

Key Highlights Q3'20

- The bank accepted a voluntary retirement for 88 staff members aimed at increasing efficiency. The costs involved totalled Kshs 0.8 bn recorded as an exceptional item in the financial statements

Income Statement:

- Profit after tax increased by 7.9% to Kshs 5.1 bn in Q3'2019, from Kshs 4.7 bn in Q3'2018. The performance was driven by a 15.2% increase in total operating income,
- Total operating income increased by 15.2% to Kshs 18.4 bn, from Kshs 15.9 bn in Q3'2018, driven by a 12.6% increase in Net Interest Income to Kshs 9.6 bn in Q3'2019, from Kshs 8.5 bn in Q3' 2018, coupled with a 18.3% increase in Non-Funded Income to Kshs 8.8 bn, from Kshs 7.4 bn in Q3'2018,
- Interest income increased by 11.3% to Kshs 15.4 bn in Q3'2019, from Kshs 13.8 bn in Q3'2018. This was largely due to the interest income on loans and advances, which increased by 13.6% to Kshs 11.7 bn in Q3'2019, from Kshs 10.3 bn in Q3'2018. The yield on interest-earning assets increased to 8.1% from 6.7% in Q3'2018 following the 11.6 % increase in interest income to Kshs 15.4 bn from Kshs 13.8 bn in Q3'2018,
- Interest expense increased by 9.3% to Kshs 5.8 bn from Kshs 5.3 bn in Q3'2018, following a 19.7% increase in the interest expense on customer deposits to Kshs 4.0 bn from Kshs 3.3 bn in Q3'2018. The increase was however mitigated by the 20.8% decline in Interest expense on deposits and placements from banking institutions, to Kshs 1.2 bn from Kshs 1.5 bn in Q3'2018. The cost of funds thus rose to 2.6%, from 2.5% in Q3'2018. Net Interest Margin increased to 6.9%, from 6.2% in Q3'2018 on the back of the rapidly increasing Net Interest Income by 55.3% to Kshs 13.2 bn from Kshs 8.5 bn in Q3' 2018,
- Non-Funded Income (NFI) increased by 18.3% to Kshs 8.8 bn in Q3'2019 from Kshs 7.4 bn in Q3'2018. The growth in NFI was driven by a 44.6% increase in foreign exchange trading income to Kshs 3.4 bn from Kshs 2.3 bn in Q3'2018, and a 22.6% increase in other fees and commissions to Kshs 3.4 bn from Kshs 2.8 bn. Fees and commissions on loans and advances increased by 30.9% to Kshs 0.3 bn from Kshs 0.2 bn in Q3'2019. The current revenue mix stands at 52:48 funded to non-funded income in Q3'2018 from the 53:47 ratio recorded in Q3'2018, owing to a faster increase in NFI,
- Total operating expenses increased by 26.3% to Kshs 11.7 bn in Q3'2019 from Kshs 9.2 bn in Q3'2018, largely driven by a 31.2% increase in the loan loss provision to Kshs 1.7 bn from Kshs 1.2 bn in Q3'2018. Staff costs also recorded a 0.1% increase to Kshs 4.3 bn from Kshs 4.2 bn in Q3'2018. Consequentially, Cost to income ratio with LLP deteriorated to 63.5% in Q3'2019 from 57.9% in Q3'2018. Without LLP, the Cost to income ratio also deteriorated to 54.4% in Q3'2019 from 50.1% in Q3'2018,
- Profit before tax remained unchanged at Kshs 6.7 bn in Q3'2019. Profit after tax increased by 24.0% to Kshs 5.9 bn in Q3'2019 from Kshs 4.7 bn in Q3'2018 after adding back the exceptional items,

Balance Sheet:

- The balance sheet recorded an expansion as total assets increased by 2.8% to Kshs 294.3 bn from Kshs 286.3 bn in Q3'2018. This growth was largely driven by a 14.6% increase in the loan book to Kshs 161.7 bn from Kshs 141.1 bn, and balances due from the Central Bank, which increased by 88.0% to stand at Kshs 36.0 bn from Kshs 19.2 bn in Q3'2018. The growth was however slowed down by a sharp decline in placements by 51.6% % to Kshs 4.5 bn from Kshs 6.8 bn in Q3'2018,
- Total liabilities rose by 1.3% to Kshs 256.5 bn from Kshs 253.2 bn in Q3'2018, largely driven by a 5.4% increase in customer deposits to Kshs 191.2 bn in Q3'2019 from Kshs 181.5 bn in Q3' 2018,

and borrowings that grew by 0.8% to Kshs 12.4 bn from Kshs 12.3 bn in Q3'2018. Other liabilities however decreased by 17.4% to Kshs 10.8 bn in Q3'2019 from Kshs 13.1 bn in Q3'2018,

