

CO-OPERATIVE BANK OF KENYA

GROUP FINANCIAL RESULTS

ANALYST BRIEFING

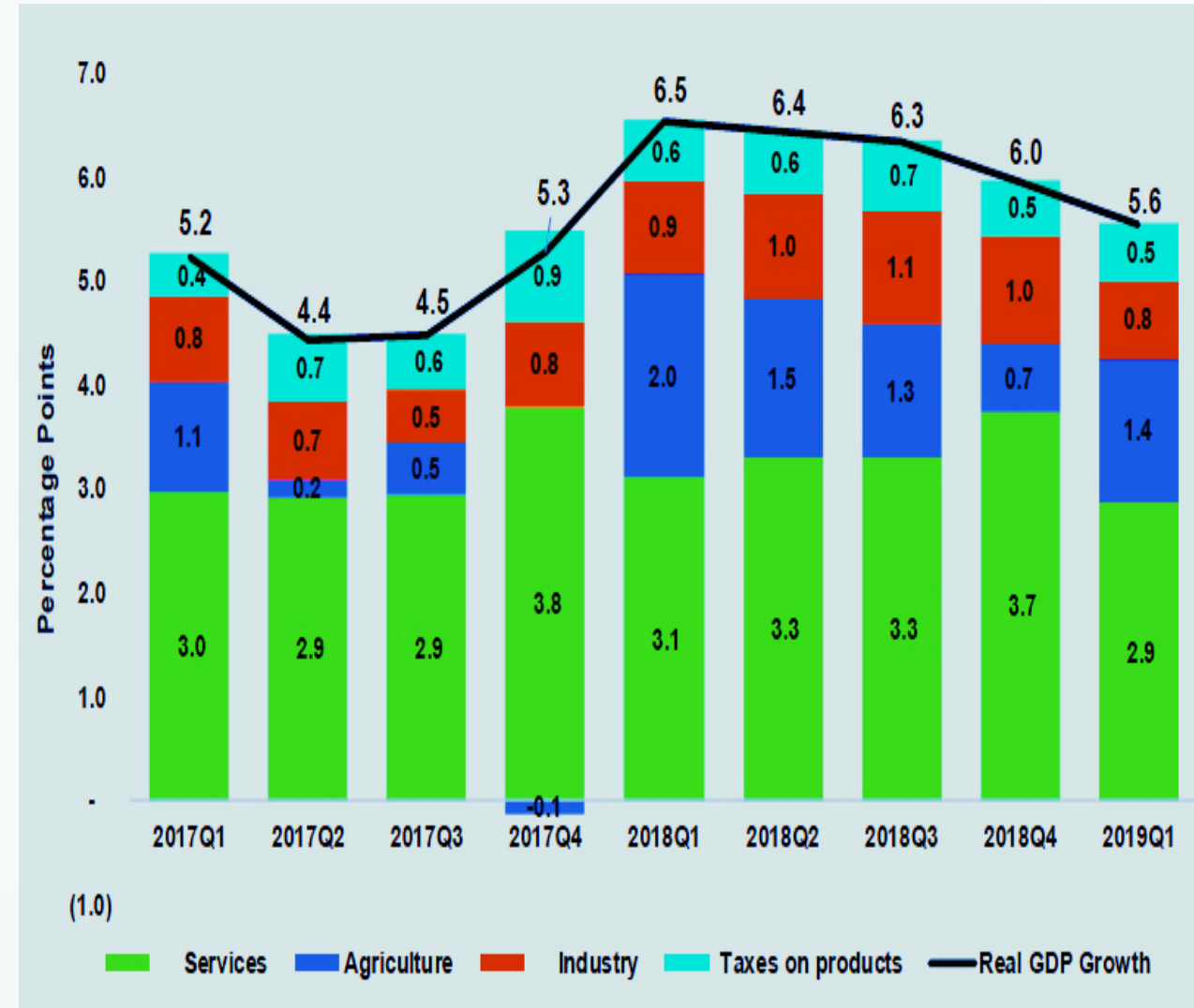
HALF YEAR 2019

23 AUGUST 2019

MACRO ECONOMIC HIGHLIGHTS

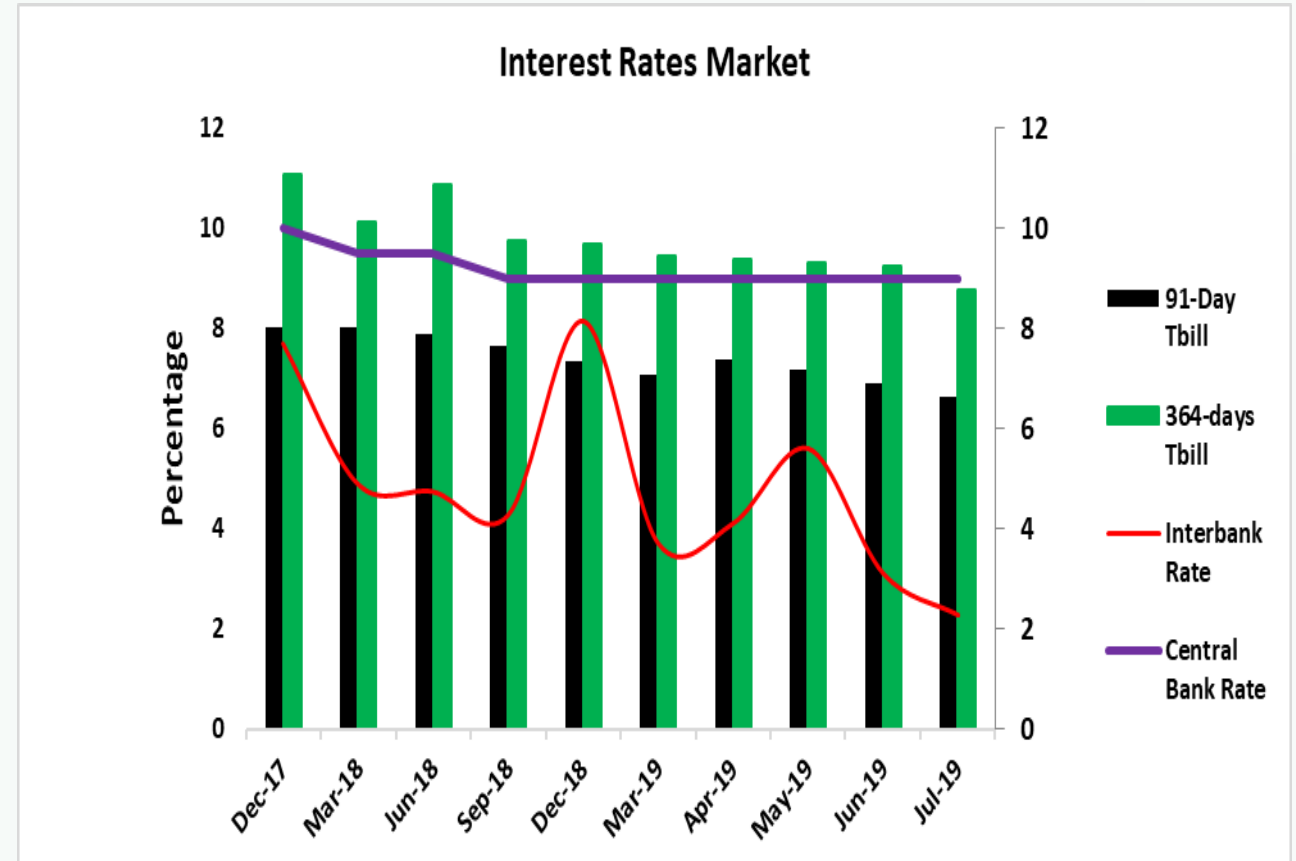
ECONOMIC GROWTH

- Economic growth decelerated to 5.6% in the first quarter of 2019 compared to 6.5% recorded in the first quarter of 2018. Most of the sectors registered slowed growth which points to a general economy-wide weakness.
- wholesale, retail , trade, ICT, transportation and tourism recorded higher growth
- We expect tourist arrivals to increase as we move into the peak season of August to December. This will further cushion the KES exchange rate.
- Looking into the second half of 2019, economic growth is likely to be held back at the current range of 5% to 6% by low private sector credit growth, high food prices and low export earnings from agricultural exports due to the current dry spell.



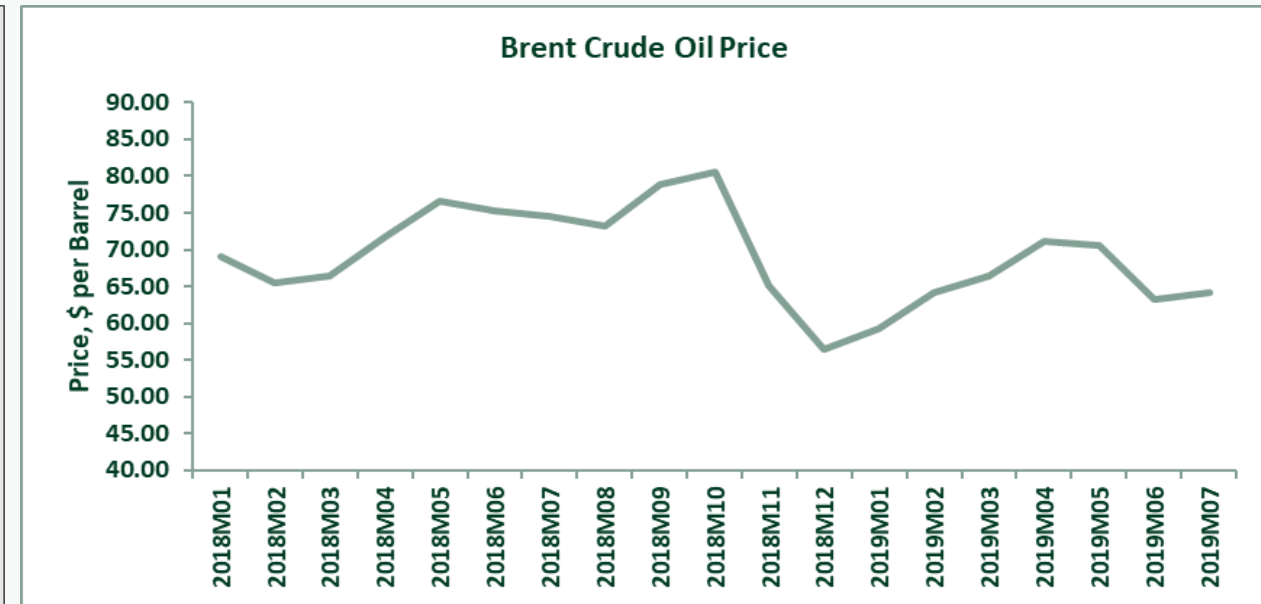
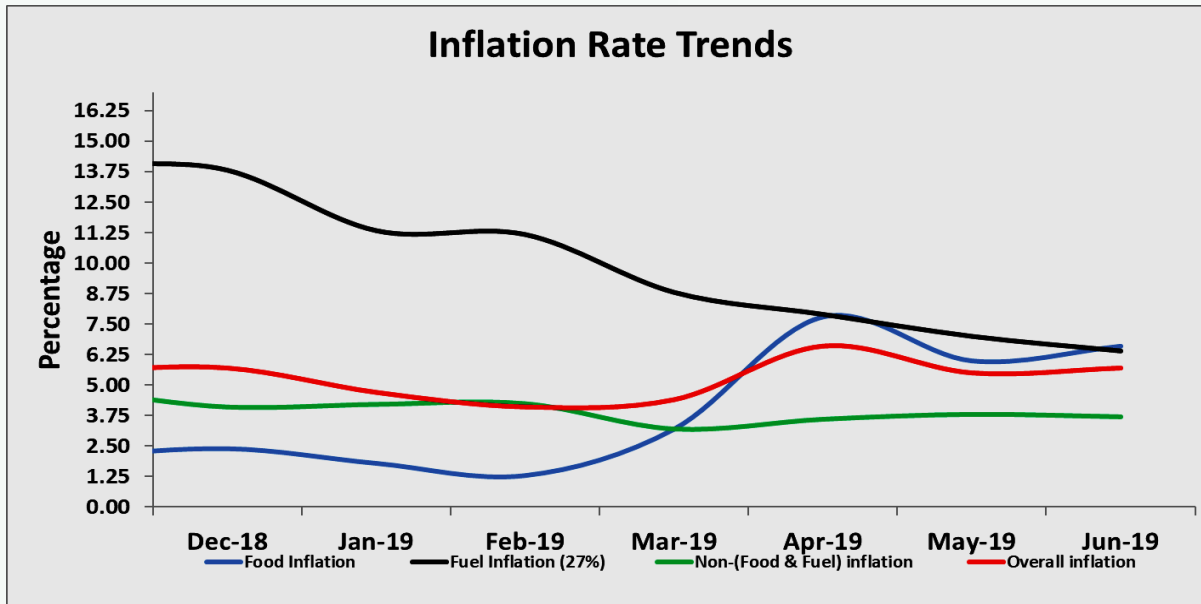
SHORT TERM INTEREST RATES

- The money market remained fairly stable in 1H 2019.
- The yields on short term government paper have not significantly moved during the year. Interest rate on 91-days, 182-days and 364-days Treasury bills were 6.7%, 7.5% and 8.8%, respectively at the close of 2Q2019 compared to 7.7%, 9.6% and 10.5%, respectively for 2Q 2018.
- The average interbank rate also fell to 3.5% in the 1H2019 compared to 5.3% in 1H2018 indicating higher liquidity in the banking sector.
- The MPC has retained CBR at 9.0% in 2019. CBR had been 10% from September 2016 to 19th March 2018 when it was revised to 9.5%, then to 9% on 30th July 2018.



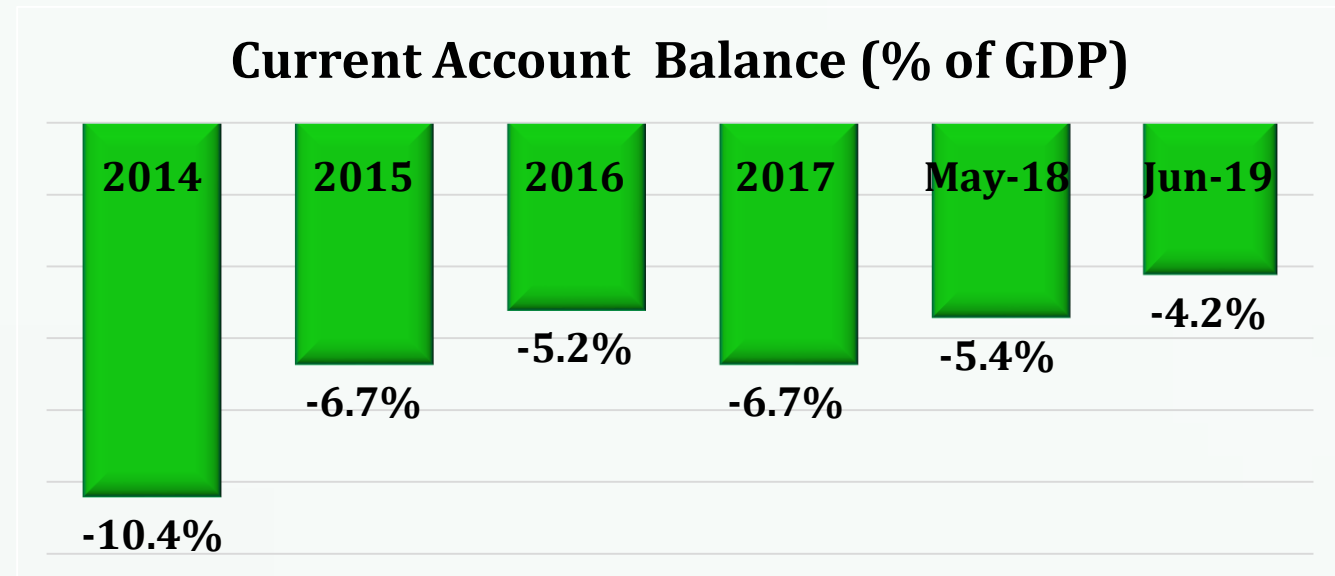
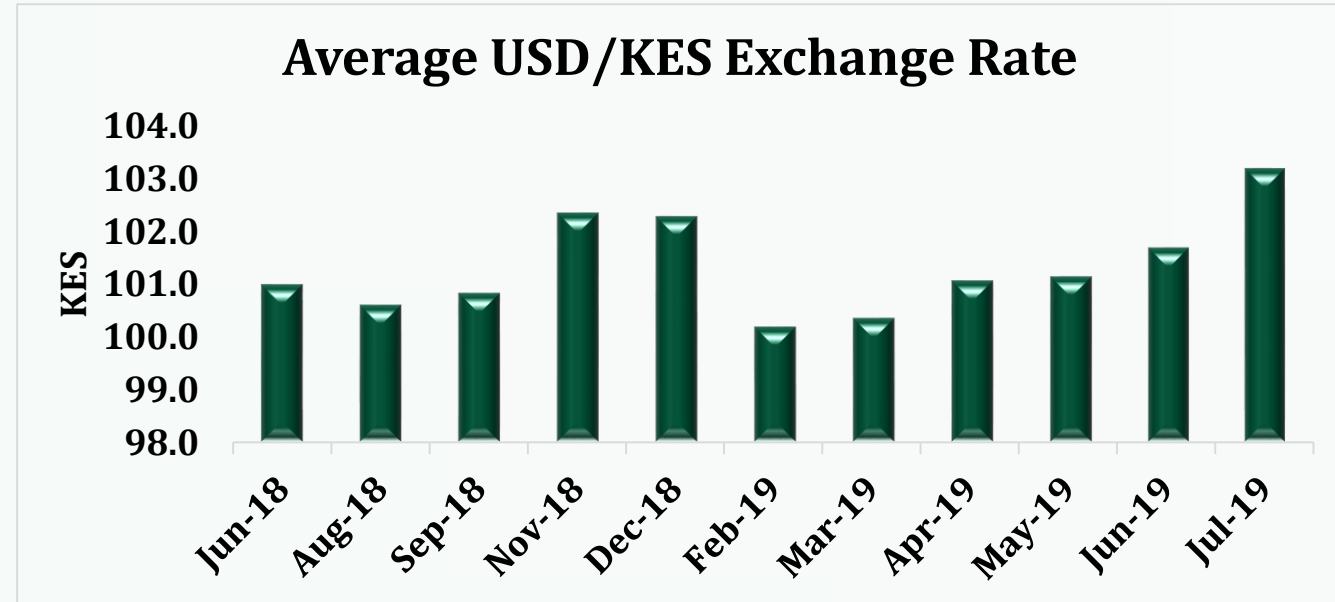
INFLATION RATE

- Inflation rate remained fairly stable in 1H2019 at 5.2% on average compared to 4.2% in a similar period last year. It however rose to 6.3% in the month of July.
- Food inflation rose from 2.4 % in 1H2018 to 4.5% in 1H2019 on account of increased food prices due to the delayed and below-normal long rains in March.
- Overall inflation is expected to pick up slightly in Quarter 3 due to an increase in cereals and flour prices. However, this should fall in Quarter 4 following the harvest season in Rift Valley and Western Kenya.
- The level of core inflation has remained worryingly low, indicating lack of demand pressure in the economy.



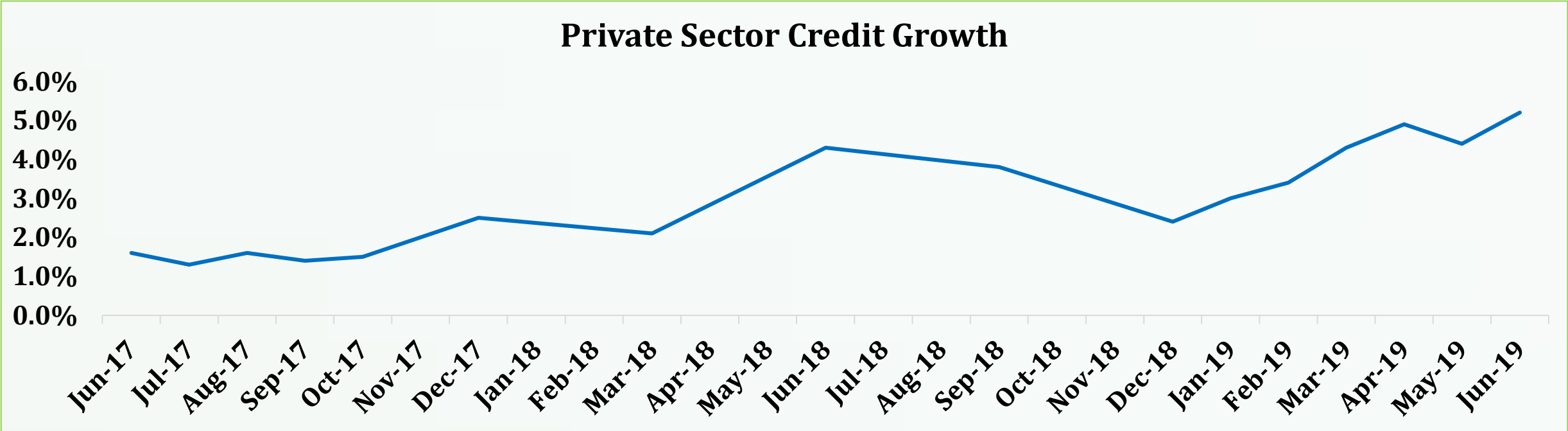
KES EXCHANGE RATE

- The KES currency has remained fairly stable between January and June.
- However, since Mid-July, the currency has been on a marginal depreciation against the USD.
- As at close of July, the currency had weakened to a rate of 104.2 to the dollar compared to 101 in January 2019.
- The Current Account Deficit has narrowed down to 4.2% in June 2019.



PRIVATE SECTOR CREDIT GROWTH

- Private sector credit growth is still low. It grew at 5.2% in the 12 months to June 2019 up from 4.3% recorded in June 2018
- Most of the lending was to households, manufacturing and trade.
- Commercial banks are still unable to price in some borrowers' credit risk premium within the current loan pricing regulation of CBR+ 4%.



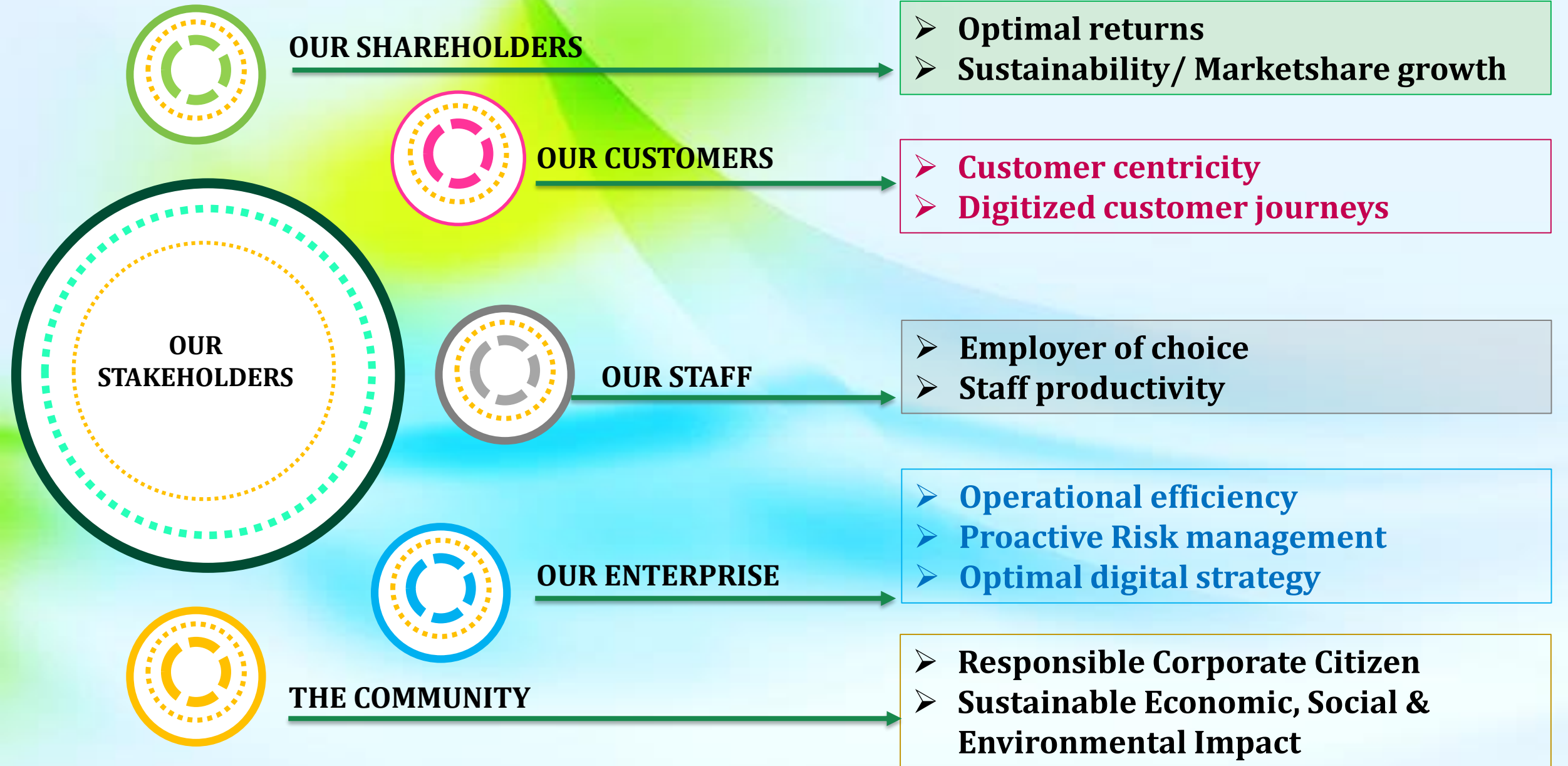


SOUTH SUDAN

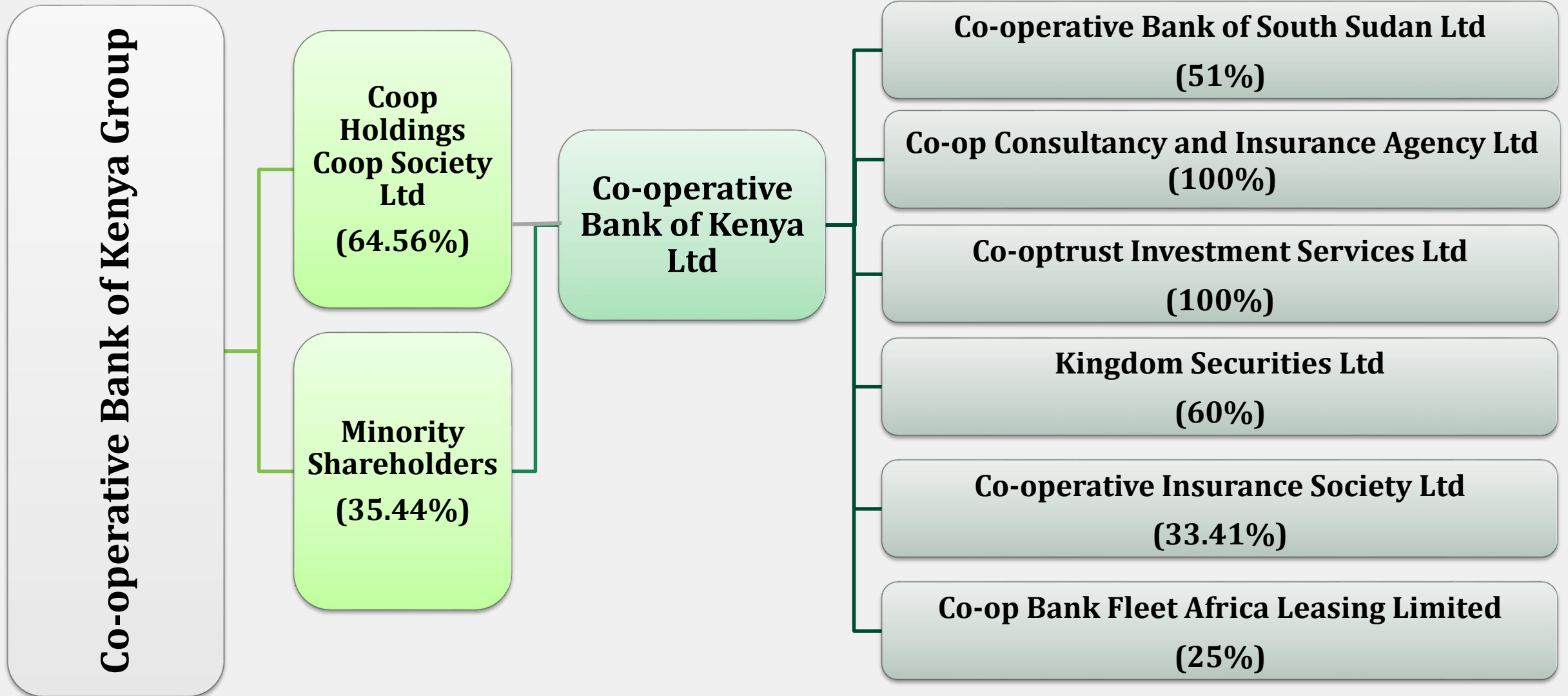
- The peace agreement signed in September 2018 has improved the prospects for lasting peace and economic recovery.
- The cessation of hostilities last year has already enabled the reopening of some damaged oil wells, which pushed up daily oil production (export) by about 20% in the first half of 2019.
- Inflation has gradually declined to average below 40% in 2019 from a peak of 550% in September 2016.
- The Government has made significant progress on removal of domestic fuel subsidies.
- South Sudan Government has made efforts to reverse fiscal dominance by reducing central bank budgetary financing, which contributed to lowering inflation.
- A sustainable medium-term outlook will however, require a combination of sustained improvements in the political and security situation, budgetary discipline, and enhanced oil revenue management.

STRATEGIC FOCUS

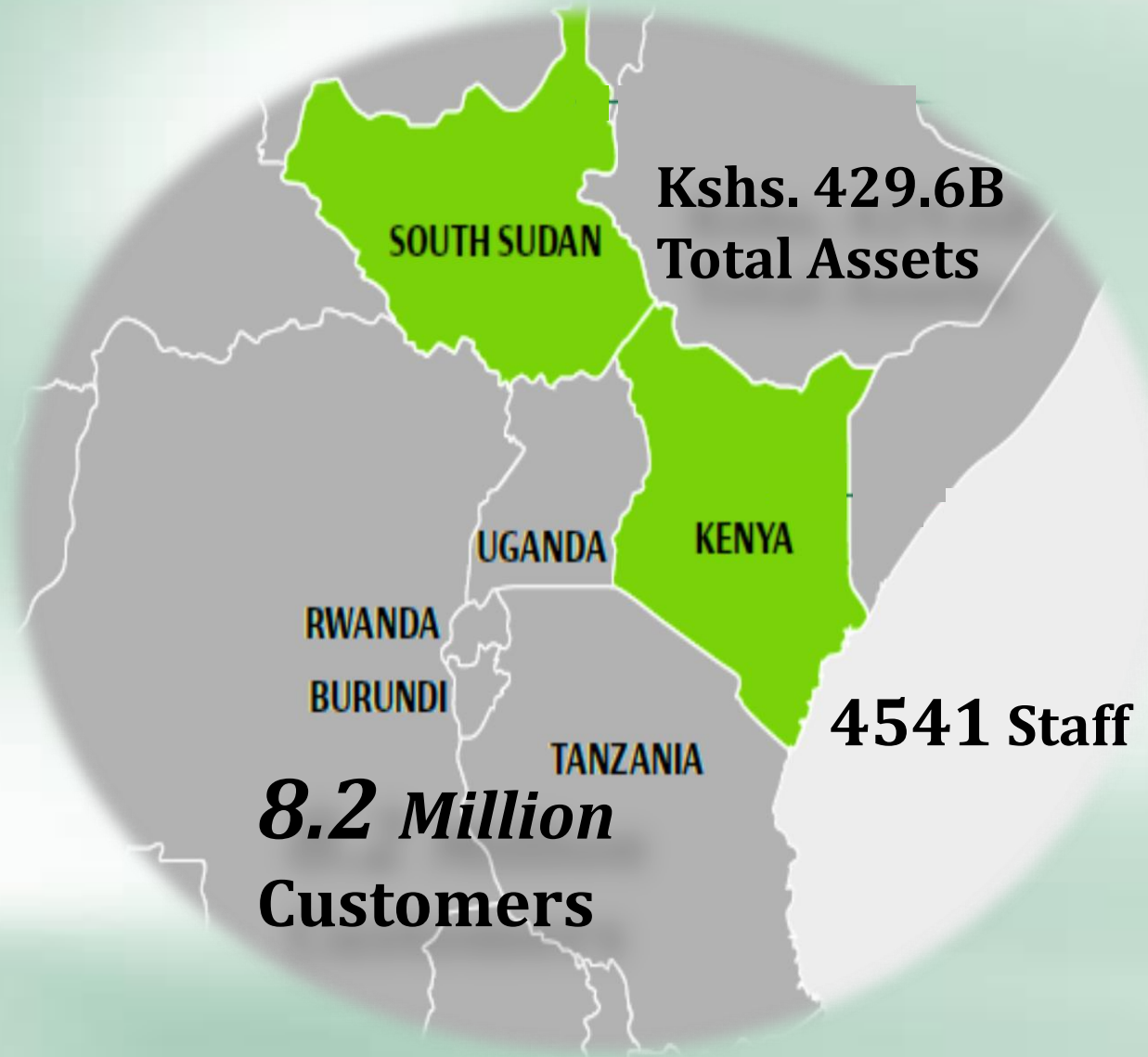
Our Strategic Focus



Co-operative Bank of Kenya Group Structure



Our Presence



156 Branches

4.6 Million+ Mcoop cash mobile banking

12000+ Co-op Kwa Jirani Agents

585 ATMs

87K+ CoopNet- Internet Banking

464 Sacco Front Offices Branch network

16K Diaspora Banking Customers

Our Business: A Successful Universal Banking Model

We enable our customers to;

