# LETSHEGO HOLDINGS LIMITED
# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
# FOR THE PERIOD ENDED 30 JUNE 2019

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**DIRECTORS’ REPORT**
**For the period ended 30 June 2019**

The Board of Directors is pleased to present their report to Shareholders together with the reviewed condensed consolidated financial statements for the period ended 30 June 2019.

1 **Financial results**

The condensed consolidated financial statements adequately disclose the results of the group's operations for period ended 30 June 2019.

2 **Dividends**

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

3 The below were the changes that took place during the current period:

| **Directors name** | | **Dates** |
|---|---|---|
| Colm Patterson | Group Chief Financial Officer | Resigned 2 March 2019 |
| J de Kock | Non-executive Director | Resigned 5 March 2019 |
| Smit Crouse | Group Chief Executive Officer | Resigned 27 March 2019 |
| Dumisani Ndebele | Interim Group Chief Executive Officer | Appointed 27 March 2019 |
| C van Schalkwyk | Non-executive Director | Resigned 2 May 2019 |

4 **Independent auditors**

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

5 **Company secretary and Registered Office**

Matshidiso Kimwaga (appointed 27 March 2019)
Letshego Place
Second Floor
Plot 22 Khama Crescent
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: CO98/442

**STATEMENT OF DIRECTORS' RESPONSIBILITY**

**For the period ended 30 June 2019**

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 in accordance with International Accounting Standard 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 period 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 20, for issue on 28 August 2019 and signed on their behalf by:

| | |
|---|---|
| ........................................................ | ........................................................ |
| **E Banda** | **D Ndebele** |
| **Group Chairman** | **Interim Group Chief Executive Officer** |

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**Report on review of interim 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) as at 30 June 2019 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes ("condensed consolidated interim financial information") set out on pages 5 to 20. Management is responsible for the preparation and presentation of the condensed consolidated interim financial information in accordance with International Accounting Standard 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this interim 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 interim 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 interim financial information as at and for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting'.

Ernst & Young
Practicing Member: Thomas Chitambo
Partner
Membership Number: 20030022
Certified Auditor
Gaborone

30 August 2019

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
**At 30 June 2019**

| | Note | At 30 June 2019 (Reviewed) P'000 | At 30 June 2018 (Reviewed) P'000 | At 31 December 2018 (Audited) P'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 3 | 460,523 | 876,444 | 1,188,402 |
| Advances to customers | 4 | 9,116,141 | 8,136,441 | 8,698,831 |
| Other receivables | 5 | 239,849 | 238,856 | 252,491 |
| Financial assets at fair value through other comprehensive income | | 53,591 | 53,591 | 53,591 |
| Income tax receivable | | 24,956 | 13,218 | 19,074 |
| Property, plant and equipment | 6 | 93,701 | 88,390 | 80,532 |
| Right-of-use assets | 7 | 71,436 | - | - |
| Intangible assets | 8 | 47,874 | 51,267 | 45,488 |
| Goodwill | 9 | 95,632 | 126,725 | 106,229 |
| Deferred tax assets | | 190,575 | 174,043 | 211,651 |
| **Total assets** | | **10,394,278** | **9,758,975** | **10,656,289** |
| | | | | |
| **LIABILITIES AND EQUITY** | | | | |
| **Liabilities** | | | | |
| Customer deposits | 10 | 305,877 | 386,879 | 497,718 |
| Cash collateral | 11 | 25,268 | 27,331 | 27,028 |
| Trade and other payables | 12 | 601,445 | 328,272 | 492,225 |
| Lease liabilities | 13 | 77,020 | - | - |
| Income tax payable | | 242,053 | 199,151 | 232,132 |
| Borrowings | 14 | 4,795,550 | 4,661,508 | 5,329,319 |
| Deferred tax liabilities | | 3,107 | 2,888 | 3,205 |
| **Total liabilities** | | **6,050,320** | **5,606,029** | **6,581,627** |
| | | | | |
| **Shareholders' equity** | | | | |
| Stated capital | 15 | 862,621 | 862,621 | 862,621 |
| Foreign currency translation reserve | | (708,889) | (696,161) | (696,276) |
| Legal reserve | | 83,111 | 73,519 | 73,519 |
| Share based payment reserve | | 21,324 | 25,475 | 18,089 |
| Retained earnings | | 3,748,212 | 3,584,298 | 3,500,317 |
| **Total equity attributable to equity holders of the parent company** | | **4,006,379** | **3,849,752** | **3,758,270** |
| | | | | |
| Non-controlling interests | | 337,579 | 303,194 | 316,392 |
| **Total shareholders' equity** | | **4,343,958** | **4,152,946** | **4,074,662** |
| | | | | |
| **Total liabilities and equity** | | **10,394,278** | **9,758,975** | **10,656,289** |

