# LETSHEGO HOLDINGS LIMITED
# REVIEWED CONDENSED CONSOLIDATED FINANCIALS
# FOR THE YEAR ENDED 31 DECEMBER 2022

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**DIRECTORS' REPORT**
**For the year ended 31 December 2022**

The Board of Directors is pleased to present their report to Shareholders together with the reviewed condensed consolidated financial statements for the year ended 31 December 2022.

1 **Financial results**

The condensed consolidated financial statements adequately disclose the results of the Group's operations for the year ended 31 December 2022.

2 **Dividends**

An interim dividend of 5.8 thebe per share (prior year: 7.3 thebe per share) was declared on 23 August 2022.

A second and final dividend of 9.7 thebe per share (prior year: 9.7 thebe per share) was declared on 28 February 2023 and will be paid on or around 26 June 2023.

3 The below are changes that took place during the current year:

**Directors**

*Resignations and Retirement:*

| **Director's name** | **Designation** | **Resignation/Reirement Date** |
|---|---|---|
| Runa Alam | Non-Executive Director | Resigned on 23 March 2022 |
| Enos Banda | Independent Non-Executive Director | Resigned on 22 June 2022 |
| Hannington Karuhanga | Independent Non-Executive Director | Resigned on 22 June 2022 |
| Gloria Somolekae | Independent Non-Executive Director | Resigned on 22 June 2022 |
| Stephen Price | Independent Non-Executive Director | Retired on 23 June 2022 |

*Appointments:*

| **Director's name** | **Designation** | **Appointment Date** |
|---|---|---|
| Jayaraman Ramesh | Independent Non-Executive Director | Appointed on 11 August 2022 |
| Christopher Mokgware | Independent Non-Executive Director | Appointed on 11 August 2022 |
| Ketlhalefile Motshegwa | Non-Executive Director | Appointed on 16 August 2022 |
| Prof. Emmanuel Botlhale | Independent Non-Executive Director | Appointed on 16 August 2022 |

4 **Independent auditors**

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

5 **Company secretary and registered office**

Lebogang Rathedi (Interim)
Tower C, Zambezi Towers
Plot 54352, Central Business District
Gaborone, Botswana

6 **Transfer secretaries**

PricewaterhouseCoopers (Pty) Ltd
Plot 50371
Fairgrounds Office Park
Gaborone, Botswana

7 **Attorneys and legal advisors**

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

8 **Company registration**

Registration Number: UIN BW00000877524

## STATEMENT OF DIRECTORS' RESPONSIBILITY
**For the year ended 31 December 2022**

The directors of Letshego Holdings Limited are responsible for the condensed consolidated financial statements and all other information presented therewith. Their responsibility includes the maintenance of true and fair financial records and the preparation of these condensed consolidated financial statements using the framework principles, the recognition and measurement principles of IFRS and contain the presentation and disclosures required by IAS 34 *Interim Financial Reporting* .

All companies within the Group maintain systems of internal control which are designed to provide reasonable assurance that the records accurately reflect its transactions and to provide protection against serious misuse or loss of the Group's assets. The directors are also responsible for the design, implementation, maintenance and monitoring of these systems of internal financial control. Nothing has come to the attention of the directors to indicate that any significant breakdown in the functioning of these systems has occurred during the year under review.

The going concern basis has been adopted in preparing the condensed consolidated financial statements. The directors have no reason to believe that the Group will not be a going concern in the foreseeable future based on forecasts and available cash resources.

Our external auditors conduct an examination of the condensed consolidated financial statements in conformity with International Standards on Review Engagements. Regular meetings are held between management and our external auditors to review matters relating to internal controls and financial reporting. The external auditors have unrestricted access to the Board of Directors and the Board Audit Committee.

The Board of Directors have reviewed and approved the accompanying condensed consolidated financial statements, set out on pages 5 to 25, for issue on 28 February 2023 and signed on their behalf by:

**P Odera**
**Group Board Chairman**

**A Monyatsi**
**Group Chief Executive**

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

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Partnership registered in Botswana
Registration No: 10829
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# Report on review of condensed consolidated financial information

To the shareholders of Letshego Holdings Limited

## Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Letshego Holdings Limited and its subsidiaries ("the Group") at 31 December 2022 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory notes ("condensed consolidated financial information") set out on pages 5 to 25. Management is responsible for the preparation and presentation of the condensed consolidated financial information using the framework principles, and the recognition and measurement principles of International Financial Reporting Standards and ensure that the condensed consolidated financial statements contain the presentation and disclosures required by International Accounting Standard 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated financial information based on our review.

## Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated financial information as at and for the year ended 31 December 2022 is not prepared, in all material respects, in accordance with the framework principles, and the recognition and measurement principles of International Financial Reporting Standards and do not contain the presentation and disclosures required by the International Accounting Standard 34, 'Interim Financial Reporting'.

Ernst + Young

Ernst & Young

Practicing Member: Francois Roos

Partner

Certified Auditor

Membership Number: CAP 0013 2022

Gaborone

02 March 2023

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**At 31 December 2022**

| | Note | At 31 December 2022 (Reviewed) P'000 | At 31 December 2021 (Audited) P'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and similar instruments | 2 | 1,020,771 | 1,413,500 |
| Investment securities | 3 | 692,101 | 859,496 |
| Financial assets at fair value through profit or loss* | 4 | 1,178,969 | 826,092 |
| Advances to customers | 5 | 12,727,475 | 11,875,595 |
| Other receivables | 6 | 479,533 | 413,411 |
| Financial assets at fair value through other comprehensive income | 7 | 43,107 | 71,499 |
| Income tax receivable | | 81,454 | 134,767 |
| Property and equipment | 8 | 116,761 | 172,822 |
| Right-of-use assets | 9 | 101,654 | 98,756 |
| Intangible assets | 10 | 305,798 | 30,040 |
| Goodwill | 11 | 31,910 | 67,715 |
| Deferred tax assets | | 129,083 | 95,748 |
| **Total assets** | | **16,908,616** | **16,059,441** |
| | | | |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Financial liabilities at fair value through profit or loss | 12 | 1,201,095 | 808,621 |
| Customer deposits | 13 | 1,120,827 | 1,175,586 |
| Cash collateral | 14 | 18,476 | 21,522 |
| Income tax payable* | | 68,426 | 96,268 |
| Trade and other payables | 15 | 715,490 | 965,860 |
| Lease liabilities | 16 | 97,953 | 99,646 |
| Borrowings | 17 | 8,027,840 | 7,380,768 |
| Deferred tax liabilities | | 339 | 5,168 |
| **Total liabilities** | | **11,250,446** | **10,553,439** |
| | | | |
| **Shareholders' equity** | | | |
| Stated capital | 18 | 899,571 | 882,224 |
| Foreign currency translation reserve | | (492,653) | (557,341) |
| Legal reserve | | 313,780 | 265,244 |
| Fair value adjustment reserve | | (13,144) | 15,248 |
| Share based payment reserve | | 42,474 | 39,907 |
| Retained earnings | | 4,442,209 | 4,421,568 |
| **Total equity attributable to equity holders of the parent company** | | **5,192,237** | **5,066,850** |
| | | | |
| Non-controlling interests | | 465,933 | 439,152 |
| **Total shareholders' equity** | | **5,658,170** | **5,506,002** |
| | | | |
| **Total liabilities and equity** | | **16,908,616** | **16,059,441** |

**The order of liquidity on the Statement of Financial Position of the above items has been amended in the current financial year in order to better reflect their nature in relation to other items on the Statement of Financial Position. The indicated amendment is anticipated to enhance users' undertsanding of the financial statements of the Group.*

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

**For the year ended 31 December 2022**

| | Note | 12 months ended 31 December 2022 (Reviewed) P'000 | 12 months ended 31 December 2021 (Audited) P'000 |
|---|---|---|---|
| Interest income at effective interest rate | 19 | 3,145,672 | 3,110,511 |
| Interest expense at effective interest rate | 20 | (1,376,678) | (1,119,108) |
| Other interest expense | 20.1 | (12,524) | (14,930) |
| **Net interest income** | | **1,756,470** | **1,976,473** |
| Fee and commission income | 21 | 89,554 | 83,681 |
| Other operating income | 22 | 439,803 | 286,604 |
| **Operating income** | | **2,285,827** | **2,346,758** |
| Expected credit losses | 23 | (98,706) | 17,196 |
| **Net operating income** | | **2,187,121** | **2,363,954** |
| Employee costs | 24 | (585,939) | (546,241) |
| Other operating expenses | 25 | (799,927) | (670,969) |
| Total operating expenses | | (1,385,866) | (1,217,210) |
| **Profit before taxation** | | **801,255** | **1,146,744** |
| Taxation | | (332,311) | (417,243) |
| **Profit for the year** | | **468,944** | **729,501** |
| | | | |
| **Attributable to :** | | | |
| Equity holders of the parent company | | 401,903 | 671,554 |
| Non-controlling interests | | 67,041 | 57,947 |
| **Profit for the year** | | **468,944** | **729,501** |
| | | | |
| **Other comprehensive income, net of tax** | | | |
| **Items that may be subsequently reclassified to profit or loss:** | | | |
| Fair value (loss)/gain on financial asset designated at fair value through other comprehensive income | 7 | (28,392) | 9,431 |
| Foreign currency translation differences arising from foreign operations | | 75,425 | 329,824 |
| **Total comprehensive income for the year** | | **515,977** | **1,068,756** |
| | | | |
| **Attributable to :** | | | |
| Equity holders of the parent company | | 438,199 | 1,009,317 |
| Non-controlling interests | | 77,778 | 59,439 |
| **Total comprehensive income for the year** | | **515,977** | **1,068,756** |
| | | | |
| Weighted average number of shares in issue during the year (millions) | | 2,147 | 2,134 |
| Dilution effect - number of shares (millions) | | 133 | 149 |
| Number of shares in issue at the end of the year (millions) | | 2,149 | 2,144 |
| Basic earnings per share (thebe) | | 18.7 | 31.5 |
| Diluted earnings per share (thebe) | | 17.6 | 29.4 |

*NOTE: The diluted EPS has been calculated based on the total number of shares that may vest in terms of the Group's long term staff incentive scheme.*