Save

Borrow

Invest

Insure

Retail and Business Banking (Over Kshs.142B Loan Book)

Corporate, Government & Institutional Banking (Over Kshs.109B Loan Book)

Co-operatives Banking (Over Kshs.24B Loan Book)

Fund management (Over Kshs.93B, FY2018 Kshs. 40.5B)

Consultancy and capacity building for the Co-operative movement (2700 mandates to date)

Insurance Brokerage 32% (YoY) growth in Insurance Commission

Stock Brokerage

Leasing- Kshs.4 Billion disbursed

“Soaring Eagle” Transformation Initiatives

Key Pillars

- 1 Branch Transformation: Customer Experience & Retail SFE**
- 2 MSME Transformation**
- 3 Sales Force Effectiveness**
- 4 Shared Services & Digitization ‘The Digital Bank’**
- 5 NPL Management & Credit processes**
- 6 Cost Management**
- 7 Data Analytics**
- 8 Staff Productivity**

MSME Transformation

- ✓ Supported by IFC
- ✓ Focus on Small and Medium Enterprises
- ✓ Training for MSME's: 3600 trained
- ✓ 46,700 Business customers on boarded so far on Bronze, Silver and Gold packages.
- ✓ 80,249 business loans disbursed on Mobile valued at 3.38 B.
- ✓ 22 Supply chain anchors onboarded so far with a value chain of 81 suppliers, 1162 loans
- ✓ Segment focused RMs/ Business Bankers who are customer centric
- ✓ Efficient lending process with reduced TAT for decision and reviewed loan products
- ✓ Continuous MSME customers empowerment forums in all regions and international exposures.

Sales Force Effectiveness for Co-operatives and Corporate

- ✓ In collaboration with IFC
- ✓ Re-organizing our relationship management model for Corporate Banking, 590 new clients have been identified for onboarding in 2019.
- ✓ Re-organized our Co-operatives banking teams, 1,100 new cooperatives and new Agri-value chains identified for onboarding in 2019.
- ✓ Operationalization of sector focus and targeting, as well as revamping structured and commodity finance
- ✓ Diversification into NFI through new frontiers e.g. Supply chain finance, e-commerce and digital channels

Branch Transformation : Retail SFE, Operational and Alternative Banking channels Excellence

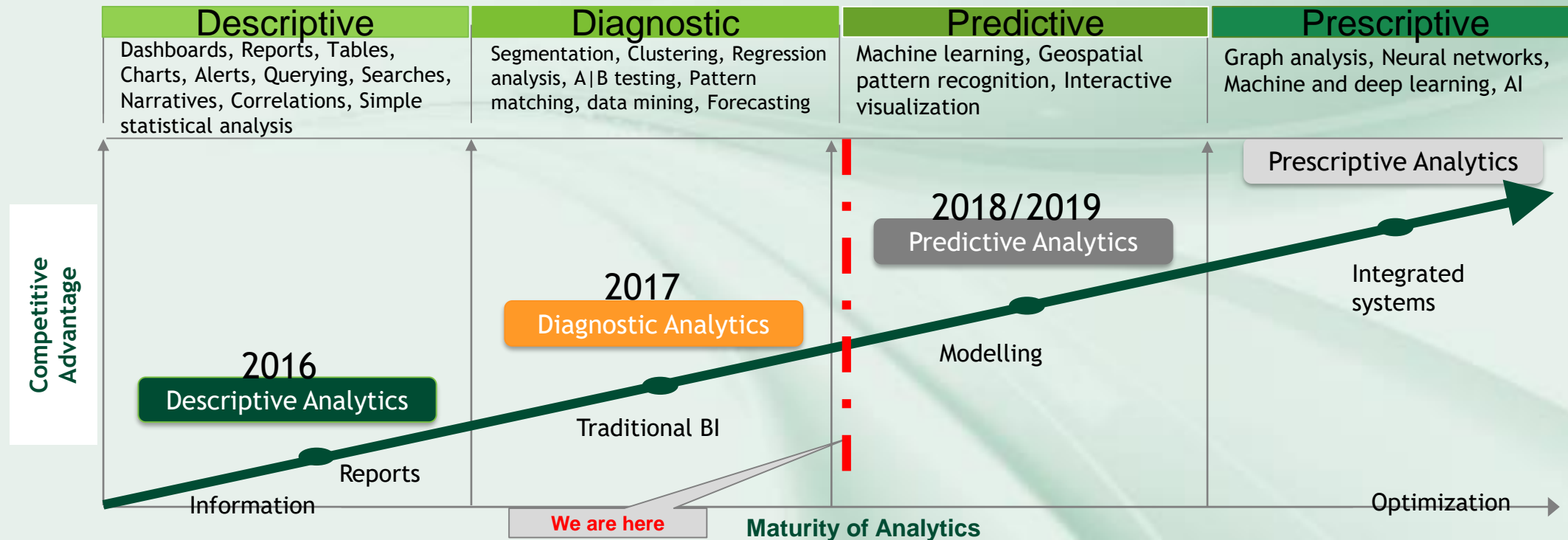
- ✓ E-credit growth focus - Currently disbursing over Kshs 4B monthly and with a target of Kshs. 10B per month
- ✓ Leverage alternative channel for Sales
- ✓ Focus on new and emerging realities e.g. AML KYC, E-Credit, Merchant business
- ✓ 7 transformation focus areas for 2019 -
 - ✓ Insights Driven Campaigns
 - ✓ Product Holding: Customer Engagement Form
 - ✓ CRM: Effective Leads utilization
 - ✓ Higher Transactions Per Second
 - ✓ E-credit Support
 - ✓ Higher operational efficiency
 - ✓ Sustainability & Performance rhythms
- ✓ Transformation recalibration to prescriptive activities;
 - Originate sales campaigns at various levels and track activities leading to conversion

Shared Services & Digitization 'The Digital Bank'

- Omnichannel/seamless digital offering Implementation - Go live in august 2019
- CRM 365 implementation as single source of sales information. Fully adopted across the bank. Linked with Data and Analytics for lead generation and scripting for campaigns.
- Open banking - Leveraging Market Places and Customers to grow Non Funded Income
- End to end digitization of loan processing and account opening - BPMS system implementation.
- E-commerce business growth through secure online payments through Verified By Visa enablement
- Money Transfer Organizations partnerships to drive international remittances
- Innovations and partnerships framework of engagement with fintechs developed
- Business to Business (B2B) integration developed.

Data and Analytics

- Drive sales - E-credit leading through mobile, lead generation for front-line sales teams
- Performance management - leveraging data for visibility
- Drive proactive credit management - leverage of early warning reports, trends and post delinquency reports for all loan facilities for proactive remedy.



NPL Management & Credit processes

- ✓ Early warning tools
- ✓ Comprehensive collection approach - SMS, Calls, letters and visits
- ✓ Borrower behavior/trends analysis for decision making
- ✓ Root cause analysis of default for decision making
- ✓ Proactive monitoring of E-credit performance to ensure quality

Co-op Consultancy &

Insurance Agency Ltd

- ❑ 2700 Consultancies
- ❑ 19 Dedicated Consultants
- ❑ 464 FOSA- Financial Inclusion Deepening

Co-op Foundation

- ❑ 7032 students supported to date
- ❑ 2018 (2826) 2017 (2742)
- ❑ Over 1 Billion since inception (2018- Over 147Million)
- ❑ 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)

Award Winning Brand



- Best Retail Bank – Kenya
- Dr. Gideon Muriuki- Best Banking CEO Kenya



KENYA BANKERS ASSOCIATION: CATALYST AWARDS Overall Winner

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

- 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



- Best Bank in Kenya
- Best product launch- MCo-op Cash v4.0 update

ANNUAL ENERGY MANAGEMENT AWARDS

Kenya Association of Manufacturers

Best Bank in Sustainable Finance in Kenya - 2019

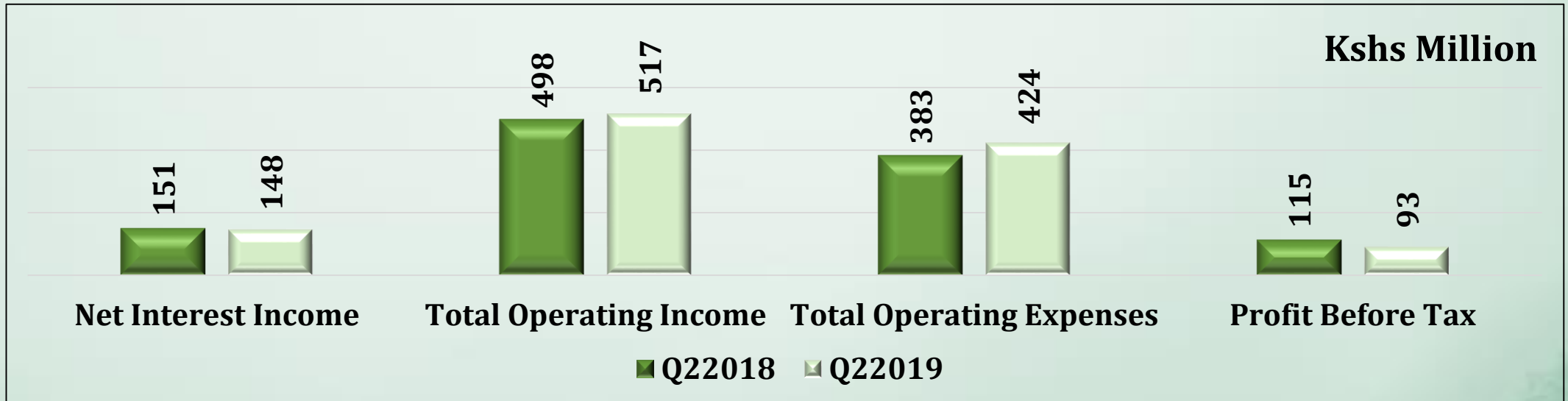
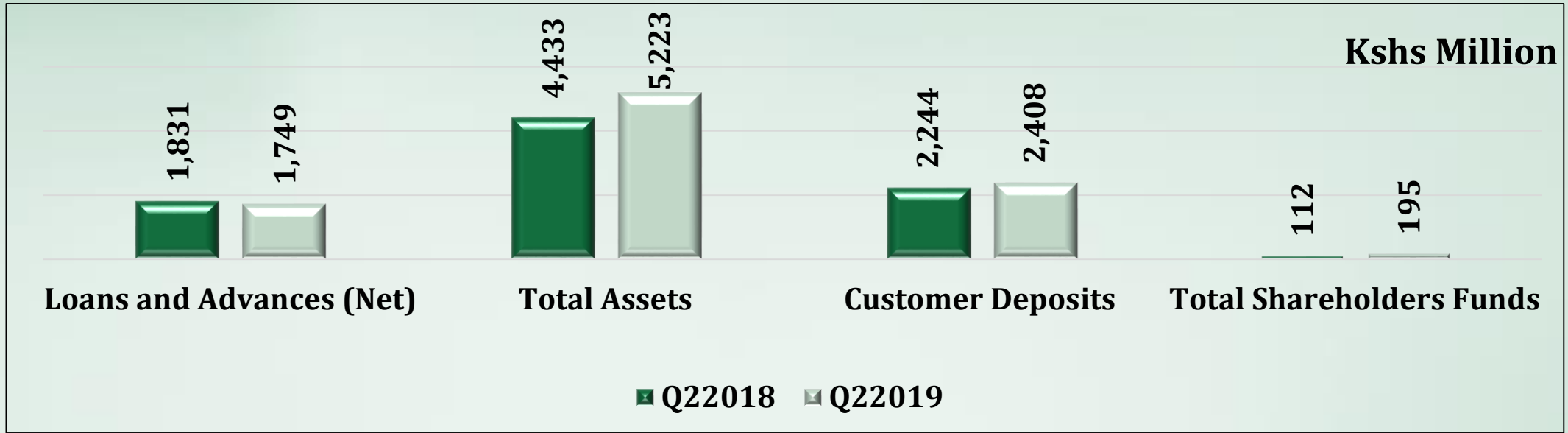