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
**For the period ended 30 June 2019**

| | Note | 6 months ended 30 June 2019 (Reviewed) P'000 | 6 months ended 30 June 2018 (Reviewed) P'000 | Change % | 12 months ended 31 December 2018 (Audited) P'000 |
|---|---|---|---|---|---|
| Effective interest income | 16 | 1,511,668 | 1,222,236 | 24 | 2,718,257 |
| Effective interest expense | 17 | (474,804) | (230,901) | 106 | (654,079) |
| **Net interest income** | | **1,036,864** | **991,335** | | **2,064,178** |
| Fee and commission income | | 33,914 | 24,197 | 40 | 30,735 |
| Other operating income | 18 | 149,388 | 140,438 | 6 | 267,421 |
| **Operating income** | | **1,220,166** | **1,155,970** | **6** | **2,362,334** |
| Employee costs | 19 | (213,345) | (196,025) | 9 | (390,177) |
| Other operating expenses | 20 | (289,933) | (261,919) | 11 | (590,158) |
| **Net income before impairment and taxation** | | **716,888** | **698,026** | **3** | **1,381,999** |
| Expected credit losses / Impairment on advances | 21 | (116,781) | (108,152) | 8 | (361,491) |
| **Profit before taxation** | | **600,107** | **589,874** | **2** | **1,020,508** |
| Taxation | | (236,414) | (219,449) | | (510,026) |
| **Profit for the period** | | **363,693** | **370,425** | **-2** | **510,482** |
| | | | | | |
| **Attributable to :** | | | | | |
| Equity holders of the parent company | | 328,051 | 331,130 | | 438,639 |
| Non-controlling interests | | 35,642 | 39,295 | | 71,843 |
| **Profit for the period** | | **363,693** | **370,425** | **-2** | **510,482** |
| | | | | | |
| **Other comprehensive income, net of tax** | | | | | |
| **Items that may be subsequently reclassified to profit or loss:** | | | | | |
| Foreign currency translation differences arising from foreign operations | | (6,090) | (41,228) | | (48,688) |
| **Total comprehensive income for the period** | | **357,603** | **329,197** | | **461,794** |
| | | | | | |
| **Attributable to :** | | | | | |
| Equity holders of the parent company | | 315,438 | 315,386 | | 422,780 |
| Non-controlling interests | | 42,165 | 13,811 | | 39,014 |
| **Total comprehensive income for the period** | | **357,603** | **329,197** | | **461,794** |
| | | | | | |
| Weighted average number of shares in issue during the period (millions) | | 2,124 | 2,121 | | 2,124 |
| Dilution effect - number of shares (millions) | | 40 | 42 | | 42 |
| Number of shares in issue at the end of the period (millions) | | 2,144 | 2,144 | | 2,144 |
| Basic earnings per share (thebe) | | 15.4 | 15.6 | -1 | 20.7 |
| Fully diluted earnings per share (thebe) | | 15.2 | 15.3 | | 20.3 |

*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 period ended 30 June 2019**

