Letshego

UNAUDITED INTERIM REPORT

for the half year ended 31 July 2013

Highlights

The Board of Directors of Letshego Holdings Limited are pleased to present an extract from the consolidated reviewed but unaudited financial results for the six month period ended 31 July 2013. The highlights for the financial reporting period include:

- ***Advances to customers increased by 22% to P3.8 billion (2012: P3.1 billion)***
- ***Profits before tax increased by 8% to P459.6 million (2012: P427.1 million)***
- ***Impairment charges of 2.0% on the average advances book (2012: 2.8%)***
- ***55% of profits before tax generated outside of Botswana (2012: 39%)***
- ***Interim dividend declared of 4.2 thebe per share (2012:4.2t)***

Financial performance

Advances to customers increased by 22% from the prior period with the most significant contributions from Botswana, Namibia and Mozambique. Overall all markets remain competitive and the group has been able to maintain or grow market share.

The quality of the advances book was within target levels with an impairment charge of 2.0% for the period as compared to 2.8% in the prior period.

The Group remains well capitalised and has cash resources of over P400 million which are available for future growth. However, strong growth in the markets noted above, during and after the review period, has necessitated that new lines of credit be introduced ahead of the planned date of January 2014. These are expected to be completed by November 2013.

Profitability increased by 8% from the prior period driven by the increase in assets, but partially offset by a reduction in margins in certain countries, to ensure our pricing remains market related.

The cost of borrowing reduced mainly due to forex gains on open group exposures which were offset against the interest expense. Initiatives are at an advanced stage to close out the more significant of these open positions. Overall, excluding the impact of net forex gains, the cost of borrowings remained consistent with prior periods notwithstanding the overall increased level of borrowings.

The credit rating from Moody's Investor Services was reissued during August 2013 at Ba3 and there was no change to the rating from the prior year.

Operating and staff costs increased by 30% to P181 million (July 2012: P138 million). Costs increases were a result of the new Lesotho operation, systems upgrades, increased branch networks and the inclusion of Letshego Kenya (formerly Micro Africa) costs for 6 months (2012:1 month)

Overall, this has resulted in a cost to income ratio of 27.6% (2012: 24%). The investment in the group transformation process is a long term project which will benefit all stakeholders going forward.

In April 2013, the convertible loan in issue was successfully converted to ordinary shares further strengthening the capital base of the group. The full details regarding this were included in the 2013 annual report.

Diversification

Initiatives are on-going to execute the phased diversification strategy of the group to become a more diversified financial services provider. As part of this strategy the group will commence deposit taking activities in Mozambique during November 2013. Further updates will be given to Shareholders in due course.

Funding

As noted earlier, due to the increased level of new business written in Botswana, Namibia and Mozambique the anticipated new debt raising has been brought forward to November 2013 (from the planned date of January 2014).

Group Structure

During the period the group acquired the remaining shares in Micro Africa Limited. This was completed during February 2013 and all related details were communicated to shareholders in the 2013 annual report.

In June 2013 the group acquired the remaining 2.5% minority shareholding in Micro Rwanda Limited (now Letshego Rwanda Limited) to bring the shareholding to 100% for a consideration of USD 45,000.

Post period end developments

The group has entered into an agreement to dispose of its entire shareholding in Letshego Zambia. This disposal, once concluded, will not have any significant impact on the group results given the current level of contribution by Letshego Zambia. The transaction is subject to all relevant regulatory approvals and is expected to be concluded by end November 2013.

Board appointment

The board appointed Mr Hannington Karuhanga as an independent non-executive director on 4 October 2013. Mr Karuhanga has extensive experience in the East Africa region and we welcome him to the board.

Managing Director

As previously communicated to shareholders, the board had commenced a process to identify a successor to the Group Managing Director, Mr Jan Claassen. This process is now complete and the board is pleased to advise shareholders that Mr Christopher Low has been appointed as the new Managing Director. Mr Low will take up this position once all relevant approvals have been put into place. Mr Low has extensive experience in the financial services sector and in Africa and the board welcomes him to the Letshego family at this exciting time.

