

# African Banking Corporation Investor News

Issue 07

November - December 2016



ABC Bank's Head of SME Banking Lee Gachomba with Retail Trade Association of Kenya (Retrak) CEO Wambui Mbarire during the inaugural Retail Academy organized by the two organizations. The forum attracted participants from the local retail sector and speakers from the UK, UAE and Asia. (Report inside).

## GMD's Statement

Greetings Dear Investor.

The banking industry over the world is increasingly becoming more dynamic in response to changing customers' needs. Here in Kenya, the main issue at the centre of focus for the banking industry is interest rates. On 24 August, President Uhuru Kenyatta signed in to law the Banking (Amendment) Act 2016, setting the cap for lending rates at 4 percentage points above the benchmark rate (which has been clarified by the Central Bank of Kenya to be the Central Bank Rate - CBR), and sets the floor for deposit rates at 70 per cent of the same rate. ABC Bank has complied with the new regulations and we are applying the Central Bank Rate (currently at 10 per cent) as our benchmark to price our loan products.

While this move presents a new challenge for the banking industry, we see this as a wakeup call to step up our efforts to innovate, improve our product quality and customer service as well as our relationships with clients to remain competitive. Strategically, we are seeing a bright future that will be created through proactive, decisive and intentional new approaches to business, rather than reactionary tactics that would keep us stuck in the past. I therefore assure you that ABC Bank is well positioned to advantageously exploit its strategic strengths and opportunities

Our performance in the first half of 2016 was impressive, in spite of a turbulent macro-economic environment. During this period, the Bank reported a Profit Before Tax of Sh174 million on account of prudent loan provisioning in light of emerging economic trends. Additionally, our Interest Income grew by 21 per cent to Sh1.7 billion up from Sh1.4 billion the same period last year.

Our cost management initiatives implemented from last year have continued to yield positive results, as our operating expenses decreased significantly during the period. Our key focus is to

continue driving efficiency in the business in an effort to provide better service offering to our customers as we pursue more productivity saves in line with our cost leadership strategy.

Our loan loss provision is Sh85 million in H1 2016. This growth was as a result of several factors including a turbulent macro-economic environment which mainly impacted the economy and a conscious choice to adopt more prudent provisioning models. This was further compounded by exposure from three banks which were placed under statutory management (receivership), which resulted to uncertainty on committed credit flow.

Our loan book expanded to Sh14.5 Billion in Q2 2016 from Sh14.1 Billion in Q2 2015. Our deposits were subdued due to the shocks experienced in the industry that affected three commercial banks, which led to spiralling interest rates and we were prudent to keep costs as low as possible. Despite this, we have implemented strategies to accelerate the growth of customer deposits without losing sight of our customers' need for more channel capabilities as well as more touch points including expanded branch networks.

Thank you for your continued support, and best wishes.

*Shamar Savani*

VISION: Empowering you to achieve the extraordinary





## ABC Bank partnership with Lamu Teachers Sacco



Members of Lamu Teachers Sacco can now access trade finance facilities and make payments using cheques following a partnership between ABC Bank and the Sacco. The deal will see ABC Bank provide cheque clearing services and other commercial bank products to the Sacco.

Due to regulatory policy, Saccos do not offer certain products such as current accounts, trade finance, cheque books, Real Time Gross Settlement (RTGS) and Electronic Funds Transfers (EFTs).

This forces Sacco members, especially those operating businesses, to turn to commercial banks for these services. Consequently, Saccos register reduced share of wallet following stiff competition from commercial banks and deposit-taking microfinance institutions.

This partnership will enable Lamu Teachers Sacco begin offering some commercial bank products to its members through ABC Bank,

and provide them access to the national payments system, increase ease of transactions and improve efficiency of doing business.

This partnership is part of ABC Bank's plans to empower the cooperative sector in Kenya to become more competitive and unlock the entrepreneurial potential of more Kenyans through enhanced access to financial services.

## ABC Bank sponsors entrepreneurship forum



ABC Bank partnered with Kenyan Entrepreneur to host a capacity-building forum for budding entrepreneurs and startups.

Held at the Thika Road Mall (TRM), the forum brought together over 100 entrepreneurs from various sectors including ICT, retail, sports, consultancy and construction.

