Stanbic Holdings Plc

Financial performance for the half year ended 30 June 2018

Contents

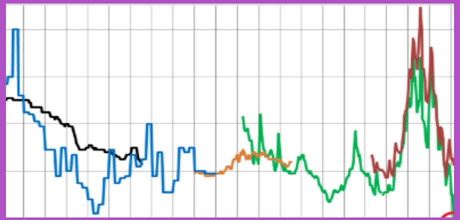
Welcome and remarks

Half year review

Charles Mudiwa

Chief Executive, Stanbic Bank

Operating environment



Macro- economic environment

Inflation

June 2018 4.3% vs.
June 2017 9.2%

91-day T-bill

June 2018 7.7% vs.
June 2017 8.3%

USD exchange rate
June 2018 101.0 vs.
June 2017 103.5

Regulatory environment

1st year adoption of IFRS 9

Central Bank Rate cut in March and further rate cut in July

Market opportunities

Government’s Big 4

Technological innovations

Infrastructure projects

Market threats

Cyber security risk & impact on customer safety

New laws e.g. changes in excise duty and proposed Bancassurance regulation

Unregulated lending &its impact on customer credit scoring

Hyperinflation in South Sudan

Results highlights

KES 11,178m
Total revenue
2017: KES 9,169m

136.5b
Customer loans
2017: 117.9b

17%
ROE
2017: 9%

KES 3,552m
PAT
2017: KES 1,737m

167.3b
Customer deposits
2017: 130.3b

106.77
Net asset value per share
2017: 103.13

51%
CTI
2017: 56%

278.8b
Total assets
2017: 234.3b

2.25
DPS
2017: 1.25

- The Group (Kenya Bank, South Sudan branch, SBG Securities and Stanbic Insurance Agency Limited) reported a profit after tax of KES 3.6b
- Total revenue grew by 22% on account of strong balance sheet growth, increased trading revenue and fees and commission on electronic banking and trade finance
- Non interest revenue reported strong performance as the Bank leveraged on technology to improve our customers' banking experience and successful closure of key deals in Investment Banking
- Low credit impairment charges in the first half of the year on account of improved asset quality of the performing book
- The Board of Directors have declared a dividend of KES 2.25 per share

Recap of our strategy

Our Purpose

Kenya is our home, we drive her growth

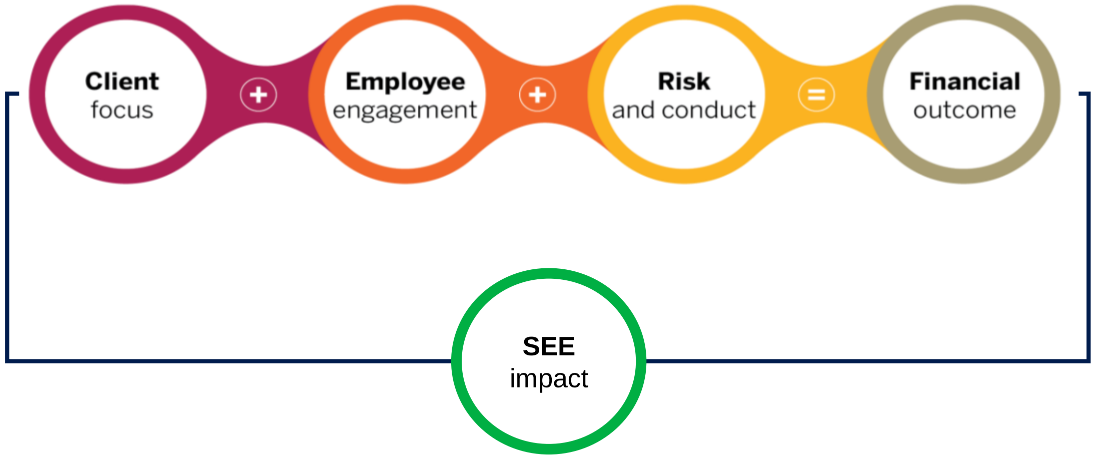
Our Vision

To be a **leading** financial services organisation **in Kenya** delivering **exceptional client experiences** and **superior value**

In executing our strategy our key focus areas are

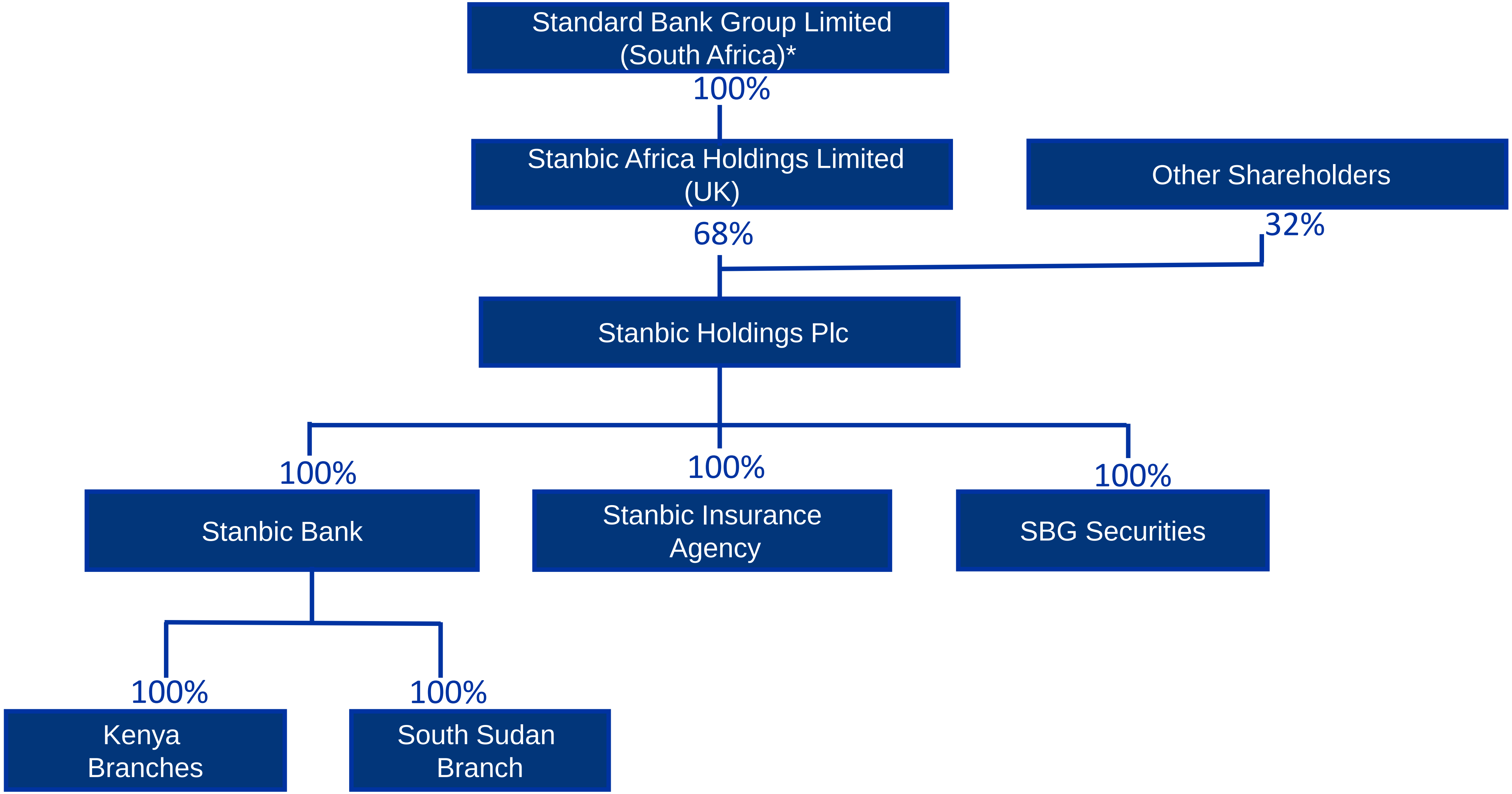
Client centricity	We want to do valuable things for clients
Digitisation	Via digital platforms
Universal financial services organisation	Delivering a seamless universal financial services proposition

