

African Banking Corporation Investor News

Issue 03

April - June 2015



Shamaz Savani,
Group Managing Director.

Let me begin by reflecting on our performance in 2014. The Bank continued to deliver sustainable financial performance across all our Strategic Business Units (SBUs), thereby consistently building shareholder value.

We recorded a 9 percent growth in Total Income, driven by growth in income from loans and advances, while our balance sheet recorded a positive growth in assets and liabilities compared to the previous year, and a 19 percent growth year on year in loans and advances to customers, giving us strong momentum for revenue growth in 2015.

Despite the challenging operating environment during the year, our Profit Before Tax was reasonable, at KShs. 337 million. Our operating costs increased by 26 percent in line with inflation, and to accommodate adjustments in remuneration, new recruitments and staff training. We also invested in technology in pursuit of our growth strategy of alternate and emerging channels.

We are indebted to you, our shareholders, for your support during the year, and to our loyal customers who have continually given us the impetus to be innovative and strategic in our business. Crossing over to 2015, the first quarter has been a significant one for us. We began the year with a clear path that will lead us to compete better, reinvest in our business with a focus on enhancing value for our investors, as well as strengthen our reputation around customers' needs by delivering better experiences.

The various initiatives we previously undertook have also started to bear fruits. We have continued to strengthen our position in the Diaspora segment by signing an agency agreement with Trans-Fast Remittance LLT, a New York-based international money transfer service, and MoneyGram to help our Diaspora and local customers send and receive money more conveniently.

The Bank has also seen significant growth in its customer base which has anchored our ability to offer deposits and advances to customers at very competitive prices.

Strategic partnerships continue to be key in our growth. In March, we signed a partnership with East Africa Exchange to provide grain farmers and traders with warehouse receipt financing. Through this partnership, farmers can now borrow against their produce deliveries to EAX accredited warehouses.

In January, the bank partnered with Kilifi-based Imarika Sacco, to enable it offer current account services and a cheque clearing system to its members, and ultimately to boost the county's economic growth.

The two partnerships- in addition to those signed earlier on- reaffirm our commitment to engaging institutions with similar interests and objectives to maximize our shared synergies and exploit our strengths to remain competitive in an environment of spirited competition. We look forward to reaping the benefits of these partnerships in the coming months.

We are optimistic about the year ahead. Our goal is to continue to deliver superior investor returns by identifying niche niches to serve in the market.

Thank you.

Shamaz

VISION: Empowering you to achieve the extraordinary

ABC Bank and EAX partnership gives grain farmers access to credit



ABC Bank Group MD Shamaz Savani and EAX Board Chair Dr. Jendayi Frazer after signing the partnership.

In order to make access to loans and grants easier to grain farmers and traders, ABC Bank signed an agreement with East Africa Exchange (EAX), a commodity exchange that aims to increase regional market efficiency and give smallholder farmers better access to commercial markets, and link them to agricultural and financial markets, so they can get competitive pricing for crops and access to finance.

Grain farmers and traders can now borrow against their harvest delivered to EAX approved warehouses. This will also enable them protect their produce against storage-related damage and negotiate for better prices.

With warehouse receipt finance, a farmer or trader will deliver his produce to a warehouse and get an electronic receipt vouching for the quantity and quality of produce being stored. ABC Bank will then take the receipt as collateral against which the farmer or trader obtains financing.

Through the deal, ABC Bank will also provide clearing and settlement services integrated with the national payment systems.

Trans-Fast / MoneyGram:



Diaspora customers now have a new and more convenient way to send money to friends and family in Kenya, following the launch of a new agent agreement between ABC Bank and New York-based Trans-Fast international money transfer service in March.



The tie-up makes ABC Bank the first bank in East Africa to partner with Trans-Fast, which has presence in 108 countries in America, Europe, Asia, Africa and Australia. The two institutions have received approval from the Central Bank of Kenya to launch the service.

ABC is banking on this new deal to solidify its position in the Diaspora remittances ecosystem at a time when Kenya's Diaspora remittances have reached an all-time high of Sh. 129.99 billion in 2014, according to a recent report by Central Bank of Kenya.

ABC Bank offers a wide array of money transfer services, serving Kenyans living and working in America, Europe, and Middle East, enabling them to support their families in Kenya as well as invest. Trans-Fast, which has over 25 years in international money transfer service, enables customers to send money via its E-Commerce platform (TRANSFAST.com) and in person at agent locations. Money can be deposited directly into recipients' bank accounts, or they can pick up cash in person or via M-pesa.

