Letshego

Building a leading African financial services group

July 2014 Interim Results

Letshego Group continues to record strong performance, growth and returns to shareholders

Highlights

- At BWP5.7 bn (USD630 m) Letshego is in the **top 40** listed companies by market capitalisation (ex South Africa) across sub-Saharan Africa
- Employing over 1,300 across 10 African countries, Letshego Holdings Group ("LHG") services 250,000 customers through 260 branches and access points
- Grew July 2014 **PBT 11% to P508m** on July 2013; ex-forex gain in prior period, **PBT grew 22%**
- Our customer loan portfolio grew **31% to P5bn**, with a 5 year CAGR of **35%**
- Debt equity has improved from 25% to **39%**
- Dividend pay-out has been doubled to **8.5thebe** (**6.6% annualised yield**)

AGENDA

Vision and strategy execution

- Our vision and strategy
- Core business
- Franchise development
- Building sustainable competitive advantage
- Balance sheet management
- Commitment to ESG

Results

- Interim results
- Key trends
- Balance sheet
- Income statement

We have agreed a clear vision and strategy for growth

Strategic intent

A leading African financial services group

Brand promise

Your preferred partner – committed to improving lives

Our uniqueness

Simple · Appropriate · Responsive · Accessible · Inclusive · Ethical

Our sustainable competitive advantages

Customer experience	Innovation	Risk management	People development	Stakeholder engagement
"A unique offering"	*"In everything we do"*	*"An holistic approach"*	*"Where individuals make a difference and teams succeed"*	*"Leveraging for value"*

Our Stakeholders

Customers · Government · Regulators · Staff · Investors · Communities

Strategic Priorities

2014 · 2015 · 2016

- Strengthen the franchise
- Build Capabilities
- Implement a new operating model
- Better leverage the balance sheet
- Break-out options

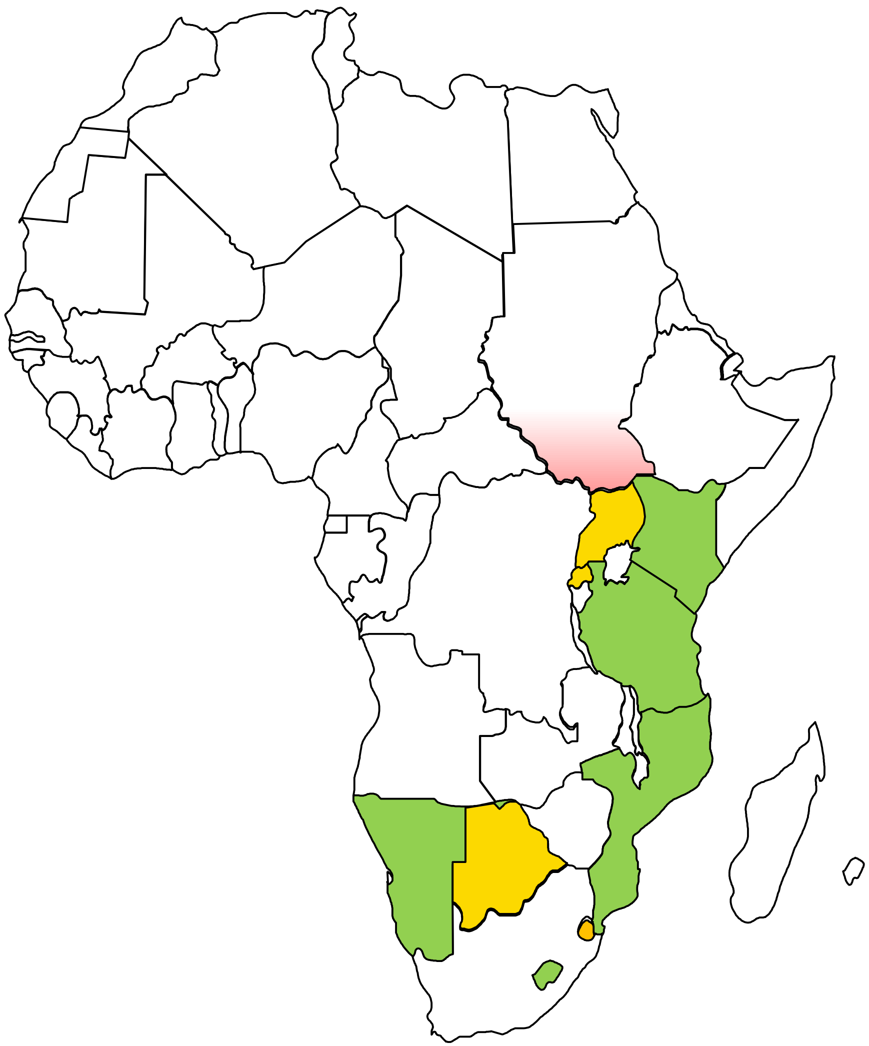
"LHG of the future will offer simple, appropriate and inclusive products; flexible and convenient access; responsive and ethical credit; and support for the MSE owner to build his or her business – and all at a very low cost."