| | Stated capital | Retained earnings | Shared based payments reserve | Foreign currency translation reserve | Legal reserve | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Balance at 31 December 2017 - Audited** | **849,845** | **3,709,308** | **38,840** | **(680,417)** | **39,607** | **313,309** | **4,270,492** |
| Impact of adopting IFRS 9 (note 1) | - | (143,855) | - | - | - | (6,206) | (150,061) |
| **Adjusted balance 1 January 2018** | **849,845** | **3,565,453** | **38,840** | **(680,417)** | **39,607** | **307,103** | **4,120,431** |
| **Total comprehensive income for the period** | | | | | | | |
| Profit for the period | - | 331,130 | - | - | - | 39,295 | 370,425 |
| ***Other comprehensive income, net of income tax*** | | | | | | | |
| Foreign currency translation reserve | - | - | - | (15,744) | - | (25,484) | (41,228) |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| Allocation to share based payment reserve | - | - | (589) | - | | - | (589) |
| Allocation to legal reserve | - | (33,912) | - | - | 33,912 | - | - |
| New shares issued from long term incentive scheme | 12,776 | - | (12,776) | - | - | - | - |
| Dividends paid by subsidiary to minority interests | - | - | - | - | - | (17,720) | (17,720) |
| Dividends paid to equity holders | - | (278,373) | - | - | - | - | (278,373) |
| **Balance at 30 June 2018 - Reviewed** | **862,621** | **3,584,298** | **25,475** | **(696,161)** | **73,519** | **303,194** | **4,152,946** |
| Impact of adopting IFRS 9 - final adjustments (note 1) | - | 3,037 | - | - | - | (4,837) | (1,800) |
| **Adjusted balance** | **862,621** | **3,587,335** | **25,475** | **(696,161)** | **73,519** | **298,357** | **4,151,146** |
| **Total comprehensive income for the period** | | | | | | | |
| Profit for the period | - | 107,509 | - | - | - | 32,548 | 140,057 |
| ***Other comprehensive income, net of income tax*** | | | | | | | |
| Foreign currency translation reserve | - | - | - | (115) | - | (7,345) | (7,460) |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| Acquisition of Non-controlling interest - Tanzania Bank | - | (9,611) | - | - | - | (5,936) | (15,547) |
| Allocation to legal reserve | - | - | - | - | - | - | - |
| Allocation to share based payment reserve | - | - | (7,386) | - | - | - | (7,386) |
| Dividends paid by subsidiary to minority interests | - | - | - | - | - | (1,232) | (1,232) |
| Dividends paid to equity holders | - | (184,916) | - | - | - | - | (184,916) |
| **Balance at 31 December 2018 - Audited** | **862,621** | **3,500,317** | **18,089** | **(696,276)** | **73,519** | **316,392** | **4,074,662** |
| Change in accounting policy - IFRS 16 | - | (439) | - | - | - | 1 | (438) |
| **Adjusted balance 1 January 2019** | **862,621** | **3,499,878** | **18,089** | **(696,276)** | **73,519** | **316,393** | **4,074,224** |
| **Total comprehensive income for the period** | | | | | | | |
| Profit for the period | - | 328,051 | - | - | - | 35,642 | 363,693 |
| ***Other comprehensive income, net of income tax*** | | | | | | | |
| Foreign currency translation reserve | - | - | - | (12,613) | - | 6,523 | (6,090) |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| Allocation to legal reserve | - | (9,592) | - | - | 9,592 | - | - |
| Allocation to share based payment reserve | - | - | 3,235 | - | - | - | 3,235 |
| New shares issued from long term incentive scheme | - | - | - | - | - | - | - |
| Dividends paid by subsidiary to minority interests | - | - | - | - | - | (20,979) | (20,979) |
| Dividends paid to equity holders | - | (70,125) | - | - | - | - | (70,125) |
| **Balance at 30 June 2019 - Reviewed** | **862,621** | **3,748,212** | **21,324** | **(708,889)** | **83,111** | **337,579** | **4,343,958** |

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**
**For the period ended 30 June 2019**

| | Note | 6 months ended 30 June 2019 (Reviewed) P'000 | 6 months ended 30 June 2018 (Reviewed) P'000 | 12 months ended 31 December 2018 (Audited) P'000 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Profit before taxation | | 600,107 | 589,874 | 1,020,508 |
| Add : Amortisation, depreciation and others | | 40,193 | 27,361 | 51,505 |
| : Impairment and write off | | 191,793 | 165,427 | 508,211 |
| Movement in working capital and other changes | | (631,288) | (665,678) | (1,259,971) |
| Cash generated from operations | | 200,805 | 116,984 | 320,253 |
| Tax paid | | (211,330) | (218,220) | (478,948) |
| Net cash (utilised) / generated from operating activities | | (10,525) | (101,236) | (158,695) |
| | | | | |
| **Investing activities** | | | | |
| Purchase of property, plant and equipment | | (36,550) | (19,705) | (29,891) |
| Net cash flows used in investing activities | | (36,550) | (19,705) | (29,891) |
| | | | | |
| **Financing activities** | | | | |
| Dividends paid to equity holders and non-controlling interest | | (91,104) | (296,093) | (482,241) |
| Payment for acquisition of interest in a subsidiary | | (2,577) | - | (15,547) |
| Payment of lease liabilities | | (12,955) | - | - |
| Finance obtained from third parties | | 654,106 | 910,053 | 1,938,071 |
| Repayment of borrowings | | (1,183,181) | (261,759) | (638,687) |
| Net cash (utilised) / generated from financing activities | | (635,711) | 352,201 | 801,596 |
| | | | | |
| Net movement in cash and cash equivalents | | (682,786) | 231,260 | 613,010 |
| Cash and cash equivalents at the beginning of the period | | 1,100,342 | 492,367 | 492,367 |
| Effect of exchange rate changes on cash and cash equivalents | | (8,864) | (4,367) | (5,035) |
| **Cash and cash equivalents at the end of the period** | 3 | **408,692** | **719,260** | **1,100,342** |

## SEGMENTAL REPORTING

**For the period ended 30 June 2019**

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

The Group operates in 11 countries, namely Botswana, Ghana, Kenya, Lesotho, Mozambique, Namibia, Nigeria, Rwanda, Swaziland, Tanzania and Uganda.