The board thanks Mr Claassen for his 10 years with Letshego in which the company has grown to become a significant group under his leadership and guidance. We are pleased to note that Mr Claassen will remain on the board of Letshego Holdings and will also assist the new Managing Director with hand over and other projects for the immediate future.

Prospects

If prevailing economic conditions continue, the Directors anticipate further growth in the advances book during the financial year to 31 January 2014 and continued profitability.

Auditors' review

The financial information set out in this announcement has been reviewed but not audited by KPMG, the Letshego Group's external auditors. Their unqualified review report is available for inspection at the company's registered office.

Dividend

Notice is hereby given that the Board has declared an interim dividend of 4.2 thebe per share for the six month period ended 31 July 2013.

In terms of the Botswana Income Tax Act (CAP 50:01) as amended, withholding tax at the rate of 7.5% or any other currently enacted tax rate will be deducted from the interim gross dividend for the period ended 31 July 2013.

Important dates pertaining to this dividend are:

Declaration date:	17 October 2013
Last date to register:	1 November 2013
Dividend payment date:	29 November 2013

For and on behalf of the Board of Directors.

J A Burbidge
Chairman

J A Claassen
Managing Director

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	6 months ended 31 July 2013 (Reviewed) P'000	6 months ended 31 July 2012 (Reviewed) P'000	Change %	12 months ended 31 January 2013 (Audited) P'000
Interest income	584,212	571,412	2	1,074,822
Interest expense and foreign exchange gains	(28,541)	(42,686)	33	(108,807)
Net interest income	**555,671**	**528,726**	**5**	**966,015**
Premium income	59,764	44,975		86,992
Insurance fees	(4,128)	(3,803)		(8,008)
Net interest and insurance income	**611,307**	**569,898**		**1,044,999**
Fee and commission income	64,338	40,301	60	132,907
Other operating income	11,274	6,094		6,218
Operating income	**686,919**	**616,293**	**10**	**1,184,124**
Employee benefits	(81,535)	(63,326)	(29)	(123,086)
Other operating expenses	(99,405)	(75,654)	(31)	(157,395)
Claim mitigation reserve movement	9	(25)		(1,306)
Insurance claim expense	(8,458)	(9,471)		(25,853)
Net income before impairment and taxation	**497,530**	**467,817**	**6**	**876,484**
Impairment of advances	(37,964)	(40,680)	7	(35,097)
Profit before taxation	**459,566**	**427,137**	**8**	**841,387**
Share of net of tax profit of equity accounted associate	344	-		-
Taxation	(96,051)	(93,532)		(181,750)
Profit for the period	**363,859**	**333,605**	**9**	**659,637**
Attributable to :				
Equity holders of the parent company	342,356	319,043		628,084
Non-controlling interests	21,503	14,562		31,553
Profit for the period	**363,859**	**333,605**		**659,637**
Other comprehensive income, net of tax				
Foreign currency translation differences arising from foreign operations	44,180	12,175		(15,833)
Total comprehensive income for the period	**408,039**	**345,780**	**18**	**643,804**
Attributable to :				
Equity holders of the parent company	381,074	330,241		614,623
Non-controlling interests	26,965	15,539		29,181
Total comprehensive income for the period	**408,039**	**345,780**	**18**	**643,804**
Weighted average number of shares in issue during the period (millions)	2,088	1,958		1,995
Dilution effect - number of shares (millions)	42	195		195
Number of shares in issue at the end of the period (millions)	2,168	1,999		1,999
Basic earnings per share (thebe)	17.4	17.0	2	33.1
Fully diluted earnings per share (thebe)	17.0	15.5		30.1