Our consumer finance (payroll) business remains core, with good penetration and improved credit risk management

	Letshego's current penetration of gov employees % - July 2014	Customers (000s)	Loan Book (BWP'millions)	Central register	Credit insurance in place
Botswana	21%	33	1,913	In place and effective	In place and effective
Kenya	1%	16	126	Not in place	In place and effective
Lesotho	20%	12	129	Not in place	In place and effective
Mozambique	12%	47	980	Not in place	In place and effective
Namibia	51%	49	1,160	In place and effective	In place and effective
Rwanda	0%	2	82	Not in place	In place and effective
South Sudan	0%	2	5	Not in place	Not in place
Swaziland	12%	5	130	In place and effective	In place and effective
Tanzania	8%	40	264	Not in place	Not in place
Uganda	11%	41	217	Being developed	Not in place

In place and effective   Being developed   Not in place

Our transformation strategy envisages three approaches to franchise development



Invest to Grow	Diversify / Defend	Hold / Divest
• Kenya • Moz'bique • Tanzania • Namibia • Lesotho	• Botswana • Uganda • Rwanda • Swaziland	• South Sudan

- *Namibia granted a provisional banking licence July 2014*
- *Housing microfinance in Kenya picking up*
- *Options to exit South Sudan are being explored*
- *Sale of minor stake in Tanzanian MF business, Tujijenge, in progress*

Invest to Grow: Mozambique

Invest to Grow

- Commenced Sept 2010 under micro-banking licence, regulated by Banco Mocambique (deposit-taking since February 2014)
- 7th largest bank in Mozambique by total assets
- In top 50 local companies at 2013 by profitability
- 3rd largest contributor to Group assets and profit
- Branch network of 11 with a customer base of 46,000, supported by 97 full time employees and 30 sales agents

•Kenya
•Lesotho
•Namibia
•Mozambique
•Tanzania

- Advances growth in Mozambique 60% on July 2013, to **BWP 980 million,** with PBT up 90% to **BWP 72 million**
- Capital Adequacy of 19% (regulatory minimum of 10%)
- Planned to be LHG's first "full service" operation – financial inclusion suite, fully integrated banking system
- Working with the regulator on mobile and agency banking framework

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Diversify: Rwanda

Diversify

- Botswana
- **Rwanda**
- Swaziland
- Uganda

- Acquired in 2012 with Micro Africa Limited (MAL), the company is regulated by the Banque National Rwanda as a micro-finance deposit-taker
- Diversification is being achieved through low-cost housing microfinance, education loans and lending to micro and small enterprises
- Having evaluated the commercial viability of it, the group lending product was phased out
- We do not engage in payroll deduction lending in Rwanda
- Customer access points remain at 6 servicing 2,400 customers, supported by 82 full time employees and 44 sales agents

- Advances growth of 102% on July 2013, to **BWP 82 million,** with PBT up 38% to **BWP 5 million**
- Focus is to achieve efficiencies and innovations in selling value chain have resulted in 10% reduction in cost-to-income ratio in 2014 e.g. the unique retention of interns and graduates doubled productivity
- The company is preparing to launch its current and savings account deposit-taking late 2014 under its micro-finance deposit-taking licence
- Financial inclusion is earmarked for roll-out in 2015

Defend: Botswana

Defend

- **Botswana**
- Rwanda
- Swaziland
- Uganda

- LHG's founding operation (since 1998) and regulated by NBFIRA
- Major competition is with commercial banks for retail unsecured lending, hence the need to defend
- Customer access points increased from 11 to 12, servicing 32,000 customers, supported by 103 full time employees and 100 direct sales agents