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

- *Other Southern Africa includes: Lesotho and Swaziland*
- *Other East Africa includes: Kenya, Rwanda and Uganda*
- *West Africa includes: Nigeria and Ghana*

| Reportable segments June 2019 | Botswana | Namibia | Mozambique | Other Southern Africa | Tanzania | Other East Africa | West Africa | Holding company or eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|
| | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 |
| **Operating income** | 327,743 | 291,673 | 157,939 | 84,315 | 86,304 | 155,638 | 197,062 | (80,508) | **1,220,166** |
| **Profit before taxation** | 259,012 | 220,308 | 95,905 | 33,679 | 55,551 | 52,535 | 18,637 | (135,520) | **600,107** |
| Taxation - consolidated | | | | | | | | | (236,414) |
| **Profit - consolidated** | | | | | | | | | **363,693** |
| Gross advances to customers | 2,818,648 | 2,036,911 | 1,351,345 | 909,317 | 526,222 | 1,163,016 | 1,233,005 | - | 10,038,464 |
| Impairment provisions | (222,030) | (26,205) | (23,298) | (42,803) | (136,453) | (198,868) | (272,666) | - | (922,323) |
| **Net advances** | **2,596,618** | **2,010,706** | **1,328,047** | **866,514** | **389,769** | **964,148** | **960,339** | - | **9,116,141** |
| **Borrowings** | **1,085,585** | **280,020** | **381,695** | **614,542** | **17,237** | **563,408** | **528,322** | **1,324,741** | **4,795,550** |

**SEGMENTAL REPORTING (CONT'D)**
**For the period ended 30 June 2019**

| Reportable segments June 2018 | Botswana | Namibia | Mozambique | Other Southern Africa | Tanzania | Other East Africa | West Africa | Holding company or eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|
| | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 | P '000 |
| **Operating income** | **303,167** | **288,297** | **106,104** | **73,448** | **96,750** | **130,837** | **111,158** | **46,209** | **1,155,970** |
| **Profit before taxation** | 241,652 | 233,883 | 61,701 | 44,838 | 44,273 | 35,237 | 25,260 | (96,970) | **589,874** |
| Taxation - consolidated | | | | | | | | | (219,449) |
| **Profit - consolidated** | | | | | | | | | **370,425** |
| Gross advances to customers | 2,521,751 | 1,911,756 | 1,145,724 | 795,922 | 592,760 | 1,102,616 | 690,852 | - | 8,761,381 |
| Impairment provisions | (204,877) | (7,354) | (21,329) | (27,433) | (158,914) | (137,757) | (67,276) | - | (624,940) |
| **Net advances** | **2,316,874** | **1,904,402** | **1,124,395** | **768,489** | **433,846** | **964,859** | **623,576** | **-** | **8,136,441** |
| **Borrowings** | **949,312** | **167,837** | **383,212** | **612,287** | **34,996** | **587,823** | **433,285** | **1,492,756** | **4,661,508** |

## SIGNIFICANT ACCOUNTING POLICIES
**For the period ended 30 June 2019**

### Reporting entity
Letshego Holdings Limited (the Company) is a limited liability company incorporated in Botswana. The address of the company is Letshego Place, Plot 22 Khama Crescent, Gaborone, Botswana. The condensed consolidated financial statements as at and for the period ended 30 June 2019 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 period ended 30 June 2019 have been approved for issue by the Board of Directors on 28 August 2019.

The accounting policies adopted are consistent with those of the previous financial period except for IFRS 16 Leases which was effective on 1 January 2019.

### Basis of preparation
These condensed consolidated financial statements for the period ended 30 June 2019 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed consolidated financial statements should be read in conjunction with the annual financial statements for the period ended 31 December 2018, which have been prepared in accordance with IFRS.

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

### 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 period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied in the consolidated annual financial statements of the Group for the period ended 31 December 2018 except for the adoption of IFRS 16 on Leases which is detailed in note 2.

## 1 Financial Instruments

**Expected credit losses as at 30 June 2019**

The introduction of the impairment requirements of IFRS 9 Financial Instruments, was implemented on 1 January 2018. In the prior period an initial impact on opening reserves of P150.06 million was recognised and this was further increased by P1.8 million as the end of the year and therefore bringing the total impact on opening balances to P151. 86 million.

Below is a summary of the expected credit losses as at 30 June 2019:

| Operating Segments 30 June 2019 P'000 | IFRS 9 ECL Provisions at 30 June 2019 - (Reviewed) | | | |
|---|---|---|---|---|
| | Stage 1: 12-month ECL allowance | Stage 2: Lifetime ECL allowance – not credit-impaired | Stage 3: Lifetime ECL allowance – credit-impaired | Total ECL on 30 June 2019 |
| ***Financial assets*** | | | | |
| Botswana | 29,273 | 11,673 | 181,084 | **222,030** |
| Namibia | 7,503 | 1,400 | 17,302 | **26,205** |
| Mozambique | 7,568 | 1,380 | 14,350 | **23,298** |
| Other Southern Africa | 7,051 | 6,286 | 29,466 | **42,803** |
| Tanzania | 25,646 | 12,429 | 98,378 | **136,453** |
| Other East Africa | 28,275 | 12,724 | 157,869 | **198,868** |
| West Africa | 115,346 | 52,178 | 105,142 | **272,666** |
| **Total** | **220,662** | **98,070** | **603,591** | **922,323** |

