

# Letshego Holdings Limited

*Building Africa's leading inclusive finance group*

Date: 3 September 2018



# Strategic Update

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Embracing financial inclusion  
Growing the franchise  
Enhancing customer experience  
Embedding future capability

# 1H 2018 Key highlights



## Embracing financial inclusion

- More than BWP350mn of informal loans disbursed in Ghana since launch in late 2017
- Affordable housing and education loans are main drivers of growth in MSE loan book



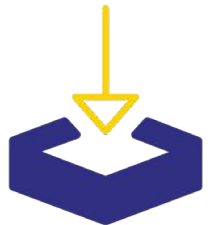
## Growing the franchise

- Agency network in Mozambique has grown by 170%
- Mozambique leads in deposit mobilization with over 24,000 LetsGo accounts opened so far
- Sales Governance Framework has been rolled out to both DSA and other sales teams in 10 countries



## Enhancing customer experience

- Stakeholder mapping has enhanced ability to deliver, defend and develop value
- Current financial wellness proposition ready for launch
- Customers can access financial solutions via 628 access points



## Embedding future capability

- A more comprehensive set of customer solutions and efficient management of operational risks is now available in a growing number of countries with the remaining two countries due to be added to the core IT platform next year

# Strategy remains on track for growth with no imminent change in direction

## Businesses

Average turnover (p.a)

>\$500,000

\$100,000 – \$500,000

\$25,000 – \$100,000

\$10,000 – \$25,000

\$2,500 – \$10,000

## Consumers

Average income (p.a)

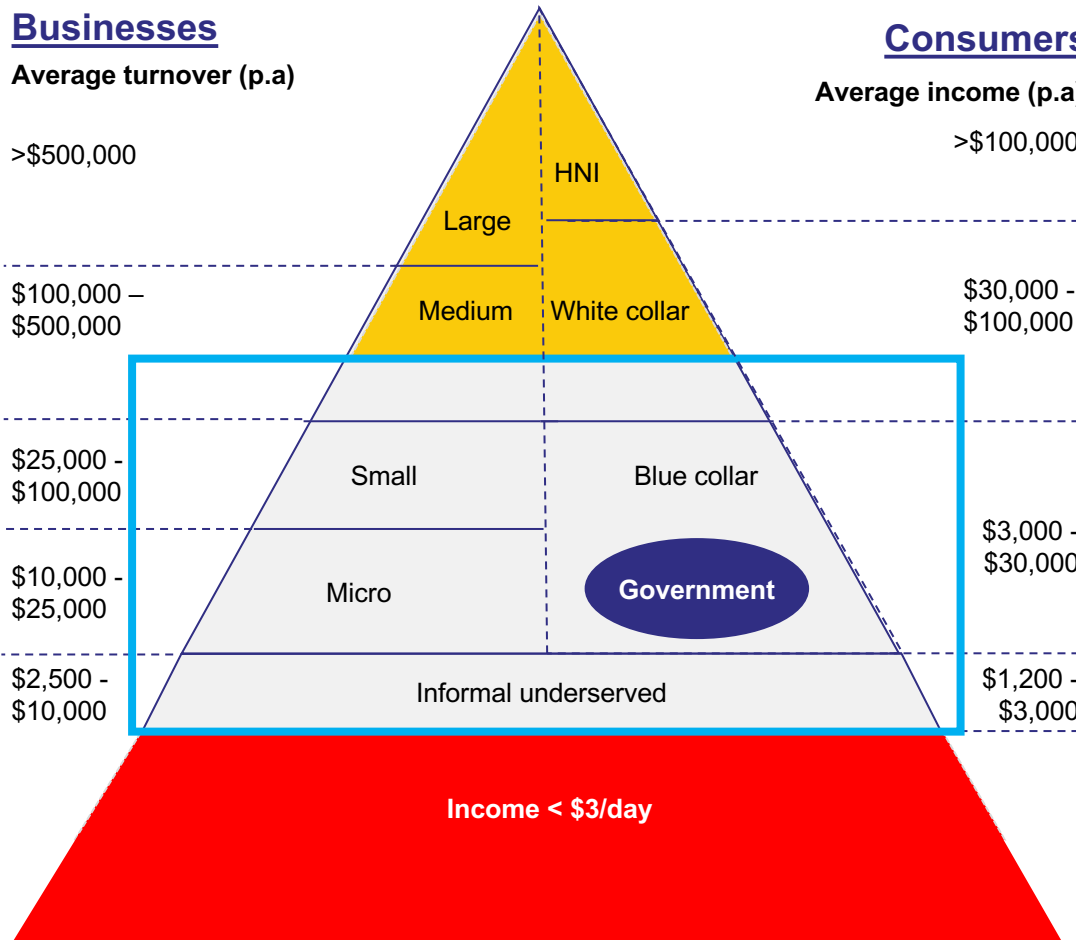
>\$100,000

\$30,000 – \$100,000

\$3,000 – \$30,000

\$1,200 – \$3,000

Income < \$3/day



## Key priorities

- Embracing financial inclusion
- Grow the franchise
- Enhancing customer experience
- Embedding future capability

