



# **CO-OPERATIVE BANK OF KENYA**

## **GROUP FINANCIAL RESULTS ANALYST BRIEFING Q32020**

**24 November 2020**

# Key Highlights

Co-operative Bank of Kenya is one of the largest sustainable banks in the region. The Covid\_19 Pandemic has presented disruption globally and as Co-operative Bank we have responded strategically to the current environment.

1. We continue to gain from our institutionalized Transformation seeking efficiency and growth. Key ongoing Transformation initiatives aimed at a quality loan book are;
  - Credit Review Implementation Project “Project Kilele” with McKinsey &Co.
  - Decentralization of loan portfolio management enabling Project 3C (Connect, Collect and Cure)
2. Key gains for sustainable performance;
  - i. Investment in Ecredit;
    - Strong penetration; disbursement of Kshs. 4.6B per month
    - Good yield of 8% flat.
    - Short term tenor of maximum 90 days.
    - Consumer based that is on salary checkoff deductions at source.
    - Low NPL

- ii. Our loan Book distribution; low relative exposure in high risk sectors like Tourism (1%) and Manufacturing (2%). Up to 46% of our loan Book is in Consumer banking which is performing well.
- iii. A solid year on year (yoy) asset book growth of over Kshs. 70 Billion, enhancing our market share.
- iv. Optimal risk spread with a 50% growth on T-bills and T-bonds.
- v. Operational efficiency with 92% of our transactions in alternative channels. We have been able to offer uninterrupted services on these channels.
- vi. Growth in non funded income streams e.g. Banc assurance, leasing, supply chain financing.
- vii. Increased dominance in our domain market segment: Kenya.
- viii. Enhanced digitization of internal bank processes and engagement platforms, to build contactless capabilities for both customers and staff.
- ix. Continuous support to our customers, staff and all our other stakeholders. We have offered Kshs. 46B relief to our customers who have been impacted by the Pandemic.

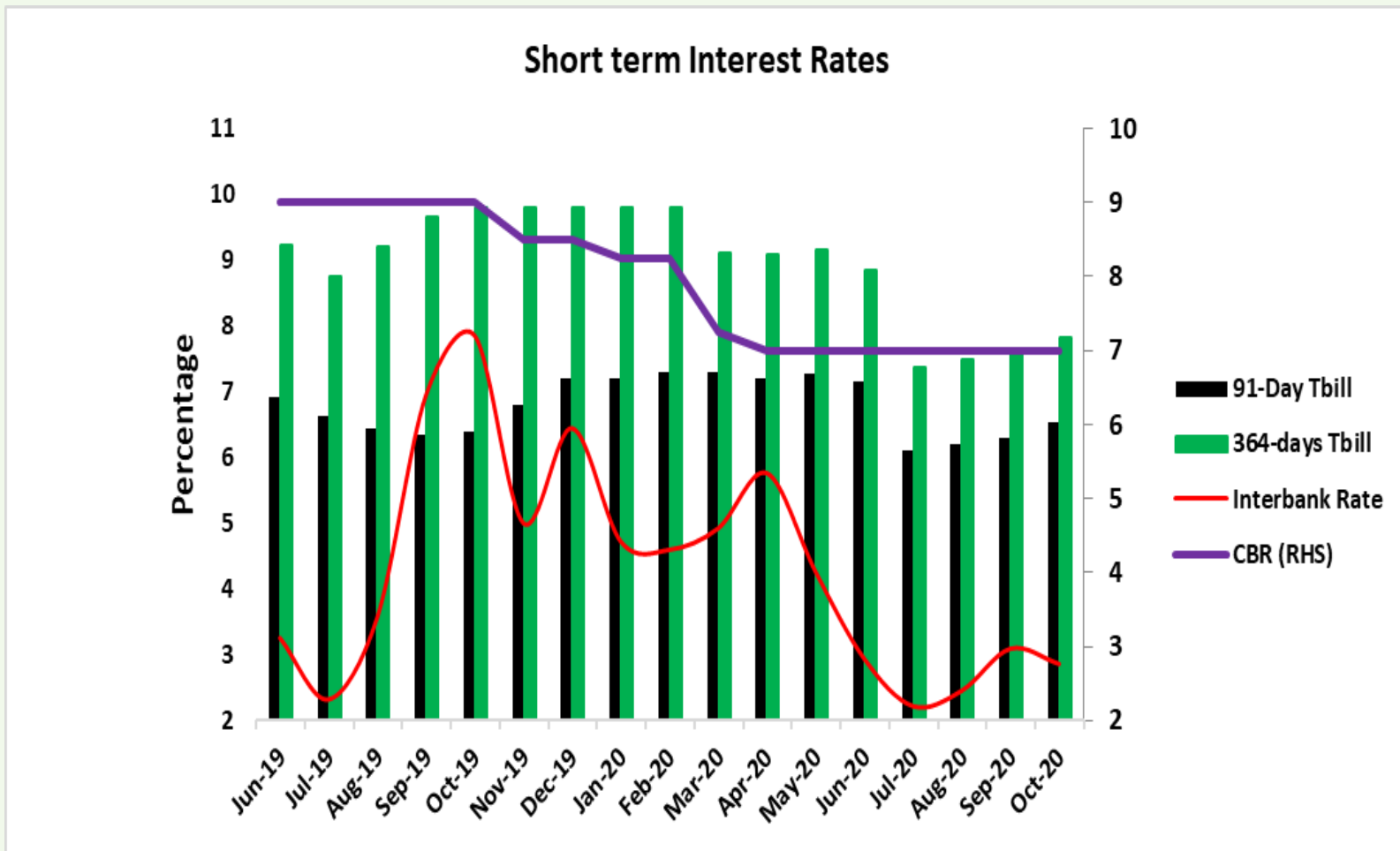
# **Macro Economic Highlights**

❖ Kenya's economic performance for the second quarter of the year contracted at 5.7% due to the COVID-19 pandemic impact on several sectors. Real GDP growth rate in Q1 2020 was 4.9%.

❖ We expect that the economy will record improved performance in Q3 and Q4 of 2020 from the Q2 2020 dip.

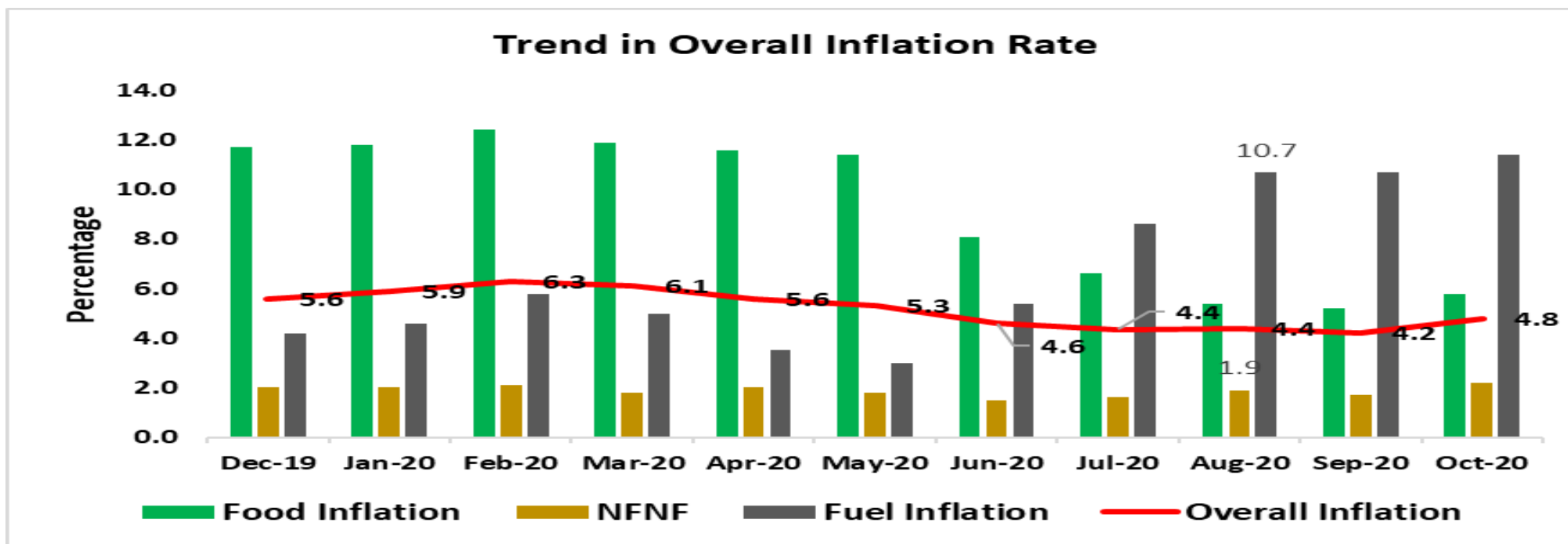
	Annual Growth Rates (%)	
	Q2 2019	Q2 2020
<b>Agriculture</b>	2.9	6.4
<b>Industry</b>	5.4	-0.5
Mining and Quarrying	5.0	10.0
Manufacturing	4.0	-3.9
Electricity and Water Supply	7.3	-0.6
Construction	7.2	3.9
<b>Services</b>	6.8	-11.7
Wholesale and Retail Trade, Repairs	7.8	-6.9
Accommodation and Restaurants	12.1	-83.3
Transport & storage	7.6	-11.6
Information & Comm	7.8	4.3
Financial and Insurance	5.2	4.2
Public Administration	8.7	5.7
Professional, Admin & support services	4.2	-15.7
Real Estate	6.0	2.2
Education	5.9	-56.1
Health	6.2	10.3
Other Services	5.6	-8.5
Financial Services Indirectly Measured	7.3	4.0
<b>Taxes</b>	4.0	-14.2
GDP at constant market prices	5.3	-5.7

- ❖ In Q3 of 2020, the yields on short term Government paper reduced slightly.
- ❖ Interest rate on 91-days, 182-days and 364-days Treasury bills averaged 6.2%, 6.7% and 7.5%, respectively in Q3 2020 compared to 6.5%, 7.2% and 9.2%, respectively during a similar period in 2020.
- ❖ The average interbank rate also fell to stand at 2.5% in Q3 2020 compared to 4.0% in a similar period in 2019 indicating higher liquidity in the money market.



# Trend in Inflation Rate

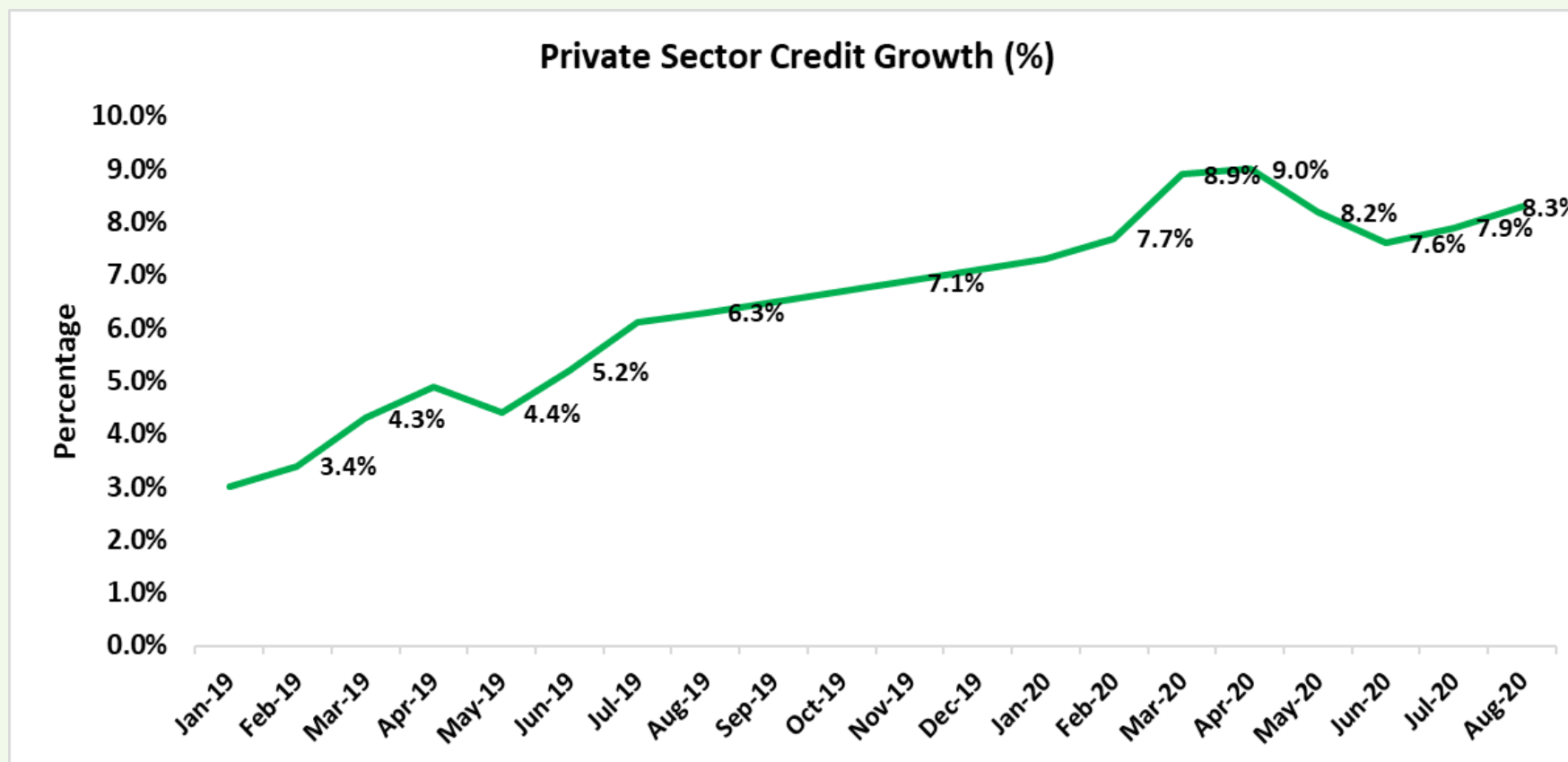
- ❖ Overall Inflation rate remained low at an average of 4.3% in 3Q 2020 compared to 5.0% in a similar period last year.
- ❖ However, the weather outlook for the October-November-December (OND) 2020 “Short Rains” season indicates depressed rainfall in some parts of the country, hence a gradual rise in inflation into early 2021.
- ❖ Overall inflation is expected to remain within the maximum range of 7.5% into the close of the year.





# Trend in Private Sector Credit Growth

- ❖ Growth in private sector credit in the 12-months to August was 8.3% compared to 8.9% in March and 7.6% in June 2020.
- ❖ Most of the lending has been to households, manufacturers and transport sector.



