Stanbic Bank 2016 Interim Results and Operational Highlights

I would like to thank all of our stakeholders – customers, employees, board members, regulators and shareholders for your continued support to the bank.

Our half-year results reflect the success of our diversified business model with multiple revenue streams and intrinsic operating leverage to support our customers' needs. In the next few pages we will detail our half-year financial performance and some of the key half-year operational highlights.

I thank you for your continued support and ensuring that we keep moving forward.

Patrick Mweheire
Chief Executive, Stanbic Bank Uganda

First-Half Highlights

Awards Won

Best Emerging Bank in Uganda – "Global Finance" Banks In Africa 2016

Best Retail Bank in Uganda - 2016 "The Banker" East Africa Awards

Transactions completed and milestones achieved

USD345 million Government of Uganda interest rate swap - Lead Arranger

USD114 million MTN Syndicated Loan - Lead Arranger

Ushs 943 billion in performance and advance payment guarantees

Ushs 10.3 billion in assets under custody

Ushs 400 billion growth in deposits from December 2015

Strategic Events Hosted

Trade Symposium - Unlocking opportunities the Power and Infrastructure sectors.

Post Budget Breakfast - Panel discussions with key regulatory and industry partners on the 2016-2017 National Budget

Community Banking Partnership Event – Unveiling of the niche banking offering for non-profit organizations

Commercial Banking Customer Event – Launch of our enhanced customer value proposition, aimed at providing clients with holistic banking solutions

CSI Initiatives

Gaba Early Childhood Development Centre - Construction of an early childhood development centre for pre-primary children in the Gaba market.

Lake Victoria Child Care Centre - Construction of a classroom block at the centre

Bugabira Primary School - Construction of classrooms and toilets at the school

Bundibugyo District - Relief and aid to landslide and flood victims in the Humya Parish

Stanbic Mentorship Programme - An SME business mentorship programme

Stanbic Bank posts solid half-year results.

Stanbic Bank, Uganda's leading financial institution has issued its half year results. Chief Executive Patrick Mweheire talks about the bank's performance in the first-half of 2016.

How would you describe your performance for this first half of 2016?

We are very pleased with the resilience demonstrated by the different business units during the first half of the year. The strength of our diversified business model with multiple revenue streams and the intrinsic operating leverage in the ba nk really came through with these results.

We grew revenues by 28%, profitability by 57% and delivered a record half-year profit of Ushs 107 billion which represented a Year-on-Year growth of Ushs 39 billion from the 2015 half-year of Ushs 68 billion. What this demonstrates is that if you listen to your customers, manage your risk and understand your operating environment, anything is achievable even in the most challenging macro-economic environment.

Our half-year total income or revenue grew by 28% to Ushs 335 billion from Ushs 261 billion - a growth of Ushs 74 billion – of which, over 53% dropped to the bottom line. This is primarily because we grew our non-interest revenue line which is less sensitive to interest rates at a rate higher than net-interest revenue.

Looking at our balance sheet, we registered strong growth to a record Ushs 4.5 trillion up from Ushs 3.8 trillion last half year – a strong testament of the strength of our brand and franchise. More people simply trusted us with their money and we grew our deposits by over Ushs 400 billion over the last six months.

Growth in our loan book on the other hand was more muted and rose by 1%, the result mainly of foreign exchange adjustments. Our credit quality however has remained very strong with a credit loss ratio of just under 2% versus a sector in the high single digits credit loss ratio.

Overall, the last six months have been very positive for the bank and on behalf of the EXCO I can confidently state that we are well positioned to navigate these challenging times and continue growing going forward. I would like to thank all Stanbic employees for their dedication and focus on the right priorities in making this happen.

Isn't it a fact that Stanbic's profit is merely driven by arbitrarily raising your prime interest rate?

That cannot be further from the truth. There is a widespread misconception that commercial banks have overall control over interest rates. Banks do play a critical role in the economy but we are by no means the determinant of the cost of money in the economy.

