

**Announcement: Moody's changes outlook on Letshego Holdings' Ba3 rating to negative (Botswana)**

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Global Credit Research - 16 Sep 2011

Limassol, September 16, 2011 -- Moody's Investors Service has today changed to negative from stable the outlook of Letshego Holdings Limited's ("Letshego") Ba3 long-term issuer rating.

**RATINGS RATIONALE**

The change in the outlook to negative follows the decision of the government of the Republic of Botswana to cease facilitating the deduction at source, of loan and other repayments from public sector employees' wages, effective 1 December 2011. Implementation of the government's decision could have a direct negative impact on Letshego, a leading microlender, whose business model is based on providing unsecured lending to public sector workers. Consequently, we expect Letshego's financial performance could suffer increased loan impairment charges and higher operating expenses.

Botswana represents a key market for Letshego, accounting for more than 60% of its loan book, with more than 95% of loans extended to government employees. The current payroll deduction model -- facilitated via electronic collections through a Central Registry -- has mitigated potential repayment risk on the company's unsecured loan portfolio. With the government's decision to cease facilitating these payroll deductions, Letshego will need to use alternative collection mechanisms.

The negative outlook is driven by the likelihood that, although the company maintains direct debit agreements with all customers and can, in theory, convert to receiving loan repayments directly from customer's bank accounts, Letshego may be faced with increased impairment costs and higher operating expenses relating to the new collections mechanism. Furthermore, performing direct debit collections for around 35,000 accounts could initially prove an operational challenge. Moody's notes the relatively longer term nature of Letshego's receivables, with around 70% of loans extended at five-year maturities. This limits the company's ability to quickly effect credit risk management changes in its portfolio. In addition, this development may compromise Letshego's future fund-raising capabilities, and will likely lead to a revision of the company's strategic plan and income growth targets in Botswana. However, in Moody's view, the company's growth potential will remain strong in its other regional operations in sub-Saharan Africa.

The Ba3 issuer rating remains supported by very high profitability -- pre-provision income to average managed assets of 30.5% for the year ending 31 January 2011 -- which allows the company some capacity to absorb elevated credit and operating costs.

The rating could be downgraded if there were evidence that the company's financial metrics -- namely profitability and asset quality but also liquidity and capitalisation -- were deteriorating to levels below those of similarly rated peers.

**PREVIOUS RATING ACTION & PRINCIPAL METHODOLOGY**

Please see ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the last Credit Rating Actions and the rating history.

The principal methodology used in rating Letshego was Analyzing The Credit Risks Of Finance Companies published October 2000. Please see the Credit Policy page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology.

Letshego Holdings Limited is headquartered in Gaborone, Botswana, and as at 31 January 2011 had total assets of BWT2.427 billion (USD353 million).

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Limassol  
Elena Panayiotou  
Analyst  
Financial Institutions Group  
Moody's Investors Service Cyprus Ltd.  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

Limassol  
Mardig Haladjian  
General Manager

Financial Institutions Group  
Moody's Investors Service Cyprus Ltd.  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

Moody's Investors Service Cyprus Ltd.  
Kanika Business Centre  
319 28th October Avenue  
PO Box 53205  
Limassol CY 3301  
Cyprus  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454



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