



# **CO-OPERATIVE BANK OF KENYA**

## **GROUP FINANCIAL RESULTS ANALYST BRIEFING Q22020**

**14 August 2020**

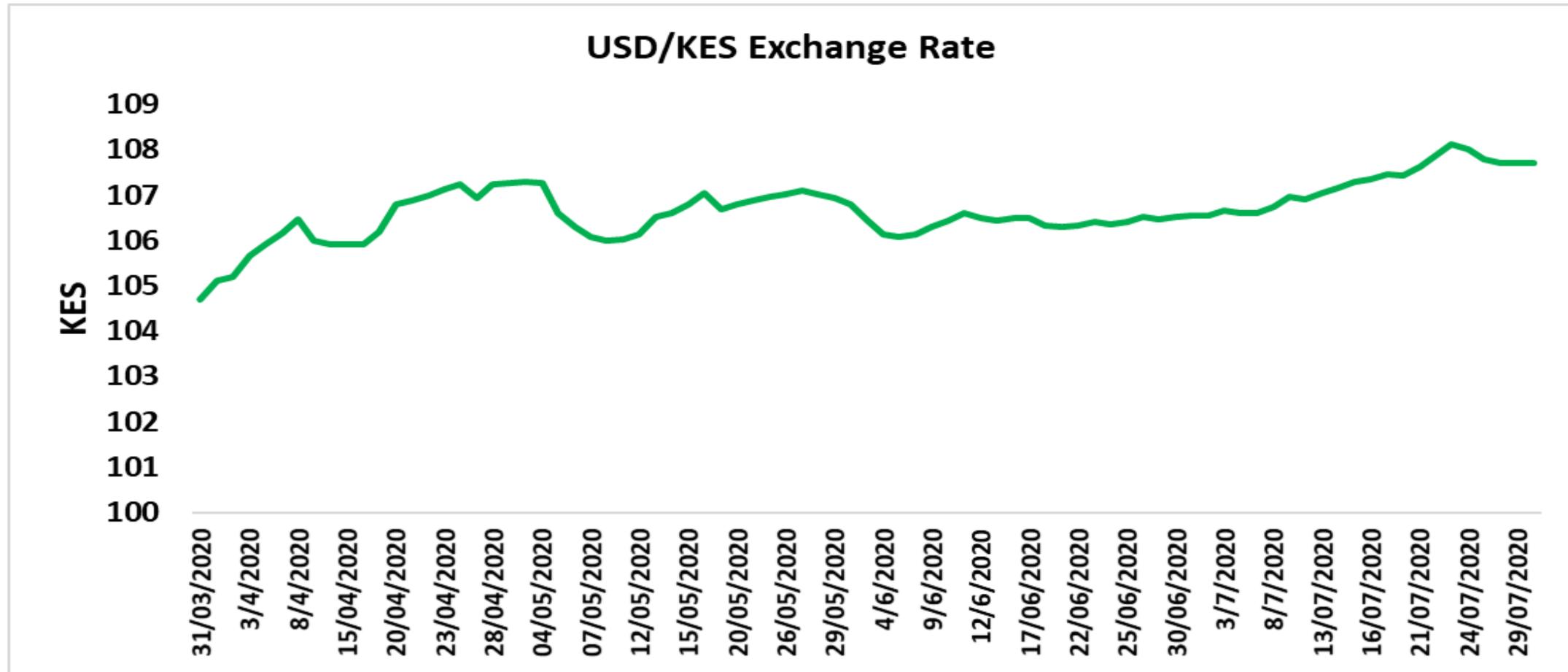
# **Macro Economic Highlights**

# 2020 economic growth path uncertain

- ❑ **The 2020 economic growth path is still quite uncertain. The IMF has further reduced its GDP growth forecast for Kenya to -ve 0.3% from its earlier forecast of 1%.**
  
- ❑ **However, in the period to June 2020, recovery has been noted in some pockets of the economy.**
  - **Cut flower export quantities rose by 23% in May and June compared to the April 2020 levels.**
  - **Fresh vegetable export earnings rose by 18% in May and June compared to levels seen in the month of April.**
  - **Coffee exports earnings rose by 2% in the 1H2020 compared to 1H2019**
  - **Kenya's re-exports increased by 19% in the 1H2020 compared to similar period in 2019.**

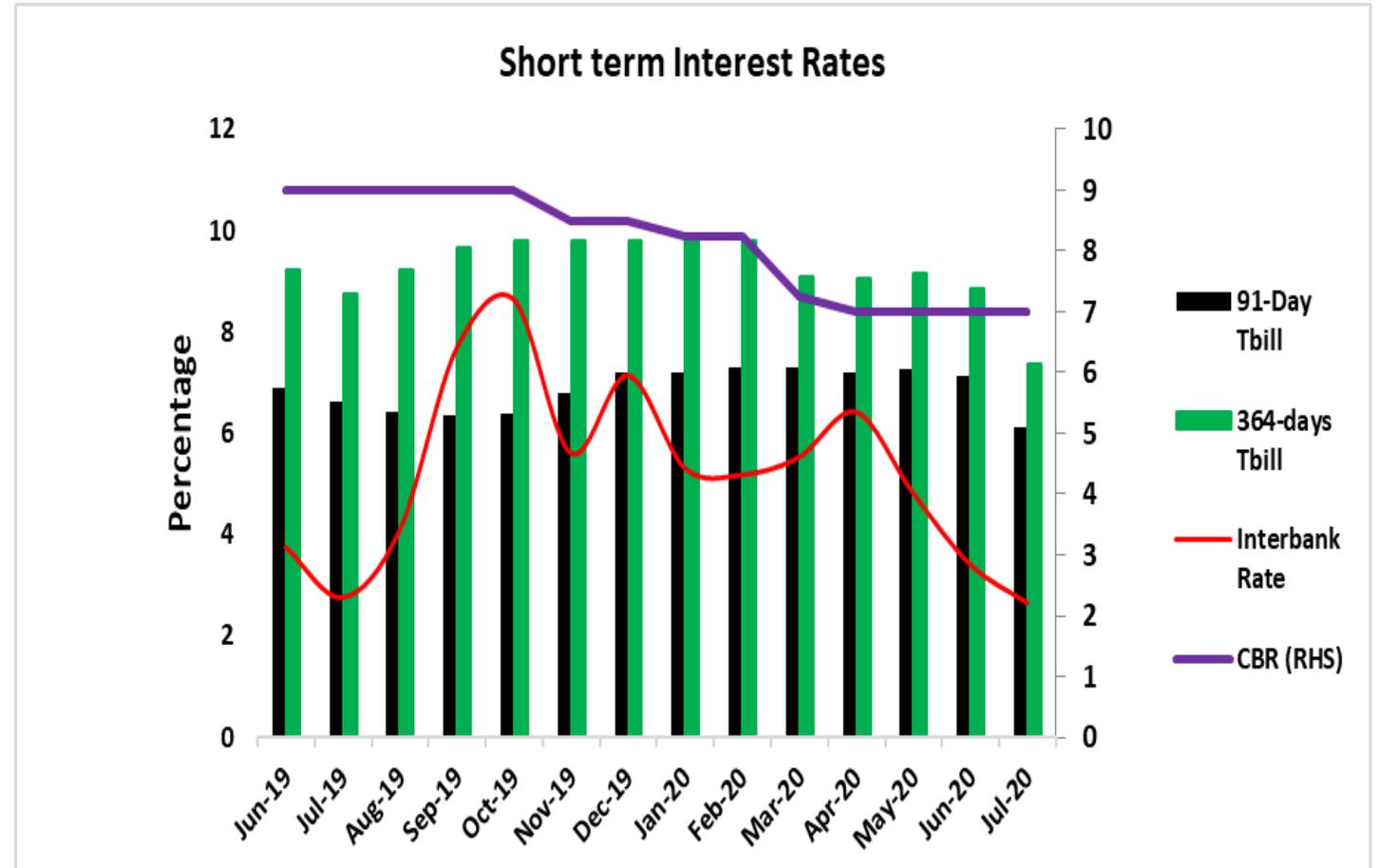
# Kenya Shilling (KES) : Exchange Rate

- ❑ The KES currency has remained fairly stable between April and June at a range of 106-107 to the US dollar.
- ❑ However, in July, the currency depreciated further due to a rise in demand at a time of low supply.



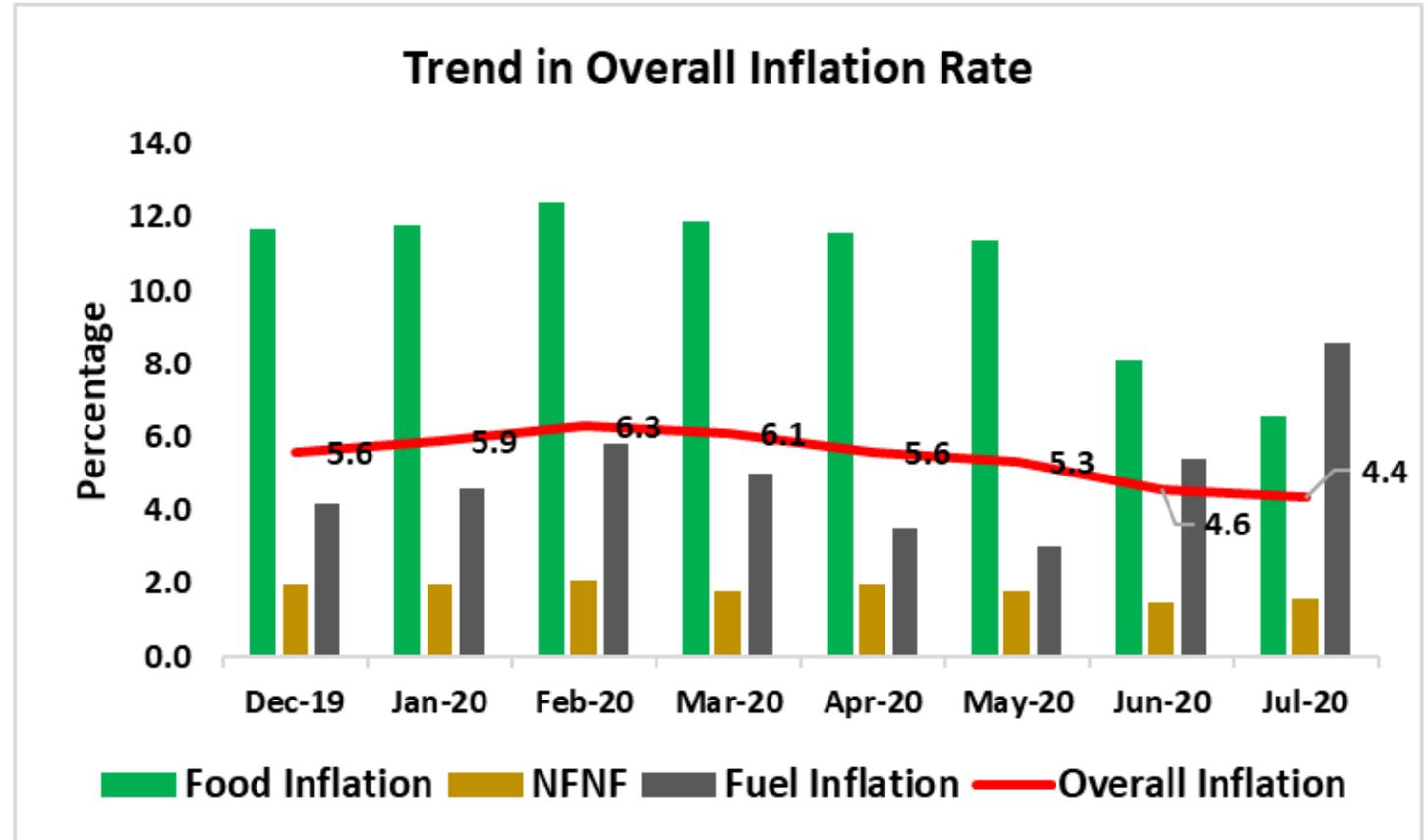
# Short Term Interest Rates

- ❑ In Q2, the yields on short term government paper have gradually fallen.
- ❑ Interest rate on 91-days, 182-days and 364-days Treasury bills were 6.1%, 6.4% and 7.4%, respectively at the close of July 2020 compared to 7.2%, 8.2% and 9.0%, respectively at the beginning of the second quarter.
- ❑ The average interbank rate also fell to stand at 2.2% in July compared to 3.5% at the beginning of the second quarter indicating higher liquidity in the money market.



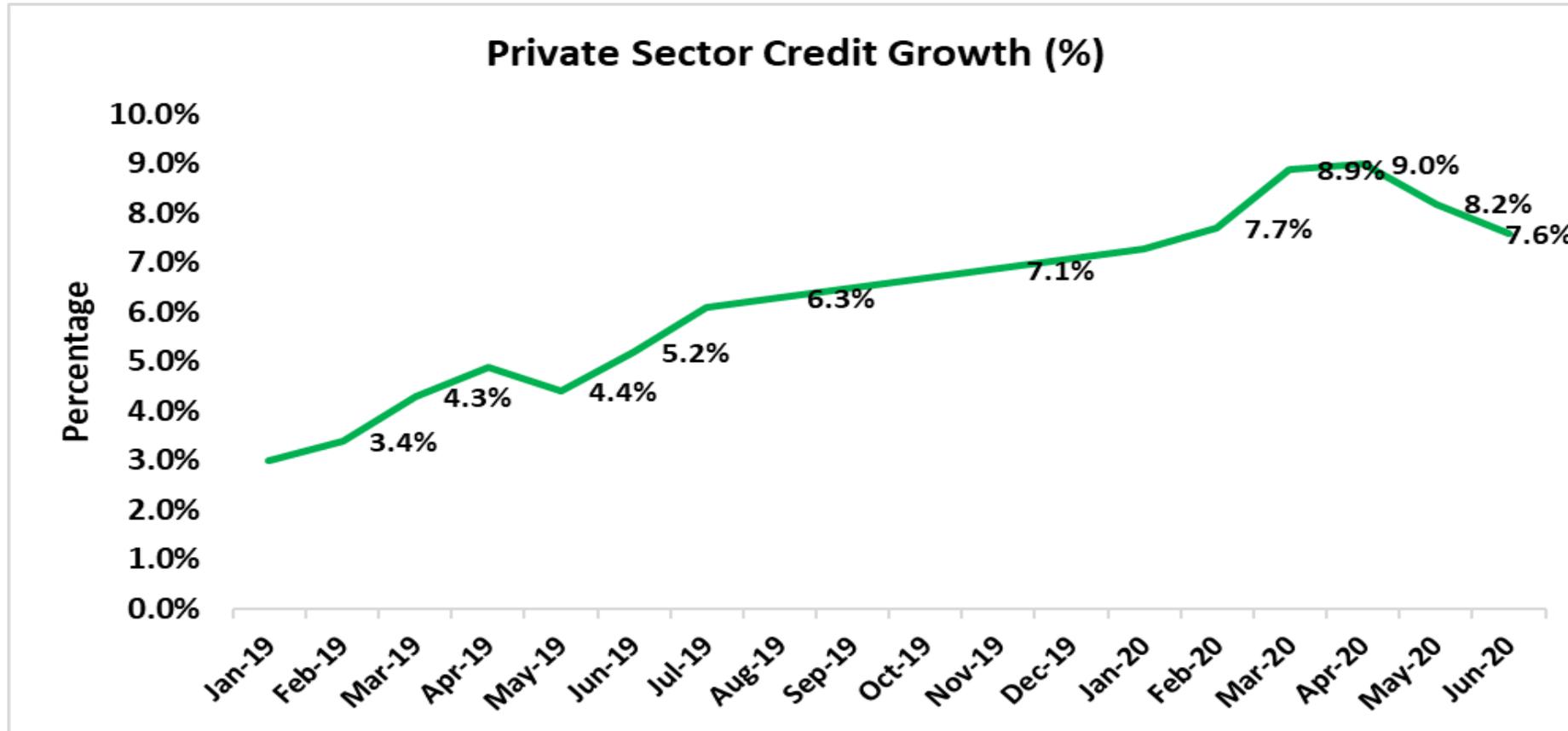
# Trend in inflation rate

- ❑ Overall Inflation rate remained fairly stable in 2Q 2020 at 5.3% on average compared to 5.9% in a similar period last year.
- ❑ The rate of inflation consistently fell during the quarter from 6% in April to 4.6% in June and 4.4% in July.
- ❑ Overall inflation is expected to remain within the range of 4% to 6%, largely due to lower international oil prices, lower VAT rate, favorable weather for agriculture and muted demand pressure.



# Trend In Private Sector Credit Growth

- ❖ The 12-month growth in private sector credit had been on a growth trajectory until April 2020.
- ❖ However, due to COVID-19 pandemic, this has gradually fallen to touch 7.6% in the 12-months to June 2020.



# COVID 19 RESPONSE



## • **Regulatory interaction: legal perspective**

**We are compliant with the laws, regulations and guidelines;**

- Ministry of Health guidelines
- Government of Kenya directives
- Occupational Safety & Health Policy in line with the OSH Act. (OSHA)
- Central Bank of Kenya guidelines
- The Kenya Centre for Disease Control and Prevention (the “CDC”) guidelines
- World Health Organization guidelines

## • **Co-ordination within the bank- Covid19 governance**

- Business Crisis Management Team
- Multidepartment emergency response team
- Pandemic preparedness strategy –reviewed and communicated constantly

## • **Risk assessment**

- Proactively monitoring trends of the disease and impact on the Bank’s strategic objectives, business operations and work plans. We have robust monitoring and reporting tools capable of collecting, analyzing and reporting case-based information.

## • **Policies, procedures and related controls**

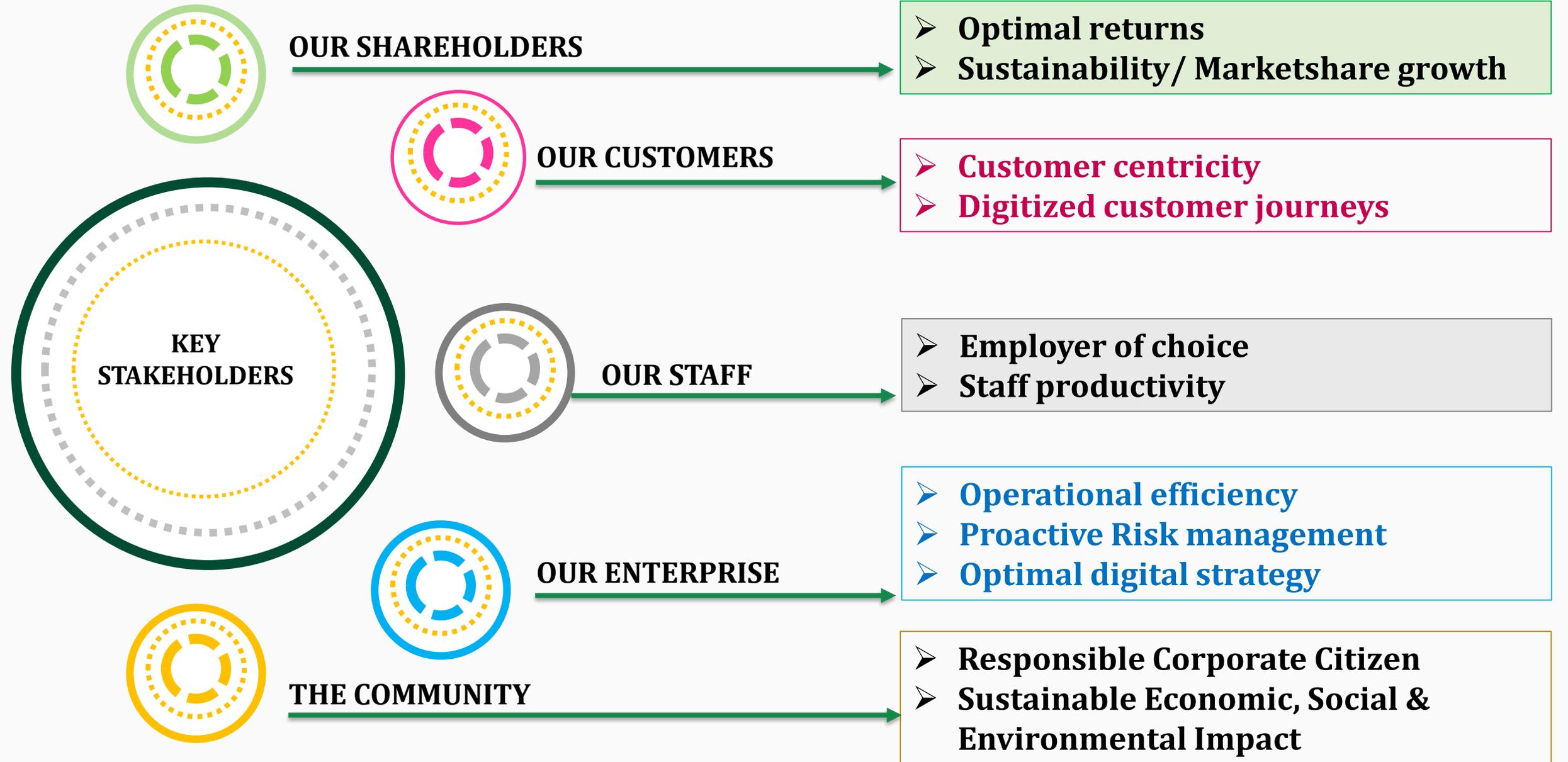
- These are promoting the use of technology, impact monitoring, response, reporting, communication, education, training and guidance.
- The Bank has put in place adequate business resilience arrangements for disaster recovery and business continuity.

## • **Specific support to each stakeholder**

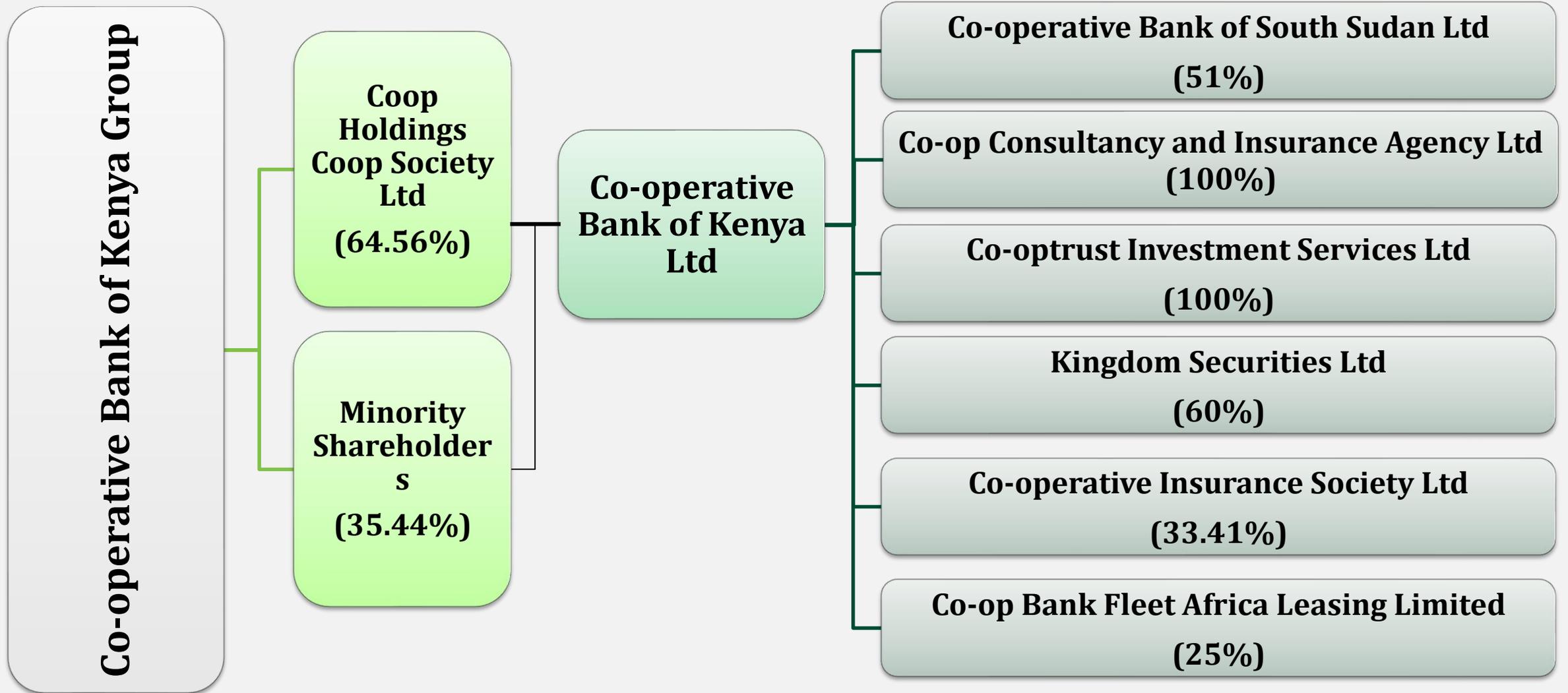
- We are providing specific support to our stakeholders. For our customers we have universal support but we also have targeted support for customers whose operations /revenues have been halted or materially impacted by the pandemic.
- In total, a portfolio of over Kshs. 39.2 Billion has been re-aligned to offer our customers this needed support.

# Strategic Focus

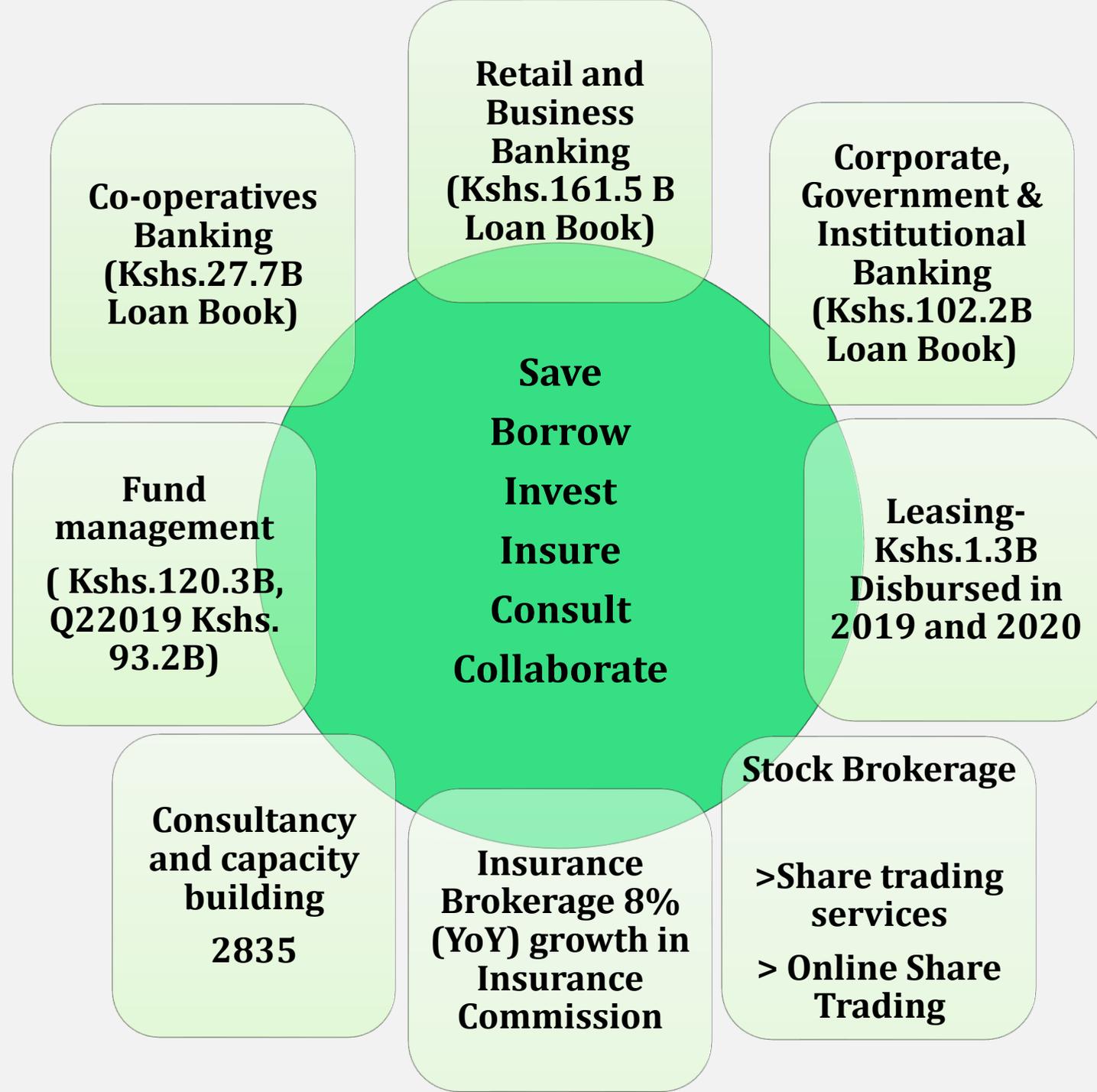
# Our Strategic Focus



# Co-operative Bank of Kenya Group Structure



# A Successful Universal Banking Model



# Our Presence

**159** Branches

**584** ATMs

**8.8M** Account holders

**5M** Mcoop Cash Customers

**17K +** Co-op Kwa Jirani Agents

**103K** Internet banking Customers

**479** Sacco Front Offices Branch network

**16K+** Diaspora Banking Customers

**24 Hr.** Contact Centre

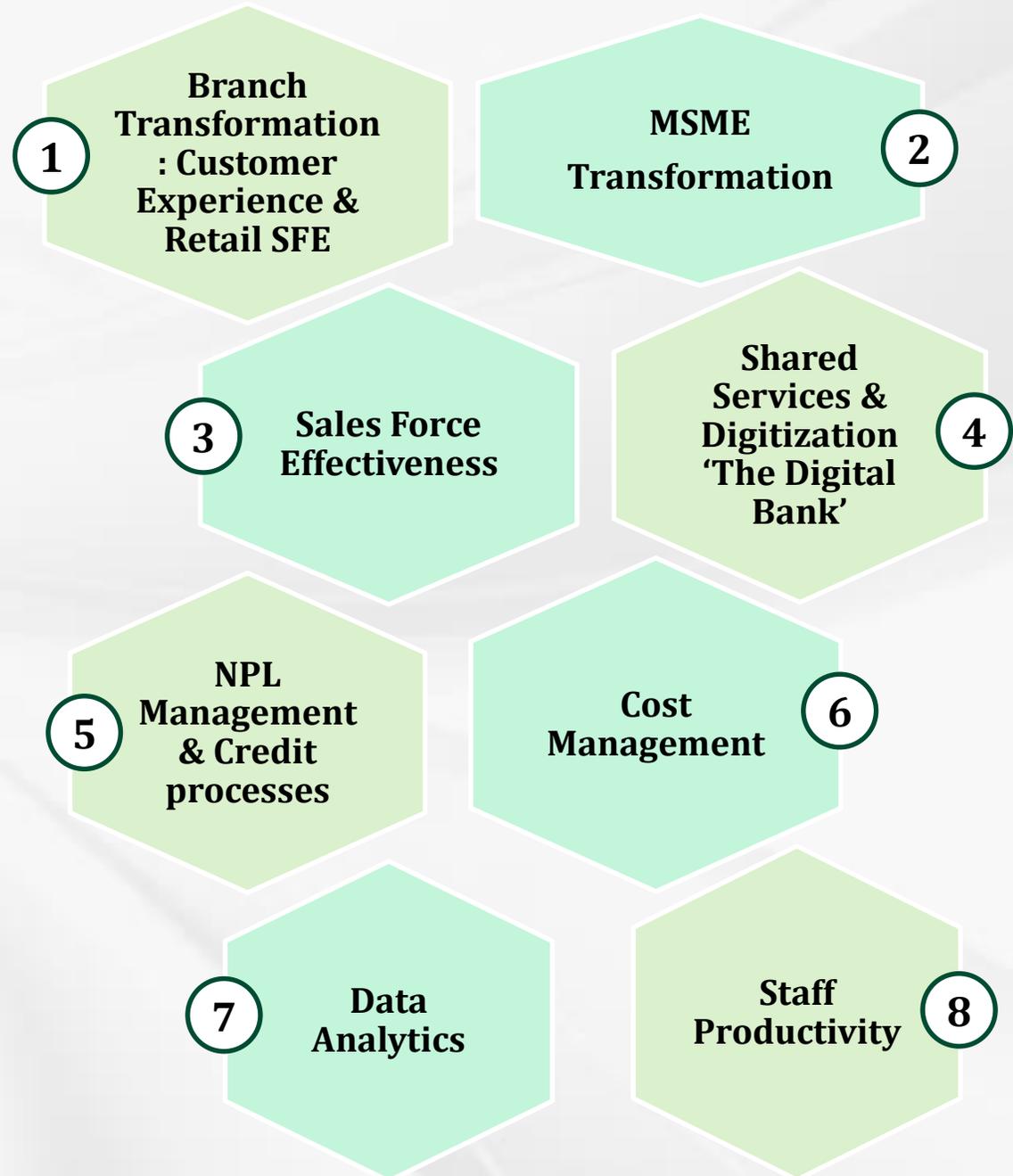
**4497** Staff

- ❑ Shareholders of Jamii Bora Bank, have pursuant to an Extra Ordinary General Meeting held on 1st July 2020 unanimously approved Co-op Bank's offer to acquire 90% of the bank. This will be through the subscription of 224,153,154 new class of Ordinary Shares that would enable Co-op Bank to inject Kshs.1 Billion and appoint a Board to run the business. The Central Bank of Kenya has vide Gazette Notice No. 5475 dated August 5, 2020 approved the acquisition effective August 21, 2020.
  
- ❑ Jamii Bora Bank is a fully-fledged Commercial Bank, licensed and regulated by the Central Bank of Kenya, with over 444,000 customers in 17 branches.
  
- ❑ The acquisition offers Co-op Bank the opportunity to cross-sell and deepen product offering to the enhanced customer base and create a niche bank to offer specialized credit offerings that include MSME Banking, Microfinance, Youth & Women Banking, Asset Finance and Leasing.

# “Soaring Eagle” Transformation Initiatives

- **Growth**
- **Efficiency**

**Key  
Pillars;**



# “Soaring Eagle” Transformation: Key achievements

- ❖ E-Credit Focus: Kshs. 91.1B Disbursed so far.
- ❖ Average queue time of 9.3 Minutes.
- ❖ 91% transactions on alternative channels.
- ❖ MSME Transformation:
  - ❖ 6950 trained
  - ❖ 92,644 onboarded on the new packages (Gold, Silver, Bronze)
  - ❖ Supply chain financing: 81 Anchors to date.
  - ❖ Non-Financial Services (NFS): 141 NFS clinics, 13 Networking forums, 3 international business trips.
- ❖ Sales Force Effectiveness: Sector focus, Reorganized relationship models.
- ❖ Digitization: Core Banking System (ongoing), Omnichannel, Business Process Management System, Customer journeys among others.
- ❖ Sustained proactive credit management: NPL 10.53% (9.99% Q22019), loan book grew by 6%. Industry NPL was at 13.1%
- ❖ Cost management initiatives continue.
- ❖ Predictive data analytics.
- ❖ Sustained staff productivity.

## Co-op Consultancy & Insurance Agency Ltd

- ❑ 2835 Consultancies
- ❑ 20 Dedicated Consultants
- ❑ 479 FOSA- Financial Inclusion Deepening

## Co-op Foundation

- ❑ 7685 students supported to date
- ❑ 2019 (2834) 2018 (2826)
- ❑ 1.18 Billion since inception (2019- Over 151Million)
- ❑ Other Programmes with;
  - ❑ Ford Foundation
  - ❑ Embassy of Finland
  - ❑ Energy De Portugal

- ❑ Kshs. 39.2B loans restructured as support to customers affected by Covid-19.
- ❑ Financing the SME and MCU sector
- ❑ Sustainable financing towards;
  - ❑ Big 4 Agenda
  - ❑ Vision 2030 and MDGs
- ❑ Staff CSR Involvement
- ❑ Corporate Social Responsibility: First Lady's Beyond Zero Campaign 2019 (Kshs.20 Million)
- ❑ Private sector-led Covid-19 Emergency Response Fund. Donated **Kshs. 100** Million to support critical medical supplies and equipment such as ventilators.



## KENYA BANKERS ASSOCIATION: CATALYST AWARDS 2019

### Overall Winner

- Winner: Client case study- Financing SME
- 2<sup>nd</sup> - Best in sustainable finance
- 3<sup>rd</sup> - Client Case study-Financing Commercial Clients
- 2<sup>nd</sup> - Bank case study-Bank Operations
- 2<sup>nd</sup> - Bank case study- Financing and supporting clients in the informal sector
- 3<sup>rd</sup> - Most Innovative Bank



## GLOBAL SME FINANCE AWARDS 2019

- Product innovation of the year



## FINANCIAL REPORTING AWARDS 2019

- Winner: Environmental Sustainability Reporting



## KENYA ASSOCIATION OF MANUFACTURERS

- Best Bank in Sustainable Finance in Kenya - 2019



- Added in MSCI Index in May 2020 under Frontiers Index small Index, raising the Bank visibility in the International Market

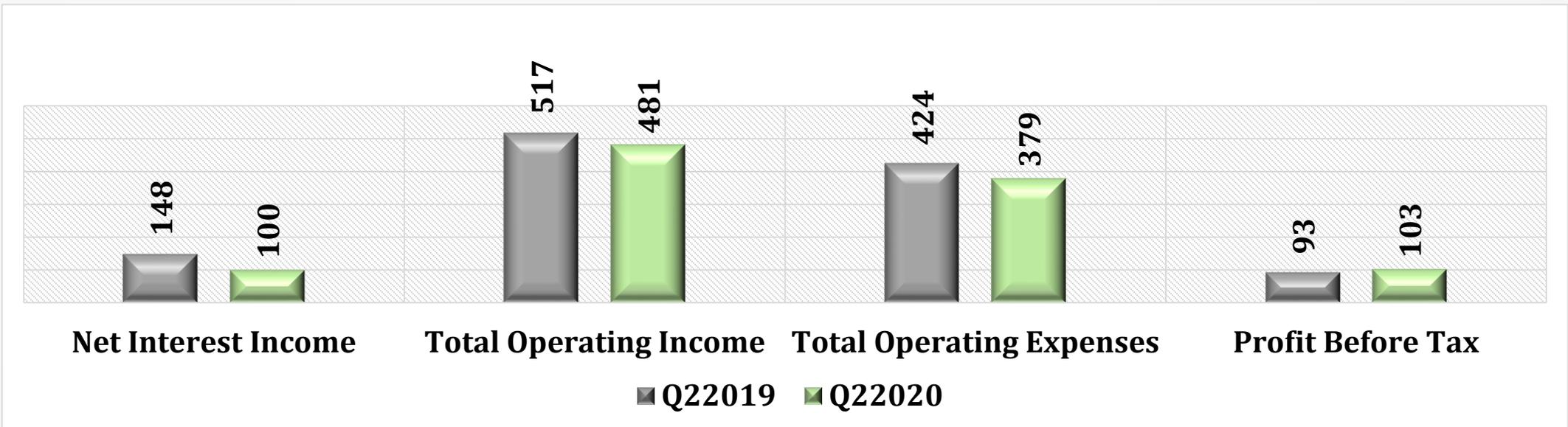
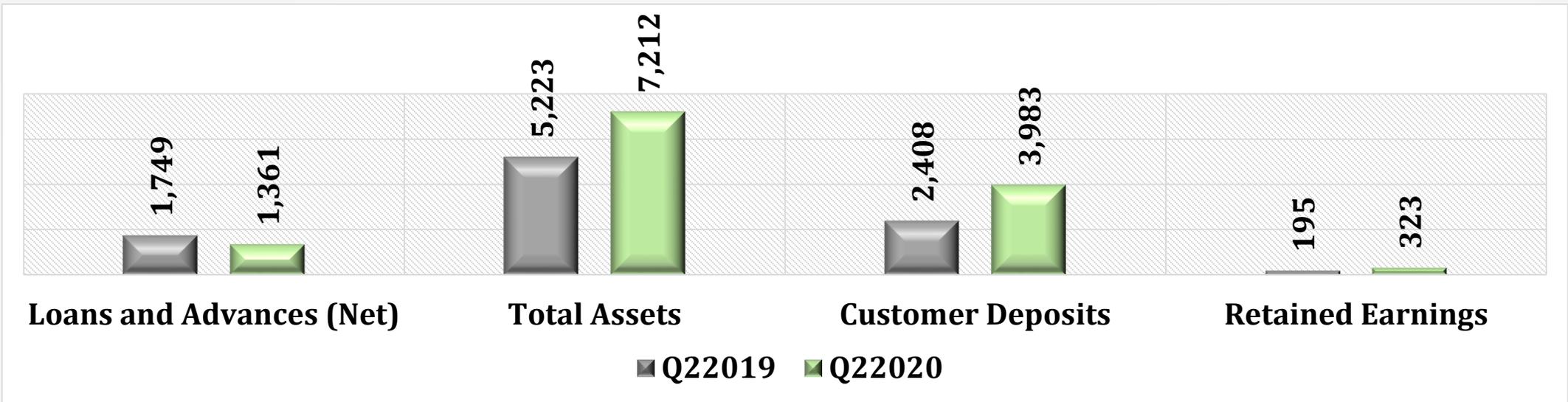


# Regional Business (Kshs. Million)

4 branches in Juba

5 Non-oil collection centers.

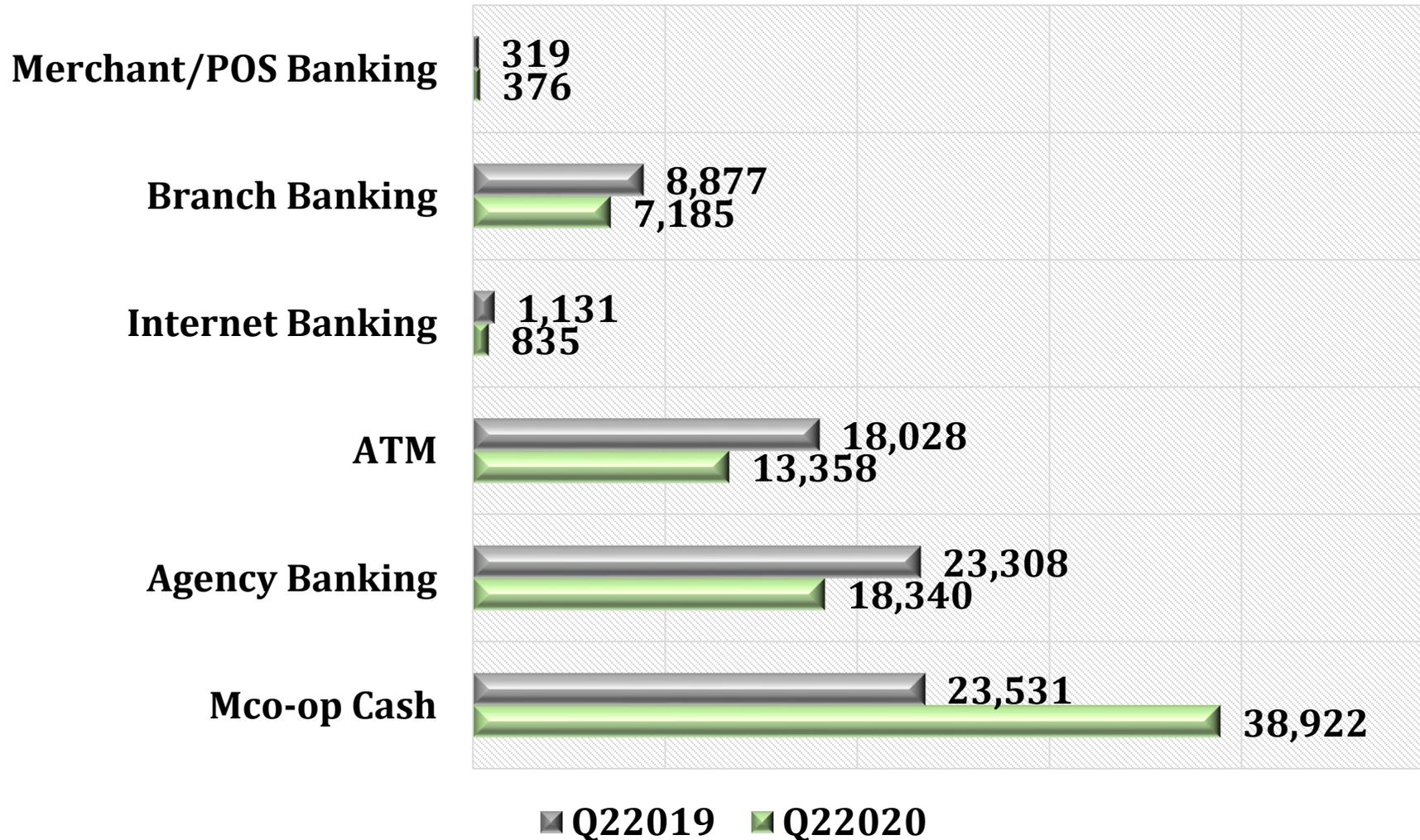
Owns 31% of CIC Africa Ltd- South Sudan



# **Channel Performance**

# Growing Digital Channels

Channel Transactions '000'

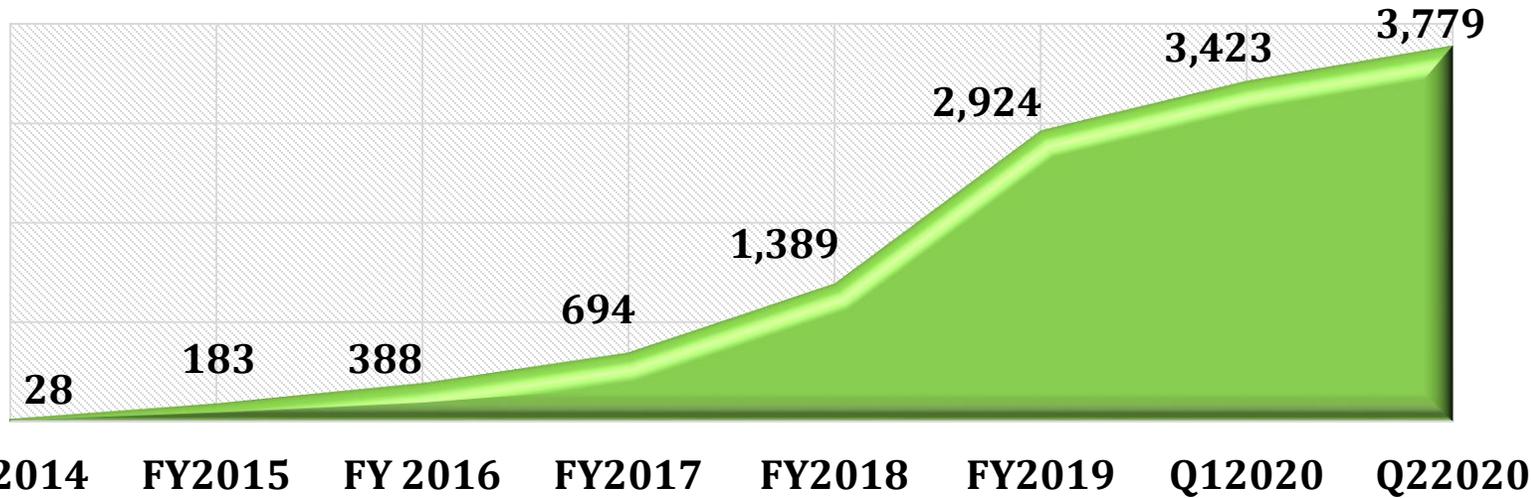


**91%** of our  
Transactions are on  
alternative Channels

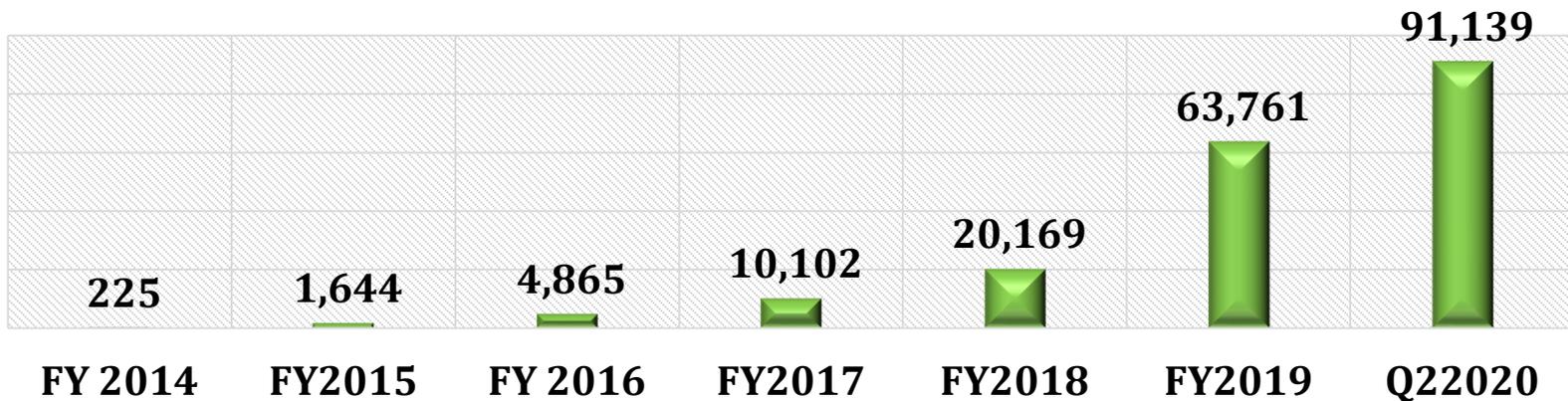
E-Credit is a key focus  
area, Kshs. 91.1B  
disbursed to Date.

# E-Credit

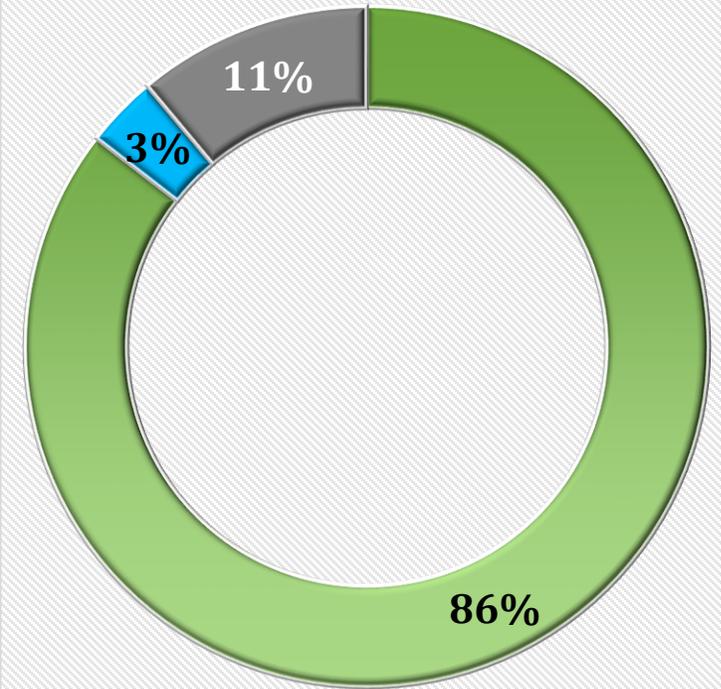
Cumulative Mcoop Cash Loan Customer Numbers ( In '000')



Cummulative MCo-op Cash loan Book - In Millions



E-Credit – Key Growth Focus

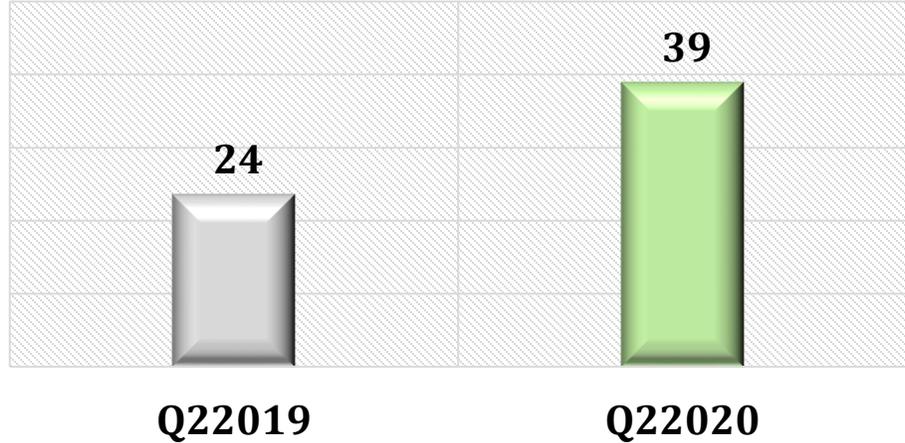


- E- Flexi (Salary advance)
- Business
- Unsecured Business Plus

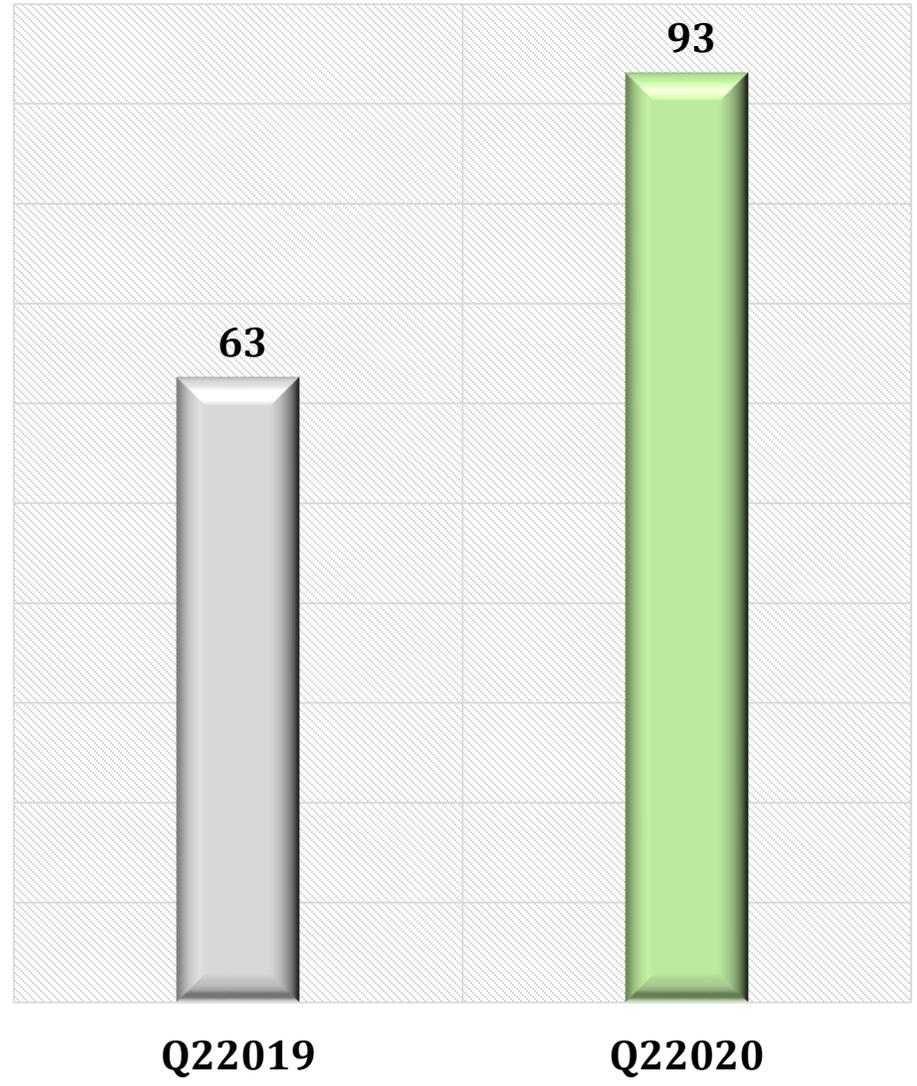
***MOBILE  
BANKING  
(MCOOP CASH)***

***Leveraging  
Mobile Banking  
to grow  
commissions***

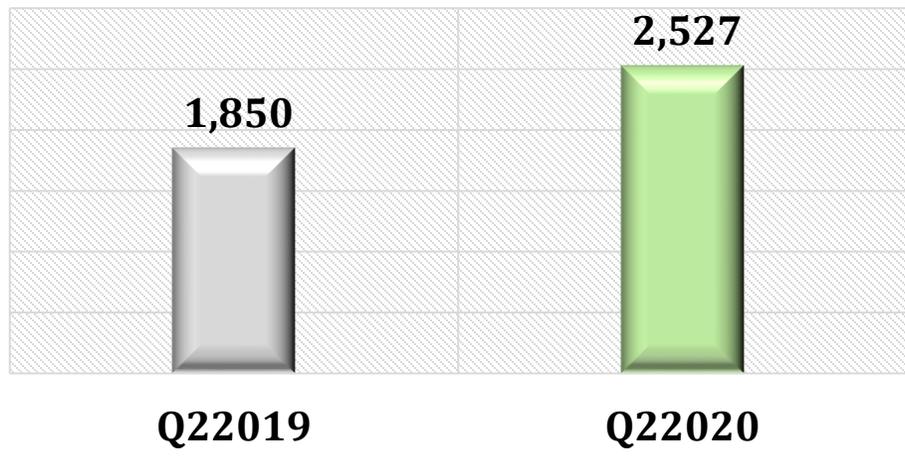
**Transactions - Millions**



**Deposits through Mobile  
(Billions)**

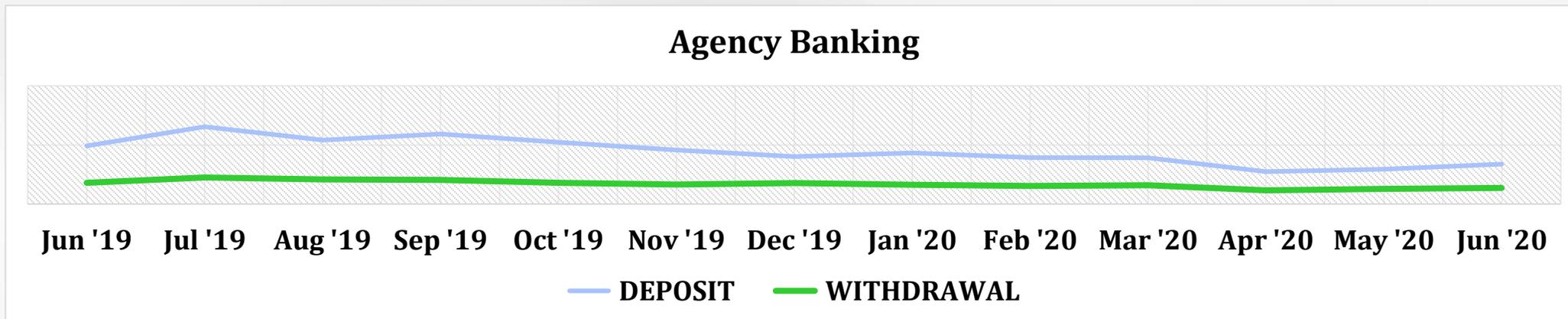
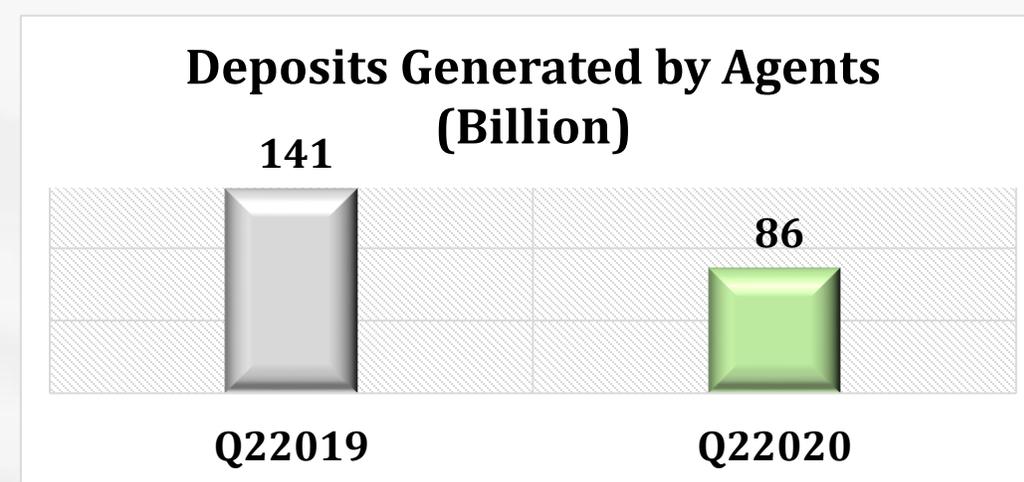
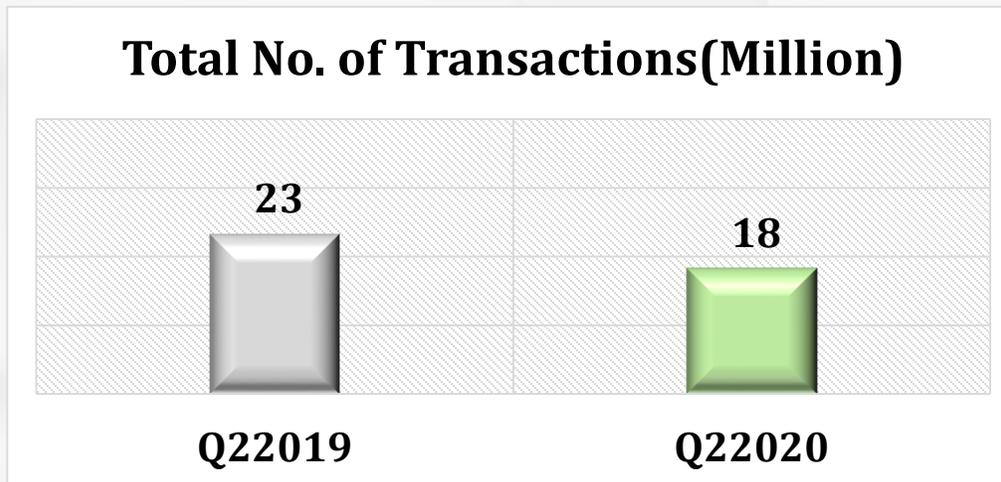
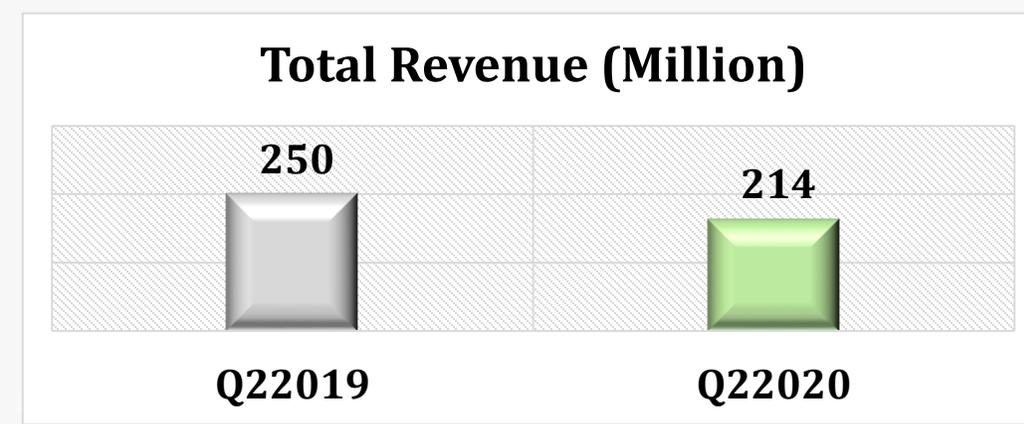
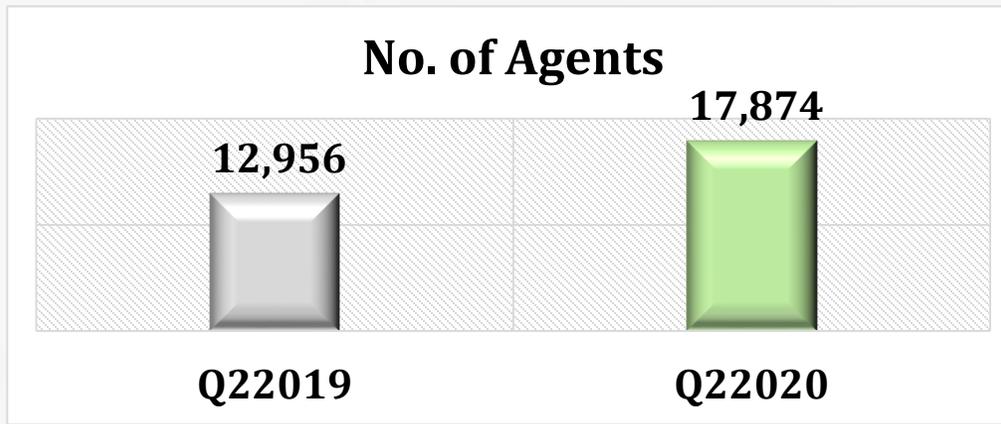


**Commission - Millions**



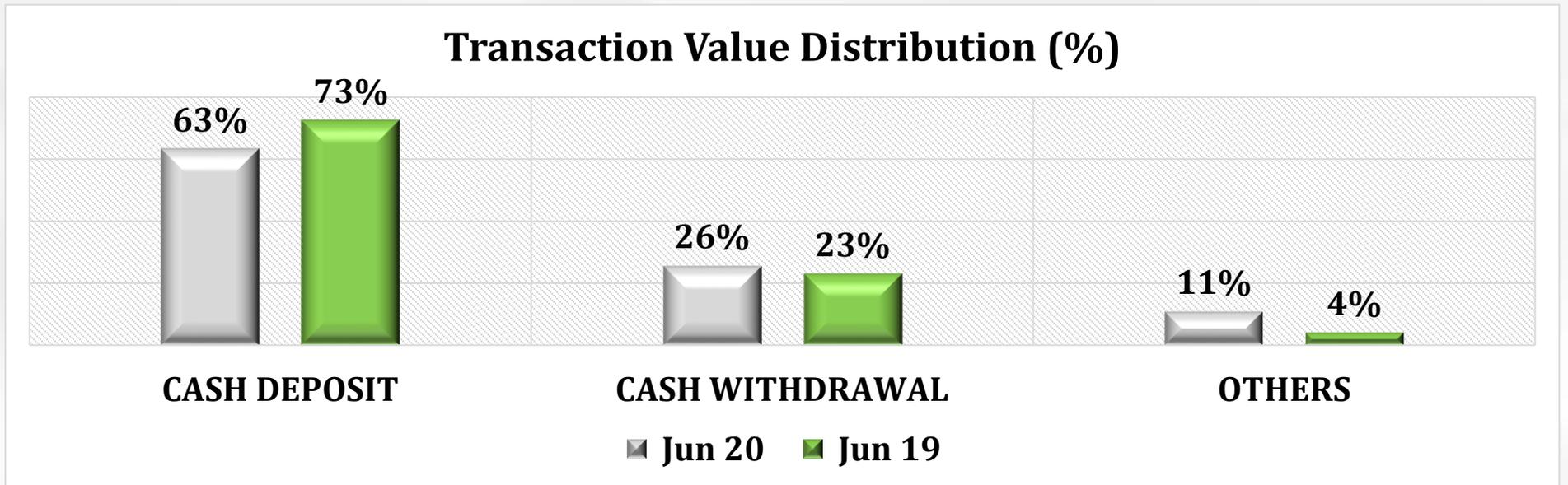
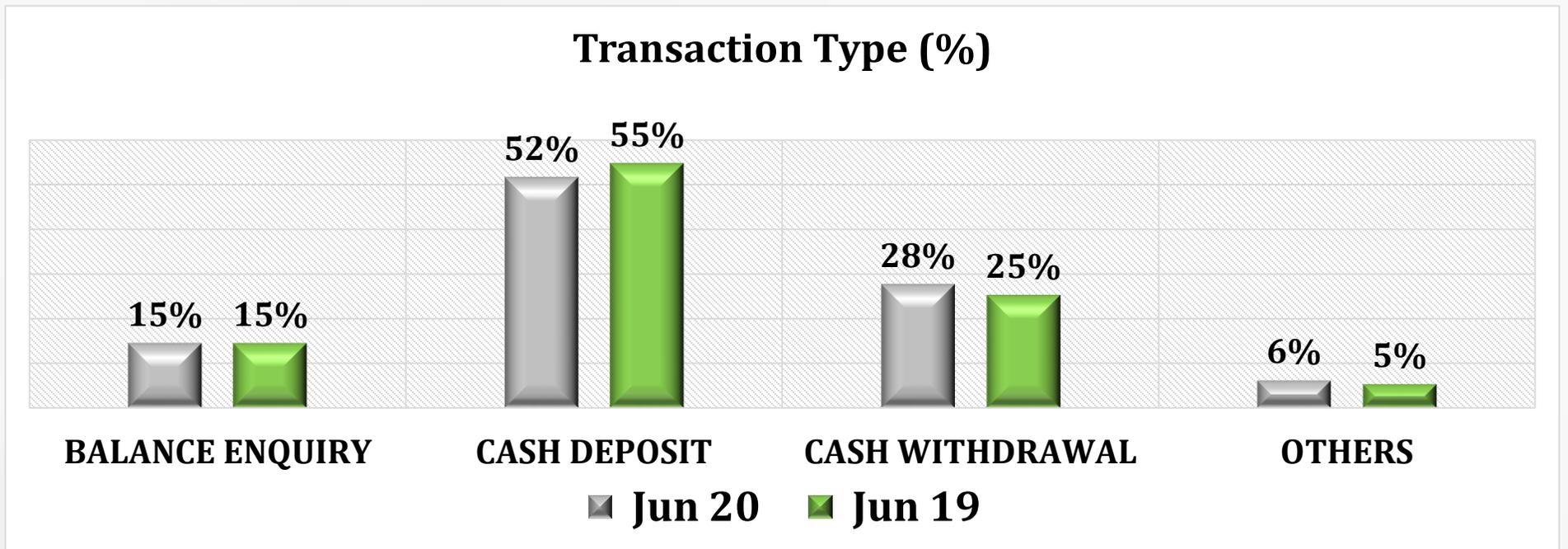
# AGENCY Banking

*Growing  
Co-op Kwa  
Jirani  
Agency  
Banking*



# ***AGENCY Banking***

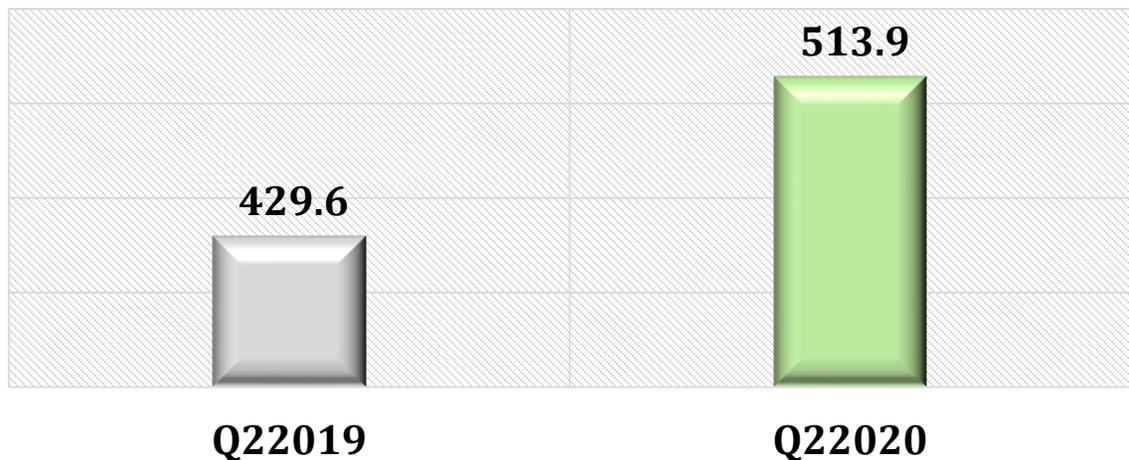
## ***Growing Co-op Kwa Jirani Agency Banking***



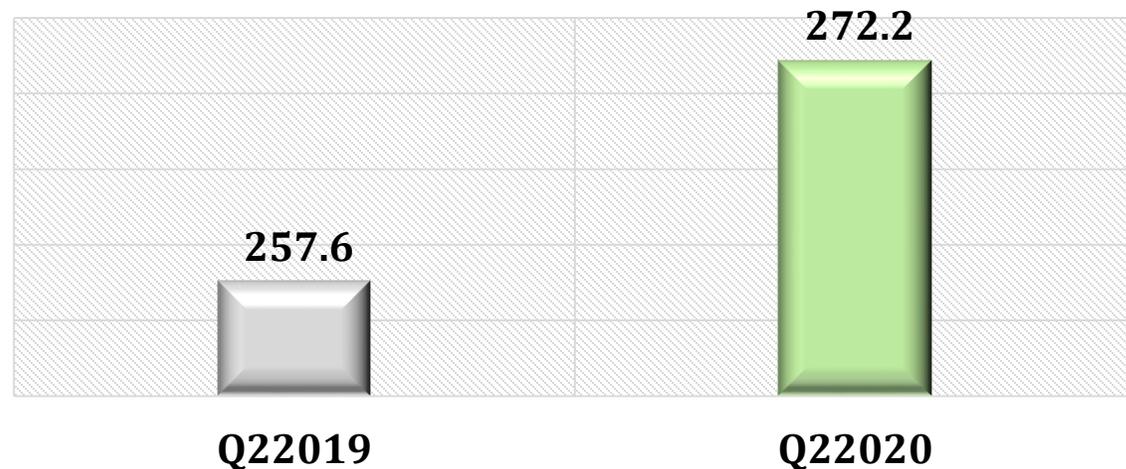
# **Financial Highlights**

# Strong Financial Position (Kshs. Billion)

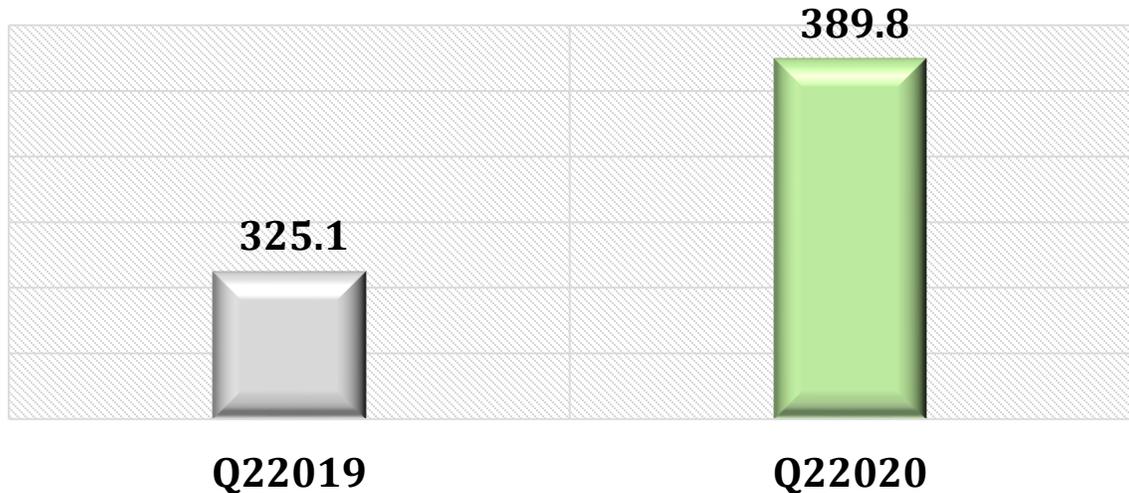
### Total Assets



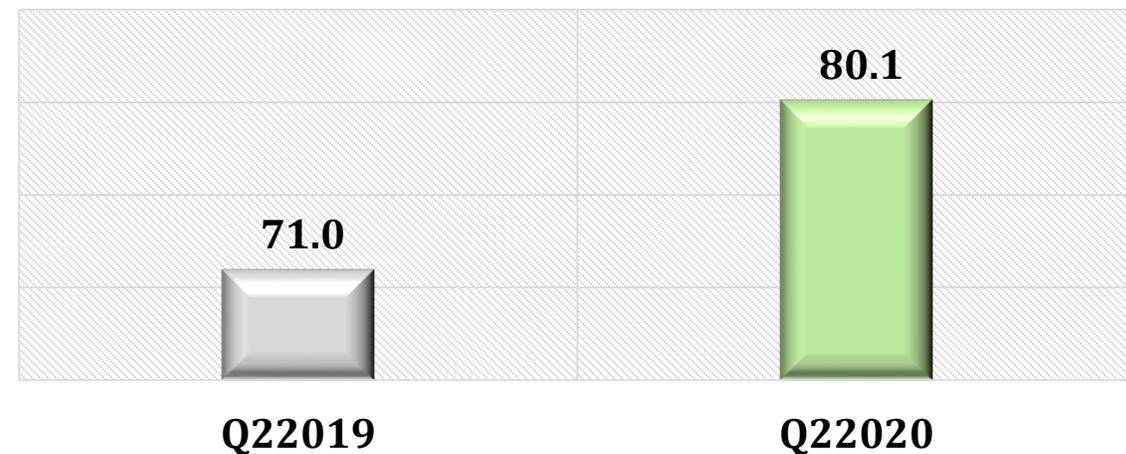
### Loan book (Net)



### Total Deposits



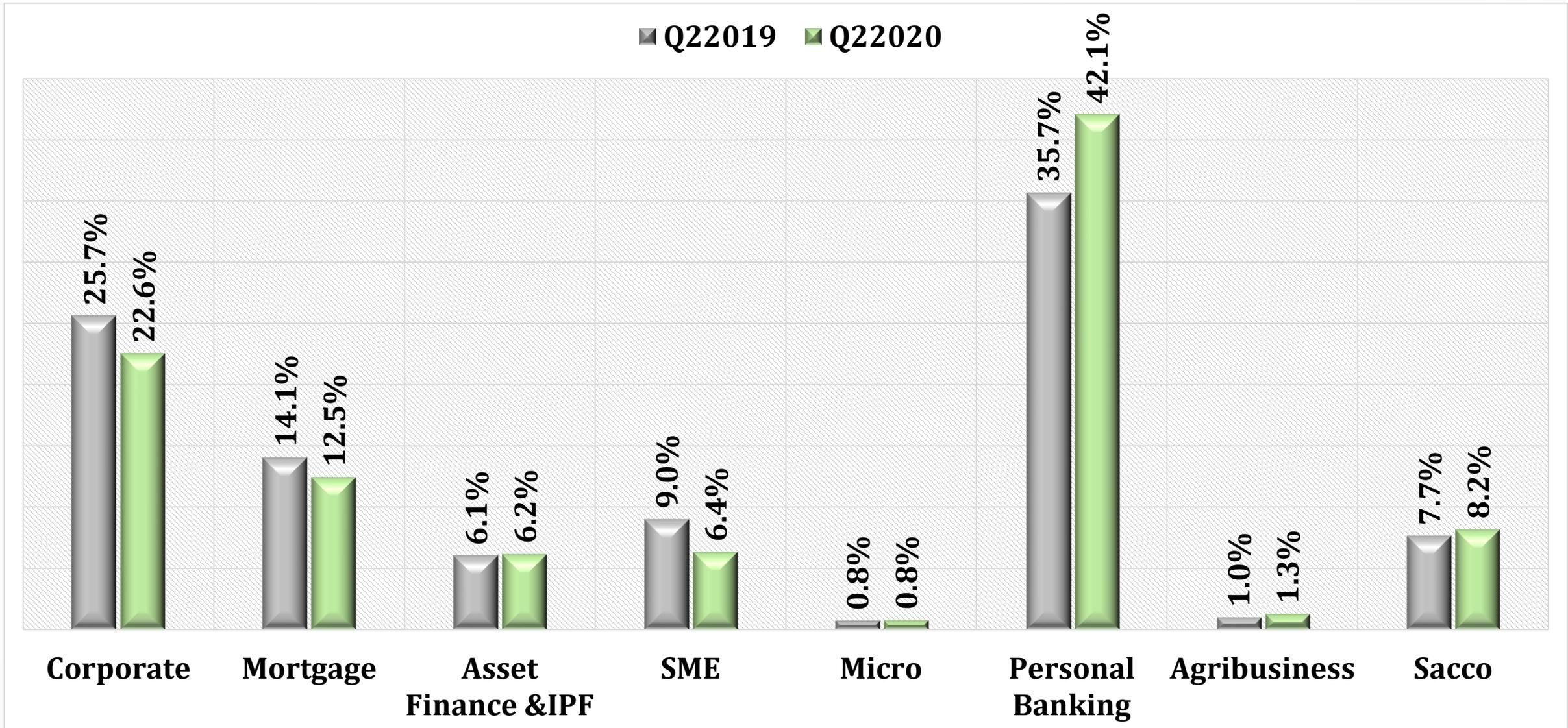
### Shareholders Funds



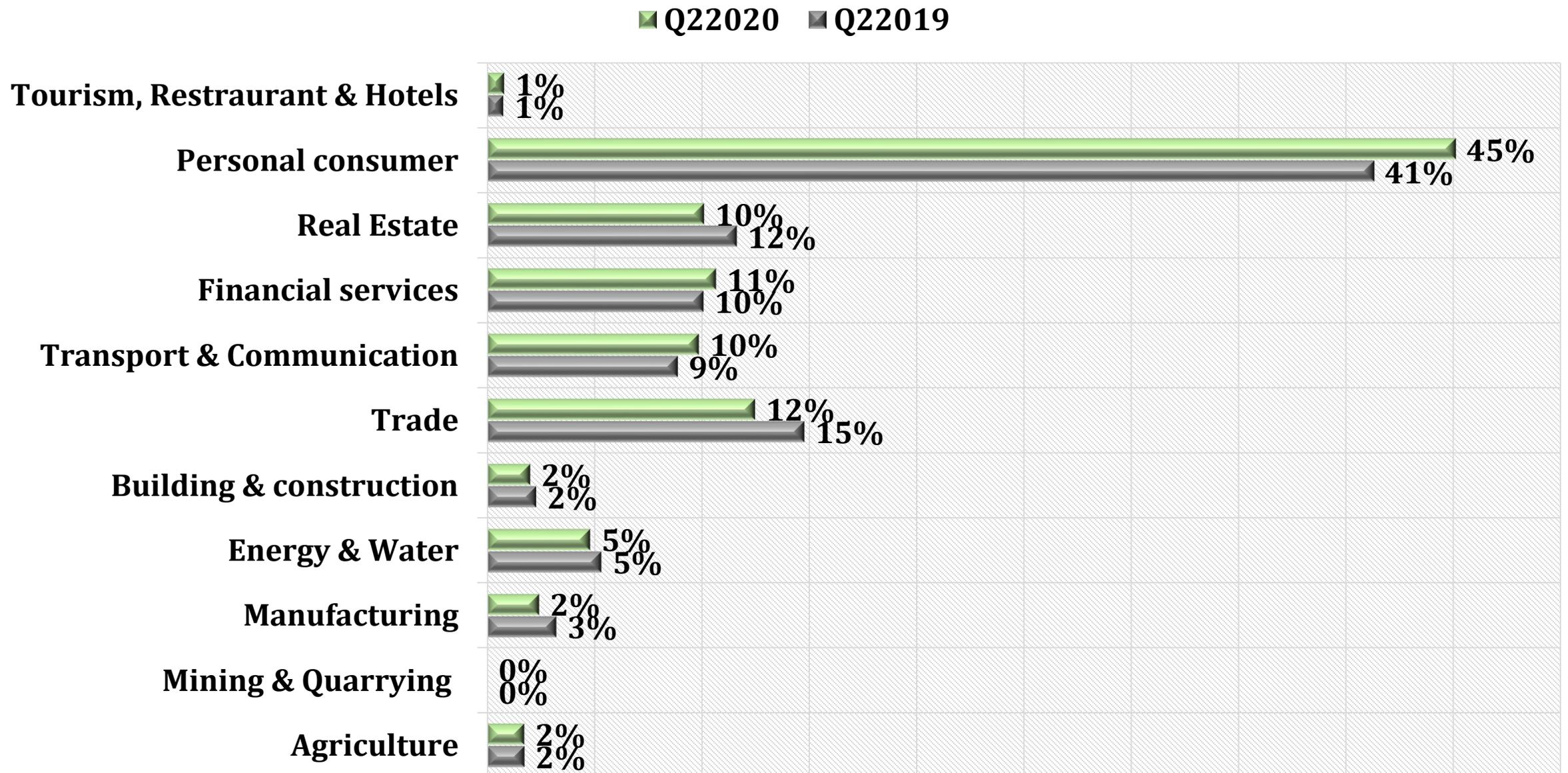
## Strong Financial Position (Kshs. Billion)

<b>Kshs. Billions</b>	<b>Q22020</b>	<b>Q22019</b>	<b>% Change (YoY)</b>		<b>FY2019</b>
<b>Total Assets</b>	<b>513.9</b>	<b>429.6</b>	<b>19.6%</b>		<b>457.0</b>
<b>Loan book (Net)</b>	<b>272.2</b>	<b>257.6</b>	<b>5.7%</b>		<b>266.7</b>
<b>Government Securities</b>	<b>122.4</b>	<b>95.0</b>	<b>28.8%</b>		<b>117.8</b>
<b>Total Deposits</b>	<b>389.8</b>	<b>325.1</b>	<b>19.9%</b>		<b>333.0</b>
<b>Borrowed Funds</b>	<b>25.6</b>	<b>21.5</b>	<b>19.4%</b>		<b>26.4</b>
<b>Shareholders Funds</b>	<b>80.1</b>	<b>71.0</b>	<b>12.8%</b>		<b>79.3</b>
<b>No. of account holders (Millions)</b>	<b>8.7</b>	<b>8.2</b>	<b>6.6%</b>		<b>8.76</b>

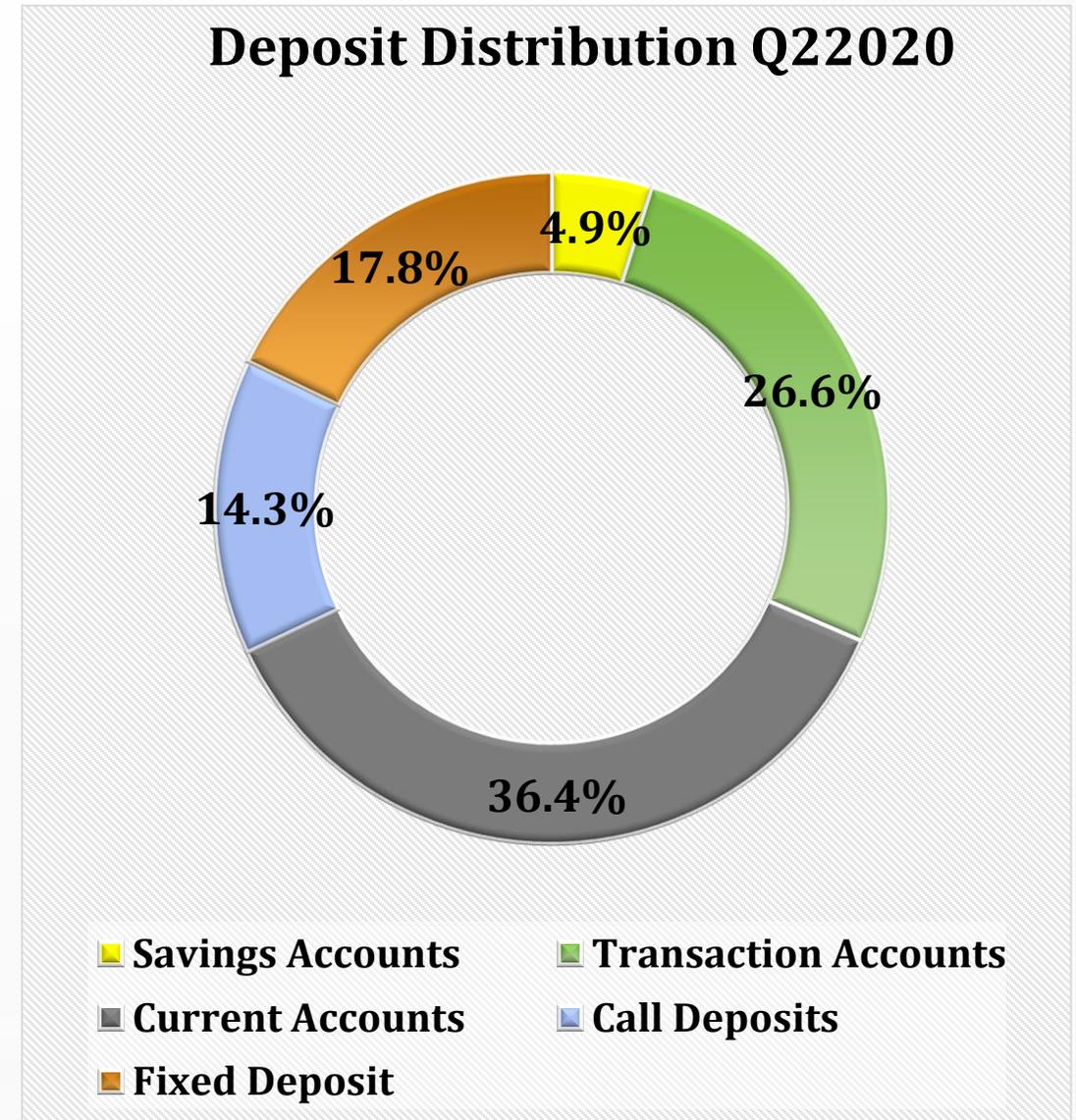
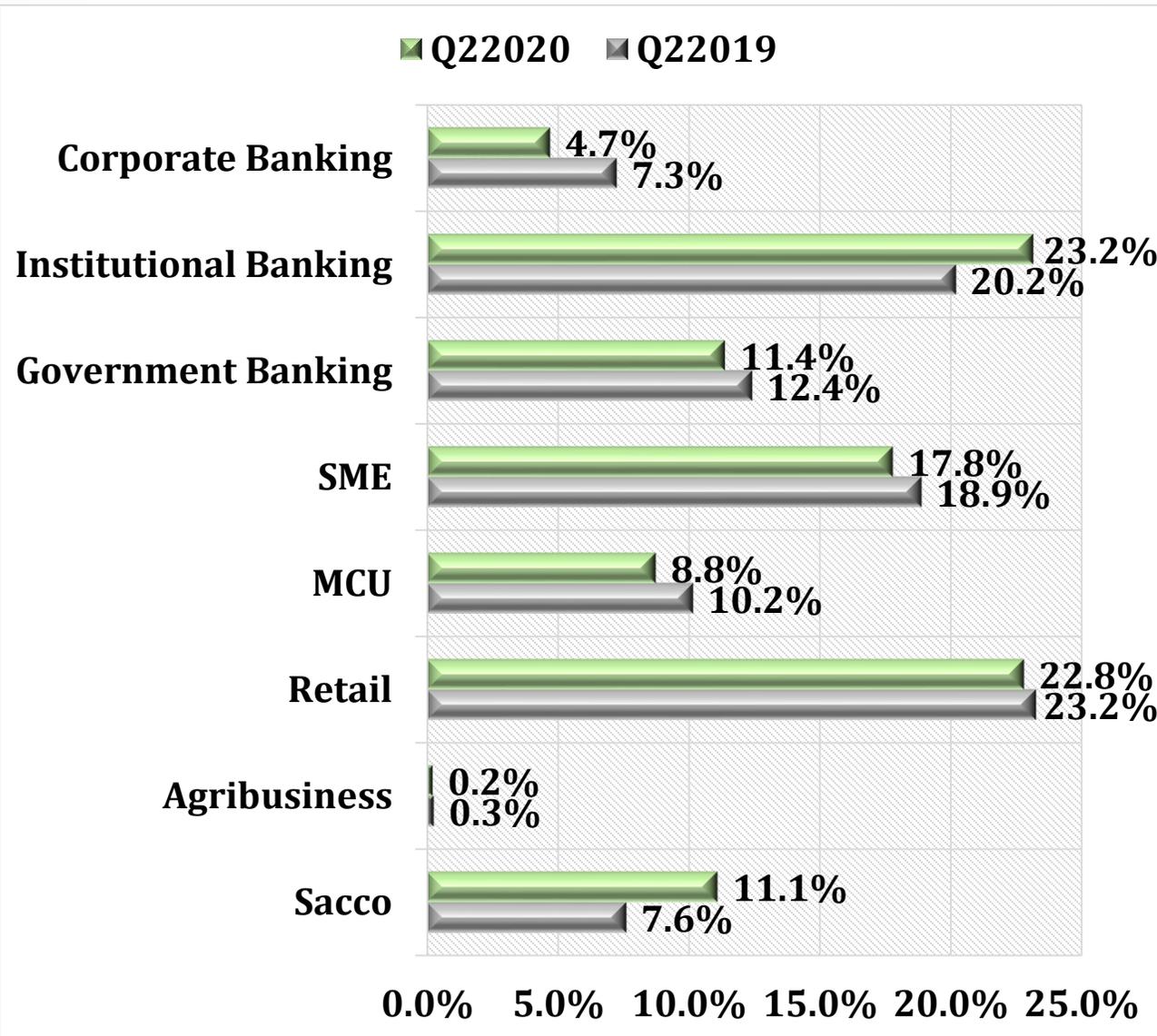
# Diversified loan book



# Diversified loan book

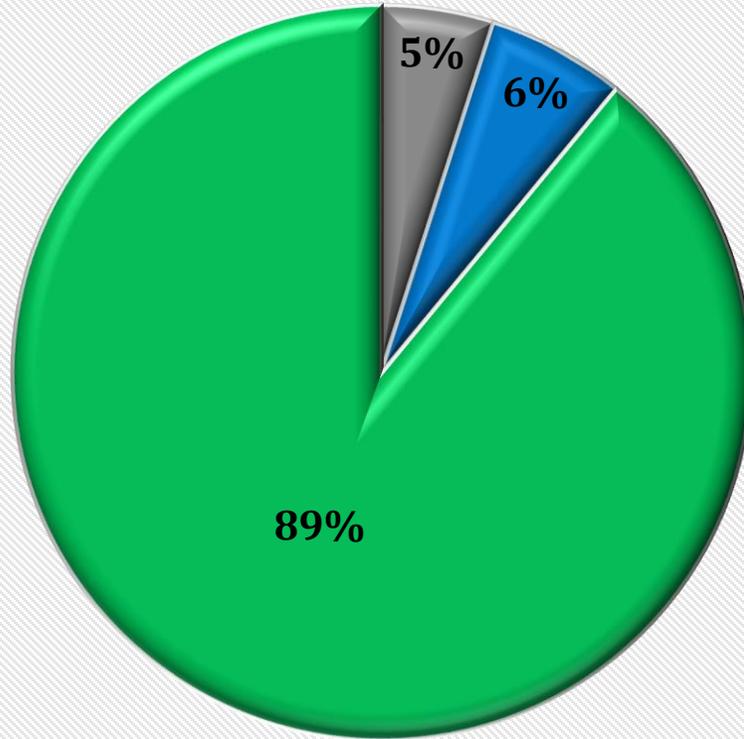


# Well-diversified Liability Portfolio



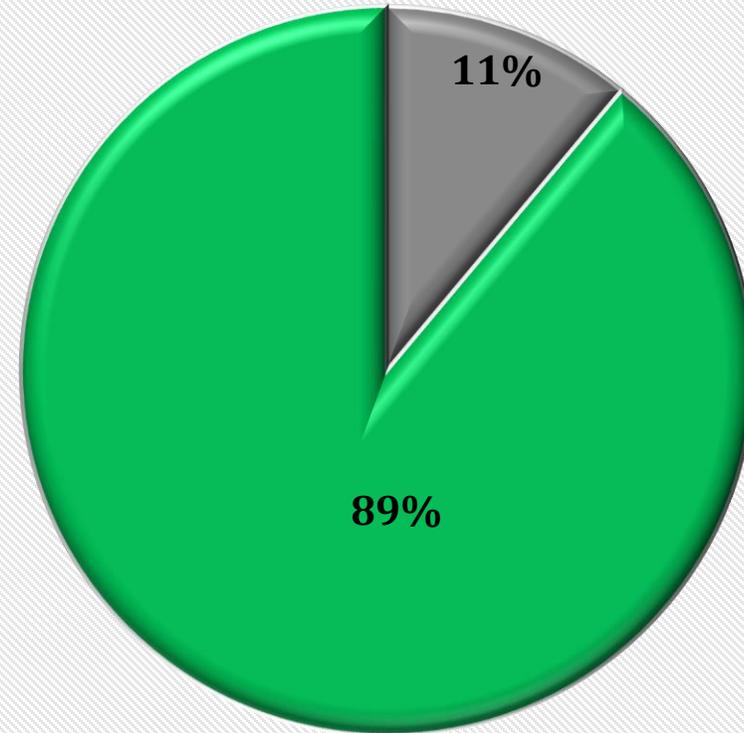
# Optimally balanced Kenya Shilling asset & funding book

**Funding (Local Vs Foreign Currency)  
Q22020**



- Foreign Currency Deposits
- Foreign Currency Borrowed Funds
- Local Currency Funding

**Loan Book (Local Vs Foreign Currency)  
Q22020**



- Foreign Currency
- Local Currency

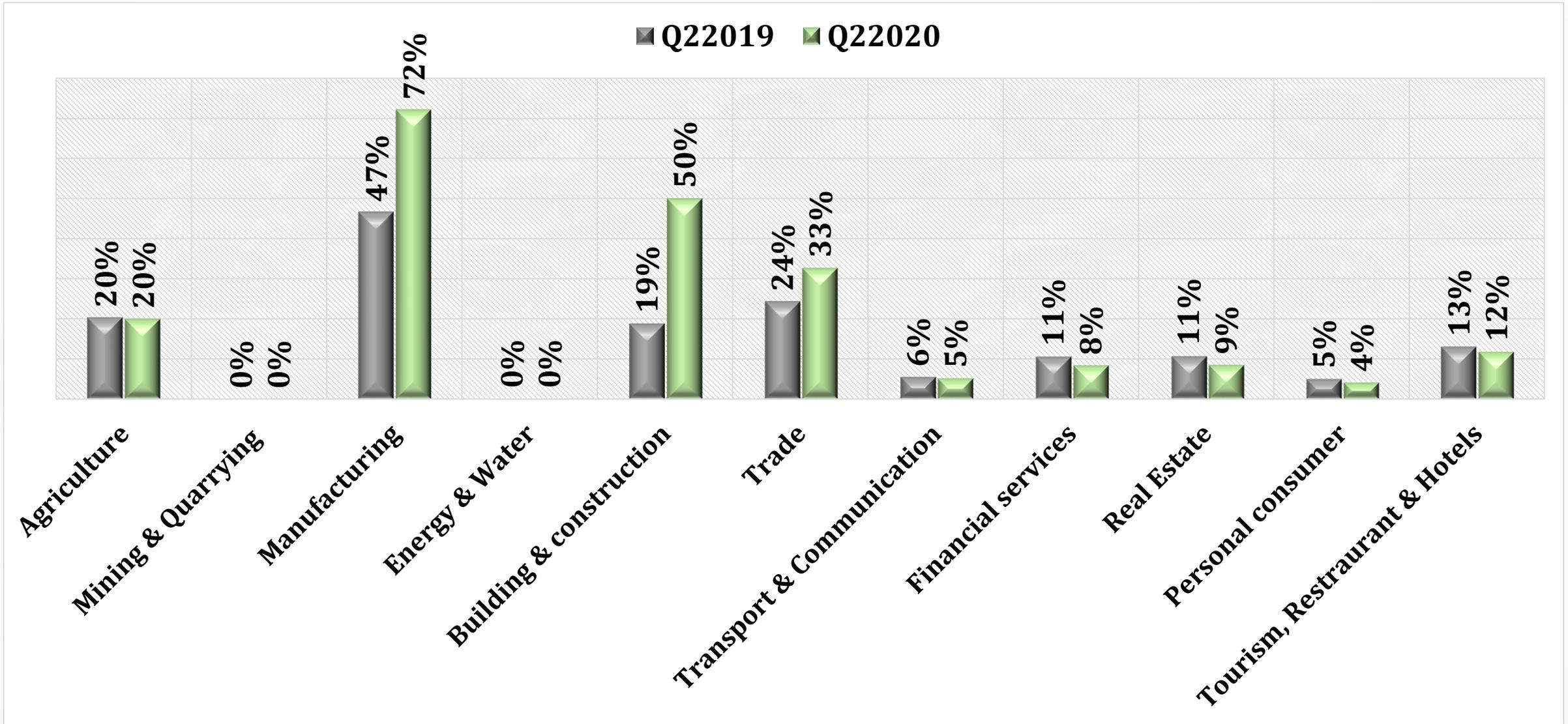
# Quality Loan Book - Bank

	<b>Q22020</b>	<b>%</b>	<b>Q22019</b>	<b>%</b>	<b>FY2019</b>	<b>%</b>
Normal	232,609	80%	214,282	78%	226,283	80%
Watch	25,357	9%	30,386	11%	26,260	9%
Substandard	14,983	5%	11,194	4%	13,257	5%
Doubtful	17,868	6%	18,147	7%	17,328	6%
Loss	571	0.2%	637	0.2%	570	0.2%
<b>TOTAL (GROSS)</b>	<b>291,388</b>	<b>100%</b>	<b>274,646</b>	<b>100%</b>	<b>283,698</b>	<b>100%</b>
Provisions (IFRS)	20,592		18,832		18,365	
<b>NET LOAN BOOK</b>	<b>270,795</b>		<b>255,814</b>		<b>265,333</b>	
Gross Non-performing loans	33,422		29,978		31,156	

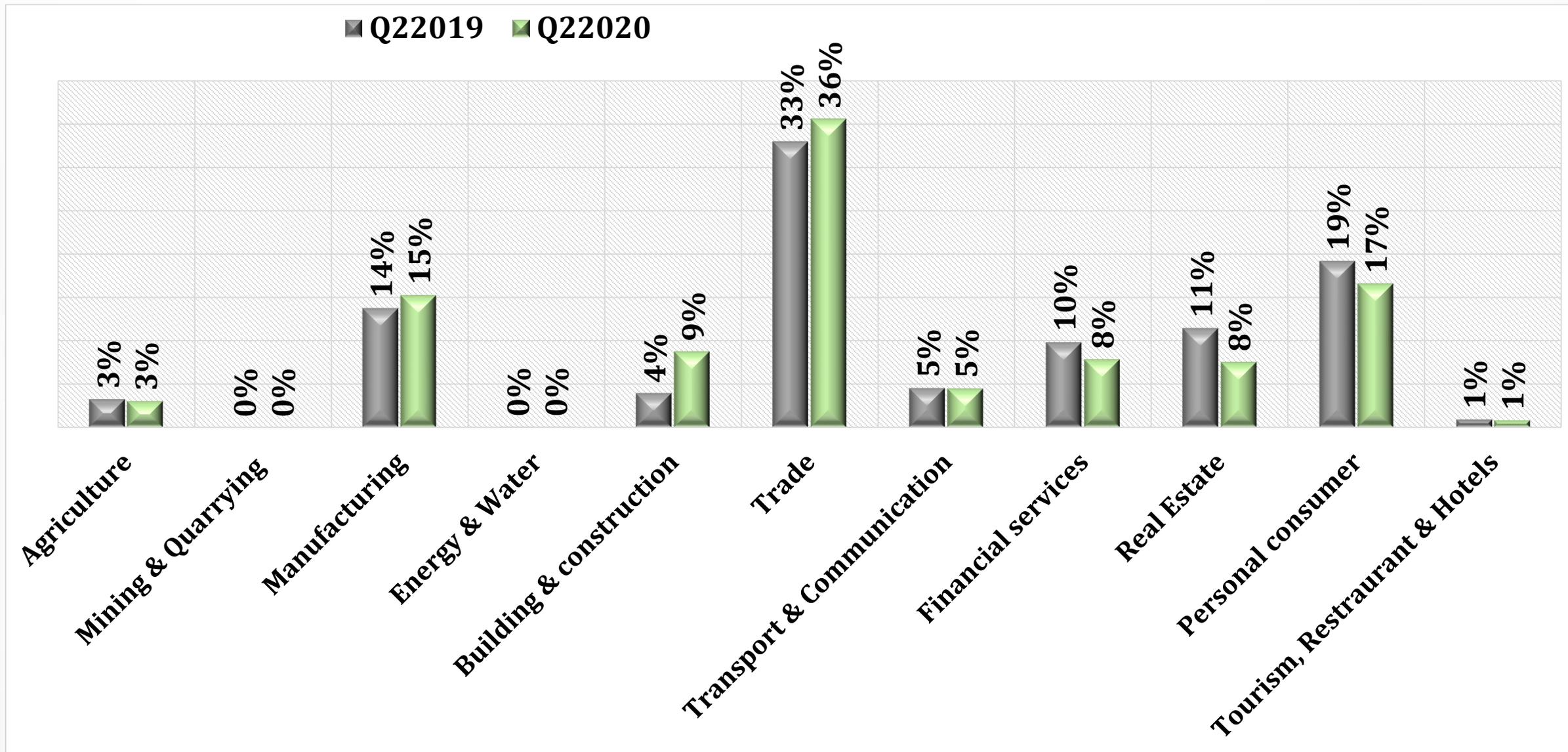
# Quality Loan Book – Bank (IFRS 9)

<b>Stage/Grade</b>	<b>Exposure (Kshs. B)</b>	<b>Provision (Kshs. B)</b>
<b>Stage 1</b>	<b>232.61</b>	<b>5.24</b>
<b>Stage 2</b>	<b>25.36</b>	<b>1.93</b>
<b>Stage 3</b>	<b>33.42</b>	<b>13.42</b>
<b>Grand Total</b>	<b>291.39</b>	<b>20.59</b>

# Portfolio Trends – Specific Sector NPL By Sector Book

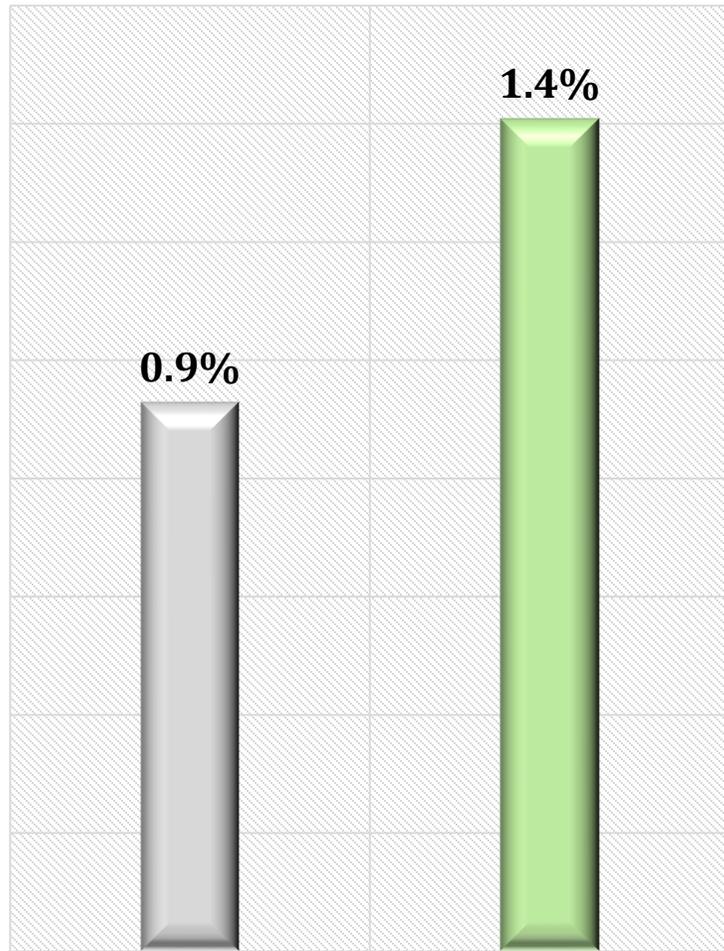


# Portfolio Trends – Sector NPL By Total Bank NPL Book



# Adequate Coverage

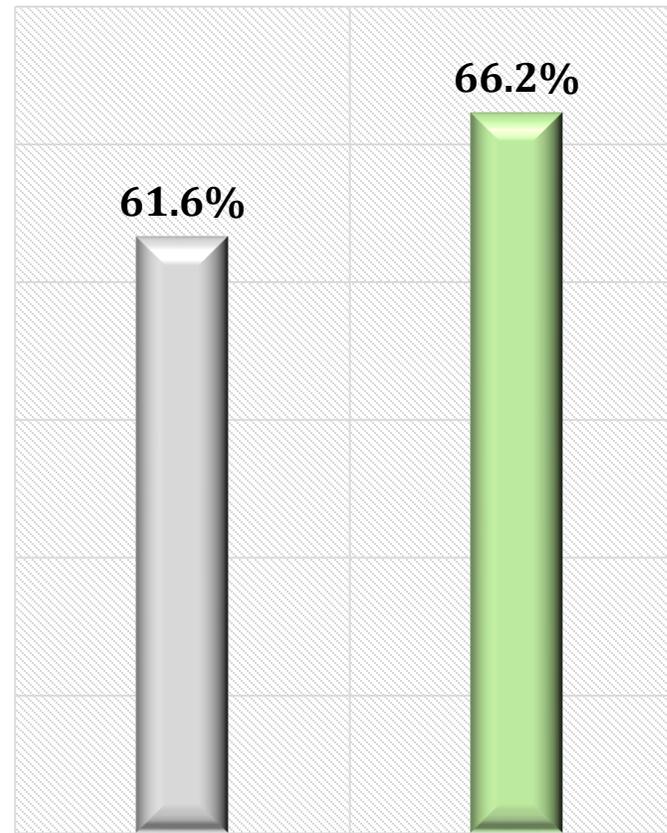
## Cost of Risk



Q22019

Q22020

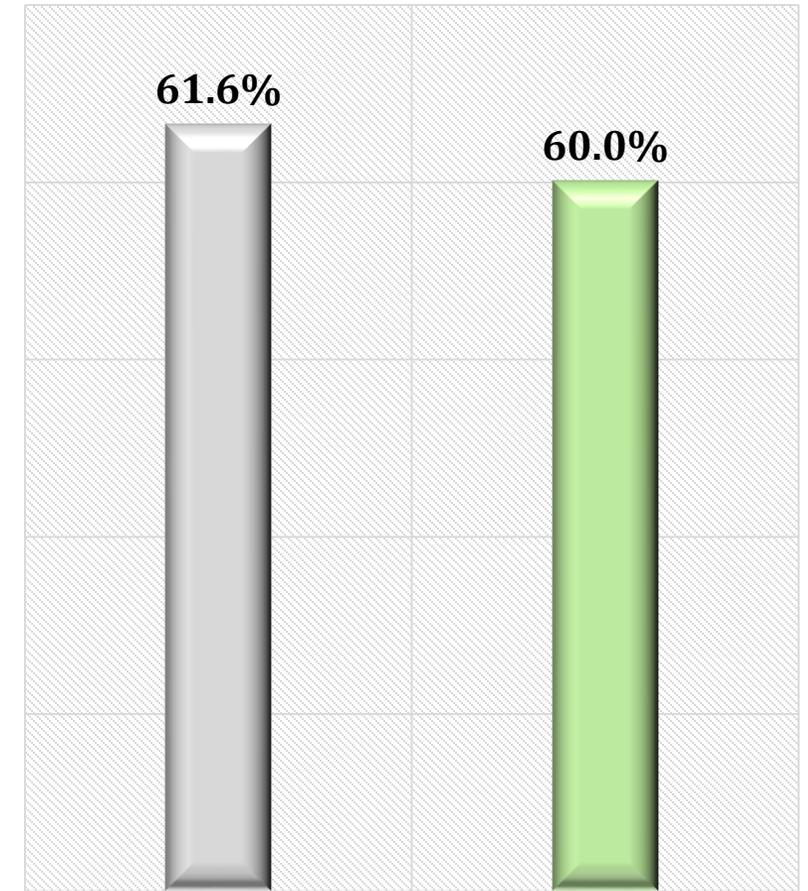
## Coverage CBK (Includes Gen. Prov.)



Q22019

Q22020

## Coverage (IFRS) Excludes General Provisions

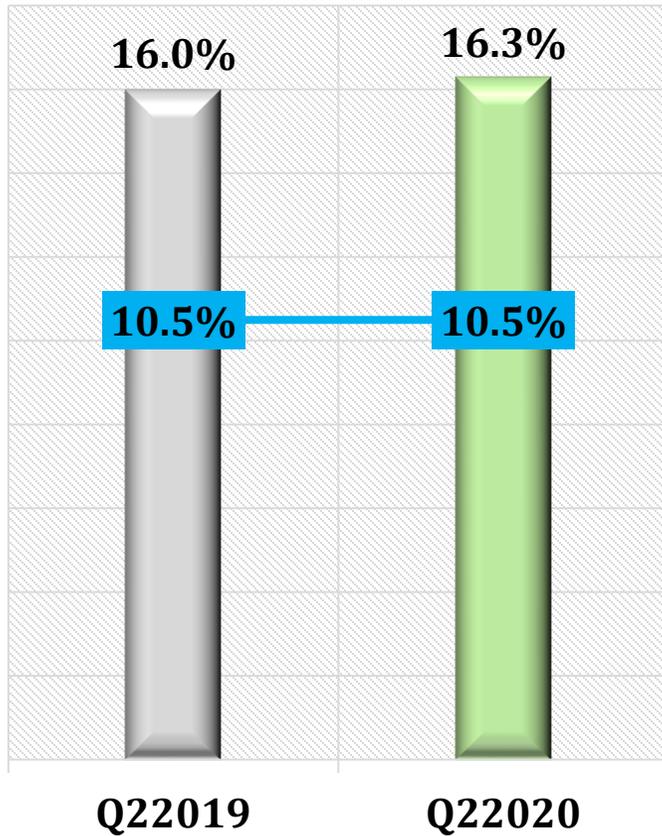


Q22019

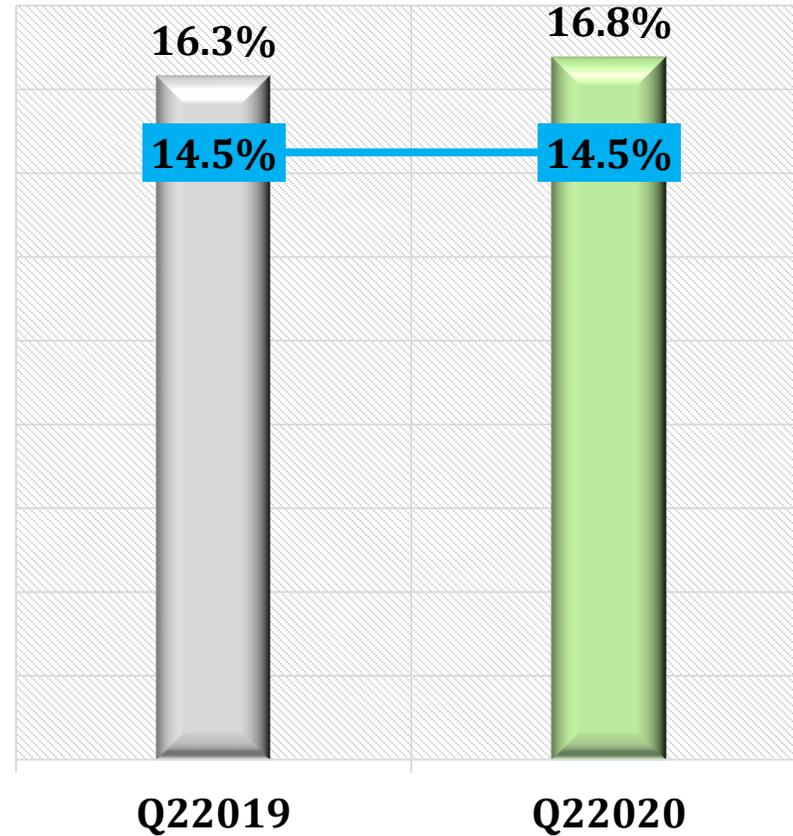
Q22020

# Strong capital to support future growth

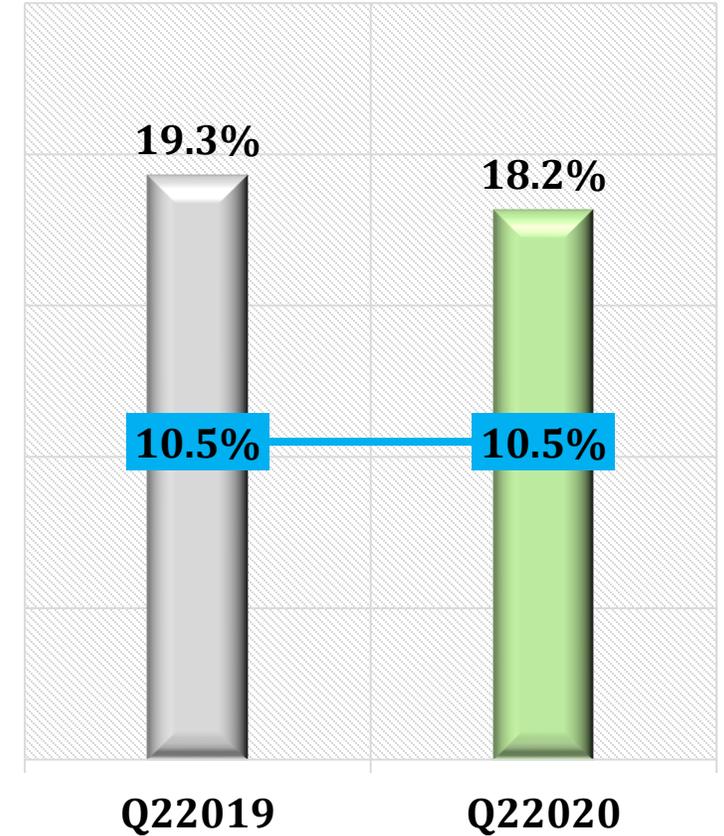
■ Core Capital / Total Risk Weighted Assets  
— Minimum Statutory Requirement



■ Total Capital / Total Risk Weighted Assets  
— Minimum Statutory Requirement

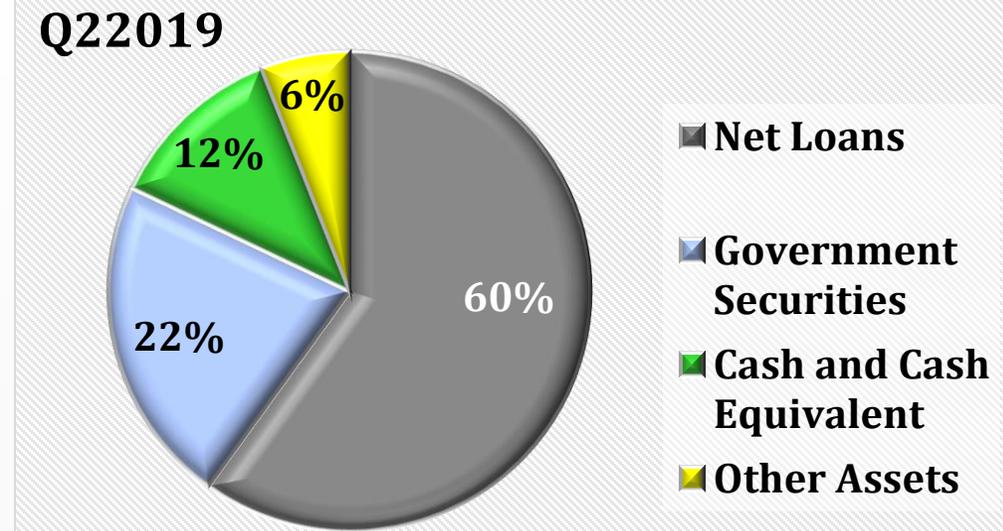
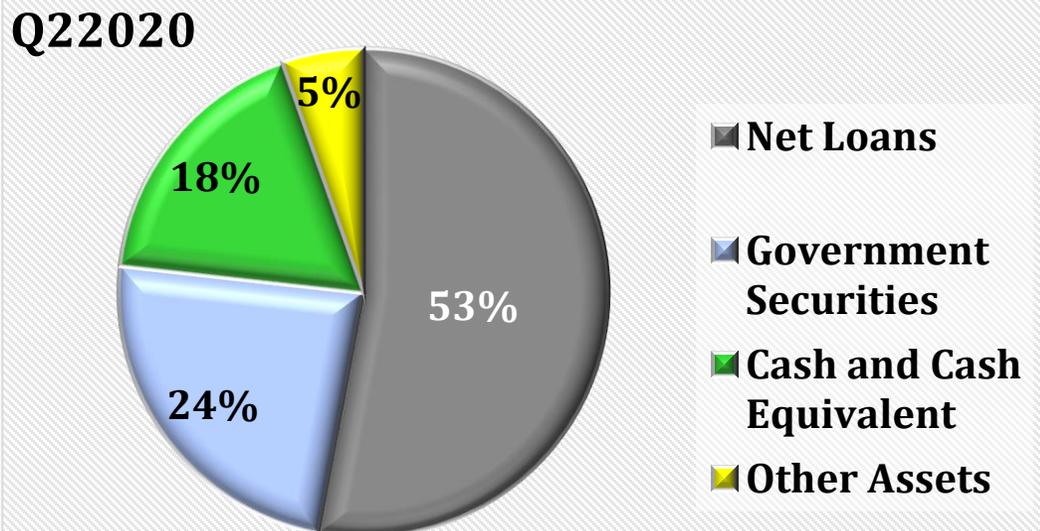


■ Core Capital / Total deposit Liabilities  
— Minimum Statutory Requirement

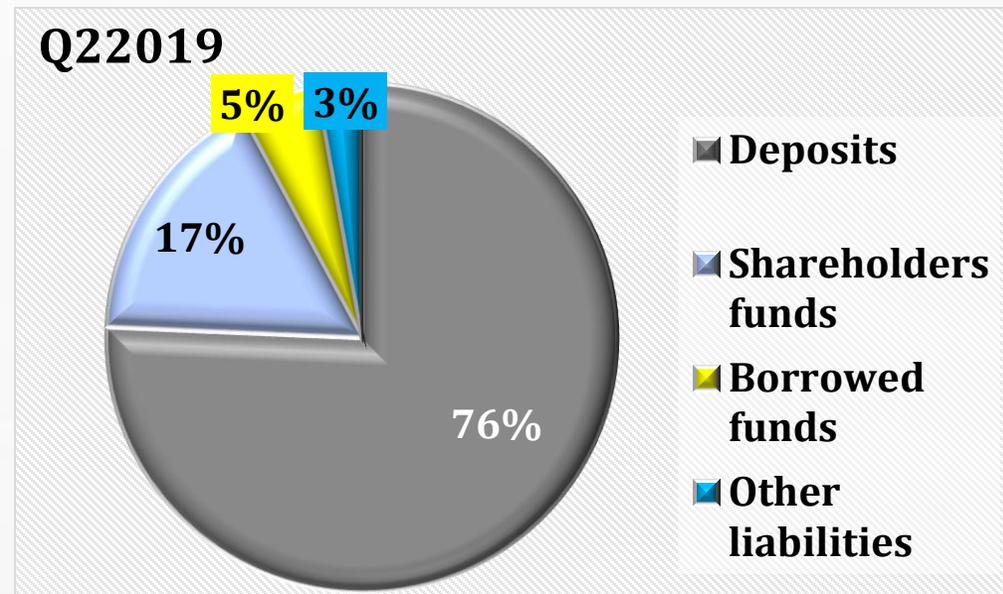
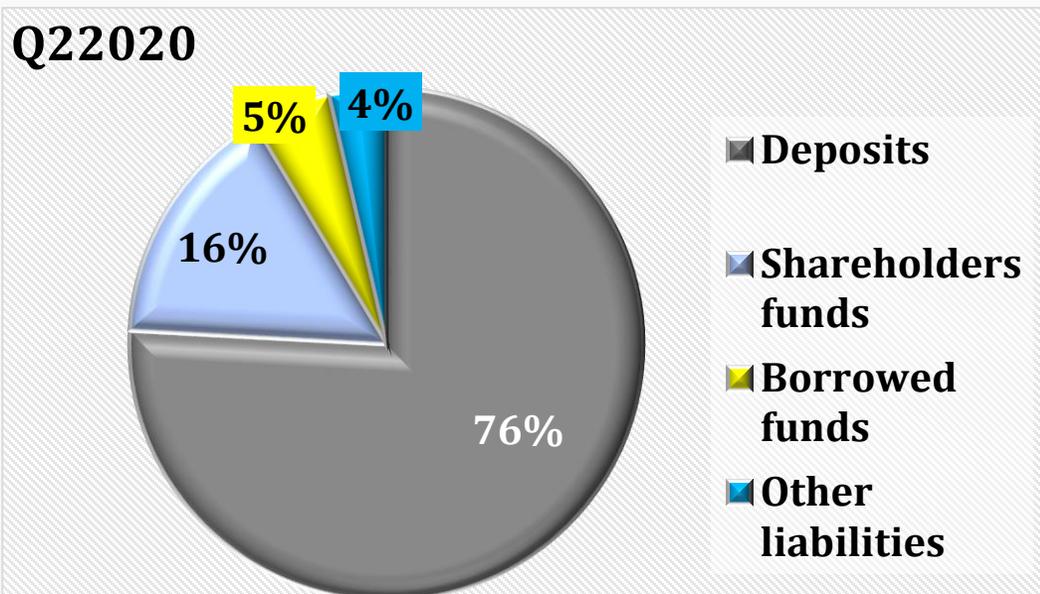


# Optimal Asset and Funding Mix

## Asset Categories

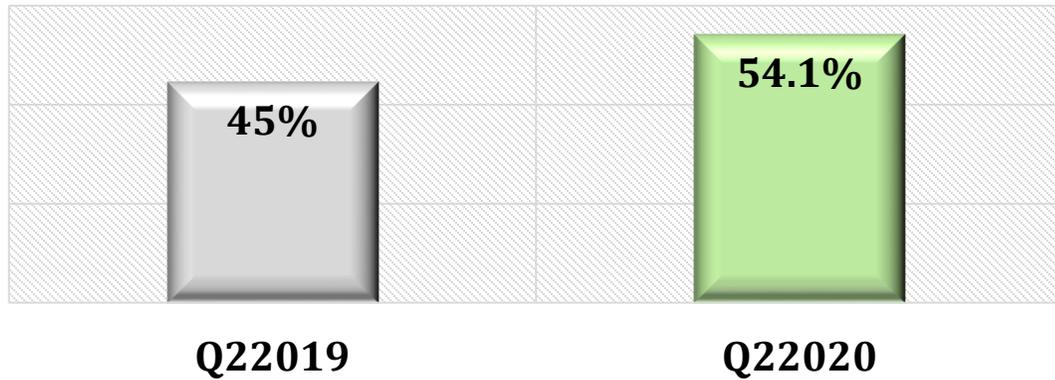


## Funding Categories

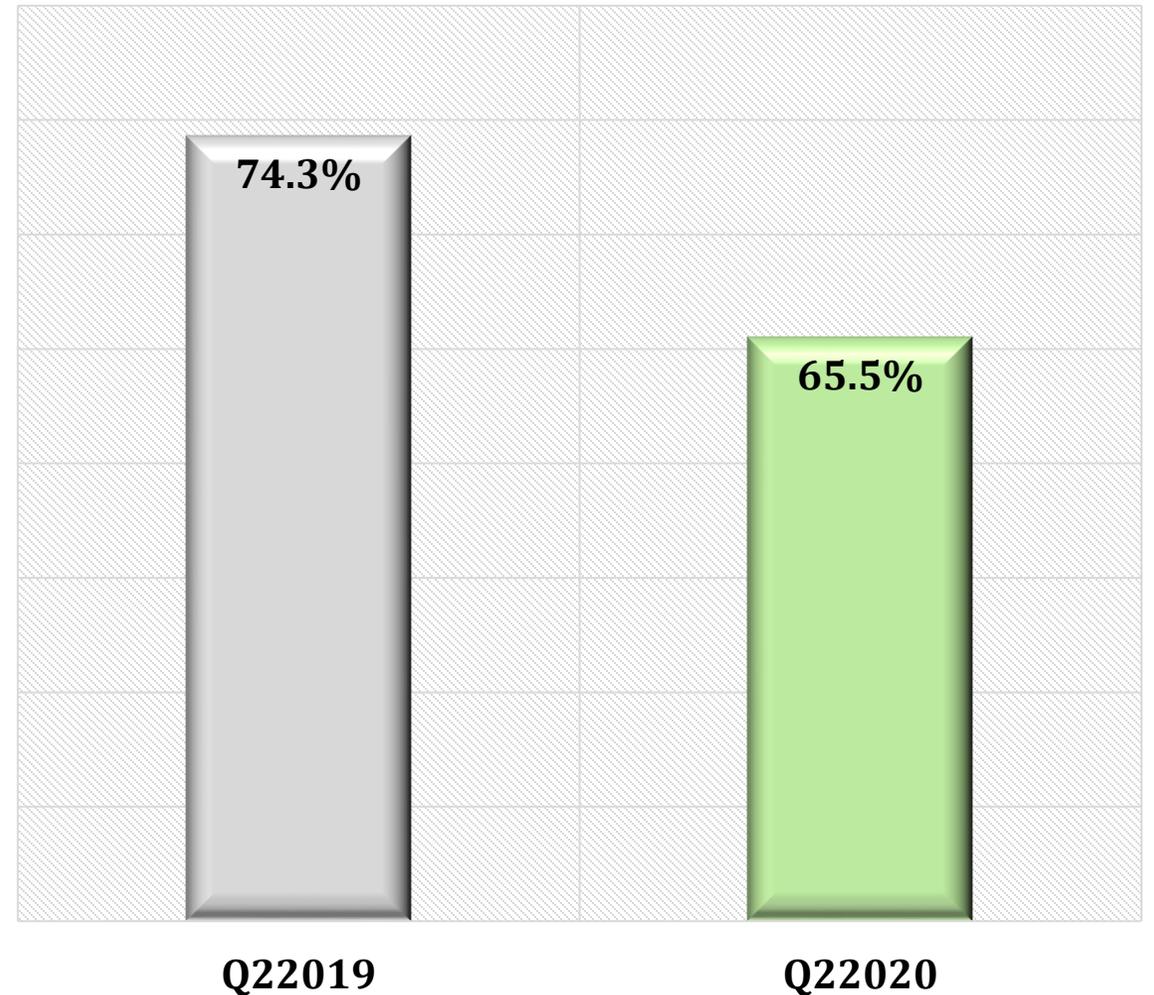


# Strong liquidity to support investments

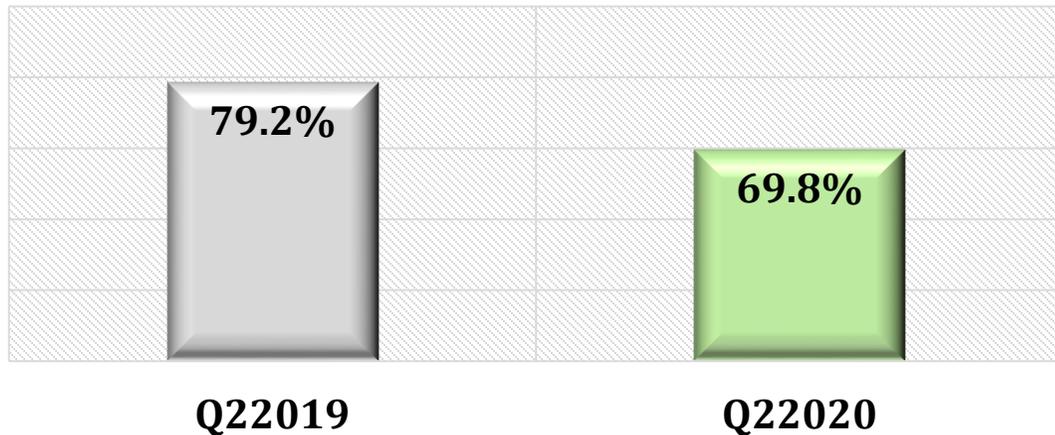
## Liquidity



## Loans to Deposits+ Borrowed Funds



## Loans to Deposit



# Improved Subsidiary Contribution

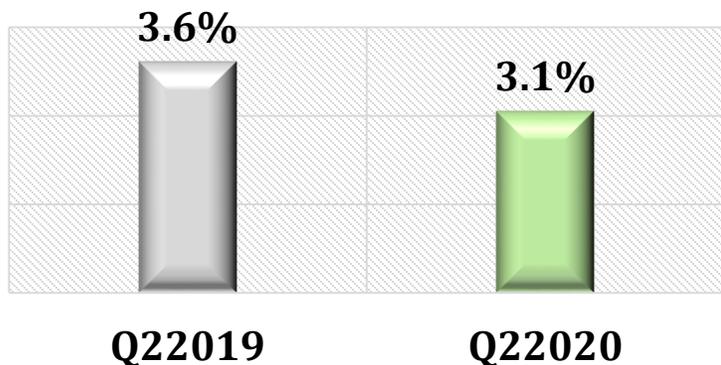
<b>COMPANY</b>	<b>Profit Before Tax Q22020 KShs'000</b>	<b>Profit Before Tax Q22019 KShs'000</b>	<b>Variance</b>	<b>%</b>
<b>The Co-operative Bank of Kenya Limited</b>	<b>9,129,916</b>	<b>9,927,444</b>	<b>(797,528)</b>	<b>-8%</b>
<b>Co-op Consultancy &amp; Ins Agency Limited</b>	<b>387,775</b>	<b>353,296</b>	<b>34,479</b>	<b>10%</b>
<b>Co-op trust Investments Limited</b>	<b>47,064</b>	<b>38,000</b>	<b>9,064</b>	<b>24%</b>
<b>Kingdom Securities Limited</b>	<b>(14,158)</b>	<b>(1,405)</b>	<b>(12,753)</b>	<b>-908%</b>
<b>Co-operative Bank of South Sudan</b>	<b>102,575</b>	<b>92,536</b>	<b>10,039</b>	<b>11%</b>
<b>Total PBT before eliminations</b>	<b>9,653,173</b>	<b>10,409,871</b>	<b>(756,698)</b>	<b>-7%</b>
<b>Add: Share of profit from associates</b>	<b>(53,876)</b>	<b>26,736</b>	<b>(80,612)</b>	<b>-302%</b>
<b>Group profit before tax</b>	<b>9,599,297</b>	<b>10,436,607</b>	<b>(837,310)</b>	<b>-8%</b>
<b>Income tax expense</b>	<b>2,401,379</b>	<b>2,967,127</b>	<b>(565,748)</b>	<b>-19%</b>
<b>Group profit after tax</b>	<b>7,197,918</b>	<b>7,469,480</b>	<b>(271,562)</b>	<b>-4%</b>

# Sustainable Profitability Growth

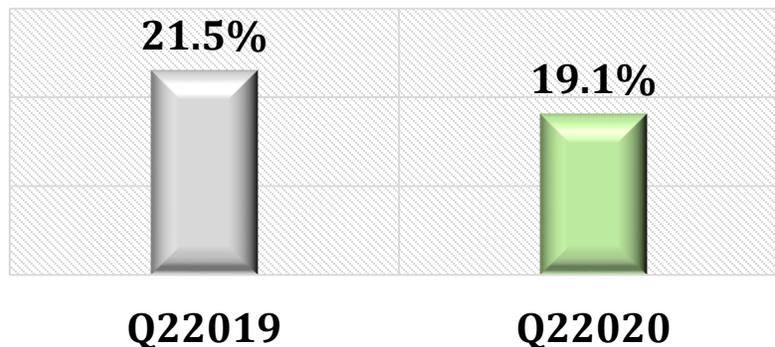
Kshs. Billions (except for EPS)	Q22020	Q22019	% Change (Y/Y)	
Interest Income	21.81	20.43	6.8%	↑
Interest Expense	5.90	6.17	-4.4%	↓
Net Interest Income	15.91	14.25	11.6%	↑
Fees & Commissions	6.77	7.07	-4.4%	↓
Forex Income	1.31	0.95	37.2%	↑
Other Income	0.24	0.72	-67.5%	↓
Total Operating Income	24.22	23.01	5.3%	↑
Loan Loss Provision	1.86	1.18	57.9%	↑
Staff Costs	6.59	5.71	15.5%	↑
Other Operating Expenses	6.11	5.71	7.1%	↑
Profit Before Tax and Exceptional Items	9.65	10.41	-7.3%	↓
Share of profit of associate	- 0.05	0.03	-301.5%	↓
Profit Before Tax	9.60	10.44	-8.0%	↓
Tax	2.40	2.97	-19.1%	↓
Profit After Tax	7.20	7.47	-3.6%	↓
Basic Annualized EPS	2.45	2.55	-3.6%	↓

# Key Ratio's

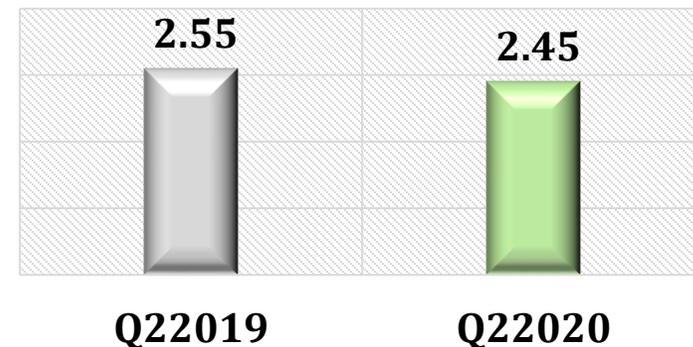
### Return On Average Assets (ROAA)



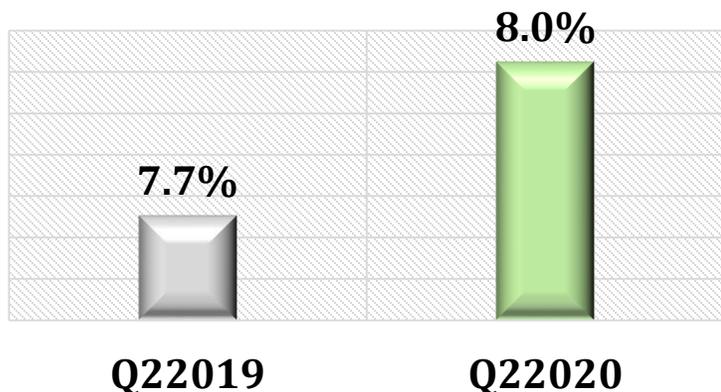
### Return On Average Equity (ROAE)



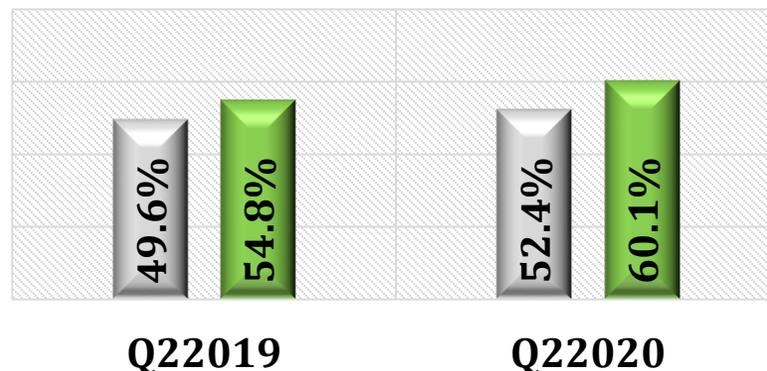
### Earnings Per Share (EPS)



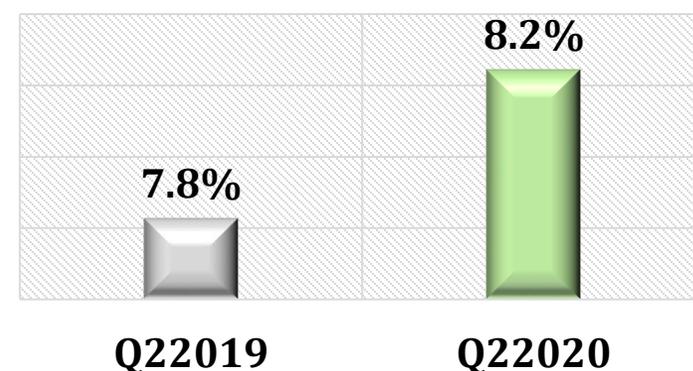
### NIM on Earning Assets



■ CIR without provisions  
■ CIR with provisions

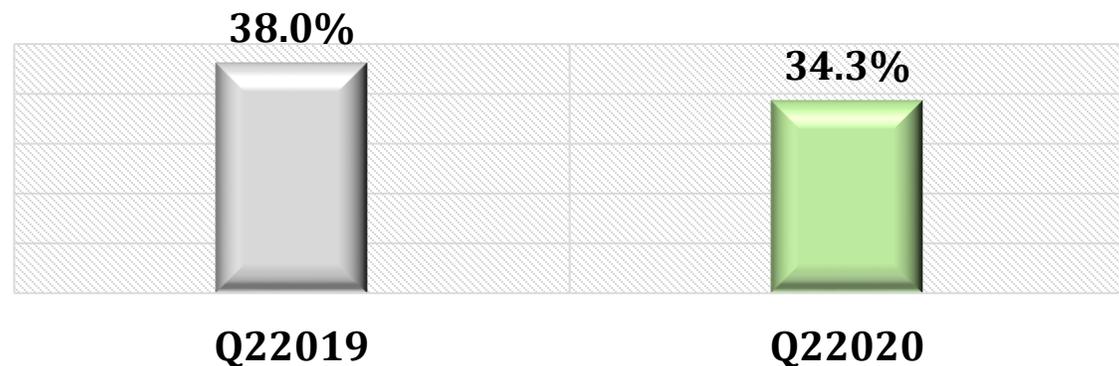


### NIM on Loans

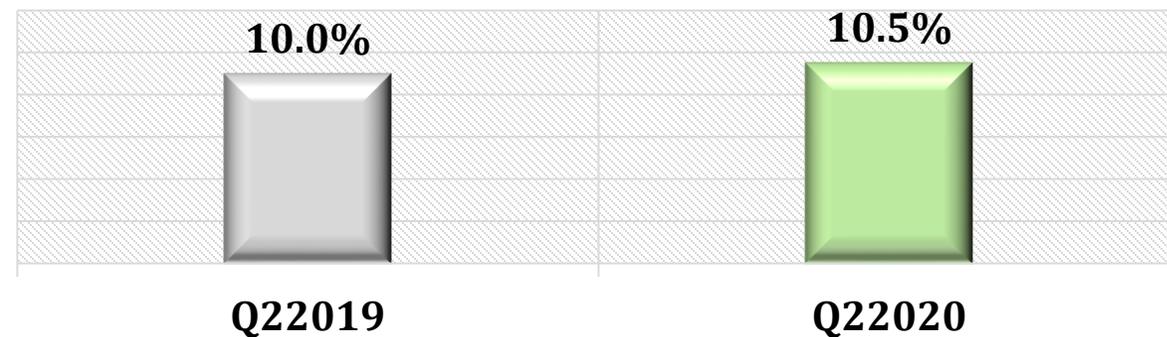


# Key Ratio's

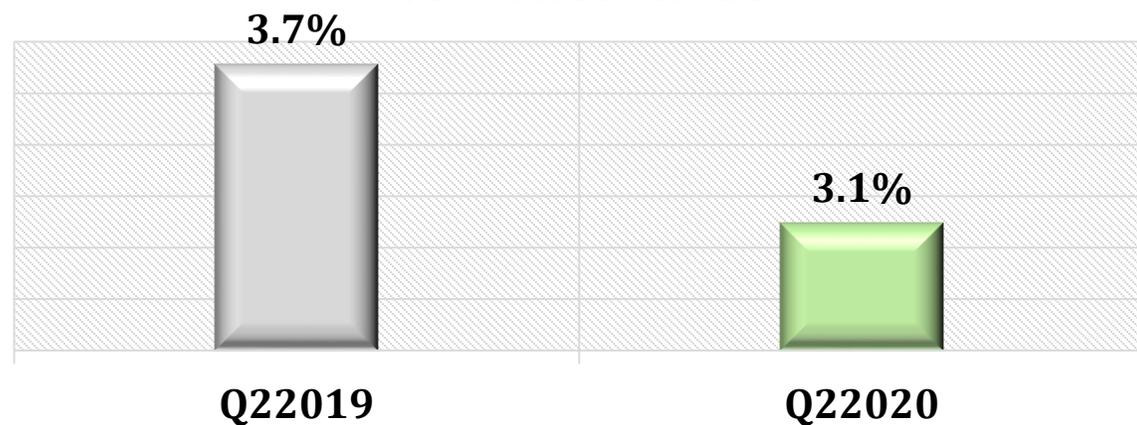
## Non Funded to Total Income



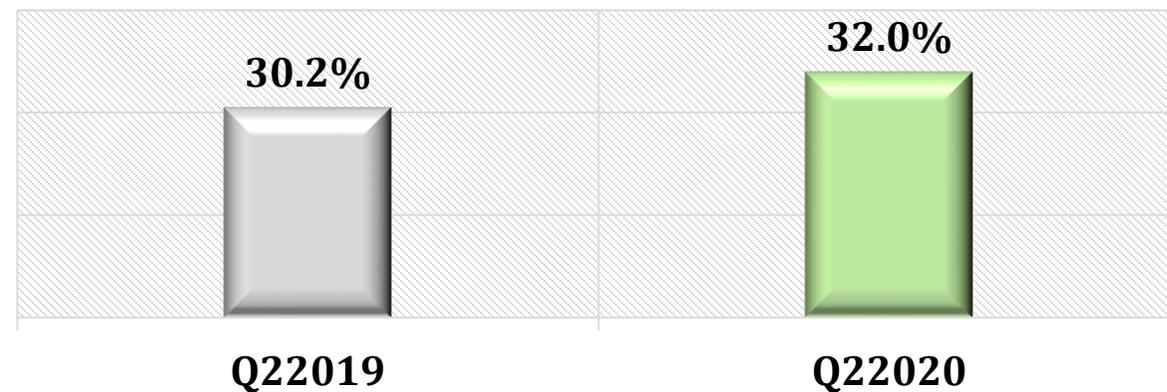
## Non Performing Loans (NPL)



## Cost of average funds including borrowed funds



## Debt to Equity



**Thank  
You**