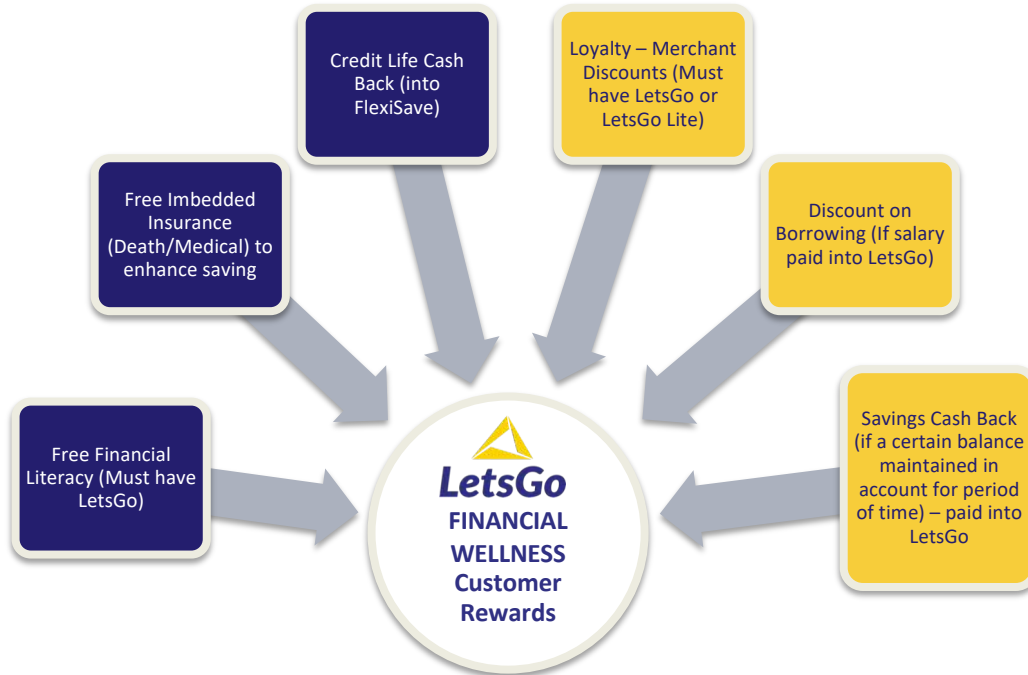
## Key drivers

- Microfinance opportunity in sub-Saharan Africa
- Broad geographical footprint able to support volume growth
- Track record of consistent financial performance and profitability

## Key initiatives

- Agency banking
- Mobile digital banking
- Strategic partnerships
- Cross selling
- Launch new products

# Our financial wellness proposition to facilitate the entry of previously unbanked customers into the banking system is ready for launch



**Phase 1 (2018):** SharePoint for staff and a Website link and paper brochure for customers

**Phase 2 (2019):** Mobile delivery tool for customers and staff with participative learning programs

**Phase 3 (2019):** Fully measurable program with partner support to fill gaps.

# Despite intense competition Botswana has been able to deliver modest loan growth

## Botswana accounts for 39% of Group PBT

- Pricing adjustments made to core central gov segment resulting in lower churn
- Continued focus on growth of new non-government employers (18.3%)
- MSE / invoice discounting started
- Successfully rolled out new credit risk management strategy
- Introduced new flexible term solution
- Arrears & impairment provisions (PAR 30 > 10%)

## Financial Performance

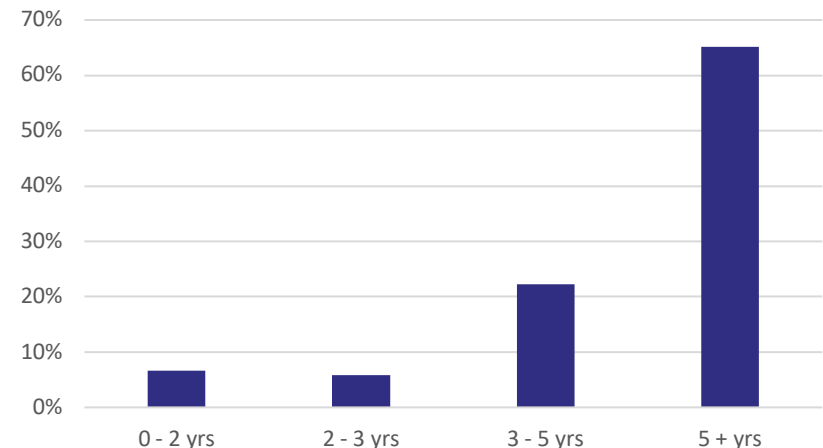
	H1 16	H1 17	H1 18
Loan Loss Rate	1.9%	2.2%	1.7%
NPL's provision Coverage	64.5%	55.2%	104.6%
PBT (BWPmn)	252	240	242
Net disbursements to customers (BWPmn)	76	150	188
Advances (BWPmn)	2,110	2,316	2,317

## Overview of loan book

### Loan mix by type

	H1 16	H1 17	H1 18
Formal - Government	76.1%	67.0%	73.1%
Formal - Non-Government	18.3%	28.1%	23.8%
Housing	5.6%	4.8%	2.8%
Agriculture	–	–	–
Education	–	–	–
MSE	–	–	–

### Loans advanced by term (% of loan)



# The acquisition of a banking license in Namibia has supported loan and deposit growth in tough local trading conditions