**Maximum exposure to credit risk**

| | At 30 June 2019 (IFRS 9) P'000 | At 30 June 2018 (IFRS 9) P'000 |
|---|---|---|
| **Gross advances to customers** | **10,038,464** | 8,761,381 |
| Of which stage 1 and 2 | **9,194,590** | 8,103,173 |
| Of which stage 3 | **843,874** | 658,208 |
| | | |
| **Expected credit loss provisions** | **(922,323)** | (624,940) |
| Of which stage 1 and 2 | **(318,732)** | (192,349) |
| Of which stage 3 | **(603,591)** | (432,591) |
| | | |
| **Net advances to customers** | **9,116,141** | 8,136,441 |
| Of which stage 1 and 2 | **8,875,858** | 7,913,738 |
| Of which stage 3 | **240,283** | 222,703 |
| | | |
| **Impairment (ECL ) Coverage Ratio** | **9%** | 7% |
| **NPL Coverage Ratio** | **109%** | **95%** |

## 2 Impact of adopting IFRS 16

### 2.1 Nature of the effect of adoption of IFRS 16

**Introduction**

IFRS 16 which supersedes IAS 17 Leases is effective from 1 January 2019. The standard has an option for a company to choose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from Contracts with Customers. The Group did not early adopt IFRS 16 and as such the effective date of adoption is 1 January 2019.

**Overall impact**

The Group has lease obligations for the rental of premises and equipment. These leases were previously treated according to IAS 17. The Group has opted not to reassess if these leases meets the definition of a lease on initial adoption of IFRS 16 and as such the leases were considered to have met the definition of a lease.
In addition an assessement was done to review the composition of the lease payments in all subsidiaries to determine if there are any non-lease components. In some cases the lease payments includes an additional amount for services charges and these were considered to be non-lease components as they relates to utilities, garbage collection etc.

***Balance Sheet***

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

***Income Statement***

IFRS 16 replaces the straight-line operating lease expense for those leases applying IAS 17 with a depreciation charge for the lease asset (included within operating costs) and an interest expense on the lease liability (included within finance costs). This change aligns the lease expense treatment for all leases. Although the depreciation charge is typically even, the interest expense reduces over the life of the lease as lease payments are made. This results in a reducing total expense as an individual lease matures. The difference in the expense profile between IFRS 16 and IAS 17 is expected to be insignificant for many companies holding a portfolio of leases that start and end in different reporting periods.

### 2.2 Approach adopted by Group

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

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

**Discount factor**

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

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

## 2 Impact of adopting IFRS 16

### 2.2 Approach adopted by Group (continued)

**Lessee's incremental borrowing rate**

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

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

The Group has adopted the incremental borrowing rate as the discount factor and the applicable rates were determined per country. The discount factors takes into account the interest rates on the existing facilities where applicable and commercial rates that Group entities could be offered by their lenders if they were to source funding.
Group adopted the practical expedient that allows companies to apply the same discount rate to a portfolio of leases that have similar characteristics. The practical expedient has been applied per country as its effect is reasonably expected to be materially the same as the assessment of the discount rate on a lease-by-lease approach.

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

**Short term leases**

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

**Low value leases**

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

### 2.3 Adjustments recognised of adoption of IFRS 16 :

| | P'000 |
|---|---|
| Opening lease commitments disclosed as at 31 December 2018 | 38,561 |
| Additional leases not considered | - |
| Leases recognised on a straight-line basis as an expense | (1,969) |
| | **36,592** |
| Discounted using the lessee's incremental borrowing rate of at the date of initial application | 53,290 |
| **Lease liability recognised ast at 1 January 2019** | **89,882** |

The impact on retained earnings on 1 January 2019 was a decrease of P438 thousand.

| | At 30 June 2019 (Reviewed) P'000 | At 30 June 2018 (Reviewed) P'000 | At 31 December 2018 (Audited) P'000 |
|---|---|---|---|
| **3 Cash and cash equivalents** | | | |
| Cash at bank and in hand | 313,514 | 441,201 | 822,897 |
| Statutory cash reserve | 51,831 | 157,184 | 88,060 |
| Short term investments | 95,178 | 278,059 | 277,445 |
| | 460,523 | 876,444 | 1,188,402 |
| **Cash and cash equivalents for the purpose of cashflow statements** | 408,692 | 719,260 | 1,100,342 |
| **4 Advances to customers** | | | |
| Gross loans and advances to customers | 10,038,464 | 8,761,381 | 9,541,966 |
| Less : Expected credit losses / impairment losses | (922,323) | (624,940) | (843,135) |
| *- Stage 1* | (220,662) | (127,139) | (167,994) |
| *- Stage 2* | (98,070) | (65,210) | (100,646) |
| *- Stage 3* | (603,591) | (432,591) | (574,495) |
| | 9,116,141 | 8,136,441 | 8,698,831 |

