**Speaker:**

- Mr. Harry Waldemar Brown – African Alliance Capital Markets
- Mr. Chris Low – Managing Director, Letshego Holdings
- Mr. Colm Patterson – CFO, Letshego Holdings

START OF TRANSCRIPT

Operator

Good day ladies and gentlemen and welcome to the Letshego Holding Ltd half year 2016 conference hosted by African Alliance Capital Markets. All participants are currently in a listen-only mode and there will be an opportunity for you to ask questions later during the conference. If you need assistance during the conference please signal an operator by pressing star and then zero. Please also note that this call is being recorded. I would now like to turn the conference over to Harry Waldemar Brown of African Alliance. Please go ahead.

Harry Waldemar Brown

Thanks, Chris. Good afternoon everybody. Good morning to friends dialling in from the States. We are delighted to have the management of Letshego with us today to talk about the company's results for the six months to June. Hopefully you have received from us the PowerPoint presentation that the speakers will be referring to as well as the actual PDF of the results release. So hopefully you have all the numbers in front of you. If you don't have a look in your inbox. You should see an email from me with all the necessary. So obviously we have Letshego's Chief Executive, Chris. We have Letshego's Chief Financial Officer, Colm. And we have Boikanyo with us who is the Head of Investor Relations. So it is a full set for us today. I've asked Chris to give us a broad appreciation of the company's' performance in the six-month period. He knows exactly what to highlight. And then I think he is going to hand over to Colm to talk about the numbers. After that we will go to Q&A in the normal way. Chris, if I can hand over to you. Thank you for being with us today. Over to you.

Chris Low

Okay. Thanks very much, Harry, and good morning or good afternoon everybody. Hopefully you have the pack so I can just draw a few insights from it as I walk through it fairly quickly. I'm going to talk more about the strategy and where we have moved forward, and Colm will drill down a little bit on areas I'm sure you're interested in like costs and foreign exchange impacts. Suffice to say it has not been an easy first six months in many of our markets with rising interest rates, over 700 basis points in Mozambique for example, currency depreciation in a number of markets etc. However we believe the results, the 9% loan growth, underlying flat half year on half year pre-tax profit is a satisfactory performance with that as context.

Slide three just gives you an updated strategy/vision on a single page. We had our strategy session with our board in Dar es Salaam beginning of August and it is not too changed from before, other than we have now adopted the terminology inclusive finance to capture the theme of our strategy focussed at providing simple, appropriate and affordable solutions to the under-served. We have retained embracing financial inclusion at the centre of the pillars with growing the franchise, investing and diversifying. We will talk more about Tanzania and Nigeria shortly. Enhancing customer experience around the concept of simple, appropriate and affordable solutions. And embedding a future capability model to really adapt our technology platforms, processes and procedures around non-branch delivery. Core to the strategy is a new realisation that we can only move as fast as we need to with strong strategic partnerships with a number of key companies working in the space we are entering.

Moving to page four, the inclusive finance agenda. Many of you will be aware we are Africa's first private sector member of the Alliance for Financial Inclusion. I will be with a number of regulators at their annual global meeting next week. And we have already seen benefits of that affiliation as an advocacy platform as well as a networking platform among a number of key regulators that we deal with.

Finmark Trust many of you will be familiar with, works on research and with DFIs alongside the Bill & Melinda Gates Foundation. We are hoping this relationship will give us access to more DFI funding. EBS South African environmental social and government consultancy has audited us for compliance with the likes of smart principles which give us access to more DFI funding as well as align our responsible lending criteria and approach to meeting customer needs. And lastly the principle card issuer license that we got in Mozambique is a useful start to be affiliated with a global name, but there is still a number of issues with the main switch in Mozambique that means that's not going to be anything immediate.