## IPO has increased visibility and brand awareness

- Launched co-branded LetsGo MasterCard debit card
- Completed first digital LetsGo campaign through facebook
- Customer activations driven by strong sales performance
- Branch upgrades and network expansion to facilitate deposit mobilization and non-funded income on track
- H2 initiatives to drive customer conversion and deposit mobilization as these are below target levels

## Financial Performance

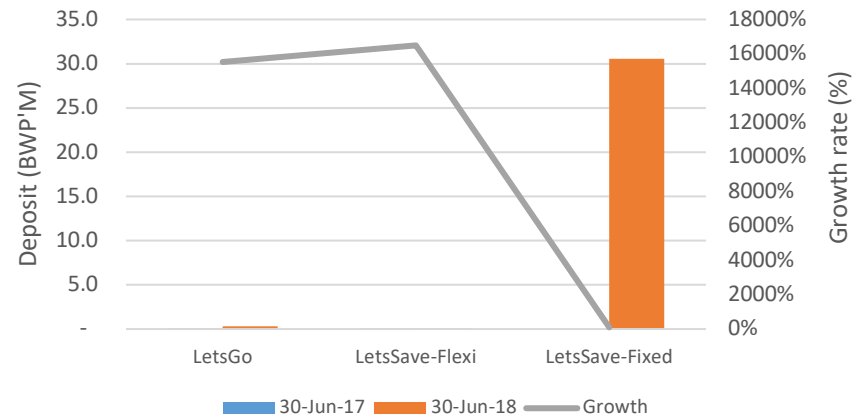
	H1 16	H1 17	H1 18
Loan Loss Rate	0.0%	1.0%	0.2%
NPL's provision Coverage	67.0%	52.2%	11.3%
PBT (BWPmn)	163	213	234
Net disbursements to customers (BWPmn)	252	328	301
Advances (BWPmn)	1,471	1,789	1,904

## Loan and deposit profile

### Loans mix by type

	H1 16	H1 17	H1 18
Formal - Government	99.9%	99.8%	99.5%
Formal - Non-Government	0.1%	0.2%	0.5%
Housing	–	–	–
Agriculture	–	–	–
Education	–	–	–
MSE	–	–	–

### Deposit mix and growth



# Mozambique has seen strong growth in deposits aided by the roll out of a technology driven agency banking model LetsGo

## Agency base has grown by 202 registered agents



- DAS customers increased to over 90k with 24k opened LetsGo accounts
- Pricing adjustment made to core credit solutions
- 336 registered agents now in place
- Good progress in deposit mobilization
- Received \$1million in MasterCard Foundation funding
- Partnered with Financial Sector Deepening Mozambique to develop literacy/ education initiatives for people in remote areas

## Financial Performance

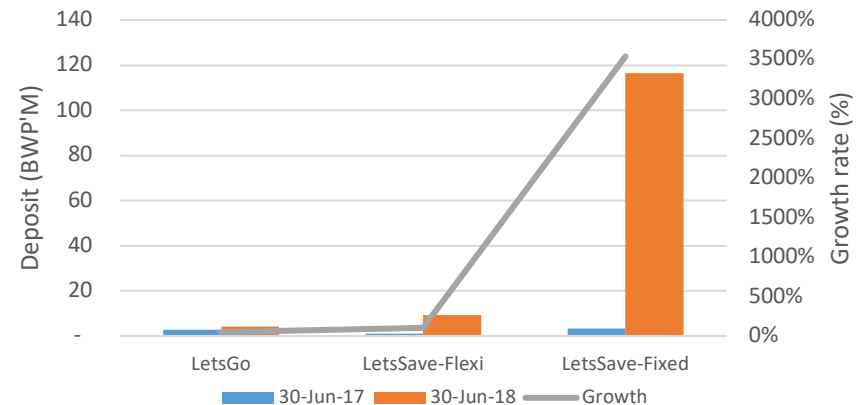
	H1 16	H1 17	H1 18
Loan Loss Rate	0.5%	5.6%	0.7%
NPL's provision Coverage	19.9%	29.9%	30.9%
PBT (BWPmn)	58	21	61
Net disbursements to customers (BWPmn)	97	171	152
Advances (BWPmn)	804	917	1,124

## Loan and deposit profile

### Loans mix by type

	H1 16	H1 17	H1 18
Formal - Government	99.3%	99.3%	99.1%
Formal - Non-Government	0.7%	0.7%	0.9%
Housing	–	–	–
Agriculture	–	–	–
Education	–	–	–
MSE	–	–	–

### Deposit mix and growth





# Diversification of solutions and into MSE and informal segments is gathering pace in Tanzania

## Partnerships key to accelerating customer acquisition

- Difficult local trading environment for both the Bank and DAS
- Uncertainty remains over stability of core central Gov workforce
- Bank is now at break even
- Launched Mobile savings (Timiza Akiba) platform with Airtel (post period end)
- Introduced automated credit scoring system for MSE
- Established a partnership for mobile banking and mobile payment solutions



