



# About **blue**

## i. Introduction

Blue Financial Services Limited (“Blue” or “the Group”) is a pan-African financial services provider which offers retail and commercial financial services to customers across the continent.

Blue aims to uplift its customers, as well as achieve a positive social impact in the communities it serves. We believe that every person on the African continent should have access to financial empowerment, and we enable progress, upliftment and improvement in peoples’ lives.

It is difficult not to mention in the introduction where Blue was from a profitability perspective in 2010. In this regard it must be noted, as per the Directors’ reports, that Blue’s turnaround is well under way but not yet complete.

Mayibuye Group (Pty) Ltd (‘Mayibuye’), who became the majority shareholder in December 2010, have committed huge resources and capital to the turnaround strategy without which Blue would not have been able to advance as far along the turnaround as it has achieved.

## ii. Mayibuye - an overview

Since Mayibuye is playing such a significant part in Blue’s turnaround strategy, it is appropriate to outline a brief overview of the company at this point. Mayibuye focuses primarily on equity acquisitions relating to or associated with the credit environment. Mayibuye’s approach to equity acquisition is born in its unique vision which challenges norms, changes paradigms, adds exceptional value and elevates performance levels. Its investment activities are underpinned and supported by its core investments which provide:

- A sophisticated, full-capability servicing platform
- A leading-edge debt collection facility
- Intellectual capital that applies effectively in the credit space and develops all the time, and
- A value-set and business philosophy that has proven itself to set a firm foundation for well-performing private equity investment in the credit environment

Between them, these business resources provide a platform for equity investments in line with Mayibuye’s investment philosophy.

## iii. Blue’s vision

Our dedicated purpose is to be the breath of change in personal financial empowerment on the African continent. We lead by being an outstanding and innovative financial services provider and the enabler of progress, upliftment and improvement in people’s lives.

*“Puts the power into your hands”*

## iv. Blue's mission

To achieve our vision to be the financial services provider of choice, preferred among our customers and investors for excellence in...

- service delivery
- convenience
- effective partnering
- being solution-oriented
- promoting pricing transparency and consumer education
- developing our own people to be the best they can be
- governance, values and ethics
- growing our company to generate optimal returns for all stakeholders

... and in stimulating positive development within the communities we serve across the continent through our practical and hands-on corporate social investment initiatives.

## v. Blue's core values

- Respect
- Reliability
- Returns



## vii. Salient points of year under review / corporate action

The Johannesburg Stock Exchange News Service announcements during the period 1 March 2010 to 28 February 2011 reflect the highlights of Blue's progress made in financial year 2011 and are summarised here below.