- Net advances just under **BWP 2 billion,** with PBT up 20% to **BWP 215 million**
- We have entered the mining sector as an adjacent customer segment in our Botswana portfolio
- Housing microfinance has commenced in partnership with a large construction supplies group
- We are looking to call-centre productivity as a model across LHG

We are building sustainable competitive advantage in five key areas

Customer experience
- A unique offering

Innovation
- In everything we do

Risk management
- Holistic approach

People development
- Where individuals make a difference and teams succeed

Stakeholder engagement
- Leveraging for value

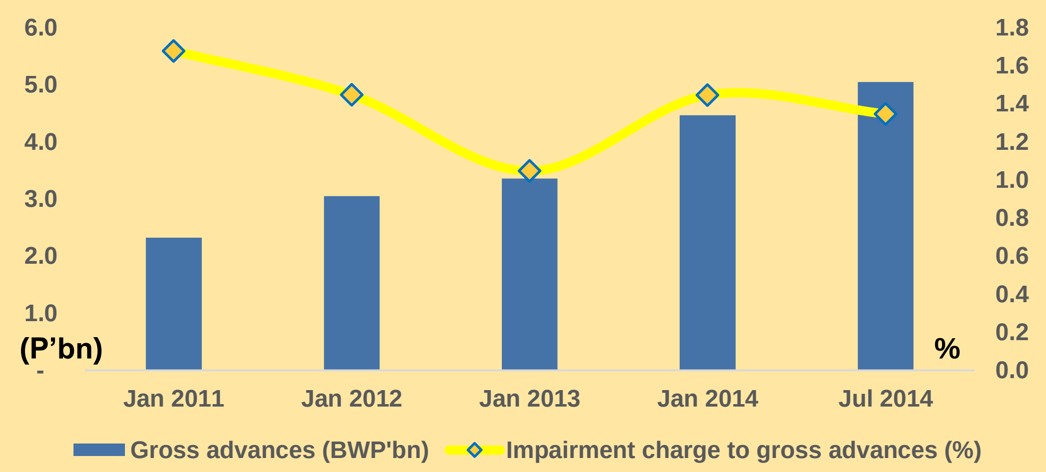
Effective and prudent risk management will be essential

Origination	Underwriting: Assessment	Underwriting: Decision	Underwriting: Disbursement	Credit management	Credit monitoring	Collections (or arrears management)
• Walk-in business • Use of agents • Target specific areas or entities	• Focus on affordability and risk assessment • Minimum take home		• Regulatory • Central registers • Credit bureaus		• Monthly	• In country collection teams • Low impairments

Payroll Deduction Loans

- Expected monthly installments monitored
- If missed instalment is due to default, loan is either recovered via insurance (where applicable) or **immediately** written off
- Intensive risk assessment training
- Direct debit mandates with customers, in the event customer is off regular collection channels
- Provisions in line with IFRS

Asset growth - without compromising quality



We are progressing diversification and leverage of our balance sheet

Diversity of borrowings base	31 July 2014 P'm	31 July 2013 P'm
Borrowings		
African Alliance Liquidity Fund (Botswana)	56	20
Banco Terra (Mozambique)	17	21
Capital Bank Limited (Botswana)	40	-
Chase Bank (Kenya)	44	-
FNB (Botswana)	151	-
Investec Asset Management (Botswana)	-	55
Medium Term Note - BSE and JSE Listed Bond	950	607
Standard Bank (Mozambique)	78	-
Standard Chartered Bank (Botswana and Uganda)	71	61
Others (pan-African)	94	95
Total borrowings	**1,501**	**859**

- Good progress on increasing mix of local funding (reduced currency exposure)
- The note programmes have improved term mismatch and gearing
- Deposit-taking is commencing; however augmenting our funding profile will take time

We continue to drive a commitment to ESG principles

Improving lives

- The majority of our loans are used by customers for education, health and business or livelihood purposes
- Our government agenda focuses on to financial inclusion and skills deepening
- Our East African business has a growing capability in low cost housing finance provision
- We are building out linkages to technical assistance partners
- We set aside 1% of our PAT to invest in sustainable projects each year that benefit the communities that we operate in

Strengthening governance

- A Group management committee member now sits on each subsidiary board.
- Revised charters and governance policies are being rolled out in line with King III to all subsidiaries
- Appointment of additional independent NEDs to each subsidiary board is underway
- LHG will prepare audited results for the 11 months to 31 December 2014, to be published February 2015

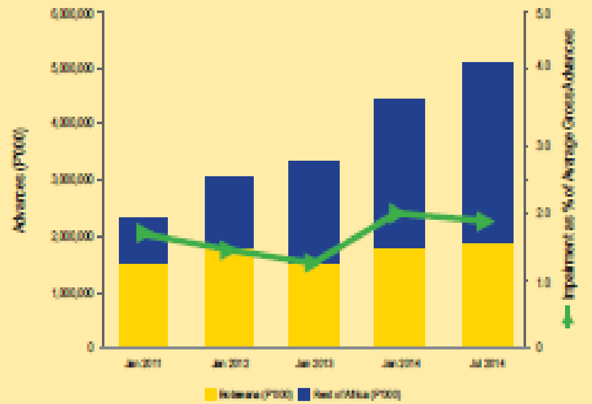
Results

We delivered a good set of first half results

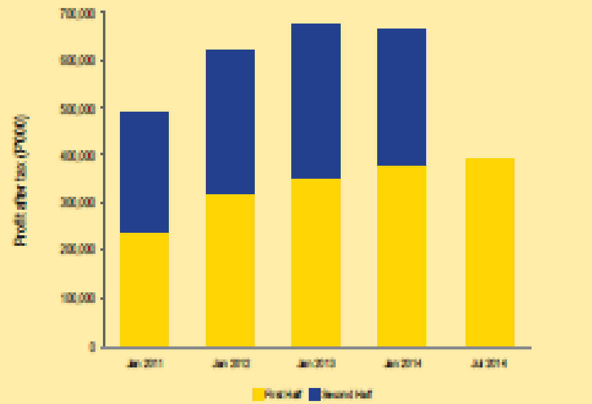
Growth	•Steady loans and advances growth •Access point diversification – branch, agency, mobile •Continued diversification from payroll lending	Loans and advances	**31%**	↑
Revenue Mix	•Overall increase in revenue •Margins remain competitive but pressure accepted •Underlying revenue growth 22% (excl. 2013 FX gain)	Revenue	**12%**	↑
Efficiency and Profitability	•Return on assets remains very competitive •Cost to income reflects investments being made •EPS relatively flat due to higher effective tax charge	RoAA	**14%**	↓
Asset Quality	•Overall impairment charge within target levels (1.3% of gross loans) •Low cost of risk and stringent credit controls •Growth in loan book has not compromised quality	Impairments	**1.9%**	↑
Capital and Liquidity	•Debt to Equity improving gradually; now 39% from 25% •Continued strong capital adequacy •USD 43 million cash reserves on hand	CAR	**74%**	↑

Positive performance, growth and return trends are underpinned by diversification

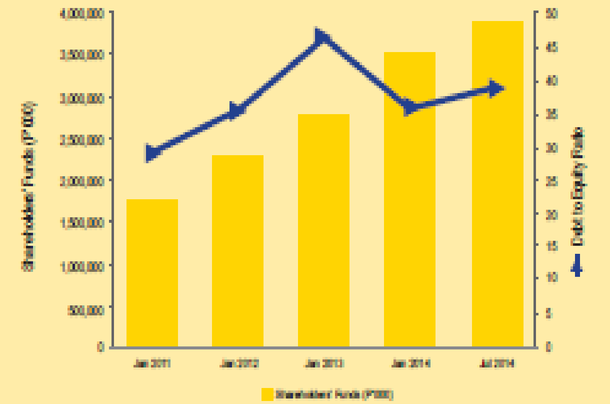
Advances vs Impairment to Gross Advances



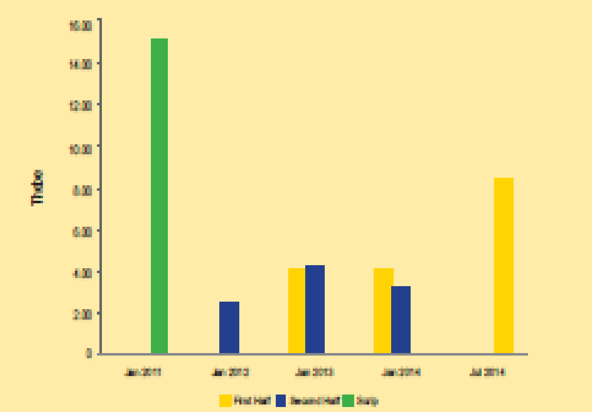
Profit after tax (P'000)