Speaking during the forum, ABC Bank's Head of SME Banking Lee Gachomba urged entrepreneurs to define and understand their value proposition to customers and identify gaps or problems in the market that they can provide solutions for, profitably.

He further challenged them to demonstrate integrity in their business dealings and to have a succession plan to shield their businesses against life's uncertainties.

George Wachiuri, the CEO of Optiven Ltd- a real estate firm based in Nairobi- and a philanthropist, asked budding entrepreneurs to believe in prayer, embrace servant-leadership in their businesses to endear themselves to customers and attract repeat business.

ABC Bank's partnership was a demonstration of its commitment to continue supporting SMEs to grow their businesses.

## ABC Bank, Retrak, partner in inaugural Retail Academy



ABC Bank partnered with Retail Trade Association of Kenya (Retrak) in organizing the first Retail Academy in Nairobi on Thursday 21 July. The forum was aimed at building the capacity of local retailers to improve the business practice in Kenya.

The inaugural event, which is set to be an annual event, drew experts from the UK, India, and the United Arab Emirates who shared business experiences and knowledge from international markets.

Speaking at the academy, ABC Bank's Head of SME Banking, Lee Gachomba noted that the financial services sector and the retail sector in Kenya share a lot of synergies and opportunities for growth.

Mr. Gachomba told the participants that ABC Bank is ready to partner with them in their supply chain or cash flow needs to power their businesses to realize the immense possibilities that the current business environment in Kenya provides.

ABC Bank has over the years supported Retrak's events as part of its agenda to empower the SME sector growth through tailor-made financial products and services such as invoice discounting, term loans, over drafts and asset financing.

"This Retail Academy provides an opportunity for retail sector players to look for ways to innovate and improve business practices, create more employment opportunities and generate more revenue for the economy", noted Retrak CEO Wambui Mbarire.





# FINANCIAL STATEMENTS



## AFRICAN BANKING CORPORATION LTD.

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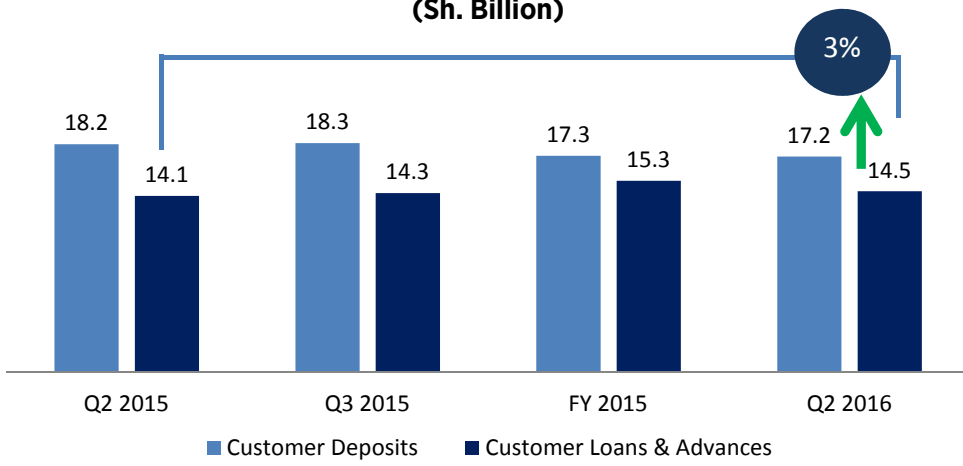
### QUARTERLY FINANCIAL STATEMENTS AND OTHER DISCLOSURES AS AT 30<sup>TH</sup> JUNE 2016