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**For the year ended 31 December 2022**

| | Stated capital P'000 | Retained earnings P'000 | Share-based payment reserve P'000 | Fair value reserve of financial assets at FVOCI P'000 | Foreign currency translation reserve P'000 | Legal reserve P'000 | Non-controlling interest P'000 | Total P'000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2021** | **872,169** | **4,133,314** | **31,295** | **5,817** | **(885,673)** | **214,835** | **417,819** | **4,789,576** |
| **Total comprehensive income for the year** | | | | | | | | |
| Profit for the year | - | 671,554 | - | - | - | - | 57,947 | **729,501** |
| **Other comprehensive income, net of income tax** | | | | | | | | |
| Fair value adjustment of financial asset | - | - | - | 9,431 | - | - | - | **9,431** |
| Foreign currency translation reserve | - | - | - | - | 328,332 | - | 1,492 | **329,824** |
| **Transactions with owners, recorded directly in equity** | | | | | | | | **-** |
| Allocation to legal reserve | - | (50,409) | - | - | - | 50,409 | - | **-** |
| Recognition of share based payment reserve movement | - | - | 18,667 | - | - | - | - | **18,667** |
| New shares issued from long term incentive scheme | 10,055 | - | (10,055) | - | - | - | - | **-** |
| Dividends paid by subsidiary to minority interests | - | - | - | - | - | - | (38,106) | **(38,106)** |
| Dividends paid to equity holders | - | (332,891) | - | - | - | - | - | **(332,891)** |
| **Balance at 31 December 2021 - Audited** | **882,224** | **4,421,568** | **39,907** | **15,248** | **(557,341)** | **265,244** | **439,152** | **5,506,002** |
| **Total comprehensive income for the year** | | | | | | | | |
| Profit for the year | - | 401,903 | - | - | - | - | 67,041 | 468,944 |
| **Other comprehensive income, net of income tax** | | | | | | | | |
| Fair value adjustment of financial asset | - | - | - | (28,392) | - | - | - | (28,392) |
| Foreign currency translation reserve | - | - | - | - | 64,688 | - | 10,737 | 75,425 |
| **Transactions with owners, recorded directly in equity** | | | | | | | | |
| Allocation from legal reserve | - | (48,536) | - | - | - | 48,536 | - | - |
| Recognition of share based payment reserve movement | - | - | 19,914 | - | - | - | - | 19,914 |
| New shares issued from long term incentive scheme | 17,347 | - | (17,347) | - | - | - | - | - |
| Dividends paid by subsidiary to minority interests | - | - | - | - | - | - | (50,997) | (50,997) |
| Dividends paid to equity holders | - | (332,726) | - | - | - | - | - | (332,726) |
| **Balance at 31 December 2022 - Reviewed** | **899,571** | **4,442,209** | **42,474** | **(13,144)** | **(492,653)** | **313,780** | **465,933** | **5,658,170** |

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**
**For the year ended 31 December 2022**

| | Note | 12 months ended 31 December 2022 (Reviewed) P'000 | 12 months ended 31 December 2021 (Audited) P'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before taxation | | 801,255 | 1,146,744 |
| Adjustments for : | | | |
| : Interest income | | (3,145,672) | (3,110,511) |
| : Interest expense | | 1,389,202 | 1,134,038 |
| : Amortisation, depreciation, right of use assets and disposals | | 90,029 | 98,681 |
| : Impairment and write off charge - advances to customers | | 245,249 | 161,121 |
| : Impairment and write off charge - investment securities | | 36,027 | - |
| : Impairment and write off charge - goodwill | | 35,805 | - |
| Movement in working capital and other changes | 26 | (1,273,219) | (1,484,674) |
| Cash used in operations | | (1,821,325) | (2,054,601) |
| Interest received | | 3,145,672 | 3,110,511 |
| Interest paid | | (1,376,678) | (1,119,108) |
| Income tax paid | | (345,004) | (422,607) |
| Net cash flows used in operating activities | | (397,335) | (485,805) |
| | | | |
| **Investing activities** | | | |
| Purchase of treasury bills | | - | (859,496) |
| Proceeds from disposal of treasury bills | | 131,370 | - |
| Purchase of property and equipment | | (71,520) | (112,908) |
| Purchase of intangible assets | | (222,531) | (2,926) |
| Net cash flows used in investing activities | | (162,681) | (975,330) |
| | | | |
| **Financing activities** | | | |
| Dividends paid to equity holders and subsidiary non-controlling interest | | (383,723) | (370,997) |
| Repayment of principal portion of lease liabilities | | (45,997) | (48,039) |
| Repayment of interest portion of lease liabilities | 16 | (12,524) | (14,930) |
| Proceeds from borrowings | | 3,425,610 | 2,817,052 |
| Repayment of borrowings | | (2,778,539) | (636,976) |
| Net cash flows generated from financing activities | | 204,827 | 1,746,110 |
| | | | |
| Net movement in cash and similar instruments | | (355,188) | 284,975 |
| Cash and similar instruments at the beginning of the year | | 1,355,294 | 986,534 |
| Effect of exchange rate changes on cash and cash equivalents | | (5,524) | 83,785 |
| **Cash and similar instruments at the end of the year** | 2 | **994,582** | **1,355,294** |

**LETSHEGO HOLDINGS LIMITED**

**SEGMENTAL INFORMATION**

**FOR THE YEAR ENDED 31 DECEMBER 2022**

**Reportable segments**

| 31 December 2022 | Botswana | Namibia | Mozambique | Lesotho | Eswatini | Kenya | Rwanda | Uganda | Tanzania | Nigeria | Ghana | Holding company or eliminations* | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 |
| **Operating income** | **710,990** | **565,913** | **444,404** | **81,908** | **108,284** | **107,757** | **19,948** | **158,278** | **154,456** | **81,632** | **207,446** | **(355,189)** | **2,285,827** |
| **Segment profit/(loss) before taxation** | **521,325** | **322,431** | **231,527** | **56,363** | **70,072** | **21,583** | **1,764** | **47,313** | **20,534** | **23,492** | **31,462** | **(546,611)** | **801,255** |
| Taxation - consolidated | | | | | | | | | | | | | (332,311) |
| **Profit - consolidated** | | | | | | | | | | | | | **468,944** |
| Gross Advances to customers | 3,335,195 | 3,605,877 | 2,094,444 | 430,432 | 564,812 | 635,150 | 150,069 | 535,146 | 469,824 | 203,061 | 1,107,850 | - | 13,131,860 |
| Impairment provisions | (75,962) | (36,496) | (55,658) | (7,088) | (24,277) | (42,764) | (4,708) | (27,077) | (58,200) | (22,717) | (49,438) | - | (404,385) |
| **Net Advances** | **3,259,233** | **3,569,381** | **2,038,786** | **423,344** | **540,535** | **592,386** | **145,361** | **508,069** | **411,624** | **180,344** | **1,058,412** | **-** | **12,727,475** |
| **Total assets** | **4,071,814** | **4,321,279** | **1,496,544** | **225,178** | **464,014** | **538,578** | **24,572** | **420,589** | **470,342** | **15,191** | **1,117,813** | **3,742,702** | **16,908,616** |
| **Borrowings** | **1,802,404** | **1,895,734** | **259,818** | **62,670** | **221,105** | **394,747** | **-** | **322,640** | **-** | **-** | **686,142** | **2,382,580** | **8,027,840** |
| **Total liabilities** | **2,423,918** | **2,486,490** | **896,555** | **76,732** | **236,096** | **435,978** | **53,927** | **333,271** | **67,938** | **58,006** | **1,068,194** | **3,113,341** | **11,250,446** |

| 31 December 2021 | Botswana | Namibia | Mozambique | Lesotho | Swaziland | Kenya | Rwanda | Uganda | Tanzania | Nigeria | Ghana | Holding company or eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 |
| **Operating income** | **679,180** | **539,233** | **415,987** | **89,917** | **88,414** | **139,549** | **8,604** | **159,363** | **143,836** | **73,916** | **233,885** | **(225,126)** | **2,346,758** |
| **Segment profit/(loss) before taxation** | **495,615** | **331,030** | **284,717** | **47,613** | **30,103** | **149,352** | **361** | **52,915** | **15,171** | **6,252** | **95,968** | **(362,353)** | **1,146,744** |
| Taxation - consolidated | | | | | | | | | | | | | (417,243) |
| **Profit - consolidated** | | | | | | | | | | | | | **729,501** |
| Gross Advances to customers | 3,026,111 | 3,198,250 | 1,789,702 | 352,248 | 527,761 | 666,612 | 59,648 | 478,787 | 467,618 | 174,259 | 1,698,304 | **-** | 12,439,300 |
| Impairment provisions | (106,595) | (34,463) | (19,350) | (21,680) | (39,191) | (49,056) | (3,063) | (30,682) | (49,632) | (30,784) | (179,209) | **-** | (563,705) |
| **Net Advances** | **2,919,516** | **3,163,787** | **1,770,352** | **330,568** | **488,570** | **617,556** | **56,585** | **448,105** | **417,986** | **143,475** | **1,519,095** | **-** | **11,875,595** |
| **Total assets** | **3,363,272** | **4,087,930** | **2,074,472** | **384,151** | **522,744** | **774,337** | **87,122** | **503,703** | **589,318** | **178,903** | **2,312,965** | **1,180,524** | **16,059,441** |
| **Borrowings** | **1,389,936** | **1,488,326** | **269,826** | **77** | **138,240** | **404,207** | **-** | **201,042** | **-** | **-** | **1,246,823** | **2,242,291** | **7,380,768** |
| **Total liabilities** | **1,688,902** | **1,957,440** | **901,509** | **9,395** | **148,063** | **463,386** | **26,322** | **216,161** | **79,702** | **63,803** | **2,074,245** | **2,924,511** | **10,553,439** |

*Included in *Holding company or eliminations* are intragroup charges between the Holding Company and subsidiary entities.