Regional Business

4 branches in Juba

5 Non-oil collection centers.

Owns 31% of CIC Africa Ltd- South Sudan

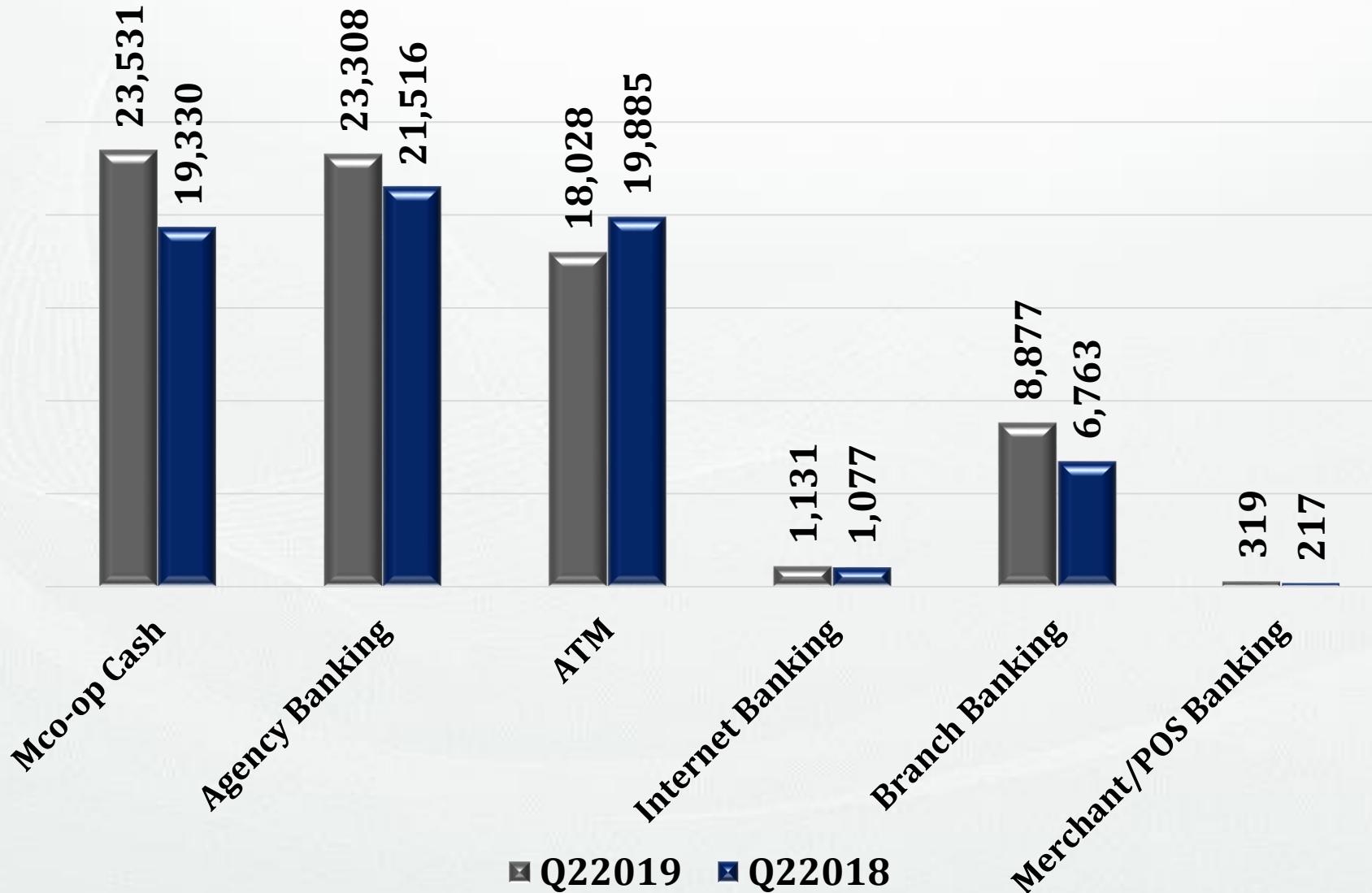


CHANNEL PERFORMANCE



Growing Digital Channels

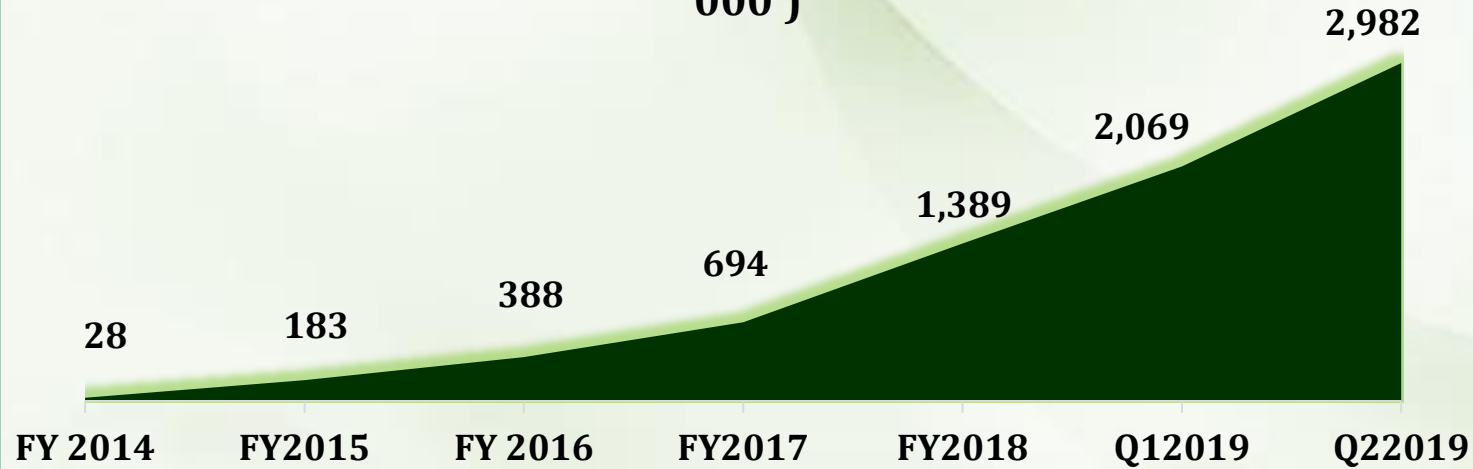
Channel Transactions '000'



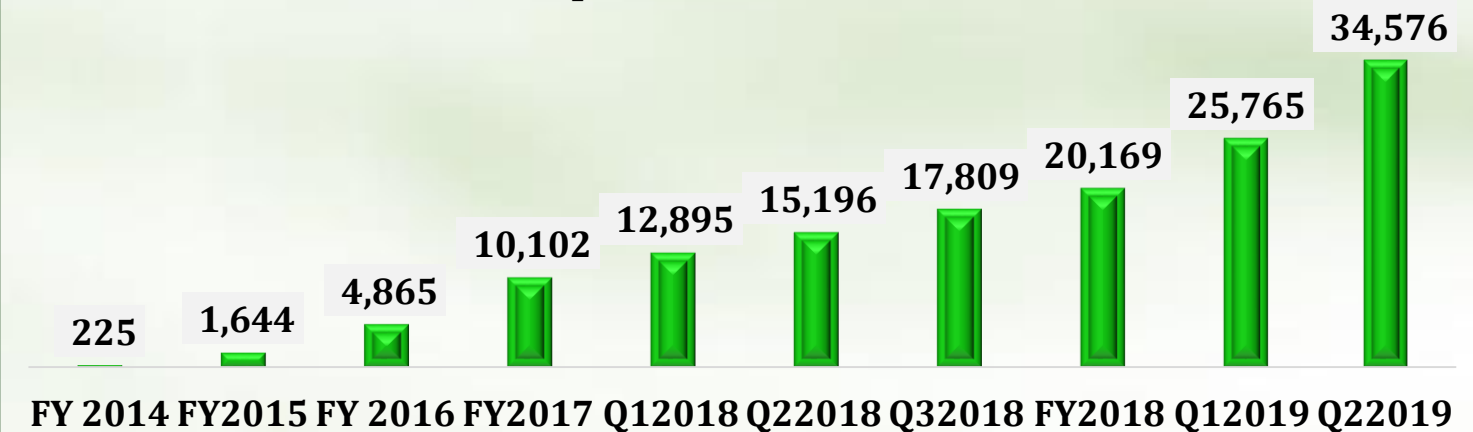
88% of our
Transactions are on
alternative Channels

E-Credit

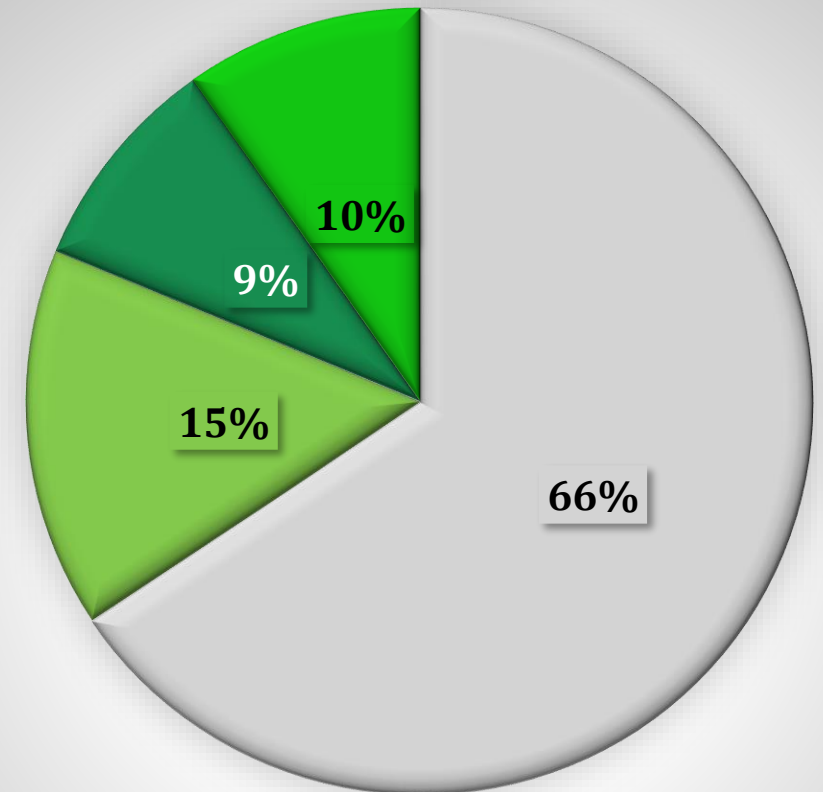
Cumulative Mcoop Cash Loan Customer Numbers (In '000')



Cumulative MCo-op Cash loan Disbursement - In Millions



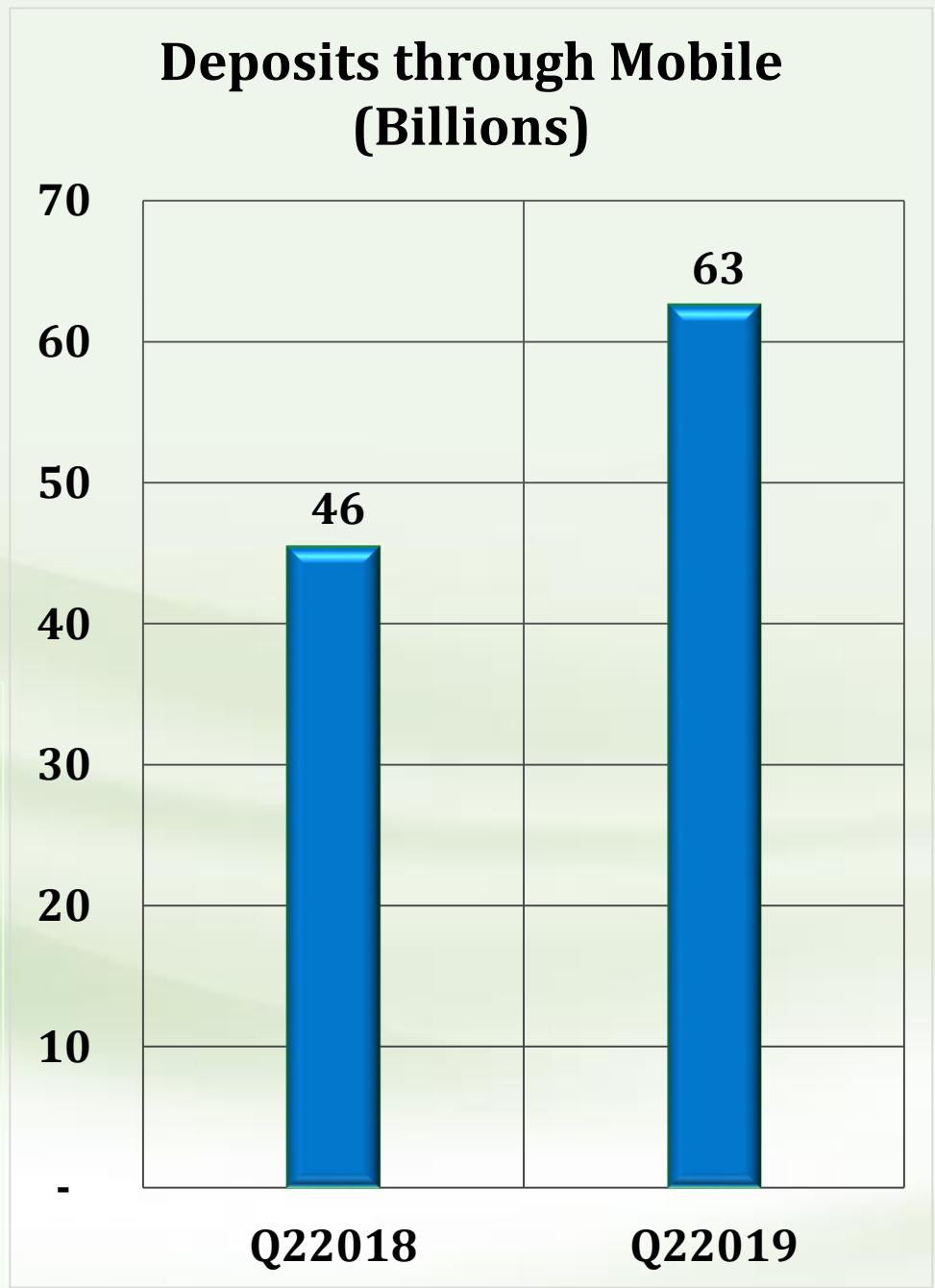
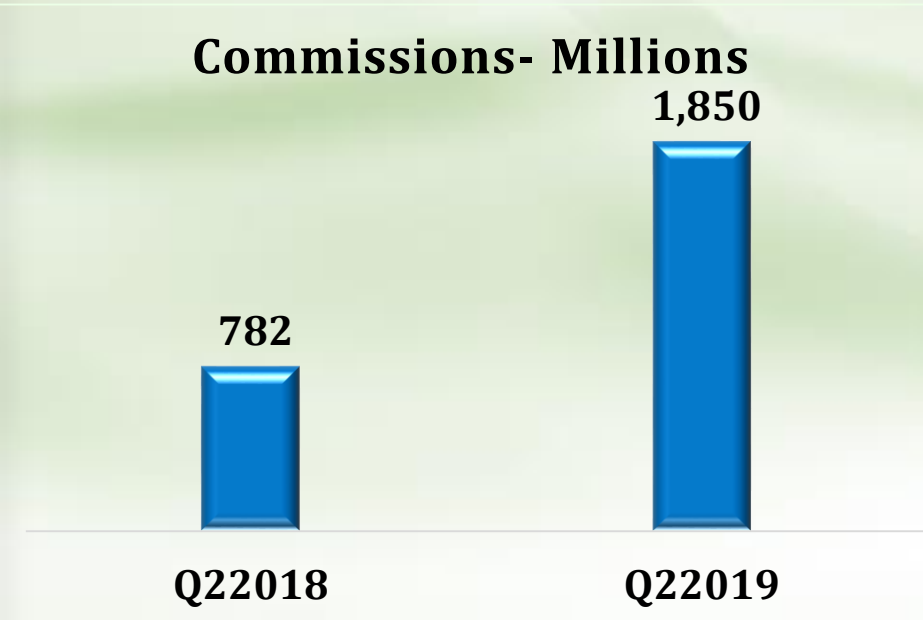
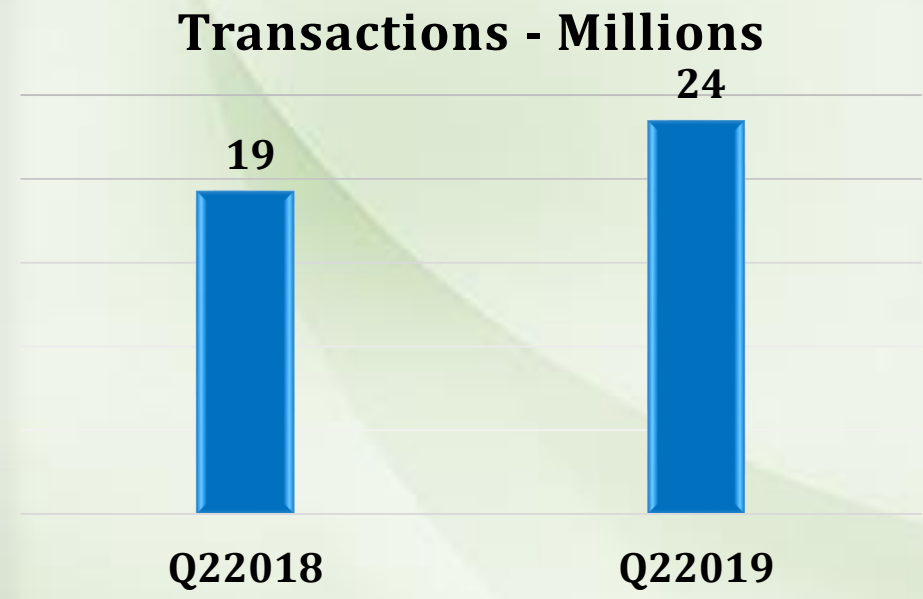
E-Credit – Key Growth Focus



- 3-months flexi
- 1-month flexi
- Business
- Unsecured Business Plus Loan

MOBILE BANKING (MCOOP CASH)

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



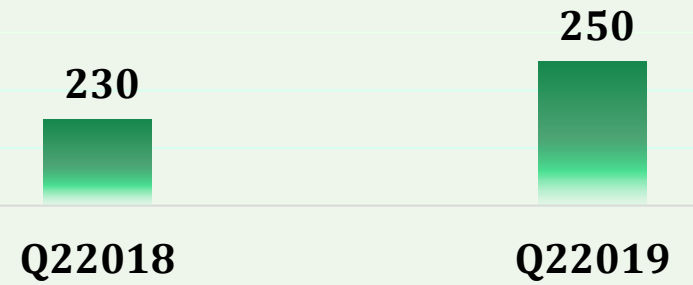
AGENCY Banking

*Growing
Co-op Kwa
Jirani
Agency
Banking*

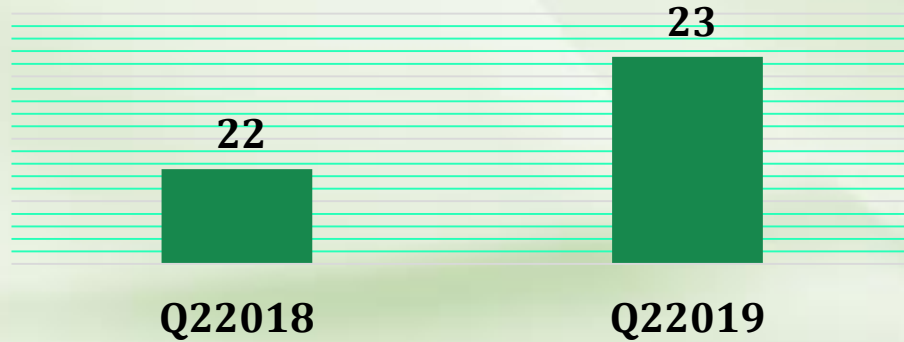
No. of Agents



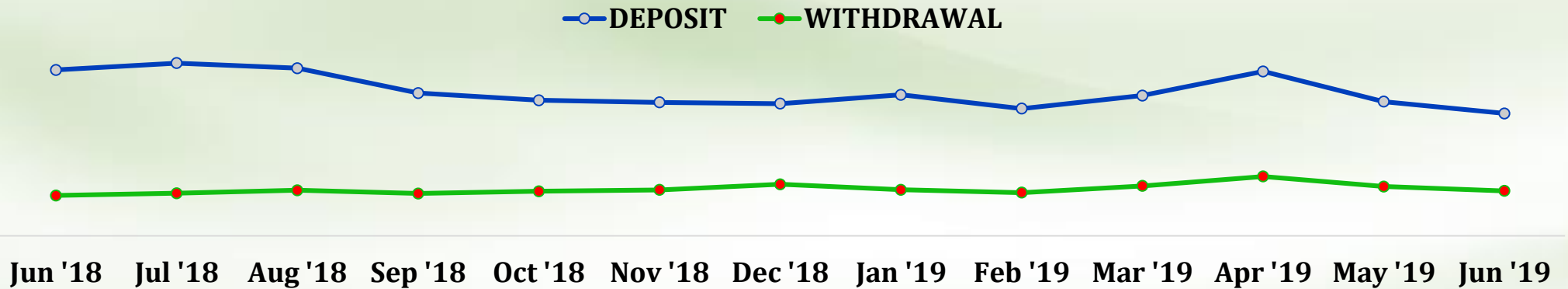
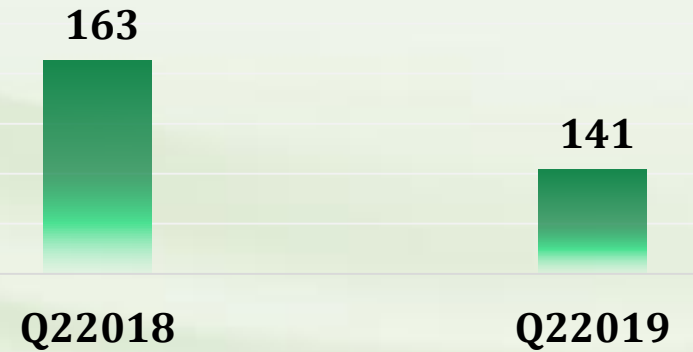
Total Revenue (Million)



Total No. of Transactions (Million)



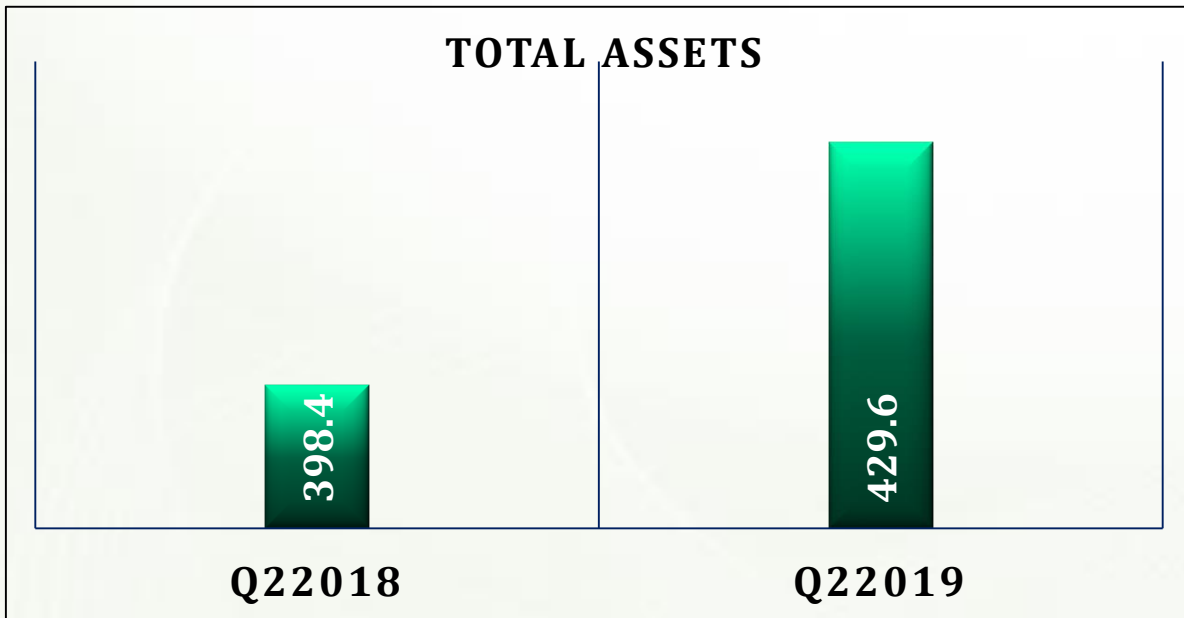
Deposits Generated by Agents (Billion)



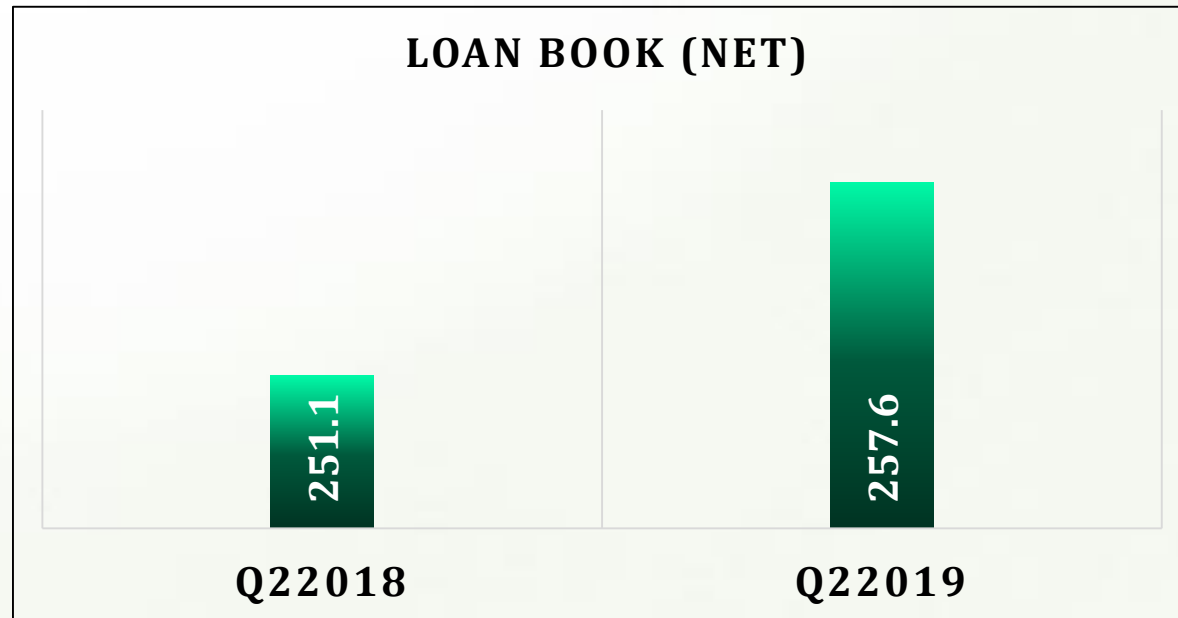
KEY FINANCIAL HIGHLIGHTS

Strong Financial Position (Kshs. Billion)

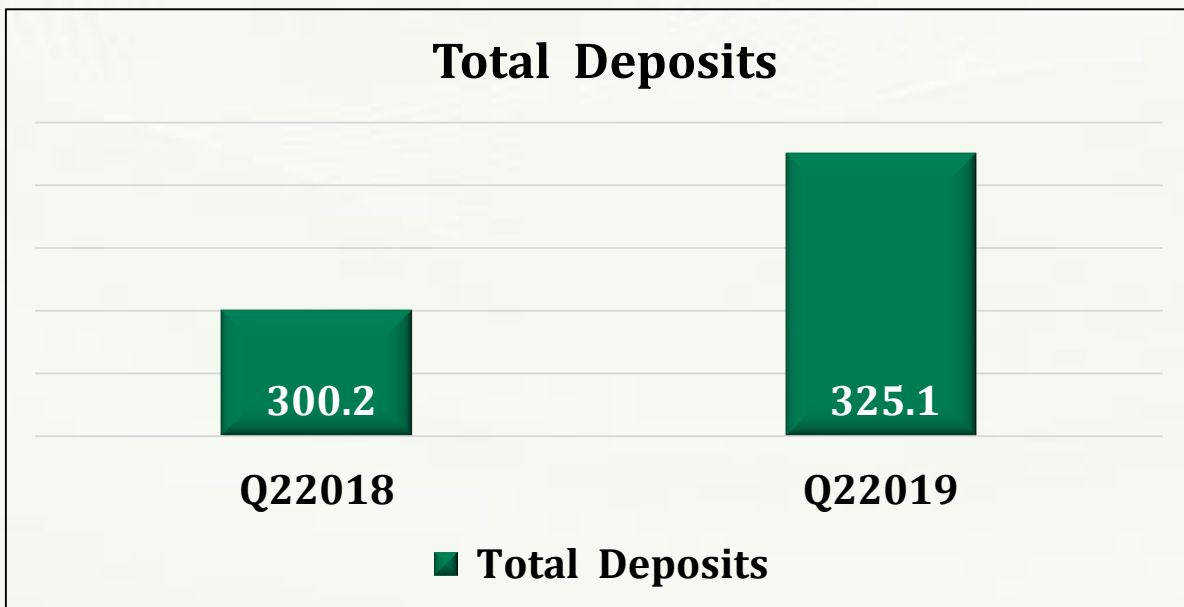
TOTAL ASSETS



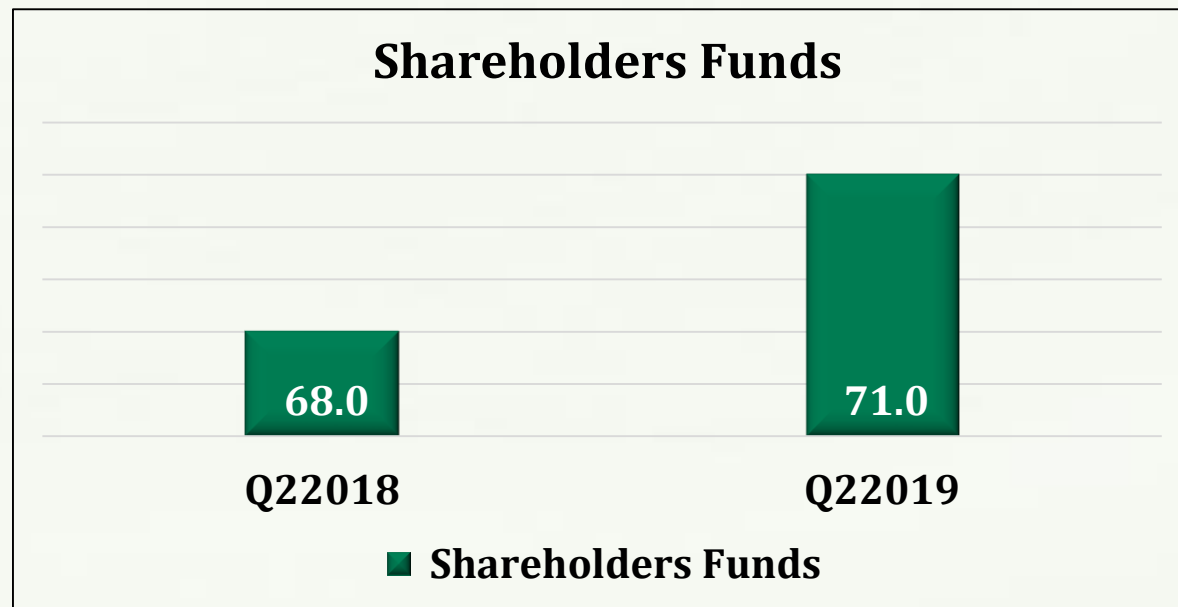
LOAN BOOK (NET)



