



# **BUFFALO COMMERCIAL BANK PLC**

## **2014 ANNUAL REPORT**

**Juba, South Sudan**

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## **BOARD OF DIRECTORS**

|                    |   |
|--------------------|---|
| Chairman           | Hon. Dr. Lual A. L. Deng                        |
| Member             | Mr. Aquilla Maluth Mam                          |
| “                  | Mr. Ayuen Alier Jongroor                        |
| ”                  | Mrs. Sidonia Arek Edward Mou                    |
| “                  | Mr. Kiir Garang De Kuek                         |
| “                  | Mr. Alemu Aberra                                |
| Secretary of Board | Mr. Andrew Mayen Akuak                          |
| Legal Advisors     | Law offices of Dengtiel Ayuen Kuur & Associates |
| External Auditors  | Ernst &Young Certified Public Accountants       |

## **BCB MANAGEMENT**

Mr. Alemu Aberra

Managing Director

Mr. Andrew Mayen Akuak

Deputy Managing Director

Mr. Fekade Mohammed

Head, Finance Department

Mr. Kassahun Mekuria

Chief Internal Auditor

## **Chairman's Message**

I take this opportunity, as Chairman of the Board of Directors of Buffalo Commercial Bank (BCB), to congratulate the Management and Staff for their hard work in managing the Bank in a difficult environment of conflict and subsequent economic difficulties. It is with great pleasure that I submit to the shareholders of BCB the Annual Report of the bank for the Financial Year that ended on 31 December 2014. The BCB has demonstrated beyond doubt its resilience in an environment of uncertainty caused by the violent conflict that erupted on 15 December 2013; a situation that has been complicated by the shutdown of oil production in Unity State and a sharp decline in the oil prices. The bank has, in the year 2014, registered a net profit of about five million (SSP4,930,000.00) South Sudanese pounds, and paid a profit tax of SSP853,000.00.

I am pleased to announce that this Annual Report marks the fifth year of continuous improvement in our performance evidenced by positive financial indicators as spelled out in the message of the Managing Director (MD) and Chief Executive Officer (CEO) of BCB. The bank did not meet its 2014 targets due to weak demand resulting from a drastic slowdown in economic activities on the one hand, and fragile institutions of a market economy on the other. Moreover, the dependency of the economy on oil has constrained diversification of economic activities that would have created wage-payment jobs in the private sector-led new economy of South Sudan.

In conclusion, I would like to thank the leadership of the Central Bank of South Sudan (BSS), especially the Banking Supervision Department for their effective guidance to the BCB as a model of a financial institution that operates within the legal and institutional framework stipulated by BSS. It is indeed a great honor to work with dedicated Management team, staff and members of the Board of Directors in our quest to provide quality financial services to the people of South Sudan.

Lual Acuek Lual Deng, PhD  
Chairman

## **Managing Director's Message**

Performance of Buffalo Commercial Bank over the last five years indicates steady high growth but 2014 growth in terms of productivity and expansion was adversely affected. This is not without a reason. The country was in internal conflict during the whole of 2014 financial year. There was intermittent war in some States that destroyed peace and stability of the country. Because of internal conflict some States were not accessible for banking operations. Investors that had planned to invest in the country had to withdraw their plans. Even those that had modest investments had to curtail their expansion plan or failed to complete started projects because of uncertainty and insecurity in the country.

Buffalo Commercial Bank was unable to open new branches in Upper Nile State and Unity States as envisaged. Even existing branches operated under capacity because of general business decline. Bank of south Sudan failed to avail foreign currency to commercial banks for import of essential goods and services that adversely affected our trade finance activities. Some foreign banks however, were seen handling the entire import business of the country as a result of having special foreign currency access from government. As a result, our main source of income from trade finance totally declined. Similarly depositors also channeled their deposits to specific foreign banks in search of foreign currency for imports.



There was visible unbalanced banking operations development in the country. Added to that there was general business decline that affected every sphere of business organization. In 2014, every quarter, we had to focus on our business plan and strategize means and ways as to how to keep our competitiveness and be profitable. We had to take various measures including control of variable expenses to remain profitable and ensure the livelihood of our staffs was not affected. The financial year, in general, was difficult. Though there was overall decline in revenue, the bank was able to make a profit before tax of SSP 5.7 million. Compared to the previous financial year, revenue declined by 53.5% while profit before tax decreased by 65%. In spite of the difficult situation, we have managed to make modest profit to shareholders.

Management extends thanks to customers that patronized the bank during the financial year. Our thanks also go to our staff members that extended efficient services to our customers under difficult conditions.