28.02.2011	08h00	Blue Financial Services	BFS - Blue - Results of the meeting of shareholders held on Friday 25 February 2011
16.02.2011	15h55	Blue Financial Services	BFS - Blue - Clarification regarding the inter-conditionality provisions relating to the proposed Early Conversion transaction
10.02.2011	17h43	Blue Financial Services	BFS - Blue - Proposed Blue BEE Transaction Publication of Financial Effects
01.02.2011	15h15	Blue Financial Services	BFS - Blue Financial Services Limited - Trading Update
21.01.2011	13h00	Blue Financial Services	BFS - Blue Financial Services Limited- Confirmations received to convert R266.5m of debt into equity
13.01.2011	17h29	Blue Financial Services	GEN - Blue Financial Services (South Africa): Shares in Issue Update - FTSE/JSE Africa Index Series
10.12.2010	11h08	Blue Financial Services	BFS - Blue - Finalisation of Recapitalisation of Blue changes to the board
30.11.2010	15h36	Blue Financial Services	BFS - Blue Financial Services Limited - Further update regarding the status of the remaining conditions precedent in connection with the recapitalisation of Blue
26.11.2010	14h18	Blue Financial Services	BFS - Blue/ Mayibuye - Further update regarding the status of the remaining of the remaining conditions precedent in connection with the recapitalisation of Blue
19.11.2010	15h25	Blue Financial Services	BFS - Blue Financial Services Limited - Results of the Annual General Meeting
18.11.2010	16h55	Blue Financial Services	BFS - Blue Financial Services Limited - Reviewed condensed consolidated interim financial results
18.11.2010	15h36	Blue Financial Services	BFS - Blue Financial Services Limited - Update regarding the status of the remaining conditions precedent in connection with the recapitalisation of Blue
29.10.2010	17h50	Blue Financial Services	BFS - Blue/ Mayibuye - Results of the meeting of shareholders held on Friday 29 October 2010
27.10.2010	14h50	Blue Financial Services	BFS - Blue Financial Services - Amendments to the purchase of rights agreement
07.10.2010	16h27	Blue Financial Services	BFS - Blue Financial Services Limited - Posting of Circular and Notice of General Meeting
05.10.2010	09h11	Blue Financial Services	GEN - GENERAL - BFS - Emphasis of matter
01.10.2010	14h30	Blue Financial Services	BFS - Blue/ Mayibuye - Update announcement to shareholders of Blue and withdrawal of cautionary announcement
30.09.2010	11h16	Blue Financial Services	BFS - Blue - Change Statement Issue of Annual Report for the financial year ended 28 February 2010
01.09.2010	09h43	Blue Financial Services	GEN - General- Late Submission of Annual Financial Statements
01.09.2010	09h31	Blue Financial Services	BFS - Blue Financial Services Limited - Update on the issue of the financial results of Blue
12.08.2010	17h42	Blue Financial Services	BFS - Blue/ Mayibuye - Trading update and announcement to shareholders of Blue on progress
02.08.2010	14h27	Blue Financial Services	BFS - Blue - Renewal of Cautionary Announcement
02.08.2010	08h30	Blue Financial Services	BFS - Blue Financial Services Limited - Change to the Board
23.06.2010	12h14	Blue Financial Services	BFS - Blue Financial Services Limited - Update On Disclaimer of Conclusion issued
22.06.2010	11h22	Blue Financial Services	GEN - BFS - Disclaimed audit opinion
21.06.2010	16h03	Blue Financial Services	BFS - Blue Financial Services / Mayibuye Group - Announcement to shareholders
21.06.2010	07h05	Blue Financial Services	BFS - Blue - Reviewed provisional condensed results for the year ended 28 February 2010
17.06.2010	09h04	Blue Financial Services	GEN - KIR TCS TBX ADW & BFS - Late submission of provisional financial statements
15.06.2010	09h22	Blue Financial Services	BFS - Blue Financial Services Limited - Trading Statement
10.06.2010	17h40	Blue Financial Services	BFS - Blue - Detailed Cautionary Announcement To Shareholders Of Blue Regarding the Proposed Recapitalisation of the Company
28.05.2010	13h42	Blue Financial Services	BFS - Blue - Further Trading Update And Resumption Of Trading In The Securities of the Company
27.05.2010	12h26	Blue Financial Services	BFS - Blue Financial Services Limited - Temporary halt in trading
10.05.2010	15h29	Blue Financial Services	BFS - Blue Financial Services Limited - Renewal of Cautionary Announcement
24.03.2010	14h49	Blue Financial Services	BFS - Blue Financial Services Limited - Renewal of cautionary announcement
11.03.2010	15h53	Blue Financial Services	BFS - Blue Financial Services Limited - Trading Update
01.03.2010	09h30	Blue Financial Services	BFS - Blue Financial Services - Appointment of Independent Non-Executive Chairman

Full details of the above SENS announcements are available on the website [www.blue.co.za](http://www.blue.co.za).

