Conference Call transcript

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LETSHEGO HOLDINGS H1 2016

Operator
Good afternoon ladies and gentlemen and welcome to the Letshego Holdings first half 2016 results conference hosted by BPI Capital Africa. All participants are in listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference please signal an operator by pressing star then zero. Please note that this conference is being recorded. I would like to hand the conference over to Glaxton Robinson. Please go ahead sir.

Glaxton Robinson
Thank you very much Judith. Good morning and good afternoon everyone. Thank you very much for joining us today for our conference call with Letshego CEO, Chris Low, and CFO, Colm Patterson, as well as Boikanyo for a review of their first half 2016 results. We have sent through the company's results presentation, but for those who haven't received it please send me an email and I will pass it on to you immediately. Chris and Colm will open up with a brief overview of the results which we will follow with a Q&A session. Chris, Colm, thank you very much for your time. Over to you.

Chris Low
Okay. Thank you very much. This is Chris Low. Good morning or good afternoon depending on where you're sitting. I'm hoping most of you have got the pack because we are going to use that to guide through to make a few comments. On slide two you've got the agenda that we normally follow. I will cover the strategic update and pass to Colm to talk a little bit about the numbers. But we want to try and keep it fairly balanced so that you can ask the questions on your mind.

In summary the first half of 2016 has proven a difficult economic and country environment for us to operate, but we believe that we delivered a satisfactory set of results within that period and that we continue to roll out our transformational strategic agenda that will greatly strengthen and diversify Letshego's business model.

On slide three, the triangle slide, we have competed our annual strategic refresh with the board beginning of August. We had that in Dar es Salaam. And really our strategy remains the same in that we wish to continue to embrace financial inclusion, to grow the franchise, to embrace customer experience and impact for the future capability model. We have coined a new phrase to capture financial inclusion because that seems to be a set of words everyone is using these days. We have migrated over time to being a consumer lending business to a micro lending business with the acquisition to now an inclusive finance business. Key and central to our strategy is strategic partnerships which will enable us to accelerate our strategy.

Slide four talks a little to our inclusive finance agenda. Many of you will be aware that we were invited as Africa's first private sector business to join the Alliance of Financial Inclusion and that is giving us good access to regulators across our footprint from an advocacy as well as from a transactional perspective in that it gives us access to the regulator that is most important to central banks. Finmark Trust I'm sure many of you are aware of, but they work with the likes of Bill & Melinda Gates Foundation on research and are providing us linkages into DFIs towards lowering our cost of funds.

MasterCard, we obtained the first non-bank financial institution MasterCard principal issuer license in Mozambique. However because of changes to the main banking switch in Mozambique we will not be able to leverage on that immediately. But at the same time MasterCard Foundation is helping us towards rollout of our first agency model there. And lastly EBS is a South African consultancy focussed on ESG and impact lending. We have had a full audit by them and are now working towards gathering customer information on needs as well as tightening a few areas around our responsible lending criteria.

A quick update on slide five on Nigeria and Tanzania acquisitions. We are reasonably happy with progress at this stage, and indeed in Tanzania are gaining good momentum. In July the business there broke even for the first time in its history of five years and our loan book is starting to show good month on month growth with no quality issues over and above what we would expect. Nigeria is a slightly bumpier ride. We will come back to the recession there. But we have invested heavily year to date in credit training and sales. We are in the process of building out a top team because it was run by the CEO as a personal business. We knew all of this as part of due diligence. So 2016 is very much about getting fit for purpose.

Moving to slide six, as you know deposit taking capability is central to our strategy and with the Namibia license being granted in July we now have five licenses, two commercial banking – Namibia and Tanzania – one micro finance banking license in Nigeria, pretty much the same sort of license called a micro banking license in Mozambique, shortly to becoming a commercial banking license, and a deposit-taking micro finance licence in Rwanda.