We measure our progress using five strategic value drivers



SEE = Social, economic and environmental

Stanbic Holdings Plc structure



Legal entities operate under the Corporate and Investment Banking (CIB) and Personal and Business Banking (PBB) business unit segments. Wealth cuts across CIB and PBB

Detailed financial analysis

Abraham Ongenge

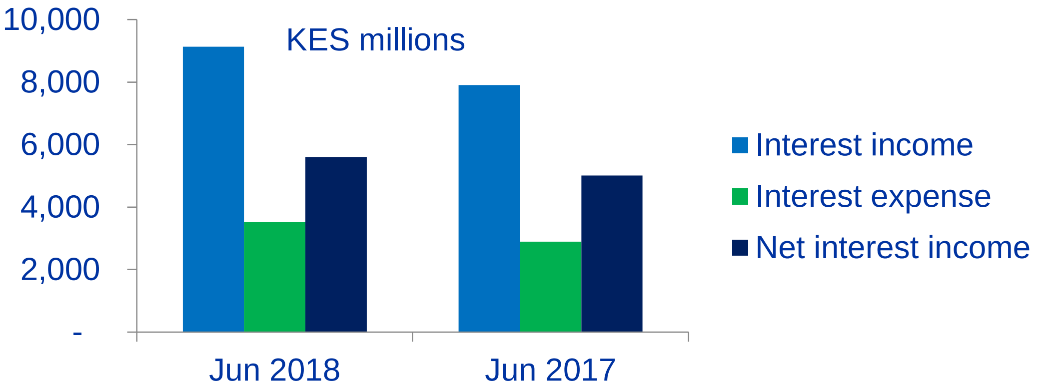
Chief Finance Officer

Summary income statement

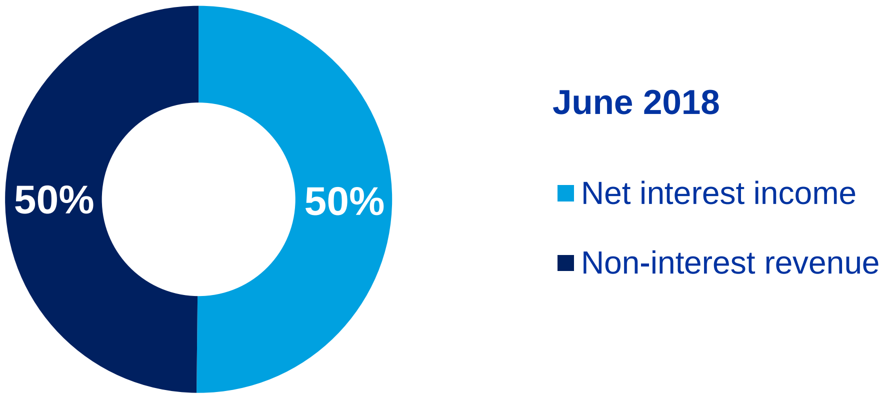
	June-2018 KES millions	June-2017 KES millions	Change %
Net interest income	5,608	5,012	12
Non-interest revenue	5,569	4,157	34
Total income	**11,177**	**9,169**	**22**
Operating expenses	(5,730)	(5,143)	(11)
Pre-provision profit	**5,447**	**4,026**	**35**
Credit impairment charges	(253)	(1,818)	86
Taxation	(1,642)	(471)	>(100)
Profit after tax	**3,552**	**1,737**	**>100**

Revenue

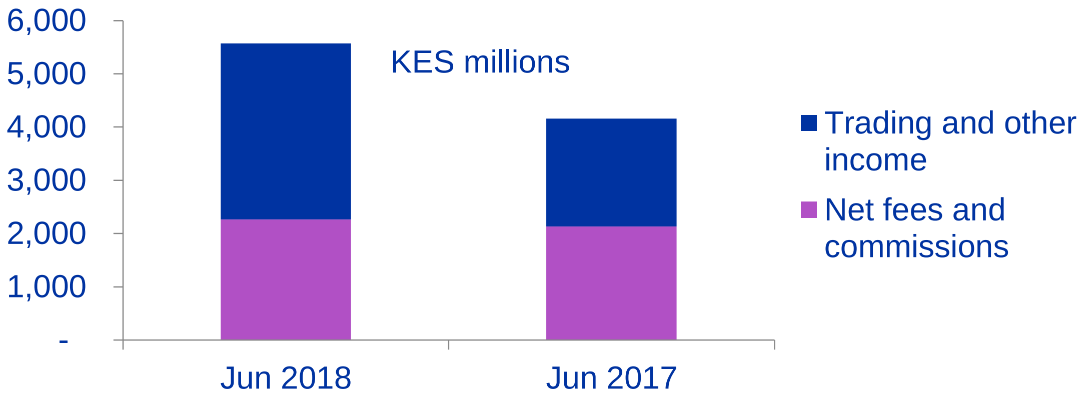
Net interest revenue



- Net interest income increased year on year by 12% explained by growth in loans and advances with local currency loans growing by 28% and foreign currency loans growing by 5%
- Reduction in cost of funding as current accounts and savings now account for 85% of customer deposits
- Further rate cut in July will impact margins. This may be offset by a repeal of the interest rate capping law