## ix. Blue's geographical business at a glance

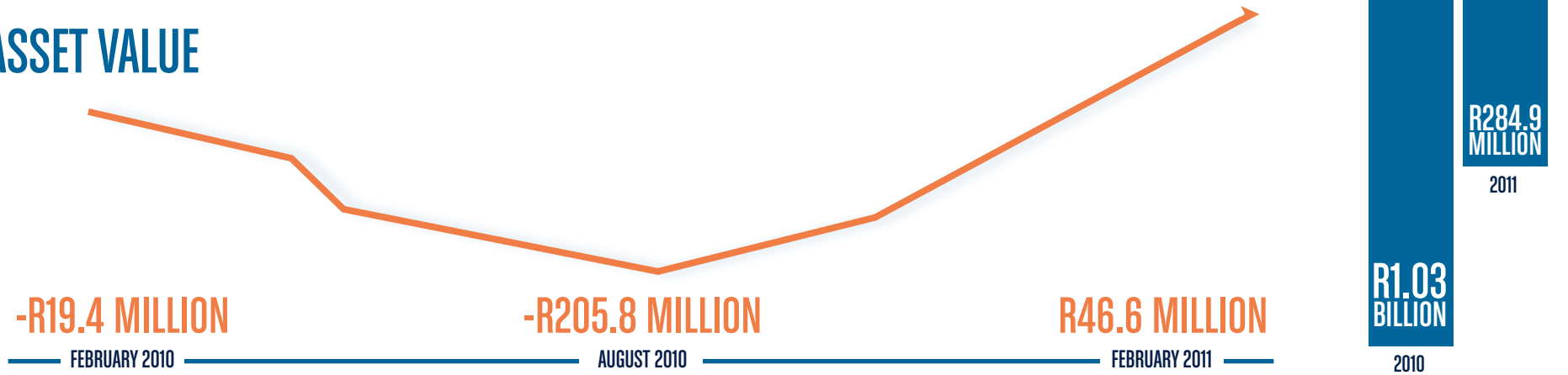
Blue currently has a presence in 14 African countries namely Botswana, Cameroon, Ghana, Kenya, Lesotho, Malawi, Mauritius, Namibia, Nigeria, South Africa, Swaziland, Tanzania, Uganda and Zambia. At present we operate out of 12 of these.



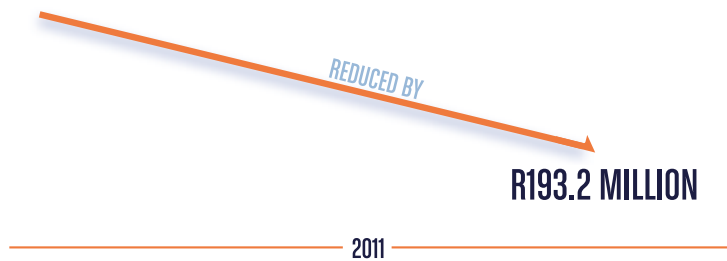
## x. Key financial indicators

Below are the Key Financial Indicators (KFIs) reflecting Blue's performance during the 2011 financial year.

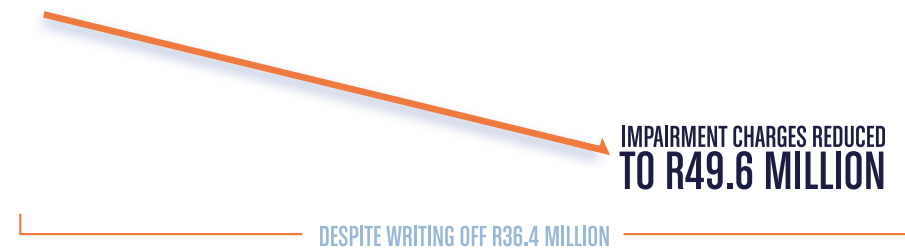
### NET ASSET VALUE



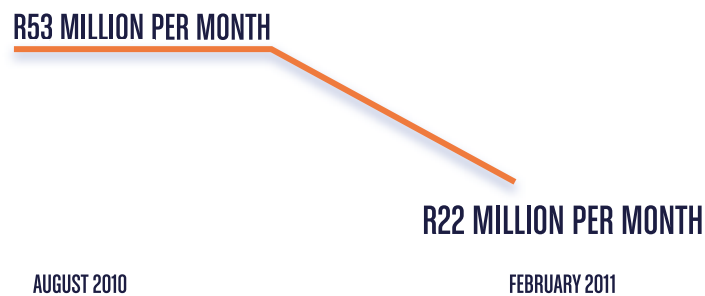
### OPERATING EXPENSES



### FOCUSED COLLECTION EFFORTS



### OPERATING COSTS



## x. Delivering on the strategy

*When turnaround specialist Mayibuye announced its intention to acquire a majority stake in Blue in June last year, it undertook to return Blue to profitability. In the short time since concluding the recapitalisation deal, new life has been breathed into Blue, and the results are starting to speak for themselves. We recap how the Group has delivered on the strategy to date, as well as touch on our strategic priorities for the year ahead.*

A critical aspect of the turnaround was the introduction of an innovative debt rescheduling agreement which allowed Blue to defer cash outflows on the majority of its debt for the next three years, thus assisting the company to recover financially.

