital management policies require the assessment of capital levels both before and after dividend declaration as a matter of course. Being satisfied that we meet the requirements outlined by the Bank of Namibia and our internal policies, we declared dividends. Historically, our dividend payout ratio was 25% of profits – we are proud that we are able to increase the payout ratio to 35%.

Shareholders fund • Debt to equity



ROA vs ROE vs PAT



TOP TEN SHAREHOLDERS

	31 DECEMBER 2020 SHARES HELD	
Letshego Holdings Limited	392 300 832	78.46%
Kumwe Investments Holdings Ltd	59 866 632	11.97%
First National Bank Nominees (Namibia) (Pty) Ltd – Government Institutions Pension Funds	13 367 058	2.67%
CBN Nominees (Pty) Ltd – Old Mutual Life Assurance Company (Namibia) Ltd	6 842 211	1.37%
First National Bank Nominees (Namibia) (Pty) Ltd – MMI Holdings Namibia Ltd	4 686 829	0.94%
Standard Bank Namibia Nominees (Pty) Ltd – Absa Africa Equity Fund	2 940 000	0.59%
Frans Indongo Investment Trust	2 631 500	0.53%
Standard Bank Namibia Nominees (Pty) Ltd – Sanlam Life Namibia Limited	2 254 393	0.45%
Standard Bank Namibia Nominees (Pty) Ltd – Sanlam Namibia Trust Managers Limited	921 053	0.18%
First National Bank Nominees (Namibia) (Pty) Ltd – UNIPOLY Retirement Fund	785 496	0.16%
Other corporate entities, nominees and trusts and individuals	13 403 966	2.68%
Total	**500 000 000**	**100%**

PERFORMANCE continued

PORTFOLIO REVIEW

The primary purpose of our solutions is to provide customers with access to credit finance and give customers a safe place to save and make their payments.

We are proud to provide some of the fastest service delivery in the industry, especially in terms of onboarding. Our products are also priced at some of the best rates in the market, providing customers with value for money. Our digital innovations, including the new WhatsApp and USSD onboarding platforms introduced in 2020, promise to speed up our turnaround times even more, while the LetsGo mobile application will see our services delivered in an easy and transparent manner.

In the year past, as our branches closed, we needed to fast-track our digital platforms. We communicated with customers almost exclusively via SMS and social media. Considering the upheavals, the results of our customer satisfaction survey were very positive: our Net Promoter Score increased to 56.5 points in 2020 (previous study in 2018: 14.9 points), indicating that the majority of Letshego Namibia's customer base are loyal to the brand.

LOANS

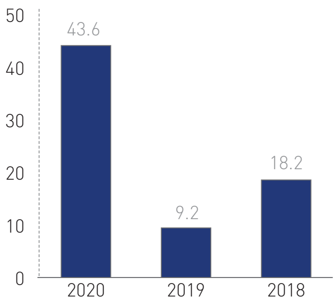
Our principal financial solutions are deduction at source personal loans ranging from N$1 000 to N$300 000 in Letshego Bank (Namibia) and N$1 000 to N$100 000 in Letshego Micro Financial Services (Namibia), with maximum exposure of N$300 000 in Letshego Micro Financial Services (Namibia). Our loans are tailored to suit customers' needs with competitive risk-adjusted rates and value-added services such as life insurance cover. Customers are able to request a new loan, Top Up their existing loans, or when needed may consolidate their loans.

While we cater to customers in both the private and public sector, 97.5% our current customers are government employees that benefit from our DAS capability. Personal loans are secured with either credit life insurance or credit default insurance. While this approach supported us in 2020 due to the relative stability of government employee salaries, we have been impacted by the lack of salary increases in the government sector over the past few years and are looking to expand our customer base.

In 2020, we also benefited from a lull in our competitors' marketing, especially in the months after the pandemic arrived in the country, as they took a more cautious approach to issuing credit. A stronger marketing campaign resulted in one of the best years we have had to date, in terms of net payouts.

INDICATOR	2020	2019	2018	2017
Borrowers	50 421	47 728	51 586	52 356
Asset quality				
Portfolio at risk – 90 days	3.4%	3.9%	3.4%	2.9%
Portfolio at risk – 30 days	5.5%	5.5%	5.1%	4.5%
Loans loss rate – excluding once-off loans	0.9%	0.2%	0.7%	0.9%

Impairment charges (NAD'million)



DEDUCTION AT SOURCE (DAS)

Net advances within our DAS portfolio grew by 25% in 2020 when compared to the previous year, and the DAS portfolio continues to be the main driver of business growth. Our total borrowing customers increased to 50 421 in 2020 from 47 728 in 2019.

In 2021, we are looking forward to expanding our credit offering in line with our product diversification strategy.

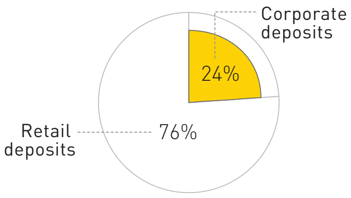
DEPOSITS

We provide deposit facilities, including demand accounts, saving accounts, and call and term deposits. Transaction facilities enable customers to make payments to suppliers, pay bills or receive payments from other bank accounts. These facilities are delivered through card services, internet banking, USSD and branches.

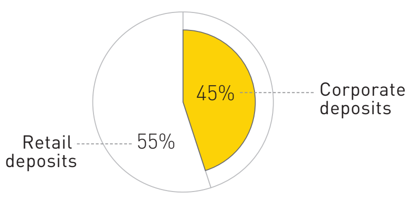
In 2020, we are proud to have increased our deposits by 333% as we move towards strengthening our non-core offerings.

SAVINGS

INDICATOR	2020	2019	2018	2017
Savers	27 216	12 472	2 135	109
Value of retail deposits (N$ 'm)	102.6	32.8	3.4	0.2
Value of corporate deposits (N$ 'm)	85.2	10.5	71.3	110



2019



2020

TRANSACTIONS

INDICATOR	2020	2019	2018	2017
Asset quality				
Cash handling branches	4	4	2	2
Non-cash handling branches	12	12	14	14
Non-branch transaction volumes				
Cards in issue	26 076	10 874	1 995	
Digital transactions (USSD and cards)	567 911	227 185	17 990	

SUSTAINABILITY REVIEW

OUR PEOPLE: RETHINKING HUMAN RESOURCES' ROLE IN THE PANDEMIC

INTRODUCTION AND OVERVIEW

Our people are at the core of our continued success in delivering on our vision to our shareholders and customers. It is their drive, skills and commitment that have enabled Letshego to ensure customer satisfaction, a stellar market reputation and sustainable financial performance. At the same time, COVID-19 has left its mark on the way we live and work. While we are still feeling the effects of the pandemic, we also need to start preparing for a post-COVID-19 world.

Total number of employees as at 31 December 2020: 154 (FY19: 145)
Employee turnover: 6.6% (FY19: 12%)

OVERALL EMPLOYEE GENDER PROFILE %

Male	Female
39	61

EMPLOYMENT STATUS

Permanent	Temporary
154	22

GENDER SPLIT BY LEVEL OF SENIORITY

	Male	Female
Senior management	50%	50%
Management	37%	63%
Employees	39%	61%

EMPLOYEE AGE PROFILE

‹25 yrs	25-50 yrs	›50 yrs
21.7%	65.9%	12.4%

ATTRITION RATE COMPARED TO INDUSTRY RATES

Benchmark banking	% achieved as at December 2019	% achieved as at December 2020
5.56%	16%	6.68%

TRAINING SPLIT BY GENDER %

Male	Female
30	70

SPLIT OF TRAINING SPEND BY LEVEL OF SENIORITY

	Senior management	Management	Employees
Male	50%	20%	29%
Female	50%	80%	71%

EMPLOYEE VALUE PROPOSITION

Motivation, satisfaction, engagement, performance and effectiveness are all interrelated. At Letshego, we recognise that even the best strategy cannot be executed successfully without a motivated and happy workforce. We therefore seek to create a climate where individuals are able to develop and succeed, while empowering our staff to make effective operational, tactical and strategic decisions.

TRAINING AND DEVELOPMENT

Letshego's annual employee training budget caters for learning and development that benefits the business. In 2020, our training focused on leadership and management development, equipping Letshego to take advantage of the changes taking place.

Skills development remains key, especially with more people working remotely. When our employees value continuous improvement and innovation, every staff member helps to create and maintain momentum toward achieving Plan 2 and our ultimate vision. To ensure our employees can keep training within the constraints of this digital era, we are aiming to digitise our learning platform by June 2021, giving our employees an opportunity to learn online at their own pace.

The training and development are supported by accountability. While at least two annual performance reviews by every employee's supervisor are mandated by our company policy, we encourage employees to initiate monthly performance reviews as an ongoing progress-tracking mechanism.

WORK CULTURE AND COMPANY ETHICS

At Letshego, we drive a high-performance culture, supported by integrity, compassion, and an atmosphere of collaboration. One of the challenges of a work-from-home (WfH) environment is productivity and quality management. We continually need to rethink many of our processes and redesign the employee journey in a digitised manner.

The new way of work then needs to be embedded in our corporate culture. During 2020, we focused on keeping our employees productive, motivated, engaged and connected. Work–life balance and human connection are essential to maintaining employee satisfaction and achieving our business outcomes. However, the disruption of COVID-19 caused stress for our people and the change management process is a complex one. While our employee satisfaction survey in 2020 showed a low engagement score, we have an impact plan in place to close the lowlights identified.

OUR RESPONSE TO COVID-19

When the implications of the COVID-19 pandemic became clear, LHL established a Corona Crisis Committee (CCC) that brought together representatives from all the Letshego subsidiaries across Africa. This committee met daily to track, report on and manage the impact of the pandemic, and to come up with proactive approaches to ensure business continuity and a healthy workforce. With Letshego Namibia part of the committee, we benefited from the lessons learned in other parts of Africa and added our voice to the overall Group policies. LHN maintained its local Business Continuity Management (BCM) Forum to ensure alignment between in-country and LHL Group initiatives.

Faced with an unprecedented situation, we needed to find innovative solutions and processes to manage the effects of the pandemic, including lockdown, on our people. Across LHL, Marketing and HR units collaborated to create COVID-19 awareness among employees through posters, circulars and other materials. We encouraged two-way communication through e-mail, WhatsApp and various social media platforms. While the focus was on providing information about COVID-19 in the first half of the year, we necessarily shifted focus toward maintaining compliance and mitigating complacency in the second half of the year as COVID-19 fatigue began to set in.

Our robust Business Continuity Action Plan (BCP) enabled our technology teams to create solutions quickly, purchasing equipment for employees and providing them with remote access to our systems. We granted managers the autonomy to work with their direct reports to create schedules that best suited the new WfH scenario.

On the health front, Letshego worked with a third-party service provider to ensure that adequate personal protective equipment (PPE) was available for our staff, together with the regular issue of vitamins and sanitisers. Letshego Namibia also implemented a cohort working plan that split our employees into two groups that take turns working on-site. All employees and clients are sanitised and screened for COVID-19 symptoms upon entering our premises. At the same time, we continued our usual health and wellness initiatives, including flu shots and health walks.

Letshego is fortunate that we did not need to reduce our workforce. However, while our employees enjoy job security, we need to redesign our organisation in a way that complements the new way of work and enhances efficiency. The employee selection, onboarding and development processes is being redesigned and the conditions of employment renegotiated.

BUILDING FOR THE FUTURE

The new Letshego Succession Plan, approved by the Board in 2020, is crucial for business continuity. The world-class succession management plan and a skills audit will ensure that Letshego has the resources to meet our objectives and remain competitive. We also created a balanced scorecard that aligns the business, functional and departmental strategy.

We also pride ourselves in our diverse workforce, as demonstrated by our affirmative action report. In particular, our policies are aimed at ensuring the equitable representation of male and female employees at Letshego. Ultimately, diversity and equality support an empowering and innovative culture at Letshego, which is key to our success in future.

SUSTAINABILITY REVIEW continued

ENGAGING WITH OUR STAKEHOLDERS

HOW WE ENGAGED WITH KEY STAKEHOLDERS IN 2020

THEIR NEEDS AND EXPECTATIONS	OUR RESPONSE	HOW WE ENGAGE	ADAPTING TO COVID-19
CUSTOMERS			
› Appropriate and accessible financial solutions. › Friendly and efficient service › Empowering information that leads to financial wellness › Transparency › Ethical and fair treatment	› We are looking at improving three main customer channels in order to address this challenge: cards, digital and mobile › Safeguarding deposits, while growing returns › Excellent customer service › Convenient access to banking, increasingly through digital channels › Stable and secure IT systems	› Marketing Campaigns › Customer Events › Customer Polls and Surveys › Branches › Call Centres › Direct Sales Agents	› We continued to maintain business operations at the highest level possible during lockdown periods. › Customers are encouraged to use digital channels. › LHN supported clients with pandemic related cashflow challenges by deferring payments for a suitable period.
EMPLOYEES			
› Fair remuneration › Defined performance expectations › Clear communication › Training, skills development and talent management › Recognition and rewards › Career paths and growth opportunities	› A Learning and Development Strategic Skills Framework is in place › LHN's HR staff have reporting lines to the LHL. This has helped to avoid ambiguity in approach to policy and procedure rollouts › Team building and culture sessions › Long service awards assist in improving our level of staff engagement › Leadership development › Develop and rollout of tools to inform and communicate the strategy to all staff › Employee engagement survey	› Email Updates › Group Townhalls › Country Townhalls › Intranet › Leadership & Training › Employee Engagement Events › Employee Performance Framework › Volunteering › Employee Incentive Programmes › Team Building	› Continuous communication, education and awareness of COVID 19 Protocols, as well as ensuring the utilisation of the ICAS programme, which includes counselling › All staff who are able to work from home have been allowed and equipped to do so › Virtual learning and development delivery › No deviation in remuneration during lockdown periods.
INVESTORS AND FUNDERS			
› Consistent financial performance and dividend payments › Consistent growth in asset value › Long-term stability › Sound governance › Regular reporting and disclosure	› Sound business strategies aimed at delivering growth and value › Proactive balance sheet management and capital optimisation › Strong liquidity ratios › Strong corporate governance structures › Formal report back at the Annual General Meeting	› Financial Results and Releases › Investor and funder updates and engagement events › Annual Integrated Reports › Impact Reports › Website Updates › Financial Reporting › Shareholder and Stock Exchange Announcements › Annual Integrated Reporting	› Clearly communicating our strategy › Maintaining a focus on credit, liquidity and capital management › Driving digital adoption to minimise business disruptions.

THEIR NEEDS AND EXPECTATIONS	OUR RESPONSE	HOW WE ENGAGE	ADAPTING TO COVID-19
GOVERNMENT AND REGULATORS			
› Compliance › Capital adequacy and liquidity › Risk and cybercrime management	› Being a responsible taxpayer › Compliance with all legal and regulatory requirements. › Active participation and contribution to industry and regulatory working groups	› Government Relations Framework › Financial results and releases › Shareholder and Stock Exchange Notices › Investor and funder updates and engagement events › Annual Integrated Reports › Impact Reports › Website Updates	› Complying with all government regulations in response to the COVID-19 pandemic.
STRATEGIC PARTNERS			
› Alignment of individual strategies and objectives › Maximising benefits to stakeholders › Extending market reach	› We ensure both parties are able to maximise synergies when selecting partnerships › We select partners that are aligned to our key objectives of providing simple, affordable and easy-to-operate solutions to our customers, with a fast rollout ability. › We seek to share services with complimentary customer segments to maximise benefits to both our own and our partners customers › We identify partners who have an existing strong presence on the continent. This allows us to enter and extend our reach in top growth markets and is mutually beneficial to both parties.	› At the outset of invoking our business continuity plans, we engaged key suppliers and partners to align our plans and co-create a supply chain business continuity plan. › Letshego's internal health and safety protocols have also been extended to onsite suppliers and contractors.	› Complying with all government regulations in response to the COVID-19 pandemic.
COMMUNITIES			
› Social investment › Community upliftment/ financial education/ inclusion › Outbreak of the COVID-19 pandemic and its effects, including remote schooling, and access to data and food	› We have supported various COVID-19 relief efforts throughout Namibia	› Open dialogue › Interaction › Consumer education › Corporate Social Investment initiatives	› Complying with all government regulations in response to the COVID-19 pandemic.

SUPPORTING OUR COMMUNITIES

FINANCIAL LITERACY INITIATIVE

Healthy financial management helps our communities and customers to create long-term prosperity for themselves. Teaching and reinforcing good financial management skills is therefore a natural way for us to support them. LHN uses several avenues to spread the message:

- At the Future Females themed event in July 2020, LHN CEO Ester Kali presented tips on managing one's financial position, especially during the COVID-19 pandemic. She covered debt management, budgeting, and the difference between a "want" and a "need".
- Media releases were distributed to print and social media emphasizing healthy financial discipline throughout the year.

COVID-19 RELIEF

The financial impact of the pandemic on the economy and Namibian citizens was often severe. With this in mind, LHN donated N$1.1 million towards fighting COVID-19, of which N$700 000 was donated to government relief efforts. The remaining N$400 000 went toward supporting schools and community members in the Erongo region, and close to 100 households benefited from the internet access, food, clothing, and municipal assistance that the donation helped to provide.

Affected customers were also provided with the opportunity to apply for a loan repayment holiday as of 01 April 2020.

PARTNERSHIP WITH 'THESE HANDS' TO DELIVER INNOVATION TO RURAL COMMUNITIES IN ONGENGA

These Hands is a social enterprise start-up based in Botswana that trains and supports rural innovators and entrepreneurs in developing countries. Letshego Botswana supported These Hands with over P1 million (N$ 2.3 million) to provide training and mentorship to young innovators who develop low-cost technologies for the benefit of rural communities. The launch of a new These Hands innovation in Ongenga, Namibia, provided an opportunity for LHN to be directly involved in funding, mentorship and financial support for the innovators and the community they serve.

STRATEGIC SOCIAL INVESTMENT (SSI) FUNDING

The LHN SSI Fund provides financial support to organisations that positively impact their communities. During the year under review, LHN extended donations to the following beneficiaries:

- Beautiful Kidz (N$10 000), an organisation that looks after and supports orphans and vulnerable children by providing education and after-school care.
- Dagbreek School for the Intellectually Impaired (N$6 500), one of only two government schools that cater for intellectually disadvantaged students.
- Windhoek Life Change Centre (N$20 000), an organisation that provides food and skills training, touching approximately 10 400 lives on a weekly basis.

MEASURING OUR SOCIAL IMPACT

REALISING FINANCIAL INCLUSION

Over time, Letshego's competitive edge – its DNA – has been its ability to deliver simple, appropriate and accessible solutions to those who are typically excluded or underserved financially, in a responsive, inclusive and ethical manner. Letshego's promise remains committed, clear and consistent – and that is to Improve Life while promoting growth and diversity. We continue to invest in expanding our African footprint through our people, our technology and the digital delivery platforms we create. Increasing the use of digital and mobile engagement channels will reduce the costs associated with providing people access to financial solutions.

***Letshego's** financial inclusion strategy is about increasing access of financial solutions to more customers. During 2020, the focus was on increasing our portfolio of solutions, as well as driving alternative transactional channels.*

OUR APPROACH

When we speak of measuring our impact, we refer to providing evidence that our activities provide real and tangible benefits in our communities. Our impact measurement activities feed into our learnings and organisational practices, enhancing our ability to identify the opportunities, constraints, impacts and social risks associated with our policies, product design, implementation and management. In addition, it assists us in framing our impact discussions with our stakeholders.

LHN is well placed to make a positive contribution to a number of key United Nation's Sustainable Development Goals (SDGs). Financial inclusion can contribute to reduction in poverty and inequality, as well as increases in economic growth and employment. When financial solutions are targeted at social outcomes, impacts can be seen in areas of increased access to education and health care, reduction in hunger and the improvement of environment conditions. These outcomes will be tracked against various SDGs.

Goals relating to society (SDG 2, SDG 3, SDG 4, and SDG 11), are aligned to our financial inclusion mandate, with our solution offerings targeted at agriculture, education, health care, and provision of affordable housing. Goals relating to gender (SDG 5) and partnerships (SDG 17) forming part and parcel of our strategy to further financial inclusion

SUSTAINABILITY REVIEW continued

LETSHEGO'S ALIGNMENT WITH THE UNITED NATION'S SUSTAINABLE DEVELOPMENT GOALS

SOCIAL

Aligned to our financial inclusion mandate, with our solution offerings targeted at agriculture, education, health care, and provision of affordable housing.

GENDER

Women have historically been marginalised in accessing traditional financial services. Letshego places a strong focus on empowering them through our offerings.

PARTNERSHIP

Strategic partnerships enable Letshego to extend value to all stakeholders

According to the African Development Bank, improving access to financial services will mobilise greater household savings, marshal capital for investment, expand the class of entrepreneurs, and enable more people to invest in themselves and their families. It has also been noted that bank account ownership serves as an entry point into the formal financial system and enables the poor to build up a credit history which can facilitate future access to credit for activities such as investment and education. Furthermore, people included in the financial system are able to improve their economic situations by investing in their health and education. They can make short- and long-term payments, smooth out their consumption patterns, manage risks, and cope with shocks such as emergencies and large, unexpected expenses. Financial inclusion makes it easier for people to manage financial emergencies (such as job losses or crop failures) that would otherwise impoverish families.

Increasing access to agriculture finance can improve agricultural productivity, which in turn, enables better remuneration, and raised living conditions. These investments can also help to reduce pressure on scarce natural resources.

When compared to people who live in urban areas, those living in rural areas are underserved and reflect lower socio-economic development on average. They also tend to have higher poverty rates, lower levels of employment, lower levels of education, and more limited access to a myriad of opportunities for economic improvement. Studies have shown that expansion into underserved markets can increase the chances of having a bank account and securing a loan. Letshego has developed innovative financial solutions, to empower rural customers to start and/or improve the financial performance of their businesses, with the ultimate aim of improving their income levels.

An increase in new businesses, run by low-income entrepreneurs, is associated with improvements in access to financial services. Some studies have shown that credit availability can influence the profitability of entrepreneurship by as much as 8.5%.

The provision of finance for agricultural purposes can have positive effects on production, with some studies reflecting increases in output of up to 8% and improvement in earnings (daily wages) by 9–16%. In addition, food consumption also increased, with households being 11% less likely to run out of food.

Access to financial services can have a positive effect on social outcomes such as education, with some reports indicating an increase of up to 20% on education spend in households that have opened free bank accounts. There are also positive effects on spending on food. A study in Kenya found that following the opening of bank accounts for women, daily food expenditures and private expenditures (e.g., meals outside the home, alcohol, cigarettes, and entertainment expenses) of female vendors who gained access to an account increased by 13% and 38% respectively. Lastly, a study in Kenya found that giving people a safe place to store money increased healthy spending by 66%.

LOOKING AHEAD

The COVID-19 pandemic is projected to cause per capita incomes to decline by 0.2% in 2021, setting Sustainable Development Goals (SDGs) further out of reach in many countries.

We believe that Letshego is on the right track, and the recognition and support that we have received from our stakeholders and partners, both local and international is testament to that fact. As we continue our transformational journey, we will continue to improve on the measurement of our impact.

We are aware of areas where we can improve our impact measurement and are already in the process of implementing such measures. These include enhanced customer tracking, and better integration of social data into our reporting processes. As we further segment our portfolios, we will improve our tracking of the impact of individual initiatives, such as the effect our financial literacy training is having on the financial behaviours of our customers. While avoiding survey fatigue for both our customers and staff, we will continue to engage more with our customers, and develop greater insights into how our solutions have changed their lives.

IMPACTING AGRI BUSINESS

Investing in the agricultural sector can address not only hunger and malnutrition but also other challenges including poverty, health, water and energy use, climate change and unsustainable production and consumption. During 2020, we disbursed loans to the agricultural sector to the value of N$131 million. This financial injection into the sector catalyses increased yields for farmers, increased indirect spin-off economic activities and associated jobs.

AGRI BUSINESS DEFINED

Primary production of agricultural products

PRODUCTIVE LOAN USE DEFINED

- Purchase of raw material inputs, improvement of infrastructure
- Purchase of land
- Implementation of business processes

SIZE OF PORTFOLIO

- N$131 million in 2020
- 4 691 customers benefited from Agri Credit Extension

2 ZERO HUNGER

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

10 REDUCED INEQUALITIES

SUSTAINABILITY REVIEW continued

IMPACTING HEALTH CARE

Good health plays a critical role in contributing to quality of life, well-being and social participation. Furthermore, it contributes significantly to economic growth, employment and reducing income inequality. According to the Global Strategy for Women's, Children's, and Adolescent's Health (2016-2030), 70% of non-communicable disease (NCD) related adult deaths are linked to risk factors that begin during adolescence. By focusing on prevention of non-communicable diseases, we contribute to creating safer populations by reducing susceptibility and improving resilience to infectious disease outbreaks. We also assist with reducing the economic burden of illness and death.

HEALTH CARE DEFINED

Reduction of Non-Communicable Diseases (NCDs) in Namibia.

PRODUCTIVE LOAN USE DEFINED

- Improved management of primary care facilities
- Improving level of care through provision of guidelines and training
- Providing NCD care
- Linking NCD Care to Village and Loan Savings Groups

SIZE OF PORTFOLIO

- N$17 million loan payouts in 2020
- 792 customers benefited from Health Care credit extension

3 GOOD HEALTH AND WELL-BEING

8 DECENT WORK AND ECONOMIC GROWTH

11 SUSTAINABLE CITIES AND COMMUNITIES

17 PARTNERSHIPS FOR THE GOALS

IMPACTING HOUSEHOLD CONSUMPTION

With rapid economic development and urbanisation, household consumption plays an important role in the economic growth of a nation. Consumer spending is what households buy to fulfil everyday needs. This private consumption includes both goods and services – the things we buy that creates the demand that keeps companies profitable and hiring new workers. The economy benefits when most of the gain goes toward low-income families. They must spend a more significant share of each dollar on necessities until they reach a living wage. The economy doesn't benefit as much when increases go toward high-income earners. They are more likely to save or invest additional income instead of spending.

HOUSEHOLD CONSUMPTION DEFINED

Purchases made by resident households to meet everyday needs: food, clothing, rentals, energy, transport, durable goods (notably cars), spending on health, on leisure and on miscellaneous services.

PRODUCTIVE LOAN USE DEFINED

Loan contributing to household consumption

SIZE OF PORTFOLIO

- N$269 million loan payouts in 2020
- 9 812 customers benefited from Household Consumption credit extension

5 GENDER EQUALITY

10 REDUCED INEQUALITIES

OUR LEADERSHIP

BOARD OF DIRECTORS

MARYVONNE PALANDUZ (50)

Chairperson Independent Non-Executive Director

Executive MBA (UCT), Fellow of the Chartered Institute of Management Accountants (CIMA UK),B. Commerce (UNISA)

Committee memberships

Member Of Board Audit And Risk Committee
Member Of Board Credit Committee

Ms. Maryvonne Palanduz has held several senior management positions in the risk and finance domains across large Namibian and South African organisations over the past 20 years. She spearheaded the implementation of innovative risk and financial intelligence solutions for MMI Retail from 2007 and in 2015 her experience and expertise were focused across the broader MMI Group to galvanise an operational risk capability and champion the Group's combined assurance model. She was chairperson of the CIMA Africa Board in 2010 and served on various international policy committees for the Institute from 2007 to 2014. She joined the Actuarial Society of South Africa in January 2017 as Operations and Finance Executive.