Non-interest revenue



Net fees and commission income

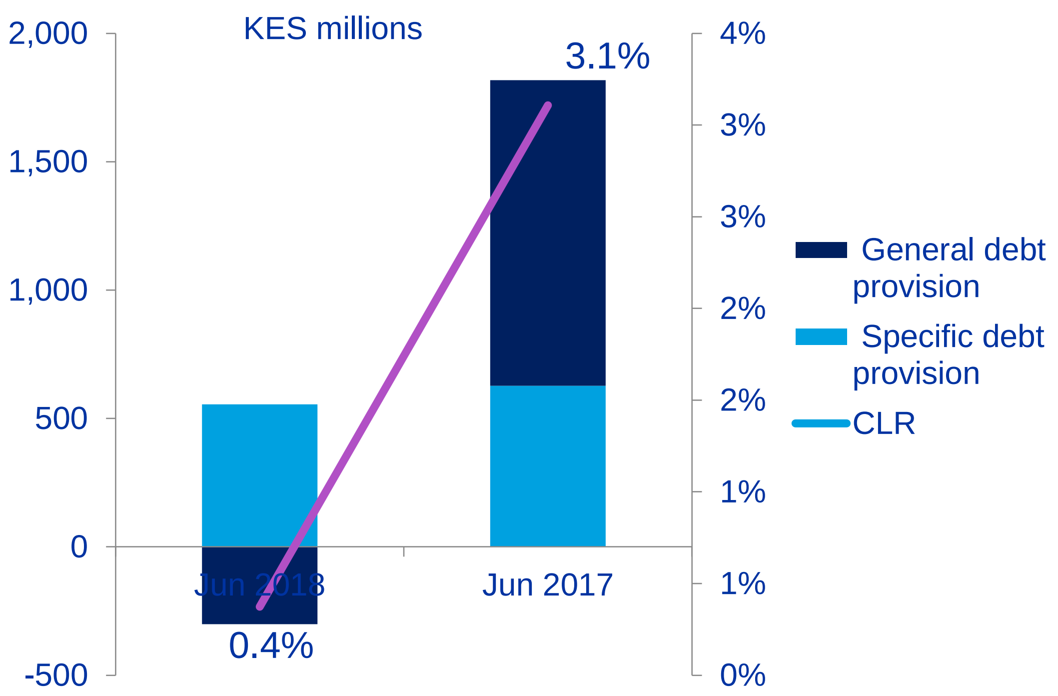
- Increase in net fees and commission income explained by:
  - Increase in trade finance revenues as letters of credit and guarantees grew by 83%
  - Key investment banking deals closed in the first half of the year
  - Continued growth of electronic banking revenues

Trading revenue

- Income from trading increased by 63% driven by mark to market gains on money market and fixed income trading desks
- Foreign exchange income also increased by 26% supported by increase in client volumes

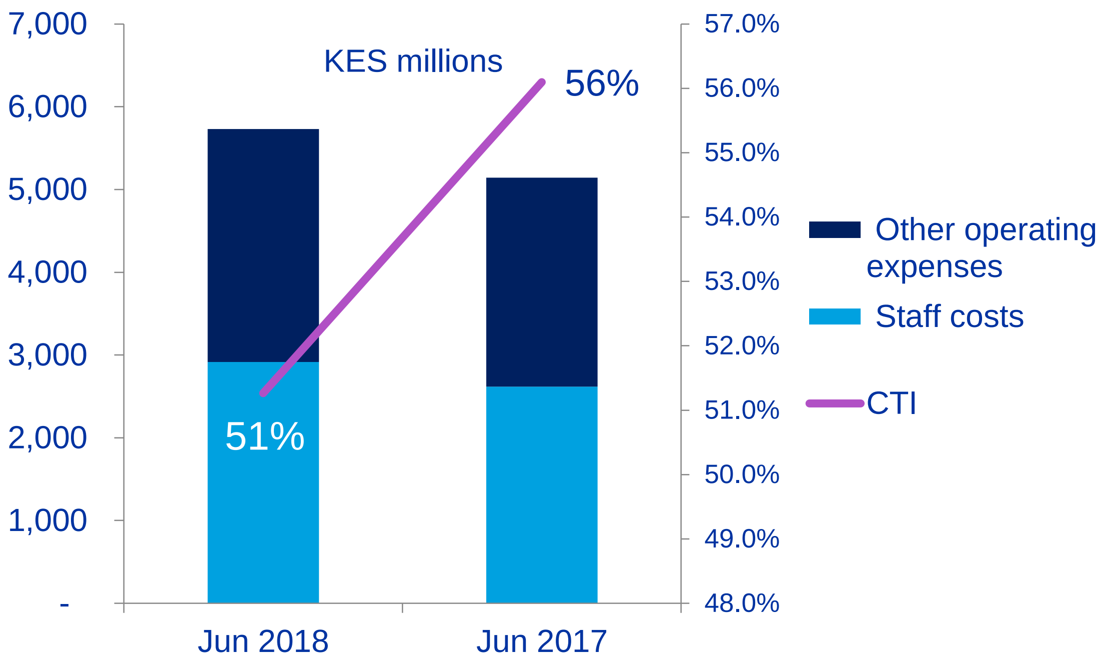
Credit impairment and operating expenses

Credit impairment charges



- Improved asset quality explains the reversal of General debt provisions
- We continue to assess the adequacy of provisions relating to NPLs based on various recovery milestones