There are two important facts that we all need to understand. Base interest rates in the market are not set by banks, they are set by the Central Bank primarily to deal with threats such as uncontrolled inflation which affect the entire economy. So when interest costs rise, it's not because all commercial bankers get together in a room and agree to set a given lending rate, it's a structural signal and cost of money in the economy. Secondly and more importantly, no bank that I am aware of rejoices when interest rates go up because it's just the calm before the storm – we all know as rates go up so do the number of Non-Performing Loans.

At the end of the day Stanbic profits are driven primarily by our focus on our customers and our ability to respond to their needs and changes in the market. This is the reason we are constantly innovating and introducing new technologies that put our clients increasingly in control of their overall banking experience.

Stanbic is a leading bank in the industry. What role have you played in stimulating economic growth?

Our participation across the Ugandan economy is deep and systemic. Unbeknown to most, we underwrite a huge part of the Government of Uganda ("GoU") risk especially on infrastructure spend.

Just to give you an example we currently hold the equivalent of Ushs 900 billion in the form of guarantees and bid bonds on all the largest power and infrastructure contracts currently underway in the country. From Karuma, Isimba to the Entebbe expressway and a myriad of road projects, we provide the ultimate comfort that the contractors will deliver a state of the art product as prescribed in the contracts. We also take in the risk in case any of these projects fall short of what was agreed, by guaranteeing to pay the GoU for any losses. In essence we cover the tax payers completely for any potential government loss to the tune of Ushs 900 billion. This is a critical role with multiplier benefits that no other bank can perform.

In addition to this, we consistently innovate in broadening of financing options to GoU as they deliver on their national development mandate. The recent announcement that GoU had hedged its floating interest rate position on the Karuma loan is a good example of this. GoU borrowed USD1.4 billion from the China Exim Bank for 15 years of which USD645 million was at an effective margin or spread over LIBOR, thereby exposing itself to future increases in the LIBOR rate. Even though LIBOR is under 1% today, we have seen it go as high as 6.0% before which exposed GoU to undefined financial risk. By putting together an innovative financial solution, Stanbic was able to fix GoU's rate over the life of the loan and remove interest rate uncertainty. The GoU therefore now knows exactly how much they will pay every year going forward and can therefore plan better. You simply cannot put a value on these types of solutions that transcend generations.

We also happen to hold an average of 10% of all outstanding GoU securities and are a key domestic creditor to the government.

Most recently we won the best primary dealer bank accolade in Uganda for the 5th consecutive year. We also dominate market share in terms of foreign flows into GoU securities given our global distribution platform. All these efforts lower our borrowing costs and keep Uganda as a key investment destination.

Lastly we support the real economy by providing the lowest cost of credit. Stanbic has the second lowest borrowing prime rate in the Ugandan banking sector. We do this deliberately to support credit growth and keep the economic engine running. We will continue to support our 50,000 SME clients and our 500,000 retail clients in full realization that they represent the future of this country.

What should we expect from Stanbic in this second half of the year?

It's critical to note that this was an exceptional first half of the year and we cannot promise or expect to repeat such an impressive performance. What we commit ourselves to is to keep following our winning strategy of listening and delivering for our customers. We have positioned ourselves as a conduit of our customer's needs and believe that we cannot go wrong with this strategy. No doubt there will be headwinds and cyclical challenges but we are resilient and here to stay.

Any closing remarks?

I wish to thank all our stakeholders (customers and employees more especially) for assisting us achieve such extraordinary results. Your trust and support has been unwavering and we are resolute that through your continued support, we will continue to deliver for the betterment of this country.

Stanbic Bank Uganda Limited
Summarised Unaudited Financial Statements for the period ended 30 June 2016

1. Summary income statement

	Unaudited six months to 30 June 2016	Unaudited six months to 30 June 2015	Audited year ended as at 31 Dec 2015
	Ushs' 000	Ushs' 000	Ushs' 000
Interest income	207,475,655	163,097,522	350,330,210
Interest expense	(23,519,946)	(18,842,668)	(38,850,179)
Net interest income	**183,955,709**	**144,254,854**	**311,480,031**
Fee and Commission Income	56,746,254	55,367,223	108,878,606
Fee and Commission expense	(943,702)	(1,706,625)	(3,178,947)
Net Fee and commission income	**55,802,552**	**53,660,598**	**105,699,659**
Net trading income	94,396,836	63,098,004	114,459,189
Other operating income	272,504	212,790	894,479
Total operating income	**334,427,601**	**261,226,246**	**532,533,358**
Impairment charge for credit losses	(14,935,286)	(15,784,744)	(28,747,373)
	319,492,315	**245,441,502**	**503,785,985**
Employee compensation and related costs	(67,386,099)	(60,290,160)	(120,118,291)
Other operating expenses	(107,979,951)	(93,218,897)	(180,369,846)
Profit before income tax	**144,126,265**	**91,932,445**	**203,297,848**
Income tax expense	(36,831,444)	(23,556,575)	(52,538,567)
Profit for the period	**107,294,821**	**68,375,870**	**150,759,281**
Earnings per share			
Basic & diluted*	**4.19**	**2.67**	**2.95**
Interim/Final dividends proposed	-	-	0.78

*Current and prior period earnings have been annualised

2. Summary statement of comprehensive income

	Unaudited six months to 30 June 2016	Unaudited six months to 30 June 2015	Audited year ended as at 31 Dec 2015
	Ushs '000'	Ushs '000'	Ushs '000'
Profit for the period:	107,294,821	68,375,870	150,759,281
Other comprehensive income for the period after tax:			
Net gain/ (Loss) on available for sale financial assets	14,842,539	(4,275,090)	(8,829,582)
Total Comprehensive income for the Period	**122,137,360**	**64,100,780**	**141,929,699**

A copy of the full interim financial report can be obtained at the following addresses: Office of the Company Secretary, 11th Floor, Crested Towers, 17 Hannington Road, Kampala, Uganda or at www.stanbicbank.co.ug

The financial statements were approved by the Board of Directors on 3rd August 2016.

Mr. Japheth Katto
Chairman

Mr. Patrick Mweheire
Chief Executive

Dr Samuel Sejjaaka
Director

Candy Okoboi
Company Secretary

3. Summary statement of financial position

	Unaudited as at 30 June 2016	Unaudited as at 30 June 2015	Audited as at 31 Dec 2015
	Ushs '000'	Ushs '000'	Ushs '000'
Assets			
Cash & balances with Bank of Uganda	813,476,167	435,834,758	589,841,286
Government securities - held for trading	235,543,571	272,938,902	177,809,717
Loans and advances to banks	550,166,418	598,675,784	345,265,985
Amounts due from group companies	66,511,074	23,616,558	29,380,268
Loans and advances to customers	1,863,689,998	1,844,879,041	1,917,243,556
Pledged assets	802,687	1,568,376	809,420
Government securities - available for sale	662,336,330	524,288,111	506,215,014
Current tax asset	11,472,019	8,069,310	14,247,605
Other investment securities	62,325	1,149,848	60,690
Derivative assets	88,763,996	13,451,943	2,638,073
Prepaid operating leases	103,829	114,167	108,998
Property and equipment	51,231,682	46,751,849	49,209,285
Goodwill and other intangible assets	83,538,457	3,154,266	2,811,538
Deferred Income tax asset	3,482,799	13,039,914	14,777,770
Other assets	74,956,630	59,583,636	78,721,808
Total Assets	**4,506,137,982**	**3,847,116,463**	**3,729,141,013**
Shareholders' equity			
Share capital	51,188,670	51,188,670	51,188,670
Revaluation reserve on available for sale securities	(1,096,001)	(11,384,049)	(15,938,540)
Statutory credit risk reserve	15,827,539	11,328,091	19,901,192
Retained earnings	561,400,946	415,197,253	449,606,422
Proposed dividends	-	-	40,000,000
Total shareholders' equity	**627,321,154**	**466,329,965**	**544,757,744**
Liabilities			
Customer deposits	2,838,853,337	2,319,073,036	2,438,420,865
Amounts due to other banks	409,675,203	328,119,606	365,209,914
Amounts due to group companies	209,900,639	547,908,138	190,407,880
Derivative liabilities	94,587,769	2,216,927	2,119,522
Managed Funds	10,236,684	6,404,682	11,110,540
Subordinated debt	92,012,280	23,208,227	23,740,086
Other liabilities	223,550,916	153,855,882	153,374,462
Total liabilities	**3,878,816,828**	**3,380,786,498**	**3,184,383,269**
Total equity and liabilities	**4,506,137,982**	**3,847,116,463**	**3,729,141,013**

Stanbic Bank Uganda Limited: A financial institution regulated by Bank of Uganda License Number A1. 013

4. Summary statement of changes in equity

Year ended 31 December 2015	Share capital	Available for sale revaluation reserve	Statutory credit risk reserve	Proposed dividends	Retained earnings	Total
	Ushs' 000	Ushs' 000'	Ushs' 000'	Ushs' 000'	Ushs' 000'	Ushs' 000'
At 1 January 2015	**51,18518,670**	**(7,108,959)**	**3,589,996**	**84,973,192**	**354,326,635**	**486,969,534**
Net change in available for sale investments net of tax	-	**(8,829,581)**	-	-	-	(8,829,581)
Profit for the year	-	**-**	-	-	150,759,281	150,759,281
Dividend paid	-	**-**	-	(84,973,192)	-	(84,973,192)
Transfer to statutory credit risk reserve	-	**-**	16,311,196	-	(16,311,196)	-
Equity settled share based payment transactions	-	**-**	-	-	831,702	831,702
Proposed dividend	-	**-**	-	40,000,000	(40,000,000)	-
Balance at 31 December 2015	**51,188,670**	**(15,938,540)**	**19,901,192**	**40,000,000**	**449,606,422**	**544,757,744**
Six months ended 30 June 2015						
At 1 January 2015	**51,188,670**	**(7,108,959)**	**3,589,996**	**84,973,192**	**354,326,635**	**486,969,534**
Net change in available for sale investments net of tax	-	**(4,275,090)**	-	-	-	(4,275,090)
Profit for the year	-	**-**	-	-	68,375,870	68,375,870
Dividend paid	-	**-**	-	(84,973,192)	-	(84,973,192)
Transfer to statutory credit risk reserve	-	**-**	7,738,095	-	(7,738,095)	-
Equity settled share based payment transactions	-	**-**	-		232,843	232,843
Balance at 30 June 2015	**51,188,670**	**(11,384,049)**	**11,328,091**	**-**	**415,197,253**	**466,329,965**
Six months ended 30 June 2016						
At 1 January 2016	**51,188,670**	**(15,938,540)**	**19,901,192**	**40,000,000**	**449,606,422**	**544,757,744**
Net change in available for sale investments net of tax	-	**14,842,539**	-	-	-	14,842,539
Profit for the year	-	**-**	-	-	107,294,821	107,294,821
Dividend payable	-	**-**	-	(40,000,000)	-	(40,000,000)
Transfer to statutory credit risk reserve	-	**-**	(4,073,653)	-	4,073,653	-
Equity settled share based payment transactions	-	**-**	-		426,050	426,050
Balance at 30 June 2016	**51,188,670**	**(1,096,001)**	**15,827,539**	**-**	**561,400,946**	**627,321,154**