Nationality: Namibia
Residence: South Africa
Shareholding: 26 316

ESTER KALI (53)

Chief Executive Officer for LHN and LBN and Executive Director

Advanced and Credit Diploma (Institute of Bankers South Africa), MBA in Strategic Management (Maastricht School of Management), Honorary Doctorate in Financial Management (UNISA)

Ms. Ester Kali joined Letshego Bank (Namibia) in November 2014 as Chief Executive Officer from FNB Namibia, where she held the position of Head of Retail and Business Banking. She is responsible for leading the Namibian subsidiary in developing and executing the overall country strategy in line with the Group's strategic intent and brand promise. Under her leadership, Letshego Bank (Namibia) obtained its banking license. She has over 30 years' experience in the banking industry of which 25 years consisted of various management roles. As the Executive Head of Retail and Business Banking at FNB Namibia, she was responsible for, inter alia, providing guidance and direction towards the achievement of the strategic goals and objectives of the business. She was further responsible for the development of strategies to improve operational risk management in retail banking. Ms. Kali is a respected member of the banking industry, having served as the Chairman of the Payments Association of Namibia from August 2006 to May 2008. Moreover, she has served as a member of the Executive Committee for the Institute of Bankers Namibia from 2012 to 2014.

Nationality: Namibia
Shareholding: 83 137

RAIRIRIRA MBAKUTUA MBETJIHA (63)

Non-Executive Director

Diploma in Business Administration (University of Birmingham),MBA majoring in Strategic Management (University of Birmingham)

Mr. Rairirira Mbetjiha currently serves as the Managing Director of Kumwe Investments Holding Limited, of which he is also a shareholder. Kumwe Investments Holding is the minority shareholder of Letshego Holdings (Namibia) Limited. Mr. Mbetjiha has over 10 years' experience as a Macroeconomist Planner doing Institutional Research for the Government of Namibia and projects financed by international organisations such as the European Union and the United Nations. He previously served as the Director of Strategic Planning and Institutional Research at the University of Namibia from 1995 until 2005. Prior to that, he was the Chief of Macroeconomic Planning at the National Planning Commission. Mr. Mbetjiha is the Chairman of the MMI Holdings Namibia Board of Directors; he further serves as a Director on various Boards including that of Business Connexion Namibia.

Nationality: Namibia
Shareholding: 59 866 632

ROSALIA MARTINS-HAUSIKU (38)

Non-Executive Director

B. Arts in Media Studies (UNAM),Master of Art in Culture, Communication and Media Studies (UKZN),Master in Business Leadership (UNISA),Certificate Programme in Finance and Accounting (WITS),Programme for Management Excellence (Rhodes University)

Mrs. Rosalia Martins-Hausiku joined the Motor Vehicle Accident Fund in 2004 as Corporate Relations Officer and became the Manager of Corporate Affairs in 2006. Prior to becoming the Chief Executive Officer for the Motor Vehicle Accident Fund (MVA) Namibia, Mrs. Martins-Hausiku held several managerial positions over the 13-year period that she has been with MVA Namibia. Mrs. Martins-Hausiku serves as Director on the Namibia Chamber of Commerce and Industry Board, as well as the chairperson of Quanta Insurance. She is also the incumbent vice chairperson of the University of Namibia.

Nationality: Namibia
Shareholding: None

SVEN VON BLOTTNITZ (51)

Non-Executive Director

B Business Science (UCT); BCompt Honours (UNISA) Fellow of the Chartered Institute of Secretaries (FCIS); Chartered Accountant (Institute of Chartered Accountants (Namibia);Chartered Accountant (South African Institute of Chartered Accountants)

Mr. Sven von Blottnitz holds the position of General Manager: Finance at Namib Desert Diamonds (Pty) Ltd (NAMDIA) since 1 June 2017, having previously been the Chief Financial Officer at the Namibian

Students Financial Assistance Fund (NSFAF) as of August 2015. Prior to joining NSFAF, he served as the General Manager of Finance and Administration at the Namibia Training Authority. He is a finance professional with more than 20 years of diverse industry experience in Accounting & Auditing, Banking, Oil & Gas and Education sectors, as well as Retirement Fund Administration, having previously worked as Country Finance Manager at Vivo Energy Namibia (previously Shell Namibia), as Chief Financial Officer of Standard Bank Namibia, where he was also responsible for the management of Treasury and the Global Market Operations as well as ALCO, as Group Company Secretary and Compliance Officer of FNB Namibia Holdings, Manager Treasury and Manager Financial Controlling at Commercial Bank of Namibia and Audit Manager at Coopers & Lybrand after completing his articles there. He has over 11 years of diverse banking experience. He served as Chairman of the Standard Bank Namibia Retirement Fund and the Shell Namibia Retirement Fund. He currently serves as board member on the Public Accountants' and Auditors' Board. Previously he held Board positions with NIPAM and the Namibian Stock Exchange.

Nationality: German
Shareholding: None

OUR LEADERSHIP continued

EXECUTIVE MANAGEMENT TEAM

ESTER KALI

Chief Executive Officer for LHN and LBN and Executive Director

- All members of the Executive Committee report to the CEO.

BAREND KRUGER

Principal Officer for LMFSN and Head of Consumer Division

- Growth of short-and long term liabilities, assets and earnings
- Digital (Self Service) Channels
- Customer Contact Centre
- Sales Execution
- Business Development
- Data Analytics Development

O'RUTE UANDARA

Chief Operations Officer

- Monitor local processes
- Operational Policies and procedures
- Business continuity planning
- Clearing and settlements
- Manage buildings
- Manage security services
- Health and Safety
- Projects management
- IT Operations, Support and Security

CHRISZELDA GONTES

Head of Governance and Legal/Company Secretary

- Facilitates effective, entrepreneurial and prudent management that can deliver the long-term success of the company.
- Legal & Governance Frameworks
- Board and committee processes and reporting .
- Shareholder Relations

VACANT

Chief Financial Officer [Resigned 15 August 2020, new incumbent will start on 1 July 2021. During this period we made use of a consultant CFO, Bulle Uisso from Deloitte Namibia, who was approved by Bank of Namibia.]

- Tax computations and engagement with RoR on tax issues
- Day to day accounting and monthly financial reporting to provide information to support decision making
- Regulatory reporting and ALM (Asset Liability Management) for continuous improvement and monitoring of liquidity
- Treasury function to actively manage investments of excess funding and deposit product pricing.

ALETTA SHIFOTOKA

Chief Risk and Compliance Officer

- Develops frameworks and policies
- Ensures conformance
- Independent review of business risks.
- AML & Compliance
- Risk appetite

DIANA MOKHATU

Head of Human Resources

- Recruitment and on-boarding of new staff
- Payroll and benefits management
- Engagement with Receiver of Revenue on PAYE issues
- People management
- Learning & Development
- Employee and Union relations in the workplace.
- Identify and manage functional risks

JAMES DAMON

Head of Credit

- Monitor collections
- Credit recovery activities
- Manage loan portfolios and write-offs
- Country provisioning
- Credit Assessment
- Credit Administration

GRACE NTULI

Head of Internal Audit [joined Letshego on 1 April 2021]

- Provides independent assurance to the Board and Management over the effectiveness of governance, risk management and control over current, systemic and evolving risks

THE BOARD OF DIRECTORS

Our Board is the governance forum for the Group. Its leadership works to create value for our shareholders and benefits all stakeholders.

Our Board remains committed to the principles of effective corporate governance, application of the highest ethical standards in the conduct of its business and affairs, and the principles of employment equity throughout its operations. LHN's corporate governance continues to be guided by laws and regulations, the Company's constitutional documents, the NamCode, King IV and other international corporate governance best practices. In terms of the NamCode, the Board is responsible for determining Letshego's strategic direction, performance and control. Furthermore, the Board delegates and ensures that management executes strategic decisions effectively in accordance with Namibian laws and the legitimate interests and expectations of stakeholders.

The Board actively engages management in setting, approving, and overseeing execution of the strategy and related policies.

It monitors that management (i) maintains internal controls for assurance of effective and efficient operations, and compliance with laws and regulations; and (ii) does this within an ethical environment.

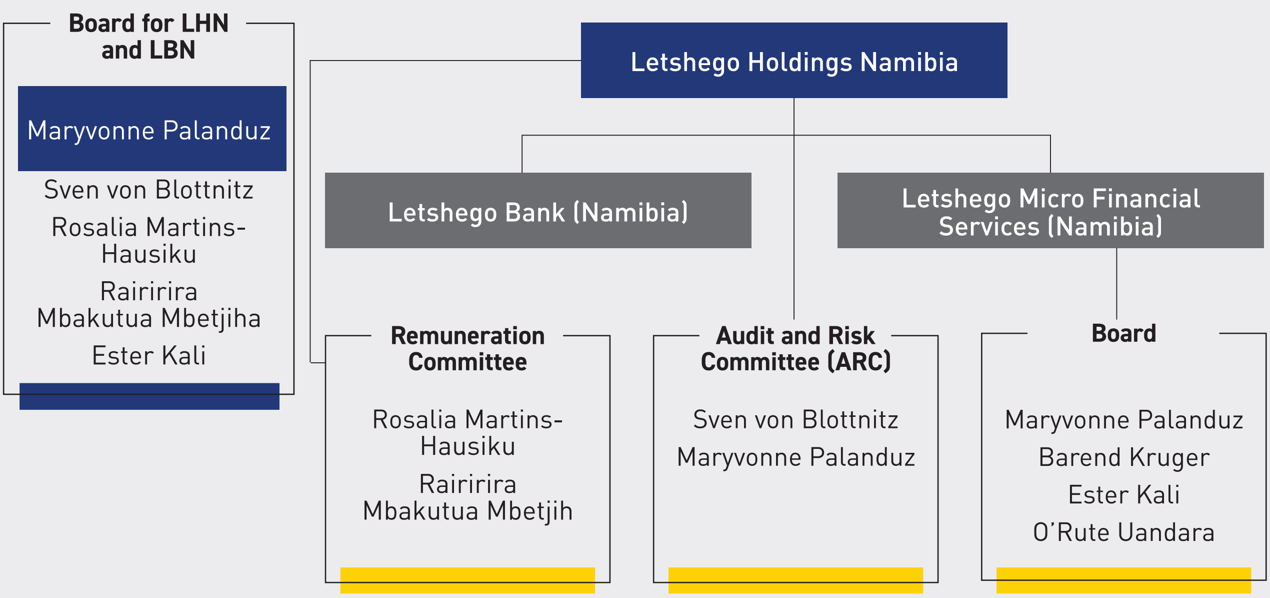
The Executive Committee, and its various management subcommittees, report to the Board and Board committees in accordance with their respective mandates to ensure the appropriate flow of information from the mandated executive forums to the relevant oversight forums.

The Board comprises the appropriate balance of knowledge, skills, experience, diversity, and independence. In particular, the Board members have skills and experience in the areas of banking, risk and capital management, commercial, financial, auditing, accounting, large-scale industrial, counterparty negotiation, legal, technology, human resources and reward, corporate communications, macro-economic analysis as well as pan-African strategic engagement.

Our Board composition emphasises Directors' independence to promote independent judgement and diverse mind-sets and opinions. All Directors are expected to exercise their judgement independently, irrespective of their status. We are confident that our financial performance closely mirrors our levels of Board diversity and recognise that diversity is a strength to the business. Differing perspectives are key in ensuring appropriate levels of oversight and achievement of objectives.

As at 31 December 2020, the representation of women on our Boards stood at 60% (2019: 67%) while country management teams remained the same as the previous year. During 2020 we expect to develop a policy in order to strengthen our commitment to Board diversity. A key aspect of the composition of the Boards is meeting the requirements of the NamCode and King IV principles.

COMPOSITION AND STRUCTURE



Letshego Holdings (Namibia) Limited Board membership comprised of five directors as at 31 December 2020. This includes three Independent non-executive Directors (NEDs), one non-Executive Director and one Executive Director. The Board is supported by the Audit, Risk and Credit Committee and the Remuneration Committee. There have been no changes to the Board composition during 2020 with one resignation of a non-executive Director, Ms. Mythri Sambasivan-George effective 24 April 2020.

BOARD AND COMMITTEE COMPOSITION AS AT 31 DECEMBER 2020

Director	Status	Number of committees and boards served by Director	Main Board	Credit Committee (CC)	Audit and Risk Committee (ARC)	Remuneration Committee (RC)
M. Palanduz	INED	1	C ✓	✓	✓	
S. von Blottnitz	INED	3	✓	C ✓	C ✓	
R. Martins-Hausiku	INED	2	✓			C ✓
R. Mbetjiha	NED	2	✓			✓
E. Kali	ED	1	✓			
SUMMARY			**Total 5**	**Total 2**	**Total 2**	**Total 2**
No. of Board members – ED			1	0	0	
No. of Board members – INED			3	2	2	1
No. of Board members - NED			1	0	0	1

C: Chairperson

ED: Executive Director

NED: Non-Executive Director

INED: Independent Non-executive Director

Non-compliant with King IV

✓ **Current Committee Membership**

THE BOARD OF DIRECTORS continued

BOARD PROCESS AND OUTCOMES

Board evaluation and meetings

In line with NamCode requirements, the evaluation of the Board, its Committees and the individual Directors are conducted on an annual basis. The last Board assessment was independently conducted by Deloitte. Key outcomes of the independent Board assessment include the need to increase the composition, size, and diversity of the Board. Enhanced focus will be placed on ensuring this, in alignment with Letshego's growth and diversification strategy. The assessment also indicated that the Board needs to devote adequate time to strategic direction, planning, reviewing and monitoring, and that sufficient additional information, insight and clarification on issues facing the Board needs to be made available.

The Board meets at least quarterly, in addition to an annual strategy review meeting. A special meeting to review and approve the interim results were held, and another special Board meeting took place in May 2020. Altogether, five Board meetings were held during 2020. Directors are fully briefed by the Company Secretary and are provided with all the necessary information, sufficiently ahead of the scheduled Board and Committee meetings, to enable effective discharge of their responsibilities.

Role of the board

The Board provides effective leadership based on an ethical foundation and ensures that the Group is, and is seen to be, a responsible corporate citizen. An Enterprise Risk Management framework is used to align strategy and risk appetite. In addition, the Board:

- Ensures that the Group has an effective independent Risk & Audit Committee (ARC), Credit Committee (CC), and Remuneration Committee (RC)
- Oversees the governance of risk by ensuring that appropriate enterprise risk management frameworks are in place and functioning effectively
- Manages the governance of enterprise information technology
- Ensures compliance with applicable laws and adherence to non-binding rules, codes, standards and best practice; and
- Ensures that an effective risk-based internal audit function and plan is in place.

During the COVID-19 pandemic, the Board of Directors' priority was to ensure the implementation of health and safety protocols for staff, and adopting a digitization strategy that would be conducive for the business' customers and other stakeholders during the pandemic and going forward.

Board charter

The Board Charter, which is aligned to the NamCode and King IV, sets out the following:

- The Board's responsibilities and functions, including safeguarding the Board's collective and individual members' independence
- Role of the Board, as distinct from the roles of the shareholders, the Chairperson, individual Board members, the Company Secretary and other executives of the Group
- Powers delegated to various Board Committees
- Matters reserved for final decision-making or approval by the Board, and
- Policies and practices of the Board with respect to matters such as corporate governance, trading by directors in the securities of the Group, declaration and conflicts of interest, Board meeting documentation, alternative dispute resolution, and business continuation/disaster recovery proceedings and procedures.

Company secretary

The Company Secretary plays a critical role in the corporate governance of Letshego, acting as an advisor to the Board, guiding individual Directors and Committees in areas such as corporate governance, updates on legal and statutory amendments and the effective execution of Directors' responsibilities and fiduciary duties. The Company Secretary ensures that Board and sub-committee charters are kept up to date, and that Board and Committee papers are circulated in good time. Also, she assists in eliciting responses, input and feedback for Board and sub-committee meetings. The Company Secretary assists the Audit and Risk Committee (ARC) in ensuring that the correct procedures are followed for the appointment of Directors.

Whenever deemed necessary, the Company Secretary reviews the rules and procedures applicable to the conduct of the affairs of the Board. If necessary, the services and guidance of the corporate sponsor and other experts are procured to ensure that the Directors have adequate insight to discharge their responsibilities effectively. Furthermore, the Company Secretary assists with Board and sub committee evaluations, including the independent assessment done with Deloitte in 2020 which will be repeated at a three-year interval.

BOARD PROCESSES

Appointments to the board

New Board appointments are considered by the Board, considering the appropriate balance of skills, experience and diversity required to lead, control and best represent the Company. Background and reference checks are performed before the nomination and appointment of Directors. The appointment of Non-Executive Directors is formalised through a letter of appointment and the Board makes full disclosure regarding individual Directors to enable shareholders to make their own assessment of Directors. In line with LHN's growth and diversification strategy, LHN is in the process of appointing additional Independent Non-Executive Directors to its Board.

Ongoing training and development of Directors is provided as necessary. Each Director's length of service is regularly reviewed as part of succession planning.

Succession planning

In terms of succession planning, the Board has identified an adequate pool of candidates who can potentially be nominated as Board members for LHN. The Board further has oversight of and approves the appointment of qualified and competent executive officers to administer the affairs of the Company.

Conflicts of interest

Our Directors have a responsibility to avoid conflict with regards to their Letshego duties and responsibilities. These include situations that involve, or may be perceived to involve, any conflict with their personal interests. The Board Charter requires Directors to declare any actual or potential conflict of interest immediately when they become aware of such situation. Prior to scheduled meetings, each Director must submit a 'declaration of interest' form, outlining other directorships and personal financial interests, including those of their related parties. Where actual or potential conflicts are declared, affected Directors are excluded from discussions and any decisions on the subject matter of the declared conflict.

Actual and potential conflicts of interest are considered in the annual assessment of director independence.

Communication of critical issues

Critical concerns are communicated to the Executive Committee who escalates to the appropriate Board sub-committee. The sub-committee will then communicate to the full Board through meetings and/or reports. When required, Non-Executive Directors are entitled to access the external auditors and, at Letshego's expense, can seek independent professional or expert advice on any matters pertaining to the Group. The Audit and Risk Committee has constant interaction and independent consultation with the Internal Audit function, which reports directly to the Chairman of the Audit and Risk Committee.

The Audit and Risk Committee assesses the Group's activities in line with relevant legislation and codes of best practice on matters relating to social and economic development, good corporate citizenship, ethics, sustainable development, labour and employment, consumer relations, stakeholder management, transformation, the environment, and health and safety.

KEY GOVERNANCE MILESTONES AND 2020 FOCUS AREAS

As part of improving our governance processes during 2020, we focused on strengthening the capacity of the internal audit team, which enabled us to increase coverage of the internal audit plan to 100%. In addition, during Q2 2020, the organizational restructuring exercise resulted in the separation of the Risk & Compliance function from the Legal & Governance function, the aim of the exercise being to enhance focus and efficiency within the two business units. Capacitation of the functions is currently underway. This has provided the Board with greater detail and insight on key risk areas.

The Board Audit and Risk Committee continued to review credit related reports as part of the risk management reports submitted on a quarterly basis and make appropriate recommendations to the Board for approval.

The Board and its committees compile and review the annual work plan on a quarterly basis to ensure all relevant matters are prioritised and addressed. Members of senior leadership, assurance providers, and professional advisers are invited to attend meetings and do not form part of the quorum of any meeting.

AN OVERVIEW OF KEY MATTERS DISCUSSED BY THE BOARD ARE AS FOLLOWS

- During Q1 2020, the Board reviewed and approved all Letshego Namibia policies, as per the Company's biennial policy review procedure. The reviewed policies were availed to all employees on the intranet for familiarization.
- The Board approved the appointment of PricewaterhouseCoopers (PwC) as LHN's external auditors and recommended the same for shareholders' approval at the Annual General Meeting (AGM).
- Following recommendations to revise the format of the Performance Scorecard and to align it to the approved budget, the Board approved the Company's Scorecard. The supporting framework would ensure that the Scorecard maintained a balanced view.
- During Q2 2020, the Board approved the restructuring of the Governance, Risk and Compliance Department, resulting in the two positions of Head of Legal & Governance and the Chief Risk and Compliance Officer, as a way of enhancing focus and efficiency within the two business units.
- Following the approval and publication of the Annual Financial Statements, during Q2 dividends were declared and paid. A final dividend of 22.5 cents (N$0.225) per share was paid to the shareholders in May 2020. The decision was ratified at the LHN AGM held on 01 July 2020.
- As a means of rectifying the loan to preference share transaction, a general meeting of minority shareholders was held on 18 May 2020 to ratify the conversion resolution and to obtain validation of the transaction through the High Court. In December 2020, after weighing the pros and cons, the Board resolved to restate the the 2018 and 2019 amounts pertaining to this transaction in the current year financial statements.
- The Service Level Agreement (SLA) between LHN and LHL was reviewed, approved and signed during Q2 2020. Further review is currently underway to enable the capacitation (skills transfer) of local operations in Letshego Namibia over a period of time.

COMPOSITION OF THE BOARD COMMITTEES

AUDIT & RISK COMMITTEE (ARC)

Board Sub-committee	Purpose	Composition – at 31 March 2021	Quorum	Frequency of meeting
Audit & Risk Committee (ARC)	› Assists the Board in discharging its duties relating to ensuring the safeguarding of assets, the operation of adequate systems and control processes, and the preparation of financial statements and reporting in compliance with legal requirements and accounting standards. The membership consists of no less than three Board-appointed Directors, of which two are INEDs. The LHN ARC provides ultimate oversight of the Internal Audit function for the Group. › Promotes a culture of risk management discipline, anticipation, and compliance across the Group's footprint. › Reviews and recommends approach to determining risk appetite, as a basis for obtaining Board approvals, and to monitor compliance with the same. › Proactively manages potential capital, interest rate, foreign exchange, liquidity, credit, operational, and compliance risks and initiates actions to mitigate those risks. › Reviews significant risk events and ensures that the control environment is adequate to prevent recurrence. › Ensures the adequacy and effectiveness of policies, procedures and tools in all countries for the identification, assessment, monitoring, controlling and reporting of risks by reference to the LHL Enterprise Risk Management framework and that they conform to the minimum requirements laid down by the Group as well as external regulators.	**INEDS** Chairperson **NEDS** **Independent attendees** PWC (Only for AFS approval) **Management attendees** › CRO › CEO › CFO › COO › HC › Head of Legal & Governance/ Company Secretary **Permanent invitee** Head Internal Audit	The quorum for decisions of the Committee shall be the majority of the members of the Committee present throughout the meeting of the Committee	Quarterly

THE BOARD OF DIRECTORS continued

CREDIT COMMITTEE (CC)

Board Sub-committee	Purpose	Composition – at 31 March 2021	Quorum	Frequency of meeting
Credit Committee (CC)	› Formulates credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements. › Establishes the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit credit officers. Larger facilities require approval by the Board CC, or the Board of Directors, as appropriate. › Reviews and assesses credit risk: The credit function assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process. › Limits concentrations of exposure to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities). › Develops and maintains the Group's risk gradings to categorise exposures according to the degree of risk of default. The current risk grading framework consists of six grades reflecting varying degrees of risk of default. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews by the Risk function. › Develops and maintains the Group's processes for measuring incurred credit losses (ICL): This includes processes for: - initial approval, regular validation and back-testing of the models used, and - incorporation of forward-looking information. › Reviews compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Group Credit, which may require appropriate corrective action to be taken. These include reports containing estimates of ICL allowances.. › Provides advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk	**Independent non-Executive Directors** Chairperson **Management attendees** › CRO › CEO › CFO › COO HC › Head of Legal & Governance/ Company Secretary **Permanent invitee** Head of Internal Audit	Majority of members present who shall vote on the matter for decision	Meetings of the Committee will be held as the Committee deems to be appropriate; however, the Committee should meet at least once each year. Further meetings may be called by the Chairperson of the Committee or any member of the Committee.

REMUNERATION COMMITTEE (RC)

Board Sub-committee	Purpose	Composition – at 31 March 2021	Quorum	Frequency of meeting
Remuneration Committee (RC)	> Exercise good stewardship of the LHN remunerations practices and ensure that compensation works in harmony with the implemented risk postures. > Ensures alignment of the remuneration strategy and policy with the LHN business strategy and the desired culture of the organisation. > Provides remuneration packages needed to attract, retain, and motivate high performing executive Directors and Executive Management, but avoid paying more than is necessary for this purpose. > Ensure that remuneration is pitched at level relative to other comparable companies taking relative performance into account. > Ensures sensitivity to the wider environment, including pay and employment conditions elsewhere in the Company so that decisions may, as far as is appropriate, be fair, considering the different pay policy needs of the different business units. > Ensures the adequacy of retirement and health care schemes for Executive Directors and Executive Management. > Considers the pension consequences and associated costs to the Company of basic salary increases. > Reviews the LHN contribution to benefit schemes for recommendation to the Board. > Reviews and approves the LHN employee taxation risk profile where relevant to remuneration.	**Independent non-Executive Directors** Chairperson **Management attendees** > CEO > CRO > HR > Head of Legal & Governance/ Company Secretary **Permanent invitee** Head of Internal Audit	A quorum shall be constituted by the attendance of two members attending the meeting either in person or via electronic media. Members joining via electronic media will constitute a quorum as if they were in attendance personally. Decisions shall be made by the majority of the votes, in case of an equality of votes, the chairperson shall have a second or casting vote.	Quarterly

THE BOARD OF DIRECTORS continued

EXECUTIVE MANAGEMENT COMMITTEES

The Executive Management Committee (EXCO) comprises of Executive Management who are responsible for the day-to-day operations of LHN. LHN has formed management committees to assist the EXCO in executing their role on behalf of the Board. These committees include the Asset Liability Committee (ALCo), Risk Management Committee (RMC), Procurement Committee (ProCo), Management Credit Committee (MCC) and the Information Technology Management Committee (ITMC). The management committees report functionally to the EXCO. The composition of each committee and its purpose is clarified in the table below.

EXECUTIVE MANAGEMENT COMMITTEE (EXCO)

Purpose	Composition	Quorum	Frequency of meeting
> Delivers on the LHN business strategy against the country's collective agenda and budget, and reports on such progress to the regional heads as well as escalating any significant risks or issues on a timely basis. > Monitors external developments in the country's operations and internal risk issues arising to ensure that appropriate actions are taken to protect the reputation and franchise of LHL and to mitigate potential financial losses. > Promotes a culture that focuses on a unique customer experience, innovation, anticipatory risk, people development and stakeholder engagement, underpinned by exemplary governance and effective cost control. > Provides unified leadership on key strategic and other business initiatives. > Promotes and implements an effective risk management framework that encapsulates setting of risk appetite, management discipline, anticipation and compliance across the country, and escalating any significant issues to regional heads and the Head of Risk and Assurance, as appropriate. > Ensures that LHN is operating according to the highest standards of regulatory compliance and best practice as defined by external regulations and internal policies and procedures respectively, including banking and labour laws and anti-money laundering (AML) legislation, KYC, ALM and any other regulatory requirements. > Approves and recommends to LHL all new products and service offerings.	Ester Kali - Chief Executive Officer LHN and LBN Barend Kruger - Principal Officer - LMFSN and Head of Consumer Division Chief Financial Officer (Vacant) O'Rute Uandara - Chief Operating Officer Chriszelda Gontes - Head of Governance and Legal/ Company Secretary Diana Mokhatu - Head of Human Resources Aletta Shifotoka - Chief Risk and Compliance Officer James Damon - Head of Credit Grace Ntuli - Head of Internal Audit	Majority of EXCO members	Monthly

ASSET LIABILITY MANAGEMENT COMMITTEE (ALCO)

Purpose	Composition	Quorum	Frequency of meeting
> Overall authority for market risk is vested in the ALCo. The ALCo sets up limits for each type of risk in aggregate and for portfolios, with market and liquidity risks being primary factors in determining the level of limits set for trading portfolios. > The ALCo is the monitoring body for compliance with these limits and is assisted by Management in its day-to-day monitoring activities, which include monitoring changes in the Group's interest rate exposures, including the impact of the Group's outstanding or forecast debt obligations. > Is responsible for setting the overall hedging strategy of the Group. Management is responsible for implementing that strategy by putting in place the individual hedge arrangements. > Views interest rate in the banking book to comprise of the following: - Re-pricing risk (mismatch risk), being the timing difference in the maturity (for fixed) and repricing (for floating rate) of the Group's assets and liabilities, and - Yield curve risk, which includes the changes in the shape and slope of the yield curve. > Monitors and manages these risks in adherence to the Group's risk appetite and meets on a monthly basis to analyse the impact of interest rate risk on the Group and reports directly to the BARC on a quarterly basis. The techniques used to measure and control interest rate risk by the ALCo includes re-pricing profiles, sensitivity/scenario analysis and stress testing.	Ester Kali - Chief Executive Officer LHN and LBN Barend Kruger - Principal Officer - LMFSN and Head of Consumer Division Chief Financial Officer (Vacant) O'Rute Uandara - Chief Operating Officer Chriszelda Gontes - Head of Governance and Legal/ Company Secretary Diana Mokhatu - Head of Human Resources James Damon - Head of Credit Grace Ntuli - Head of Internal Audit	A quorum for Committee meetings will consist of at least five of the standing members present or represented	At least one meeting per calendar month must be held. The Chairperson may and, at the request of the CFO, shall at any time convene a meeting of the Committee.

THE BOARD OF DIRECTORS continued

RISK MANAGEMENT COMMITTEE (RMC)

Purpose	Composition	Quorum	Frequency of meeting
> Holds the ultimate business responsibility for the management of all key risks and ensures compliance to all of LBN's policies. > Assists the Board of Directors in its responsibility to oversee that the overall risk management process is at an appropriate level. > Ensures that LBN possesses an efficient and effective risk management plan that covers all types of risks. In addition, the RMC is responsible for setting, assessing, reducing, monitoring and reporting risk levels for the attention of the Board. > Approves risk parameters, appetite and profile within the Board-approved limits and ensures appropriate accountability. > Promotes an appropriate control culture and sets the tone accordingly. > Actively scans and reviews the risk environment of LBN and implements mitigating strategies for all risks.	Ester Kali - Chief Executive Officer LHN and LBN Barend Kruger - Principal Officer - LMFSN and Head of Consumer Division Chief Financial Officer (Vacant) O'Rute Uandara - Chief Operating Officer Chriszelda Gontes - Head of Governance and Legal/ Company Secretary Diana Mokhatu - Head of Human Resources Aletta Shifotoka - Chief Risk and Compliance Officer Ramona Coetzee - Operations Manager Richard Bastiaans - IT Manager Kanoono Tjiueza - Compliance Manager Maria Samahina - Risk Manager James Damon - Head of Credit	Four members of the RMC, of which at least two should be EXCO members (executives), where one of the two EXCO members is from the responsible department	The Committee shall meet at least once a month on a date before the monthly LBN EXCO meetings or at such times as may be requested by the RMC Chairperson, and there may be additional meetings as necessary, if the majority of the Committee members request them.

PROCUREMENT COMMITTEE (PROCO)

Purpose	Composition	Quorum	Frequency of meeting
> Independently reviews and evaluates purchasing documentation (including bids from suppliers) and awards/ recommends contracts for the procurement of goods and services by the Bank in a fair, objective, equitable, transparent, competitive and cost-effective manner and in line with sound corporate governance principles. > The PRoCo has to ensure that the Bank's procurement policies and procedures are properly followed in the procurement process.	Ester Kali - Chief Executive Officer LHN and LBN Barend Kruger - Principal Officer - LMFSN and Head of Consumer Division Chief Financial Officer (Vacant) O'Rute Uandara - Chief Operating Officer Chriszelda Gontes - Head of Governance and Legal/ Company Secretary Aletta Shifotoka - Chief Risk & Compliance Officer	Four Standing members	As per the LBN procurement policy

MANAGEMENT CREDIT COMMITTEE (MCC)

Purpose	Composition	Quorum	Frequency of meeting
> Ensures compliance with the Credit Risk Policies to the extent and on the basis set out within its mandate or terms of reference. > Acts as a decision-making function within the defined authority as delegated by the Board CC from time to time. > Effectively enhances the credit discipline within LBN. > Ensures that Board CC expectations, directives and requirements for credit are met and implemented accordingly. > Actively scans and reviews the credit risk environment of LBN and implements mitigating strategies for all credit risks (risk management). > Provides tools to monitor, manage, and measure delivery of the credit risk objectives (credit risk performance management).	Ester Kali - Chief Executive Officer LBN and LHN Barend Kruger - Principal Officer - LMFSN and Head of Consumer Division Chief Financial Officer (Vacant) O'Rute Uandara - Chief Operating Officer Aletta Shifotoka - Chief Risk and Compliance Officer James Damon - Head of Credit	Four members of the RMC, of which at least two should be EXCO members (executives), where one of the two EXCO members is from the responsible department	The Committee shall meet at least once per month on a date before the monthly LBN EXCO meetings or at such times as may be requested by the MCC Chairperson, or a majority of the Committee members.

MANAGEMENT CREDIT COMMITTEE (MCC)

Purpose	Composition	Quorum	Frequency of meeting
> Ensures that the IT strategy is aligned with the strategic objectives of the organisation (strategic alignment). > Ensures maximum optimisation of resources to sustain business operations in the most effective and efficient manner (resource optimisation). > Ensures that expectations for IT are met (benefits realisation). > Mitigates all IT risks (risk management). > Provides tools to monitor, manage, and measure delivery of these objectives (performance management).	O'Rute Uandara - Chief Operations Officer Richard Bastiaans - IT Manager Aletta Shifotoka - Chief Risk and Compliance Officer Ramona Coetzee - Operations Manager	Majority of EXCO members	Monthly

THE BOARD OF DIRECTORS continued

DIRECTOR	LHN/LBN BOARD MEETING	LMFSN BOARD MEETING	AUDIT RISK COMMITTEE MEETING	REMUNERATION COMMITTEE MEETING	APPROVAL OF ANNUAL FINANCIAL STATEMENTS 2020	LHN SPECIAL BOARD MEETING 26 MAY 2020	LHN SPECIAL BOARD MEETING 23 OCTOBER 2020	TOTAL NUMBER OF MEETINGS
Maryvonne Palanduz	4	4	4	-	1	1	1	**15**
Rosalia Martins-Hausiku	3	-	-	4	1	-	1	**9**
Sven Bloch von Blottnitz	4	-	4	-	1	1	1	**11**
Rairirira Mbetjiha	3	-	-	4	1	1	1	**10**
Ester Kali	4	4	4	4	1	1	1	**19**

* No credit committee meetings were held as all credit aspects were dealt with during the audit and risk committee meetings.

Board fees are as follows:

> Annual retainer – Chairperson: N$176 000

> Annual retainer – Directors: N$146 000

> Sitting Fee – Board Chairperson: N$29 250 per meeting

> Sitting Fee – Directors: N$24 250 per meeting

> Sitting Fee – BARC members: N$21 937.50 per meeting for Chairman and N$18 187.50 per meeting for members

> Sitting Fee – RC members: N$14 625 per meeting for Chairman and N$12 125 per meeting for members

> Sitting Fee – Strategy Review Meeting: N$29 250 per meeting for Chairman and N$24 250 per meeting for Directors

GOVERNANCE ENABLERS

IT GOVERNANCE

The Group continues to enhance its information technology (IT) governance framework as the Group's operations and sustainability are critically dependent on IT. In addition, "digitalisation" is one of LHN's strategic focus areas. LHN continues to capacitate this function aligned to the revised organisational design and global IT standards and best practice. Specifically, IT supports the Group's innovation and technological competitive advantage, the management of IT related risks, and increased requirements for control over information security. The framework addresses the following, in line with best practice:

- The IT activities and functions of the organisation are aligned, to enable and support the priorities of the Group
- IT delivers the envisioned benefits against strategy, costs are optimised, relevant best practices are incorporated, and the value created for the Group by its IT investment is maximised
- The optimal investment is made in IT and critical IT resources are responsibly, effectively, and efficiently managed and employed
- Compliance requirements are understood and there is an awareness of risk, allowing the organisation's risk appetite to be managed
- Performance is optimally tracked and measured, and the envisioned benefits are realised, including implementation of strategic initiatives, resource use and the delivery of IT services
- Synergies between IT initiatives are enabled and, where applicable, IT choices are made in the best interest of the Group as a whole

COMPLIANCE

The Board is ultimately responsible for overseeing the Group's compliance with specific legislation, rules, codes, and standards in relation to the NamCode. The Board has delegated responsibility to management for the implementation of an effective governance, risk, legal and compliance framework and processes, as envisaged by the NamCode. The said frameworks and processes are revised biennially, or as and when any legislative changes occur, or when otherwise necessary.

Assets and liabilities management (ALM)

ALM is the responsibility of the Group Management Committee/EXCO. ALM deals with the management of capital adequacy, foreign currency, maturity, liquidity, interest rate and markets, and credit risks, ensuring that the regulatory prudential ratios are maintained.

Legal compliance

The Board has ultimate responsibility for overseeing the compliance with laws, rules, codes, and standards in terms of the NamCode. The Board has delegated responsibility for the management of the implementation of an effective Corporate Governance Framework and processes, as envisaged by the NamCode. Through the governance and compliance function, Letshego remains resolute in implementing and embedding the Compliance and Corporate Governance Frameworks premised on the following enablers:

- Corporate Governance Framework for the Group and its subsidiary Boards
- Relevant Group-wide policies
- Group-wide Code of Ethical Conduct and Whistleblowing Facility, and
- Commitment to Group strategy and brand promise

The preliminary phased rollout of the framework was initiated in early 2016, with the subsequent rollout occurring during 2020. The revised Governance framework is currently under review at Group level and will be duly customized and further implemented by all Letshego subsidiaries.

In addition, the outcome of the independent Board assessment conducted in December 2020 has provided valuable insight into the enhancement of governance and compliance processes within LHN. These took the form of a Group wide presentation focused on the key compliance areas that the framework aims to address, including regulatory, legal, and governance compliance.

GOVERNANCE ENABLERS continued

RISK GOVERNANCE

OUR APPROACH TO RISK AND OPPORTUNITY MANAGEMENT

Risk Philosophy: Letshego subscribes to a risk philosophy that says, 'Risk is best managed at its inception'. The originators of risk events are expected to address the risks arising from such events. Hence everybody is a risk manager responsible for managing risks that arise from his/her business activities.

1st Line of Defence

Management oversight:
Line management is accountable and responsible for the management of risk and business performance. A key element of this line of defence is the extent of management reviews and the actions that follow. Management must use a system of self-assessment that includes RCSAs, KRIs, Performance Indicators and Risk Registers to inform them of the adequacy of risk management activities.

Risk activities include people and processes, management supervision and oversight. Line management is responsible and accountable for managing risk around business-as-usual.

2nd Line of Defence

Management of risk and compliance:
The second line of defence (i.e., Risk & Compliance, Legal, AML) works closely with the first line of defence to monitor, report and recommend to the Country Management Committee and ARC. Key risk activities include:

- Developing and maintaining risk management policies.
- Promotion of risk awareness.
- Advising on how to manage risks.
- Monitoring of key risk and control indicators.
- Monitoring of losses.
- Performing targeted deep dives.
- Tracking remediation/risk acceptance of issues.
- Stress testing.

3rd Line of Defence

Internal Audit:
Internal Audit focuses on internal risk-based audits that provide assurance over LHN's controls, risk management and governance activities, as performed in lines one and two. Internal Audit also provides assurance with line two on activities in line one, or combined assurance with Independent Assurance functions such as External Auditors and Regulators on activities in line one and two. The internal auditors report directly to ARC.

Our risk management process

Risk monitoring within LHN involves the development of an effective review process to monitor the implementation of the risk management plans throughout bank. It is a comprehensive and dynamic process, and takes place on a monthly basis through various challenge discussions with management on key risks identified and the assessment of controls put in place. The monitoring process also includes a process for identifying changes in the bank and micro-finance business environment and implementing these changes within the business. Whenever new legislation, regulations, rules and directives are promulgated or issued, the Compliance Function ensures that the Chief Risk and Compliance Officer is aware of them and that new CRMPs are drawn up and incorporated in the work programs.

During 2020, the risk management process was enhanced by introducing risk unit profiles at departmental and institutional level to allow for non-subjective risk reporting to management and the board. Detailed definitions were developed for each of the risk ratings used (i.e., Critical, High, Medium, Low), and then assigned to key risks identified within the business, as opposed to allocating risk ratings based on the opinion of risk owners. Through the completion of the risk profiles, the direction of risk at both departmental and institutional level in terms of increasing (I), stable (S), or decreasing (D), is easily identified.

Enterprise-wide risk management framework (ERMF)

The ERM Framework outlines the approach to managing risks faced by Letshego. The ERM framework consists of sub-frameworks for Strategic, Reputational, Operational, Credit, Liquidity, Interest rate, Compliance, Anti-Money Laundering and Legal risks. These are supported by robust risk policies, risk appetite, risk tools and procedures.

The purpose of the Risk Management framework is to ensure that risks faced by LHN are managed in an integrated, consistent and comprehensive manner. Our ERM Framework emphasises the five key pillars of a sound risk management framework, 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 risk principles and methodologies outlined in the sub-frameworks are based on best practices and local regulatory requirements. The level of sophistication of processes, and internal controls used to manage risks, depend on the nature, scale and complexity of the Group's activities.

We continue to take a holistic and forward-looking view of the risks faced by LHN. Management receive monthly risk reports for effective risk monitoring through various management committees and quarterly reports are submitted to the Board Committees and the Board of Directors on a quarterly basis.

Risk appetite

Letshego's risk appetite remained the same during the reporting period and included the following:

- Maintaining capital ratios in excess of regulatory thresholds.
- Maintaining low exposure to stress events.
- Maintaining stability of earnings.
- Ensuring sound management of liquidity and funding risk.
- Maintaining a generally acceptable regulatory risk and compliance control environment.
- Maintaining a risk profile that is no riskier than that of our average peers.
- Maintaining operational losses to a maximum of 20% of Gross Income per year.

Managing environmental, social, and governance (ESG) risks

LHN has a practical process for identifying pertinent ESG risks and potential negative effects, as covered by our Key Risk Indicator Policy. This process considers ESG risks and impacts generated directly by LHN's operations, as well as those from contractors and supply chain, where possible. This will typically lead to the identification of opportunities for risk mitigation, and potential opportunities that can be leveraged for positive impact. The identification process is commensurate with the level of ESG risks and effects, and consistent with Good International Industry Practice (GIIP). Typical ESG Risk categories associated with Letshego's proposed sectors of interest include:

- Customer welfare
- Understanding, uptake and use of mobilisation platforms
- Complexity of solutions on offer
- Market communication
- Execution and delivery into the market.
- Employee strategic alignment, motivation and communication

Other risk categories include Sales, Finance and Human Resources.

OUTLOOK: BOARD FOCUS AREAS FOR 2021

The key risk focus areas going forward include the following:

- Engagement by senior management and the LHN Board with LHL to commence to ensure that annual progress on the local ownership requirement is achieved.
- Ensure full implementation of Microlending Act requirements, including requirement to segregate people, systems and data by LMFSN.
- Vigorously drive the consolidation or top up campaign to ensure that the unsecured loans are converted to insurance backed loans.
- Ensure adequate review of all procedure manuals to ensure that the processes are still relevant for the business operations and align to the policies in place.
- Review incident management process to ensure the effectiveness within the complex business environment.
- Ensure all prospective executive management and board members complete the fit and proper assessments from Bank of Namibia prior to appointment.
- A management information system to be identified and submitted to senior management and the board for approval.

GOVERNANCE ENABLERS continued

INTERNAL AUDIT

Internal Audit (IA) provides independent and objective assurance to the Audit Committee in accordance with the internal audit standards set by the Institute of Internal Auditors (IIA) and in line with Group Internal Audits (GIA's) audit methodology. The Head of Internal Audit reports functionally to the Audit Committee Chairman and administratively to the CEO. The Head of Internal Audit has unrestricted access to all Audit Committee members.

Letshego has an internal audit plan in place and internal controls are reviewed at regular intervals in all operating units. Internal audit provides regular reports to the Audit Committee.

The internal audit function conducts periodic audits in line with Letshego's most significant risk categories. Its mission is to provide independent and objective assurance and advisory services designed to mitigate risks and improve operations. It plays an important role in the combined assurance model and assists the board, board committees and executive management to accomplish its objectives by bringing a systematic, disciplined and consistent approach to evaluate and improve the effectiveness of governance, risk management and the internal control environment.

Internal auditors inform management and the Audit Committee of any breaches, violations or key risk issues and the Audit Committee ensures that there is an open line of communication between the head of internal audit, the external auditors and the board.

COMPLIANCE WITH THE NAMCODE

LHN applies the principles of the NamCode across the organisation. The principles of King IV are fully contained within the NamCode which therefore extends our compliance to the principles of King IV. The Board is satisfied with the manner in which LHN applies the principles of the NamCode. What follows is a summary of our evaluation of where we are compliant, and if not an explanation:

1. Ethical leadership and corporate citizenship			
1.1	The Board should provide effective leadership based on an ethical foundation.	Applied	Our Board Charter clearly outlines the responsibility for effective leadership based on an ethical foundation. The Board's performance with respect to this requirement will be evaluated on an annual basis.
1.2	The Board should ensure that the Company is and is seen to be a responsible corporate citizen.	Applied	Letshego Holdings (Namibia) Limited has a Strategic and Social Investment (SSI) Policy approved by the Board and remains committed towards sustainable development and improvement of lives in the communities within which Letshego Holdings (Namibia) Limited operates. Further, this policy ensures that Letshego Holdings (Namibia) Limited is a socially responsible corporate citizen and occupies a positive and impactful role in its subsidiaries and communities. Going forward, Ethics and Sustainability will be a standing agenda for board discussion and tracking of progress.
1.3	The Board should ensure that the Company's ethics are managed effectively.	Applied	Letshego Holdings (Namibia) Limited has a code of ethics policy approved by the Board and the responsibility to oversee the performance against the principles is delegated to the Board Audit & Risk Committee. Section 5.2.2 of the Board Charter stipulates that the Board should determine and set the ethical tone of the Company values, including framework of the code for ethical conduct, ethical business principles and practices, requirements for responsible corporate citizen. Going forward, Ethics and Sustainability will be a standing agenda for board discussion and tracking of progress.
2. Boards and Directors			
2.1	The Board should act as the focal point for and custodian of corporate governance.	Applied	The Board Charter clearly set out the Board responsibilities and the Board meets at least four times per year. According to section 5.2.2 of the Charter, the Board must satisfy itself that the Company and Subsidiary Companies are governed effectively in accordance with corporate governance best practices including risk management, legal compliance management, appropriate and relevant nonbinding industry rules, codes and standards.
2.2	The Board should appreciate that strategy, risk, performance and sustainability are inseparable.	Applied	The principle is recognised in the Board Charter and it is part of the Board's responsibility to determine the strategies and strategic objectives of the Company and ensure that the strategy, risk, performance and sustainability considerations are effectively integrated and appropriately balanced.
2.3	The Board should provide effective leadership based on an ethical foundation.	Applied	Refer to principle 1.1 above.
2.4	The Board should ensure that the Company is and is seen to be a responsible corporate citizen.	Applied	Refer to principle 1.2 above.

GOVERNANCE ENABLERS continued

KING IV REFERENCE	KING IV PRINCIPLE(S)	2020	COMMENTARY
2.5	The Board should ensure that the Company's ethics are managed effectively.	Applied	Refer to principle 1.3 above.
2.6	The Board should ensure that the Company has an effective and independent Audit Committee.	Applied	An independent Board Audit & Risk Committee is in place and its main objectives are outlined in the section: 'Composition of the Board and its subcommittees'. The Committee's terms of reference outline the roles, powers, responsibilities and membership. The majority of members of the Board Audit & Risk Committee are Independent.
2.7	The Board should be responsible for the governance of risk.	Applied	The Board Audit & Risk Committee whose main purpose is outlined above under composition of the Board and its subcommittees assists the Board in executing its responsibility in terms of the governance of risk. The Committee meets on a quarterly basis and top risks are considered during the meetings and reported to the Board.
2.8	The Board should be responsible for information technology (IT) governance.	Applied	The Board Charter requires the Board to assume responsibility for IT governance. The Board has delegated responsibility to the ITMC for the oversight and to ensure effective IT governance.
2.9	The Board should ensure that the Company complies with applicable laws and considers adherence to nonbinding rules, codes and standards.	Applied	The Board Audit & Risk Committee assists the Board in ensuring that the Company's Governance, Risk, IT and Compliance Frameworks are maintained and that compliance to applicable laws and regulations are effectively monitored. Further, the RMC at management level will meet monthly to consider the level of adherence of the Company to rules, codes and appropriate standards.
2.10	The Board should ensure that there is an effective risk-based internal audit.	Applied	In line with the NamCode, our Internal Audit Function reports directly to the Board Audit & Risk Committee. The Board Audit & Risk Committee approves a risk based internal audit plan at the beginning of each year and ensures that the Internal Audit function has adequate resources, budget standing and authority to enable it to discharge its functions.
2.11	The Board should appreciate that stakeholders' perceptions affect the Company's reputation.	Applied	The potential impact of stakeholders' perceptions on the reputation of LHN is recognised and highlighted in the Board Charter. According to the Charter, only individuals with sound ethical reputations will be considered for appointment to the Board. Part of the Board's mandate in the charter is to safeguard the human capital, assets and reputation of the entity.
2.12	The Board should ensure the integrity of the Company's integrated report.	Applied	This integrated annual report is approved by the Board after satisfying itself with respect to the accuracy and integrity of the report based on the recommendation from the Board Audit & Risk Committee.
2.13	The Board should report on the effectiveness of the Company's system of internal controls.	Applied	The Board's opinion on the effectiveness of the system of internal controls is expressed in the statement of the Board of Directors forming part of the annual financial statements. This opinion is based on the recommendation of the Board Audit & Risk Committee that reviews and satisfies itself with the adequacy of the controls in place.

KING IV REFERENCE	KING IV PRINCIPLE(S)	2020	COMMENTARY
2.14	The Board and its Directors should act in the best interests of the Company.	Applied	The Board makes decisions giving due regard to their fiduciary duties and duty of care with an independence of mind. Further, Directors are required to declare their direct and indirect interests at each Board meeting.
2.15	The Board should consider business rescue proceedings or other turnaround mechanisms as soon as the Company is financially distressed as defined in the Act.	Applied	The Board considers the Company's going concern status at its interim and full year meetings. The Board continuously monitors the solvency and liquidity of the Company on a regular basis. This enables the Board to consider business rescue should the Company become financially distressed. Further, the deposit taking subsidiary (LBN) has developed a Liquidity Contingency Plan.
2.16	The Board should elect a Chairman of the Board who is an Independent Non-Executive Director. The MD of the Company should not also fulfil the role of Chairman of the Board.	Applied	The Board is chaired by an Independent Non-Executive Director and as covered under the section on composition of the Board and its committees above. The roles of the Chief Executive Officer and Chairperson are separate in line with the NamCode.
2.17	The Board should appoint the Company Chief Executive Officer and establish a framework for the delegation of author	Applied	According to the Board Charter, the Chief Executive Officer is appointed by the Board. The Executive Management operates within the defined framework for the delegation of authority from the Board via the Chief Executive Officer. The delegation of authority is reviewed regularly to ensure that it is commensurate with the level of maturity of the Company.
2.18	The Board should comprise a balance of power, with a majority of Non-Executive Directors. The majority of Non-Executive Directors should be independent.	Applied	The Board membership is comprised of five Directors of which three are Independent Non-Executive Directors (INEDs), one Non-Executive Director (NED) and one Executive Director (EXD), being the Chief Executive Officer. The appointment of additional independent non-executive directors is currently underway.
2.19	Directors should be appointed through a formal process.	Applied	The Board Charter acknowledges and sets out the Directors' appointment process. In considering whether the potential candidates are suitable for appointment, decisions are made by the Board in accordance with the criteria clearly stipulated in the Board Charter. All Non-Executive Director appointments are voted on by Shareholders at Annual General Meetings by either ratification of appointments made by the Board or by voting on the re-election of Directors who retire by rotation.
2.20	The induction of and on-going training and development of Directors should be conducted through formal processes.	Applied	The role of the Chairperson includes the need to ensure that all Directors are appropriately made aware of their responsibilities through a tailored induction programme ensuring that a formal programme of continuing professional education is adopted at Board level. While an induction program is in place and ad hoc training is provided in specific areas to the Directors, ongoing training and development of Directors is not conducted through a formal process. Going forward board training will be conducted on a quarterly basis.