The prior year impairment losses which were reported under IAS 39 have been aligned to IFRS 9 requirements as per the different stages above.

| As at 30 June 2018: The disclosure was as follows: | | | |
|---|---|---|---|
| Gross loans and advances to customers | | 8,761,381 | |
| Less : Impairment losses | | (624,940) | |
| Net advances | | **8,136,441** | |
| **5 Other receivables** | | | |
| Deposits and prepayments | 46,130 | 35,312 | 38,909 |
| Receivable from insurance arrangements | 151,991 | 167,077 | 147,331 |
| Withholding tax and value added tax | 443 | 220 | 881 |
| Other receivables | 41,285 | 36,247 | 65,370 |
| | 239,849 | 238,856 | 252,491 |

**6 Property, plant and equipment**

| | Carrying amount at 01 January 2019 | Additions | Transfers | Disposal | Depreciation charge | Forex translation | Carrying amount at 30 June 2019 |
|---|---|---|---|---|---|---|---|
| Motor vehicles | 4,831 | 303 | 1,350 | - | (1,109) | 289 | 5,664 |
| Computer equipment | 24,201 | 29,689 | 272 | - | (8,475) | (6,179) | 39,508 |
| Office furniture and equipment | 27,514 | 3,629 | 1,053 | (17) | (5,722) | (322) | 26,135 |
| Land and building | 18,518 | - | - | - | - | 346 | 18,864 |
| Work in progress | 5,468 | 970 | (2,675) | (200) | - | (33) | 3,530 |
| | 80,532 | 34,591 | - | (217) | (15,306) | (5,899) | 93,701 |

**7 Right of use asset**

| | Carrying amount at 01 January 2019 | Change in accounting policy | Transfers | Disposal | Depreciation charge | Forex translation | Carrying amount at 30 June 2019 |
|---|---|---|---|---|---|---|---|
| Property | - | 89,882 | - | - | (18,538) | 92 | 71,436 |
| | - | 89,882 | - | - | (18,538) | 92 | 71,436 |

**8 Intangible assets**

| | Carrying amount at 01 January 2019 | Additions | Transfers | Disposal | Amortization charge | Forex translation | Carrying amount at 30 June 2019 |
|---|---|---|---|---|---|---|---|
| Computer software | 39,649 | 1,959 | - | - | (5,580) | 6,797 | 42,825 |
| Brand value | 2,363 | - | - | - | (139) | (308) | 1,916 |
| Core deposit | 3,476 | - | - | - | (413) | 70 | 3,133 |
| | 45,488 | 1,959 | | - | (6,132) | 6,559 | 47,874 |

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTD.)**
**For the period ended 30 June 2019**

| | At 30 June 2019 (Reviewed) P'000 | At 30 June 2018 (Reviewed) P'000 | At 31 December 2018 (Audited) P'000 |
|---|---|---|---|
| **9 Goodwill** | | | |
| Goodwill on the acquisition of: | | | |
| Letshego Holdings Namibia Limited | 23,106 | 23,191 | 22,774 |
| Letshego Tanzania Limited | 1,876 | 1,853 | 1,891 |
| Letshego Kenya Limited | 32,957 | 32,714 | 33,367 |
| Letshego Bank (T) Limited | 7,012 | 14,828 | 15,130 |
| Letshego Microfinance Bank Nigeria Limited | 20,141 | 45,136 | 23,942 |
| AFB Ghana Plc | 10,540 | 9,003 | 9,125 |
| | **95,632** | **126,725** | **106,229** |

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

The key assumptions used to determine the recoverable amount for the different cash generating units were disclosed in the annual consolidated financial statements for the year ended 31 December 2018. In the current period an impairment provision of P12 million was recognised for goodwill arising from acquisition of Letshego Microfinance Bank Nigeria Limited and Letshego Bank Tanzania.

| | At 30 June 2019 (Reviewed) P'000 | At 30 June 2018 (Reviewed) P'000 | At 31 December 2018 (Audited) P'000 |
|---|---|---|---|
| **10 Customer deposits** | | | |
| Deposits from customers | 305,877 | 386,879 | 497,718 |
| **11 Cash collateral** | | | |
| Cash collateral on loans and advances | 25,268 | 27,331 | 27,028 |

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 utilized to cover loans in the event of default.