# COVID 19 RESPONSE



## • Regulatory interaction: legal perspective

We are compliant with the laws, regulations and guidelines;

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

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

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

## • Risk assessment

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

## • Policies, procedures and related controls

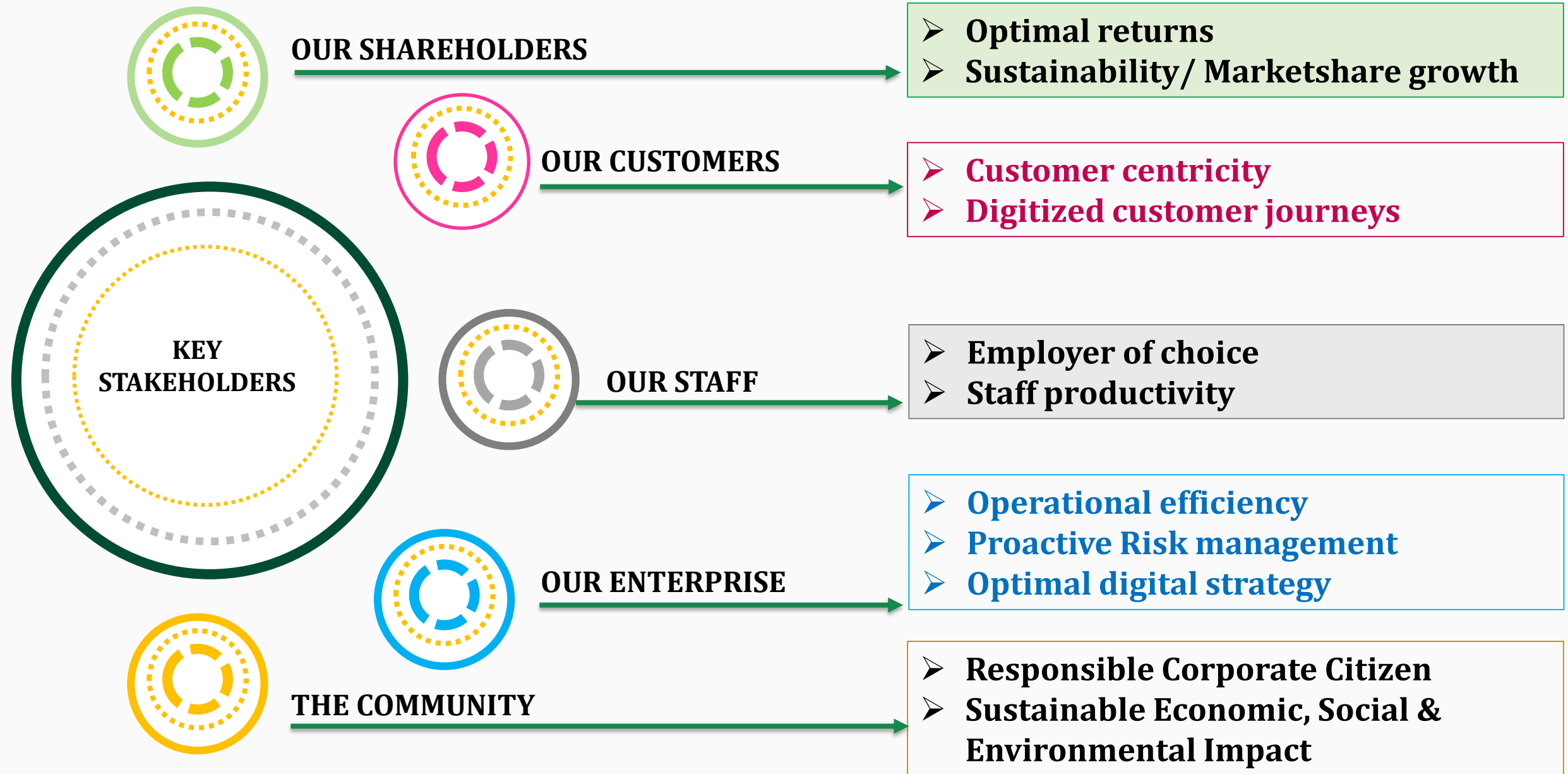
- These are promoting the use of technology, impact monitoring, response, reporting, communication, education, training and guidance.
- The Bank has put in place adequate business resilience arrangements for disaster recovery and business continuity.

## • Specific support to each stakeholder

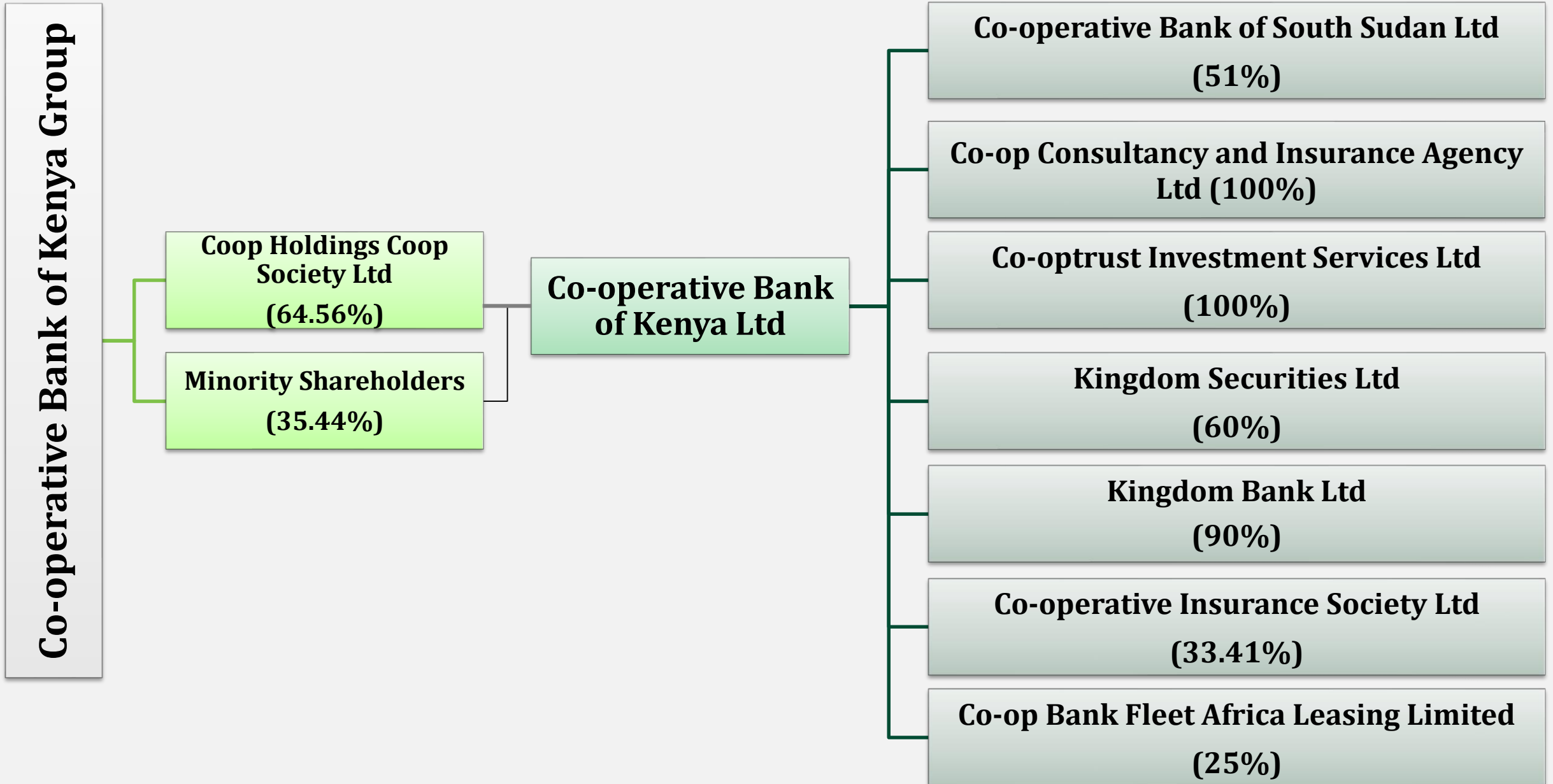
- We are providing specific support to our stakeholders. For our customers we have universal support but we also have targeted support for customers whose operations /revenues have been halted or materially impacted by the pandemic.
- In total, a portfolio of Kshs. **46 Billion** has been re-aligned to offer our customers this needed support.

# Strategic Focus

# Our Strategic Focus



# Co-operative Bank of Kenya Group Structure



# A Successful Universal Banking Model



# Our Presence

**159**

**Branches**

**584**

**ATMs**

**8.8M**

**Account holders**

**5M**

**Mcoop Cash Customers**

**17K +**

**Co-op Kwa Jirani Agents**

**110K**

**Internet banking Customers**

**479**

**Sacco Front Offices Branch network**

**16K+**

**Diaspora Banking Customers**

**24**

**Hr.**

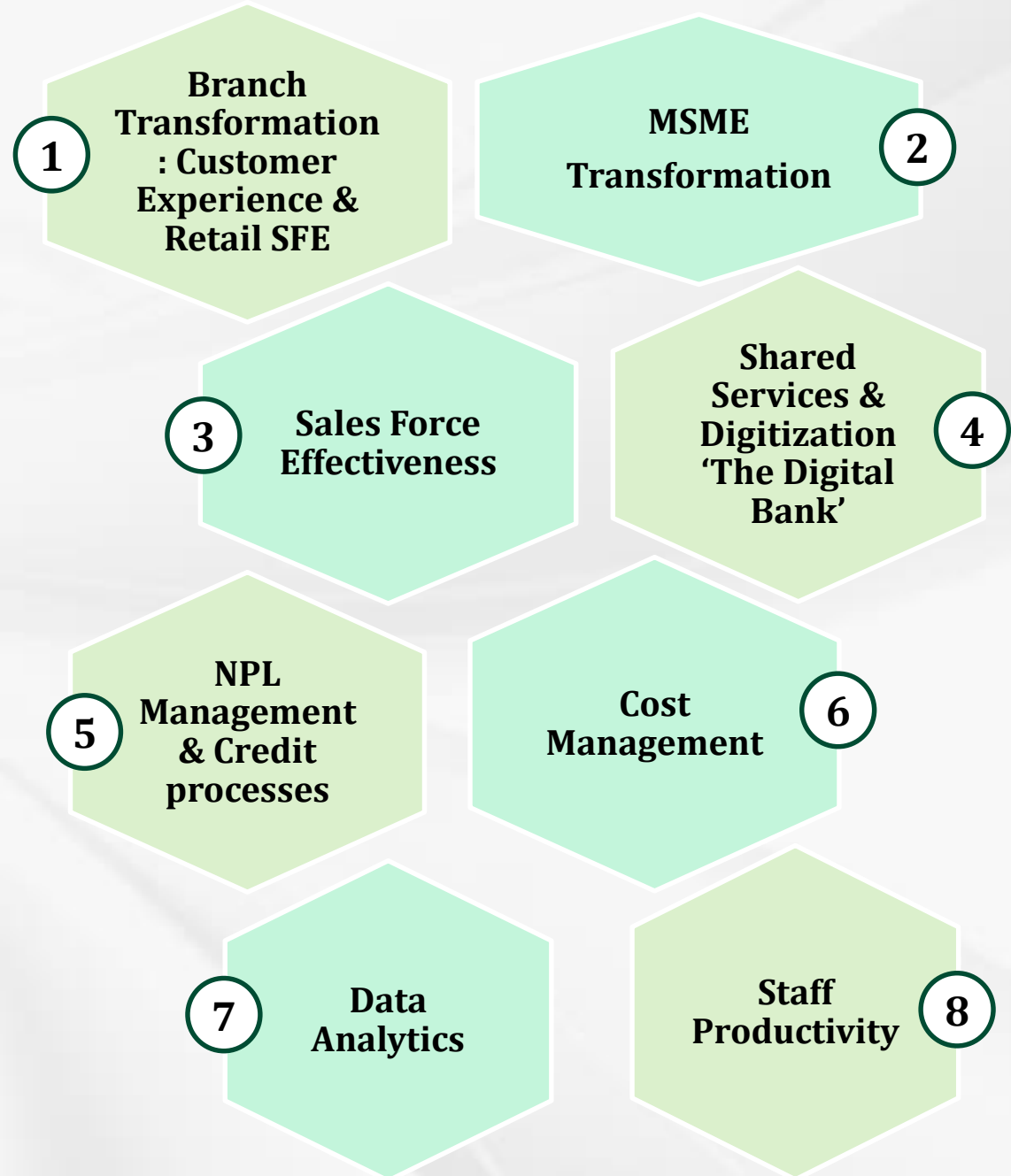
**Contact Centre**

**4442 Staff**

# “Soaring Eagle” Transformation Initiatives

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

**Key  
Pillars;**





# “Soaring Eagle” Transformation: Key achievements

- ❖ E-Credit Focus: Kshs. 105.7B Disbursed so far.
  - ❖ Short term tenor of maximum 90 days .
  - ❖ Good yield of 8% flat.
  - ❖ Average disbursement of Ksh. 4.6B per month.
  - ❖ Consumer Based that is on salary checkoff deductions at source.
  - ❖ Low NPL
- ❖ Average queue time of 8.8 Minutes.
- ❖ 92% transactions on alternative channels.
- ❖ Proactive credit management through;
  - ❖ Continuous Process improvement for enhanced End to End Turn Around Time on all loan applications.
  - ❖ Proactive early delinquency & NPL management through Connecting with our customers, collecting and offering customer centric solutions.
  - ❖ Credit Review Implementation Project “Project Kilele”
- ❖ MSME Transformation:
  - ❖ 8950 trained customers
  - ❖ 110,914 onboarded on the new packages (Gold, Silver, Bronze)
  - ❖ Supply chain financing: 77 Anchors and 229 counter parties to date.
  - ❖ Non-Financial Services (NFS):152 NFS clinics, 13 Networking forums,3 international business trips.

# “Soaring Eagle” Transformation: Key achievements

- ❖ Sales Force Effectiveness for CIBD and Cooperatives;
  - ❖ Sector focus; Tailor-made go to market strategies for different sectors.
  - ❖ Scale up value chain business.
  - ❖ Leasing- Partnership with coop fleet to offer assets on lease ;Total Portfolio of 783 M.
  - ❖ *Akili Kali* partnership; Fintech engagement challenge.
- ❖ Digitization: Core Banking System (ongoing), Omnichannel, Business Process Management System, Master Card.
- ❖ Advanced data analytics – credit score redevelopment.
- ❖ Staff productivity and enablement of Work From Home (WFM) – MS Teams, VPN, soft phone.