Total Deposits



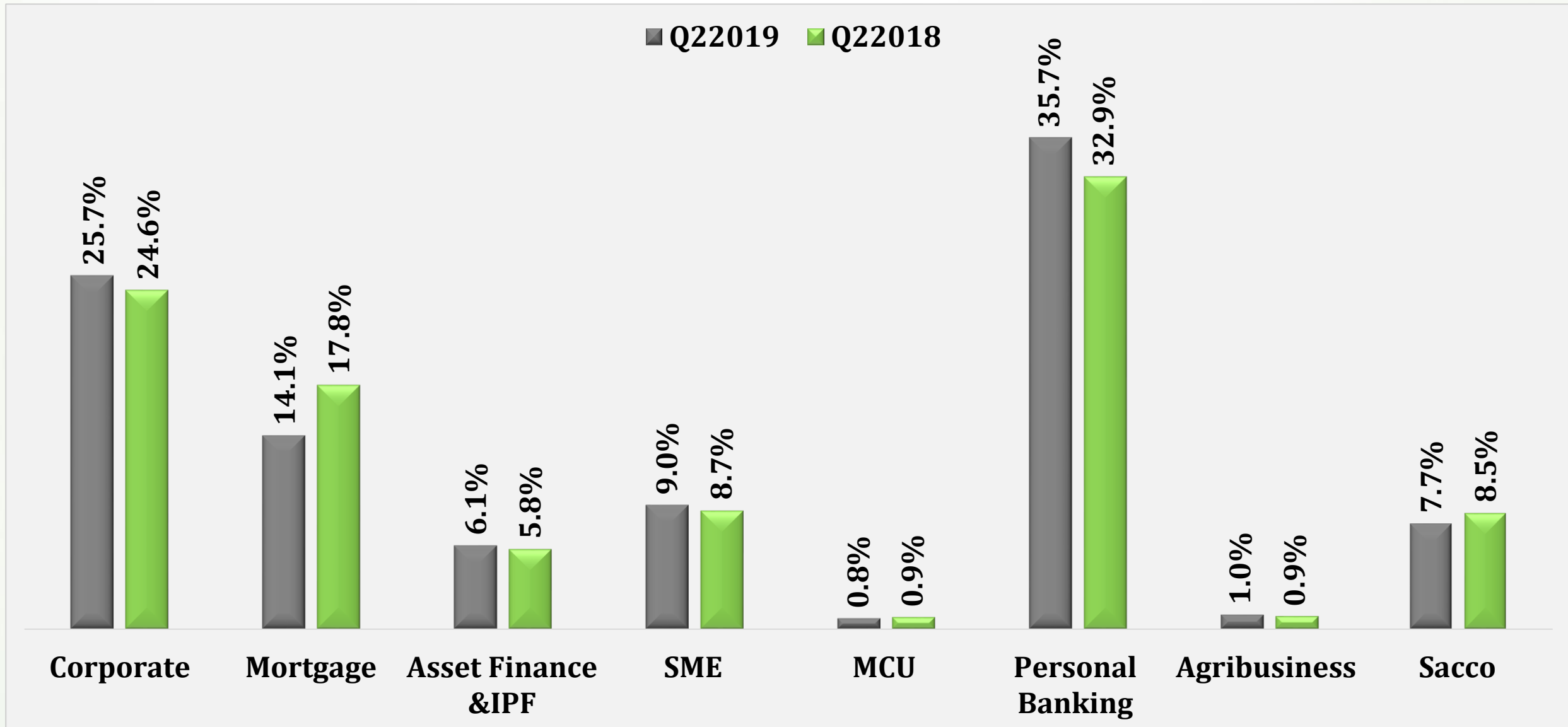
Shareholders Funds



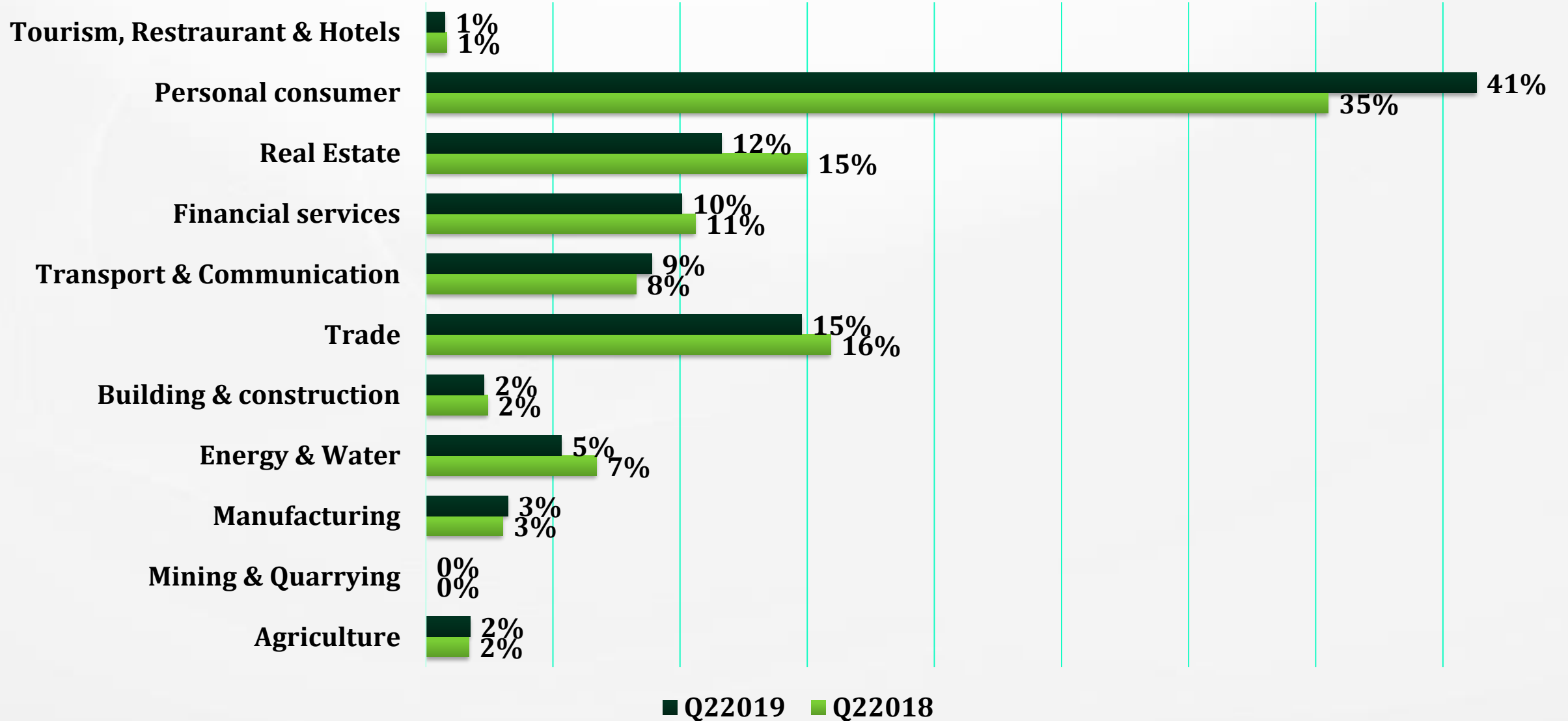
Strong Financial Position (Kshs. Billion)

Kshs. Billions	Q22019	Q22018	% Change (YoY)		FY2018
Total Assets	429.6	398.4	7.8%		413.4
Loan book (Net)	257.6	251.1	2.6%		245.4
Government Securities	95.0	80.2	18.4%		80.3
Total Deposits	325.1	300.2	8.3%		306.6
Borrowed Funds	21.5	18.4	16.5%		23.9
Shareholders Funds	71.0	68.0	4.4%		69.9
No. of account holders (Millions)	8.2	7.4	10.8%		8.0

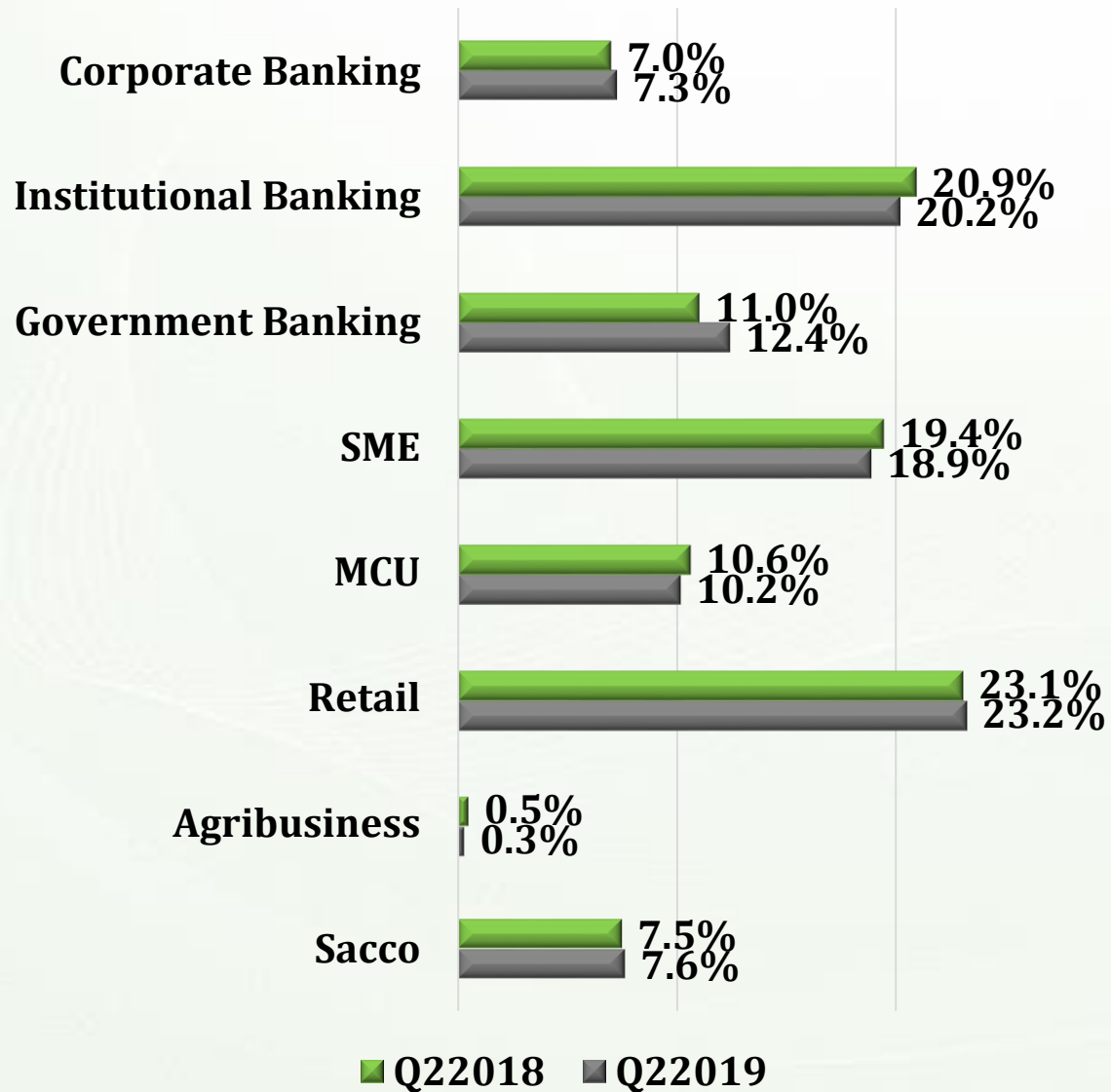
Diversified loan book



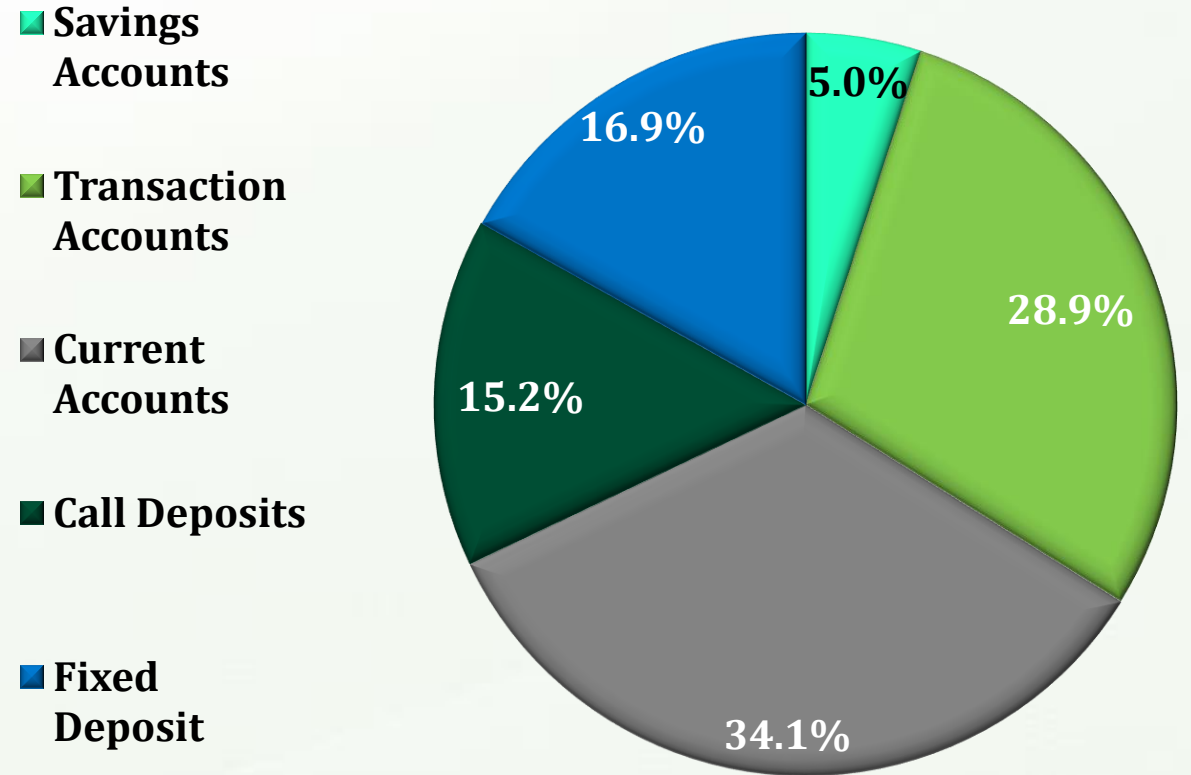
Diversified loan book



Well-diversified Liability Portfolio

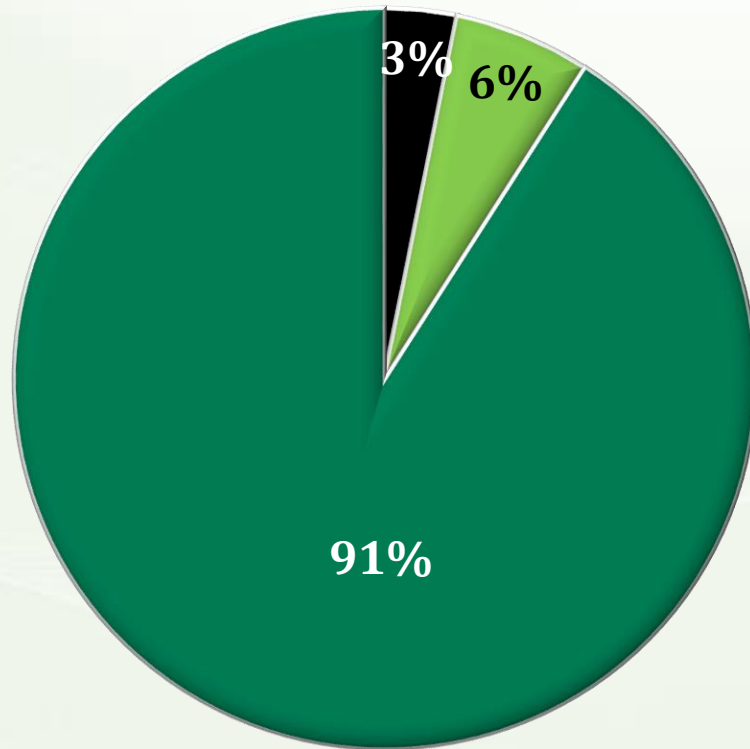


Deposit Distribution Q22019



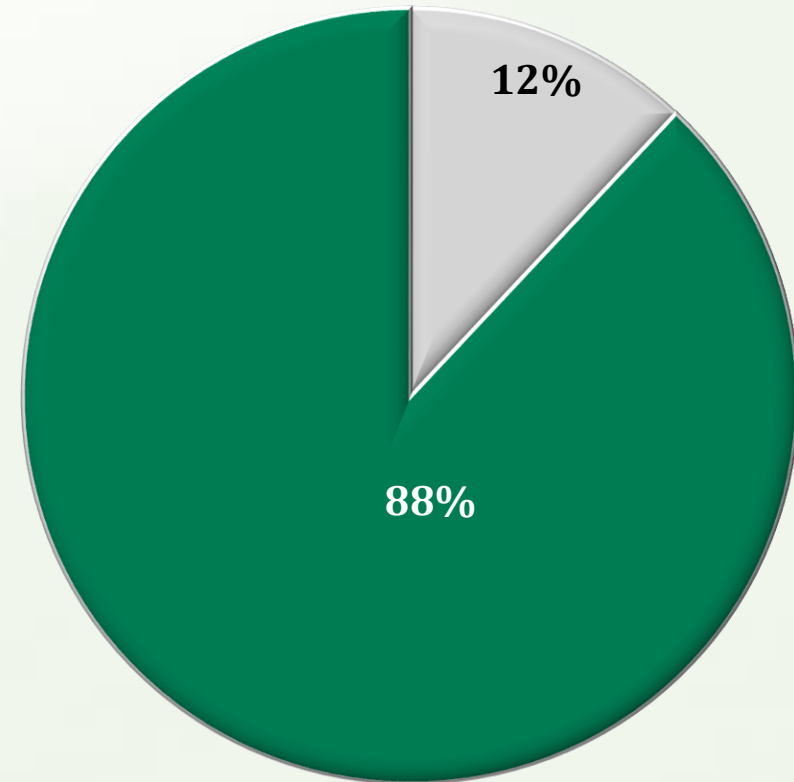
Optimally balanced Kenya Shilling asset & funding book