So moving to slide five, a quick update on Nigeria and Tanzania. We are reasonably happy with our progress to date. Clearly this is an 18 to 36 month journey. And indeed in Tanzania momentum is good. We broke even in July for the first time in Advans history and we are now rebranded as Letshego Bank Tanzania. In Nigeria a slightly more bumpy start. We have invested heavily in credit training. We have let go a number of staff who did not meet our minimum trainability standards. And we have geared up collection efforts in a number of branches where PARs were at unacceptable levels. We are seeing this year within the scenario of a recession in Nigeria as the year to get our business fit for purpose.

The next slide just updates where we are with licensing. You will have read that we got our full commercial license in Namibia after a four year plus journey. We hope to soft launch towards the end of this year and fully launch under that license next year. Nigeria I have spoken about. That is a micro finance banking license. Tanzania, Advans was a commercial banking business focussing on SME. Mozambique is in the final weeks of converting from a micro banking license to a full commercial license. And Rwanda is a deposit-taking micro finance license. Why am I mentioning the different ones? It is important to understand that to us the important core to this is being able to take deposits so that we can offer a full range of borrowings, savings, payments and micro insurance solutions. We will be slightly more limited where we are a credit-only institution.

Moving to the next slide, we talked about customer experience before but we wanted to give a little more insight to the customer journey that we're on. We have always been well known for our quick turnaround for approvals and disbursements. We need to build on that approach to customer experience across our businesses and ultimately get to a stage where we are anticipating their needs. We along that journey are going to need to partner with a number of providers. We want to be able to offer access anytime, anywhere.

We are partnering with a software group for our third-party agency model. We are partnering with Cellulant for our USSD approval and top-up capability. They are automating our process so that customers will be able to get credit pretty much instantaneously. Cards obviously MasterCard, I talked about. There are a number of other technical partners certainly we will need to cosy up with if we are to are to create an ecosystem for our customers around health, education, their home, their livelihood etc. We have already entered a number of conversations to broaden that ecosystem and I'm hoping in the next 12 months we can really paint a picture for you as to how our strategy looks through the lens of a customer.

The next slide, slide eight, shows you how we are packaging our offering into four different solution areas. And if I can illustrate that on the LetsBorrow LetsPay with Kenya we do group lending there today. Those small individual borrowings are provided through M-Pesa payments. They are monitored on our e-collector platform which is a Bulgarian software running on tablets. And customers pay us back through the M-Pesa platform. So you have got a combination of LetsBorrow and LetsPay there. We have also with Cellulant's help launched top-ups in Kenya already. We have done 20,000 e-loans since we launched that about eight or nine months ago for about $1.5 million. Now, small fry compared to the big players in Kenya, but it is proving that our platforms enable this to be done quite quickly, and it is enabling us to gain some IP internally as to what digitisation of our core offering might mean from a risk management operational standpoint.

LetsSave we are at an earlier stage of development working with a couple of partners there. And under LetsLive we have entered an MOU with Sanlam together with their partner, Micro Insure which came about through an RFP with three large multi-geography insurers out of South Africa. They won the mandate based on their footprint alignment with our own and their innovation around packaging and wrapping of existing products that we do.

Moving to slide nine where you've got some portfolio analysis, good double-digit growth in most markets from an underlying currency perspective but translating to just a 9% increase. Major impacts in Botswana. We talked over year-end about increasing competition from the banks, and in a lowering interest rate environment here in Botswana which goes against global trends they have really entered our space to the extent we've seen settlements in some months up to 80% of our pay-outs. Now, we have introduced a number of enhancements to our offering. For larger borrowers we have adjusted rates, not down to where the banks are but to try and bridge the gap between banks and our rates. We have introduced such things as payment holidays around the Christmas/January period when people tend to be a little short on cash. And this has worked reasonably well. Also on the sales side we have completely realigned our direct sales, put in a new incentive scheme etc. and in fact in July/August we are seeing good sales growth compared to the last six month.