GOVERNANCE ENABLERS continued

KING IV REFERENCE	KING IV PRINCIPLE(S)	2020	COMMENTARY
2.21	The Board should be assisted by a competent, suitably qualified and experienced Company Secretary.	Applied	The decision to appoint or remove the Company Secretary is a Board decision. The Board ensures that a competent, suitably qualified and experienced person is appointed as Company Secretary.
2.22	The evaluation of the Board, its Committees and the individual Directors should be performed every year.	Applied	A formal independent board assessment was conducted for FY20. The results of the independent assessment show the following: › Improvement is required on board composition, size, skills and diversity as well as on its respective board committees. › Adequate time needs to be devoted to strategic direction, planning, reviewing and monitoring. › There is a need for sufficient additional information, insight and clarification into the issues facing the board.
2.23	The Board should delegate certain functions to well-structured Committees but without abdicating its own responsibilities.	Applied	According to the Board Charter, the Board has the power to appoint Committees and to delegate its duties to such Committees as may have been set up having regard to what is appropriate for the Company. These committees review and recommend matters to the Board for final approval. The Board has created the following Committees with clearly defined terms of reference: The Board Audit & Risk Committee The Credit Committee The Asset and Liability Committee The Procurement Committee The Remuneration Committee The Information Technology Management Committee.
2.24	A governance framework should be agreed between the Company and its subsidiary Boards	Applied	Letshego Holdings (Namibia) Limited and its Subsidiaries have a governance framework approved by the Board and supported by respective Charters. The governance charter is currently under review at LHL level, in consultation with independent parties. The revised governance framework will be duly customized and adopted by all Letshego subsidiaries. Board Charters are reviewed every second year, and is due to be reviewed during 2020, to ensure better alignment with the NamCode.
2.25	The Company should remunerate Directors and Executives fairly and responsibly.	Applied	The Board is responsible for setting and administering remuneration of Directors and Executives with shareholders approving directors' remuneration at each Annual General Meeting. It has adopted remuneration practices governed by a Remuneration Policy which support the Company's growth, performance and returns strategy. the Remuneration Policy has adequate oversight of the Company's remuneration, reviews and recommends to the Board for approval.
2.26	The Company should disclose the remuneration of each individual Director and Prescribed Officer.	Applied	Full disclosure is included in this integrated annual report under Remuneration Policy section above.
2.27	Shareholders should approve the Company's remuneration policy.	Applied	At each AGM which is held annually, for the purpose of considering and adopting the annual financial statements, shareholders have a non-binding vote on the remuneration of Directors, including the basis for this remuneration.

KING IV REFERENCE	KING IV PRINCIPLE(S)	2020	COMMENTARY
3. Audit Committee			
3.1	The Board should ensure that the Company has an effective and Independent Audit Committee.	Partially applied	The Board has an independent and effective Board Audit & Risk Committee in place. All members of the Committee are suitably qualified and experienced with a majority of members being Independent Non-Executive Directors. LHN is in the process of appointing additional Independent Non-Executive Directors to its Board and respective board subcommittees subject to regulatory approval.
3.2	Audit committee members should be suitably skilled and experienced independent nonexecutive directors.	Applied	As per 3.1 above.
3.3	The Audit Committee should be chaired by an Independent Non-Executive Director.	Applied	The Board Audit & Risk Committee is chaired by an Independent Non-Executive Director.
3.4	The Audit Committee should oversee integrated reporting.	Applied	The Board Audit & Risk Committee Charter requires the Committee to oversee and take responsibility for the integrity of the integrated annual report.
3.5	The Audit Committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities.	Applied	In line with the Board Audit & Risk Committee Charter, the Committee ensures that the combined assurance received from the external and internal auditors is appropriate to address all the significant risks facing the Company.
3.6	The Audit Committee should satisfy itself of the expertise, resources and experience of the Company's finance function.	Applied	The Board Audit & Risk Committee Charter requires the Committee to annually review the appropriateness of the expertise and adequacy of the resources on the finance function and the experience of the senior members of management responsible for the finance function.
3.7	The Audit Committee should be responsible for overseeing of internal audit.	Applied	The Board Audit & Risk Committee monitors and supervises the effectiveness of the Internal Audit function and ensures that the roles and functions of the External Audit and Internal Audit are sufficiently clarified and coordinated to provide an objective overview of the operational effectiveness of the Company's systems of internal control and reporting.
3.8	The Audit Committee should be an integral component of the risk management process.	Applied	The Committee Charter of the Board Audit & Risk Committee requires the committee to oversee the Company's risk management process.
3.9	The Audit Committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process.	Applied	The Board Audit & Risk Committee recommends to the Board which firm(s) should be appointed in the event of change of external auditor(s), their reappointment and removal. In addition, the Committee evaluates the performance of the external auditor(s) and the engagement partner is rotated at least every 5 years or such other frequency deemed to be appropriate based on the external audit firm rules to enhance actual and perceived independence.
3.10	The Audit Committee should report to the Board and Shareholders on how it has discharged its duties.	Applied	The Chairman of the Board Audit & Risk Committee reports to the Board at all its meetings and minutes of the meeting are provided to the Board. The Chairperson of the Committee attends the Annual General Meeting to answer questions concerning matters falling within the ambit of the Committee and appropriate disclosures are made in the IAR.

GOVERNANCE ENABLERS continued

KING IV REFERENCE	KING IV PRINCIPLE(S)	2020	COMMENTARY
4. The governance of risks			
4.1	The Board should be responsible for the governance of risk.	Applied	The Board Charter confirms the Board's responsibility for the governance of risk and has delegated this to the Board Audit & Risk Committee. The Committee is responsible for the development and implementation of the ERM Framework including the policies, systems and processes, induction programs, and appropriate training to ensure effective governance of risk.
4.2	The Board should determine the levels of risk tolerance.	Applied	The Board Audit & Risk Committee assists the Board in discharging its duties relating to the setting of LHN levels of risk tolerance. The risk appetite and tolerance levels contained in the ERM Framework were approved by the Board. The Board will review and approve recommendations to amend the risk appetite & tolerance levels by management committees.
4.3	The Risk Committee or Audit Committee should assist the Board in carrying out its risk responsibilities.	Applied	The Board Charter established the Board's responsibility for risk governance and delegated LHN's risk management responsibilities to the Board Audit & Risk Committee.
4.4	The Board should delegate to management the responsibility to design, implement and monitor the risk management plan.	Applied	The Board Audit & Risk Committee assists the Board in discharging its duties relating to the responsibility to design, implement and monitor the risk management plan. The Committee approves the risk policies, strategies and plans for the effective management of risk including the establishment of risk management committees and the delegation of matters to those committees.
4.5	The Board should ensure that risk assessments are performed on a continual basis.	Applied	The ERM Framework approved by the Board requires risk assessments to be performed on a continual basis across functions, subsidiaries, access channels, projects and new solutions.
4.6	The Board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.	Applied	Letshego Holdings (Namibia) Limited has its Governance Framework, ERM Framework, Legal, Compliance and Anti-Money Laundering Framework and IT Governance Framework all approved by the Board for the effective management of risks across LHN Company and its Subsidiaries. The Board is updated quarterly on the level of embedding the risk frameworks, assessment of new or emerging risks and the tolerable level of residual risk amongst others.
4.7	The Board should ensure that management considers and implements appropriate risk responses.	Applied	The Board Audit & Risk Committee ensures that management develops adequate risk responses and that the Committee considers and evaluates such responses. Risks are identified, assessed and monitored in line with the ERM framework and reported to the Committee on a quarterly basis.
4.8	The Board should ensure continual risk monitoring by management.	Applied	The Board Audit & Risk Committee approves the risk strategy and plans on an annual basis for effective implementation by Management. The Country Management Committee and other management committees such as the Asset Liability Management Committee, Risk Management Committee, Management Credit Committee, Procurement Committee and Information Technology Management Committee, will meet on a monthly basis to review the risk reports with quarterly reviews being conducted by the Board Audit & Risk Committee.

KING IV REFERENCE	KING IV PRINCIPLE(S)	2020	COMMENTARY
4.9	The Board should receive assurance regarding the effectiveness of the risk management process.	Applied	The Board receives risk assurance reports from Board Audit & Risk Committee on a quarterly basis after the committee reviews the report submitted by Management.
4.10	The Board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders.	Applied	A detailed risk management report forms part of the Annual Integrated Report to provide stakeholders with both adequate and accurate information on the risk management processes in Letshego and the effectiveness thereof. Further, Management provides assurance to the Board on a quarterly basis that the risk management plans are integrated in the daily activities of LHN.
5. The Governance of IT			
5.1	The Board should be responsible for information technology (IT) governance.	Applied	The Board Charter recognises the Board's responsibility for IT governance and the Board Audit & Risk Committee ensures that an IT governance charter and policies are established and implemented. This is supported by the Information Technology Management Committee at management level.
5.2	IT should be aligned with the performance and sustainability objectives of the Company.	Applied	Letshego Holdings (Namibia) Limited's IT strategy is integrated with the Business strategy and business processes. The Board Audit & Risk Committee is responsible for the management of performance and sustainability objectives of LHN, and ensures that IT is aligned to these objectives
5.3	The Board should delegate to management the responsibility for the implementation of an IT governance framework.	Applied	The Board Audit & Risk Committee Charter requires the Committee to ensure that management is responsible for the implementation of the structures, processes and mechanisms for the IT governance framework. This is supported by the Information Technology Management Company Committee (ITMC)
5.4	The Board should monitor and evaluate significant IT investments and expenditure.	Applied	According to the Company Information Technology Management Committee Charter, the Committee is responsible for the assessment of value delivered to the organisation through significant investments in technology and information, including the evaluation of projects through the life cycles and significant operational expenditure.
5.5	IT should form an integral part of the Company's risk management.	Applied	The IT Governance Framework and the Enterprise Risk Management framework of LHN includes the assessment and management of all significant IT risks. IT risk management includes disaster recovery planning, cyber security, system implementation of operational controls/policies, IT legal risks and compliance to laws, rules, codes and standards that are an integral part of LHN risk management.
5.6	The Board should ensure that information assets are managed effectively.	Applied	It is the responsibility of the Board Audit & Risk Committee to ensure that LHN has systems in place for the management of information that include the protection of privacy of personal information and the continual monitoring thereof, irrespective of whether this information is at rest, in transmission, or at disposal of IT Assets.

GOVERNANCE ENABLERS continued

KING IV REFERENCE	KING IV PRINCIPLE(S)	2020	COMMENTARY
5.7	A Risk Committee and Audit Committee should assist the Board in carrying out its IT responsibilities.	Applied	The Board Audit & Risk Committee Charter requires the Committee to ensure that IT risks are adequately addressed, and that assurance is given to confirm that adequate controls are in place. The Board Audit & Risk Committee reviews IT risks and controls, adequacy of business continuity management (including disaster recovery plans for IT), information security, privacy and authorised access.
6. Compliance with laws, rules, codes and standards			
6.1	The Board should ensure that the Company complies with applicable laws and considers adherence to nonbinding rules, codes and standards.	Applied	Through the Board Audit & Risk Committee, the Board is able to address legal and compliance requirements of the institution, governed by a Legal, Compliance and Anti-money Laundering Framework. The Legal and Compliance update is a standing item in the Risk & Compliance report; in which the Board is appraised on legal and compliance risk and deliberates over the applicable legislations and the approach to the stated laws.
6.2	The Board and each individual Director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the Company and its business.	Applied	Applicable laws are reported to the Board by the Legal and Compliance function. Any new legislation or rules which impact LHN and its subsidiaries are notified to the Board, who are advised on the legal requirement applicability and how the same is being disseminated to the applicable areas of business which are impacted.
6.3	Compliance risk should form an integral part of the Company's risk management process.	Applied	The Compliance and Anti-Money Laundering framework is a sub-set of the Enterprise Risk Management framework. The Compliance risk and AML tools that include the Compliance Risk Monitoring Plans, Compliance Risk Monitoring Reviews and AML monitoring system are applied across all the head office functions and branch networks.
6.4	The Board should delegate to Management the implementation of an effective compliance framework and processes.	Applied	A Legal, Compliance and AML framework has been approved by the Board, which addresses the implementation of compliance controls and processes. The framework enhances and complements the Enterprise Risk Management Framework. Both documents delegate to management the effective ways we tackle compliance risks.
7. Internal audit			
7.1	The Board should ensure that there is an effective risk based internal audit.	Applied	An independent Internal Audit function is in place, governed by an approved Internal Audit Charter and reports functionally to the Board Audit & Risk Committee. The Board approves the Internal Audit Plan during the first quarter of the year before implementation.
7.2	Internal audit should follow a risk-based approach to its plan.	Applied	The Internal Audit Function follows a risk-based approach in its annual audit planning that is considered and approved by the Board Company Audit & Risk Committee. The risk-based planning direct time and effort toward the risks that most affect LHN's ability to implement strategy and achieve goals. The plan is reviewed quarterly in response to changes in LHN's business drivers, significant risks, operational programs and systems.
7.3	Internal audit should provide a written assessment of the effectiveness of the Company's system of internal controls and risk management.	Applied	Internal Audit reports quarterly to the Board Audit & Risk Committee on its assessment of internal controls and overall control consciousness of LHN. The trend analysis of Internal Audit ratings from engagements completed over the past three years is used to assess improvement in the control environment. Also, management issue an Annual Statement on Internal Controls to the Board Audit & Risk Committee that includes its commitment to resolve LHN's Internal Audit findings.

KING IV REFERENCE	KING IV PRINCIPLE(S)	2020	COMMENTARY
7.4	The Audit Committee should be responsible for overseeing internal audit.	Applied	The Board Audit & Risk Committee is responsible for overseeing Internal Audit. The Committee approves the Internal Audit charter, the annual internal audit plan, the budget and the resource plan of the function. Also, the Committee receives communication on Internal Audit's performance and significant findings. The Committee approves the appointment, removal and remuneration of the Head of Internal Audit.
7.5	Internal audit should be strategically positioned to achieve its objectives.	Applied	The Internal Audit function is independent and reports to the Board Audit & Risk Committee. The Head of Internal Audit is a permanent invitee to the Country Management Committee, has the respect and cooperation of both the Board and Management and has unrestricted access to the Board Audit & Risk Committee Chairman and members, including private meetings without management (executive sessions).
8. Governing stakeholder relationships			
8.1	The Board should appreciate that stakeholders' perceptions affect a Company's reputation.	Applied	The Board Charter recognises the Board's responsibility to manage stakeholder relations and perceptions considering the potential risk to LHN reputation. The Board has put measures in place through the Board Audit & Risk Committee and the Country Management Committee to promote a culture that focuses on a unique customer experience, innovation, anticipatory risk, people commitment and stakeholder engagement to protect LHN reputation.
8.2	The Board should delegate to management to proactively deal with stakeholder relationships.	Applied	The Board has delegated the effective management of stakeholder relationships to the Board Audit & Risk Committee and the Country Management Committee. To this end, the following policies were approved by the Board for implementation by management and staff: Reputational Risk Policy External Communication Policy Sustainability and Environmental, Social, Governance Policy Strategic Social Investment Policy.
8.3	The Board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the Company.	Applied	The Board strives to achieve an appropriate balance between the interests of various stakeholders in its decision making. The Country Management Committee assists the Board in achieving this objective.
8.4	Companies should ensure the equitable treatment of Shareholders.	Applied	In line with the Companies Act 28 of 2004 and the Namibian Stock Exchange (NSX) Listings Requirements regarding the treatment of Shareholders, the Board is aware of its duty to ensure that all Shareholders are treated equally and equitably.
8.5	Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence.	Applied	Letshego Holdings (Namibia) Limited strives to provide complete, timely, relevant, accurate, honest and accessible information to its stakeholders whilst having regard to legal and strategic considerations. Further, independent consultants are engaged periodically to assess the level of stakeholder engagement in Letshego Holdings (Namibia) Limited and its subsidiaries.

GOVERNANCE ENABLERS continued

KING IV REFERENCE	KING IV PRINCIPLE(S)	2020	COMMENTARY
8.6	The Board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible.	Applied	The Board Charter clearly addresses the issue of dispute resolution and the Board's approach in this regard. It is a policy of the Company to ensure that internal and external disputes are resolved as effectively and expeditiously as possible. To this end consideration is given in respect of each dispute whether settlement, litigation, arbitration, mediation or other forms of alternative dispute resolution would be the most effective mechanism to resolve a dispute in the best interest of the Company.
9. Integrated reporting and disclosure			
9.1	The Board should ensure the integrity of the Company's integrated report.	Applied	The Board is ultimately responsible for this integrated annual report and has put adequate measures through the Board Audit & Risk Committee to enable it to verify and safeguard the integrity of the report. The Board Audit & Risk Committee reviews and considers the financial statements and any other information in the integrated report for Board approval prior to publishing.
9.2	Sustainability reporting and disclosure should be integrated with the Company's financial reporting.	Applied	In addition to LHN financial reporting, sustainability reporting is treated as part of the Strategic Social Investment initiatives in the Integrated Annual Report. Ethics & Sustainability reporting will be a standing agenda for board discussion going forward.
9.3	Sustainability reporting and disclosure should be independently assured.	Not applied	The Board does not have a formal process in place to obtain independence assurance over the sustainability reporting and disclosure in this Integrated Annual Report.

REMUNERATION

OVERVIEW OF THE REMUNERATION PHILOSOPHY AND POLICY

Key strategic objective of the Group is to remunerate Board Members and Group employees adequately, fairly, and within industry norms.

NEDs' fees are fixed for two years. Generally, Directors of LHN and its subsidiaries are remunerated on a structure consisting of an annual retainer and sitting fees for meetings attended. NEDs do not receive any fees that are related to the performance of the Group and do not participate in any share-based payments or incentives.

Generally, Directors of LHN and its subsidiaries are remunerated on a structure consisting of an annual retainer and sitting fees for meetings attended. NEDs do not receive any fees that are related to the performance of the Group and do not participate in any share-based payments or incentives.

The Board's structure balances the directors' powers so that no individual has unfettered authority in discussions or decision-making. The distinct roles of the Chief Executive Officer, Group Chairman, and Non-executive directors are defined in the Board Charter.

THE BOARD CHARTER, WHICH IS ALIGNED TO THE NAMCODE, SETS OUT THE FOLLOWING:

- The Board's responsibilities and functions, including safeguarding the Board's collective and individual members' independence
- Role of the Board, as distinct from the roles of the Shareholders, the Chairman, individual Board members, the Company Secretary and other executives of LHN
- Powers delegated to various Board committees
- Matters reserved for final decision-making or approval by the Board
- Policies and practices of the Board in respect of matters such as corporate governance, trading by Directors in the securities of the Group, declaration and conflicts of interest, Board meeting documentation, alternative dispute resolution, business rescue proceedings and procedures.

LONG TERM INCENTIVE PLANS (LTIP)

Executive Management of LHN comprising LBN and LMFSN are eligible to be incentivised on the LHL Long-Term Incentive Plan (LTIP), which is an equity-settled conditional incentive plan where awards are granted to key employees based on non-market conditions, namely Earnings per Share and Return on Equity of LHL. The LTIP grants incentives of between 75% and 200% of the basic salary of participants, which vest at the end of three years, based on achievement of targets. The Group also operates a deferred cash bonus scheme for selected members of the management team who do not participate in the aforementioned share scheme. The deferred cash bonus is paid over three years (50% at the end of the second year and 50% at the end of the third year) and is adjusted upwards for any increase in the Group's share price during the bonus period. The Group remuneration and incentive schemes are designed to ensure that executive and management remuneration is driven by increase in shareholder value as well as delivery of the Group's strategic objectives.

THE KEY ELEMENTS OF THE LTIP ARE:

- Calculation of grants – ranges between 75% to 200% of basic salary for participants
- Grant term – vesting is at the end of three years
- Grant targets – based on Earnings per Share and Return on Equity targets set at the start of each three-year period

As a further retention tool, a deferred cash bonus scheme is in place for selected members of the management team who do not participate in the share scheme. The deferred cash bonus is paid over three years (50% at the end of the second year and 50% at the end of the third year). The deferred cash bonus is adjusted upwards for any increase in the Group's share price during the bonus period.

These remuneration and incentive schemes are designed to ensure that executive leadership and management remuneration are driven by increase in shareholder value as well as delivery of the Group's strategic objectives. Surveys conducted by independent consultants indicate that basic salaries paid by the Group to staff are aligned to industry and market norms. In awarding annual increases to employees, consideration is given to an employee's performance as well as the impact of inflation in the countries in which the Group operates.

GOVERNANCE ENABLERS continued

IMPLEMENTATION REPORT

The Board remuneration for the 2020 financial year is set out below:

	STATUS - INED/NED/ED	MAIN BOARD	RETAINER	AUDIT AND RISK COMMITTEE	REMUNERATION COMMITTEE	CREDIT COMMITTEE	TOTAL
M. Palanduz	INED	N$234 020	N$176 000	N$72 750	N$0	N$0	N$482 770
S. Von Blottnitz	INED	N$204 000	N$146 000	N$87 750	N$0	N$0	N$437 750
R. Martins-Hausiku	INED	N$97 000	N$146 000	N$0	N$58 500	N$0	N$301 500
R. Mbetjiha	NED	N$222 996	N$89 034	N$0	N$48 500	N$0	N$360 530
E. Kali	ED	N$0	N$0	N$0	N$0	N$0	N$0
Total	**–**	**N$917 866**	**N$622 434**	**N$160 500**	**N$121 625**	**N$0**	**N$1 822 427**

Ms. Palanduz is currently the Chairperson of LMFSN, LBN and LHN, and was remunerated accordingly during the year under review.

As per the signed agreement between Kumwe and LHN, Mr. Mbetjiha's Board fees and retainer are pegged to the US dollar, payments therefore fluctuate according to the exchange rate. However, Mr. Mbetjiha is remunerated in local currency for the Remuneration Committee.

The above Directors fees were approved by Shareholders at the Annual General Meeting held 01 July 2020.

Executive Directors' remuneration

Executive Directors' incentive bonuses are evaluated and recommended by the RemCo for the approval of the Board.

	As at 31 December 2020	As at 31 December 2019
Executive Directors' remuneration (N$)	4 322 000	2 962 209

Top three earners who are not Executive Directors as at 31 December 2020 (N$)

TOP THREE EARNERS AS AT 31 DEC 2020
1 441 616
1 422 721
1 382 122

The following incentive scheme is offered by Letshego Holdings (Namibia) Limited:

	SHARE-BASED PLANS	DEFERRED BONUS PLANS	STANDARD ANNUAL BONUS PLAN
CEO	✓		✓
Executive Committee		✓	✓
Sales and Support Staff			✓

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CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for the preparation and fair presentation of the consolidated annual financial statements and annual financial statements of Letshego Holdings (Namibia) Limited, comprising the statements of financial position at 31 December 2020, the statements of comprehensive income, the statement of changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies , other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards, and in the manner required by the Namibian Companies Act.

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

The directors have made an assessment of the ability of the company and the group to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

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

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements of Letshego Holdings (Namibia) Limited, as identified in the first paragraph, were approved by the directors on 30 March 2021 and signed on their behalf by:

MARYVONNE PALANDUZ
CHAIRPERSON

ESTER KALI
CHIEF EXECUTIVE OFFICER

INDEPENDENT AUDITOR'S REPORT

To the Members of Letshego Holdings (Namibia) Limited

OUR OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Letshego Holdings (Namibia) Limited (the Company) and its subsidiaries (together the Group) as at 31 December 2020, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of Namibia.

What we have audited

Letshego Holdings (Namibia) Limited's consolidated and separate financial statements set out on pages 88 to 168 comprise:

- the directors' report for the year ended 31 December 2020;
- the consolidated and separate statements of financial position as at 31 December 2020;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

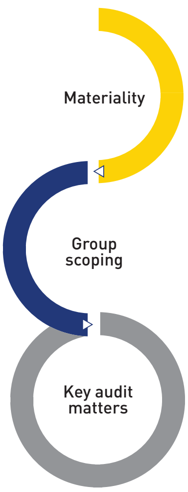
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standard) (Code of Conduct) and other independence requirements applicable to performing audits of financial statements in Namibia. We have fulfilled our other ethical responsibilities in accordance with the Code of Conduct and in accordance with other ethical requirements applicable to performing audits in Namibia.

OUR AUDIT APPROACH

Overview



Overall group materiality

- Overall group materiality: N$ 21.1 million which represents 5% of consolidated operating profit before tax.

Group audit scope

- The group audit scope included the audit of the Company and both of its subsidiaries, being Letshego Bank (Namibia) Limited and Letshego Micro Financial Services (Namibia) (Proprietary) Limited.

Key audit matter

- Expected credit losses on advances to customers.

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

INDEPENDENT AUDITOR'S REPORT continued

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	N$ 21.1 million.
How we determined it	5% of consolidated operating profit before taxation.
Rationale for the materiality benchmark applied	We chose consolidated operating profit before taxation as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

How we tailored our group audit scope

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

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

KEY AUDIT MATTERS

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

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

INDEPENDENT AUDITOR'S REPORT continued

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Expected credit losses on advances to customers IFRS 9- Financial Instruments requires the recognition of expected credit losses (ECLs) on all financial assets within the scope of its impairment model. The Group's advances to customers typically comprise of high volume and lower values, therefore a significant portion of the impairment is calculated on a portfolio basis. Management considered the segmentation of the loan book and determined that the loan consists of only one segment, namely Government employees. The non-government segment (which is expected to have a different risk profile), is less than 2% of the total portfolio (which is the threshold used in the model), thus management has not identified that segment as a separate segment for the purpose of the impairment assessment. Management measures the ECLs using a general model for impairment based on changes in credit quality since initial recognition. Stage 1 is not credit-impaired on initial recognition but is monitored by the Group. If there is an increase in credit risk, financial assets move to Stage 2 and a lifetime credit risk model is applied. Advances in Stage 3 are credit impaired if it meets one or more of certain quantitative and qualitative criteria as disclosed in the consolidated financial statements. For staging purposes, the Group uses the IFRS 9 backstop indicator of 30 days past due (DPD) on contractual payments as well as other information available to the business, such as historical performance. Loans that had rolled out of Stage 1 cannot return to Stage 1 before displaying 6 consecutive months of being less than 30 days past due. The inputs into the model process requiring significant management estimation and judgement include: > The probability of default (PD), which is developed by applying a maturity profile of how defaults develop from initiation through the lifetime of the loan, represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the loan. > The loss given default (LGD) which is determined using judgement around estimation of timing and amount of forecasted cash flows. > Exposure at default (EAD), based on expected payment profile, considering contractual repayment terms and expected drawdowns with a credit conversion factor. > Forward looking information is incorporated into the determination of the 12-month and lifetime PD, EAD and LGD. A behavioural scorecard is used to incorporate deterioration in credit quality, taking into account days past due and other forward looking macroeconomic variables for purposes of coming up with Lifetime ECLs.	Our audit procedures addressed the key areas of significant judgement and estimation in determining the ECL on advances as follows. > We assessed the accounting policies and impairment methodologies applied against the requirements of IFRS 9 and found no material inconsistencies. > Making use of our actuarial expertise, we assessed the reasonability of the transfers between stages by calculating a 12-month transfer ratio which represents the volume of accounts that are expected to move from performing to 30 days past due or worse over the next 12 months for at least 2 consecutive months. This was compared to the transferred performing Stage 2 accounts as a proportion of all performing accounts. No material deviations were noted. > For a sample of Stage 1, 2 and 3 exposures, we evaluated if the exposures are appropriately classified by comparing the aging of the exposures to the staging criteria. No material exceptions were noted. > Making use of our actuarial expertise, we assessed the reasonableness of the input assumptions applied within the PD, EAD and LGD models for compliance with the requirements of IFRS 9, by performing the following procedures: – We independently calculated a PD term structure, using a transition matrix approach, to capture the PD over the entire life of the account. We back-tested our independent PDs versus the actual default experience on the book and also compared this to a balance-weighted estimate of management's account-level PDs by product and stage. We compared our results against management's assessment and noted no material differences. – We assessed the EAD by independently estimating an amortisation schedule to outstanding balances for the full behavioural lifetime. We compared our results against management's assessment and noted no material differences. – We tested the process and timing of recoveries and developed an independent range of recoveries based on historical data. For insured advances, we assessed the inclusion of insurance recoveries in the LGD assessment. We identified a misstatement relating to the application of insurance coverage, which was corrected by management in the consolidated financial statements. > Making use of our actuarial expertise, we challenged the forward looking information applied by management by independently assessing a macroeconomic impact based on the Namibian government's credit rating. We compared the impact of our independent assessment of forward looking information to the variables considered by management, and found that it did not materially change the ECL assessment.

INDEPENDENT AUDITOR'S REPORT continued

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
To mitigate credit risk, loans are covered under a cell captive insurance arrangement between the Company and the cell insurer, and between Letshego Micro Financial Services (Namibia) (Proprietary) Limited and the cell insurer. This arrangement was reviewed during the period October 2019 to April 2020 and as a result, new loans issued during this period were not covered by insurance. We considered this area to be a matter of most significance in our audit of the current year due to the magnitude of the advances to customers account balance, and the degree of judgement applied by management in determining the ECLs. The disclosures associated with ECLs on advances to customers are set out in the consolidated financial statements in the following notes: › Note 6.1.1 – Financial Risk Factors, Credit Risk (page 113); and › Note 10 – Advances to Customers (page 152).	› We assessed the appropriateness of the loan segmentation and the need for including any additional segments. Through inspection of a sample of loan agreements, we tested the accuracy of the data supporting the segmentation, and based on the data, we noted that the Government is listed as the employer in more than 98% of loans granted, and that inclusion of another segment would not materially change the ECLs. › We tested whether Letshego Bank (Namibia) Limited and Letshego Micro Financial Services (Namibia) (Proprietary) Limited loans are covered under cell captive insurance arrangement between the Company and the cell insurer, and between Letshego Micro Financial Services (Namibia) (Proprietary) Limited, by agreeing loan agreements to insurance cover, on a sample basis, and found that loans were covered by insurance, where stated.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the document titled "Letshego Holdings (Namibia) Limited Annual Financial Statements for the year ended 31 December 2020" which we obtained prior to the date of this auditor's report, and the document titled "Letshego Holdings (Namibia) Limited Integrated Annual Report 2020", which is expected to be made available to us after that date. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed 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 AND SEPARATE FINANCIAL STATEMENTS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

INDEPENDENT AUDITOR'S REPORT continued

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and / or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

PricewaterhouseCoopers
Registered Accountants & Auditors
Chartered Accountants (Namibia)
344 Independence Avenue
P.O. Box 1571
Windhoek
Namibia

Per: LOUIS VAN DER RIET
PARTNER

Windhoek
Date: 30 March 2021

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present their report to the members, together with the audited annual financial statements of Letshego Holdings (Namibia) Limited ("the company") and the audited consolidated annual financial statements of the company and its subsidiaries ("the group") for the financial year ended 31 December 2020.

1. REPORTING ENTITY

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

2. NATURE OF BUSINESS

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

3. SHARE CAPITAL

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

4. DIVIDENDS

Ordinary dividend of 22.5 cents was declared and paid during the year under review (2019: 23.5 cents).

5. DIRECTORS AND SECRETARY

The following persons were directors during the period under review:

Maryvonne Palanduz**	Independent Non-executive; Chairperson
Ester Kali**	Executive
Rairirira Mbakutua Mbetjiha**	Non-executive
Sven von Blottnitz^*	Independent Non-executive
Rosalia Martins-Hausiku**	Independent Non-Executive
Mythri Sambasivan-George^^	Non-executive (resigned 24 April 2020)

** Namibian ^^ Indian ^* German

The secretary of the company is Chriszelda Gontes.

Business address:

18 Schwerinsburg Street
Windhoek
Namibia

Postal address:

PO Box 11600
Windhoek
Namibia

6. HOLDING COMPANY

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

7. FINANCIAL RESULTS

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

8. BORROWING POWERS

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

The total borrowings of the Group at 31 December 2020 are N$1 430 million (2019 restated: N$908 million). Full details of the borrowings are shown in notes 15 and 16 of the consolidated annual financial statements.

DIRECTORS' REPORT continued

9. MAJOR CAPITAL EXPENDITURES

The Group made additions to its capital assets of N$3 million (2019: N$17.1 million) excluding the right-of-use assets during the financial year.

10. GOING CONCERN

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

11. INVESTMENT IN SUBSIDIARIES

Subsidiaries of Letshego Holdings (Namibia) Limited	Number of shares held	Issued ordinary share capital and premium N$'000	Effective holding 2020 %	Effective holding 2019 %
Letshego Bank (Namibia) Limited	999 994	100	**99.9**	99.9
Letshego Micro Financial Services (Namibia) (Pty) Ltd	1 000 000	140 100	**100**	100

Financial details of subsidiaries	Aggregate income of subsidiaries before tax 2020 N$'000	Aggregate income of subsidiaries before tax 2019 N$'000	Total investment 2020 N$'000	Total investment 2019 N$'000
Letshego Bank (Namibia) Limited	**103 025**	84 344	**100**	100
Letshego Micro Financial Services (Namibia) (Pty) Ltd	**262 679**	368 096	**570 100**	570 100

12. COMPLIANCE WITH BID-2

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

13. MATERIAL POST REPORTING DATE EVENTS

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

No other matters which are material to the financial affairs of the group and company have occurred between year-end and the date of approval of the consolidated annual financial statements.

14. AUDITORS

PricewaterhouseCoopers was appointed as external auditor in 2020 with the approval of the shareholders in accordance with the Namibian Companies Act.

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

		GROUP			COMPANY	
	Notes	31 December 2020 N$'000	Restated[1] 31 December 2019 N$'000	Restated[1] 1 January 2019 N$'000	31 December 2020 N$'000	31 December 2019 N$'000
ASSETS						
Cash and cash equivalents	7	**468 253**	147 586	750 860	**59**	180
Government and other securities	8	**–**	13 979	–	**–**	–
Other receivables	9.1	**202 703**	202 409	131 288	**66 197**	50 212
Intercompany receivable	9.2	**–**	–	–	**78 672**	15 316
Advances to customers	10	**3 608 616**	2 935 341	2 555 622	**–**	–
Current taxation[1]	14.4	**80 653**	77 213	52 249	**7 354**	7 204
Investment in subsidiaries	29	**–**	–	–	**1 914 354**	1 914 354
Property, equipment and right-of-use assets	11	**22 244**	31 672	9 644	**–**	–
Deferred tax assets	14.3	**15 572**	17 826	9 713	**–**	–
Total assets		**4 398 041**	3 426 026	3 509 376	**2 066 636**	1 987 266
LIABILITIES AND EQUITY						
Liabilities						
Deposits due to customers	17	**187 893**	43 361	74 749	**–**	–
Trade and other payables	12	**149 440**	51 509	51 381	**31 402**	296
Lease liabilities	13	**11 162**	14 207	–	**–**	–
Borrowings	15	**842 465**	290 772	341 051	**–**	–
Amounts due to parent company[1]	16	**587 411**	617 197	922 929	**111 184**	–
Deferred tax liabilities	14.3	**21 136**	18 959	14 015	**–**	–
Total liabilities		**1 799 507**	1 036 005	1 404 125	**142 586**	296
SHAREHOLDERS' EQUITY						
Share capital	18	**100**	100	100	**100**	100
Retained earnings[1]		**1 680 057**	1 471 668	1 187 970	**579 796**	642 716
Capital reorganisation reserve	28	**701 024**	701 024	701 024	**1 344 154**	1 344 154
Equity settled share based payment reserve	19	**2 268**	2 144	1 072	**–**	–
		2 383 449	2 174 936	1 890 166	**1 924 050**	1 986 970
Non-controlling interest[1]		**215 085**	215 085	215 085	**–**	–
Total equity		**2 598 534**	2 390 021	2 105 251	**1 924 050**	1 986 970
Total liabilities and equity		**4 398 041**	3 426 026	3 509 376	**2 066 636**	1 987 266

1 During the year, the group restated the Preference Shares in LMFSN back to an intercompany borrowing. This is to rectify a loan to preference share conversion transaction done in March 2018 in LMFSN. Refer to Note 3 for more detail.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

		GROUP		COMPANY	
	Notes	31 December 2020 N$'000	Restated[1] 31 December 2019 N$'000	31 December 2020 N$'000	31 December 2019 N$'000
Interest income calculated using the effective interest income method	23	625 704	625 198	6	85
Interest expense[1]	23	(98 750)	(110 011)	–	–
Net interest income	23	526 954	515 187	6	85
Credit impairment charge	10, 22	(43 652)	(9 236)	–	–
Net interest income after impairment		483 302	505 951	6	85
Dividend income	25	–	–	–	120 883
Fee income	24	6 797	2 102	–	–
Other operating income	25	167 744	229 999	59 662	73 695
Employee benefits	21, 22	(70 429)	(63 889)	(3)	(40)
Other operating expenses	22	(164 291)	(149 954)	(2 246)	(1 971)
Operating profit before taxation		423 123	524 209	57 419	192 652
Taxation[1]	14	(102 234)	(123 011)	(7 839)	(12 358)
Profit for the year		320 889	401 198	49 580	180 294
Other comprehensive income, net of tax		–	–	–	–
Total comprehensive income for the period		320 889	401 198	49 580	180 294
Basic earnings per share (cents)	33	64	80	10	36
Fully diluted earnings per share (cents)	33	64	80	10	36

1 During the year, the group restated the Preference Shares in LMFSN back to an intercompany borrowing. This is to rectify a loan to preference share conversion transaction done in March 2018 in LMFSN. Refer to Note 3 for more detail.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital N$'000	Equity settled share based payment reserve N$'000
GROUP		
Restated as at 1st January 2020[1]	**100**	**2 144**
Total comprehensive income for the period		
Profit and total comprehensive income for the year	**–**	**–**
Transactions with equity holders, recorded directly in equity		
Ordinary share dividend paid	**–**	**–**
Preference share dividend paid	**–**	**–**
Preference shares redeemed	**–**	**–**
Transfer between reserves[2]		
Share based payment transactions	**–**	**124**
As at 31 December 2020	**100**	**2 268**
As at 1st January 2019	100	1 072
Correction of error[1]		
Restated balance at 1st January 2019		
Total comprehensive income for the period		
Restated profit and total comprehensive income for the period		–
Transactions with equity holders, recorded directly in equity		
Ordinary share dividend paid	–	–
Preference share dividend paid	–	–
Preference shares issued	–	–
Preference shares redeemed	–	–
Share based payment transactions	–	1 072
Restated as at 31 December 2019[1]	100	2 144
COMPANY		
As at 1st January 2020	**100**	**–**
Total comprehensive income for the year		
Profit and total comprehensive income for the period	**–**	**–**
Transactions with equity holders, recorded directly in equity		
Ordinary share dividend paid	**–**	**–**
As at 31 December 2020	**100**	**–**
As at 1st January 2019	100	–
Total comprehensive income for the year		
Profit and total comprehensive income for the period	–	–
Transactions with equity holders, recorded directly in equity		
Ordinary share dividend paid	–	–
As at 31 December 2019	100	–

[1] During the year, the group restated the Preference Shares in LMFSN back to an intercompany borrowing. This is to rectify a loan to preference share conversion transaction done in March 2018 in LMFSN. Refer to Note 3 for more detail.

[2] The Non-controlling interest relates to the preference share holders who do not share in the profit. As at 31 December 2020, the balance is made up of N$215,084,843 irredeemable, non cumulative preference shares (2019: N$215,084,843).

STATEMENTS OF CHANGES IN EQUITY continued

Retained earnings N$'000	Capital reorganisation reserve N$'000	Ordinary shareholders' reserve N$'000	Non-controlling interest[2] N$'000	Total equity N$'000
1 471 668	**701 024**	**2 174 936**	**215 085**	**2 390 021**
320 889	**–**	**320 889**	**–**	**320 889**
–	**–**	**–**		
(112 500)	**–**	**(112 500)**	**–**	**(112 500)**
–	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**
–	**–**	**124**	**–**	**124**
1 680 057	**701 024**	**2 383 449**	**215 085**	**2 598 534**
1 162 815	701 024	1 865 011	1 010 343	2 875 354
25 155		25 155	(795 258)	(770 103)
1 187 970		1 890 166	215 085	2 105 251
				–
401 198	–	401 198	–	401 198
		–		–
(117 500)	–	(117 500)	–	(117 500)
	–	–	–	–
–	–	–	–	–
–	–	–		–
–	–	1 072	–	1 072
1 471 668	701 024	2 174 936	215 085	2 390 021
642 716	**1 344 154**	**1 986 970**	**–**	**1 986 970**
49 580	**–**	**49 580**	**–**	**49 580**
(112 500)	**–**	**(112 500)**	**–**	**(112 500)**
579 796	**1 344 154**	**1 924 050**	**–**	**1 924 050**
579 922	1 344 154	1 924 176	–	1 924 176
180 294	–	180 294	–	180 294
(117 500)	–	(117 500)	–	(117 500)
642 716	1 344 154	1 986 970	–	1 986 970

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

		GROUP		COMPANY	
	Notes	31 December 2020 N$'000	31 December 2019 N$'000	31 December 2020 N$'000	31 December 2019 N$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Operating profit before taxation[1]		**423 123**	524 209	**57 419**	192 652
Adjusted for:					
– Net interest income[1]	23	**(526 954)**	(515 187)	**(6)**	(85)
– Dividends received		**–**	–	**(59 662)**	(120 883)
– Depreciation [1]	11	**15 108**	12 856	**–**	–
– Impairment allowance on advances	10	**42 926**	5 945	**–**	–
– Equity settled share based payment transactions	19	**124**	1 072	**–**	–
Movement in government and other securities	8	**13 979**	(13 979)	**–**	–
Movement in advances to customers	10	**(716 201)**	(385 665)	**–**	–
Movement in other receivables	9.1	**(294)**	(71 121)	**(15 985)**	(32 008)
Movement in trade and other payables	12	**97 931**	(618)	**31 106**	36
Movement in customer deposits	17	**144 532**	(31 388)	**–**	–
		(505 726)	(473 876)	**12 872**	39 712
Interest received		**625 704**	625 198	**6**	85
Interest paid – customer deposits	23	**(4 766)**	(5 794)	**–**	–
Interest paid – borrowings	23	**(92 281)**	–		
Tax paid	14.4	**(101 244)**	(151 144)	**(7 989)**	(12 329)
Net cash flow from operating activities		**(78 313)**	(5 616)	**4 889**	27 468
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment (excluding to right-of-use assets)	11	**(2 952)**	(17 116)	**–**	–
Dividend received		**–**	–	**59 662**	120 883
Net cash (used in)/from investing activities		**(2 952)**	(17 116)	**59 662**	120 883
CASH FLOWS FROM FINANCING ACTIVITIES					
Ordinary share dividend paid		**(112 500)**	(117 500)	**(112 500)**	(117 500)
Borrowings received		**601 694**	100 000	**–**	–
Borrowings repaid		**(50 000)**	(150 279)	**–**	–
Interest paid – lease liabilities	13, 23	**(1 703)**	(30 823)	**–**	–
Repayment of amounts due to parent company[1]	16	**(29 786)**	(378 379)	**47 828**	(31 791)
Principal element of lease payments		**(5 773)**	(3 561)	**–**	–
Net cash generated from financing activities		**401 932**	(580 542)	**(64 672)**	(149 291)
Net movement in cash and cash equivalents		**320 667**	(603 274)	**(121)**	(940)
Movement in cash and cash equivalents					
At the beginning of the year		**147 586**	750 860	**180**	1 120
Movement during the year		**320 667**	(603 274)	**(121)**	(940)
At the end of the period	7	**468 253**	147 586	**59**	180

1 During the year, the group restated the Preference Shares in LMFSN back to an intercompany borrowing. This is to rectify a loan to preference share conversion transaction done in March 2018 in LMFSN. Refer to Note 3 for more detail.

SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 DECEMBER 2020

1. REPORTING ENTITY

Letshego Holdings (Namibia) Limited is a Company domiciled in Namibia. The address of the Company's registered office is 18 Schwerinsburg Street, Windhoek, Namibia. The consolidated financial statements of Letshego Holdings Namibia Limited as at and for the year ended 31 December 2020 comprise the Company and the interest in its two subsidiaries, namely, Letshego Bank (Namibia) Limited and Letshego Micro Financial Services (Namibia) (Pty) Ltd. The Group is primarily engaged in the provision of banking and other financial services to members of the public.

2. BASIS OF PREPARATION

a) These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented. There is no change and there has also been no new accounting policies adopted in the current year.

b) Functional and presentation currency

These financial statements are presented in Namibia Dollar, which is the Group's functional currency and are rounded to the nearest 1000 Namibia Dollar.

c) Going concern

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

d) Key assumptions and critical judgements

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

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

IMPAIRMENT OF ADVANCES TO CUSTOMERS

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES continued

2. BASIS OF PREPARATION continued

d) Key assumptions and critical judgements continued

CURRENT AND DEFERRED TAXATION

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

PROVISIONS AND OTHER CONTINGENT LIABILITIES

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

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

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

EFFECTIVE INTEREST RATE (EIR) METHOD

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

3. PRIOR YEAR RESTATEMENT

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

In August 2011, LHL granted a shareholder loan to LMFSN of N$600 million, increasing the loan amount over the years. On 1 March 2018, in order to support the growth of the Namibian business, LHL made a decision to convert the outstanding shareholder loan of N$897.1 million into 1000 redeemable non-cumulative preference shares of N$1.00 each, at par value of N$0.10 per share plus a premium.

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

The Group sought external legal counsel to assess the options available and the way forward on this transaction. Two alternatives were given, as follows:

1. regularise and validate the conversion through the court process.
2. maintain the conversion as null and void and therefore reverse the transaction from the date of conversion. This would entail reinstating the shareholder loan retrospectively from 1 March 2018.

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

SIGNIFICANT ACCOUNTING POLICIES continued

3. PRIOR YEAR RESTATEMENT continued

The restatement entails recalculation of interest on the loan from 1 March 2018 and adjusting for the difference between loan intere st and coupon on the preference shares, as well as adjusting for the difference in the tax treatment of the two financial instruments. The effect of the restatement on the LHN consolidated financial statements is shown below:

	At 31 December 2018			At 31 December 2019		
Statement of financial position – extract	**Audited – (as previously stated) N$'000**	**Restatement increase/ (decrease) N$'000**	**Restated N$'000**	**Audited – (as previously stated) N$'000**	**Restatement increase/ (decrease) N$'000**	**Restated N$'000**
Balance Sheet						
Current taxation	22 347	29 902	52 249	23 826	53 387	77 213
Total assets	**22 347**	**29 902**	**52 249**	**23 826**	**53 387**	**77 213**
Amounts due to parent company	123 399	799 530	922 929	140 952	476 245	617 197
Trade and other payables	50 906	475	51 381	50 288	1 221	51 509
Total liabilities	**174 305**	**800 005**	**974 310**	**191 240**	**477 466**	**668 706**
Retained earnings	1 162 815	25 155	1 187 970	1 430 489	41 179	1 471 668
Non-controlling interests	1 010 343	(795 258)	215 085	680 343	(465 258)	215 085
Total shareholders' equity	**2 173 158**	**(770 103)**	**1 403 055**	**2 110 832**	**(424 079)**	**1 686 753**
Total		**–**			**–**	

	At 31 December 2019		
Statement of profit or loss and other comprehensive income – extract	**Audited – (as previously stated) N$'000**	**Restatement increase/ (decrease) N$'000**	**Restated N$'000**
Interest expense	(36 618)	73 394	(110 012)
Profit before taxation	597 603	(73 394)	524 209
Taxation	(146 497)	(23 486)	(123 011)
Profit for the year	**451 106**	**(96 880)**	**401 198**

	Audited – (as previously stated) N$	**Restatement increase/ (decrease) N$**	**Restated N$**
Basic earnings per share (cents)	90	(10)	80
Fully diluted earnings per share (cents)	90	(10)	80

SIGNIFICANT ACCOUNTING POLICIES continued

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

a) Basis of consolidation

INTEREST IN SUBSIDIARIES

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

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

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

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

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

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

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES continued

4. SIGNIFICANT ACCOUNTING POLICIES continued

a) Basis of consolidation continued

INTEREST IN SUBSIDIARIES continued

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

CAPITAL RE-ORGANISATION RESERVE ACCOUNTING

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

b) Foreign currency transactions

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

c) Revenue recognition

Revenue comprises interest income and non-interest income.

I) INTEREST INCOME

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

Collection fees on loans granted and commission paid to sales agents

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability.

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

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

SIGNIFICANT ACCOUNTING POLICIES continued

4. SIGNIFICANT ACCOUNTING POLICIES continued

c) Revenue recognition continued

ii) Fee income

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

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

TYPE OF SERVICE	NATURE AND TIMING OF SATISFACTION OF PERFORMANCE OBLIGATIONS, INCLUDING SIGNIFICANT PAYMENT TERMS	REVENUE RECOGNITION UNDER IFRS 15
Retail banking and microlending services	The Group provides banking services to retail and corporate customers, including account management, provision of overdraft facilities and servicing fees.	Revenue from account service and servicing fees is recognised over time as the service is provided.
	Where applicable, fees for ongoing account management are charged to the customer's account on a monthly basis. The Group sets the rates on an annual basis.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
	Transaction-based fees for interchange and overdrafts are charged to the customer's account when the transaction takes place.	Non-refundable up-front fees are recognised as revenue over the period for which a customer is expected to continue receiving the service or utilising the facility.
	Where applicable, servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Group. There is no financing component.	

III) DIVIDEND INCOME

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

d) Leases

I) GROUP AND COMPANY ACTING AS A LESSEE

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES continued

4. SIGNIFICANT ACCOUNTING POLICIES continued

d) Leases continued

I) GROUP AND COMPANY ACTING AS A LESSEE continued

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

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

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

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

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

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

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

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

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

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES continued

4. SIGNIFICANT ACCOUNTING POLICIES continued

d) Leases continued

I) GROUP AND COMPANY ACTING AS A LESSEE continued

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

Extension and termination options

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

e) Taxation

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

I) CURRENT TAXATION

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

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

II) DEFERRED TAXATION

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

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

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

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

SIGNIFICANT ACCOUNTING POLICIES continued

4. SIGNIFICANT ACCOUNTING POLICIES continued

f) Financial assets and liabilities

MEASUREMENT METHODS

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

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

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

Interest income

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

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

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

Initial recognition and measurement

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

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

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

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

SIGNIFICANT ACCOUNTING POLICIES continued

4. SIGNIFICANT ACCOUNTING POLICIES continued

f) Financial assets and liabilities continued

MEASUREMENT METHODS continued

i) Financial assets

1. Classification and subsequent measurement

The Group classifies its financial assets in the following measurement categories:

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

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

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

(i) the Group's business model for managing the asset; and

(ii) the cash flow characteristics of the asset.

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

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

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

SIGNIFICANT ACCOUNTING POLICIES continued

4. SIGNIFICANT ACCOUNTING POLICIES continued

f) Financial assets and liabilities continued

MEASUREMENT METHODS continued

i) Financial assets continued

1. *Classification and subsequent measurement* continued

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

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

Equity instruments

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

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

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

2. *Impairment*

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

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

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

Write-off

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

SIGNIFICANT ACCOUNTING POLICIES continued

4. SIGNIFICANT ACCOUNTING POLICIES continued

f) Financial assets and liabilities continued

MEASUREMENT METHODS continued

i) Financial assets continued

3. Modification of loans

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

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

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

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

4. Derecognition other than on a modification

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

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES continued

4. SIGNIFICANT ACCOUNTING POLICIES continued

f) Financial assets and liabilities continued

MEASUREMENT METHODS continued

i) Financial assets continued

4. *Derecognition other than on a modification* continued

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

ii) Financial liabilities

1. *Classification and subsequent measurement*

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

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

2. *Derecognition*

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

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

iii) Offsetting

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

iv) Cash and cash equivalents

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

SIGNIFICANT ACCOUNTING POLICIES continued

4. SIGNIFICANT ACCOUNTING POLICIES continued

f) Financial assets and liabilities continued

MEASUREMENT METHODS continued

v) Other receivables

Financial instruments

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

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

Non-financial instruments

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

vi) Trade and other payables

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

G) PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

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

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

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

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

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES continued

4. SIGNIFICANT ACCOUNTING POLICIES continued

H) IMPAIRMENT OF NON-FINANCIAL ASSETS

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

The recoverable amount of an asset is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

I) EMPLOYEE BENEFIT COSTS

Defined contribution plan

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

Leave days

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

Employee incentives and bonus schemes

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

Short-term benefits

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

J) SHARE BASED PAYMENT TRANSACTIONS

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

K) PROVISIONS

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

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

SIGNIFICANT ACCOUNTING POLICIES continued

4. SIGNIFICANT ACCOUNTING POLICIES continued

L) EQUITY

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

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

M) SHARE CAPITAL AND RESERVES

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

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

N) DIVIDENDS

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

O) CONTINGENT LIABILITIES

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

P) RELATED PARTIES

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

Q) INVESTMENT IN SUBSIDIARIES

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

R) CELL ACCOUNTING

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

The income is recognised in "Other operating income".

SIGNIFICANT ACCOUNTING POLICIES continued

5. NEW STANDARDS AND AMENDMENTS TO STANDARDS

a) New standards and interpretations and amendments effective for the first time for 31 December 2020 year-end

STANDARD/ INTERPRETATION	EFFECTIVE DATE	EXECUTIVE SUMMARY
IAS 1 and IAS 8 (amendments)	The amendments are effective 1 January 2020	The amendments clarify the definition and application of material and how it should be applied by including in the definition guidance that had previously featured elsewhere in the IFRS Standards. The amendments ensure that the definition of material is consistent across all IFRS Standards.
Amendments to References o the Conceptual Framework in IFRS Standards	Annual periods beginning on or after 1 January 2020	Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.
Definition of a Business (Amendments to IFRS 3)	Business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020	The amendments in Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) clarify that entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.
Covid-19-Related Rent Concessions (Amendment to IFRS 16)	Annual reporting periods beginning on or after 1 June 2020	The amendment provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

SIGNIFICANT ACCOUNTING POLICIES continued

5. NEW STANDARDS AND AMENDMENTS TO STANDARDS

b) New standards and interpretations and amendments issued but not effective for 31 December 2020 year-end

STANDARD/ INTERPRETATION	EFFECTIVE DATE	EXECUTIVE SUMMARY
Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)	Annual reporting periods beginning on or after 1 January 2022	The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	Annual reporting periods beginning on or after 1 January 2022	The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).
IFRS 17 – Insurance contracts	Annual periods beginning on or after 1 January 2023	IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements.
Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)	Annual reporting periods beginning on or after 1 January 2023	The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

Impact assessments

Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)

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

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

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

IFRS 17 - Insurance contracts:

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

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1):

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

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT

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

6.1 Financial risk factors

6.1.1 CREDIT RISK

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

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

Management of credit risk

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

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

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

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

The Group holds 200 "Class H" shares, of par value N$0.01 each and 200 "Class L" shares, of par value N$0.01 each, in Hollard Alternative Risk Transfer (Pty) Ltd, a cell captive which provides insurance cover for qualifying credit loss events on the entity's customer advances portfolio. To mitigate credit risk, loans are covered under a cell captive insurance arrangement between Letshego Holdings (Namibia) Ltd and the cell insurer, and between Letshego Micro Financial Services (Namibia) (Pty) Ltd and the cell insurer. Loans originated between 15 October 2019 and 20 April 2020 were not covered under the cell captive insurance arrangement.

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.1 CREDIT RISK continued

Management of credit risk continued

Credit risk measurement – Loans and advances

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

Credit risk grading

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

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

COLLECTABILITY STATUS	NO OF DAYS OVERDUE	RATING
01	Current	Minimal risk
02	Current	Low risk
03	31 – 60 days	Medium risk
04	61 – 90 days	Medium risk
05	91 – 180 days	Special monitoring
06	181 – 360 days	Doubtful
07	>360 days	Doubtful

Expected credit loss measurement

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

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

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.1 CREDIT RISK continued

Management of credit risk continued

Expected credit loss measurement continued

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

Change to credit quality since initial recognition

Stage 1	**Stage 2**	**Stage 3**
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

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

Significant increase in credit risk (SICR)

Under IFRS 9, each asset must be categorized by level of risk, a process known as staging. The risk levels are indicative of the advanced status of the assets default status. There are three stages with different implications and treatment under this standard.

For staging purposes, the Group uses the IFRS 9 backstop indicator of 30 days past due (DPD) on contractual payments as well as other information available to the business such as historical performance. Loans that had rolled out of Stage 1 cannot return to Stage 1 before displaying 6 consecutive months of being less than 30 days past due.

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

Quantitative criteria:

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

Quantitative criteria:

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

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.1 CREDIT RISK continued

Management of credit risk continued

Expected credit loss measurement continued

Backstop:

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

Definition of default and credit-impaired assets

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

Quantitative criteria:

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

Qualitative criteria:

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

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

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

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

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired.

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD, which is developed by applying a maturity profile of how defaults develop from initiation through the lifetime of the loan, represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Li fetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.1 CREDIT RISK continued

Management of credit risk continued

Expected credit loss measurement continued

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

The Group's advances to customers typically comprise of high volume and lower values, therefore a significant portion of the impairment is calculated on a portfolio basis. Management considered the segmentation of the loan book and determined that the loan consists of only one segment, namely Government employees. The non-government segment (which is expected to have a different risk profile), is less than 2% of the total portfolio (which is the threshold used in the model), thus management has not identified that segment as a separate segment for the purpose of the impairment assessment.

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

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

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

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

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

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

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. A behavioural scorecard is used to incorporate deterioration in credit quality, taking into account days past due plus other agreed upon and available forward looking macroeconomic variables for purposes of coming up with Lifetime ECLs. These assumptions vary by product type. Refer to the "Forward-looking information incorporated in the ECL models" section below for an explanation of forward – looking information and its inclusion in ECL calculations.

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

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

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.1 CREDIT RISK continued

Management of credit risk continued

Expected credit loss measurement continued

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. There are four macroeconomic variables incorporated as part of the forward-looking information. These are GDP, Unemployment rates, CPI and Inflation (Y-O-Y change). For lifetime PDs, a behavioural scorecard is developed using the four macroeconomic variables as well as payment behaviour. This is then used to convert 12-month PDs to lifetime PDs. A macro-induced regression analysis is used to model a Macro-Induced (MI) LGD for accounts in Stage 2 and 3. This involves identifying how economic conditions influence recovery rates and applying this to forecasted economic outlooks. Macro economic forward looking factors were all stressed to downside heavy for Consumer Price Index (CPI), Inflation, Gross Domestic Product (GDP) and unemployment rate inline with Fitch Solutions' revised outlook for the period ending 31 December 2020. The probability weighted ECL is derived by assigning weights to the base, upside and downside scenarios based on management projections. The weights used are 50%, 20% and 30% respectively for Deduction at source portfolio that holds a low credit risk.

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

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

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

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.1 CREDIT RISK continued

Management of credit risk continued

Expected credit loss measurement continued

Forward-looking information incorporated in the ECL models continued

COVID-19 impact on ECL

The Government Deduction at Source (DAS) portfolio is the largest portfolio and constitutes more than 92% of the total loan portfolio. In general, the macroeconomic environment was on a downturn due to pressure from the Covid-19 pandemic. Although Letshego was operating in a difficult macroeconomic environment, clients continued to honor their financial obligation. Macroeconomic forward-looking factors were all stressed to downside heavy for Consumer Price Index (CPI), Inflation, Gross Domestic Product (GDP) and unemployment rate in line with Fitch Solutions' revised outlook for the period ending 31 December 2020. A probability weighted ECL was then derived by assigning weights to the base, upside and downside scenarios based on management projections. The weights used are 50%, 20% and 30%. Refer to stress and sensitivity analysis below.

Economic variables:

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

Gross Domestic Product (GDP) and Interest rates – GDP and interest rates are considered significant for the retail portfolio. These variables also affect the ECL allowance for the wholesale portfolio given the significant impact these have on companies' performance, collateral valuations and companies' likelihood of default.

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

The following table shows the main macroeconomic factor used to estimate the expected credit loss allowance on loans.

Macroeconomic factors	Namibia CPI (%)	Namibia GDP (% p.a.)	Namibia Unemployement Rate (%)
2019	3.7%	2.3%	26.8%
2020	**4.0%**	**(3.5%)**	**26.6%**

Stress testing and sensitivity analysis of IFRS 9 ECL

As 92% of advances are Government Deduction at Source (DAS) business, the Group was able to remain resilient to the worst effects of Covid-19. This was mainly due to the fact that governments had chosen to take a countercyclical approach and not retrench, so as not to worsen any downward economic trends.

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

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.1 CREDIT RISK continued

Management of credit risk continued

Expected credit loss measurement continued

Stress testing and sensitivity analysis of IFRS &ECL continued

Loss Given Default (LGD)

The absolute value shift in LGDs between April and October 2020 was 6.4%. This gave an indication of the sensitivity of our LGDs under economic duress. To be conservative, we set the LGD shocks for upside and downside at 10%.

Probability of default (PD)

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

The following table shows a comparison of the Group's expected credit loss allowance under IFRS 9 as at 31 December 2020 based on the probability weightings (Base: 50%, Upside: 20%, Downside: 30%) of the above-mentioned three scenarios against the expected credit loss allowance resulting from simulations of each scenario being weighted at 100%.

NAD'000	Base case	Upside	Impact	Downside	Impact	Probability Weighted ECL	Weighted Impact
ECL	71 004	42 547	(28 485)	84 182	13 151	78 215	7 183

The total weighted impact of N$7 million for the Group based on downside scenarios:

LHN	Base EC N$'000	Probability Weighted ECL N$'000	Total Impact N$'000
ECL	71 004	78 215	7 210
Total	71 004	78 215	7 210

LFSS, therefore estimates an additional ECL impact of N$7 million as at December 2020 should the Group not have any mitigation in place. Full ECL disclosures can be read in conjuction with 31 December 2019 financial statements and only where there has been significant changes disclosure were noted above.

Grouping of instruments for losses measured on a collective basis

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

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

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.1 CREDIT RISK continued

Management of credit risk continued

Credit risk exposure

Maximum exposure to credit risk – Financial instruments subject to impairment

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

ADVANCES TO CUSTOMERS

	2020				2019
	ECL Staging				
	Stage 1 12-month ECL N$'000	Stage 2 Lifetime ECL N$'000	Stage 3 Lifetime ECL N$'000	Total N$'000	Total N$'000
Credit grade					
Low risk (CS01 – CS02)	3 463 728	–	–	3 463 728	2 793 378
Medium risk (CS03 – CS04)	–	90 056	–	90 056	24 986
Special monitoring (CS05)	–	–	–	–	20 319
Doubtful (CS06 – CS07)	–	–	125 837	125 837	124 736
Gross carrying amount	**3 463 728**	**90 056**	**125 837**	**3 679 620**	**2 963 419**
Loss allowance	(24 604)	(1 547)	(44 853)	(71 004)	(28 078)
Carrying amount	**3 439 124**	**88 509**	**80 984**	**3 608 616**	**2 935 341**

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

Loss allowance

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

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period (see Note 4.f)i)).

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.1 CREDIT RISK continued

Management of credit risk continued

Loss allowance continued

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

Advances to customers	Stage 1 12-month ECL N$'000	Stage 2 Lifetime ECL N$'000	Stage 3 Lifetime ECL N$'000	Total N$'000
Loss allowance as at 1 January 2020	**15 753**	**890**	**11 435**	**28 078**
Transfers between stages				
Transfer from Stage 1 to Stage 2	(314)	314	–	–
Transfer from Stage 1 to Stage 3	(11 010)	–	11 010	–
Transfer from Stage 2 to Stage 3	–	(2 223)	2 223	–
Transfer from Stage 3 to Stage 1	–	–	–	–
Transfer from Stage 3 to Stage 2	–	(23)	23	–
Transfer from Stage 2 to Stage 1	(10)	10	–	–
Net ECL raised/(released)	20 185	2 579	127 494	150 258
Impaired accounts written off	–	–	(107 332)	(107 332)
Loss allowance as at 31 December 2020	**24 604**	**1 547**	**44 853**	**71 004**
	24 604	1 547	44 853	
Loss allowance as at 1 January 2019	**4 171**	**1 154**	**16 808**	**22 133**
Transfers between stages				
Transfer from Stage 1 to Stage 2	(54)	444		390
Transfer from Stage 1 to Stage 3	(119)		4 604	4 485
Transfer from Stage 2 to Stage 3		(173)	746	573
Transfer from Stage 3 to Stage 1	1		(29)	(28)
Transfer from Stage 3 to Stage 2		11	(51)	(40)
Transfer from Stage 2 to Stage 1	5	(40)		(35)
Net ECL raised/(released)	11 749	(506)	89 084	100 327
Impaired accounts written off			(99 727)	(99 727)
Loss allowance as at 31 December 2019	**15 753**	**890**	**11 435**	**28 078**

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

- The write-off of loans with a total gross carrying amount of NAD 107.3 million (2019: NAD 99.7 million) which resulted in the reduction of the Stage 3 loss allowance by the same amount.

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.1 CREDIT RISK continued

Management of credit risk continued

Loss allowance continued

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

Advances to customers	Stage 1 12-month ECL N$'000	Stage 2 Lifetime ECL N$'000	Stage 3 Lifetime ECL N$'000	Total N$'000
Gross carrying amount as at 1 January 2020	**2 793 378**	**45 304**	**124 737**	**2 963 419**
Transfers:				
Transfer from Stage 1 to Stage 2	(25 549)	25 549	–	–
Transfer from Stage 1 to Stage 3	(63 569)	–	63 569	–
Transfer from Stage 2 to Stage 3	–	(12 434)	12 434	–
Transfer from Stage 3 to Stage 1	(9)	–	9	–
Transfer from Stage 3 to Stage 2	–	884	(884)	–
Transfer from Stage 2 to Stage 1	377 341	(377 341)	–	–
Financial assets derecognised during the period other than write-offs	(1 034 729)	(23 323)	5 177	(1 052 875)
New financial assets originated	1 380 336	469 182	26 890	1 876 408
Write-offs			(107 332)	(107 332)
Gross carrying amount as at 31 December 2020	**3 427 199**	**127 821**	**124 600**	**3 679 620**
Gross carrying amount as at 1 January 2019	**2 402 204**	**88 077**	**87 474**	**2 577 755**
Transfers:				
Transfer from Stage 1 to Stage 2	(22 915)	22 915	–	–
Transfer from Stage 1 to Stage 3	(55 495)	–	55 495	–
Transfer from Stage 2 to Stage 3	–	(8 940)	8 940	–
Transfer from Stage 3 to Stage 1	302	–	(302)	–
Transfer from Stage 3 to Stage 2	–	537	(537)	–
Transfer from Stage 2 to Stage 1	2 081	(2 081)	–	–
Financial assets derecognised during the period other than write-offs	(1 687 496)	(188 795)	–	(1 876 291)
New financial assets originated	2 154 697	133 591	73 394	2 361 682
Write-offs			(99 727)	(99 727)
Gross carrying amount as at 31 December 2019	**2 793 378**	**45 304**	**124 737**	**2 963 419**

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.1 CREDIT RISK continued

Management of credit risk continued

Loss allowance continued

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

- Advances
- Financial assets other than advances

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

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

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

Advances

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

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

Credit philosophy

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

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

Credit risk assessment

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

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

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.1 CREDIT RISK continued

Management of credit risk continued

Advances continued

Credit monitoring

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

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

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

Collection and restructures

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

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

External recovery

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

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.1 CREDIT RISK continued

Management of credit risk continued

Advances continued

Credit quality

	GROUP		COMPANY	
Analysis of credit quality	31 December 2020 Advances N$'000	31 December 2019 Advances N$'000	31 December 2020 Advances N$'000	31 December 2019 Advances N$'000
Financial assets that are neither past due nor specifically impaired				
Stage 1	**3 427 199**	2 793 378	**–**	–
Past due and specifically impaired			**–**	–
Stage 2	**127 821**	45 304	**–**	–
Stage 3	**124 600**	124 737	**–**	–
Total credit exposure	**3 679 620**	2 963 419	**–**	–
Total impairments				
Stage 1	**(24 604)**	(15 754)	**–**	–
Stage 2	**(1 547)**	(889)	**–**	–
Stage 3	**(44 853)**	(11 435)	**–**	–
Net advances	**3 608 616**	2 935 341	**–**	–
Impairment as a % of gross advances per respective stage				
Stage 1	**0.72%**	0.56%	**–**	–
Stage 2	**1.21%**	1.96%	**–**	–
Stage 3	**36.00%**	9.17%	**–**	–
Total impairment as a % of total gross advances	**1.93%**	0.95%	**–**	–
Reconciliation of allowance account				
Balance at the beginning of the year	**28 078**	22 133	**–**	–
IFRS 9 remeasurement adjustment	**–**	–		
Impairment provision raised	**150 258**	105 672	**–**	–
Impairment provision released upon write-offs of underlying exposure (note 10)	**(107 332)**	(99 727)	**–**	–
Balance at the end of the year	**71 004**	28 078	**–**	–

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.1 CREDIT RISK continued

Management of credit risk continued

Advances continued

Credit risk impacts

Credit quality of advances neither past due nor impaired:

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

Concentration Risk

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

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

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

Loans

Average loan value (at inception)	Number of loans	% of total number of loans	Carrying amount (net of impairment) N$'000	% of total carrying amount
2020 – Group				
‹ 5 000	**1 917**	**2.38%**	**19 162**	**0.54%**
5 000 – 10 000	**6 939**	**8.60%**	**68 421**	**1.92%**
10 000 – 20 000	**13 231**	**16.40%**	**195 726**	**5.50%**
20 000 – 50 000	**24 474**	**30.34%**	**870 001**	**24.43%**
› 50 000	**34 092**	**42.28%**	**2 455 306**	**67.62%**
Total	**80 653**	**100.00%**	**3 608 616**	**100.00%**

Average loan value (at inception)	Number of loans	% of total number of loans	Carrying amount (net of impairment) N$'000	% of total carrying amount
2019 – Group				
‹ 5 000	1 661	2.06%	4 098	0.14%
5 000 – 10 000	7 365	9.14%	36 574	1.25%
10 000 – 20 000	14 556	18.07%	143 338	4.88%
20 000 – 50 000	45 666	56.68%	1 418 477	48.32%
› 50 000	11 326	14.06%	1 332 853	45.41%
Total	80 574	100.00%	2 935 341	100.00%

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.1 CREDIT RISK continued

Management of credit risk continued

Loans continued

The concentration risk per employer is as follows:

– Public sector 97%

– Other employers 3%

No collateral is held for these advances.

Financial assets other than advances

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

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

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

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

	Total carrying amount N$'000	Single largest exposure to a single counter-party N$'000	Aaa to A3 N$'000	Baa1 to Baa3 N$'000	Below Baa3 N$'000	Not rated N$'000
2020 – Group						
Cash and cash equivalents	**402 519**	**391 798**	**402 519**	**–**	**–**	**–**
Deposits with Bank of Namibia	**65 734**	**65 734**	**65 734**	**–**	**–**	**–**
Other receivables	**181 720**	**168 498**	**–**	**–**	**–**	**181 720**
Total	**649 973**	**626 030**	**468 253**	**–**	**–**	**181 720**
2019 – Group						
Cash and cash equivalents	99 477	70 752	99 477	–	–	–
Deposits with Bank of Namibia	48 109	48 109	48 109	–	–	–
Government and other securities	13 979	13 979	13 979	–	–	–
Other receivables	188 180	132 767	–	–	–	188 180
Total	349 745	265 607	161 565	–	–	188 180

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.1 CREDIT RISK continued

Management of credit risk continued

Financial assets other than advances continued

	Total carrying amount N$'000	Single largest exposure to a single counter-party N$'000	Aaa to A3 N$'000	Baa1 to Baa3 N$'000	Below Baa3 N$'000	Not rated N$'000
2020 – Company						
Cash and cash equivalents	**59**	**59**	**59**	**–**	**–**	**–**
Other receivables	**66 197**	**66 197**	**–**	**–**	**–**	**66 197**
Intercompany receivable	**78 672**	**78 672**	**–**	**–**	**–**	**78 672**
Total	**144 928**	**144 928**	**59**	**–**	**–**	**144 869**
2019 – Company						
Cash and cash equivalents	180	180	180	–	–	–
Other receivables	50 212	50 212	–	–	–	50 212
Intercompany receivable	15 316	15 316	–	–	–	15 316
Total	65 708	65 708	180	–	–	65 528

6.1.2 MARKET RISK

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

6.1.2.1 Interest rate risk management

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

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.2 MARKET RISK continued

6.1.2.1 Interest rate risk management continued

Risk measurement and management

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

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

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

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

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

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.2 MARKET RISK continued

6.1.2.1 Interest rate risk management continued

Interest rate sensitivity analysis

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

i) *Re-pricing profile*

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

	Demand and up to 1 month N$'000	Greater than 1 month up to 3 months N$'000	Greater than 3 months up to 12 months N$'000	Greater than 12 months up to 24 months N$'000	Greater than 24 months N$'000	Non-interest sensitive items N$'000	Non-financial instru-ments N$'000	Total N$'000
2020 – GROUP								
Assets								
Cash and cash equivalents	468 253	–	–	–	–	–	–	468 253
Government and other securities	–	–	–	–	–	–	–	–
Other receivables	–	–	–	–	–	181 720	20 983	202 703
Net advances	117 021	227 068	915 545	181 820	2 167 163	–		3 608 616
Current taxation	–	–	–	–	–	–	80 653	80 653
Property, equipment and right-of-use assets	–	–	–	–	–	–	22 244	22 244
Deferred tax assets	–	–	–	–	–	–	15 572	15 572
Total assets	585 274	227 068	915 545	181 820	2 167 163	181 720	139 452	4 398 041
Liabilities and equity								
Deposits due to customers	160 214	6 677	21 002	–	–	–	–	187 893
Trade and other payables	–	–	–		–	131 746	17 694	149 440
Borrowings		501 533	10 000	330 932	–	–	–	842 465
Lease liabilities	–	660	10 387	115	0	–	–	11 162
Intercompany payables	–	–	–	–	585 750	1 661	–	587 411
Deferred tax liabilities	–	–	–	–	–	–	21 136	21 136
Ordinary shareholders' equity	–	–	–	–	–	–	2 598 534	2 598 534
Total liabilities and equity	160 214	508 870	41 389	331 047	585 750	133 407	2 637 364	4 398 041
On balance sheet interest sensitivity	425 060	(281 802)	874 156	(149 227)	1 581 413			

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.2 MARKET RISK continued

6.1.2.1 Interest rate risk management continued

i) Re-pricing profile continued

	Demand and up to 1 month N$'000	Greater than 1 month up to 3 months N$'000	Greater than 3 months up to 12 months N$'000	Greater than 12 months up to 24 months N$'000	Greater than 24 months N$'000	Non-interest sensitive items N$'000	Non-financial instru-ments N$'000	Total N$'000
2019 – GROUP								
Assets								
Cash and cash equivalents	147 586	–	–	–	–	–	–	147 586
Government and other securities	–	–	13 979	–	–	–	–	13 978
Other receivables	–	–	–	–	–	188 180	14 229	202 409
Net advances	4 424	2 810	53 909	159 573	2 714 626	–	–	2 935 342
Current taxation	–	–	–	–	–	–	77 213	77 213
Property, equipment and right-of-use assets	–	–	–	–	–	–	31 672	31 672
Deferred tax assets	–	–	–	–	–	–	17 826	17 826
Total assets	152 010	2 810	67 888	159 573	2 714 626	188 180	140 940	3 426 026
Liabilities and equity								
Deposits due to customers	32 940	11	10 410	–	–	–	–	43 361
Trade and other payables	–	–	–		–	33 839	17 670	51 509
Borrowings	5 772	–	275 000	10 000	–	–	–	290 772
Lease liabilities	355	743	3 581	4 556	4 973	–	–	14 207
Amounts due to parent company	–	–	476 245	–	138 050	2 902	–	617 197
Deferred tax liabilities	–	–	–	–	–	–	18 959	18 959
Ordinary shareholders' equity	–	–	–	–	–	–	2 390 021	2 390 021
Total liabilities and equity	39 067	754	765 236	14 556	143 023	36 741	2 426 650	3 426 026
On balance sheet interest sensitivity	112 943	2 056	(697 348)	145 017	2 571 603			

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.2 MARKET RISK continued

6.1.2.1 Interest rate risk management continued

i) *Re-pricing profile* continued

	Demand and up to 1 month N$'000	Greater than 1 month up to 3 months N$'000	Greater than 3 months up to 12 months N$'000	Greater than 12 months up to 24 months N$'000	Greater than 24 months N$'000	Non-interest sensitive items N$'000	Non-financial instru-ments N$'000	Total N$'000
2020 – COMPANY								
Assets								
Cash and cash equivalents	59	–	–	–	–	–	–	59
Other receivables	–	–	–	–	–	66 197	–	66 197
Intercompany receivable	78 672	–	–	–	–	–	–	78 672
Current taxation	–	–	–	–	–	–	7 354	7 354
Investment in subsidiaries	–	–	–	–	–	–	1 914 354	1 914 354
Total assets	78 731	–	–	–	–	66 197	1 921 708	2 066 636
Liabilities and equity								
Trade and other payables	–	–	–	–	–	31 315	87	31 402
Amounts due to parent company	–	–	–	–		111 184	–	111 184
Ordinary shareholders' equity	–	–	–	–	–	–	1 924 050	1 924 050
Total liabilities and equity	–	–	–	–	–	142 499	1 924 137	2 066 636
On balance sheet interest sensitivity	78 731	–	–	–	–	–	–	–

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.2 MARKET RISK continued

6.1.2.1 Interest rate risk management continued

i) Re-pricing profile continued

	Demand and up to 1 month N$'000	Greater than 1 month up to 3 months N$'000	Greater than 3 months up to 12 months N$'000	Greater than 12 months up to 24 months N$'000	Greater than 24 months N$'000	Non-interest sensitive items N$'000	Non-financial instru-ments N$'000	Total N$'000
2019 – COMPANY								
Assets								
Cash and cash equivalents	180	–	–	–	–	–	–	180
Other receivables	–	–	–	–	–	50 212	–	50 212
Intercompany receivable	15 316	–	–	–	–	–	–	15 316
Current taxation	–	–	–	–	–	–	7 204	7 204
Investment in subsidiaries	–	–	–	–	–	–	1 914 354	1 914 354
Total assets	15 496	–	–	–	–	50 212	1 921 558	1 987 266
Liabilities and equity								
Trade and other payables	–	–	–	–	–	20	275	295
Ordinary shareholders' equity	–	–	–	–	–	–	1 986 970	1 986 970
Total liabilities and equity	–	–	–	–	–	20	1 987 245	1 987 266
On balance sheet interest sensitivity	15 496	–	–	–	–	–	–	–

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.2 MARKET RISK continued

6.1.2.1 Interest rate risk management continued

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

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

The sensitivity analyses have been determined based on the exposure to interest rates for financial instruments at the statement of financial position date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at statement of financial position date was outstanding for the whole year. A 200 basis point movement for NAD exposures is used when reporting interest rate risk internally and represents management's assessment of the reasonably possible change in interest rates.

The sensitivity analysis below is based on an increase in rates. Given the structure of the Group's portfolio, a 200 basis point increase in interest rates would result in a corresponding decrease of NAD 2.35 million in net income (before tax).

	Carrying amount at end of year N$'000	Amount exposed to market risk N$'000	Index to which interest rate is linked	Statement of profit or loss impact (pre-tax) N$'000
2020 – GROUP				
Financial assets				
Cash and cash equivalents	468 253	468 253	Namibia Prime	9 365
Advances	3 608 616	–	N/A	–
	4 076 869	**468 253**		**9 365**
Financial liabilities				
Amounts due to parent company	587 411	585 750	Namibia Prime	(11 715)
	587 411	**585 750**		**(11 715)**
Net effect on the statement of total comprehensive income				**(2 350)**

	Carrying amount at end of year N$'000	Amount exposed to market risk N$'000	Index to which interest rate is linked	Statement of profit or loss impact (pre-tax) N$'000
2019 – GROUP				
Financial assets				
Cash and cash equivalents	147 586	147 586	Namibia Prime	2 952
Advances	2 935 341	–	N/A	–
	3 082 927	147 586		2 952
Financial liabilities				
Amounts due to parent company	617 197	614 295	Namibia Prime	(12 286)
	617 197	614 295		(12 286)
Net effect on the statement of total comprehensive income				(9 334)

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.2 MARKET RISK continued

6.1.2.1 Interest rate risk management continued

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

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

	Carrying amount at end of year N$'000	Amount exposed to market risk N$'000	Index to which interest rate is linked	Statement of profit or loss impact (pre-tax) N$'000
2020 – COMPANY				
Financial assets				
Cash and cash equivalents	59	59	Namibia Prime	1
Intercompany receivable	78 672	–	N/A	–
	78 731	**59**		**1**
Financial liabilities				
Trade and other payables	31 402	–	N/A	–
	31 402	**–**		**–**
Net effect on the statement of total comprehensive income				**1**

	Carrying amount at end of year N$'000	Amount exposed to market risk N$'000	Index to which interest rate is linked	Statement of profit or loss impact (pre-tax) N$'000
2019 – COMPANY				
Financial assets				
Cash and cash equivalents	180	180	Namibia Prime	4
Intercompany receivable	15 316	–	N/A	–
	15 496	**180**		**4**
Financial liabilities				
Trade and other payables	295	–	N/A	–
	295	**–**		**–**
Net effect on the statement of total comprehensive income				**4**

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.2 MARKET RISK continued

6.1.2.2 Foreign currency risk management

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

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

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

6.1.2.3 Other price risk management

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

6.1.3 LIQUIDITY RISK

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

The matching and controlled mismatching of the maturities and interest rates of financial assets and liabilities are fundamental to the management of risk within the Group. It is unusual for the Group ever to be completely matched since the business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of financial assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates.

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.3 LIQUIDITY RISK continued

Assets and liabilities maturities as at 31 December 2020

	Demand and up to 1 month N$000	Greater than 1 month up to 3 months N$000	Greater than 3 months up to 12 months N$000	Greater than 12 months up to 24 months N$000	Greater than 24 months N$000	Non-financial assets and liabilities N$000	Total N$000
2020 – GROUP							
Assets							
Cash and cash equivalents	468 253	–	–	–	–	–	468 253
Government and other securities	–	–	–	–	–	–	–
Other receivables	–	181 720	–	–	–	20 983	202 703
Net advances	117 021	227 068	915 545	181 820	2 167 163	–	3 608 616
Current taxation	–	–	–	–	–	80 653	80 653
Property, equipment and right-of-use assets	–	–	–	–	–	22 244	22 244
Deferred tax assets	–	–	–	–	–	15 572	15 572
Total assets	585 274	408 788	915 545	181 820	2 167 163	139 452	4 398 041
Liabilities and equity							
Deposits due to customers	160 214	6 677	21 002	–	–	–	187 893
Trade and other payables	131 746	–	–	–	–	17 694	149 440
Borrowings	–	501 533	10 000	330 932	–	–	842 465
Lease liabilities	–	660	10 387	115	–	–	11 162
Amounts due to parent company	–	1 661	–	–	585 750	–	587 411
Deferred tax liability	–	–	–	–	–	21 136	21 136
Ordinary shareholders' equity	–	–	–	–	–	2 598 534	2 598 534
Total liabilities and equity	291 960	510 531	41 389	331 047	585 750	2 637 364	4 398 041
Net liquidity gap	293 314	(101 743)	874 156	(149 227)	1 581 413	–	–

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.3 LIQUIDITY RISK continued

Assets and liabilities maturities as at 31 December 2019 continued

	Demand and up to 1 month N$000	Greater than 1 month up to 3 months N$000	Greater than 3 months up to 12 months N$000	Greater than 12 months up to 24 months N$000	Greater than 24 months N$000	Non-financial assets and liabilities N$000	Total N$000
2019 – GROUP							
Assets							
Cash and cash equivalents	147 586	–	–	–	–	–	147 586
Government and other securities	–	–	13 979	–	–	–	13 979
Other receivables	–	188 180	–	–	–	14 229	202 409
Net advances	74 317	139 140	594 393	60 414	2 067 077	–	2 935 341
Current taxation	–	–	–	–	–	77 213	77 213
Property, equipment and right-of-use assets	–	–	–	–	–	31 672	31 672
Deferred tax assets	–	–	–	–	–	17 826	17 826
Total assets	221 903	327 320	608 372	60 414	2 067 077	140 940	3 426 025
Liabilities and equity							
Deposits due to customers	32 940	11	10 410	–	–	–	43 361
Trade and other payables	33 839	–	–	–	–	17 670	51 509
Borrowings	5 772	–	275 000	10 000	–	–	290 772
Lease liabilities	355	743	3 581	4 556	4 973	–	14 207
Amounts due to parent company	–	2 902	476 245	–	138 049	–	617 196
Deferred tax liability	–	–	–	–	–	18 959	18 959
Ordinary shareholders' equity	–	–	–	–	–	2 390 021	2 390 021
Total liabilities and equity	72 906	3 656	765 236	14 556	143 022	2 426 650	3 426 025
Net liquidity gap	148 997	323 664	(156 864)	45 858	1 924 055	–	–

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.3 LIQUIDITY RISK continued

Assets and liabilities maturities as at 31 December 2020 continued

	Demand and up to 1 month N$000	Greater than 1 month up to 3 months N$000	Greater than 3 months up to 12 months N$000	Greater than 12 months up to 24 months N$000	Greater than 24 months N$000	Non-financial assets and liabilities N$000	Total N$000
2020 – COMPANY							
Assets							
Cash and cash equivalents	59	–	–	–	–	–	59
Other receivables	–	66 197	–	–	–	–	66 197
Intercompany receivable	78 672	–	–	–	–	–	78 672
Current taxation	–	–	–	–	–	7 354	7 354
Investment in subsidiaries	–	–	–	–	–	1 914 354	1 914 354
Total assets	78 731	66 197	–	–	–	1 921 708	2 066 636
Liabilities and equity							
Trade and other payables	31 315	–	–	–	–	87	31 402
Amounts due to parent company	–	–	–	–	111 184	–	111 184
Ordinary shareholders' equity	–	–	–	–	–	1 924 050	1 924 050
Total liabilities and equity	31 315	–	–	–	111 184	1 924 137	2 066 636
On balance sheet interest sensitivity	47 416	66 197	–	–	–	–	–

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.3 LIQUIDITY RISK continued

Assets and liabilities maturities as at 31 December 2019 continued

	Demand and up to 1 month N$	Greater than 1 month up to 3 months N$	Greater than 3 months up to 12 months N$	Greater than 12 months up to 24 months N$	Greater than 24 months N$	Non-financial assets and liabilities N$	Total N$
2019 – COMPANY							
Assets							
Cash and cash equivalents	180	–	–	–	–	–	180
Other receivables	–	50 212	–	–	–	–	50 212
Intercompany receivable	15 316	–	–	–	–	–	15 316
Current taxation	–	–	–	–	–	7 204	7 204
Investment in subsidiaries	–	–	–	–	–	1 914 354	1 914 354
Total assets	15 496	50 212	–	–	–	1 921 558	1 987 266
Liabilities and equity							
Trade and other payables	20	–	–	–	–	275	295
Ordinary shareholders' equity	–	–	–	–	–	1 986 970	1 986 970
Total liabilities and equity	20	–	–	–	–	1 987 245	1 987 265
On balance sheet interest sensitivity	15 476	50 212	–	–	–	–	–

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.3 LIQUIDITY RISK continued

Assets and liabilities maturities as at 31 December 2019 continued

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

2020 – GROUP	Carrying amount	Up to 1 month N$'000	Greater than 1 month up to 6 months N$'000	Greater than 6 months up to 12 months N$'000	Greater than 1 year up to 2 years N$'000	Greater than 2 years up to 5 years N$'000	Greater than 5 years N$'000	Total N$'000
Financial liabilities								
Lease liabilities	11 162	607	3 202	3 310	3 659	2 749	–	13 527
Borrowings	842 465	231 395	771 658	3 710	474 515	–	–	1 481 278
Amounts due to parent company	587 411	–	250 000	–	367 155	–	–	617 155
Trade and other payables	149 440	55 855	93 585	–	–	–	–	149 440
	1 441 038	232 002	1 024 860	7 020	845 329	2 749	–	2 111 960

2019 – GROUP	Carrying amount	Up to 1 month N$'000	Greater than 1 month up to 6 months N$'000	Greater than 6 months up to 12 months N$'000	Greater than 1 year up to 2 years N$'000	Greater than 2 years up to 5 years N$'000	Greater than 5 years N$'000	Total N$'000
Financial liabilities								
Lease liabilities	14 207	497	2 552	3 084	5 457	5 660	–	17 250
Borrowings	290 772	1 965	14 340	289 668	10 983	–	–	316 956
Amounts due to parent company	140 952	1 438	10 092	484 873	17 256	155 306	–	668 965
Trade and other payables	51 509	25 377	26 132	–	–	–	–	51 509
	445 931	3 900	26 984	777 625	33 696	160 966	–	1 003 171

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.4 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE OR FOR WHICH FAIR VALUES ARE DISCLOSED

6.1.4.1 Valuation models

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

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

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

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

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

Fair value for disclosure

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

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

General

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

Level 3 fair value disclosure – Advances

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

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

- Fair value includes all expected cash flows, whereas impairments under IFRS 9 are determined using the "general model";
- The impairment cash flows are not reduced by the net insurance premiums the Group expects to pay across to insurance providers;
- The impairment cash flows are not reduced by expected cost of collection.

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

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.4 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE OR FOR WHICH FAIR VALUES ARE DISCLOSED

6.1.4.2 Assets and liabilities for which fair value is disclosed*

2020 – GROUP	Level 1 N$'000	Level 2 N$'000	Level 3 N$'000	Total N$'000	Carrying amount N$'000
Financial assets					
Net advances	–	–	3 608 616	3 608 616	3 608 616
Total	–	–	3 608 616	3 608 616	3 608 616
Financial liabilities					
Borrowings	–	–	842 465	842 465	842 465
Intercompany payables	–	–	587 411	587 411	587 411
Total	–	–	1 429 876	1 429 876	1 429 876

2019 – GROUP	Level 1 N$'000	Level 2 N$'000	Level 3 N$'000	Total N$'000	Carrying amount N$'000
Financial assets					
Net advances	–	–	3 059 918	3 059 918	2 935 341
Government and other securities	13 979	–	–	13 979	13 979
Total	–	–	3 059 918	3 059 918	2 935 341
Financial liabilities					
Borrowings	–	–	290 772	290 772	290 772
Amounts due to parent company	–	–	617 197	617 197	617 197
Total	–	–	907 969	907 969	907 969

* The following items' fair value is not disclosed as these assets and liabilities closely approximate their carrying amount due to their short term or on demand repayment terms:
– Cash and cash equivalents;
– Accounts receivables and other assets;
– Deposits due to customers
– Creditors and accruals
– Intercompany receivable

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

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

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.5 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

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

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

2020 – GROUP	Amortised cost N$'000	Total N$'000	Up to 12 months N$'000	Greater than 12 months N$'000
Financial assets				
Cash and cash equivalents	468 253	468 253	468 253	–
Government and other securities	–	–	–	–
Other receivables	181 720	181 720	181 720	–
Net advances	3 608 616	3 608 616	1 259 633	2 348 983
Total financial assets	4 258 589	4 258 589	1 909 606	2 348 983
Financial liabilities				
Deposits due to customers	187 893	187 893	187 893	–
Trade and other payables	131 746	131 746	131 746	–
Borrowings	842 465	842 465	511 533	330 932
Lease liabilities	11 162	11 162	6 512	4 650
Amounts due to parent company	587 411	587 411	1 661	585 750
Total financial liabilities	1 760 677	1 760 677	839 345	921 332

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.5 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES continued

2019 – GROUP	Amortised cost N$'000	Total N$'000	Up to 12 months N$'000	Greater than 12 months N$'000
Financial assets				
Cash and cash equivalents	147 586	147 586	147 586	–
Government and other securities	13 979	13 979	13 979	
Other receivables	188 180	188 180	188 180	–
Net advances	2 935 341	2 935 341	61 142	2 874 199
Total financial assets	3 285 086	3 285 086	410 887	2 874 199
Financial liabilities				
Deposits due to customers	43 361	43 361	43 361	–
Trade and other payables	51 509	51 509	51 509	–
Borrowings	290 772	290 772	280 772	10 000
Lease liabilities	14 207	14 207	4 679	9 528
Amounts due to parent company	617 197	617 197	479 148	138 049
Total financial liabilities	1 017 046	1 017 046	859 469	157 577

2020 – COMPANY	Amortised cost N$'000	Total N$'000	Up to 12 months N$'000	Greater than 12 months N$'000
Financial assets				
Other receivables	66 197	66 197	66 197	–
Intercompany receivable	78 672	78 672	78 672	–
Total financial assets	144 869	144 869	144 869	–
Financial liabilities				
Trade and other payables	31 402	31 402	31 402	–
Borrowings	–	–	–	–
Intercompany payables	111 184	111 184	111 184	–
Total financial liabilities	142 586	142 586	142 586	–

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.5 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES continued

2019 – COMPANY	Amortised cost N$'000	Total N$'000	Up to 12 months N$'000	Greater than 12 months N$'000
Financial assets				
Other receivables	50 212	50 212	50 212	–
Intercompany receivable	15 316	15 316	15 316	–
Total financial assets	65 528	65 528	65 528	–
Financial liabilities				
Trade and other payables	295	295	295	–
Borrowings	–	–	–	–
Intercompany payables	–	–	–	–
Total financial liabilities	295	295	295	–

6.1.6 CAPITAL MANAGEMENT

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

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

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

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

External regulatory capital management – Banking Operations

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

The banking operations regulatory capital is divided into two tiers:

- Tier 1 capital: Share capital, share premium, irredeemable preference shares, share based payment reserve, retained earnings and reserves created by appropriations of retained earnings.
- Tier 2 capital: qualifying subordinated loan capital and general loan loss provisions.

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

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

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.6 CAPITAL MANAGEMENT continued

External regulatory capital management – Banking Operations continued

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

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

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

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES continued

6. FINANCIAL RISK MANAGEMENT continued

6.1 Financial risk factors continued

6.1.6 CAPITAL MANAGEMENT continued

Regulatory capital

	GROUP		BANK	
	31 December 2020 N$'000	31 December 2019 N$'000	31 December 2020 N$'000	31 December 2019 N$'000
Tier 1 capital				
Ordinary share and premium	**100**	100	**59 624**	59 624
Irredeemable preference share capital	**215 085**	215 085	**215 085**	215 085
Retained earnings	**1 680 057**	1 471 668	**709 952**	640 269
Ordinary shareholders' reserves	**703 292**	703 168	**2 451**	2 327
Total tier 1 capital	**2 598 534**	2 390 021	**987 112**	917 305
Tier 2 capital				
General allowance for credit impairments	**24 604**	21 051	**11 908**	13 929
	24 604	21 051	**11 908**	13 929
Total qualifying capital	**2 623 138**	2 411 072	**999 020**	931 234
Risk-weighted assets				
Credit risk	**3 011 983**	2 364 763	**1 581 600**	1 113 424
Market risk	**–**	–	**–**	–
Operational risk	**87 131**	83 865	**34 791**	103 956
Total risk-weighted assets	**3 099 114**	2 448 628	**1 616 391**	1 217 380

Capital adequacy ratios

	Minimum regulatory requirement %	Internal limit %	31 December 2020 %	31 December 2019 %
GROUP				
Total capital adeqacy ratio	10%	15%	**85%**	98%
Tier 1 capital adequacy ratio	7%	9%	**84%**	98%
Tier 1 leverage ratio	6%	8%	**58%**	69%
BANK				
Total capital adeqacy ratio	10%	15%	**62%**	76
Tier 1 capital adequacy ratio	7%	9%	**61%**	75
Tier 1 leverage ratio	6%	8%	**55%**	54

NOTES TO THE FINANCIAL STATEMENTS

	GROUP 31 December 2020 N$'000	GROUP 31 December 2019 N$'000	COMPANY 31 December 2020 N$'000	COMPANY 31 December 2019 N$'000
7. CASH AND CASH EQUIVALENTS				
Cash and balances with banks	**402 518**	77 953	**59**	180
Money market placements	**1**	21 524	**–**	–
Balances with the central bank other than mandatory reserve deposits	**58 879**	47 539	**–**	–
Included in cash and cash equivalents	**461 398**	147 016	**59**	180
Mandatory reserve deposits with the central bank	**6 855**	570	**–**	–
	468 253	147 586	**59**	180

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

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

	GROUP 31 December 2020 N$'000	GROUP 31 December 2019 N$'000	COMPANY 31 December 2020 N$'000	COMPANY 31 December 2019 N$'000
Bank balances	**457 590**	142 125	**59**	180
Cash on hand	**10 663**	5 461	**–**	–
	468 253	147 586	**59**	180

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

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

	GROUP 31 December 2020 N$'000	GROUP 31 December 2019 N$'000	COMPANY 31 December 2020 N$'000	COMPANY 31 December 2019 N$'000
8. GOVERNMENT AND OTHER SECURITIES				
Treasury bills	**–**	13 980	**–**	–
Gross financial assets at amortised cost	**–**	13 980	**–**	–
Less expected credit loss allowance	**–**	(1)	**–**	–
Net financial assets at amortised cost	**–**	13 979	**–**	–
Current	**–**	13 980	**–**	–
Non-current	**–**	–	**–**	–
Gross financial assets at amortised cost	**–**	13 980	**–**	–

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

There is no exposure to price risk as the investment will be held to maturity.

NOTES TO THE FINANCIAL STATEMENTS continued

	GROUP		COMPANY	
	31 December 2020 N$'000	31 December 2019 N$'000	31 December 2020 N$'000	31 December 2019 N$'000
9. RECEIVABLES				
9.1 Other receivables				
Financial				
– Profit share receivable from cell captive	**168 498**	132 767	**66 117**	50 154
– Deposits	**6 817**	8 588	**80**	58
– Sundry receivables	**6 405**	46 825	**–**	–
– Deferred fees	**12 205**	6 830	**–**	
– Prepayments	**8 778**	7 399	**–**	–
	202 703	202 409	**66 197**	50 212

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

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

9.2 Intercompany receivable				
Financial				
– Intercompany current account – Letshego Micro Financial Services (Namibia) Ltd	**–**	–	**–**	1 316
– Intercompany current account – Letshego Bank (Namibia) Ltd	**–**	–	**78 672**	14 000
	–	–	**78 672**	15 316

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

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

	GROUP		COMPANY	
	31 December 2020 N$'000	31 December 2019 N$'000	31 December 2020 N$'000	31 December 2019 N$'000
10. ADVANCES TO CUSTOMERS				
Gross advances to customers	**3 679 620**	2 963 419	**–**	–
Less: Impairment allowance on advances	**(71 004)**	(28 078)	**–**	–
Net advances to customers	**3 608 616**	2 935 341	**–**	–
Impairment allowance on advances				
Balance at the beginning of the period	**28 078**	22 133	**–**	–
Impairment adjustment – increase for the period	**42 926**	5 945	**–**	–
Balance at the end of the period	**71 004**	28 078	**–**	–
The balance at the end of the period consists of the following:				
Stage 1 impairment	**24 604**	21 051	**–**	–
Stage 2 – 3 impairment	**46 400**	7 027	**–**	–
	71 004	28 078	**–**	–
(Reversals)/Charges in the profit or loss				
Amounts written off	**107 332**	99 728	**–**	–
Impairment adjustment	**42 926**	5 945		
Recoveries during the period	**(106 606)**	(96 437)	**–**	–
	43 652	9 236	**–**	–
Exposure to credit risk				
Net advances to customers	**3 608 616**	2 935 341	**–**	–
Maximum exposure to credit risk	**3 608 616**	2 935 341	**–**	–

Advances are measured at amortised cost using the effective interest method as they are held to collect contractual cash flows which are solely payments of principle and interest.

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

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

The aggregate net advances to customers is held as security on external borrowings by way of a Security Sharing Agreement. See detail of borrowings in Note 15.

NOTES TO THE FINANCIAL STATEMENTS continued

11. PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

GROUP	Furniture and fittings N$'000	Office equipment N$'000	Computer equipment N$'000	Motor vehicles N$'000	Leasehold Improve-ments N$'000	Right-of-use assets – Buildings N$'000	Total N$'000
At 31 December 2020							
Cost	5 125	6 900	35 251	482	4 917	20 496	73 171
Accumulated depreciation	(4 296)	(5 530)	(26 238)	(418)	(3 255)	(11 190)	(50 927)
Carrying amount	829	1 370	9 013	64	1 662	9 306	22 244
At 31 December 2020							
Opening net amount at 1 January 2019	1 203	1 612	14 009	149	1 534	13 165	31 672
Additions	40	509	1 622	–	781	2 728	5 680
Depreciation charge	(414)	(751)	(6 618)	(85)	(653)	(6 587)	(15 108)
Carrying amount	829	1 370	9 013	64	1 662	9 306	22 244
At 31 December 2019							
Cost	5 085	6 391	33 629	482	4 136	17 768	67 492
Accumulated depreciation	(3 882)	(4 779)	(19 620)	(333)	(2 602)	(4 603)	(35 820)
Carrying amount	1 203	1 612	14 009	149	1 534	13 165	31 672
At 31 December 2019							
Opening net amount at 1 January 2019	747	1 775	5 690	270	1 162	–	9 644
IFRS 16 initial adoption adjustment	–	–	–	–	–	13 921	13 921
Restated net opening amount	747	1 775	5 690	270	1 162	13 921	23 565
Additions	926	922	14 194	–	1 074	3 846	20 963
Depreciation charge	(470)	(1 085)	(5 875)	(121)	(702)	(4 603)	(12 856)
Carrying amount	1 203	1 612	14 009	149	1 534	13 164	31 672

COMPANY

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

NOTES TO THE FINANCIAL STATEMENTS continued

	GROUP		COMPANY	
	31 December 2020 N$'000	31 December 2019 N$'000	31 December 2020 N$'000	31 December 2019 N$'000
12. TRADE AND OTHER PAYABLES				
Financial				
– Trade payables	**55 855**	25 377	**82**	18
– Accruals	**478**	4 903	**–**	–
– Other payables	**4 101**	2 338	**31 233**	3
– Dividend payable	**71 312**	–	**–**	–
Non-financial				
– Audit fee provision	**1 173**	1 150	**87**	275
– Personnel related	**12 738**	12 371	**–**	–
– Value Added Taxation	**113**	3 724	**–**	–
– Withholding Tax*	**3 670**	1 646	**–**	–
	149 440	51 509	**31 402**	296

* During the year, the group restated the Preference Shares in LMFSN back to an intercompany borrowing. This is to rectify a loan to preference share conversion transaction done in March 2018 in LMFSN. Refer to Note 3 for more detail.

Trade payables are unsecured and are usually paid within 30 days of recognition.

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

NOTES TO THE FINANCIAL STATEMENTS continued

13. LEASE LIABILITIES

	GROUP 31 December 2020 N$'000	GROUP 31 December 2019 N$'000	COMPANY 31 December 2020 N$'000	COMPANY 31 December 2019 N$'000
Amounts recognised in the statement of financial position				
Current lease liabilities	**6 512**	4 679	**–**	–
Non-current lease liabilities	**4 650**	9 528	**–**	–
	11 162	14 207	**–**	–
Reconciliation of lease liabilities				
Opening balance	**14 207**	–	**–**	–
IFRS 16 initial adoption adjustment	**–**	13 921	**–**	–
Additions/modification	**2 728**	3 846	**–**	–
Interest expense	**1 703**	1 602	**–**	–
Payments	**(7 476)**	(5 162)	**–**	–
Closing balance	**11 162**	14 207	**–**	–

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

Refer to note 4(d)(i) for more information on the accouting policy for leases.

There were additions of N$2,728 (2019: N$3,846) to right-of-use assets during the 2020 financial year.

The company measures the lease liabilities at the present value of the lease payments discounted by using the incremental borrowing rate of 12% p.a.

	GROUP 31 December 2020 N$'000	GROUP 31 December 2019 N$'000	COMPANY 31 December 2020 N$'000	COMPANY 31 December 2019 N$'000
Amounts recognised in the statement of comprehensive income				
Depreciation charge on right-of-use assets – Buildings	**6 587**	4 603	**–**	–
Interest expense on lease liabilities	**1 703**	1 602	**–**	–
Expense relating to leases of low value assets	**962**	–		
Expense relating to short-term leases	**80**	–		
	9 332	6 205	**–**	–

NOTES TO THE FINANCIAL STATEMENTS continued

	GROUP		COMPANY	
	31 December 2020 N$'000	31 December 2019 N$'000	31 December 2020 N$'000	31 December 2019 N$'000
14. TAXATION				
14.1 Income tax expense				
Current tax expense	**97 804**	149 666	**7 839**	12 358
Restatement*	**–**	(23 486)		
Deferred tax (income)/expense:				
– Origination and reversal of temporary differences	**4 430**	(3 169)	**–**	–
– Prior period		–	**–**	–
Total Income tax expense	**102 234**	123 011	**7 839**	12 358
14.2 Reconciliation of current taxation				
Profit before taxation	**423 123**	524 209	**57 419**	192 652
Tax calculated at standard rate – 32%	**135 399**	167 747	**18 374**	61 649
Income not subject to tax – dividends	**(36 964)**	(46 519)	**(11 172)**	(49 928)
Non-deductible expenses	**3 799**	1 783	**637**	637
	102 234	123 011	**7 839**	12 358
Effective tax rate	**24.16%**	23.47%	**13.65%**	6.41%

14.3 Deferred taxation

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

Deferred tax assets				
The balance comprises:				
– Provisions	**14 166**	15 290	**–**	–
– Share based payments	**784**	686	**–**	–
– Income received in advance	**622**	1 850	**–**	–
	15 572	17 826	**–**	–
Deferred tax assets reconciliation				
Deferred tax assets balance at the beginning of the year	**17 826**	9 713	**–**	–
Originating temporary differences for the year – Provisions	**(1 124)**	6 916	**–**	–
Originating temporary differences for the year – Share based payments	**98**	285	**–**	–
Originating temporary differences for the year – Income received in advance	**(1 228)**	912	**–**	–
Deferred tax assets balance at the end of the year	**15 572**	17 826	**–**	–

NOTES TO THE FINANCIAL STATEMENTS continued

	GROUP		COMPANY	
	31 December 2020 N$'000	31 December 2019 N$'000	31 December 2020 N$'000	31 December 2019 N$'000
14. TAXATION continued				
14.3 Deferred taxation continued				
Deferred tax liabilities				
The balance comprises:				
– Property, equipment and right-of-use assets	**(4 615)**	(6 192)	**–**	–
– Prepayments and deferred expenses	**(3 715)**	(3 244)	**–**	–
– EIR adjustment	**(12 107)**	(9 524)	**–**	–
– Deferred arrangement fees	**(699)**	–		
	(21 136)	(18 959)	**–**	–
Deferred tax liabilities reconciliation				
Deferred tax liabilities balance at the beginning of the year	**(18 959)**	(14 015)	**–**	–
Originating temporary differences for the year – Property, equipment and right-of-use assets	**1 577**	(4 824)	**–**	–
Originating temporary differences for the year – Prepayments and deferred expenses	**(472)**	(185)	**–**	–
Originating temporary differences for the year – EIR adjustment	**(2 583)**	66	**–**	–
Originating temporary differences for the year – Deferred arrangement fees	**(699)**	–		
Deferred tax liabilities balance at the end of the year	**(21 136)**	(18 959)	**–**	–

Deferred income taxes for the Company and Group are calculated on all the temporary timing differences under the comprehensive method using a tax rate of 32% (2019: 32%) except where the initial recognition exemption applies. The profit or loss debits/credits are the result of timing differences between the accounting and tax treatments of items recognised in the statement of financial position.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. A deferred tax asset is recognised based on the assumption that the company will continue producing a taxable income in the foreseeable future against which it can be set off.

14.4 Current taxation				
Opening balance	**(77 213)**	(22 347)	**(7 204)**	(7 233)
Restatement*		(29 902)		
Restated Balance	**(77 213)**	(52 249)	**(7 204)**	(7 233)
Charge to profit or loss	**97 804**	126 180	**7 839**	12 358
Payments made during the period	**(101 244)**	(151 144)	**(7 989)**	(12 329)
Taxation (asset)/liability	**(80 653)**	(77 213)	**(7 354)**	(7 204)

* During the year, the group restated the Preference Shares in LMFSN back to an intercompany borrowing. This is to rectify a loan to preference share conversion transaction done in March 2018 in LMFSN. Refer to Note 3 for more detail.

NOTES TO THE FINANCIAL STATEMENTS continued

15. BORROWINGS

	GROUP		COMPANY	
	31 December 2020 N$'000	31 December 2019 N$'000	31 December 2020 N$'000	31 December 2019 N$'000
Commercial loan 1	10 000	–	–	–
Commercial loan 2	502 465	65 772	–	–

Commercial loan 1 and 2 are secured term loans guaranteed by Letshego Holdings Limited and bear interest at Namibia Prime repayable in quarterly instalments and mature on 30 June 2021 and 10 March 2021 respectively. The Group has complied with the financial covenants of its borrowing facilities during the 2020 and 2019 reporting period, see Note 6.1.6 for details.

	GROUP 31 December 2020 N$'000	GROUP 31 December 2019 N$'000	COMPANY 31 December 2020 N$'000	COMPANY 31 December 2019 N$'000
Commercial loan 3	330 000	225 000	–	–

Commercial loan 3 is a secured revolving credit facility guaranteed by Letshego Holdings Limited and bears interest at Namibia prime less 0.14%. Interest on the loan is repayable quarterly and the loan matures on 31 December 2022. The Company has complied with the financial covenants of its borrowing facilities during the 2020 and 2019 reporting period, see Note 6.1.6 for details.

	GROUP 31 December 2020 N$'000	GROUP 31 December 2019 N$'000	COMPANY 31 December 2020 N$'000	COMPANY 31 December 2019 N$'000
Total borrowings	842 465	290 772	–	–
– Current	512 465	280 772	–	–
– Non-current	330 000	10 000	–	–
	842 465	290 772	–	–

Risk exposures

Details of the group's exposure to risks arising from current and non-current borrowings are set out in note 6.

NOTES TO THE FINANCIAL STATEMENTS continued

		GROUP		COMPANY	
		31 December 2020 N$'000	31 December 2019 N$'000	31 December 2020 N$'000	31 December 2019 N$'000
16.	**AMOUNTS DUE TO PARENT COMPANY**				
16.1	Amounts due to parent company – Letshego Holdings Limited	**585 750**	614 295	**–**	–
	Reconciliation of Amounts due to parent company:				
	Opening balance	**614 295**	138 049		
	Restatement*	**–**	799 530		
	Restated balance	**614 295**	937 579		
	Movement in the current year	**(28 545)**	323 284		
	Closing balance	**585 750**	614 295		

The loan from Letshego Holdings Limited is unsecured and interest is calculated monthly in arrears at a variable rate of Namibia prime plus 2%. The loan is repayable in variable instalments and matures on 30 November 2024.

16.2	Intercompany payable – Erf 8585 (Pty) Ltd	**1 661**	2 902	**–**	–

The intercompany loan with Erf 8585 (Pty) Ltd is unsecured and currently does not bear interest and has no fixed repayment terms. At year end, the carrying amount of the intercompany payable approximates closely to its fair value due to the short-term nature of the balance.

16.3	Intercompany payable – Letshego Micro Financial Services (Namibia) Ltd	**–**	–	**111 184**	–

The intercompany payable Letshego Micro Financial Services (Namibia) Ltd is unsecured, of a short-term nature and currently does not bear interest and has no fixed repayment terms. At year end, the carrying amount of the intercompany payable approximates closely to its fair value due to the short-term nature of the balance.

Total intercompany payables	**587 411**	617 197	**111 184**	–

Banking facilities

There were no overdraft facilities in place at the end of the financial period (2019: N$ Nil).

NOTES TO THE FINANCIAL STATEMENTS continued

	GROUP		COMPANY	
	31 December 2020 N$'000	31 December 2019 N$'000	31 December 2020 N$'000	31 December 2019 N$'000
17. DEPOSITS DUE TO CUSTOMERS				
Current accounts	102 609	32 824	–	–
Term deposits	85 284	10 537	–	–
Total deposits due to customers	187 893	43 361	–	–
18. SHARE CAPITAL				
Authorised share capital				
500 000 000 ordinary shares of 0.02 cents each (2019: 500 000 000 ordinary shares of 0.02 cents each)	100	100	100	100
Issued share capital				
500 000 000 ordinary shares of 0.02 cents each (2019: 500 000 000 ordinary shares of 0.02 cents each)	100	100	100	100

19. EQUITY SETTLED SHARE BASED PAYMENT RESERVE

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

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

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

	COMPANY		GROUP			
	December 2020	December 2019	December 2020		December 2019	
	Number of share awards	Number of share awards	Number of share awards	Exercise price	Number of share awards	Exercise price
Granted during prior periods	–	–	2 653	NAD 3.40./2.90/2.56	2 179	NAD 3.20./2.73/2.42
Granted in current period	–	–	1 979	NAD 0.97	1 071	NAD 2.24
Exercised during the period			(393)	NAD 2.90	–	NAD 3.40
Forfeited during the period	–	–	(321)	NAD 2.90	(597)	NAD 3.25
Exercisable and outstanding at the end of the period	–	–	3 918	NAD 2.56/2.24/0.97	2 653	NAD 3.40./2.90/2.56
Fair value of awards exercisable and outstanding at the end of the period	–	–	2 268		2 144	

NOTES TO THE FINANCIAL STATEMENTS continued

		GROUP		
	December 2020		December 2019	
	Number of share awards	Exercise price	Number of share awards	Exercise price
20. PROFIT BEFORE TAXATION				
The following items have been recognised in arriving at profit before taxation:				
Advertising and promotions	**2 130**	848	98	312
Auditors' remuneration	**2 279**	2 369	309	498
Consultancy costs – professional services	**10 196**	7 569	1 422	854
Computer services costs	**3 349**	2 295	–	–
Depreciation	**15 108**	12 856	–	–
Directors' emoluments				
– for services as director	**1 585**	1 822	–	–
– for management services	**4 322**	2 810	–	–
Rental – premises, computer and office equipment	**–**	–	–	–
Rental – low value and short-term leases	**2 602**	2 358	–	–
Employee benefit expense (excluding directors' remuneration – for management services)	**66 107**	61 079	3	40
21. EMPLOYEE BENEFIT EXPENSE				
Salaries	**43 783**	37 047	3	40
Key managem ent personnel	**9 557**	9 755	–	–
Pension fund contributions	**4 788**	4 263	–	–
Medical aid contributions	**3 228**	2 585	–	–
Social security	**154**	145	–	–
Incentive bonuses	**8 913**	10 071	–	–
Staff training and welfare	**6**	23	–	–
	70 429	63 889	3	40

NOTES TO THE FINANCIAL STATEMENTS continued

	GROUP		COMPANY	
	31 December 2020 N$'000	31 December 2019 N$'000	31 December 2020 N$'000	31 December 2019 N$'000
22. OPERATING EXPENSES BY NATURE				
Sales related expense	**10 056**	10 048	**98**	318
Auditors remuneration – audit services	**2 279**	2 369	**309**	498
Collection fees	**29 103**	37 177	**–**	–
Consulting and secretarial	**10 196**	7 569	**1 422**	854
Management fees	**35 263**	34 739	**–**	–
Employee benefit expense (excluding directors' remuneration – for management services)	**66 107**	61 090	**3**	40
Depreciation (note 11)	**15 108**	12 856	**–**	–
Net impairment of bad debts on financial assets	**43 652**	9 236	**–**	–
Directors' remuneration – for services as directors	**1 585**	1 822	**–**	–
Directors' remuneration – for management services	**4 322**	2 810	**–**	–
Computer related expenses	**3 349**	2 295	**–**	–
Office rental	**2 602**	2 358	**–**	–
Travel and accommodation	**1 473**	2 519	**13**	–
Social responsibility projects	**1 347**	1 164	**–**	151
Telephone & Fax	**3 650**	2 918	**–**	–
Guarantee fees	**8 096**	4 670	**–**	–
Subscriptions	**11 057**	7 866	**389**	145
VAT expense	**7 510**	9 652	**–**	–
Security costs	**2 055**	1 348	**–**	–
Insurance	**9 329**	279	**–**	–
Bank charges	**2 380**	1 041	**–**	–
Other operational expenses	**7 328**	7 253	**15**	5
Withholding Tax – Management Fees	**525**	–	**–**	–
	278 372	223 079	**2 249**	2 011

NOTES TO THE FINANCIAL STATEMENTS continued

	GROUP		COMPANY	
	31 December 2020 N$'000	31 December 2019 N$'000	31 December 2020 N$'000	31 December 2019 N$'000
23. NET INTEREST INCOME				
Interest income calculated using the effective interest income method – Advances to customers	**620 240**	599 896	**–**	–
Other interest income:				
– Interest received on short term bank deposits	**5 464**	25 302	**6**	85
Total interest income calculated using the effective interest income method	**625 704**	625 198	**6**	85
*Interest paid:**	**(98 750)**	(110 011)	**–**	–
– Borrowings	**(32 556)**	(29 221)	**–**	–
– Deposits due to customers	**(4 766)**	(5 794)	**–**	–
– Lease liabilities	**(1 703)**	(1 602)	**–**	–
– Shareholder's loan – LHL	**(59 725)**	(73 394)	**–**	–
Net interest income	**526 954**	515 187	**6**	85

* During the year, the group restated the Preference Shares in LMFSN back to an intercompany borrowing. This is to rectify a loan to preference share conversion transaction done in March 2018 in LMFSN. Refer to Note 3 for more detail.

24. FEE INCOME				
Postage fees	**145**	361	**–**	–
Fees and commission earned from services to customers	**6 652**	1 742	**–**	–
	6 797	2 102	**–**	–
25. OTHER OPERATING INCOME				
Dividend income – cell captive	**167 744**	229 999	**59 662**	73 695
Dividend received*	**–**	–	**–**	120 883
	167 744	229 999	**59 662**	194 578

* An ordinary dividend of N$121 million was received from Letshego Micro Financial Services (Namibia) (Pty) Namibia during the current year.

NOTES TO THE FINANCIAL STATEMENTS continued

26. RELATED PARTIES

	Letshego Micro Financial Services (Namibia) (Proprietary) Limited (Subsidiary)
	Letshego Bank (Namibia) Limited (Subsidiary)
Lease agreements:	Erf Eight Five Eight Five (Proprietary) Limited (Subsidiary of Ultimate Parent Company)
Management services agreements:	Letshego Holdings Limited (Ultimate Parent Company)
Key management personnel:	Ester Kali (Chief Executive Officer)
	Gregory Madhimba (Chief Financial Officer)
	O'Rute Uandara (Chief Operating Officer)
	James Damon (Head of Credit)
	Aletta Shifotoka (Chief Risk and Compliance Officer)
	Barend Kruger (Head of Consumer Division)
	Diana Mokhatu (Head of Human Resources)
	Chriszelda Gontes (Head of Governance and Legal/Company Secretary)
Directors:	Rairirira Mbakutua Mbetjiha
	Ester Kali
	Rosalia Martins-Hausiku
	Sven von Blottnitz
	Maryvonne Palanduz

	GROUP		COMPANY	
	31 December 2020 N$	31 December 2019 N$	31 December 2020 N$	31 December 2019 N$
26.1 Related party balances				
Loan accounts – Owing to related parties				
Letshego Holdings Limited – loan	**585 750**	614 295	**–**	–
Erf 8585 (Pty) Ltd	**1 661**	2 902	**–**	–
Total related party balances	**587 411**	617 197	**–**	–

The loan from Letshego Holdings Limited is unsecured and interest is calculated monthly in arrears at a variable rate of Namibia prime plus 2%. The loan has no fixed repayment terms.

The intercompany loan with Erf 8585 (Pty) Ltd is unsecured and currently does not bear interest and has no fixed repayment terms.

Advances				
Advances to key management personnel	**237**	1 134	**–**	–

No impairment has been recognised in respect of loans granted to key management personnel in the current or prior year.

Deposits				
Deposits from key management personnel and directors	**–**	255	**–**	–

Deposits include current and savings accounts.

NOTES TO THE FINANCIAL STATEMENTS continued

	COMPANY		GROUP	
	31 December 2020 N$'000	31 December 2019 N$'000	31 December 2020 N$'000	31 December 2019 N$'000
26. RELATED PARTIES continued				
26.2 Related party transactions				
Interest paid to related parties				
Letshego Holdings Limited	59 725	73 394	–	–
Key management personnel and directors	–	9	–	–
Interest received from related parties				
Key management personnel	–	128	–	–
Rent paid to related parties				
Erf Eight Five Eight Five (Proprietary) Limited	2 670	1 388	–	–
Guarantee fees paid to related parties				
Letshego Holdings Limited	8 096	4 670	–	–
Management fees paid to related parties				
Letshego Holdings Limited	35 263	34 739	–	–
Dividend received from related parties				
Letshego Micro Financial Services (Namibia) (Pty) Limited	–	–	–	120 883
The amount classified as management fees under note 22 is made up as follows:				
Fees payable to Letshego Holdings Limited	31 737	31 265	–	–
Withholding tax paid on imported management services	3 526	3 474	–	–
	35 263	34 739	–	–
Compensation paid to key management personnel				
Salaries and short-term benefits	9 557	13 650	–	–
	9 557	13 650	–	–
Compensation paid to directors				
Sitting fees paid to non-executive directors	1 585	1 822	–	–
	1 585	1 822	–	–

27. SECURITY

The customer advances portfolio is registered as security to Fedrox (Pty) Ltd who intern issues security to the Group's commercial loans and a Medium Term Note programme floated by the ultimate holding company on the Johannesburg Stock Exchange. The programme in issue is for a combination of fixed and floating rate notes which mature respectively February 2021 (NAD 432 million) and February 2022 (NAD 33 million).

NOTES TO THE FINANCIAL STATEMENTS continued

28. CAPITAL REORGANISATION RESERVE

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

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

	GROUP	COMPANY
Carrying value of assets and liabilities acquired:	As at 1 January 2015: N$'000	As at 1 January 2015: N$'000
Cash	48 033	48 033
Other receivables	63 970	63 970
Intercompany receivable	20 517	20 517
Advances to customers	1 607 218	1 607 218
Deferred taxation	3 343	3 343
Current taxation	(14 819)	(14 819)
Property, plant and equipment	5 904	5 904
Trade and other payables	(53 894)	(53 894)
Intercompany payable	–	–
Borrowings	(764 064)	(764 064)
Non-controlling interest – Preference shares attributable to Ultimate Parent Company	(215 085)	(215 085)
Capital reorganisation reserve	(701 024)	(701 024)
Net assets acquired	100	100

	GROUP		COMPANY	
	31 December 2020 N$'000	31 December 2019 N$'000	31 December 2020 N$'000	31 December 2019 N$'000
Capital reorganisation reserve	**701 024**	701 024	**1 344 154**	1 344 154
29. INVESTMENT IN SUBSIDIARIES			**–**	
Investment in Letshego Micro Financial Services (Namibia) (Pty) Ltd at cost	**–**	–	**570 200**	570 100
Investment in Letshego Bank (Namibia) Limited at cost	**–**	–	**1 344 154**	1 344 254
	–	–	**1 914 354**	1 914 354
30. CAPITAL COMMITMENTS				
Authorised but not contracted for	**32 956**	17 813	**–**	–

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

NOTES TO THE FINANCIAL STATEMENTS continued

31. SEGMENT INFORMATION

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

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

31.1 Entity-wide disclosures

31.1.1 PRODUCTS AND SERVICES

Operating segment

- Banking operations

Brand

- Letshego

Description

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

Products and services

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

31.1.2 GEOGRAPHICAL SEGMENTS

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

31.1.3 MAJOR CUSTOMERS

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

32. NET DEBT RECONCILIATION

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

	GROUP		COMPANY	
	31 December 2020 N$'000	31 December 2019 N$'000	31 December 2020 N$'000	31 December 2019 N$'000
Cash and cash equivalents	**468 253**	147 586	**59**	180
Borrowings repayable within one year (including lease liabilities)*	**(524 241)**	(764 598)	**–**	–
Borrowings repayable after one year (including lease liabilities)*	**(916 797)**	(157 578)	**–**	–
Net debt	**(972 785)**	(774 590)	**59**	180
Cash and cash equivalents	**468 253**	147 586	**59**	180
Gross debt – fixed interest rates	**–**	–	**–**	–
Gross debt – variable interest rates	**(1 441 038)**	(922 176)	**–**	–
Net debt	**(972 785)**	(774 590)	**59**	180

* During the year, the group restated the Preference Shares in LMFSN back to an intercompany borrowing. This is to rectify a loan to preference share conversion transaction done in March 2018 in LMFSN. Refer to Note 3 for more detail.

NOTES TO THE FINANCIAL STATEMENTS continued

33. EARNINGS AND HEADLINE EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the Group's profit for the year/period by the weighted average number of ordinary shares in issue during the year/period, excluding ordinary shares purchased by the company and held as treasury shares.

Headline earnings per share is calculated by dividing the Group's profit for the year/period, after excluding identifiable remeasurements, net of tax, by the weighted average number of ordinary shares in issue during the year/period, excluding ordinary shares purchased by the company and held as treasury shares.

	GROUP		COMPANY	
	31 December 2020 N$'000	31 December 2019 N$'000	31 December 2020 N$'000	31 December 2019 N$'000
Earnings				
Profit for the period	**320 889**	401 198	**49 580**	180 294
Headline adjustments	**–**	–	**–**	–
Remeasurement included in equity accounted earnings	**–**	–	**–**	–
Headline earnings	**320 889**	401 198	**49 580**	180 294
Number of ordinary shares in issue at year end (note 18)	**500 000**	500 000	**500 000**	500 000
Weighted average number of ordinary shares in issue during the period	**500 000**	500 000	**500 000**	500 000
Diluted weighted average number of ordinary shares in issue during the period	**500 000**	500 000	**500 000**	500 000
Earnings per ordinary share (cents)				
Basic	**64**	80	**10**	36
Fully diluted	**64**	80	**10**	36
Headline earnings per ordinary share (cents)				
Basic	**64**	80	**10**	36
Fully diluted	**64**	80	**10**	36

34. EVENTS OCCURRING AFTER THE REPORTING DATE

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

No other matters which are material to the financial affairs of the group and company have occurred between year-end and the date of approval of the consolidated annual financial statements.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 5th Annual General Meeting of the Shareholders of Letshego Holdings Namibia Limited to be held at the Tenbergen Pension Hotel, located at c/o Lazarett & Robert Mugabe Avenue, Windhoek Namibia on Wednesday 30 June 2021 at 16h00, with registration to commence at 15h30.

The AGM will be convened for the following purposes:

ORDINARY BUSINESS

ORDINARY RESOLUTIONS

To consider and pass the following ordinary resolutions:

1. **Resolution 1**

   To receive and adopt the Annual Financial Statements for the financial year ended 31 December 2020 including the Directors' Report and the report of the Independent Auditors.

2. **Resolution 2**

   To ratify the dividends declared and paid since the last Annual General Meeting, a final dividend of 22.5 cents (N$0.225) per share paid to shareholders on 04 June 2021.

3. **Resolution 3**

   DIRECTORS

   To confirm the re-election of Mr. RM Mbetjiha, who retires in accordance with Article 63 of the articles of Association of the Company, and being eligible, offers himself for re-election.

4. **Resolution 4**

   4a. To approve the remuneration of the Directors for the financial year ending 31 December 2020 as disclosed in Note 20 to the Annual Financial Statements in the Annual Report. The Board attendance and remuneration for each Director will be disclosed in the Corporate Governance section of the Annual Report.

   4b. To confirm the remuneration structure of the Directors for the financial year ending 31 December 2020. The board fees and the retainer structure are set out in the Corporate Governance section of the Annual Report.

5. **Resolution 5**

   To approve the remuneration of the Auditors for the financial year ending 31 December 2020 as disclosed in Note 20 to the Annual Financial Statements.

6. **Resolution 6**

   6a. To ratify and confirm the appointment of Ernst & Young as external auditors for the ensuing year subject to Bank of Namibia approval.

   6b. To authorize the directors to determine the remuneration of the Auditors for the next financial year ending 31 December 2021 estimated at N$1,500,000 to N$2,280,000.

Kindly note that as a result of Covid-19 and the resultant restrictions on public gatherings, voting will be by proxy only. The exact voting process is set out in the proxy form accompanying this document.

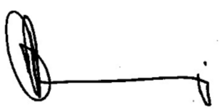
SPECIAL BUSINESS

To transact other business which may be transacted at the Annual General Meeting

PROXIES

A Shareholder entitled to attend and vote is entitled to appoint a proxy to attend, speak and vote in his/her stead. The person so appointed need not be a shareholder. Proxy forms should be deposited at Letshego Holdings Namibia Limited, 1st Floor, Letshego Bank (Namibia) Ltd, 18 Schwerinsburg Street, Windhoek or emailed to the Group Company Secretary at chriszeldam@letshego.com not less than 48 hours before the meeting.

By order of the Board



C Gontes
Company Secretary
31 May 2021

FORM OF PROXY

ORDINARY BUSINESS

For completion by holders of ordinary shares

(PLEASE READ THE NOTES OVERLEAF BEFORE COMPLETING THIS FORM)

For use at the Annual General Meeting of ordinary shareholders of the Company to be held at the Tenbergen Pension Hotel, located at c/o Lazarett & Robert Mugabe Avenue, Windhoek Namibia on Wednesday 30 June 2021 at 16h00, with registration to commence at 15h30.

I/We (name/s in block letters)

of (address)

being a member of Letshego Holdings Limited hereby appoint (see note 2)

1. or failing him/her,

2. or failing him/her,

3. The Chairman of the meeting, as my/our proxy to act for me/us at the Annual General Meeting which will be held for the purpose of considering, and if deemed fit, passing with or without modification, the resolutions to be proposed thereat and at each adjournment thereof, and to vote for or against the resolutions and/or abstain from voting in respect of the Ordinary Shares registered in my/our name in accordance with the following instructions (see note 2):

	For	**Against**	**Abstain**
Ordinary resolution number 1			
Ordinary resolution number 2			
Ordinary resolution number 3			
Ordinary resolution number 4a			
Ordinary resolution number 4b			
Ordinary resolution number 5			
Ordinary resolution number 6a			
Ordinary resolution number 6b			

Signed at on this day of 2021

Signature

Assisted by (where applicable)

Each Shareholder is entitled to appoint one or more proxies (who need not be Member/s of the Company) to attend, speak and vote in place of that shareholder at the Annual General Meeting.

Please read the notes hereof.

FORM OF PROXY continued

NOTES

1. A Shareholder may insert the names of two alternative proxies of the Shareholder's choice in the space provided, with or without deleting "the Chairman of the Annual General Meeting ". The person whose name appears first on the form of proxy, and whose name has not been deleted will be entitled to act as proxy to the exclusion of those whose names follow.

2. A Shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by the Shareholder in the appropriate space provided. Failure to comply herewith will be deemed to authorise the proxy to vote at the Annual General Meeting as he/she deems fit in respect of the Shareholder's votes exercisable thereat, but where the proxy is the Chairman, failure to comply will be deemed to authorise the proxy to vote in favour of the resolution. A Shareholder or his/her proxy is obliged to use all the votes exercisable by the Shareholder or by his/her proxy.

3. Forms of proxy must be lodged at or posted to The Company Secretary, Letshego Holdings (Namibia) Limited, 1st Floor, Letshego Bank (Namibia) Ltd, 18 Schwerinsburg Street, Windhoek or emailed to the Group Company Secretary at chriszeldam@letshego.com, to be received not less than 48 hours before the Annual General Meeting.

4. The completion and lodging of this form will not preclude the relevant Shareholder from attending the Annual General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such Shareholder wish to do so.

5. The Chairman of the Annual General Meeting may reject or accept any form of proxy not completed and/or received other than in accordance with these notes provided that he is satisfied as to the manner which the Shareholder concerned wishes to vote.

6. An instrument of proxy shall be valid for the Annual General Meeting as well as for any adjournment thereof, unless the contrary is stated thereon.

7. A vote given in accordance with the terms of a proxy shall be valid, notwithstanding the previous death or insanity of the Shareholder, or revocation of the proxy, or of the authority under which the proxy was executed, or the transfer of the Ordinary Shares in respect of which the proxy is given, provided that no intimation in writing of such death, insanity or revocation shall have been received by the Company not less than one hour before the commencement of the Annual General Meeting or adjourned Annual General Meeting at which the proxy is to be used.

8. At a meeting of Shareholders a poll may be demanded by:
   (a) not less than five shareholders having the right to vote at the meeting or;
   (b) a Shareholder or shareholders representing not less than 10 per cent of the total voting rights of all Shareholders having the right to vote at the meeting;
   (c) a Shareholder or Shareholders holding shares in the Company that confer a right to vote at the meeting and on which the aggregate amount paid up is not less than 10 per cent of the total. Where a poll is taken, votes shall be counted according to the votes attached to the shares of each Shareholder present in person or by proxy and voting.

9. The authority of a person signing the form of proxy under a power of attorney or on behalf of a company must be attached to the form of proxy, unless the authority or full power of attorney has already been registered by the Company or the Transfer Secretaries.

10. Where ordinary shares are held jointly, all joint Shareholders must sign.

11. A minor must be assisted by his/her guardian, unless the relevant documents establishing his/her legal capacity are produced or have been registered by the Company.

LIST OF ABBREVIATIONS

ARC	Audit and Risk Committee
BCP	Business Continuity Action Plan
BoN	Bank of Namibia
CAR	Capital Adequacy Ratio
CCC	Corona Crisis Committee
CIR	Cost to Income Ratio
CLI	Credit Life Insurance
DAS	Deduction at source
EAC	Enterprise Active Customers
EFT	Electronic Funds Transfer
ESOP	Employee Share Ownership Plan
GDP	Gross domestic product
GRI	Global Reporting Initiative
IIRC	International Integrated Reporting Framework
King IV	King IV Code of Governance Principles for South Africa
LBN	Letshego Bank (Namibia) Limited
LFSN	Letshego Financial Services Namibia
LHL	Letshego Holdings Limited
LHN	Letshego Holdings (Namibia) Limited
LLR	Loan Loss Ratio
LMFSN	Letshego Micro Financial Services (Namibia) (Pty) Limited
NanCode	Namibia's Corporate Governance Code
NAMFISA	Namibia Financial Institutions Supervisory Authority
NCD	Non-communicable disease
NPS	National Payment System
PAR	Portfolio at risk
PPE	Personal protective equipment
NSX	Namibian Stock Exchange
OD	Organisational Design
PAT	Profit after tax
PBMT	Profit before management fees and tax
PSD	Payment system determination
ROE	Return on Equity
RPA	Robotic process automation
UN SDGs	United National Sustainable Development Goals
SSI	Strategic Social Investment
STI	Short-term insurance
USSD	Unstructured supplementary service data
WfH	Work-from-home

COMPANY INFORMATION

LETSHEGO HOLDINGS (NAMIBIA) LIMITED

Registration number: 2016/0145

ISIN: NA000A2DVV41

Share code (NSX): LHN

REGISTERED ADDRESS:

18 Schwerinsburg Street
PO Box 11600
Windhoek
Namibia

COMPANY SECRETARY:

Chriszelda Gontes
Letshego Holdings Namibia
18 Schwerinsburg Street
Windhoek
Namibia

AUDITOR:

PricewaterhouseCoopers
PO Box 1571
Windhoek, Namibia

SPONSORING BROKER:

IJG Securities (Pty) Limited
PO Box 186
Windhoek, Namibia

TRANSFER SECRETARY:

Transfer Secretaries (Pty) Limited
PO Box 2401
Windhoek, Namibia

www.letshego.com