Funding (Local Vs Foreign Currency) – Q22019



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

Loan Book (Local Vs Foreign Currency)- Q22019

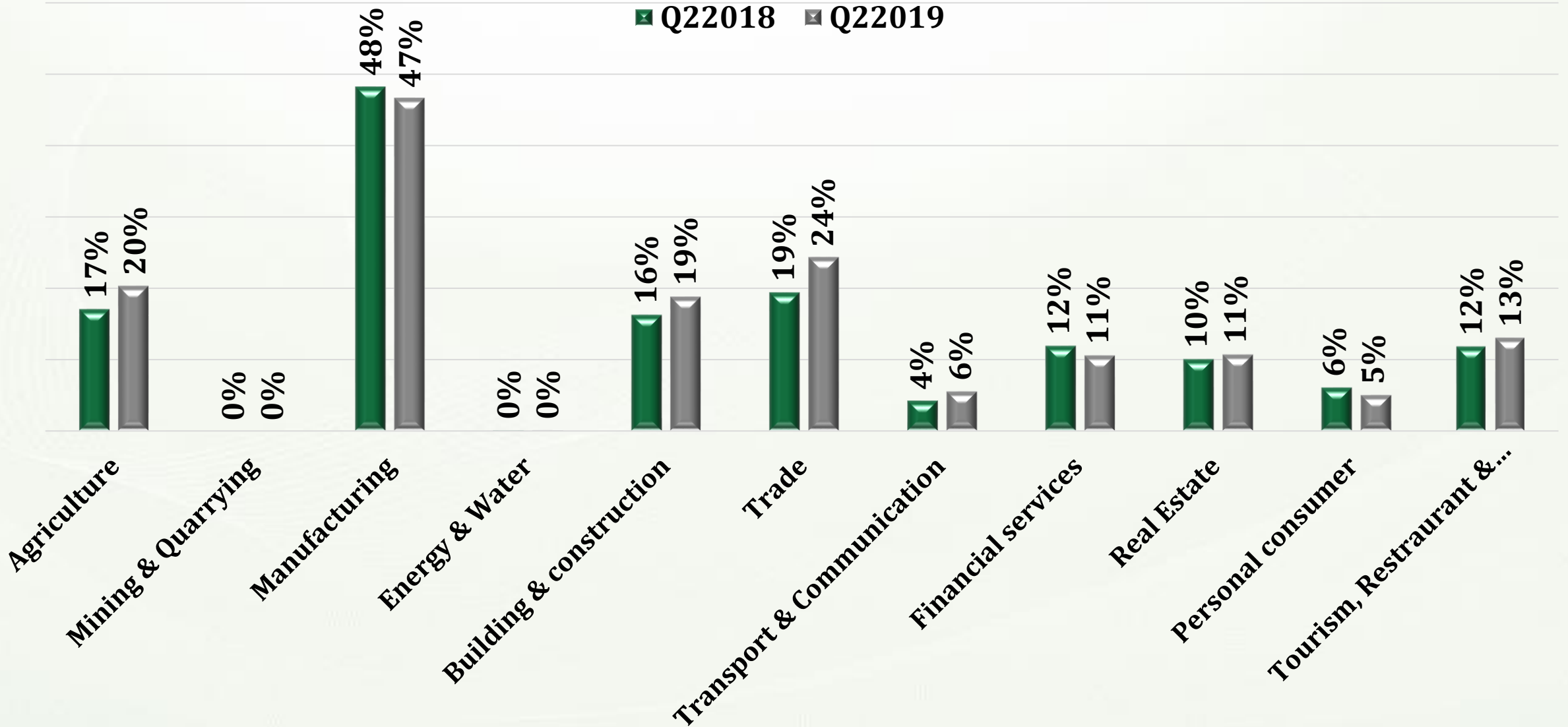


- Foreign Currency
- Local Currency

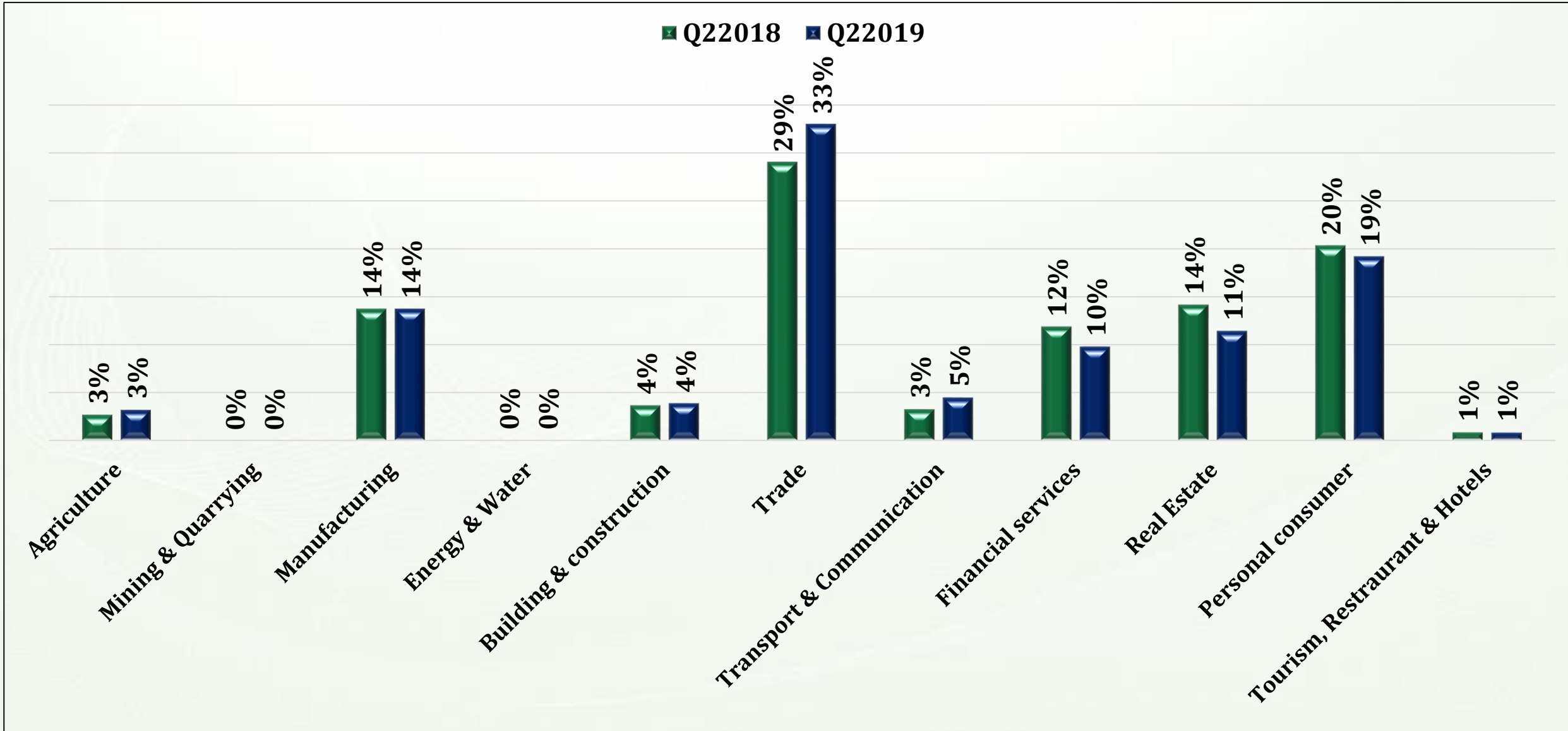
Quality Loan Book - Bank

	Q22019	%	Q22018	%	FY2018	%
Normal	214,282	78%	208,233	79%	200,946	77%
Watch	30,386	11%	28,433	11%	29,723	11%
Substandard	11,194	4%	14,791	6%	10,434	4%
Doubtful	18,147	7%	12,865	5%	17,977	7%
Loss	637	0.2%	559	0.2%	542	0.2%
TOTAL (GROSS)	274,646	100%	264,882	100%	259,621	100%
Provisions	18,832		15,602		16,075	
NET LOAN BOOK	255,814		249,280		243,546	
Gross Non-performing loans	29,978		28,215		28,953	

Portfolio Trends – Specific Sector NPL By Sector Book

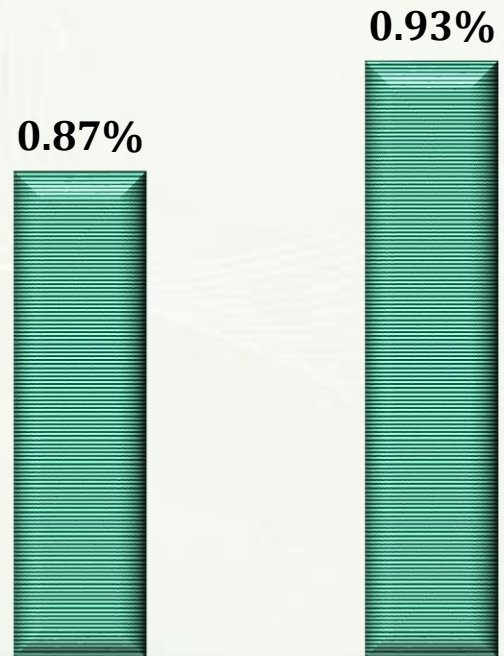


Portfolio Trends – Sector NPL By Total Bank NPL Book



Adequate Coverage

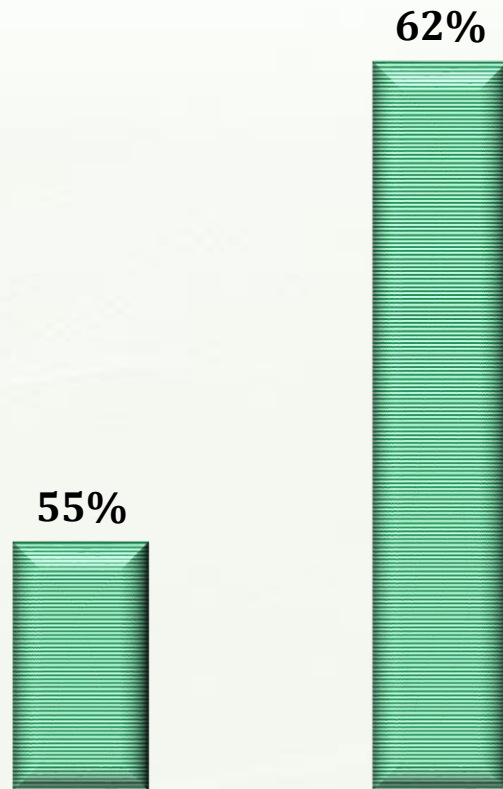
Cost of Risk



Q22018

Q22019

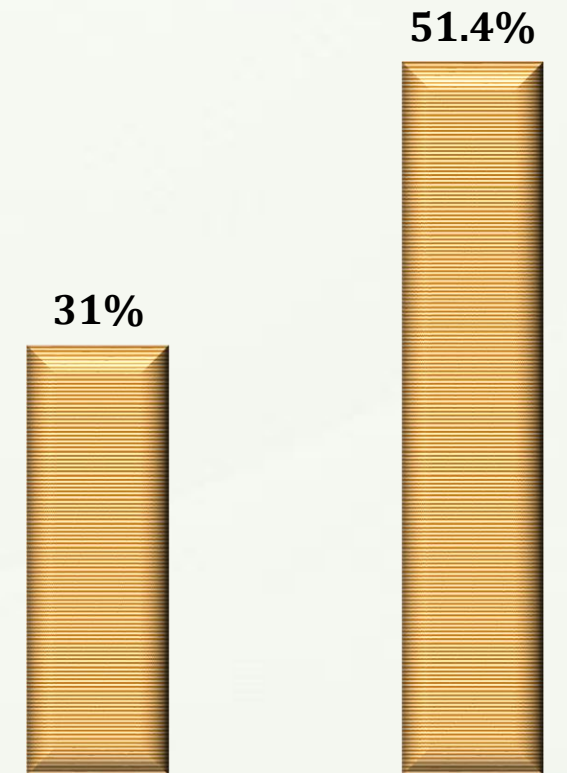
Coverage CBK (Includes Gen. Prov.)



Q22018

Q22019

Coverage (IFRS) Excludes General Provisions

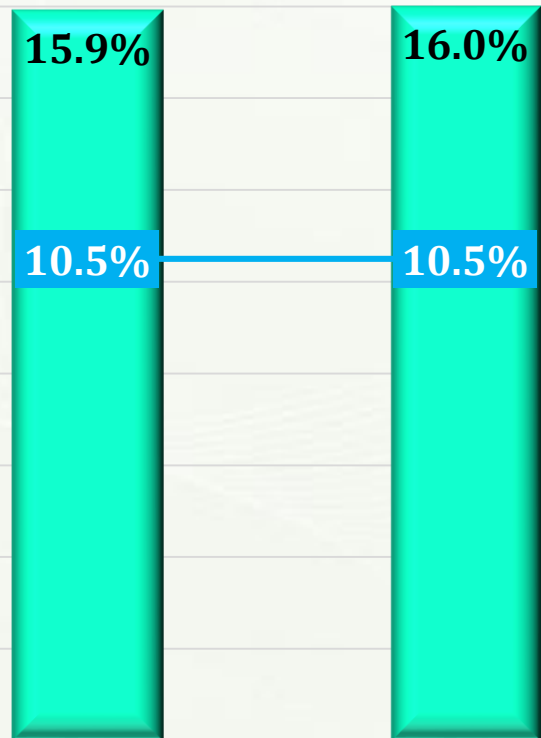


Q22018

Q22019

Strong capital to support future growth

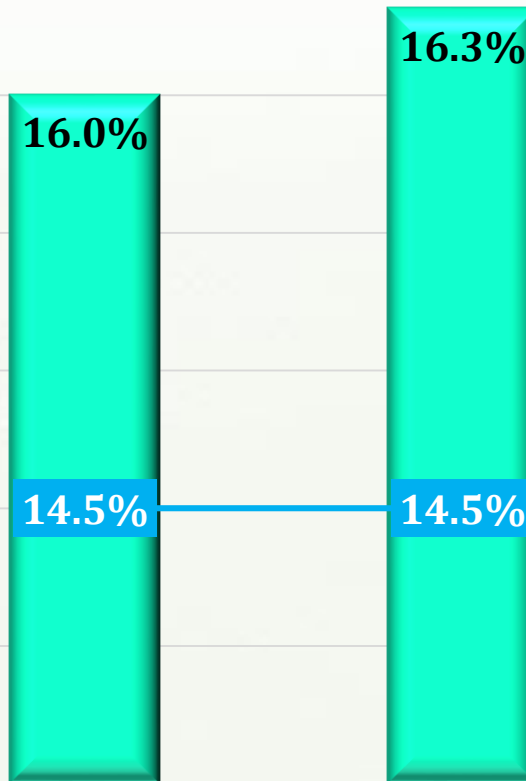
■ Core Capital / Total Risk Weighted Assets
— Minimum Statutory Requirement



Q22018

Q22019

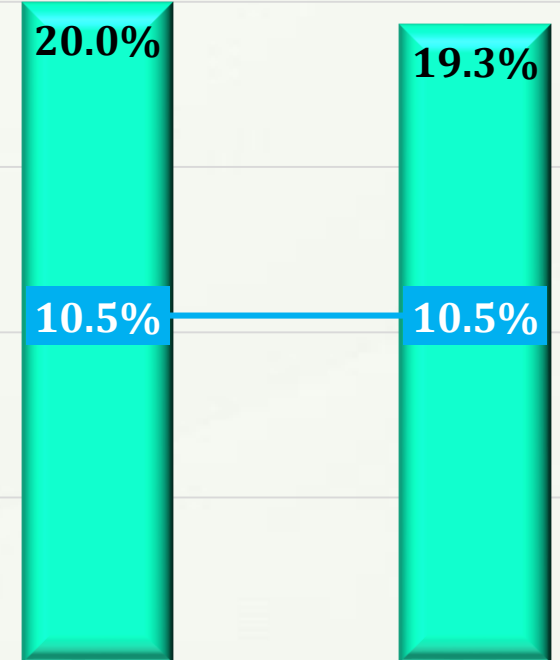
■ Total Capital / Total Risk Weighted Assets
— Minimum Statutory Requirement



Q22018

Q22019

■ Core Capital / total deposit Liabilities
— Minimum Statutory Requirement

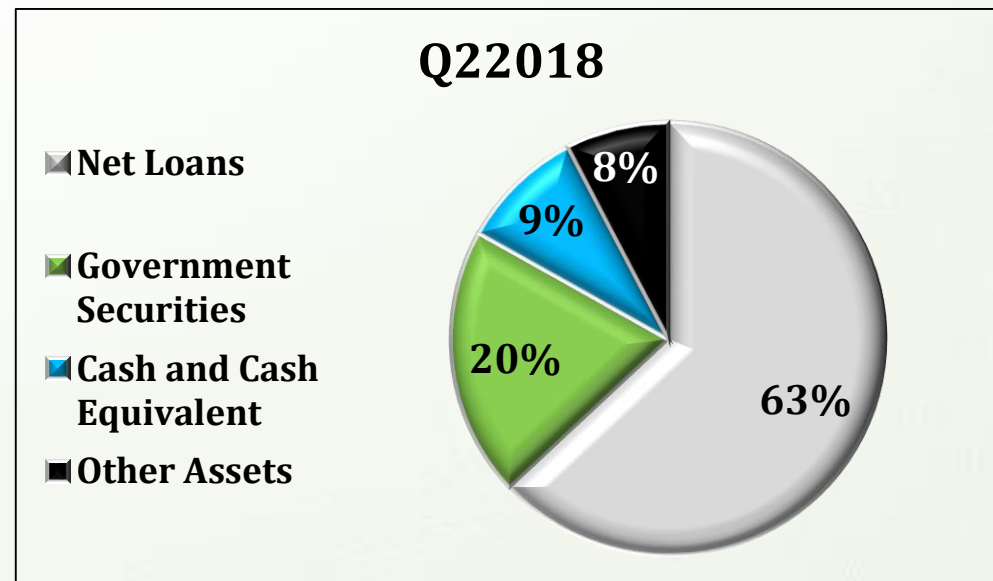
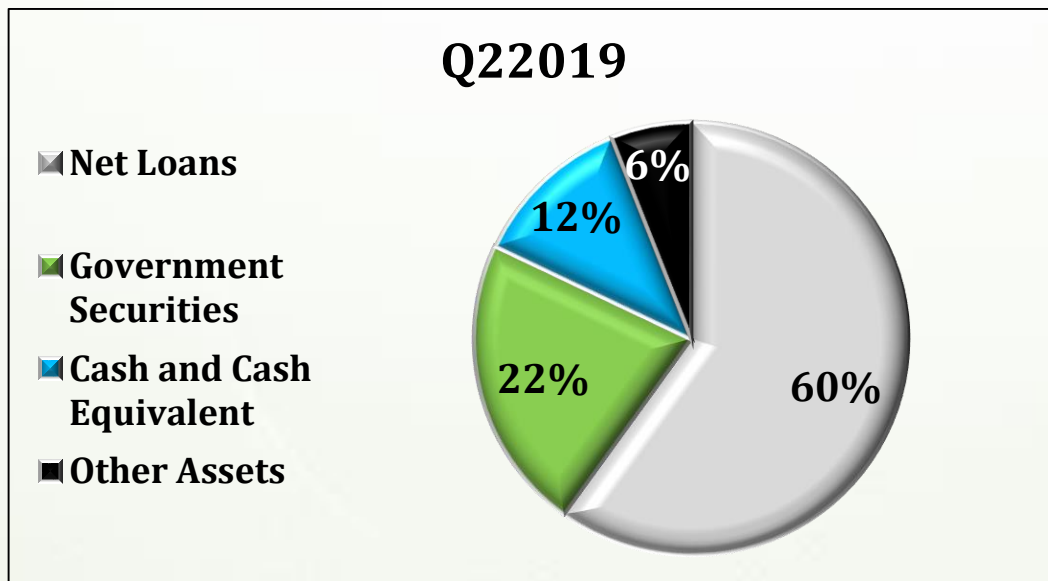


