Conference Call transcript

9 November 2015

Q3 2015 RESULTS

Operator
Good afternoon ladies and gentlemen and welcome to the Co-operative Bank of Kenya third quarter 2015 financial results. All participants will be in listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference then please signal one of our operators by pressing star and then zero. Please also note that this conference is being recorded. I would like to hand the conference over to Mr Patrick Nyaga. Please go ahead, sir.

Patrick Nyaga
Thank you very much. Good morning, good afternoon and good evening ladies and gentlemen. Welcome to the Co-operative Bank of Kenya Q3 2015 conference call. We have emailed you some slides and I would like to take you very briefly through those slides. And then maybe after that we can have some questions and answers. I'm sure you have had time to go through the numbers and we are glad to answer the questions. With me here I have three other gentlemen. I will introduce Mr Anthony Mburu, who is our Director in charge of Credit Management division. I have Robert Aloo, who is our Treasurer, and I have James Kaburu who is our Head of Investor Relations & Strategy.

So kicking us off with economic commentary very briefly, I think you have heard a bit of what has been going on in the Kenyan economy starting initially in July with a bit of turmoil through to August, September and October, and now we are seeing the situation improving quite significantly. In terms of the GDP as at September 2015 we are growing at 5.5%. This is a slight revision by the World Bank. However we continue to see the heavy investment in infrastructure and this is expected to stimulate economic growth into the future.

In terms of exchange rate the Kenya Shilling weakened but is now stable at 102 Kshs to the Dollar. Inflation rate is averaging about 6.14% compared to 7.5% in the similar period last year. This was mainly because of the drop in food inflation. And non-food inflation rose to 4.6% from 4.3% third quarter 2014, and we are seeing that the foreign maize prices and low oil prices will help mute the volatility in the overall inflation rate. We expect some El Nino rain which can influence the inflation negatively. In terms of interest rates we have seen the interbank go all the way up to 26%, now around 11% or 12% meaning some significant improvement on the liquidity. T-bills, again a high of 22%, right now coming down to around 13% or 14%. We still expect that in the fourth quarter we will see some elevated bank interest rates.

If I go to slide number seven and eight we are focussing more on our universal banking model. I think we have gone through this before with you. On slide number eight we are looking at the various deliver channels that we have. We continue focussing on alternative channels. And I will be mentioning that with our transformation that we are going through on the next slide. Just to update you, we have continued with our transformation agenda, the Soaring Eagle, focussing on the several areas that we have identified in the past. Today is just an update on where we are in terms of branch transformation and channel migration. We continue doing the reorganisation of the branches. We are now 40 branches done and we are focusing by December on another 20. We expect this project to be completed by June next year. Clearly we have seen a lot of benefits including customer service, uptick in sales numbers and customer satisfaction.

Optimal structure, we continue reducing the number of staff especially because of the aligning. Once we do the transformation we are realigning some of the staff and we are not employing any new staff other than for very key positions. Shared service, other than what we have appointed earlier we now have a Chief Information Officer. This is mainly to focus on improving IT set-up and structures for the future now that banking is all about IT.

Growing the transformation office. With Mackenzie concluding most of their projects the transformation office has picked up and is now overseeing most of the projects that we are running that were initially identified by Mackenzie.

On slide 13 we continue focussing on our 5.7 million customers, cross-selling to ensure the sales force effectiveness and as many products as possible are being bought by the customer. Cost rationalisation, again a lot of work continued to be done here. Our cost to income ratio has dropped from 59% as at December 2014 to 49% as at Q3 2015. So again this has been done with the continuous improvement of operational systems and ways of doing things including continued renegotiation of contracts, tendering of various products that we are purchasing.

Data analytics and reporting. Another very critical piece of transformation that we are going through. The latest involvement with Mackenzie was actually on the analytics and reporting. We have identified about 25 cases that we are working on to make sure that data is very critical to us. The 25 cases are to ensure that we really use data in terms of selling, in terms of reporting and knowing exactly where we are as an institution, and using that data to mine more customers and to drive the bank.

On slide number 15 again looking at digitisation and automation, we continue to do that. The loan origination process is one key area that we are focussing on among many others. Performance management, again focussing more on the four or five things that we need to do, rather than taking everything and trying to complete it all together at the same time.