	Bank			Group				
	30th Jun 2015 Unaudited Shs '000'	31st Dec 2015 Audited Shs '000'	31st Mar 2016 Unaudited Shs '000'	30th Jun 2016 Unaudited Shs '000'	30th June 2015 Unaudited Shs '000'	31st Dec 2015 Audited Shs '000'	31st Mar 2016 Unaudited Shs '000'	30th Jun 2016 Unaudited Shs '000'
<b>I BALANCE SHEET</b>								
<b>A ASSETS</b>								
1 Cash ( both Local & Foreign)	152,523	181,083	176,534	181,507	201,590	224,355	221,456	231,953
2 Balances due from Central Bank of Kenya	1,026,996	903,947	1,192,352	3,398,270	1,065,387	1,006,547	1,307,144	3,454,108
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:	4,008,793	3,398,545	2,900,091	2,921,914	4,514,529	3,848,018	3,297,451	3,518,298
a. Kenya Government securities	3,797,584	3,241,430	2,900,091	2,921,914	3,797,584	3,241,430	2,900,091	2,921,914
b. Other securities	211,209	157,115	-	-	716,945	606,588	397,360	596,384
b) Available for sale:	806,540	499,621	480,881	500,375	806,540	499,621	480,881	500,375
a. Kenya Government securities	806,540	499,621	480,881	500,375	806,540	499,621	480,881	500,375
b. Other securities	-	-	-	-	-	-	-	-
6 Deposits and balances due from local banking institutions	79,480	91,784	82,963	92,138	85,004	98,937	95,333	98,212
7 Deposits and balances due from banking institutions abroad	38,179	31,481	145,324	65,609	240,538	343,715	480,108	298,766
8 Tax recoverable	80,302	20,655	20,655	20,655	94,536	35,038	34,777	35,383
9 Loans and advances to customers (net)	13,526,969	14,828,522	14,062,190	14,096,987	14,085,325	15,292,071	14,518,774	14,450,667
10 Balances due from banking institutions in the group	10,999	11,479	12,112	12,370	-	-	-	-
11 Investments in associates	-	-	-	-	-	-	-	-
12 Investments in subsidiary companies	885,405	885,405	885,405	885,405	-	-	-	-
13 Investments in joint ventures	-	-	-	-	-	-	-	-
14 Investment properties	-	-	-	-	-	-	-	-
15 Property and equipment	512,049	498,770	527,216	517,904	548,938	532,416	558,792	548,547
16 Prepaid lease rentals	-	-	-	-	-	-	-	-
17 Intangible assets	139,131	132,362	128,134	125,286	139,647	132,719	128,385	125,515
18 Deferred tax asset	31,501	25,440	25,440	25,440	33,135	29,943	30,046	32,563
19 Retirement benefit asset	-	-	-	-	-	-	-	-
20 Other assets	680,935	549,203	1,088,356	1,195,629	733,529	574,364	1,138,690	1,254,025
21 <b>TOTAL ASSETS</b>	<b>21,979,802</b>	<b>22,058,297</b>	<b>21,727,653</b>	<b>24,039,489</b>	<b>22,548,698</b>	<b>22,617,744</b>	<b>22,292,107</b>	<b>24,548,412</b>
<b>B LIABILITIES</b>								
22 Balances due to Central Bank of Kenya	-	1,098,624	838,402	3,326,546	-	1,098,624	838,402	3,326,546
23 Customer deposits	16,820,736	15,774,465	15,995,342	15,891,610	17,226,592	16,300,473	16,485,489	16,239,661
24 Deposits and balances due to local banking institutions	388,354	370,229	101,449	-	388,354	370,229	101,449	84,105
25 Deposits and balances due to foreign banking institutions	76,192	184,213	196,942	185,080	16,752	-	24,387	-
26 Other money market deposits	-	-	-	-	-	-	-	-
27 Borrowed funds	1,479,147	1,404,578	1,350,014	1,324,988	1,479,147	1,404,578	1,350,014	1,324,988
28 Balances due to banking institutions in the group	-	-	-	-	-	-	-	-
29 Tax payable	54,324	-	33,520	45,744	57,702	-	38,068	49,813