Kenya, the rate cap, at this stage the legal opinions we have got suggest this doesn't impact credit-only institutions but we're watching this space carefully because if it doesn't affect us it is probably an opportunity in that we can push to take on some of the customers that the bigger banks are having to offload. If it does affect us we've got a fairly big challenge on our hands around pricing. Today our cost of funding in Kenyan Shillings is around 13% and with the cap at 4% over central bank rate that gives us a 1% spread.

Mozambique we are all aware of the margin destruction going on there due to non-disclosure of debt by the government. While we have seen obviously a slowdown in our book, you can see 16% which is under half our normal growth rate, that is due to a 700 basis point increase which combined with the currency depreciation showed negative loan growth on our book. So not a great place to be, and as a result we have taken a P20 million provision or 2.5% of our loan book to ensure that we're adequately covered if things deteriorate. But no signs of that yet at this stage, so just a prudent move for us. And lastly, Nigeria announced a recession. We have been investing using our consultancy partnership to ensure that we are well positioned next year. We have made a small loss this year to date, but we do see that turning around next year.

Moving to NPLs and asset quality. Overall no deterioration in the book. This is getting a lot more focussed now we've beefed up our credit and risk teams. We have given you an impairment coverage on total book. This rises to some 60% if you look at coverage of the non-performing book. And our loan loss ratio has remained well within the 2% to 4% range that we are targeting. Indeed if you reverse out the Mozambique amount the cost of risk in the first half is only 1.75%.

On funding, moving to slide 11, we continue to look to increase our debt equity ratio. It was 52% last June. It is now 67%, or little move from year-end. But we have got some significant funding in the pipeline that should close in the next few months that will provide for more gearing. And our target remains 1:1 debt equity in the short to medium term, perhaps a little higher debt to equity in the long term. We have got plenty of upside in terms of availability in both our Pula and Rand MTNs and again we can talk more about the funding mix. We are looking to further bank loans that we will be drawing down and we have a number of DFIs in the mix including OPIC.

I should probably mention at this stage our share price before I hand to Colm. Very disappointing this year on the back of very low liquidity. We have seen investors wanting to move into Asian equities or emerging market debt. Perhaps there is an opportunity from our funding perspective in that respect. But with limited buyers in the market and very low turnover of our stock the price has drifted, although in the last week or so we have seen some clawback. I haven't looked today but we were around P2 earlier this week. We do think it is very undervalued at that stage and hope that the announcement that we are going to look to do a share buyback will be received positively in the market. I think I will pause at that stage. So good progress on moving our strategy forward and a satisfactory set of results in light of our business environment. Colm, over to you.

Colm Patterson

Great. Thank you. Let me just talk to some of the figures in a bit more detail for the first six months. On the balance sheet side of things the loans and advances Chris has covered, but again good progress in challenging markets to grow mainly in local currency terms and diversify from a country and product solutions perspective. And very importantly, no deterioration in the quality of assets and cost of risk. So from that perspective quite happy.

On the revenue side of things it has been a very competitive and continues to be a very competitive market, so to that end the fact that we've been able to for the last couple of years and this reporting period also maintain our gross and net interest margins has been okay. There are a few levers within that. Our gross interest yields were pretty consistent. We still have opportunities going forward to add new transactional revenue streams, non-funded income. And equally in an environment whereby Botswana has been the exception in most of the other markets where we operate interest rates have been increasing significantly. We have been able to keep our overall cost of funding stable period on period.

From a cost perspective our opex and staff cost did increase by 51% period on period. And as a result our cost to income ratio has come in above our target levels. It came in at 38%. I think just to go into a little bit more detail on the costs, in this reporting period we do have the two transactions from 2015 being Letshego Micro Finance Bank Nigeria and Letshego Bank Tanzania. So they account for about 50% of the increase in costs period on period i.e. that they weren't there in the comparative period. The second factor in the increase in costs is that we did have a once-off cost in Rwanda relating to a tax issue which we took a conservative view that it was best to account for that potential expense. And therefore we have included that in this year's figures. And the third aspect is the general increase in staff and capacity, the investment in systems, in the structure, IT etc. and that accounts for the balance of the increase in funding. If we took it on a like for like basis the increase would have been around 21%, so still higher than our growth in our interest and revenues. But just to put a bit more context around that they are the three main factors that impacted on the 51% increase in opex and staff cost.

From a cost of risk perspective I think that we've touched on. The overall cost of risk has been within our expected level. We did amend our methodology slightly which we have spoken about in prior calls. That continues. So our level of write-offs decreases and our level of provision increases. And overall we are quite comfortable with the coverage ratios that we have.

Finally then on the balance sheet again notwithstanding some of the forex translation losses the balance sheet remains very well capitalised and we've got good cash reserves on hand and a strong funding pipeline for business to continue to grow going forward. So they were the few items that I wanted to touch on. I think with that we will hand back to the operator and Harry for questions.

Operator

Thank you very much, sir. Ladies and gentlemen, at this time if you do wish to ask a question please press star and then one on your touchtone phone. If you decide to withdraw your question please press star and then two to remove yourself from the question queue. Again if you wish to ask a question please press star and then one. Harry, would you like to ask some questions while we wait for the queue?

Harry Waldemar Brown

Sure. Thank you Chris. Thank you for that, guys. That was very thorough. A quick question on Botswana. I remember when we did our call with you in February, Chris, you put us in the picture about how FNB for example was targeting a very specific customer segment, being the executives of Botswana, with an interest rate offer which was very aggressive and so on. Can you help us to understand how much of a threat the banks are to the totality of your Botswana business? Do you think the banks are a threat perhaps to the highest end of your customers from a socio-economic point of view but actually the business of going down into the heart of your franchise to slightly lower paid

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| | people is just not in the bank's current cultural setting? Do you want to tell us what the nature of the ongoing threat is from the banks in Botswana to your business there? |
| Chris Low | I think you've captured the key elements of it. To be honest whether I was a bank or otherwise I wouldn't want to be lending $40,000 to $50,000 unsecured as one or two of the banks are doing. That said, will they go down further into our segments? We are seeing that. The difference is around from our perspective a number of aspects. One, we are well recognised to move very quickly. So often our customers come to us because they need the money tomorrow. They have left it through poor administration or whatever it might be to a relatively late stage and the banks just don't have that ability to match us. They have tried but they are not successful. Secondly, banks are well known to play tricks around fees and various other things, whereas ours is very transparent. This is what it is going to cost you per month. So they know there is nothing else that they need to think about. So they are not necessarily going to come right down to the space we're in. They also under their own credit policy have affordability limits which are in some cases much higher than the statutory minimums. We ourselves have looked at those because they haven't been updated for a while. But no, they are not attacking all segments and they will be unable to follow us as we diversify into new sectors of the economy. Mining executives is a fairly easy win from their perspective. It is a shame from ours, but there is not much we can do about that if they are offering rates that are nearly half our own. We have done some price adjustments on larger borrowers, but we don't think it is prudent to give away all that margin. When the rates start coming up again it will be hard to re-price upwards I'm sure the banks will find. |
| Harry Waldemar Brown | Thanks Chris. I think we've got a question in the queue. |
| Operator | Yes we do, sir. The question is from Cornelis Vlooswijk of Robeco. Please go ahead. |
| Cornelis Vlooswijk | First of all on Nigeria. Personally I'm not a fan of you going into Nigeria because I think you have a lot of things you can do in southern and eastern Africa, but I have two questions on the acquisition. One is why did you not wait for the Naira to devalue and then enter? And the second question is have you already taken an impairment, a write-down on your acquisition in Nigeria given that there has been a devaluation? I wonder if that is already in the numbers now. |
| Chris Low | Why did we not wait? The analogy one uses is you can't determine when the bus is going to come. We did hold back on our payment to actually around the third week in January specifically because of that threat. But I think, Cornelis, you need to look at Nigeria as a long-term play and not a short-term opportunistic play. In the segments that we're looking to play in whether it is our traditional government employee consumer lending business or micro and small enterprise, the opportunity in that market is enormous. The fact that it is going through tough times has little impact in the space that we're operating today. Yes, it would if we moved into government employees who aren't being paid, so something to watch out for. But longer term there is huge upside by having a presence in Nigeria. It is not like we don't know the market. I used to sit until we entered Nigeria on one of the big bank's boards. It is a highly agricultural-based economy despite everyone saying it is oil & gas. And there will be huge opportunities in that space, in the lower income housing space etc. As to impairments I'm going to let Colm answer it, but effectively we asked them to book as part of our pricing a large provision to basically clear most of the non-performing debt on their books. |
| Colm Patterson | And the other part of that question I think is around have we impaired our investment. There was goodwill arising on the transaction. That has not been impaired. However it has been revalued based on the currency. So that adjustment did go through as at 30th June. But it goes through below the line in the statement of change in equity rather than as a cost to the P&L. |
| Cornelis Vlooswijk | You have revalued the currency but not revalued the entire investment? You revalued the goodwill. |
| Colm Patterson | Under IFRS we are required to revalue the goodwill based on the underlying currency. Therefore that adjustment has gone through. You will see that the value of goodwill has reduced slightly and the corresponding side of that entry was the foreign currency translation reserve. So again it is part of the |

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| | accounting for multi-currencies in an environment where the exchange rates can be volatile. So it is an accounting entry the most. |
| Cornelis Vlooswijk | Basically you say that in Naira terms this has increased in value? |
| Colm Patterson | No, I'm not saying that at all. I'm saying that from an accounting entry perspective you revalue the goodwill based on the underlying currency. It is not a new standard. It has been there for quite a few years. |
| Operator | Thank you. Our next question is from Deepak Tolani of Ashmore. Please go ahead. |
| Deepak Tolani | Good morning. Thank you for the call. A few quick questions. On the previous question that you answered, the impairment for the currency issues will come in the next quarter. Can you estimate how much that will be after the Naira has devalued so much? The second question was about the share buyback. You mentioned it quickly in your comments. If you could give us some detail on timeline for that. The third question was opex and staff costs have gone up 51% year on year. I understand the reasons. What is the expected opex and staff cost that we can expect next year basically by quarter? What is the standard base rate? Thank you. |
| Colm Patterson | Thanks Deepak. On the first item I don't think I said the goodwill for the Letshego Nigeria will be impaired. What accounting standards require is that the underlying goodwill from a local currency perspective we have to take that into account. So that is just an accounting entry. There has to be an annual assessment if the carrying value of goodwill has been impaired from an operating perspective. That will be done as part of the year-end and at this point in time we don't expect to take any adjustments on that. Obviously there are a number of months to go, but at this point in time we do not believe that the underlying operations of the business have been impacted.<br><br>On the share buyback given that the results have been released yesterday we are therefore now out of the closed period. And subject to the availability of shares to purchase we will start to implement that from Monday. However it depends on the availability of shares for purchase. But the intention is to start on Monday. And I think on the third aspect in terms of opex and staff costs clearly what we look to do is try for our revenues to grow faster than costs. And we didn't achieve that in this quarter, but notwithstanding that we believe that the investments we made are for the long-term benefit of the business. And I think I alluded to earlier on our challenge is to bring in new revenue lines, to continue to diversify our revenue streams. And we do believe we are making good progress on that. So we would expect our prior guidance of cost to income ratio of 35% to remain and we hope to get there as soon as possible. |
| Deepak Tolani | Excellent. Thank you. |
| Operator | Thank you. The next question is from Sharat Dua of Charlemagne Capital. Please go ahead. |
| Sharat Dua | Hi. Good afternoon gents. A couple of questions from me as well please. The first one is the large foreign currency translation reserve in the balance sheet. If you can just explain where that is coming from. I'm assuming it is Mozambique but I don't know. There is no note as far as I can see. If you could just talk to what that impact is please. Secondly on the share buyback I was going to ask the same question. But can you just remind us what approval you have in place now? I remember this first raised its head early last year. I don't think anything was done at that stage. If you could just tell us what capacity you have for share buybacks now. And a third question was you mentioned Kenya and obviously it is very fresh, these new regulations there. You don't think it impacts you as a regulation. But I guess there is going to be pressure now that these regulations have been announced with the idea that cost of credit is going to be lower for ordinary Kenyans. So what do you currently charge in Kenya and do you see that coming down? Obviously a cap of 14.5% would be very difficult. What is the level at which you think you can still make a decent return in that market? And maybe just in relation to that, I don't have a feel for how different your lending rates are in your different markets at this stage. That might be helpful just to get a broad rundown of that. You said Botswana |

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| | had come down but obviously we see the average across the group but no idea how much variability there is across the different markets. |
| Colm Patterson | Okay, Sharat. Thank you very much. For the six months to June there were two main drivers for the foreign currency translation reserve impact. The first was further depreciation of the Mozambique Meticais. That was the lion's share of it, about P247 million or so. And the second was the adjustment on goodwill in Nigeria and a couple of other countries as well where we had goodwill on acquisition. For the six months to June it was Mozambique and the goodwill adjustment. They were the two drivers of the translation accounting entry that went through.<br><br>On the share buybacks the approval that we have from shareholders which was okayed by the Botswana Stock Exchange is to buy back up to 10% of the shares in issue or incur a maximum of P515 million, say $50 million, and in the absolute amounts that could be spent the mandate from shareholders is until May 2017. The company cannot purchase any shares from any shareholder who owns more than 5%, nor from any director, nor from management or staff. And we cannot do anything during a closed period, hence a lot of inactivity in the past given that we were in extended closed periods. And finally I think the main two issues are we are not allowed to purchase shares at more than a 5% premium to the five-day historical trading price. And we must give a notice ten days post any buybacks to the market to say what number and what price. They are the conditionality of the share buyback programme. |
| Sharat Dua | Thank you. |
| Colm Patterson | On Kenya our current average cost of lending to our customers is around about 30% per annum. As Chris alluded to earlier on our current cost of funding is around 13%. So in the scenario – and as we said it is early days and at this stage we do not believe that the regulations impact on our business there – to go down to a 14% mark when the cost of funding is 13% would not be sustainable. And you asked what would be sustainable. I guess we do have a good interest margin in Kenya. There is scope to reduce. But clearly we have to wait and see how things pan out in the short to medium term.<br><br>I think your final question then was around if there are interest rate caps in other countries and the flavour of interest rates. The only other country where we operate where there are interest rate caps in Namibia where interest rates are capped at two times the local prime interest rate for non-banking institutions. And in Uganda there is historical legislation which is actually about to be amended by the micro finance regulations. Finally just to give you flavour, it differs market by market. Obviously as we have said before we try and be as close to the banks as possible because in the main pricing is driven not by regulations, not by caps but by commercial terms. And generally in Southern Africa our interest rates are between 20% and 30% per annum, and generally in East Africa they will be slightly higher, between 30% and 40% per annum as a general guidance. |
| Sharat Dua | Thank you very much. Southern Africa is 20% to 40%, is that correct? |
| Colm Patterson | Southern Africa 20% to 30%. |
| Sharat Dua | 20% to 30%. Okay. Thank you. |
| Operator | Thank you. Our next question is from [unclear] of Imara Asset Management. |
| Imara Asset Management | Thank you. My question is on Mozambique. I see that you have made an impairment provision of P20 million largely because of the interest rate movements coming from the non-disclosure of the loan to IFI. Do you think if you factor in the security situation in Mozambique the P20 million will be sufficient or you may need to provide a little bit more? And how is the current instability affecting your growth outlook in that market both in local currency and in Pula terms? Thank you. |
| Chris Low | Several elements to your question there. How long is a piece of string I think is our answer. Is it sufficient? Actually there is no indication in our existing book of delinquent customer behaviour |

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| | despite the large increase in interest rates that our existing business is at risk. Remember of course unless a customer comes and tops up or takes a new loan they were fixed in at a rate, in many cases well below the current interest rates. In terms of instability, yes, in the centre of the country that continues to be an issue. We have a clearl policy that if we think our staff and our customers are at risk we would close the branches. Yes, we have a couple of branches in those areas. I think we have 15 branches and I think probably that affects two or three of them. The rest are either north or south. So no significant impact on our business to date in that respect. So I don't know whether I've answered it or sidestepped it. It is very difficult to know if there is going to be further fallout. A lot of articles these days are saying that Mozambique could well turn the corner relatively quickly. It is a new government since this non-disclosure was made. And I think there is quite a lot of goodwill for the new government from the way the finance minister has handled things etc. So I think it is a little bit wait and see. We hope that we will be able to release that provision in the next 12 months or so. |
| Operator | Thank you. Our next question is from Matthew Pouncett of Laurium Capital. Please go ahead, |
| Matthew Pouncett | Thanks for the call guys. My question is just around the buybacks. You mentioned that the approval from shareholders means that you cannot buy any shares from any shareholder holding above a 5% level. That would obviously include BIHL who I think own around about 20%. I don't know if that is the right level. Can you confirm that and also confirm if there are any other shareholders that fall into that 5% bucket? And then a follow-up question on that would be the five day VWAP premium restriction. Given the liquidity in the stock, given that there is a meaningful shareholder who you won't be buying back shares from, it seems a difficult ask. Why not consider something like a special dividend or another method to gear up the balance sheet? |
| Colm Patterson | Matthew, thanks for that. Just to confirm the restriction on purchasing from a shareholder that holds more than 5% that was a requirement from the Botswana Stock Exchange that we had to put into the circular to shareholders. Yes, it does impact on Botswana Insurance Holdings Limited. They currently hold 25.6%. The only other shareholder that it will impact on is ADP, a private equity firm based in the UK. So there are rules that we have to comply with. The same with the 5% premium. So we certainly take your point. Will it be possible to implement the buyback given the various criteria and given the liquidity? And it is a fair comment. However what we have said all along is this is one aspect of looking at the balance sheet structure of the business and aligning the balance sheet structure to facilitate higher return on equity. It was always going to be one aspect of an overall approach, and it still is. So we will see how things pan out. And as we have said in the past, should a special dividend be necessary, should we be in a position from a cash flow perspective to do a special dividend, then we would consider that. That is not on the agenda immediately but it is something that we will consider if necessary subject to all the items that we just spoke about. |
| Matthew Pouncett | Okay. Great. Thank you. |
| Operator | Thank you. Our final question is from Jonathan Kruger of African Merchant Capital. Please go ahead. |
| Jonathan Kruger | Hello and thank you for the call. I would just like to understand under what circumstances will the foreign currency reserve realise into a P&L impact. I suppose it is from an accounting perspective. When would you realise an impairment? And then also on your Mozambican loan book I might have missed it but what is the non-performing loan percentage? And then what is the split between the different segments in terms of payroll lending, unsecured lending etc.? Thank you. |
| Colm Patterson | Jonathan, thanks. Your first question was under what circumstances would the foreign currency translation losses go from being below the line to above the line. The short answer to that would be if we were to sell the business, because then they would become realised rather than unrealised. The second part I think of your question was around NPLs. For Mozambique our overall cost of risk is within our normal levels for a pure consumer lending finance business between 1% and 3%. And at present Mozambique is 100% to Government civil servants. My apologies if I missed any other part of your question. Is that okay? |

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| Jonathan Kruger | The other part was the split between the different types of lending in Mozambique, payroll, unsecured etc. |
| Colm Patterson | In Mozambique as I alluded to 100% of our loans are to government civil servants. So outside of Mozambique in other territories there is a mix, and the overall mix for the group as at June is 89% lending via deduction at source and 11% is micro finance loans. And as we said in the guidance our cost of risk expectation for deduction at source is between 1% and 3% and micro finance between 2% and 6%. Pretty much all of our businesses as at June fall within those boundaries. |
| Jonathan Kruger | Okay. Thank you very much. |
| Operator | Thank you. Our final question is from Tom Egbert of Frontaura Capital. Please go ahead. |
| Tom Egbert | Hi Chris and Colm. Thanks for the call. Chris, a question for you. Can you give us your personal perspective on the interest rate cap issue with regard to how it might affect other markets? Of course you have an ongoing dialogue with several regulatory bodies on the continent and coming up to this conference that you're going to next week what are you expecting to be the tone and the general perspective from market participants and regulatory bodies? Is there just a lot of noise right now or are we seeing something that could actually affect net interest margins on a permanent basis? I'm trying to think about what we're going to be talking about in a year. Are we still going to be talking about this, or is it short-term noise? |
| Chris Low | It's hard to answer that. Clearly Uhuru signing this into regulation is perceived as a political move. When I was running Standard Chartered in Kenya back in the early 2000s there was a Donde Bill which was the same thing which the banks managed to avoid. Clearly until there is absolute clarity there is going to be a lot of noise. And if the clarifications that I believe are coming out almost while we are talking from the central bank governor do change the interest rate structure of the Kenyan market we can expect contagion to other markets. Colm has already indicated that Uganda has a form of interest rate cap in place, but Tanzania has not. I think it would be fair to say that most regulators would be against this. Perhaps the banks have got too greedy and this is why it has been done.<br><br>At next week's conference that is the other side of the world. It is not an African conference. I wish it was, because it is a lot of travel to get there for a couple of days. But the governors of Tanzania and Kenya will be there, and I do intend to have a conversation just to say where this is likely to go and better understand it. But certainly in Kenya it is going to make the first tier banks a lot less profitable. I think it is going to put in question a number of the second tier banks' long-term sustainability. And I think for those tier three banks that are not already in trouble this is probably the death bell. If it affects micro finance credit-only institutions we have got some issues. But it is not a great step forward. It is quite a big step back. I don't know.<br><br>I'm talking around the topic. It is very hard to see and it is quite surprising to me that this was allowed to go through. We will just have to see over the next two weeks. I think it has been targeted the 14th September as an implementation date. What form it takes and the scope of it will be interesting to see. It could be positive for us as long as we are not drawn into the same environment. Interest rate wise Colm has given some feel for that earlier on. Once our margins come down much below 15% bells will be ringing quite loud. Usually we like a margin of 20% to ensure that particularly in the micro finance business the costs of distribution and reach and all of that gets recovered as well as the slighter higher non-performing debt that we perceive in the micro finance book. |
| Tom Egbert | Okay. And just a bit of housekeeping. On slide nine on the left side there is the market penetration. I think Kenya was at 2% from December. It is showing zero. Obviously you are talking about loan growth there at $39 million. Is that just like a graphical thing or is there some other reason why that would have gone to zero? |

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| Colm Patterson | Tom, apologies. Those are for our government deduction at source. So I think what we have done in December is we included the total rather than just the consumer loans part of it. So that is a typo on our part. So apologies. |
| Operator | Thank you very much gentlemen. Ladies and gentlemen, that is unfortunately all we have time for. Do you have any closing comments? |
| Harry Waldemar Brown | I think it just remains to thank Chris and Colm for being with us today. Everybody, the call has been recorded as usual and we will be producing a transcript which is available on request. Thank you everybody for joining us today, and thank you to the team from Letshego for making time for us. Thanks so much. |
| Chris Low | Thank you very much everybody. Have a good weekend. Bye. |
| Harry Waldemar Brown | Bye. |
| Operator | Thank you very much. Ladies and gentlemen, that concludes this conference. Thank you for joining us and you may now disconnect your lines. |
| | END OF TRANSCRIPT |