Moving to slide seven we thought it worth talking a little bit more about our customer experience journey. Letshego over the years has built a solid reputation around quick turnaround and ease of credit approval processes from a customer perspective. We now want to broaden that experience in terms of providing access anytime anywhere as we have been saying for a year or so, and eventually to move with the help of data analytics and the like to an engagement model. We will not be able to build that ourselves in any reasonable timescale so we have already engaged with partners in Kenya and Mozambique with future engagements already in discussion around USSD and loan approval/top up across the mobile. We have started work with a software group again from Kenya on digitising a third-party agency, and MasterCard obviously for the cards. In terms of other partners we are working closely with MaxMalipo in Tanzania who already have an agency network. We are riding on the back of that and have appointed 55 of their agents as business originators on commission for our business in Tanzania.

Turning to slide eight, this just starts to talk to the different solution sets that ultimately our financial inclusion model will address. If I take LetsPay and LetsBorrow and look to Kenya as you will be aware we do group lending there and we today offer that across the medium of software from Bulgaria, a link to M-Pesa across a tablet for monitoring. The customers’ funds are disbursed through M-Pesa and they are able to pay us back through M-Pesa. In addition we have been working with Cellulant and are able to offer e-loans and, to date we’ve done approximately 20,000 such loans over the last eight months or so and disbursing about $1.5 million. Small fry by Kenyan standards compared to some of the big businesses, but we are on a journey and we are very pleased with the progress so far.

LetsSave, not quite as far along that trajectory as we would like to be, but the introduction of biometric account opening for deposits in Mozambique was our first entry into that space and we have a number of initiatives which I hope to be able to talk about by the year end.

On LetsLive a key relationship that we have entered into is with Sanlam some of you would be aware through BIHL. They are our shareholder. But we put out an arm’s length tender to three insurance companies, our micro insurance business, and they proved to have the best footprint match with our own as well as to be the most innovative from a product solution wrapping perspective.

Turning to our underlying portfolio, a number of key points perhaps to address concerns that you may have around a number of our markets. In Botswana sadly you can see the impact of competition strongly entering our market at the end of last year through into this year. We have had no movements on our book and in some months settlements as high as 80% of our pay-outs or new sales. We have put a number of measures in to address that including some differentiated pricing for larger borrowers including payment holidays over the Christmas period to create some stickiness in the book. And on the sales side we have completely re-engineered our direct sales team and put in place a new incentive programme to remunerate sales growth business. All of that is actually starting to come together and July and August are much stronger growth months than we’ve had for the last six months.

Kenya, some of you will I’m sure be aware of the rate caps that was signed in by the president last week. At this stage our legal advice is suggesting this does not apply to micro finance credit-only businesses. We are watching carefully because there was further information put out by the central bank in the last day or two that we haven’t yet fully digested. If it doesn’t apply to us then clearly there is an opportunity because banks will be exiting a number of businesses where the interest rates they can now charge capped at 4% over the central bank rate make no sense. I suspect that we will also see a number of the big players in this space, Equity and the KCB, perhaps establishing standalone entities to do this business as opposed to combining it with banks. But we will have to watch. There will be a certain amount of churn there. At the moment our business is still doing quite well.

Mozambique is not a happy picture from a macro perspective as you can see there due to depreciating currencies and a slowdown in our business growth. Those of you that know that business know we’ve achieved 30% to 40% in the last few years. That has slowed. We have taken an additional provision in Mozambique as a prudent measure. We have no evidence to suggest our quality of book is changing. Indeed the government recently automated the registries which has enabled some clawback of past bad debt. But we have basically provided P20 million, equivalent to 2.5% of the loan book.

And lastly on this page, Nigeria. As you know we have been looking at West Africa for a while. We passed on a few deals and we saw the First Bank acquisition as a strategic low-risk way of entering this market. Obviously it has come with some cost on goodwill and currency depreciation. However we are using the volatility of the current period to put our ship in shape so we can move forward with pace. The appetite for credit in the micro and small enterprise segment is still there, and to date again we have only really seen improvement in collections and the quality of our book, which is where quite a bit of focus is today.