**LETSHEGO HOLDINGS LIMITED**

**SEGMENTAL INFORMATION (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2022**

**Disaggregated revenue information**

| | Botswana<br>P '000 | Namibia<br>P '000 | Mozambique<br>P '000 | Lesotho<br>P '000 | Eswatini<br>P '000 | Kenya<br>P '000 | Rwanda<br>P '000 | Uganda<br>P '000 | Tanzania<br>P '000 | Nigeria<br>P '000 | Ghana<br>P '000 | Holding company or eliminations<br>P '000 | Total<br>P '000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **31 December 2022** | | | | | | | | | | | | | |
| Interest income at effective interest rate | 756,665 | 504,165 | 558,649 | 102,964 | 133,886 | 147,381 | 24,411 | 193,550 | 136,662 | 85,379 | 654,527 | (152,567) | **3,145,672** |
| Interest expense at effective interest rate | (167,656) | (160,660) | (170,734) | (12,091) | (28,525) | (60,465) | (8,693) | (39,492) | (514) | (5,090) | (540,692) | (182,066) | **(1,376,678)** |
| Other interest expense | (2,000) | (526) | (2,579) | (1,225) | (544) | (1,491) | (285) | (303) | (105) | - | (500) | (2,966) | **(12,524)** |
| Net interest income | **587,009** | **342,979** | **385,336** | **89,648** | **104,817** | **85,425** | **15,433** | **153,755** | **136,043** | **80,289** | **113,335** | **(337,599)** | **1,756,470** |
| Fee and commission income | (2) | 34,906 | 16,416 | - | - | 8,966 | 1,994 | - | 395 | 1,098 | 25,699 | 82 | **89,554** |
| Other operating income | 123,983 | 188,028 | 42,652 | (7,740) | 3,467 | 13,366 | 2,521 | 4,523 | 18,018 | 245 | 68,412 | (17,672) | **439,803** |
| **Operating income** | **710,990** | **565,913** | **444,404** | **81,908** | **108,284** | **107,757** | **19,948** | **158,278** | **154,456** | **81,632** | **207,446** | **(355,189)** | **2,285,827** |
| **31 December 2021** | | | | | | | | | | | | | |
| Interest income at effective interest rate | 711,832 | 453,990 | 507,471 | 117,931 | 107,812 | 171,827 | 10,591 | 182,005 | 130,193 | 76,960 | 750,534 | (110,635) | **3,110,511** |
| Interest expense at effective interest rate | (125,822) | (90,842) | (138,165) | (22,756) | (29,604) | (55,786) | (2,186) | (34,620) | (612) | (3,913) | (546,625) | (68,177) | **(1,119,108)** |
| Other interest expense | (12,161) | (64) | (3,026) | (5,342) | (1,170) | (1,293) | (792) | 7,769 | 3,547 | 313 | (9,164) | 6,453 | **(14,930)** |
| Net interest income | **573,849** | **363,084** | **366,280** | **89,833** | **77,038** | **114,748** | **7,613** | **155,154** | **133,128** | **73,360** | **194,745** | **(172,359)** | **1,976,473** |
| Fee and commission income | - | 4,778 | 28,439 | - | - | 12,050 | 269 | - | 139 | 556 | 37,450 | - | **83,681** |
| Other operating income | 105,331 | 171,371 | 21,268 | 84 | 11,376 | 12,751 | 722 | 4,209 | 10,569 | - | 1,690 | (52,767) | **286,604** |
| **Operating income** | **679,180** | **539,233** | **415,987** | **89,917** | **88,414** | **139,549** | **8,604** | **159,363** | **143,836** | **73,916** | **233,885** | **(225,126)** | **2,346,758** |

**Reporting entity**
Letshego Holdings Limited (the Company) is a limited liability company incorporated in Botswana. The address of the company is Tower C, Zambezi Towers, Plot 54352, Central Business District (CBD), Gaborone, Botswana. The condensed consolidated financial statements for the year ended 31 December 2022 comprise the Company and its subsidiaries (together referred to as the “Group”). The Group is primarily engaged in the provision of short to medium-term unsecured loans to employees of the public, quasi-public and private sectors as well as provision of loans to MSE entities.

The condensed consolidated financial statements for the year ended 31 December 2022 have been approved for issue by the Board of Directors on 28 February 2023.

**Basis of preparation**
These condensed consolidated financial statements for the year ended 31 December 2022 have been prepared using the framework principles, the recognition and measurement principles of IFRS and contain the presentation and disclosures required by IAS 34. The condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2022, which have been prepared in accordance with IFRS and the accounting policies adopted are consistent with those of the previous financial year, expect for the adoption of new standards outlined below.

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

**New Standards, Interpretations and Amendments adopted by Group**

**Standards issued and effective**

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of new standards effective as of 1 January 2022:

*Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)*
The amendments apply prospectively to contracts existing at the date when the amendments are first applied. The Group has analysed all contracts existing at 1 January 2022 and determined that none of them would be identified as onerous upon applying the revised accounting policy – i.e. there is no material impact to the group in resepct of this standard.

*Reference to the Conceptual Framework – Amendments to IFRS 3*
The Group has adopted the amendments to IFRS 3 *Business Combinations* for the first time in the current year. However, since no business combinations took place in the Group during the current financial year, the amendments have had no impact on the financial statements as at 31 December 2022.

*Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16*
The Group has adopted the amendments to IAS 16 *Property, Plant and Equipment* for the first time in the current year, which prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. In light of the business of the Group being that of provision of financial services, its property and equipment is not utilised for production of items for sale, and these amendments therefore had no impact on the financial statements of the Group.

*Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle*
The Group has adopted the amendments included in the Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle for the first time in the current year. The Annual Improvements include amendments to the following standards, which are relevant to the Group’s operations, but had no impact on the financial statements for the current reporting period:
*IFRS 1 First-time Adoption of International Financial Reporting Standards*
*IFRS 9 Financial Instruments*
*IFRS 16 Leases*

**Standards issued but not yet effective**

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. A number of new and amended standards have been issued, but the majority are not expected to have a significant impact on the Group's financial statements apart from the following Standard:

| Effective Date | New standards or amendments | Status |
|---|---|---|
| 1 January 2023 | *IFRS 17 Insurance Contracts*<br><br>IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.<br><br>For loan contracts that meet the definition of insurance, but limit the compensation for insured events to the amount otherwise required to settle the policyholder’s obligation created by the contract: issuers of such loans – e.g. a loan with waiver on death – have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable. The Group also has cell captive arrangements in its Namibia and Mozambique markets, which entail a scenario where the premiums are collected from customers and paid on to the insurer with the Group earning a fee or profit share. | Following an assessment performed on contracts held in order to determine those that result in a transfer of significant insurance risk to the Group, it was determined that the Group's cell captive arrangements are categorised as "third party" arrangements and it would be necessary for IFRS 17 to be applied in accounting for their implications. An assessment of the impact on the Group upon transition is still being performed. |

**Use of judgements and estimates**

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

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

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

**Impairment of advances to customers**

The Group regularly reviews its loan portfolio (Note 5) and makes judgments in determining whether an impairment loss should be recognised in respect of observable data that may impact on future estimated cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce the differences between loss estimates and loss experience.

All forward-looking statements in these condensed consolidated financial statements expressing management's expectations, beliefs, estimates, forecasts, projections and assumptions are based on the current view of the future development in the business environment and the future financial performance of Letshego Holdings Group and actual results may differ materially from those expressed in the forward-looking statements.

The estimates relating to the calculation of ECL are based on forward-looking factors referencing a range of forecast economic conditions. The unpredictable and evolving outcomes of the global economic environment and pandemics therefore make it difficult to estimate their likely financial effects.

| | **Upside assumptions** | **Downside assumptions** |
|---|---|---|
| Probability of default | A distribution of PDs for each portfolio was constructed and all the PDs were capped at the 25th percentile of each Portfolio's PD distribution, or better | A distribution of PDs for each portfolio was constructed and all the PDs were floored at the 75th percentile of each Portfolio's PD distribution, or worse |
| Loss given default | The LGDs for each portfolio were reduced by 10% | The LGDs for each portfolio were increased by 10% |

*Mobile loans Expect Credit Losses*

A significant portion of the Ghana portfolio relates to mobile loans. A third party previously undertook the ECL model development and implementation of this portfolio. Since Letshego did not have a full view of historical data to develop an internal model, a conservative approach was taken to measure expected credit losses. In Q4 2022, Letshego was able to obtain access to historical data to develop an internal model. The data showed gradual improvements in default roll rates as well as evidence of recoveries to develop a Loss Given Default model. Management was then comfortable to remove the conservative estimate and instead apply the internal advanced approach, which implemented IFRS 9 compliant models to provide a more accurate position.

*Management Overlays applied on calculation of Expect Credit Losses*

In Ghana ,on a monthly basis, a significant portion of the portfolio in Ghana experiences a delay in receipt of funds from a single Employer. This results in technical arrears for affected customers, which does not correctly reflect their credit risk profile as payments would have been deducted from their accounts. An overlay adjustment is applied to manually update the loan listing to correct these technical arrears. After this adjustment for affected accounts, the Expected Credit Loss calculations are then computed.

As at Year end Mozambique had a once-off operational incident occurred where a large payment from the government had been processed but did not reflect on the Letshego system due to technical issues with the file. This was resolved on 5th January 2023 and the payments correctly reflected by 7th January 2023. The 7th of January 2023 position was used to calculate the December 2022 ECL.

**Share-based payment transactions**

The Group operates an equity settled conditional Long Term Incentive Plan (LTIP). The plan is now only based on non-market conditions. These non-market performance conditions are determined by the Remuneration Committee. The number of awards to vest are assessed and adjusted for the attrition in participants as well as the extent of achievement of those conditions at the reporting dates. The assumption is that there will be a 55% (2021: 53%) vesting probability. Based on historical experience, the estimated achievement of conditions is considered accurate.

**Goodwill impairment assessment**

Key assumptions in the assessment of goodwill impairment include inflation rates, long-term economic growth and discount rates. At 31 December 2022, goodwill was assessed for the Namibia, Ghana, Kenya and Tanzania subsidiaries. Management took a conservative approach and recognised an impairment of the goodwill that was in the Kenya subsidiary (refer to Note 11). All other subsidiaries however appeared to be in a position to generate future profit, with positive growth rates expected, and indicated sufficient headroom to cushion against any future variations or economic pressures.