The agreement allows Blue to defer repayment on the principal debt amounts for a 36-month period and limits the existing lenders' claims against Blue to the existing loan book only. The objective is to close the shortfall between the existing book and existing liabilities. In addition, lenders were successfully engaged in the process. Institutional funders agreed to convert R274 million of debt into equity, and shareholders have approved the conversion of a further R50 million debt into equity in future. The capital effectively freed up by the conversion has provided significant impetus for the growth of the business and further strengthened Blue's balance sheet.

The turnaround strategy has also focused on vigorously right-sizing Blue's expenditure to sustainable levels, while restructuring the credit recovery systems and improving collections.

Once the rehabilitation process of non-performing loans was put into place, the strategy called for us to start generating new quality loans on a cost-effective basis – a process which is now well underway.

A significant element of the turnaround was to change the organisational culture of Blue. Establishing the new core values of Respect, Reliability and Returns played a critical part in redefining the company's organisational culture and informed the rebranding of the new Blue as part of the turnaround. Further, we also place greater focus on corporate social responsibility.

Our values also entrench the importance of corporate governance and risk management, and protecting the rights and interests of funders. We continue to enhance the Group's compliance and control as another fundamental aspect of the turnaround.

With the turnaround strategy now well underway, Blue's financial results for the year ended 28 February 2011 reported a significant reduction in losses for the year. While this is evidence that the turnaround strategy is starting to bear fruit, we are acutely aware that there is still hard work to be done to ensure a full financial recovery and long-term growth.





## xi. Priorities for 2012

With the strategy now in place, it will enable Blue to build on this solid platform to enable it to return to profitability, and sustainably participate in new growth markets.

### The focus for 2012 year will be to:

1. Increase the loan book to a critical mass
2. Consolidate compliance and introduce integrated risk management
3. Implement new systems to improve efficiencies and embrace best practice
4. Continue to transform Blue to be an employer of choice
5. Grow Blue's footprint from the current 213 distribution points to more than 750 across the continent
6. Conclude a BEE transaction in 2012
7. Recapitalise all subsidiaries and embark on further Group balance sheet improvements
8. Continue to focus on cost reductions
9. Resolve historical tax issues

The actions taken in the last year to stabilise the business led to a decrease in the advance of new loans for the year ended 28 February 2011. An important part of the turnaround strategy going forward is to refocus on growing our distribution points and ramping up loan production. Blue has started down this route and has already commenced with new lending on which defaults are less than five per cent.

In the 2012 financial year, Blue will continue to leverage off the key competencies made available through its relationship with Mayibuye, particularly around the elements of credit, collections and information technology, which have been identified as areas that require improvement. Our objectives for the next year are to ensure the continuous enhancement of Blue's processes, governance, internal controls and overall business sophistication. Focus must remain on growing Blue's assets, keeping operational costs down and rehabilitating the loan book.

As part of its turnaround plan, the company is assessing the solvency and capital requirements of all its subsidiaries.

Blue aims to correct this by recapitalising portions of the inter-Group loan accounts between its subsidiaries during the year ahead.

Blue plans to introduce a broad-based black economic empowerment (B-BBEE) programme in the 2012 calendar year.

An in-depth analysis has been completed on how to implement BEE most effectively and holistically, taking into account the principles established in the FSC and the B-BBEE Codes relating to key pillars of BEE, including ownership, management control, employment equity and procurement of services.

The process will start with the transformation of Blue's shareholding.

An ongoing focus on human capital development, up-skilling and a continual staff engagement programme is also of paramount importance to our overarching turnaround strategy.

Blue has regained confidence and has renewed determination following the successful implementation of the turnaround strategy. With a bright future ahead, we will continue to entrench our new values with a view to building the refreshed Blue brand in the market.

## xii. Overview of achievements / 2011 financial year highlights

*Themes: Recapitalisation, Recovery, Realignment, Reach, Responsibility*

### Recapitalisation

In June 2010, in a deal worth R163 million, private equity company and turnaround specialist Mayibuye concluded a recapitalisation agreement in terms of which it acquired a 61% shareholding in Blue. Following this, since August 2010, Mayibuye has been implementing a turnaround strategy at Blue which has quickly borne fruit.