ABC Bank also recently signed a similar agreement with MoneyGram. Customers can access these services at all ABC Bank branches country wide.

ABC Bank and Imarika Sacco sign partnership to offer current accounts

In furtherance of our objective of supporting Saccos and microfinance institutions, we have signed a partnership with Kilifi-based Imarika Sacco in an effort to boost the county's economic growth through offering residents a wider range of financial services.

The partnership, signed in January, will allow Imarika Sacco to overcome a regulatory obstacle to begin offering current account services and issuing cheque books to its members through ABC Bank which will, as a result, provide the Sacco members access to the national payments system. This will increase ease of transactions and improve efficiency of doing business.

ABC Bank has in the recent past entered in to similar partnerships with Unaitas Sacco, Kirinyaga-based Fortune Sacco and Postbank, to enable them offer a wider range of innovative products and services to their customers and make them more competitive.

Imarika Sacco is a national savings and credit co-operative society established in 1974 by teachers in Malindi, Kilifi County but its roots go back to 1964. The Sacco has more than 40,000 members.



ABC Bank Head of Retail Banking Ms. Amanda Corline (right) and Imarika Sacco Chairman Mr. Richard Dzombo exchange partnership agreement documents during the official launch of the Imarika current account.

ABC Bank, Fortec Medix usher new dawn in Mwea

Residents of Mwea, Kirinyaga County can now breathe a sigh of relief as a new diagnostic imaging machine is within their reach, thanks to the Our Lady of Lourdes Hospital and an ABC Bank customer Fortec Medix Supplies Ltd.

The latter supplied the CT Scan machine to the mission hospital, through an asset financing facility from ABC Bank. The new machine was commissioned in February. The new machine will plug the gap in access to health care for the community around and beyond Mwea.

With the new machine in the hospital which serves the larger Mount Kenya region, residents will no longer make long trips to Thika or Nairobi for diagnostic imaging services, therefore saving them costs and time, and enabling them to get early diagnosis and treatment.



Lydia Ngarama of ABC Bank poses for a photo with Fortec MD James Mugo and Fortec staff



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AUDITED FINANCIAL STATEMENTS AND OTHER DISCLOSURES AS AT 31ST DECEMBER 2014

