

Letshego Group

HY 2019 Results Presentation

Dumisani Ndebele
Interim Group Chief Executive Officer
2 September 2019



Highlights

Strategy update

Assessing and Managing our Social Impact

Financial and Business Review

Financial fundamentals remain strong in a challenging operating and trading environment



Financial highlights

	FY 18	HY 19	HY 18	% Change	
Interest Income (BWPbn)	2.718	1.512	1.222	24	▲
Impairment Provision (BWPmn)	361	117	108	8	▼
Profit After Tax (BWPmn)	510	364	370	(2)	▼
Cost to Income Ratio	42%	41%	40%	(1)	▲
Return on Equity	12.2%	17%	18%	(1)	▼
Gross Advances to Customers (BWPbn)	9.5	15.0	8.7	7	▲
Capital Adequacy Ratio	35%	38%	39%	1	▼
Earnings Per Share (thebe)	20.7	15.4	15.6	(1)	▼

Key points:

Portfolio Quality

- Loan Loss Ratio 2.5% (2018 : 2.6%)

Loan Growth

- Gross advances growth 15% (2018 : 12%)

Profitability

- Effective tax rate: 39% (2018 : 37%)

We have retained our market share in our key markets

Operational highlights

11 countries

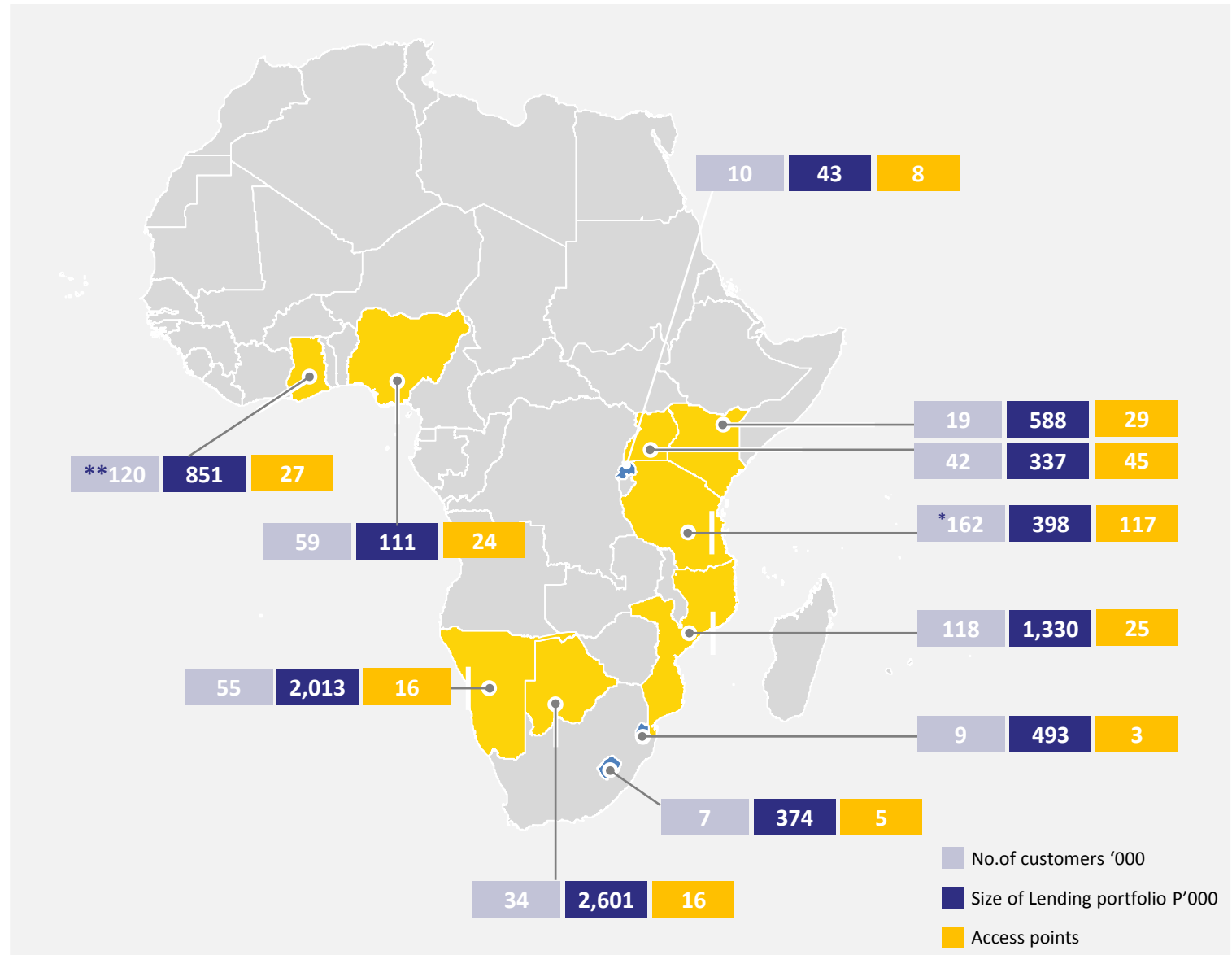
1,902 employees

315 customer access points

387k borrowers

250k savers

637k customers in total



* Tanzania includes LBT and Faidika

** Excludes Ghana mobile loans

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Group management



- CEO permanent appointment expected in Q4 2019
- COO, CRO positions to be filled to strengthen C-suite
- Interim CEO and outgoing CFO will stay on until the end of the FY19 reporting cycle