**Deferred tax asset recoverability**

The two main areas of judgement on deferred tax recoverability, relate to the timing differences on portfolio provisions and recognition of deferred tax assets on tax losses. Based on our assessments and financial forecast beyond December 2022 the Group expects to generate sufficient taxable profits and utilise these temporary differences and tax losses before they fall away. During the current reporting period the Group recognised additional deferred tax assets of approximately P41 million in its Tanzania operations owing to a revised outlook on the Group's ability to utilise assessed losses in that market.

## 1 Financial Instruments

### 1.1 Expected credit losses as at 31 December 2022

Below is a summary of the expected credit losses as at 31 December 2022 showing balance sheet provision levels.

| Operating Segments 31 December 2022 P'000 | IFRS 9 ECL Provisions at 31 December 2022 - (Reviewed) | | | | IFRS 9 ECL Provisions at 31 December 2021 - (Audited) | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1: 12-month ECL allowance | Stage 2: Lifetime ECL allowance – not credit-impaired | Stage 3: Lifetime ECL allowance – credit-impaired | Total ECL on 31 December 2022 | Stage 1: 12-month ECL allowance | Stage 2: Lifetime ECL allowance – not credit-impaired | Stage 3: Lifetime ECL allowance – credit-impaired | Total ECL on 31 December 2021 |
| ***Financial assets*** | | | | | | | | |
| Botswana | 37,101 | 6,606 | 32,255 | **75,962** | 29,302 | 3,420 | 73,873 | **106,595** |
| Namibia | 16,700 | 574 | 19,222 | **36,496** | 9,483 | 618 | 24,362 | **34,463** |
| Mozambique | 32,942 | 7,396 | 15,320 | **55,658** | 9,788 | 1,303 | 8,259 | **19,350** |
| Lesotho | 2,278 | 421 | 4,389 | **7,088** | 11,520 | 793 | 9,367 | **21,680** |
| Eswatini | 2,092 | 3,455 | 18,730 | **24,277** | 3,932 | 5,886 | 29,373 | **39,191** |
| Kenya | 17,097 | 3,929 | 21,738 | **42,764** | 9,338 | 3,118 | 36,600 | **49,056** |
| Rwanda | 4,099 | 201 | 408 | **4,708** | 2,493 | 368 | 202 | **3,063** |
| Uganda | 11,593 | 2,472 | 13,012 | **27,077** | 8,569 | 2,918 | 19,195 | **30,682** |
| Tanzania | 19,789 | 2,773 | 35,638 | **58,200** | 19,141 | 1,062 | 29,429 | **49,632** |
| Nigeria | 4,580 | 2,403 | 15,734 | **22,717** | 2,169 | 8,146 | 20,469 | **30,784** |
| Ghana | 16,208 | 12,367 | 20,863 | **49,438** | 25,078 | 82,561 | 71,570 | **179,209** |
| **Total** | **164,479** | **42,597** | **197,309** | **404,385** | **130,813** | **110,193** | **322,699** | **563,705** |

Overall Expected Credit Losses in December 2022 closed at P404.4 million, which is a decrease from P563.7 million in December 2021. This is in line with improvement in recoveries as evidenced by a decrease in Loss Given Defaults (LGD)s and collateralised LGDs across our markets.

Expected credit losses for the year were low and aligned with the Group's credit risk profile with the leading portfolio being Deduction At Source (FY2022 -88% , FY2021 -86%). Deduction at Source is mainly constituted by government & quasi government employees with a sustained collection rate, above ninety percent. There were no concerns on provision adequacy given both historical collection statistics on Deduction At Source and credit default insurance cover in Mozambique and Namibia. In addition, fully secured portfolios have now factored in the collateral values to discount expected credit losses based on realization trends.

A significant portion of the Ghana portfolio relates to mobile loans. A third party previously undertook the ECL model development and implementation of this portfolio. Since Letshego did not have a full view of historical data to develop an internal model, a conservative approach was taken to measure expected credit losses. In Q4 2022, Letshego was able to obtain access to historical data to develop an internal model. The data showed gradual improvements in default roll rates as well as evidence of recoveries to develop a Loss Given Default model. Management was then comfortable to remove the conservative estimate and instead apply the internal advanced approach, which implemented IFRS 9 compliant models to provide a more accurate position.

Key Highlights

| Measure | FY2022 | FY2021 | FY2020 | FY2019 | FY2018 |
|---|---|---|---|---|---|
| Gross Loan Book Balance in P'm | 13,133 | 12,439 | 10,740 | 9,833 | 9,542 |
| Portfolio at risk – 30 days | 9.2% | 9.2% | 8.3% | 10.0% | 10.4% |
| Portfolio at risk – 90 days (NPL) | 6.5% | 5.9% | 5.3% | 6.9% | 7.1% |
| Post Write off Recoveries in the year in P'm | 166 | 207 | 199 | 184 | 147 |
| Loan loss rate – actual | 0.5% | -0.1% | 0.3% | 1.7% | 4.1% |
| Loan loss rate – excl. once-off items | 0.5% | 0.6% | 1.8% | 1.7% | 2.0% |
| Non-performing loan coverage ratio | 45% | 73% | 98% | 112% | 115% |

*Non-performing loan coverage ratio = Total ECL provision/Gross carrying amount on NPL

Portfolio indicators are holding strong on the back of enhanced credit risk management capabilities, strengthened credit risk governance, and improving risk infrastructure. Group contained the extraneous risks to the portfolio in 2022 ensuring asset quality remained fairly stable with Non Performing Loans ratio (NPL) closing the year at 6.9% compared to 5.9% (December 2021). The growth in NPL was driven mainly by East and West African markets, where more vulnerable MSE portfolios are predominant. The portfolios in our large markets recorded improvement in NPL and recovery rates cumulatively improving the portfolio LGDs. As a result, our NPL impairment coverage ratio's was 45%, relative to 73% in prior period. The Group's credit risk mitigations in Mozambique and Namibia (comprehensive default insurance) remained in force and are effective.The impact of these credit risk mitigations were factored into our IFRS 9 loan impairment modelling during the year.

As at 31 December 2022, the Group did not consider any additional provisions as management actions were adequate to address any future impact of macroeconomic events such as the Ukraine/Russia war. Impact of external operational pressures affected most businesses across the continent and the world at large.The resultant impact was curbed by the nature of the Group's product offering. The loan book comprises 88% Deduction at Source (DAS), 9% Micro to Small Enterprises (MSE) and 3% informal loans. In the year 2022, no government in our countries of operation retrenched employees and a 96% collection rate was maintained for the DAS book.

## 1 Financial Instruments (continued)

### 1.2 Maximum exposure to credit risk

| | At 31 December 2022 (IFRS 9) | At 31 December 2021 (IFRS 9) |
|---|---|---|
| | P'000 | P'000 |
| **Gross advances to customers** | **13,131,860** | **12,439,300** |
| Of which stage 1 | 11,229,003 | 10,993,504 |
| Of which stage 2 | 1,006,469 | 677,666 |
| Of which stage 3 | 896,388 | 768,130 |
| | | |
| **Expected credit loss provisions** | **(404,385)** | **(563,705)** |
| Of which stage 1 | (164,479) | (130,813) |
| Of which stage 2 | (42,597) | (110,193) |
| Of which stage 3 | (197,309) | (322,699) |
| | | |
| **Net advances to customers** | **12,727,475** | **11,875,595** |
| Of which stage 1 | 11,064,524 | 10,862,691 |
| Of which stage 2 | 963,872 | 567,473 |
| Of which stage 3 | 699,079 | 445,431 |
| | | |
| **Impairment (ECL ) Coverage Ratio** | **3%** | **5%** |
| **Stage 3 Coverage Ratio** | **45%** | **73%** |

### 1.3 Expected credit losses: Probability Weighted

As a largely Government Deduction at Source (DAS) retail business, the Group has remained resilient to the worst effects of macroeconomic events, however MSE Non Performing Loans in East and West African subsidaries have been influenced heavily by external operational pressures.

Model recalibrations are performed at two points, in April and October every year. Additionally Macroeconomic factors are updated to align to Fitch Solutions revised forecasts on a monthly basis.

**Loss given default (LGD)**

LGDs between H1 2022 and H2 2022 have decreased due to countries experiencing high recoveries as economies start to recover. We were therefore comfortable with setting the LGD shocks for upside and downside at 10%, for prudence sake.

**Probability of default (PD)**

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

### 1.4 Macroeconomic analysis

According to 2023 forecasts by Fitch Solutions, economic growth is expected to remain subdued for most countries in SSA as well as increased inflationary pressures. However, this outlook is expected to differ across the region, depending on country circumstances.

## 1 Financial Instruments (continued)

### 1.4 Macroeconomic analysis (continued)

**Inflation**

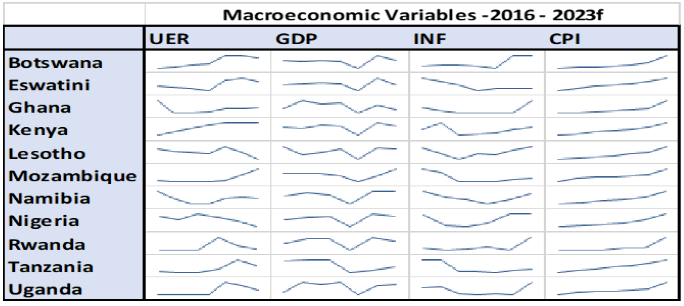
All countries within the Group to experience higher inflation in 2022 than 2021. However they are all forecast to see reductions in 2023. However, the consumer price index (CPI) continues on an upward trend across all the subsidiaries.

**Gross domestic product (GDP)**

Most countries across the Group are expected to experience subdued GDP growth rates up to 2023.

**Unemployment rate**

Most countries across the Group are forecast to experience reduced unemployment rates up to 2023.




**Influence of economic on estimate of ECL**

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

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

### 1.5 Expected credit losses: Forward looking

MSE portfolios were stressed Downside-heavy while the DAS book was stressed Base-heavy to reflect their respective sesitivities to macroeconomic conditions.

