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LETSHEGO HOLDINGS LIMITED GROUP FULL YEAR 2018 REVIEWED FINANCIAL RESULTS

Gaborone, 05 March 2019 – The Board of Directors of Letshego Holdings Limited ("the Group") herewith presents an extract of the reviewed condensed consolidated results for the year ended 31 December 2018.

Top line performance with a Profit Before Tax (PBT) of P1,021 million has been anchored by our core Deduction at Source (DAS) business segment. Shareholder return included a return on equity of 12% and a final year-end dividend declared of 3.3 thebe per share arising from the Group dividend payout policy. The key drivers behind this performance are set out below:

Group Financial highlights

- Total interest income increased by 21% to P2.7 billion from P2.3 billion prior year
- Yields on loans to customers and the cost of borrowings were generally maintained
- Non-funded and credit-related income increased by 9% year-on-year
- The cost of risk was 4.1% (2017: 3.1%) reflecting a deterioration in credit quality
- The Group is strengthening its risk management and reviewing its impairment methodology
- Cost to Income increased by 200 basis points to 42%
- Profit before tax was P1,021 million which is a 2% increase from 2017
- Loans and advances (gross) grew by 17% to P9.5 billion
- Non-performing loans impairment coverage ratio increased from 70% to 115%
- Debt to equity ratio was 131%
- Return on equity was 12.2% (2017: 16.7%) and return on assets 5% (2017: 8%)
- Earnings per share declined to 20.7 thebe (2017: 29.8 thebe) per share, a decline of 31%

Non-Financial highlights:

- Disbursed in new or top up loans P4.2 billion (2017: P2.7 billon)
- Total borrowing customers 364,000 (2017: 350,000)
- Total savings customers 173,000 (2017: 154,000)
- Customer access points 315 (2017: 314)
- Current Accounts Savings Accounts (CASA) growth of P269 million from P228 million
- The Group employed 1,882 (2017: 1,905) full time employees supplemented by an additional 1,321 (2017: 1,287) commission-based sales agents

Business Update:

The core of Letshego's business continues to be led by the Deduction at Source (DAS) business segment in its consumer lending and microfinance bank offering in Southern, East and West Africa. Markets in Southern Africa continue to be the largest contributors to the business performance, (70% of Gross Loans) with Botswana and Namibia making up 72% of total Group DAS profit. Letshego Holdings Limited acquired the 25% remainder of Letshego Bank Tanzania for a purchase consideration of approximately P15.5 million. This acquisition was done by exercising a put option embedded in the original sale and purchase agreement.

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Smit Crouse, Group Chief Executive, said; "*In a world where change is exponential, evolution of one's strategy and resultant business model are essential to deliver superior returns to shareholders, whilst creating value for all stakeholders including customers, staff and regulators. With so much unrealised potential, Letshego is now due for change*."

Group is well capitalized and profitable

Effective Tax rate
The unfavourable Group effective tax rate of 50% is as the result of three main factors: partial write-down of the carrying value of deferred tax assets at Letshego Holdings; higher withholding tax charge on dividends from subsidiaries and tax provisions in respect to two subsidiaries. The Group effective tax rate is expected to improve in 2019.

Prior year adjustment – Taxation update
The Company resubmitted historical tax returns to Botswana Unified Revenue Service (BURS) in 2018 pursuant to legal advice on the appropriate treatment of foreign tax credits for its Botswana tax returns for the periods 2014 to 2016.

Loan portfolio growth and quality

Increase in Group cost of risk is reflective of a number of factors namely, a change in geographic and business risk and the application/implementation of IFRS 9. Asset quality in East and West Africa is weaker than in Southern Africa although margin performance is better.

IFRS 9 came into effect on January 1, 2018. The impact of this new accounting standard on the Group was a 110% increase in total balance sheet impairment provisions from P402 million to P843 million, and a P192 million decline in Group retained earnings. Coverage Ratios have increased to 115% (IAS 39 FY 2017: 70%) partially as result of IFRS 9.

