What You Need To Succeed.

Since 1951

ZB FINANCIAL HOLDINGS

Annual Results 2014

Presentation to Investors and Analysts

Presentation format

- FY14 Results Outturn
- Q115 Trading Update
- Strategy Execution / Outlook

FY14 Results Outturn

Front loaded **restructuring costs** and **credit impairments** resulted in an aggregate negative outturn whilst at the same time creating **future performance sustainability**

Recurring results were positive

Income Statement ($m)	FY14	FY13		Change
Net earnings from lending activities	11.87	19.88		8m (40%)
Net underwriting Income	8.58	8.03		554k 7%
Non-Funded Income	36.81	31.94		4.9m 15%
Recurring Operating Expenses	(56.96)	(57.78)		826k 1%
Transfer to Life Fund	1.41	(4.46)		5.9m 132%
Share of profits from associates	0.32	2.57		2.3m (87%)
Profit Before Tax	2.04	0.18		1.9m 1051%

Non-recurring costs – a necessity for survival

Restructuring costs ($m)	FY14	FY13
Staff disengagement costs	(12.77)	-
Loss from discontinued operations	(1.20)	(0.30)

Aggregate result burdened by heavy once-off costs

	FY14	FY13
Net Loss for the year	(9.81)	(0.33)

Results Overview

- On a recurring basis, an operating profit of $2m was achieved, an increase of 1 051% from the prior year.
- This is despite an increase of 344% in loan impairment charges to $7.7m.
- Restructuring costs resulted in a significant charge to the income statement – $13.97m.
- A business model review undertaken in FY14 resulted in the following achievements:-

a) Non-profitable operations were discontinued.
b) Non-core activities were shed off and the activities out-sourced.
c) Business right-sizing and staff re-balancing was undertaken.

A **cautious growth** in balance sheet achieved notwithstanding the general **economic slowdown,** and significant **asset write-downs** on account of **heightened credit risk**

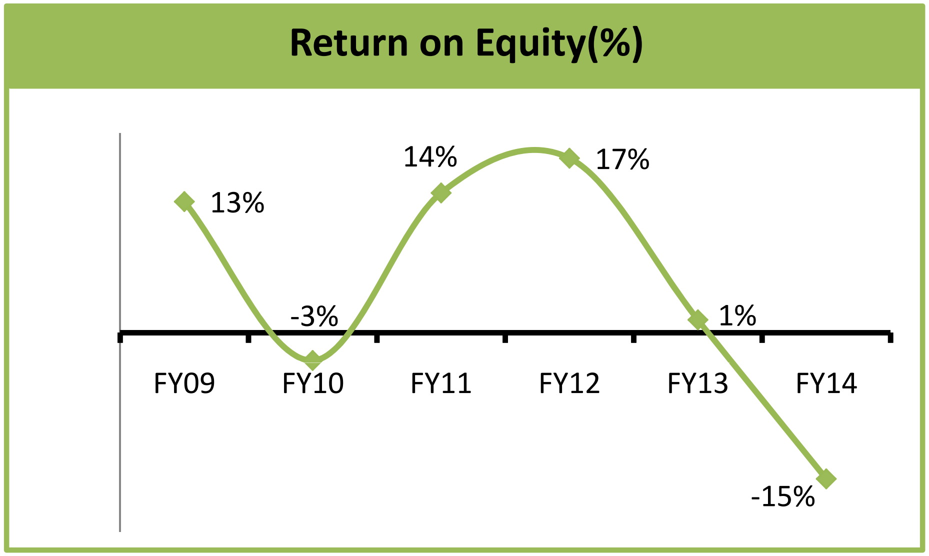
	FY14 $m	FY13 $m	Change %
Total Assets	383.06	348.44	10%
Total Advances	143.87	131.74	9%
Total Deposits	243.82	218.62	12%
Shareholders' Funds	68.45	77.87	-12%
Life Assurance Funds	28.54	29.95	-5%
Total Advances Growth	9%	-3%	381%
Total Deposits Growth	12%	1%	1223%

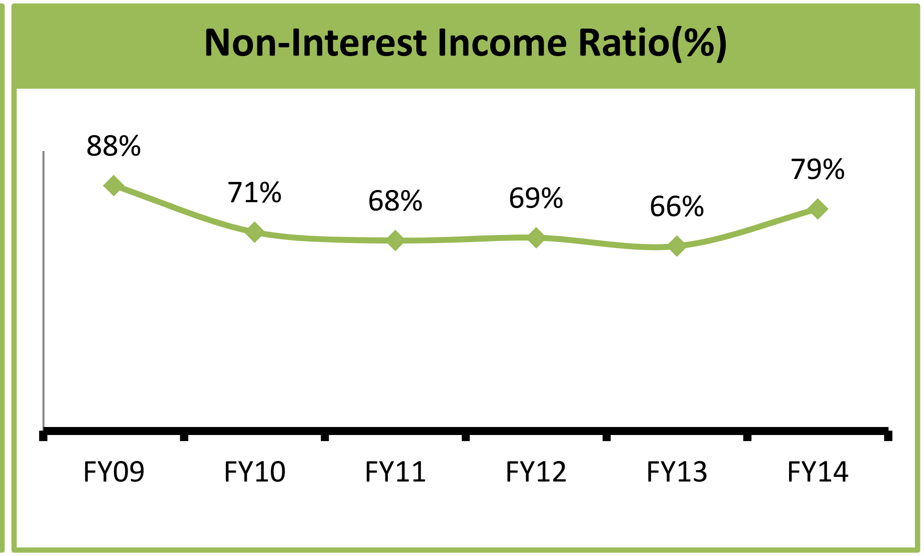
- A balance sheet clean-up resulted in loan write-offs amounting to $21m; reserves created through prudent provisioning and reservation of earnings was able to absorb these write-downs.
- A strong growth in the mortgage book (34%) leading the creation of a new market frontier for credit business.
- Aggregate advances increased by 9% with emphasis on quality and security.
- Deposit grew by 12%; General funding remains largely transient whilst liquidity risk continues to be pervasive at a macro level.

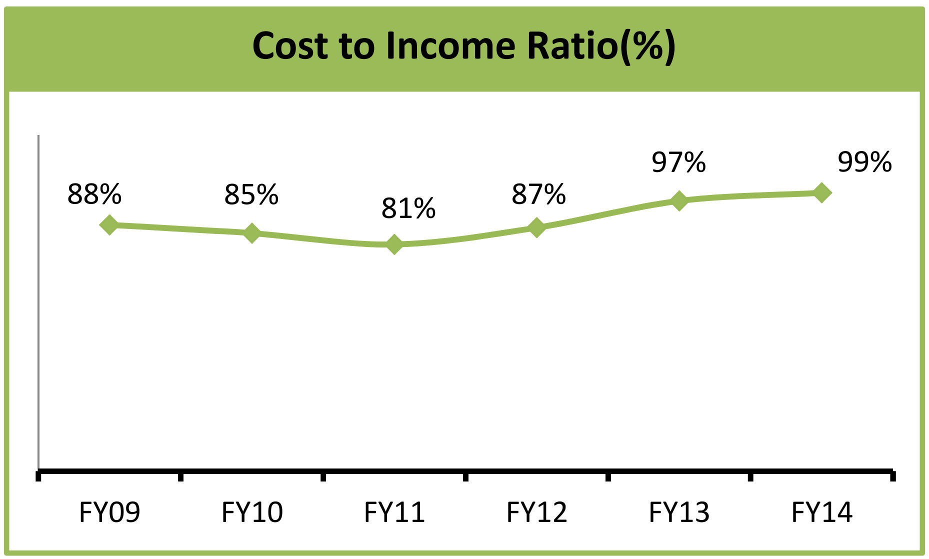
Liquidity has been managed well, whilst **efficiency** and **earnings** is an area of improvement

	Financial Ratios	FY14	FY13	Comment
Shareholder value	Return on Equity	**-15%**	0%	• Negative returns and capital reduction recorded in FY14 is expected to be temporary. • Capital recoupment has already started after the 2014 clean-up activities
	Return on Assets	**-3%**	0%	
	Earnings per Share	**(0.06)**	0.02	
	Net Assets per Share	**0.39**	0.44	
Efficiency	Non-Interest income Ratio	**79%**	67%	• Non funded income dominates revenue generation as credit business slows down • Cost to income ratios too high – the reason for austerity measures taken in FY14
	Cost to Income Ratio	**99%**	97%	
	Cost to Income Ratio (Fully loaded)	**122%**	97%	
Asset Quality	NPL Ratio	**29%**	18%	• High NPLs are a legacy of the buoyant economic outlook in the early stages of dollarization. • Group carries reasonable cover in the form of provisions and security
	Security Cover on NPLs	**127%**	63%	
	Loan Loss Coverage Ratio	**11%**	42%	
Liquidity Management	Loans to Deposit Ratio	**59%**	60%	• Liquidity has been maintained at a level that is capable of providing cover for mild short-term shocks • High liquidity ratios are a trade off for short-term profits; emphasis for risk management is balance sheet security and sustainability of operations
	Liquidity Ratio	**38%**	39%	
	Cash Cover	**34%**	32%	

Returns have shown an **erratic trend**, against an **entrenched cost-base** and high income contribution from **non-traditional sources**



