20 August 2015 - Standard Chartered Bank Kenya Limited 2015 Financial Results

Standard Chartered Kenya today released its Half Year Financial results for the period ended 30 June, 2015.

Lamin Manjang, the Chief Executive Officer, commented:

"The performance in the first half was subdued largely due to the after effects of the sharp increase in our non-performing loan book in 2014 coupled with the large net gain on sale of property which has not been repeated. As we stepped up the recoveries of these non-performing loans, the loan book declined in the first quarter. We are pleased to note that loans and advances grew in the second quarter. Further, the NPL ratio has improved significantly from a high of 11% down to 6.5% by June 2015. Our underlying business volumes generally remain strong, and we are rebuilding the balance sheet with good quality assets".

Group Income statement	**6 months ended 30.06.15 KShs million**	**6 months ended 30.06.14 KShs Million**	**YoY Better/ (worse) %**
Net interest income	8,753	8,760	(0.1)
Non funded income	3,434	4,993	(31.2)
Total operating income	**12,187**	**13,753**	**(11.4)**
Operating expenses	(5,299)	(4,808)	(10.2)
Loan impairment	(1,295)	(857)	(51.1)
Profit before taxation	**5,593**	**8,088**	**(30.8)**

Our first quarter performance was disappointing as revenues declined whilst costs and loan impairment increased. We have however seen a much stronger second quarter where we have made excellent progress. The underlying revenue year on year, (after stripping out the exceptional net gain of KShs 1.4 billion earned in 2014) is marginally down.

The impact of the derisking of the loans portfolio has impacted the overall interest income levels together with compressed margins and low volatility in Financial Markets. Further, the uncertainty around the implementation of Capital Gains Tax introduced in January 2015 depressed foreign inflows into the Nairobi Securities Exchange impacting our custody business especially in the first quarter. We have seen good momentum on our foreign exchange income.

We have also seen muted growth in our Retail Clients segment due to the reorganisation of teams around the refreshed strategy. The new structure has been largely embedded. We have seen some volume growth in various parts of the business which is encouraging as we go forward into the rest of the year.

Operating expenses increased 6.4 per cent in line with inflation and investments. We however are beginning to see some of the productivity saves come through from the actions we have taken so far.

Coming to the impairment charge, as we advised in the previous quarter, our impairment rose sharply. Our asset quality deteriorated sharply in 2014 with the Gross Non performing Loans (NPLs) peaking at KShs 14.6 billion as at June 2014, which represented 11 per cent of our total gross loans. We have taken decisive actions to derisk our portfolio and whilst this has resulted in a material drag to our income it has improved the overall quality of the portfolio and risk profile for the business.

The NPLs have consequently declined by 43 per cent since the peak in June last year to close at KShs 8.4 billion. The NPL ratio has further declined to 6.5 per cent as at the end of June 2015 largely due to the excellent growth we saw in our portfolio. Consequently our overall net loans and advances, although down year on year, are now back to the December 2014 level as we grew our loans and advances by KShs 9.2 billion in Q2 2015 to reach KShs 123.3 billion.

Our book within the Corporate & Institutional Clients segment is short tenor with 68 per cent of the book being less than one year. This allows us to quickly react to any changes in the environment and our portfolio.

We have taken various risk mitigating actions through 2014 and into 2015 and we have been largely successful. One large name however deteriorated in Q1 2015 and we had to take a lumpy impairment charge in March 2015 which has increased the impairment charge compared to the same period last year and this has impacted our bottom line.

Looking ahead we are seeing momentum in the growth in the loan book coupled with further positive actions that the impact on the performance will begin to be mitigated.

We also see our NPL ratio coming back to within or below the industry ratio of 5.7 per cent in the next 6 to 12 months.

We continue to have a conservative risk management profile and are now much more comfortable with the quality and shape of our loan book, but clearly there is still more work to be done.

Balance sheet

	30.06.15 KShs million	31.12.14 KShs Million	YoY Better/ (Worse) %
Loans and advances to customers	123,256	122,749	0.4
Customer deposits	163,212	154,067	5.9
Loans to deposit ratio	75.5%	79.7%	

A strong highly diverse balance sheet with no material concentration by either business or segment is a competitive advantage.

Our balance sheet remains highly liquid with advances to deposits ratio of 75.5 per cent. We remain a customer deposit funded bank. We are pleased that the measures we put in place in 2014 to address our funding constraints are beginning to bear fruit with our total deposits in 2015 increasing by 6 per cent to KShs 163.2 billion and Current Account and Savings Account (CASA) balances increasing from 74 per cent to 79 percent.

Loans and Advances to customers were up marginally to KShs 123.3 billion as we continue to derisk our balance sheet. We are confident that the initiatives we have put in place across all our businesses will see our balance sheet grow in the subsequent periods.

We continue to have a very strong capital position, with the total capital to risk weighted assets ratio standing at 21 per cent.

In summary, based on our current outlook, we remain optimistic that our performance for the full year will be consistent with our financial priorities and areas of strategic focus.

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