Operating expenses



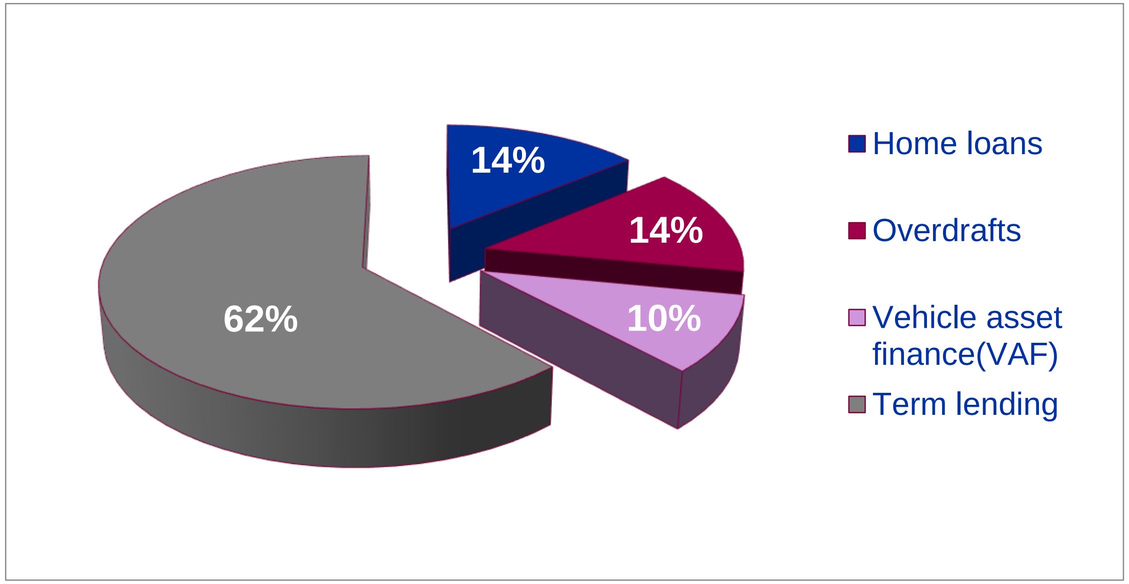
- Decline in cost to income as revenues grew at a higher rate than costs. Revenue increased by 22% compared to the growth in costs by 11%
- The Bank is currently planning to upgrade its core banking system in the second half of the year

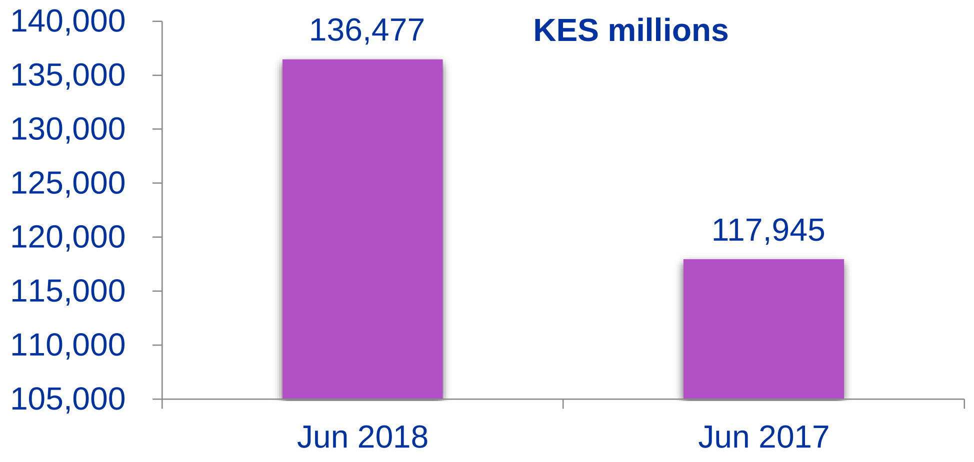
Summarised group balance sheet

	June-18 KES millions	June-17 KES millions	Change %
Assets			
Financial investments	91,541	71,853	27%
Loans and advances to banks	17,558	15,571	13%
Loans and advances to customers	136,477	117,945	16%
Other assets	20,371	16,011	27%
Property and equipment	2,271	2,326	(2%)
Intangible assets	10,563	10,552	0%
Total assets	**278,781**	**234,258**	**19%**
Liabilities			
Deposits from banks	48,466	47,597	2%
Deposits from customers	167,306	130,263	28%
Borrowings	7,032	3,988	76%
Other liabilities	13,767	11,642	18%
Equity	42,210	40,768	4%
Liabilities and equity	**278,781**	**234,258**	**19%**
Contingents	**72,479**	**39,554**	**83%**
Letters of credit	6,286	3,891	62%
Guarantees	66,193	35,663	86%

Customer loans and advances

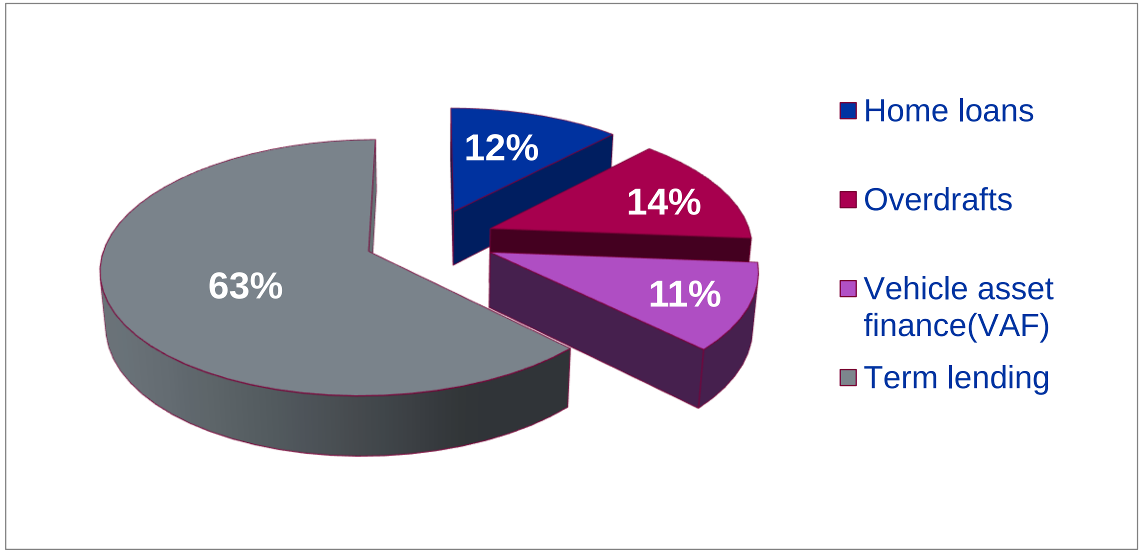
June 2018 Loans and advances by product





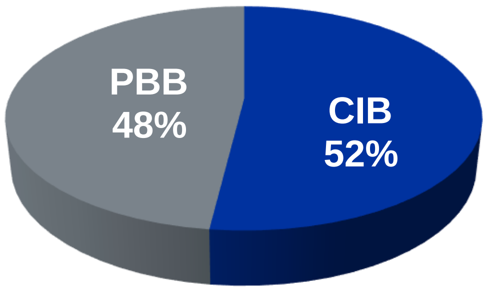
- Customer loans and advances grew by 16% year on year mainly on Corporate lending and secured personal lending

