



CO-OPERATIVE BANK OF KENYA

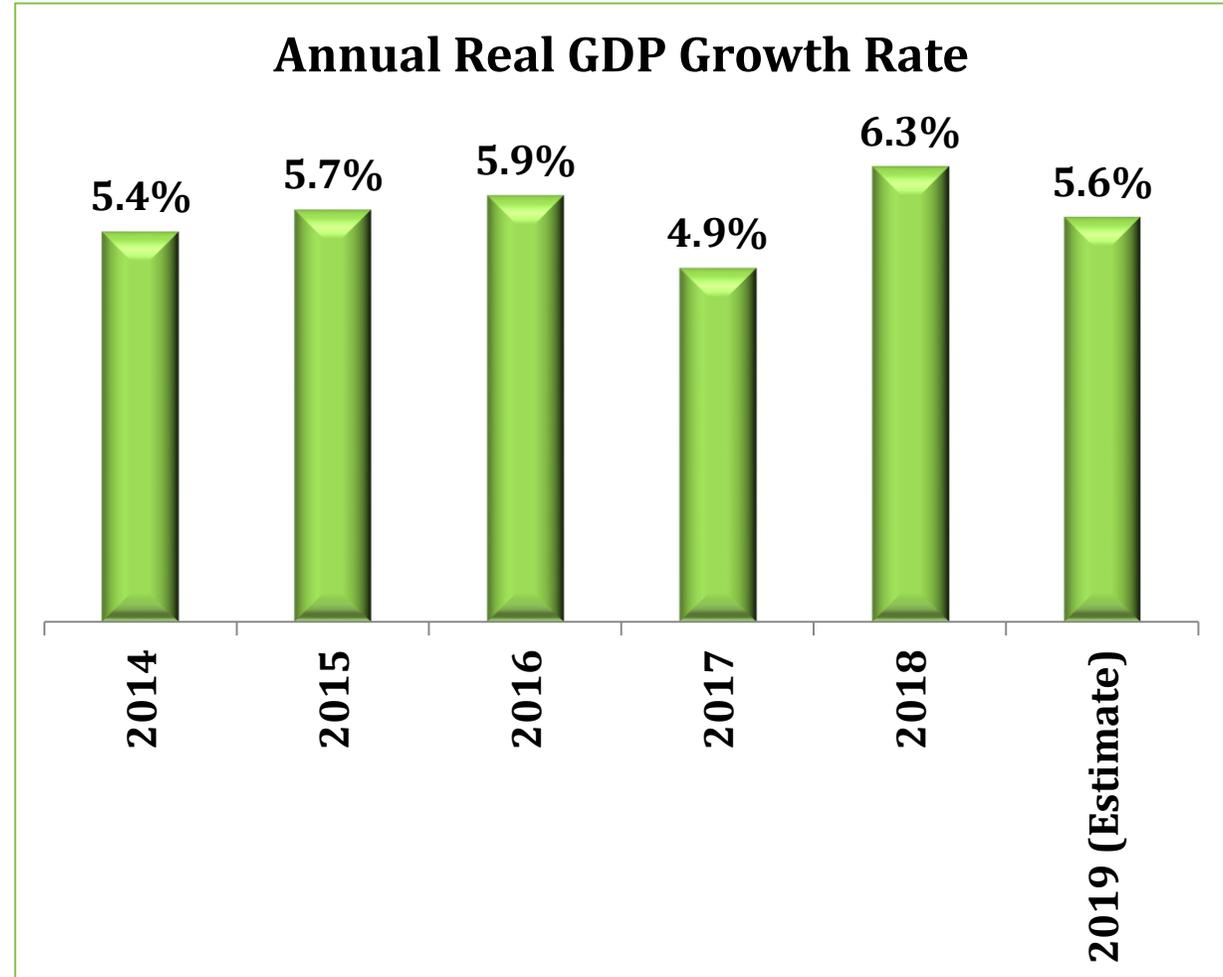
GROUP FINANCIAL RESULTS ANALYST BRIEFING FY2019

19 March 2020

Macro Economic Highlights

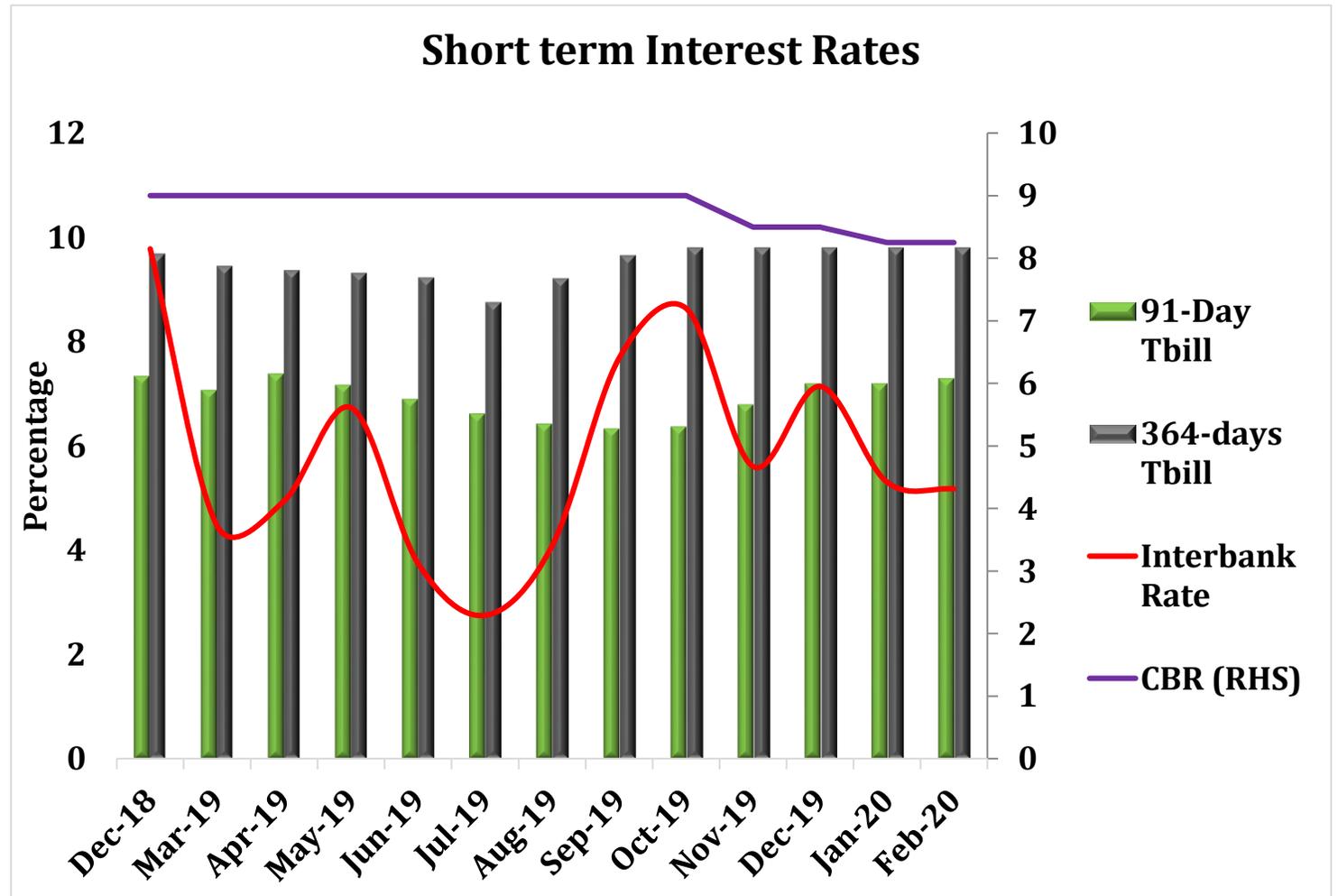
Resilient Gross Domestic Product (GDP) Growth Rate

- ❖ The Kenyan economy remained resilient in 2018 supported by strong growth in the services sectors, eased political uncertainty and household consumption.
- ❖ In 2019, agriculture slowed down due to delayed long rains in the third quarter and low agricultural commodity prices throughout the year.
- ❖ This year (2020) has started off with a favorable weather pattern, stable political and domestic security situation.
- ❖ However, risks potent in food security given the locust invasion, low tourism inflows due to reduced international travel and weakening global economic prospects.



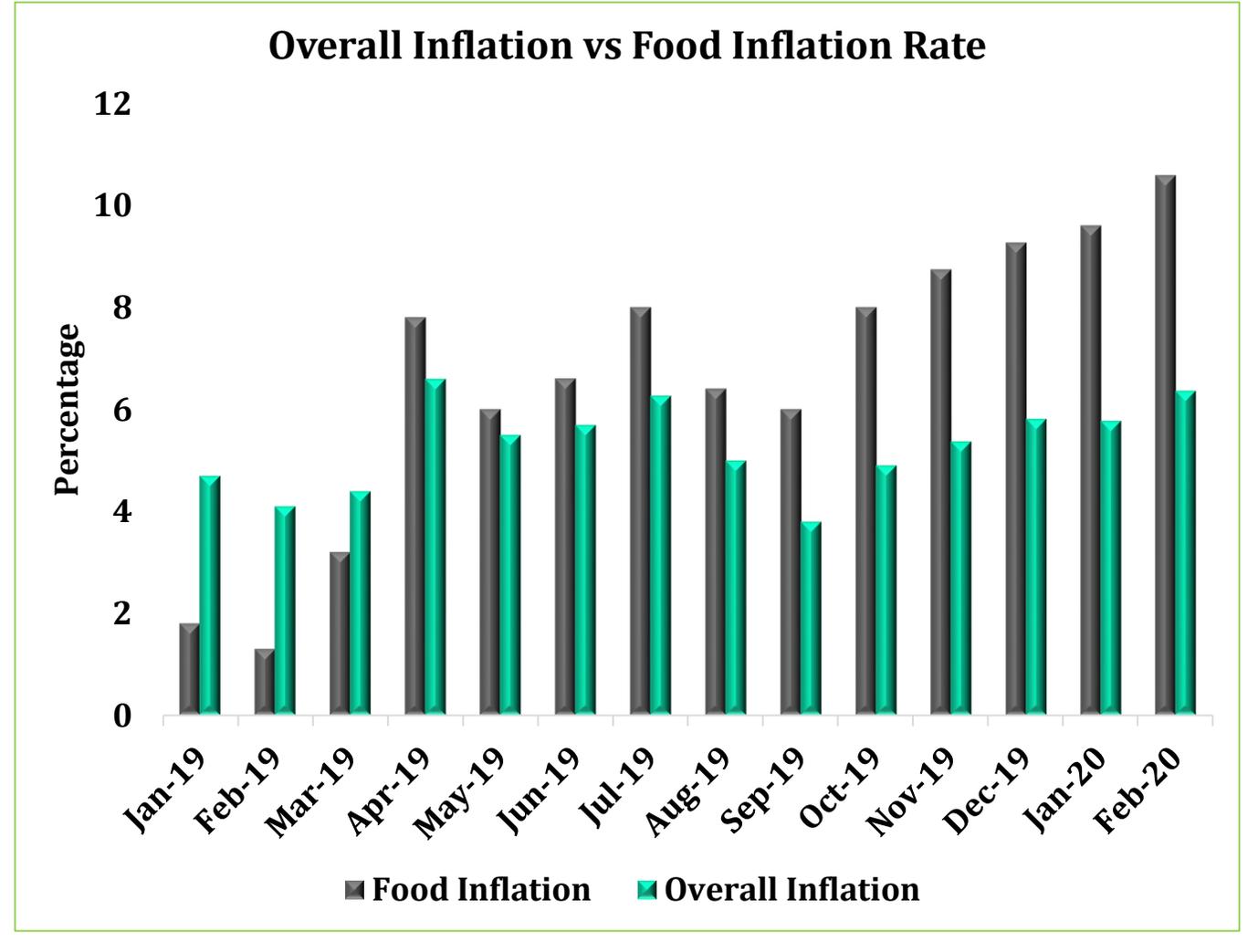
Short Term Interest Rates

- ❖ In 2019 CBR remained at 9% until 25th November when it was revised downwards to 8.5%.
- ❖ A further revision to 8.25% was done on 27th January this year.
- ❖ Yields on Government securities have hardly moved, given the high liquidity levels within the banking sector (49.7% in December 2019) and low pick up in private sector lending.
- ❖ Inter-bank rate has remained fairly stable (save for temporal market liquidity swings) within single digit level.



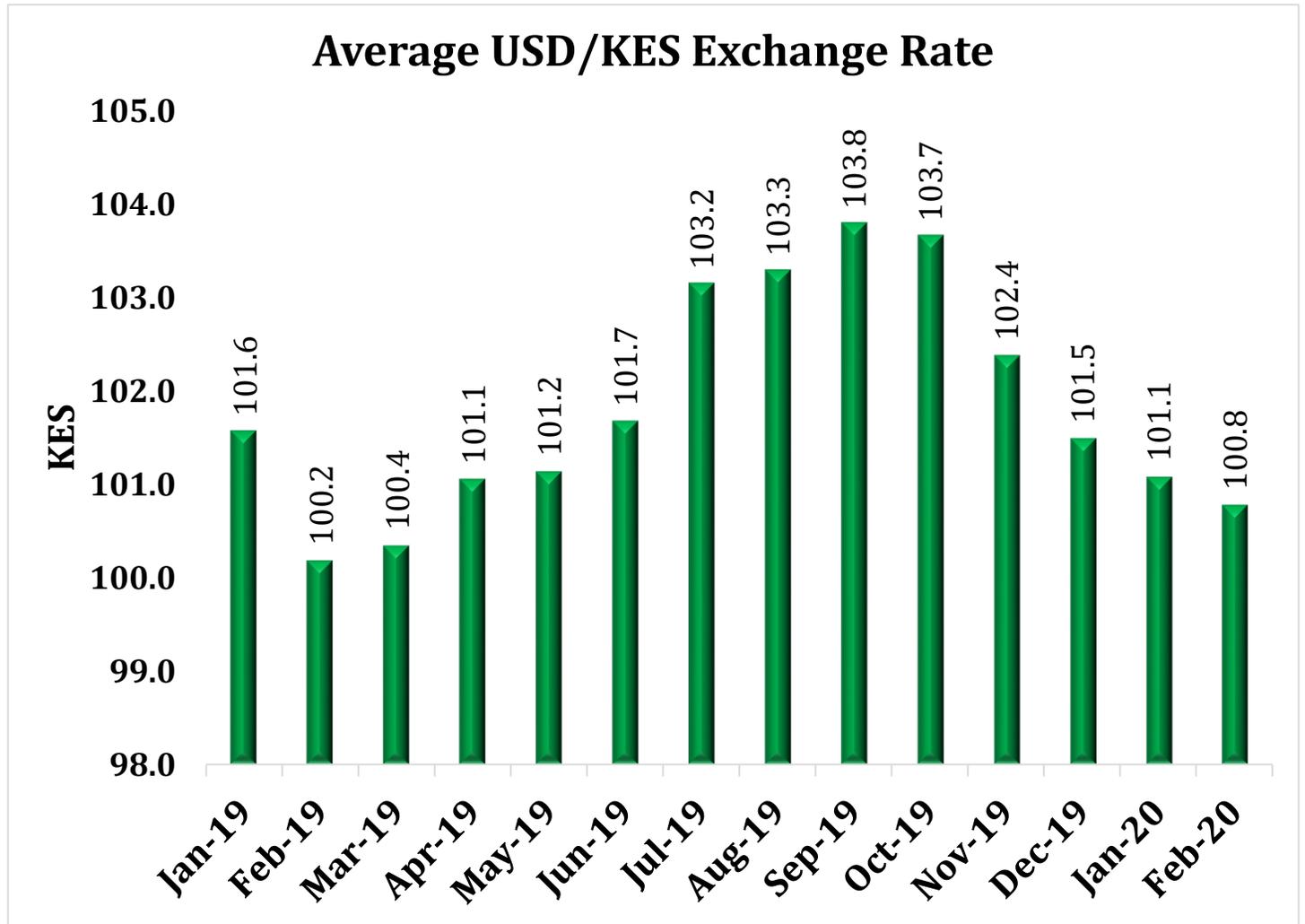
Trend In Inflation Rate

- ❖ Overall inflation rate rose marginally in 2018 to average 5.2% compared to 4.7% in 2017.
- ❖ In February 2020, it stood at 6.4%
- ❖ The main driver of the rise in overall inflation rate was increased food prices in 2019 and early 2020.
- ❖ Food inflation rate rose from 2% in January 2019 to 10% in February 2020. Most of the inflationary pressure was from vegetables and maize products.
- ❖ Crude oil prices are projected to remain low in 2020 and thus inflationary pressure this year will be on the food and consumer durables supply dynamics.



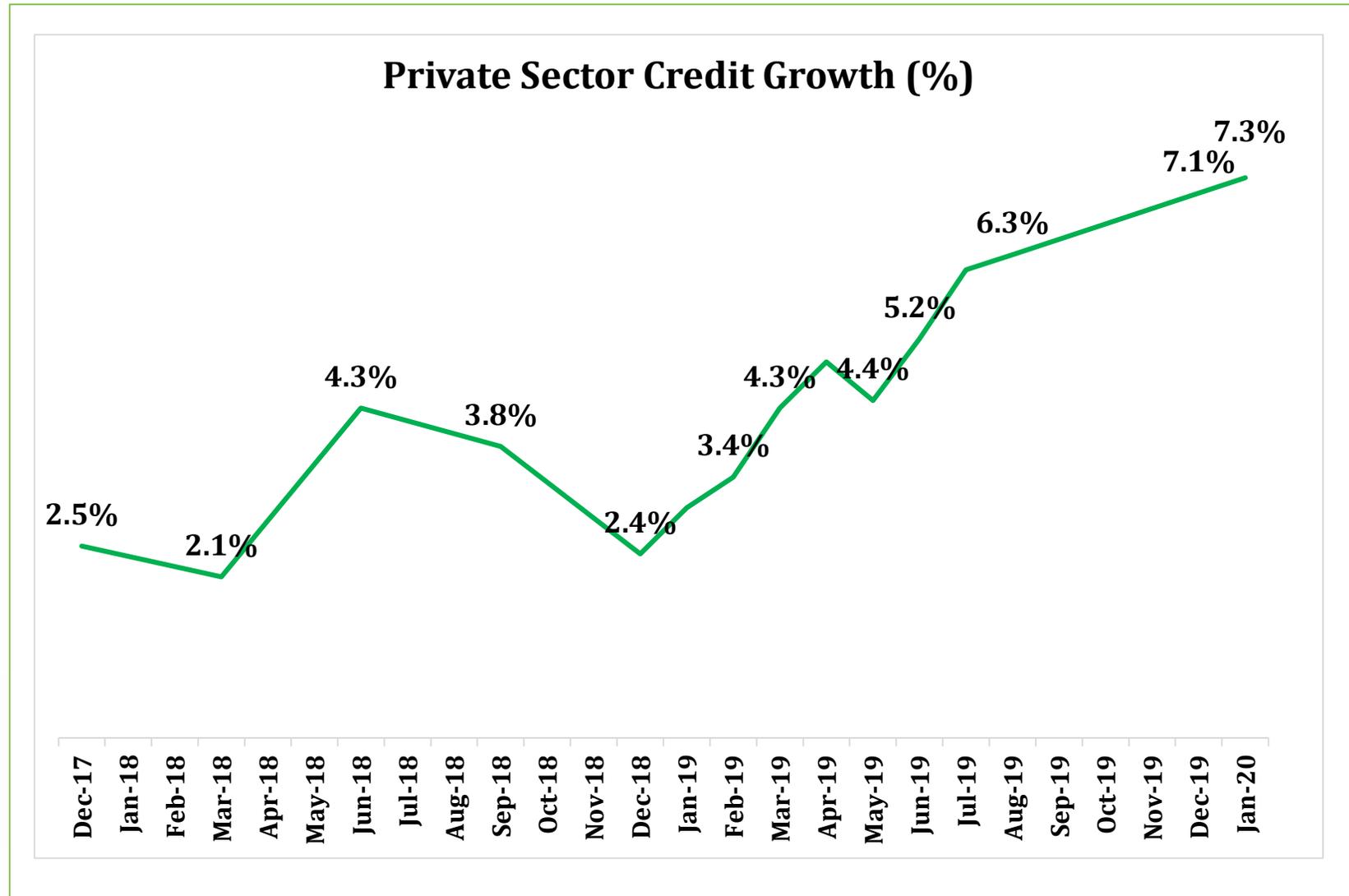
KES Exchange Rate Has Remained Stable

- ❖ The USD/KES exchange rate has been relatively stable in 2019 to average 102.0.
- ❖ Despite lower agricultural commodity prices, export quantities for tea and horticultural products were high, thus sustaining export earnings.
- ❖ Given stable in-country security situation, tourism receipts improved, while subdued imports bill helped improve the current account balance.



Trend In Private Sector Credit Growth

- ❖ The 12-month growth in private sector credit has improved to 7.1% in December 2019 and 7.3% in January 2020.
- ❖ Further analysis indicates that a significant proportion of the new lending went to personal loans, MSME, and manufacturing.





South Sudan

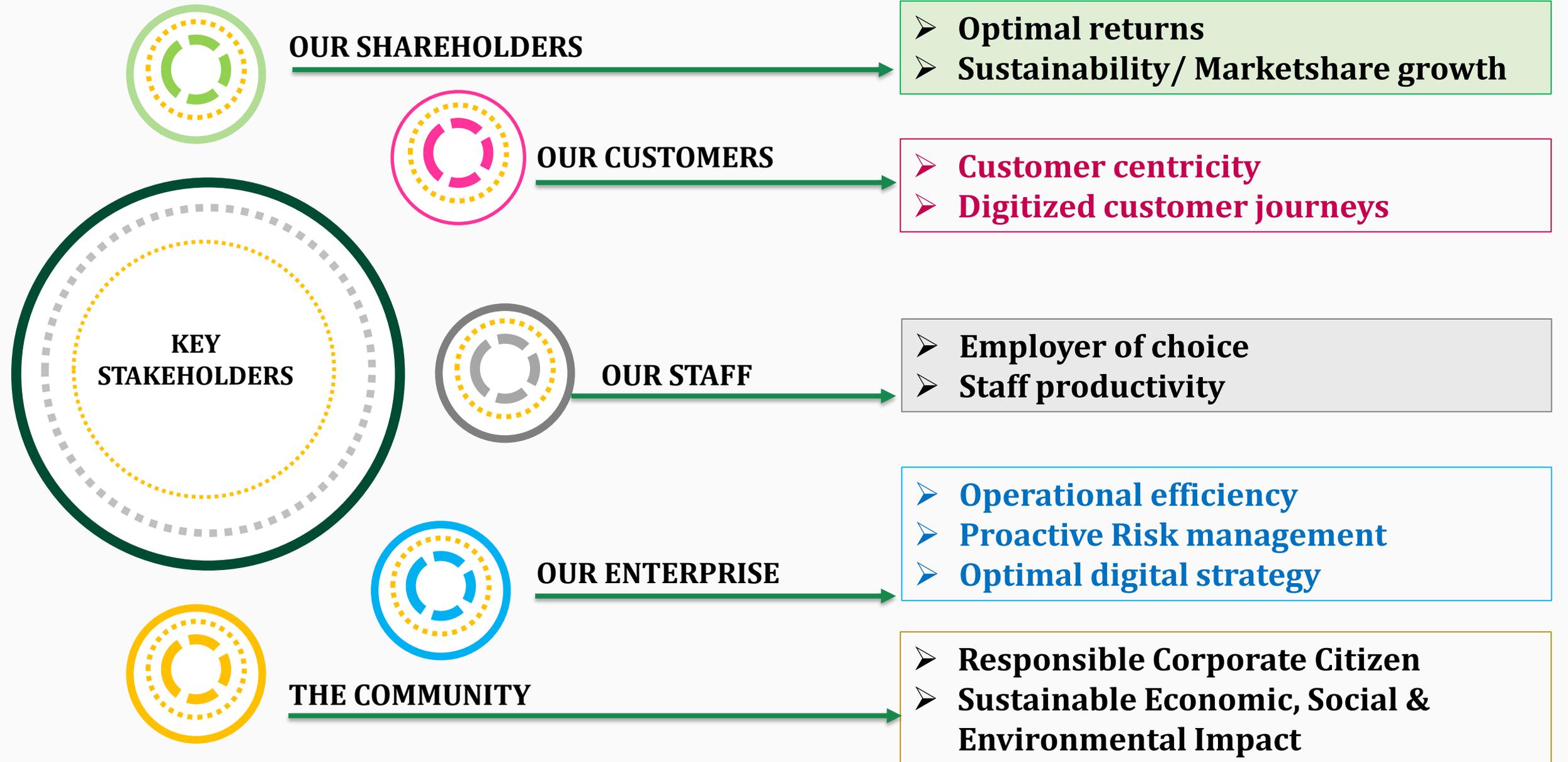
- ❖ **An IMF team completed (in late 2019) a technical assistance (TA) capacity building for South Sudan. This will significantly improve external sector statistics that are essential for policy making and data needs of key stakeholders to assess the Country's external sector development.**
- ❖ **On 22nd February , Riek Machar was sworn in as South Sudan's vice president. It is expected that formation of the Government will create peace in the Country.**
- ❖ **Full dedication to peace, economic stabilization and robust oil management will enable the country to rebuild policy credibility and regain access to external financial support.**
- ❖ **With a projected improvement in the collection of revenue, the fiscal policy is likely to improve. Currently, all arrears for Government workers salaries have been cleared**
- ❖ **In 2020, allocation of budgetary funds to priority sectors needs to happen.**

Regulatory Environment

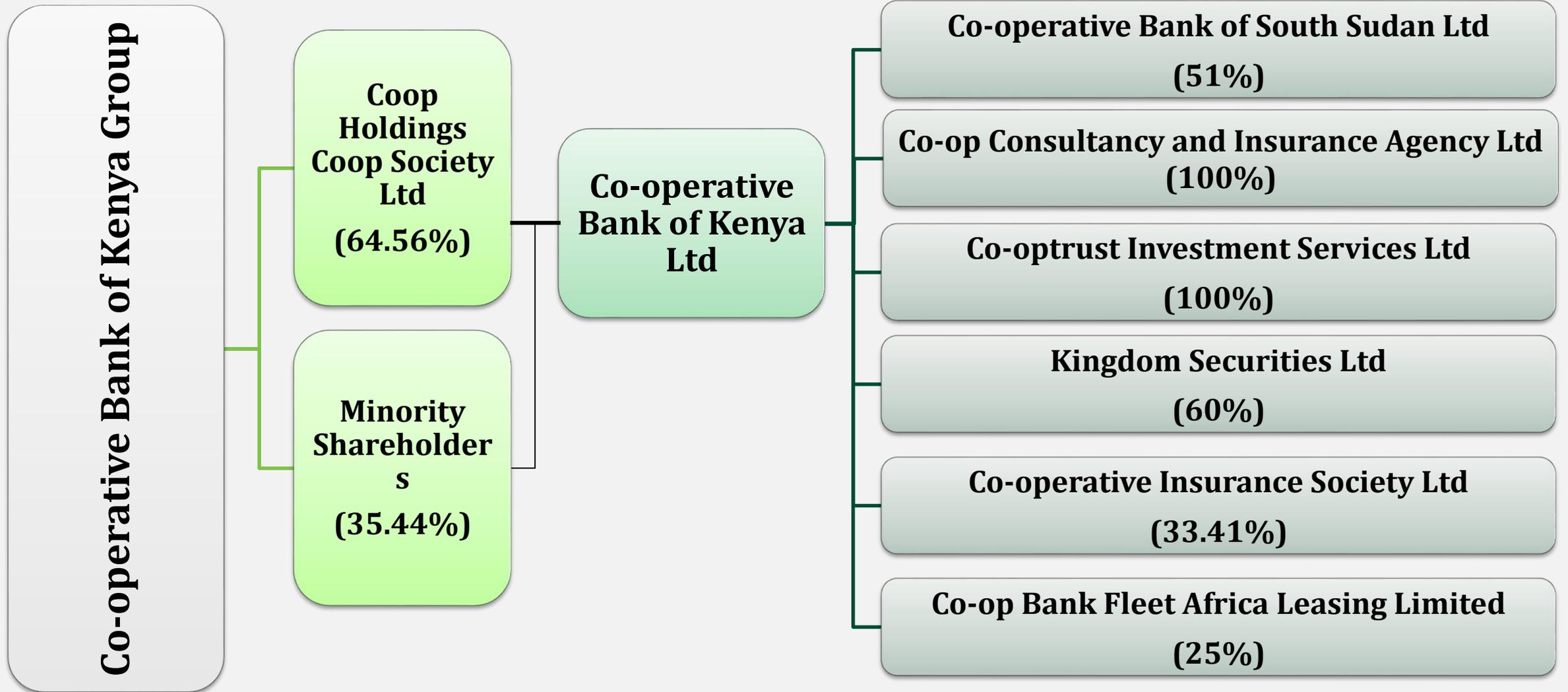
- 1. IFRS 16 Implementation:** The Group applied IFRS 16 for the first time using the modified retrospective method of adoption with the date of initial application of 1 January 2019. The Bank recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets.
- 2. Interest rates capping:** We complied with the Interest rates capping which was effective for the most part of 2019. With the removal of the caps there is opportunity to price in risk and achieve a higher growth.
- 3. Banking Sector Charter:** The implementation of the Charter which seeks to entrench a responsible and disciplined banking sector conscious of, and responsive to, the unique socio-economic realities of the Kenyan people is on course.
- 4. Data Protection Act:** Proactive cyber security management to ensure customer information security. We have a Security Information and Event Management system. We also have a dedicated ICT information security department with specialized skills to ensure optimal safeguard of our customers.
- 5. AML/KYC:** Strict enforcement of the AML/KYC, Large cash transactions regulations.

Strategic Focus

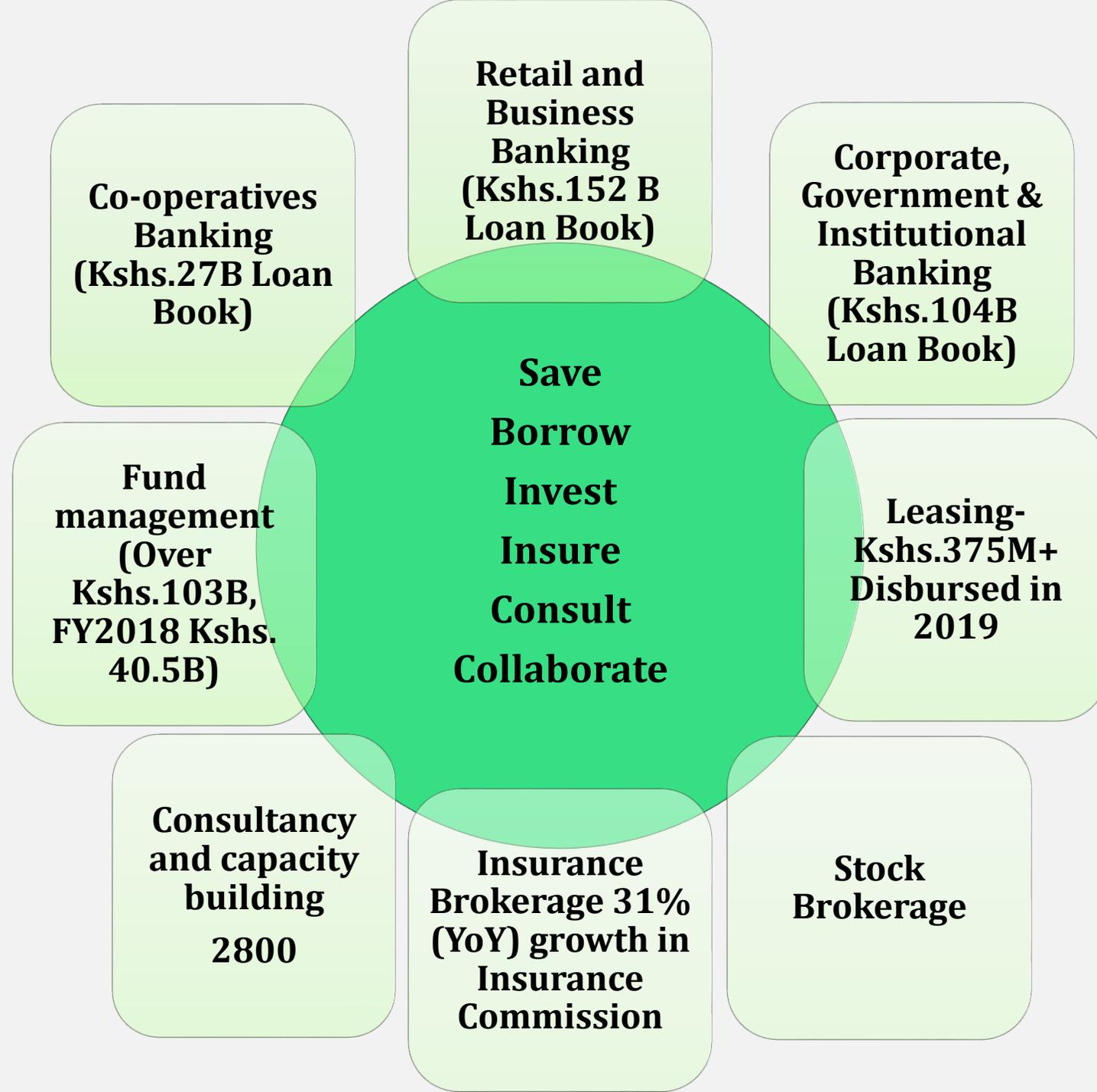
Our Strategic Focus



Co-operative Bank of Kenya Group Structure



A Successful Universal Banking Model



Our Presence

159

Branches

90K

Internet banking Customers

583

ATMs

464

Sacco Front Offices Branch network

8.8M

Account holders

16.5K

Diaspora Banking Customers

4.8M

Mcoop Cash Customers

**24
Hr.**

Contact Centre

16K +

Co-op Kwa Jirani Agents

4541 Staff

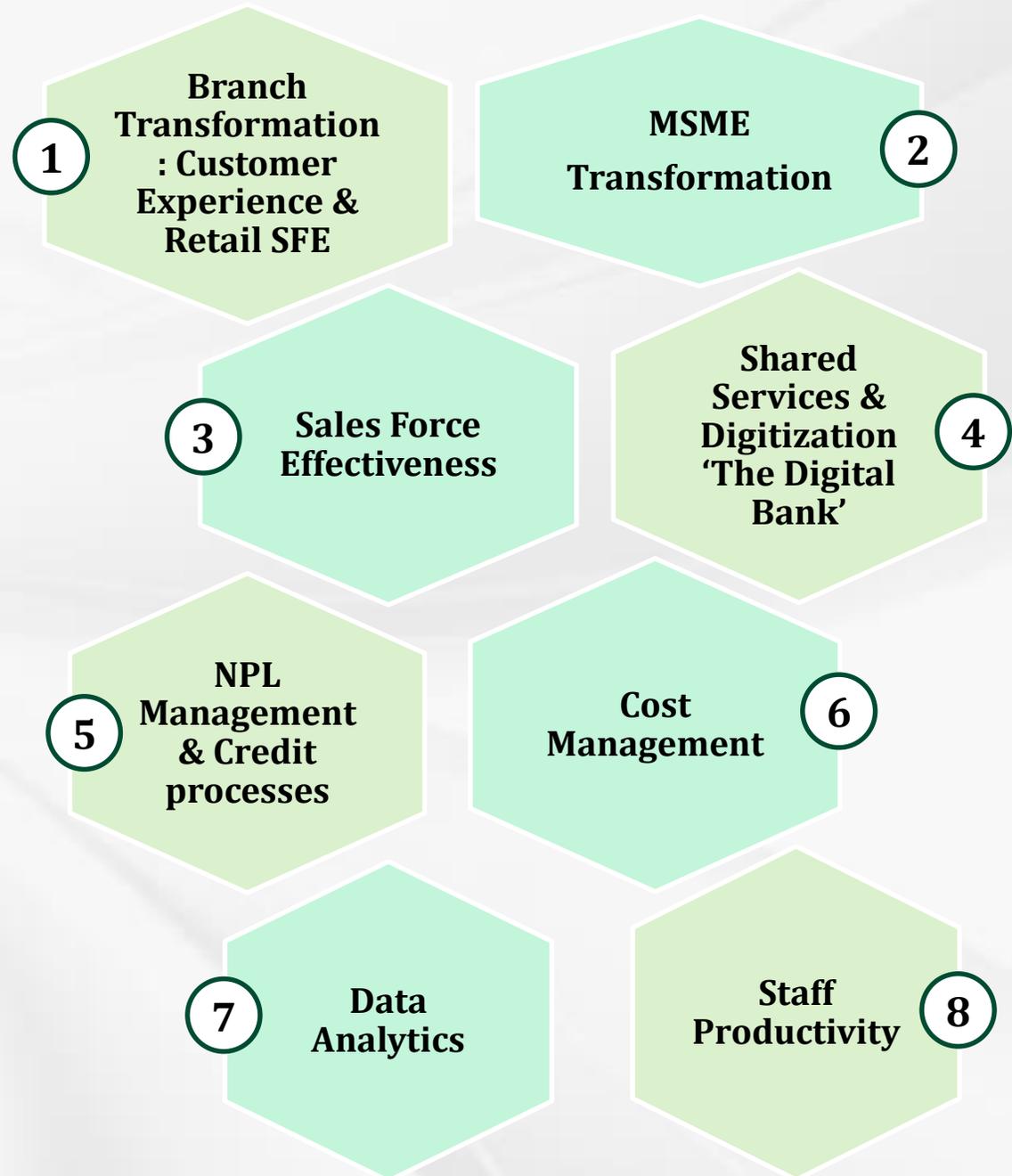
Proposed Acquisition of 100% Shares of Jamii Bora Bank Limited

