



CO-OPERATIVE BANK OF KENYA LTD

GROUP FINANCIAL RESULTS ANALYST BRIEFING

Q22018

17 August 2018

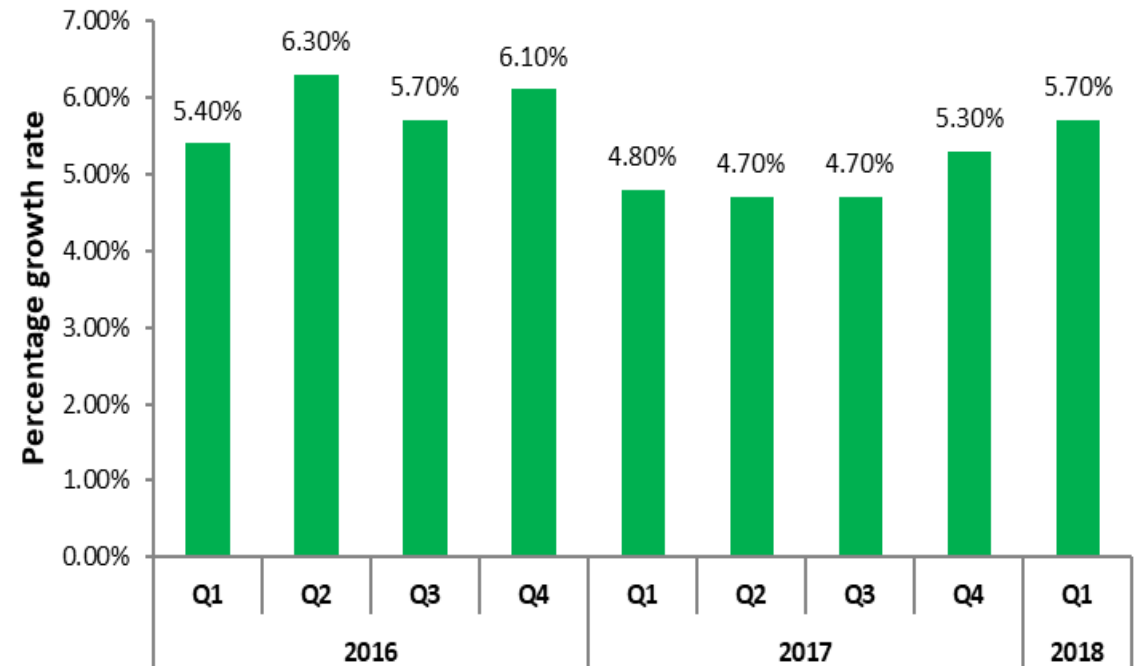
The background of the slide features a world map with a light green color scheme. Overlaid on the map is a dark green horizontal band containing a white candlestick chart. The chart consists of numerous vertical bars, some with wicks, representing price movements over time. The text 'Macro Economic Update' is centered within this dark green band.

Macro Economic Update

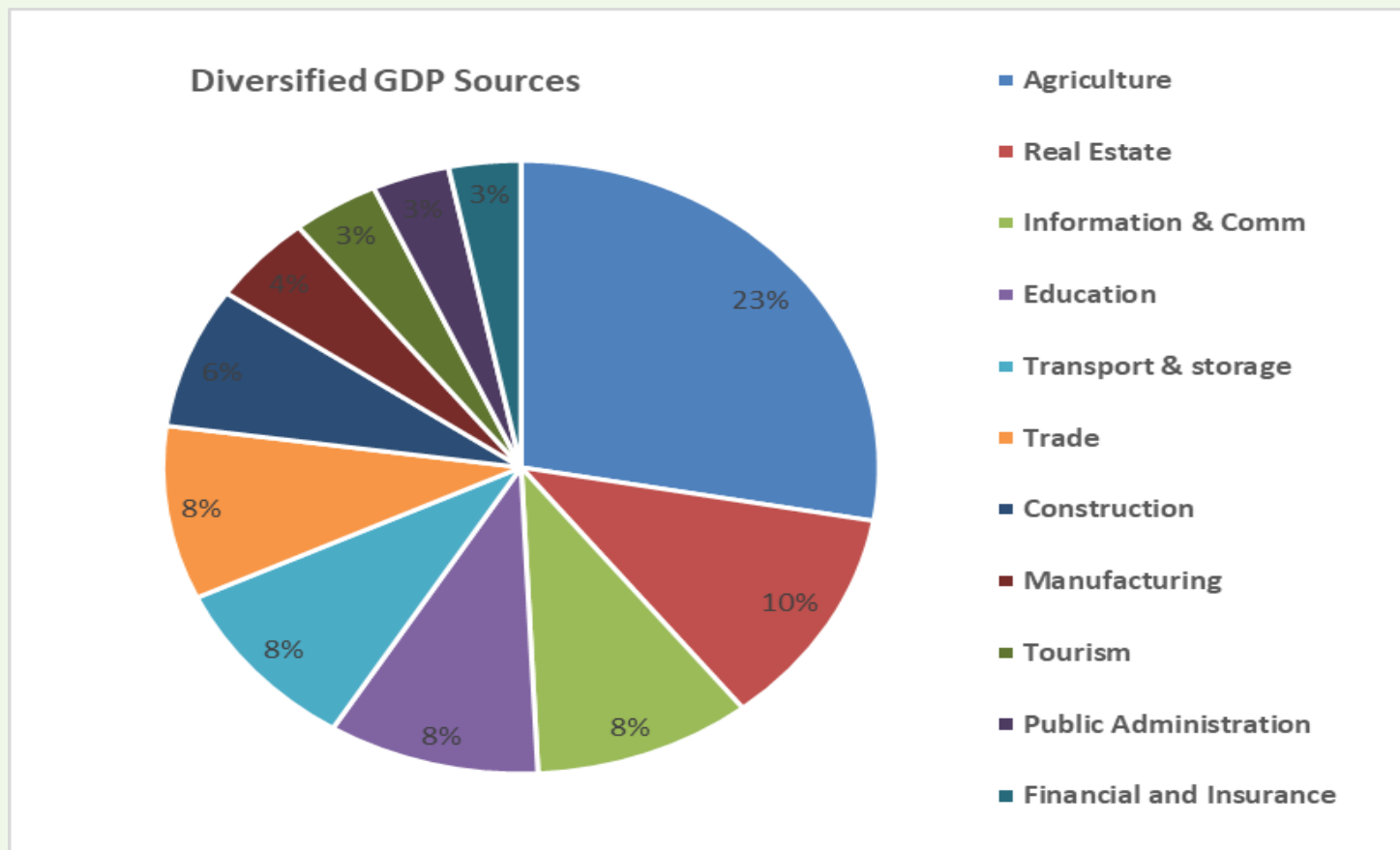
Quarterly GDP growth has started picking up

- Economic growth accelerated to 5.7% in the first quarter of 2018 compared to 4.8% recorded in the first quarter of 2017.
- Growth was largely supported by strong recovery in agricultural activity following favourable weather conditions experienced in the country compared to a similar quarter last year.
- The Agriculture sector grew by 5.2% in the first quarter of 2018, a notable recovery, compared to 1.4% in the previous quarter and 1.0% in a similar quarter of 2017.
- Economic growth was also supported by strong performance of service sectors, such as Tourism, Information and Communication and Health.
- Renewed hope for economic development with the signing of the new peace agreement resulting in improved political stability in South Sudan.
- Slight rise in inflation as a result of increasing prices of commodities in South Sudan.

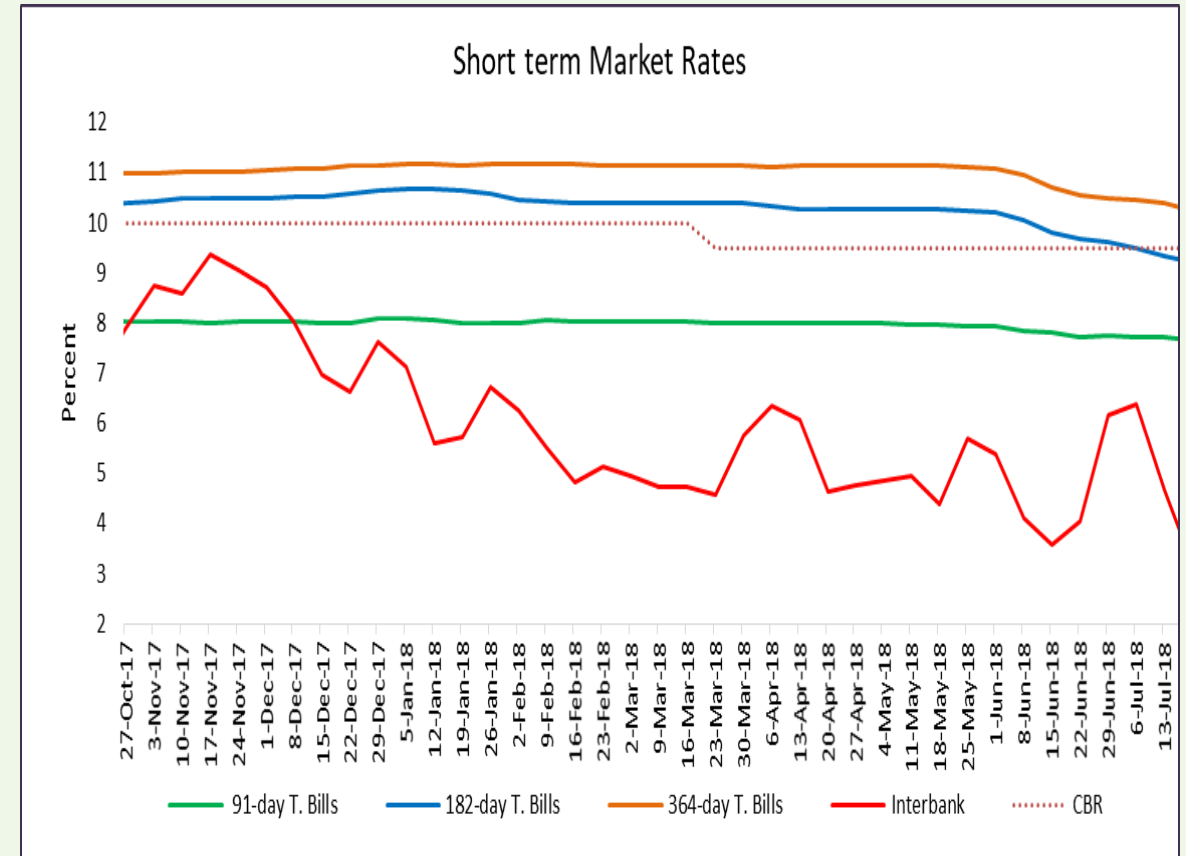
Quarterly real GDP growth rate



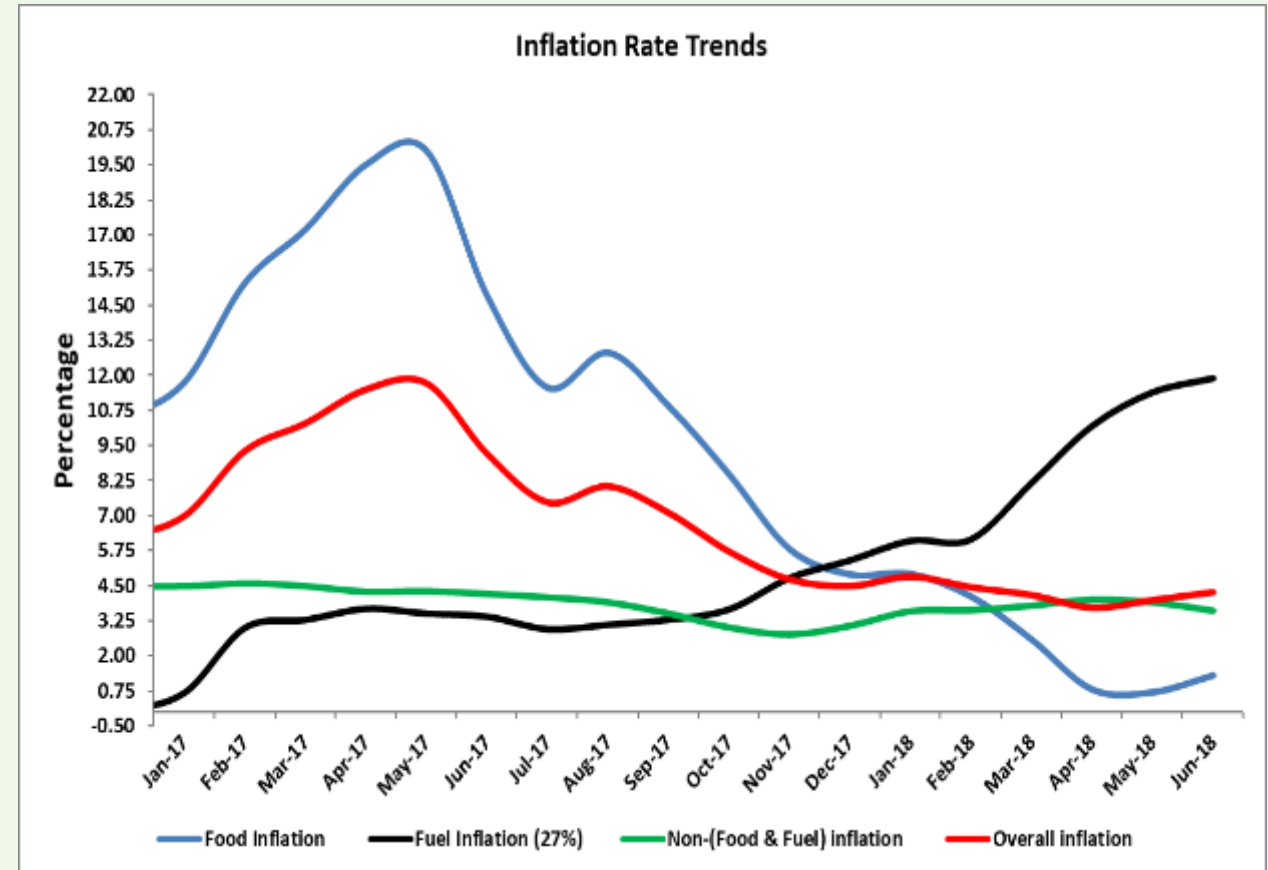
GDP sources continued to remain fairly diversified in Q1 2018



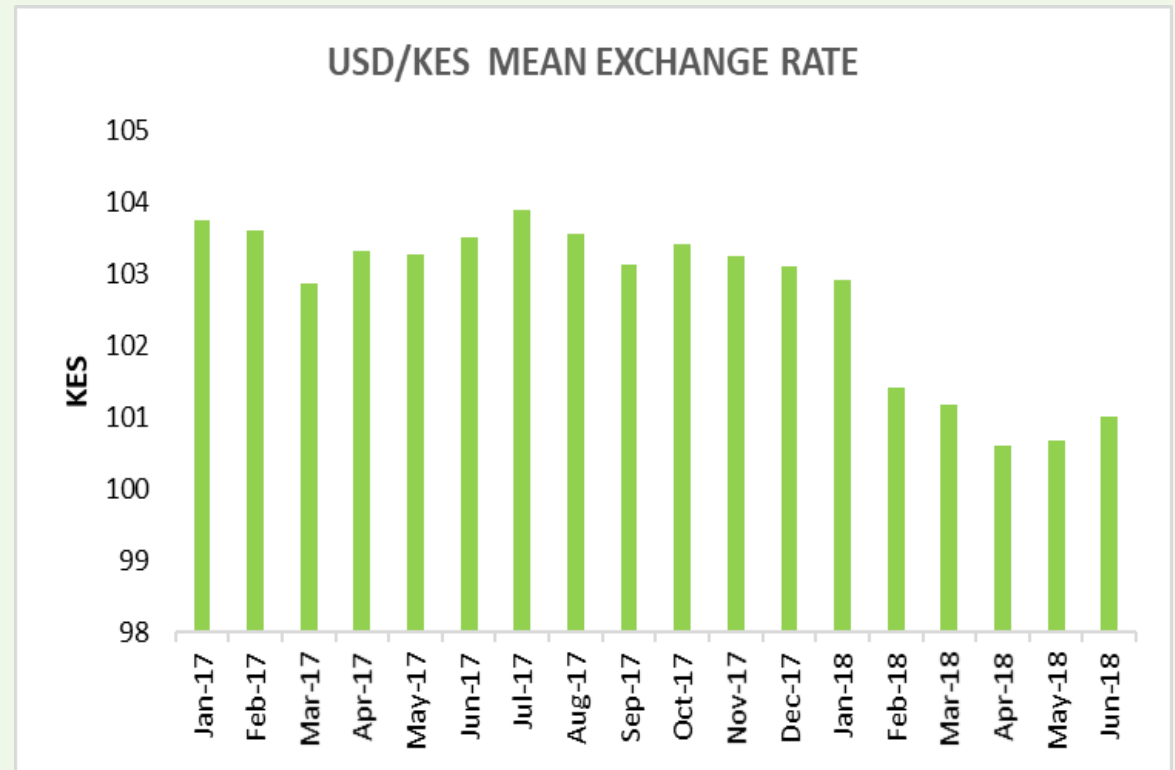
- The money market remained fairly stable in 1H 2018.
- The yields on short term government paper have not significantly moved during the last few months. Interest rate on 91-days, 182-days and 364-days Treasury bills were 7.7%, 9.6% and 10.5%, respectively at the close of 2Q2018 compared to 8.3%, 10.3% and 10.9%, respectively for 2Q 2017.
- The average interbank rate also fell to 5.3% in 1H2018 compared to 5.5% in 1H2017 indicating higher liquidity in the banking sector.
- Private sector credit growth has started picking up. It grew at 2.8% in the month April 2018 (yoy) compared to 2.2% in April 2017.



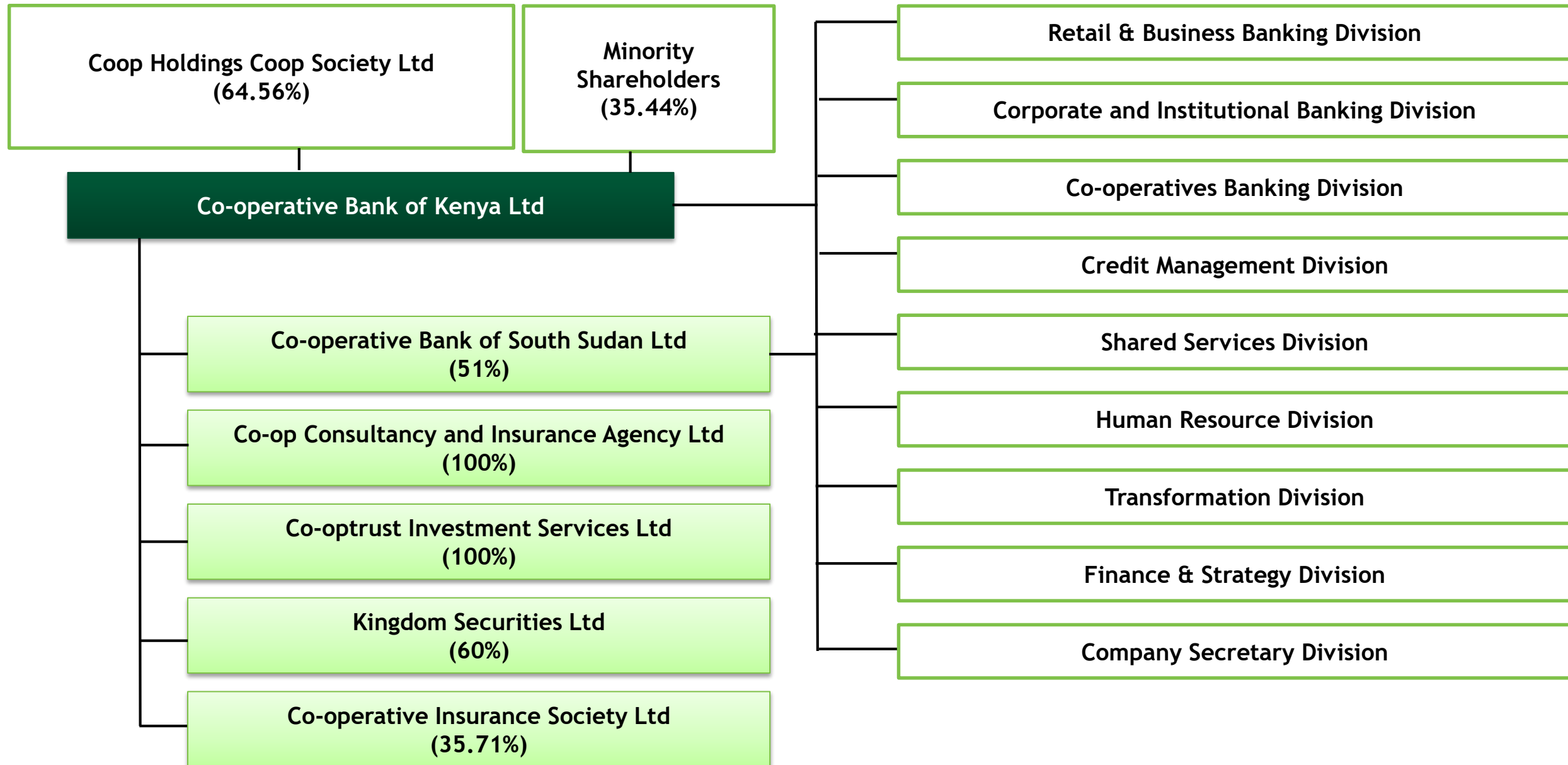
- Inflation rate has trended downwards in 1H2018 compared to a similar period last year.
- Overall inflation for 1H2018 averaged 4.3% compared to 9.8% in 1H2017.
- Food inflation fell from 16.4% in 1H2017 to 2.4% in 1H2018 on account of favourable weather. Fuel inflation has however increased from 2.9% in 1H2017 to 9.0% in 1H2018 due to the pick-up in global fuel prices.
- Overall inflation figures are likely to remain within the Government range in most of the year, assuming normal weather patterns.



- The KES traded to the USD at an average of 101.3 in 1H2018 compared to 103.4 in 1H2017.
- It gained 2.2% against the USD in 1H2018 to close at 101.5 compared to Kes.103.3 at the beginning of 2018.
- The strengthening is attributed to a low import bill at a period of increasing agricultural exports and tourism flows.
- The currently high CBK forex reserves equivalent to 6-months of import cover offers a good level of buffer against short term shocks in the FX market.



Co-operative Bank of Kenya Group Structure



A Successful Universal Banking Model

Retail and Business Banking

- ✓ Micro Credit
- ✓ Small Medium Enterprises (SME)
- ✓ Personal Banking (mass & affluent)
- ✓ Diaspora Banking
- ✓ Banking the youth (Yea & Jumbo Junior)
- ✓ Asset Finance

Corporate, Government & Institutional Banking

- ✓ Corporate banking
- ✓ Government Banking
- ✓ Institutional Banking
- ✓ Structured, Trade & Commodity Finance
- ✓ NGO's
- ✓ Treasury

Co-operatives Banking

- ✓ Large Saccos
- ✓ Housing Saccos
- ✓ Agri Business
- ✓ PSV/ Transport Saccos
- ✓ Investment Saccos

Associates

We own 26% of CIC Insurance
CIC Owns 31% of CIC Africa
CIC has a Presence in Uganda, Malawi & South Sudan

Fund management

- ✓ Over 36 Billion in Funds under management

Consultancy and capacity building for the Co-operative movement

- ✓ Over 2460 consultancies

Insurance Brokerage

- ✓ Insurance Premiums

Stock brokerage

- ✓ Share trading services
- ✓ Online Share Trading

Foundation

Co-op Foundation; Supporting Bright, Needy students in all counties

Innovative Customer Delivery Platforms

Our channels

155 Branches

Mcoop cash mobile banking
(All telco, all products)

Co-op Kwa Jirani-Over 10000 agents

Over 580 ATMs, leading debit card issuer

CoopNet- Internet Banking (Corporate & Retail)

24 Hour Contact Centre

Self service Kiosks in all our branches

Dedicated Diaspora Banking Department

560 FOSAs

Subsidiaries offering advisory and investment
services

Social Media Banking

Our customers

Over 7.4 Million growing direct account holders

Over 3.8 Million Mcoop Cash Customers

Over 81,365 Internet banking Customers

Over 1,079,873 Saccolink Customers

Over 14,058 Diaspora Banking Customers

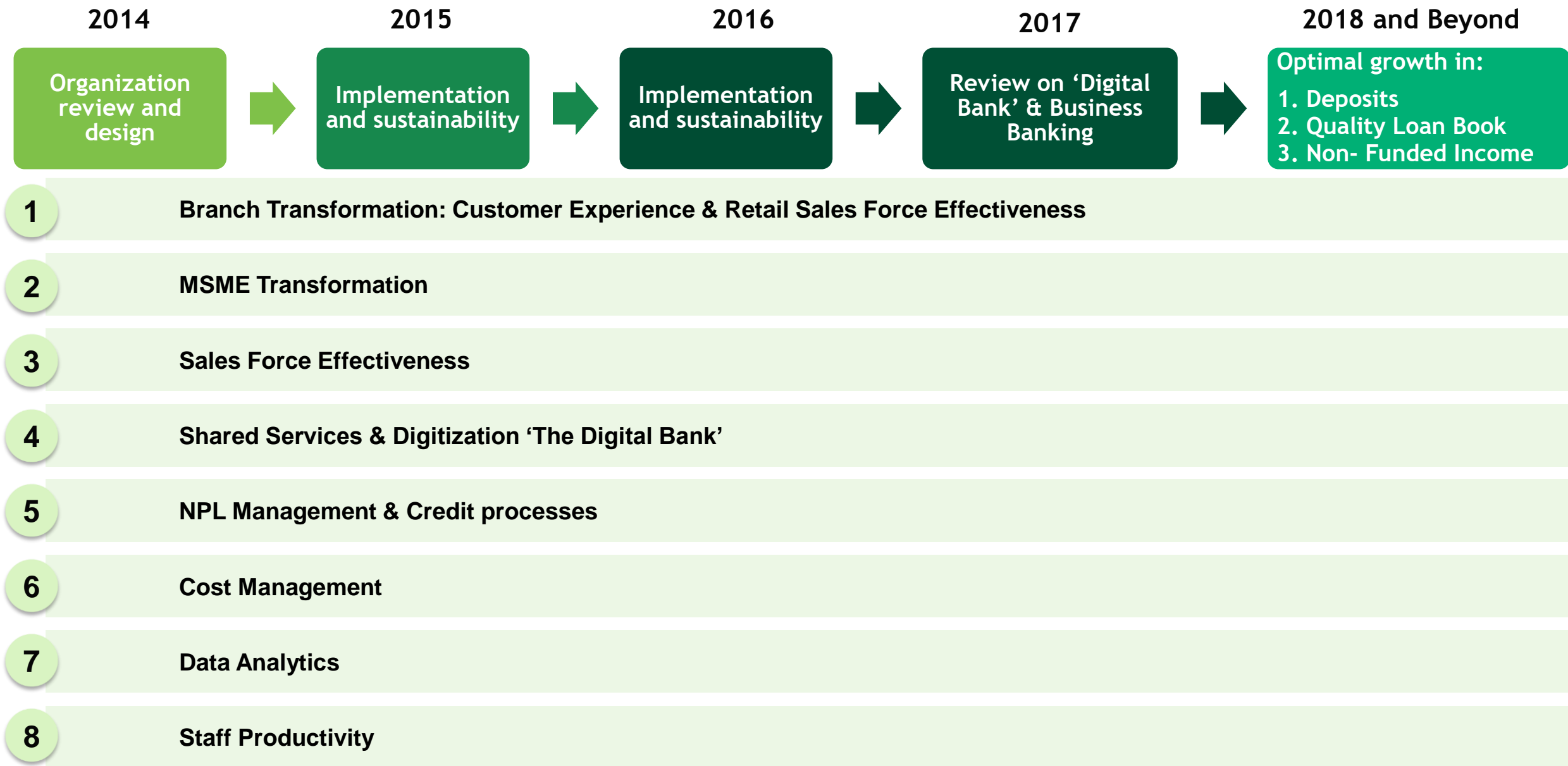
Over 1.2 million Facebook followers

Over 237,000 Twitter followers

Instagram followers, You Tube subscribers

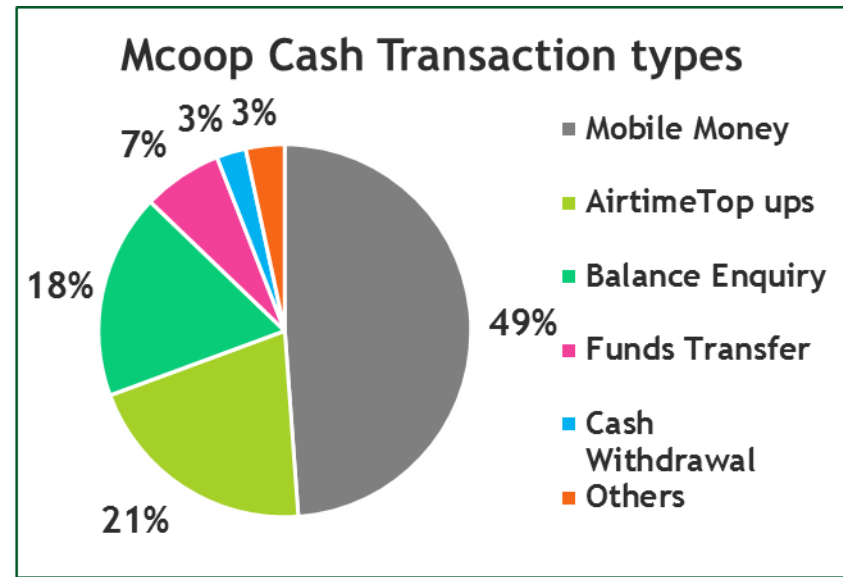
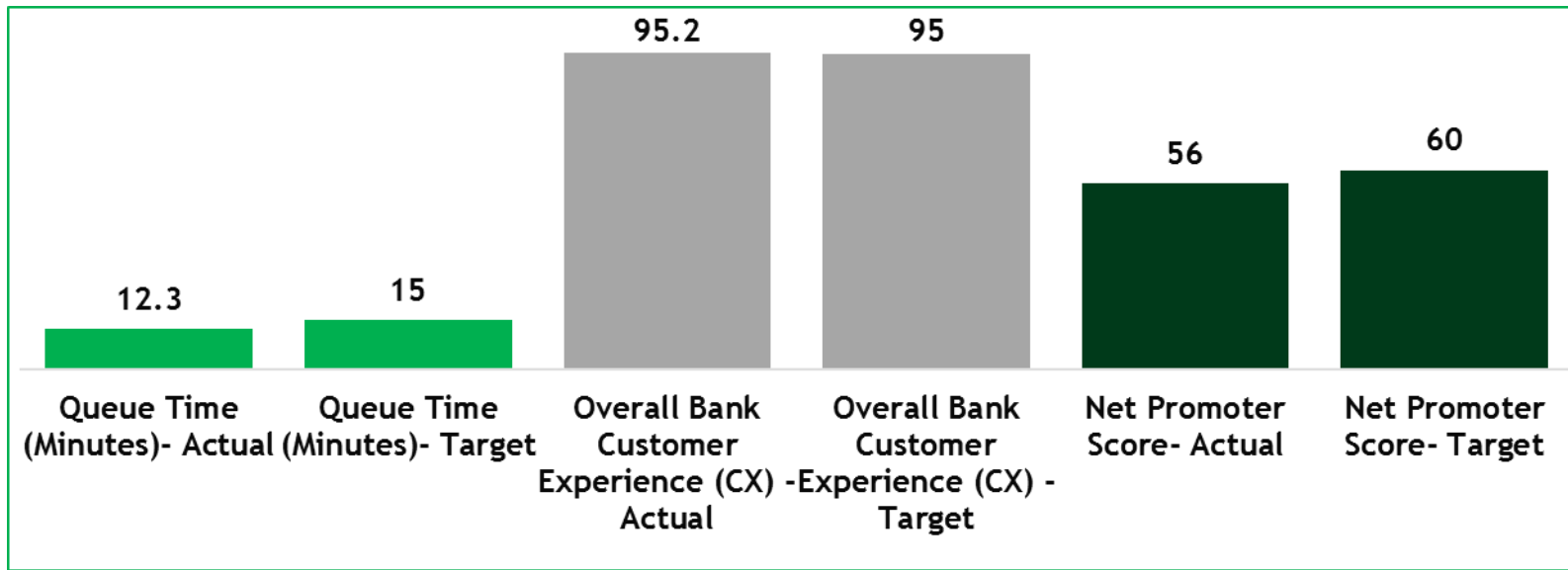
Telegram self service customers

“Soaring Eagle” Transformation Project Update

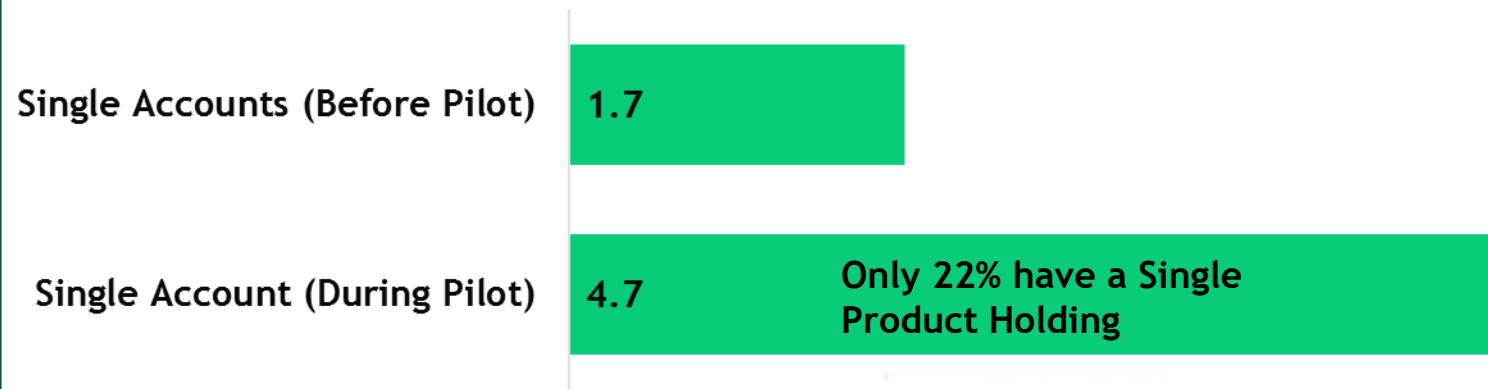


“Soaring Eagle” Transformation Project Update

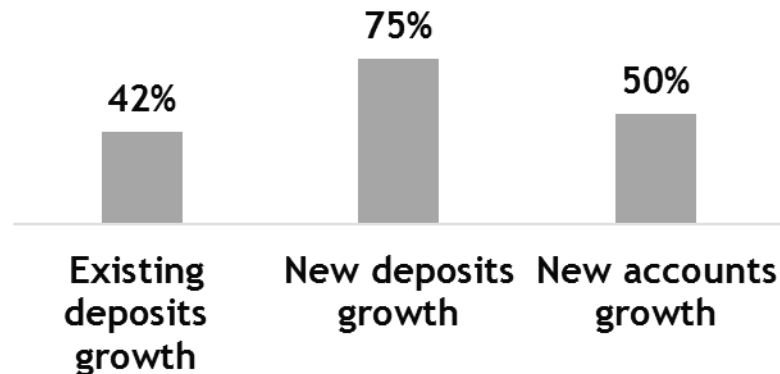
✓ Branch Transformation: Customer Experience & Retail Sales Force Effectiveness



Single Account - Retail SFE Pilot Branches



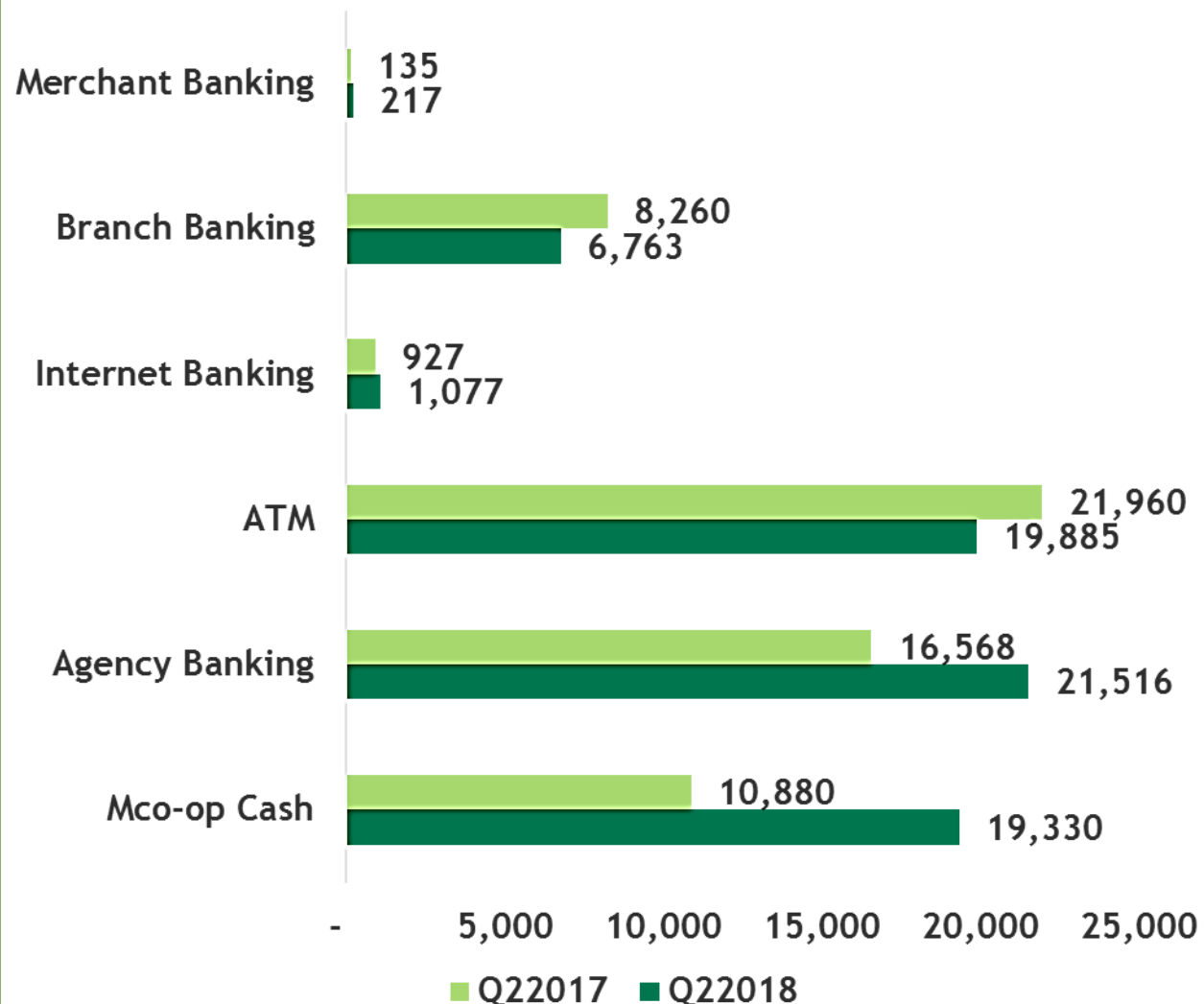
Pilot Branches Growth



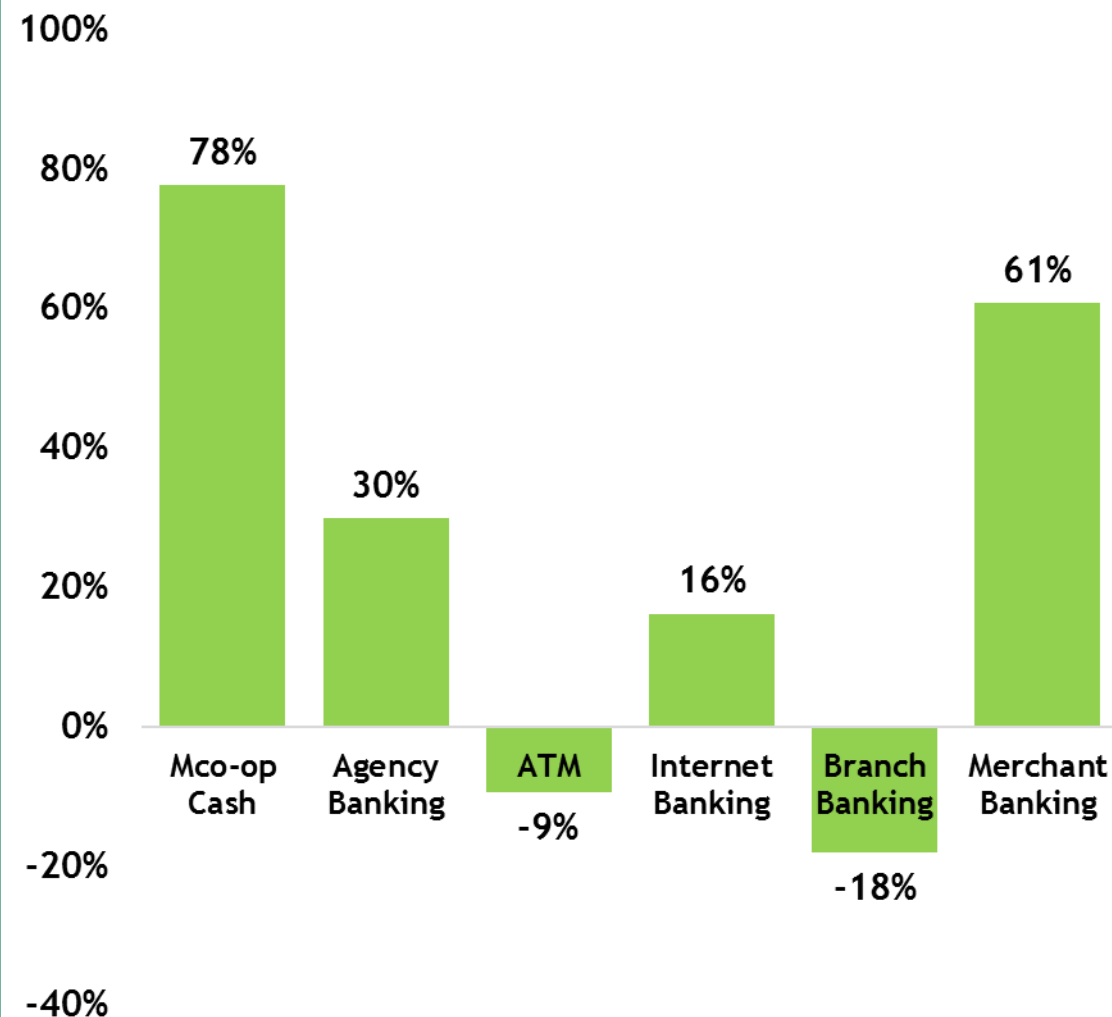
Branch Transformation: Customer Experience & Retail Sales Force Effectiveness

Deepening Financial Inclusion with alternative channels

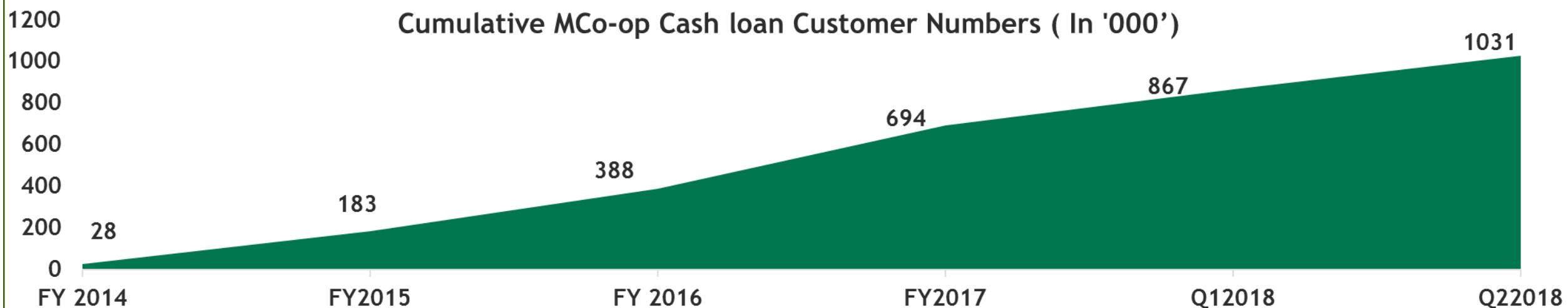
Channel Transactions '000'



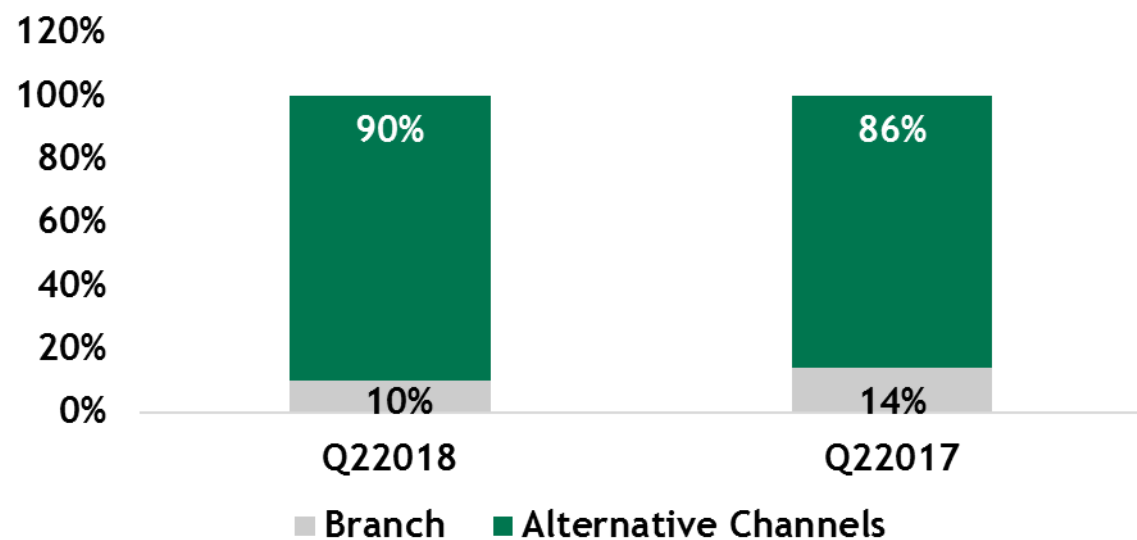
Channel transaction growth Q22017-Q22018



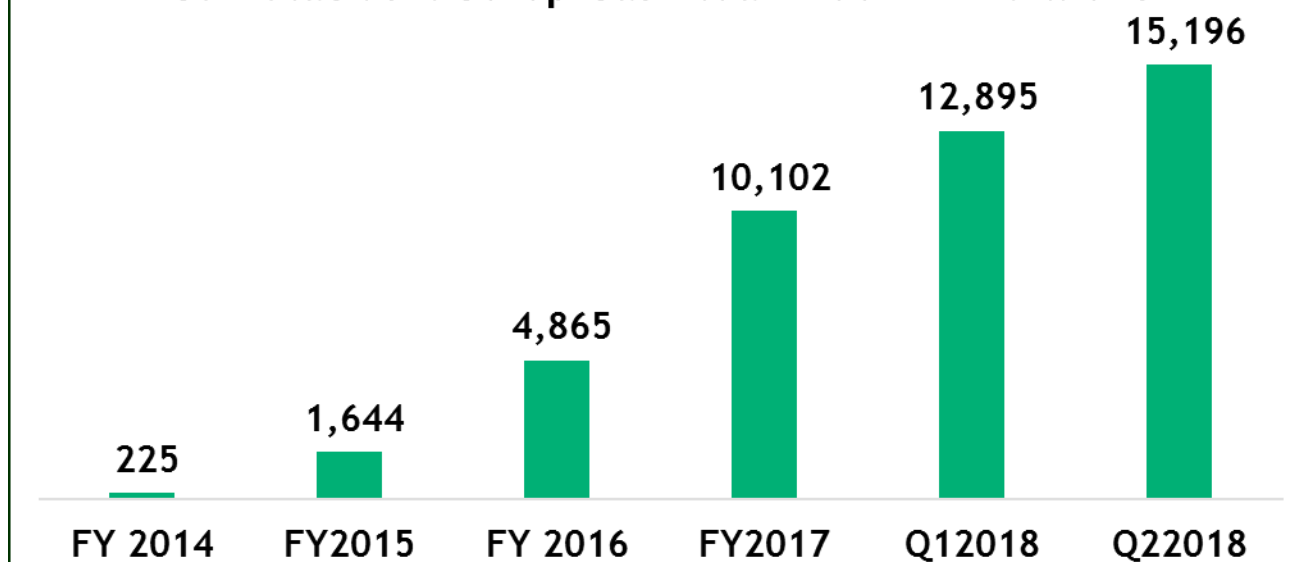
Cumulative MCo-op Cash loan Customer Numbers (In '000')



Branch Vs Alternative Channels



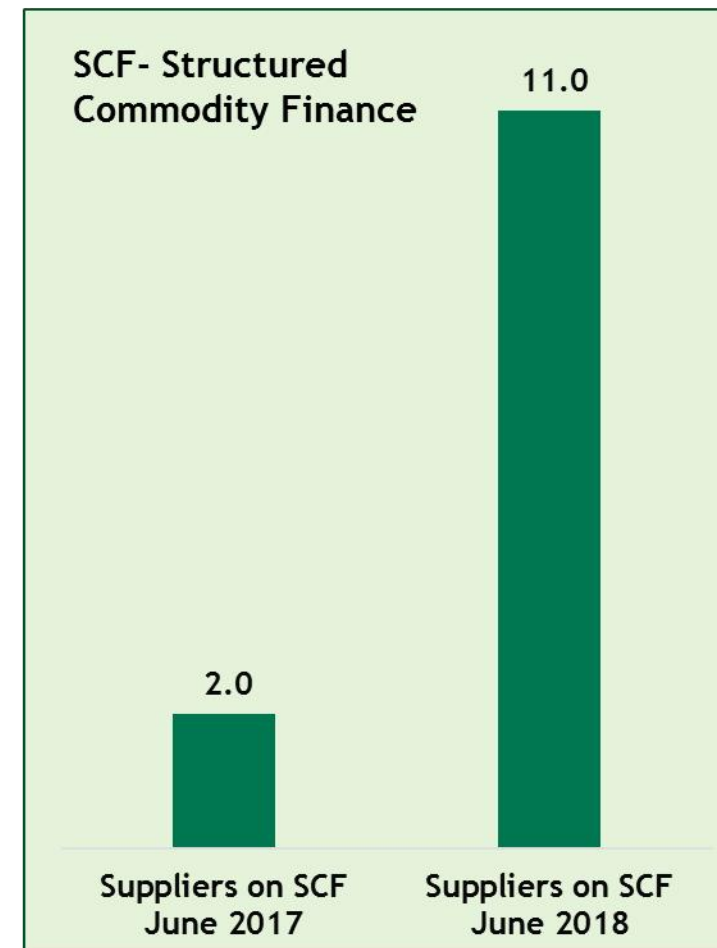
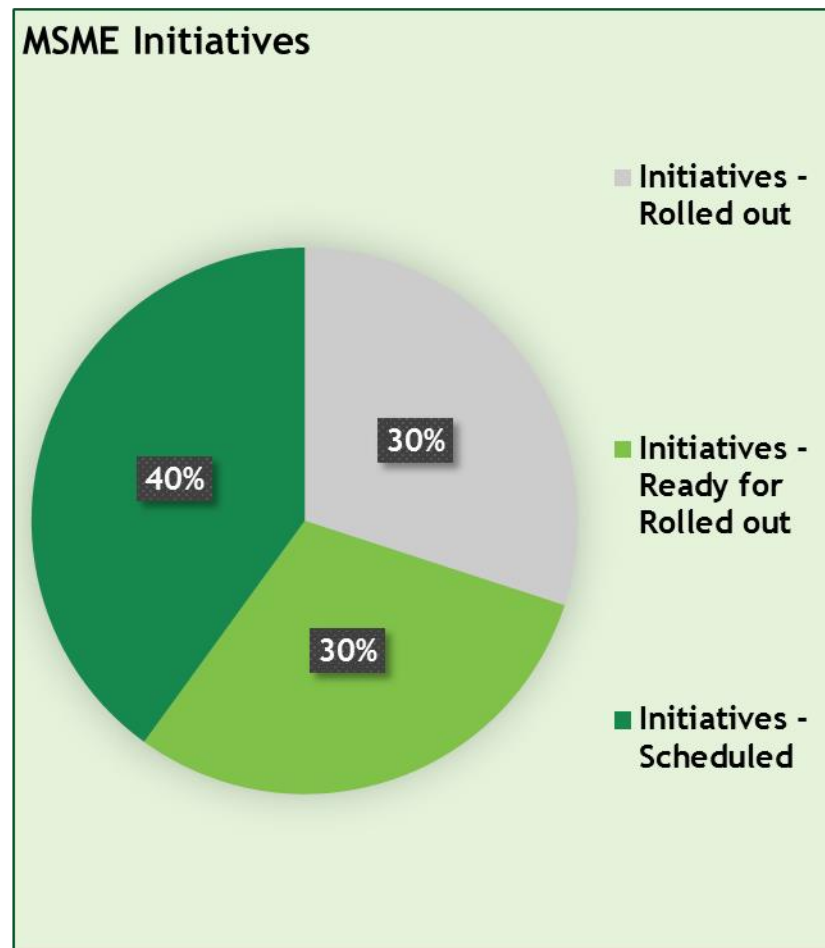
Cumulative MCo-op Cash loan Book - In Millions



“Soaring Eagle” Transformation Project Update

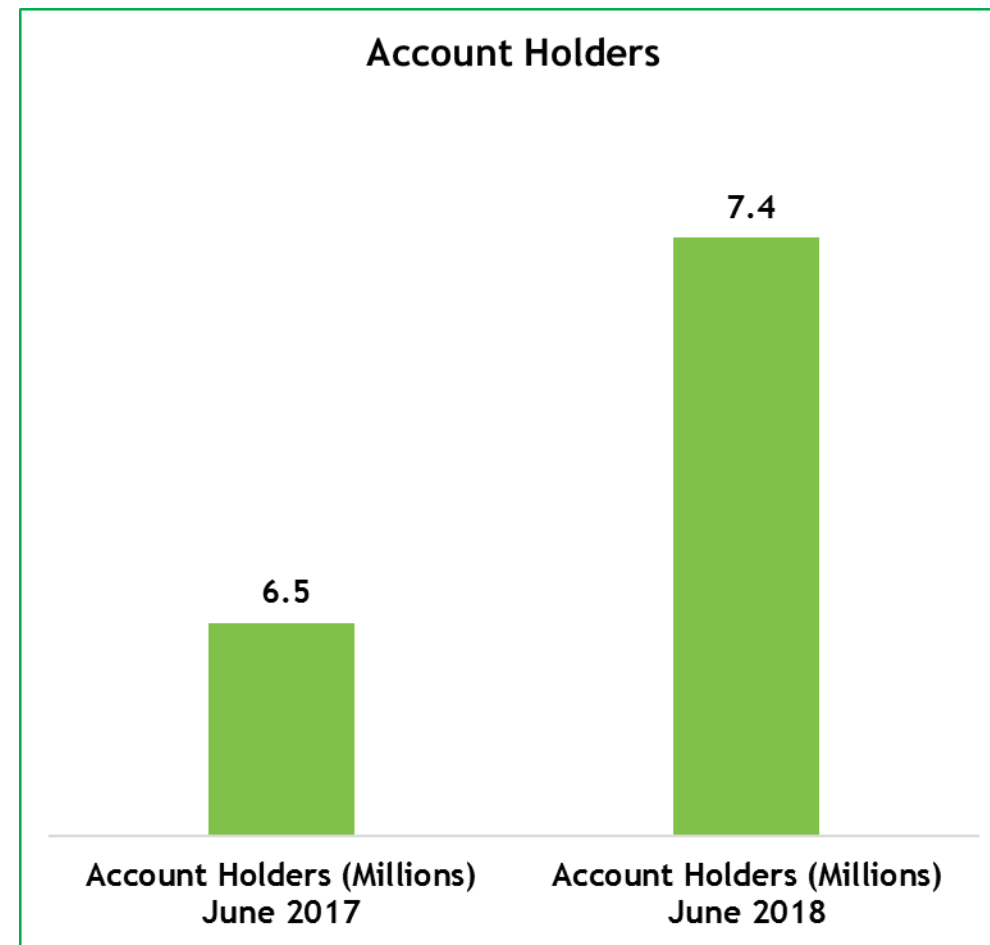
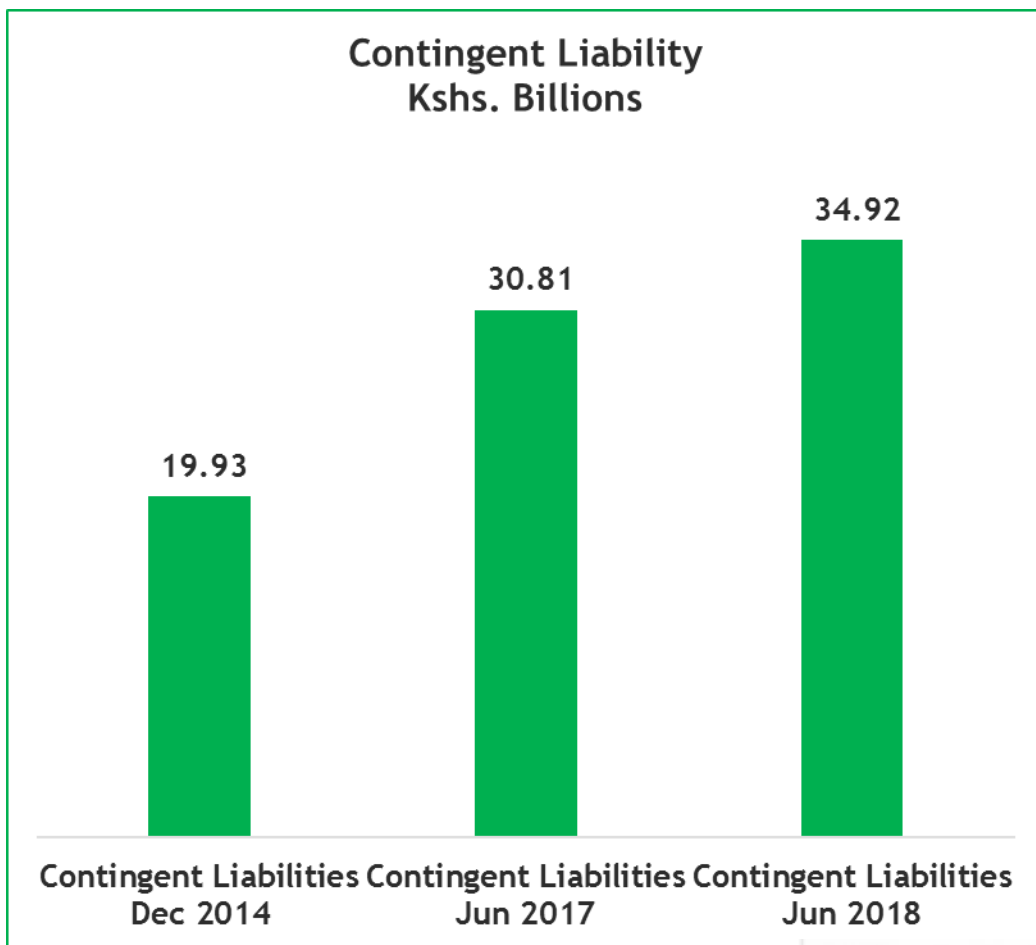
✓ MSME Transformation

- ✓ Clearly defined segments in Micro, Small and Medium enterprises enabling our bankers to serve them optimally.
- ✓ Successful segmentation Customers on the new packages (Bronze, Silver & Gold).
- ✓ Launch of unsecured business loan on mobile with a limit of 200,000 (Currently on pilot).



“Soaring Eagle” Transformation Project Update

- ✓ **Sales Force Effectiveness: Corporate and Co-operatives Division**
 - ✓ New Edge SFE 4.0 is built around customer centricity; One Relationship manager, One client, with a comprehensive account plan, multiple products with multiple visits

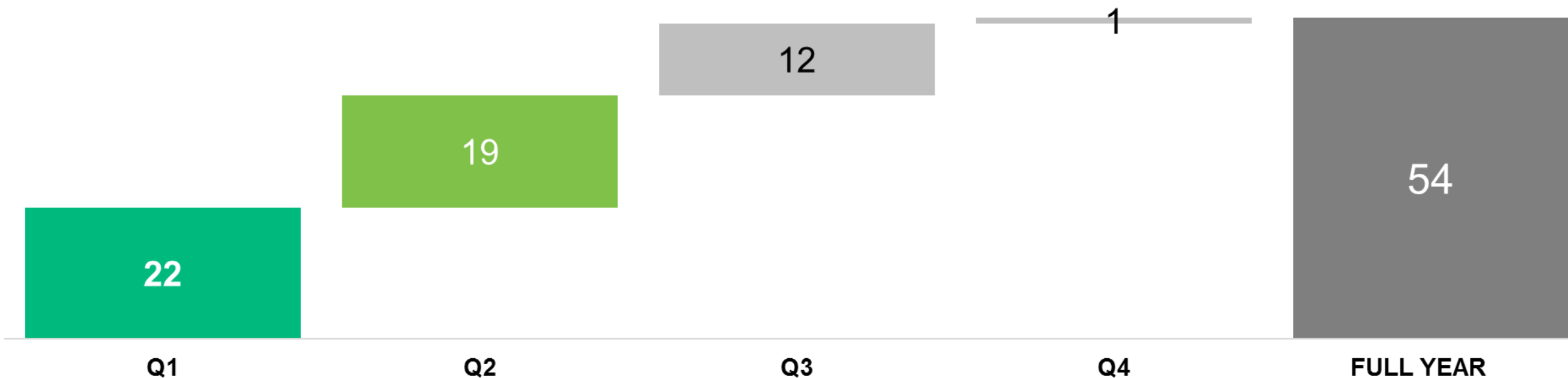


“Soaring Eagle” Transformation Project Update

✓ Shared Services & Digitization ‘The Digital Bank’

- ✓ Digital Bank Transformation- under implementation
- ✓ Prioritization to digitized customer journeys to improve their experiences
- ✓ Innovation management (Enovate Software)
- ✓ Omni Channel Implementation for prioritized Segments
- ✓ Business Process Management (BPMS)

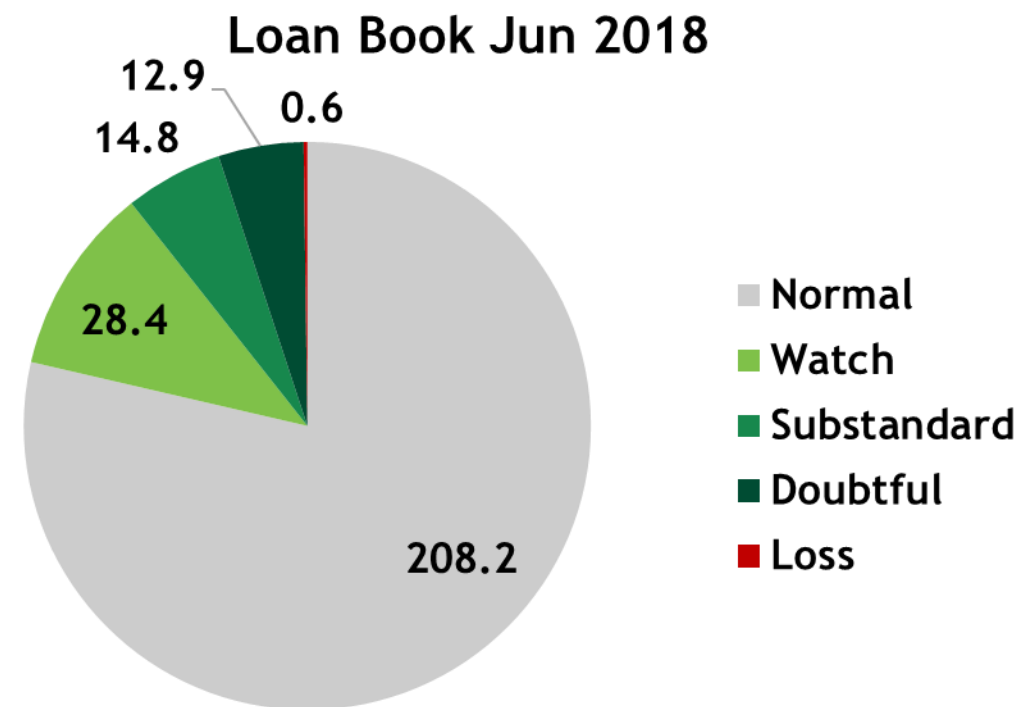
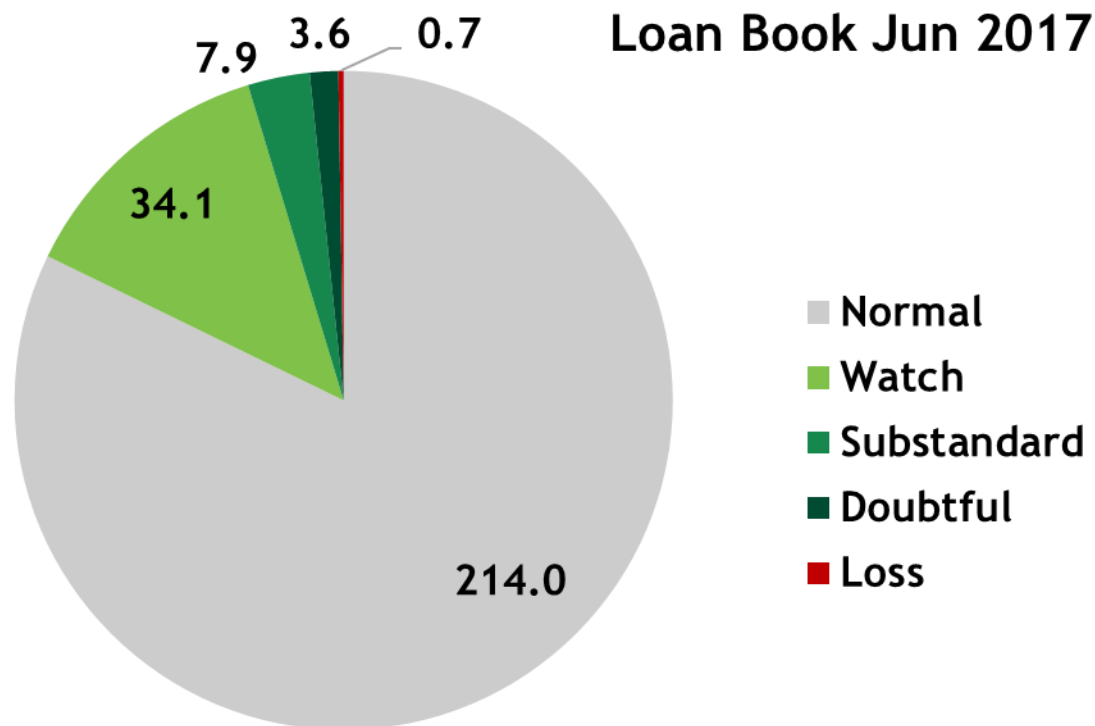
Distribution of prioritized initiatives for 2018



“Soaring Eagle” Transformation Project Update

✓ NPL Management & Credit processes

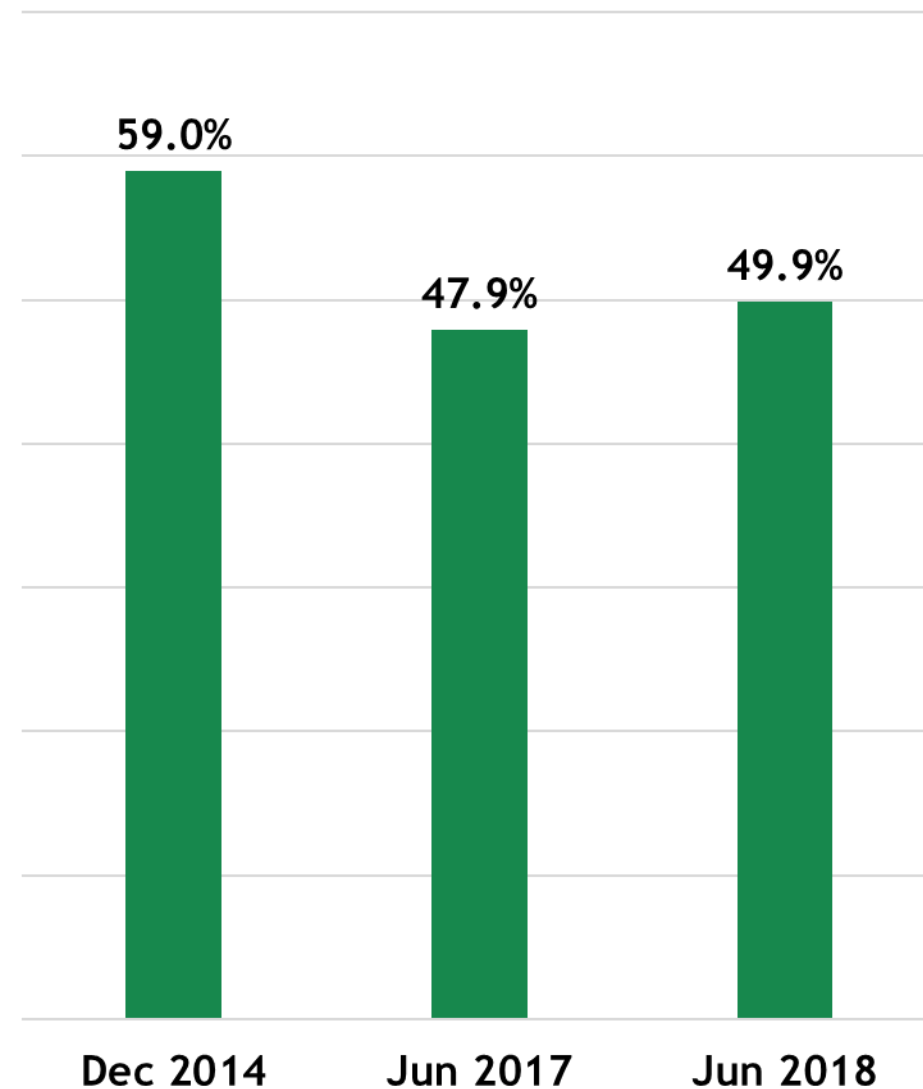
- ✓ Proactive debt management including loan due reminders
- ✓ Enhanced frontline credit support and free up time for the sales teams
- ✓ Collaboration and regular touch points, training and coaching with business
- ✓ Enhancement of systems, processes and tooling to support Credit management mainly loan origination process.
- ✓ Sustained collections and follow up.



✓ Cost Management

- ✓ Focus on electronic delivery channels thus reducing brick and mortar costs.
- ✓ Successful implementation of an ERP (Enterprise Resource Planning) system to optimize our Procure-to-Pay processes.
- ✓ Continuous review of our cost lines for optimization.
- ✓ Appointment and approvals of evaluation committee for all sourcing
- ✓ Reviewed sourcing processes and procedures, including frequent retenders with significant savings.
- ✓ Market price comparison every 3 to 6 months
- ✓ Prequalification of suppliers every 6 months
- ✓ Renegotiated contracts with vendors especially systems.

Cost to Income ratio (CIR)



✓ Data Analytics



Rapid Campaigns support

- >>Tracking performance rhythms for campaigns & reporting
- >>Extraction of campaign data, analysis and lead preparation for deposit mobilization



Data Analytics support

- >>Track delivery of prioritized use cases by Business Intelligence & migration to new platform
- >>Track delivery of self-service tool
- >>Track data cleansing initiatives across all Business Divisions

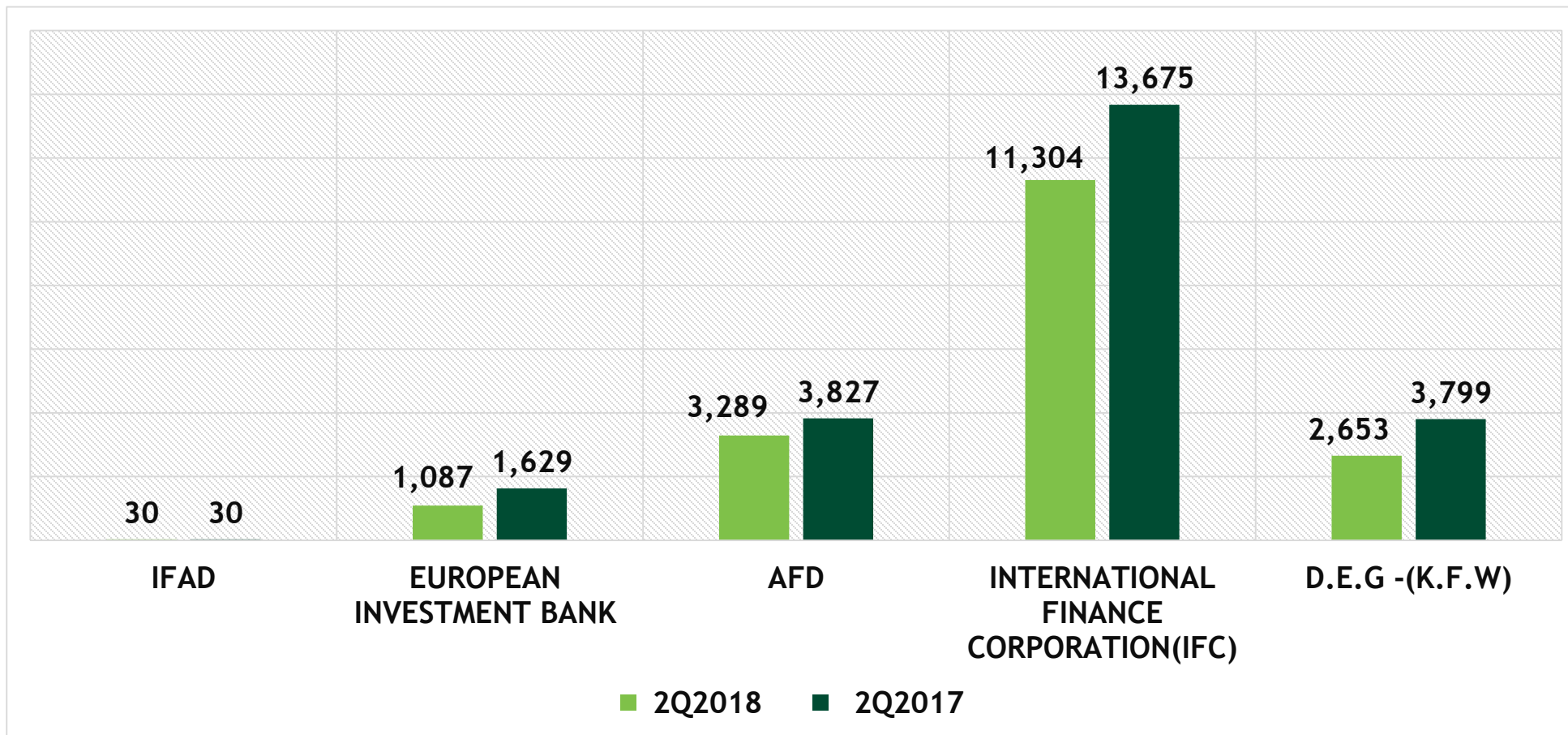
“Soaring Eagle” Transformation Project Update

Achieving the Best with our People.

- ☐ Facilitating success of our people.
- ☐ Inspiring leadership.
- ☐ Right culture.
- ☐ Driving high performance practices.
- ☐ Reward our best.
- ☐ Employee engagement.
- ☐ Workforce stabilization



LONG TERM FUNDING (Kshs. Million)



Funding Purpose;

- SME
- Energy Efficiency
- Renewable energy
- Agribusiness
- Construction
- Mortgage
- Corporate
- Horticulture

NB: The bank has secured a US\$150 Million 7-year senior loan from the International Finance Corporation (IFC). The funds are aimed to help strengthen the bank's long-term funding position and enable it to expand its lending operations especially to micro small and medium enterprises.



- Best Retail Bank – Kenya
- Best SME Bank – Kenya
- Best Investment Institution - Kenya



KENYA BANKERS ASSOCIATION: CATALYST AWARDS 2017

Overall Winner

- 1ST- Client Case Study - Financing Commercial Clients
- 1ST- Bank Case Study - Bank Operations & Policy
- 2ND -Best Practice in Sustainable Finance
- 3RD - Sustainability Through Policy & Governance
- 3RD- Client Case Study - Financing Micro, Small & Medium-Sized Companies



Recognition for being **Socially Devoted**
By Social bakers
(a social media marketing platform)

Championing Social Economic Empowerment



**CONSULTANCY &
INSURANCE AGENCY LTD**

- ✓ Capacity building for Cooperative Societies.
- ✓ Over 2,460 consultancy and advisory mandates carried out from inception
- ✓ 560 FOSA's to serve Sacco customers.
- ✓ FOSAs have further entrenched our financial deepening model
- ✓ 20 dedicated consultants



- ✓ Our social investment program vehicle
- ✓ Providing Education Scholarships for bright but needy students
- ✓ The foundation is fully funded by the bank
- ✓ Since inception of program in 2007 to date 6331 students have been sponsored
- ✓ The bank awards scholarships per county and the rest are determined by the bank's regional Sacco delegates.



- ✓ Financing the SME and MCU sector
- ✓ Sustainable financing towards Vision 2030 and MDGs
- ✓ Staff CSR Involvement
- ✓ Corporate Social Responsibility: First Lady's Beyond Zero Campaign, Kenyatta National Hospital- Children Cancer Ward, Kenya Defense Forces games sponsorship, Kenya Diabetes Management and Information Centre, Kenya Psychological Association, National Police Service Athletics Bible Translation and Literacy Marathon, Wildlife Direct - Hands off our elephants





SOUTH SUDAN

- ✓ Currently operating 4 branches in Juba and 5 Non-oil collection centers. Owns 31% of CIC Africa Ltd-South Sudan
- ✓ The subsidiary, which has been operating in a hyperinflationary environment, made a PBT of Kshs.114.6 Million in Q22018 compared to a loss of Kshs. 0.006 Million in Q22017.
- ✓ We have put in place proactive strategies to continue offering financial inclusion while considering the most optimal risk uptake

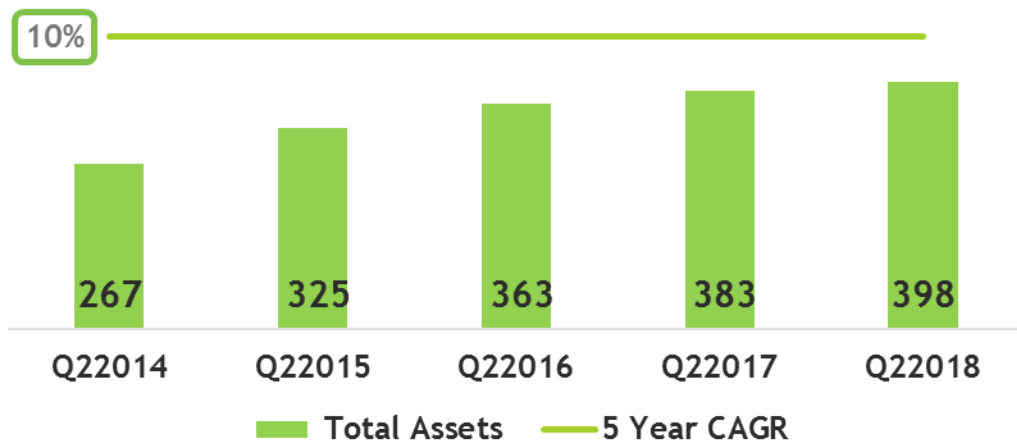
Key Financial Highlights



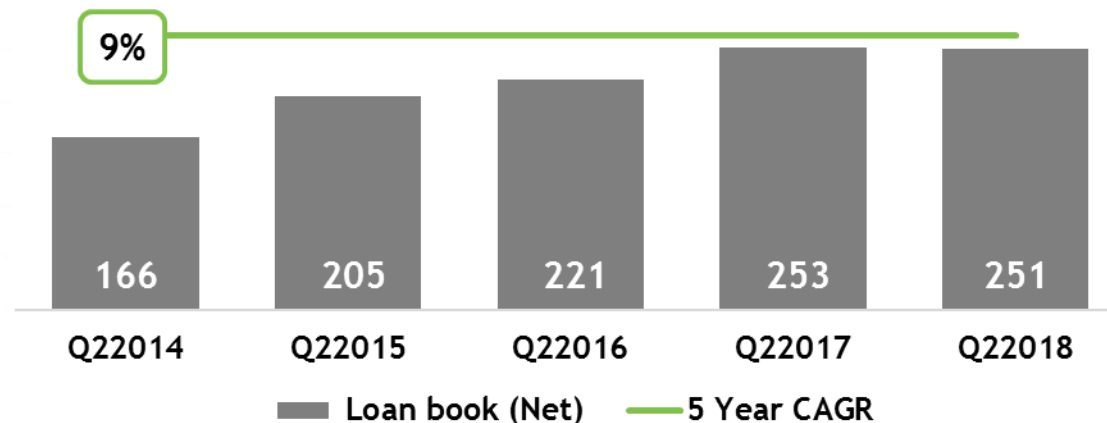
Kshs. Billions	Q22018	Q22017	% Change (YoY)		FY2017
Total Assets	398.4	383.3	3.9%	↑	386.9
Loan book (Net)	251.1	252.6	-0.6%	↓	253.9
Government Securities	80.2	70.5	13.7%	↑	69.2
Total Deposits	300.2	287.2	4.5%	↑	287.7
Borrowed Funds	18.4	24.3	-24.3%	↓	21.2
Shareholders Funds	68.0	64.5	5.5%	↑	69.6
No. of account holders (Millions)	7.4	6.53	13.3%	↑	7.1

A Soaring Bank (Kshs. Billion)

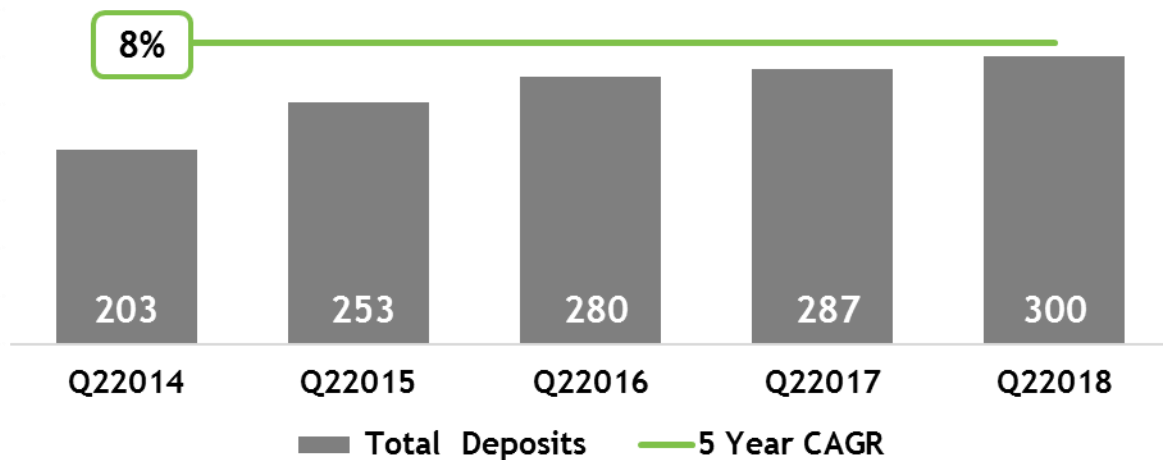
Total Assets



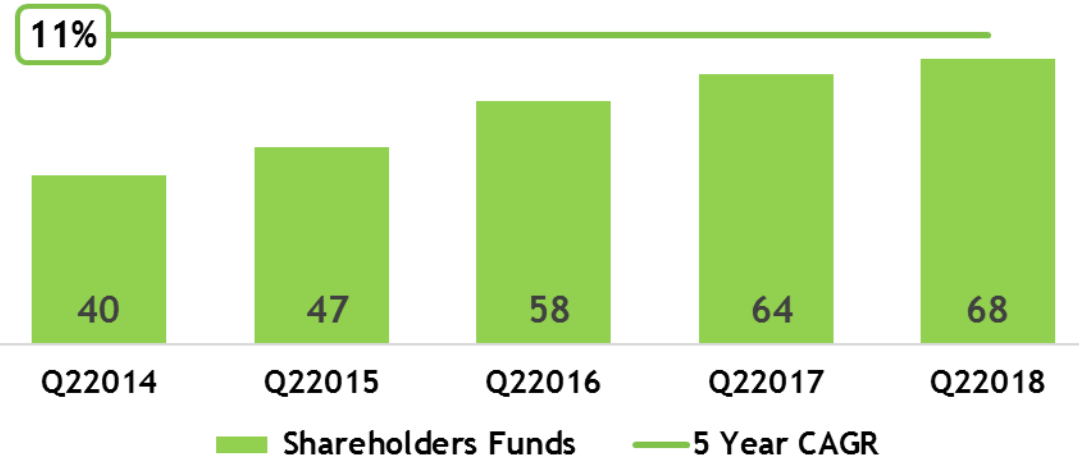
Loan Book (Net)



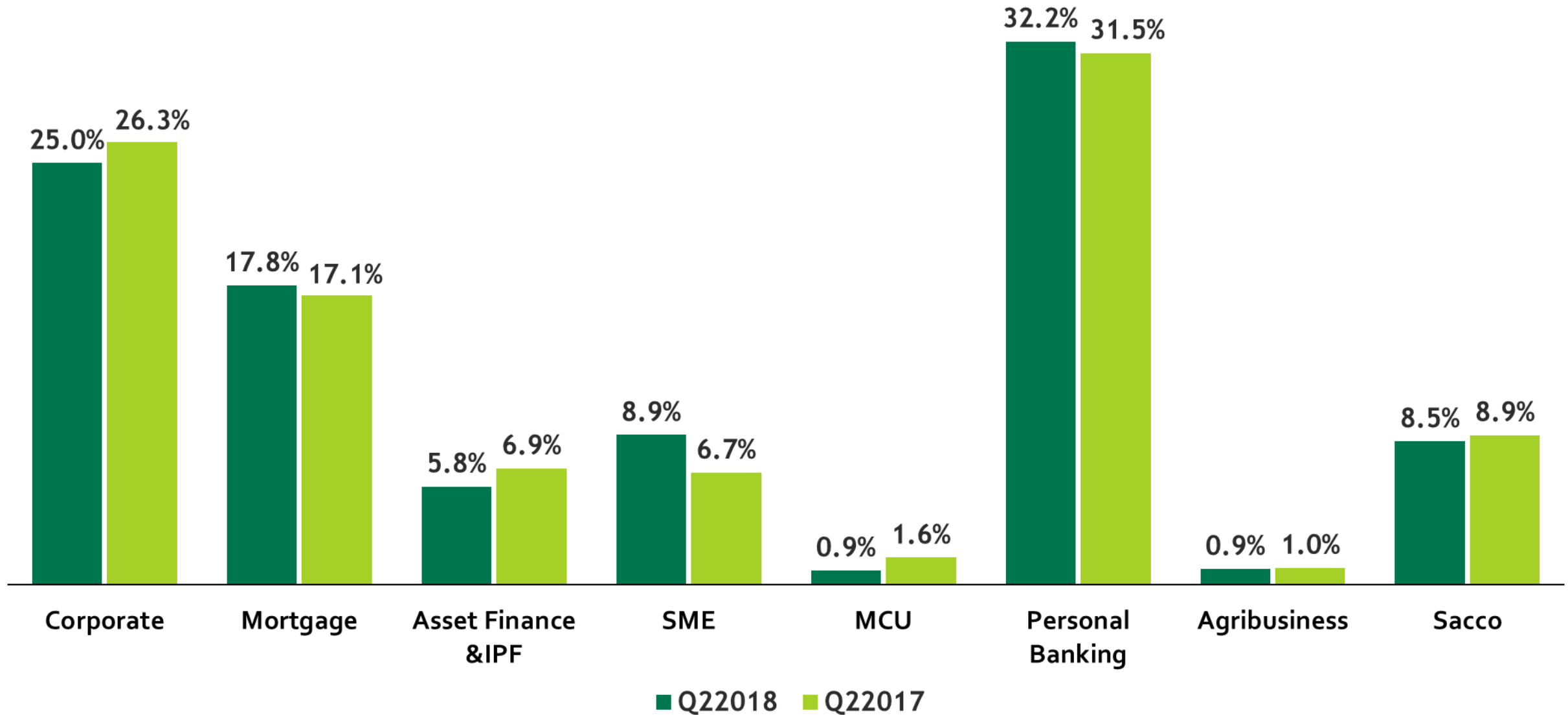
Total Deposit



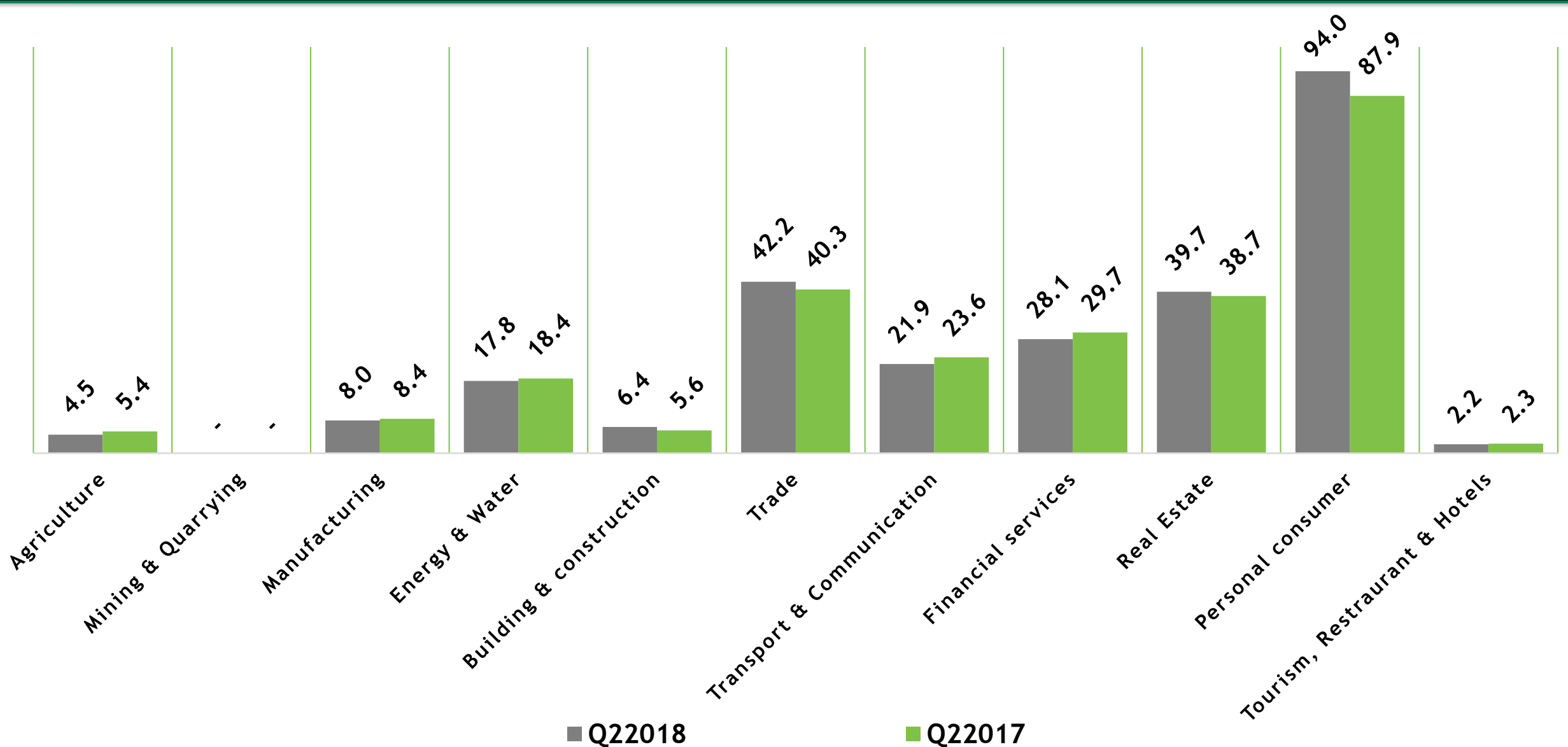
Shareholders Funds



A Soaring Bank - Loan Distribution

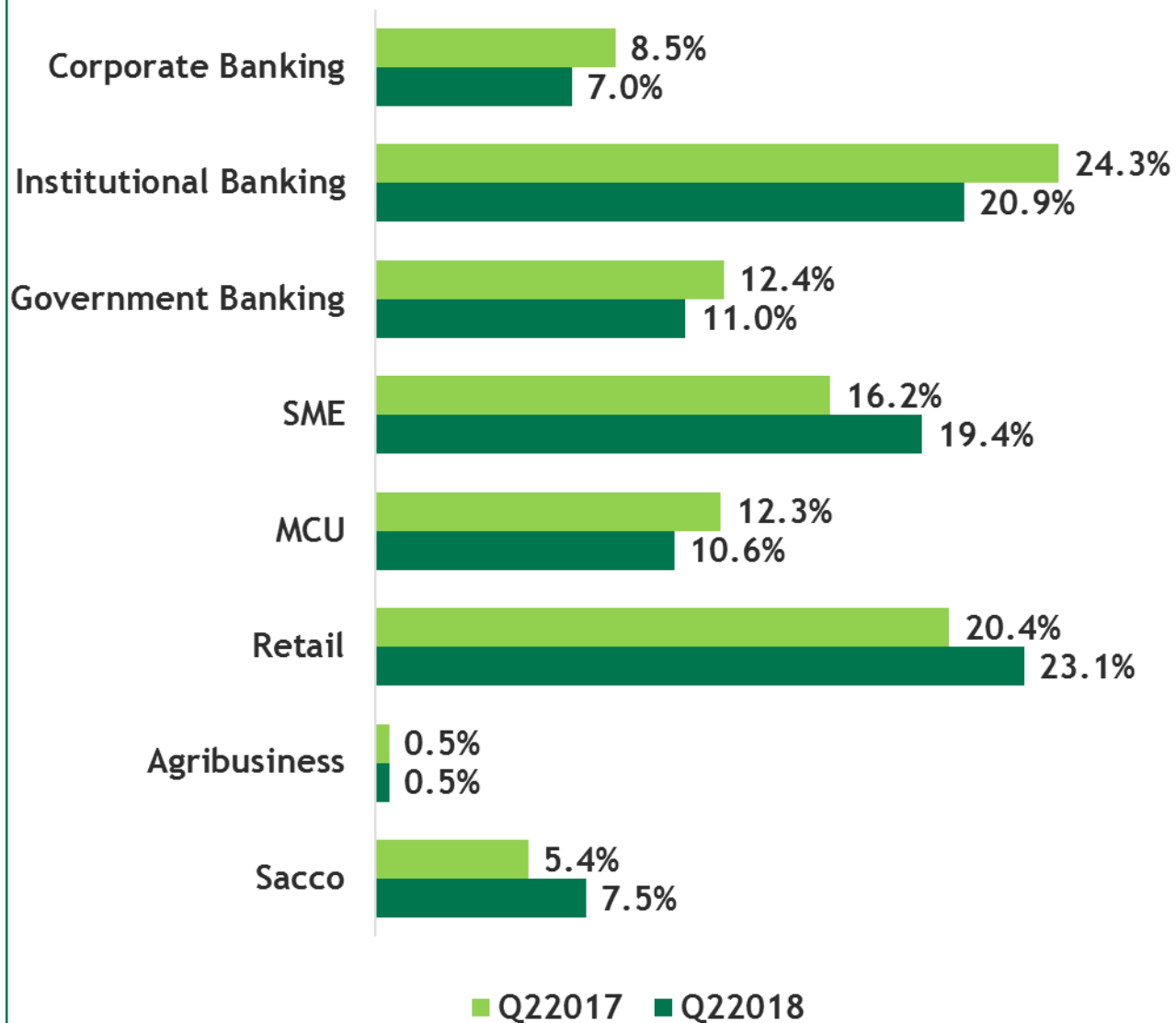


A Soaring Bank - Loan Distribution by Sector (Kshs. Billion)

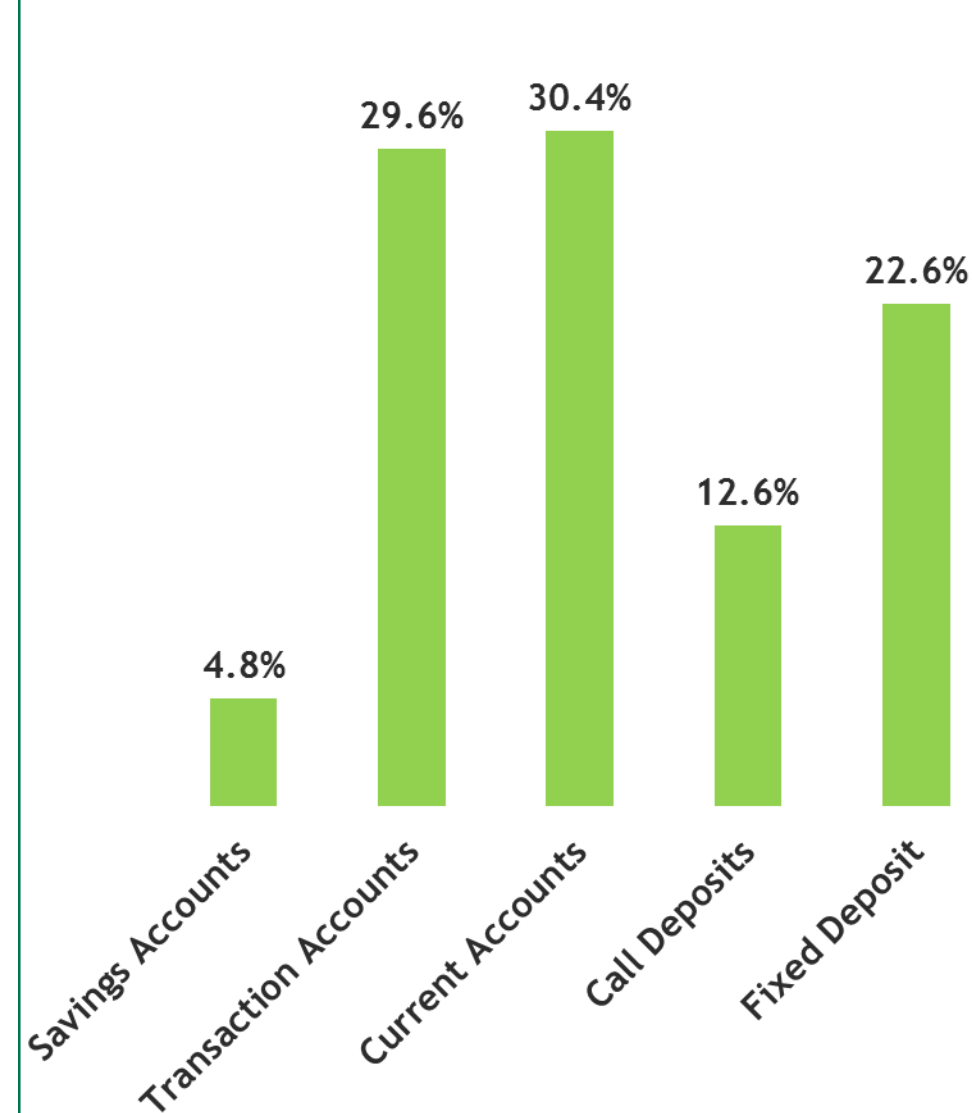


A Well-diversified Liability Portfolio

Deposit distribution - Q22018

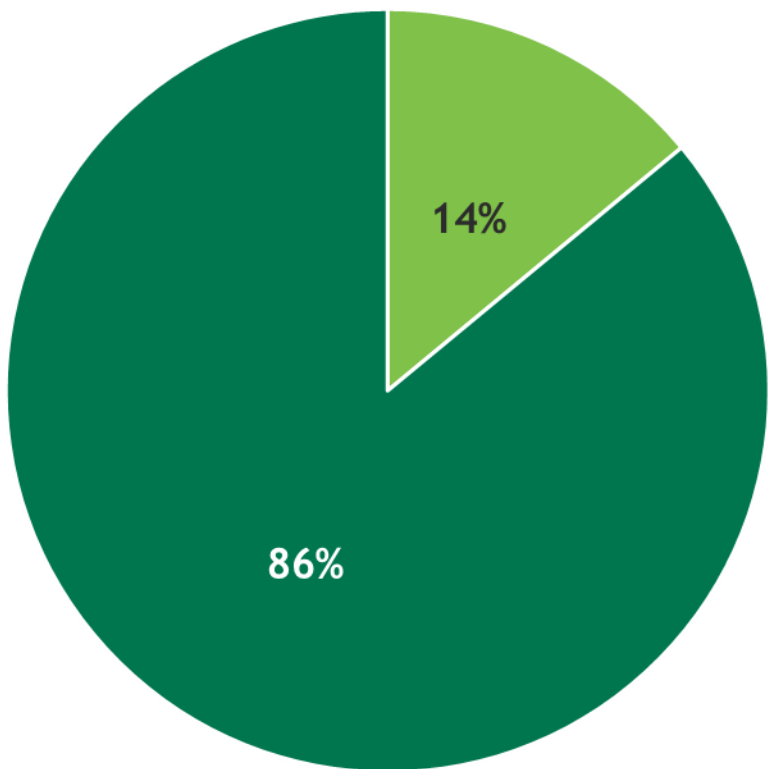


Deposit Type- Q22018



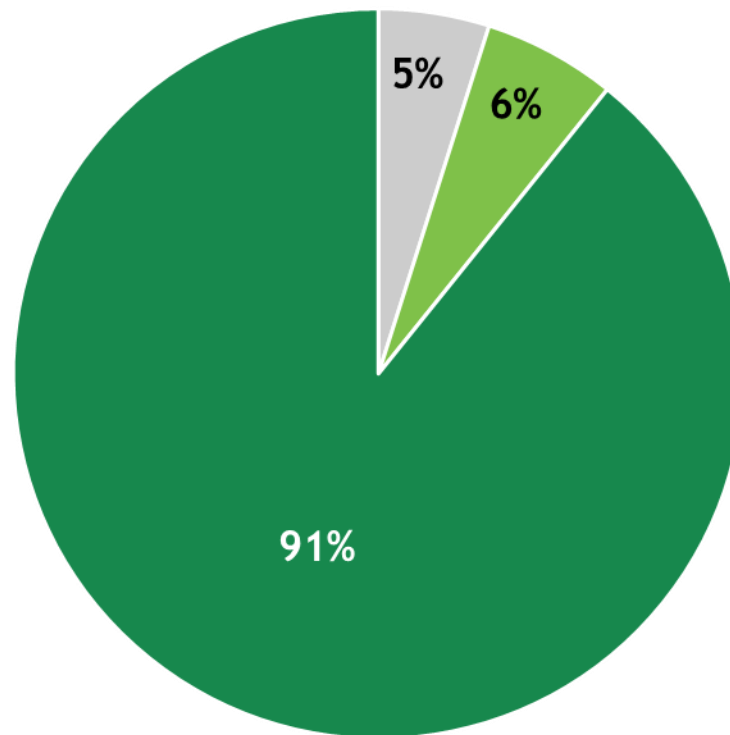
Lending & Funding balances by Currency

Q22018
Loan Book (Local Vs Foreign Currency)



■ Foreign Currency ■ Local Currency

Q22018
Funding (Local Vs Foreign Currency)



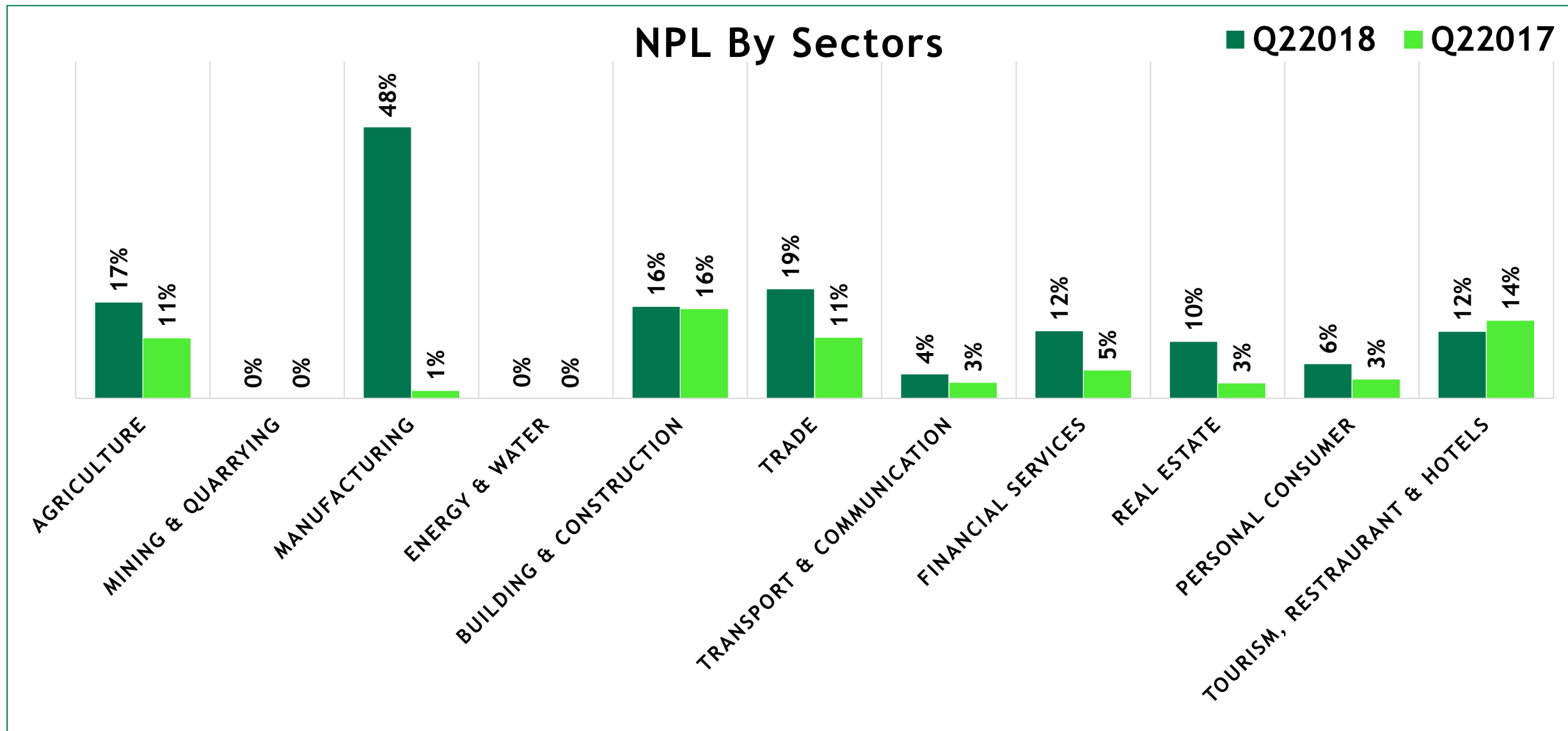
■ Foreign Currency Deposits
■ Foreign Currency Borrowed Funds
■ Local Currency

✓ Optimally balanced Kenya Shilling Loan book and Funding

Portfolio Trends (Ksh. Millions)

	Q22018	%	Q22017	%	FY2017	
Normal	208,233	78.6%	214,026	82.2%	209,393	79.8%
Watch	28,433	10.7%	34,110	13.1%	34,446	13.1%
Substandard	14,791	5.6%	7,924	3.0%	9,934	3.8%
Doubtful	12,865	4.9%	3,646	1.4%	8,273	3.2%
Loss	559	0.2%	653	0.3%	506	0.2%
TOTAL	264,882	100.0%	260,359	100.0%	262,553	100.0%

Portfolio Trends (Ksh. Millions)

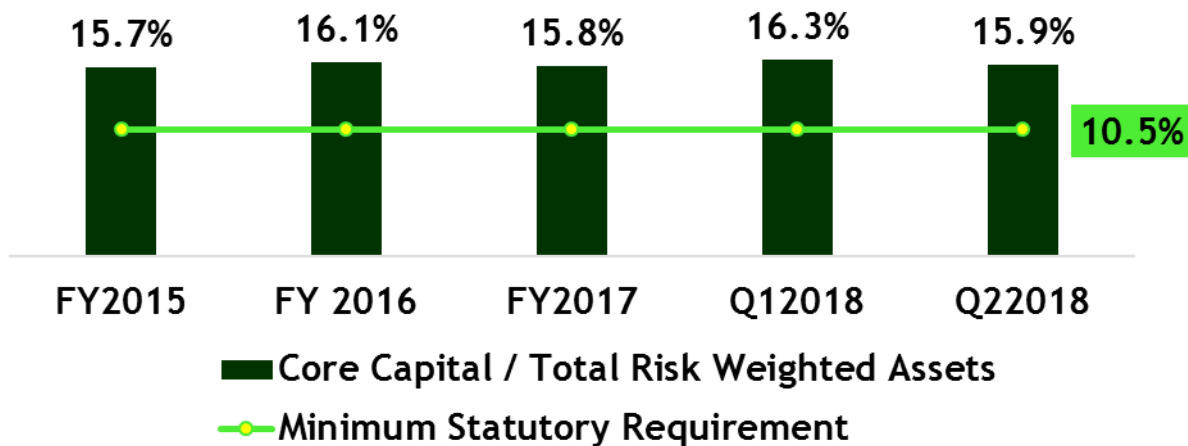


Loan Loss Provisions (Ksh. Millions)

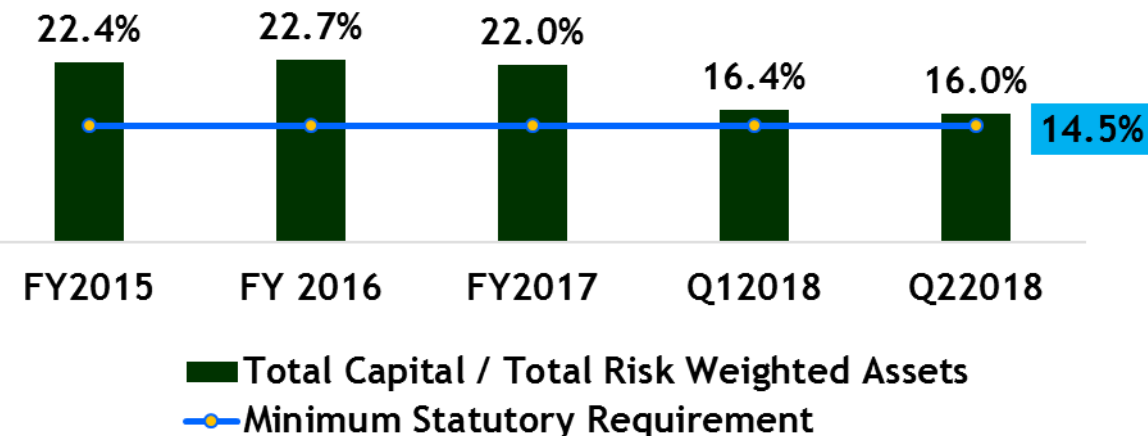
	Q22018	Q22017	FY2017
Provision for specific Bad & Doubtful Debts plus interest in Suspense	8,761.55	4,991.86	7,024.31
General Provision for B & D debts	6,840.60	3,639.54	3,166.83
Total	<u>15,602.15</u>	<u>8,631.4</u>	<u>10,191.14</u>

	Q22018	Q22017	FY2017
Core Capital / Total Deposits (8%)	20.0%	19.5%	20.0%
Core Capital / Total Risk weighted Assets (10.5%)	15.9%	15.9%	15.8%
Total Capital / Total Risk Weighted Asset (14.5%)	16.0%	22.8%	22.0%
Coverage (Loan loss prov+int in sus /Gross NPL) -IFRS	32.0%	48.6%	39.6%
Coverage(Loss loan+int in sus+gen prov)/Gross NPL- CBK	57.0%	76.7%	57.4%
Liquidity (20%)	36.9%	34.7%	33.5%
NPL / Total Loans	10.9%	4.5%	7.0%
Loans to Deposits	83.7%	88.0%	88.2%
Loans to Deposits & Borrowed Fund	78.8%	81.1%	82.2%

Core Capital / Total Risk Weighted Assets



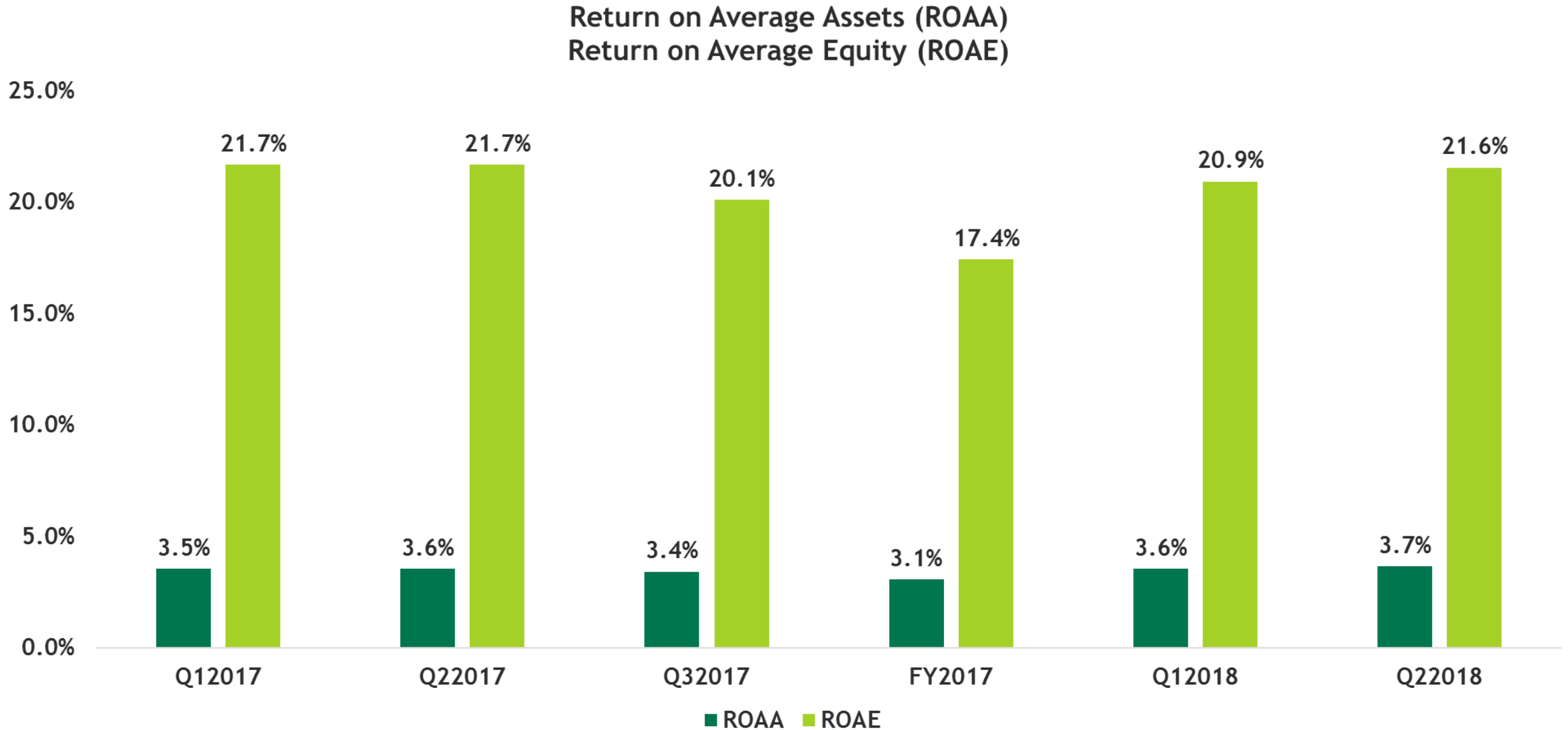
Total Capital / Total Risk Weighted Assets



Profitability

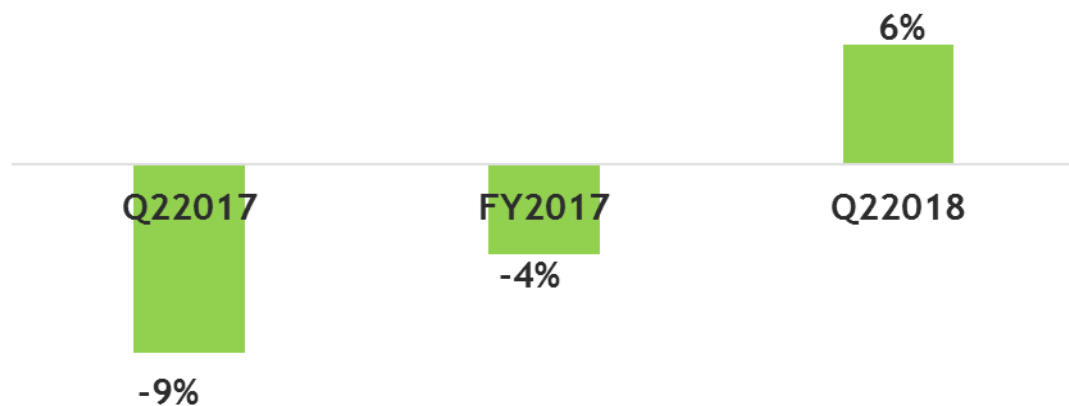
Kshs. Billions (except for EPS)	Q22018	Q22017	% Change (Y/Y)		FY2017
Interest Income	20.8	19.3	7.9%	↑	40.4
Interest Expense	6.0	5.8	2.2%	↑	12.3
Net Interest Income	14.8	13.4	10.4%	↑	28.1
Fees & Commissions	5.1	5.3	-2.6%	↓	9.8
Forex Income	1.2	1.2	-1.7%	↓	2.2
Other Income	0.57	0.53	7.3%	↑	1.4
Total Operating Income	21.8	20.5	6.3%	↑	41.6
Loan Loss Provision	1.1	1.5	-27.6%	↓	3.6
Staff Costs	5.3	4.7	13.0%	↑	10.1
Other Operating Expenses	5.5	5.1	8.4%	↑	11.6
Profit Before Tax and Exceptional Items	9.8	9.2	7.2%	↑	16.3
Share of profit of associate	0.14	0.1	53.1%	↑	0.13
Profit Before Tax	10.0	9.3	7.6%	↑	16.4
Tax	2.8	2.6	7.7%	↑	4.99
Profit After Tax	7.1	6.6	7.6%	↑	11.4
Basic Annualized EPS	2.4	2.3	4.3%	↑	1.9

Return on Asset and Equity

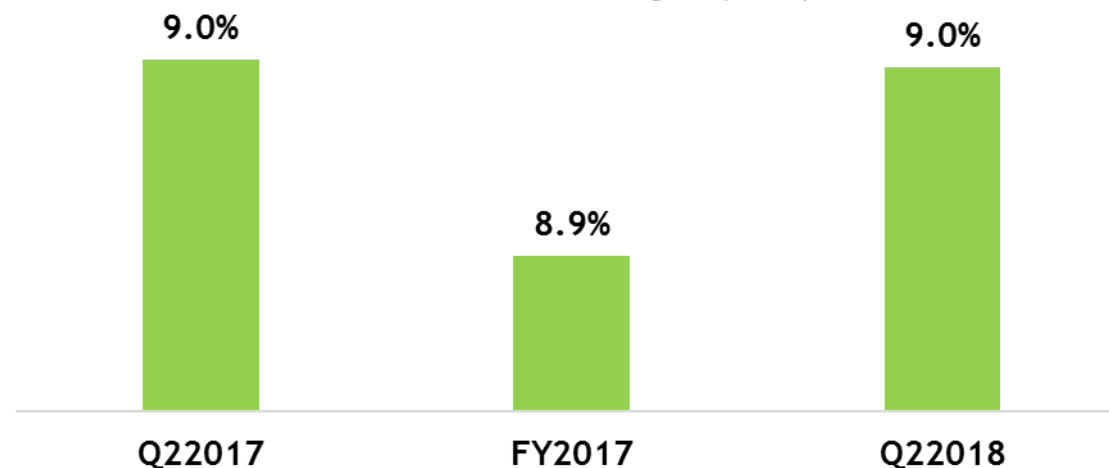


Stable Returns on Assets post interest rates cap

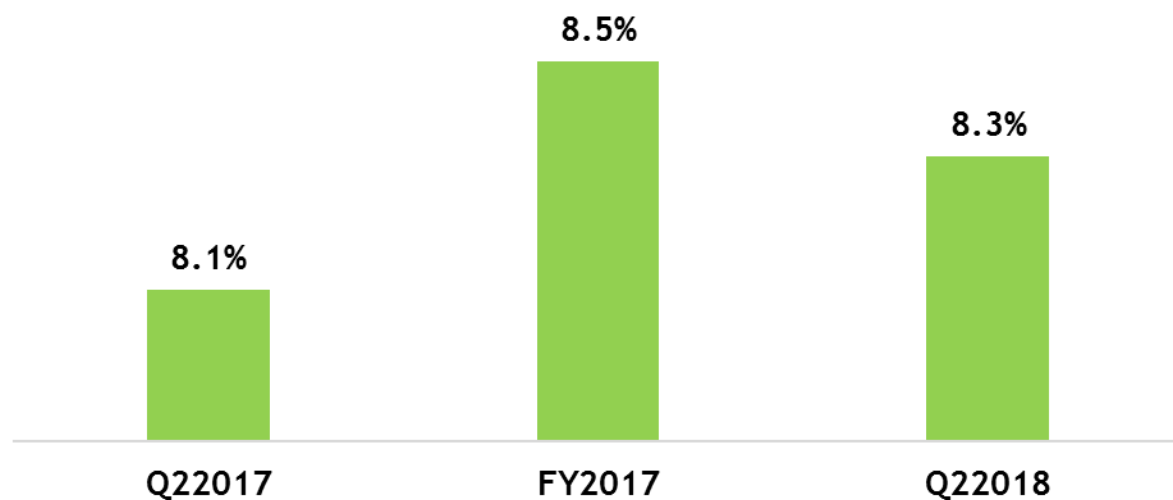
Loan Interest growth(yoy)



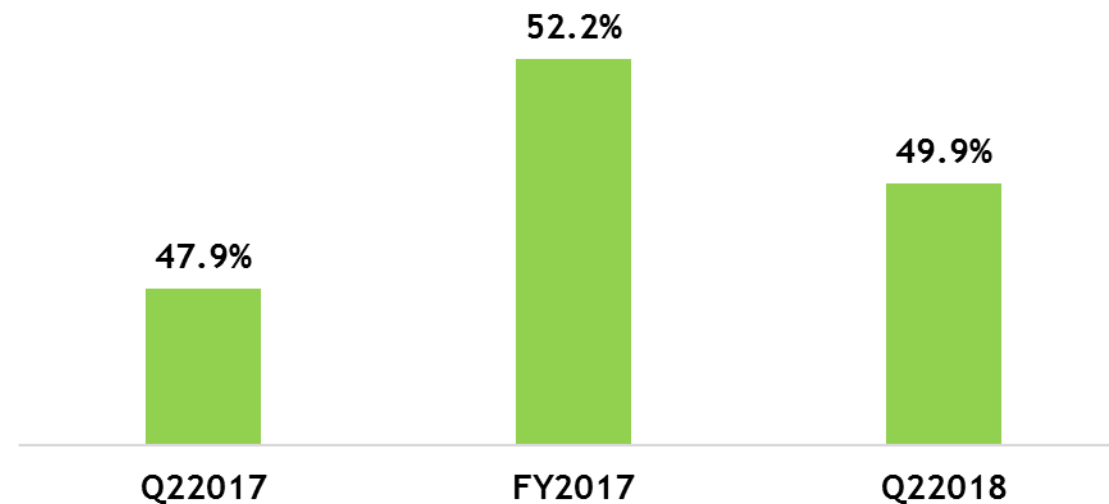
Net Interest Margin (NIM)



Yield on Earning Assets

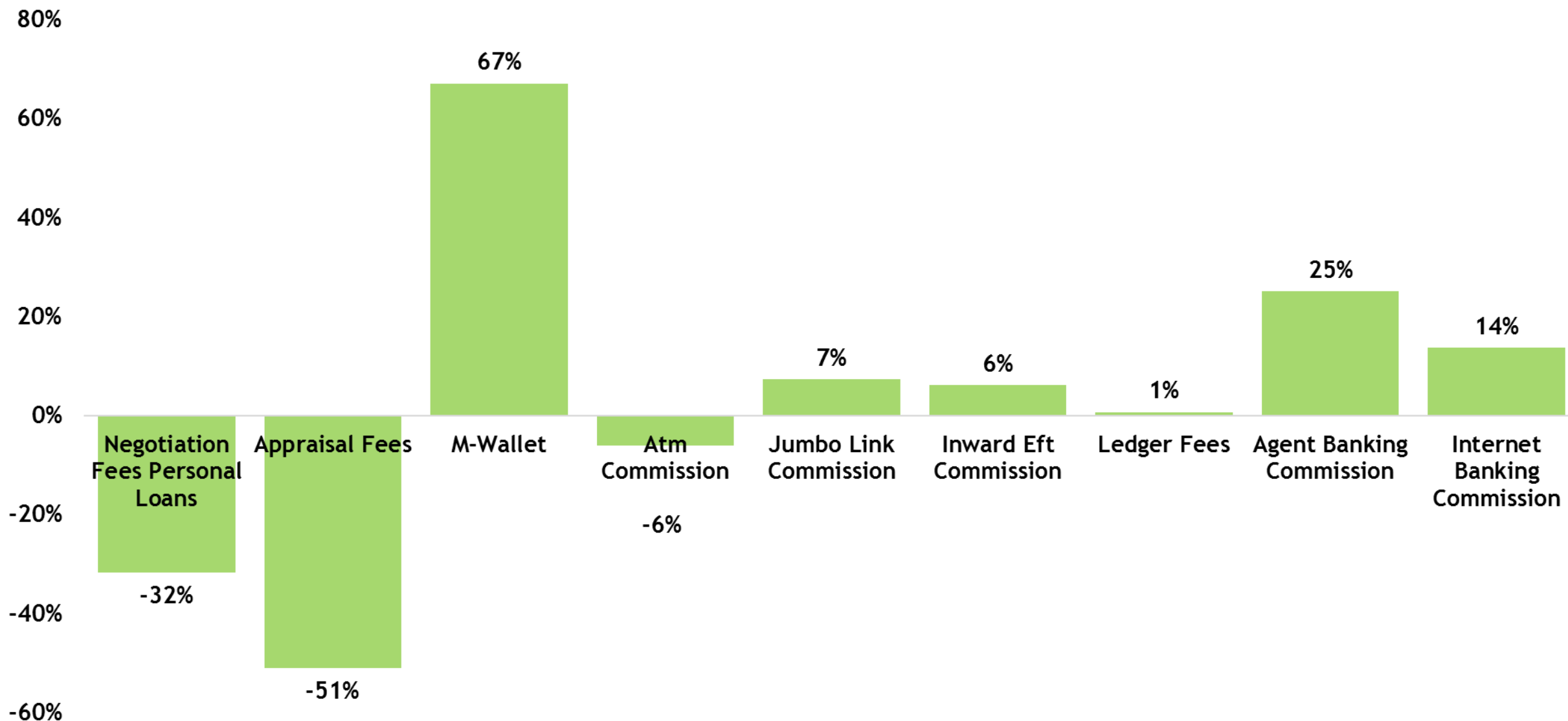


CIR (Without provisions)



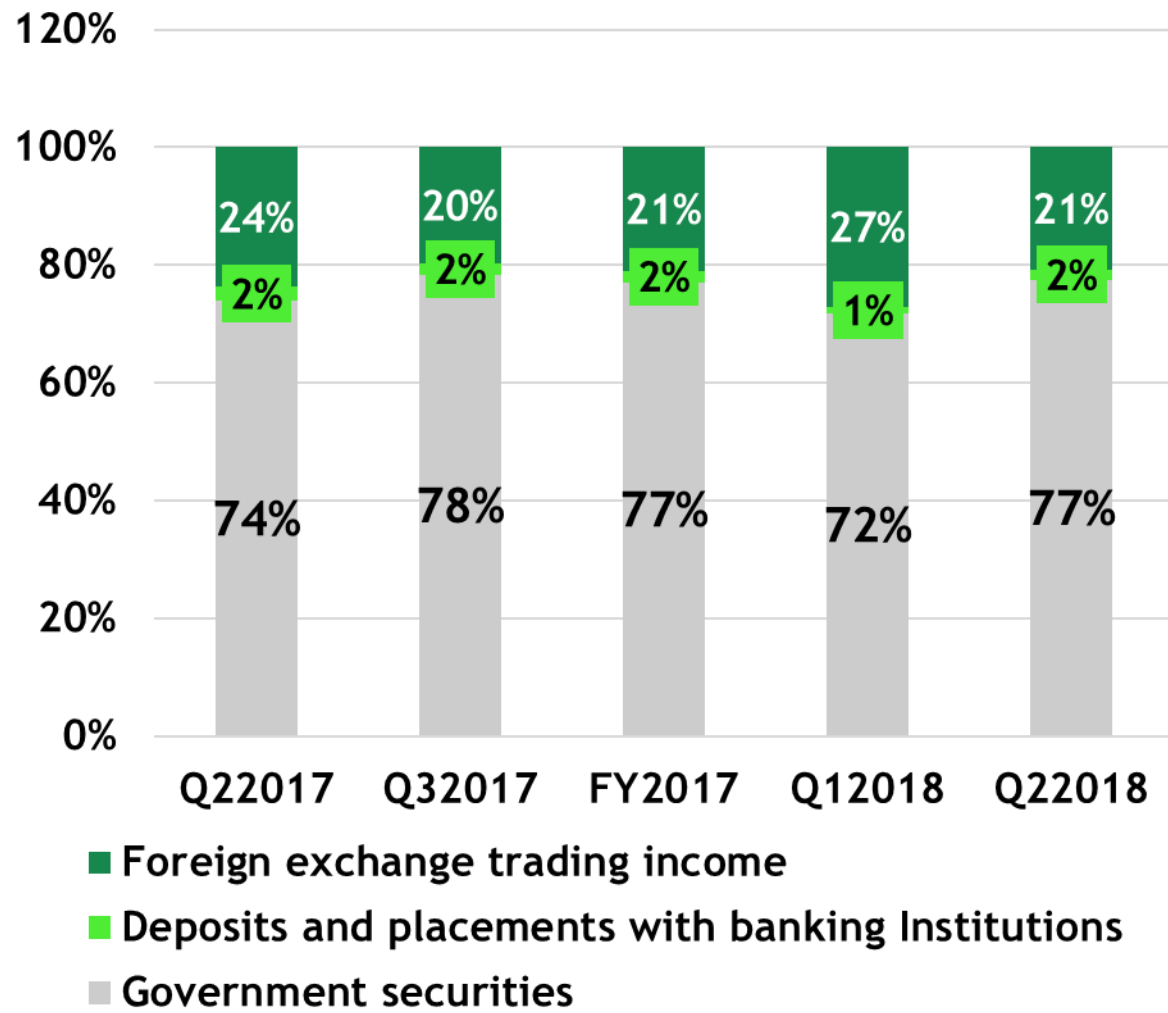
Top Non- Funded Income

Top Non-Funded Income Lines Growth (YoY)

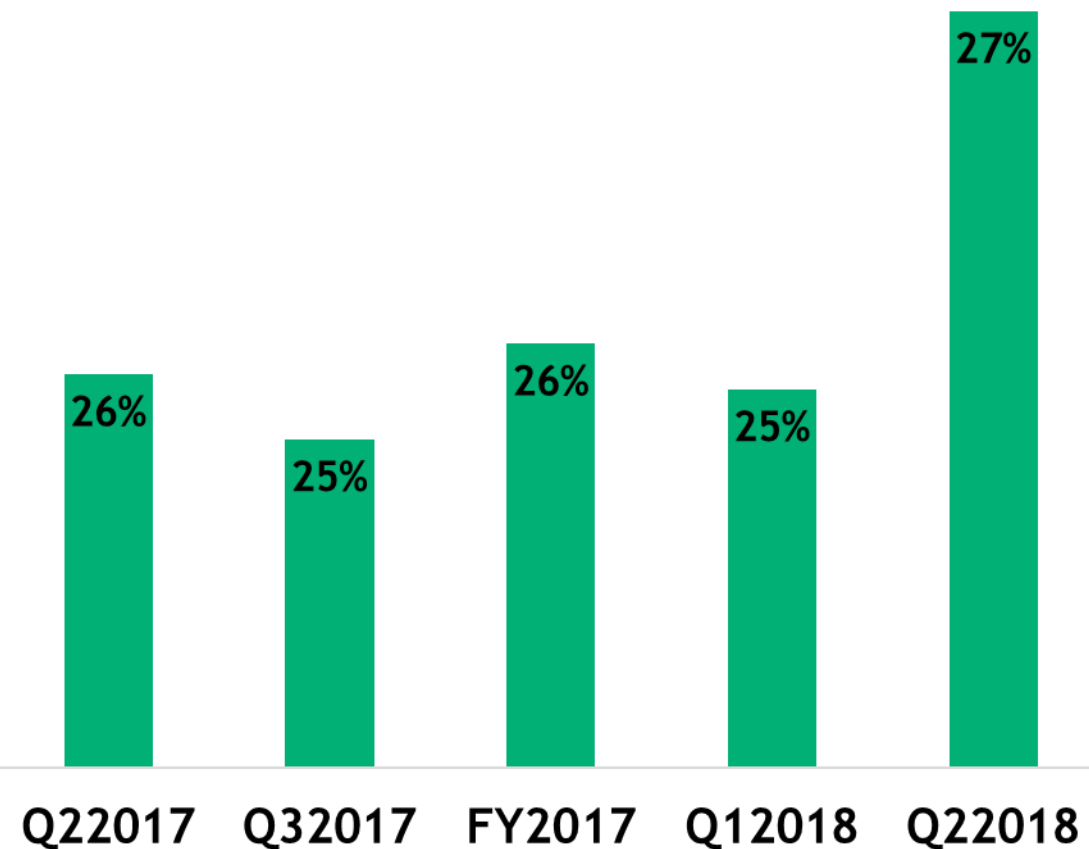


Performance of Treasury Book

Treasury Income Mix



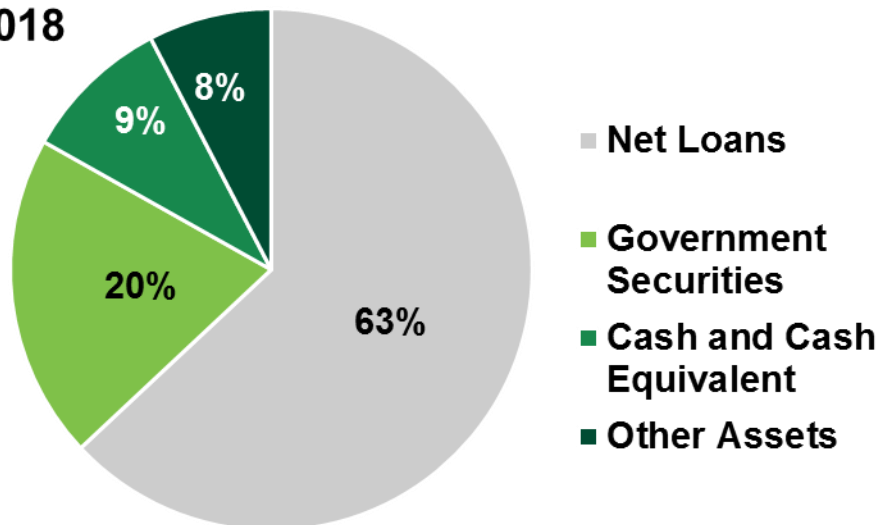
Treasury income to Total Operating Income



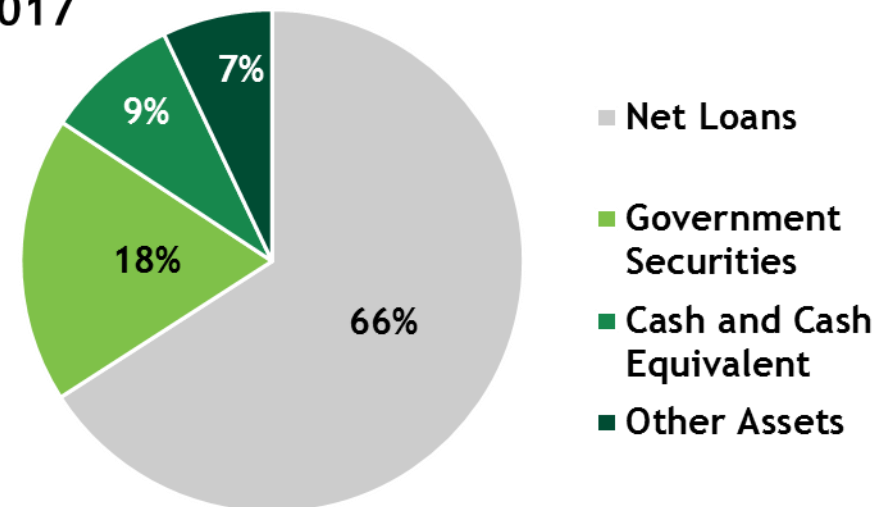
Balance Funding

Asset Categories

Q22018

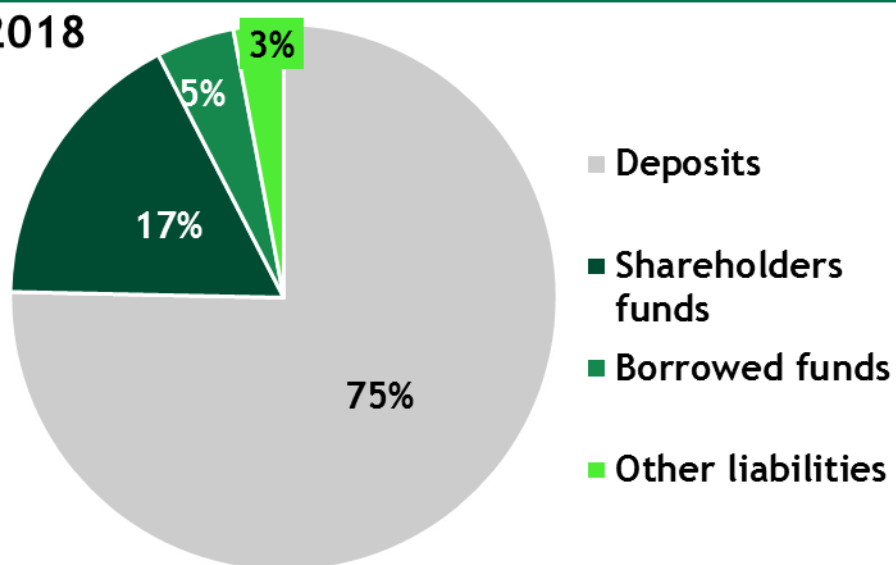


Q22017

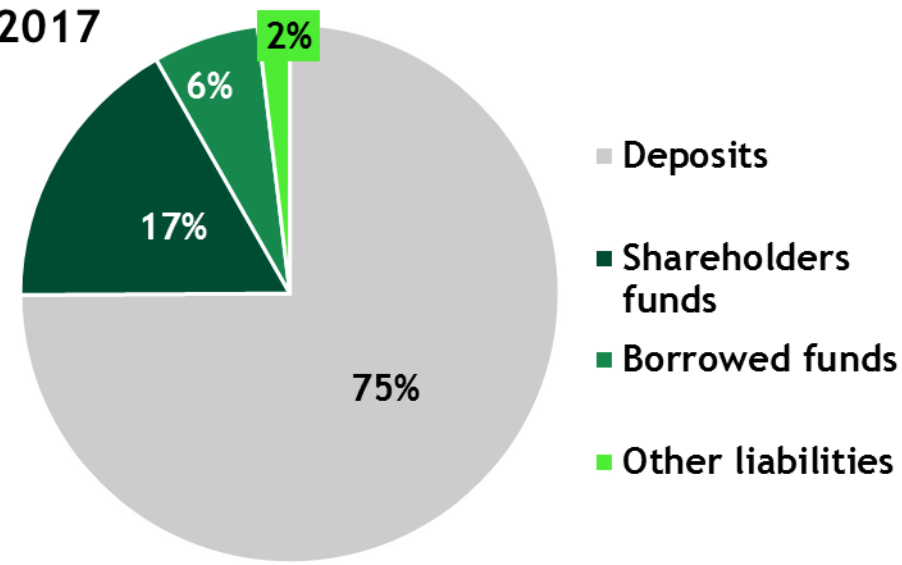


Funding Categories

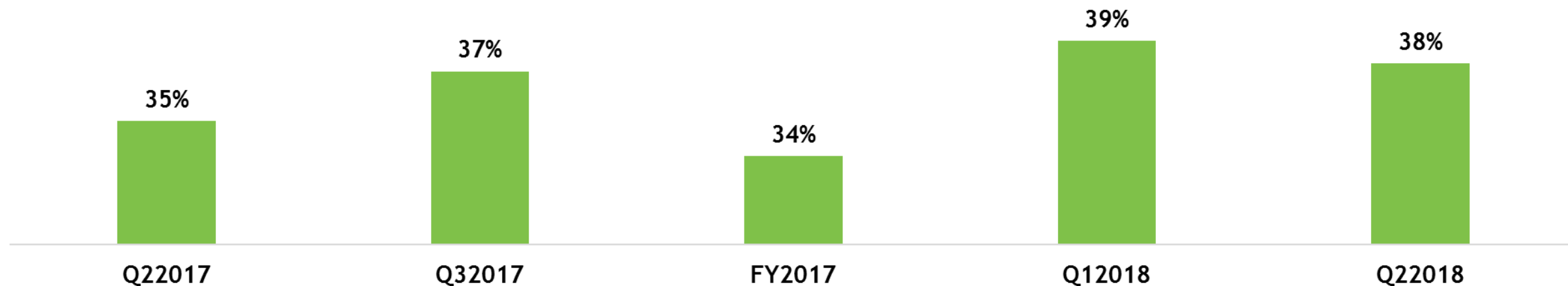
Q22018



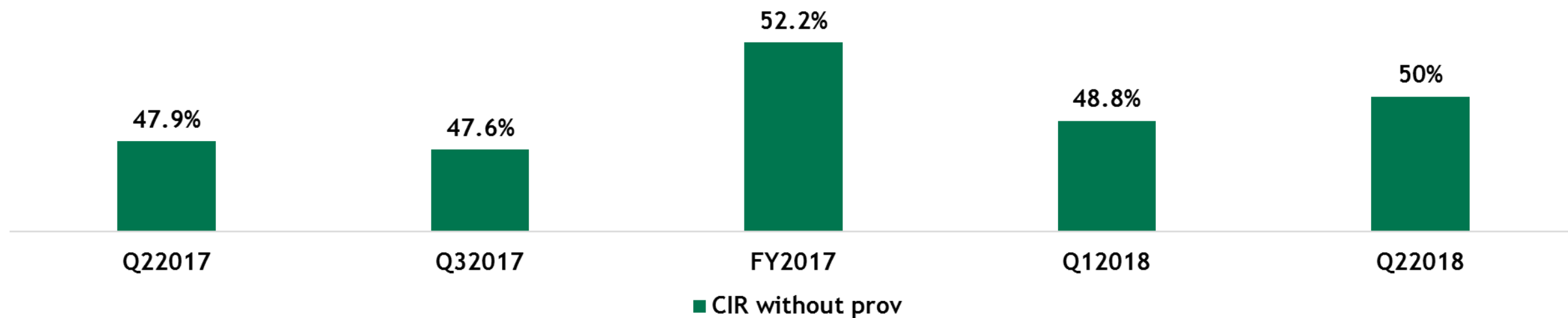
Q22017



Liquidity trend

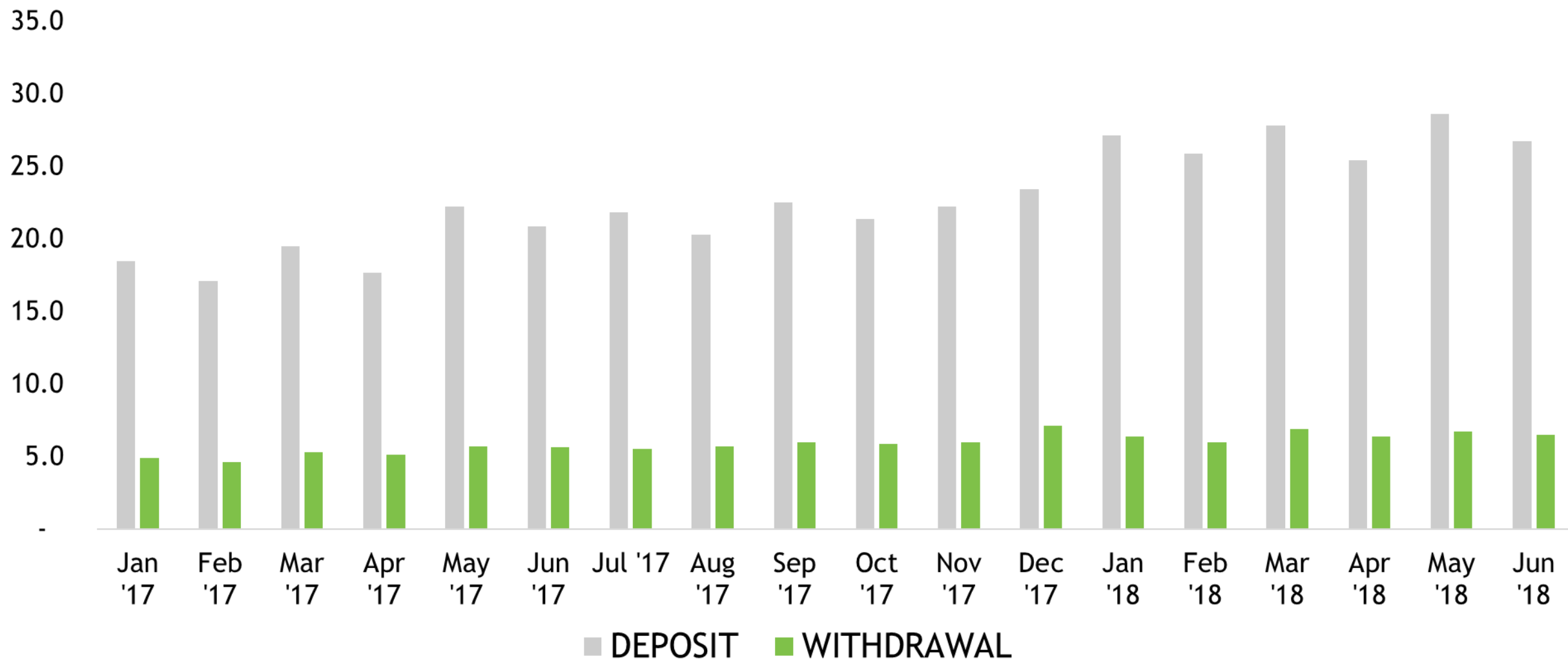


Cost to Income (CIR) Without Provisions



Agency Banking

Agency Banking (Kshs. Billion)



Company Performance

COMPANY	Profit Before Tax Q22018	Profit Before Tax Q22017	%
	KShs'000	KShs'000	
The Co-operative Bank of Kenya Limited	9,445,532	8,926,677	5.8%
Co-op Consultancy & Ins Agency Limited	259,313	233,322	11.1%
Co-op trust Investments Limited	25,530	19,529	30.7%
Kingdom Securities Limited	(10,429)	(2,401)	-334.3%
Co-operative Bank of South Sudan	114,566	(6)	1901325.6%
Total PBT before eliminations	9,834,512	9,177,121	7.2%
Add: Share of profit from associates	141,326	92,299	53.1%
Group profit before tax	9,975,837	9,269,421	7.6%
Income tax expense	2,835,677	2,632,009	7.7%
Group profit after tax	7,140,160	6,637,412	7.6%

Key Profit & Loss Ratios

	Q22018	Q22017	FY2017
Cost to Income(Excluding Provisions)	49.9%	47.9%	52.2%
Cost to Income (Including Provisions)	54.9%	55.3%	60.7%
Cost of funds	3.8%	3.9%	4.1%
Debt to Equity	27.1%	37.8%	30.3%
Average Return on Equity	21.6%	21.7%	17.5%
Average Return on assets	3.7%	3.6%	3.1%
FX to Non Funded income	17.5%	17.5%	16.5%
Non - Funded to Total Income	32.1%	34.6%	32.4%
Net Interest Margin(loans)	9.0%	9.0%	8.9%
Net Interest Margin(Earning Assets)	8.3%	8.1%	8.5%
Effective Corporate Tax Rate	28.4%	28.4%	30.9%

2018 Financial Outlook

	<u>Actual Q22018</u>	<u>Projections FY 2018</u>
Profit Before Tax Growth	7.6%	12%
Loans & Advances Growth	-0.6%	5%
Deposits Growth	4.5%	10%
Cost to Income Ratio	49.9%	50%
Non Funded to Total Income	32.1%	35%
Return On Average Equity (ROAE)	21.6%	22%
Return On Average Assets (ROAA)	3.7%	3.8%
Non Performing Loans (NPL)	10.9%	8%
Cost of average funds	3.8%	4%
Net Interest Margin (NIM)	9.0%	9%
Cost of risk	0.9%	1.2%

Co-operative Bank will continue to show resilience in the Balance sheet and profitability growth.

The political environment has stabilized and is expected to have a positive impact on the economic environment. The Bank is well positioned to take the opportunities that will arise as the Government continues to carry out Vision 2030 projects in infrastructure, ICT, Energy Generation etc.

The Bank supports fully the policy direction shown by the Government to remove interest rates capping.

We will leverage on our strong balance sheet, a cost effective operating structure anchored on the ongoing 'Soaring Eagle' Transformation project and a highly motivated team.

Thank You



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