June 2017 Loans and advances by product

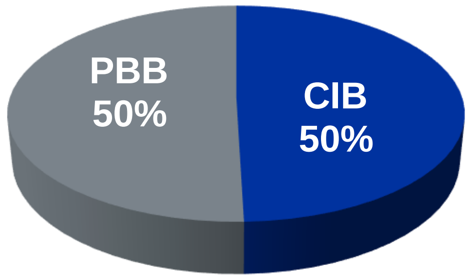


Loans and advances by business unit

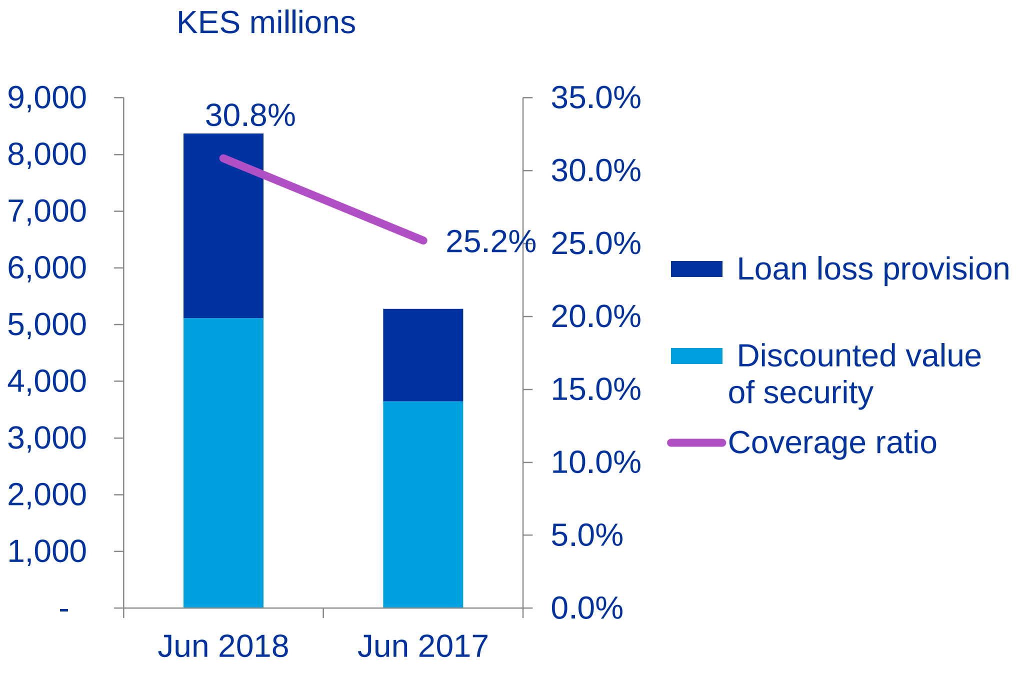
June 2018

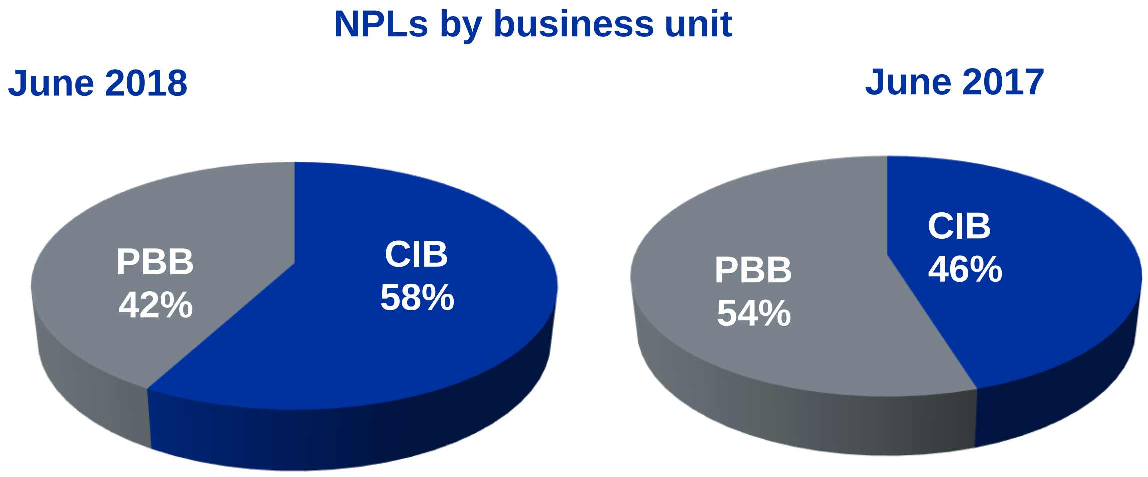


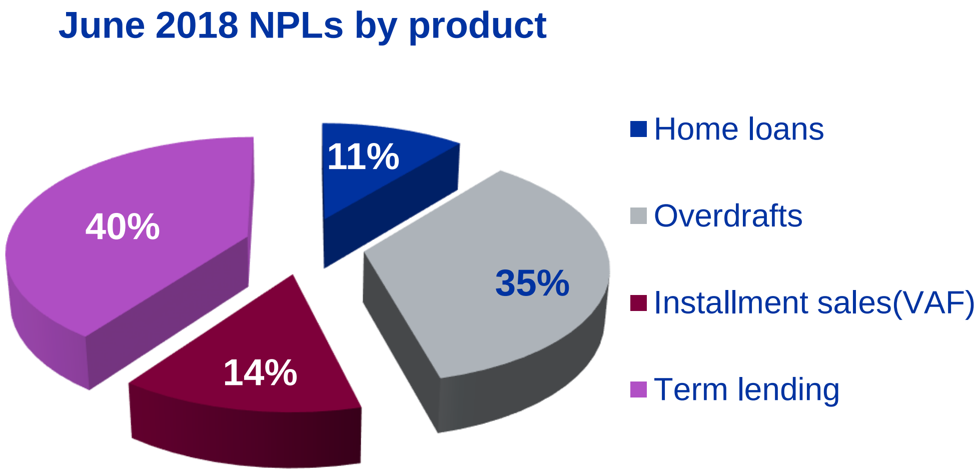
June 2017

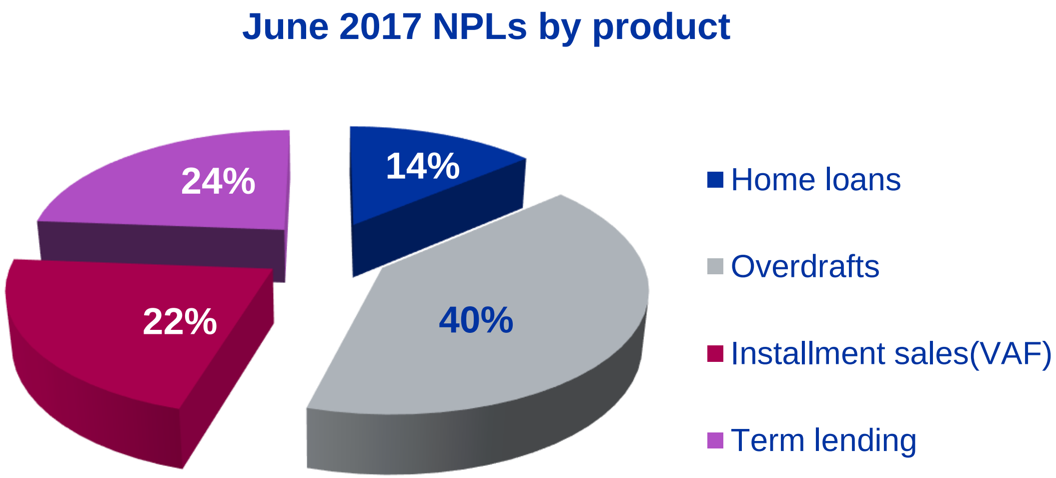