The table below summarises the ECL impact of the sensitivity analysis after application of forward looking factors for the year ending 31 December 2022:

| BWP'000 | Base case | Upside | | Downside | | Probability Weighted ECL | Weighted Impact* |
|---|---|---|---|---|---|---|---|
| | ECL | ECL | Impact | ECL | Impact | ECL | Impact |
| Consumer | 287,060 | 51,194 | (235,866) | 525,739 | 238,679 | 255,523 | (31,537) |
| MSE | 123,442 | 28,755 | (94,687) | 193,365 | 69,923 | 109,776 | (13,666) |
| Informal | 35,026 | 12,679 | (22,347) | 56,987 | 21,961 | 39,086 | 4,060 |
| **Total** | **445,528** | **92,628** | **(352,900)** | **776,091** | **330,563** | **404,385** | **(41,143)** |

*The Probability weighted ECL is derived by assigning weights to the base, upside and downside scenarios based on management projections. The weights used in the last reporting cycle were 50%, 20% and 30% respectively for Deduction at source portfolio that holds a low credit risk and 30%, 20% and 50% respectively for MSE and Informal portfolio. Refreshed assessment used the higher end of risk weightings hence as at December 2022 the weightings used are 30%,20%,50%.

**** Model output which is Probability weighted and base for stress testing**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTD.)**
**For the year ended 31 December 2022**

**1 Financial Instruments (continued)**

**1.5 Expected credit losses:  Forward looking (continued)**

The total weighted impact of P32.6m is distributed to operating subsidiaries as follows:

| **Country** | **Base ECL** | **Probability Weighting** | **Impact BWP'000** |
|---|---|---|---|
| | **BWP'000** | **BWP'000** | |
| Botswana | 75,962 | 112,913 | 36,951 |
| Eswatini * | 24,277 | 36,515 | 12,238 |
| Ghana | 49,438 | 64,172 | 14,734 |
| Kenya | 42,764 | 86,658 | 43,894 |
| Lesotho | 7,088 | 18,014 | 10,926 |
| Mozambique | 55,658 | 70,173 | 14,515 |
| Namibia | 36,496 | 48,231 | 11,735 |
| Nigeria | 22,717 | 42,518 | 19,801 |
| Rwanda | 4,708 | 6,851 | 2,143 |
| Tanzania | 58,200 | 80,572 | 22,372 |
| Uganda | 27,077 | 49,428 | 22,351 |
| **Group** | **404,385** | **616,045** | **211,660** |

**** Base ECL is propability weighted refer to Note 1.5***

The Group applied  probability weighted   ECL as at December 2022. Stressed outcome is the worst case scenario .

| | At 31 Dec 2022 (Reviewed) P'000 | At 31 Dec 2021 (Audited) P'000 |
|---|---|---|
| **2 Cash and similar instruments** | | |
| Cash at bank and in hand | 779,699 | 1,217,269 |
| Statutory cash reserve | 26,189 | 58,206 |
| Short term investments | 214,883 | 138,025 |
| | 1,020,771 | 1,413,500 |
| **Cash and cash equivalents for the purpose of the statement of cash flows** | 994,582 | 1,355,294 |

| | | |
|---|---|---|
| **3 Investment securities** | | |
| Government and Corporate bonds : 2 - 5 year fixed rate notes | 703,604 | 832,116 |
| Government and Corporate bonds : Above 5 year fixed rate notes | 24,524 | 27,380 |
| | 728,128 | 859,496 |
| Less : Expected credit losses | (36,027) | - |
| | 692,101 | 859,496 |

Treasury bonds are classified as financial assets measured at amortised cost as the business model is to hold financial assets to collect contractual cash flows, representing solely payments of principal and interest. These were issued by the central bank, government and corporates in Ghana and Namibia. The expected credit loss for the instruments held in Namibia were assessed to be insignificant at the reporting date.

In light of economic challenges currently being faced in Ghana, the government announced a Domestic Debt Exchange Program (the GDDXP) in December 2022, which involved an invitation to holders of domestic notes and bonds to exchange these for a set of four new bond issuances maturing in 2027, 2029, 2032 and 2037. The government of Ghana however, did not make any pronouncements to the market concerning US dollar denominated bonds, apart from indicating an intention to restructure these in the future. On the 19th of December 2022, Letshego Ghana submitted an exchange offer to the government of Ghana, whereby domestic bonds with a principal and unpaid accrued interest value amounting to the equivalent of P41.3 million were offered to be exchanged for the new bonds. The settlement date when the Republic of Ghana issued the new bonds to eligible holders was the 21st of February 2023. At 31 December 2022, the old bonds were considered to be "credit-impaired" and expected credit losses of P12.5 million (2021: nil) were computed and recognised.

Although a restructure of US dollar denominated bonds is yet to occur, Letshego Ghana, which held bonds amounting to the equivalent of P196.4 million at the reporting date conducted an ECL assessment on the USD denominated bonds. Following the assessment, the Group categorised these bonds as "credit-impaired" and expected credit losses of the equivalent of P23.5 million were recognised in light of the repayment of these instruments being likely to be affected by the government of Ghana's current financial challenges. In arriving at the expected credit losses, a benchmarking exercise that took into consideration other comparable economies that went into a similar domestic debt restructuring, where; there was no previous default history before debt restructure, no loss of principal values and the existence of an active market for the bonds.

| | At 31 Dec 2022 (Reviewed) P'000 | At 31 Dec 2021 (Audited) P'000 |
|---|---|---|
| **4 Financial assets at fair value through profit or loss** | | |
| Cross currency swaps | 1,178,969 | 826,092 |
| | 1,178,969 | 826,092 |

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

| | At 31 Dec 2022 (Reviewed) P'000 | At 31 Dec 2021 (Audited) P'000 |
|---|---|---|
| **5 Advances to customers** | | |
| Gross loans and advances to customers | 13,131,860 | 12,439,300 |
| Less : Expected credit losses | (404,385) | (563,705) |
| *- Stage 1* | (164,479) | (130,813) |
| *- Stage 2* | (42,597) | (110,193) |
| *- Stage 3* | (197,309) | (322,699) |
| **Net advances to customers** | 12,727,475 | 11,875,595 |
| **6 Other receivables** | | |
| Deposits and prepayments | 74,304 | 89,437 |
| Receivable from insurance arrangements | 316,000 | 269,544 |
| Withholding tax and value added tax | 992 | 880 |
| Deferred arrangement fees | 33,173 | 29,767 |
| Settlement and clearing accounts | 47,030 | 19,742 |
| Other receivables | 8,034 | 4,041 |
| | 479,533 | 413,411 |

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

| | | |
|---|---|---|
| **7 Financial assets at fair value through other comprehensive income** | | |
| Balance at the beginning of the year | 71,499 | 59,408 |
| Fair value (loss)/gain recognised through other comprehensive income | (28,392) | 12,091 |
| | 43,107 | 71,499 |
| Fair value (loss)/gain recognised through other comprehensive income, net of tax | (28,392) | 9,431 |

The Group entered into a strategic partnership with a financial services organisation in 2016 and acquired a stake in the enterprise at the time for P53.6 million. A fair value assessment of the investment is performed annually. At 31 December 2022, based on a pre-money valuation of a pending rights issue transaction of the financial services organisation, the value of the Group's equity stake was determined to be approximately P43.1 million. This resulted in a fair value loss of P28.4 million being recognised through other comprehensive income in the current year. The fair value loss has been attributed to the general global economic conditions that have led to the collapse of technology company stocks in the recent past. No deferred tax asset was recognised on the fair value loss in light of the fact that it was considered that it would not be probable that the unused capital loss arising could be utilised for capital gains tax purposes in the future.

**8 Property and equipment**

| | Carrying amount at 01 Jan 2022 | Additions | Transfers | Disposal | Depreciation charge | Forex translation | Carrying amount at 31 Dec 2022 |
|---|---|---|---|---|---|---|---|
| Motor vehicles | 5,309 | 4,246 | - | - | (3,204) | (331) | 6,020 |
| Computer equipment | 25,721 | 30,604 | - | - | (20,759) | (7,932) | 27,634 |
| Office furniture and equipment | 30,201 | 20,481 | 28,011 | - | (12,943) | (1,063) | 64,687 |
| Land and building | 16,887 | - | - | - | - | 1,533 | 18,420 |
| Work in progress | 94,704 | 16,189 | (110,893) | - | - | - | - |
| | 172,822 | 71,520 | (82,882) | - | (36,906) | (7,793) | 116,761 |

Transfers include the carrying amount of work-in-progress costs amounting to P66.7 million associated with internally generated assets, which were re-classified to intangible assets (Note 10) during the period, following their hardware and software components becoming more apparent with the ongoing development of the entity's digital transformation platforms, as well as an amount of P44.2 million relating to leasehold improvements and furniture and fittings that were brought into use, following commissioning of the Group's head office premises in Gaborone, Botswana.

| | Carrying amount at 01 Jan 2021 | Additions | Transfers | Disposal | Depreciation charge | Forex translation | Carrying amount at 31 Dec 2021 |
|---|---|---|---|---|---|---|---|
| Motor vehicles | 5,093 | 2,750 | - | (595) | (2,643) | 704 | 5,309 |
| Computer equipment | 32,511 | 15,218 | 446 | (305) | (24,378) | 2,229 | 25,721 |
| Office furniture and equipment | 29,409 | 10,283 | (13) | (1,424) | (10,617) | 2,563 | 30,201 |
| Land and building | 16,824 | - | - | - | - | 63 | 16,887 |
| Work in progress | 10,392 | 84,657 | (715) | - | - | 370 | 94,704 |
| | 94,229 | 112,908 | (282) | (2,324) | (37,638) | 5,929 | 172,822 |

**9 Right-of-use assets**

| | Carrying amount at 01 Jan 2022 | Additions | Modifications | Disposal | Depreciation charge | Forex translation | Carrying amount at 31 Dec 2022 |
|---|---|---|---|---|---|---|---|
| Property | 98,756 | 42,803 | - | - | (41,407) | 1,502 | 101,654 |
| | 98,756 | 42,803 | - | - | (41,407) | 1,502 | 101,654 |

| | Carrying amount at 01 Jan 2021 | Additions | Modifications | Disposal | Depreciation charge | Forex translation | Carrying amount at 31 Dec 2021 |
|---|---|---|---|---|---|---|---|
| Property | 131,703 | 26,328 | (14,601) | - | (47,255) | 2,581 | 98,756 |
| | 131,703 | 26,328 | (14,601) | - | (47,255) | 2,581 | 98,756 |

