Conference Call transcript

27 May 2020

Q1 2020 RESULTS

Operator
Good day ladies and gentlemen and welcome to the Co-operative Bank of Kenya Q1 2020 financial results conference call. All participants are currently in listen-only mode and there will be an opportunity to ask questions later during the conference. If you should need assistance during the call please signal an operator by pressing * and then 0. Please also note that this call is being recorded. I would now like to hand the conference over to James Kaburu. Please go ahead.

James Kaburu
Good morning, good afternoon, good evening ladies and gentlemen. Once again welcome to the Cooperative Bank conference call to discuss our Q1 2020 financial results. We did share the results last week, a PowerPoint presentation and the results themselves, so I think you have had ample time to go through them. Here with me I have Mr Patrick Nyaga, who is group CFO, I have Mr Anthony Mburu, our Director Credit Management, I have Mr Anthony Muli, who is the bank Economist, and myself, James Kaburu, Head of Investor Relations and Strategy. We are going to start with a macroeconomic overview which is going to be presented by Anthony Muli. I hand over to Anthony.

Anthony Muli
Good day ladies and gentlemen. I will take you through the first few slides just by way of summary. I think what's almost to the knowledge of almost all of us is that Kenya's growth path in 2020 still remains quite uncertain. In the last couple of weeks we've seen various forecasts into 2020, the annual growth for the full year. However, we've also gotten a glimpse of the Q1 provisional statistics which indicate that Q1 GDP numbers were positive. We all recall that the adverse impact of the pandemic started in Q2, late March, and so in Q1 overall growth is likely to range around 5.1%. Agriculture did a good run at about 4.5%, industry about 4.4%, and the services sector which now controls about 20% of the GDP growth at 6%. Moving into Q2 and Q3 I think that's where we expect most of the adverse impact to be witnessed and felt throughout the economy. However, still looking at most of the projections they are based on an upward growth in Q4 of this year, and that assumes that the pandemic will be managed quite within Q2 and Q3.

Looking at the currency it's obviously gotten a bit of a beating from the fact that the USD has strengthened by more than 8% by early April. However, looking at the market today we seem to be stabilising around KSh 107 to KSh 107.5. What has come in to cushion this exchange rate is the fact that tea exports seem to be flowing well. In the first two weeks of May 89% of the auction supply was actually successful, and that means that tea export flows are likely to remain resilient, at least upwards of 89% through the year. The other thing is that we've also seen most of the external financing offered give some comfort to the market in the sense of FX reserves.

On the horticulture sector we haven't seen much of an improvement in the sense that historically we export about 5,000 tonnes of fruits and vegetables, but currently only doing about 1,300 to 1,400 tonnes. This obviously speaks to the fact that we have a bit of a squeeze on the freight in the sense that cost is upward of about $4 a kilo, up from the usual $1 to $1.50 a kilo. So until that is rectified in terms of cargo flights then that might still remain low. On inflation the short period between May and July is when we have a bridge between the current reserves of maize and the early season harvest which is starting in July/August. So we might see a small spike in inflation in both May and June, but that should be resolved within July once the harvest comes in.

On short-term paper we have seen relative stability which we project to continue into June. That's the close of the fiscal year. And the key thing to note is that the government has done most of the front loading in terms of domestic borrowing. It is currently at around KSh 387 billion out of a fiscal figure of KSh 389 billion. I think in the month of June most of the concentration will be around maturities to redeem maturing debt, which is quite high. So we have bonds worth KSh 31 billion maturing in June and we have short-term paper of about KSh 90 billion maturing in the same period. So we have a total of KSh 125 billion maturing in June, so I think that's where the concentration would be.

Looking at how the government is likely to close the fiscal year in June, I think it's still not very clear and I think we might have to wait until the May exchequer report is out to forecast how we are likely to close the fiscal year. In terms of private sector credit we have seen an uptick into the month of March – that's close of Q1 – at about 8.9% expansion. However, given the COVID situation we think this will reverse in terms of trend into 2020 given that demand is projected to be low. And also on the supply side as banks we don't have much appetite for credit given credit risk premium is still quite high by way of the 10% level NPLs. At this point I will invite Patrick Nyaga to quickly take us through the financial highlights and the conclusion. Thank you.

Patrick Nyaga
Thank you Anthony. Good day ladies and gentlemen. I will pick up from where Anthony has stopped. The information that is the next few slides is for your information and I will not necessarily go through that information because most of it is standard. I will therefore skip slides 11, 12, 13 and 14. I will do some quick highlights on slide number 15. This is mainly where we are talking about the acquisition of 100% share of Jamii Bora. As per the notice that had appeared in the newspapers some time ago we said that we would continue doing the due diligence. We are just about to conclude the due diligence so that we can move into the next processes.

I will skip slides 16, 17, 18, 19 and 20, and I will go to slide number 21 where we are looking at the channel performance. I note that a number of channels have improved in terms of performance and a number of them have declined their transactions. I think among the biggest gainers or the biggest increases are in MCo-op Cash where we've seen a number of 16.3 million transactions, a growth from 10.4 million transactions. This can be attributed to two things. One is the growth compared to the same period last year of e-loans or MCo-op Cash loans, and also some of the transaction increases towards the month of March out of the COVID-19 situation. Agency banking declined a bit from 11.2 million to 10.3 million and ATMs from 10.8 million to 7.5 million, branch banking continued to decline from 4.6 million to 4.3 million transactions.

On slide number 23 is just more explanations around the e-credit. We are noting that in terms of the number of customers if you look at Q1 2020 we had about 3.4 million customers who transacted on mobile MCo-op Cash and cumulatively we have lent about KSh 79.7 billion in MCo-op Cash. The other transactions on slide number 24 are just showing that mobile transitions in terms of millions increased from 10 million to 16 million. Mobile banking again in terms of commissions we saw significant growth, more than doubling from KSh 744 million to KSh 1.6 billion. If I go to slide number 25, again just a bit of detail around our alternative channels looking at the number of agents. We are now at about 16,783 agents compared to 11,682. In terms of number of transactions we've seen a bit of decline there compared to the same period last year from 11.3 million to 108 million.

If I move to slide number 26, again what are the types of transactions that are being carried out in agency banking? We are noting that cash deposits account for about 52%, cash withdrawals about 27%, balance enquiry about 15% and all the others about 6%. In terms of transaction value distribution most of the activities that happen at agency is cash deposits at 67% and cash withdrawals at 27% and others at 5%.

Looking at the financial highlights, we note we have had a strong growth in terms of balance sheet compared to the same quarter last year where we grew our balance sheet from KSh 425 billion to KSh 470 billion. Our loan book grew from KSh 251 billion to KSh 276 billion. Total deposits also grew from KSh 319 billion to KSh 341 billion. And out of the profitability of the bank we grew our shareholders funds from KSh 72.8 billion to KSh 82 billion. Looking at the financial position of the balance sheet I think we've just gone through quite a bit of that. In terms of percentages total assets grew by 10.5%, loan book by 10%, government securities by about 11.5%, total deposits by 6.7% and borrowed funds about 15.5% because we drew the last tranche of IFC funds.

When you look at slide number 30, the diversification of our loan book, no significant change has happened in terms of how our book is placed, but you note that personal lending grew to 40% from 35.7% of the total loan book, corporates to 23.3% compared to 25.3%, mortgage – as you know we have been slowing down on this – from 14.3% to 12.4%, and SACCO had a growth from 8.1% of the book to 9%. In terms of diversified loan book from a graphical perspective just showing that the biggest portion of our book is personal consumer, now at 45%. Trade is at about 14% compared to 15% same period last year. Real estate is 10% compared to 12% the previous year.

Our liability portfolio on slide number 32. Retail business contributed the most at 24.2% compared to 23.3%, so we continued growing our deposits. The area that we were able to grow most was in retail, helping us reduce our cost of funding. Institutional banking is 20.2% compared to 21.2% and SME banking increased from 18.9% to 19.3%.

On slide number 33 is just a representation of our funding. Nothing much has changed. I will go to slide number 34 looking at the quality of our loan book. Obviously as at March 2020 COVID-19 had not impacted us much. Looking at the way the distribution of the loan book is there we are noting that out of the growth of the loan book from KSh 268 billion to KSh 294 billion the normal class increased from 78% to 81%, watch declined from 11% to 9%, substandard remained the same at 4%, doubtful at 6% compared to 7% in the previous period, and loss at 2%. Obviously the provisions as per IFRS increased from KSh 18.4 billion to KSh 19.4 billion and the gross non-performing loans from KSh 29.2 billion to KSh 31.3 billion.

Our book is staged. We have the three stages there and the amount of provision we are holding in each stage. So stage 1 is at KSh 236 billion and we have KSh 4.8 billion provision, mainly general provision. Stage 2 is at KSh 26 billion. We have a provision of KSh 1.68 billion. And stage 3, which is KSh 31.3 billion, we have a provision of KSh 13.22 billion. In terms of portfolio trends specific to the sector we've discussed this in the past. We will have a small issue with our manufacturing book. Out of that book 77% of it is non-performing from 46%. In terms of building and construction 47% compared to 19% in the same period last year. Agriculture and trade remained relatively the same, and actually manufacturing and building & construction increased provision within that class. The others remained relatively the same. If you look at the provision now out of the overall book trade continues to hold the biggest percentage of our provision at 32% followed by personal consumer at 18% and manufacturing at 16%.

In terms of coverage our cost of risk is now at 1.4% compared with 0.8% last year. CBK coverage we are at 61.2% and IFRS coverage we are at 54.8%. We have strong capital ratios. We are in compliance with all the ratios as can be seen from the graph. Also in terms of total capital we still have a buffer, although we are working on a tier 2 loan to make sure that we boost that capital. Optimal asset and funding mix, no significant change as you can see from slide number 40. I will go to slide number 41. In terms of liquidity the bank has been quite liquid at 49%. Our loan to deposit ratio is at 81%. When you include the borrowed funds it comes down to 75%.

How did the various subsidiaries contribute in terms of profitability? Cooperative Bank at KSh 4.9 billion obviously being the most significant contributor of profitably for the group. Co-op Consultancy grew their profitability by 16% to KSh 250 million. Co-op Trust Investment grew by 2% to KSh 20.5 million. Kingdom Securities registered a loss of about KSh 6.6 million. Co-op Bank of South Sudan, a profit of KSh 29.7 million. Profit from associates, mainly CIC, a loss of KSh 21.6 million. That gives us a profit before tax of KSh 5.117 billion, almost a flat growth compared to the same period last year.

In terms of the profit and loss we note that out of the growth of our loan book and also the growth of the loan book and treasury bills and bonds our interest income grew by 4.5%. We were able to reduce our interest expense despite the growth in deposits from KSh 3.16 billion to KSh 3.02 billion, and therefore that gave us a growth in terms of net interest income of 8.5%. We grew our fees and commissions significantly mainly because of the e-loans and also some of the commissions arising from loans and advances. Our total operating income therefore grew by 12.5% from KSh 11.12 billion to KSh 12.5 billion. When you factor in the loan loss provision you note that we were a bit aggressive there to make sure that we clean our loan book from KSh 500 million to KSh 900 million. That's about 79.5% growth. When you look at total operating expenses our profit before tax and exceptional items therefore at KSh 5.24 billion compared to KSh 5.09 billion. If you factor in the share of profit from associates our profit before tax is KSh 5.12 billion compared to KSh 5.11 billion last year, so a 0.1% growth.

In terms of key ratios return on average assets declined a bit from 3.5% to 3.2%. Return on average equity from 20.5% to 18.5%. Earnings per share remained relatively the same at KSh 2.45. Our net interest margin declined slightly from 7.4% to 7.3% out of some of the CBR considerations. CBR continued to decline. Cost to income ratio deteriorated quite a bit there from 49.7% to 54.2%, and provisions from 50.9% to 58.1%. In terms of NIMs on loans a significant improvement from 7.6% to 8.1%. In terms of slide number 45, non-funded to total income, because of the e-loans we were able to increase our non-funded to total income to 40% compared to 38%. Non-performing loans declined from 10% to 9.5% as at Q1. And cost of average funds including borrowed funds improved significantly from 3.8% to 3.4%. Debt to equity ratio increased from 32.6% to 33.4% out of the drawdown of the IFC loan.

So in a nutshell that is the performance of the group for the first quarter, a bit of mixed reactions in some areas and also some minor impact by COVID-19 towards the end of March. Probably just to emphasise that our profit before tax was almost level with the same period last year out of some expanded operating expenses. Thank you very much. I think we can do questions and answers. Thank you.

Operator
Thank you very much, sir. Ladies and gentlemen, if you wish to ask a question please press * and then 1. If you wish to withdraw your question please press * and then 2. Again if you wish to ask a question please press * and then 1.You will hear a confirmation tone that you have joined the queue. Our first question is from Adesoji Solanke of Renaissance Capital. Please go ahead.

Adesoji Solanke
Hi everyone. Can you hear me clearly?

Patrick Nyaga
Yes we can.

Adesoji Solanke
Okay. Hi. This is Soji Solanke from Renaissance Capital. Thanks for the call. I have a few questions. The first is on agency banking. Can you just talk us through why your agent count was up about 50% year on year but your transaction volumes are down? That I'm not getting. If you can just talk about that a little bit. The second question is around staff cost. On my numbers it was up about 25% year on year in the first quarter. Could you let us understand if there's any reason not to use this as a run rate for the year in terms of staff costs? And then still on opex, on overall costs what sort of growth should we be working with for this year? I'm asking also because I would like to know if there is any cost savings you expect to achieve on the back of COVID-19.

My third question is around restructurings. In your slide you mentioned that you have restructured about 5% of the loan book. What I'm wondering is do you think you've done all that you need to restructure, partly also because when I look at the numbers from your key peers they've done 20% to 25%. I'm just wondering why your numbers are relatively lower by such a wide margin. Then my fourth question is when you restructure how do you intend to treat this from an impairment charges angle? What cost of risk number are you thinking about for this year? Those would be my main questions for now. Thanks.

James Kaburu
Thank you Solanke. We can have a few more questions.

Adesoji Solanke
Okay. Let me ask one last one then. My last one is on e-credit. Is it a key driver of your non-interest revenues? In this environment how risk averse are you getting and what impacts do you expect this to have on non-interest revenues for 2020? That's my last question. Thanks.

Patrick Nyaga
Okay. Thank you. Maybe we can take those first because they are quite a number, so that we don't forget them. I will request Anthony to answer the questions on the loans and I will give you the others.

Anthony Mburu
Good afternoon. My name is Anthony Mburu. Thank you for the questions, Solanke. Restructures, the directive that we have received from Central Bank of Kenya is based on a case by case an analysis of what customers require. So far as at the date of our results, as per 31st March, as we have indicated only about 5% of our customers required to have their loans restructured. Obviously as we proceed new ones are coming up or new customers are coming up requesting for consideration. But what we can say is that because it is demand driven, not bank pushed, it is up to the customers who feel they cannot pay their loans to come forward, and then we sit down and we agree a restructure. So there are those who are paying in the normal course of business.

Others have come and said we are going to have a problem and have asked for restructure, and we have accommodated based on what they said. Others required just a partial support for a short period of time. So we have gone with what our customers require. As I said it is demand driven and not bank pushed. We are also watching the situation because if the others have had 25% we will watch to see what the differences are between us and them. I guess we will adjust accordingly. But as we speak, whatever we've done we've done on the basis of the customer coming to us.

Regarding the issue of impairment we plan to use both the CBK guidelines, and because they are based also on IFRS 9 rules, and IFRS 9 did come out with a clarification regarding what to do with the impairment or ECL under the COVID-19 scenarios, we will be applying those. We will be applying the guidelines we've been given by our regulator and also the guidelines that have been proposed by the accounting body. On the issue of e-credit I think what I would say is that we continue to provide e-credit, both to the individual and the business plan to the business customers. We have obviously adjusted our algorithms to take into consideration the environment we are in. Remember our e-credit is based on customers who are already in our book who already have a relationship with us either as a borrowing customer or as a depositing customer. And the algorithms are based on the turnovers that they do through us.

And they are short-term loans, one month, two months, three months, so as they pay off the previous one and they are taking the next one we are factoring the reduced turnovers for those who have reduced turnovers into the whole discussion. So we expect that we will still be able to offer the product with those changes in structure or changes in policy, and we wait to see how things go. All of this is happening obviously now in April/May. So far the statistics as at April/May show there may be 10% or 15% reduction in demand. But on the other hand it's understandable especially in the month of April. Business had come to a bit of a halt or a slowdown.

But what we've seen is that people have gone back to business, to work, and so we are seeing in the month of May a lot more activity, a lot more banking in accounts. So the initial panic that had caused people to shut down, go home and stay away, what we are finding now is that they have found other ways to do business and even with limited hours people are still able to do financial transactions. So I think those are the three bits I needed to comment on. With that I hand over back to Patrick.

Patrick Nyaga
Thank you Anthony. Solanke, on agency banking your question is about the count is going up yet both the transactions and the commissions have declined. Obviously we continue expanding our footprint in terms of agency banking, and we will continue doing that. However, there has been some decline in terms of economic activity around some of these transactions. That's probably why we have seen a bit of decline in both the transaction numbers and in the commission income. There is something we changed a bit also within the month of February and March.

We used to have a lot of agencies that we had put inside our branch premises, but because of these issues of COVID-19 and this social distancing and all that we had to move them out back into their premises. So we saw a decline there in number of transactions because of that activity. But also because of the lockdowns starting around mid-March we saw quite a bit of impact immediately. But as Anthony said, we are starting to see a bit of that move back, some of the transactions into the agency. So that's the reason why you are seeing the count is up, because we continue increasing the agency footprint, but in terms of transactions there was a bit of lull there. But we expect that probably going forward to go back to the normal.

In terms of staff costs there was quite a bit of increase compared to the same period last year. This is mainly because of several things. One, last year around mid to end of last year we engaged quite a number of people in some of the technical areas. The majority of that cost has been felt fully in Q1 2020 compared to the same period last year when we didn't have that cost. However, as the year progresses and you are comparing like for like, and also out of some of the activities that we are now doing because of COVID-19, for instance we are not hiring any more, a number of staff are working from home, on a comparison basis we will not see the run rate increasing any further. In fact on staff costs we are projecting about 8% full year. So that will actually be taken care of.

When you look at the opex actually March 2019 compared to March 2020 other operating expenses only grew by 1%. Therefore we intend to maintain that or even come down slightly. We are now especially because of the COVID-19 situation looking at all the lines of cost that we don't need and we are working on them quite significantly. There are a lot of travel costs for example that have been shelved, and a number of other areas. Therefore again from a run rate I expect to see no growth at all actually, maybe some decline. I may not be able to project exactly the kind of decline that will be there because obviously this situation is fluid, but we are working on very specific parameters and specific lines of expense that need to go down, also noting that some lines are also going up. For instance masks and sanitisers are costs we didn't have. Now we have them in the P&L. But from an annual run rate perspective I expect zero or negative growth on that line. So those are the key three things that Solanke has asked. I hope I have satisfied you.

Adesoji Solanke
So for staff costs 8% growth, other opex flat to decline. Okay. That's understood. Just a few follow-ups. So restructured loans what percentage of the loans would you say have been restructured as at today? Then secondly in terms of impairment charges you have a number of KSh 900 million in Q1. That's KSh 3.5 billion for the year. Do you think this number is too low given all the risks that you are seeing today? Finally just in terms of that e-credit number, can we work with Q1 as a sustainable run rate? Or if not, to what extent do you expect the run rate to decline relative to Q1? That's it. Thank you.

Patrick Nyaga
Maybe I can help Anthony a bit there. You are asking what kind of number we see. Anthony talked about 5% at the time. Probably as at now we're probably about 6%. Probably he can talk more about where he thinks the projection will go.

Anthony Mburu
Solanke, I think we had done KSh 15 billion by 31st March. As a percentage of our book that is close to 5%. We foresee it maybe rising to about 10%, but we don't see much beyond that because as I said it is demand driven. This is what we are seeing from the customers themselves. So far those are the sorts of numbers we've seen. 5%, but we are projecting maybe up to about 10%. On the issue of the run rate on the e-credit there was obviously a dip in April. We are starting to see a slight increase in May. I wouldn't say that that rate can be applicable to the end of the year. Possibly a dip of maybe about 10% on whatever we were doing in that first quarter in the second quarter, and if things improve in Q3 and Q4 then that could change. So annually the run rate for the year could be at the maximum a 5% dip overall for the year. I think those are the two questions you had. Did I miss something, Solanke?

Operator
Thank you. The next question is from Ronak Gadhia of EFG Hermes. Please go ahead.

Ronak Gadhia
Good afternoon Patrick, Anthony and the team. I hope you guys are keeping well. A couple of questions. Maybe some of them are just a follow-up to Soji's. Firstly on your cost of risk. I understand it is difficult to give a definitive guidance on cost of risk given the various moving parts and you don't even know what percentage of loans would be restructured. But could you share some thoughts on the possible scenarios the bank is modelling based on what you've seen so far and what the expectations are for the economy through the rest of the year?

The second question is on your legacy NPLs. I guess the discussions we've had in the past is that some of these loans once the rate caps are gone, the economy picks up and the government pays off its bills these loans should become performing. Is that assumption still valid given the environment we are in, and if not do you foresee making more provisions on these legacy NPLs and having to write them off? The third question is on your capital. You have a capital buffer of around 70 basis points. Do you think you might need to increase that given the environment we are in? And final question on your asset pricing or loan pricing model. From what I understand all banks were asked to get their risk pricing model approved by the CBK. Has your model been approved by the central bank already, and if not when do you expect that? Thank you.

Anthony Mburu

Okay. Ronak, thank you for your question on the cost of risk, the legacy NPLs and the loan pricing model. I believe Patrick will handle the capital. This is Anthony. I will say that on the issue of cost of risk so far as we've indicated 5% of our performing customers have come back and asked for consideration in terms of restructures. Now, many of them are just asking for time so that their businesses can pick up. We are not seeing a total wipe-out in terms of business. So who are we talking about? We are talking about transporters who have less time to carry passengers. Some of them have adjusted prices upwards so we are beginning to see a slight change in whatever they were going through in March/April to what they are going through in May.

We are talking about among our customers landlords with tenants who the tenants have asked for consideration or moratorium on the rent, not a reduction but a moratorium. Hopefully when businesses pick up later they will be able to get into a payment arrangement as far as the discounts that they got during this period. So again we expect that they will pick up. So the other group of customers who have had a reduction are traders where business for a while was not moving as fast. Obviously they reduced working hours and that has again had a 10% to 15% impact on their turnovers. And some of them have then come to us and asked us for just a bit more time to reorganise themselves. None have a complete drop in cash flows.

The people who are the most affected were the restaurants and hotels. They do not form a big part of our portfolio, so we've had very few of those come forward asking for restructures. We've also had very few restructures requested by the other big sector that has been affected. Things like the airline industry we're not involved other than the old legacy debt that is government backed. So those are some of the areas just to give you a flavour. Churches have been affected. That is the other one I forgot to mention. So those are the areas where we have seen people come to us and say give us a bit more time to repay. All of these are areas that we believe should be able to bounce back quite fast once working hours and the whole social distancing issue reduces or when business will reopen.

Largely so far what we've done is to start working on the economic overlays of our ECL models. The second thing we have done is for some of those models they don't need much change because a big part of our book are personal loans that are check-off oriented and many of those with government or parastatal institutions who have not laid off their employees. So we are receiving check-offs almost completely. We've only had 15 employers ask us to give their employees moratoriums, and these are not the large ones. They are more of the smaller employers that are linked to the private sector. So in terms of the book that was involved in this we've not had to do restructures of more than KSh 100 million across many of those personal loans for those particular employers. So the modelling around personal loans we don't think requires a lot of adjustment.

Where we've had to do a lot more adjustments on the models are around SMEs, mainly the traders and a little bit into the real estate sector. But the real estate sector we already had taken quite a big hit on this as we've mentioned in the past in previous discussions. And we had already done all the discounting of securities, taking on a more aggressive probability of default. And those sorts of issues had already been factored in our model. Again there will be some amendments or adjustments as far as those sectors are concerned. We are not big in manufacturing or industry. It is hardly 4% of our book. We are not big in infrastructure projects. It is hardly 2% or 3% of our book. And those are some of the sectors that have been much more affected as far as this is concerned. So just to give you a little bit more of a flavour, last year we were talking about 0.8% as our cost of risk. We expect it to rise to 1% to 1.5% or thereabout. I think the projection is 1.4%. And that is the way we foresee it.

In terms of legacy NPLs, Ronak, I think we've had some good discussions around this. Most of our legacy NPLs are around real estate. They are around sales. And I agree with you, at this point in time selling the real estate is difficult. But we've done discounting of the collateral. We have taken additional provisions as far as those are concerned. Over the next two or three months we will see how things go and then make some decisions possibly before the next quarter on whether to take a more aggressive decision as far as the provisions there are concerned. On the loan pricing model we are still in discussions with the Central Bank of Kenya regarding our pricing model, so we are not through yet. We have transferred into our own internal base rate for the pricing of new facilities and we expect that in the next month we should have concluded our discussions with central bank on the loan pricing model.

Patrick Nyaga
Ronak, in terms of the capital buffer you are right. 700 basis points. What we have done is we are just about to conclude a process of tier 2 loan. And the way we are doing it is sometime last year we got about $150 million from IFC. We drew it in two tranches, $75 million each tranche. We have a lot of opportunity now that the opportunities to lend this money are not available. Currently what we have done is we are in the process of converting tranche number two of $75 million from a senior loan to tier 2 debt. Once we do that our ratios will be in the tune of 17.5% to 18%. And also given that the balance sheet growth is not significant given this COVID-19 situation then we will be sorted with that. Thanks.

Ronak Gadhia
Understood. If I may just one follow-up. Antony mentioned that you moved to a new base rate internally on new loans. What impact does this have on your margins through the rest of the year? And in the medium term once the model from the CBK is approved what impact would it have on your margin on a more medium term basis once things begin to normalise?

Anthony Mburu
Ronak, a very good question. At the moment a little bit of crystal ball gazing if I try to really hazard a guess on this one. But yes, what we are looking at is possibly a 10% to 20% pick-up on our margins across the board. But let's wait. I don't want to jinx what we have discussed with the regulator. Let's see how that goes.

Ronak Gadhia
Understood. Thanks for the detailed answers.

Operator
Thank you. The next question is from Timothy Wambu of Absa. Please go ahead.

Timothy Wambu

Thank you Anthony, Patrick and James. Thanks for the call. Just a few questions, though a couple have been answered already, more specifically I just want to get a sense. The loans that you've had to restructure, you're saying it's roughly about KSh 15 billion. Are you in a position to give us a split of how much you've offered payment relief vis-à-vis the ones that you've had to extend the tenure?

Patrick Nyaga
Sorry, just repeat that last bit.

Timothy Wambu
So the split of the loans that you've had to restructure between offering repayment relief and having to extend the tenure of the loans, if you could give us that split. And on the loans that you've had to offer repayment relief, so far are you doing 90 days or 180 days? Just to get a sense of what your customers are grappling with, I think that would be very helpful. It would also help in us being able to understand the nature of your clients. The second question has also been touched on, but it's with regards to cost of risk. You mentioned that IFRS provided some flexibility. Could you be a bit more precise with that? My thinking is that the moment a loan begins to experience any significant increase in credit risk it moves to stage 2. Therefore we start carrying lifetime losses as opposed to 12 month losses. If you could just speak about the flexibility and how you intend to apply that. The other question is on your appetite for risk this year. Do you think you will be able to extend credit? Just lastly touching on cost containment measures, given that it could be a very challenging year from a revenue perspective. So just to understand your cost containment measures. Thank you.

Anthony Mburu
Thank you Timothy. Loan restructures, maybe allow me to do a bit of definition. Repayment relief versus tenure. What do you mean by repayment relief?

Timothy Wambu
Sorry, I meant you are offering a moratorium so there is no interest payment. That's what I'm asking. Is it for 90 days?

Anthony Mburu
Good question. I think largely what we've given is repayment relief. We have not given waiver of interest which is we're not foregoing our income, if that is the direction of the question. What we are giving is largely a moratorium or a grace period in terms of repayment. Now, honestly speaking the impact is that tenure will have to increase for those customers because if somebody was supposed to pay a loan in the next 36 months that relief of not paying the principal for three months will have to be made up. Expecting him to do a lump sum payment after those three months of repayment is going to be a challenge. We will be opening ourselves to issues. So case by case there are those who probably can do it, but some it's difficult.

Let me give an example. A school where parents have not paid the school fees because school has not opened. Now, when school opens they will collect the school fees obviously at that time and they will need to make certain operational expenses and they will need to then pay their loan. Some of them may ask for a bit more time, extension of period before they can pay that. But so far three months is what we are working with as a working figure. I know the guidelines are that we could go up to 12 months, but the average has been three months as far as the extension of time is concerned. We are giving a relief of three months, and we expect for 60% of them they will then require a three months' extension on the tenure.

As I said, most of our restructures are traders and real estate. We have hardly any in personal and household that have required relief, very few employers, which is where the extension of tenure might have been a challenge because you are basically asking the employer to allow deductions to a salary beyond a certain period, and maybe you had already maxed out as far as that is concerned. So I don't know whether that quite gives you the flavour of what we are doing. So no discount of income. It's just relief in terms of the principal repayment. The majority of them we're expecting them to pay the interest but we are giving relief on principal. A few of them we have to give relief on both principal and interest and postpone the payment of the interest lump sum at the end of the period. But for the principal we give them additional tenure.

The last question you had was on the risk appetite. Obviously the sectors that are affected we have de-emphasised. So hospitality, to some extent some of the transport sector, passenger transport but not cargo because cargo is still moving, and schools, churches, those sorts of institutions and real estate. We have de-emphasised our appetite for that particular type of risk. But generally we are obviously a lot more cautious as far as lending is concerned. I think you are aware that we now have 50% of staff at home. 50% are in the office. So that cuts across even our sales force. I think that gives you an idea that we have de-emphasised the aggressiveness as far as that is concerned and shifted many of the people who were on front line sales to more customer relationship management and working with them around this issue of restructures.

Patrick Nyaga
Yes. Wambu, the other question was about cost containment measures. I had mentioned that a bit earlier in terms of looking at staff costs, being the biggest cost that we have in the P&L. I said that probably going forward we are being very strict on any hiring at all and also making sure that we use the staff that are within the employment currently. And I think we are achieving that quite a bit. In terms of other operating expenses we didn't see much growth compared to the same period last year. However, we have put a lot of cost containment measures, and some of them are actually driven by the COVID-19 situation, for instance like travel. So all travel costs now are down. We have done things like for instance rescheduling non-critical investments on systems. Maybe there are some areas where we were looking at investing in a system, not because currently we are not getting good service but just because we needed to renew it. As such as have postponed them a bit.

We have looked at all areas for instance of renovations within the bank. A bank with a branch network of about 155 branches, there are one or two things we keep on doing here and there. Quite a number of those projects have been rescheduled completely. There are quite a number, for instance marketing expenses. What are some of the things we can cut down on, non-essential marketing items? There are quite a number of areas that we have looked at and we have considered, and we are continuing to review all of those areas to make sure that any non-essential expenditure is completely curtailed.

In terms of something you mentioned on cost of risk, currently our cost of risk is at 1.4%. Anthony had mentioned earlier that we are currently looking at our model, reviewing and recalibrating our models in terms of probability of default and looking at the economic overlay, looking at how the current situation of COVID-19 is going to affect our model. Therefore maybe as at the results of Q1 we didn't have much significant changes in the IFRS provisions and stuff. But clearly maybe we may not give a number right now and we may also not give an exact impact, but by the time we deal with Q2 because most of the COVID issues are actually in April, May and June we will be able to give very good guidance on how that has impacted our IFRS provisions. There will definitely be some small impact. I don't want to say this, but clearly we may have a slight deterioration in cost of risk, but maybe probably to about 1.6% depending on some of the additional clean-up that we will be doing. Thank you very much.

Timothy Wambu
Just before you move on, I also want to clarify what Anthony had said that IFRS is providing some flexibility in how you provide for loans. I just wanted that clarification as to how IFRS is providing that flexibility. The understanding is that the moment a loan gets into [unclear] there is a significant increase in credit risk. Then it means that this loan moves from stage 1 into stage 2, therefore you're carrying lifetime losses as opposed to 12 month losses. So I just wanted to understand. I'm not aware of any flexibility being offered by IFRS, so maybe you could just clarify. Just clarify again on whether you're offering interest payment relief, interest on loan repayments. Anthony wasn't very clear. Thanks.

Anthony Mburu
Okay. Timothy, I think I said the relief we are largely offering in principal relief. Interest has to be paid over the period. For 80% to 90% of our customers the only relief we are offering is on principal. However, there is a small percentage, maximum 20% for whom we are offering relief on both principal and interest.

Patrick Nyaga
But maybe if I clarify that, Timothy, what Anthony is saying is not really a relief from my understanding of the English. What Anthony means is that we are deferring payment by that customer. But the customer will still have to end up paying full principal and full interest. It is only that you are saying now that there are issues for the next few months can you reschedule this principal payment for another three months. That's why he's saying by you doing that then the tenure of the loan will probably increase by another three months. But it's not a situation where for instance a tenant is coming and saying let me pay you only 50% of the rent for the next there months.

Anthony Mburu
And that's why at the beginning I asked for a definition of what you mean by relief, because our definition of relief is you don't have to pay it for the next two or three months, but you will eventually pay it either as an extension of tenure or as part of a revised repayment for the same period of tenure. And I also said that there would be no discounts or waivers on interest, but by relief I mean a cash flow relief. You don't have to pay it for now, but not a waiver in terms of that you never have to pay it. So from that perspective because we are not losing income, we are only extending tenure, the securities have not changed. And depending on the question of outlook the only thing is if it extends beyond 90 days. Then IFRS 9 regulations do not then require us to change the rating or the grading of that particular customer. But I don't have the exact circular or clarification in front of me right now, but I will dig it up, Timothy, and send to you because my understanding is that the IFRS board did give a clarification on how to handle these issues of restructures under this pandemic situation.

Operator
Thank you sir. The next question is from Anne Kahure of SBG Securities.

Anne Kahure
Good afternoon all. Thank you for the call. I have a few follow up questions that have already been asked. With regards to the restructures, how many of your applications that you've received actually prove to be COVID related? And the reason why I ask is because some peers mentioned that they have a hit rate of above 80%. So 20% actually not COVID related. And in the same breath, in the restructure conversations you're having with these clients, does collateral held factor into the conversation? Especially when you consider what's happening in the real estate market. And to that extent, have you been able to access any of the CRR benefits from CBK?

Patrick Nyaga

Thank you Anne, let me start with the last question and Anthony will answer the other two. In terms of the CRR, the 1% relief, yes. We've been able to access that differential almost to about 95%. So that is already helping us in terms of the CRL computations.

Anthony Mburu
Excellent, Anne thank you. I hope I will be able to really answer your question. Restructures COVID or not COVID related. It is difficult to define but let me say this, the restructures that we're doing right now are for anybody who up to and including 1st of March had no arrears on their loans. And subsequent to that are having a challenge or a foresee a challenge in repaying their loans and they have then approached us requesting for a restructure because of reduced sales or reduced business due to COVID.

The sectors that are affected are education, schools are closed. Hospitality, the restaurants have been closed. Transport, they have less working hours and they are carrying fewer passengers. We are not very big in cargo but largely it is passenger transport but also some element of cargo transport. And then real estate, the issue of landlords and rent and the health sector. I know it looks like as if it should be the other way around but actually, hospitals have seen fewer patients over this period and charges, I think is the other sector that I will mention there.

A few are borrowing customers. Most of them are cash rich but a few do borrow for projects. So coming back to the question of what part of our restructures is COVID and what part is not COVID. I'd say the bulk of the restructures we are dealing with now and when I say bulk it's maybe 90% or 95% of the restructures we are dealing with now, they are COVID related. Now there will be some which are not COVID related in that this customer had issues even before and that is treated as just a normal restructure in the normal course of business and the usual rules apply depending on the circumstances that he's in. So the grading of the customer and the other factors that we're take into consideration will be done according to the usual rules.

The COVID ones, obvioulsy from our CBK point of view, they don't expect us to downgrade them immediately. They're giving us time for the next 12 months. As I've said, we've also been a little bit hesitant to do a full 12 month restructure. So what we are doing is three months and we hope obvioulsy that the situation will improve and then if necessary, there is obviously an option for roll over but given the fluidity of the situation we are little bit conservative on time.

As far as collaterals are concerned, this is part of the ECL model and we are looking at it. Anybody whom we've downgraded in the normal course of business obvioulsy the collaterals are revised. We have a 5% per quarter discount of securities, time based. We haven't done across the board review of valuations for each of those restructures becuase as you can imagine at the moment there's been a very huge influx of requests. And process wise, we needed to move quite fast as far as the process is concerened. The collateral bit we will be tackling in this quarter as part of the review of our ECL model. And so at that point then we should be able to, as Patrick said, come back to you.

Anne Kahure
Okay, thank you. Maybe as a follow up to those two. Patrick, you mentioned that you have been able to access about 95% of the CRR and if I understand it correctly, there are some pre-conditions to being able to access it. So [inaudible segment] loans you have restructured [inaudible segment] required additional, an additional facility?

Patrick Nyaga

Sorry just come back again, Ms Kahure, I didn't hear you properly.

Anne Kahure
Sorry, the preconditions to be able to access the CRR, I think there's a requirement that or a tag along that there's an extension of a facility that you are restructuring. What proportion of the loans that you have restructured has this actually occurred where you've needed to increase…?

Anthony Mburu
Yeah, I think let me help Patrick. I mean CRR relief was coming to KSh 3 billion, so the 95% that we are talking about is offset of the KSh 15 billion that we have done internally. So we got relief on our CRR. So we've done KSh 15 billion but the one that gave us relief on CRR is only KSh 3 billion out of our KSh 15 billion. It's a subset, yes.

Anne Kahure
Maybe just on the NPLs and provisions that you've reported as of Q1. Does any of it factor in the COVID weakened loans as of that reporting?

Anthony Mburu
No, by 31st March, I think, what is it called, let me not call it lockdown, partial lockdown happened I think on the 25th of March. So really by the time we were doing our results for 31st March we can't talk of it. Yes, so I get you. We obviously had started to see the signs and let me say this Anne. It's a very difficult situation because this thing was just a blip on the radar somewhere in January. It was not even making a lot of noise in January. February, business was going on as usual. We had all the normal plans. I must admit that really we started to put it on the radar very closely in March and then obviously it hit home quite hard in the end of March or even into April. So I think a lot of COVID stuff you'll see it when we give our Q2 results. We have tried to factor it into those Q1 results in some of the provisioning and stuff like that. But a lot of what you're seeing Q1 is just normal business.

Anne Kahure
Okay. And maybe my final question on cost of funding. The [inaudible segment] 3% cost of fund level in this environment?

Anthony Mburu
Sorry again, Kahure. You're breaking.

Anne Kahure
Oh, my apologies. On cost of funds, I note the improvement in Q1. I'm just curious to know would those efforts be able to get you to below 3% even by year end in this environment.

Anthony Mburu
I think looking at the trend even of CBR and how probably the governor is still dropping the CBR, I think we may have an opportunity to continue decline them a bit but I wouldn't say below 3% but that could be a possibility that we will continue being able to price our deposits later on.

Anne Kahure
Okay, thank you.

Operator

Thank you. The next question is from Martin Goudini [?] of SAB. Please go ahead.

Martin
Thank you gentlemen for your call and for your time. My question is still revolved around cost of risk and to be specific, it's with regards to the line item your loan loss reserves. We all know that computation comes about and the fact that I've noticed since fourth quarter it actually spiked in third quarter to fourth quarter by 75% and now with Q1 to KSh 1.8 billion, that's another 7% increment. So in the current macros and the fact that I have a sense or there is a sense that there will be significant haircuts in the collateral held especially the real estate's market. Don't you think that line item should be contracting rather than expanding? By that margin either should we not be seeing more in terms of IFRS 9 provisioning vis-a-vis the prudential guidelines? That's my first question.

My second question is on NIMs. You've said your NIM on loans increased to 8.1% relative to 7.6% in the same quarter last year. Kindly shed some light on what drove this given that there's been quite a big cut on the CBR during that period of time. My third question, still on cost of risk and listening to Anthony as he was answering both Anne Kahure's question and Timothy Wambu's question is that the sectors that are exposed to the repayment relief or repayment holidays for that matter, it's your trade, real estate and, which is the other one you have mentioned, transport and communication. So when I checked those three sectors technically account for almost 35% of your loan book. So granted the whole 35% might not be restructured what percentage are we talking about of that 95% are we looking at clients asking for repayment relief? And in that regard, don't you think that those loans that clients ask for repayment relief, we need now to move them to stage 2, thus increasing impairment charge? Thank you.

Anthony Mburu
Martin, I like your question. It's early days. So what you wish to do in terms of your scenario analysis, in terms of your modelling on your side, all I can do is just tell you what we are doing and then from there, I guess you'll pick it up and make your decision. I'll just repeat the numbers. As of 31st March we had received, or even around the time when we were doing our reports, we had done restructures of KSh 15 billion. As we speak today there have been obviously additional requests but we don't see the number going beyond 10% of our book. We have a KSh 236 billion book. We are saying 10% of that, maybe KSh 23 billion or KSh 24 billion might require restructure.

Yes, I talked about trade, real estate and transport. But real estate already had, as I said, a lot of the customers who had issues had already gone into downgrade. The ones that are remaining are reasonably resilient, reasonably strong with good cash flows, good tenants and very few of them have really come for relief but they are part of the sector that has come for relief, real estate. Trade, largely these are the SMEs and I would say more of the micros. Micros are KSh 4 billion out of the KSh 236 billion and not all of them have come for relief. So again, what I'm trying to say there is that there may be many in number but not huge in terms of value, and then some of the medium size enterprises.

Transport again, there are those who have come for relief. As I said, it is demand driven. We are going with what the customers are requesting. It's not a push where we are saying a whole sector, this sector go ahead and do a restructure. It is case by case, customer by customer and we are interrogating their cash flows and for many of them you find that they still have cash flows or they have an alternative business and be able to get into discussion. I don't know if there's any other way to put it in terms of that issue of which sectors are exposed, yes they are 35% of our book but the traders, a big part of those who are affected are the small enterprises as oppose to the larger corporates and medium sized enterprises. Even for the real estate it is the smaller companies and not the bigger ones that are affected where the size of the book is smaller. And transport again it is more of the smaller transporters that have been affected, the inter-county sort of transporters and that group of customers. And they don't form the bulk. Many of the customers are within the city and they're still in business.

The issue of significant haircuts in collateral. I take your point. As I said, we are relooking at our ECLs and that will inform where we head by the next time we come. That's very forward looking. At the moment, we are receiving the applications, doing the restructures and yes, going forward we will be relooking at the securitisation part of things and seeing what haircuts are required. Obviously anybody we have downgraded under the normal non-COIVD we immediately take a haircut of 5% every quarter as per the rules even before we start actually doing the revaluation of the securities. But for those who are COVID related we have not gone down the route of revaluation. It's one of the exercises that we are doing as part of our ECL remodelling.

Patrick Nyaga
Martin, there's one question that you've asked about names. Yes, CBR has been coming down. I think it's not necessary that everyone has then adjusted the prices of loans downwards whereas at the same time our cost of funding has come down significantly so then that definitely then leads to an expanding name.

Martin
Thank you, Patrick, and thank you, Anthony. As a follow up is there any percentage of your book that is still priced at CBR plus 4? My question was with regards to name on loans not overall names on earning assets. It was just name on loans that you have shown here in your presentation that is on slide 44. That went up to 8.1 relative to 8.6 in same period last year. Thank you.

Patrick Nyaga
Martin and that's what I'm saying because as you have noticed our cost of funding has gone down. Why? Because we have been renegotiating our deposits, especially the fixed deposits. As the CBR rates dropped we continued reducing our interest costs on deposits but on loans we probably have not been very aggressive in reducing the interest rates loan as per the CBR so that's why the name on loans is expanding.

Anthony Mburu
I think the additional comment there is that the caps were removed in December and so all our loans up to that point were still priced at a certain level and very clearly the only thing that we can do is increase the price of those loans. So, we've kept them at the same price they were at. We only had a small discretionary reduction on some of them of half a percentage in December and since then we have not changed the price. For new loans we are pricing at base plus based on a model which is not yet concluded with Central Bank. And so all we are doing is avoiding going above what was then base plus four. And so with the loan price sturdy and cost of deposit we are taking…

We are getting some relief there in terms of the competition for money has sort of reduced a little bit in terms of price. That's where that difference or that advantage has come from. We are hoping that as we move along we can move that one faster, the cost of funds than this other one, which with time it could also… We could, if we agree on the models or in the next one month we could get a slight uptick on new loans. Now, that was the plan. Let me say these plans are fluid because the risk appetite is also not as high as before, so I don't know whether that answers the question. Martin, I'm happy to hear your views.

Martin
Thank you very much, yes.

Operator
Thank you. The next question is from Faith Mwangi of Tellimer. Please go ahead.

Faith Mwangi
Thank you everyone for having the call. I dropped off the call at some point, I don't know if this has been answered but of the KSh 15 billion restructured loans have they been spilt across the stage one, stage 2 and stage 3?

Anthony Mburu
Faith, good question. I think what we have said is that KSh 15 billion at the moment because we have only done three months they're all on stage 1.

Faith Mwangi
Sorry, I didn't get that very clearly.

Anthony Mburu
Because we've only done a three month extension or restructure they're all on stage 1 at the moment.

Faith Mwangi
Okay, thank you.

Operator
Thank you. The next question is from Edwin [unclear] of [unclear].

Edwin
Hi, Patrick and the team. I'm not sure whether you can hear me well. Can you hear me?

Patrick Nyaga
I can hear you very, very well. Very well.

Edwin
Okay, good. So, I am trying to get the calculus behind this foregoing of liquidity for capital adequacy. I think the question that comes to mind is: what's the cost of carry of holding that excess liquidity in government T-bills as you wait to see the after prices lending market is going to look like? That's number one. Then, number two, are all restructured loans automatically moved into your prime rate plus pricing structure or do they still remain within the CBR plus four pricing structure? And what do you think is going to happen? So far what's your thinking about the after-crisis push to maybe restructure loans so that they can move to the new pricing structure that's likely to be better on the yield on loans?

Patrick Nyaga
Thank you, Edwin. So, in terms of the capital adequacy I think what I mentioned is that we have quite a bit of liquidity in dollar terms which we have stuck up in Eurobonds and I think probably an average earning of about 7.5% to about 8%.

Edwin
Okay.

Patrick Nyaga
And obviously what then we are saying is rather than get another additional loan a problem which is going to cost you quite a bit because tier 2 loans are much more expensive than senior debt we just convert that liquidity to a tier 2 loan. The liquidity will continue being invested where it is now because remember we already have that money. It's just a conversion from a senior debt to a tier 2 debt and the only thing that will probably suffer lightly is the cost of that debt because senior debt is slightly less priced compared to tier 2 loan. So, that's the mechanics that we are looking at. Otherwise it would have meant us going out there and getting a new loan. We don't have a lot of opportunities to put that money and therefore it really doesn't make sense.

Edwin
Okay.

Patrick Nyaga
I think the other one was restructured loans. I think Anthony can respond to that. Once we restructure we are still maintaining that pricing, the old pricing or we are moving to the new pricing.

Anthony Mburu
Edwin, thank you. Very good question, insightful. For the time being pricing is remaining the same. There is no change for now. The models that would have allowed us to increase the pricing, we hope in the next one once to conclude with our regulators as far as those models are concerned we are still in discussions with them but by and large the book has remained at whatever it was priced at before.

Edwin
Okay.

Anthony Mburu
And there was the other question then around the after prices. I think it's a bit hard to project that right now but obviously as banks any opportunity that would arise to restructure loans for a better pricing and especially for those customers that will have to be restructured then I think we will take up that opportunity.

Edwin
Okay, so just to clarify, assuming you get the approval from the regulator today would all restructured loans after that automatically move to prime rate flow. I'm just trying to get a sense that if your thinking is, and you haven't said this, if your thinking is that the outlook or the impact is a lot more benign than the worst case scenario, is there an incentive to actually take, or an advantage of this moment to reprice some of those loans?

Anthony Mburu
Edwin, I think we have to be a responsible citizen on this one. We have followed the lead that was given to us by our regulator. I must admit that it is not something that we disagree with, that for now Kenyans are in a health crisis, this is a health issue and we do not want to then precipitate a financial crisis by increasing pricing, by charging extra charges and all that. Customers have a problem and that's why we are taking time to understand genuinely why you are requiring this relief. Are you genuinely having a reduction in your turnovers and in your business? Because we are finding, yes, there are those that are trying to just postpone payments and keep the cash, hoarding the cash for lack of a better word. That we are finding and so for now those who genuinely we can see their business is affected we are considering them for restructure. For the time being we are talking about… All the guidelines talk about 12 months. We have given three months as a standard and we then work

with that to see how are you doing and keeping very close relationship management to understand what is going on. That is the way we have played this particular role.

Edwin
Okay, thank you, thank you. Perfect.

James Kaburu
I think for those listeners who are calling from other parts of the world, in Kenya you have to get home before 7, so we may want to now start thinking of how to get home because you are calling from the office, so I don't know whether there are any other questions for now.

Operator
Sir, we have one more question in the queue. It's from Henry Kabue ICEA Lion. Please go ahead.

Henry Kabue
Okay. Thank you for taking this call. I have a few questions. First, I'd like to find out given that the restructuring is mainly on principal. So you continue to accrue interest income on the restructured loans? Secondly, I'd like to find out what the impact of lost revenue from zero-rated transitions or mobile banking would be. And then third, what percentage of the loan book is referenced to the CBR plus four and what is your current base lending rate? Thank you.

Patrick Nyaga
Thank you, Kabue. I think the first question you have asked is about the principal. I think Anthony has explained this clearly that we are not giving any relief in terms of no charging at all, so for most of the customers will continue paying the interest and therefore accruing and probably [unclear] is the principal. So, unless we have a very one off case where we have to reschedule the interest all the other interest we are accruing. In terms of impact on revenue by the zero-rated mobile platform transactions that started with effect from about April, so in terms of Q1 we haven't seen much impact there. And even going forward probably we are looking at about 10% to 15% of only that part of revenue, not the rest [?] of revenue impact for the period when there will be the COVID-19. The last question, I think, what is the percentage of CBR plus…. I mean what percentage of our loans are reviewed CBR I think Anthony will answer that.

Anthony Mburu
Henry, our interpretation is that we don't have loans at CBR plus. CBR ceased to exist when that new law came as a benchmark for lending. We do have loans that are at 12.5% because when CBR was at 9 plus 4.13 we have a relief of half a percent to 12.5% for some of our loans but the rest of our loans now we are pricing them at base plus. For the older ones it is base plus 3 and a half which is 12 and a half and for the newer loans base plus 4 which is 13%. But my interpretation is that CBR ceased to be a reference rate for lending.

Henry Kabue
Okay. Just a follow up question of the fees for mobile banking transaction what was the absolute value for FY19?

Patrick Nyaga
We can check and give him.

Anthony Mburu

I think we can check that and give you. I may not have it straight figure in front of me here. We will check and give you an email.

Henry Kabue
Okay.

Operator
We have no further questions in the queue, sir.

James Kaburu
Okay. I just want then to thank you very much everyone who has participated in this conference call. We are still open for further discussion through emails and though telephone calls as we continue engaging even in this second quarter otherwise thank you very much and have a good evening and a good day too. Thank you.

Operator
Thank you very much, sir. Ladies and gentlemen, that then concludes this conference and you may now disconnect your lines.

END OF TRANSCRIPT