NOTE: The diluted EPS has been calculated based on shares that may vest in terms of the Group's long term staff incentive scheme.
In July 2012 and January 2013 this also included shares that may be linked under a convertable loan then in issue; now converted

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

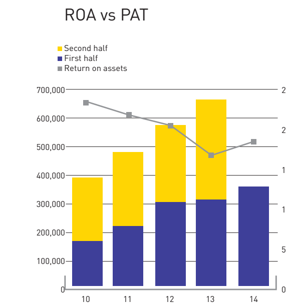
	31 July 2013 (Reviewed) P'000	31 July 2012 (Reviewed) P'000	Change %	31 January 2013 (Audited) P'000
ASSETS				
Cash and cash equivalents	412,760	277,241		807,254
Advances to customers	3,818,207	3,139,596	22	3,336,204
Other receivables	46,942	29,867		26,206
Short term investments	20,397	11,439		12,143
Long term receivables	-	11,563		11,468
Investment in associate	344	-		-
Plant and equipment	17,401	14,520		14,559
Intangible assets	32,567	7,180		12,457
Goodwill	55,250	49,948		49,948
Deferred taxation	9,115	10,645		8,939
Total assets	**4,412,983**	**3,551,999**	**24**	**4,279,178**
LIABILITIES AND EQUITY				
Liabilities				
Customer cash collateral	39,446	30,371		34,185
Trade and other payables	70,794	70,178		78,828
Income tax	29,168	12,455		28,327
Borrowings	855,198	801,952	7	1,277,395
Derivatives	3,632	-		-
Total liabilities	**998,238**	**914,956**		**1,418,735**
Shareholders' equity				
Stated capital	959,554	689,243		689,243
Foreign currency translation reserve	(7,264)	(21,323)		(45,982)
Legal reserve	2,696	-		-
Share based payment reserve	11,887	9,782		19,173
Retained earnings	2,359,142	1,887,458		2,112,485
Total equity attributable to equity holders of the parent company	**3,326,015**	**2,565,160**	**30**	**2,774,919**
Non-controlling interests	88,730	71,883		85,524
Total shareholders' equity	**3,414,745**	**2,637,043**		**2,860,443**
Total liabilities and equity	**4,412, 983**	**3,551,999**	**24**	**4,279,178**

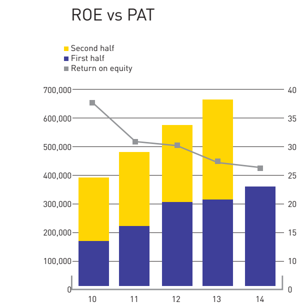
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

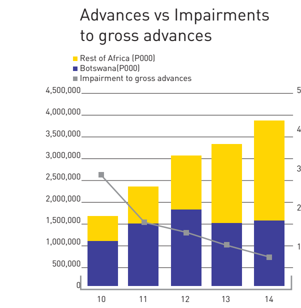
	6 months ended 31 July 2013 (Reviewed) P'000	6 months ended 31 July 2012 (Reviewed) P'000	12 months ended 31 January 2013 (Audited) P'000
Operating activities			
Profit before taxation	459,566	427,137	841,387
Add : Amortisation and depreciation	4,067	2,499	5,417
: Impairment of advances	10,683	8,640	1,670
: Loss on disposal of non current assets	-	(3)	-
Movement in working capital and other changes	(490,825)	(88,172)	(255,336)
Cash (utilised in) /generated from operations	(16,509)	350,101	593,138
Taxation paid	(94,296)	(92,625)	(166,828)
Net cash (utilised in)/generated from operating activities	(110,805)	257,476	426,310
Investing activities			
Net cash used in investing activities	(48,735)	(22,748)	(33,631)
Financing activities			
Dividends paid	(86,702)	(49,554)	(133,568)
Net cash (utilised in) / receipts on borrowings / equity raising	(148,252)	18,455	474,531
Net cash (utilised in) / generated from financing activities	(234,954)	(31,099)	340,963
Net movement in cash and cash equivalents	(394,494)	203,629	733,642
Cash and cash equivalents at the beginning of the period	807,254	73,612	73,612
Cash and cash equivalents at the end of the period	**412,760**	**277,241**	**807,254**