	Bank 31st Dec 2013 Audited Shs '000'	Bank 31st Dec 2014 Audited Shs '000'	Group 31st Dec 2013 Audited Shs '000'	Group 31st Dec 2014 Audited Shs '000'
I BALANCE SHEET				
A ASSETS				
1 Cash (both Local & Foreign)	170,580	168,556	186,527	203,012
2 Balances due from Central Bank of Kenya	1,072,816	941,488	1,112,225	1,006,260
3 Kenya Government and other securities held for dealing purposes	-	-	-	-
4 Financial Assets at fair value through profit and loss	-	-	-	-
5 Investment Securities:				
a) Held to Maturity:	4,249,723	4,389,201	4,619,003	4,992,117
a. Kenya Government securities	3,968,110	4,154,524	3,968,110	4,154,524
b. Other securities	281,613	234,677	650,893	837,593
b) Available for sale:	630,276	550,954	630,276	550,954
a. Kenya Government securities	630,276	550,954	630,276	550,954
b. Other securities	-	-	-	-
6 Deposits and balances due from local banking institutions	299,384	46,564	309,875	52,939
7 Deposits and balances due from banking institutions abroad	535,302	44,107	1,003,663	170,364
8 Tax recoverable	12,295	80,302	27,131	96,130
9 Loans and advances to customers (net)	10,851,417	13,127,628	11,491,145	13,679,881
10 Balances due from banking institutions in the group	3,955	10,316	-	-
11 Investments in associates	-	-	-	-
12 Investments in subsidiary companies	821,358	885,405	-	-
13 Investments in joint ventures	-	-	-	-
14 Investment properties	-	-	-	-
15 Property and equipment	615,614	539,937	645,362	582,548
16 Prepaid lease rentals	-	-	1,940	-
17 Intangible assets	49,380	139,735	262,894	140,897
18 Deferred tax asset	5,941	31,501	7,324	36,860
19 Retirement benefit asset	-	-	-	-
20 Other assets	321,329	483,035	346,368	561,161
21 TOTAL ASSETS	19,639,370	21,438,729	20,643,733	22,073,123
B LIABILITIES				
22 Balances due to Central Bank of Kenya	-	-	-	-
23 Customer deposits	15,905,263	16,050,353	16,478,690	16,390,568
24 Deposits and balances due to local banking institutions	342,366	769,116	342,366	769,116
25 Deposits and balances due to foreign banking institutions	-	27,266	18,747	27,272
26 Other money market deposits	-	-	-	-
27 Borrowed funds	678,967	1,549,401	678,967	1,549,401
28 Balances due to banking institutions in the group	-	-	-	-
29 Tax payable	-	-	-	-
30 Dividends payable	-	84,000	-	-
31 Deferred tax liability	-	-	-	-
32 Retirement benefit liability	-	-	-	-
33 Other liabilities	262,834	336,043	338,725	489,035
34 TOTAL LIABILITIES	17,189,430	18,816,179	17,857,495	19,225,392
C SHAREHOLDERS' FUNDS				
35 Paid up /Assigned capital	1,050,000	1,050,000	1,050,000	1,050,000
36 Share premium/(discount)	-	-	-	-
37 Revaluation reserves	(6,713)	(8,248)	(6,713)	(111,823)
38 Retained earnings/Accumulated losses	1,307,319	1,480,589	1,296,122	1,482,128
39 Statutory loan loss reserves	99,334	100,209	107,039	108,557
40 Other Reserves	-	-	35,187	22,351
41 Proposed dividends	-	-	-	-
42 Capital grants	-	-	-	-
43 TOTAL SHAREHOLDERS' FUNDS	2,449,940	2,622,550	2,481,635	2,551,213
44 Minority Interest	-	-	304,603	296,518
45 TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	19,639,370	21,438,729	20,643,733	22,073,123
II PROFIT AND LOSS ACCOUNT				
1.0 INTEREST INCOME				
1.1 Loans and advances	1,763,882	1,970,644	1,885,740	2,108,120
1.2 Government securities	506,330	505,225	541,629	550,173
1.3 Deposits and placements with banking institutions	16,762	18,610	70,711	40,995
1.4 Other Interest Income	37,760	32,072	37,760	32,203
1.5 Total interest income	2,324,734	2,526,551	2,535,840	2,731,491
2.0 INTEREST EXPENSE				
2.1 Customer deposits	1,149,362	1,152,671	1,201,081	1,177,227
2.2 Deposits and placement from banking institutions	19,260	39,652	19,668	39,853
2.3 Other interest expenses	66,117	134,547	66,117	134,547
2.4 Total interest expenses	1,234,739	1,326,870	1,286,866	1,351,627
3.0 NET INTEREST INCOME/(LOSS)	1,089,995	1,199,681	1,248,974	1,379,864
4.0 NON-INTEREST INCOME				
4.1 Fees and commissions on loans and advances	87,569	108,506	100,435	116,983
4.2 Other fees and commissions	187,930	198,197	210,560	230,390
4.3 Foreign exchange trading income/(Loss)	130,297	133,086	134,941	138,395
4.4 Dividend Income	-	-	1,900	-
4.5 Other income	64,196	27,138	68,927	47,234
4.6 Total Non-interest income	469,992	466,927	516,763	533,002
5.0 TOTAL OPERATING INCOME	1,559,987	1,666,608	1,765,737	1,912,866
6.0 OTHER OPERATING EXPENSES				
6.1 Loan loss provision	11,979	131,635	48,942	161,948
6.2 Staff costs	528,771	616,927	607,660	715,825
6.3 Directors' emoluments	23,000	58,722	26,527	58,882
6.4 Rental charges	52,488	62,829	67,039	87,006
6.5 Depreciation charge on property and equipment	51,257	48,621	55,186	55,669
6.6 Amortisation charges	10,783	10,505	12,175	11,626
6.7 Other operating expenses	303,441	418,840	356,098	485,031
6.8 Total Other Operating Expenses	981,719	1,348,079	1,173,627	1,575,987
7.0 Profit/(loss) Before Tax and Exceptional Items	578,268	318,529	592,110	336,879
8.0 Exceptional Items	-	-	-	-
9.0 Profit/(Loss) After Exceptional Items	578,268	318,529	592,110	336,879
10.0 Current Tax	151,232	85,944	152,509	86,658
11.0 Deferred Tax	2,911	(25,560)	(2,562)	(19,126)
12.0 Profit/(Loss) After Tax and Exceptional Items	424,125	258,145	442,163	269,347
13.0 Minority Interest	-	-	31,426	(8,085)
14.0 Profit/(loss) after tax, exceptional items and Minority Interest	424,125	258,145	410,737	277,432
15.0 Other Comprehensive Income				
15.1 Gains/(Losses) from translating the financial statements of foreign operations	-	-	78,227	(18,711)
15.2 Fair value changes in available for sale financial assets	(1,794)	(1,535)	(14,294)	(105,143)
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	(1,794)	(1,535)	63,933	(123,854)
17.0 Total comprehensive income for the year	422,331	256,610	506,096	145,493
18.0 EARNINGS PER SHARE- BASIC & DILUTED	4.04	2.46	4.14	2.52
19.0 DIVIDEND PER SHARE -DECLARED	0.80	0.80	0.80	0.80
III OTHER DISCLOSURES				
1.0 NON-PERFORMING LOANS AND ADVANCES				
(a) Gross Non-performing loans and advances	624,165	885,124	687,130	900,218
(b) Less: Interest in Suspense	143,293	204,785	143,293	206,964
(c) Total Non-Performing Loans and Advances (a-b)	480,872	680,339	543,837	693,254
(d) Less: Loan Loss Provision	134,566	180,973	159,442	187,666
(e) Net Non-Performing Loans and Advances (c-d)	346,306	499,366	384,395	505,588
(f) Discounted Value of Securities	346,306	499,366	384,395	505,588
(g) Net NPLs Exposure (e-f)	-	-	-	-
2.0 INSIDER LOANS AND ADVANCES				
(a) Directors, Shareholders and Associates	226,197	209,194	226,197	209,194
(b) Employees	200,144	283,052	200,298	283,052
(c) Total Insider Loans and Advances and other facilities	426,341	492,246	426,495	492,246
3.0 OFF-BALANCE SHEET ITEMS				
(a) Letters of credit, guarantees, acceptances	2,943,390	2,235,129	3,095,274	2,235,423
(b) Forwards, swaps and options	1,153,331	1,453,360	1,153,331	1,453,360
(c) Other contingent liabilities	415,249	809,389	415,249	809,389
(d) Total Contingent Liabilities	4,511,970	4,497,878	4,663,854	4,498,172
4.0 CAPITAL STRENGTH				
(a) Core capital	1,773,989	1,928,212	1,773,989	1,928,212
(b) Minimum Statutory Capital	1,000,000	1,000,000	1,000,000	1,000,000
(c) Excess/(Deficiency) (a-b)	773,989	928,212	773,989	928,212
(d) Supplementary Capital	99,334	1,016,876	99,334	1,016,876
(e) Total Capital (a+d)	1,873,323	2,945,088	1,873,323	2,945,088
(f) Total risk weighted assets	12,428,995	17,095,614	12,428,995	17,095,614
(g) Core Capital/Total deposits Liabilities	11.2%	12.0%	11.2%	12.0%
(h) Minimum statutory Ratio	8.00%	10.50%	8.00%	10.50%
(i) Excess/(Deficiency) (g-h)	3.15%	1.51%	3.15%	1.51%
(j) Core Capital / total risk weighted assets	14.27%	11.28%	14.27%	11.28%
(k) Minimum Statutory Ratio	8.00%	10.50%	8.00%	10.50%
(l) Excess (Deficiency) (j-k)	6.27%	0.78%	6.27%	0.78%
(m) Total Capital/total risk weighted assets	15.07%	17.23%	15.07%	17.23%
(n) Minimum statutory Ratio	12.00%	14.50%	12.00%	14.50%
(o) Excess/(Deficiency) (m-n)	3.07%	2.73%	3.07%	2.73%
5.0 LIQUIDITY				
(a) Liquidity Ratio	38.0%	30.6%	38.0%	30.6%
(b) Minimum Statutory Ratio	20.0%	20.0%	20.0%	20.0%
(c) Excess (Deficiency) (a-b)	18.0%	10.6%	18.0%	10.6%