## Financial Performance

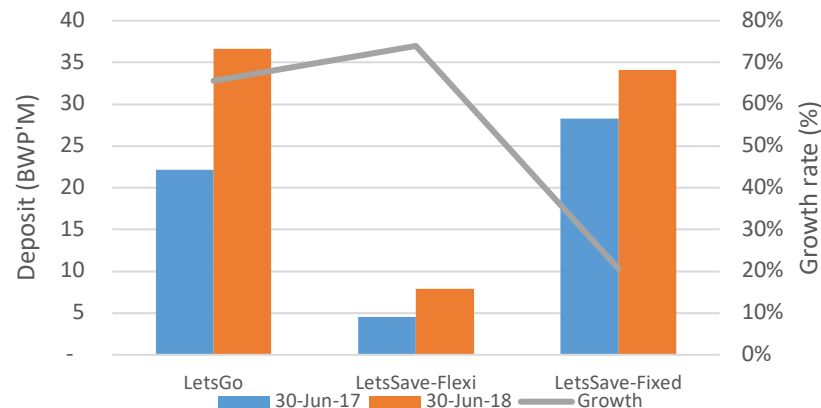
	H1 16	H1 17	H1 18
Loan Loss Rate	0.4%	12.5%	22.7%
NPL's provision Coverage	46.1%	75.7%	117.8%
PBT (BWPmn)	56	37	44
Net disbursements to customers (BWPmn)	137	167	96
Advances (BWPmn)	433	495	434

## Loan and deposit profile

### Loans mix by type

	H1 16	H1 17	H1 18
Formal - Government	82.8%	71.8%	67.4%
Formal - Non-Government	0.6%	3.3%	6.2%
Housing	–	2.4%	4.5%
Agriculture	–	–	–
Education	0.5%	3.9%	5.3%
MSE	16.1%	18.5%	16.6%

### Deposit mix and growth



# Since the launch of a new mobile loan solution “Qwikloans” there has been a rapid growth in customer numbers and loan portfolio in Ghana

## Mobile loan portfolio makes up 26% of net loan book

- Launched in collaboration with MTN Ghana
- Over 2.6mn loans disbursed to 633, 000 new customers
- Customer deposits have increased to GHS32mn
- Regulatory approval received for change of name to Letshego Ghana and also to convert license from Finance House to Savings and Loans

**QWIKLOAN**



## Financial Performance

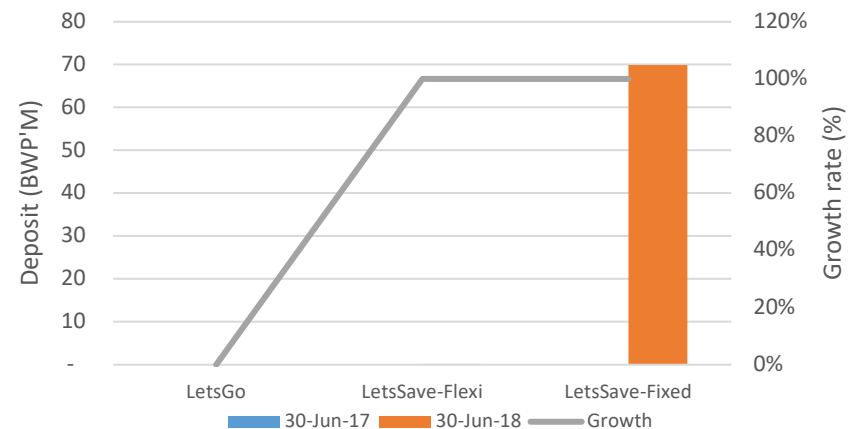
	H1 16	H1 17	H1 18
Loan Loss Rate	–	2.7%	13.0%
NPL's provision Coverage	–	81.3%	98.4%
PBT (BWPmn)	–	17	30
Net disbursements to customers (BWPmn)	–	93	491
Advances (BWPmn)	–	256	553

## Loan and deposit profile

### Loans mix by type

	H1 16	H1 17	H1 18
Formal - Government	–	99.1%	77.0%
Formal - Non-Government	–	0.9%	0.2%
Housing	–	–	–
Agriculture	–	–	0.5%
Education	–	–	1.9%
MSE	–	–	20.4%

### Deposit mix and growth



# Deduction at Source lending has become the key driver of growth for Nigeria's balance sheet

## Business platform now in place for growth and returns

- Local management team in place
- Core IT system changed to Group platform
- All-in-One savings and credit solution launched
- Deduction code for federal government recently secured
- Purchase of DAS loan portfolio in Cross River State completed in April 2018

## Financial Performance

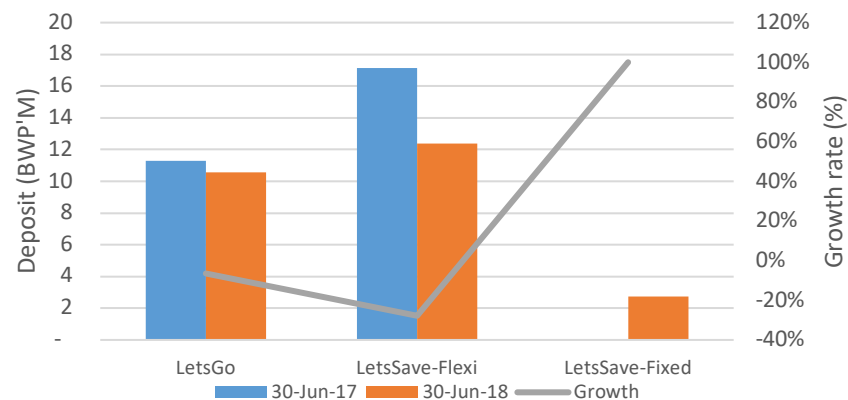
	H1 16	H1 17	H1 18
Loan Loss Rate	7.5%	20.8%	16.7%
NPL's provision Coverage	146.3%	254.8%	373.7%
PBT (BWPmn)	-7	2	-4
Net disbursements to customers (BWPmn)	104	80	69
Advances (BWPmn)	45	61	70