| **12 Trade and other payables** | At 30 June 2019 (Reviewed) P'000 | At 30 June 2018 (Reviewed) P'000 | At 31 December 2018 (Audited) P'000 |
|---|---|---|---|
| Insurance premium payable | 102,753 | 87,829 | 65,547 |
| Payroll related accruals | 77,992 | 65,792 | 91,437 |
| Other provisions | 89,139 | 67,749 | 60,866 |
| Guarantee funds | 203,969 | 36,307 | 168,215 |
| Trade and other payables | 115,265 | 63,490 | 91,790 |
| Value added tax / withholding tax payable | 12,327 | 7,105 | 14,370 |
| | 601,445 | 328,272 | 492,226 |

Guarantee funds relates to deposits received by the Group from a strategic partner for the funding of the mobile loans in Ghana. In the prior period these were classified under "trade and other payables".

| | | | |
|---|---|---|---|
| **13 Lease liabilities** | | | |
| Lease liabilities | 77,020 | - | - |
| **14 Borrowings** | | | |
| Commercial banks | 1,883,450 | 1,963,090 | 2,504,294 |
| Note programmes | 1,803,945 | 1,996,451 | 1,787,303 |
| Development Financial Institutions | 926,531 | 567,439 | 887,655 |
| Pension funds | 181,624 | 134,528 | 150,067 |
| | 4,795,550 | 4,661,508 | 5,329,319 |
| **15 Stated capital** | | | |
| Issued: 2,144,045,175 ordinary shares of no par value (2018: 2,144,045,175) of which 19,054,190 shares (2018: 19,054,190) are held as treasury shares | 862,621 | 862,621 | 862,621 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTD.)

**For the period ended 30 June 2019**

| | 6 months ended 30 June 2019 (Reviewed) P'000 | 6 months ended 30 June 2018 (Reviewed) P'000 | 12 months ended 31 December 2018 (Audited) P'000 |
|---|---|---|---|
| **16 Effective interest income** | | | |
| Advances to customers | 1,496,441 | 1,209,189 | 2,690,423 |
| Deposits with banks | 15,227 | 13,047 | 27,834 |
| | 1,511,668 | 1,222,236 | 2,718,257 |
| **17 Effective interest expense** | | | |
| Overdraft facilities and term loans | 457,594 | 253,652 | 650,332 |
| Market to market adjustment on foreign currency swaps | 11,246 | - | 11,586 |
| Foreign exchange loss / gain | 5,964 | (22,751) | (7,839) |
| | 474,804 | 230,901 | 654,079 |
| **18 Other operating income** | | | |
| Early settlement fees | 20,275 | 18,112 | 41,241 |
| Income from insurance arrangements | 113,058 | 116,435 | 213,483 |
| Sundry income | 16,055 | 5,891 | 12,697 |
| | 149,388 | 140,438 | 267,421 |
| **19 Employee costs** | | | |
| Salaries and wages | 171,270 | 161,071 | 316,048 |
| Staff incentive | 26,316 | 24,855 | 54,466 |
| Staff pension fund contribution | 9,201 | 7,541 | 17,913 |
| Directors' remuneration – for management services (executive) | 3,323 | 3,147 | 9,725 |
| Long term incentive plan | 3,235 | (589) | (7,975) |
| | 213,345 | 196,025 | 390,177 |
| **20 Other operating expenses** | | | |
| Accounting and secretarial fees | 350 | 602 | 1,084 |
| Advertising | 4,930 | 7,654 | 17,421 |
| Audit fees | 2,633 | 2,385 | 4,675 |
| Bank charges | 4,257 | 4,187 | 7,305 |
| Computer expenses | 2,207 | 4,934 | 18,599 |
| Consultancy fees | 21,448 | 27,691 | 46,116 |
| Corporate social responsibility | 1,672 | 1,965 | 4,138 |
| Data centre decomissioning | (5,000) | - | 5,000 |
| Depreciation and amortization | 21,438 | 19,259 | 36,291 |
| Depreciation - right of use | 18,538 | - | - |
| Directors' fees – non executive | 3,607 | 3,522 | 7,105 |
| Collection commission | 54,877 | 35,990 | 82,517 |
| Direct costs | 18,659 | 13,132 | 27,561 |
| Government levies | 11,531 | 10,937 | 22,876 |
| Insurance | 5,179 | 6,190 | 10,136 |
| Impairment of goodwill (note 9) | 12,000 | - | 22,000 |
| Motor vehicle expenses | 3,018 | 3,016 | 6,192 |
| Office expenses | 12,893 | 10,709 | 24,301 |
| Operating lease rentals - property | 8,439 | 23,824 | 48,115 |
| Other operating expenses | 39,684 | 36,646 | 82,512 |
| Payroll administration costs | 898 | 1,005 | 2,066 |
| Printing and stationery | 2,599 | 3,127 | 7,673 |
| Professional fees | 15,613 | 14,369 | 42,643 |
| Telephone and postage | 14,225 | 13,067 | 26,471 |
| Travel | 14,238 | 17,708 | 37,361 |
| | 289,933 | 261,919 | 590,158 |
| **21 Expected credit losses on / impairment on advances** | | | |
| Amounts written off | 112,605 | 92,948 | 298,297 |
| Recoveries during the period | (75,012) | (57,275) | (146,720) |
| Expected credit losses raised during the period | 79,188 | 72,479 | 209,914 |
| | 116,781 | 108,152 | 361,491 |

### 22 Contingent liabilities

There are no significant contingent liabilities as at 30 June 2019.