Customer loans and advances: Non performing loans (NPLs)

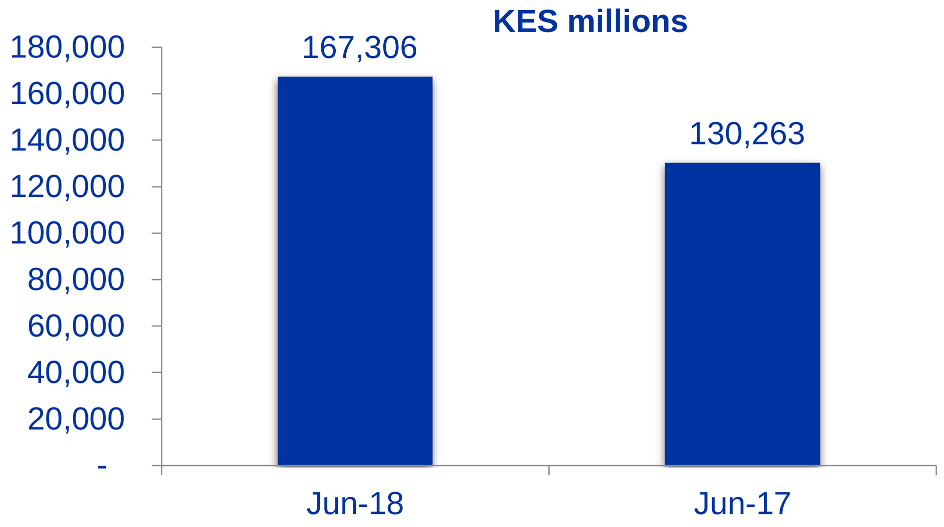








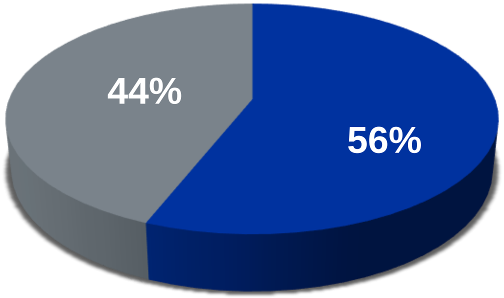
Customer deposits



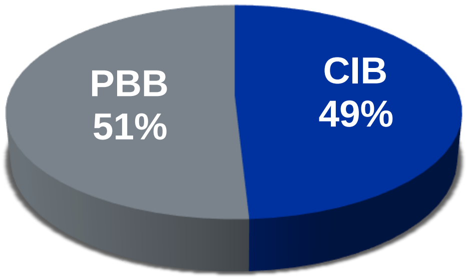
- Customer deposits grew by 28% year on year with core accounts accounting for 85% of total deposits