**10 Intangible assets**

| | Carrying amount at 01 Jan 2022 | Additions | Transfers | Disposal | Amortization charge | Forex translation | Carrying amount at 31 Dec 2022 |
|---|---|---|---|---|---|---|---|
| Computer software | 27,892 | 3,117 | 51 | - | (10,776) | (1,622) | 18,662 |
| Brand value | 826 | - | - | - | (330) | (93) | 403 |
| Core deposit | 1,322 | - | - | - | (610) | (92) | 620 |
| Work in progress | - | 219,414 | 66,699 | - | - | - | 286,113 |
| | 30,040 | 222,531 | 66,750 | - | (11,716) | (1,807) | 305,798 |

Refer to Note 8 for details of transfers into intangible assets from property and equipment recognised during the period.

| | Carrying amount at 01 Jan 2021 | Additions | Transfers | Disposal | Amortization charge | Forex translation | Carrying amount at 31 Dec 2021 |
|---|---|---|---|---|---|---|---|
| Computer software | 35,926 | 2,926 | 284 | (138) | (12,684) | 1,578 | 27,892 |
| Brand value | 1,197 | - | - | - | (392) | 21 | 826 |
| Core deposit | 1,968 | - | - | - | (712) | 66 | 1,322 |
| | 39,091 | 2,926 | 284 | (138) | (13,788) | 1,665 | 30,040 |

| | At 31 Dec 2022 (Reviewed) P'000 | At 31 Dec 2021 (Audited) P'000 |
|---|---|---|
| **11 Goodwill** | | |
| Goodwill on the acquisition of: | | |
| Letshego Holdings Namibia Limited | 22,958 | 22,537 |
| Letshego Tanzania Limited | 2,221 | 2,066 |
| Letshego Kenya Limited | - | 32,885 |
| AFB Ghana Plc | 6,731 | 10,227 |
| | **31,910** | **67,715** |

The Group performs its impairment test annually. The Group assesses the recoverable amount of goodwill in respect of all cash generating units in order to determine indications of impairment. The key assumptions used to determine the recoverable amount for the different cash generating units are projected cash flows, pre-tax discount rates and a growth rate to extrapolate any cash flows anticipated beyond a 5 year period. Goodwill was translated using reporting date exchange rates to reflect the changes in foreign currencies. An assessment was done at year end using the respective entities value-in-use to determine recoverable amount and there were no indications of impairment for the above cash generating units, apart from Letshego Kenya Limited. The Group has embarked on a significant repositioning of its business in Kenya, whereby the entity will shift its focus to growing a predominantly Deduction-at-Source (DAS) and Instant Loans book, with significant leverage on the digital platform that the Group is currently developing. Prior to this, the entity in Kenya was more involved in servicing the medium-to-small enterprise (MSE) sector, and this will be scaled down in a concerted manner to pave way for the new business model. The projected cash flows for the entity were updated to reflect the relatively longer period in which the new business model could take to begin to generate cash flows in excess of the historical performance of the former business. As a result of the assessment, management decided to be recognise an impairment charge against the carrying amount of the entire goodwill in the entity, which was previously measured at P32.9 million. This was following management taking note that the goodwill that was in place was recognised when the underlying entity in Kenya was acquired in 2012 and although the new business model that the subsidiary is embarking on has been successful for the Group in other markets, management decided to be prudent and acknowledge the business challenges that could come about from replicating the model in a new market. In the assumptions for the value-in-use, management used a discount rate of 29% and a growth rate of 5% to project cash flows beyond 5 years and arrive at the discounted cash flows of the business.

| | At 31 Dec 2022 (Reviewed) P'000 | At 31 Dec 2021 (Audited) P'000 |
|---|---|---|
| **12 Financial liabilities at fair value through profit or loss** | | |
| Cross currency swaps | 1,201,095 | 808,621 |
| | 1,201,095 | 808,621 |

The above pertain to short-term foreign currency swap arrangements with financial institutions, where the Group pays a specified amount in one currency and receives a specified amount in another currency to reduce its exposure on currency risk (the derivative assets related to this are disclosed in Note 6).

| | | |
|---|---|---|
| **13 Customer deposits** | | |
| Demand accounts | 60,904 | 38,501 |
| Savings accounts | 422,290 | 395,319 |
| Call and term deposits | 637,633 | 741,766 |
| | 1,120,827 | 1,175,586 |
| **14 Cash collateral** | | |
| Cash collateral on loans and advances | 18,476 | 21,522 |

Cash collateral represents payments made by customers as security for loans taken. The amounts are refundable upon the successful repayment of loans by customers or are utilised to cover loans in the event of default.

| 15 Trade and other payables | At 31 Dec 2022 (Reviewed) P'000 | At 31 Dec 2021 (Audited) P'000 |
|---|---|---|
| Insurance premium payable | 185,981 | 142,839 |
| Payroll related accruals | 23,662 | 14,400 |
| Staff incentive accrual | 74,300 | 87,888 |
| Other provisions | 20,272 | 29,295 |
| Guarantee funds | 318,691 | 546,039 |
| Trade and other payables | 73,407 | 124,493 |
| Value added tax / withholding tax payable | 19,177 | 20,906 |
| | 715,490 | 965,860 |

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

| 16 Lease liabilities | Carrying amount at 01 Jan 2022 | Additions | Modifications | Interest expense | Cash payments | Forex translation | Carrying amount at 31 December 2022 |
|---|---|---|---|---|---|---|---|
| Lease liabilities | 99,646 | 42,803 | - | 12,524 | (58,521) | 1,501 | 97,953 |

| | Carrying amount at 01 Jan 2021 | Additions | Modifications | Interest expense | Cash payments | Forex translation | Carrying amount at 31 December 2021 |
|---|---|---|---|---|---|---|---|
| Lease liabilities | 133,377 | 26,328 | (14,601) | 14,930 | (62,969) | 2,581 | 99,646 |

| | 31 Dec 2022 (Reviewed) P'000 | 31 Dec 2021 (Audited) P'000 |
|---|---|---|
| *The following are the amounts recognised in the profit or loss:* | | |
| Depreciation expense of right of use asset | 41,407 | 47,255 |
| Interest expense on lease liabilities | 12,524 | 14,930 |
| Expense relating to short-term leases | 6,862 | 6,638 |
| Expense relating to low value assets | 849 | 1,414 |
| ***Total amount recognised in the profit or loss*** | 61,642 | 70,237 |

| 17 Borrowings | | |
|---|---|---|
| Commercial banks | 4,283,243 | 3,015,603 |
| Note programmes | 1,677,771 | 2,070,285 |
| Development Financial Institutions | 2,066,826 | 2,294,880 |
| | 8,027,840 | 7,380,768 |

As at the reporting date, the Group was in breach of certain loan covenants in certain subsidiary entities. These were Kenya (on obligations amounting to P231m relating to non-performing loans ratio, provisioning, profitability – return on assets), Uganda (on obligations amounting to P210m in relation to portfolio quality - non performing loans ratio and PAR 30), Botswana (on obligations of P96m in relation to Letshego Holdings as the guarantor with respect to the net open foreign currency position on a consolidated basis. This arose as a result of the Group's increased asset base denominated in foreign currency), and Ghana (on obligations of P193m in relation to portfolio at risk, provisioning, open loan exposure, operating self-sufficiency, current ratio and forex exposure limit ratio). At the point of reporting, letters of no action were received from respective funders catering for obligations amounting to P373m and discussions were ongoing to remediate the remaining breaches. All instances are anticipated to have been rectified by the end of the first half of 2023.

| 18 Stated capital | | |
|---|---|---|
| Issued: 2,149,114,056 ordinary shares of no par value (2021: 2,144,045,175) of which 3,989,970 shares (2021: 9,222,720) are held as treasury shares. | 899,571 | 882,224 |

In terms of the Group's long term incentive plan, shares of P17.3 million (December 2021: P10.06 million) vested at Group level during the year.

| | | 12 months ended 31 Dec 2022 (Reviewed) P'000 | 12 months ended 31 Dec 2021 (Audited) P'000 |
|---|---|---|---|
| **19** | **Interest income at effective interest rate** | | |
| | Advances to customers | 2,620,123 | 2,588,409 |
| | Interest income on risk informal / mobile loans | 96,874 | 92,879 |
| | Interest income on non-risk informal / mobile loans | 349,122 | 387,166 |
| | Interest income from deposits with banks, including investment securities | 79,553 | 42,057 |
| | | 3,145,672 | 3,110,511 |
| **20** | **Interest expense at effective interest rate** | | |
| | Overdraft facilities and term loans | 1,027,556 | 731,942 |
| | Interest adjustment on non-risk informal / mobile loans | 349,122 | 387,166 |
| | | 1,376,678 | 1,119,108 |
| **20.1** | **Other interest expense** | | |
| | Interest expense on leases | 12,524 | 14,930 |
| **21** | **Fee and commission income** | | |
| | Administration fees - lending | 83,979 | 68,310 |
| | Credit life insurance commission | 5,575 | 15,371 |
| | | 89,554 | 83,681 |
| **22** | **Other operating income** | | |
| | Early settlement fees | 60,248 | 53,805 |
| | Income from insurance arrangements | 243,496 | 200,664 |
| | Mark-to-market gain on foreign currency swaps | 8,210 | 13,226 |
| | Net foreign exchange gain | 90,696 | 2,361 |
| | Sundry income | 37,153 | 16,548 |
| | | 439,803 | 286,604 |
| **23** | **Expected credit losses** | | |
| | Amounts written off | 368,542 | 175,403 |
| | Recoveries during the year | (146,543) | (178,317) |
| | Expected credit losses reversed during the year | (123,293) | (14,282) |
| | | 98,706 | (17,196) |
| **24** | **Employee costs** | | |
| | Salaries and wages | 454,637 | 411,292 |
| | Staff incentive | 61,734 | 74,905 |
| | Staff recruitment costs | 1,096 | 1,861 |
| | Staff pension fund contribution | 38,282 | 31,538 |
| | Directors' remuneration – for management services (executive) | 10,276 | 7,978 |
| | Long term incentive plan | 19,914 | 18,667 |
| | | 585,939 | 546,241 |
| **25** | **Other operating expenses** | | |
| | Accounting and secretarial fees | 227 | 764 |
| | Advertising | 40,441 | 26,656 |
| | Audit fees | 7,358 | 6,661 |
| | - Audit services | 7,191 | 6,514 |
| | - Covenant compliance fees | 167 | 147 |
| | Bank charges | 8,859 | 8,693 |
| | Computer expenses | 9,755 | 13,139 |
| | Consultancy fees | 56,163 | 49,805 |
| | Corporate social responsibility | 1,961 | 1,689 |
| | Collection commission | 72,159 | 75,909 |
| | Direct costs | 29,343 | 36,844 |
| | Direct costs - informal loans | 36,142 | 23,922 |
| | Depreciation and amortization - property and equipment, intangibles | 48,622 | 51,426 |
| | Depreciation - right-of-use assets | 41,407 | 47,255 |
| | Directors' fees – non executive | 9,985 | 9,850 |
| | Directors' fees – subsidiary boards | 8,184 | 9,253 |
| | Government levies | 22,673 | 31,024 |
| | Impairment of goodwill | 32,795 | - |
| | Insurance | 17,989 | 16,798 |
| | Insurance fees - customer short term | 60,074 | 55,194 |
| | Office expenses | 24,638 | 22,500 |
| | Rental expense for low value assets | 6,862 | 6,638 |
| | Short term leases | 849 | 1,414 |
| | Other operating expenses | 155,639 | 91,156 |
| | - Entertainment | 531 | 305 |
| | - IT costs | 505 | 6,454 |
| | - Loss on disposal of intangible assets and plant and equipment | - | 2,462 |
| | - Motor vehicle expenses | 11,715 | 8,516 |
| | - Printing and Stationery | 6,775 | 7,996 |
| | - Repairs and Maintenance | 10,250 | 6,060 |
| | - Storage costs | 3,324 | 2,848 |
| | - Subscriptions and licenses | 27,179 | 8,099 |
| | - Other expenses | 95,360 | 48,416 |
| | Payroll administration costs | 2,131 | 1,093 |
| | Professional fees | 46,704 | 34,596 |
| | Telephone and postage | 36,536 | 32,418 |
| | Travel | 22,431 | 16,272 |
| | | 799,927 | 670,969 |

