

SBN Holdings Limited

Results announcement

for the period ended 30 June 2014



Return on equity
17.31%

2013
17.80%

Credit loss ratio
0.47%

2013
0.17%

Cost-to-income ratio
61.10%

2013
65.67%

Return on assets
1.73%

2013
1.63%

Consolidated condensed statement of financial position

at 30 June 2014

	Change %	30-Jun-14 Unaudited N\$'000	30-Jun-13 Unaudited N\$'000	Restated 31-Dec-13 Audited N\$'000
Assets				
Cash and balances				
with central banks	(40.18)	615 550	1 029 057	643 729
Derivative assets	(45.87)	24 999	46 186	26 344
Trading assets	(78.35)	40 415	186 688	53 477
Financial investments	(31.41)	2 122 053	3 093 927	3 582 794
Loans and advances	10.88	14 256 876	12 858 201	13 120 880
Loans and advances to banks	292.26	361 658	92 199	86 372
Loans and advances to customers	8.85	13 895 218	12 766 002	13 034 508
Current tax receivable	(38.27)	13 080	21 188	23 429
Deferred taxation asset	(0.74)	22 253	22 418	20 218
Other assets	421.55	458 523	(142 598)	153 361
Assets in group companies and joint ventures	67.23	1 991 744	1 190 988	2 181 780
Intangible assets	(100.00)	–	25 347	–
Property, plant and equipment	17.32	286 598	244 281	297 461
Total assets	6.76	19 832 091	18 575 683	20 103 473
Equity and liabilities				
Equity attributable to ordinary shareholders				
Share capital - ordinary	0	1 000	1 000	1 000
Share premium on issue of shares	0	442 234	442 234	442 234
Reserves	28.08	1 603 078	1 251 609	1 435 267
Total equity	20.74	2 046 312	1 694 843	1 878 501
Liabilities				
Derivative liabilities	(74.14)	30 115	116 453	34 656
Deposit and current accounts	11.63	16 874 139	15 115 462	16 272 980
Deposits from banks	173.77	911 302	332 869	506 003
Deposits from customers	7.98	15 962 837	14 782 593	15 766 977
Debt securities issued	0.24	656 677	655 128	656 610
Other liabilities	(31.90)	32 286	47 407	163 899
Loans from group companies	(79.65)	192 562	946 390	1 096 827
Total liabilities	5.36	17 785 779	16 880 840	18 224 972
Total equity and liabilities	6.76	19 832 091	18 575 683	20 103 473

Consolidated condensed income statement

for the period ended 30 June 2014

	YOY change %	30-Jun-14 Unaudited N\$ '000	30-Jun-13 Unaudited N\$ '000	Restated 31-Dec-13 Audited N\$ '000
Net interest income				
Interest income	29.83	409 907	315 738	688 793
Interest expense	(4.77)	731 059	652 975	1 364 191
		321 152	337 237	675 398
Non-interest revenue				
Net fee and commission revenue	19.25	390 654	327 579	709 044
Fee and commission revenue	30.19	278 375	213 815	460 574
Fee and commission expense	5.93	306 486	289 340	511 345
Trading revenue	(62.78)	28 111	75 525	50 771
Other income	30.49	51 454	39 430	98 345
	(18.17)	60 825	74 334	150 125
Total income	24.44	800 561	643 317	1 397 837
Credit impairment charges	202.74	67 513	22 301	64 707
Income after credit impairment charges				
Operating expenses	18.04	733 048	621 016	1 333 130
Employee costs	15.78	489 119	422 450	908 396
Other operating expenses	8.97	254 031	233 120	482 153
	24.17	235 088	189 330	426 243
Net income	22.85	243 929	198 566	424 734
Income from equity accounted investments	(100.00)	–	552	(487)
Net income before indirect taxation				
Indirect taxation	22.50	243 929	199 118	424 247
	22.52	9 283	7 577	14 997
Profit before direct taxation	22.50	234 646	191 541	409 250
Direct taxation	46.37	65 141	44 505	89 795
Profit for the period attributable to ordinary shareholders	15.28	169 505	147 036	319 455

Consolidated condensed statement of changes in equity

for the period ended 30 June 2014

	Total share capital N\$'000	Available-for-sale revaluation reserve N\$'000	Share-based payment reserve N\$'000	Statutory credit risk reserve N\$'000	Post-employment benefit reserve N\$'000	Retained earnings N\$'000	Total equity N\$'000
Balance at 1 January 2013	443 234	4 030	7 636	97 578	2 723	1 119 669	1 674 870
Profit for the period	–	–	–	–	–	147 036	147 036
Other comprehensive income	–	(5 059)	–	–	(2 723)	(7 782)	(7 782)
Total comprehensive income for the period	–	(5 059)	–	–	(2 723)	147 036	139 254
Equity-settled share-based payment transactions	–	–	719	–	–	(34 000)	719
Transfer between reserves	–	–	–	34 000	–	(120 000)	–
Dividends	–	–	–	–	–	(120 000)	(120 000)
Total contributions by and distributions to owners of company recognised directly in equity	–	–	719	34 000	–	(154 000)	(119 281)
Balance at 30 June 2013	443 234	(1 029)	8 355	131 578	–	1 112 705	1 694 843
Balance at 1 January 2013 as restated	443 234	4 030	7 636	97 578	2 723	1 119 669	1 674 870
Profit for the year	–	–	–	–	–	319 455	319 455
Other comprehensive income	–	(6 283)	–	–	9 020	(2 020)	2 737
Total comprehensive income for the year	–	(6 283)	–	–	9 020	319 455	322 192
Equity-settled share-based payment transactions	–	–	1 439	–	–	–	1 439
Transfer between reserves	–	–	–	10 000	–	(10 000)	–
Dividends	–	–	–	–	–	(120 000)	(120 000)
Total contributions by and distributions to owners of company recognised directly in equity	–	–	1 439	10 000	–	(130 000)	(118 561)
Balance at 31 December 2013	443 234	(2 253)	9 075	107 578	11 743	1 309 124	1 878 501
Balance at 1 January 2014 as restated	443 234	(2 253)	9 075	107 578	11 743	1 309 124	1 878 501
Profit for the period	–	–	–	–	–	169 505	169 505
Other comprehensive income	–	(1 697)	–	–	(323)	(2 020)	(2 020)
Total comprehensive income for the period	–	(1 697)	–	–	(323)	169 505	167 485
Equity-settled share-based payment transactions	–	–	326	–	–	–	326
Transfer between reserves	–	–	–	5 000	–	(5 000)	–
Dividends	–	–	–	–	–	–	–
Total contributions by and distributions to owners of company recognised directly in equity	–	–	326	5 000	–	(5 000)	326
Balance at 30 June 2014	443 234	(3 950)	9 401	112 578	11 420	1 473 629	2 046 312

Consolidated condensed statement of other comprehensive income

for the period ended 30 June 2014

	30-Jun-14 Unaudited N\$'000	30-Jun-13 Unaudited N\$'000	Restated 2013 Audited N\$'000
Profit for the period	169 505	147 036	319 455
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Change in fair value of post employment benefit obligations	(323)	(2 723)	9 020
Items that may be subsequently reclassified to profit or loss			
Net change in fair value of available-for-sale financial assets	(1 697)	(5 059)	(6 283)
Other comprehensive income for the period net of taxation	(2 020)	(7 782)	2 737
Total comprehensive income	167 485	139 254	322 192

Consolidated condensed cashflow statement

for the period ended 30 June 2014

	YOY change %	30-Jun-14 Unaudited N\$'000	30-Jun-13 Unaudited N\$'000	Restated 31-Dec-13 Audited N\$'000
Net cash flows from operating activities				
Cash flow generated from operations	(114.48)	(14 450)	99 789	(236 198)
Dividends received	(203.66)	17 514	(129 108)	(768 476)
Interest paid	(14.65)	(321 570)	(376 787)	(743 482)
Interest received	12.55	735 231	653 240	1 350 690
Direct taxation paid	(17.67)	(53 573)	(65 070)	(110 906)
Cash flows from investing activities	(70.00)	(13 729)	(45 758)	(95 099)
Net cash from investing activities	(70.00)	(13 729)	(45 758)	(95 099)
Cash flows from financing activities	100.00	–	(120 000)	(120 000)
Dividends paid	100.00	–	(120 000)	(120 000)
Total cash and balances with central banks movement for the period	(57.28)	(28 179)	(65 969)	(451 297)
Cash and balances with central banks at the beginning of the period	(41.21)	643 729	1 095 026	1 095 026
Total cash and balances with central banks at end of the period	(40.18)	615 550	1 029 057	643 729

Consolidated condensed segment report

for the period ended 30 June 2014

	YOY change %	30-Jun-14 Unaudited N\$ '000	30-Jun-13 Unaudited N\$ '000	Restated 2013 Audited N\$ '000
Revenue contribution by Business unit				
Personal & Business Banking	28.24	603 312	470 446	1 036 336
Corporate & Investment Banking	25.08	191 860	165 277	345 647
Banking activities	(29.04)	795 172	635 723	1 381 983
Other	16.08	5 389	7 594	15 860
SBN Holdings – ordinary shareholders	24.44	800 561	643 317	1 397 843
Profit attributable to ordinary shareholders				
Personal & Business Banking	28.97	111 986	86 831	200 082
Corporate & Investment Banking	(0.77)	53 841	54 257	109 093
Banking activities	17.53	165 826	141 089	309 175
Other	(38.16)	3 678	5 948	10 280
SBN Holdings – ordinary shareholders	15.28	169 505	147 036	319 455

Capital adequacy ratio

	Minimum regulatory requirement %	Target ratio %	Including unappropriated profits	30-Jun-14 %	30-Jun-13 %	31-Dec-13 %
Group						
Total capital adequacy ratio	10	11 – 12	13.40	12.26	12.49	12.49
Tier I capital adequacy ratio	7	7.7 – 8.2	11.32	10.33	11.52	11.52
Tier I leverage ratio	6	6.6 – 7.2	8.10	7.19	8.07	8.07
Bank						
Total capital adequacy ratio	10	11 – 12	12.96	11.97	12.13	12.13
Tier I capital adequacy ratio	7	7.7 – 8.2	10.95	9.98	11.16	11.16
Tier I leverage ratio	6	6.6 – 7.2	7.77	6.92	7.75	7.75

Commentary

Group results

Group headline profit after tax increased by 15.28% to N\$169.5 million. Total income and expenses increased by 24.44% and 15.78% respectively, while credit impairments grew by 202.74% due to higher credit losses in personal lending. Net income before taxation grew by 22.85% and profit after tax reflects the decrease in non-taxable revenue.

Operating environment

Global growth moderated from an annual rate of 3.7% in the second half of 2013 to 2.7% in the first quarter of 2014. In the US, the inventory overhang at the end of 2013 turned out to be larger than expected, leading to a correction exacerbated by a harsh winter. In other emerging market economies, weaker-than-projected growth resulted both from weaker external demand, notably from the US and China, and, in a number of cases, softer domestic demand with weaker investment growth. With Euro area inflation in April below expectations, the European Central Bank cut its policy rate and deployed other easing measures at its June meeting. However, leading indicators point to the global recovery having regained strength in the second quarter of 2014.

In Namibia, GDP is projected to grow by approximately 5% during 2014 supported by construction works in the mining sector and the planned public housing programme, coupled with single digit inflation. Household debt growth has been slowing but remains within the bounds of 13% to 15%. The main area of growth in this category (on an annual basis) is overdrafts at 23.81%. This facility seems to be gaining popularity amongst consumers and we expect the trend to continue as interest rates increase. The Namibian repo rate was raised to 6.00% during August 2014 to contain the strong growth in household credit.

Revenue

Total income grew by 24.44% in 1H14, with net interest income (NII) increasing 29.83% primarily due to margin expansion resulting from higher interest rates and streamlined term funding.

Non-interest revenue (NIR) grew by 19.25% with fees and commissions 30.19% higher than in 1H13 due to significant volume increases.

Trading revenue increased by 30.49% due to a strong performance in currency (FIC) trading, while other revenue fell by 18.17% due to decreased value gains compared to 1H13 resulting from reduced financial investments and trading assets.

Credit impairments

Total credit impairments increased by 202.74% to N\$67.5 million and the credit loss ratio increased to 0.47% from 0.17% in the prior period. In particular, instalment sale and finance leases and card debtors required higher provisioning due to higher levels of customer default in the period.

Operating expenses

Operating expenses increased by 15.78% relative to the prior period, and the group's cost-to-income ratio improved to 61.06% from 65.67%. Staff expenses increased by 8.97% while other operating expenses increased by 22%. Growth in other operating expenses was affected by continued investment in information technology platforms, an escalation in premises costs, and further investment activity to support revenue growth.

Loans and advances

Gross loans and advances to customers grew by 8.85% from 1H13 to 1H14. Higher growth was recorded in secured lending with 9.00% growth in residential mortgages and 17.25% in instalment sale and finance leases. Marginal growth of 2.00% was recorded in card debtors while 27.04% growth in term loans was offset by lower demand for overdraft and other demand loans (-11.00%).

Capital, funding and liquidity