In terms of key milestones on slide 16, cost to income ratio dropping by 10% to 49%. Despite the huge growth of the balance sheet by about 23% our expenses only increased by 1.1%. Return on equity is up to 25%. Return on assets is 3.8%. A reduction in our branches by up to 50%. 72% of transactions are now being processed through alternative channels, therefore creating efficiencies in the branches. We have now been able to reduce customers with only one product from 75% to 71%, therefore still quite a bit of room to improve there. Probably we are targeting about 60% by 2016.

If I skip slide number 17 I go to slide number 18. I'm looking at the development partners. We have drawn all the funds that we had discussed and agreed with IFC and the EIB. And we have also negotiated another $105 million, about Kshs 10.7 billion, and this is yet to be drawn. We are looking at drawing this later this year and into next year. And that is also to continue funding our foreign exchange lines.

I will skip slides number 19 and 20. Those are slides that we talked about before and you probably can read them. I will go to slide number 21 and look at our regional expansion. Specifically I should probably mention that our South Sudan business is now doing very well with a profit before tax of Kshs 246.8 million for the nine months. Remember last year we had a loss of almost $3.5 million at the same period, so continuing to do very well.

In terms of the financial highlights I'm looking at slide number 23. Our total assets grew by 23% from Kshs 270 billion to Kshs 332 billion. Our loan book grew by 21% from Kshs 176 billion to Kshs 212 billion. Government securities by 15%. Total deposits grew by 25% from Kshs 206.6 billion to Kshs 257.5 billion. And we also saw our number of account holders go from 4.9 million to 5.7 million, a 16.3% growth. And the shareholders' funds out of the profits we are making grew by 18.4% from 41.8 to 49.5. Looking at our loan distribution, our loan distribution continues to be very well diversified with all sectors, mainly corporate at about 28%, mortgage about 13%, asset finance 6%, personal loans at about 28%, a slight drop from what we had in Q3 same period last year.

Looking at slide number 25 this is on the portfolio itself. Deposits, we are looking at the portfolio being the same where we have SACCOs at 4%, the bigger book coming from retail and institutional banking at 29% and 23% respectively. And we are noting that we continue having some good distribution especially on the [unclear] deposits, savings accounts, call deposits, transaction accounts and current accounts. A slight increase in fixed deposits owing to the cash crunch in the economy in September and part of October.

Looking at slide number 26 where we are comparing our lending book and funding, especially in local and foreign currency, noting that in Q3 2015 13% of our loan book is in foreign currency and 87% is in Kenya Shilling. And 11% of our book is funded by foreign currency, 89% local currency. And this is not very significantly different from where we were in the same period last year.

Looking at our loan portfolio and its quality we note that again there has been minimal deterioration of the book. Actually there has been an improvement if you look at the loss moving from 0.6% to 0.3%, doubtful from 2.2% to 2%, sub-standard remaining relatively the same, watch increasing slightly from 4.8% to 5.6% and normal from 90.8% to 90.3%. So relatively the same but a slight improvement.

Capital adequacy ratios on slide 28, again when we are computing capital based on the profitability we only take 50% of the profitability for the year because we are only allowed to take full profitability at the end of the year. So our ratios there are very strong. Core capital to total deposits at 16.4%, tier one capital at 14.2% and tier two at 21.2%. This quarter we increased our coverage ratio quite significantly by improving the provision for [unclear]. That improved from 30% to 48.7%. And in terms of coverage central bank we increased that from 55% end of last year to 76.5%. Our liquidity again remains relatively the same as last year at 33%. NPL to total loans, there was a drop from 4.1% to 3.4%. And loan to deposit ratio remains relatively the same.

Looking at page 29, slide number 29, that is deepening financial inclusion with alternative channels. We are noting that all transactions in alternative channels are growing from agency banking, internet banking and MCo-op Cash. Teller transactions are actually reducing as we migrate more customers into channels. ATM transactions have increased. And the graph below shows that 72% of the transactions are now in alternative channels from 68% last year, so a 4% improvement. Our MCo-op Cash product, we have got over 2.2 million customers. 134,000 customers are borrowing and they have borrowed Kshs 1.3 billion. If you look at the graph it just indicates that these products have been growing in popularity and we expect them to continue growing.

Looking at the profitability, we note that our interest income was up 24.4%, our interest expense was up 47.4%. Again this is purely because in the month of September due to the cash crunch we took quite a bit of deposits. And that is changing in Q4. Therefore net interest income went up 15.6%. Fees and commissions are up 4.3% from Kshs 6.8 billion to Kshs 7.1 billion. Forex income went up 59.6% from Kshs 1.1 billion to Kshs 1.7 billion. Total income 13.4%. As I've said loan loss provision increased by

103% from Kshs 0.75 billion to Kshs 1.5 billion, literally doubling the loan loss provision to improve the coverage ratios as we have earlier discussed.

Staff cost was down by 7.2%, again mainly because we have continued using the staff within the bank. as we lose staff through natural attrition we are not employing more. We are just using those that we have. Our total operating expenses only went up by 1.1% from Kshs 14.4 billion to Kshs 14.6 billion. Therefore the group profit before tax increased 33.2% from Kshs 9.1 billion to Kshs 12.2 billion. The tax increased by 36.6% because some of the subsidiaries like South Sudan are now going to be paying the tax until [unclear].

On slide number 31 looking at some of the key ratios, we are seeing cost to income ratio excluding provisions is 49%. If you include provisions it is 54.8% again because of the increase in provisions that we put. Cost of funds has gone up from 3.45% in Q3 last year to 4.14%, again mainly due to the cash issues that we were having in the last two months. Total cost to total income reduced 21%. Debt equity ratio again reduced from 42.2% to 39.6%. Some of the debt that we had taken earlier we have already started repaying it after a two year moratorium. That is why the slight drop there.

The average return on equity went up. Average return on assets increased from 3.1% to 3.8%. Our net interest margin as we had projected earlier reduced to 9%. However, Q4 probably would be a bit different because the impact of KBRR and the increase in interest rates that we will be doing are going to impact positively on Q4.

So looking at our financial outlook, profit before tax growth, we still expect to grow our profit up to 35%. Our loan growth is projected at about 20%. Deposit growth, 25%. Cost to income ratio though at 49% we still project to be at 53%. Total funded to non-funded income, 35%. And probably the NPLs given that there could be a bit of clean-up because of the high interest rates we have projected that at about 4.15%. Cost of funds, the interest rates are still a bit on the high side. We project that our cost of funds would be at about 4.2%. Cost of risk, again because of the increased provisions we project that at about 1%. We have already achieved 1% especially when we include our provisions for bad debt.

So basically that is the financial position of the group as at 30th September. Our profit before tax of Kshs 12.2 billion is a 33% growth. Thank you very much for listening. Now we can take some questions and answers, and my colleagues are going to be helping me answer the questions. Thank you so much.

Operator
Ladies and gentlemen, at this time if you wish to ask a question please press star then one. If you decide to withdraw the question press star two to remove yourself from the queue. The first question comes from James Starke of SBG Securities.

James Starke
Good afternoon. Thank you very much for the presentation. I've got three questions. Firstly relating to South Sudan, if you could perhaps remind us of how much of your business is in South Sudan both on a total asset basis and also from a loan book and a deposit split basis? My second question is around the cost to income ratio and your guidance. You turned out 49% for the nine months but you are guiding to 53% for the full year. What costs are you expecting to come through in the fourth quarter? And lastly just on your provision coverage I see it has increased on an IFRS and CBK basis. Could you perhaps guide us as to where you see that longer term, what you ultimate target is? It does look like it is increasing, but to what level? Thank you.

Patrick Nyaga
Thank you. We can take a few more questions and then we will answer them.

Operator
At this stage that was the only question, sir. I do have another question, sir. Ronak Gadhia of Exotix.

Ronak Gadhia
Thanks Patrick for the presentation and taking the questions. My question is firstly to do with your foreign currency earnings. We have seen a really big step change on a year on year basis. Perhaps you could shed some light as to what is driving that and how sustainable that is, or how we should be looking at that line in terms of growth going forward. The second question is to do with what James asked with regards to your provisions. What level of NPL cover should we expect in the next three years? And lastly, given the volatile interest rate environment can you give a bit more guidance into your margins and growth expectations for the next 12 or 18 months? Thank you.

Patrick Nyaga
Thank you very much. Maybe we can take the two questions first. Starting with Mr James, provision coverage, I think Mr Anthony Mburu can give us some guidance there.

Anthony Mburu
We are aiming for 40% provision cover. But given the mix of the portfolio that we have right now that is showing signs of weakness they were largely SMEs and one or two lines in terms of the financial services sector which were covered by securities. As a result the coverage ratio required from a provision point of view is much less from a CBK perspective, but from IFRS we will continue to try and aim for 40% as the average figure around which we will be projecting. Now, let me just say that we have been watching what happens in terms of the interest rate scenario that has played out just to see which sectors may have a bit of challenge from a liquidity point of view. In terms of tight liquidity in the economy generally it just leads to repayment problems for some of the SMEs who are supplying into the corporate and into government. Secondly also those with a high leverage, the impact that could come onto their financial performance. We are watching that and as a result we would want to be maybe slightly overweight in terms of coverage even as we watch the environment on the provisions.

Patrick Nyaga
In terms of the cost to income ratio I think we have been doing very well, especially looking at the fact that there are quite a number of things we have done to create efficiency around costs. However we have been working on one or two transformational issues. For example when you are transforming branches you expect some costs around drop boxes, queue management systems and stuff like that. Because we have just gotten into a wave where we are doing quite a number of branches we expect some of those costs can increase the costs which probably we had not seen much of before. That is why our projections are still probably at 53%. Also we saw the union staff being awarded some 9% increase in their salaries, and therefore that may also impact on the cost to income ratio because that will be factored in this quarter four. Initially we had accrued but maybe not at that kind of percentage. So there may be an increase there.

In terms of the South Sudan business, our South Sudan business is doing very well. But if you look at the reasons it is doing well, it is not mainly because of lending. For example if you look at the South Sudan balance sheet out of the group our deposits are probably less than 2% of the total business of the group. Loans are even less, probably 1%. The area that is really helping us in South Sudan is mainly forex where we are getting forex from NGOs now that the government doesn't have any forex and also collection of government revenue. So those are the areas where we are getting a lot of revenues. Lending is very minimal because of the risk that is involved. In terms of forex earnings I think our treasurer can shed some more light.

Robert Aloo
Thank you very much. On the forex earnings from the Kenyan operation with the new business model that the bank has adopted this year we have seen good and steady growth. So we expect that to be sustainable as most of our relationship managers embrace the customer-centric model. As our CFO has mentioned, in South Sudan we are gaining traction now with many of the NGOs and they have contributed a great deal to the figure that you see there. So in terms of sustainability going forward we think the number is sustainable and we hope it will grow into next year. Thank you.

Patrick Nyaga
The other question was on the volatility of the margins. I think looking at Q3 the interest on deposits really increased. This was mainly because of the cash crunch that was experienced across the industry. We were not as quick as we would have wanted to increase the lending side of interest rates. However the KBRR increased by about 1.3% or 1.5%. However subsequent to that I think there have been discussions in terms of protecting the margins. Our Director CMD can shed some more light.

Anthony Mburu
Yes, in terms of the interest rates there was a period of volatility which has lasted about three months whereby CBR moved from 8.5% to about 11.5%, a movement of about 3%. I guess that wasn't the entire story because the interbank went up. Then government demand for money also caused a bit of a spike and rates went up to about 20% on government paper and interbank up to about 26%. But that has lasted about maximum three months. I would even say the height of it was two months. Today we are seeing the 91 day T-bills… the last auction was at 13%, a drop of almost 6%. And the slightly longer half year and one year paper dropped down to about 17% and 17.5%. So really we find that there was volatility for about two months but it seems to be starting to settle down.

Liquidity is beginning to come back into the market. Central bank is releasing the money that they had mopped up. So we are starting to see an easing. Then government has been able through the borrowings been able to spend, so contractors and other suppliers are beginning to see money and therefore the environment is starting to cool down. So yes, margins were squeezed for that quarter, the third quarter and probably the beginning of the fourth quarter. But as we got into October/November we were seeing the spread starting to normalise. So we are working very hard at normalising deposit rates. In terms of the lending rate as Patrick said we already had an increase in August of 1.33% across the board. And then in September we increased lending on any new lending that we did by 3%. Then at the moment we have done an increase on any variable rate loans, which is about 50% of our book, of across the board 2% to 3%, 2.5% on the SME sector and slightly higher for those who are paying less at about 4%. So across the board we are seeing possibly an increase in our margins towards the end of the year by about 2% overall. That is what we are seeing.

Now, you have asked a question around 12 to 18 months. If the diaspora monies continue, the loans that the government is anticipating continue to come through and the tough fiscal stance that the government has taken, the tougher position on revenue collection and things like that, then we foresee that maybe the government side in terms of coming to crowd out private credit may not be so high. And then also the exchange rate which was part of the big problem with the global situation improving then that is also seen to be starting to cool down. So in 12 to 18 months we are saying most likely our margins might return to where they were in the 9.5% range as opposed to where they were beginning to come down to sub-9%.

Operator
Ladies and gentlemen, just a reminder, if you wish to ask a question please press star then one. We have a follow-up question from James Starke of SBG Securities.

James Starke
Thank you. On your deposit base how much of your deposit base is reliant on government flows as a percentage? Just to get a sense of how badly affected you maybe were in the cash crunch. A second question, in terms of the rate outlook from here they have obviously been quite volatile. I know you said you are expecting some kind of moderation, but what is your house view on particularly the short end of the curve out one year? And lastly in terms of your whole loan book how much of it is repriced? I know you mentioned 50% of it is variable. Is all that 50% repriced or are you still expecting more to reprice going forward? Thank you.

Patrick Nyaga
Maybe I will start with the last question in terms of the 50%. We have repriced the 50%. It is a total of Kshs 1.1 billion roughly which is roughly 50% of our loan book if you don't count the NPL book. So 50% of our performing book has repriced. Over the next couple of months, this month and next month, we expect to see the benefit of that, and next quarter obviously. On the side of deposits in terms of strictly government deposits we are talking about 7% of our deposits reliant on strictly government. Part of that is transactional accounts or transactional monies. When government had a bit of a tight squeeze that transactional money did not come through and we had to look for other sources of deposits, and that cost us to some extent in terms of searching for those deposits. Our gap was at a maximum around Kshs 15 billion to Kshs 20 billion at the worst time of it. But we were able to source the funds in the market to cover that gap.

Anthony Mburu
I will talk on your question on rates which we are currently seeing. On the short end of the cover we have seen a spike to 26%. That is overnight. And the government has only been issuing one-year paper which we saw spiking to 20%. But there were no issues of longer dated papers. Basically that part of the curve we assume remained fairly flat and there was only a spike in the short end of the curve, I think that being a deliberate message to the market players. However within these three months we have seen the curve normalising. As of today for example overnight rates are at 10% which is almost where we were three months ago. We are also seeing the three month, six month and one year papers coming off, especially when you see the traded prices. So we expect even if there is a slight increase in the curve it will not steepen so much. Maybe it will move up by 50 to 100 basis points. And we might see the rates on one year paper settling around 14% to 15%. I think that was a kink in the curve and we expect a normalisation now going into Q4 and into Q1 2016. I think we observe that regularly and hopefully it will not cause a lot of erosion in our margins. Thank you.

Operator
The next question comes from Olamipo Ogunsanya of Renaissance Capital. Please go ahead.

Olamipo Ogunsanya
Good afternoon. This is Olamipo Ogunsanya from Renaissance Capital. Thank you for taking the call. In terms of asset quality deterioration what sectors are you most concerned about and why? Also just a follow-up question on the margins. So you expect that interest rates would normalise going into 2016. But do you expect margins to improve because you wouldn't be repricing your assets as quickly as interest rates come down? Just to clarify that point.

Patrick Nyaga
Olamipo, thank you for the question. Yes, I think you are asking into 2016 what our view is. If the situation remains as we are seeing it in terms of government is able to source the longer term funding that they were hoping to and there are no other geopolitical shocks into 2016 – which at the moment we are not foreseeing because other than oil everything else looks as if it is headed into calmer waters – then we are foreseeing that we may see a slight uptick because obviously the speed at which we will reduce rates might be into the second or third quarter after the increases that we have just proposed. Yet the rates of deposits have come down quite rapidly and we see that is likely to continue. We are likely to have the benefit of that into the first and second quarter of next year and part of it into November/December.

But coming back to the issue of the loan portfolio let me break it down. For the fixed rate loans, the loans that we didn't adjust rates, obviously we don't expect any problem as far as that portfolio is concerned because there is no increase in interest rates and therefore no increase in impairment requirements. So customers should be able to pay, and largely those are salaried people off payroll. That should be largely a lower-risk portfolio. Now, for the ones we've increased rates for the SMEs we increased only 2% across the board. We think this is a figure that they can absorb. Normally we have a buffer around their income ratios that should allow them to absorb… if they were paying 16% an increase of 2% to 18% is something they should be able to absorb. So we are reasonably comfortable that it shouldn't lead to huge portfolio risk or NPLs.

The bigger risk for us was if the liquid environment or the flow of funds in terms of government expenditure had continued longer then that would have been a challenge. But the money that they were able to get, almost Kshs 60 billion, they have begun to pay suppliers; they have cleared backlogs and are beginning to talk about paying off backlogs on contractors. So that is going to begin to improve the situation. And if they get the funding that they are looking for externally then that should ease quite a bit. So we don't expect a lot of deterioration. But the sectors that had a problem were building and construction around projects, because obviously you finish a project and then getting the mortgages bought out would have been a challenge if interest rates are too high for the end buyers. The other sector we would have seen maybe a bit of a problem is around logistics and trade where we have reduced economic activity. There may be issues around that, especially around our asset finance portfolio. Those are the two sectors that we are beginning to look at in a bit more depth.

Operator
Thank you. The next question comes from Sharat Dua of Charlemagne Capital.

Sharat Dua
In response to the first question that you answered James, just to be clear on that, did you say 40% is the coverage that you are targeting, and therefore you have pre-empted that though the NPLs have not increased in the nine months and the third quarter certainly, and hence it might be on the high side now but that is the way you want it to be because you expect further NPLs to come through?

Patrick Nyaga
Let me just take that, Sharat. Currently as at 30th September our coverage ratio for IFRS is 48.7%. And that is up from 30% last year as at the end of the year and 34% as at Q3 2014. Our target here for the IFRS coverage ratio is 60% going forward.

Sharat Dua
60%.

Patrick Nyaga
Because we expect to increase our provision a bit because these are discussions that we have had, and therefore comparing ourselves to the market we felt that we needed to increase our coverage ratio. When we look at the CBK one that is probably likely to go up to about 85%. So that is the clarification.

Sharat Dua
Okay. And looking further forward into 2016 as much as you can at this stage if rates stay at similar levels what are your expectations for asset growth and deposit growth in 2016? I notice that you have slowed down your deposit growth quite significantly during Q3 for obvious reasons I guess. But how would a higher rate environment persisting into 2016 affect your plans?

Patrick Nyaga
Okay. I think looking at what our Director CMD has said, up to Q3 we grew our loan book by about 21%, but in Q4 because of the fact that we are not very keen on growing the book so high so that we don’t take some risks we probably are projecting that we are going to be growing to maximum 20% by the end of the year. However if you look at the bigger picture I think the interest rates are likely to settle down completely by 2016. And therefore both the deposit rates and the lending rates may slightly be coming down to where they normally are, and therefore if that happens and given that the growth of the economy at still at 5.5% is still quite huge we are likely to grow our loan book again probably to between 20% to 25%. And then obviously that means for us to fund our balance sheet our deposit book growth will at least be about 25%. That is the kind of projection we see in 2016. And it is clearly going to be determined by the stability of the macroeconomic environment, which as discussed earlier by the treasurer clearly is looking like it is stabilising as we go into 2016. Thank you.

Sharat Dua
Thank you.

Operator
Ladies and gentlemen, just a reminder, if you want to ask a question please press star then one. I have a follow-up question from James Starke of SBG Securities.

James Starke
Thank you. Just to clarify, if 50% of your loan book is repriced, just the variable portion, I mean does it necessarily follow that 50% of your loan book is fixed rate?

Patrick Nyaga
Sorry?

James Starke
You mentioned earlier that 50% of the book is variable in terms of the interest rate pricing. Does it necessarily follow that the other50% of your book is all fixed rate loans?

Patrick Nyaga
Yes. Let me just explain the element of fixed rate. There are consumer loans or personal loans that although contractually are variable in terms of contract but in terms of the ability to reprice it takes a little bit longer to reprice them. So we classify them the same as we would fixed rate loans because of the period it takes to reprice. The rest are fixed because of their short-term nature. For example we have portfolios that repay in ten months and portfolios that repay in a maximum 24 months. So the fixed rate doesn’t last a long period of time. And the book repays at a very rapid rate in terms of ability to lend at new rates as the market changes. And we have changed rates obviously as the market has

changed for new lending, but the old book or the existing book continues at that rate at which we contracted as we started. Just to clarify we have a Kshs 217 billion loan book of which Kshs 1.1 billion is KBRR linked, which is what we call variable. That is why I said 50% is variable. Remember Kshs 8.7 billion is non-performing. So that gives us Kshs 109 billion. And then the balance of about Kshs 106 billion is what is a mix between fixed and contractually variable but because of tenure varying and the conditionality of changing the rates it takes a bit longer than two or three months to change rates, and that is why we classify it as fixed.

James Starke
Thank you.

Operator
Ladies and gentlemen, just a final reminder, if you would like to ask a question please press star then one. We have a follow-up question from Ronak Gadhia of Exotix.

Ronak Gadhia
Just a follow-up question on your staff costs. You mentioned unionised staff gets a 9% increase. Can you clarify what percentage of your staff are unionised? Then with regards to your capital position is there any update in terms of when you will seek to raise more capital? Thank you.

Patrick Nyaga
Thank you very much, Ronak. Currently we are looking at a total of 3,600 staff. About 50% of that number is unionised staff, meaning most of the staff are lower CAGR. Probably I can also go ahead and tell you that even after the implementation of the 9% probably we are looking at staff costs just marginally increasing. From a cost perspective those are not the guys who take home most of the money. We had already accrued for it. It is only that we expected the cost to come in at about 6% but it came up at 9%. So just an incremental cost that we had not accrued, but not very significant. From the perspective of capital position looking at our ratios we still think that they are very healthy. Our strategy is to continue paying dividends at a pay-out ratio of about 26%. 26% of a bigger PBT is much more money payable to a dividend but also retention is good enough. So currently we do not project to raise any money in 2016. Probably we will review that as 2016 goes by to see whether that can be done in 2017. But currently we don’t have any plans to raise capital at all. Thank you.

Ronak Gadhia
Just one more question. With regards to the regulatory environment have you seen any noticeable changes in the regulatory environment under the new governor compared to the previous regime?

Patrick Nyaga
Not exactly because being a tier one bank we have always had a lot of interactions with the CBK. almost on a daily basis there is something they are asking here and there. That has not necessarily started with the new governor. It has always been there even with the previous governor. So we haven’t seen any significant change in terms of how we relate with the central bank. I guess because we are a tier one bank there has been a lot of interaction all the time, and that has continued.

Ronak Gadhia
Okay. Thank you.

Operator
We have a follow-up question from James Starke of SBG Securities.

James Starke
Thank you. Could you perhaps let us know how much of your current loan book is restructured in the sense that of the loans how many are loans that have previously been rolled over from existing facilities?

Patrick Nyaga
I think from the perspective of the fact that we have not been increasing interest rates in the past other than for the last two months we haven't restructured much of our book. But in terms of very specific percentages I think our Director CMD will come back to you.

James Starke
Thank you.

Operator
Mr Nyaga, there are no further questions from the lines. Do you have any closing comments?

Patrick Nyaga
Yes. I think mine is to thank all the participants on the call for the very good questions that we have received from the participants. We will continue engaging you as we continue managing the business. So thank you very much for being in the call, and have a good afternoon and morning. Thank you.

Operator
On behalf of the Co-operative Bank of Kenya that concludes this afternoon's conference. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT