

# African Banking Corporation Investor News



Issue 01

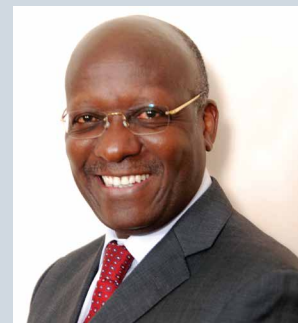
September 2014



Shamaz Savani,  
Group Managing Director.

Hello, and welcome to the inaugural issue of our African Banking Corporation Investor News. As we welcome you to the ABC Bank Group family, it gives me great pleasure to share some updates on the Bank's recent achievements and initiatives.

Let me take this early opportunity to congratulate Mr. Richard Omwela who took over from Mr. Ashraf Savani as the ABC Bank Chairman effective 19th May 2014. Mr. Omwela has been sitting on the Board as a Non-Executive Director since 2000. He is an Advocate of the High Court of Kenya and a partner at Nairobi-based law firm, Hamilton Harrison & Mathews Advocates and a member of the Chartered Institute of Secretaries of Kenya. A former Chairman of Kenya Rugby Football Union and a past Chairman of Westlands Rotary Club of Nairobi, Mr. Omwela also sits on the boards of several other companies.



Mr. Richard Omwela  
ABC Bank Chairman

The first half of the year has been a momentous period for us as we have made significant steps towards achieving our strategic plan.

I would like to take this opportunity to thank our bond investors for showing confidence in the Bank and for taking the opportunity to invest in our first bond which was subscribed by 157 percent. Your enthusiasm lends credence to the confidence you have in our business, and gives us fresh impetus to build and maintain a strong capital base so as to sustain future development of the business.

We are focused on new initiatives that will drive growth both in the medium and long term. This will enable us to provide our customers with an enhanced value proposition as well as reach new market segments that we have hitherto not targeted. To continue delivering our promise to our customers, we will be opening two new branches in Nairobi early next year. This is part of our plans to expand our network, which now includes Agent Banking through Postbank's 101 branches and over 900 agents countrywide. This will give our customers more access points and in turn contribute to an improved performance.

The Bank reported a modest half year profit of KSh. 162 million and I am confident of improvement as a result of initiatives and collaborations that the business team has undertaken, which we expect to yield fruit before the end of the year.

To buttress our long term growth projections, we have boosted our human capital in line with our business model to grow the SME and Corporate book by bringing on board experienced bankers who will take the Bank to the next level in line with our strategic objectives. This team has been hard at work engineering unique products tailored to suit the dynamic financial needs of our SME and Corporate clients.

Furthermore, we made significant investments in the development of innovative products for which we have won awards such as the First Runners Up in Internet Banking in this year's Think Business Banking Awards. We also added a feather to our cap when a recent Customer Satisfaction Index survey by Infotrack Harris placed us ahead of our tier 3 peers by identifying us as having the highest customer satisfaction levels.

We therefore look forward to improved results in the second half of year 2014 as we remain focused on our strategic intent for business in 2014 and beyond.

Once again, thank you for your support.

*Shamaz*

**VISION: Empowering you to achieve the extraordinary**

## ABC Bank gives Postbank SMEs cheque clearing solution



ABC Bank Group MD Shamaz Savani (left) exchanges memorandum documents with then Postbank MD Nyambura Koigi as Investment Secretary at the National Treasury, Esther Koimett (right), who was the Chief Guest at the event looks on.

In June, we partnered with Postbank to launch a unique payment solution which includes cheque clearing and payment, cheque collection and other banking products that are important transaction instruments for businesses.

Through the partnership, Postbank-which is yet to become a fully-fledged commercial bank-will also be able to offer trade finance services that it could not provide independently due to legislative and structural considerations. Such products include bid bonds, performance guarantees and advance payment guarantees.

We also launched our Agent Banking channel with Postbank, which has opened its counters to our customers to carry out banking transactions at all its 101 branches and over 900 agents countrywide, thus increasing the touch points for our customers to access our services and giving us a presence in every county in this country, enabling us to seize new opportunities in these areas.

We will continue to seek partnerships in these and other areas with like-minded organizations.

## ABC Bank signs partnership agreement with Fortune Sacco

In February, we signed a partnership agreement with Kirinyaga-based Fortune Sacco – which has 10 branches spread across the county, serving close to 70,000 members in an effort to boost the county's economic growth through offering residents a wider range of financial services to the county residents.

The partnership has allowed Fortune Sacco, through the ABC Bank Platform Account, to overcome a regulatory obstacle to begin issuing cheques to its members through ABC Bank. The agreement has given the Sacco members access to the national payments system. As a result, members now enjoy increased ease of transactions and improved efficiency of doing business.

The Fortune Sacco members can also obtain trade finance facilities such as bid bonds and performance guarantees which are requirements for participation in government procurement.

ABC Bank sees Saccos not as competition but as partners working together to help Kenyan entrepreneurs access financial services more easily, maximize on their potential and create more employment opportunities.



ABC Bank Group MD Shamaz Savani (Centre) with Fortune Sacco CEO Amos Kimoitho (Left) after signing the deal. Looking on is Kirinyaga County Governor Joseph Ndathi (right).

## ABC Bank shines in Internet Banking

We stood tall again this when we were awarded 2nd Best Bank in Internet Banking during the Think Business Banking Awards gala held on April 30th 2014.

This award is especially meaningful for the Bank, as it is a validation of the strategic direction we chose two years ago. It reinforces our resolve to increase and improve our channels to provide more touch points for our customers to access our services.

We have made significant investment in technology because we understand that branch-less banking is no longer the future of banking; it is the way to bank. This win demonstrates our commitment to excellence and innovation to align ourselves with emerging trends in service delivery in line with our culture of professionalism and customer-centricity.

Through our free-of-charge internet banking, our customers can now access their accounts and perform online transactions without visiting a banking hall, making it very easy and convenient for customers to manage their bank accounts.



ABC Chief Operating Officer Raj Pal Arora receives the First Runners Up Best Bank in Internet Banking Award from Mr Tonny Tugee (Photo courtesy: Business Daily, May 2nd, 2014)

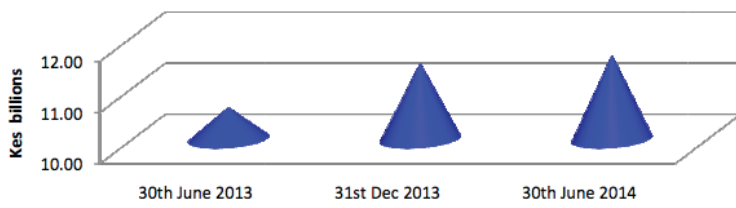
# UNAUDITED FINANCIAL STATEMENTS AND OTHER DISCLOSURES AS AT 30TH JUNE 2014



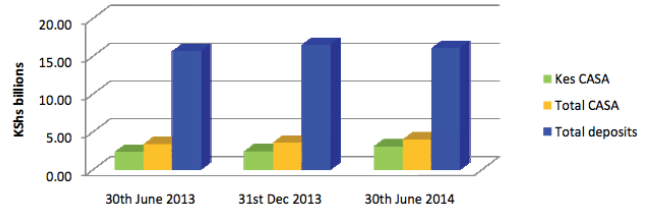
I BALANCE SHEET		Bank				Group			
		Bank 30 <sup>th</sup> June 2013 Unaudited Shs '000'	Bank 31 <sup>st</sup> Dec 2013 Audited Shs '000'	Bank 31 <sup>st</sup> Mar 2014 Unaudited Shs '000'	Bank 30 <sup>th</sup> June 2014 Unaudited Shs '000'	Group 30 <sup>th</sup> June 2013 Unaudited Shs '000'	Group 31 <sup>st</sup> Dec 2013 Audited Shs '000'	Group 31 <sup>st</sup> Mar 2014 Unaudited Shs '000'	Group 30 <sup>th</sup> June 2014 Unaudited Shs '000'
<b>A ASSETS</b>									
1 Cash ( both Local & Foreign)		153,912	170,580	152,990	145,716	181,934	186,527	178,949	174,370
2 Balances due from Central Bank of Kenya		1,728,023	1,072,816	1,461,717	852,370	1,770,255	1,112,225	1,489,338	894,654
3 Kenya Government and other securities held for dealing purposes		-	-	-	-	-	-	-	-
4 Financial Assets at fair value through profit and loss		-	-	-	-	-	-	-	-
5 <b>Investment Securities:</b>									
a) <b>Held to Maturity:</b>		<b>3,855,542</b>	<b>4,249,723</b>	<b>4,118,688</b>	<b>4,901,360</b>	<b>4,254,226</b>	<b>4,619,003</b>	<b>4,406,432</b>	<b>5,247,491</b>
a. Kenya Government securities		3,550,462	3,968,110	3,828,573	4,643,215	3,550,462	3,968,110	3,828,573	4,643,215
b. Other securities		305,080	281,613	290,115	258,145	703,764	650,893	577,859	604,276
b) <b>Available for sale:</b>		<b>897,106</b>	<b>630,276</b>	<b>333,947</b>	<b>577,602</b>	<b>897,106</b>	<b>630,276</b>	<b>333,947</b>	<b>577,602</b>
a. Kenya Government securities		897,106	630,276	333,947	577,602	897,106	630,276	333,947	577,602
b. Other securities		-	-	-	-	-	-	-	-
6 Deposits and balances due from local banking institutions		116,532	299,384	737,535	572,755	137,537	309,875	759,881	595,644
7 Deposits and balances due from banking institutions abroad		682,939	535,302	384,875	232,877	1,128,595	1,003,663	609,250	514,522
8 Tax recoverable		26,805	12,295	12,295	12,295	28,812	27,131	28,594	28,754
9 Loans and advances to customers (net)		10,100,714	10,851,417	10,783,907	11,124,698	10,626,186	11,491,145	11,347,322	11,653,562
10 Balances due from banking institutions in the group		3,800	3,955	4,052	4,105	-	-	-	-
11 Investments in associates		-	-	-	-	-	-	-	-
12 Investments in subsidiary companies		818,158	821,358	821,358	841,358	-	-	-	-
13 Investments in joint ventures		-	-	-	-	-	-	-	-
14 Investment properties		-	-	-	-	-	-	-	-
15 Property and equipment		556,790	615,614	612,918	614,602	567,173	645,362	647,182	650,808
16 Prepaid lease rentals		-	-	-	-	-	1,940	-	-
17 Intangible assets		54,780	49,380	57,615	60,899	281,315	262,894	270,177	273,176
18 Deferred tax asset		8,852	5,941	5,941	5,941	8,852	7,324	9,846	9,819
19 Retirement benefit asset		-	-	-	-	-	-	-	-
20 Other assets		490,106	321,329	744,058	786,732	553,224	346,368	779,281	830,759
<b>21 TOTAL ASSETS</b>		<b>19,494,059</b>	<b>19,639,370</b>	<b>20,231,896</b>	<b>20,733,310</b>	<b>20,435,215</b>	<b>20,643,733</b>	<b>20,859,999</b>	<b>21,451,161</b>
<b>B LIABILITIES</b>									
22 Balances due to Central Bank of Kenya		-	-	-	-	-	-	-	-
23 Customer deposits		15,131,465	15,905,263	16,391,387	15,778,282	15,652,003	16,478,690	16,654,798	16,040,009
24 Deposits and balances due to local banking institutions		585,373	342,366	349,579	356,556	585,373	342,366	349,579	356,556
25 Deposits and balances due to foreign banking institutions		-	-	113	-	-	18,747	113	-
26 Other money market deposits		-	-	-	-	-	-	-	-
27 Borrowed funds		755,064	678,967	588,173	1,622,400	755,064	678,967	588,173	1,622,400
28 Balances due to banking institutions in the group		8,628	-	-	-	-	-	-	-
29 Tax payable		73,593	-	31,324	51,374	73,593	-	35,150	51,374
30 Dividends payable		-	-	-	-	-	-	-	-
31 Deferred tax liability		-	-	-	-	-	-	-	-
32 Retirement benefit liability		-	-	-	-	-	-	-	-
33 Other liabilities		651,612	262,834	340,631	378,483	782,578	338,725	400,407	510,295
<b>34 TOTAL LIABILITIES</b>		<b>17,205,735</b>	<b>17,189,430</b>	<b>17,701,207</b>	<b>18,187,095</b>	<b>17,848,611</b>	<b>17,857,495</b>	<b>18,028,220</b>	<b>18,580,634</b>
<b>C SHAREHOLDERS' FUNDS</b>									
35 Paid up /Assigned capital		1,050,000	1,050,000	1,050,000	1,050,000	1,050,000	1,050,000	1,050,000	1,050,000
36 Share premium/(discount)		-	-	-	-	-	-	-	-
37 Revaluation reserves		76	(6,713)	944	(30,312)	76	(6,713)	944	(30,312)
38 Retained earnings/Accumulated losses		1,144,226	1,307,319	1,380,411	1,427,193	1,138,318	1,296,122	1,343,667	1,409,781
39 Statutory loan loss reserves		94,022	99,334	99,334	99,334	99,422	107,039	105,593	104,623
40 Other Reserves		-	-	-	-	22,233	35,187	38,177	20,018
41 Proposed dividends		-	-	-	-	-	-	-	-
42 Capital grants		-	-	-	-	-	-	-	-
<b>43 TOTAL SHAREHOLDERS' FUNDS</b>		<b>2,288,324</b>	<b>2,449,940</b>	<b>2,530,689</b>	<b>2,546,215</b>	<b>2,310,049</b>	<b>2,481,635</b>	<b>2,538,381</b>	<b>2,554,110</b>
44 Minority Interest		-	-	-	276,555	-	304,603	293,398	316,417
<b>45 TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<b>19,494,059</b>	<b>19,639,370</b>	<b>20,231,896</b>	<b>20,733,310</b>	<b>20,435,215</b>	<b>20,643,733</b>	<b>20,859,999</b>	<b>21,451,161</b>
<b>II PROFIT AND LOSS ACCOUNT</b>									
<b>1.0 INTEREST INCOME</b>									
1.1 Loans and advances		858,772	1,763,882	463,097	941,247	904,017	1,885,740	498,901	1,012,594
1.2 Government securities		274,625	506,330	117,051	239,620	283,264	541,629	125,478	257,612
1.3 Deposits and placements with banking institutions		9,071	16,762	4,153	12,266	44,719	70,711	14,127	25,958
1.4 Other Interest Income		19,409	37,760	8,503	16,620	19,424	37,760	8,789	16,635
<b>1.5 Total interest income</b>		<b>1,161,877</b>	<b>2,324,734</b>	<b>592,804</b>	<b>1,209,753</b>	<b>1,251,424</b>	<b>2,535,840</b>	<b>647,294</b>	<b>1,312,799</b>
<b>2.0 INTEREST EXPENSE</b>									
2.1 Customer deposits		593,253	1,149,362	287,358	577,073	616,604	1,201,081	297,809	592,073
2.2 Deposits and placement from banking institutions		8,637	19,260	10,259	18,472	9,001	19,668	10,341	18,612
2.3 Other interest expenses		34,856	66,117	13,817	46,684	34,856	66,117	13,817	46,684
2.4 Total interest expenses		636,746	1,234,739	311,434	642,229	660,461	1,286,866	321,967	657,369
<b>3.0 NET INTEREST INCOME/(LOSS)</b>		<b>525,131</b>	<b>1,089,995</b>	<b>281,370</b>	<b>567,524</b>	<b>590,963</b>	<b>1,248,974</b>	<b>325,327</b>	<b>655,430</b>
<b>4.0 NON-INTEREST INCOME</b>									
4.1 Fees and commissions on loans and advances		42,360	87,569	22,925	47,770	50,075	100,435	24,811	51,723
4.2 Other fees and commissions		95,704	187,930	43,456	96,800	97,513	210,560	46,233	101,162
4.3 Foreign exchange trading income/(Loss)		65,703	130,297	39,547	75,652	67,632	134,941	40,614	78,209
4.4 Dividend Income		-	-	-	-	-	1,900	-	-
4.5 Other income		52,625	64,196	16,149	17,305	64,227	68,927	22,920	45,473
<b>4.6 Total Non-interest income</b>		<b>256,392</b>	<b>469,992</b>	<b>122,077</b>	<b>237,527</b>	<b>279,447</b>	<b>516,763</b>	<b>134,578</b>	<b>276,567</b>
<b>5.0 TOTAL OPERATING INCOME</b>		<b>781,523</b>	<b>1,559,987</b>	<b>403,447</b>	<b>805,051</b>	<b>870,410</b>	<b>1,765,737</b>	<b>459,905</b>	<b>931,997</b>
<b>6.0 OTHER OPERATING EXPENSES</b>									
6.1 Loan loss provision		26,347	11,979	18,578	28,008	35,408	48,942	66,624	64,556
6.2 Staff costs		268,501	528,771	167,583	305,214	306,938	607,660	167,568	354,916
6.3 Directors' emoluments		10,900	23,000	7,200	20,720	11,099	26,527	7,200	20,720
6.4 Rental charges		23,168	52,488	14,196	28,380	29,045	67,039	18,947	38,880
6.5 Depreciation charge on property and equipment		26,648	51,257	11,421	22,437	28,603	55,186	12,543	25,330
6.6 Amortisation charges		5,283	10,783	2,700	5,514	6,025	12,175	2,978	6,071
6.7 Other operating expenses		175,367	303,441	98,355	223,532	194,556	356,098	116,382	259,162
<b>6.8 Total Other Operating Expenses</b>		<b>536,214</b>	<b>981,719</b>	<b>299,033</b>	<b>633,805</b>	<b>611,673</b>	<b>1,173,617</b>	<b>392,242</b>	<b>769,635</b>
<b>7.0 Profit/(loss) Before Tax and Exceptional Items</b>		<b>245,309</b>	<b>578,268</b>	<b>104,414</b>	<b>171,246</b>	<b>258,736</b>	<b>592,120</b>	<b>67,664</b>	<b>162,362</b>
8.0 Exceptional Items		-	-	-	-	-	-	-	-
<b>9.0 Profit/(Loss) After Exceptional Items</b>		<b>245,309</b>	<b>578,268</b>	<b>104,414</b>	<b>171,246</b>	<b>258,736</b>	<b>592,120</b>	<b>67,664</b>	<b>162,362</b>
10.0 Current Tax		73,593	151,232	31,324	51,374	78,572	152,509	31,324	51,374
11.0 Deferred Tax		-	2,911	-	-	-	(2,562)	-	-
<b>12.0 Profit/(Loss) After Tax and Exceptional Items</b>		<b>171,716</b>	<b>424,125</b>	<b>73,090</b>	<b>119,872</b>	<b>180,164</b>	<b>442,163</b>	<b>36,340</b>	<b>110,988</b>
13.0 Minority Interest		-	-	-	-	3,378	7,822	(11,205)	(2,844)
<b>14.0 Profit/(loss) after tax, exceptional items and Minority Interest</b>		<b>171,716</b>	<b>424,125</b>	<b>73,090</b>	<b>119,872</b>	<b>176,786</b>	<b>434,341</b>	<b>47,545</b>	<b>113,832</b>
<b>15.0 Other Comprehensive Income</b>									
15.1 Gains/(Losses) from translating the financial statements of foreign operations		-	-	-	-	22,233	78,227	2,990	(15,169)
15.2 Fair value changes in available for sale financial assets		4,995	(1,794)	7,657	(23,599)	4,995	(14,294)	7,657	(23,599)
15.3 Revaluation surplus on Property, plant and equipment		-	-	-	-	-	-	-	-
15.4 Share of other comprehensive income of associates		-	-	-	-	-	-	-	-
15.5 Income tax relating to components of other comprehensive income		-	-	-	-	-	-	-	-
16.0 Other Comprehensive Income for the year net of tax		4,995	(1,794)	7,657	(23,599)	27,228	63,933	10,647	(38,768)
<b>17.0 Total comprehensive income for the year</b>		<b>176,711</b>	<b>422,331</b>	<b>80,747</b>	<b>96,273</b>	<b>207,392</b>	<b>506,096</b>	<b>46,987</b>	<b>72,220</b>
<b>18.0 EARNINGS PER SHARE- BASIC &amp; DILUTED</b>		<b>1.64</b>	<b>4</b>	<b>1</b>	<b>1.14</b>	<b>1.72</b>	<b>4.14</b>	<b>0.35</b>	<b>1.06</b>
<b>19.0 DIVIDEND PER SHARE -DECLARED</b>		<b>-</b>	<b>0.80</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.80</b>	<b>-</b>	<b>-</b>
<b>III OTHER DISCLOSURES</b>									
<b>1.0 NON-PERFORMING LOANS AND ADVANCES</b>									
(a) Gross Non-performing loans and advances		453,856	624,165	676,940	989,243	524,304	687,130	826,448	1,0