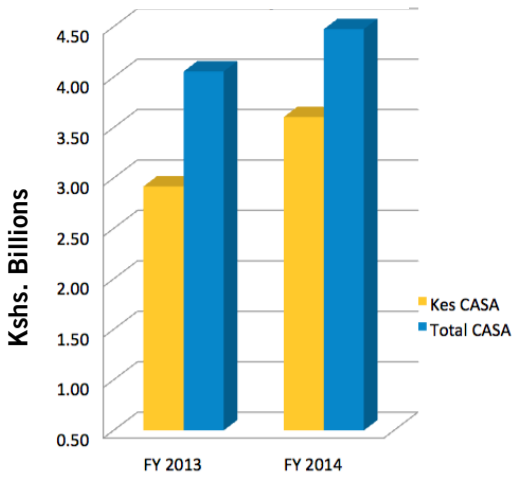
These financial statements are extracts from the books of the institution as audited by Deloitte & Touche and received unqualified opinion. The complete set of audited financial statements, statutory and qualitative disclosures can be accessed on the institution's website www.abcthebank.com. They may also be accessed at the institution's head office located at ABC Bank House, Woodvale Grove, Westlands Nairobi.

Signed: **Sridhar Natarajan, GROUP CHIEF EXECUTIVE OFFICER**
Joseph K. Muiruri, DIRECTOR

CORE VALUES:

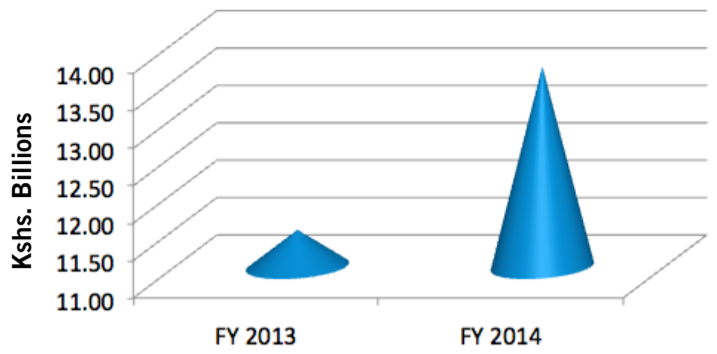
• Customer Centricity • Professionalism • Teamwork • Excellence • Commitment

CASA Deposits



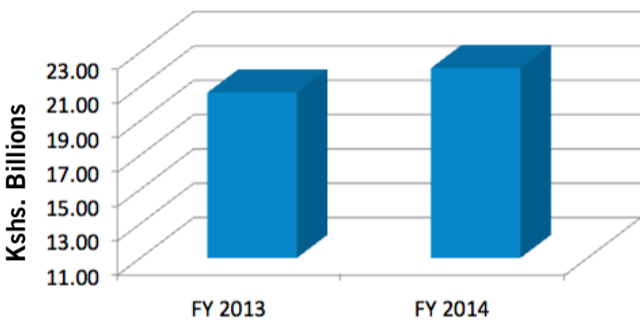
Our total CASA deposits expanded by 10.5% (Kes 0.42 billion) to Kes 4.48 billion (2013: Kes 4.06 billion). We are aggressively driving Current and Savings Accounts (CASA) campaigns focusing on Sacco's, public sector at the County and Constituency levels.

Loans and Advances



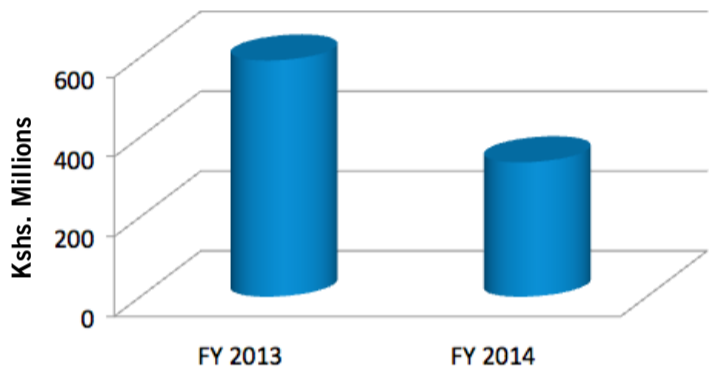
The loans and advances portfolio dropped by Kes 1.6 billion in the first half leading to subdued interest income but improved significantly in second half year to register 19.0% growth in loans, of which the full profit impact will be seen in 2015 (2013: Kes 11.49 billion)

Total Assets



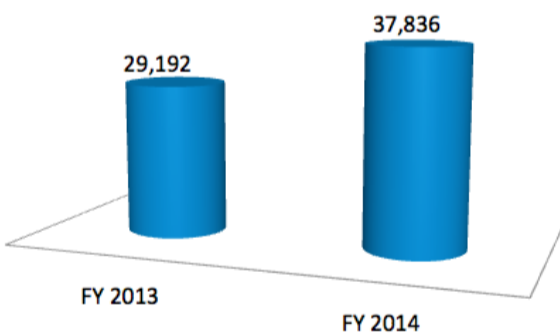
Total Assets increased by 6.9% (Kes 1.43 billion) to Kes 22.07 billion (2013: Kes 20.64 billion).

