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CREDIT OPINION
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Update

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Letshego Holdings Limited

Semiannual Update

Summary Rating Rationale

The Ba3/Not Prime issuer ratings assigned to Letshego Holdings Limited (Letshego) capture the company's solid capitalisation and profitability (supported by its niche, low-cost, franchise). It also captures growing diversification across regional countries, which makes the company more resilient to an adverse change in any one of its operating markets.

The ratings balance these strengths against Letshego's (1) narrow, albeit gradually diversifying, business model, with a still high reliance on payroll deductions for loan repayment collections, (2) high exposure to foreign exchange risk, (3) elevated asset quality risks, and (4) dependence on market-sensitive wholesale funding; although actions are being taken to address these weaknesses.

The Ba3 issuer rating assigned to Letshego reflects its stand-alone credit profile. No external support has been imputed in Letshego's ratings given its limited importance to Botswana's payment system resulting from its small scale, and given that it does not have any material customer deposits.

Credit Strengths

» Letshego is gradually diversifying its business model across products and countries

» Solid capitalisation buffers

» Strong profitability supported by high margins

Credit Challenges

» Narrow business model

» High foreign exchange risks

» Asset quality risks will likely remain elevated

» Reliance on wholesale market funding and weak liquidity metrics

Rating Outlook

The company's ratings carry a stable outlook. The stable outlook reflects our expectation that the bank's financial fundamentals will remain relatively stable over the next 12 to 18 months, despite potentially elevated credit risks from its regional and lending expansion.

Factors that Could Lead to an Upgrade

» An upgrade of the company's ratings would depend on Letshego successfully developing broader African financial services operations, while maintaining strong profitability and capitalisation, and strengthening its liquidity profile. We expect these operations to help (1) diversify its funding profile; (2) strengthen its overall franchise; and (3) enhance the regulatory and supervisory framework.

Factors that Could Lead to a Downgrade

» Negative rating pressure could be exerted on Letshego's ratings if regional authorities in the company's main operating markets impose restrictions on the deduction (at source) of loans and other repayments from the wages of public-sector employees, leading to a sharp rise in bad debts and impairment costs. In addition, negative pressure could be exerted on the ratings if (1) Letshego's expansion in other sub-Saharan markets, client segments and products, results in any material weakening of asset quality and profitability metrics; or (2) Letshego's current sound capitalisation metrics were to materially weaken.

Key Indicators

Exhibit 1
Letshego Holdings Limited

	H1 2016	2015	2014 [1]	2013 [2]	2012	2011
Total Managed Assets (BWP Million)	7,348.6	7,540.3	6,411.8	5,024.4	4,320.1	3,212.7
Total Managed Assets (USD Million)	677.2	670.3	674.2	549.9	540.2	439.3
Pretax Preprovision profits / Average Managed Assets	15.0%	17.1%	17.6%	20.0%	23.3%	26.8%
Net Income/ Average Managed Assets	10.4%	11.0%	12.0%	14.0%	17.5%	20.5%
ROE (NPATBUI / Avg. Equity) [3]	19.5%	19.0%	18.7%	20.3%	26.2%	28.7%
Liquid Assets / Short Term Debt [4]		32.1%	22.0%	151.0%	377.9%	31.6%
Tangible Common Equity / Tangible Managed Assets % [5]	52.4%	52.0%	60.8%	67.4%	63.7%	70.4%
Problem Loans/Gross Loans		7.6%	4.5%	0.3%	0.8%	0.0%
Problem Loans/(Shareholder Equity+ Loan Loss Reserve)		11.6%	6.5%	0.4%	0.9%	0.0%
Net Charge-offs / Average Gross Loans & Leases		0.2%	0.8%	1.4%	1.0%	2.0%

[1] For the fiscal year ending 31 December 2014 (11 months)
[2] For the fiscal year ending 31 January 2014
[3] NPATBUI refers to net profit (loss) after-tax before unusual items
[4] Short term debt refers to short term borrowings as reported by the company
[5] Tangible managed assets are assets including loan loss reserves, less intangible assets