The multi-faceted strategy has focused on reducing costs, increasing credit recovery and improving collection processes and to ensure that Blue will have impairments and write-offs comparable to its peer group.

A key principle underlying the recapitalisation is that it separates the future business of Blue from the issues of the past. By negotiating a debt rescheduling agreement, Blue is now able to defer repayment on its principal debt for a three-year period. The agreement also ring-fences the existing lenders' claims against Blue to the existing loan book. The objective is to close the shortfall between the existing book and existing liabilities, while allowing lenders to convert debt to equity in Blue at the future share price if there is a shortfall after three years.

Blue also secured R300 million in terms of a claims purchase agreement for loan advances as part of the Mayibuye transaction.

The agreement by key institutional funders to convert R266.5 million of debt into equity was a further important milestone in improving the capital structure of Blue. The capital effectively freed up by the conversion will provide impetus for the growth of the business and further strengthen Blue's balance sheet.

As a result of the debt-to-equity conversion, Blue has gained two new institutional shareholders this year - the Nederlandse Financierings Maatschappij voor Ontwikkelingslanden N.V. (FMO) and RenaissanceAfrica

MasterFund Limited (RenAsset). Existing shareholders International Finance Corporation (IFC), Absa Bank and PineBridge have also increased their shareholding. The successful conclusion of the complex recapitalisation deal, with overwhelming (94%) support from shareholders and all regulatory approvals being achieved rapidly, was a key highlight for the year under review.

### Recovery

The Group's operating expenses have been reduced by a substantial 27 per cent (R193.2 million) from the 2010 year.

### Realignment

With the introduction of Mayibuye as a strategic investor, Blue has realigned its core values with those of Mayibuye, namely Respect, Reliability and Returns. These new core values establish the norms which now inform everything we do, and the way in which we behave towards each other, our colleagues, our customers, our suppliers and the communities we serve. Blue has also defined and adopted a new vision and mission statement, which are strategically and philosophically aligned with our refreshed set of core values.

March saw the rebranding of Blue to communicate the company's new ethos, direction and values and to mark the birth of a new Blue.

On entering a new era for Blue, it was identified that one of the most important tools in understanding the work environment and sentiment of our people was conducting employee climate surveys. Blue recently conducted its first 'climate survey' to assess the factors that can contribute to creating a good work environment, with the purpose of continual improvement. The climate survey feedbacks and workshops began in March 2011, starting with Blue South Africa and will be rolled out at all of Blue's African offices in the coming months.

## Reach

Through Blue's newly established relationship with Mayibuye Group, the past year has seen the creation of strategic partnerships with other subsidiary companies in the Mayibuye stable. A key new product innovation was the development of a Blue home loan offering, combined with a transactional banking product, through partnership with Mayibuye's investment entity, Integer (Pty) Ltd ("Integer"). This was introduced successfully to the market in March 2011.

The incorporation of Integer's Hlano division into Blue earlier in 2011 now allows Hlano to use the extensive Blue network to service its customers. Hlano will continue to offer its Bambanani loan product to the market through our branches, thereby extending Blue's reach and product range.

Internationally, Blue opened new offices in Accra, Ghana, in February 2011. With the country having been identified as an important growth region for the company, Blue Ghana is now in business.

A significant decision taken in 2011 which will facilitate future growth on the continent was the adoption of the 'B1 Index'. This Index establishes a pricing model for Blue based on NCA principles and adapted for country-specific factors that effectively imposes a self-regulated cap and ensures that its loans are priced the same across borders, in all the African countries in which Blue operates.

## Responsibility

On the corporate governance front, our new core values of Respect, Reliability and Returns now strongly inform the manner in which we handle compliance. With the appointment of Blue's new Board of Directors, the Group's management has made it their mission to conduct our business with integrity and in adherence to all recognised codes of conduct, including King III.

Blue has in the past year also adopted a new CSI programme in conjunction with Mayibuye. Through our CSI programme, entitled 'Helping Hope Return', we strive to uplift and instil hope in the communities where we operate – particularly those people living in adverse circumstances.

In the past year, Blue has run a number of remarkable projects, which included:

- Partnership with the Action for the Rights of Children Orphanage - Uganda
- Food and clothing drive - Botswana
- Orphanage donations - Kenya
- Children's hostel parties - Namibia