5. Summary statement of Cash Flows

	Unaudited six months to 30 June 2016	Unaudited six months to 30 June 2015	Audited year ended 31 Dec 2015
	Ushs '000'	Ushs '000'	Ushs '000'
Cash flows from operating activities			
Profit before taxation	144,126,265	91,932,445	203,297,848
Loan impairment Charges	20,947,457	22,011,352	40,573,143
Depreciation	7,527,477	8,403,438	16,416,348
Amortization of intangible assets	2,678,236	285,665	501,585
Amortization of prepaid operating lease	5,169	5,169	10,338
Loss on disposal	-	(47,155)	(70,575)
Changes in provisions and accruals	(6,319,120)	(919,555)	2,784,440
Equity-settled share-based payment transactions	426,050	232,843	831,702
Cash flows from operating activities before changes in operating assets and liabilities	**169,391,534**	**121,904,201**	**264,344,829**
Taxes paid	(29,121,975)	(24,560,601)	(56,688,077)
Increase/(decrease) in derivative assets	(86,125,923)	(10,061,779)	752,091
Increase/(decrease) in government securities- available for sale	(165,585,389)	64,214,497	123,297,742
Increase/(decrease) in gov't securities - trading	(57,733,854)	(15,416,967)	79,712,218
Decrease/(increase) in pledged assets	6,733	(344,918)	414,038
Increase in cash reserve requirements	(25,460,000)	(12,780,000)	(24,630,000)
Decrease/(increase) in loans & advances to customers	47,512,492	(290,931,246)	(355,977,012)
Increase in other investments	(1,635)	(5,469)	-
Increase in other assets	(79,437,531)	(4,960,519)	(22,825,860)
Increase in deposits from customers	398,776,446	189,295,684	307,547,247
Increase in deposits from banks	44,465,289	165,515,697	202,606,005
Increase/(decrease) in amounts due to group companies	19,492,759	(27,939,108)	(385,439,366)
Increase in derivative liabilities	92,468,247	2,150,187	2,052,782
Increase in other liabilities	63,042,763	78,526,305	49,367,470
Net cash outflows from operating activities	**391,689,957**	**234,605,965**	**184,534,107**
Purchase of property & equipment	(9,549,874)	(7,402,901)	(18,056,899)
Proceeds from sale of property & equipment	-	-	333,882
Net cash used in investing activities	**(9,549,874)**	**(7,402,901)**	**(17,723,017)**
Cash flows from financing activities			
Dividends paid	(40,000,000)	(84,973,192)	(84,973,192)
Increase in subordinated debt	68,272,194	3,664,028	4,195,887
Decrease in Borrowings	(873,856)	(7,663,055)	(2,957,197)
Net cash flows used in financing activities	**27,398,338**	(88,972,219)	(83,734,502)
Increase in cash and cash equivalent during the year	409,538,420	138,230,845	83,076,588
Cash and cash equivalents at beginning of the year	934,426,339	851,349,751	851,349,751
Cash and cash equivalents at the end of period	**1,343,964,759**	**989,580,596**	**934,426,339**

Net Loans and advances

The Compounded annual growth rate (CAGR) is positive at 5.9%. In the first half of 2016, loans and advances were largely flat year on year at Ushs 1,864 billion compared to U Shs1, 845 billion representing a growth rate of 1%. Year to date the advances have declined by 2.8%. This reduction in credit growth has mainly been on account of slow economic growth from the start of the year, pre and post-elections and foreign exchange rate adjustments.

Deposits from customers

The bank has continued to see growth in the last 4 years with CAGR of 8.1%. In first half of 2016, customer deposits touched all-time highs of Ushs 2.8bn. Year on year growth rate was 22% while year to date was 16%. The bank continued to register good gains under both corporate and retail deposits. The retail deposit base was in particular supported by an internal sale campaign dubbed “Chapa” which started last year that resulted in strong deposit growth.

Total Income

We have had steady growth trend over the last 5 years with our CAGR at 7%. Total income for the first half of 2016 increased by 28% year on year, to Ushs 335 billion from Ushs 261billion. This growth was largely driven by market to market gains on securities on the trading and available for sell portfolio, as interest rates dropped post elections. Compared to 2015 half year results, non-customer related income grew by 64% while customer related income grew by 11%, in 2016. The bank has deliberately endeavoured to diversify its income streams over the years with focus on capital light, off-balance sheet trade growth. This has seen the contribution of Non-interest revenue to total income increase from 37% in 2011 to 45% in 2016.

PAT grew by 57% year on year from Ushs 68 billion to Ushs 107 billion. The CAGR over the last 4 years was 16.5%.

Total assets

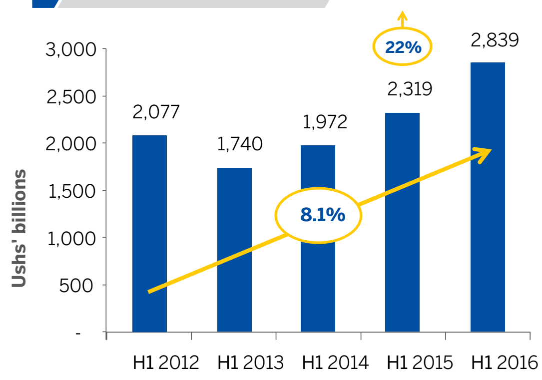
Total assets grew by 17% year on year, with a CAGR of 12.1% over a 4 year period.

The banks’ balance sheet grew by 17% mainly on account of customer deposit growth and Tier II Capital, obtained earlier in the year. These liabilities were deployed in different assets for two different reasons. The main deployments were to liquid assets to take advantage of the high interest rates, and the term funds facilitated the acquisition of software, which is ultimately expected to reduce the banks cost. Currently cost to income is over 50% of income.

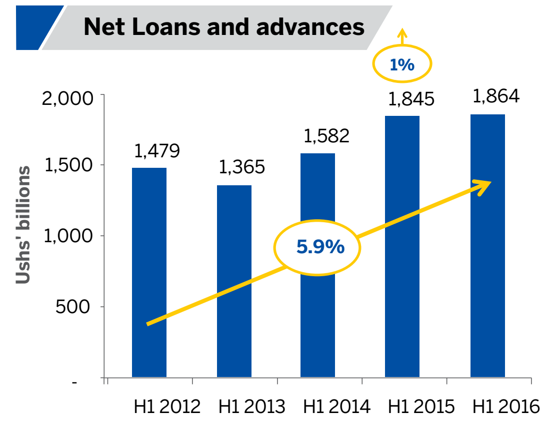
NPL and loan empairment

NPLs increased by Ushs 7billion year on year, which was largely expected due to last year’s high interest and exchange rate environment. Loan impairments on the other hand reduced by Ushs 1 billion representing a 5% drop. CAGR was -37% over the last 4years.

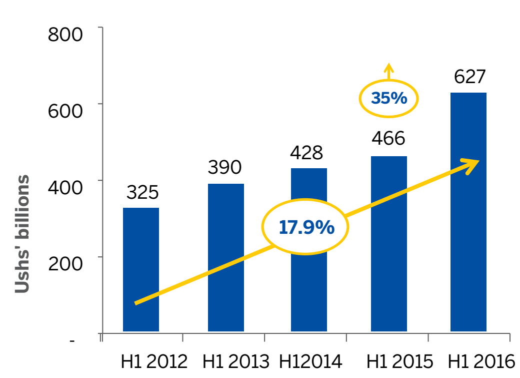
Customer Deposits



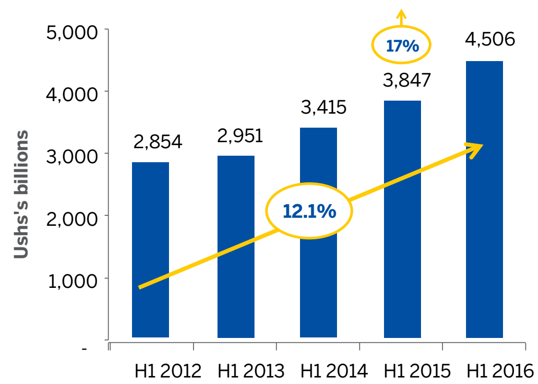
Net Loans and advances



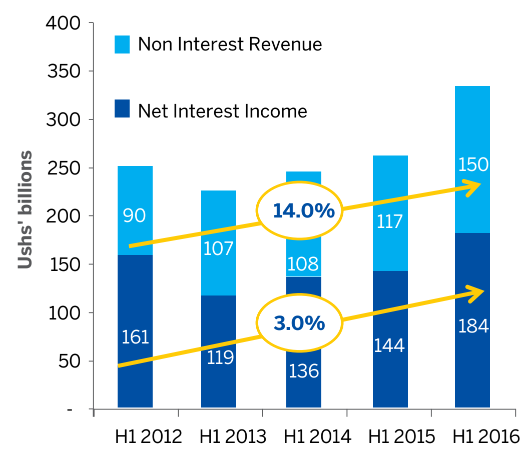
Shareholders’ equity



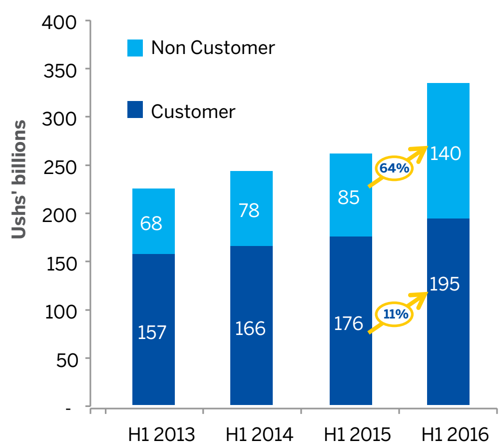
Total Assets



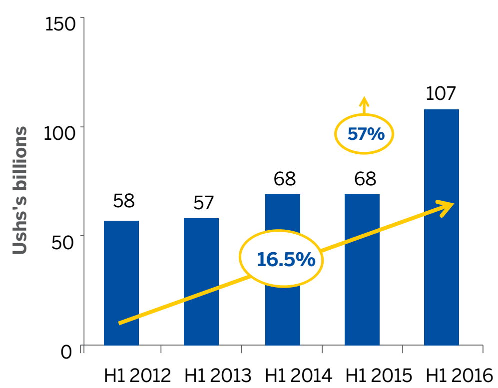
Total Income (NIR/NII)



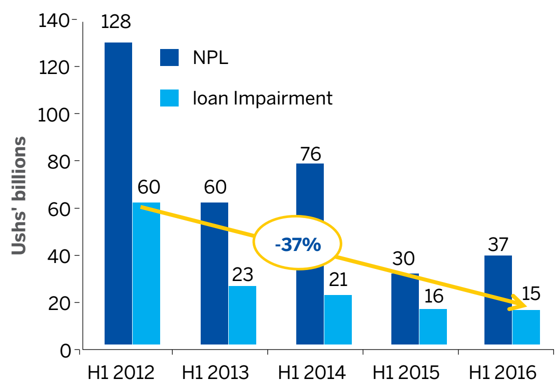
Total Income (customer and non customer)



6 months Profit after Tax



NPL and Loan Impairments



Key Ratios		2016	2015	2014
Profitability	1			
ROE	a	36.3%	27.5%	31.9%
ROA	b	5.2%	3.7%	4.0%
Efficiency	2			
cost to income		52.4%	58.8%	54.4%
Liquidity	3			
Loan to deposit ratio		65.6%	79.6%	80.2%
Asset quality	4			
Credit loss ratio (annualised)		1.6%	1.7%	2.6%
Capital	5			
C.A.R				
Tier I		14.1%	15.2%	18.2%
Tier II		17.7%	17.0%	20.6%