Moving to slide ten on provisioning. I think the key headline there is there has been no deterioration in the quality of our books. And indeed if you were able to reverse out of the 2.2% cost of risk the one-off Mozambique charge you would have seen a reduced cost of risk in this period versus earlier periods. From a coverage perspective we have significantly improved our coverage ratios. If you look at the position before insurance we are now over 60%. With insurance that reduces to around 50%.

The next slide, slide 11, is on our funding. We continue to make progress. We are now at 67% debt to equity. And you will recall our target is around 1:1. That is up from 52% last June. We see significant scope on our two listed MTN programmes for further issue although appetite in Rands may not be quite as good as in Pula. We have got R1.5 billion availability in the South African programme and we’ve got about P1.8 billion in the Botswana programme. We continue to strengthen our ALM framework around the whole funding and liquidity issue and we have recently hired a Head of Corporate & Institutional Deposit Mobilisation. Early days yet as to how that works, but we do believe that our pipeline of funding is strong and continues to diversify in its nature. So as I indicated at the beginning a satisfactory set of results – Colm will talk about those now – and good progress on rollout of a number of the building blocks for our strategy of inclusive finance. Colm, over to you.

Colm Patterson

Very good. Thank you. I will just cover a few areas on the actual results for the six months to June. We have spoken a little bit about the balance sheet in terms of the underlying growth. As on the previous slide we recorded double-digit growth in most of the territories but Botswana and Mozambique were behind in that respect. However the quality of the assets hasn't shown a deterioration which is obviously quite pleasing. We continue to diversify both on a product/solution and a geographic basis. So from the loans and advances side of things quite good.

On the revenue side of things we continue to grow revenues. Behind those you will see that our gross yields on interest were maintained again despite it being quiet a competitive environment. And overall yields declined slightly, but mainly due to forex issues rather than anything else. Also within that line item our cost of borrowings we have been able to keep steady notwithstanding the fact that a lot of our funding lines are variable interest rate linked. However we have got two dynamics there, a reducing interest rate environment in Botswana and to a lesser extent in Kenya on the same period last year. But generally an increase in interest rate environments in most of the countries. So our overall cost of funding remained stable.

I guess we need to talk a little bit about the costs. Obviously our cost to income ratio has gone higher than what our levels were at about 35%. It came in at 38%. And on the face of the income statement you will see that opex and staff costs increased by 51% period on period. Now, there are three real factors there in the comparative period. The acquisitions last year of Letshego Micro Finance Bank in Nigeria and Letshego Bank in Tanzania were not included in the comparative figures. But that makes up approximately half of the increase in the cost and corresponds to the other half of the increase in the revenues. But going back to the costs the other factors were we had a once-off expense in Rwanda where we took the full cost in this period, and therefore we don't expect it to recur. And the third point in terms of the opex and staff cost is really the underlying investment in the business, in the people, in the capabilities, in the systems as we invest in the business. So the underlying like for like increase in cost was around about 21%, again higher than the growth in income and which we will look to obviously try and address going forward.

The impairment line I think we have covered. It is flat period on period even with the additional Mozambique expense that we took. And pleasing is the quality of the book. We are not seeing any deterioration in that area. Finally, the balance sheet remains well capitalised. We remain with good cash reserves. We remain with good, strong funding pipeline to grow the business going forward. Chris did allude to earlier on that we have seen our share price come under a bit of pressure of late. Therefore we will look to utilise the mandate that we have from shareholders to implement a share buyback given that we do have a funding pipeline that supports it. Obviously that will depend on the liquidity available in the market, but certainly what we've seen is the fall off in the share price has been driven really by two factors from what we can interpret from the trade report that we receive. One, there is a general tendency to rebalance portfolios to more Asia focussed rather than Africa. And two, there has been some retention in some specific shareholders which we have spoken to. There have been a number of international-based shareholders that we have spoken to about their intention going forward and how we can implement the share buyback. But overall the balance sheet still remains very strong. We are making progress in all of the areas that we need to. Our metrics still remain very robust and a good platform to continue to deliver on that performance. Thank you.

