

CO-OP BANK RECORDS KSHS 13.8 BILLION PROFIT IN QUARTER 3 2020

Co-op Bank Group is reporting a Profit before Tax of **Kshs. 13.8 Billion** for the third quarter of 2020 compared to **Kshs. 15.5 Billion** recorded in the third quarter of 2019, an 11% drop on account of increased Covid19-related loan loss provisions. Profit after tax was **Kshs 9.8 Billion** compared to **Kshs 10.9 Billion** in the previous year, a 10 per cent reduction.

The Group has taken a 90% increase in loan loss provision from Kshs. 2.1 Billion in 2019 to Kshs. 4.0 Billion, in appreciation of the challenges that businesses and households are grappling with from the disruption occasioned by the ongoing pandemic.

We continue to actively engage our customers to support them through this period, by re-aligning the servicing of facilities, funding and transactional needs as the situation unfolds. As at the close of the third quarter, a total of **Kshs. 46 Billion** in loans have been restructured to support customers impacted by the pandemic.

The Group continues to implement proactive enterprise risk management initiatives to ensure uninterrupted business operations in the following ways;

1. Fortification of our digital channels to support uninterrupted access to banking services by customers; over 90% of our services are now on alternative banking channels.
2. Enhancement of digitization of internal bank processes and engagement platforms, to build contactless capabilities for both customers and staff.
3. Adoption of a work-from-home model for the safety and wellness of bank teams, and ensuring safe spaces for staff who continue to serve in physical touchpoints.
4. Robust engagement with regulators to ensure full compliance and support.

Key financial highlights include; -

1. Balance sheet; The Group has seen sustained Balance Sheet growth as hereunder;

- Total Assets grew by Kshs 70.1 Billion (+16%) to Kshs. 510.9 Billion compared to Kshs 440.8 Billion in the same period last year.
- Net loans and advances book grew by Kshs 15.4 Billion (+6%) from Kshs.268.9 Billion to Kshs. 284.2 Billion.
- Investment in Government securities grew by Kshs.47.7 Billion (+50%) to Kshs. 142.3 Billion compared to Kshs. 94.6 Billion in 2019.
- Customer deposits grew by 16% from Kshs. 322.5 Billion to Kshs 375.5 Billion.
- Borrowed funds from development partners decreased by Kshs. 3.6 Billion (-12%) to Kshs 26.2 Billion from Kshs.29.7 Billion in 2019.
- Shareholders' funds grew to Kshs. 82 Billion (+11%) from Kshs. 73.9 Billion in 2019 enabling us to continue pitching for big ticket deals.

2. Profit & Loss

- Total operating income grew by 6% from Kshs 35.2 Billion to Kshs 37.2 Billion.
- Total non-interest income declined by 4% from Kshs 14.1 Billion to Kshs 13.6 Billion.
- Net interest income grew by 12% from Kshs 21.2 Billion to Kshs 23.6 Billion.
- Total operating expenses grew by 18% from Kshs 19.8 Billion to Kshs. 23.5 Billion on account of higher loan loss provisions.

3. Innovative Customer Delivery Platforms

- Through our multi-channel strategy, the Bank has successfully moved over 90% of all customer transactions to alternative delivery channels, an expanded 24-hour contact centre, mobile banking, 584 ATMs, internet banking and over 17,700 Co-op Kwa Jirani banking agents.
- A successful Universal Banking model and the implementation of Sales Force Effectiveness has seen the Group serve over 8.8 million Account holders across all sectors.
- Key focus on digital banking, with the all-telco Mco-op Cash Mobile Wallet continuing to play a pivotal role in the growth of non-funded income with

5 Million customers registered and loans worth **Kshs 42 Billion** disbursed in the first nine months of 2020.

- Over 110,000 customers have taken up the MSME packages that we rolled out in 2018, and 8950 have been trained on business management and planning. We have earmarked Kshs 15.2 Billion for MSME lending, with **Kshs. 14.8 Billion** disbursed to date through our E-Credit solution.
- Our unique model of retail banking services through Sacco FOSAs enabled us provide wholesale financial services to over 479 FOSA outlets, and issue over 1.4 million Sacco-Link cards.

4. Co-op Bank has engaged McKinsey to conduct a Credit Risk Adaptation Project named 'Project Kilele'. Key objectives of the project are:

- End-to-end assessment of credit risk management practices by undertaking a comprehensive diagnostic review touching on each area of credit risk, including credit risk management framework with a key focus on risk governance, credit risk appetite, origination and underwriting process, credit approval process, credit scoring/rating models, and pricing.
- Strengthen portfolio assessment and risk frameworks.
- Enhance Collection platforms aligned to the new business operating environment.

5. Subsidiaries

- Co-op Consultancy & Insurance Agency posted a Profit before tax of **Kshs 625 Million** as at 30 Sep 2020, riding on strong penetration of Bancassurance business.
- Co-operative Bank of South Sudan that is a unique Joint Venture (JV) partnership with Government of South Sudan (Co-op Bank 51% and GOSS 49%) made a Profit before tax of **Kshs 217.8 Million** in quarter 3 of 2020.
- Co-op Trust Investment Services contributed **Kshs. 68.7 Million** in a Profit before tax in quarter 3 of 2020, with Funds Under Management standing at **Kshs. 123.7 Billion** compared to Kshs. 96.7 Billion as at 30 September 2019.

6. Kshs. 46Bn Loans Restructured to Support Customers on Covid-19 Pandemic

With the Covid-19 crisis, the Bank has proactively engaged all customers and reviewed the following;

- Customers requiring an interest moratorium period,
- Customers requiring a better structure/longer repayment period, and

- Customers requiring additional funding to manage the crisis.

In total, a portfolio of over **Kshs. 46 Billion** has been re-aligned to offer our customers this much-needed support.

7. Kingdom Bank Limited

Kingdom Bank Limited 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.

The subsidiary is expected to breakeven in 2021 and has clear strategic focus on;

- Deposit Book growth
- Quality loan book growth
- Customer base growth
- Enterprise risk management and compliance
- Leveraging technology for market share growth

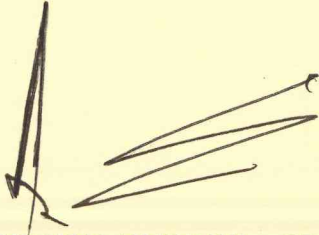
8. Corporate Social investment

- Co-operative Bank Foundation has provided Scholarships to gifted but needy students from all regions of Kenya. The sponsorship includes; fully paid secondary education, full fees for University education, Internships and career openings for beneficiaries. The foundation is fully funded by the bank and has so far supported **7,685 students** since the inception of the program.
- The bank gave a cash donation of **Kshs. 100 Million** to the Covid 19 Emergency Respond Fund.
- Being cognizant of the huge role that we play in supporting communities especially during this period, we continue to operate in an economically, socially and environmentally-responsible manner.

Conclusion

The Co-operative Bank Group has put in place a proactive mitigation strategy anchored on a strong enterprise risk management framework, to enable

uninterrupted access to banking services. We shall, riding on the unique synergies in the over 15 million-member co-operative movement that is the largest in Africa, continue to pursue strategic initiatives that focus on resilience and growth in the 'New Normal' as the Nation focuses on flattening the curve and as vibrancy returns to the Economy.

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DR. GIDEON MURIUKI - CBS, MBS
GROUP MANAGING DIRECTOR & CEO

19th November 2020