| | 12 months ended 31 Dec 2022 (Reviewed) P'000 | 12 months ended 31 Dec 2021 (Audited) P'000 |
|---|---|---|
| **26 Additional cash flow information** | | |
| *Movement in working capital and other changes:* | | |
| Movement in advances to customers | (1,097,129) | (1,876,058) |
| Movement in other receivables | (17,972) | (150,209) |
| Movement in trade and other payables | (250,370) | 251,312 |
| Movement in customer deposits | (54,759) | 511,193 |
| Movement in cash collateral | (3,046) | 2,684 |
| Net change in financial assets at fair value through profit or loss | 39,597 | (29,522) |
| Long-term incentive plan provision | 19,914 | 18,667 |
| Loss on disposal and write off of property and equipment | - | 2,324 |
| Loss on disposal and write off of intangible assets | - | 138 |
| Net foreign exchange differences | 90,547 | (215,203) |
| | **(1,273,219)** | **(1,484,674)** |

**27 Contingent liabilities**

Management were not aware of any significant contingent liabilities that existed as at 31 December 2022.

**28 Capital commitments**

At 31 December 2022 the commitments for capital expenditure under contract amounted to P347m (2021: P311m).

**29 Related party transactions**

The Company 'Letshego Holdings Limited' is listed on the Botswana Stock Exchange. The Group partnered with Sanlam (SEM) to be its preferred insurance provider by offering innovative stand alone and embedded insurance solution. Sanlam owns 59% of Botswana Insurance Holdings Limited (BIHL) which is a shareholder of Letshego Holdings Limited and there were no transactions with BIHL. However loans and advances of Letshego Financial Services Botswana (Pty) Ltd (LFSB) are insured through Botswana Life Insurance Limited which is a subsidiary of BIHL and commission of P15 million was earned by LFSB during the year (2021: nil).

| | 12 months ended 31 Dec 2022 (Reviewed) P'000 | 12 months ended 31 Dec 2021 (Audited) P'000 |
|---|---|---|
| **Compensation paid to key management personnel (executive directors)** | | |
| Paid during the period | | |
| - Short-term employee benefits | 10,276 | 7,978 |
| | 10,276 | 7,978 |

In terms of the Long Term Incentive Scheme 6,161,972 awards vested and 5,457,386 awards were granted to executive directors relating to the 31 December 2022 financial year (2021: nil awards vested, 9,771,320 awards were granted).

**30 Events occurring after reporting date**

**Ghana investment in government securities**

Reference is be made to Note 3, where the Group's Ghana subsidiary submitted an exchange offer for old government bonds amounting to P41.3 million under the country's Domestic Debt Exchange Program (GDDXP) on 19 December 2022. Subsequent to this, on 21 February 2023, the government of Ghana accepted the offer by issuing new bonds to Letshego Ghana. The derecognition of the old bonds, subsequent recognition of the new bonds and accounting for any derecognition loss in profit or loss as a result of the renegotiation or modification of the contractual cash flows of the bonds has been determined to be a non-adjusting event after the reporting period. Management are still in the process of quantifying the impact of the modification. However, as at the balance sheet date, an expected credit loss allowance was recognised pertaining to the old bonds held (refer to Note 3).

**Dividend declaration**

A final dividend of 9.7 thebe per share was declared on 28 February 2023.

**31 Outlook post year-end**

Sub-Saharan Africa's economic recovery was disrupted in 2022 by a range of internal and external shocks, including adverse weather conditions, rapidly rising rates of inflation, higher borrowing costs and softer demand in major export markets. It would appear that some of these factors will further subdue growth prospects in the year ahead, but the region is overall expected to hold steady rather than suffer a major downturn in economic growth. However, heightened geopolitical tensions, the lingering effects of the Covid-19 pandemic, ongoing supply-chain disruption, business and consumer price pressures, the rising cost of international and domestic finance, disruptive national elections, social grievances and adverse weather events are all present and could create an unsettled backdrop for the continent throughout 2023.

Most African currencies lost substantial value against the US dollar during 2022 and exchange-rate weaknesses are expected to continue into 2023, albeit to a lesser degree. A large number of African states also increased their domestic policy interest rates in 2022 in order to curb inflation and ease pressure on exchange rates, and the majority of Africa is likely to raise domestic policy rates further in 2023. The national debt-servicing burden will likely become more uncomfortable because of higher interest rates, weaker currencies against the US dollar and softer capital inflows, while rolling over existing debt or accruing new debt will become much more of a challenge. A widespread external debt crisis across the continent however seems unlikely, but some highly leveraged states may face acute financing difficulties and a rather uncertain time period.

## 32 FINANCIAL RISK MANAGEMENT

### Introduction and overview

The Group has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

**Approach to managing credit risk**

The Board of Directors is ultimately responsible for the management of credit risk and has delegated responsibility for the oversight of credit risk to the Group Risk Management Committee and Country Management Committees. It is the responsibility of Group Credit Risk and each CEO to ensure that the Group's policies regarding credit risk, credit scoring, collateral contribution, affordability levels and minimum take home pay is complied with at all times. The Group manages credit risk in accordance with its credit risk policies, guidelines and procedures which provide for the maintenance of a strong culture of responsible lending that promotes inclusive finance. Full details of the Group credit risk disclosures should be read in conjunction with the Group's annual financial statements as at 31 December 2022.

**Interest rate risk**

The development of vaccines reduced the influence of COVID-19 in 2022 and made a global recovery possible. However, Russia's invasion of Ukraine upended this, severely setting back global economic prospects. As a result, economic risks rose sharply, with inflation in many countries exceeding central bank targets. In order to reign in on rising inflation, central banks persistently revised their policy rates upwards. Increases in rates had a significant impact due to the Group`s significant exposure to variable-rate funding. Inflation remains elevated in many jurisdictions which may result in further policy rate increases in 2023.

The Group had significant exposure to interest rate risk due to the nature of the business model and the footprint. While the loans are predominantly on fixed rates, the funding that the Group accesses is variable to a greater extent. At the end of the year, 59% of the funding was on variable terms. The Group puts in place hedges in the form of swaps and caps to mitigate against the risk.

The Group conducted a sensitivity analysis to assess the impact that a 300 basis points adjustment to reference floating rates would have on the Group's net interest margin and determined that the monthly impact of a 3% increase in floating reference rates of borrowings would result in a P7.7 million monthly decrease in net interest margin. The annualised impact would amount to a P92 million decrease in net interest margin. Conversely, a reduction of 3% would lead to an increase in net interest margin of a similar value. This is shown in the table below:

| Country | Impact on Profit @300bps P'000 |
|---|---|
| Botswana | 19,810 |
| Ghana | 9,356 |
| Lesotho | 8,262 |
| Mozambique | 9,528 |
| Eswatini | 7,706 |
| Namibia | 34,628 |
| Others | 2,899 |

Average cost of borrowings during Dec 2022 was 11.6%. Annualised impact of increase in borrowing costs ranging between 2% - 3% due to uncertainties would be P61m – P92m. This would impact Profit before tax for the year ended 31 December 2022 by 13% - 20%.

**Currency risk**

Except for South African Rand (ZAR) pegged currencies that made slight gains against the Pula at the end of the fourth quarter of 2022, all the other currencies of the countries where the Group operates depreciated against the Pula (BWP).

The Group actively manages foreign currency exposures. During the year, there were positions in foreign currency that were converted into alternate currencies on short term deliverable basis to manage the risk of negative foreign currency movement against the base currency (Botswana Pula). These were ZAR and USD positions translated into Pula and disclosed in the annual financial statements as foreign currency swaps.

The Group's main foreign currency exposure on both assets and liabilities is to the ZAR. The ZAR appreciated by 1% against the BWP from the end of 2021 to 31 December 2022. This impacted the Group's profits by less than 1%. If the ZAR depreciates by 1% - 5% , this would result in foreign exchange losses of P28m – P142m. Similarly if the ZAR appreciated at the same levels, the impact on the Group's profit before taxation would an increase of P28m – P142m.