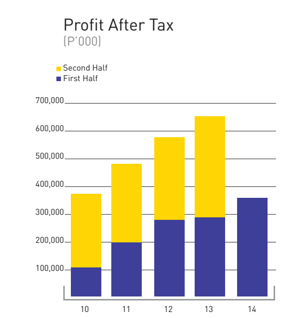
RATIOS

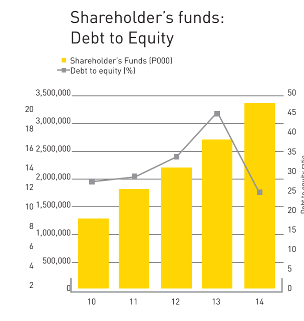
	6 months ended 31 July 2013 (Reviewed)	6 months ended 31 July 2012 (Reviewed)	12 months ended 31 January 2013 (Audited)
Annualised return on average assets (%)	18.3	20.6	17.6
Annualised return on average equity (%)	24.3	28.6	25.4
Cost to income ratio (%)	27.6	24.1	26.0
Debt to equity ratio (%)	25.0	30.4	46.0

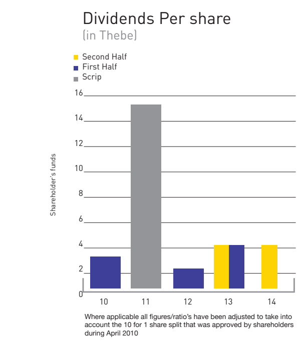


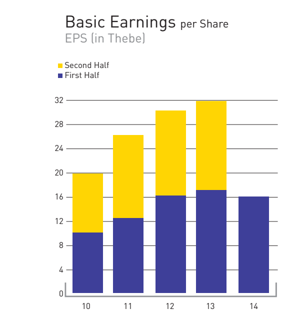


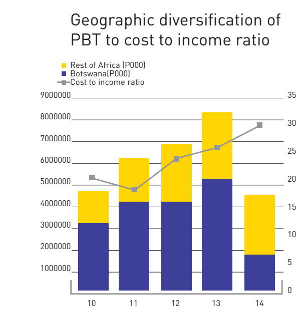


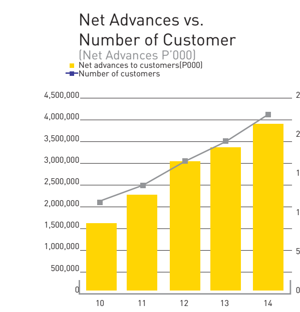












CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Stated capital P'000	Retained earnings P'000	Shared based payments reserve P'000	Foreign exchange translation reserve P'000	Legal reserve P'000	Non-controlling interest P'000	Total P'000
Balance at 1 February 2012	669,876	1,617,969	15,654	(32,520)	-	53,876	2,324,855
Total comprehensive income for the period							
Profit for the period	-	319,043	-	-	-	14,562	333,605
Other comprehensive income, net of income tax							
Foreign currency translation reserve	-	-	-	11,197	-	978	12,175
Transactions with owners, recorded directly in equity							
Allocation of MAL's net assets to NCI at acquisition	-	-	-	-	-	2,467	2,467
New shares issued from long term incentive scheme	19,367	-	(19,367)	-	-	-	-
Allocation to share based payment reserve	-	-	13,495	-	-	-	13,495
Dividends to equity holders	-	(49,554)	-	-	-	-	(49,554)
Balance at 31 July 2012	689,243	1,887,458	9,782	(21,323)	-	71,883	2,637,043
Total comprehensive income for the period							
Profit for the period	-	309,041	-	-	-	16,991	326,032
Other comprehensive income, net of income tax							
Foreign currency translation reserve	-	-	-	(24,659)	-	(3,350)	(28,009)
Transactions with owners, recorded directly in equity							
New shares issued from long term incentive scheme	-	-	-	-	-	-	-
Allocation to share based payment reserve	-	-	9,391	-	-	-	9,391
Dividends to equity holders	-	(84,014)	-	-	-	-	(84,014)
Balance at 31 January 2013	689,243	2,112,485	19,173	(45,982)	-	85,524	2,860,443
Total comprehensive income for the period							
Profit for the period	-	342,356	-	-	-	21,503	363,859
Other comprehensive income, net of income tax							
Foreign currency translation reserve	-	-	-	38,718	-	5,462	44,180
Transactions with owners, recorded directly in equity							
Non - Controlling Interest in MAL acquired	-	(6,301)	-	-	-	(4,445)	(10,746)