30 Dividends payable	-	-	-	-	-	-	-	-
31 Deferred tax liability	-	-	-	-	-	-	-	-
32 Retirement benefit liability	-	-	-	-	-	-	-	-
33 Other liabilities	455,518	389,580	315,394	321,994	488,250	413,454	368,767	356,876
34 <b>TOTAL LIABILITIES</b>	<b>19,274,271</b>	<b>19,221,689</b>	<b>18,831,063</b>	<b>21,095,962</b>	<b>19,656,797</b>	<b>19,587,358</b>	<b>19,206,576</b>	<b>21,381,989</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	(52,023)	(60,908)	(79,139)	(60,727)	(159,010)	(136,555)	(154,786)	(136,374)
38 Retained earnings/Accumulated losses	1,607,345	1,733,365	1,811,578	1,840,103	1,614,163	1,742,052	1,822,733	1,858,333
39 Statutory loan loss reserves	100,209	114,151	114,151	114,151	105,912	120,957	118,717	117,687
40 Other Reserves	-	-	-	-	(7,533)	(30,322)	(38,260)	(15,261)
41 Proposed dividends	-	-	-	-	-	-	-	-
42 Capital grants	-	-	-	-	-	-	-	-
43 <b>TOTAL SHAREHOLDERS' FUNDS</b>	<b>2,705,531</b>	<b>2,836,608</b>	<b>2,896,590</b>	<b>2,943,527</b>	<b>2,603,532</b>	<b>2,746,132</b>	<b>2,798,404</b>	<b>2,874,385</b>
44 Minority Interest	-	-	-	-	288,369	284,254	287,127	292,038
45 <b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>	<b>21,979,802</b>	<b>22,058,297</b>	<b>21,727,653</b>	<b>24,039,489</b>	<b>22,548,698</b>	<b>22,617,744</b>	<b>22,292,107</b>	<b>24,548,412</b>
<b>II PROFIT AND LOSS ACCOUNT</b>								
<b>1.0 INTEREST INCOME</b>								
1.1 Loans and advances	1,054,480	2,287,672	663,732	1,393,628	1,109,212	2,396,824	688,123	1,441,394
1.2 Government securities	244,880	470,251	104,021	202,338	276,018	527,048	115,128	228,009
1.3 Deposits and placements with banking institutions	2,189	3,706	11	31	8,537	25,030	13,972	23,423
1.4 Other Interest Income	13,770	25,699	2,610	2,610	13,770	25,699	2,625	3,820
1.5 <b>Total interest income</b>	<b>1,315,319</b>	<b>2,787,328</b>	<b>770,374</b>	<b>1,598,607</b>	<b>1,407,537</b>	<b>2,974,601</b>	<b>819,848</b>	<b>1,696,646</b>
<b>2.0 INTEREST EXPENSE</b>								
2.1 Customer deposits	594,839	1,323,055	454,705	843,590	605,089	1,344,269	459,890	854,426
2.2 Deposits and placement from banking institutions	17,663	97,941	32,881	111,468	18,327	94,399	32,701	106,843
2.3 Other interest expenses	83,108	164,051	38,028	76,180	83,108	164,051	38,028	76,180
2.4 <b>Total interest expenses</b>	<b>695,610</b>	<b>1,585,047</b>	<b>525,614</b>	<b>1,031,238</b>	<b>706,524</b>	<b>1,602,719</b>	<b>530,609</b>	<b>1,037,449</b>
<b>3.0 NET INTEREST INCOME/(LOSS)</b>	<b>619,709</b>	<b>1,202,281</b>	<b>244,760</b>	<b>567,369</b>	<b>701,013</b>	<b>1,371,882</b>	<b>289,239</b>	<b>659,197</b>
<b>4.0 NON-INTEREST INCOME</b>								
4.1 Fees and commissions on loans and advances	56,584	166,062	42,128	61,266	59,363	168,798	44,013	64,777
4.2 Other fees and commissions	75,255	155,333	34,102	92,166	96,211	186,819	41,037	105,946
4.3 Foreign exchange trading income/(Loss)	50,582	60,245	33,925	39,326	53,817	64,225	35,110	41,534
4.4 Dividend Income	-	-	-	27	-	-	-	27
4.5 Other income	1,718	8,781	(1,681)	(6,090)	10,586	43,080	2,006	7,029
4.6 <b>Total Non-interest income</b>	<b>184,139</b>	<b>390,421</b>	<b>108,474</b>	<b>186,695</b>	<b>219,977</b>	<b>462,922</b>	<b>122,166</b>	<b>219,313</b>
<b>5.0 TOTAL OPERATING INCOME</b>	<b>803,848</b>	<b>1,592,702</b>	<b>353,234</b>	<b>754,064</b>	<b>920,990</b>	<b>1,834,804</b>	<b>411,405</b>	<b>878,510</b>
<b>6.0 OTHER OPERATING EXPENSES</b>								
6.1 Loan loss provision	45,044	77,742	11,200	82,351	50,158	88,088	12,154	84,660
6.2 Staff costs	292,750	585,803	149,619	309,572	340,149	685,120	175,256	360,170
6.3 Directors' emoluments	26,585	58,188	14,365	28,025	26,585	59,770	14,428	28,155
6.4 Rental charges	33,795	69,172	16,793	32,949	45,916	94,398	23,956	47,700
6.5 Depreciation charge on property and equipment	32,385	62,018	13,888	27,269	36,306	69,970	15,740	31,144
6.6 Amortisation charges	7,992	16,258	4,227	8,454	8,178	16,650	4,331	8,580
6.7 Other operating expenses	184,218	368,095	31,409	112,962	218,212	432,409	46,023	144,141
6.8 <b>Total Other Operating Expenses</b>	<b>622,769</b>	<b>1,237,276</b>	<b>241,501</b>	<b>601,582</b>	<b>725,504</b>	<b>1,446,405</b>	<b>291,888</b>	<b>704,550</b>
<b>7.0 Profit/(loss) Before Tax and Exceptional Items</b>	<b>181,079</b>	<b>355,426</b>	<b>111,733</b>	<b>152,482</b>	<b>195,486</b>	<b>388,399</b>	<b>119,517</b>	<b>173,960</b>
8.0 Exceptional Items	-	-	-	-	-	-	-	-
<b>9.0 Profit/(Loss) After Exceptional Items</b>	<b>181,079</b>	<b>355,426</b>	<b>111,733</b>	<b>152,482</b>	<b>195,486</b>	<b>388,399</b>	<b>119,517</b>	<b>173,960</b>
10.0 Current Tax	54,324	82,547	33,520	45,744	57,845	95,633	35,963	49,895
11.0 Deferred Tax	-	6,161	-	-	2,847	-	-	-
<b>12.0 Profit/(Loss) After Tax and Exceptional Items</b>	<b>126,755</b>	<b>266,718</b>	<b>78,213</b>	<b>106,738</b>	<b>137,641</b>	<b>289,919</b>	<b>83,554</b>	<b>124,065</b>
13.0 Minority Interest	-	-	-	-	5,606	10,357	2,873	7,784
<b>14.0 Profit/(loss) after tax, exceptional items and Minority Interest</b>	<b>126,755</b>	<b>266,718</b>	<b>78,213</b>	<b>106,738</b>	<b>132,035</b>	<b>279,562</b>	<b>80,681</b>	<b>116,281</b>
<b>15.0 Other Comprehensive Income</b>								
15.1 Gains/(Losses) from translating the financial statements of foreign operations	-	-	-	-	(21,218)	(76,917)	(7,874)	15,061
15.2 Fair value changes in available for sale financial assets	(43,775)	(52,660)	(18,231)	181	(43,775)	(30,347)	(18,231)	181
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	-	-	-	-	-	-	-	-
<b>16.0 Other Comprehensive Income for the year net of tax</b>	<b>(43,775)</b>	<b>(52,660)</b>	<b>(18,231)</b>	<b>181</b>	<b>(64,993)</b>	<b>(107,264)</b>	<b>(26,105)</b>	<b>15,242</b>
<b>17.0 Total comprehensive income for the year</b>	<b>82,980</b>	<b>214,058</b>	<b>59,982</b>	<b>106,919</b>	<b>72,648</b>	<b>182,655</b>	<b>57,449</b>	<b>139,307</b>
<b>18.0 EARNINGS PER SHARE - BASIC &amp; DILUTED</b>	1.21	2.54	0.74	1.02	1.31	2.66	0.80	1.18
<b>19.0 DIVIDEND PER SHARE - DECLARED</b>	-	-	-	-	-	-	-	-
<b>III OTHER DISCLOSURES</b>								
<b>1.0 NON-PERFORMING LOANS AND ADVANCES</b>								
(a) Gross Non-performing loans and advances	1,357,215	2,676,858	2,803,218	2,821,502	1,363,275	2,694,737	2,824,209	2,839,822
(b) Less: Interest in Suspense	395,081	513,773	530,130	554,838	395,706	514,280	531,719	555,799
(c) <b>Total Non-Performing Loans and Advances (a-b)</b>	<b>962,134</b>	<b>2,1</b>						

# FINANCIAL PERFORMANCE HIGHLIGHTS

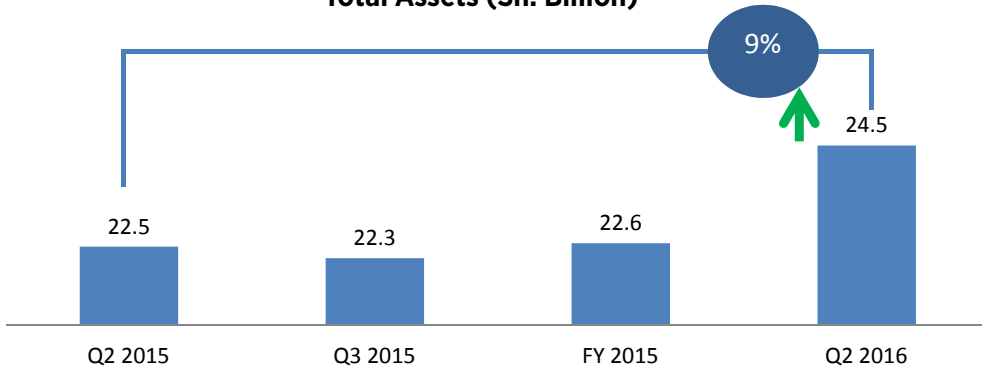


## Customer Loans & Deposits (Sh. Billion)



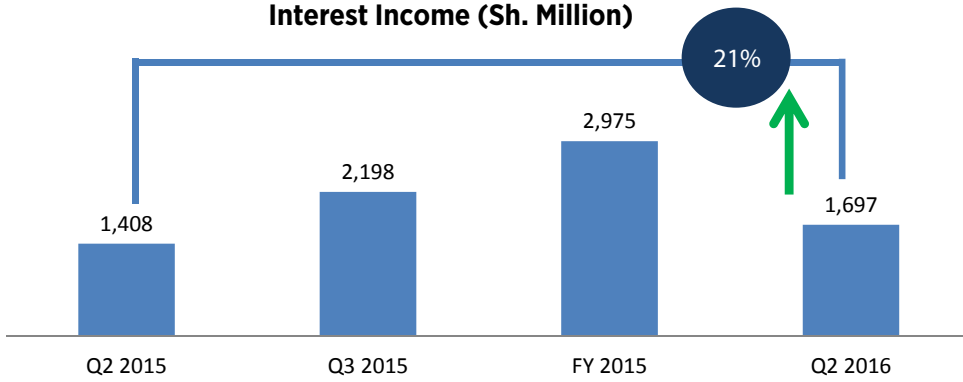
The loans and advance(net) expanded by 3% (Sh14.1 billion) for the period up to 30th June 2016 compared to same period last year driven by increase in uptake of loan products (2015 Q2: Sh14.1 billion)

## Total Assets (Sh. Billion)



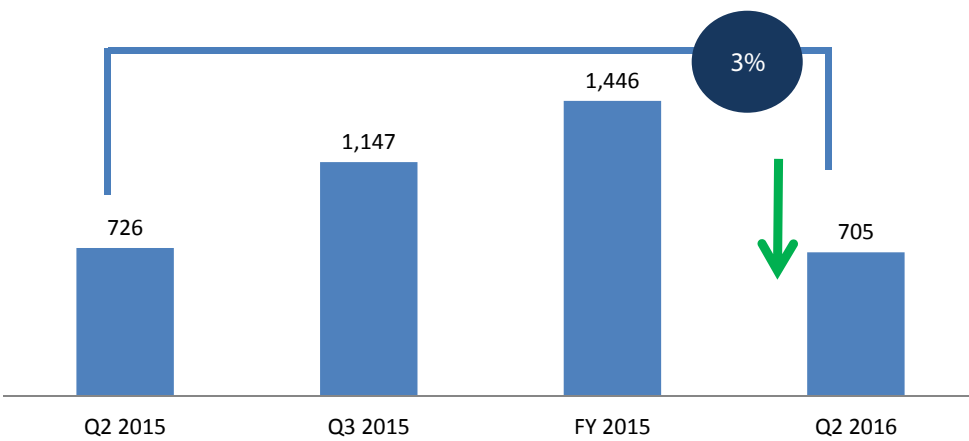
Total Assets increased by 9% (Sh2 billion) to KShs 24.5 billion (2015 Q2: Shs22.5 billion).

## Interest Income (Sh. Million)



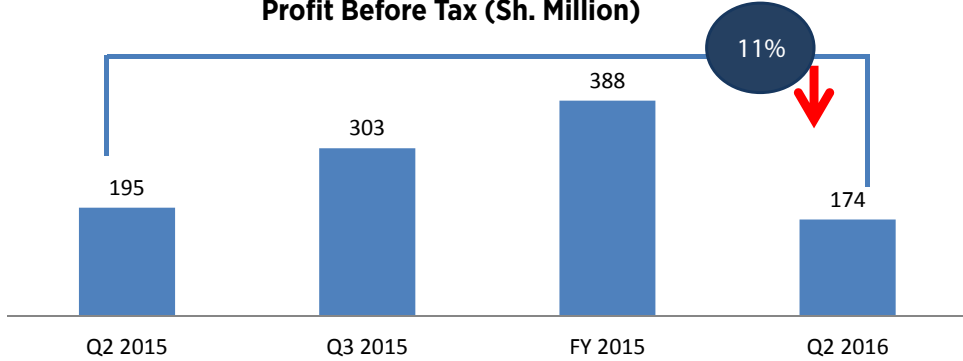
Interest income grew by 21% to Sh1.7 billion in Q2 2016 (2015 Q2: Sh1.4 billion) attributed to growth in customer loans and advances.

## Operating Expenses (incl. prov) (KShs Million)



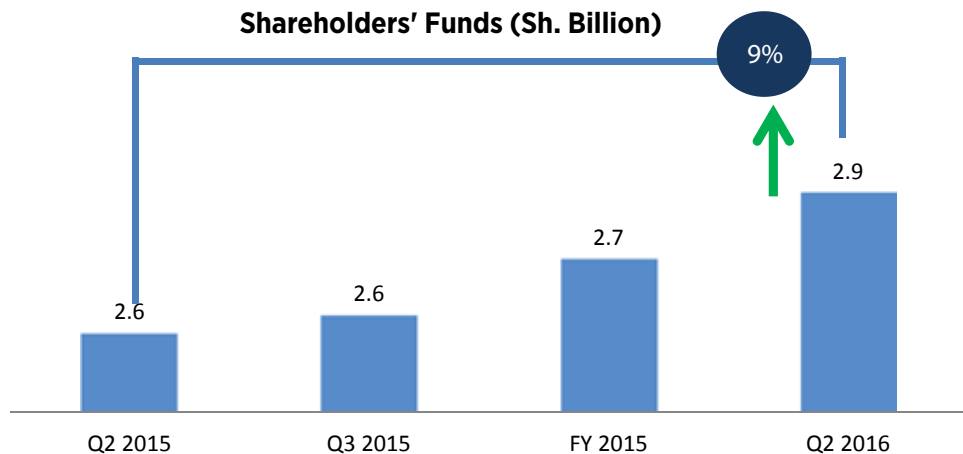
Operating expenses came down by 3% to KShs 705 million in Q2 2016 (2015 Q2: KShs 726 million). This follows cost saving initiatives implemented from Q2 2015 in line with our Cost efficiency strategy.

## Profit Before Tax (Sh. Million)



The Bank recorded Profit Before Tax of Sh174 million (2015Q2: Sh194 million) for the period ended 30th June 2016 which represents a marginal drop of Sh21 million. The increase in cost of funds on account of increasing Term Deposits was the contributory factor as well as low loan growth which was offset by cost efficiency in operations.

## Shareholders' Funds (Sh. Billion)



Shareholders' funds grew by 9% (Sh0.3 billion) to close at Sh2.9 Billion (2015 Q2: Sh2.6 billion)