Profit Before Tax



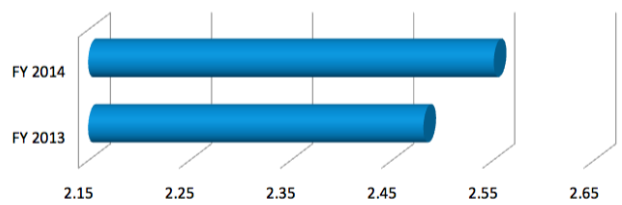
Profit before tax 2014 vis-a- vis 2013 were negatively impacted by Kes 112 million decline in Government Treasury Bond prices due to bond market being quiet for the better part of the year (2013: Kes 592 million)

Number of Customers



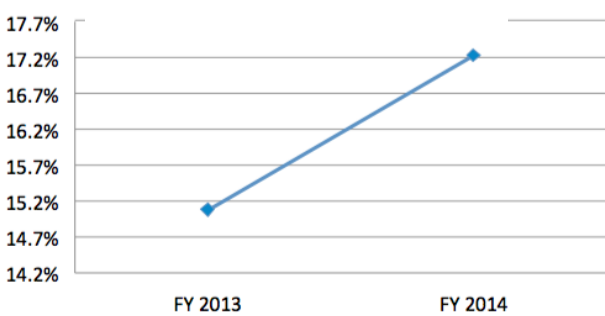
The number of customers increased significantly registering 29.6% growth year-on-year

Shareholders Funds in Kes billions



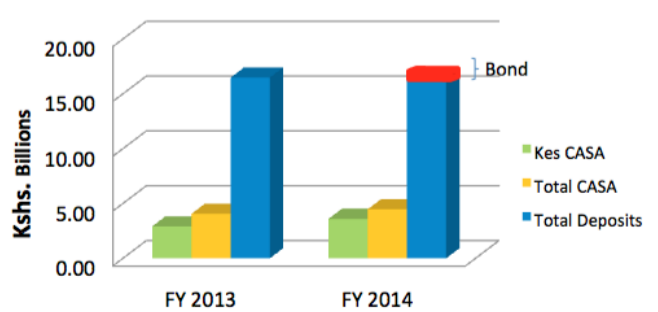
Shareholders' funds increased by 2.8% (Kes 70 million) to Kes 2.55 billion (2013: Kes 2.48 billion)

Total Capital / Risk Assets



Our Capital Adequacy Ratio remained solid with the Total capital to risk weighted assets at 17.23%; core capital to total risk weighted assets at 11.28%; and Core capital to Total deposit at 12.0% against a regulatory minimum of 14.5%, 10.5% and 10.5% respectively.

Customer (Deposits + Bond)



At the Bank initiative to check costs, as the Bank had adequate liquidity and supported by the Kes 1 Billion private bond issue of 2014 **Total Customer deposits** marginally dropped by 0.5% (Kes 88 million) from kes 16.48 billion in 2013 to close at Kes 16.39 billion in 2014.

OTHER HIGHLIGHTS



- **Total operating income** rose by 8.3% (Kes 140 million) to reach Kes 1.91 billion (2013: Kes 1.77 billion)
- **Net interest income** increased by 10.5% (Kes 130 million) to Kes 1.38 billion from Kes 1.25 billion the previous year on the back of growth in interest earning assets despite pressure of declining interest rates.
- **Non-interest income** grew by 3.0% (Kes 16 million) supported by growth in fee and foreign exchange income to close at Kes 533 million (2013: Kes 517 million)
- **Our non performing accounts** increased by Kes 118 million from Kes 164 million in 2013 to Kes 282 million in 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
- **Liquidity ratio** closed at 30.6% (regulatory minimum - 20%).

In order to create value propositions to our customers:

- We have enhanced Diaspora engagements especially in the European and American markets.
- Enhanced MPESA services thus enabling Bank to Customer (B2C) and Customer to Bank (C2B) transactions
- We have partnered with Cooperative Bank and Post Bank, thus providing our customers or their suppliers the opportunity to route their collections through various channels to the bank via their wide branch networks.
- Expanded our alternate channels namely MasterCard, Internet banking and Agency banking, Saccos, County collection and Bancassurance.



This bulletin is published quarterly: in March, June, September and December with financial highlights of the previous quarter.
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