

Nedbank boss to aid Ecobank

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4 Aug 2017

Nedbank has added its corporate and investment bank head Brian Kennedy to Ecobank Transnational in an attempt to stem losses at its 21.2%-held associate, which led SA's third largest bank by assets to report its first contraction in earnings since the global financial crisis.



<http://arc.co.za/project/ecobank-ghana/>

Ecobank reported a \$427.4m loss in the final quarter of 2016, offset by a \$51m profit in the first quarter of 2016. Because Nedbank books its share of the pan-African lender's profit or loss a quarter later, this translated into a R1.2bn loss from Ecobank for the half-year to June, dragging interim headline earnings down 2.9% to R5.2bn.

Excluding Ecobank, Nedbank's headline earnings rose 6.7% for the period to June.

The bank last posted a decline in interim earnings in the first half of 2009, during the global financial crisis, when earnings fell 32.4% to R1.98bn.

Kennedy's appointment is subject to regulatory approval, and he will join Mfundo Nkuhlu, the head of Nedbank's businesses in the rest of Africa. Nkuhlu has been on the Ecobank board since Nedbank bought in and he was recently nominated to chair Ecobank's risk committee.

Nkuhlu indicated that Ecobank's volatile performance - its final quarters for each of 2015 and 2016 were due to higher impairment provisions - were an indication that improvement was needed in its risk management processes. "The 2016 provisions have to do with impairment provisions being raised by Ecobank on its legacy advances book," he said.

Ecobank's board is leading a turnaround strategy that involves issuing a \$400m bond that would be convertible into equity in five years. The proceeds would be used to capitalise operations in Nigeria and ringfence legacy assets that Nkuhlu said had yielded some recoveries nonetheless.

Analysts at JPMorgan said Ecobank had turned out to be a poor investment for Nedbank, delivering a negative 15% internal rate of return. "Long-term potential could still be achieved, but investors have questions about the strategic benefit of a non-controlling stake in this pan-African bank," they said.

Nedbank's own operations enjoyed a boost from the corporate and investment bank, which was its largest earnings contributor at R3.2bn and which improved the bank's overall credit losses. These fell to 0.47% of gross loans and advances, from 0.67% in 2016.

Chief financial officer Raisibe Morathi said the corporate and investment bank suffered from a plunge in commodity prices in the first half of 2016, which led to higher impairments, but the situation had improved this year.

But Morathi said the bank expected a 16-basis-point rise in credit losses for 2017, mainly in the vehicle and credit card portfolios, as the weak economy heaped pressure on customers.

"We are beginning to see an increase in the level of non-performing loans," she said. "Customers are falling behind."

Source: Business Day