**Other risks**

The condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements. These should be read in conjunction with the Group's annual financial statements as at 31 December 2022.

**32.1 Risk management framework**

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

All non-financial risks that are at primary risk level have risk type frameworks and supporting policies that outline the overall risk management approach for the respective non-financial risk and ensure that an effective risk management and measurement process is adopted throughout the Group. The risk frameworks per primary risk type are maintained by the Risk Owners and formally reviewed after every two years in line with the Group's risk appetite. Furthermore, the approval authority for these Risk Frameworks and revisions thereto are mandated to the Group Risk, Social and Ethics Committee (GRSEC). The GRSEC meets on a quarterly basis to review all other major risks including non-financial risks. At management level, the Group Management Risk Committee reviews and monitors significant risk events and ensures that the control environment is adequate to prevent recurrence.

## 32 FINANCIAL RISK MANAGEMENT

### 32.2 Financial assets and liabilities measured at fair value

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

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

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

| Financial assets - Level 3 | 31 December 2022 P'000 | 31 December 2021 P'000 |
|---|---|---|
| Opening balance | 71,499 | 59,408 |
| (Loss)/gain in other comprehensive income | (28,392) | 12,091 |
| | **43,107** | **71,499** |

In December 2022 a company valuation of the financial services organisation was carried out for purposes of a proposed rights issue and based on this, the value of the Group's investment was P43.1 million. This resulted in a fair value loss of P28.4 million noted above and recognised in other comprehensive income.

**Sensitivity of fair value measurements to changes in unobservable market data.**
Based on the above, a change in the value per share (based on company valuation, which is usually conducted during a rights issue and changes by 1% - 5% ) will result in a fair value gain or loss of P0.4m and P2.2m respectively.

**Financial instruments measured at fair value**

| Type | Valuation technique | | Significant observable / unobservable inputs |
|---|---|---|---|
| Financial assets and liabilities at fair value through profit or loss | Valued by discounting the future cash flows using market interest rate applicable at that time. The sum of the cash flows denoted in the foreign currencies are converted with the spot rate applicable at the reporting date. | Level 2 | Based on BWP, EURO and USD risk free rates. |
| Financial assets at fair value through OCI | Since market values are not available from an observable market, as this is an investment in private equity, the recent transaction price has been considered as an approximation to fair value. The investment has been valued based on the recent price per share determined during a rights issue scheduled to occur in February 2023. The inputs include the number of shares and the price per share | Level 3 | Based on the value per share from a company valuation that was done for an imminent right issue transaction. |

| 31-Dec-22 | Carrying amount: Fair value -through OCI | Fair value -through profit and loss | Financial Assets at amortised cost | Financial liability at amortised cost | Total | Fair value: Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Financial assets measured at fair value** | | | | | | | | | |
| through OCI | 43,107 | - | - | - | 43,107 | - | - | 43,107 | 43,107 |
| through profit or loss | - | 1,178,969 | - | - | 1,178,969 | - | 1,178,969 | - | 1,178,969 |
| | 43,107 | 1,178,969 | - | - | 1,222,076 | - | 1,178,969 | 43,107 | 1,222,076 |
| **Financial assets not measured at fair value** | | | | | | | | | |
| Cash and cash equivalents | - | - | 1,020,771 | - | 1,020,771 | - | 1,020,771 | - | 1,020,771 |
| Advances to customers | - | - | 12,727,475 | - | 12,727,475 | - | 12,727,475 | - | 12,727,475 |
| Other receivables | - | - | 404,237 | - | 404,237 | - | 404,237 | - | 404,237 |
| | - | - | 14,152,483 | - | 14,152,483 | - | 14,152,483 | - | 14,152,483 |
| **Financial liabilities measured at fair value** | | | | | | | | | |
| through profit or loss | - | 1,201,095 | - | | 1,201,095 | - | 1,201,095 | - | 1,201,095 |
| | - | 1,201,095 | - | - | 1,201,095 | - | 1,201,095 | - | 1,201,095 |
| **Financial liabilities not measured at fair value** | | | | | | | | | |
| Trade and other payables | - | - | - | 349,167 | 349,167 | - | 349,167 | - | 349,167 |
| Customer deposits | - | - | - | 1,120,827 | 1,120,827 | - | 1,120,827 | - | 1,120,827 |
| Cash collateral | - | - | - | 18,476 | 18,476 | - | 18,476 | - | 18,476 |
| Borrowings | - | - | - | 8,027,840 | 8,027,840 | - | 8,027,840 | - | 8,027,840 |
| | - | - | - | 9,516,310 | 9,516,310 | - | 9,516,310 | - | 9,516,310 |

**32 FINANCIAL RISK MANAGEMENT**

**32.2 Financial assets and liabilities measured at fair value (continued)**

| | Carrying amount | | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|
| **31-Dec-21** | **Fair value -through OCI** | **Fair value -through profit and loss** | **Financial Assets at amortised cost** | **Financial liability at amortised cost** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | **P'000** | **P'000** | **P'000** | **P'000** | **P'000** | **P'000** | **P'000** | **P'000** | **P'000** |
| **Financial assets measured at fair value** | | | | | | | | | |
| Financial assets at fair value through OCI | 71,499 | - | - | - | 71,499 | - | - | 71,499 | 71,499 |
| Financial assets at fair value through profit or loss | - | 826,092 | - | - | 826,092 | - | 826,092 | - | 826,092 |
| | 71,499 | 826,092 | - | - | 897,591 | - | 826,092 | 71,499 | 897,591 |
| **Financial assets not measured at fair value** | | | | | | | | | |
| Cash and cash equivalents | - | - | 1,413,500 | - | 1,413,500 | - | 1,413,500 | - | 1,413,500 |
| Advances to customers | - | - | 11,875,595 | - | 11,875,595 | - | 11,875,595 | - | 11,875,595 |
| Other receivables | - | - | 323,094 | - | 323,094 | - | 323,094 | - | 323,094 |
| | - | - | 13,612,189 | - | 13,612,189 | - | 13,612,189 | - | 13,612,189 |
| **Financial liabilities measured at fair value** | | | | | | | | | |
| through profit or loss | - | 808,621 | - | - | 808,621 | - | 808,621 | - | 808,621 |
| **Financial liabilities not measured at fair value** | | | | | | | | | |
| Trade and other payables | - | - | - | 857,066 | 857,066 | - | 857,066 | - | 857,066 |
| Customer deposits | - | - | - | 1,175,586 | 1,175,586 | - | 1,175,586 | - | 1,175,586 |
| Cash collateral | - | - | - | 21,522 | 21,522 | - | 21,522 | - | 21,522 |
| Borrowings | - | - | - | 7,380,768 | 7,380,768 | - | 7,380,768 | - | 7,380,768 |
| | - | - | - | 9,434,942 | 9,434,942 | - | 9,434,942 | - | 9,434,942 |

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

## 32 FINANCIAL RISK MANAGEMENT

### 32.3 Interest rate benchmark reform

**Overview**

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with

alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has borrowings that reference to USD LIBOR, EURIBOR and JIBAR.

The Group considers its risk exposure arising from IBOR reform to predominantly stem from its 3-month USD LIBOR, 6-month USD LIBOR and 3-months JIBAR exposures. In 2021, the Group commenced the process of implementing appropriate fallback clauses for indexed facilities that were up for renewal. These clauses automatically switch the instrument from USD LIBOR to Secured Overnight Financing Rate (SOFR) as and when USD LIBOR ceases. According to the September 2022 announcement by the Financial Conduct Authority (FCA), USD LIBOR will continue to be published on a non-synthetic basis up to mid-2023. It is however anticipated that JIBAR will only be discontinued at some future date to be determined by the South Africa Reserve Bank (as the administrator of JIBAR).

The Group does not consider there to be risk arising from IBOR reform in respect of EURIBOR as at 31 December 2022. This is because the calculation methodology of EURIBOR changed during 2019 and the reform of EURIBOR appears to be complete. In July 2019, the Belgian Financial Services and Markets Authority (as the administrator of EURIBOR) granted authorisation with respect to EURIBOR under the European Union Benchmarks Regulation. This allows market participants to continue to use EURIBOR for both existing and new contracts and the Group expects that EURIBOR will continue to exist as a benchmark rate for the foreseeable future.

#### Non-derivative Financial Liabilities

The Group's IBOR exposures to non-derivative financial liabilities are in floating-rate borrowings indexed to USD LIBOR and in bonds indexed to JIBAR. As indicated above, in 2021 the Group commenced the process of amending contractual terms for all USD LIBOR indexed exposures to incorporate fallback clauses that introduce SOFR.

#### Derivatives

The Group holds cross currency swaps and a total return swap for risk management purposes that are designated in hedging relationships. The cross currency swaps have floating legs that are indexed to USD LIBOR and the total return swap is indexed to JIBAR. All of the Group's derivative instruments are governed by contracts based on International Swaps and Derivatives Assocoations (ISDA)'s master agreements.

The following tables summarise the significant non-derivative and derivative exposures impacted by interest rate benchmark reform as at 31 December 2022:

| | USD LIBOR P'000 | JIBAR P'000 | TOTAL P'000 |
|---|---|---|---|
| **Non-derivative financial liabilities** | | | |
| Debt securities in issue | 1,648,100 | 703,852 | 2,351,952 |
| | **1,648,100** | **703,852** | **2,351,952** |

The table above represents the non-derivative exposures to interest rate benchmark reform by balance sheet account, which have yet to transition. The exposure disclosed is for positions with contractual maturities after 31 December 2022. Balances reported at amortised cost are disclosed at their gross carrying value, prior to any expected credit losses that may be held against them.

| | USD LIBOR P'000 | JIBAR P'000 | TOTAL P'000 |
|---|---|---|---|
| **Derivatives held for risk management** | | | |
| Total return swap | - | 357,575 | 357,575 |
| Cross currency swaps | 981,497 | - | 981,497 |
| | **981,497** | **357,575** | **1,339,072** |

The table above represents the derivative exposures to interest rate benchmark reform, which have yet to transition. The exposure disclosed is for positions with contractual maturities after 31 December 2022. Derivatives are reported by using the notional contract amount and where derivatives have both pay and receive legs with exposure to benchmark reform, the notional contract amount is disclosed for both legs.