## Loan and deposit profile

### Loans mix by type

	H1 16	H1 17	H1 18
Formal - Government	–	–	11.9%
Formal - Non-Government	–	–	1.4%
Housing	–	–	1.5%
Agriculture	–	0.6%	2.7%
Education	–	6.5%	13.4%
MSE	100%	92.9%	69.1%

### Deposit mix and growth



## Improvements in customer accessibility to financial solutions has led to an increase in non-core loan portfolio growth



### Mobile

- Cards in Issue
- Mobile Accounts

14 299

**14 781**

14 563

**19 468**

### Agency network

- Direct sales agents
- Owned Sales agents
- Third party agency

1278

268

334

1 376

274

544



### Digital loans leveraging off Strategic Partnerships

- Informal-Mobile loans
- MSE-Eloans

**66 702**

-

**182 537****1 739**

### Physical Service Centers

- Branches
- Satellite posts

128

186

129

186

## Identified and emerging risks/ challenges are being monitored and managed prudently

1	<b>Operational Risk</b>	<ul style="list-style-type: none"> <li>Tracking of projects has been enhanced to mitigate execution risk across multiple projects and countries</li> </ul>
2	<b>Compliance Risk</b>	<ul style="list-style-type: none"> <li>Increased regulation, legal and compliance requirements in several geographies has necessitated automation of AML processes</li> </ul>
3	<b>Credit Risk</b>	<ul style="list-style-type: none"> <li>In instances where PAR has fallen outside of Group standards, PAR30 (10%) and PAR90 (5%), appropriate provisions have been made</li> </ul>
4	<b>Liquidity Risk</b>	<ul style="list-style-type: none"> <li>Refinancing risk has been reduced significantly by extending the debt maturity of external borrowings particularly in the 1-12 month area</li> </ul>
5	<b>IT Operational Risk</b>	<ul style="list-style-type: none"> <li>Risks relating to cyber security and data management are being addressed through cloud transformation and other interventions</li> </ul>

## Outlook

1. Letshego remains well positioned to execute on its strategy

2. Focus has been on execution of core deliverables

- Loan portfolio growth and quality
- Customer conversion and deposit mobilization
- Operationalisation and monetizing digital opportunities

3. Principles remain sound

- Group is well capitalized and profitable
- Progress is being made on the diversification of the Letshego Group in all key areas

4. Change in Group Managing Director

- C Low stepped down as GMD wef August 2018
- An announcement is expected to be made shortly regarding his replacement
- In the interim it is business as usual

# H1 2018 Results

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# This period's results show good performance across key areas of the business

## Growth

- Loans and advances to customers up 12%
- Formal DAS remains the major contributor to the overall loan portfolio growth
- Green shoots from diversification into MSE and informal

Gross loans and advances

12%▲

## Revenue Mix

- 13% increase in interest income
- Yields and cost of funding generally consistent with prior period
- New revenue lines introduced via digital channels

Interest Income

13%▲

## Efficiency and Profitability

- Profit Before Tax increased 19%
- Higher non-funded income from credit insurance arrangements due to portfolio growth in Namibia and Swaziland
- Cost to income steady, but still above internal target of 37%
- ROE improved from 16% to 18%
- Effective tax rate review underway

Cost to Income

40%▲

## Asset Quality

- Portfolio quality in line with group risk appetite
- IFRS 9 came into effect January 1, 2018
- More work on IFRS 9 implementation in H2 2018

Impairments

2.6%▲

## Capital and Liquidity

- Debt:Equity increased to 112%
- CAR unchanged at 45%
- Cash reserves on hand just below USD60 million

Debt:Equity Ratio

112%▲



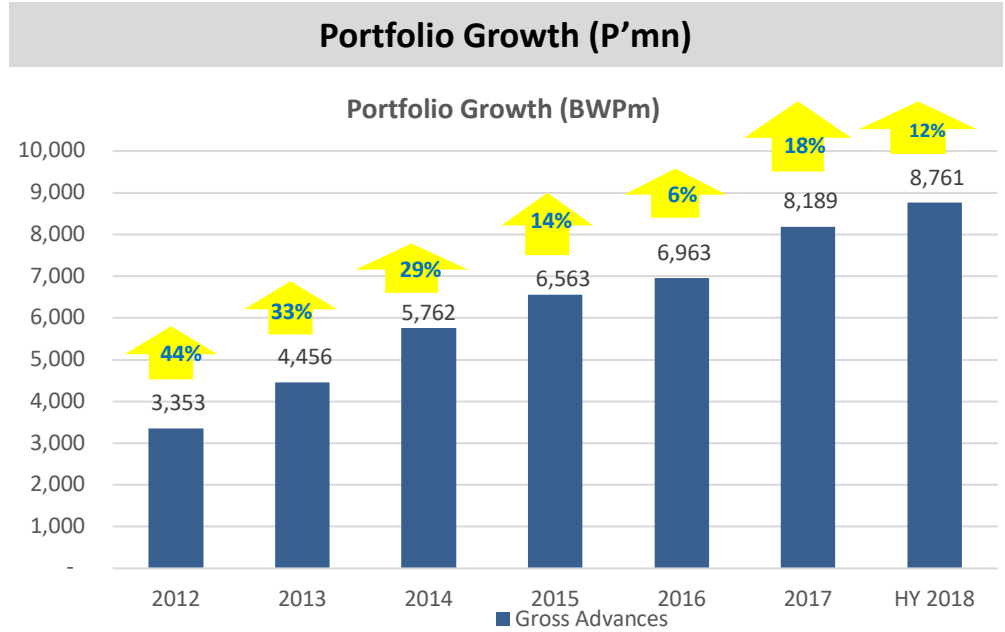
# Formal DAS remains the major contributor to the overall loan book growth

Letshego's market penetration as at 30 Jun		Government employees ('000)	Current Loan book USD mn	Consumer Lending	MSE Loans	Informal	% of Book	Loan growth from prior period in BWP	Loan growth from prior period in local currency
2018	2017								
Botswana	20%	181	230	98%	2%	—	29%	3%	3%
Kenya	4%	700	62	33%	67%	—	8%	44%	37%
Lesotho	15%	50	37	100%	—	—	5%	(5%)	(2%)
Mozambique	22%	300	108	100%	—	—	14%	19%	16%
Namibia	51%	100	182	100%	—	—	23%	6%	10%
Nigeria	0%	3 400	7	13%	87%	—	1%	33%	43%
Rwanda	0%	200	3	4%	96%	—	0%	(59%)	(59%)
Swaziland	14%	42	38	100%	—	—	5%	26%	30%
Tanzania	9%	500	45	73%	27%	—	6%	8%	8%
Uganda	13%	300	29	53%	47%	—	4%	5%	11%
Ghana	10%	600	52	73%	1%	26%	7%	116%	131%
<b>Total</b>			<b>793</b>	<b>68%</b>	<b>30%</b>	<b>2%</b>	<b>100%</b>	<b>12%</b>	<b>14%</b>



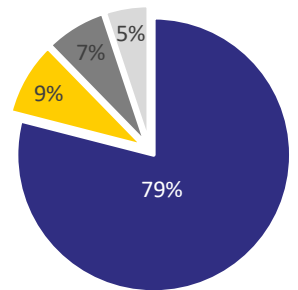
# Green shoots from diversification into MSE and informal

- Formal DAS remains the major contributor to the overall loan book
- Botswana has led the Group in non-government diversification
- Formal non government segment stable at 11% of overall loan portfolio
- Informal launched in Ghana and currently 20% of total loan book

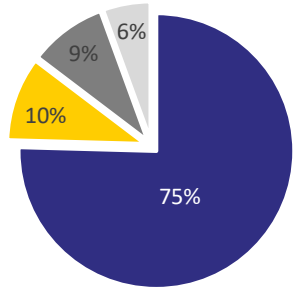


## Group Portfolio Mix

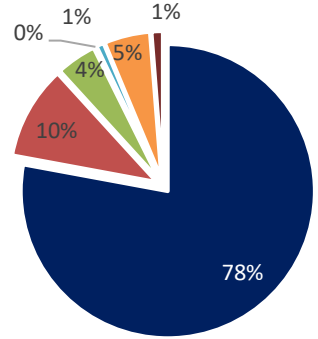
Jun 2016



Jun 2017



Jun 2018



■ Formal - Government 
 ■ Formal - Other 
 ■ MSE loans 
 ■ Housing loans

■ Formal - Government 
 ■ Formal - Other 
 ■ MSE loans 
 ■ Housing loans

■ Formal -Govt 
 ■ Formal - Non Govt 
 ■ MSE 
 ■ Agriculture 
 ■ Education 
 ■ Housing



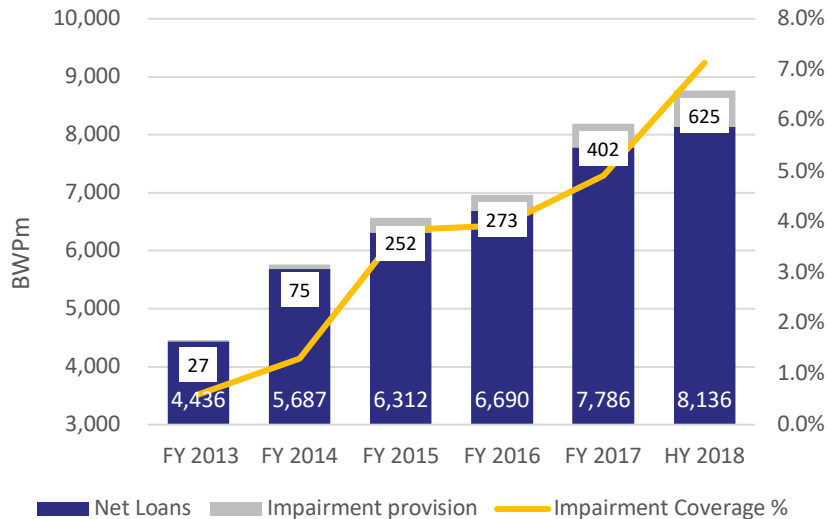
# Adoption of IFRS 9 has imposed more onerous requirements on provisioning than under IAS 39

## Asset Quality and Provisioning

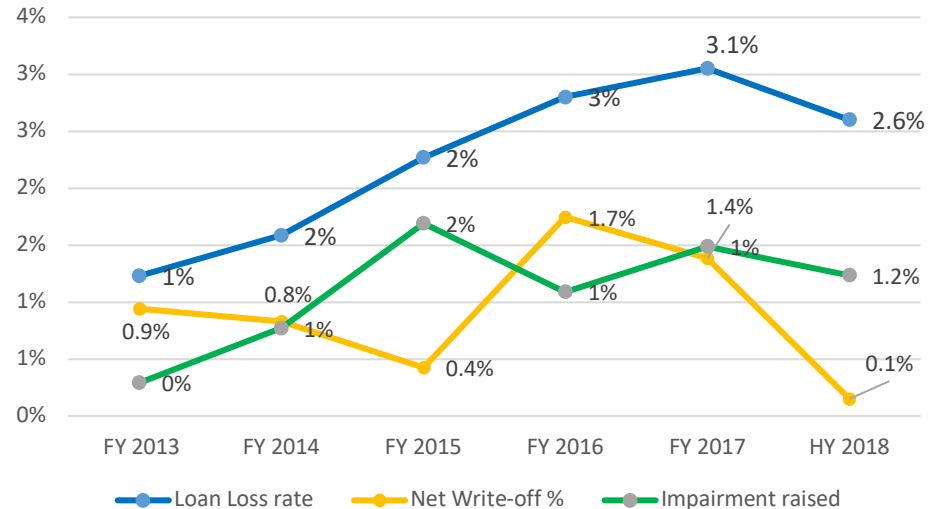
- Cost of credit risk was 2.6% (2017: 3.3%)
- IFRS 9 came in effect on January 1, 2018. The impact of this new accounting standard was a 37% increase in impairment provisions from P402mn to P552mn and a P150mn decline in Group's retained earnings.
- The Group's cost of risk reduced from 3.3% (HY 2017) to 2.6% (HY 2018). Also under IFRS 9 Coverage Ratios have increased to 95% (IAS 39 HY 2017: 70%).
- Recoveries experience continues to improve at a group level though we have seen increasing defaults in Nigeria, Tanzania and Uganda.

Impairment Cost					Impairment Coverage > PAR 90				
	FY 15	FY 16	FY 17	HY 18		FY 15	FY 16	FY 17	HY 18
Formal	2.1%	2.3%	1.8%	2.2%	Formal	36%	50%	65%	87%
MSE	4.3%	7.7%	10.4%	3.3%	MSE	128%	178%	101%	136%
Group	2.3%	2.8%	3.1%	2.6%	Group	51%	54%	70%	95%

### Impairment Provisions



### Cost of Risk



# Letshego has successfully raised new senior unsecured term funding from Microfinance Investment Vehicles (MIV) and DFIs

## Funding

- Drew down P256mn **MIV/ DFI funding**

## Share Buy Backs

- We have not exercised the share buyback mandate in this period
- Share buyback will continue to be used as appropriate

## Credit Rating

- H1 18 **Ba3 (stable) outlook** affirmed by Moody's Investor Services

## Security

- Secured property ratio is < 67%

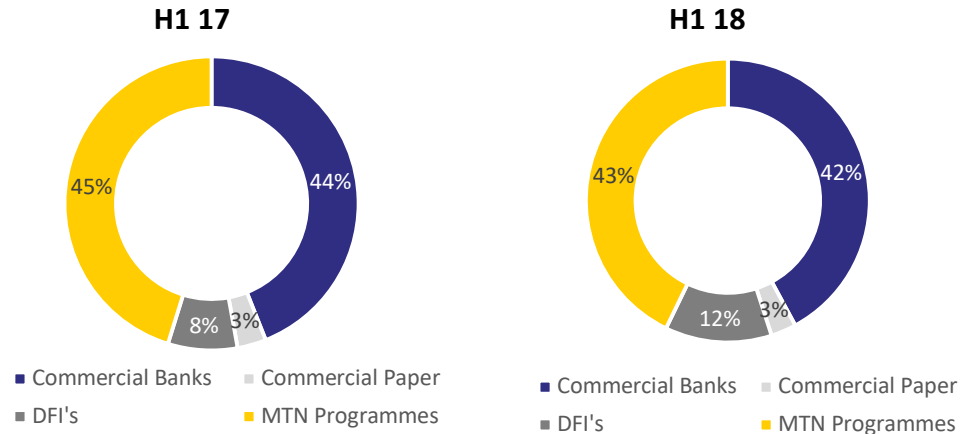
## Capital Adequacy

- CAR 2017 (45%), 2016 (47%)