Board composition



- Four new Independent Non-Executive Directors (INEDs) to join the Board subject to NBFIRA approval
- New INEDs bring specialist skills in fintech, financial services and risk management

Corporate strategy



- The Board remains committed to diversification at a geographic, business and customer solutions level
- A comprehensive review of all aspects of the Group has commenced and is expected to be completed in the second half of 2019
- This may result in discontinuing business/ customer solutions that are not profit accretive

Letshego is well positioned to deliver a satisfactory set of FY 2019 results



Financial fundamentals remain robust

- Group is well capitalised and profitable
- Effective tax rate is reducing
- Cost to income ratio is declining
- Underlying asset quality remains satisfactory

Deduction at Source (DAS) business remains core

Government

- Solution rationalisation and pricing review implemented to defend the loan book from increasing settlements rates in mature markets
- Higher payouts in Botswana following a double digit salary increase for civil servants in April 2019

Non-Government

- Portfolio growth flat pending improvement in the control environment and collection experience, which is targeted to be in place by H2, 2019

Portfolio quality

- Key markets: Botswana ,Mozambique and Namibia have a loan loss rate < 1%

Savings conversion of DAS customers

- Cards channel has been pivotal in Mozambique and Namibia 's 90% contribution to retail savings
- Mozambique now has 41k depositors
- Retail deposits constitute one third of total deposits
- Attracting institutional deposits is no longer an area of focus

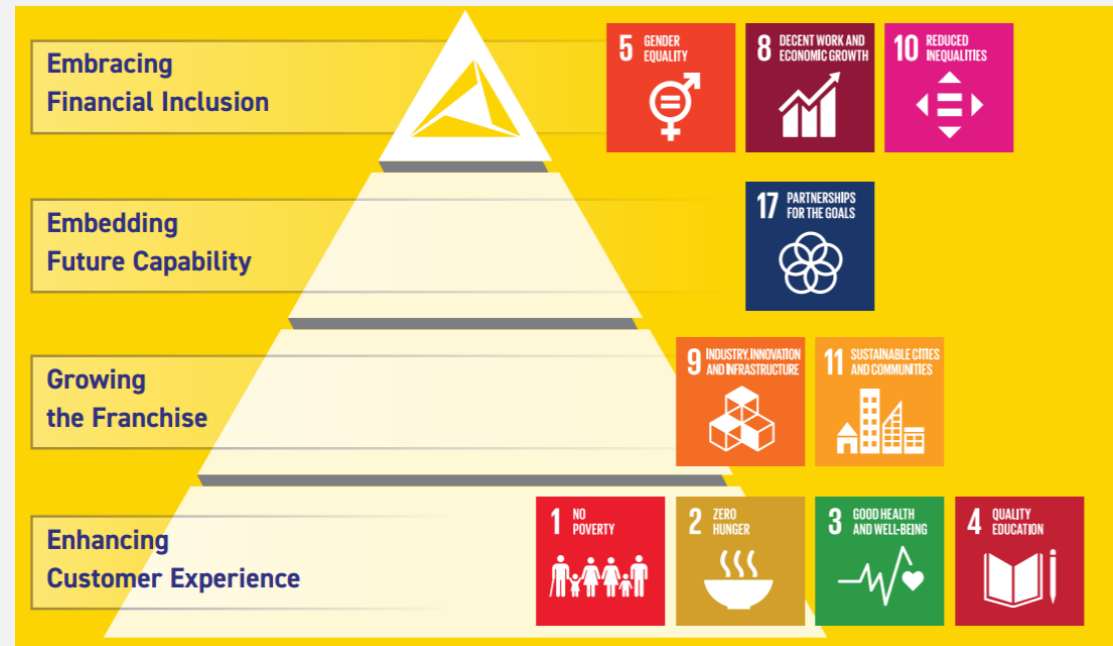
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“The focus of this Report is our overall approach to **sustainable development**, the outcomes of our activities and, the difference our activities make in the lives our stakeholders.”

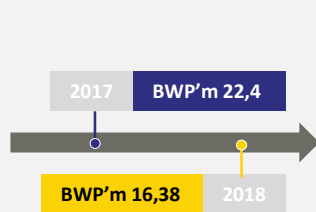


There has been a significant improvement in the way we measure and report social impact



Increasing access to Social Services

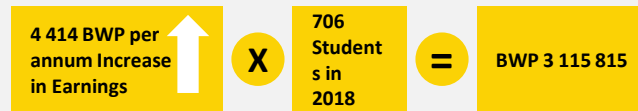
Value of Loans



Secondary Education

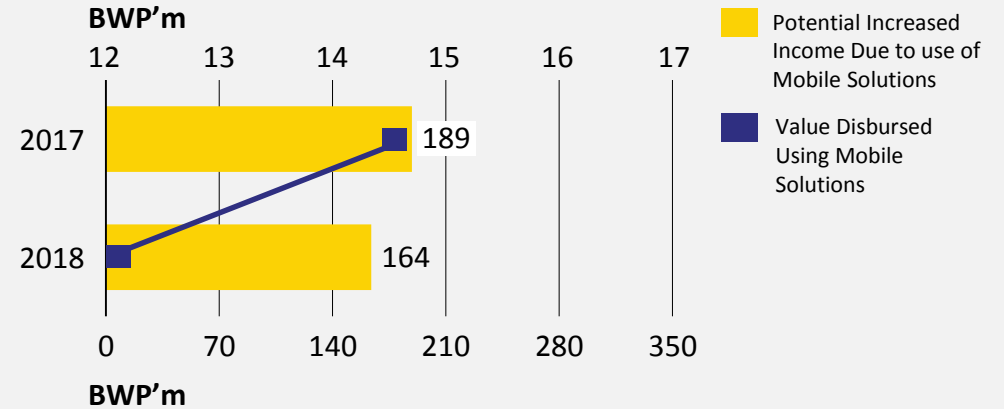


Tertiary Education

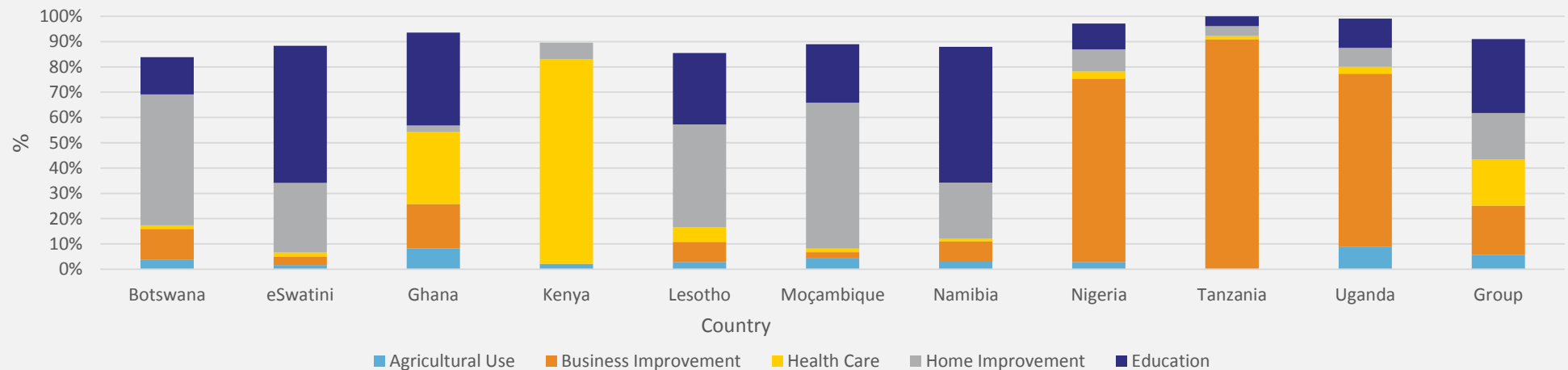


- Average Gross National Income across Letshego countries of operation is BWP 21 851
- Impact of 1yr of tertiary education on income is an increase of 20.2%
- Impact of 1yr of secondary education on income is an increase of 17.7%

Additional Income with Use of Mobile Solutions



Summary of Productive Loan Use Type Per Country



- **The Group expects to finalise a strategic review of its operations focusing on geographic mix, market segments, customer solution lines and strategic partnerships in 2H 2019**
- **There is currently no appetite for any new acquisitions. All existing operations covered by strategy review**
- **FY 2019 Financial Targets**
 - Cost to Income Ratio < 40%
 - Effective Tax Rate < 40%
 - Cost of Credit Risk below 3.5%
- **Other FY 2019 areas of focus:**
 - Credit scoring automation
 - Retail deposit mobilization and customer conversion
 - Asset quality vs asset growth
 - Balance sheet optimization
 - Diversification of funding sources
 - Debt:Equity
 - Dividend policy
 - Share buyback



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Portfolio analysis

Country	Net Advances to Customers in BWP mn	Deduction at Source	MSE	Informal	% of Book	Loan growth from prior period in BWP	Loan growth from prior period in local currency
Botswana	2,597	99%	1%	–	28%	12%	12%
Kenya	588	25%	75%	–	6%	(9)%	4%
Lesotho	374	100%	–	–	4%	0%	4%
Mozambique	1,328	100%	–	–	15%	18%	21%
Namibia	2,011	100%	–	–	22%	6%	7%
Nigeria	109	60%	40%	–	1%	55%	40%
Rwanda	43	3%	97%	–	0%	10%	(13)%
Swaziland	493	100%	–	–	5%	24%	25%
Tanzania	390	68%	32%	–	4%	(10)%	(12)%
Uganda	333	64%	36%	–	4%	20%	3%
Ghana	850	52%	1%	47%	9%	54%	104%
	9,116	87%	9%	4%	100%	12%	16%

Underlying asset quality in key markets is satisfactory



Asset Quality and Provisioning

- The Group's cost of risk reduced from 2.6% (HY 2018) to 2.5% (HY 2019)
- Coverage Ratios have been maintained above 85% across all customer solutions
- Fully compliant with IFRS 9
- Recoveries experience continues to improve at a group level
- Tightening of affordability criteria has been introduced to address deterioration in mobile loan portfolio

Impairment Cost

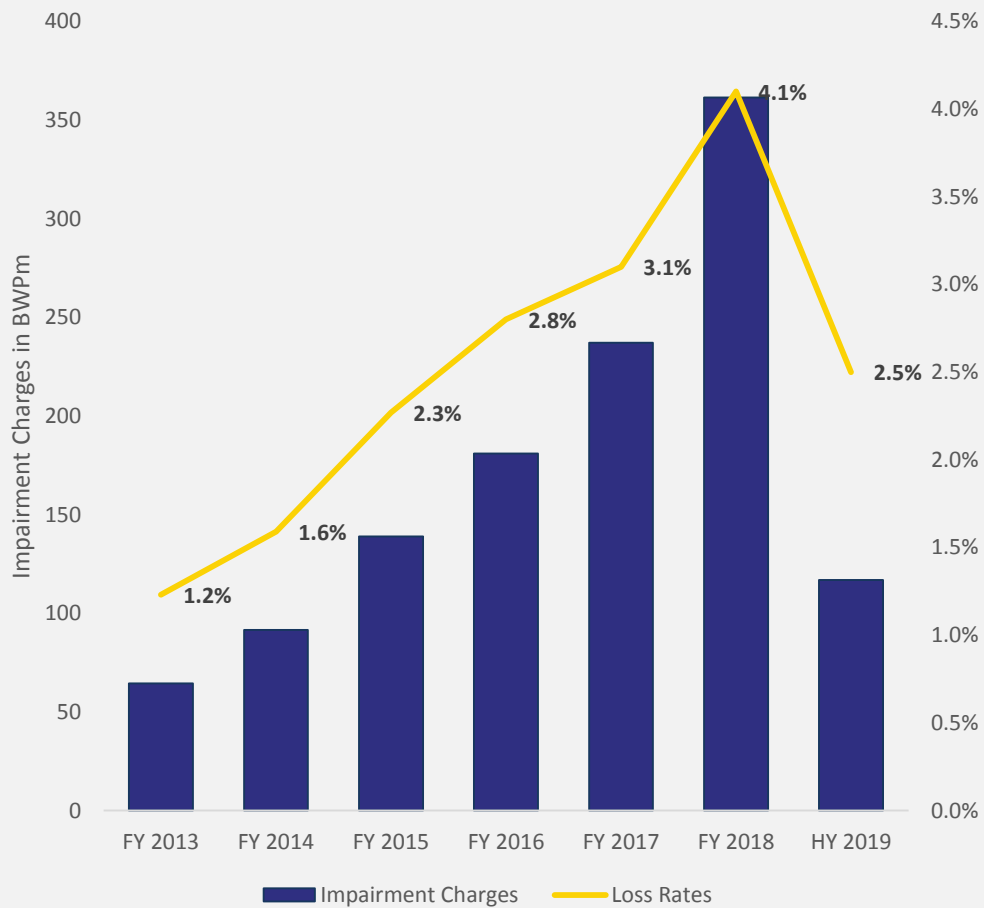
	FY 15	FY 16	FY 17	HY 18	HY 19
Formal	2.1%	2.3%	1.8%	2.2%	1.4%
MSE	4.3%	7.7%	10.4%	3.3%	3.2%
Informal				13.0%	20.2%
Group	2.3%	2.8%	3.1%	2.6%	2.5%

Impairment Coverage > PAR 90

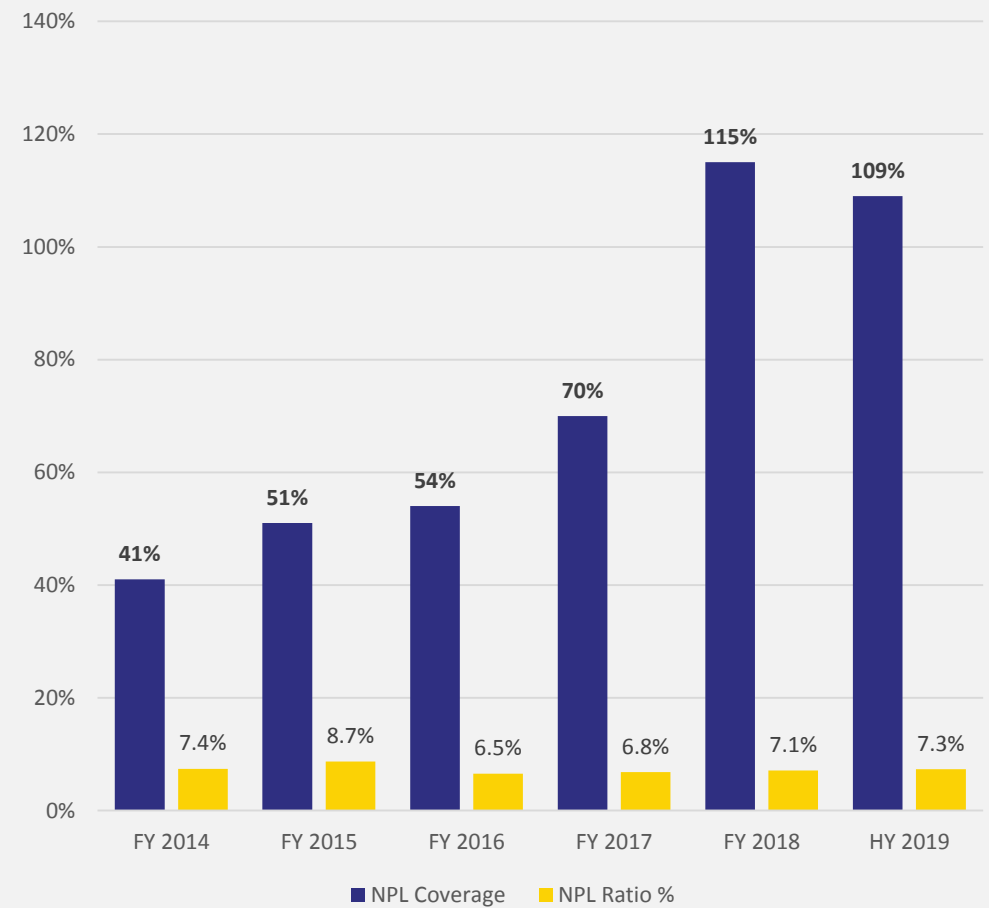
	FY 15	FY 16	FY 17	HY 18	HY 19
Formal	36%	50%	65%	87%	92%
MSE *	128%	178%	101%	136%	88%
Informal				102%	120%
Group	51%	54%	70%	95%	109%

*HY 18 Assumed 100% MSE LGD

Impairment Charges & Loss Rates

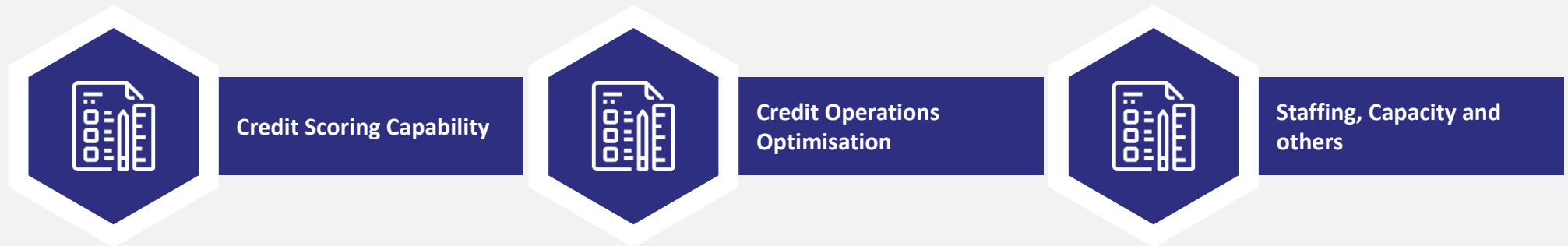


NPL Provision Adequacy



Enhancements to our Credit Risk Management Framework are at an advanced stage

Focus areas



- Design and discovery phase of credit scorecard ongoing. Credit scoring solution will assist in pre-sanction and post sanction stages of loans and advances (Risk based Pricing, Application/Expert/Hybrid/Behavioral/Collections scorecards and settlement predictability)
- Operationally streamlining credit life-cycle processes across the group is expected to be complete in Q1 2020
- Training and development of our people on various aspects of the credit life-cycle processes is underway

Diversification of the Group's funding mix has been positive for its debt maturity profile



Funding

- Rolled over/ refinanced 8 out of 10 maturing credit lines
- Put in place 7 new funding lines and, drew down USD30mn
- Increased headroom under Security Sharing Agreement (SSA) to USD85mn (2018: USD45mn)

Deposit Mobilisation

- 30% of deposit book is retail deposits (2018: 20%)
- Mozambique continues to lead in deposit mobilization

Deferred Maturity profile

- BWP1,440mn or 30% of total external borrowing maturing in < 2021 (2018: 18%)

Capital Adequacy

- CAR 2019: 38%, (2018: 35%)

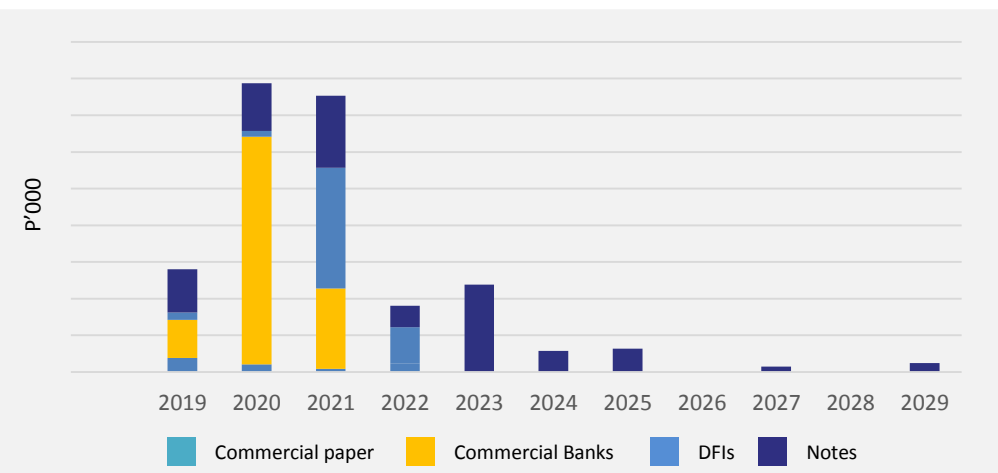
Credit Rating

- Ba3 (stable) outlook issuer rating affirmed
- Ba2 Corporate Family Rating (CFR) assigned

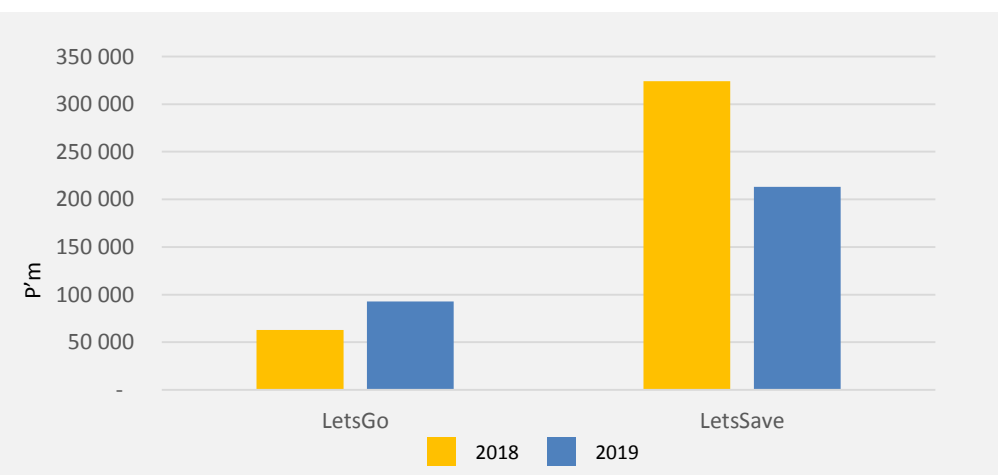
Liquidity Coverage Ratio

- 36% HY 2019, 35% HY 2018
- liquidity gap < 12 months is positive
- Cash reserves on hand under USD45mn

Maturity Profile – Funding Liabilities



Deposits – Mix and Growth



Balance sheet optimization remains the primary objective of the Group's capital position and dividend policy



Regulatory capital

- Group maintains a CAR which is significantly higher than minimum regulatory capital requirements for regulated entities across all our operations
- New capital requirements introduced in Mozambique, Nigeria and Tanzania

Higher capital vs ROE

- Letshego has historically been overcapitalized
- The group has been increasing leverage to achieve a more optimal debt:equity ratio
- Long term target equity: total assets 35%

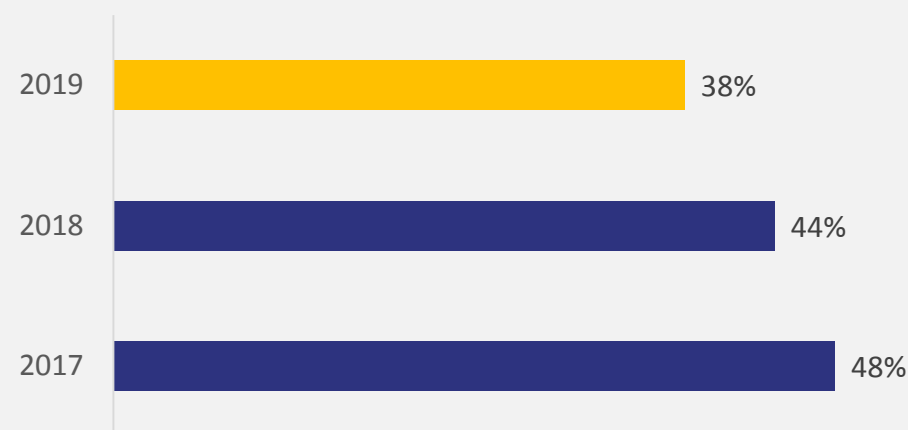
Dividend policy

- Dividend pay out ratio has been reviewed downward to 25% of PAT
- Reduction aligned to equity growth story
- Dividend yield still at 8% with lower payout ratio

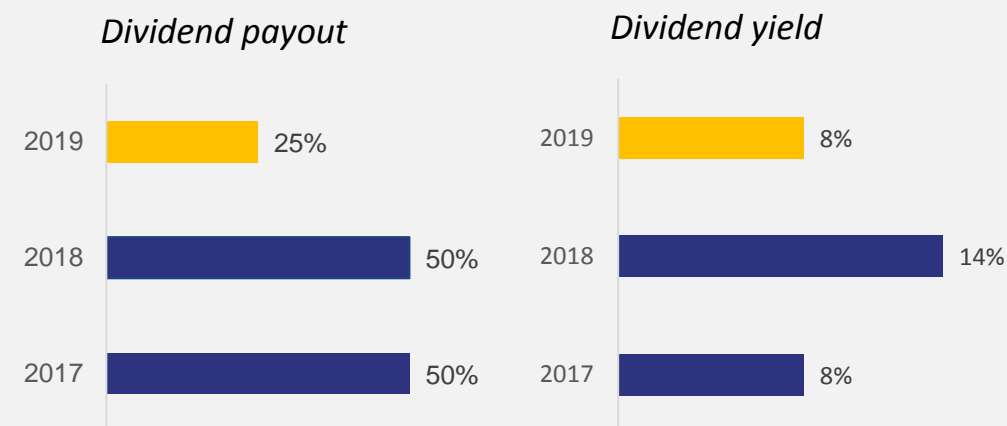
Share buyback

- Mandate renewed by shareholders at AGM held on 24 June
- Cashflows permitting, Letshego may exercise this mandate to buy back shares

Capital Adequacy Ratio



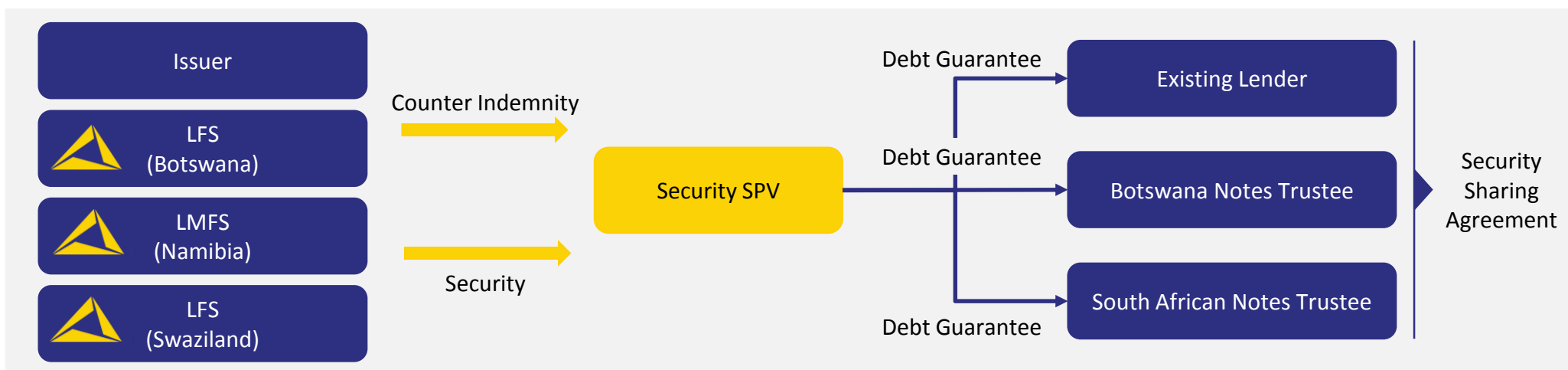
Dividend Policy



Letshego Holdings continues to comply fully with financial covenants in the Security Sharing Agreement (SSA)



Debt Security Structure



LHL Financial Covenant Reporting for the MTN Bond Programme of Letshego Holdings Limited – LHL17,18,19, 26,27,28

	Covenant	Position as at Jun 30, 2017				Position as at Jun 30, 2018				Position as at Jun 30, 2019			
					LHL				LHL				LHL
Bad Debts Ratio	10%	1%	1%	1%	n/a	2%	1%	1%	n/a	1.2%	0.5%	1%	n/a
Cash Collection Ratio	>85%	95%	98%	99%	n/a	98%	95%	92%	n/a	98%	90%	96%	n/a
Capitalisation Ratio	>30%	n/a	n/a	n/a	56%	n/a	n/a	n/a	33%	n/a	n/a	n/a	52%
Secured Property Ratio	<67%	n/a	n/a	n/a	57%	n/a	n/a	n/a	48%	n/a	n/a	n/a	40%

Implementation of tax structuring and compliance initiatives is progressing well



Key initiatives

- Management fees: revised recharge model and roll out of new SLA's with subsidiaries
- Intercompany loans, Guarantee Fees and Arrangement Fees: Benchmarking analysis has commenced to determine appropriate pricing
- Advocacy and engagement with revenue authorities in some markets to address transfer pricing issues

Group capital structure optimisation

- A move to a Mauritius intermediate holding company by subsidiaries is still under consideration and, could have a significant impact on overall withholding tax on dividends and fees

Resolution of tax matters

Tanzania

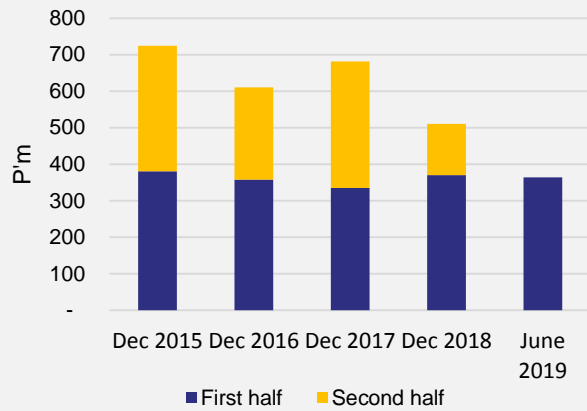
- Ongoing engagement between Group tax advisors and Tanzania Revenue Authority to resolve tax issues

Other jurisdictions

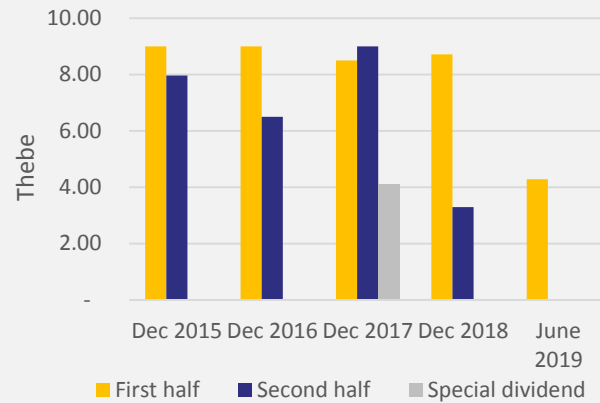
- In depth tax health reviews have been undertaken in Botswana, Mozambique, Namibia, Ghana and Rwanda. Other subsidiaries to follow

Key indicators

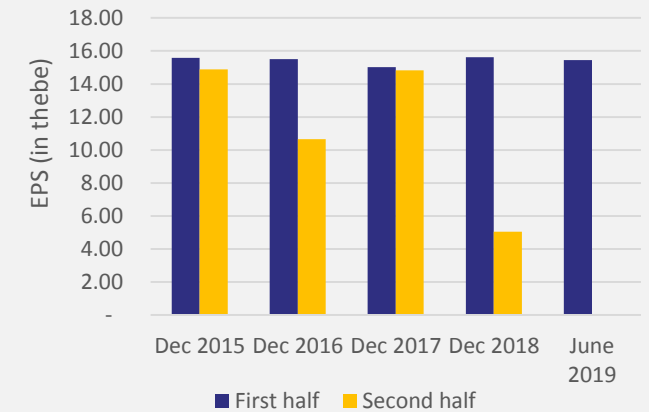
Profit after Tax (P'm)



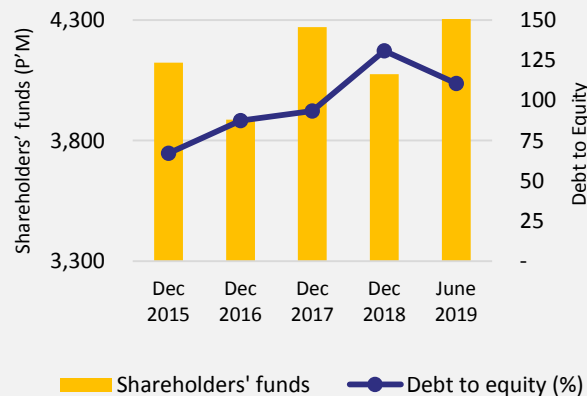
Dividends per Share (Thebe)



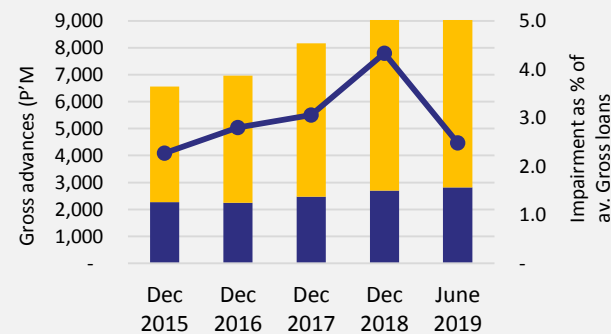
Basic Earnings per Share



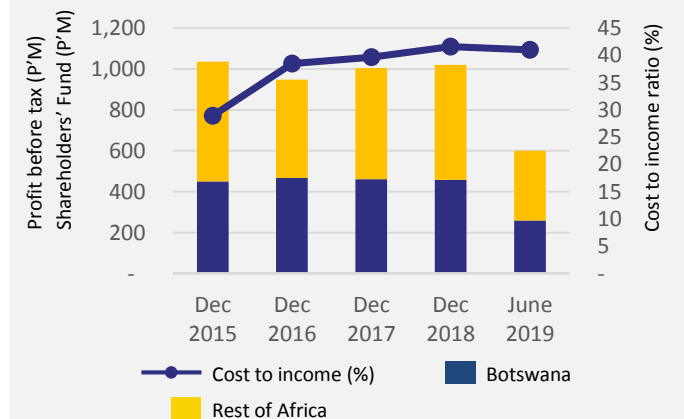
Shareholders' Funds: Debt to Equity



Gross Advances and Impairment



Geographic Diversification PBT and Cost to Income Ratio



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