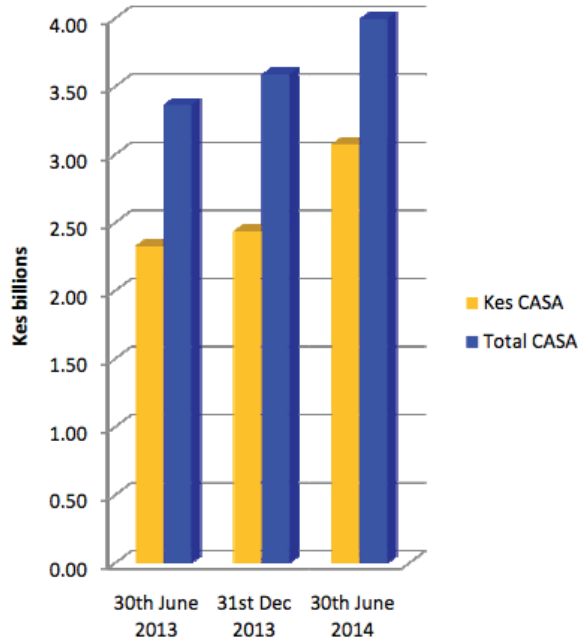
## Loans and advances



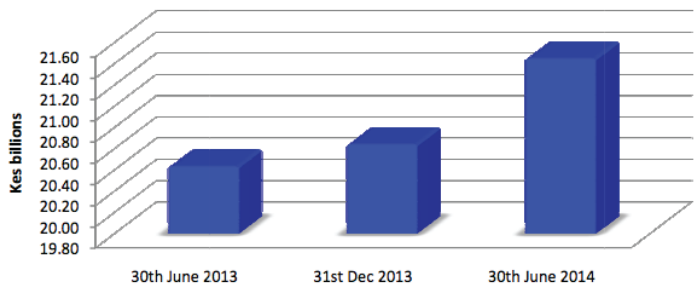
## Customer deposits



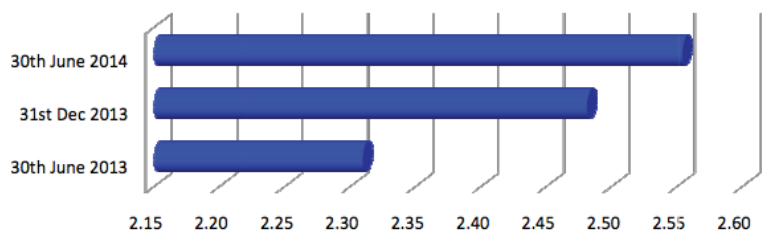
## CASA DEPOSITS



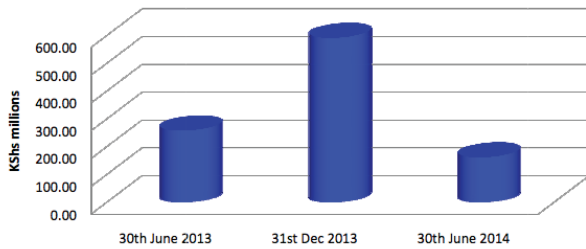
## Total Assets



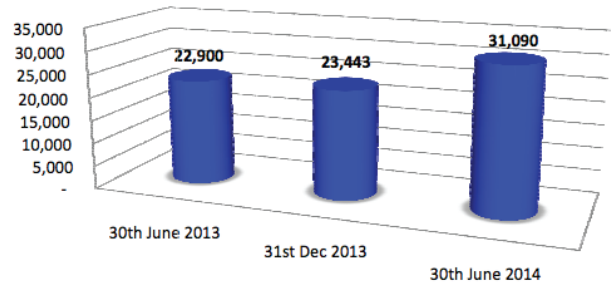
## Shareholders Funds in Kes billions



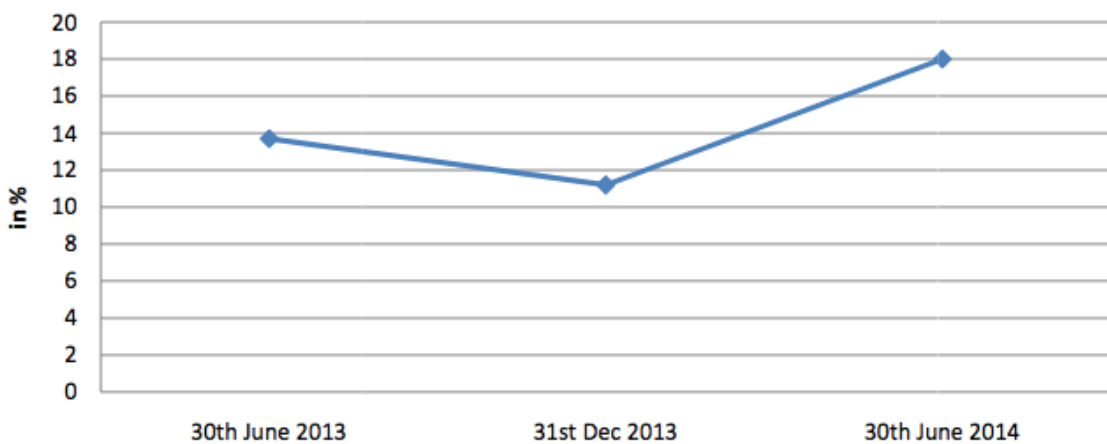
## Profit before tax



## Number of customers



## Total Capital/ Risk assets



## ABC Key Financial highlights

- **Net Loans and advances** increased by 10% (Kes 1.03 billion) from Kes 10.63 billion in June 2013 to Kes 11.65 billion in June 2014.
- **Our total CASA deposits** grew by 16.36% (Kes 632 Million) from 3.36 billion in June 2013 to close at 3.99 billion in June 2014.
- Total Customer deposits increased by 2% (0.39 billion) from Kes 15.65 billion as at June 2013 to Kes 16.04 billion as at June 2014.
- Our strategy to exit high cost deposits on account of excellent growth in CASA and adequate liquidity facilitated reduction in cost of borrowings. 30th June 2014
- **Shareholders' funds increased** by 11% (Kes 240 million) from Kes 2.31 billion as at June 2013 to Kes 2.55 billion as at June 2014.
- **Total Assets increased** by Kes 1.02 billion (5%) from Kes 20.44 billion in June 2013 to Kes 21.46 billion in June 2014.
- **Our customer** base grew by 36% from 22,900 as at June 2013 to 31,090.
- Our non performing accounts increased by Kes 535 million from Kes 454 million as at June 2013 to Kes 999 million as at June 2014. The bank launched 'Project 3Cs' in the second week of August which stands for **Comprehensive Collection Collaboration**. Project 3Cs which involves both business and support teams at head office and in branches to collectively take charge in improving our asset quality
- Bank is aggressively driving a Current and Savings Accounts (CASA) campaigns focusing on Sacco's, public sector at the county and Constituency levels.
- Bank has enhanced Diaspora engagements especially in the European and American markets.