Impairment adjustments in FY 2018
Goodwill arising from the acquisition of Nigeria business (prior carrying value P43 million) has been impaired by P22 million based on a reassessment of the future cashflows of that business.

Capital structure, funding and dividend policy

Ratings Agency Moody's kept Letshego Holdings Group's credit rating unchanged at Ba3 (stable) outlook. The Group remains well capitalised with a CAR of above 35% which is well above the regulatory minimum in all of its operating countries. Despite high reliance on wholesale funding, significant progress has been made in diversification of the Group's funding base away from the bank loan market through the issuance of local currency corporate bonds in Botswana, Ghana, Mozambique and South Africa. The Group has also been successful in attracting new funding from specialist international investors based in the UK and Europe with a focus on micro and inclusive finance ventures. The new funding has enabled the Group to better manage its debt maturity profile and liquidity position.

As part of the Group's inclusive finance strategy Letshego has six deposit taking licenses across its operations which will further contribute to diversification of the Group's funding over time.

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Shareholders approved an extension of the share buyback programme at the Annual General Meeting of shareholders in May 2018. No shares were repurchased in the current period.

There has been no change in the Group's dividend policy since the last review in 2017. The year of next review is 2019.

Board of Directors

Chris Low, the Group Managing Director, stepped down from his role after five years. Smit Crouse, his replacement, was appointed Group CEO of Letshego Holdings and Executive Director on 24 September 2018.

Previously, Smit was a senior executive and special adviser to the International Finance Corporation ('IFC'), part of the World Bank Group. Prior to advising the IFC, Smit was a senior executive for seven years at Nedbank Group, managing investments across Africa. He has also been a member of the senior management team at PwC corporate finance, completed management and board director development programs at Harvard Business School, Oxford, INSEAD and Singularity University.

Smit holds LLB and LLM (international taxation) degrees from the University of Pretoria and IDP-C (International Director Certification) from INSEAD.

Robert Thornton, an Independent Non-Executive Director and Chairman of the HR Committee and Member of the Investment Committee, tendered his resignation from the Board on 2 August 2018. Robert joined the Board in 2013.

Prospects

New leadership positioning Letshego for the future - Strengthening our roots with strategic focus to achieve sustainable value creation.

There is a significant opportunity to increase the Group's reach, impact and effectiveness through strategic focus and operational excellence, delivering a unique and compelling value proposition to customers seeking fast and accessible finance across Africa.

Since the appointment of Smit Crouse as Group CEO, he has undertaken a detailed review of the business, its strategy, operations, workforce and customer base. The conclusions of that review have led to the launch of a transformation programme that will refocus Letshego, which in turn will create a clear business model underpinned by a strategy supported by continued advanced analysis of data.

The transformation programme will commence with the alignment of country business structures and roles, which in turn is designed to empower local operations with guidance from the newly formed Centre of Excellence that will provide guidance to all country operations on strategy and data analytics.

Letshego is now set to strengthen its roots with strategic focus to achieve sustainable value creation for all stakeholders.

Auditors' review

The condensed consolidated annual financial statements from which the financial information set out in this announcement is derived from, has been reviewed but not audited by PricewaterhouseCoopers, the Letshego Group's external auditors. Their unqualified review report is available for inspection at the Group's registered office.

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Dividend notice

Notice is hereby given that the Board has declared a final dividend of 3.3 thebe per share for the year ended 31 December 2018. In terms of the Botswana Income Tax Act (Cap50:01) as amended, withholding tax at the rate of 7.5% or any other currently enacted tax rate, will be deducted from the final gross dividend for the year ended 31 December 2018.

Important dates pertaining to this dividend are:

- Declaration date: 1 March 2019
- Last date to register: 21 March 2019
- Therefore, the shares are ex-dividend from 19 March 2019
- Dividend payment date on or about 2 April 2019

-ENDS-

For further enquiries, please contact:

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