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HIGH COST OF FUNDS: KCB Group CEO Joshua Oigara with the bank chairman Ngeny Biwott at last year's AGM.

Banks feel pinch of 2015 interest jump

BY CONSTANT MUNDA

A high interest regime in the second half of last year hit banks hard, resulting in higher interest expenses that slowed full-year interest margins, financial performance filings for 2015 shows.

The Central Bank's Monetary Policy Committee raised its key lending rate by three percentage points to 11.5 per cent following meetings on June 9 and July 7. This was in a bid to curtail sharp weakening of the shilling against the US dollar.

As a result of high interest rates, especially at the beginning of the fourth quarter, the 42-bank industry experienced a mild credit crunch – sudden fall in cash for lending – which analysts at African Alliance said was "artificial".

Some banks were consequently forced to pay more than 20 per cent interest on three-month deposits from fund managers, while the interbank rate, the cost at which they borrow amongst themselves usually over one to seven days, rose as much as 27 per cent.

"Sure, CBK has lifted the policy rate rather aggressively, but this doesn't explain why interbank rates are surging this much, while CBK has maintained a neutral to loose policy stance through its liquidity management facilities," African Alliance's lead economist and strategist Chris Becker had warned.

Financial performance results for 2015 indicate banks incurred higher costs on their borrowings, eating into their net interest margins and slowing down growth in profitability.

Medium-sized CfC Stanbic posted the highest jump in the interest expenses among listed lenders that have so far published their financial results. The bank, majority owned by Standard Bank Group of South Africa – Africa's largest lender by assets– reported a 68.40 per cent rise in interest expenses to Sh5.49 billion.

Equity Group, the largest lender by customers, reported the cost on borrowing jumped by half to Sh9.33 billion last year from Sh6.19 billion in 2014.

KCB posted a 48.74 per cent growth to Sh17.15 billion, from Sh5.62 billion it reported a year earlier.

"Kenya was smooth-sailing until first half of the year," KCB chairman Ngeny Biwott said when the bank released its financial performance results on March 3. "Then (the banking market) encountered serious headwinds and turbulence that was brought about by high interest rates."

Barclays' expenses on interest payments surged 46.11 per cent to Sh4.88 billion.

Mid-tier Diamond Trust Bank booked 32.54 per cent more interest expenses year-on-year in 2015 to Sh10.63 billion.

NIC Bank has reported the lowest growth so far at 27.32 per cent to Sh7.27 billion.

West Africa's re-insurer opens Nairobi office

BY STAR CORRESPONDENT

TOGO-headquartered CICA-Re has opened a liaison office in Nairobi, which it is using as a launch pad to expand into Eastern and Southern Africa.

The re-insurer, owned 65 per cent by 12 Francophone countries, said it plans to convert the office to a subsidiary in three years as required by the Insurance Regulatory Authority.

It is lining up a Sh1.5 billion capital injection to make Nairobi office a subsidiary.

"Kenya is one of the largest economies in the Eastern and Southern Africa and also has one of the highest insurance penetration rates in the region," CICA-Re managing director Jean Baptiste Kouame said in a statement. "It is also East Africa's financial hub and this is the ultimate driver for insurance growth."

He backed the growth in emerging sectors and expanding middle class to be key drivers of uptake of risk by insurers, which will boost the re-insurance business.

"We have expertise in different areas such as property underwriting, marine hull and cargo, engineering, liability covers and, oil and gas," Kouame said.

It will become the fourth re-insurer in the country after Kenya-Reinsurance, Africa Trade Insurance Agency and Zep-Re.

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ALY KHAN'S STAR PORTFOLIO

BARCLAYS MAY BE THE FIRST OF MANY SA EXITS

RISK appetite has returned some in the international markets and this can be glimpsed via the recent performance of higher beta currencies. For example, notwithstanding the determination of prosecutors to arrest Luiz Inácio Lula da Silva [the former president of Brazil], the Brazil real closed out last week at a 2016 high at 3.58 units against the US dollar.

The South Korean won is back below 1,200.00 and is looking through some serious sabre-rattling on the Korean Peninsula. The South African rand is also close to a 2016 high.

Crude oil has rebounded with WTI [US] oil closing last week at $39.50 a barrel, having twice touched $27.00 in January. President of the European Central Bank Mario Draghi turned up the QE [Quantitative Easing] a few notches on the dial last week. Gold is not buying into this "all is now well with the world" and remains locked at $1,250.00.

In South Africa, the equity market has pushed into positive territory, but you will recall I mentioned that the Barclays PLC exit could be the first in what might become an avalanche of exits. The news that Old Mutual is seeking its own break-up and that it will spin off its 54 per cent controlling stake in Johannesburg-based Nedbank Group to shareholders, is in essence the second exit after Barclays.

Multinationals carrying large South African exposures via listings in Johannesburg are simply no longer prepared to wear the currency risk or "Zupta" price volatility. South African assets are a sell, and Barclays and Old Mutual are signalling that loud and clear as are South Africans themselves who seemingly cannot get their own money out fast enough, according to the latest high Frequency Data.

The Nigeria All Share while still 9.27% lower year to date has cut its year to date loss by half over the last few weeks. Minutes of the last MPC meeting confirm that just one member of Nigeria's central bank monetary policy committee Adedoyin Salami said the naira should be devalued and allowed to trade within a band, saying that the fixed exchange rate would not work alongside a planned rise in government borrowing.

The naira trades some 40 per cent below the official rate on the black market versus the dollar and that confirms the current official rate is a Mickey Mouse price. Africa's biggest economy grew by an estimated 2.8 per cent last year. Salami said his proposal gained no support at the meeting and that confirms that few are prepared to challenge President Muhammadu Buhari.

The president is fixated and I expect Nigeria's GDP to be at 0% through 2016. It is clear that this is a red-line for Buhari, but what is clear is that negative spill-over is going to get worse not better.

Here in Nairobi we find ourselves slap-bang in the middle of the earnings season. The banks have been reporting their full-year earnings and positive price reactions confirm that investors had become too bearish and we have seen some shapely rallies develop after these releases.

Kenya Commercial Bank has definitely hurdled Sh40.00. Diamond Trust Bank closed at a 2016 high and reported that full-year loans and advances to customers accelerated 28.979% to Sh177.54 billion. Compare that to Barclays Kenya which reported a 15.91% expansion and clocked Sh145.38 billion. Bamburi Cement posted a big outsize full-year profit after tax gain of 50.45%. On balance, earnings at the Nairobi Securities Exchange have outperformed expectations. I expect Nairobi to outperform Lagos and Johannesburg through 2016.

This week, everyone will be keeping an eye on Federal Reserve, chaired by Janet Yellen. At the start of the year, the FED was predicting four 0.25% rate hikes through 2016.

The markets are pricing in two rate hikes in 2016. The markets will pivot on the FED decision this week.

Shares go up and down and readers are advised that this column represents Mr Satchu's personal opinions.