Chris Low

So that wraps up what we wanted to say which hopefully leaves a good 30 minutes for questions. We are now back to yourselves.

Operator
Thank you very much gentlemen. At this time if you would like to ask a question you're welcome to press star then one. That will place you in the question queue. If you however decide to withdraw the question you're welcome to press star then two to remove yourself from the question queue. We will pause a moment.

Steve Motsi
Hi. This is Steve from BPI Capital. Can I just kick off whilst others are dialling? Thanks again, Chris, Colm and Boikanyo for the call. Colm, could you just recap your comment on the share buyback? I kind of missed that. I didn't quite hear what you said, but I had a question in mind all along to ask whether or not share buybacks would be triggered by the stock performance. And the second question I have is on your NPLs. I think now you have mentioned what the NPL coverage ratio is at about 60%. I know I could possibly work that out backwards, but could you give an indication of what the absolute value of your NPLs are? And also just a split between the countries, maybe the most important countries where you are seeing the NPLs moving up. And just some guidance on your potential expansion. You have hinted obviously in your results that you are looking at inorganic growth. Could you direct it to which regions in Africa you're looking at? And lastly just some guidance on the average cost of funding from the banks which make up a big chunk of your funding portfolio. What sort of interest rates are you paying for funding from banks? Thank you.

Colm Patterson
Okay, Steve. Thanks. On the buybacks if you recall we obtained a mandate from shareholders at the AGM in May 2015 which was renewed for another year at the AGM in May this year. We haven't done anything on that to date given that we've been in a closed period for a lot of this time. However we said all along that it would be part of the overall balance sheet structuring, which remains the case, to get the balance sheet more leveraged slightly but on sensible terms. We set an initial target debt to equity ratio of 1:1. And also it depends on other funding pipelines that wouldn't disrupt the normal business growth and normal investment in the business. So where we are at present is that our funding pipeline is robust and we are not in a closed period. Therefore depending on liquidity i.e. shares being available to purchase we would love to exercise that mandate. I hope that covers that point.

On the non-performing loans I think your question was at what levels are our provisions. I think that is covered under the slide number ten whereby our total provisioning level at June was about P252 million, which represents approximately 50% of the 90 days. There is also as Chris alluded to an element of credit insurance that is not reflected in those figures. But I think you can see our level of provisioning is increasing and continues to be improved. I will ask Chris to talk about the areas of focus for inorganic growth. I will just cover the cost of funding from the banks. As a general rule our cost of funding from banks is prime linked, so therefore our cost of funding in Botswana would be around the Botswana prime. Similarly in Kenya, Uganda, Tanzania etc. it is really close to prime or maybe prime plus 1% or 2%. So by and large that is the type of cost of funding that we have from the commercial banks. Thank you.

Chris Low
I think there was an extended question about focus for inorganic growth. Just a quick comment on that. We've made it clear that inorganic growth is a core element of our growth and diversification strategy, and we will continue to look at opportunities that enable us to enter target markets. I think we have given those before but closer to home would include Zambia, probably not Zimbabwe at this stage, in West Africa Ghana, maybe francophone Africa, but again a slight challenge there on language. And in the recent strategy we have even talked about North Africa. But this is not new markets for the sake of new markets. We have got to ensure that

these will be shareholder accretive. Other areas of activity in investment and acquisition is around giving us access to larger customer bases, giving us access channel capability and giving us access to solution diversification. Many of those can be achieved through partnership and don't require M&A activity. Thank you.

Steve Motsi
Thank you.

Operator
We have a question from Andre Taute of Templeton.

Andre Taute
Hi. Thanks very much, Chris and Colm. I just have a quick follow-up question on the non-performing loans, the impairment coverage. You have reported a 4.1% impairment coverage over the overall loan book if I understand it correctly. I just want to get an understanding of what coverage of NPLs that is. I know in the past you used to write off any loan that was considered non-performing. I just want to understand if that is still the case, because I seem to remember the methodology has changed since then.