- ✓ The Board of Directors of Co-operative Bank of Kenya Limited has approved the progression of discussions with Jamii Bora Bank Limited, which if successful, would lead to the Co-operative Bank of Kenya Limited acquiring 100% shareholding in Jamii Bora Bank Limited.
- ✓ Jamii Bora Bank is a Kenyan bank incorporated under the Companies Act with over 350,000 customers in 17 branches and asset base of KShs. 12.5 billion. The bank has a strategic niche in MSME banking, Microfinance, leasing and Insurance agency.
- ✓ In accordance with the standard process, the transaction is subject to successful completion of the following:
 - ✓ Due diligence by the relevant professionals.
 - ✓ Board of Directors and shareholders' approval by both Co-operative Bank of Kenya Ltd and Jamii Bora Bank.
 - ✓ Regulatory approvals. Notably: Central Bank of Kenya, Capital Markets Authority and Competition Authority of Kenya.

“Soaring Eagle” Transformation Initiatives

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

**Key
Pillars;**



“Soaring Eagle” Transformation Initiatives



Co-op Consultancy & Insurance Agency Ltd

- ❑ 2800 Consultancies
- ❑ 19 Dedicated Consultants
- ❑ 464 FOSA- Financial Inclusion Deepening

Co-op Foundation

- ❑ 7657 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

- ❑ 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)

KENYA BANKERS ASSOCIATION: CATALYST AWARDS 2019

Overall Winner

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



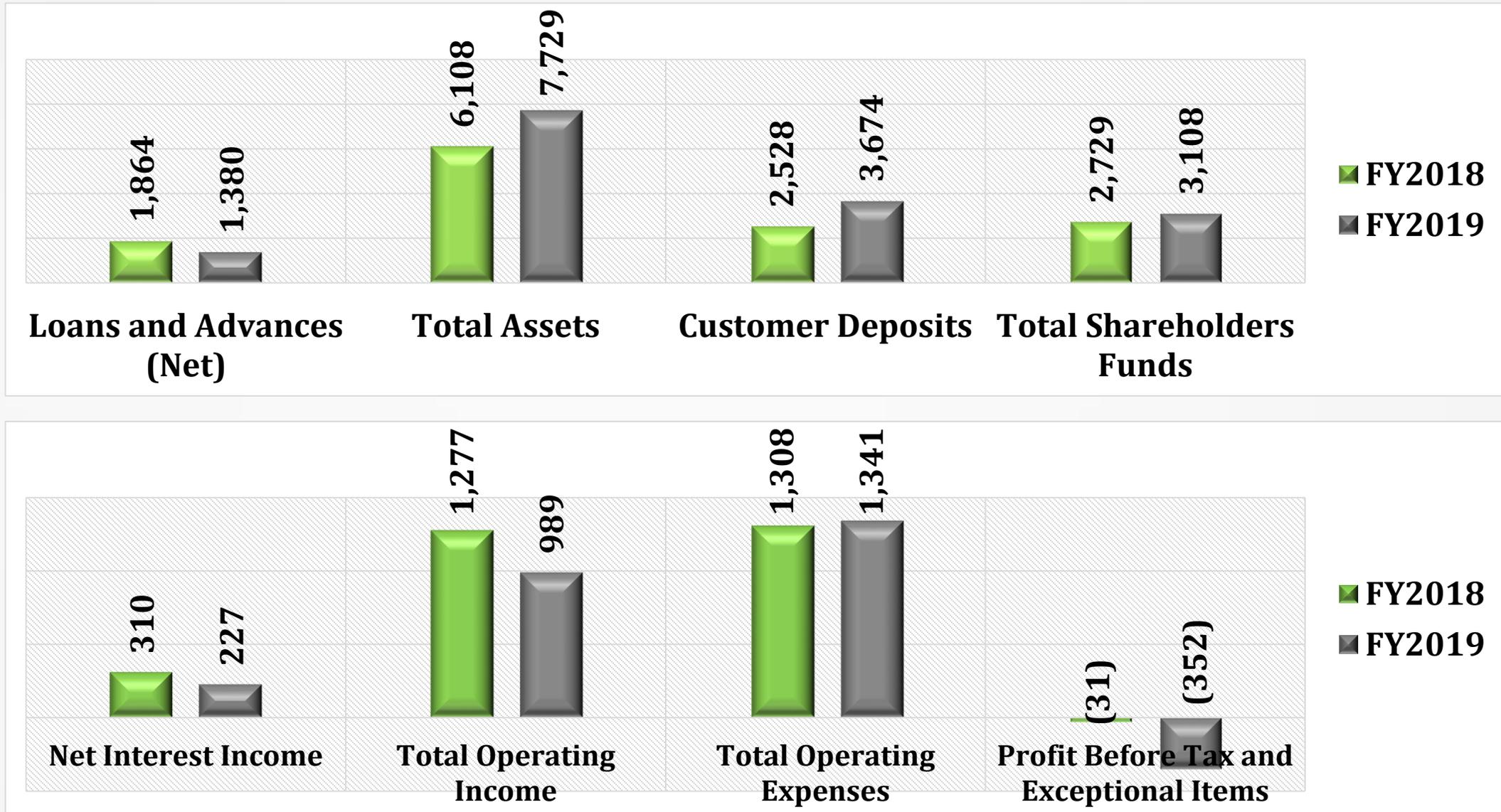


Regional Business (Kshs. Million)

4 branches in Juba

5 Non-oil collection centers.

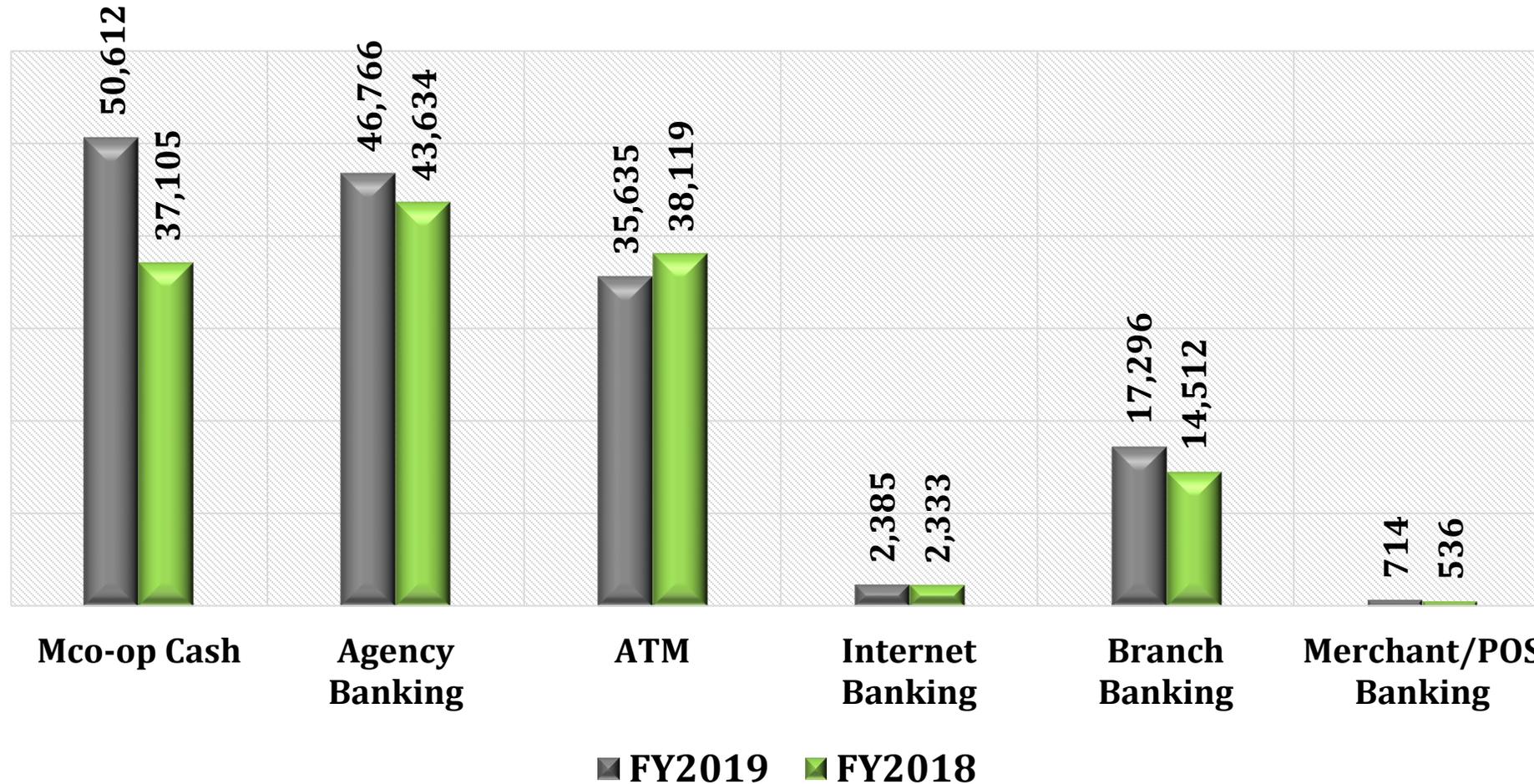
Owns 31% of CIC Africa Ltd- South Sudan



Channel Performance

Growing Digital Channels

Channel Transactions '000'

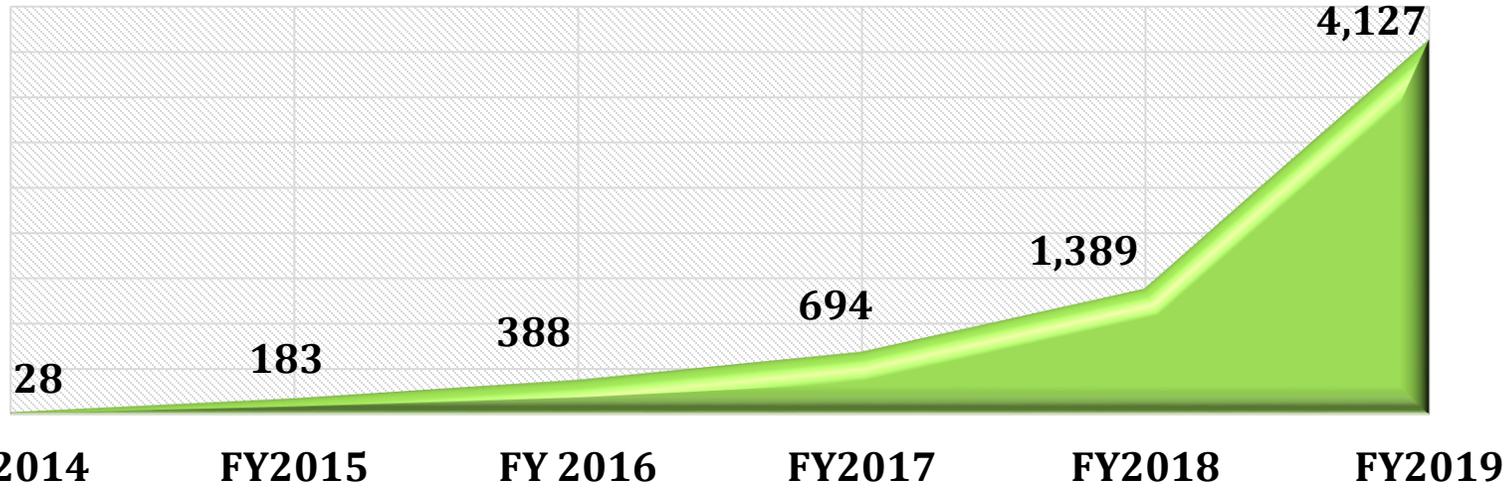


89% of our Transactions are on alternative Channels

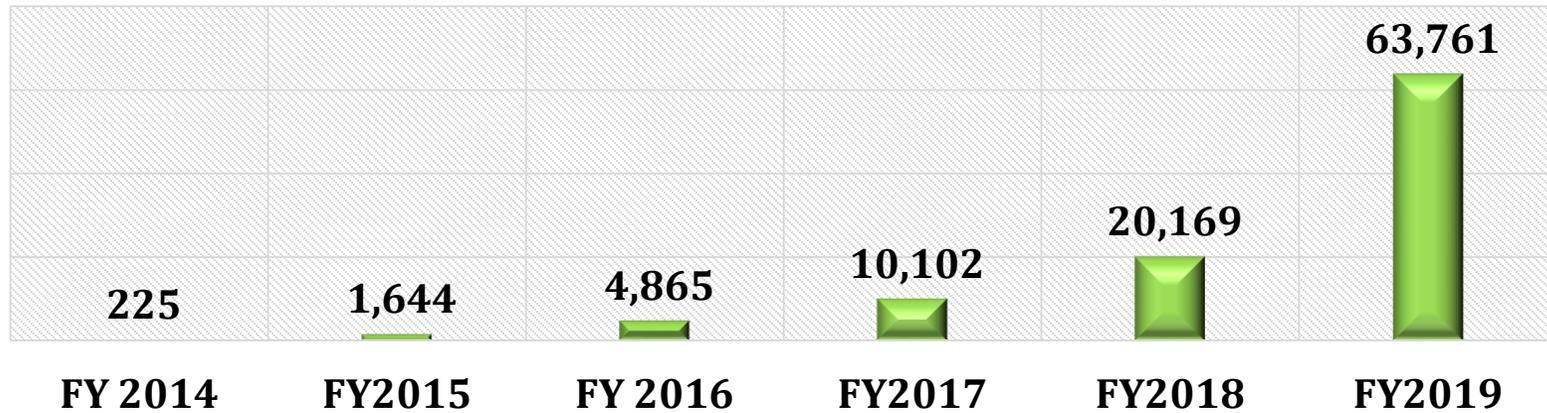
E-Credit is a key focus area, Kshs. 43B disbursed Year to Date

E-Credit

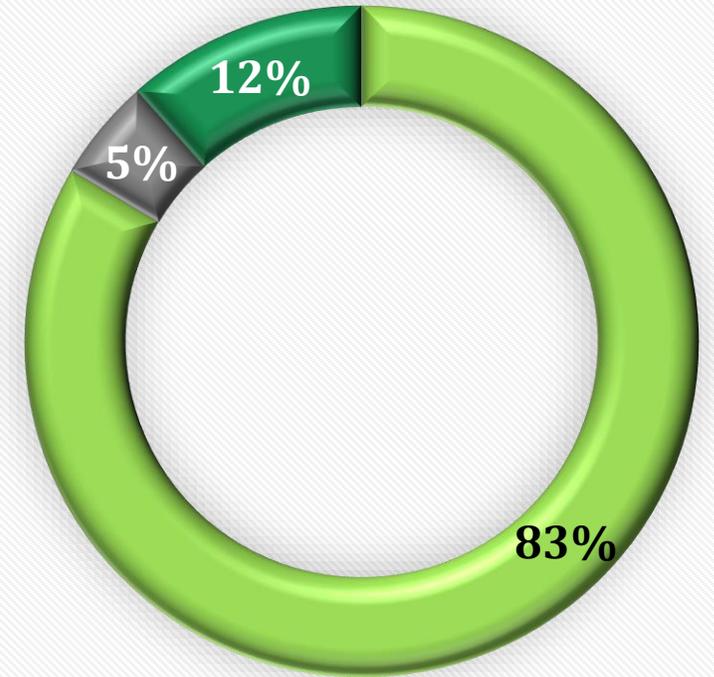
Cumulative Mcoop Cash Loan Customer Numbers ('000')



Cummulative MCo-op Cash loan Book - In Millions



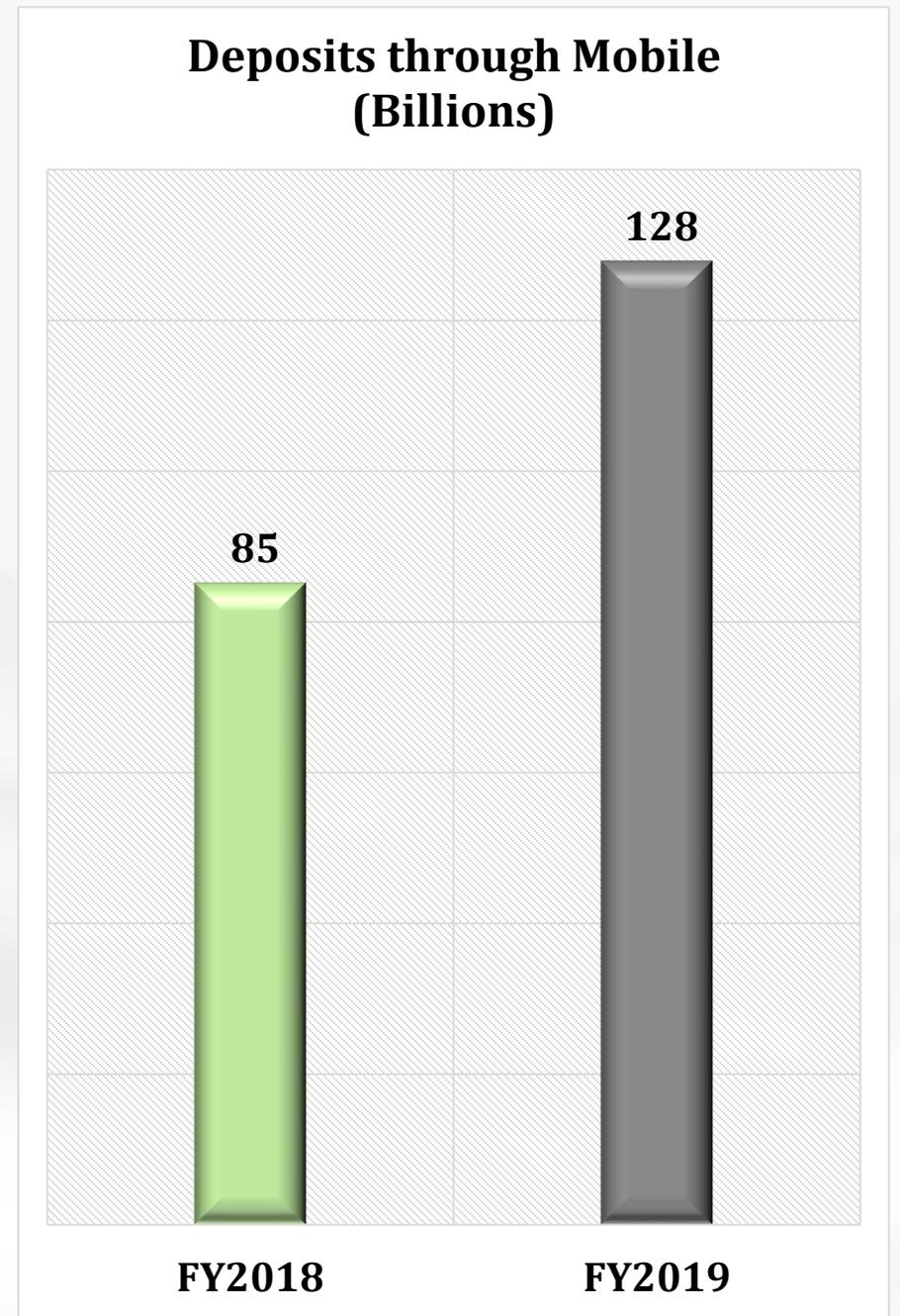
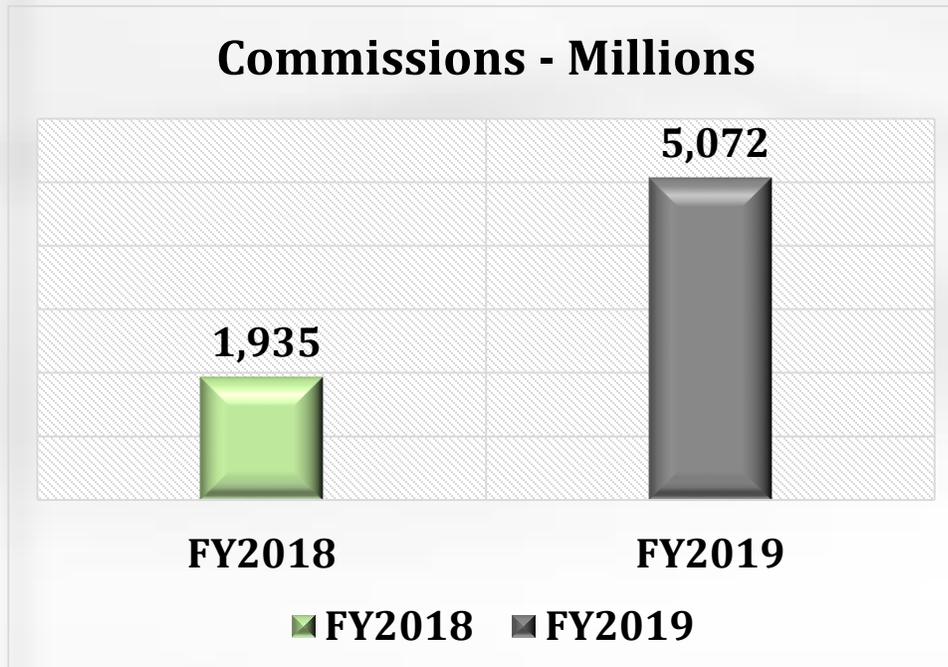
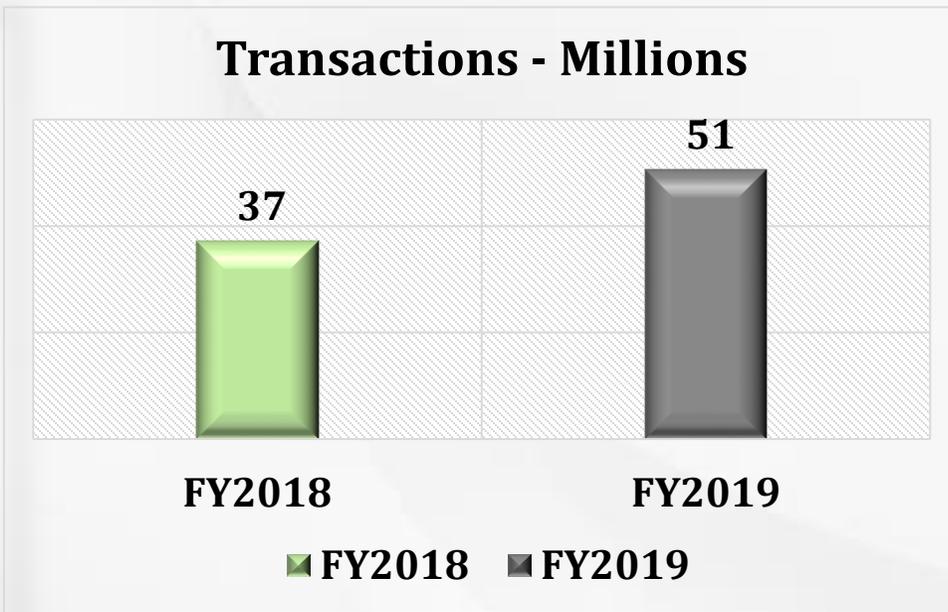
E-Credit – Key Growth Focus



- E- Flexi
- Business
- Unsecured Business Plus

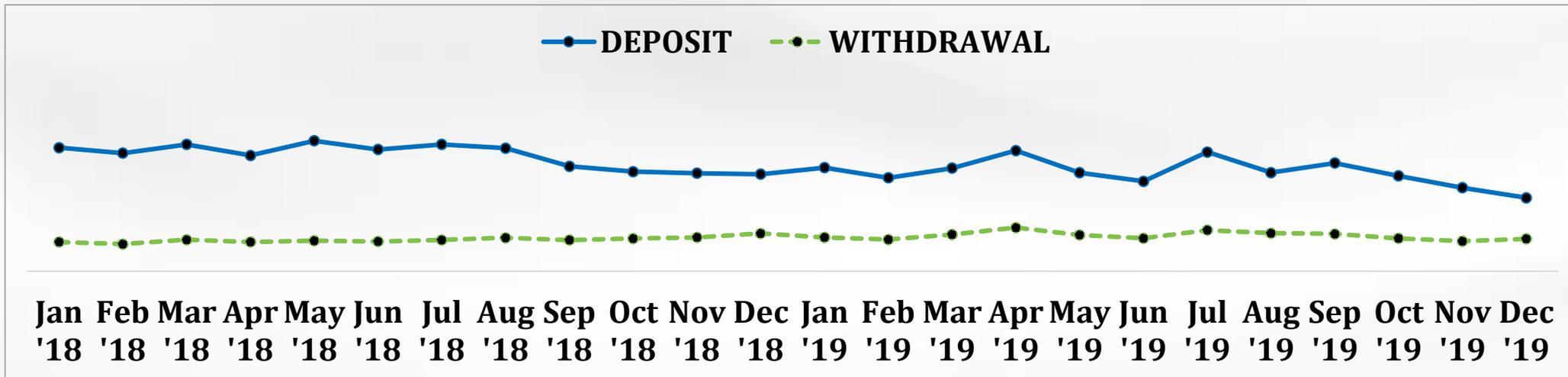
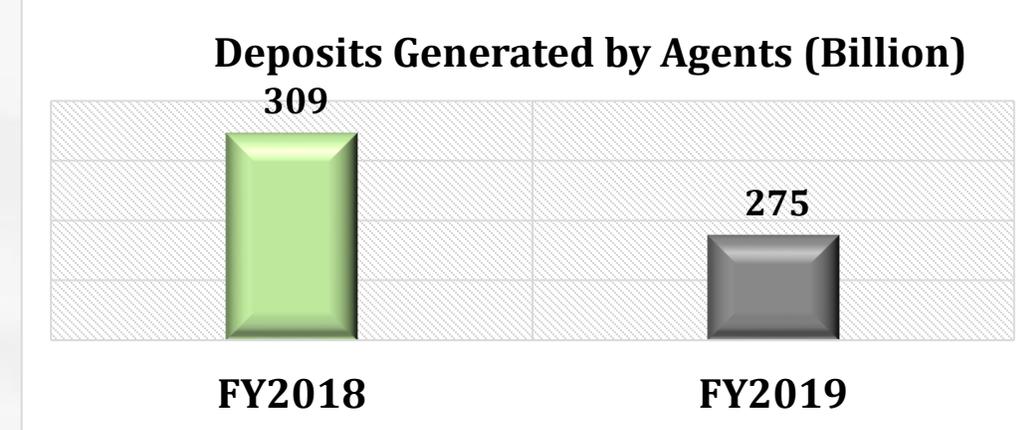
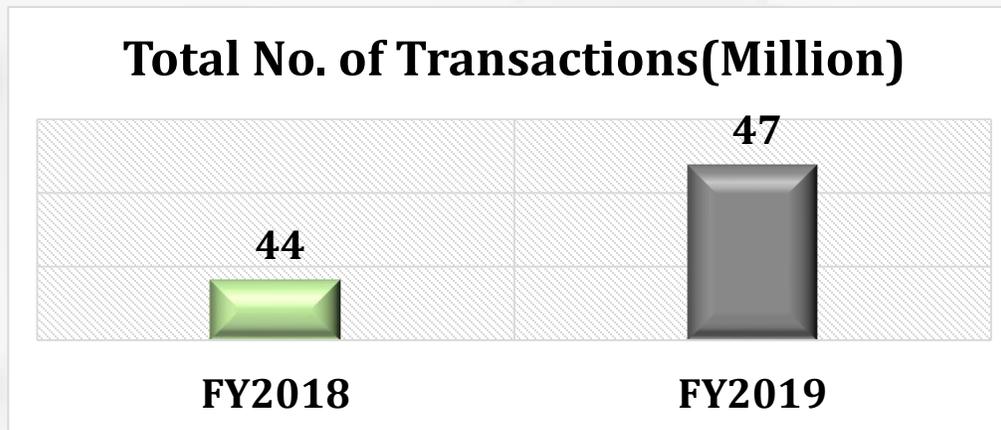
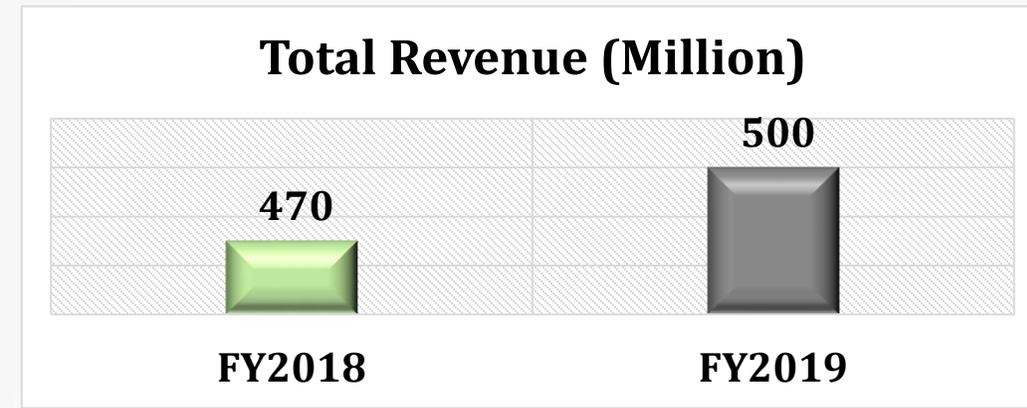
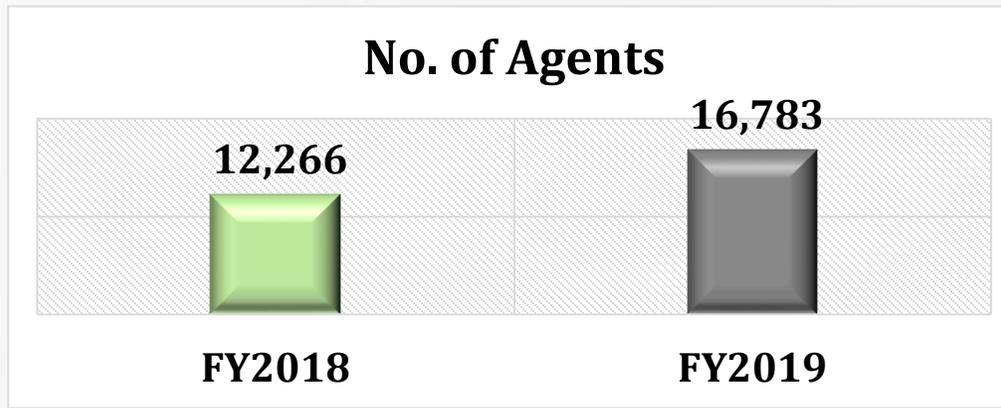
MOBILE BANKING (MCOOP CASH)

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



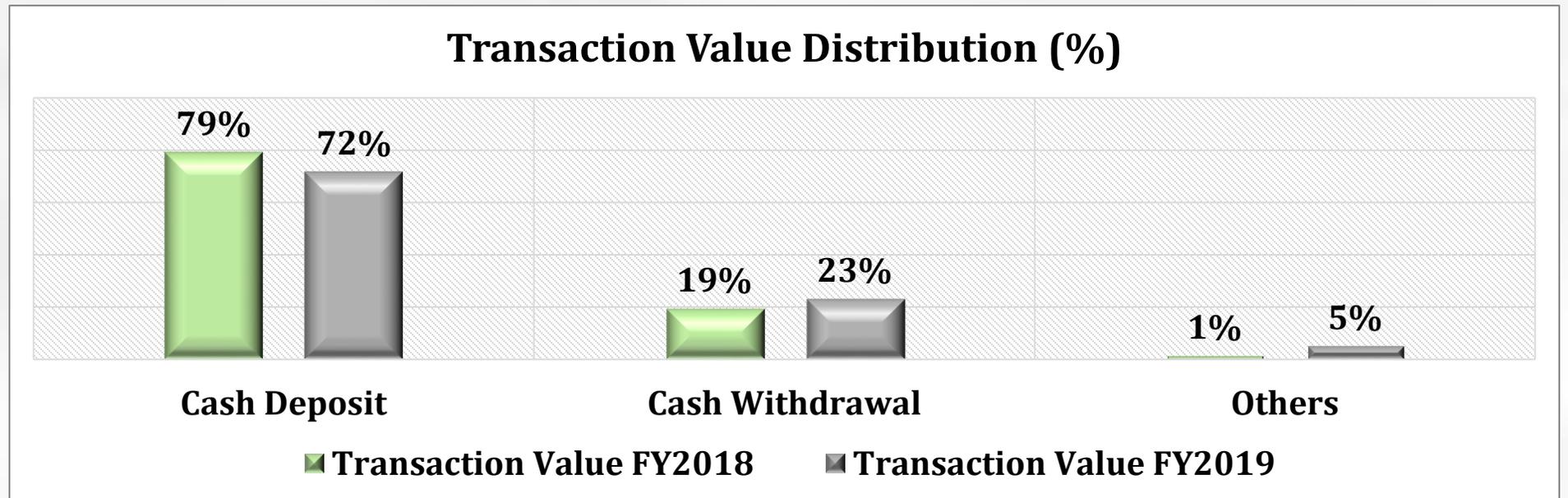
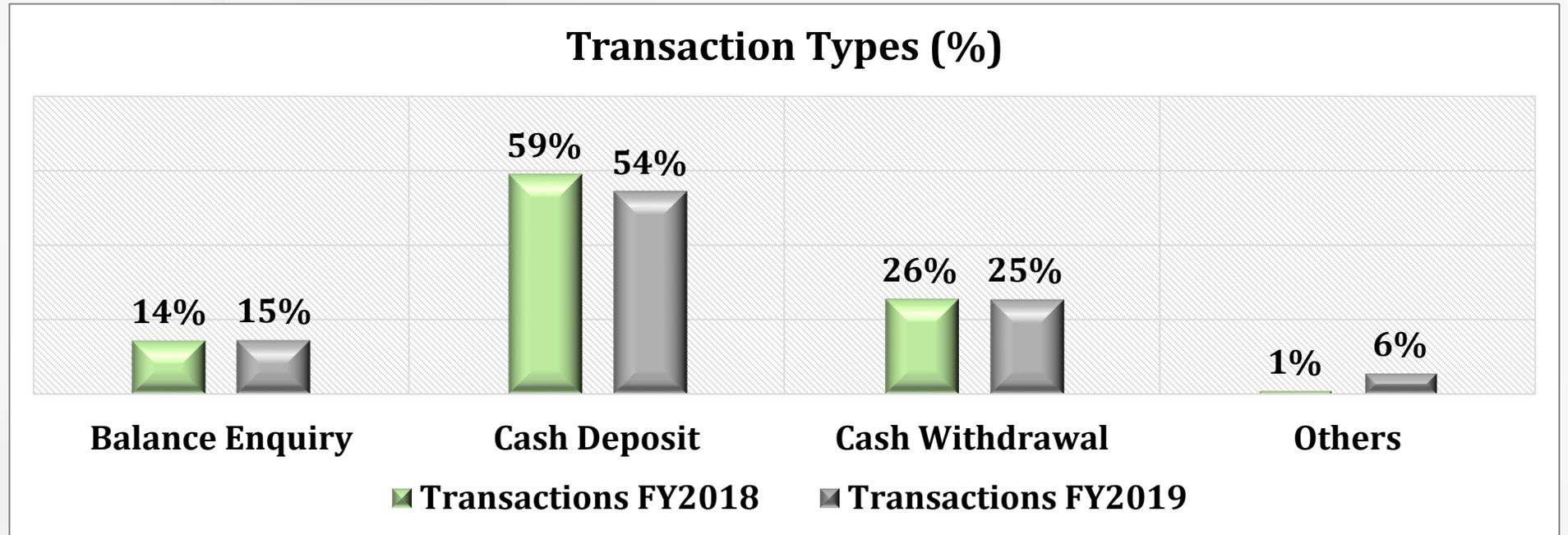
AGENCY Banking

Growing Co-op Kwa Jirani Agency Banking



AGENCY Banking

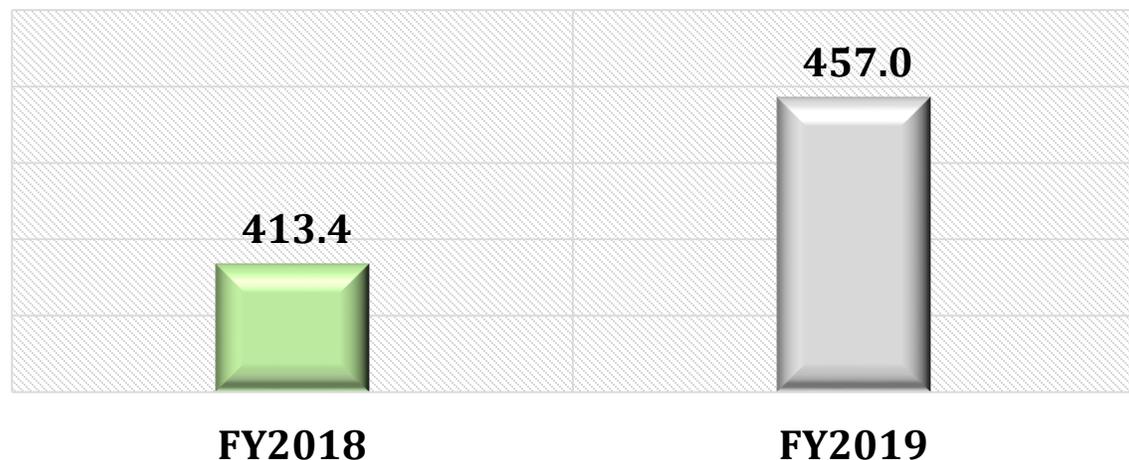
Growing Co-op Kwa Jirani Agency Banking



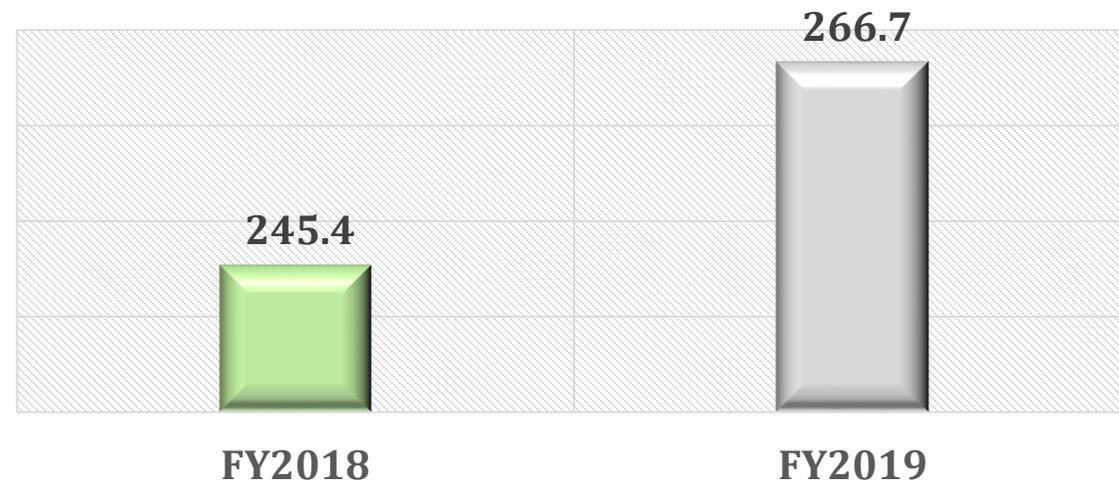
Financial Highlights

Strong Financial Position (Kshs. Billion)

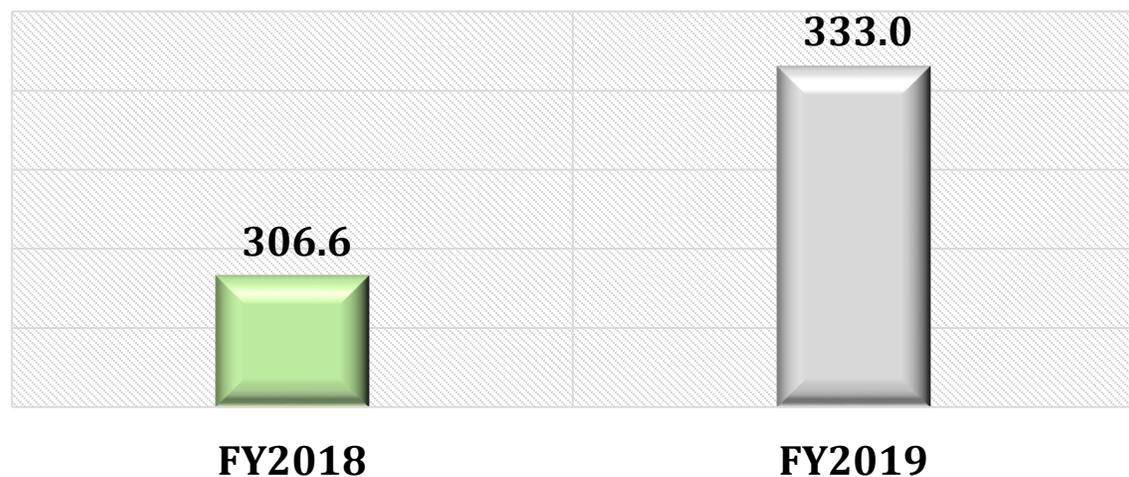
Total Assets



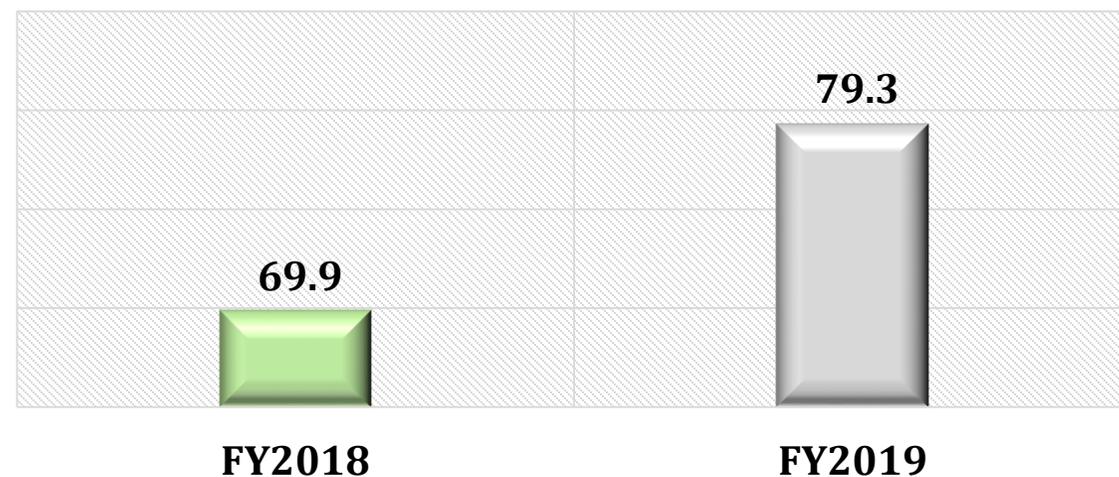
Loan book (Net)



Total Deposits



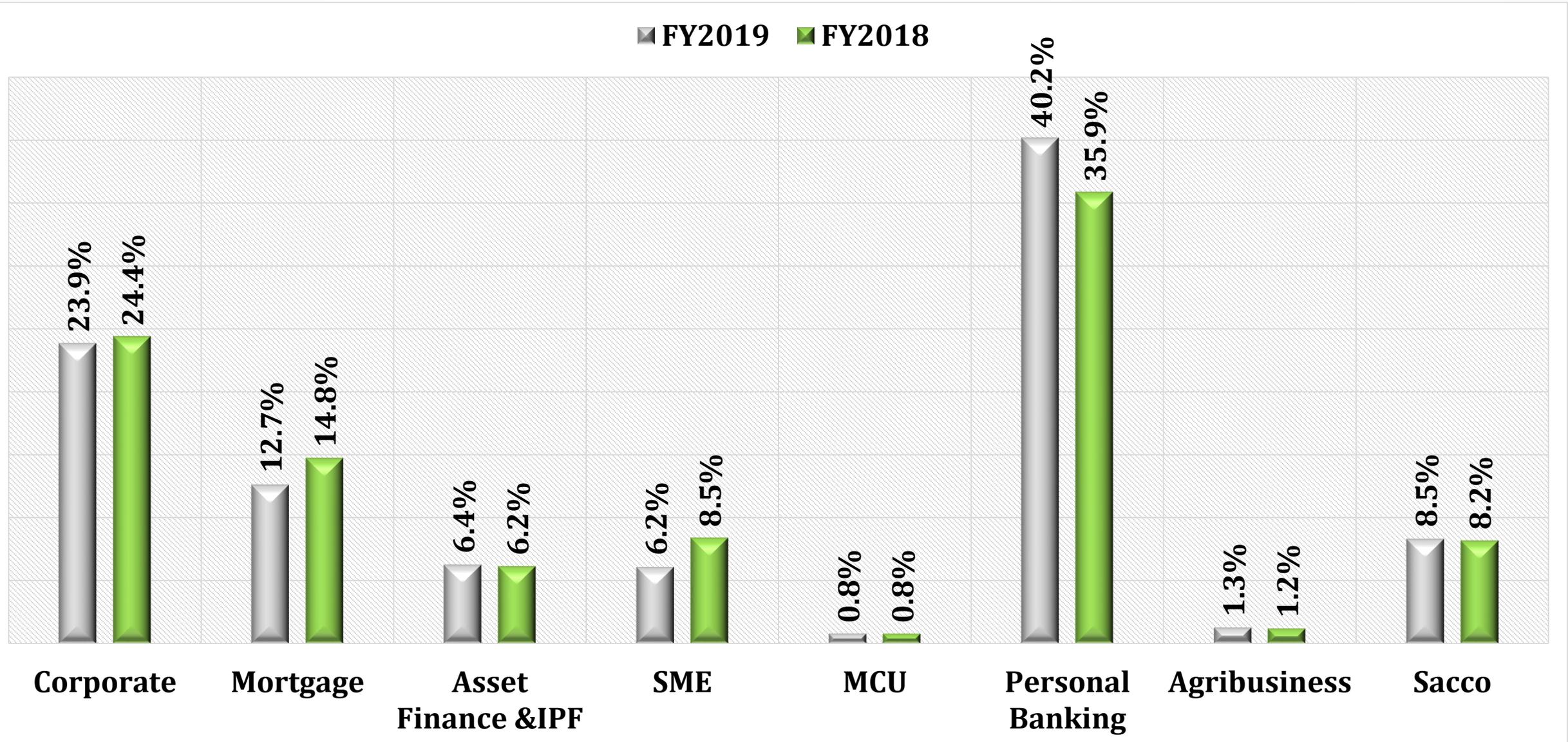
Shareholders Funds



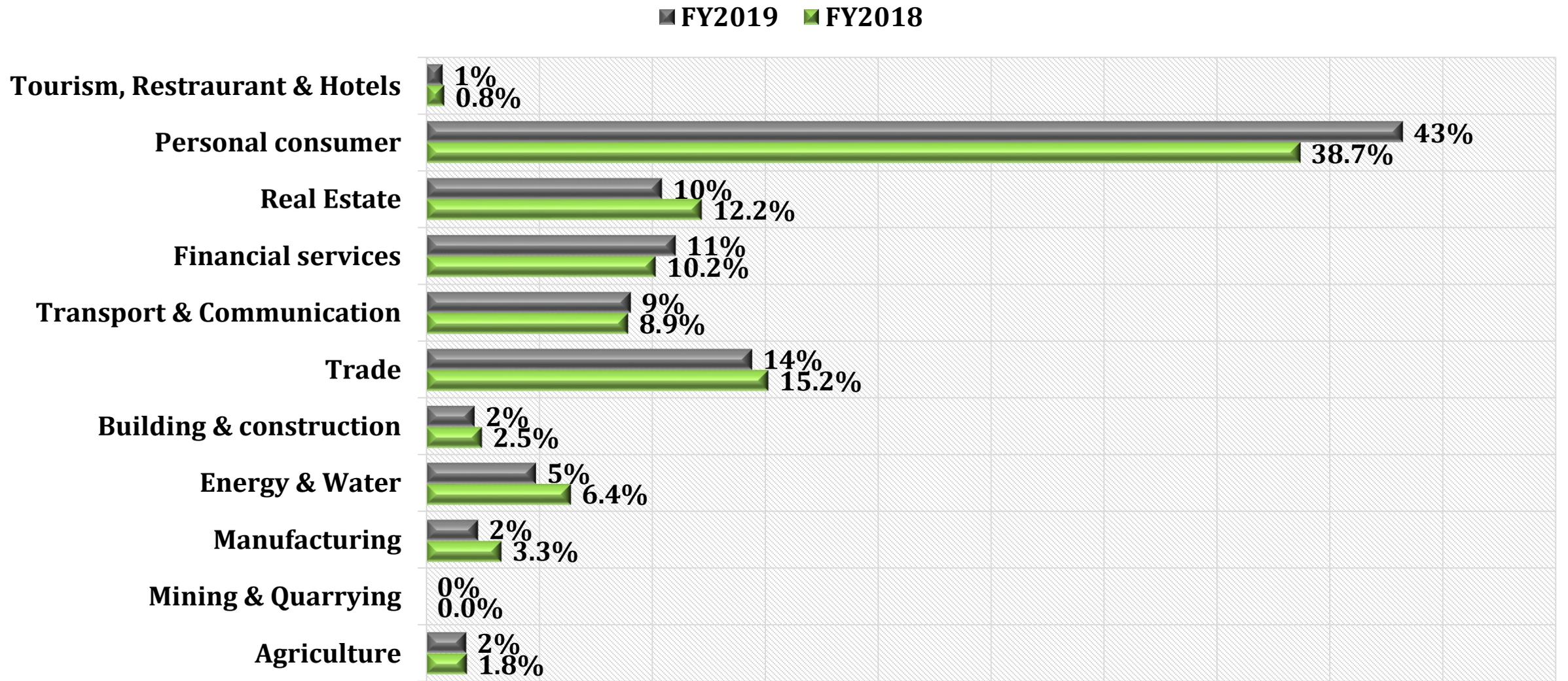
Strong Financial Position (Kshs. Billion)

Kshs. Billions	FY2019	FY2018	% Change (YoY)	
Total Assets	457.0	413.4	10.5%	
Loan book (Net)	266.7	245.4	8.7%	
Government Securities	117.8	80.3	46.8%	
Total Deposits	333.0	306.6	8.6%	
Borrowed Funds	26.4	23.9	10.3%	
Shareholders Funds	79.3	69.9	13.6%	
No. of account holders (Millions)	8.8	8.0	10.0%	

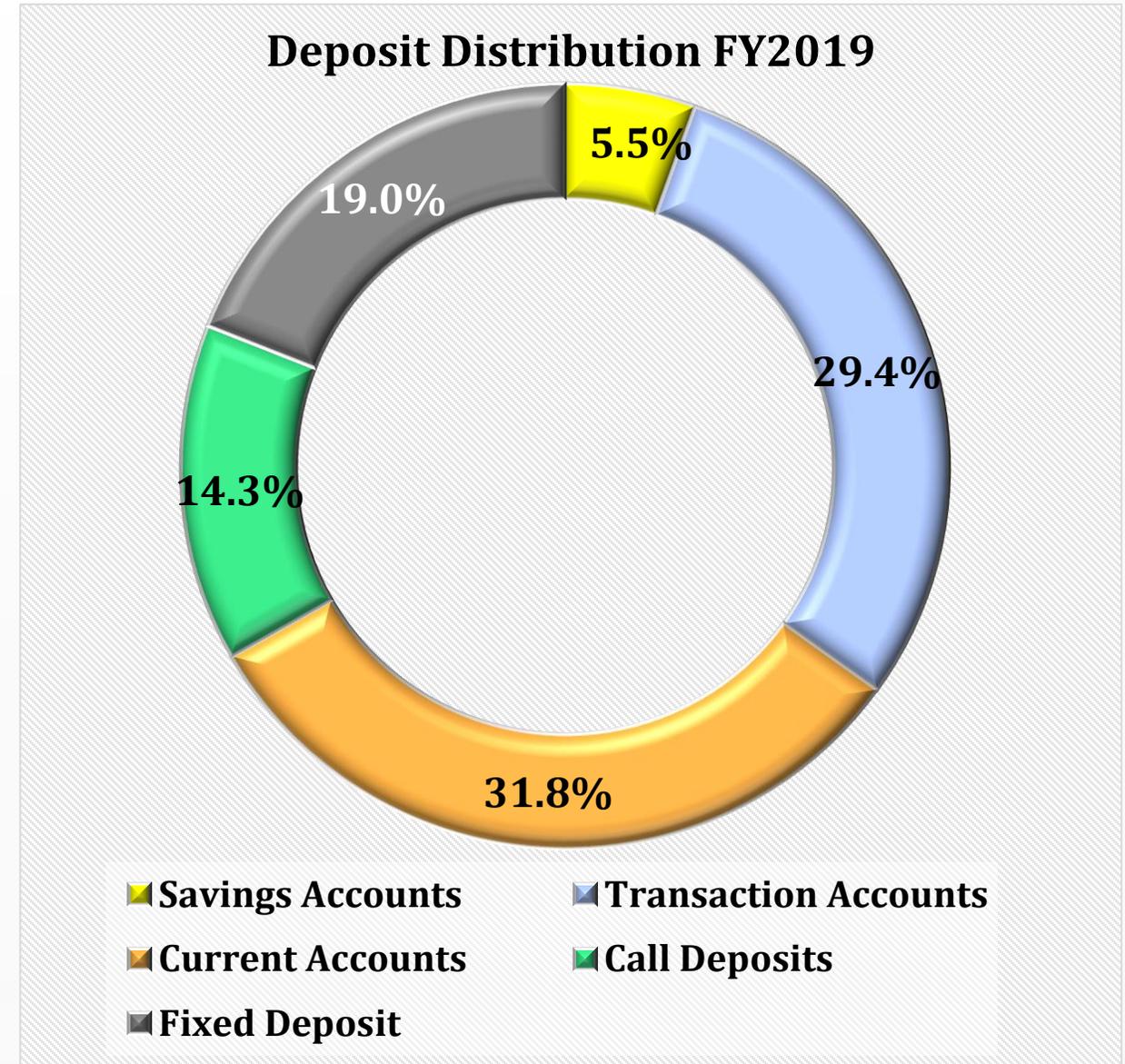
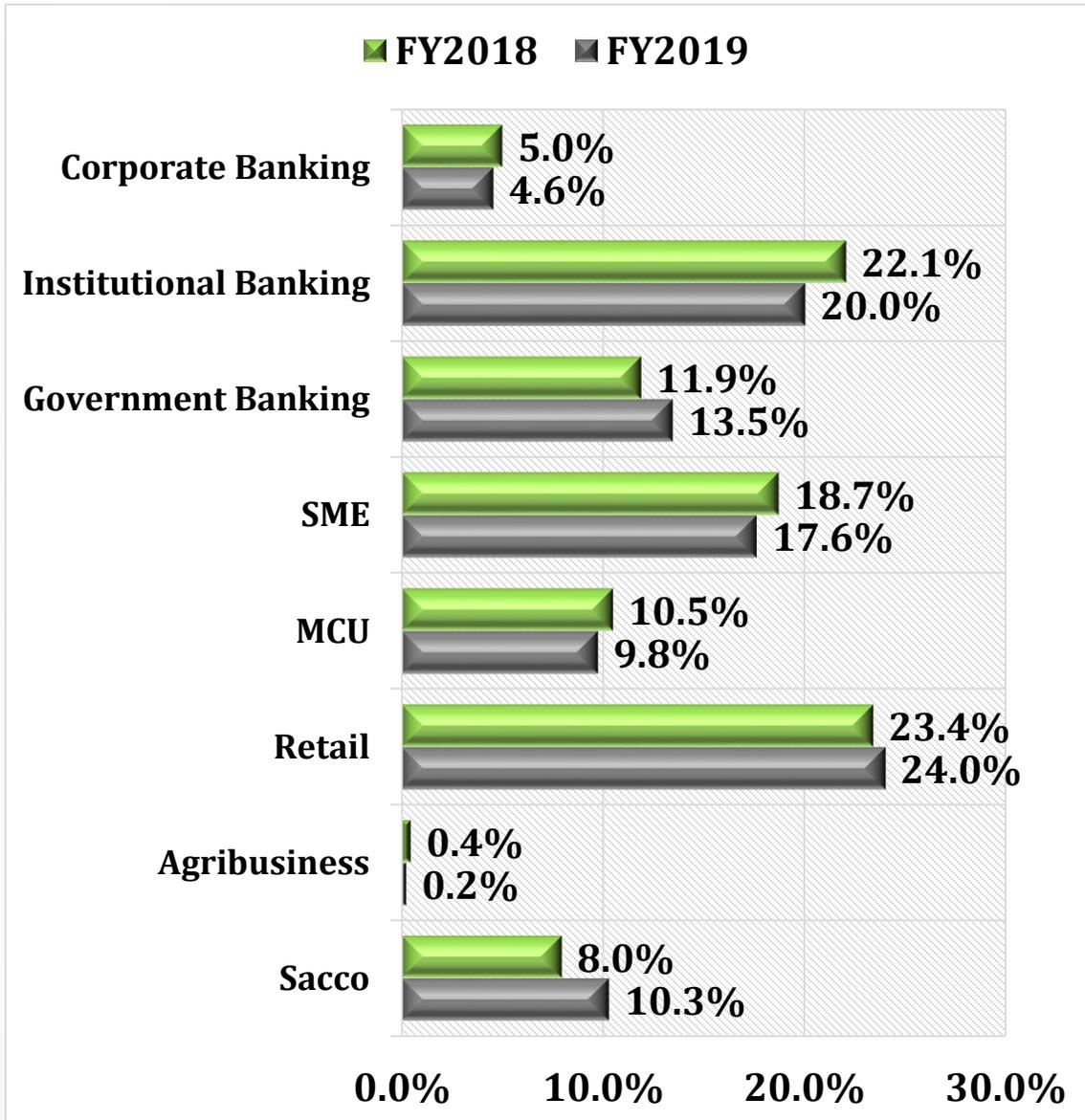
Diversified loan book



Diversified loan book

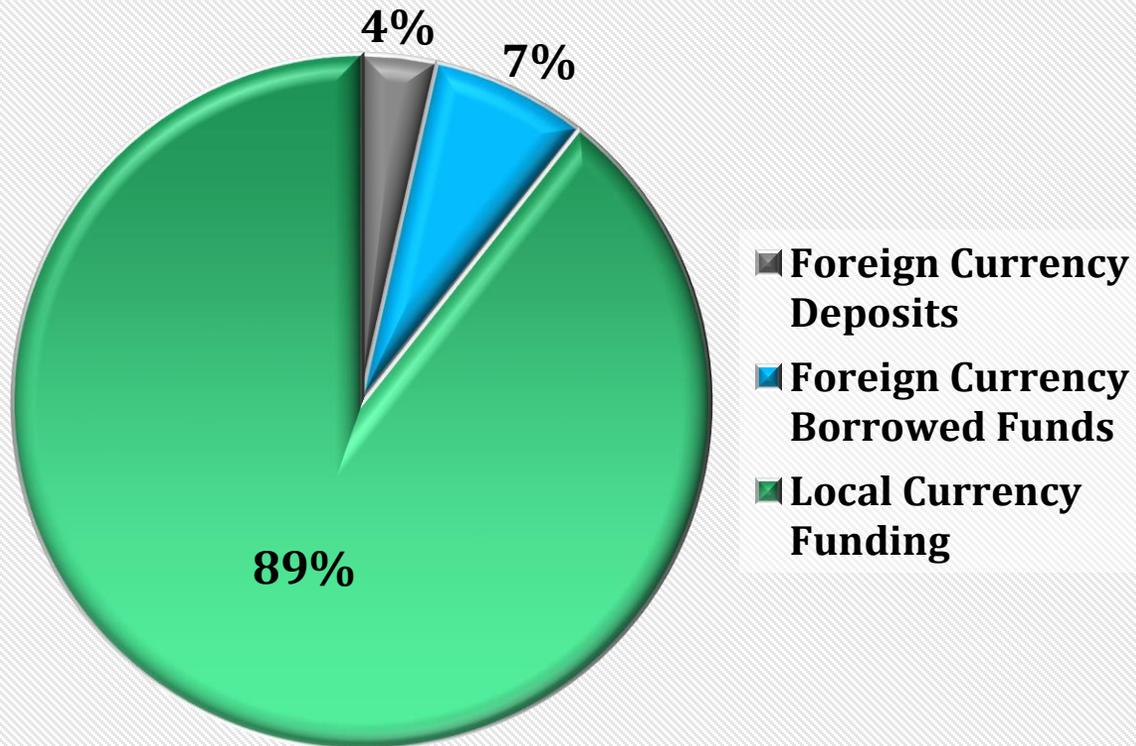


Well-diversified Liability Portfolio

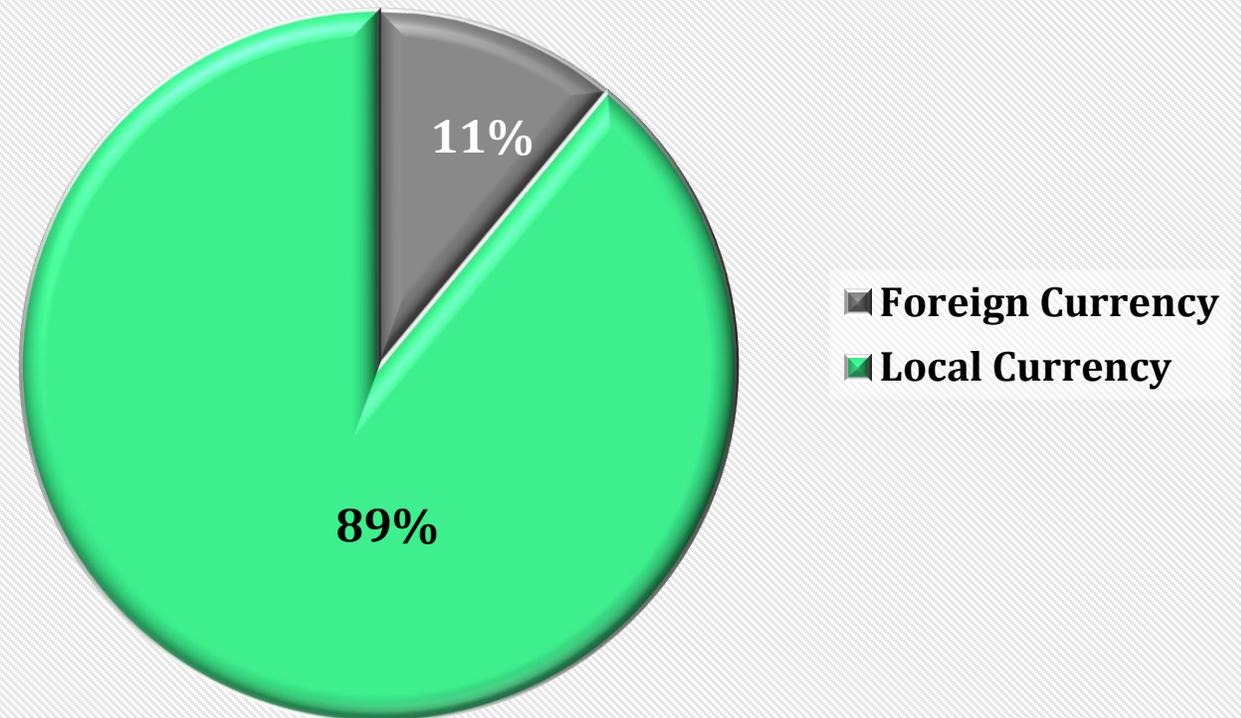


Optimally balanced Kenya Shilling asset & funding book

Funding (Local Vs Foreign Currency) FY2019



Loan Book (Local Vs Foreign Currency) FY2019



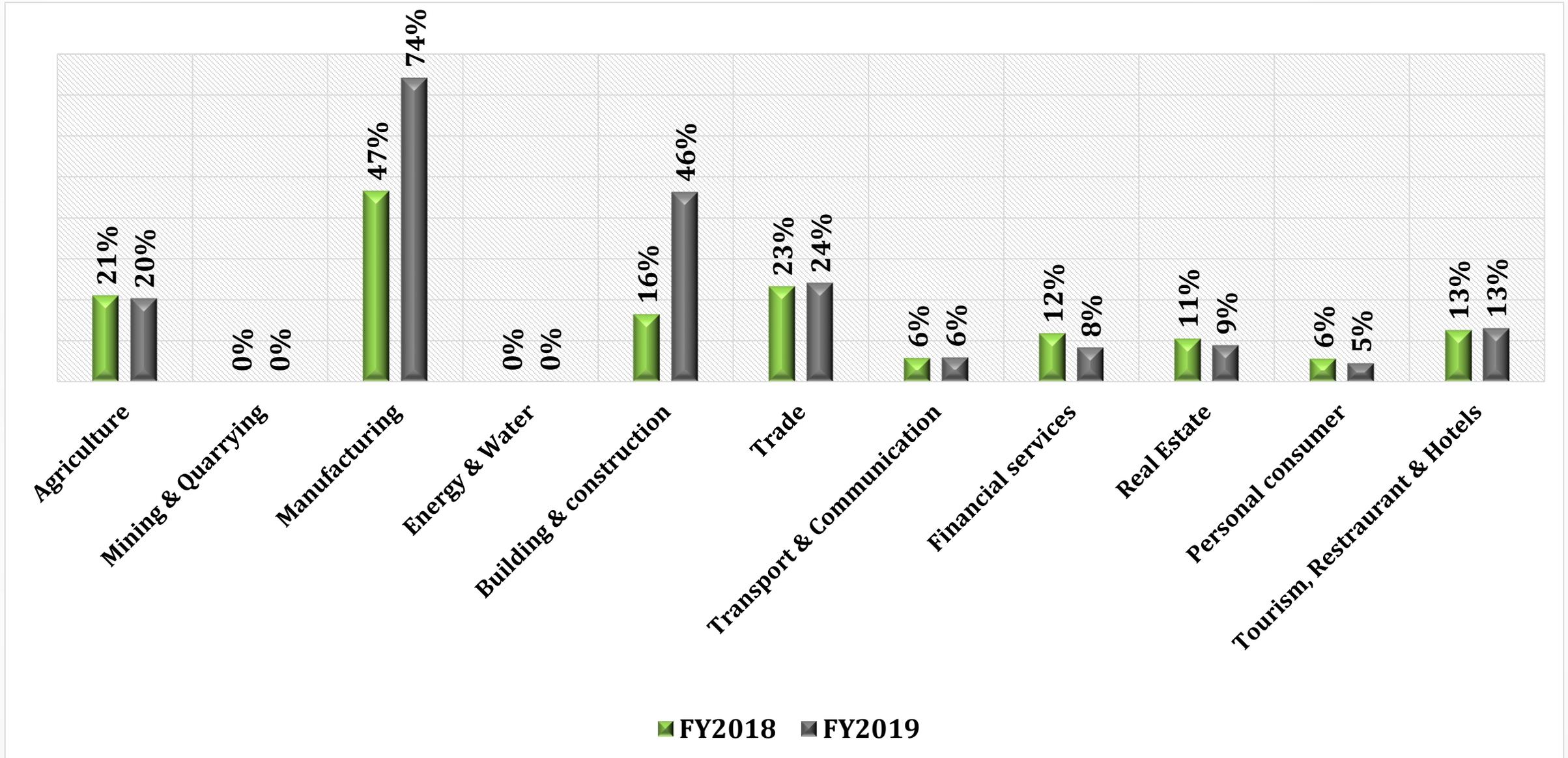
Quality Loan Book - Bank

	FY2019	%	FY2018	%
Normal	226,283	80%	200,946	77%
Watch	26,260	9%	29,723	11%
Substandard	13,257	5%	10,434	4%
Doubtful	17,328	6%	17,977	7%
Loss	570	0.2%	542	0.2%
TOTAL (GROSS)	283,698	100%	259,621	100%
Provisions (IFRS)	18,365		16,075	
NET LOAN BOOK	265,333		243,546	
Gross Non-performing loans	31,156		28,953	

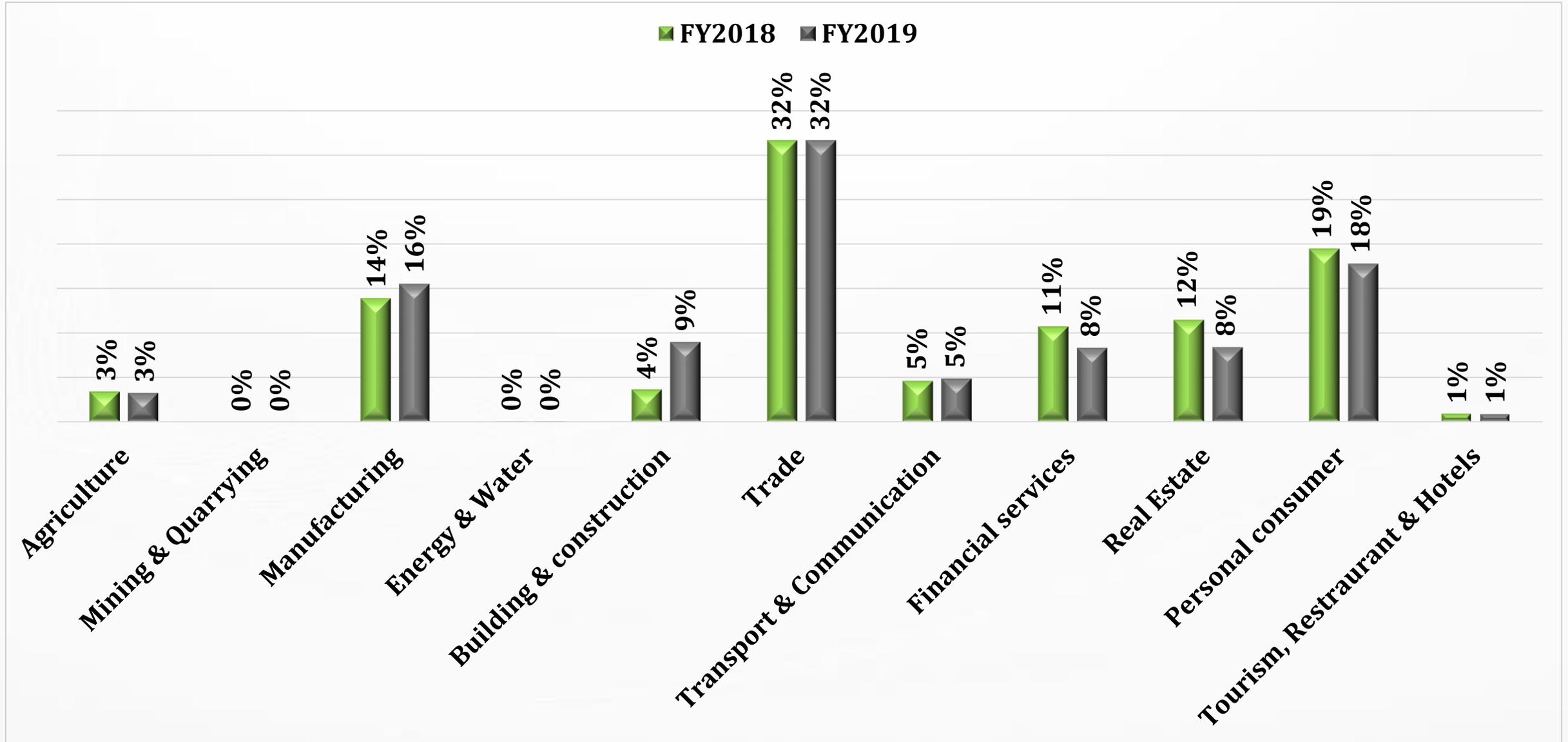
Quality Loan Book – Bank (IFRS 9)

Stage/Grade	Exposure (Kshs. B)	Provision (Kshs. B)
Stage 1	230.88	4.67
Stage 2	26.26	1.68
Stage 3	31.16	12.02
Grand Total	288.30	18.37

Portfolio Trends – Specific Sector NPL By Sector Book

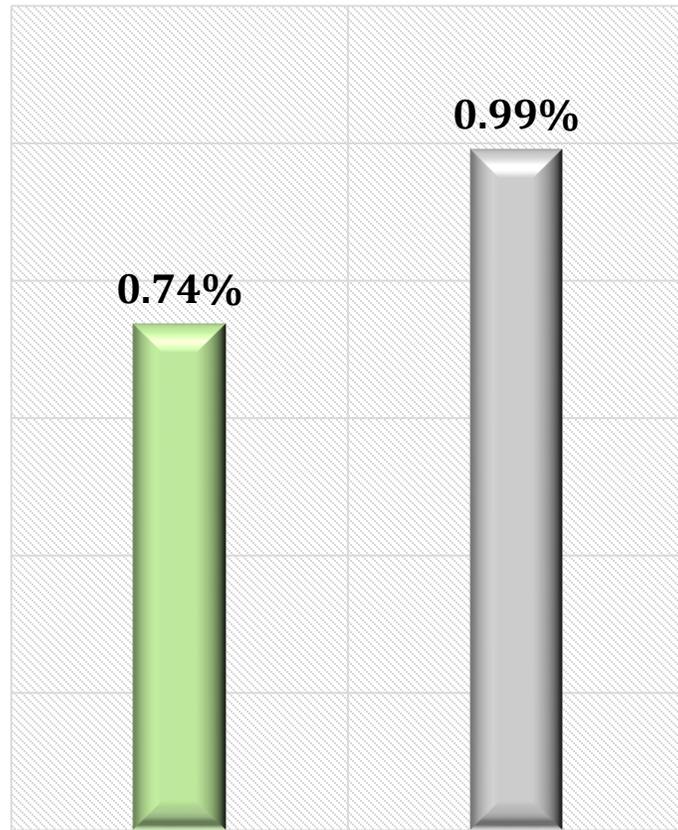


Portfolio Trends – Sector NPL By Total Bank NPL Book



Adequate Coverage

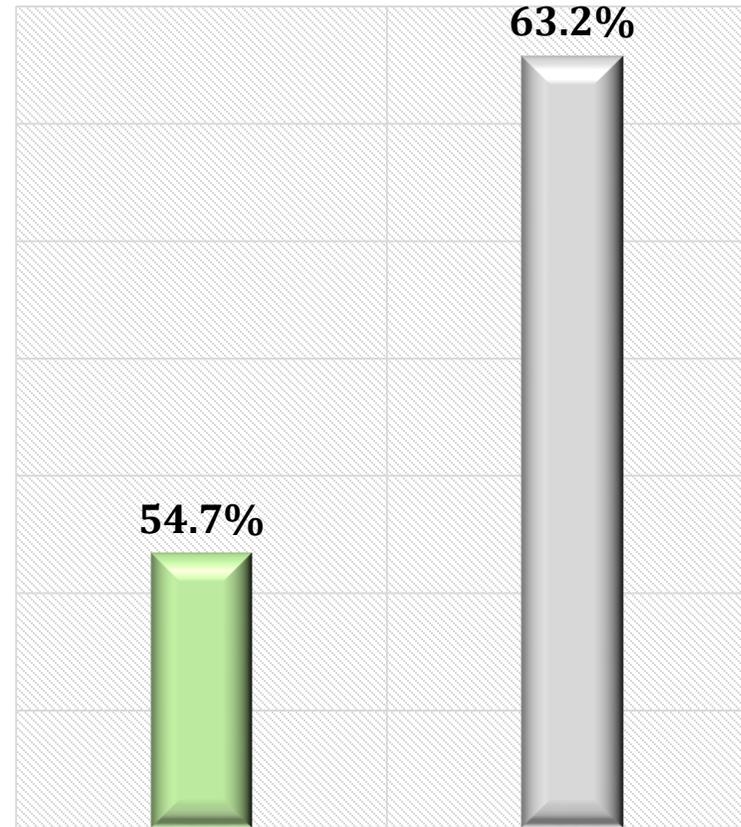
Cost of Risk



FY2018

FY2019

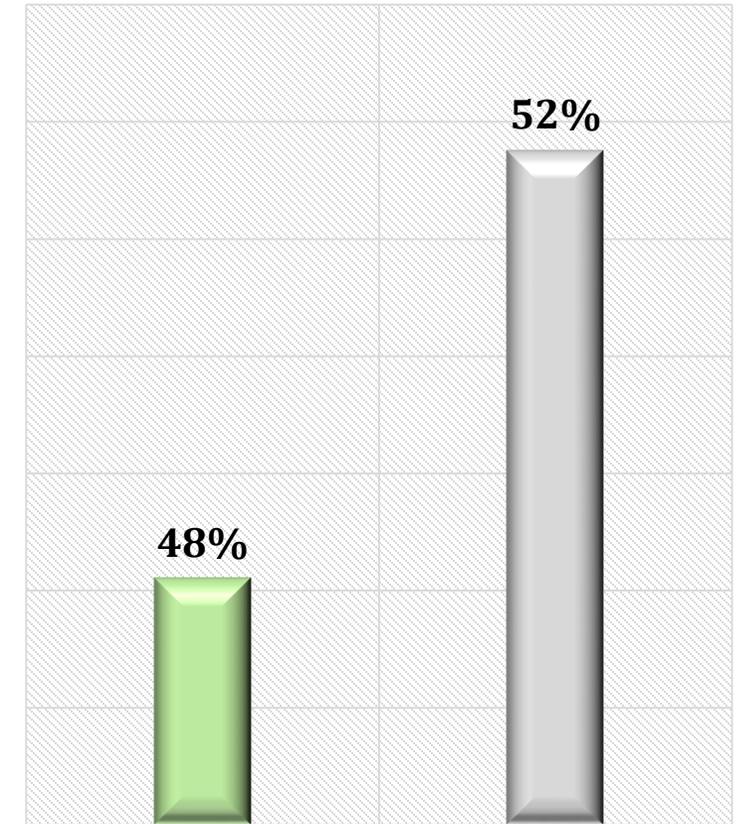
Coverage CBK (Includes Gen. Prov.)



FY2018

FY2019

Coverage (IFRS) Excludes General Provisions

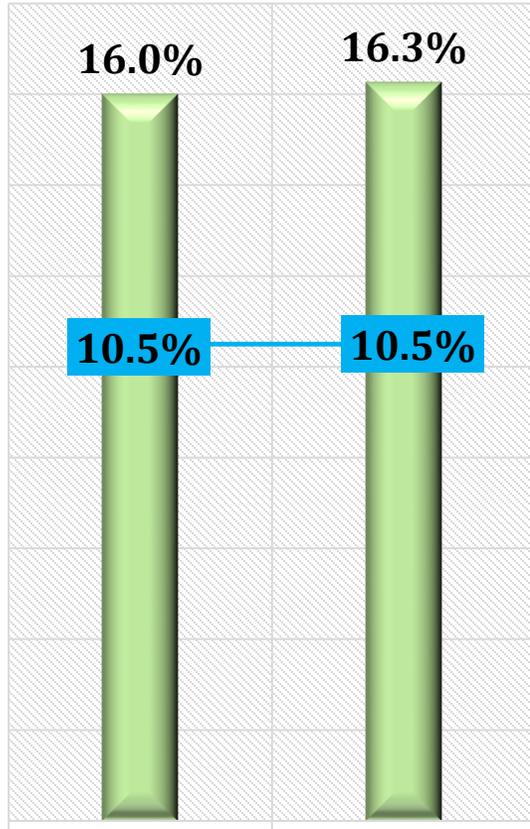


FY2018

FY2019

Strong capital to support future growth

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



FY2018

FY2019

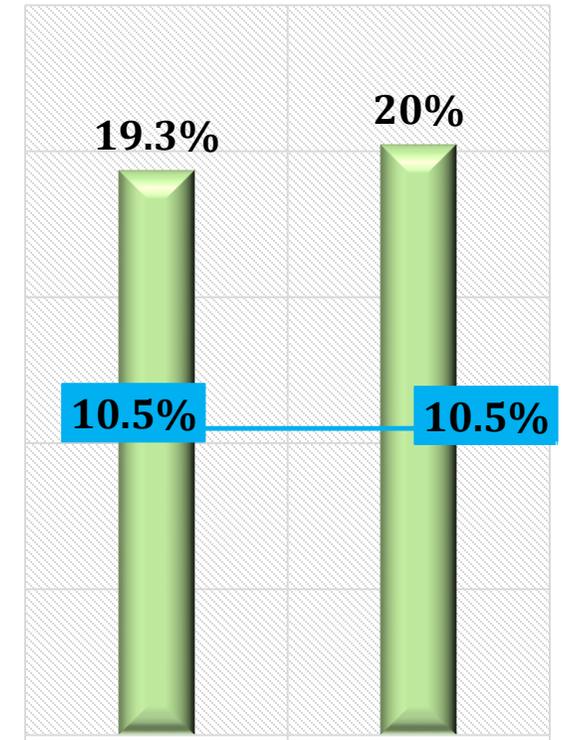
■ Total Capital / Total Risk Weighted Assets
— Minimum Statutory Requirement



FV2018

FV2019

■ Core Capital / Total deposit Liabilities
— Minimum Statutory Requirement

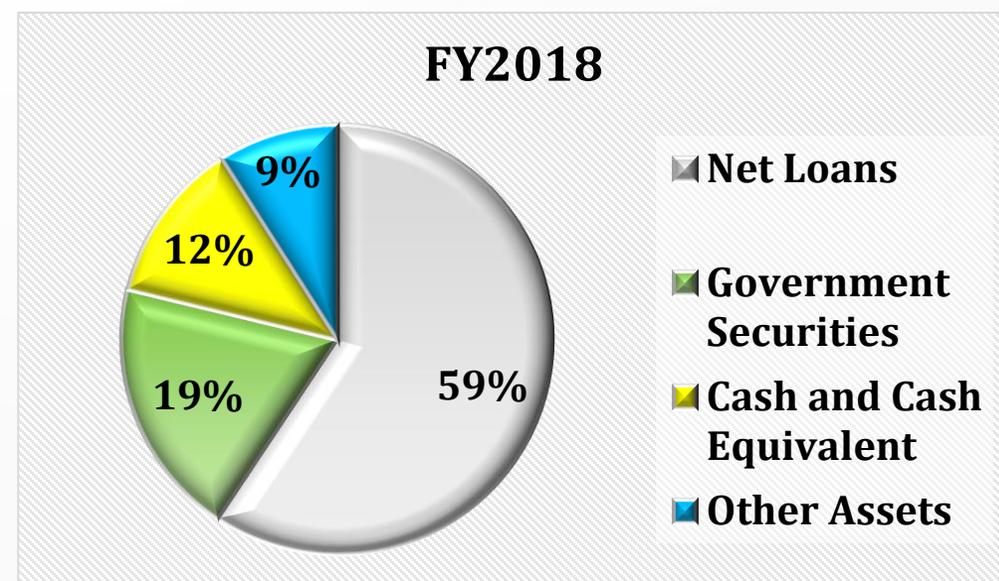
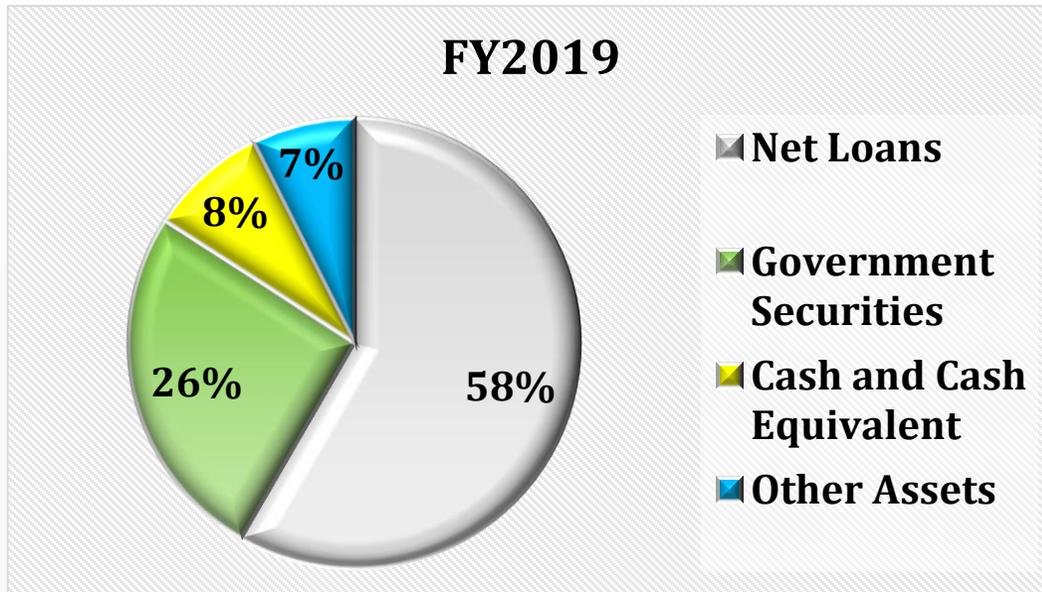


FV2018

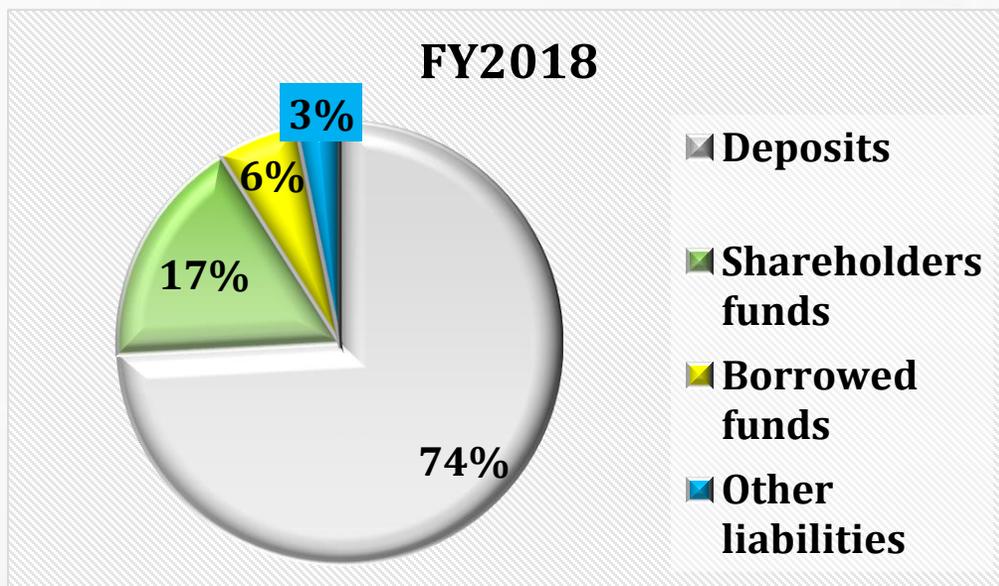
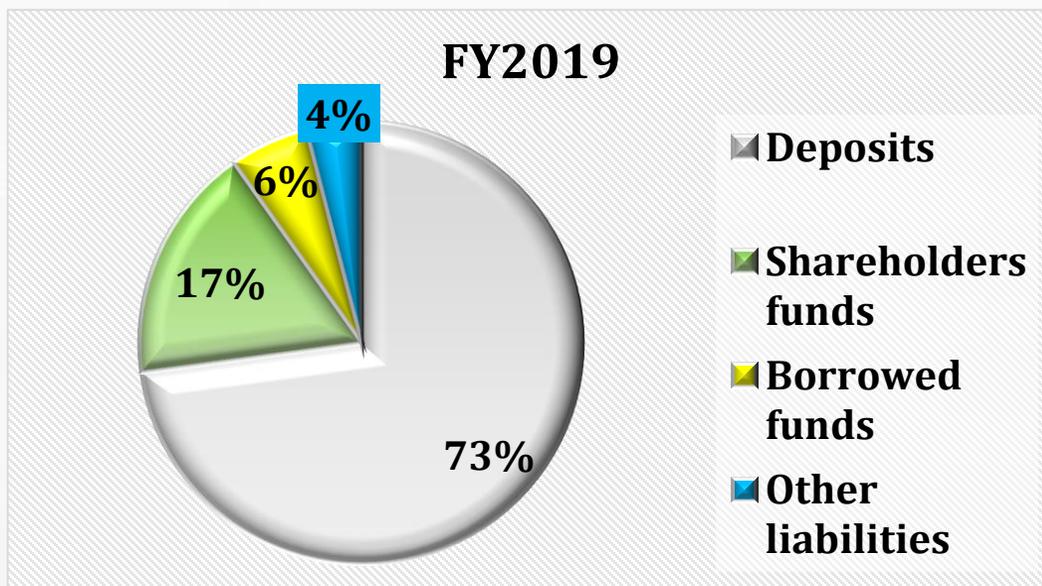
FV2019

Optimal Asset and Funding Mix

Asset Categories

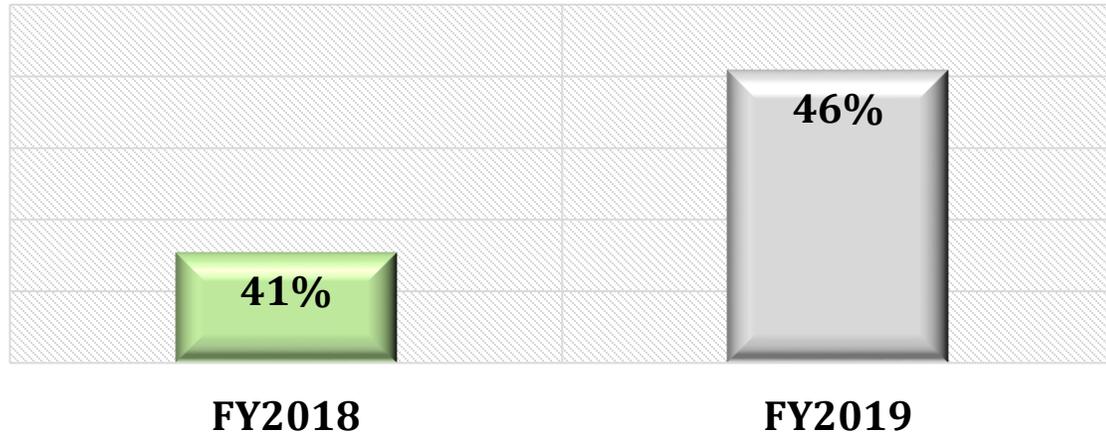


Funding Categories

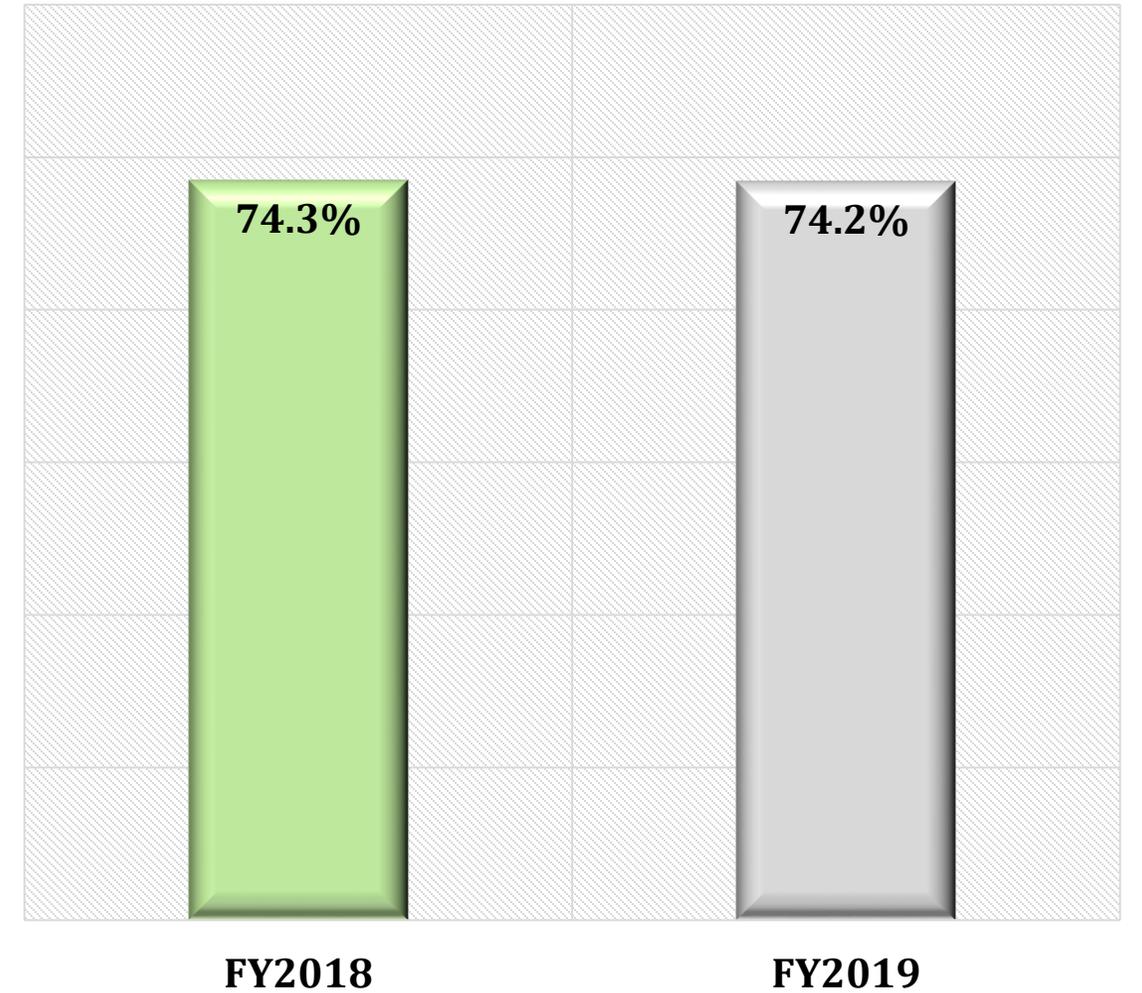


Strong liquidity to support investments

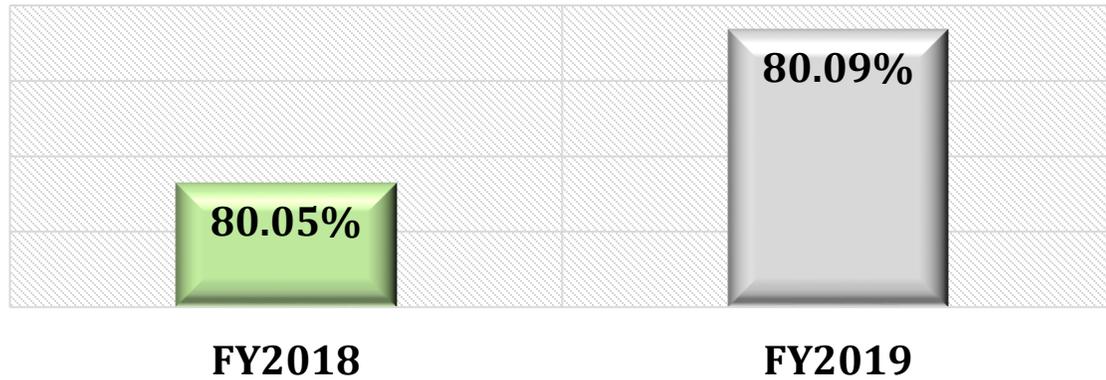
Liquidity



Loans to Deposits+ Borrowed Funds



Loans to Deposit



Improved Subsidiary Contribution

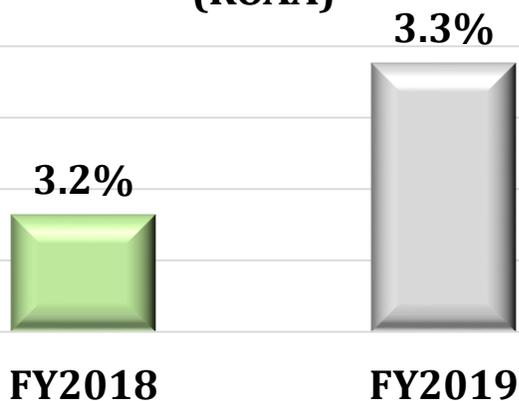
COMPANY	Profit Before Tax FY2019 KShs'000	Profit Before Tax FY2018 KShs'000	Variance	%
The Co-operative Bank of Kenya Limited	20,326,064	17,586,756	2,739,308	16%
Co-op Consultancy & Ins Agency Limited	713,968	475,256	238,712	50%
Co-op trust Investments Limited	90,847	45,003	45,844	102%
Kingdom Securities Limited	(26,807)	(7,234)	(19,573)	271%
Co-operative Bank of South Sudan	(351,599)	(30,778)	(320,821)	1042%
Total PBT before eliminations	20,752,473	18,069,003	2,683,470	15%
Add: Share of profit from associates	40,035	171,416	(131,381)	-77%
Less: Dividends Received from CIC	(86,755)	-83,288	(3,467)	4%
Group profit before tax	20,705,753	18,157,131	2,548,622	14%
Income tax expense	6,394,506	5,424,645	969,861	18%
Group profit after tax	14,311,247	12,732,487	1,578,760	12%

Sustainable Profitability Growth

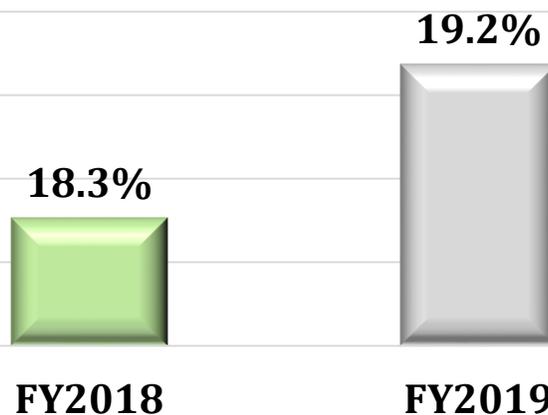
Kshs. Billions (except for EPS)	FY2019	FY2018	% Change (Y/Y)	
Interest Income	43.64	43.02	1.4%	
Interest Expense	12.34	12.24	0.8%	
Net Interest Income	31.30	30.78	1.7%	
Fees & Commissions	12.82	9.52	34.7%	
Forex Income	2.15	2.28	-6.0%	
Other Income	2.19	1.09	100.7%	
Total Operating Income	48.46	43.68	10.9%	
Loan Loss Provision	2.54	1.84	37.9%	
Staff Costs	12.37	11.45	8.1%	
Other Operating Expenses	12.88	12.4	3.9%	
Profit Before Tax and Exceptional Items	20.67	17.99	14.9%	
Share of profit of associate	0.04	0.17	-76.6%	
Profit Before Tax	20.71	18.16	14.0%	
Tax	6.39	5.42	17.9%	
Profit After Tax	14.31	12.73	12.4%	
Basic Annualized EPS	2.44	2.17	12.4%	

Key Ratio's

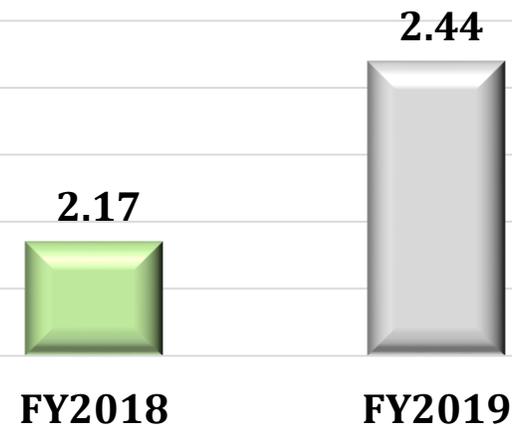
Return On Average Assets (ROAA)



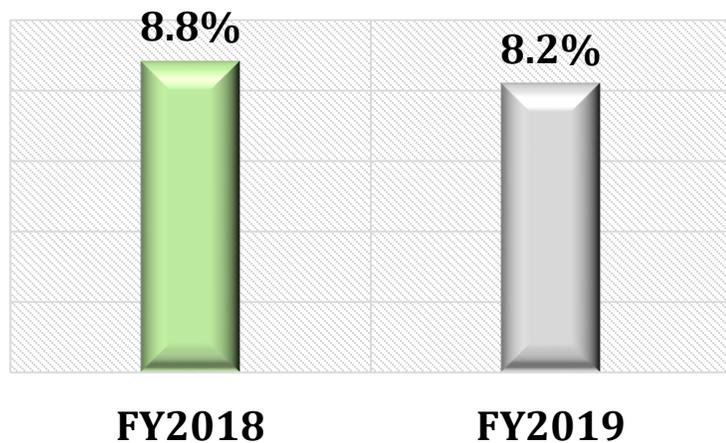
Return On Average Equity (ROAE)



Earnings Per Share (EPS)

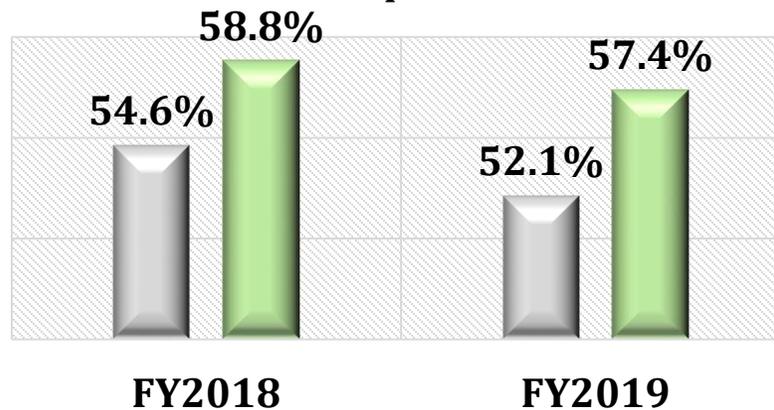


NIM on Earning Assets

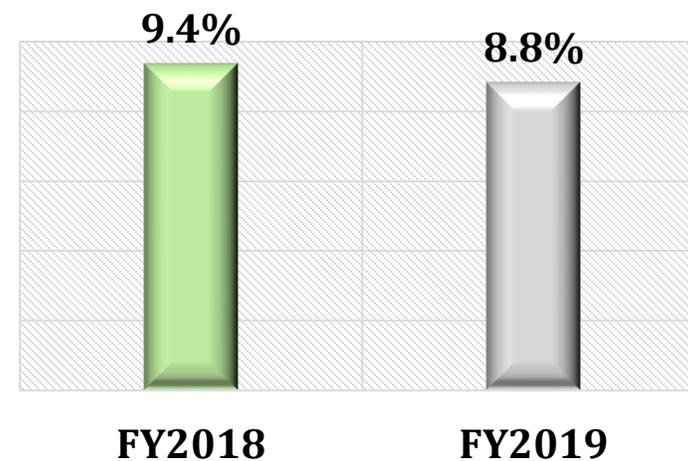


CIR without provisions

CIR with provisions



NIM on Loans



2020 Financial Outlook

	<u>Actual FY2019</u>	<u>Actual FY 2018</u>
Profit Before Tax Growth	14.0%	10.7%
Loans & Advances Growth	8.7%	-3.3%
Deposits Growth	8.6%	6.5%
Cost to Income Ratio	52.1%	54.6%
Non Funded to Total Income	35.4%	28.2%
Return On Average Equity (ROAE)	19.2%	18.3%
Return On Average Assets (ROAA)	3.3%	3.2%
Non Performing Loans (NPL)	9.9%	10.3%
Cost of average funds including borrowed funds	3.6%	3.8%
Net Interest Margin (NIM)	8.8%	9.4%
Cost of risk	1.0%	0.7%
Debt to Equity	33.3%	34.3%

Dividend Payout

The Directors recommend to the members at the forthcoming Annual General Meeting, the payment of a first and final dividend for the year 2019 of Kshs. 1.00 per ordinary share held (2018 - Kshs.1.00)

**Thank
You**