### 23 Capital commitments

At 30 June 2019 the commitments for capital expenditure under contract amounted to NIL (2018: P Nil).

### 24 Related party transactions

There has been no significant change in the nature and quantum of related party transactions from those reported in the annual financial statements for the period ended 31 December 2018.

### 25 Events occurring after reporting date

An interim dividend of 4.3 thebe per share was declared on 28 August 2019.

There were no material changes in the affairs of the Group between the 30 June 2019 period end and the date of the approval of these condensed consolidated financial information.

## 26 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

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the group's annual financial statements as 31 December 2019. There have been no changes in the risk management department or in any risk management policies since the period end.

### 26.1 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework, read in conjunction with the group's annual financial statements as 31 December 2019.

The Board has established the Group Audit and Risk Committee ("GARC"), Group Human Resources Committee ("GHRC"), Investment Committee, Group Management Committee ("GMC") and subsidiary companies' Country Management Committees ("CMC") which are responsible for developing and monitoring Group risk management policies in their respective areas. All Board committees have both executive and non-executive members, apart from the GMC which comprises of executive directors and senior management and reports regularly to the Board of Directors and its sub committees on their activities.

The Group's Enterprise Risk Management framework is established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and responsibilities.

### 26.2 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
- Level 3 - Valuation technique for which the lowest level input that is significant to the fair value measurement is unobservable

**Financial instruments measured at fair value**

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

| 30 June 2019 | Carrying amount: Fair value - through OCI | Fair value - through profit and loss | Financial Assets at amortised cost | Financial Liability @ amortized 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** | | | | | | | | | |
| Financial assets at fair value through OCI | 53,591 | - | - | - | 53,591 | - | - | 53,591 | 53,591 |
| **Financial assets not measured at fair value** | | | | | | | | | |
| Cash and cash equivalents | - | - | 460,523 | - | 460,523 | | | | |
| Advances to customers | - | - | 9,116,141 | - | 9,116,141 | | | | |
| Other receivables | - | - | 193,276 | - | 193,276 | | | | |
| | - | - | 9,769,940 | - | 9,769,940 | | | | |
| **Financial liabilities measured at fair value** | | | | | | | | | |
| Borrowings - currency swap | - | 12,733 | - | - | 12,733 | - | 12,733 | - | 12,733 |
| **Financial liabilities not measured at fair value** | | | | | | | | | |
| Trade and other payables | - | - | - | 534,687 | 534,687 | | | | |
| Customer deposits | - | - | - | 305,877 | 305,877 | | | | |
| Cash collateral | - | - | - | 25,268 | 25,268 | | | | |
| Borrowings | - | - | - | 4,782,817 | 4,782,817 | | | | |
| | - | - | - | 5,648,649 | 5,648,649 | | | | |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTD.)
**For the period ended 30 June 2019**

**26 FINANCIAL RISK MANAGEMENT**

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

| 30 June 2018 | Carrying amount | | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fair value - through OCI | Fair value - through profit and loss | Loans and advances | Financial Liability @ amortized cost | Total | Level 1 | Level 2 | Level 3 | Total |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Financial assets measured at fair value** | | | | | | | | | |
| Financial assets at fair value through OCI | 53,591 | - | - | - | 53,591 | - | - | 53,591 | 53,591 |
| **Financial assets not measured at fair value** | | | | | | | | | |
| Cash and cash equivalents | - | - | 876,444 | - | 876,444 | | | | |
| Advances to customers | - | - | 8,136,441 | - | 8,136,441 | | | | |
| Other receivables | - | - | 203,324 | - | 203,324 | | | | |
| | - | - | 9,216,209 | - | 9,216,209 | | | | |
| **Financial liabilities measured at fair value** | | | | | | | | | |
| Other payables - interest rate swap | - | 3,970 | - | - | 3,970 | - | 3,970 | - | 3,970 |
| **Financial liabilities not measured at fair value** | | | | | | | | | |
| Trade and other payables | - | - | - | 258,363 | 258,363 | | | | |
| Customer deposits | - | - | - | 386,879 | 386,879 | | | | |
| Cash collateral | - | - | - | 27,331 | 27,331 | | | | |
| Borrowings | - | - | - | 4,657,538 | 4,657,538 | | | | |
| | - | - | - | 5,330,111 | 5,330,111 | | | | |

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