Colm Patterson
Andre, thanks. If I refer to slide ten at the bottom right-hand corner that shows that the green line is our level of provisioning. We see it increasing. And the red line is the level of write-offs which is decreasing. But the overall cost of risk remains reasonably flat, reasonably the same. If we look at the non-performing loan coverage ratio that has increased from 30% at June 2015 to over 50% as at June this year. So we are gradually increasing our provisioning coverage ratios and within the context of a slight modification to the methodology. We are very attuned to the fact that we must continue to be very cautious and prudent around our provisioning, which we will do. As we mentioned earlier on we did take some additional provisions in the half year for possible additional risk in Mozambique.

Andre Taute
I might be missing something here, but in the past I used to recall that any loan that was considered non-performing Letshego would write off. That is why you would only disclose the impairment ratio because that was tantamount to the non-performing loan ratio. If I understand what you just said now you said that your coverage ratio i.e. the level if impairments over the non-performing loans is about 50%. Is that right?

Colm Patterson
Correct, Andre. Yes.

Andre Taute
It would have essentially have gone down from 100% to 50% is what you're saying.

Colm Patterson
Andre, no, not really. I think there are at least two factors there. The write-off policy was mainly on the consumer finance lending and it also excludes the fact that we have comprehensive credit insurance in three of our markets. The way to look at it now is that while the level of write-offs is decreasing they are just being replaced by the level of provisioning. It is just a different way of getting to the same P&L cost of risk.

Andre Taute
Oh, okay. I think I understand that. I might get back to you on that one. I just need to think a bit about that. The other question I had was really around FX losses. Perhaps you could elaborate a bit on what the FX losses were for the period and which particular exposures drove those FX losses.

Colm Patterson
There are two aspects to that, Andre, what goes through the P&L and what goes through the statement of changes in equity. So what goes through the P&L was a reasonably small figure, and that was driven mainly by the open Rand position that we have as a group. As you may be aware we have R1 billion in Rand liabilities which we then on-lend as Rand assets to our Namibia, Swaziland and Lesotho businesses. That position is generally matched as a natural hedge, but not fully. So there are some forex losses that came through from that. The more significant one obviously is what went through below the line. And that was driven primarily from our investment in Mozambique. The Mozambique Meticais depreciated further again this year and as an accounting entry as a translation loss there was an erosion of the value of the business in Mozambique simply due to the currency there further depreciating. For the current six month period while we have to translate all the operating subsidiaries into the reporting currency the Meticais was the main driver of the translation loss that went below the line.

Andre Taute
Right. What was that amount?

Colm Patterson
It was P290 million.

Andre Taute
Okay. I mean if I recall correctly last year you had a big FX hit in the income statement because your actual exposure from a loan and asset point of view wasn't well matched. But that sounds like you've addressed that issue by actually reducing it so that they are quite well matched.

Colm Patterson
We have been able to mitigate the P&L volatility. But a longer-term issue is getting capital levels in-country at sufficient levels from a regulatory perspective, from a tax and capitalisation perspective, but equally not to have the subsidiaries over-capitalised. And again there can be certain challenges around that. Whilst we may have the local currency funding to grow the business we may not be able to buy the forex to get the funds out of the country. So no quick wins, but certainly we are aware of it and looking at how best to structure the capital levels of the subsidiaries. But that will be a more medium to long-term exercise.

Andre Taute
And the main issue is really Mozambique. You're not facing similar challenges in any of your other markets?

Colm Patterson
They are similar but not to the extent that the recent events in Mozambique give rise to.

Andre Taute
Exploring that a little bit further, are you able to repatriate any cash from Mozambique?

Colm Patterson
In the first six months of this year it has been quite difficult and the answer has been no. However in the last couple of weeks we have been able to purchase some Rands which we are in the process of repatriating. But it is not significant figures there at this point in time. But at least there has been a positive change.