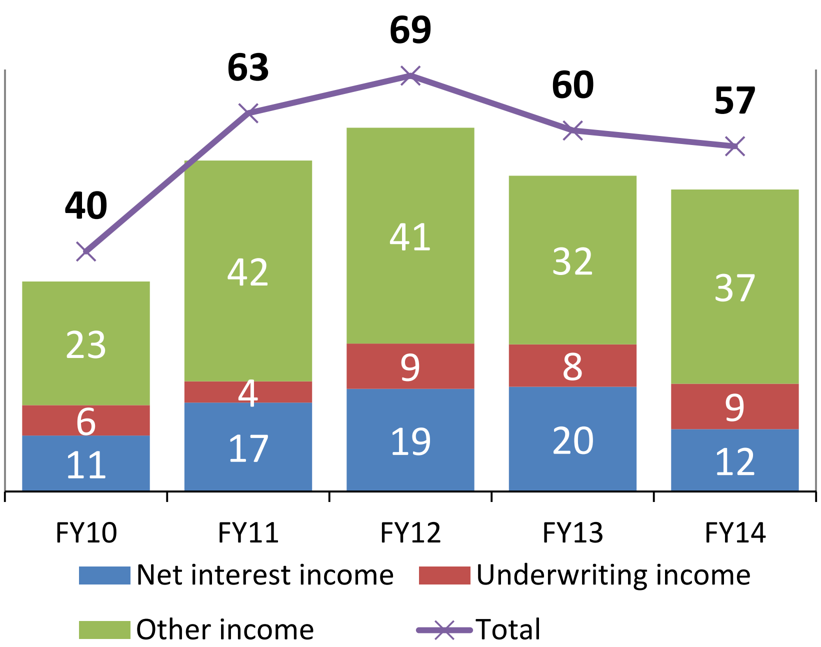




- Returns have exhibited an erratic trend since 2009.
- Economic fundamentals have resulted in heavy reliance on non-interest income..
- Revenues have progressively tightened whilst costs remained high
- The above triggered the need for a review of the business model and the associated cost base.

Banking revenues contribute a significant level of income whilst **insurance earnings** are also firming up

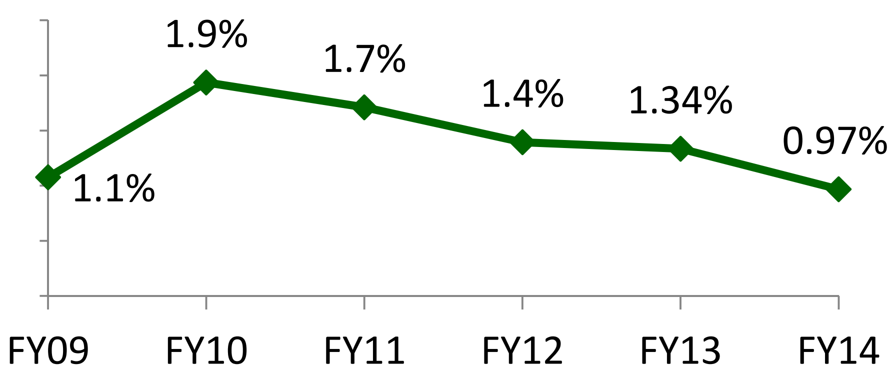
Total income contribution trend analysis



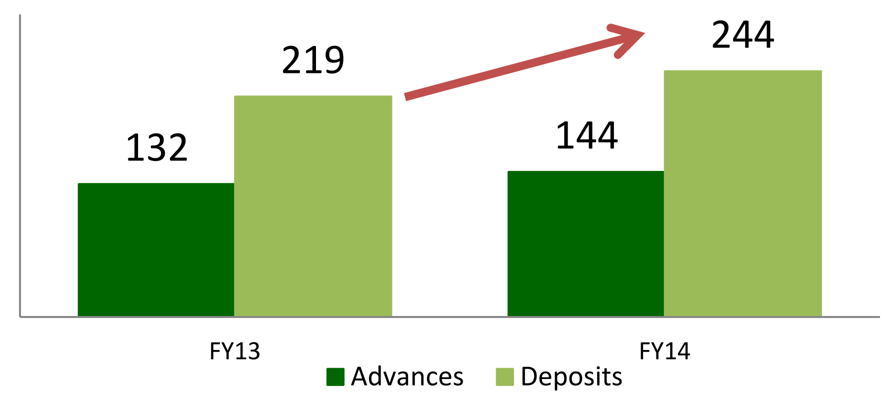
- Earnings peaked in FY12 followed by a regression which became amplified in FY14 on the back of a slow down in banking revenues due to tight margins and impairment charges.
- A total of $8.0m was posted to reservation account during the year on account of impaired assets.
- Non-funded income has rebounded significantly.
- Insurance operations exhibit a stead growth projectile with 16% of re-insurance revenues being earned from regional markets.

Despite the **growth in advances** a softening in **interest margins** was experienced as credit risk increased.

Net Interest Margin(%)



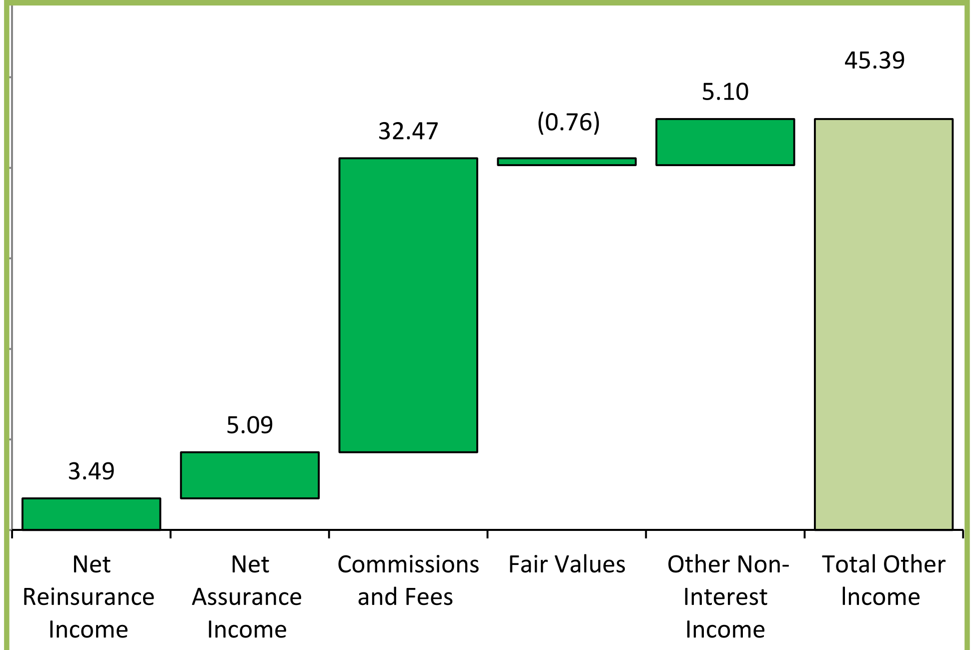
Deposit vs Advances ($m)



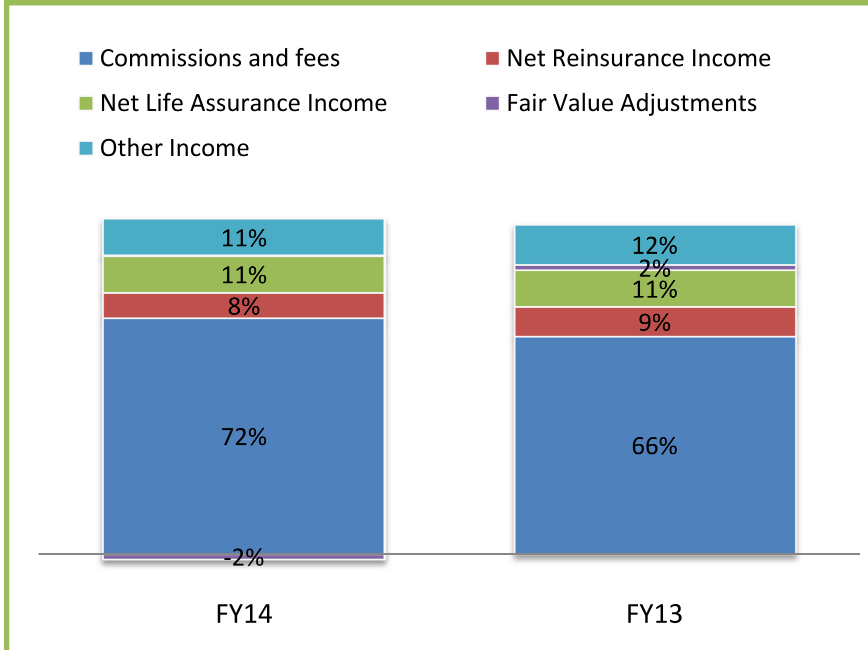
- Average monthly interest margin of 0.97% was achieved which is 37 basis points lower than FY13.
- Interest trend-line is consistent with general movement in interest rates on the market.
- Wholesale deposits constitute a significant portion of the funding and resultant interest expense.
- Provisions and write-offs have impacted on the interest margins.

Non interest income continues to contribute a significant portion of the Group's revenues

Non-Interest Income($m)



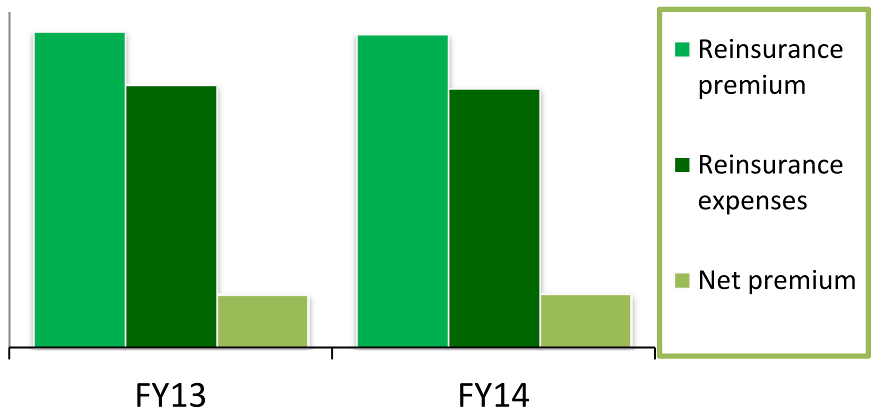
Non funded income contribution(%)



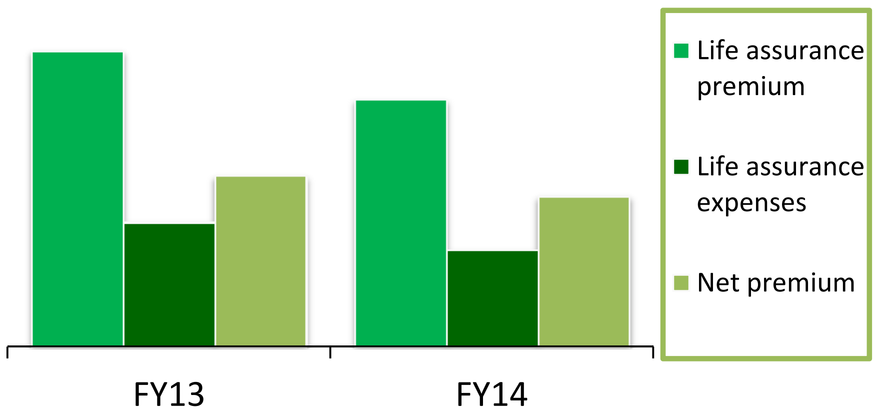
- Non interest income has contributed 72% to FY14.
- Commissions and Fees were up by 23%. This was largely driven by a 16% increase in the number of banking accounts
- New products contributed a decent return; Earnings from agency banking activities – a new revenue line exhibited an upward profile ($1 million revenue)
- Increased customer reach leveraging on technology (e.g. e-Banking products contributed 11%)
- Strategic and operational alliances with customers were key in revenue activation.

Insurance Underwriting Income increased despite a general decline in aggregate demand

Net Reinsurance Income($m)

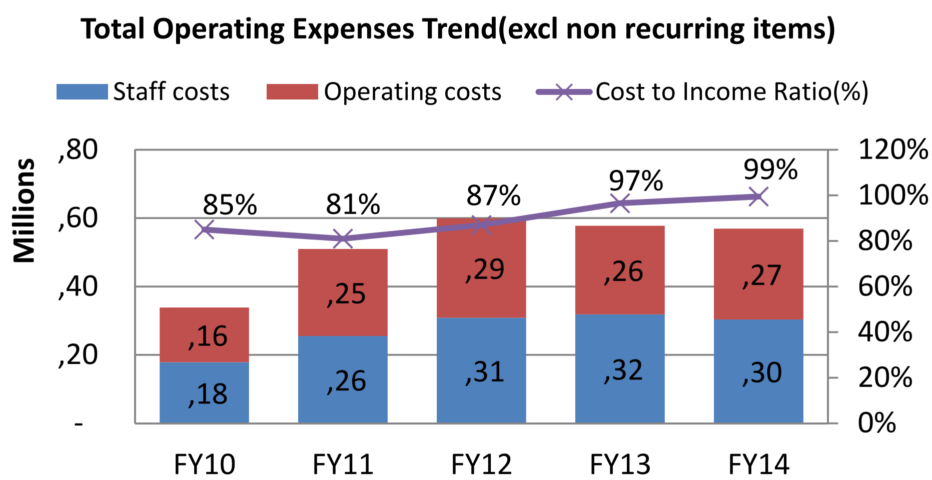


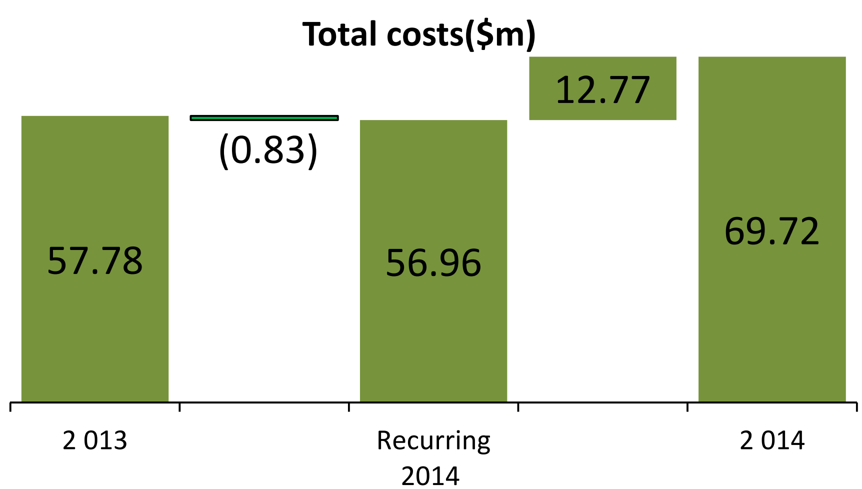
Net Assurance Income($m)



- Net underwriting results increased by 7%
- Reinsurance underwriting margin closed at 17%, a comfortable level for sustained profits
- Regional markets contributed 16% of reinsurance revenue.
- Life Assurance technical result increased by 14% despite a 29% increase in life assurance expenses.
- New life products premium increased by an aggregate 20% due to increased selling of life products through banking halls.

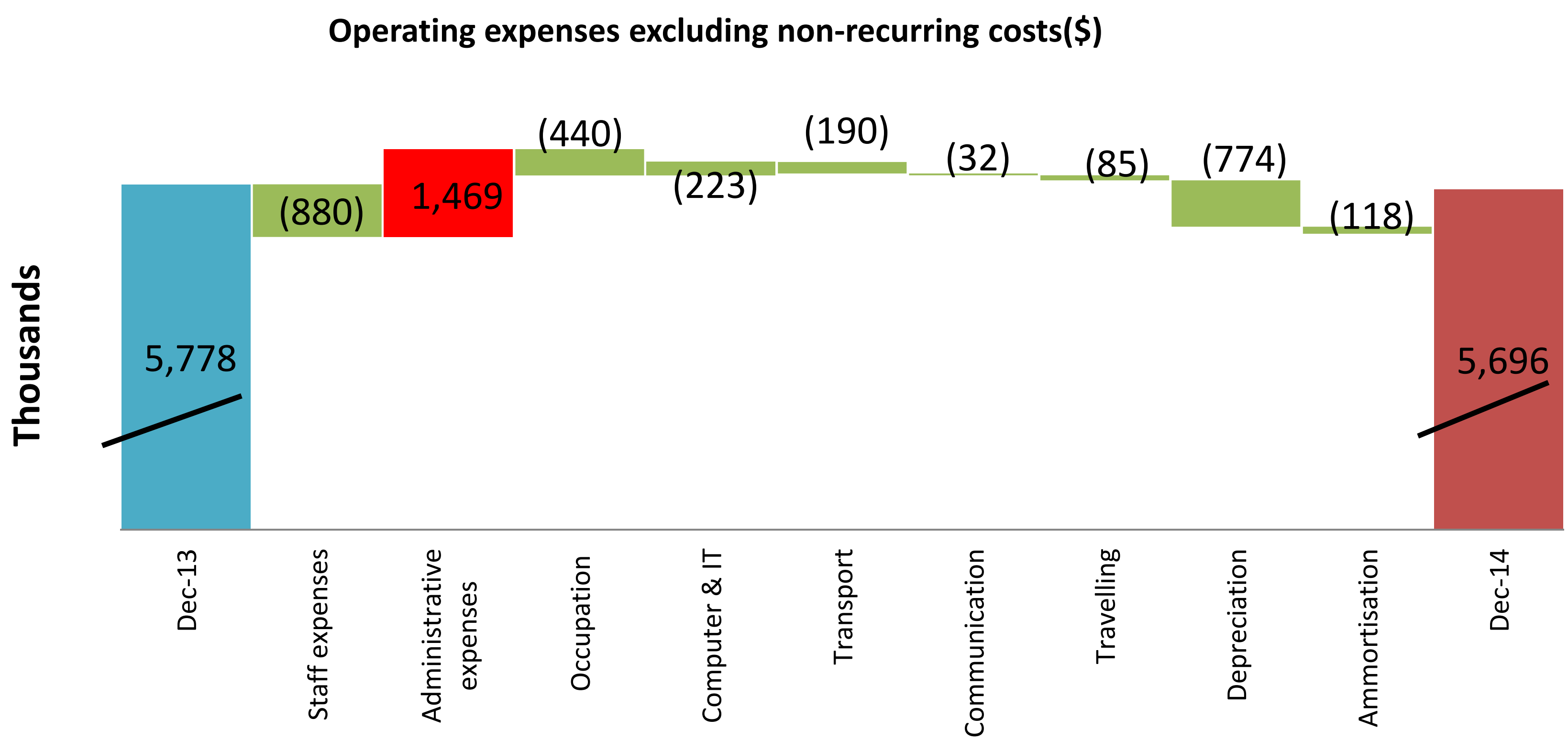
Reduction in **recurring costs** has been achieved through stringent **cost containment measures**





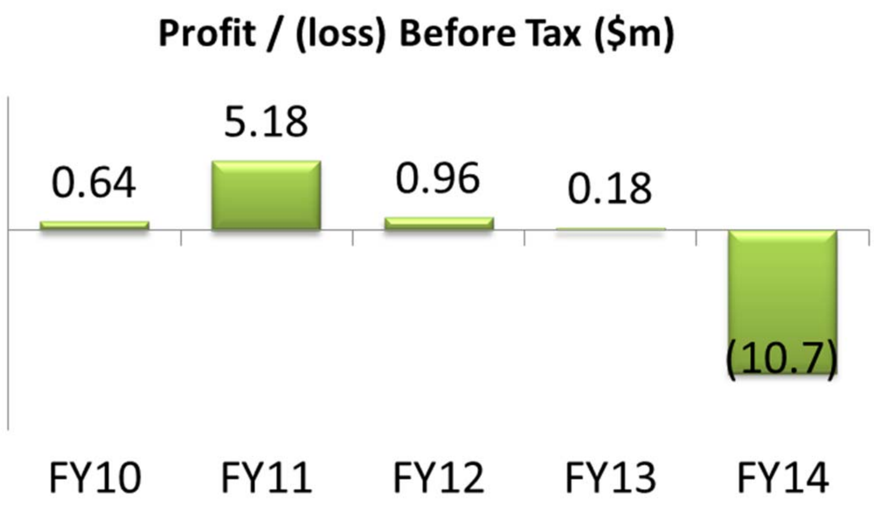
- Stringent OPEX management was implemented resulting in overall 1% reduction in recurring costs.
- Cost efficiency ratio is still lagging behind the planning target of 50% for 2016
- Significant expenditure incurred to clean-up the overhead base; Expected savings in 2015 of approx. $7m from the initiatives.

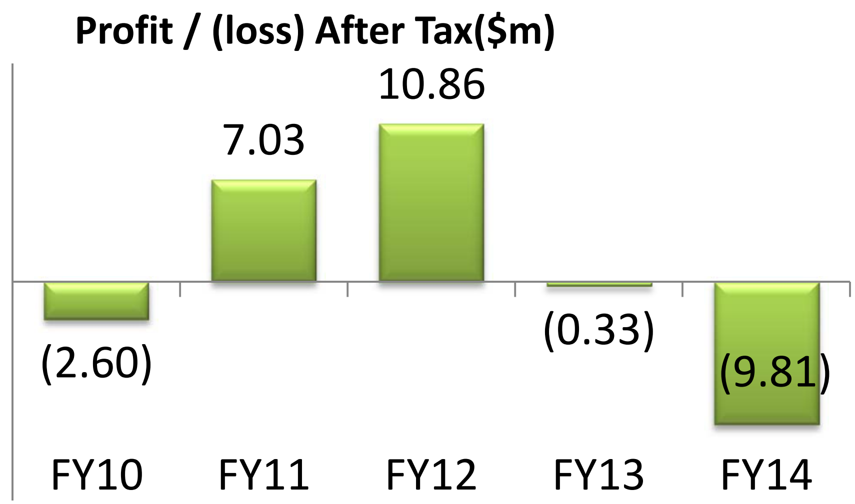
Cost curtailment undertaken **across all expense** lines.

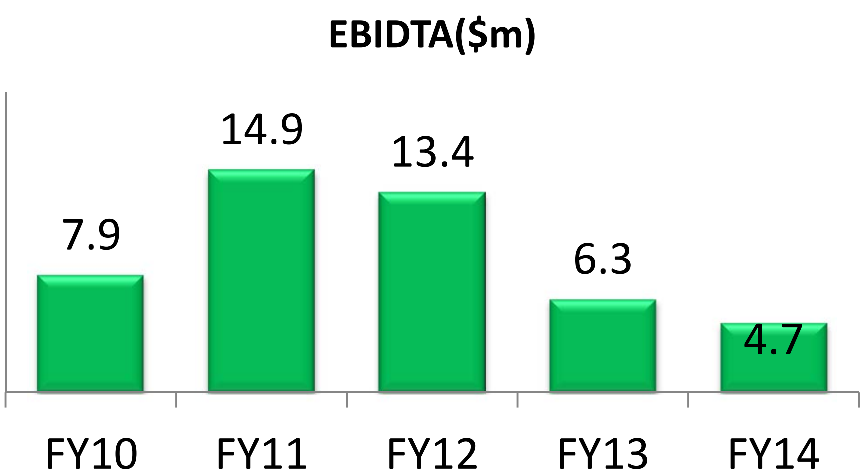


- Focus for cost control was not limited to staff expenses but affected all individual cost lines.
- Great care was taken not to stifle business and hence the increase in administration expenses.

Immediate strategic challenge is to reverse negative returns trend observed since FY12.



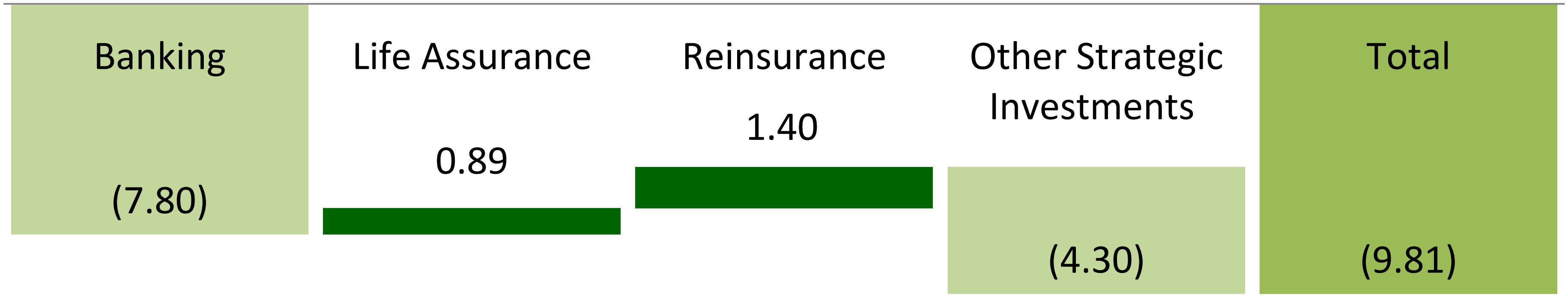




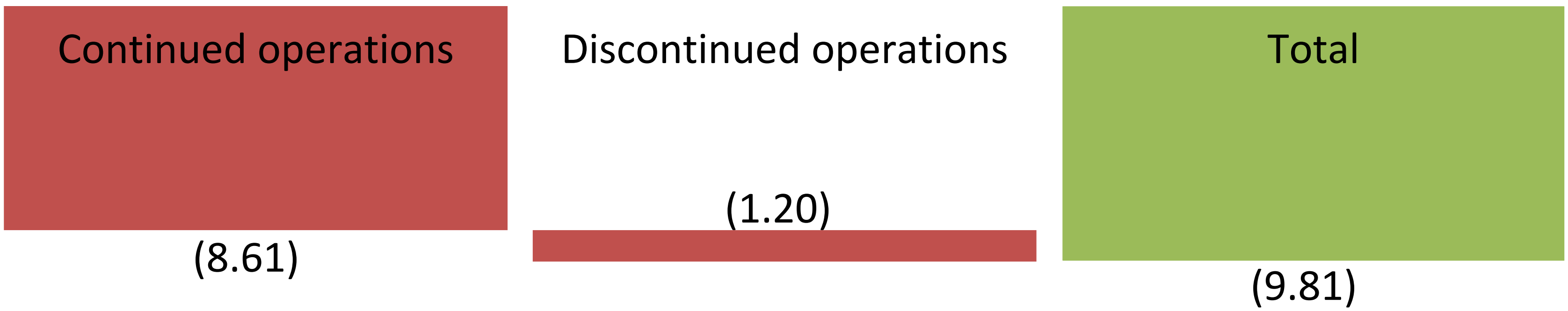
- Both technical results and cash earnings have been on a downward trend since FY12.
- The trend is expected to reverse during FY15
- The Group is still able to generate positive cash flows

Banking Operations still remain the **flagship activities** despite the period losses.

Business Unit Contribution to PAT($m)

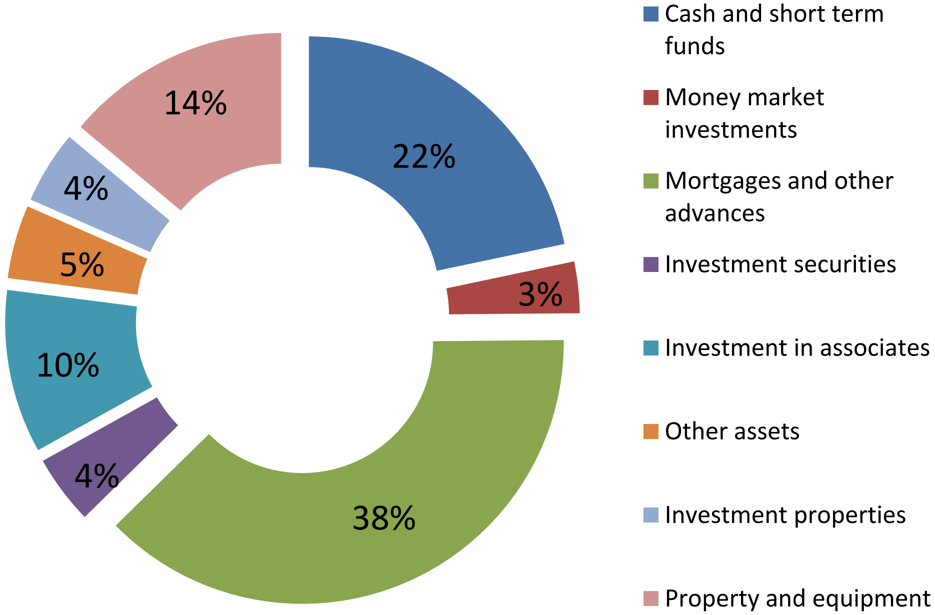


Continuing vs Discontinued Operations Results($m)

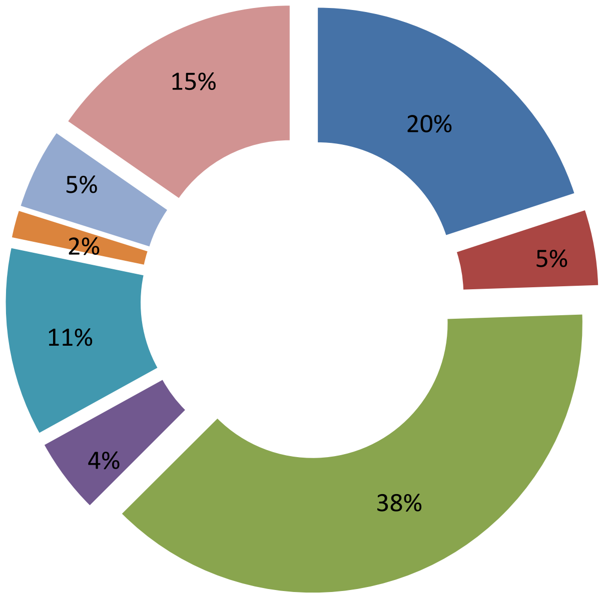


No major changes in asset mix

Composition of Total Assets FY14



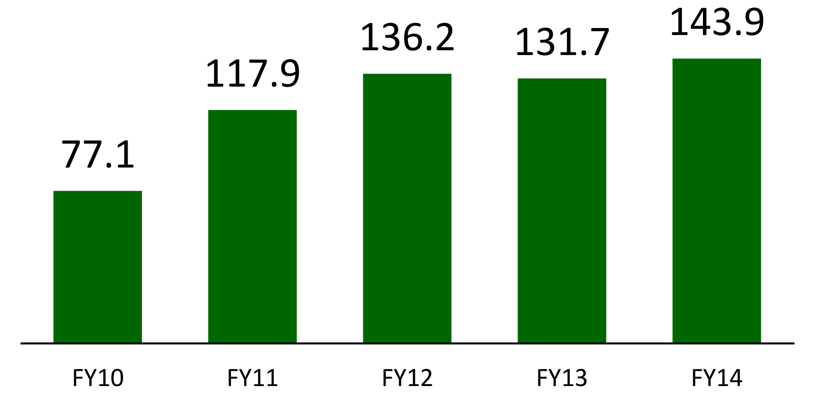
Composition of Total Assets FY13



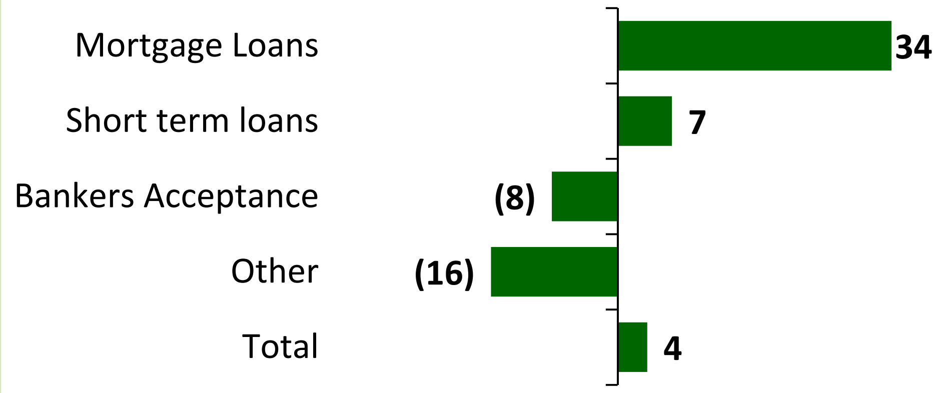
- 59% of total assets are non income earning.
- A portion of fixed assets has been used to mobilize funding on a structured basis.

Credit expansion stunted since FY12 as deliberate measures were adopted to clean up **legacy debts**.

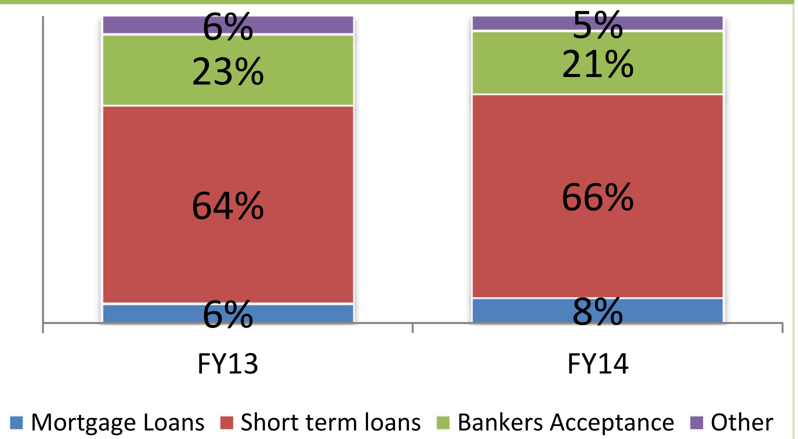
Advances Trend and Growth($m)



Lending growth 2014(%)

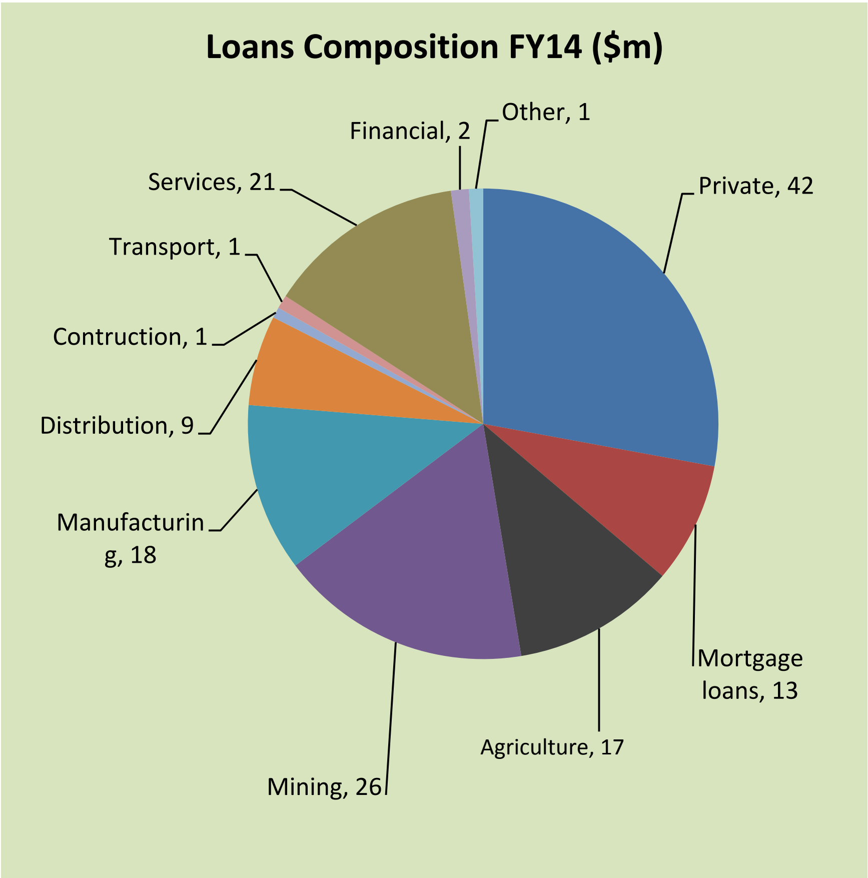


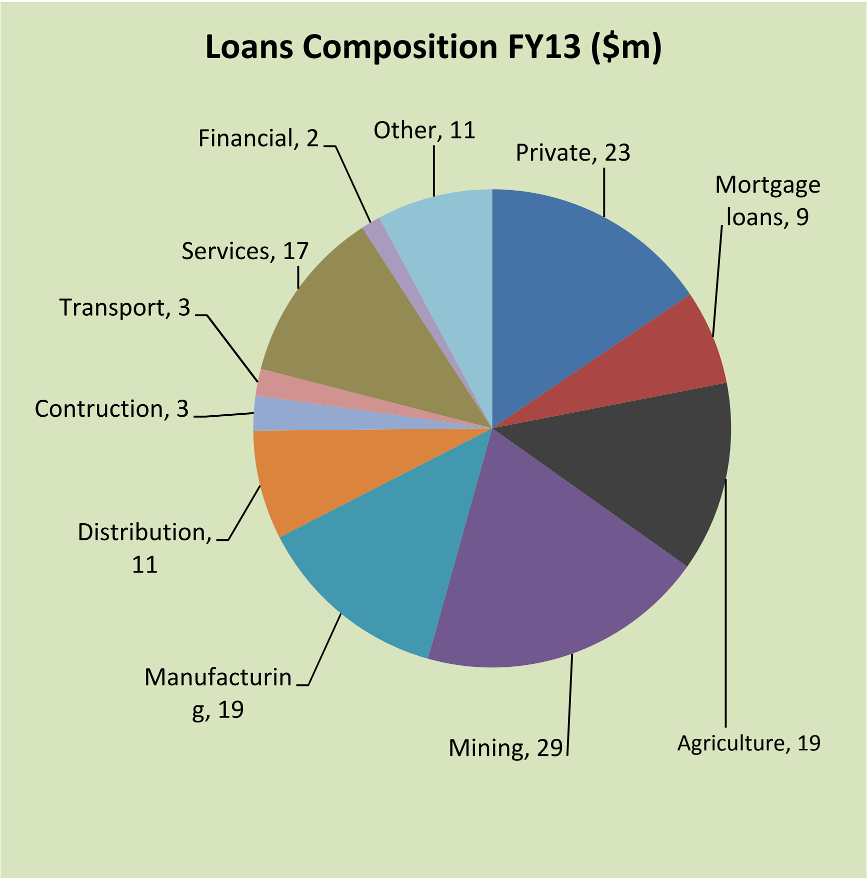
Loans Composition



- An increase of 4% in gross advances was the result of a strategic plan to restrict growth and maintain a quality book.
- Mortgage facilities grew by 34% and are set to continue growing as more property development is undertaken.
- Bankers acceptances were deliberately reduced to manage credit risk.

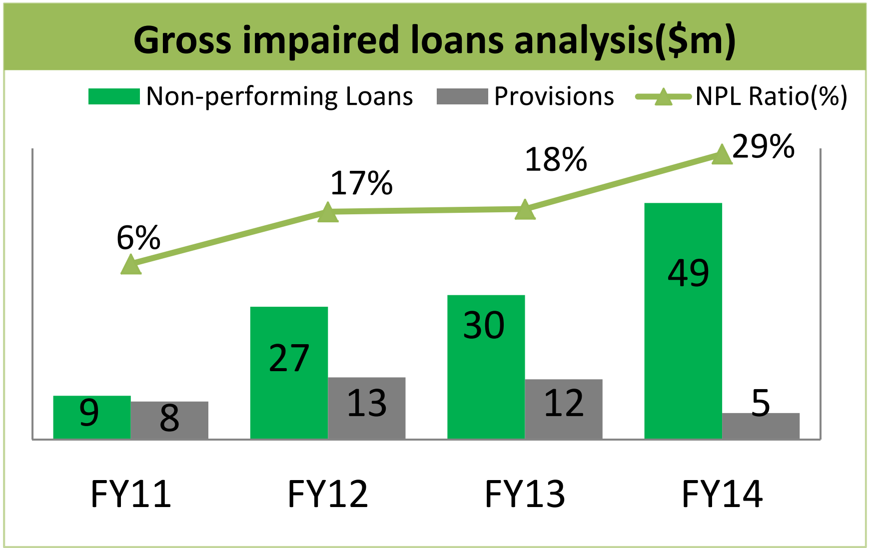
Group has spread credit to all sectors of the economy.

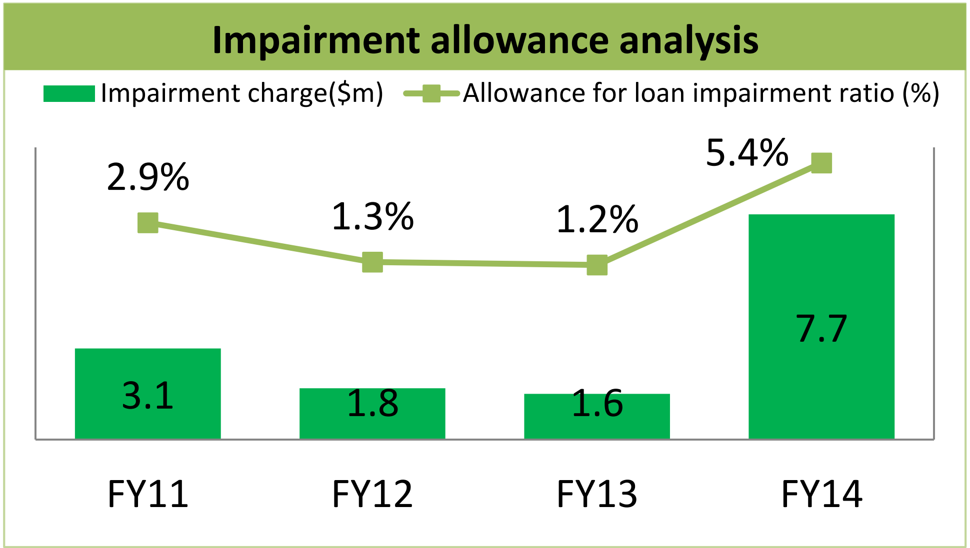


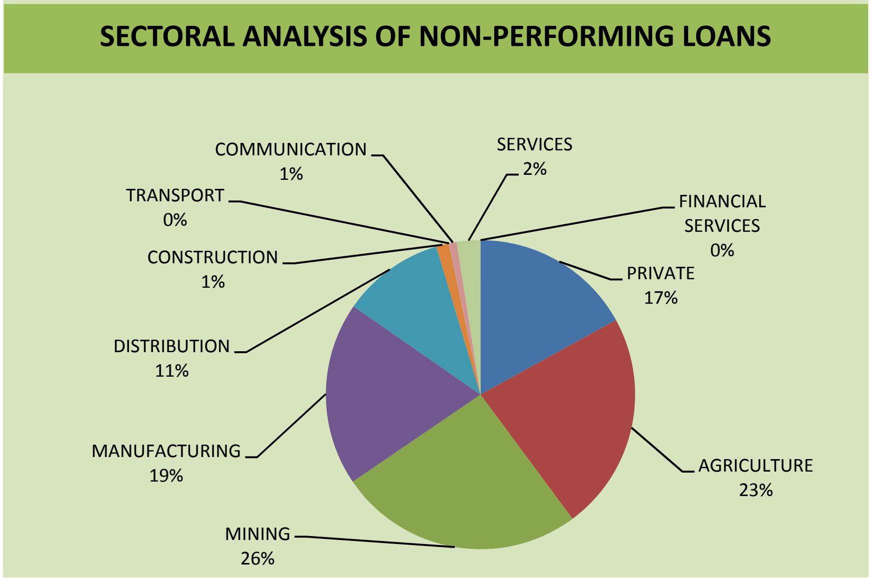


- Credit absorption in the productive sectors is diminished resulting in increased prominence of alternative asset classes.

NPL ratio increased as a result of downgrading of loan accounts with limited growth in the loan book.

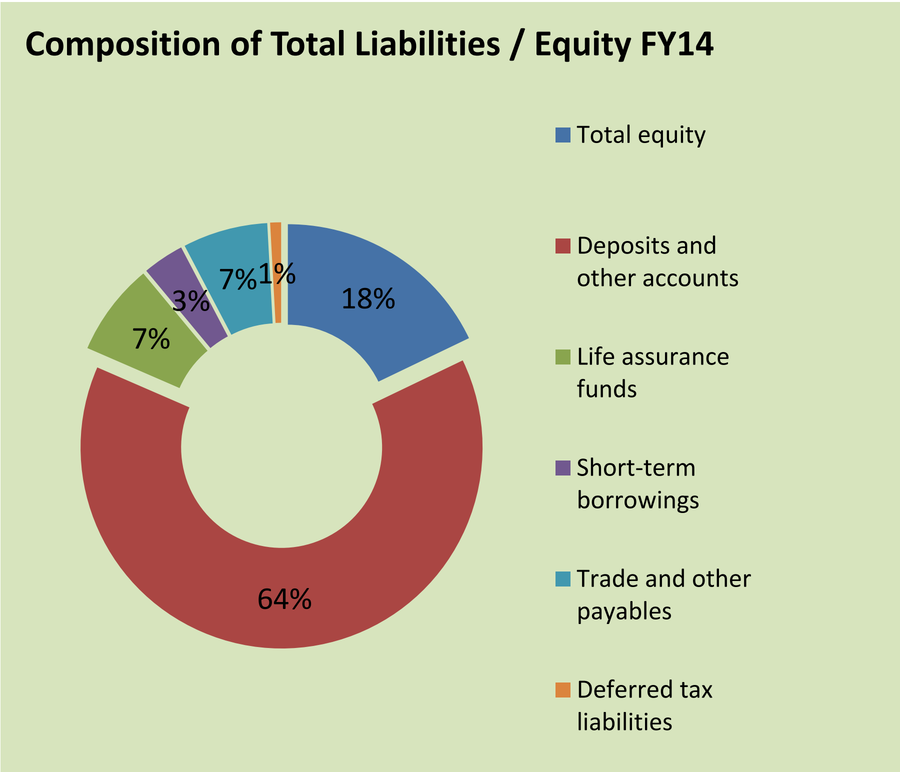


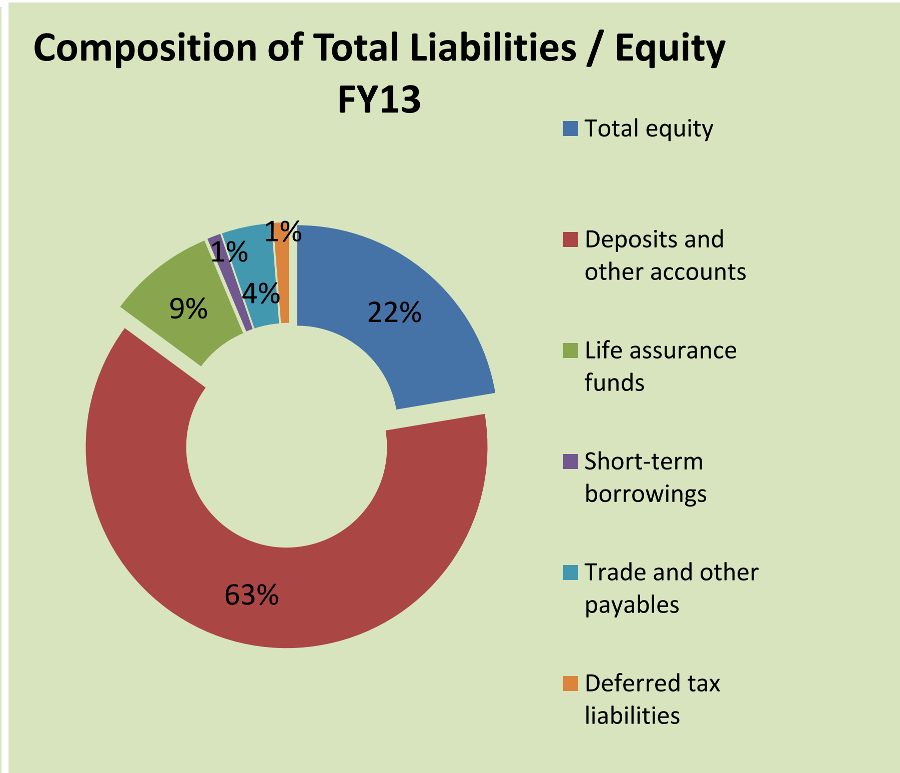




- Significant portion of NPLs are in the manufacturing and agriculture sectors .
- Significant increase in impaired loan ratio from 18% to 29% - curtailment of growth in gross loans is a major contributing factor.
- Impairment charge high due to downgrading of non-performing loans.

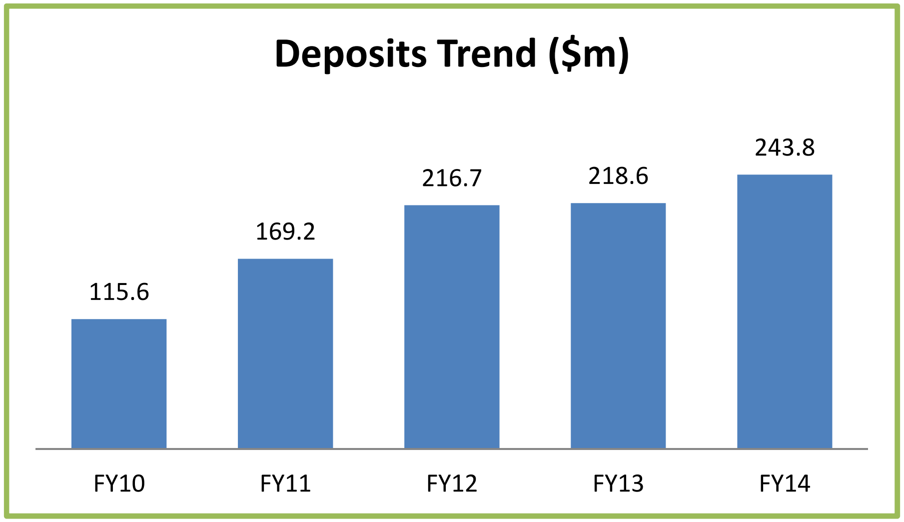
No material changes in the **funding structure** of the Group.

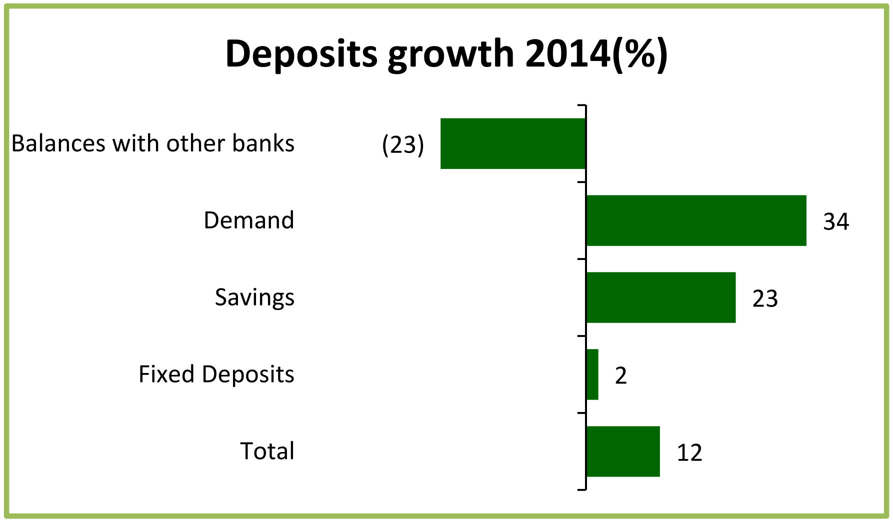


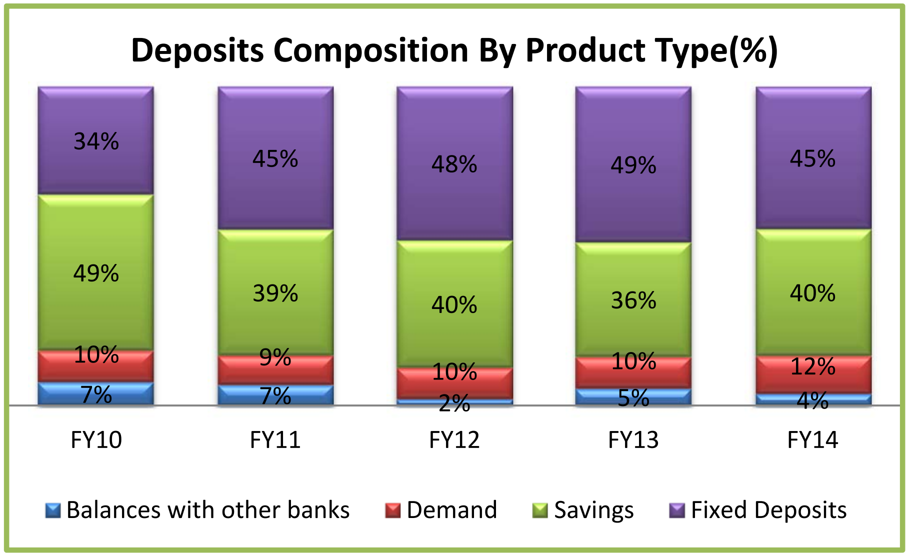


- The Group achieved a 100% subscription on its 2 year "Agrobill" investments of $10m;
- This is expected to provide funding relief to beneficiary farmers at manageable rates.

Steady growth in **deposits**

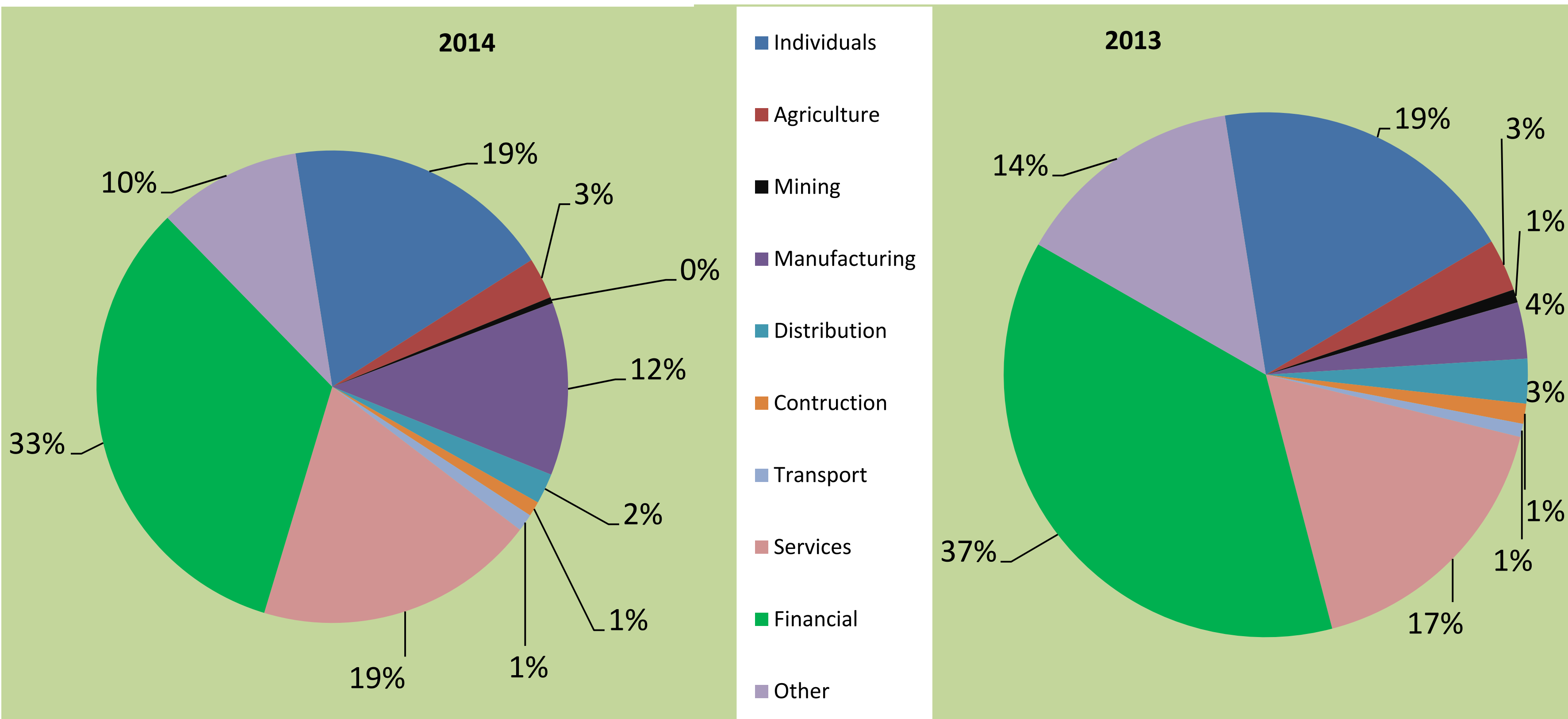






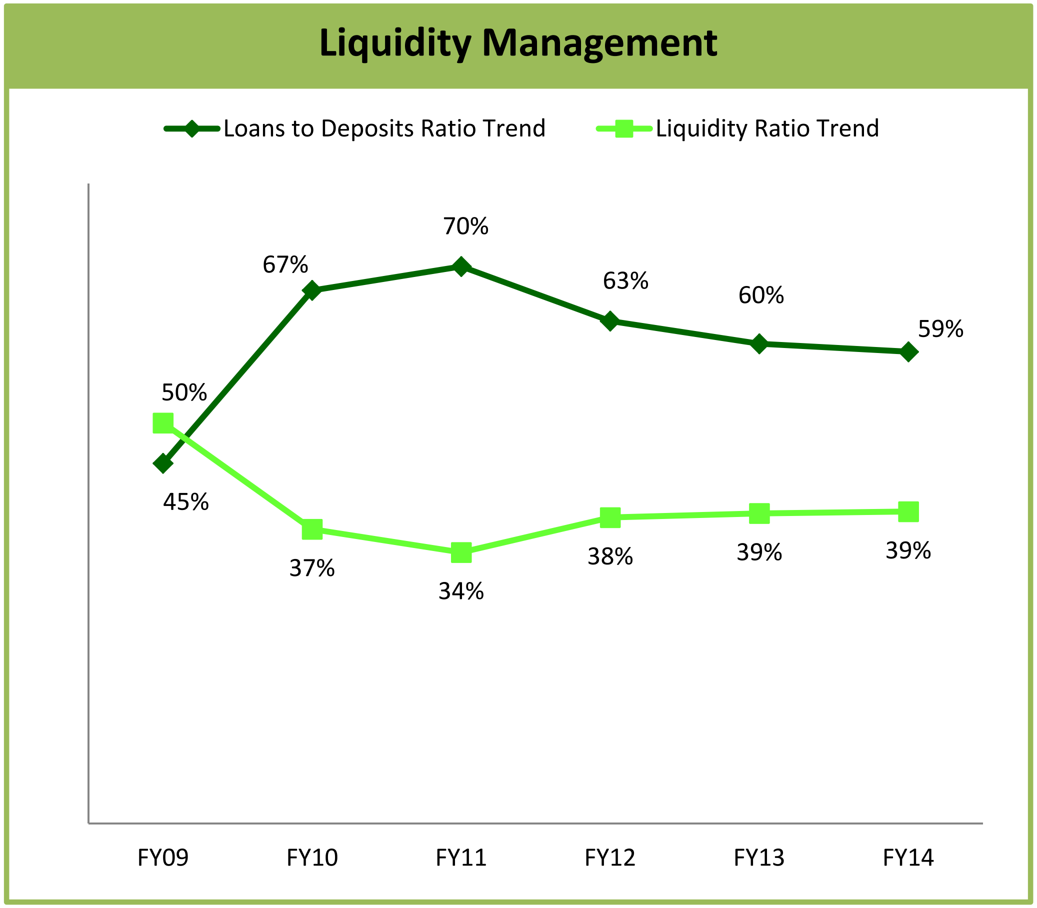
- 12% deposits growth from FY13 position.
- Growth in retail-type deposits a testimony to increased customer patronage. These form the core of the funding base.
- Deposits remain of short term nature.

Deposits sectoral distribution largely unchanged.



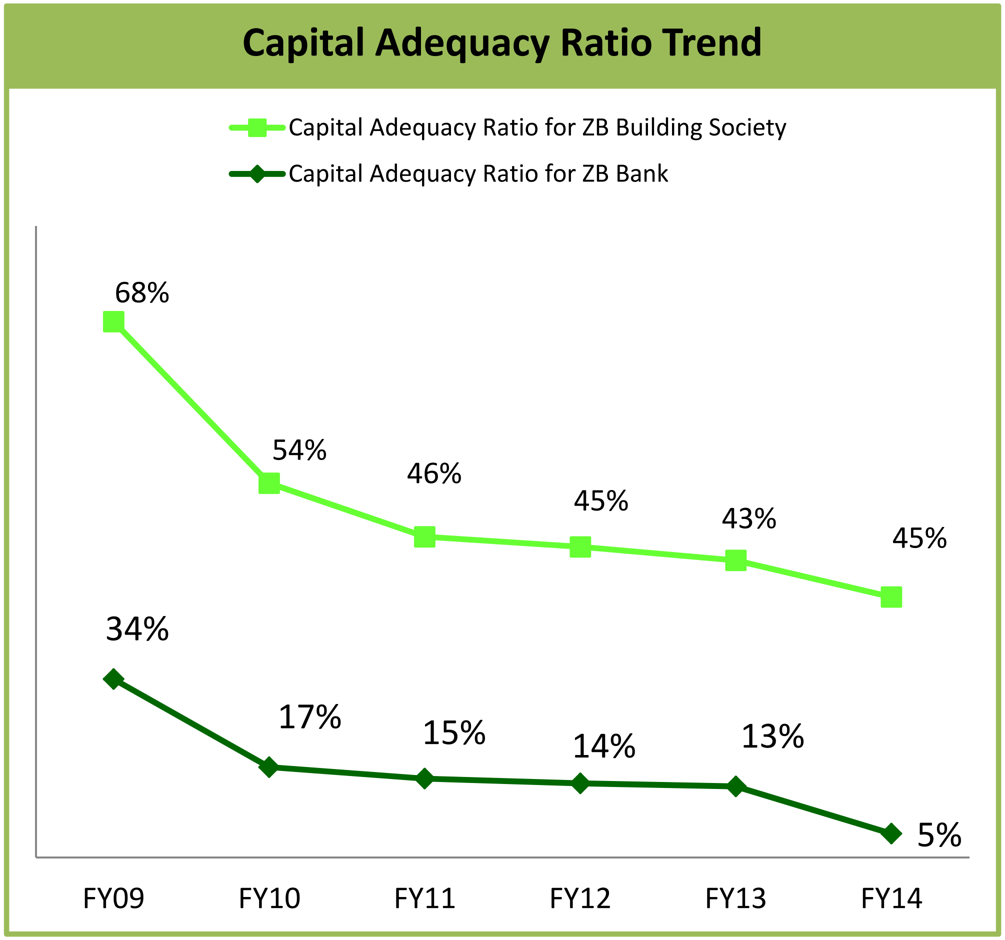
- Retail type deposits partially substituted fixtures from the financial sector.
- Despite the absence of an active inter bank market the Group has played a role in stimulating activity on bilateral arrangements – this is beneficial to the overall intermediation of the financial system.

Stringent liquidity management resulted in liquidity ratio being maintained above regulated minimum throughout the period



- Positive jaws (2000 basis points) maintained between LDR and Liquidity Ratio
- High liquidity ratio has assisted with service delivery in a market fraught with liquidity challenges.

Reduction in capital for Banking operations a result of austerity measures with a temporary effect



- A temporary reduction in Tier 1 Capital and Capital Adequacy Ratios for banking operations as a result of:-
  - Reported outturn (affected by the restructuring costs)
  - Loan impairments
  - Disallowance of some securities for prudential capital purposes.
- Measures have been put in place to remedy the situation in the short-term.
- Merger of ZB Bank and ZB Building Society is still a strategic requirement in order to optimise capital resources.

Q115 Trading Update

Q115 Performance Update – key factors are showing a **positive trend.**

- **Clean-up measures implemented in FY14 already having an impact in Q115.**
- **Earnings growth of 396% against comparative period for two months to Feb, 2015.**
- **Operating at 165% ahead of targets.**
- **Cost to income ratio at 74% vs 2016 target of 50%; a positive trend.**

Strategy Execution / Outlook

Having taken the pain in FY14, the **outlook** for the Group looks **bright**!

Channels :

i) All channels are making a positive contribution to profits

ii) $4m investment in front facing technologies in FY14; Rollout expected from April 2015.

iii) More than 1 200 Agents registered to offer limited banking services; roll out is on course.

iv) Rollout of paperless branch concept implemented in FY14 for front-end operations;

v) Back-end operations to be attended to during FY15.

Property Development:

i) To become a more prominent focus area.

ii) Development of cluster houses in Hatfield completed; now at selling stage

iii) Other developments lined up for sites in different towns/cities

Regional Markets:

i) Set-up of reinsurance office in Mozambique in final stages

ii) Other regional opportunities under consideration

Having taken the pain in FY14, the **outlook** for the Group looks **bright**!

Capital Raising - An update

i) The search for a technical partner still remains a strategic imperative

ii) Process is currently on-going led by an Independent Advisor.

iii) Shareholders will be asked to consider proposals once an opportunity has been identified.

Thank you


"COMING TOGETHER IS
A BEGINNING. KEEPING
TOGETHER IS PROGRESS.
WORKING TOGETHER
IS SUCCESS." HENRY FORD