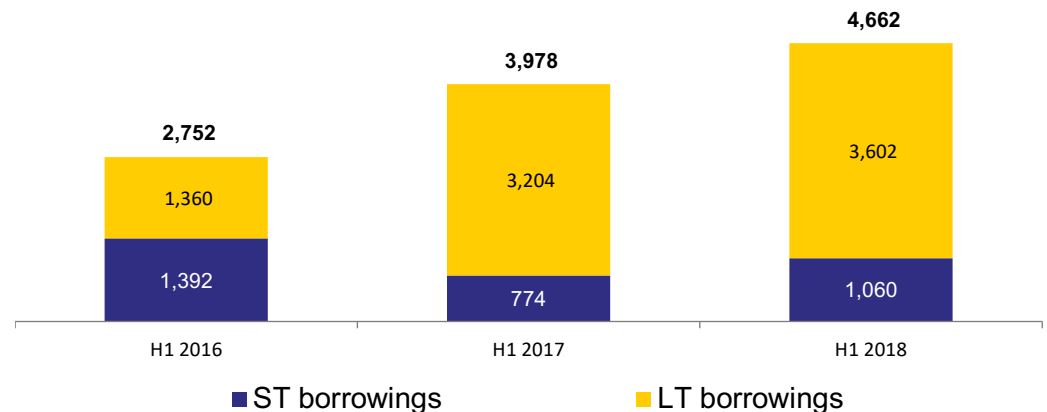
## Dividends

- Dividend pay out ratio unchanged at 50% of PAT

## Principle Sources of Debt Funding



## Funding Split



# There has been a significant improvement to the Group's debt maturity profile and liquidity position

## Deferred Maturity profile

- BWP1,020mn, 22% of total external borrowing maturing in < 2021

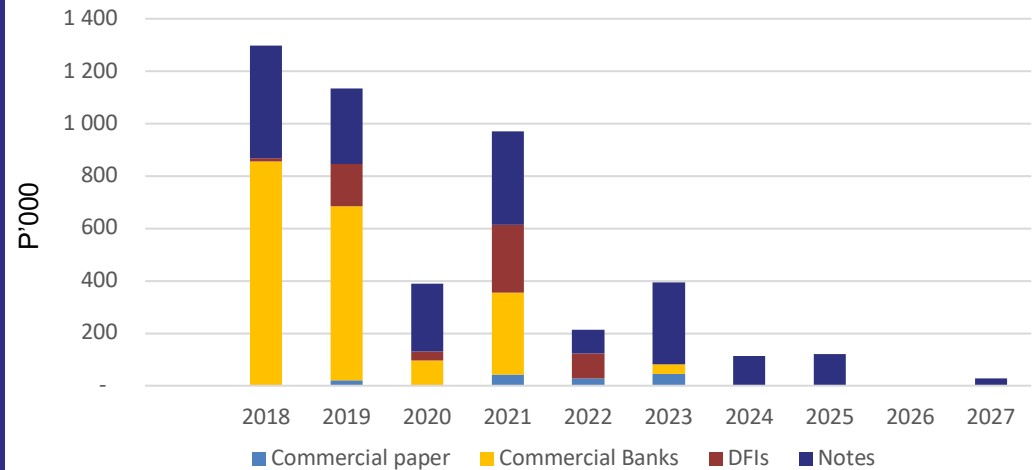
## Liquidity Coverage Ratio

- 23% H1 2018, 19% H1 2017
- liquidity gap < 12 months is positive
- Cash reserves on hand under USD60mn

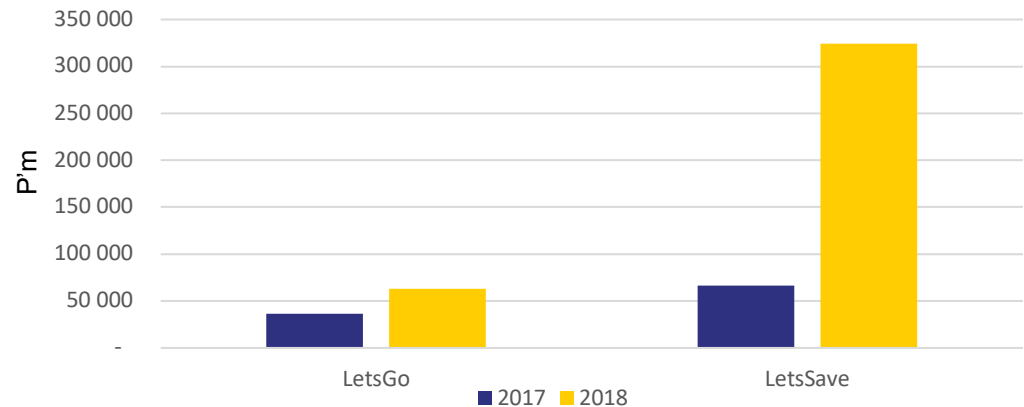
## Deposit Mobilisation

- Mozambique leads in deposit mobilization
- Over 24k LetsGo accounts opened
- CASA growth of 278% from prior period

### Maturity Profile – Funding Liabilities



### Deposits – Mix and Growth



## Prior year adjustment – taxation update

- Legal and tax opinions obtained
- LHL tax returns for 2014 to 2016 to be resubmitted to the Botswana tax authorities
- Any refunds obtained in error will be refunded to BURS
- These are included in the restated 2017 full year results and the interim results to 30 June 2018
- Going forward review of overall effective group tax rate to be performed

# Key Performance Indicators