Andre Taute

Okay. Last question from me and then I will hand it back to the caller. Just around the Rwandan once-off hit that hurt the operating expenses. Could you perhaps elaborate a bit more on that?

Colm Patterson
Andre, it is related to an interpretation of the VAT Act in Rwanda. There was considerable uncertainty even from the legal advice that we obtained of whether Rwanda was required to apply VAT on its non-interest income. We took the decision prudently that it would be best to err on the side of caution and therefore apply VAT. And that involved a retrospective aspect. So we have addressed it. Equally we have looked at other markets in East Africa because the VAT legislation there tends to be a little bit not as clear as you would like. We have assessed the other markets and we are comfortable that there are no other exposures elsewhere.

Andre Taute
Okay. So it sounds as if this uncertainty has not been clarified as yet in Rwanda. So do you think there is a possibility that it might be reversed?

Colm Patterson
A very, very remote possibility.

Andre Taute
Okay. So you are fairly comfortable that's the right treatment. It is just a case of it needs to be clarified.

Colm Patterson
Correct.

Andre Taute
Okay. Thank you very much.

Colm Patterson
Thanks Andre.

Operator
Ladies and gentlemen, just a reminder, if you would like to ask a question you're welcome to press star then one.

Glaxton Robinson
Thank you Judith. It's Glaxton from BPI. Two questions. We have seen pressure on the equity due to FX translation. Are you comfortable with your current dividend pay-out ratio? And given the fiscal pressures in Mozambique are you guys seeing any risk to your payroll book?

Colm Patterson
Okay, Glaxton. Thanks. In terms of our dividend pay-out ratio and policy we are comfortable with that. We continue to be comfortable with that. We don't foresee any amendments to that in the short term. As we have said in the past as part of the balance sheet structure we could look at either breaks in the dividend policy or maybe a once-off, but that is not on the agenda short term. So for now our dividend policy remains at 50% and that's what we will pay to shareholders later next month. In terms of Mozambique while we have taken an additional provision due to the sovereign uncertainty and risk there on the ground we haven't seen any deterioration or change in normal business as usual. Equally there hasn't been to date any signals from the government of Mozambique that there will be an amendment or changes to either pay levels to civil servants or the overall civil servant base. It is obviously something we are watching closely but at this point in time while we

felt it was appropriate to take additional provisions from a conservative perspective there is nothing on the ground that indicates any significant changes.

Glaxton Robinson
Thanks very much for that, Colm.

Operator
The next question comes from Jubilate Lema of Anibok Investments.

Jubilate Lema
Hi. Thank you very much for the call. I have two questions. The first is on Kenya regarding the cap on interest rates. Assuming that the cap is also extended to micro lenders how would your operation in Kenya look like? Number two, what are you NPLs in Nigeria and how are you finding that business given the shortage of cash to the country and the fact that government employees or people who work there are not getting paid on time?

Chris Low
Okay. On Kenya the legal advice that we've seen so far suggests that the legislation was not written particularly well, but it referred to banks and financial institutions that are governed by the Banking Act of 1985 or something like that. Colm may be able to tell you. Which we are not subject to because we are a credit-only institution. So our interpretation is that we are clear. That said there is a certain amount of further noise that we are hearing from the ground. So we are watching that space closely. If it doesn't capture us there is some potential upside because if banks are restricted to an interest rate of 14% to 15% they are going to want to exit a number of their higher-risk smaller customers which would suit us well. So I can't really give you more of an update than that at this stage, sorry. The Banking Bill of 2016. Sorry, I was going back too far.