- The faster increase in loans as compared to the deposits lead to the increase in the loan to deposit ratio to 84.6% in Q3'2019 from 77.8% in Q3'2018,
- Gross non-performing loans increased by 78.3% to Kshs 18.9 bn from Kshs 10.6 bn in Q3'2018. The NPL ratio thus increased to 10.9% in Q3'2019 from 7.5% in Q3'2018, owing to the faster growth in non-performing loans that outpaced growth in the net loans. General Loan Loss Provisions (LLPs) increased by 73.6% to Kshs 6.8 bn from Kshs 3.9 bn in Q3'2018. The NPL coverage declined to 58.9% in Q3'2019 from 60.6% in Q3'2018 mainly due to the 78.3% growth in Non-performing loans to Kshs 18.9 bn from Kshs 10.6 bn in Q3'2018 which outpaced the growth in loan loss provision,
- Shareholders' funds increased by 2.8% to Kshs 37.8 bn in Q3'2019 from Kshs 33.1 bn in Q3'2018, largely due to the 17.3% increase in the retained earnings to Kshs 30.8 bn from Kshs 26.3 bn in Q3'2018,
- Stanbic Bank is currently sufficiently capitalized with a core capital to risk weighted assets ratio of 13.9%, 3.4% points above the statutory requirement. In addition, the total capital to risk weighted assets ratio was 17.2%, exceeding the statutory requirement by 2.7% points. Adjusting for IFRS 9, core capital to risk weighted assets ratio was at 15.1% while total capital to risk weighted assets was 18.7%, indicating that the bank's total capital relative to its risk-weighted assets declined by 1.5% points due to the implementation of IFRS 9,
- Stanbic Holdings currently has a return on average assets of 2.5% and a return on average equity of 20.7%.

Key Take-Outs:

- a. The bank recorded a relatively strong performance in both funded and NFI segments. The bank's aggressive lending has led to increased interest income, as well as the associated fees and commissions. The increased lending has however come at a cost as asset quality deteriorated, as shown by the rise in the NPL ratio to 10.9%, from 7.5% in Q3'2018. Consequently, the cost of risk rose to 9.1% from 7.8% in Q3'2018.

Below is a summary of the bank's performance;

Balance Sheet (bns)	Q3'2018	Q3'2019	y/y change
Net Loans and Advances	146.1	161.9	14.6%
Total Assets	286.3	294.3	2.8%
Customer Deposits	181.5	191.3	5.4%
Total Liabilities	253.2	256.5	1.3%
Shareholders' Funds	33.1	37.8	14.2%

Balance sheet ratios	Q3'2018	Q3'2019	% y/y change
Loan to Deposit Ratio	77.8%	84.6%	8.7%
Return on average equity	14.3%	20.7%	44.8%
Return on average assets	1.7%	2.5%	47.1%

Income Statement(mns)	Q3'2018	Q3'2019	y/y change
Net Interest Income	8.5	9.6	12.9%
Net non-Interest Income	7.4	8.8	18.9%
Total Operating income	15.9	18.4	15.7%
Loan Loss provision	(1.2)	(1.7)	(41.7%)
Total Operating expenses	(9.2)	(11.7)	26.3%
Profit before tax	6.7	6.7	0.0%
Profit after tax	4.7	5.1	7.9%

Income statement ratios	Q3'2018	Q3'2019	% y/y change
Yield from interest-earning assets	6.7%	8.1%	1.4%
Cost of funding	2.5%	2.6%	0.1%
Net Interest Margin	4.1%	6.9%	2.8%
Cost to Income	57.9%	63.5%	5.6%
Cost to Assets	2.8%	3.4%	0.6%
Net Interest Income as % of operating income	53.5%	52.3%	(1.2%)
Non-Funded Income as a % of operating income	46.5%	47.7%	2.4%

Capital Adequacy Ratios	Q3'2018	Q3'2019
Core Capital/Total Liabilities	16.6%	17.2%
Minimum Statutory ratio	8.0%	8.0%
Excess	8.6%	9.2%
Core Capital/Total Risk Weighted Assets	13.9%	13.9%
Minimum Statutory ratio	10.5%	10.5%
Excess	3.4%	3.4%
Total Capital/Total Risk Weighted Assets	16.9%	17.2%
Minimum Statutory ratio	14.5%	14.5%
Excess	2.4%	2.7%
Liquidity Ratio	61.2%	55.5%
Minimum Statutory ratio	20.0%	20.0%
Excess	41.2%	35.5%
Adjusted Core Capital/Total Liabilities	17.7%	18.7%
Adjusted Core Capital/Total RWA	14.8%	15.1%
Adjusted Total Capital/Total RWA	17.7 %	18.7%