Q22018

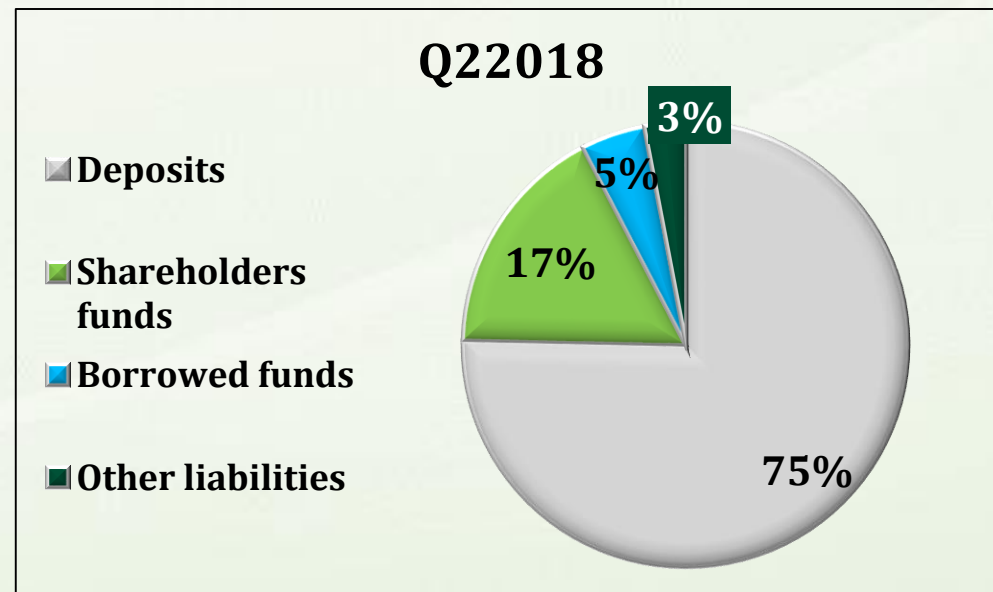
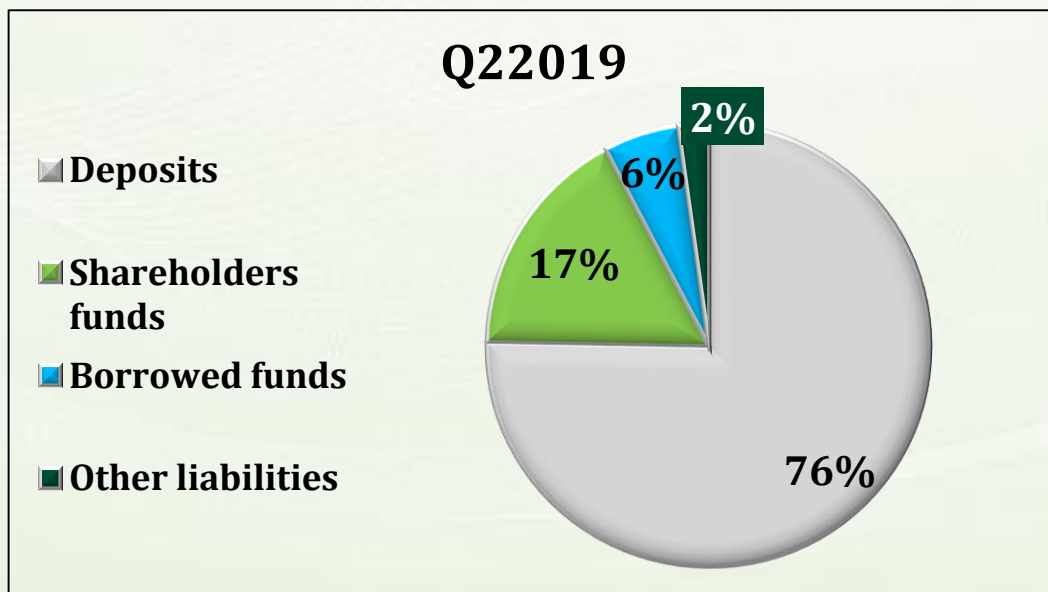
Q22019

Optimal Asset and Funding Mix

Asset Categories

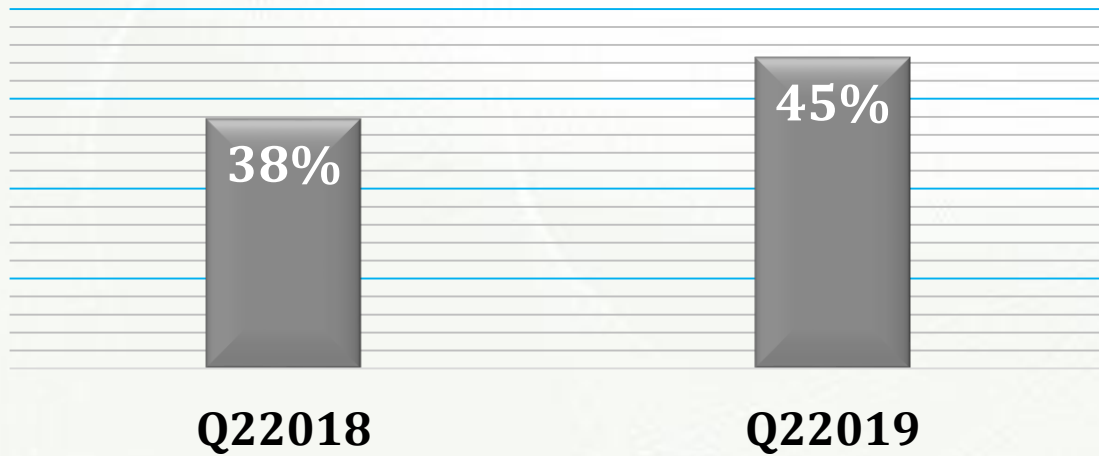


Funding Categories



Strong liquidity to support investments

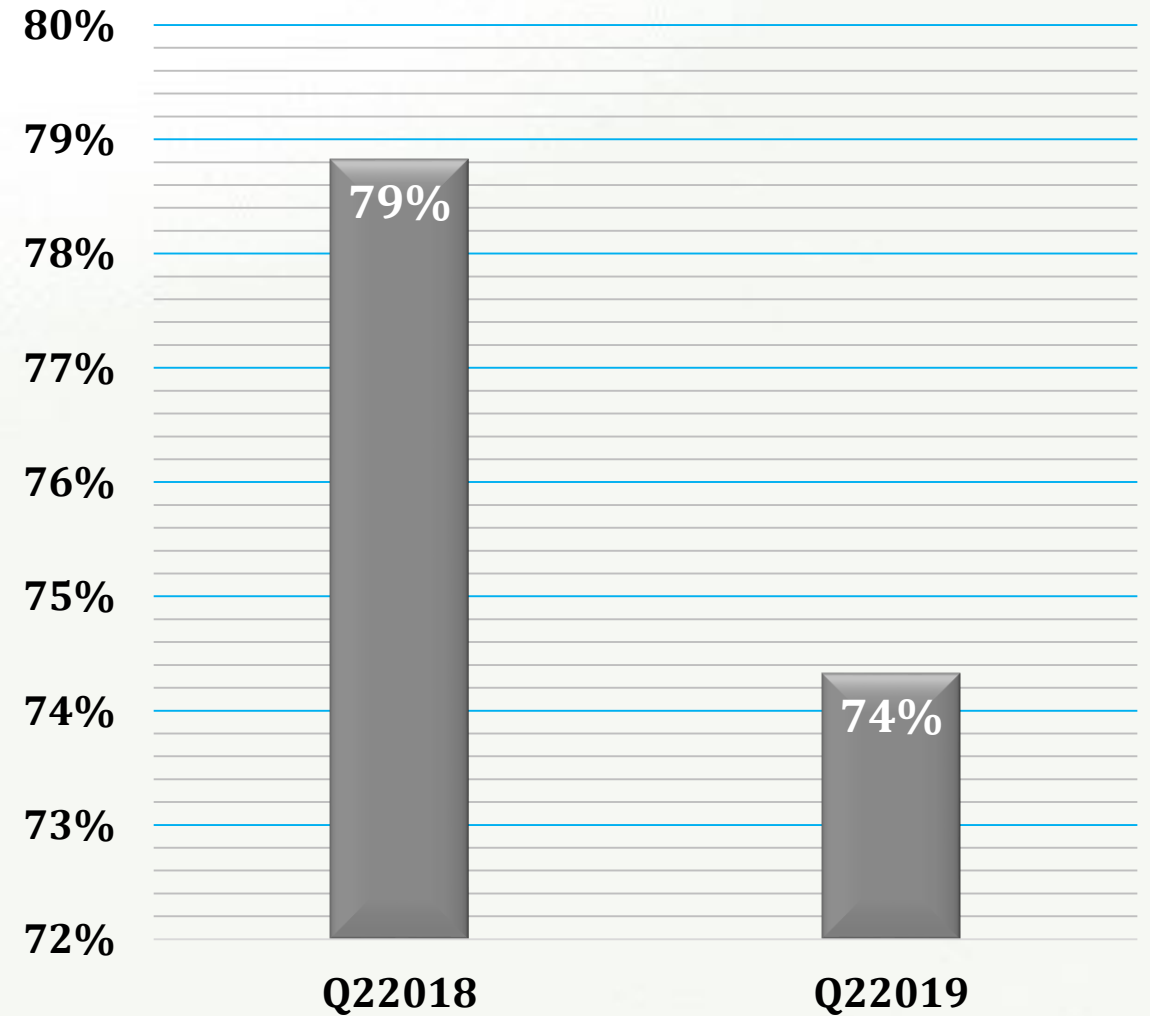
Liquidity



Loans to Deposit



Loans to Deposits+ Borrowed Funds



Improved Subsidiary Contribution

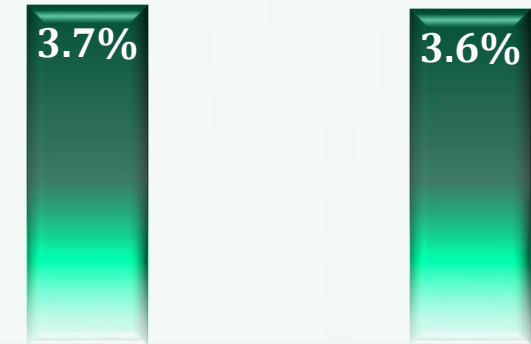
COMPANY	Profit Before Tax Q22019 KShs'000	Profit Before Tax Q22018 KShs'000	Variance	%
The Co-operative Bank of Kenya Limited	9,927,444	9,445,532	481,912	5%
Co-op Consultancy & Ins Agency Limited	353,296	259,313	93,983	36%
Co-op trust Investments Limited	38,000	25,530	12,470	49%
Kingdom Securities Limited	(1,405)	(10,429)	9,024	87%
Co-operative Bank of South Sudan	92,536	114,566	(22,030)	-19%
Total PBT before eliminations	10,409,871	9,834,512	575,359	6%
Add: Share of profit from associates	26,736	141,326	(114,590)	-81%
Group profit before tax	10,436,607	9,975,837	460,770	5%
Income tax expense	2,967,127	2,835,677	131,450	5%
Group profit after tax	7,469,480	7,140,160	329,320	5%

Sustainable Profitability Growth

Kshs. Billions (except for EPS)	Q22019	Q22018	% Change (Y/Y)		FY2018
Interest Income	20.42	20.78	-2%	↓	43.02
Interest Expense	6.17	5.97	3%	↑	12.24
Net Interest Income	14.25	14.81	-4%	↓	30.78
Fees & Commissions	7.07	5.12	38%	↑	9.52
Forex Income	0.95	1.22	-22%	↓	2.28
Other Income	0.73	0.65	12%	↑	1.09
Total Operating Income	23.00	21.81	5%	↑	43.68
Loan Loss Provision	1.18	1.09	8%	↑	1.84
Staff Costs	5.71	5.34	7%	↑	11.45
Other Operating Expenses	5.70	5.55	3%	↑	12.40
Profit Before Tax and Exceptional Items	10.41	9.83	6%	↑	17.99
Share of profit of associate	0.03	0.14	-81%	↓	0.17
Profit Before Tax	10.44	9.97	5%	↑	18.16
Tax	2.97	2.83	5%	↑	5.42
Profit After Tax	7.47	7.14	5%	↑	12.73
Basic Annualized EPS	2.5	2.4	5%	↑	2.17

Key Ratio's

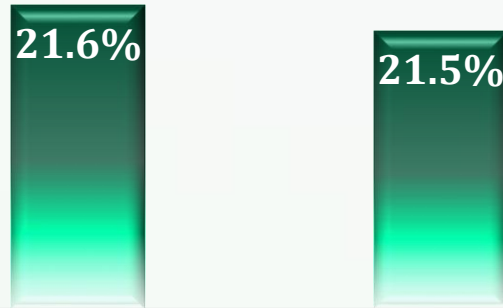
Return On Average Assets (ROAA)



Q22018

Q22019

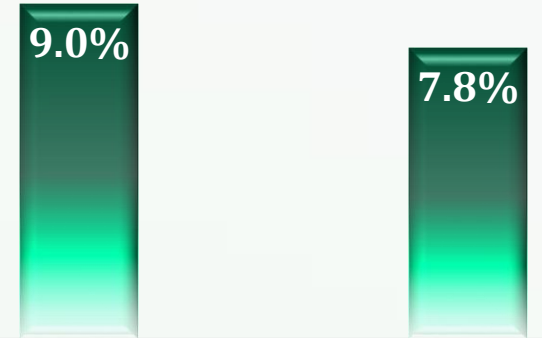
Return On Average Equity (ROAE)



Q22018

Q22019

NIM on Loans



Q22018

Q22019

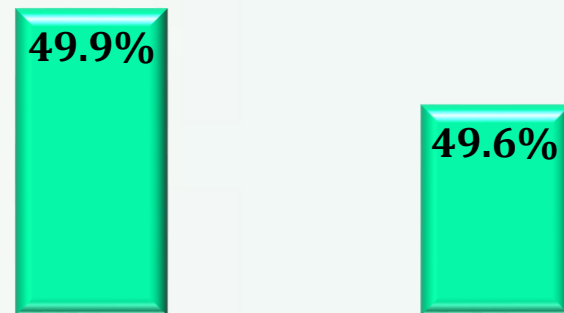
NIM on Earning Assets



Q22018

Q22019

CIR without provisions



Q22018

Q22019

2019 Financial Outlook

	<u>Actual Q22019</u>	<u>Actual FY 2018</u>	<u>Projections FY 2019</u>
Profit Before Tax Growth	5%	10.7%	11%
Loans & Advances Growth	2.6%	-3.3%	11%
Deposits Growth	8.3%	6.5%	10%
Cost to Income Ratio	49.6%	54.6%	50%
Non Funded to Total Income	38.0%	28.2%	38%
Return On Average Equity (ROAE)	21.5%	18.3%	22%
Return On Average Assets (ROAA)	3.6%	3.2%	3.6%
Non Performing Loans (NPL)	10.9%	11.1%	9%
Cost of average funds including borrowed funds	3.7%	3.8%	3.7%
Net Interest Margin (NIM)	7.8%	9.4%	8.0%
Cost of risk	0.9%	0.7%	1%

THANK YOU