Customer deposits by business unit

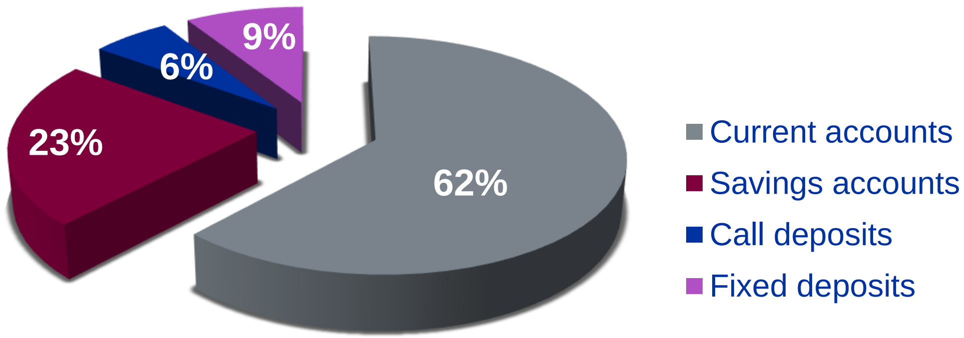
June 2018



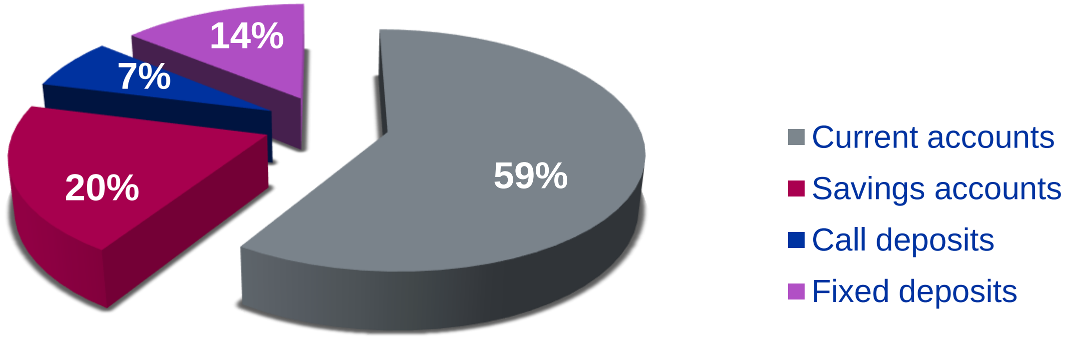
June 2017



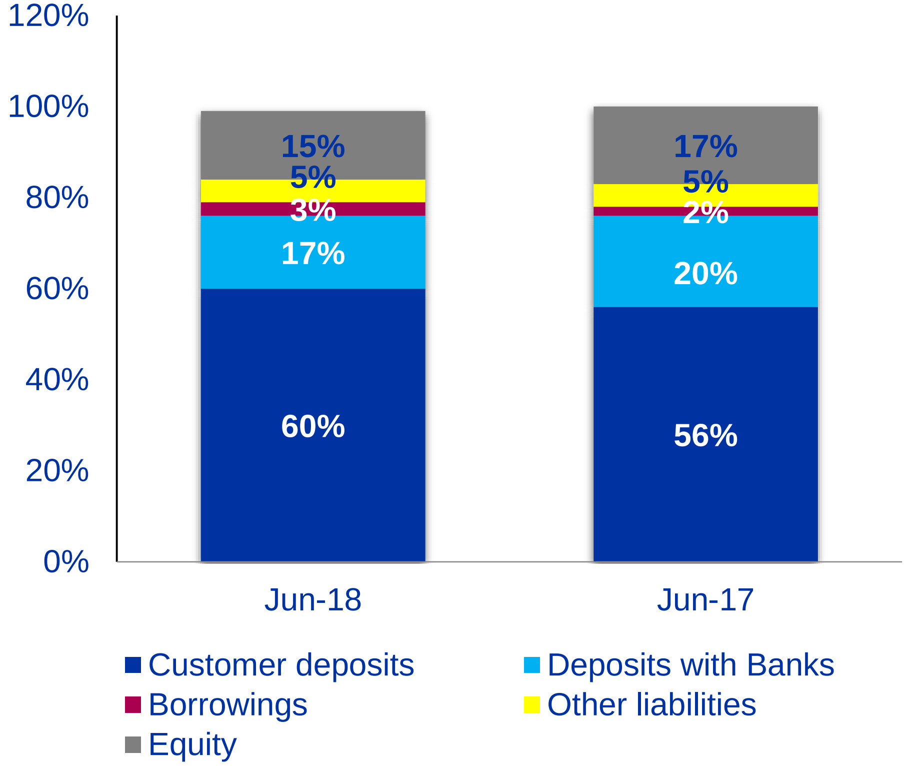
June 2018 customer deposits per product

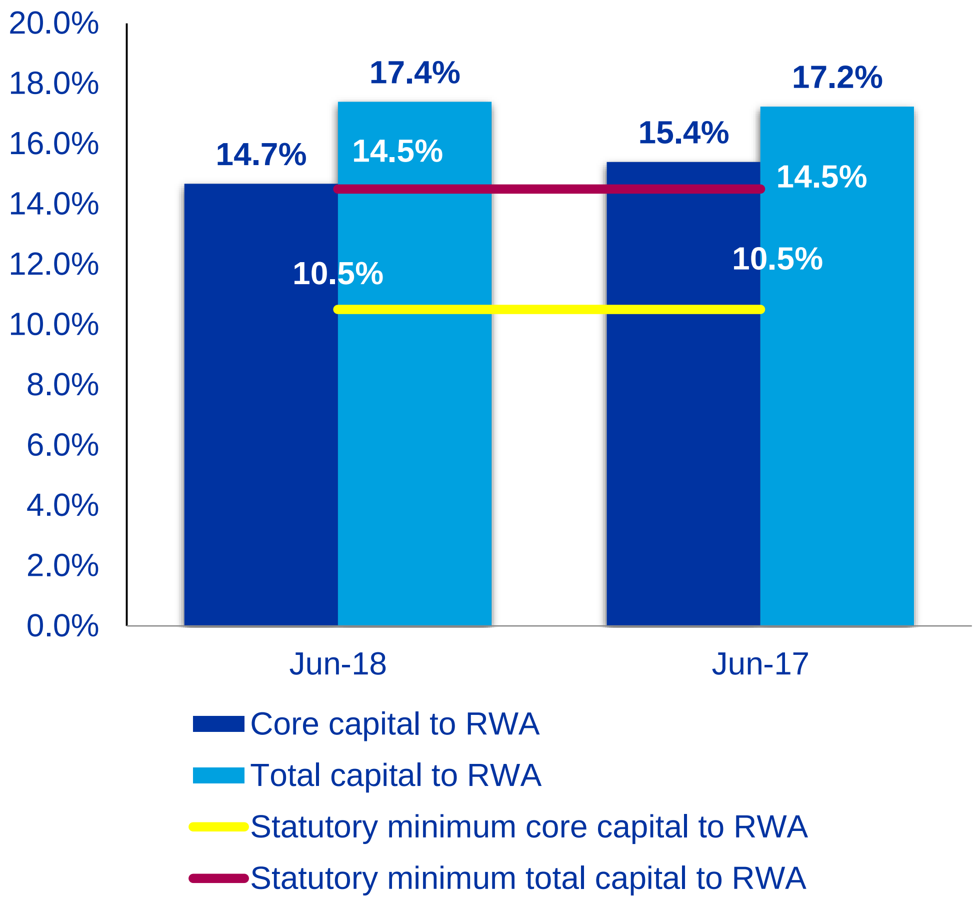


June 2017 customer deposits per product

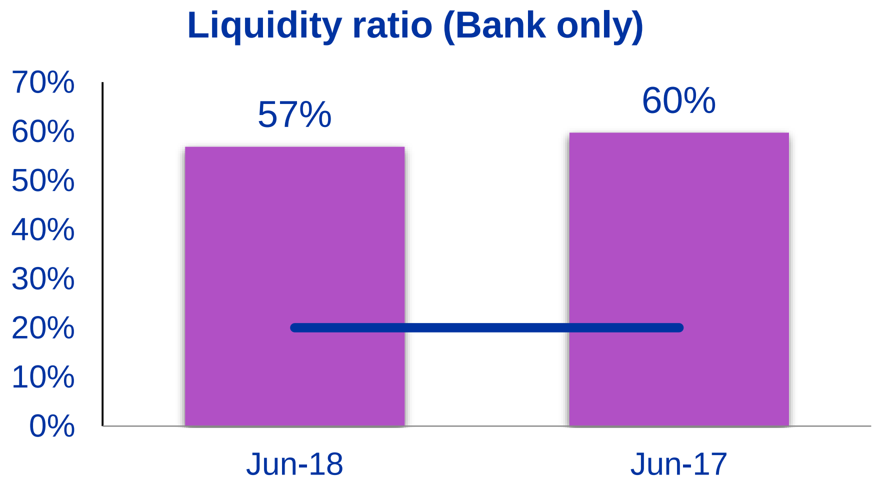


Funding, liquidity and capital





RWA- Risk weighted assets



Corporate and Investment Banking (CIB)

Anton Marais

Executive, Corporate and Investment Banking

CIB summary performance

	June-2018 KES millions	June-2017 KES millions	Change %
Net interest income	2,969	2,734	9
Non-interest revenue	4,373	3,146	39
Total revenue	**7,342**	**5,880**	**25**
Credit loss ratio	(0.7%)	5.1%	
Customer loans and advances	70,898	58,436	21
Customer deposits	93,267	64,081	46
Contingents	**67,912**	**35,608**	**91**
Letters of credit	5,202	2,995	74
Guarantees	62,710	32,612	92

- Increase in net interest income as a result of growth in the customer balance sheet
- Higher non interest revenue due to fees from increased trade finance volumes, key deals in Investment Banking and mark to market gains on the trading revenue line
- Credit loss ratio was lower than 2017 due to improved asset quality of the performing book
- 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
- Increase in customer deposits mainly on current account balances which is in line with our strategy of growing the local currency customer balance sheet

CIB 2018 strategic priorities

We want to partner with our clients to unlock their dreams

We aspire to be the undisputed financial services provider of choice

We want to deliver value to our clients through our deep sector expertise by focusing on:

Client centricity

We want to do valuable things for our clients

Digitisation

Via digital platforms

Universal Financial Services Organisation

Delivering a seamless universal financial services proposition

Personal Business Banking (PBB)

Maurice Matumo

Executive, Personal and Business Banking

PBB summary performance

	June-2018 KES millions	June-2017 KES millions	Change %
Net interest income	2,639	2,279	16
Non-interest revenue	1,196	1,010	18
Total revenue	**3,835**	**3,289**	**17**
Credit loss ratio	1.5%	1.1%	
Customer loans and advances	65,579	59,509	10
Customer deposits	74,039	66,182	12
Contingents	**4,567**	**3,947**	**16**
Letters of credit	1,084	896	21
Guarantees	3,483	3 051	14

- Strong balance sheet growth on our focus segments driven by acquisition of new to bank customers
- Increase in net interest income explained by balance sheet growth and improved margins as result of accelerated growth in local currency current accounts
- Growth in non interest revenue mainly driven by increased transactions on our digital channels and increased penetration in bancassurance and trade finance
- Credit loss ratio impacted mainly by one-off writebacks in 2017 that did not recur

PBB 2018 strategic priorities

Leading with Business Banking	• A collaborative approach aligned to CIB customer opportunities
Focus on non interest revenue generating activities	• Transactional accounts - primary • Payments and Collections • Trade Finance – including GM • Wealth – Insurance, Investments & offshore
Raise cheaper deposits to improve margins	• Focus on transactional account growth and collaboration opportunities in Commercial Banking
Market leading customer experience	• Digitisation –in account opening, lending & payments and collections • Continued investment in our people
Digital transformation	• Digital Branches • Remote account opening • Cash in cash out solution
Maximize return on investment	• Leverage existing investments; investments limited to revenue generating initiatives • Keep costs below inflation

Wealth

Adam Jones

Executive, Wealth

Stanbic Insurance Agency summary performance

	June-2018 KES millions	June-2017 KES millions	Change %
Net interest income	5	3	67
Fees and commission	133	84	58
Total revenue	**138**	**87**	**59**
Total expenses	(64)	(47)	36
Profit before tax	**74**	**40**	**85**
Tax	(23)	(13)	77
Profit after tax	**51**	**27**	**89**

- Revenue uplift due to:
  - Increased volumes from embedded products aligned to growth in the loan book
  - Improved revenue from stand alone and advisory business
- Cost increase due to investment in sales capabilities

Stanbic Insurance Agency 2018 strategic priorities

- Increase penetration on the Bank’s customer base
    - Deeper collaboration with Corporate and Investment Banking sectors
    - Embedding insurance solutions to customers in personal markets and SME space
    - Partnerships with specific brokers locally and internationally on specialist risk
- Review and leverage systems capabilities aligned to growth plan
- Manage regulatory environment
- Optimise relationship with other entities within the Group

SBG Securities (SBGS)

Bethuel Karanja

Executive Director, SBG Securities

SBGS summary performance

	June-2018 KES millions	June-2017 KES millions	Change %
Brokerage commission	135	145	(6)
Other revenue	43	24	72
Total income	**178**	**169**	**5**
Total expenses	(129)	(127)	(2)
Profit before tax	**49**	**42**	**17**
Tax	(17)	(14)	(21)
Profit after tax	**32**	**28**	**14**

- SBG Securities posted revenues of KES 178m for the half year ending 30th June 2018, indicating a 5% increase compared to the same period last year
- This performance reflects:
  - Improved equity market activity at the Nairobi Securities Exchange with market turnover increasing 32% year-on-year
  - The increase in market activity was however partly offset by a lower equities trading market share of 13.1% compared to 16.4% as at end of year 2017
- Overall, SBG Securities was ranked 3rd in equities trading market share compared to the 2nd position held in the previous year

SBGS 2018 strategic priorities

H1 2018 perspectives

- The Kenya equities market has improved year-on year, evidenced by growth in volumes and higher valuations, supported by a better macroeconomic and political context
- Although international investors have been net sellers year to date, the market has been well supported by local institutional investors

2018 strategic priorities

- Strong focus on advancing our client franchise to establish a dominant product offering in our chosen African frontier markets
- Maintain high quality and differentiated products and services for both institutional and regional retail client segments
- Continue leveraging on technology and digital channels to drive efficiencies

Q & A