- Bank to Customer (B2C), Customer to Bank (C2B) functions are now available on MPESA.
- The bank has partnered with Cooperative Bank and Post Bank, both having branches all over the country, allowing our customers or their suppliers the opportunity to route their collections through various channels to the bank.
- Our MasterCard, Internet banking and Agency banking solutions are now operational.
- Net interest income increased by 8% (Kes 42 million) from Kes 525 million as at June 2013 to Kes 567 million as at June 2014.
- FX income increased by 15% (Kes 10 million) from Kes 65 million as at June 2013 to Kes 75 million as at June 2014
- Capital gains on bond trading declined from Kes 52 million as at June 2013 to Kes 17 million as at June 2014 due to the bond market being quiet for the better part of the year
- Profit before tax declined from Kes 258.74 million as at June 2013 to Kes 162.36 million as at June 2014.
- Staff cost to Total costs declined from 51.83% to 51.19%.
- Liquidity ratio marginally declined from 42.1% as at June 2013 to 40.6% as at June 2014, (Minimum statutory ratio -20%).
- Total capital to risk weighted assets improved from 13.2% as at June 2013 to 18% as at June 2014.
- Core capital to total risk weighted assets declined from 12.4% as at June 2013 to 11.6% as at June 2014.
- Core capital to Total deposit liabilities improved from 10.1% as at June 2013 to 11.6% as at June 2014, (Minimum statutory ratio -8%).

We take this opportunity to sincerely thank all our stakeholders who have embraced our innovative products and services. Our personalized customer service has enabled our esteemed customers to come back and also to refer other customers to us. This has enabled ABC to win numerous awards which we dedicate to all our stakeholders.

To continue delivering our promise to our stakeholders, we will be opening two new branches shortly.

We remain focused on our strategic intent for business in 2014 and beyond and look forward to improved results in the second half of year 2014.