Detailed Rating Considerations

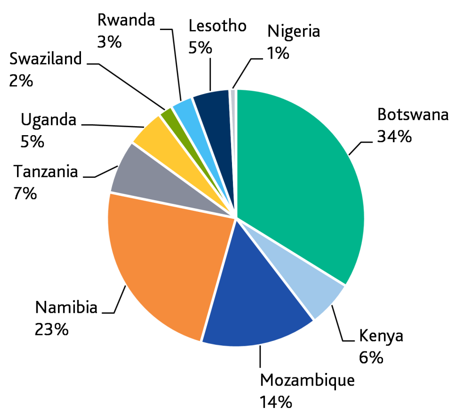
LETSHEGO IS GRADUALLY DIVERSIFYING ITS (NARROW) BUSINESS MODEL ACROSS PRODUCTS AND COUNTRIES

Letshego specialises in unsecured loans to government and quasi-government employees under the payroll deduction model, whereby loan repayments are taken directly from the employer prior to the monthly salary being distributed (around 89% of total loans). Letshego's currently narrow business model exposes it to (1) any adverse regulatory or legal changes that may hamper the payroll deduction process (although not our basecase scenario)[1], (2) regulatory risks, such the lowering of caps on the effective interest rate it can charge on loans, and (3) potential volatility in financial metrics.

Positively, we note Letshego's increasing geographical diversification and strategy to diversify its business model, by becoming a pan-African broader-based financial services company, operating at the segment space below commercial banking. Its strategy to diversify is facilitated by various acquisitions across Africa and the acquisition of banking and deposit taking licenses in several territories (it has a deposit-taking license in Mozambique, Rwanda, Tanzania, Nigeria, and Namibia). The company currently has operations in ten sub-Saharan African countries (exhibit 2), with a strong niche franchise within Botswana (where it offers payroll loans to around 21% of all government employees as of June 2016), Namibia (49% of government employees), and Mozambique (21% of government employees) benefiting from a quick and efficient loan-approval and disbursement process. The remaining markets contribute individually less than 8% of the loan book, and Letshego generally exhibits a lower franchise sustainability given weaker brand name and market recognition compared to its more established markets.

Exhibit 2

Letshego's Loan Book Is Becoming Increasingly Diversified Across Countries
June 2016



Source: Letshego

This expansion will gradually reduce its overall dependence on payroll lending (by broadening customer segments and products) and support its deposit mobilisation capabilities. In the short-term, however, the company needs to manage potentially elevated credit losses from (1) higher credit costs in non-payroll related loans (micro finance group loans, micro and small enterprise business loans, and low-income housing loans) of around 4%-7% (albeit compensated by higher margins); (2) higher country risks; and (3) its relative inexperience in these newer markets and product offerings.

HIGH FOREIGN EXCHANGE RISKS

Letshego has substantial currency risk exposure as a result of its regional operations, and we estimate that a severe stress scenario of a 40% appreciation in the Botswana pula would result in a decrease of its net foreign-currency assets, leading to a loss equivalent to 34% of tangible common equity as of year-end 2015. Positively Letshego is taking steps to reduce its net foreign-currency position, although we expect the progress to be gradual. Letshego also has a moderate exposure to interest-rate risk because a portion of funding is floating rate, whereas all loans are fixed rate, although the large margins allow some room for interest-rate fluctuation.

ASSET QUALITY RISKS WILL LIKELY REMAIN ELEVATED

Letshego's business model has historically led to fairly low credit costs (loan loss provisions to average gross loans of 1%-3% per annum), reduced collection costs and improved collection statistics. As a consequence, Letshego's overall credit costs (provisions % gross loans) remained fairly low at 2.1% for the six months ending June 2016. With Letshego gradually diversifying into non-payroll loans NPLs and provisioning costs will likely increase although this is countered by the higher margins available in non-payroll related lending and the diversification benefits obtained. In addition, subdued economic environment in many countries where Letshego operates in, and the higher provisioning needs under new IFRS 9 guidelines (an issue faced by financial institutions globally) also imply further pressure on provisioning needs.