# Credit Review Implementation Project

## “Project Kilele”

### **E2E assessment of credit risk management practices**

Comprehensive diagnostic review 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
- Portfolio management, monitoring and reporting procedures
- Non-performing loan management, collections, and recovery processes

### **Strengthen portfolio assessment and risk frameworks**

- Stress-testing of existing work done on portfolio analysis
- Assess client level (and sub-sector) strategies that have been developed and suggest improvements
- Quantify impacts of work done - Improvements on work done and potential heuristics that can be applied to enhance PD, LGC, and ECL modeling incorporating sector expertise

### **Enhance Collections**

- Diagnostic of collections area (including recoveries and restructuring)
- Segment by segment re-design
- Future roadmap for collections function

## Co-op Consultancy & Insurance Agency Ltd

- ❑ 2885 Consultancies
- ❑ 20 Dedicated Consultants
- ❑ 479 FOSA- Financial Inclusion Deepening

## Co-op Foundation

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

- ❑ Kshs. 46B loans restructured as support to customers affected by Covid-19.
- ❑ Financing the SME and MCU sector
- ❑ Sustainable financing towards;
  - ❑ Big 4 Agenda
  - ❑ Vision 2030 and MDGs
- ❑ Staff CSR Involvement
- ❑ Corporate Social Responsibility: First Lady's Beyond Zero Campaign 2020 (Kshs.20 Million)
- ❑ Private sector-led Covid-19 Emergency Response Fund. Donated **Kshs. 100** Million to support critical medical supplies and equipment such as ventilators.
- ❑ Signatory to the United for Wildlife's (UfW) Financial Taskforce

## KENYA BANKERS ASSOCIATION: CATALYST AWARDS 2019

### Overall Winner

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



## FINANCIAL REPORTING AWARDS 2019

- Winner: Environmental Sustainability Reporting



## KENYA ASSOCIATION OF MANUFACTURERS

- Best Bank in Sustainable Finance in Kenya - 2019

## GLOBAL SME FINANCE AWARDS 2019

- Product innovation of the year



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

## EMEA FINANCE AFRICAN BANKING AWARDS 2020

- Best Bank - Kenya



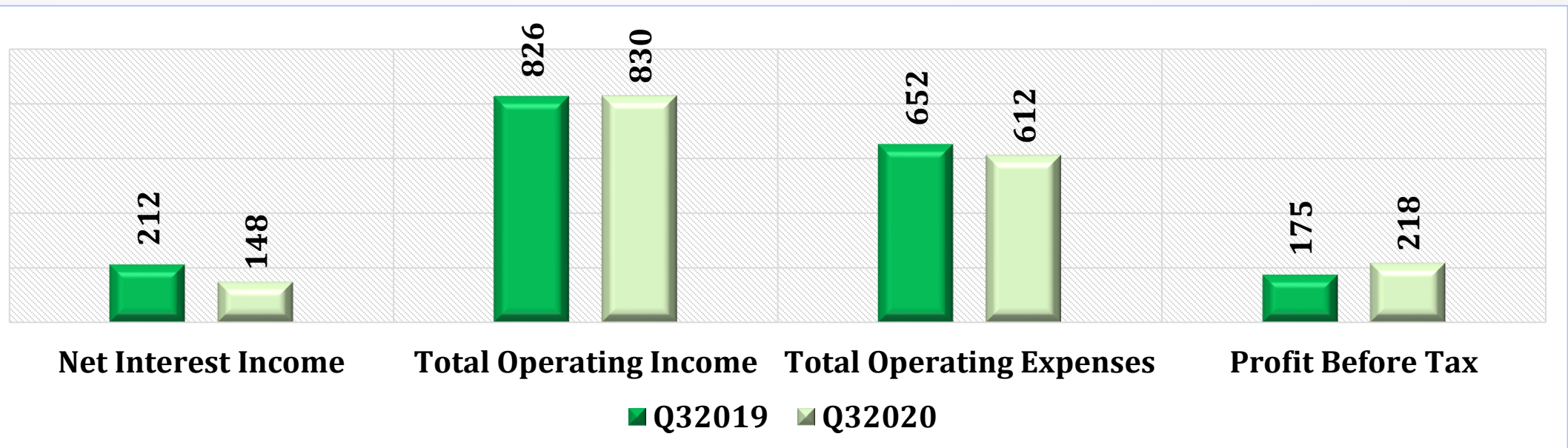
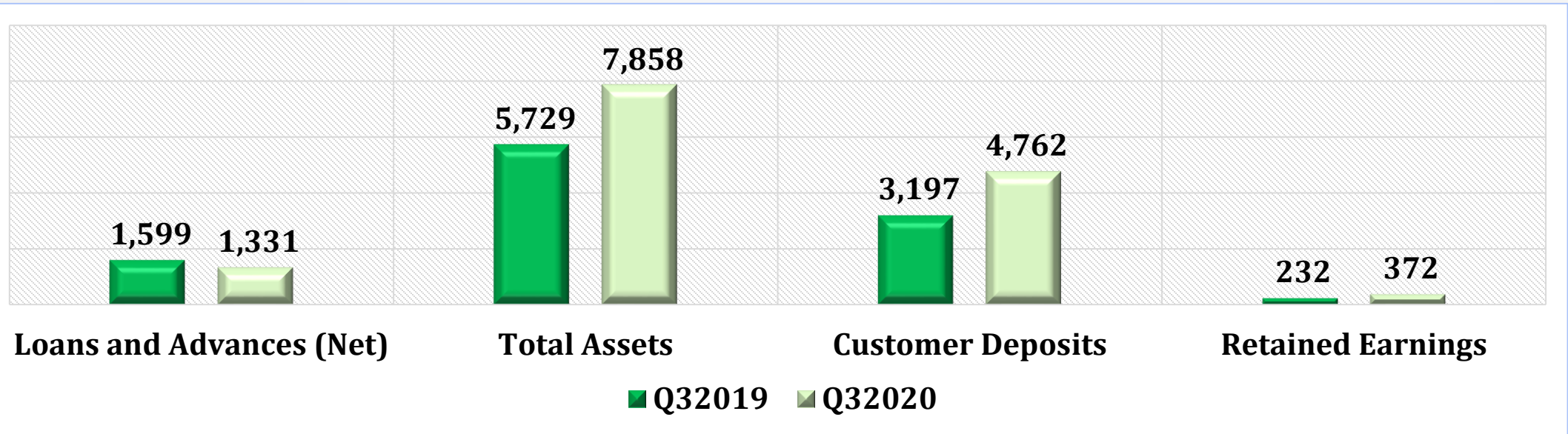


# Regional Business (Kshs. Million)

4 branches in Juba

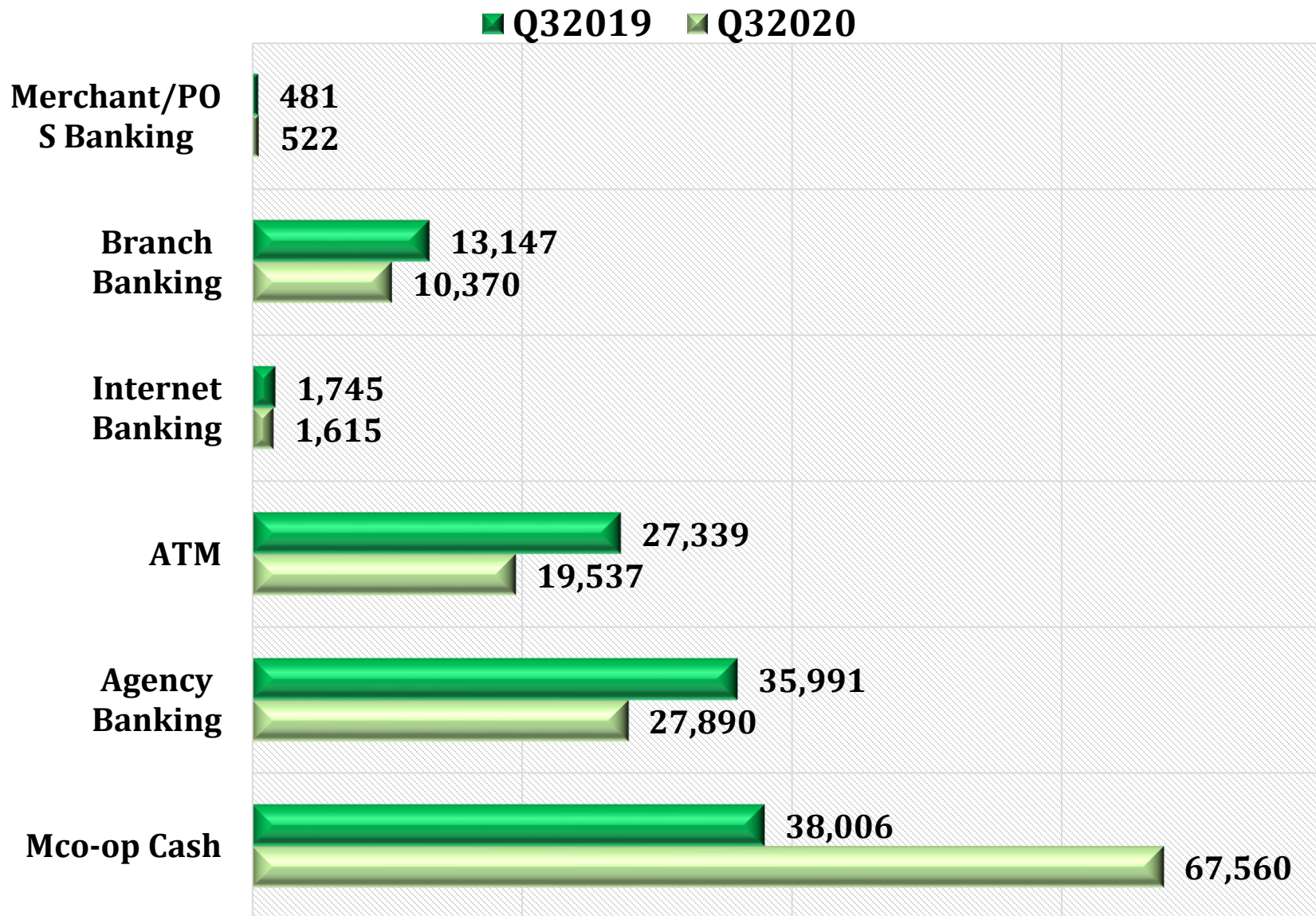
5 Non-oil collection centers.

Owns 31% of CIC Africa Ltd- South Sudan



# **Channel Performance**

# Growing Digital Channels



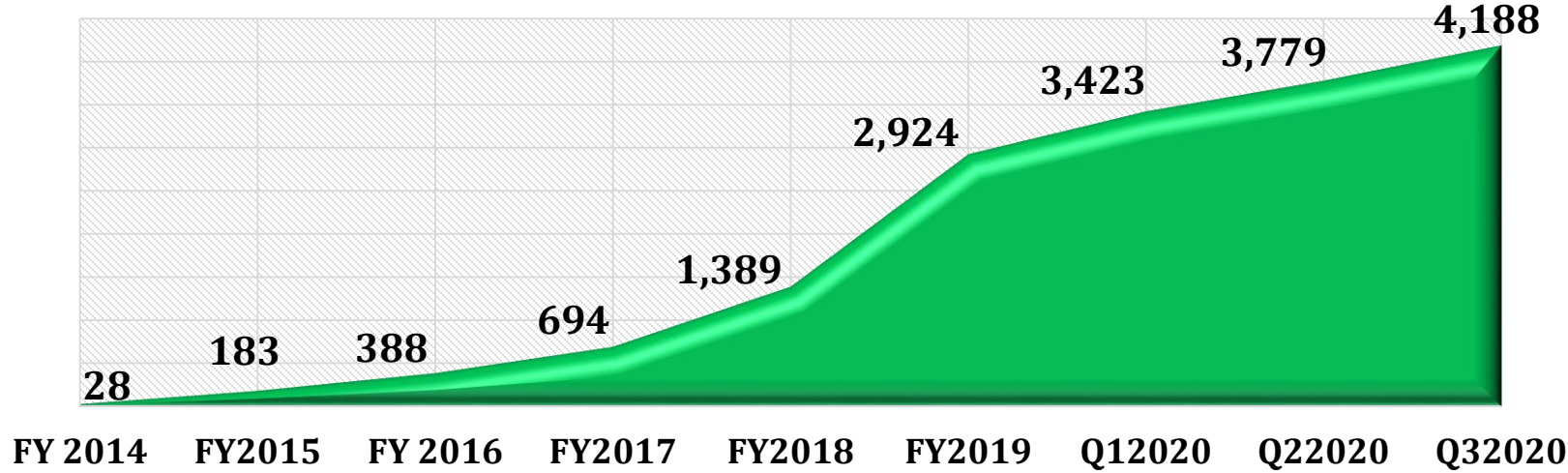
- 92% of our Transactions are on alternative Channels providing opportunities for efficiency.
  - ✓ Mobile
  - ✓ Internet
  - ✓ ATM
  - ✓ Agency
- 78% growth in Mobile Transactions year on year.
- Ecredit
  - ✓ A key focus area, Kshs. 105.7B disbursed to Date.
  - ✓ Kshs. 4.6 Billion disbursed per month on average.
  - ✓ Yield of 8% flat
  - ✓ Consumer based salary checkoff hence lower NPL.



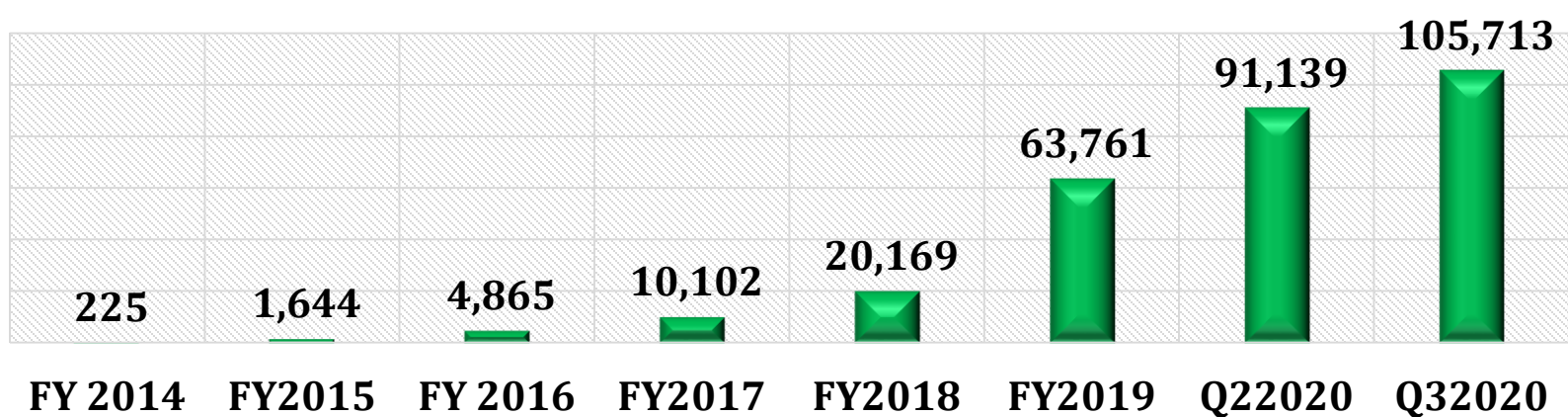
# E-Credit

- A superior product for our customers that continues to scale and is a key revenue source.