The second question on Nigeria, we made First Bank take fairly substantial provisions in the pricing that we paid for it which cleared out quite a lot of non-performing debt on their books. We have continued to work through the credit portfolio. I won't say it is all clean after that, but I won't at the same time say that there are any serious concerns within that book. We are quite well provided. And looking at the stats that Colm is giving me we are by our estimates 146% covered provision-wise for the non-performing par 90 book. So I think you should not be concerned about that. We have got a number of collection actions there, and as I indicated there are early actions in Nigeria around strengthening the approach to credit so that we are well positioned going forward. Sorry, yes. Colm is just reminding me about your point about the risk of government employees not being paid. That is not part of the business model today. They primarily focus on micro and small enterprise lending. They do one or two deduction at source loans, but it is an immaterial part of their book.

Jubilate Lema
Thank you very much. Going back to the initial question on Kenya, my question has been what if the 2% cap applied to your business what would you do and where would your business be placed assuming that the cap is also extended to your business?

Chris Low
It is a 4% over the central bank rate. Clearly our loan book rates are out with that today. We have not done a simulation at this stage. I think that is too knee-jerk. But clearly it would have a fairly significant impact on our book if that came in because our borrowing rate in Kenya Shillings is at 13%. So if you cap it at 14% there is not a commercial model.

Jubilate Lema
Thanks very much.

Operator
We have a follow-up question from Andre Taute of Templeton.

Andre Taute
Hi. Thanks very much. On Nigeria if I can explore that a little bit further as well, I assume you're making losses on that particular acquisition at the moment. When does management expect this to turn around and break even?

Chris Low
Next year.

Andre Taute
Next year. Okay.

Chris Low
Basically there are small losses at the moment because obviously we are basically investing in capability. We have got full-time consultancy on the group and support from Germany through our strategic partnership with a micro finance specialist. So our costs are above normal rates. Once we have the local team in place those costs will drop off. And at the same time we are gearing up our credit lending capability.

Andre Taute
And what is the level of investment expected into Nigeria over the next year?

Chris Low
We don't need any. The brand refresh has already been done at minimal cost. It is just some signage changes. Next year we will be looking to replace the technology platform, but we are talking small amounts because we will put them onto our standard platform. So really the investment is more opex in terms of training up the staff etc.

Andre Taute
Perhaps as a group you noted that the NIMs were fairly level for the period. What is the expectation going forward as a result of the increasing competition in various of your markets?

Colm Patterson
Andre, you are correct. We have been able to maintain the net interest margins reasonably well in this period. And similarly for the last couple of years we have been able to do that. And all during that period of time it has been a very competitive environment. I think we would still say that we would see going forward some contraction. I think as we said before while we expect the interest rates and the yields to go down our challenge and our opportunity is can we bring in new non-funded income lines and revenues to compensate for that over time? Are we able to reduce our cost of funding which will further compensate for any reduction in yields? For the last couple of years in a competitive environment we have been able to maintain overall returns from a net interest margin perspective. And it will be a challenge going forward but hopefully we will be able to address it by those three levers that I spoke about.

Andre Taute
Okay. Thanks for that. Then on the cost side you spoke about these couple of events that resulted in one-off hits. Do you maintain your guidance of 30% to 35% cost to income ratio going forward?

Colm Patterson

Andre, yes. I think as we put in the commentary we did come in slightly higher than that guidance. We believe that around the 35% mark is certainly what our internal targets are, yes.

Andre Taute
Okay. One last question from me if I may. You said you are partnering with various providers to help you roll out certain functionality as part of your business model. I'm just interested in terms of who you are partnering with to roll out your mobile solution. What kind of format is that solution taking? You mentioned USSD. Is that going to be applicable through all your markets? And is it one partner that you're using for all of these markets?

Chris Low
We are looking at the mobile as the main digital channel. But we are recognising in our focus markets that while in Botswana in Gaborone most people would be on a smartphone in many of our markets particularly in the rural segment there is very limited uptake. So USSD and hash codes mobile capability will remain in our view around for the next few years. Our strategy is on USSD mobile. We are working on an app. Who we are partnering with, we are still closing that. I mentioned software group for third-party agency. The Kenyan company on the mobile is Cellulant who are becoming one of Africa's leading payments businesses. And we are in the final throes of partnering with a credit scoring and data analytics company, but I would rather not put the name out there quite yet. We have got a pilot that we're working on, and when that rolls out we will go public with it.

Andre Taute
And will that be across all your markets?

Chris Low
Initially the pilot is in one market with a move to go to four markets. And that is micro credit and merchant credit. There are a number of opportunities with Cellulant and others. But at the end of the day we would rather partner with a bigger player who is already well integrated with MNOs than to try and build our own relations from scratch.

Andre Taute
Okay. Thanks very much.

Glaxton Robinson
We have one more question.

BPI Capital
Hi, this is Boipelo Rabothata from BPI. Thank you so much for the call. I just wanted to ask guidance on loan growth in the short to medium term. Thank you.

Chris Low
I'm hesitant because you are asking a forward-looking question. What we have seen in July/August in Botswana is a significant pick-up in our pay-outs or our sales. Our target has always been to grow our loan book strong double digits. And as you have seen underlying-wise we are achieving that. There is nothing to suggest we won't continue along those same loans. It is just where the currency goes from here in terms of how it translates to a Pula number.

BPI Capital
Thank you.

Operator
Ladies and gentlemen, just a final reminder, if you would like to ask a question you're welcome to press star then one. We have a question from Dafydd Lewis from LGM Investments.

Dafydd Lewis
Hi guys. I know [inaudible segment] but just on the deposit side… Sorry, I was a bit late joining as well. Maybe you could give a little bit more detail on why the drop in deposits and what you see in Nigeria as well after the brand change.

Colm Patterson
Dafydd, thanks for the question. The main reason for the reduction in the deposits was there was one large corporate deposit that we had in Rwanda that was really a placement of our own funds because it was a loan disbursement to a number of customers. So it was always expected that that deposit would be utilised for the loan. So we were expecting that to fall away during the first half of this year, which it did. Overall from the deposit side Rwanda in terms of numbers has done very well in terms of developing retail deposit base. They have got their retail deposit numbers up to 8,000 which is quite satisfactory. You quite rightly point out that was an impact of rebranding in Nigeria. That rebranding happened post period end in early August and so far for the last few weeks we have not seen any change in customer behaviour from a deposit perspective.

Dafydd Lewis
Right. Excellent. Thanks very much guys.

Colm Patterson
Thanks Dafydd.

Glaxton Robinson
We are coming to the end of the hour. We don't want to keep you guys too long. There are a few more questions before we close up. With regards to the 40% drop in PBT in East Africa do we assume that was wholly from Rwanda? And then two, with regards to your commercial license in Mozambique have you got a timeline for when you will have that complete? And then just with regards to your opex growth going forward have you got an idea of what your normalised growth will be that will take you to your target efficiency ratio of 35%? Thank you.

Chris Low
On the license in Mozambique we submitted everything that has been asked for, so really the ball is in the Mozambique central bank's court. It could be Monday, it could be a couple of weeks, but we are that close. On East Africa Colm can answer it. But a large part of the additional cost is the one-off in Rwanda.

Colm Patterson
Correct, yes.

Chris Low
Sorry I missed the third one

Colm Patterson
I think you asked what the normalised growth would be to get us back to the cost to income. I think really that has already been covered in terms of what our targeted levels of growth are. And certainly internally we are reasonably comfortable that we can get to our growth of the loan book target and that should allow us to get to normal levels from a cost perspective. Thanks so much for that.

Operator
Thank you very much gentlemen. There are no further questions in the queue. Do you have any closing comments?

Glaxton Robinson
Thanks very much, Judith. Chris, Colm, Boikanyo, thanks very much for your time. To attendees please note that there will be a transcript and recording available on request. If you have any other questions please feel free to email them and we will get back to you. Thanks very much gentleman. Have a great day. All the best.

Chris Low
Thank you. Bye.

Operator
On behalf of Letshego and BPI Capital Africa that concludes this afternoon's conference. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT