CfC Stanbic Holdings Limited

Financial performance for the half year period ended 30 June 2016

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Welcome and remarks

Half year review

Philip Odera
Chief Executive, CfC Stanbic Bank

Operating environment

Macro- economic environment

- Inflation – June 2016 5.8% vs. June 2015 7.0%
- 91-day T-bill – June 2016 7.1% vs. June 2015 8.3%
- USD exchange rate – June 2016 101.20 vs. June 2015 94.70

Regulatory environment

- Capping of interest rates
- Revision of KBRR
- Proposed new capital requirements in the Finance Bill
- Exchange rate reforms in South Sudan

Market opportunities

- Kenya interbank transaction switch
- SME partnering
- Trade finance
- Infrastructure projects

Market threats

- Brexit
- Deteriorating operating environment in South Sudan
- Interest rate capping

Key metrics

	June-2016	June-2015	Change %
Total revenue (Kes m)	9,430	7,732	22
Profit after tax (Kes m)	2,393	1,959	22
Cost to income ratio	52.4%	60.3%	
Tier 1 capital ratio (Bank only)	15.0%	15.6%	
Total capital ratio (Bank only)	17.3%	18.7%	

	June-2016	June-2015
Return on average equity	13%	10%
Return on equity net of goodwill	17%	14%
Earnings per share	6.05	4.96
Net asset value per share	95.11	97.65
Dividend per share	1.77	0.75

The Kenya Group (Kenya Bank, South Sudan branch, SBG Securities and the newly incorporated Stanbic Insurance Agency Limited) reported a year on year growth in profitability mainly due to:

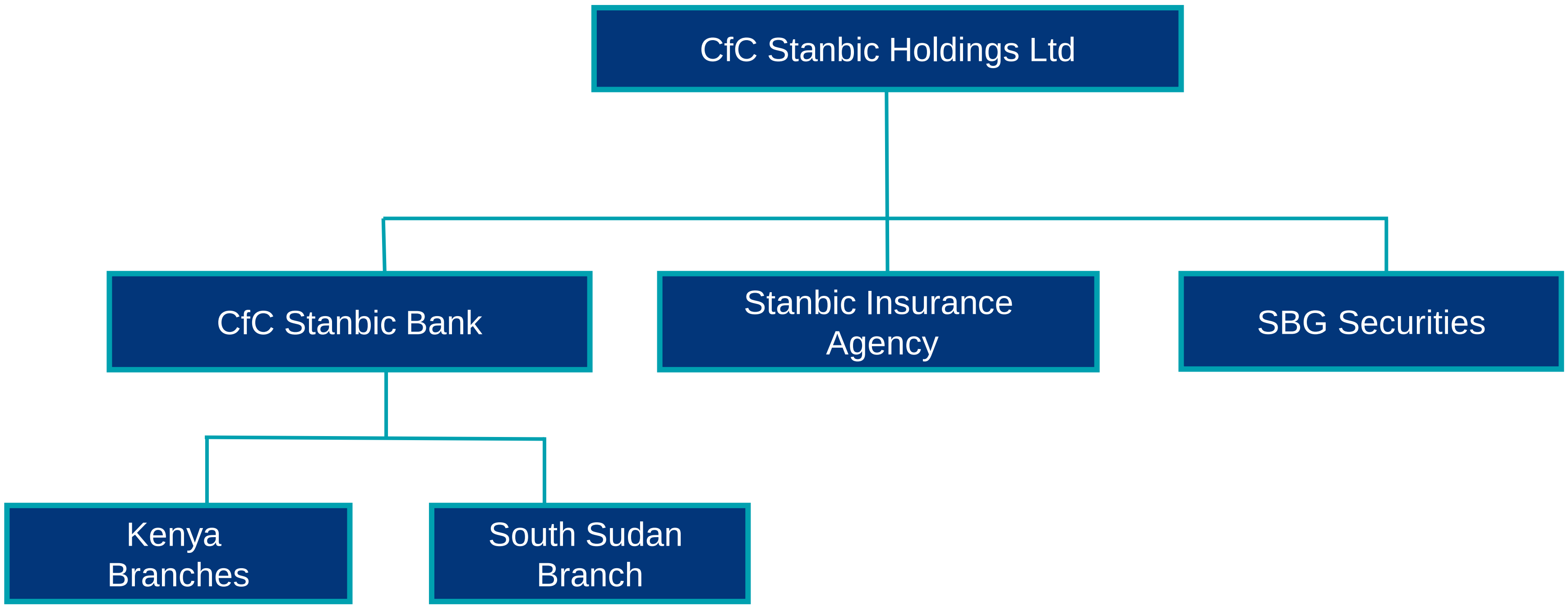
- Increase in revenue in the banking business driven by growth in customer loans and advances and improved margins
- This was partly offset by decrease in SBG Securities revenues in the current year due to decreased activity in the Nairobi Securities Exchange
- Growth in impairment charges reflects increased general debt provisions aligned to challenging operating environment for some of our customers

Detailed financial analysis

Abraham Ongenge

Chief Financial Officer

Group Structure



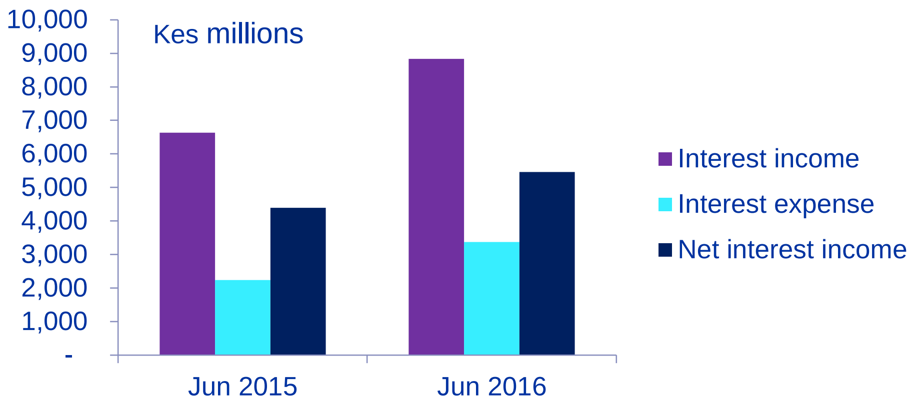
Legal entities operate under the Corporate and Investment Banking and Personal and Business Banking business unit segments

Summary income statement

	June-2016 Kes millions	June-2015 Kes millions	Change %
Net interest income	5,464	4,393	24
Non-interest revenue	3,966	3,339	19
Total income	**9,430**	**7,732**	**22**
Credit impairment charges	(834)	(241)	>(100)
Total income after credit impairment charges	**8,596**	**7,491**	**15**
Operating expenses	(4,949)	(4,630)	(7)
Profit before tax	**3,647**	**2,861**	**27**
Tax	(1,254)	(902)	(39)
Profit after tax	**2,393**	**1,959**	**22**

PAT Contribution	June-2016 Kes millions	June-2015 Kes millions	Change %
CfC Stanbic Bank	2,361	1,818	30
Stanbic Insurance Agency	28	-	100
SBG Securities	2	132	(98)
CfC Stanbic Holdings Company	2	9	(78)
CfC Stanbic Holdings Limited	**2,393**	**1,959**	**22**

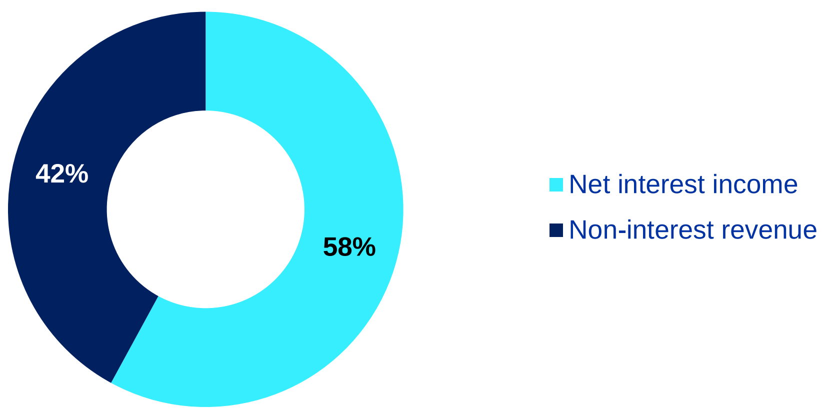
Net interest revenue



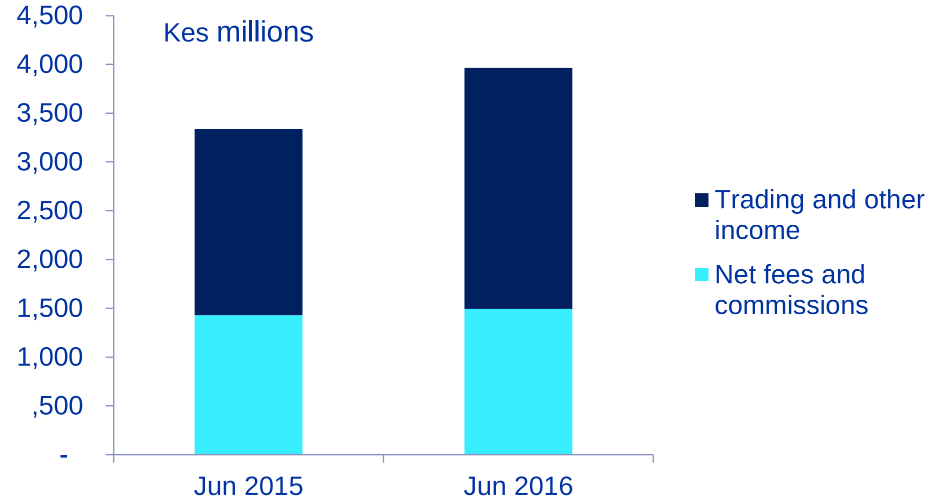
Net interest income increased year on year by 24% explained by:

- Growth in customer loans and advances by 8%
- Improved margins within the period by 60bps largely driven by repricing of the loan book in line with changes in the market
- Healthy mix of net interest income and non interest revenue

Jun 2016



Non-interest revenue



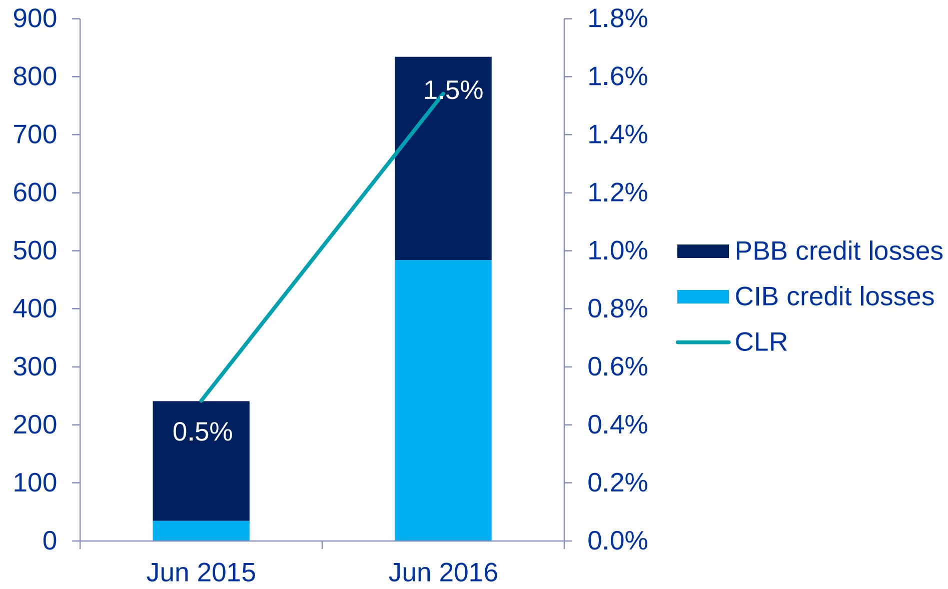
Net fees and commission income

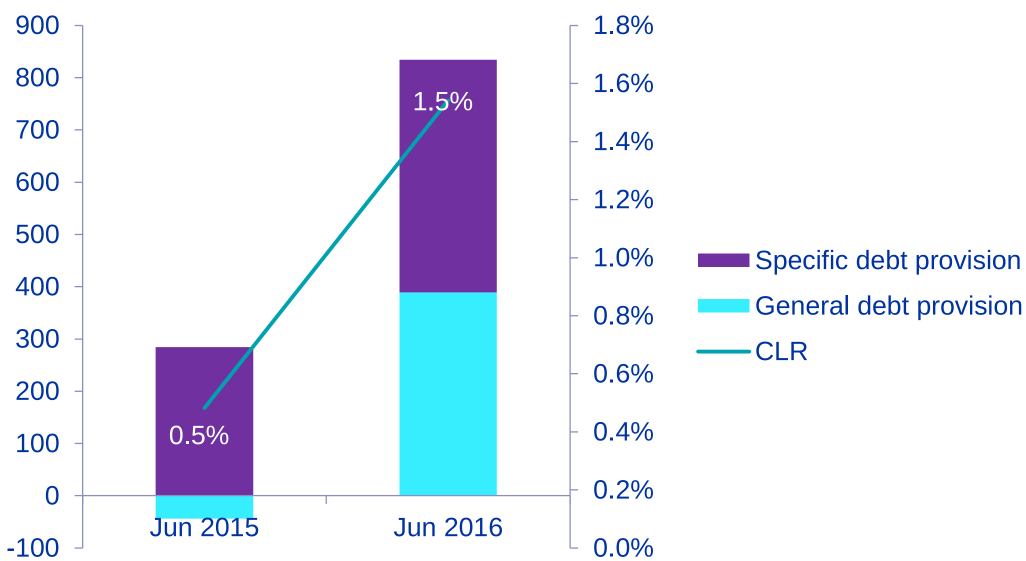
Net fees and commission income increased from Kes 1,430m in 2015 to Kes 1,493m in 2016. This was mainly attributable to fees from trade finance and electronic banking channels

Trading revenue

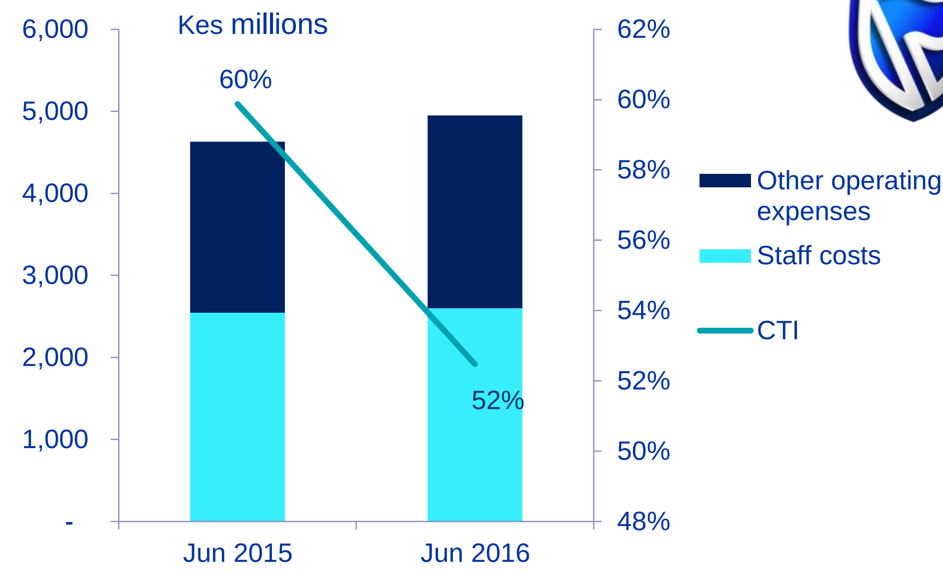
- Income from trading increased from Kes 1,820 million to Kes 2,448 million. Customer foreign exchange volumes increased by 8% year on year, however foreign exchange margins reduced by 20bps. Prior year was impacted by harsh trading environment in the Kenya bond market

Credit impairment charges





Operating expenses



The cost to income ratio reduced to 52% from 60% in 2015 due to productivity gains realised from investments made

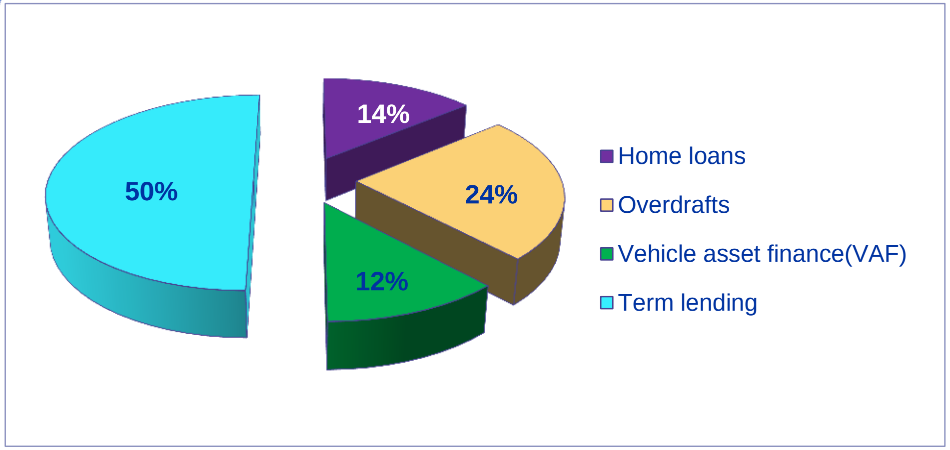
- The Banking business successfully upgraded its core banking system and digital platforms in 2015

Summarised group balance sheet

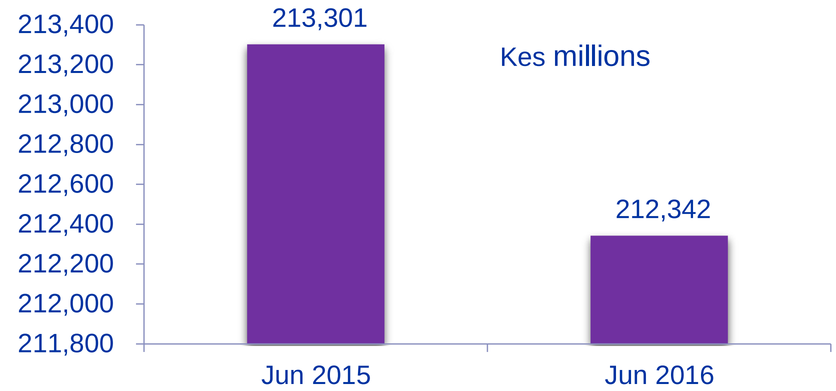
	June-16 Kes millions	June-15 Kes millions	Change %
Assets			
Financial investments	59,458	60,693	(2%)
Loans and advances to banks	12,392	20,341	(39%)
Loans and advances to customers	108,485	100,176	8%
Other assets	19,708	19,558	1%
Property and equipment	2,257	2,778	(19%)
Intangible assets	10,042	9,755	3%
Total assets	**212,342**	**213,301**	**(0%)**
Liabilities			
Deposits from banks	43,852	47,631	(8%)
Deposits from customers	111,371	111,923	(0%)
Borrowings	6,485	6,480	0%
Other liabilities	13,033	8,665	50%
Equity	37,601	38,602	(3%)
Liabilities and equity	**212,342**	**213,301**	**(0%)**
Contingents	**29,898**	**17,332**	**72%**
Letters of credit	6,954	6,277	11%
Guarantees	22,944	11,055	>100%

Customer loans and advances and total assets

June 2015 Loans and advances by product

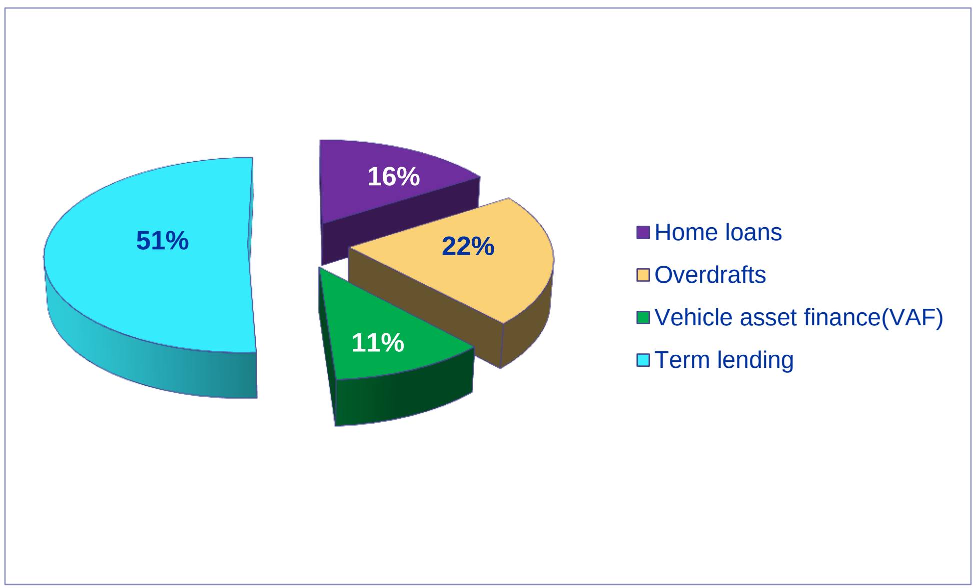


June 2016 total assets



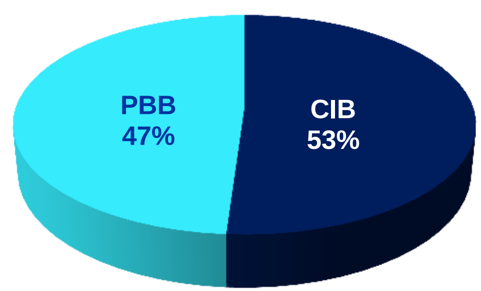
- Total assets decreased by 0.4% year on year due to depreciation of the South Sudan Pound. Adjusting for this impact, total assets grew by 3%
- The Bank paid off USD 160m loan in the period under review

June 2016 Loans and advances by product

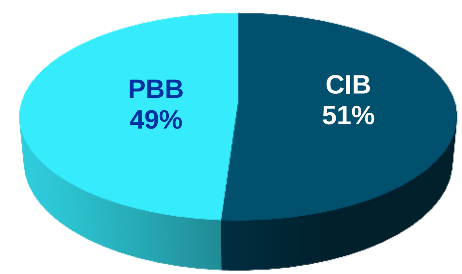


Loans and advances by business unit

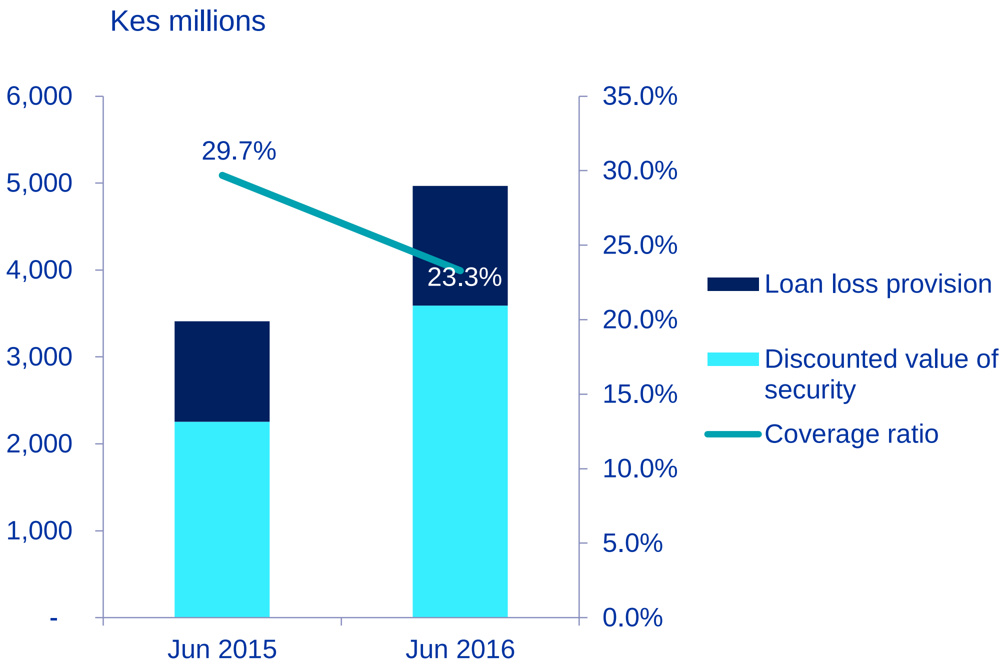
June 2016



June 2015

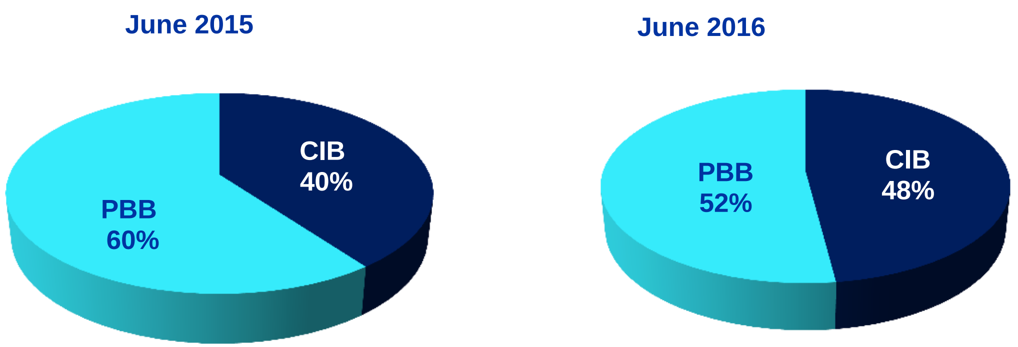


Customer loans and advances – Non performing loans (NPLs)

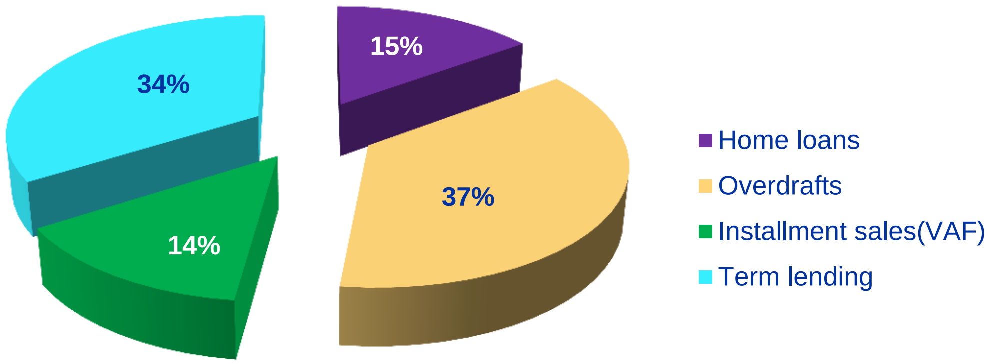


- Net NPLs have increased by Kes 1,557m
- These exposures are fully secured and the discounted value of securities held explains the disproportionate increase in loan loss provision and decrease in NPL coverage ratio

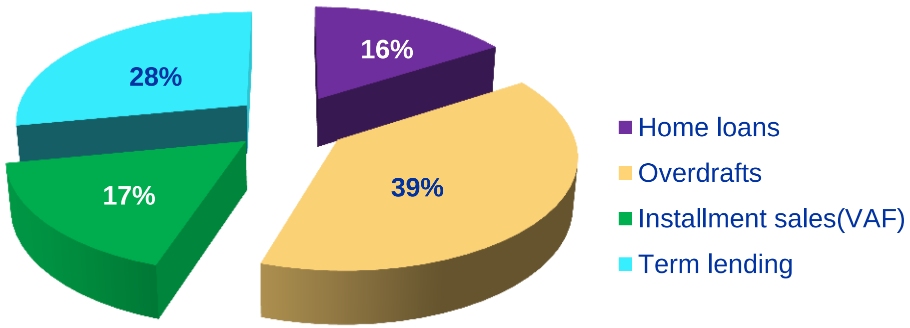
Net NPLs by business unit



June 2015 Net NPLs by product

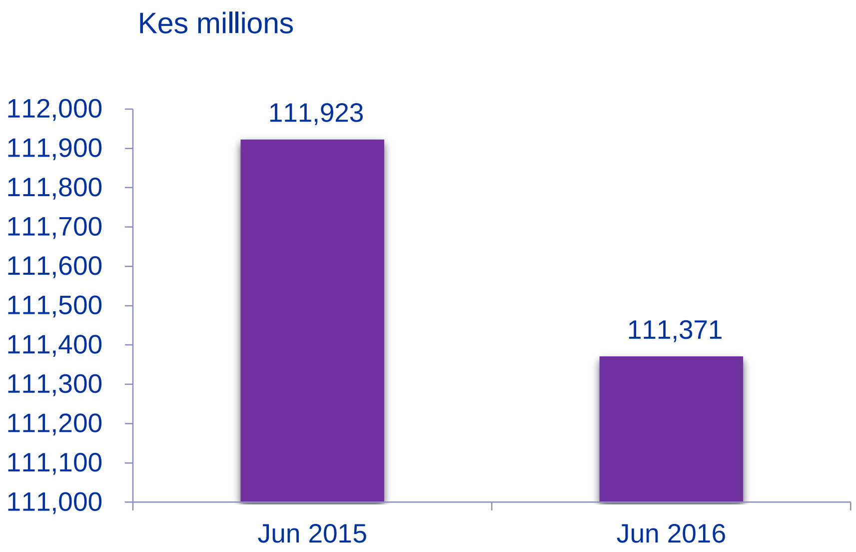


June 2016 Net NPLs by product

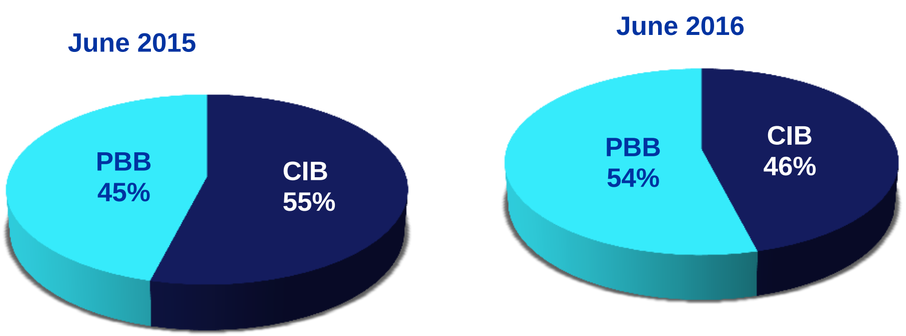


Customer deposits

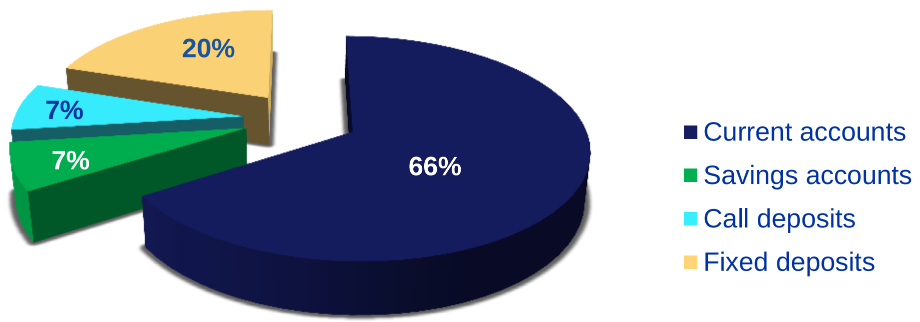
- Customer deposits dropped by 0.5% year on year mainly as a result of depreciation of the South Sudan currency. Adjusting for this impact, customer deposits grew by 8%
- Core accounts accounting for 70% of total deposits.



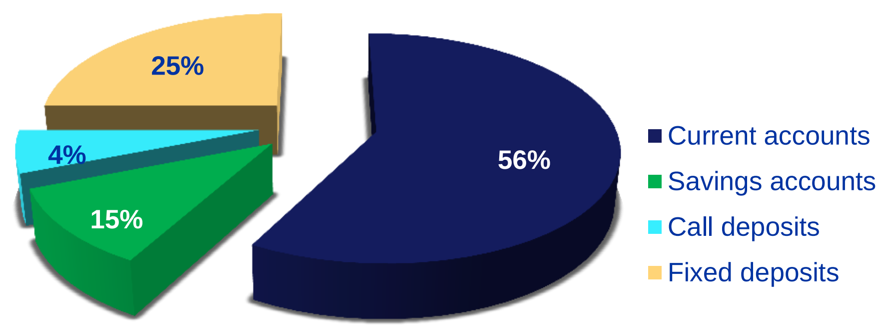
Customer deposits by business unit



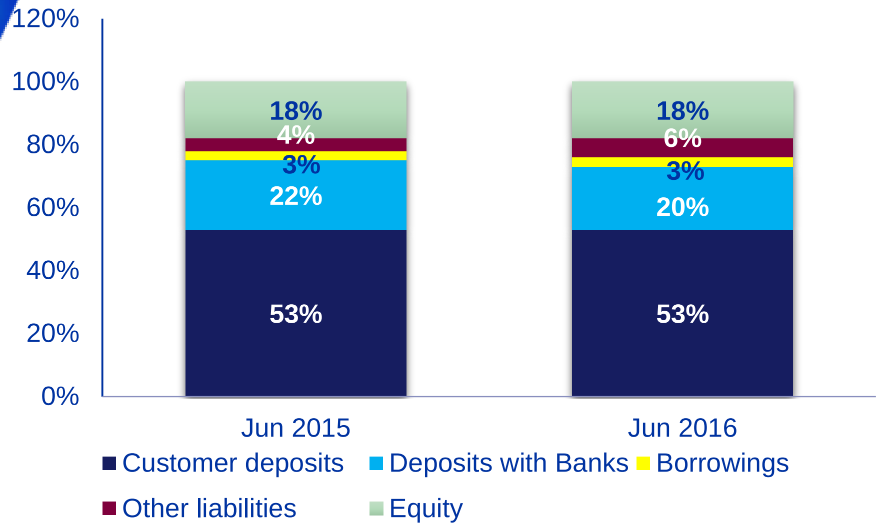
June 2015 customer deposits per product



June 2016 customer deposits per product

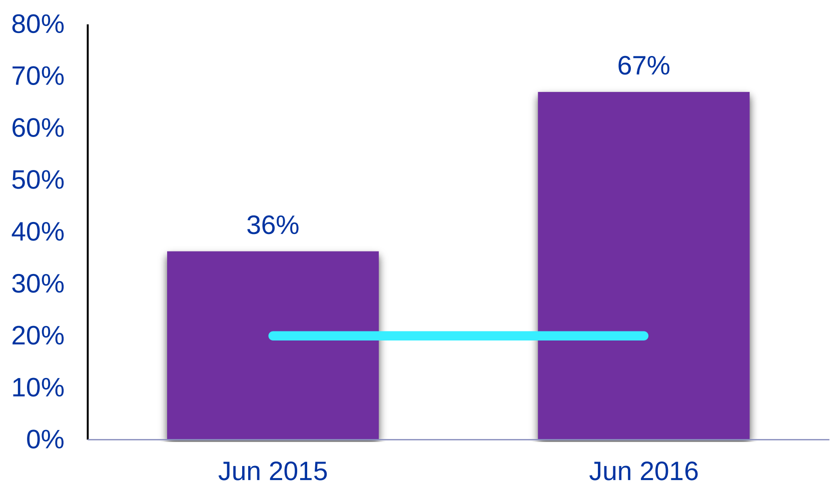


Funding, liquidity and capital

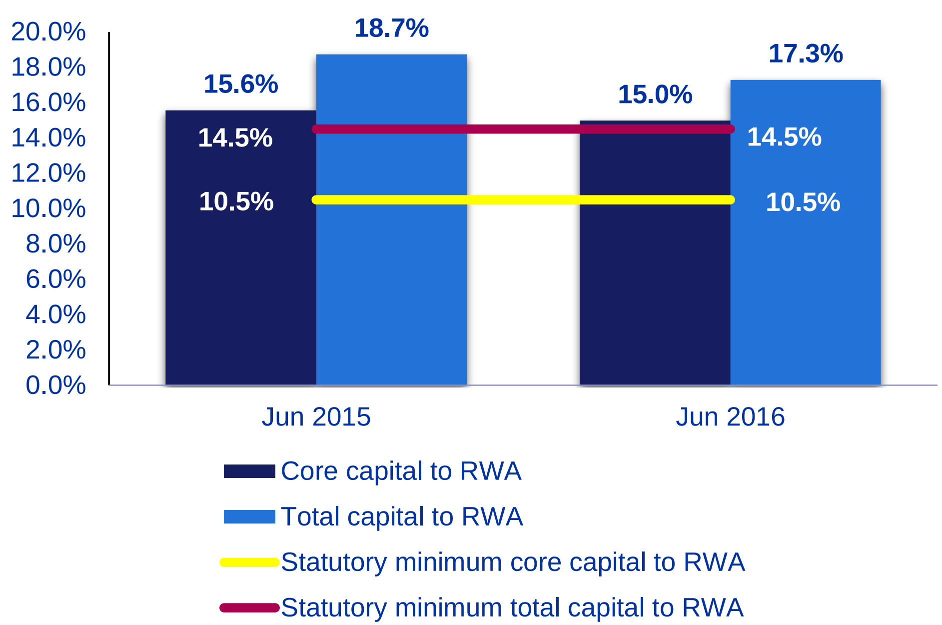


- Assets funded mainly from customer deposits
- The cumulative impact of depreciation of South Sudan pound is Kes 268m

Liquidity ratio (Bank only)



Capital adequacy ratio (Bank only)



RWA- Risk weighted assets

Corporate and Investment Banking

Mike Blades

Executive, Corporate and Investment Banking

CIB summary performance

	June-2016 Kes millions	June-2015 Kes millions	Change %
Net interest income	2,638	2,347	12
Non-interest revenue	2,806	2,604	8
Total income	**5,444**	**4,951**	**10**
Credit loss ratio	1.7%	0.1%	
Customer loans and advances	57,012	51,341	11
Customer deposits	50,785	61,720	(18)
Contingents	**26,471**	**14,518**	**82**
Letters of credit	5,518	5,153	7
Guarantees	20,953	9,365	>100

- Growth in net interest income was as a result of increase in customer loans and advances and improved margins
- Fees and commissions revenues were above 2015 due to fees from trade finance and electronic banking channels
- Credit loss ratio was higher than what we have experienced in previous years but we are making good progress in improving this
- Growth in customer loans and advances was mainly driven by a combination of long term investment needs as well as working capital requirements for our clients
- Decrease in customer deposits mainly on call deposits. The Bank continues to focus on the cheap liabilities in the form of current accounts

CIB 2016 strategic priorities

- Increased focus on transactional banking
- Growing the local currency customer assets and liabilities, underpinned by superior service
- Grow client revenues by broadening our customer base and increasing the share of wallet in existing clients
- Maintain strong discipline around costs

Personal Business Banking (PBB)

Adam Jones

Executive, Personal and Business Banking

PBB summary performance

	June-2016 Kes millions	June-2015 Kes millions	Change %
Net interest income	2,826	2,046	38
Non-interest revenue	1,160	735	58
Total income	**3,986**	**2,781**	**43**
Credit loss ratio	1.4%	0.4%	
Customer loans and advances	51,473	48,835	5
Customer deposits	60,586	50,203	21
Contingents	**3,427**	**2,814**	**22**
Letters of credit	1,436	1,124	28
Guarantees	1,991	1,690	18

- Net interest income growth due to good growth in core customers deposits and margin benefits on loans and advances
- Non-interest revenue benefited from net unrealised gains on monetary items in South Sudan arising from devaluation of the South Sudanese Pound, fees from the Insurance business and electronic banking channels
- Credit loss ratio was within expected levels given the operating environment
- Balance sheet growth was achieved in all the key segments

PBB 2016 strategic priorities

	Priority Area	Planned Initiatives
1	Invest further in Private and Commercial banking segments	Investment in further Relationship Managers
2	Raise cheaper deposits i.e. current and savings accounts to improve margins	Local (7%) and foreign (3%) currency deposit campaigns
3	Invest significantly in mobile and internet banking capabilities	Scaling our new Mobile and Internet Banking platforms Investing further in our digital platforms and capabilities
4	Invest in non interest revenue activities to improve returns	Growing our bancassurance business Card acquiring implemented
5	Enhance customer experience through improved turnaround times	Implement improvement initiatives covering our account opening, lending and payments/collections processes
6	Opening of new branches	Two Rivers Branch, 6 ATMs and 10 BNAs

SBG Securities (SBGS)

Nkoregamba Mwebesa

Chief Executive, SBG Securities

SBGS summary performance

	June-2016 Kes millions	June-2015 Kes millions	Change %
Brokerage commission	114	207	(45)
Other revenue	47	108	(56)
Total revenue	**161**	**315**	**(49)**
Total expenses	(149)	(152)	2
Profit before tax	**12**	**163**	**(93)**
Tax	(10)	(31)	68
Profit after tax	**2**	**132**	**(98)**

- SBG Securities earned revenues of Kes 161m for the period ending 30^{th} June 2016 indicating a decline from Kes 315m recorded in the same period last year
- The drop in performance reflects subdued activity in the equity market for the period under review
- The decline was largely attributed to:
    - A shift by investors from equities to fixed income and cash deposits due to high yields
    - General risk off emerging markets by Institutional Investors
    - A one off Kes 64m gain on sale of NSE shares in 2015
- Equities market turnover as at 30^{th} June 2016 was lower by 33% from the previous year
- SBG Securities market share YTD June 2016 stood at 12.22% from 14.97% in December 2015

Perspective 2016

- The weak trading conditions at the equities market still persist and market activity is likely to remain subdued in the near term given the existing macroeconomic conditions. SBGS will continue to re-invest in the business as we believe frontier markets will likely remain neutral or see an upside towards the end of the year

SBGS 2016 strategic priorities

- **Maintain sustainable financial performance and market share for the remainder of the year**
  - Kenya : Maintain Top 2
  - Uganda : Maintain No.1
  - Rwanda : Stretch target is No.2 from No.3
  - Fixed Income : Maintain Number 3

- **Maintain high quality of products and services for both retail and institutional segments**
  - Alignment of Research and Institutional sales
  - Improved visibility in the research product
  - Sales and Execution function - Focus on systems, execution and facilitation
  - Research offering for retail segment

Q & A