Reported NPLs for June 2016 were at 8.0% , lower than the reported 8.7% in December 2015 but higher than the 7.4% reported in December 2014. Higher NPLs over the past two years are primarily due to (1) an increased portion of non-payroll related loans, and (2) a change in the bank's NPL classification policy, whereby all loans delinquent by more than 90 days are now classified.

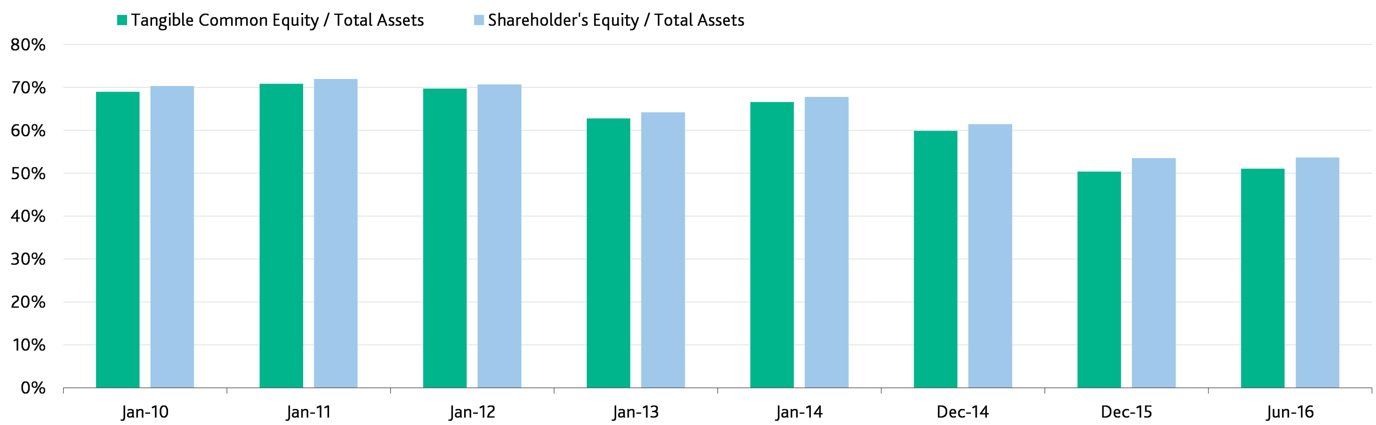
Loan loss provisions to pre-provision income increased to 12.2% in June 2016, from 11.9% in December 2015 and 8.6% in December 2014, with the problem loans coverage (loan loss reserves to NPLs) increasing to a reported 56% for June 2016 from 51% in December 2015 and only 29% in December 2014. Letshego also has comprehensive credit insurance cover in Namibia, Mozambique and Swaziland that increases the post-default recovery in these markets.

SOLID CAPITALISATION BUFFERS

Letshego's capitalisation levels continue to underpin the current ratings. The company is currently well capitalised, with a tangible common equity-to-total assets ratio of 51.0% at June 2016, despite a drop (exhibit 3), which provides a solid buffer for the company to face any adverse changes both to the competitive environment and to its current business model. While we currently anticipate capital levels to further drop slightly (as the company acquires more debt and/or reduces equity levels to grow/ optimize its capital structure), a material drop in capitalization could weigh on its current ratings.

Exhibit 3

Letshego's Capital Metrics Remain High, Although They Are on Downwards Trend



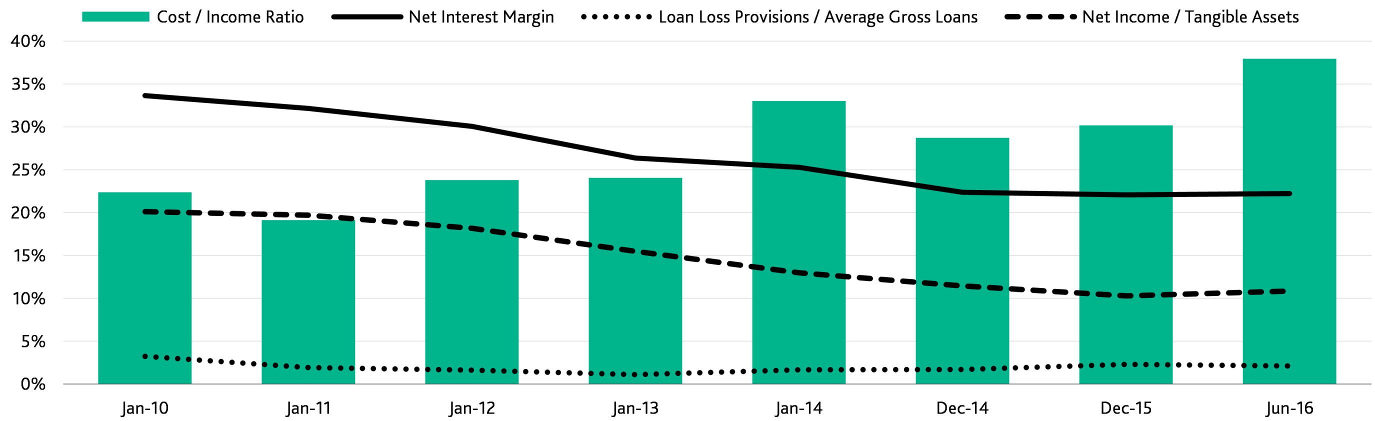
Source: Moody's Financial Metrics

STRONG PROFITABILITY SUPPORTED BY HIGH MARGINS

We expect that profitability will also remain sound despite declining trends with lower, albeit still strong, loan yields, owing to lower interest rates and increasing competition, and a higher cost base as a consequence of the company's broader financial services offering in certain markets. While the bank's diversification strategy will put some pressure on profitability, this will be countered by a successful execution of its strategy that will lead to diversification benefits and will make profitability more resilient to a downturn.

The pre-provision income-to-average assets ratio remains solid at 15.1% for the six months ending June 2016 (FY2015: 17.1%), as does the net income-to-average assets ratio at 10.4% (FYE2015: 11.0%), supported by a strong net interest margin of 22.2%. The cost-to-income ratio remains strong by global standards at 38.0% during the six months ending June 2016, supported by Letshego's low-cost business model and strategy, although it has deteriorated from 30.1% during FY2015 (exhibit 4), reflecting (1) the recent acquisitions in Nigeria and Tanzania (not included in last year's figures) and (2) the company's ongoing investment spending in people, capabilities, and systems.

Exhibit 4
Profitability remains strong, despite weakening efficiency metrics



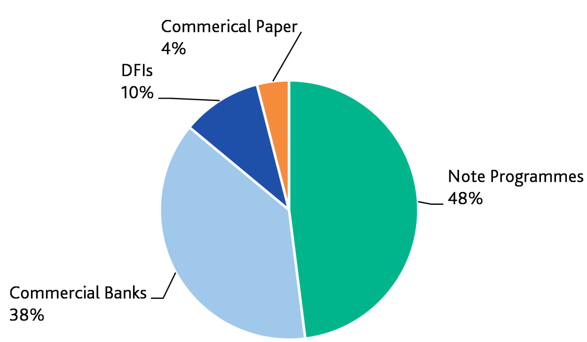
Source: Moody's Financial Metrics

RELIANCE ON WHOLESALE MARKET FUNDING, DESPITE A DIVERSIFICATION AND BROADENING, AND WEAK LIQUIDITY METRICS

While we acknowledge that Letshego has diversified its funding structure, the company continues to rely primarily on wholesale funding to support its activities, which remains a rating constraint given that this type of funding is inherently confidence-sensitive and vulnerable to disruption.

We note positively that over the past three years Letshego has diversified its funding structure, and improved its liquidity and asset and liability maturity profile through (1) a Johannesburg Stock Exchange listed senior secured bond - denominated in South African rand (amounting to ZAR700 million: Botswana pula equivalent: BWP494 million), (2) senior unsecured bonds amounting to BWP350 million (listed on the Botswana Stock Exchange), out of which BWP300 million had maturities of at least 10 years, and (3) the issuance of Letshego's first medium term note (MTN) programme in Mozambique in 2015. The company continues to broaden its funding profile by tapping an increasing number of local institutional investors and financial institutions, as well as development finance institutions. As mentioned above, the company also aims to gradually tap customer deposits. As of June 2016, bond funding accounted for 48% of total borrowings, commercial bank funding for 38%, DFI funding for 10% and commercial paper for 4% (exhibit 5).

Exhibit 5
Letshego Remains Wholesale Funded, Although Increasingly More Diversified
June 2016



Source: Letshego

Letshego liquidity metrics however remain low with its 24 month coverage ratio around 23% as of June 2016. The above ratio is calculated as the level of cash and committed, unsecured bank lines available as a percentage of debt maturating within the next 24 months.

SOURCE OF FACTS AND FIGURES CITED IN THIS REPORT

Unless noted otherwise, we have sourced data relating to system-wide trends and market shares from the central bank. Bank specific figures originate from banks' reports and Moody's Banking Financial Metrics. All figures are based on our own chart of account and may be adjusted for analytical purposes. Please refer to the document: "Financial Statement Adjustments in the Analysis of Financial Institutions" published on 12 February 2016.

RATING METHODOLOGY

The principal methodologies used in this rating were "Finance Company Global Rating Methodology", published in October 2015. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies. Letshego's assigned rating is in line with the outcome of the Finance Company scorecard - as per the aforementioned methodology.

Rating Methodology and Scorecard Factors

Exhibit 6

Letshego Holdings Limited

Rating Factors	Aa/A	Baa	Ba	B	Caa	Historical View	Forward View
Non-Financial Factors						Ba	Ba
Factor: Franchise Positioning						B	B
- Market Position and Sustainability			x				
- Operational Diversification				x			
Factor: Risk Positioning						Ba	Ba
- Potential Volatility of Assets/Cashflows			x				
- Governance and Management Quality	x						
- Risk Management			x				
- Key Relationship Concentrations	x						
- Liquidity Management				x			
Factor: Operating Environment						Ba	Ba
- Economic Strength				x			
- Institutional Strength			x				
- Susceptibility to Event Risk			x				
Financial Factors						Ba	B
Factor: Profitability						Aa/A	Aa/A
- PPI / AMA	16.54%						
- Net Income / AMA	11.14%						
- Pre-tax Income Coefficient of Variation		34.88%					
Factor: Liquidity						B	B
- 24 Month Coverage Ratio					23.04%		
- Secured Debt / Gross Tangible Assets		18.62%					
Factor: Capital Adequacy						Aa/A	Aa/A
Capital Bucket: Traditional Finance Company							
- TCE / TMA	52.43%						
Factor: Asset Quality						Ba	B
- Problem Loans / Gross Loans				4.14%			
- Problem Loans / (Shareholders Equity + LLR)	6.17%						
Scorecard estimated stand-alone credit assessment:						Ba3	Ba3
Assigned Rating:						Ba3	

Ratings

Exhibit 7

Category	Moody's Rating
LETSHEGO HOLDINGS LIMITED	
Outlook	Stable
Issuer Rating	Ba3
ST Issuer Rating	NP

Source: Moody's Investors Service

Endnotes

1 Under a scenario where authorities cease to facilitate the payroll deduction process, Letshego will be faced with an onerous change in its operating model, a sudden and substantial rise in bad debts and impairment costs (to over 10% of gross loans) and materially higher operating expenses.

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