Allocation of additional shares to ADP I Holding	252,969	-	-	-	-	-	252,969
Allocation to share based payment reserve	-	-	10,056	-	-	-	10,056
Legal Reserve	-	(2,696)	-	-	2,696	-	-
New shares issued from long term incentive scheme	17,342	-	(17,342)	-	-	-	-
Dividend paid by subsidiary to minority interests	-	-	-	-	-	(19,314)	(19,314)
Dividends to equity holders	-	(86,702)	-	-	-	-	(86,702)
Balance at 31 July 2013	959,554	2,359,142	11,887	(7,264)	2,696	88,730	3,414,745

SEGMENTAL REPORTING

Regional geographical segments

	Southern Africa*		East Africa**		Elimination		Group	
	31 July 2013 P'000	31 July 2012 P'000	31 July 2013 P'000	31 July 2012 P'000	31 July 2013 P'000	31 July 2012 P'000	31 July 2013 P'000	31 July 2012 P'000
Total income from lending	522,357	561,416	199,085	126,942	(73,692)	(76,645)	647,750	611,713
Segment profit before tax (before management and guarantee fees)	**350,890**	**364,320**	**108,676**	**62,817**	**-**	**-**	**459,566**	**427,137**
Share of results of associate							**344**	**-**
Taxation - consolidated							(96,051)	(93,532)
Profit for the period - consolidated							**363,859**	**333,605**
Gross advances to customers	3,180,986	2,576,743	661,212	586,920	-	-	3,842,198	3,163,662
Impairment provisions	(10,222)	(15,561)	(13,769)	(8,505)	-	-	(23,991)	(24,066)
Net advances	**3,170,764**	**2,561,182**	**647,443**	**578,415**	**-**	**-**	**3,818,207**	**3,139,596**
Total segment assets	**5,638,054**	**4,638,296**	**724,552**	**647,489**	**(1,949,623)**	**(1,733,786)**	**4,412,983**	**3,551,999**
Borrowings	2,075,061	1,741,843	271,735	362,210	(1,491,598)	(1,302,101)	855,198	801,952
Total segment liabilities	**2,168,104**	**1,802,107**	**336,072**	**426,088**	**(1,505,938)**	**(1,313,239)**	**998,238**	**914,956**

Ratio analysis on regional geographic segments

	Southern Africa		East Africa		Group	
	2013	2012	2013	2012	2013	2012
Impairment charge to average advances (annualised)	1.3%	2.7%	5.0%	3.7%	2.0%	2.8%
Advances to total assets	88%	89%	89%	91%	87%	89%
% of book on deduction code model	100%	99%	54%	54%	91%	91%
Customers employed by government (%)	95%	95%	84%	83%	93%	93%
Customers employed by parastatal or private sector (%)	5%	5%	17%	17%	7%	7%

* Southern Africa includes: Botswana, Lesotho, Mozambique, Namibia, Swaziland and Zambia
** East Africa includes : Kenya, Rwanda, South Sudan, Tanzania and Uganda