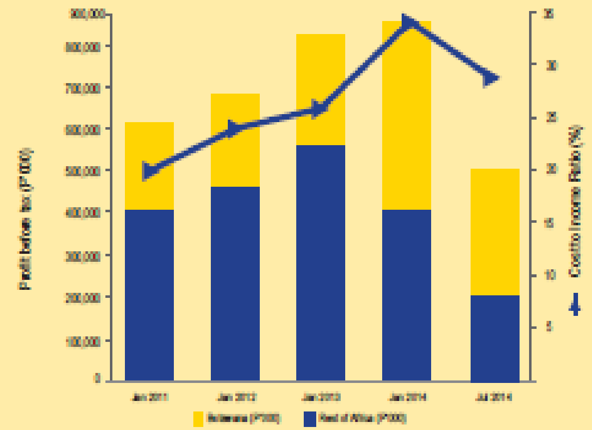
Shareholders' Funds: Debt to Equity



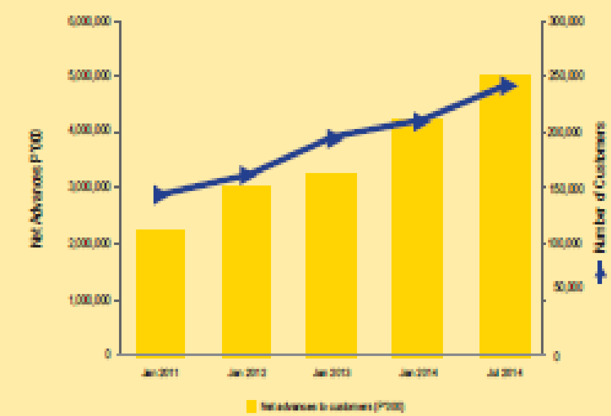
Dividends per Share (Thebe)



Geographic Diversification of PBT to Cost to Income ratio



Net Advances vs. Number of Customers



Underlying increases in operating income exceeded growth in costs

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME			
	6 months ended 31 July 2014 P'm	6 months ended 31 July 2013 P'm	%
Interest income	720	584	23
Interest expense	(90)	(29)	210
Net interest income	**630**	**555**	**14**
Fee and commission income	75	64	17
Other operating income	57	59	
Operating income	**762**	**678**	**12**
Employee costs	(101)	(82)	23
Other operating expenses	(111)	(99)	12
Total costs	***(212)***	***(181)***	17
Net income before impairment and taxation	**550**	**497**	**11**
Impairment of advances	(41)	(38)	8
Profit before taxation	**509**	**459**	**11**
Taxation	(135)	(96)	
Profit for the period	**374**	**363**	**3**

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Advances grew strongly and capital adequacy continued to be robust

CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
	6 months ended 31 July 2014 P'm	6 months ended 31 July 2013 P'm	%
ASSETS			
Cash and cash equivalents	383	433	
Advances to customers	5,006	3,818	31
Plant, equipment and intangible assets	71	50	
Goodwill and other receivables	154	112	
Total assets	**5,614**	**4,413**	**27**
Liabilities			
Customer deposits and cash collateral	41	39	
Trade and other payables	181	100	
Borrowings	1,501	859	75
Total liabilities	**1,723**	**998**	
Shareholders' equity			
Stated capital	973	960	
Share based payment and other reserves	(10)	8	
Retained earnings	2,802	2,359	
Total equity attributable to equity holders of the parent company	**3,765**	**3,327**	13
Non-controlling interests	126	88	
Total shareholders' equity	**3,891**	**3,415**	
Total liabilities and equity	**5,614**	**4,413**	**27**

We remain committed to strong performance, growth and returns

- **Our transformation strategy continues to focus on:**
  - **Growing our core payroll business**
  - **Diversifying into adjacent segments with innovative consumer and micro lending products**
  - **Building technical assistance and other strategic partnerships**
  - **Diversifying our funding base and improving gearing**

- **We will continue to invest in building capabilities to enhance our sustainable competitive advantages**

- **Effective balance sheet, risk and cost management remain key to our operating model**

- **We are committed to financial inclusion, financial deepening and economic and social governance principles**