Alemu Aberra

Managing Director

## Financial Summary

|   | <b>2011</b>       | <b>2012</b>        | <b>2013</b>        | <b>2014</b>        |
|---|-------------------|--------------------|--------------------|--------------------|
| <b>Net operating income</b>                   | <b>12,681,835</b> | <b>22,661,152</b>  | <b>22,342,424</b>  | <b>10,429,613</b>  |
| <b>Total Expenses</b>                         | <b>5,633,430</b>  | <b>6,507,992</b>   | <b>5,777,957</b>   | <b>4,645,822</b>   |
| <b>Profit Before Tax</b>                      | <b>7,048,405</b>  | <b>16,153,160</b>  | <b>16,564,467</b>  | <b>5,783,791</b>   |
| <b>Total Assets</b>                           | <b>82,621,050</b> | <b>141,643,985</b> | <b>131,030,406</b> | <b>103,111,044</b> |
| <b>Total Equity</b>                           | <b>15,742,207</b> | <b>28,956,201</b>  | <b>40,742,869</b>  | <b>42,673,467</b>  |
| <b>Return on Total Asset</b>                  | <b>8.53%</b>      | <b>11.40 %</b>     | <b>12.64%</b>      | <b>5.6%</b>        |
| <b>Return on Equity</b>                       | <b>44.77%</b>     | <b>55.79%</b>      | <b>40.66%</b>      | <b>13.6%</b>       |
| <b>Customers Deposit</b>                      | <b>65,015,103</b> | <b>107,819,242</b> | <b>85,421,206</b>  | <b>56,687,432</b>  |
| <b>Loan and Advances<br/>net of Provision</b> | <b>7,503,604</b>  | <b>12,533,731</b>  | <b>21,505,009</b>  | <b>17,364,606</b>  |
| <b>Loan to Deposit Ratio</b>                  | <b>11.54%</b>     | <b>11.62%</b>      | <b>25%</b>         | <b>30.6%</b>       |

**NB. All figures in this report are in SSP unless otherwise expressed.**

## Operational highlights

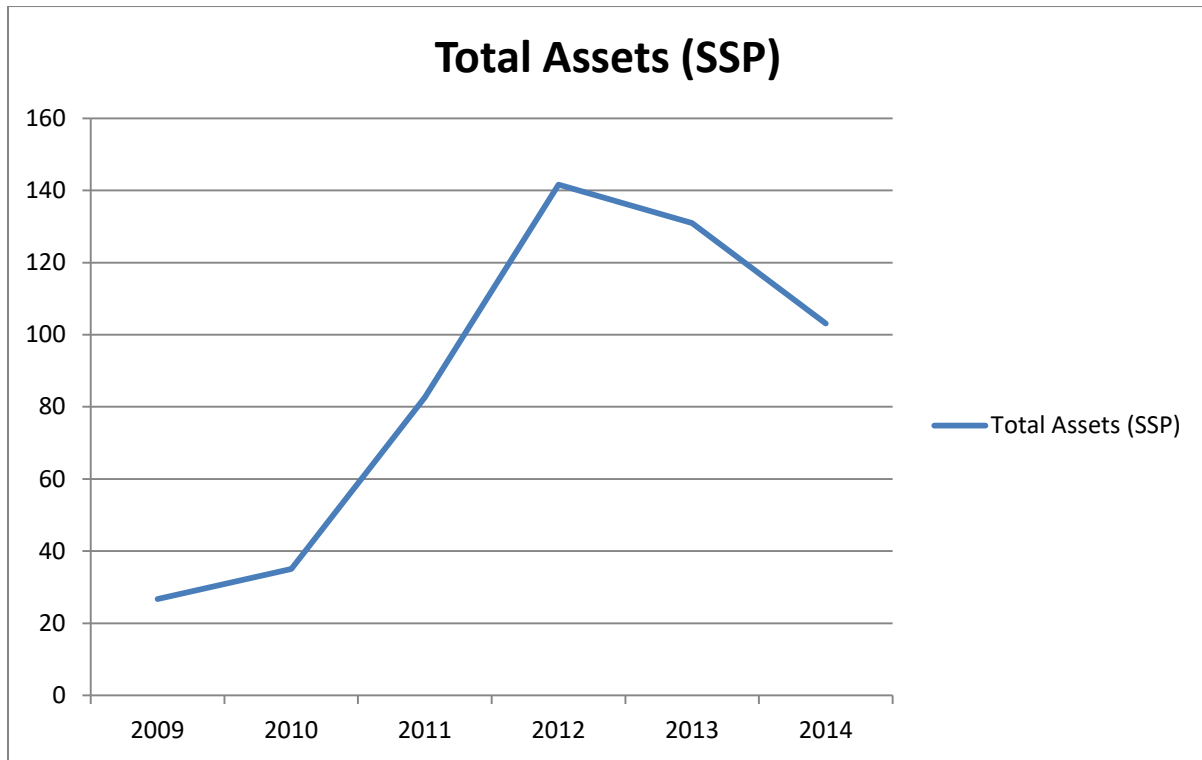
Under this heading, we examine four main areas namely total assets, total loans (net), total deposits and shareholders' equity.

|                             | <i>2013</i>        | <i>2014</i>        | <i>Variation in SSP</i> | <i>%</i>        |
|-----------------------------|--------------------|--------------------|-------------------------|-----------------|
| <i>Total Assets</i>         | <i>131,030,406</i> | <i>103,111,044</i> | <i>(27,919,362)</i>     | <i>(21.30%)</i> |
| <i>Total Loans(Net)</i>     | <i>21,505,009</i>  | <i>17,364,606</i>  | <i>(4,140,403)</i>      | <i>(19.25%)</i> |
| <i>Total Deposits</i>       | <i>85,421,206</i>  | <i>56,687,442</i>  | <i>(28,733,774)</i>     | <i>(33.64%)</i> |
| <i>Shareholders' Equity</i> | <i>40,742,869</i>  | <i>42,673,467</i>  | <i>1,930,598</i>        | <i>4.74%</i>    |

### 1. Total Assets

The total assets at the end of December 2014 decreased by about SSP 28 million or 21% compared with previous similar period. The three main factors that contributed to such decrease were heavy and unfavorable cheque clearances on the last working days of 2014 year-end (SSP 7.3 million), drop in deposits held with other banks by SSP 17 million; decreases in loans(SSP 4 million). These three make up the decrease in total assets. One month earlier before the end of the financial year i.e. at the end of November 2014, total assets was 128.5 million which was less by 1.9% than that of 2013 level. The decrease in total assets after one month period i.e. at the end of December 2014 was induced by other needy banks that enticed our customers to give them deposits for year-end window dressing

**Figure 1 -Total Assets**



|                    | 2009 | 2010 | 2011 | 2012  | 2013 | 2014  |
|--------------------|------|------|------|-------|------|-------|
| Total Assets (SSP) | 26.7 | 35.1 | 82.6 | 141.6 | 131  | 103.1 |

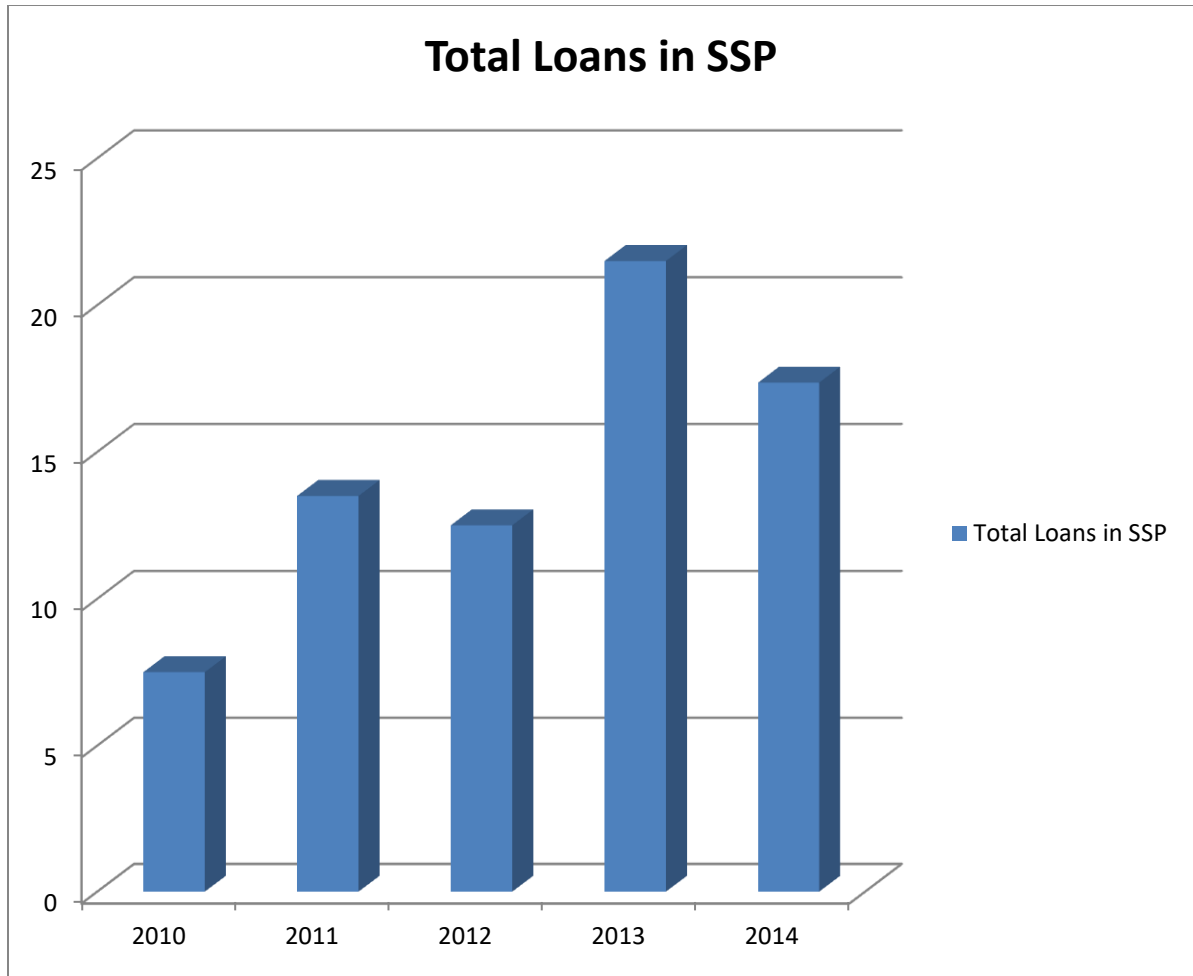
## 2. Loans and Advances

Total Loans and advances net of provision at the end of December 31, 2014 was SSP 17,364,606. This amount when compared with 2013 year-end figure of SSP21.5m showed decreases of SSP4.2m or 20%. The reason for loan and advance decrease were two; namely close follow up of loan repayments and deliberate reduction of lending during the financial year. Because of the conflict and displacement of civilians in some three States, the business activity was low and the bank had stopped extending new loans as there was no assurance on the loan collection. The bank's focus in the financial year was more in collecting loan repayments. The bank has done a wonderful job in this area.

- 12 loans were fully settled and SSP4,485,771.38 was collected.
- 7 borrowers reduced their debt by SSP 1,825,565.36.
- Borrowers that increased default level were 4 in number and SSP3,010,756.83 in amount, and their problem was connected with non-receipt of receivables from government for goods and services delivered.

In total, the bank had succeeded in collecting SSP 4m or 19% from existing borrowers at a time when the country was in conflict and when the business community was in sea of uncertainty and doubt. The effort was not easy. On the other hand, it indirectly reflects the loyalty of our customers and the kind of commitment they have to fulfill their obligations with our bank.

**Figure 2 -Total loans**



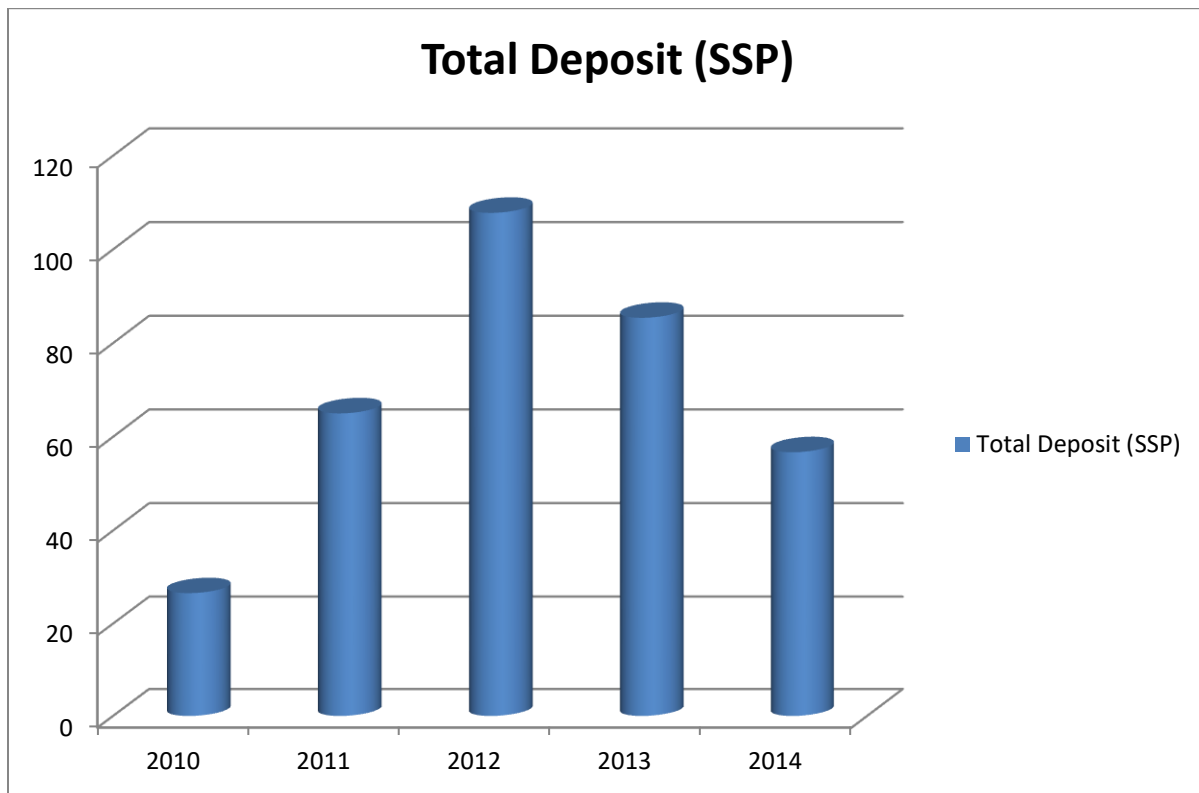
N.B Amount in SSP in millions

|                           | 2010 | 2011 | 2012 | 2013 | 2014  |
|---------------------------|------|------|------|------|-------|
| <b>Total Loans in SSP</b> | 7.5  | 13.5 | 12.5 | 21.5 | 17.36 |

### 3. Total Deposits

At the end of December 2014, total deposit stood at 56.6m which was less than the previous similar period by 28.8 or 33%. When we examine the deposit level before and after the month of December, we observe that the balance had fallen between end of November and final days of December. Discussion with our big customers indicated that they were enticed by competitive banks with liquidity constraints to give them deposits for year-end closing.

**Figure 3- Total Deposits**



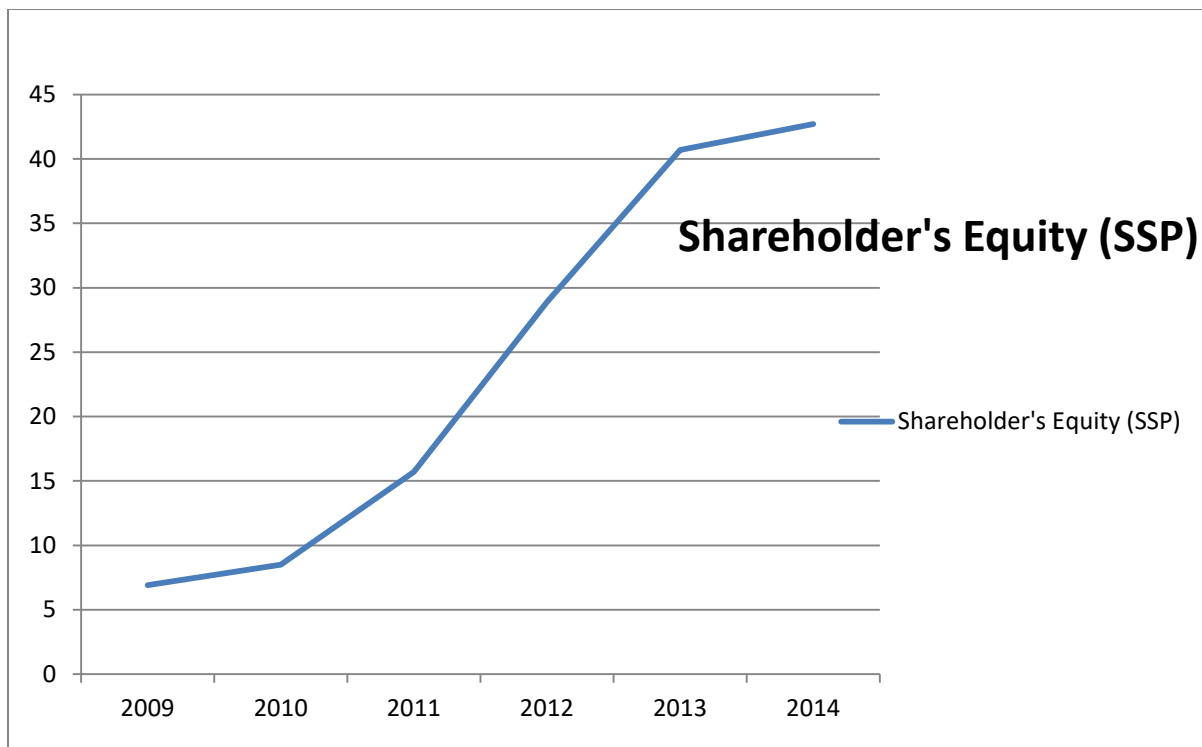
N.B all figures SSP in million

|                     | 2010 | 2011 | 2012  | 2013 | 2014 |
|---------------------|------|------|-------|------|------|
| Total Deposit (SSP) | 26.6 | 65   | 107.8 | 85.4 | 56.7 |

#### 4. Shareholders' Equity

In 2014, issued shares grew by SSP7.3 million or 22.6% compared to 2013 similar period. This is the result of increase of paid –up capital of the bank to meet the minimum capital requirement set by the Supervising Authority, Bank of South Sudan. Shareholders' equity increased from SSP40.7m at the end of 2013 to SSP 42.6 million at the end of December 2014. The overall equity increase was SSP1.9 million or 5%. It should also be noted that the bank had paid out dividend to the shareholders to the tune of SSP 6million and 3million in 2013 and 2014 respectively.

**Figure 4 -Shareholder's Equity**



|                            | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|----------------------------|------|------|------|------|------|------|
| Shareholder's Equity (SSP) | 6.9  | 8.5  | 15.7 | 28.9 | 40.7 | 42.7 |

N.B all figures SSP in million



## 5.Highlights of Profit and Loss Statement

|                                | <b>2013</b> | <b>2014</b> | <b>Variation</b> | <b>%</b>       |
|--------------------------------|-------------|-------------|------------------|----------------|
| <b>Net operating income</b>    | <b>22.3</b> | <b>10.4</b> | <b>(11.9)</b>    | <b>(53%)</b>   |
| <b>Total operating Expense</b> | <b>4.9</b>  | <b>4.2</b>  | <b>(0.7)</b>     | <b>(14%)</b>   |
| <b>Profit before tax</b>       | <b>16.5</b> | <b>5.8</b>  | <b>(10.7)</b>    | <b>(64.8%)</b> |
| <b>Profit after tax</b>        | <b>14.1</b> | <b>4.9</b>  | <b>(9.2)</b>     | <b>(65%)</b>   |

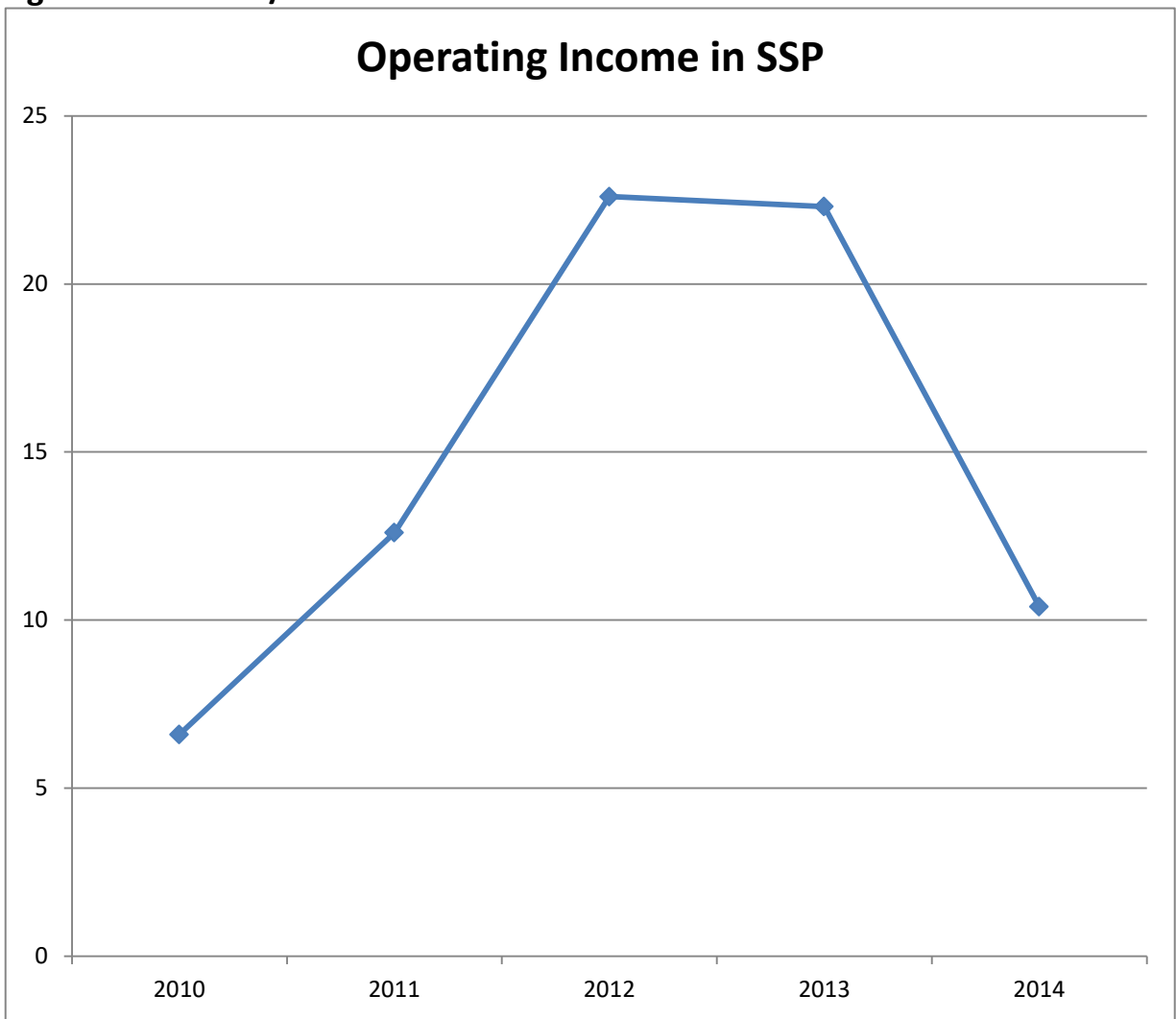
*N.B Amount in millions*

### 5.1 Revenue

As the above table shows net operating income between 2013 and 2014 registered decline of SSP11.9m or 53%. Operating expense also declined by SSP 0.7m or 14%. As a result, of the foregoing profit before tax in 2014 when compared with 2013 declined by SSP 10.7m or 64.8%. This reflects the general economic condition in the country. In previous years the banks' revenue mostly was derived from trade finance by handling imports through letters of credit. The foreign exchange income of which was 11.3m in 2013 against 2.7m in2014.

Since march 2014 we have not opened a single letter of credit as Bank of South Sudan stopped allocation of foreign currency for import business. The strategy of our bank during the financial year was to find out ways and means as how to generate revenue from other banking services. By diversifying its service activities and by focusing on new business lines the bank has managed to make modest profit.

**Figure 5- Revenue/Income**



|                                | 2010 | 2011 | 2012 | 2013 | 2014 |
|--------------------------------|------|------|------|------|------|
| <b>Operating Income in SSP</b> | 6.6  | 12.6 | 22.6 | 22.3 | 10.4 |

When we analyze the makeup of net operating income, we observe that interest income for 2014 was SSP 4.9m compared to SSP 5.7m in 2013 which showed a decline of 0.8m or 14%. On the other hand, non-interest income which was about SSP 16.7 m in 2013 decreased to about 6m in 2014 showing a negative difference of 10.7m or 64%.

Sectoral contribution of income in 2014 when compared to previous financial year shows the following:

(In millions)

| Revenue                                   | 2014 | 2013 | Variation |       |
|---|------|------|-----------|-------|
|   |      |      | Amount    | %     |
| Interest income                           | 4.9  | 5.7  | (0.8)     | (14%) |
| Trading and other foreign exchange income | 2.7  | 11.3 | (8.6)     | (76%) |
| Fees and commission income                | 4.0  | 7.0  | (3)       | (43%) |

Similarly sectoral contribution of income to total income basket show the following:-

|                                    | Variation   |            |
|------------------------------------|-------------|------------|
|                                    | Amount      | Percentage |
| Trading and other foreign exchange | 2.7m        | 26         |
| Fees and commission income         | 4.0m        | 38         |
| Other income related expense       | (0.847)     | (7)        |
| Net Interest income                | 4.5m        | 43         |
| <b>Total</b>                       | <b>10.4</b> | <b>100</b> |

The share of interest income to total income has progressively increased over the last three years. Interest income to total income was 13%, 25% and 40% in 2012, 2013 and 2014 respectively. The growth though showed substantiate jump in terms of percentage it is partly the reduction of total income rather than real interest income growth.

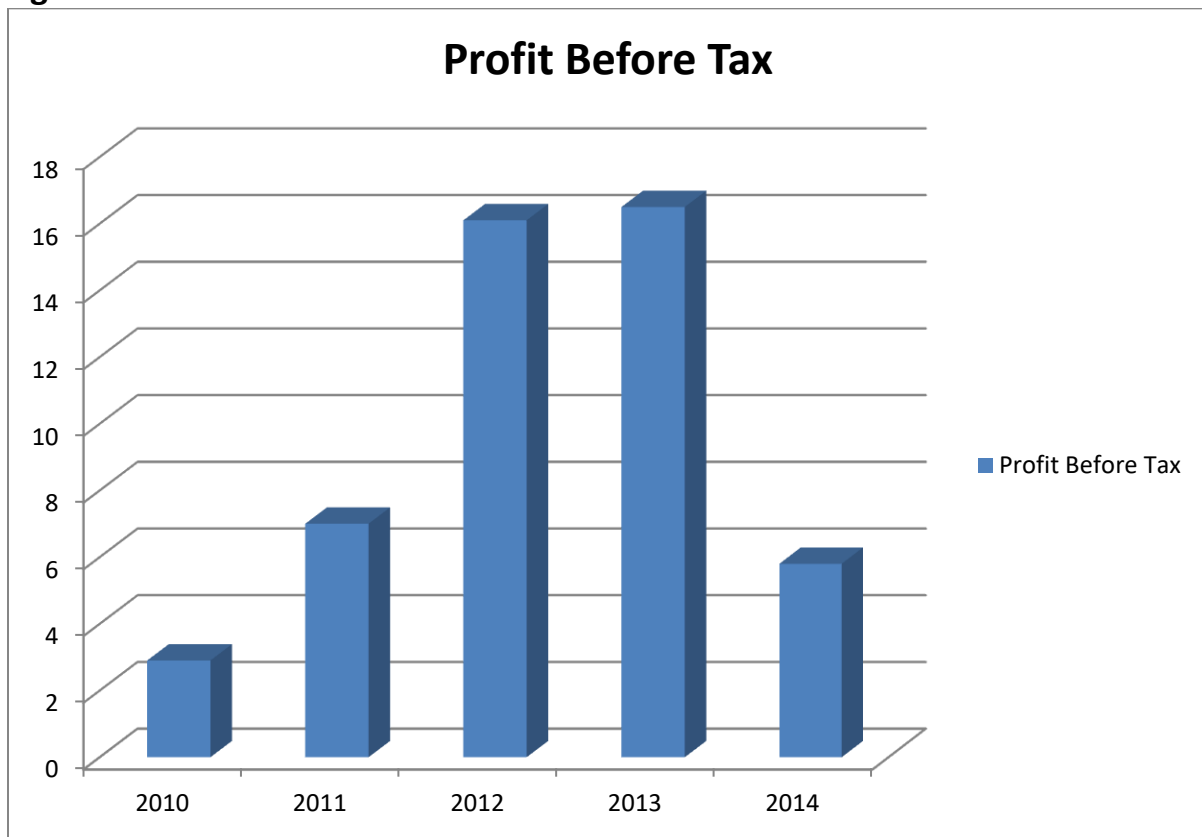
## 5.2 Total Operating Expenses

Total operating expense in 2014 decreased from 2013 level by 0.7m or 14%. Though income generating activities decreased by 50%, the total expense decreased only by 14%. This is because the overhead expenses like salary are fixed and such expenses in the short term remain unchanged.

### (5.3) Profit

Profit before tax in 2014 was 5,783,791 which was less by SSP10,780,676 or by 65% compared to similar period of 2013. The turnout for such performance in 2014 was not because of losing the share of market to competitors but it is occasioned by a general business decline in the country as a result of internal conflict and war that affected the backbone of the country's economy.

**Figure 6- Profit before tax**



|                   | 2010 | 2011 | 2012 | 2013 | 2014 |
|-------------------|------|------|------|------|------|
| Profit Before Tax | 2.9  | 7    | 16.1 | 16.5 | 5.8  |

All figures are in SSP

## **6. Liquidity**

The bank's policy to keep liquidity above the minimum regulatory requirement was maintained throughout the financial year. Loan deposit ratio stood at 31% which was all time high. The bank was in a position to meet liabilities when due both in normal time and under distressed condition.

## **7. Challenges Faced**

The 2014 financial year ended full of problems. Business flourishes and expands when there is conducive atmosphere in a country. Because of conflict and internal war some of our customers left the country, others drastically curtailed the scale of their activities, and still some others entirely lost their property and business and became refugees in UN compounds in epicenters of the conflict zone. In addition the conflict affected government's revenue and foreign currency generating capacity which had bearings on our earning. Such phenomena had great impact on our business operations. As a result, our profitability and implementation of business strategy was generally affected.

It is to be recalled that the country was importing practically everything from food to raw material, machinery and equipment and Bank of South Sudan was allocating foreign currency to banks for import under letters of credit. During the financial year the allocation of foreign currency went to individuals and to specific banks direct rather than to commercial banks. As a result, the very core of our business strategy was affected and our profitability declined.

We pray that peace will reign in the country and development and growth will continue at an accelerated rate to compensate the lost business opportunity.

Once the current conflict is resolved and peace and security is established it is hoped that foreign investors will again turn their faces towards South Sudan where we may see enough foreign currency inflow that assist economic development.