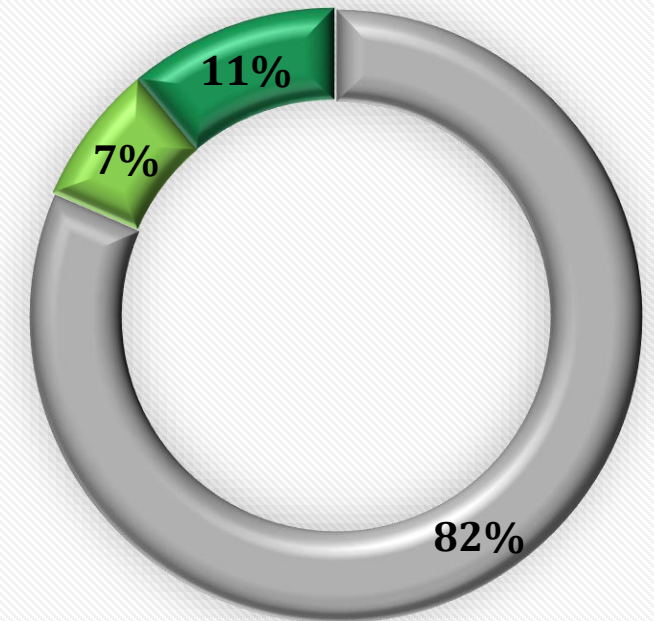
Cumulative Mcoop Cash Loan Customer Numbers ( In '000')



Cummulative MCo-op Cash loan Book - In Millions



E-Credit – Key Growth Focus



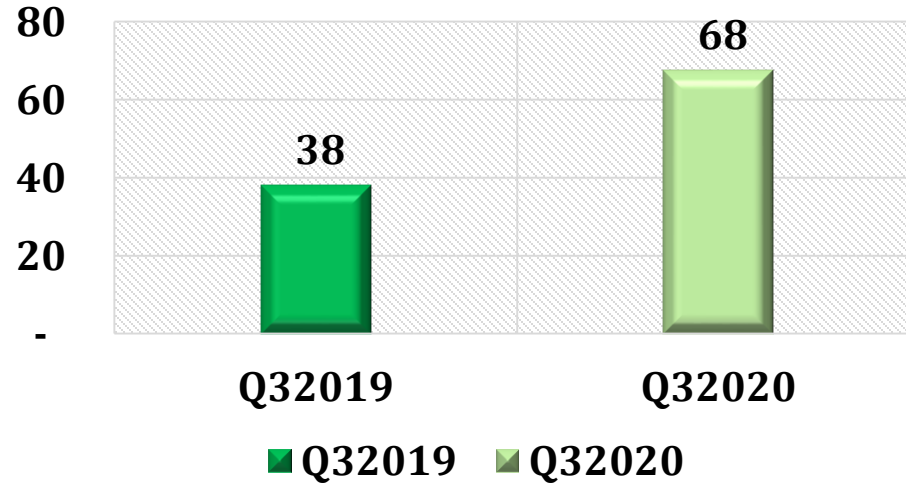
- E-Flexi (Salary Advance)
- Business
- Unsecured Business Plus

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

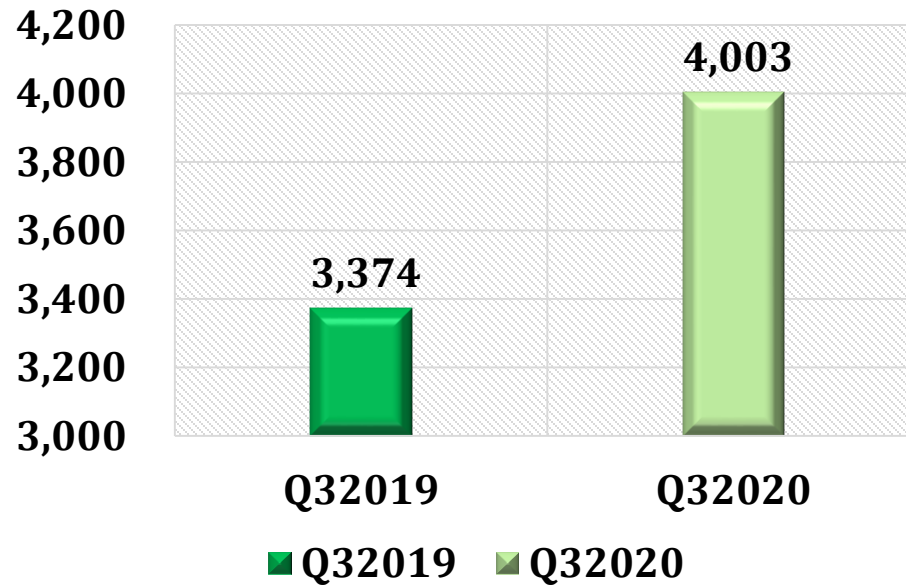
***Leveraging Mobile  
Banking to grow  
commissions***

- 78% increase in Transactions.***
- 19% increase in Commissions.***
- 82% growth in deposits through mobile.***

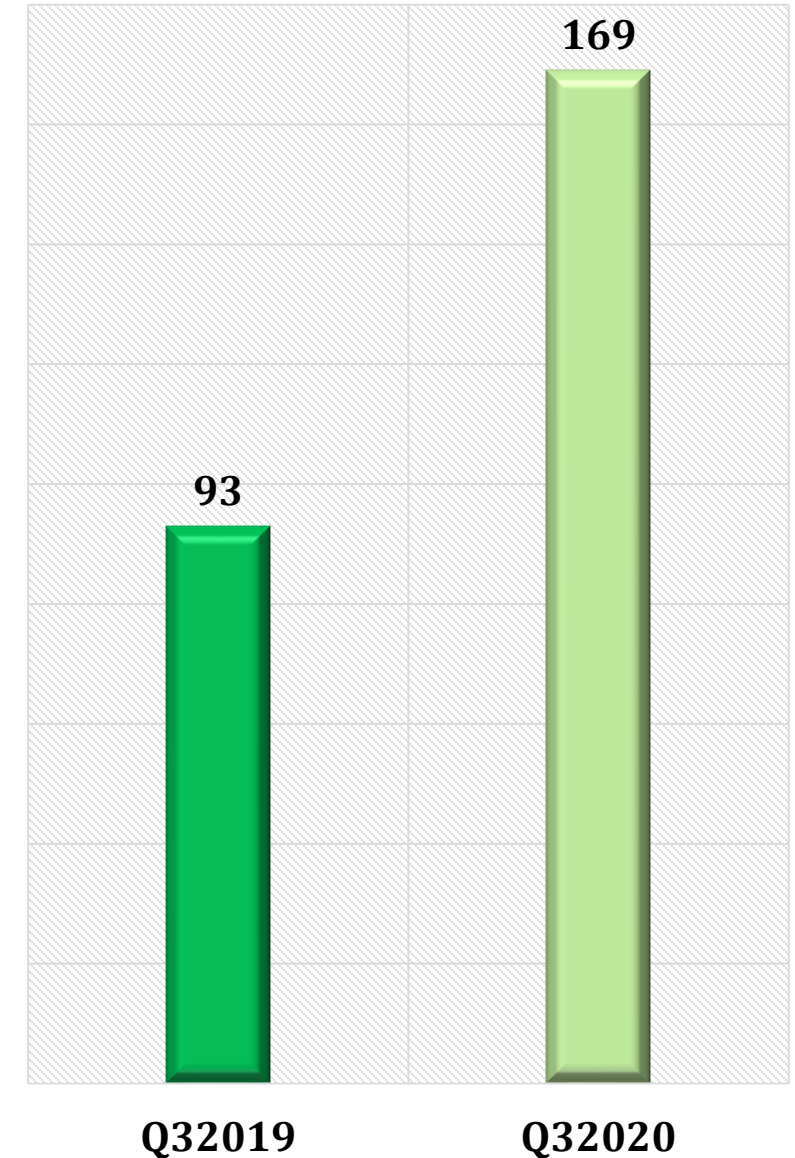
### **Transactions - Millions**



### **Commission - Millions**



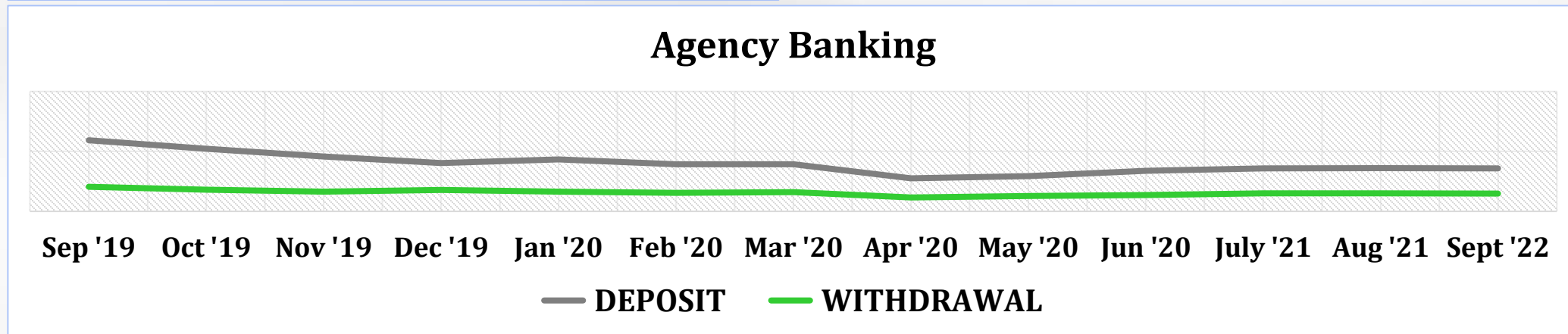
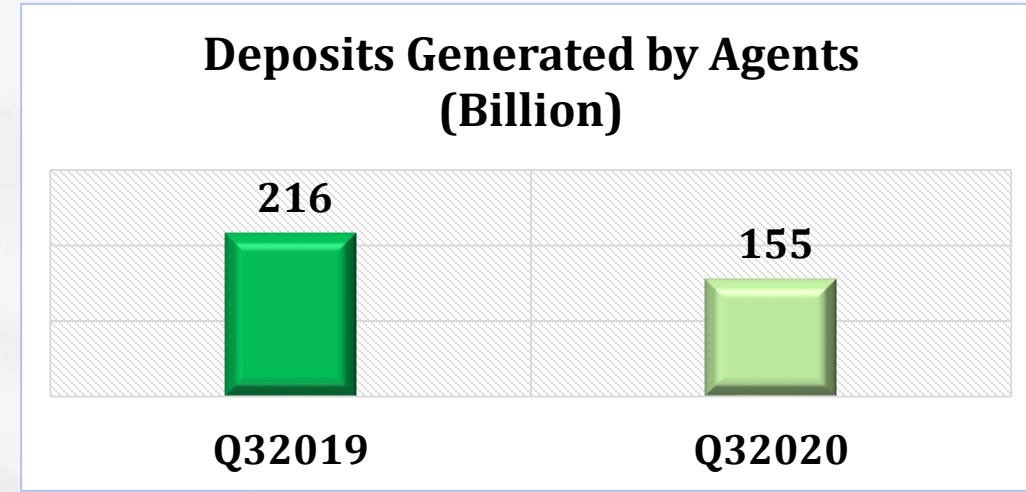
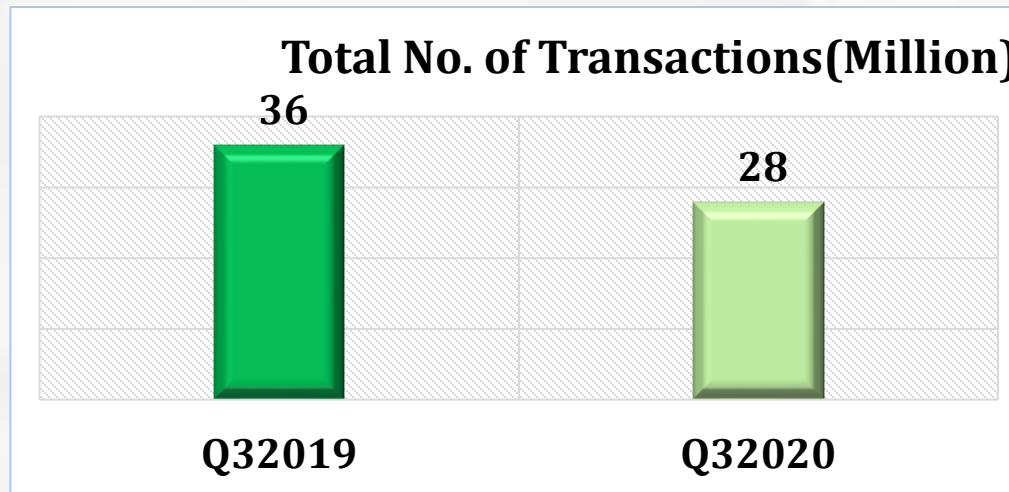
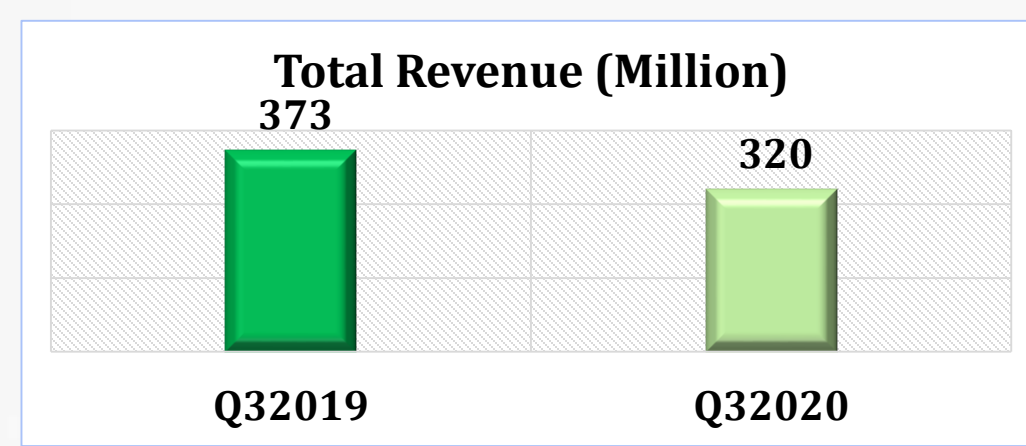
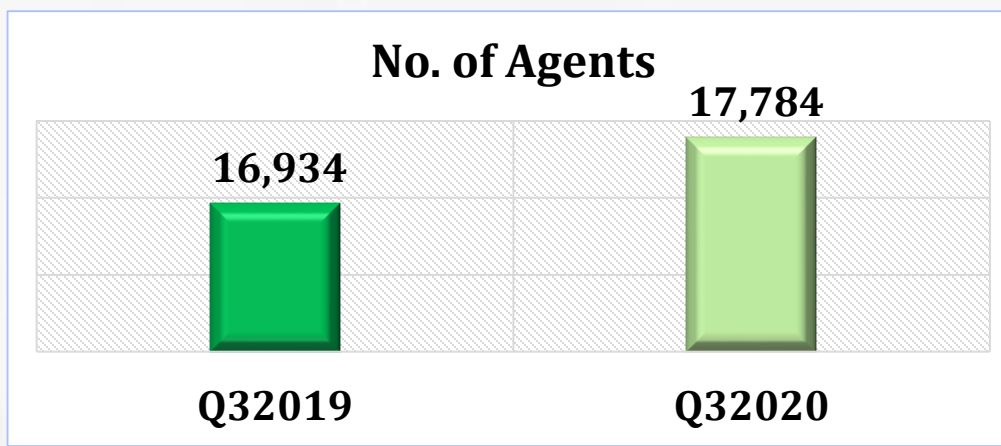
### **Deposits through Mobile (Billions)**



# AGENCY Banking

## Growing Co- op Kwa Jirani Agency Banking

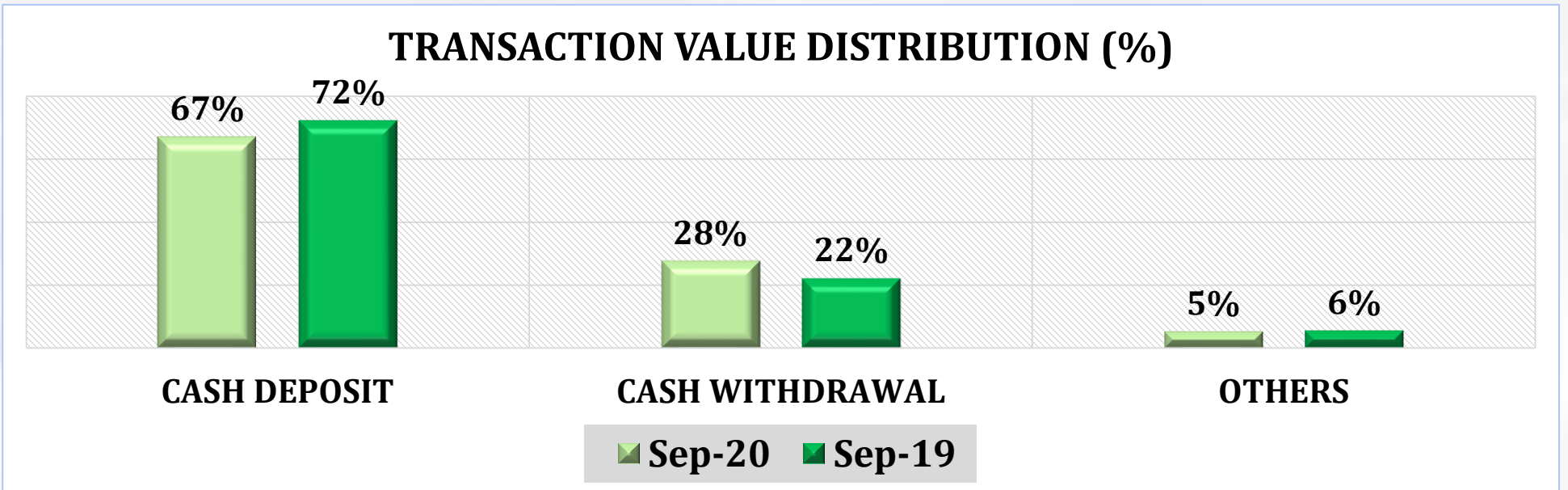
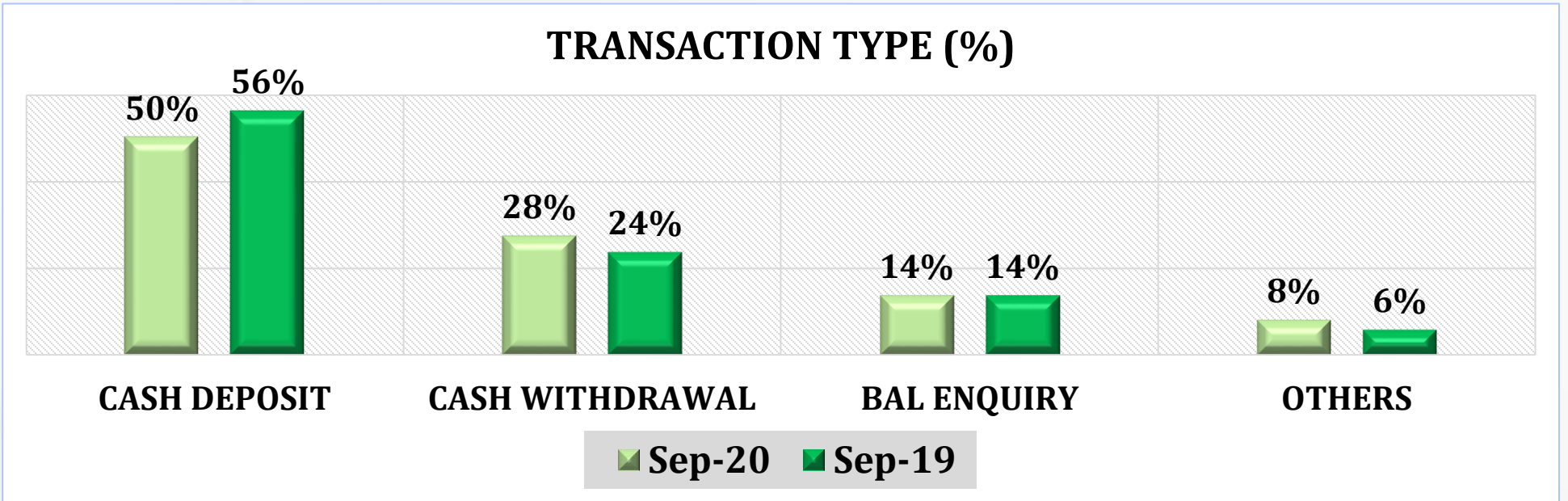
- *Number of agents up by 5%*



# AGENCY Banking

*Growing Co-op  
Kwa Jirani  
Agency  
Banking*

- *Higher deposit than withdrawal*

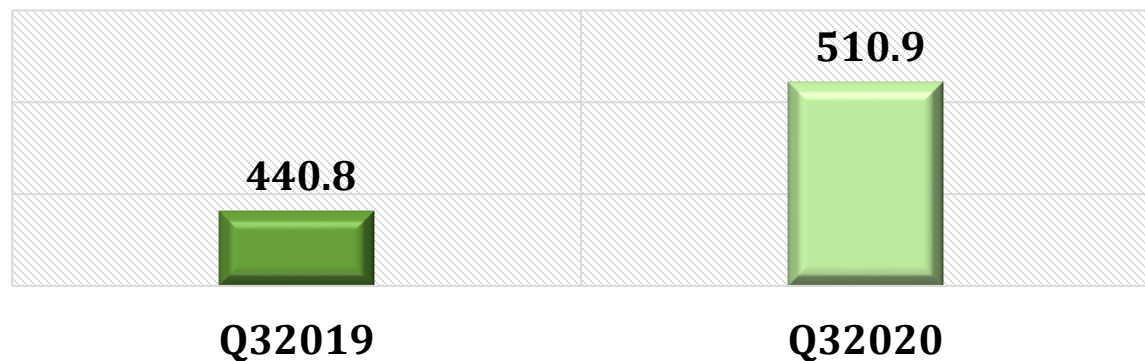


# **Financial Highlights**

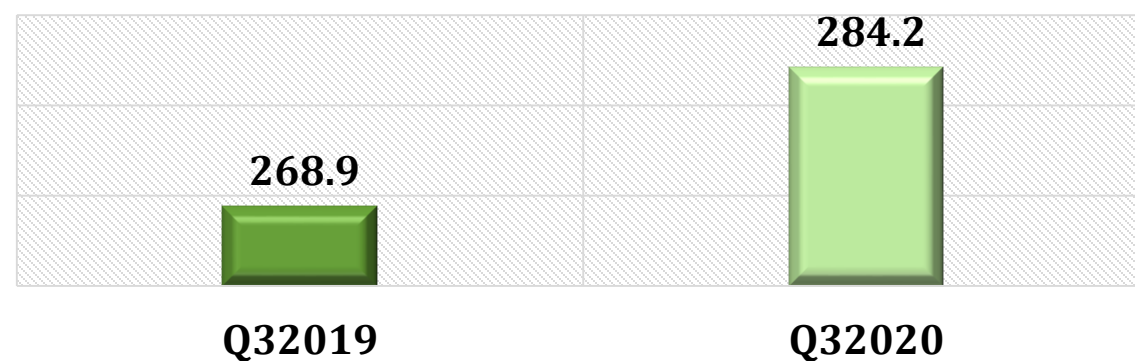
# Strong Financial Position (Kshs. Billion)

- Kshs. 70 Billion growth in Total Assets.
- 50% growth in T-bills and T-bonds (Kshs. 47.7Billion).
- Kshs. 15.3 Billion growth in net loan book.
- Kshs. 53 Billion growth in customer deposits.

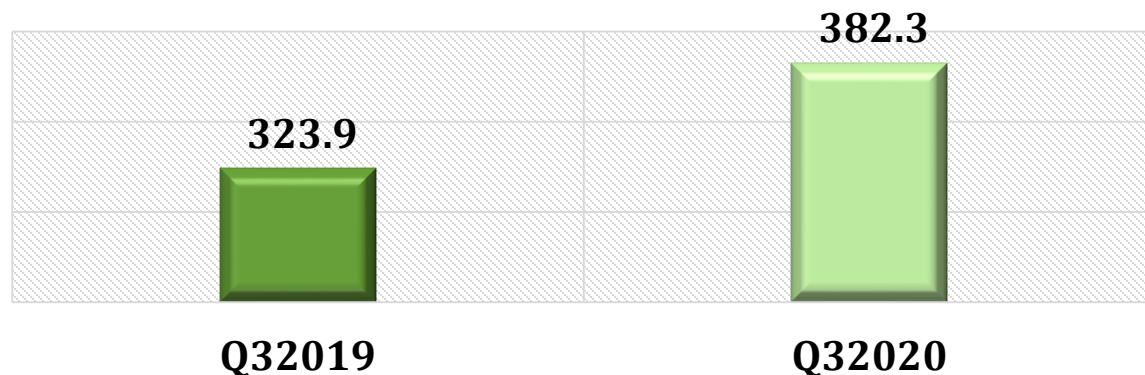
### Total Assets



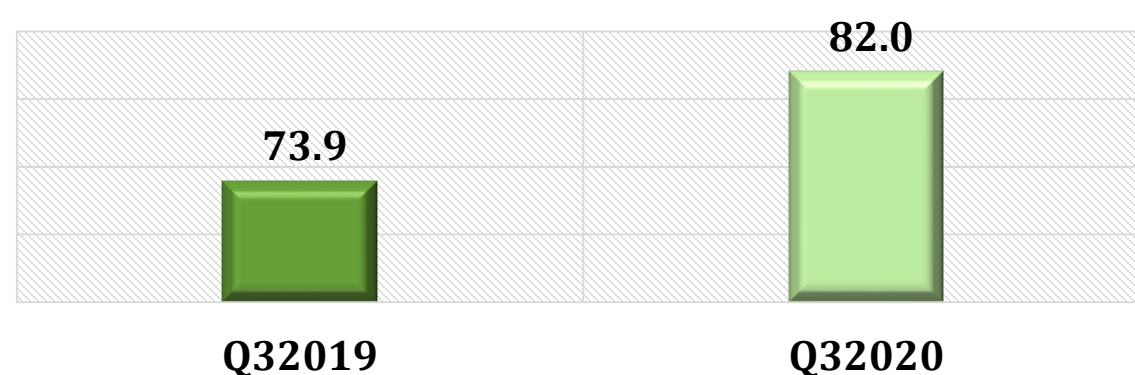
### Loan book (Net)



### Total Deposits



### Shareholders Funds

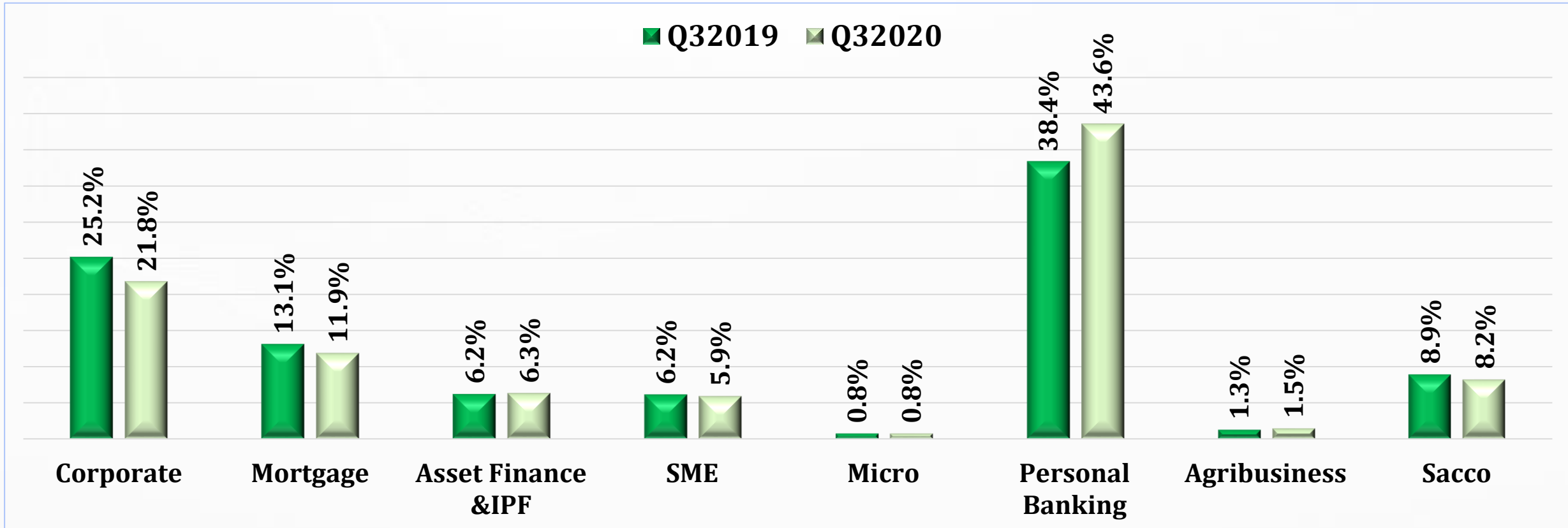


## Strong Financial Position (Kshs. Billion)

Kshs. Billions	Q32020	Q32019	% Change (YoY)		FY2019
Total Assets	510.9	440.8	15.9%	↑	457.0
Loan book (Net)	284.2	268.9	5.7%	↑	266.7
Government Securities	142.3	94.6	50.5%	↑	117.8
Total Deposits	382.3	323.9	18.0%	↑	333.0
Borrowed Funds	26.2	29.7	-12.0%	↓	26.4
Shareholders Funds	82.0	73.9	10.9%	↑	79.3
No. of account holders (Millions)	8.8	8.7	1.1%	↑	8.76

# Diversified loan book

- Diversified across segments.
- Highest book is in Personal Banking;
  - ✓ Check off; deductions are done at source.
  - ✓ Diversified across various Government/quasi-government employees.
  - ✓ Appraisal of both employer and employee for optimal risk-return.

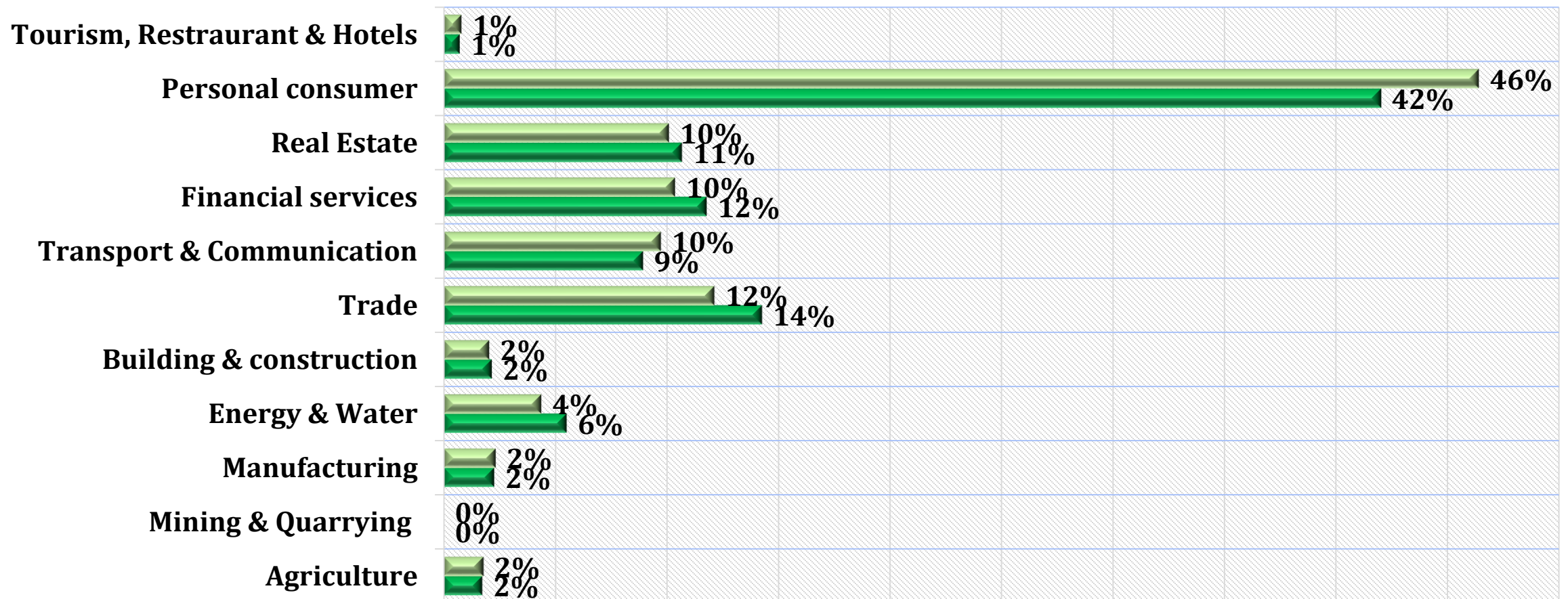




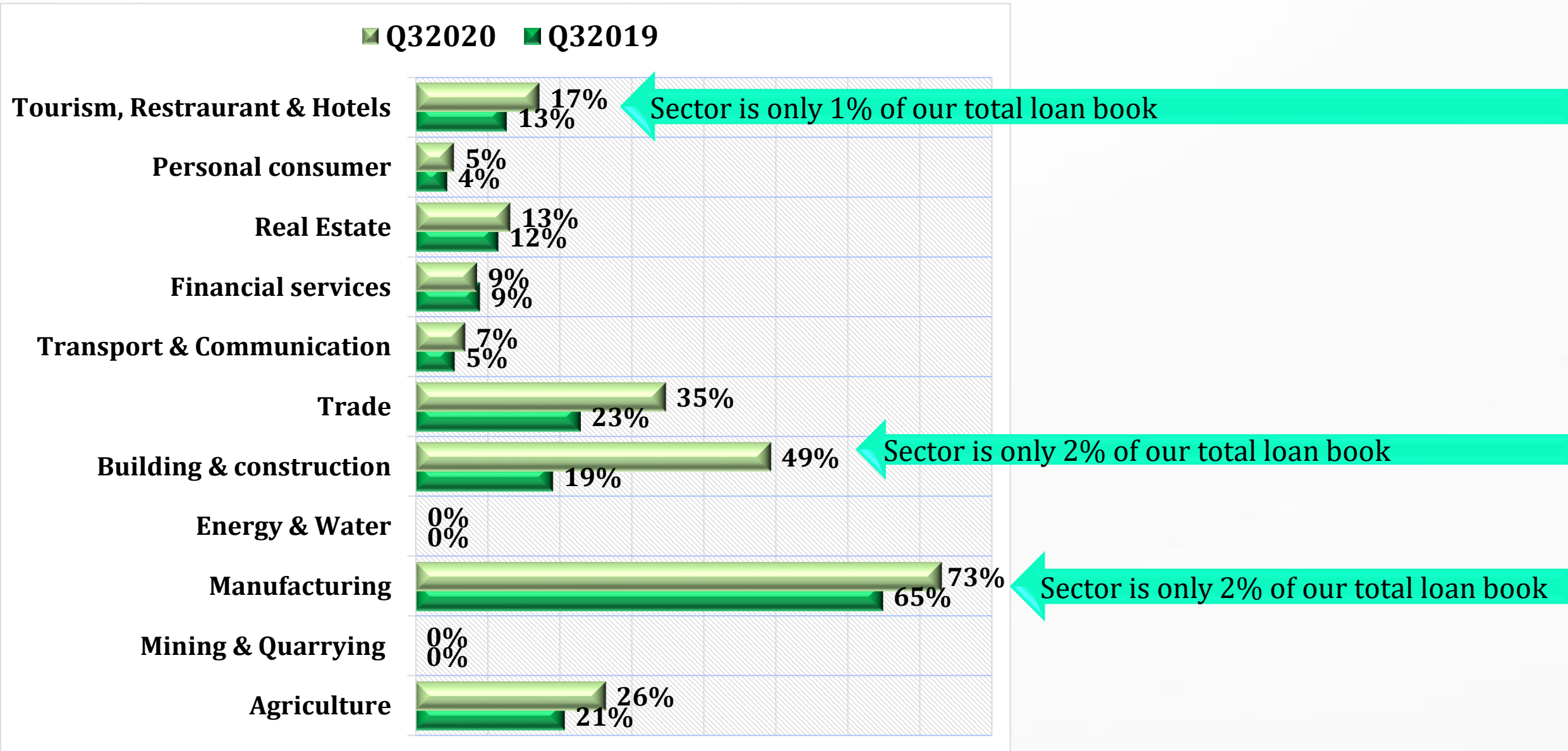
# Diversified loan book

- 46% in Personal Consumer loans which are performing well.
- Low relative exposure in high risk sectors.
  - ✓ Tourism, Restaurants and Hotels 1%
  - ✓ Manufacturing 2%

■ Q32020 ■ Q32019

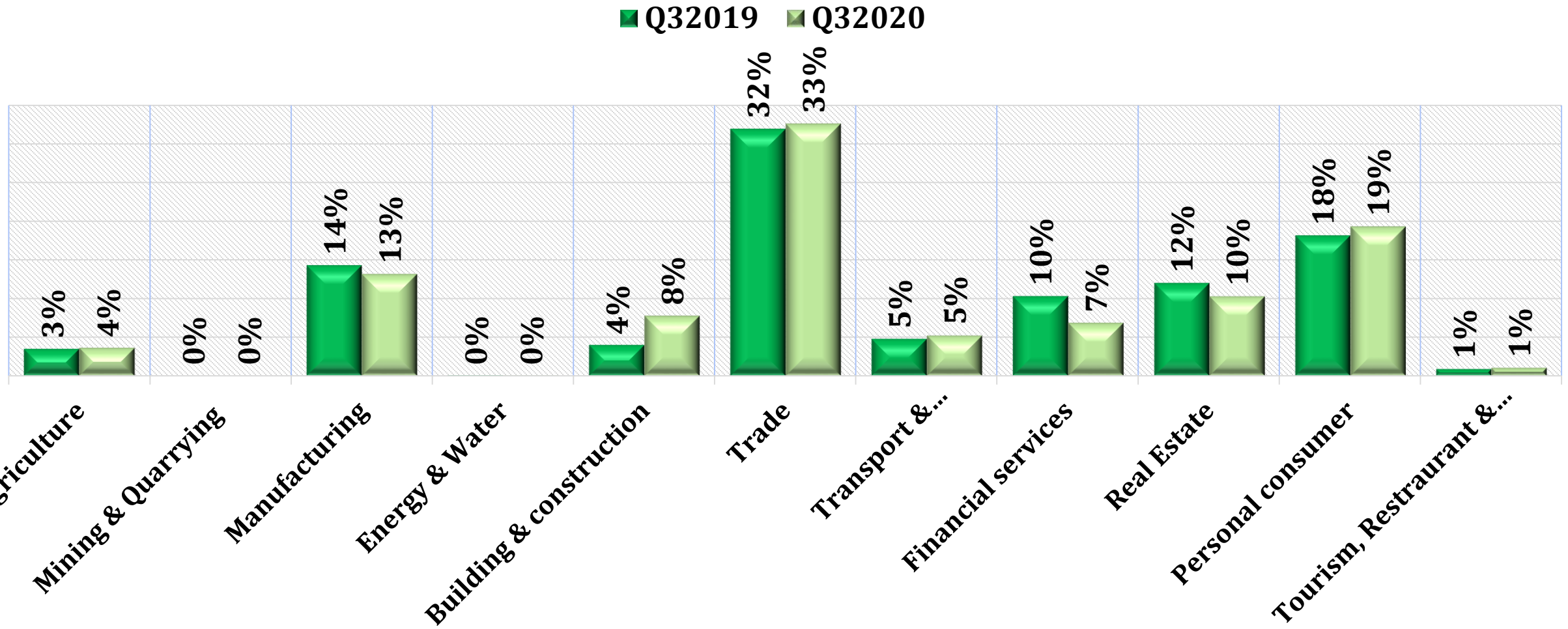


# Portfolio Trends – Specific Sector NPL By Sector Book

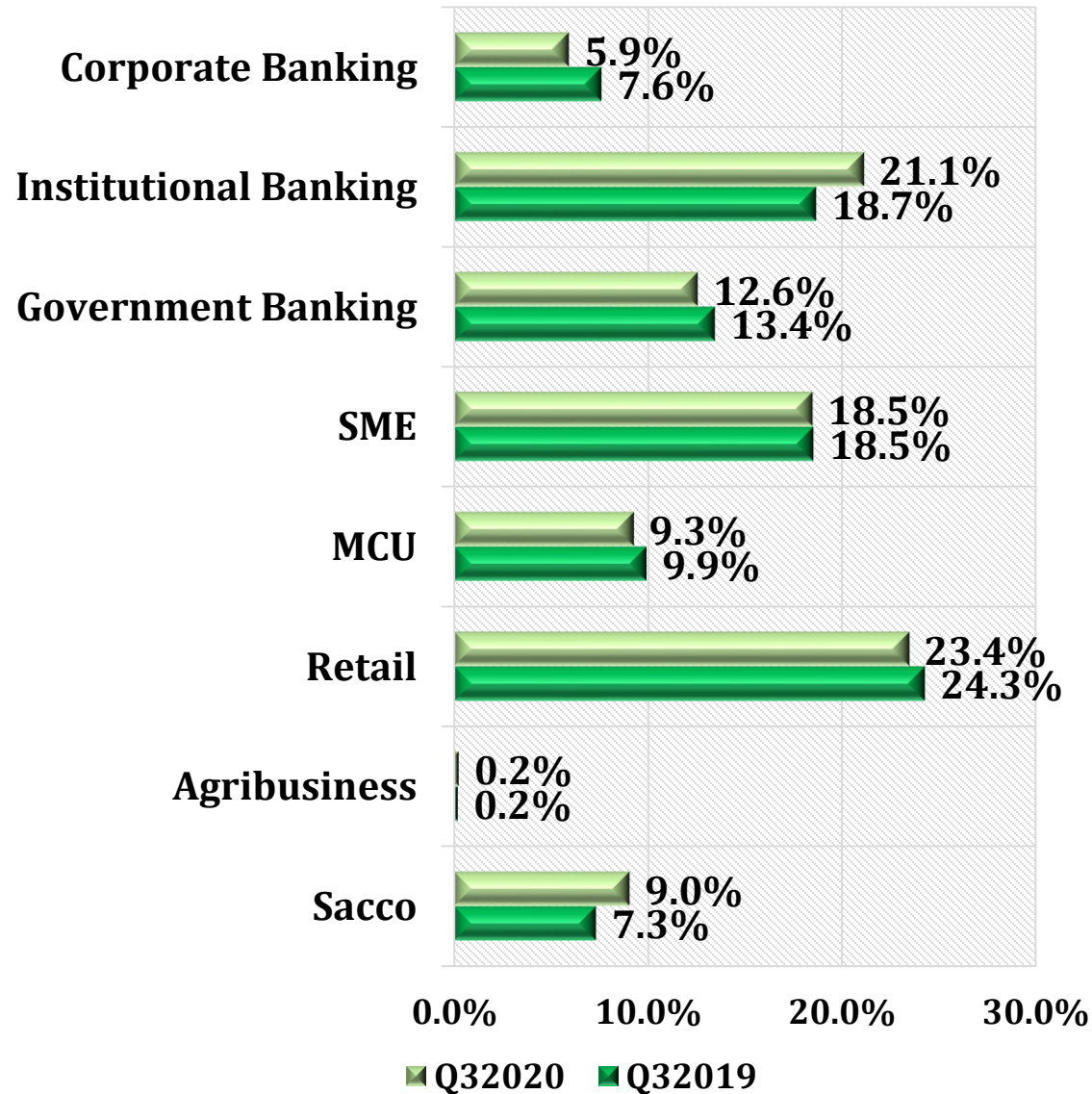


# Portfolio Trends – Sector NPL By Total Bank NPL Book

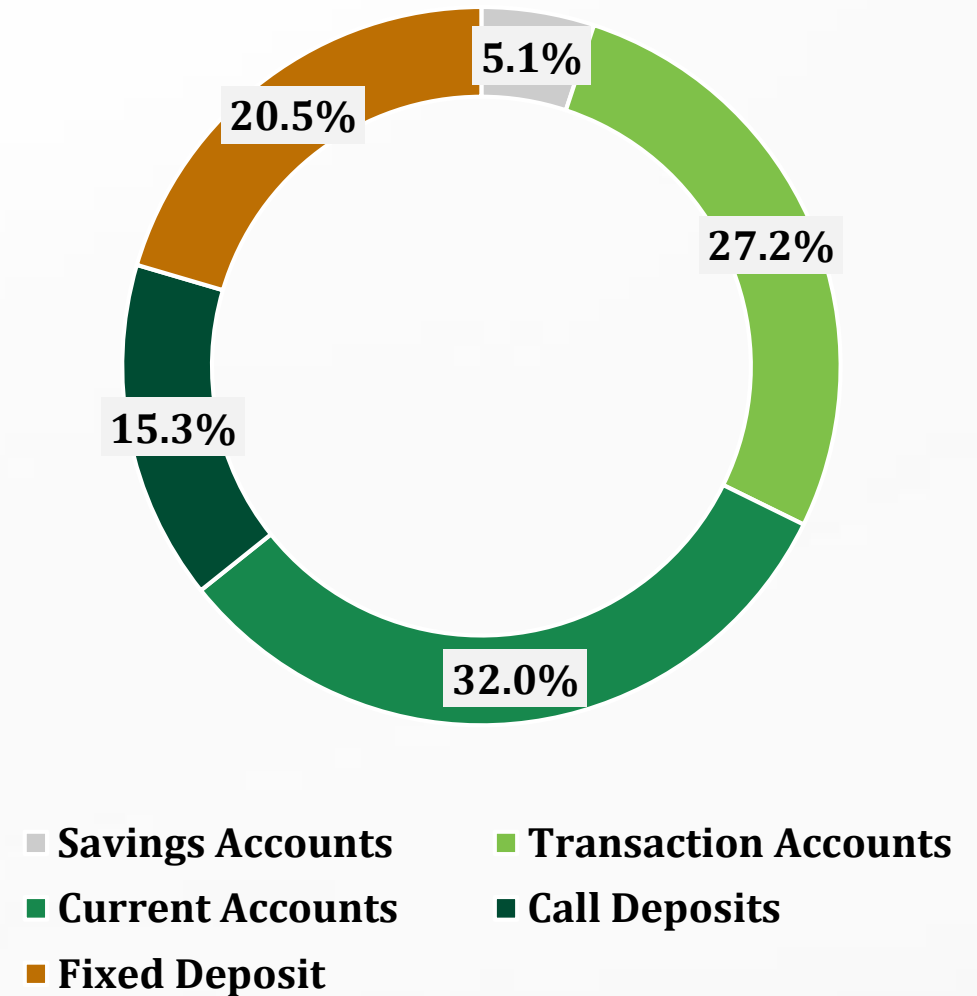
- Relatively lower NPL in Key Sectors



# Well-diversified Liability Portfolio

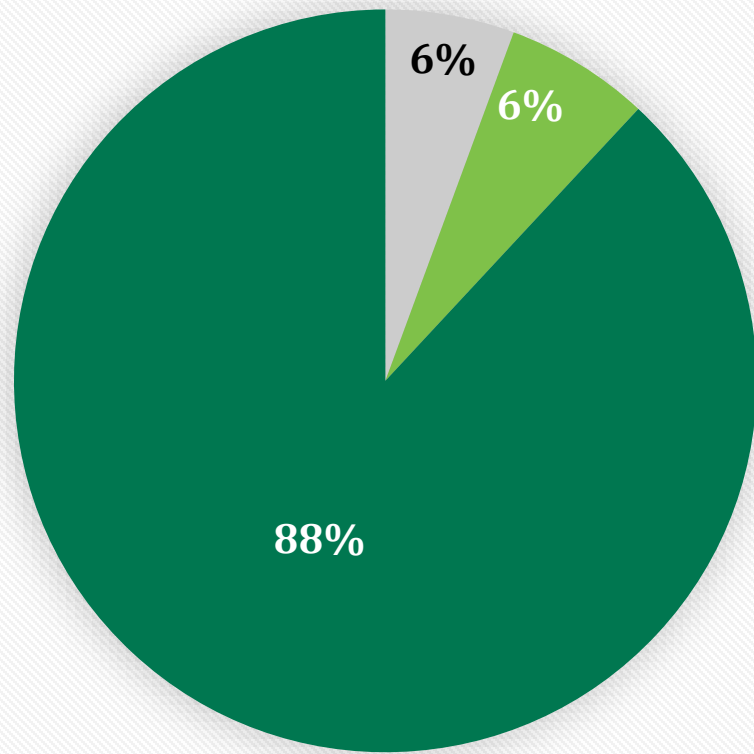


## Deposit Distribution Q32020



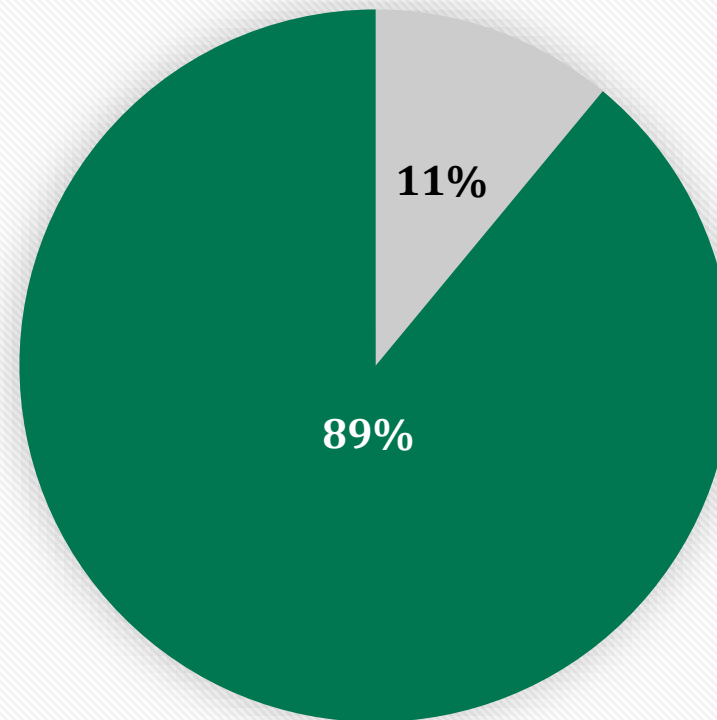
# Optimally balanced Kenya Shilling asset & funding book

**Funding (Local Vs Foreign Currency)  
Q32020**



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

**Loan Book (Local Vs Foreign Currency)  
Q32020**

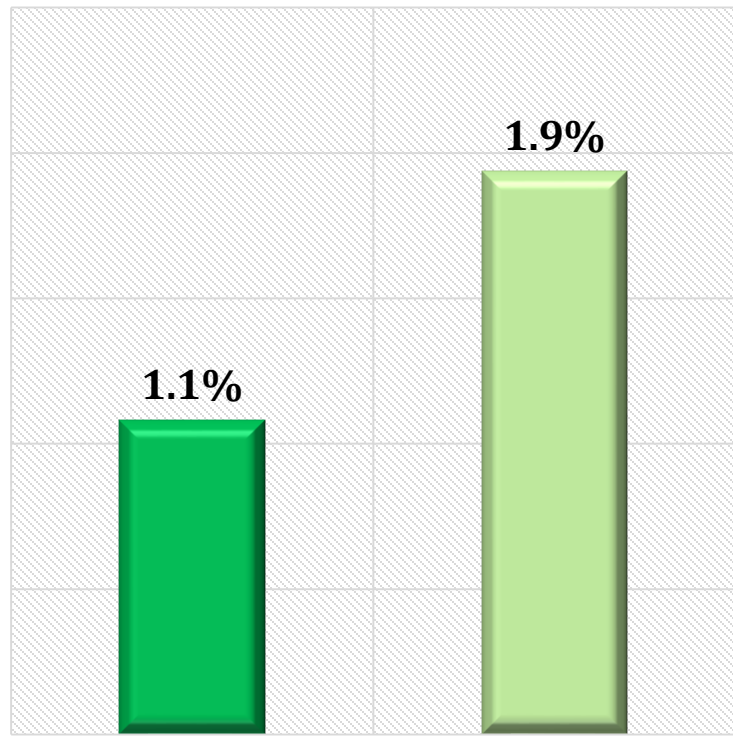


- Foreign Currency
- Local Currency

# Adequate Coverage

- 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.

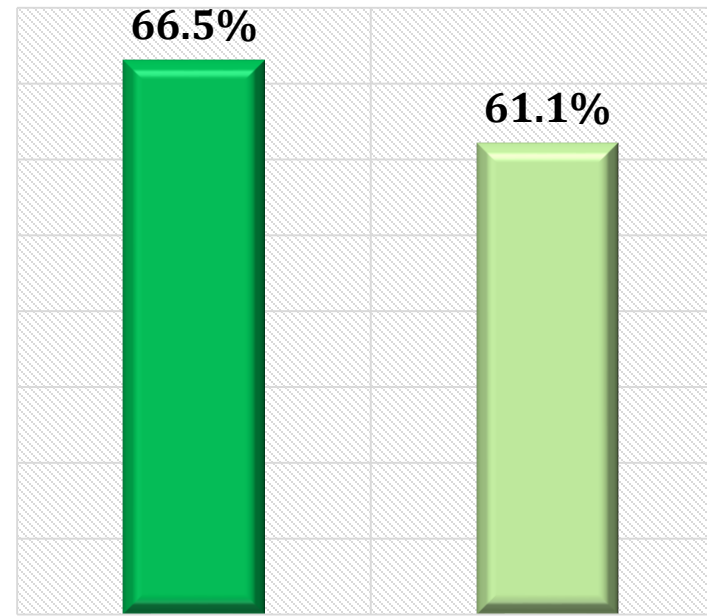
### Cost of Risk



Q32019

Q32020

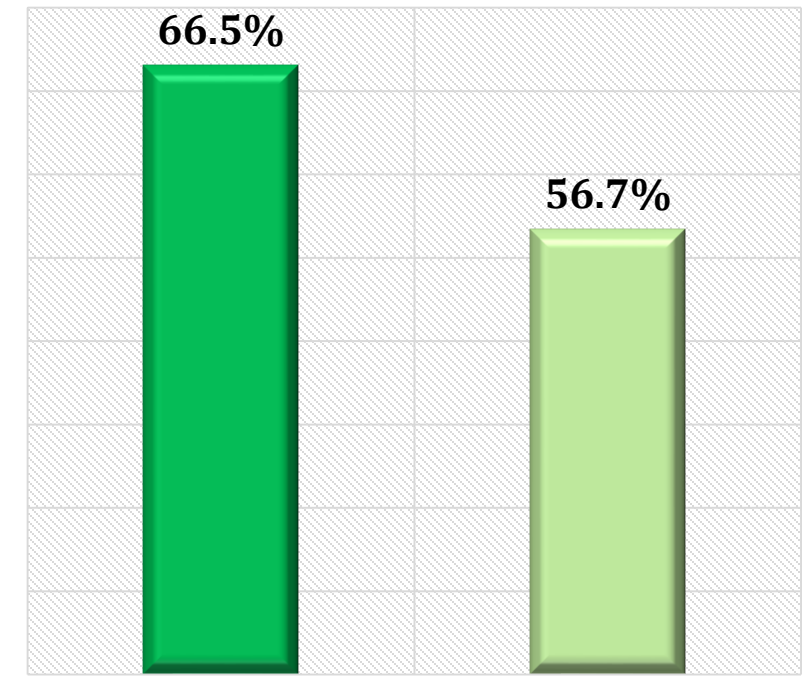
### Coverage CBK (Includes Gen. Prov.)



Q32019

Q32020

### Coverage (IFRS) Excludes General Provisions



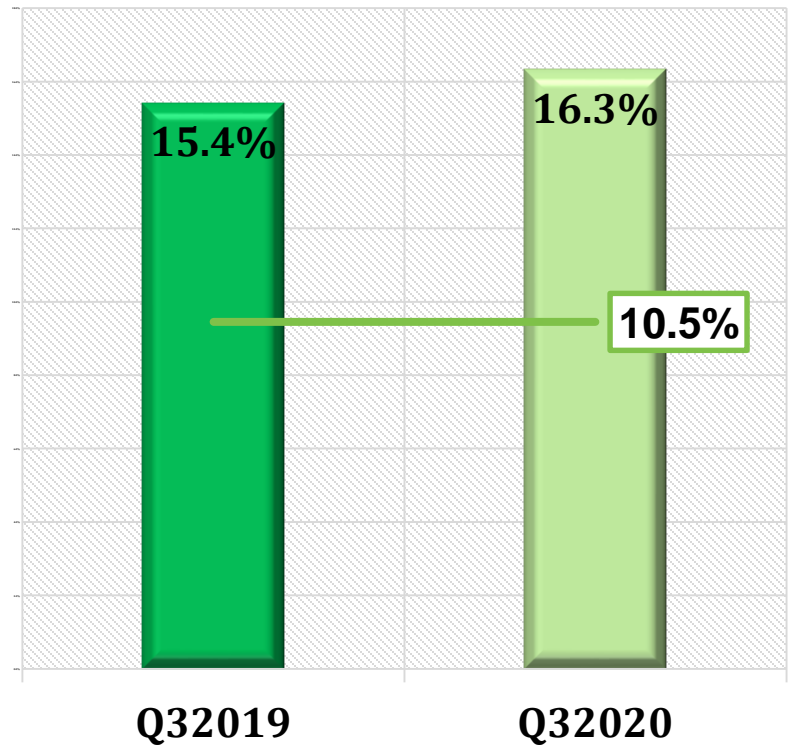
Q32019

Q32020

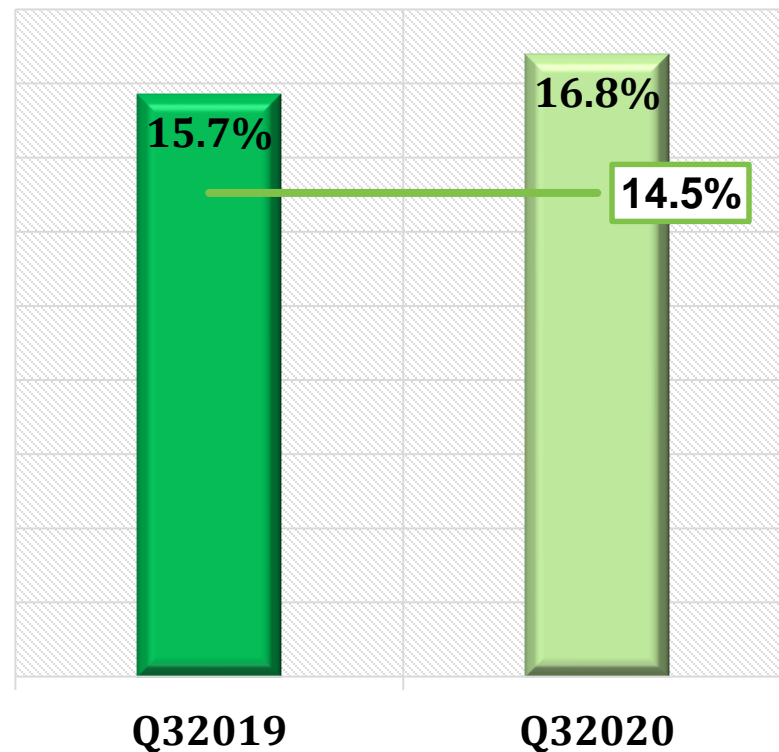
# Strong capital to support future growth

- Capital buffers for sustainable growth

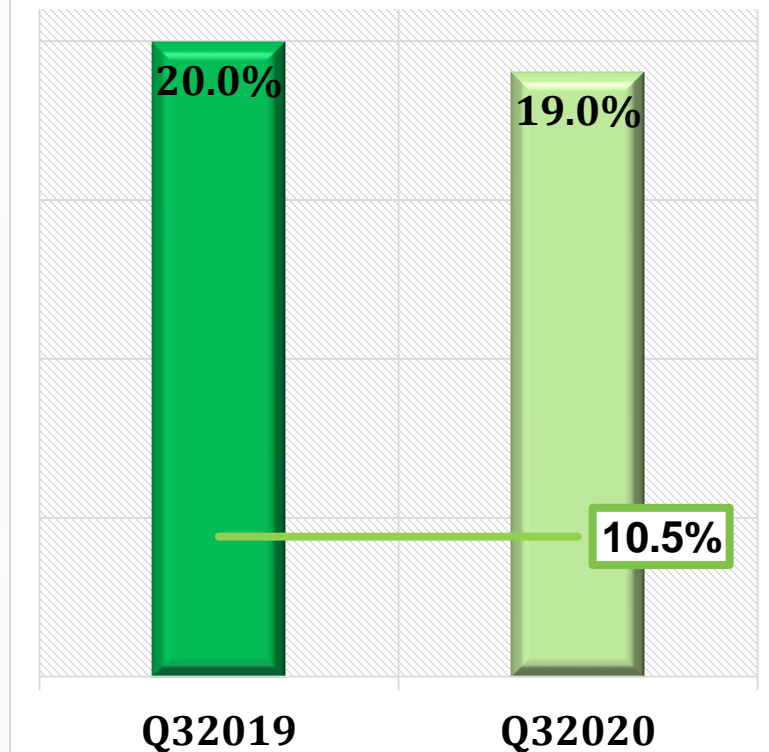
■ Core Capital / Total Risk Weighted Assets  
— Minimum Statutory Requirement



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



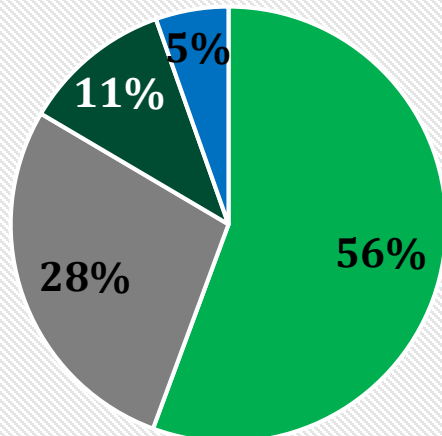
■ Core Capital / Total deposit Liabilities  
— Minimum Statutory Requirement



# Optimal Asset and Funding Mix

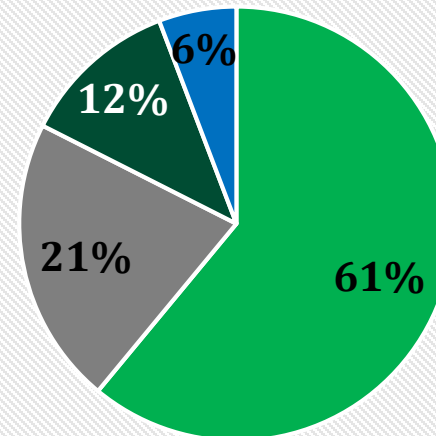
## Asset Categories

Q32020



- Net Loans
- Government Securities
- Cash and Cash Equivalent
- Other Assets

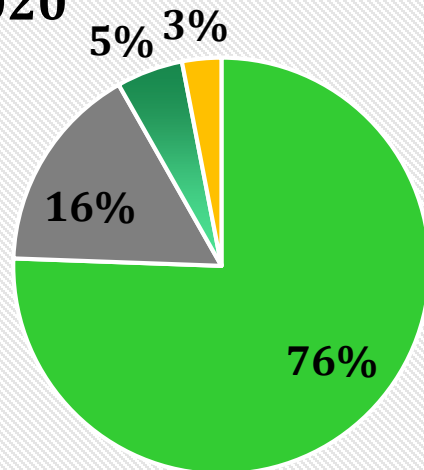
Q32019



- Net Loans
- Government Securities
- Cash and Cash Equivalent
- Other Assets

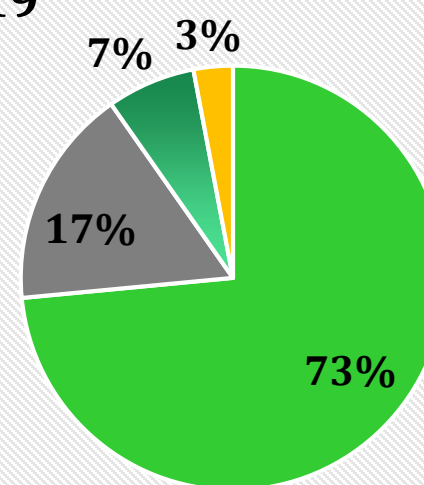
## Funding Categories

Q32020



- Deposits
- Shareholders funds
- Borrowed funds
- Other liabilities

Q32019

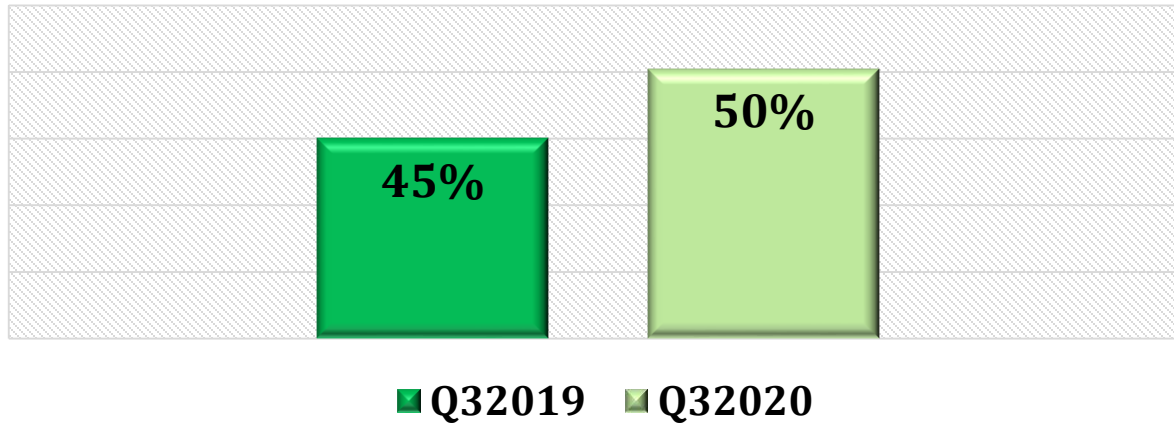


- Deposits
- Shareholders funds
- Borrowed funds
- Other liabilities

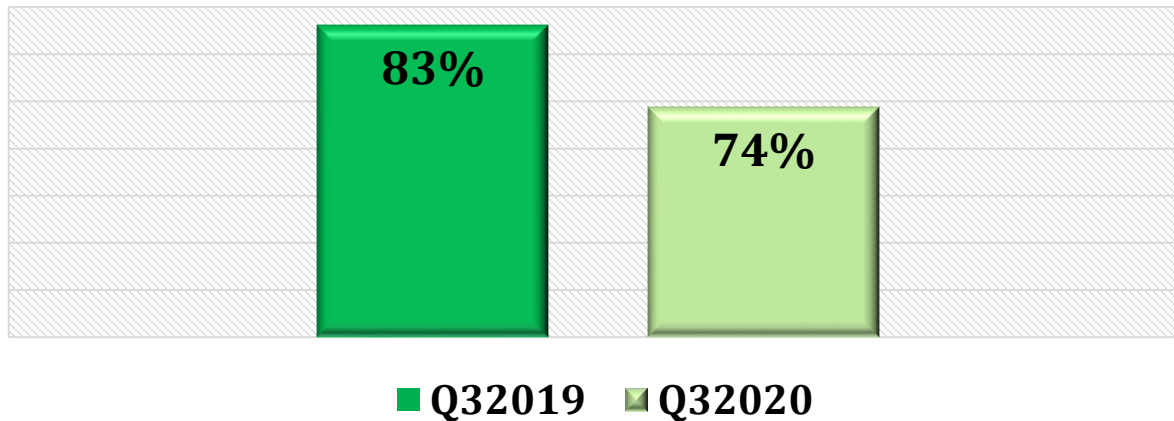


# Strong liquidity to support investments

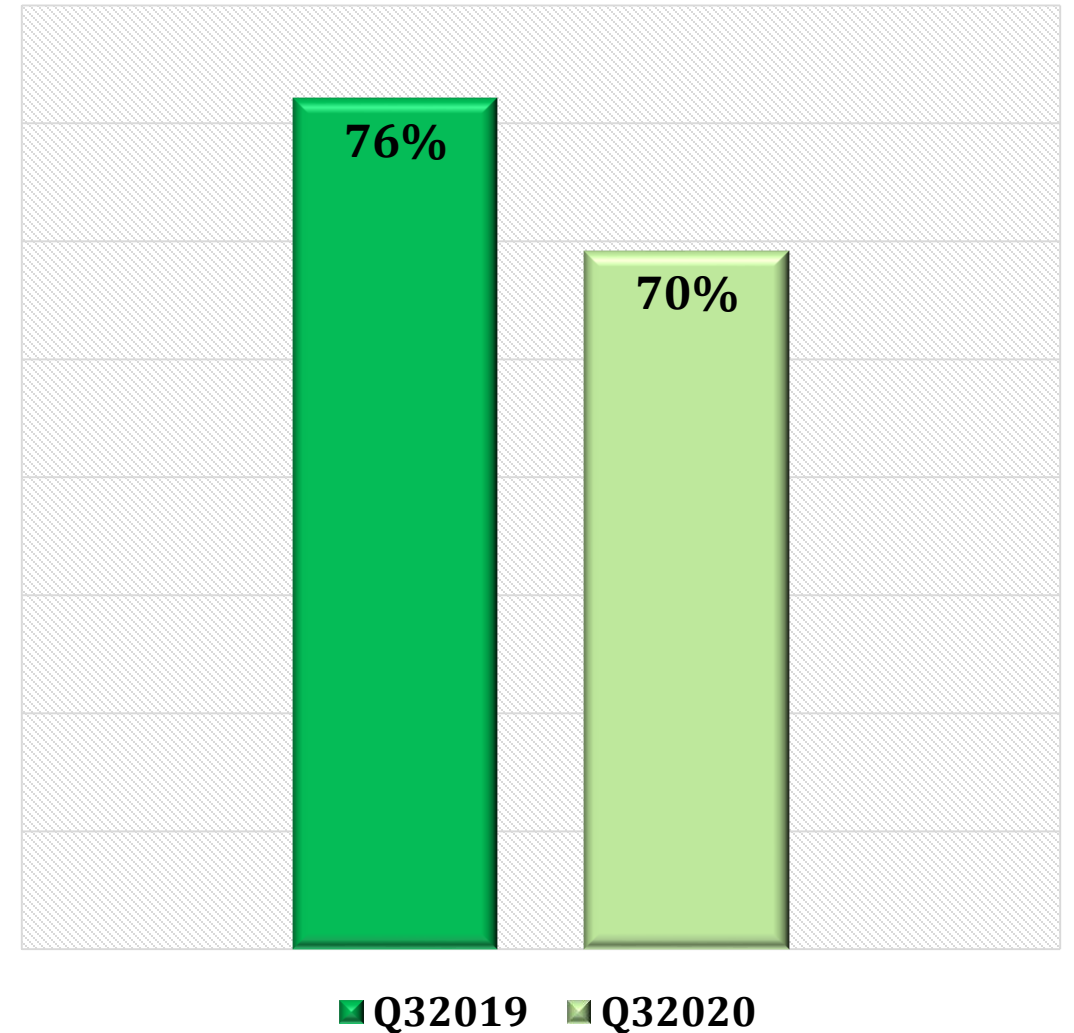
## Liquidity



## Loans to Deposits



## Loans to Deposits + borrowed funds



# Improved Subsidiary Contribution

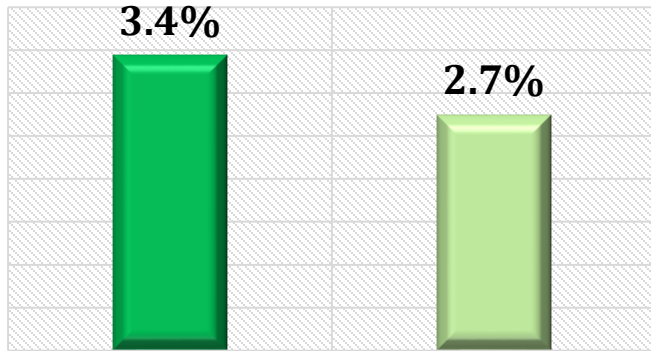
<b>COMPANY</b>	<b>Profit Before Tax Q32020 KShs'000</b>	<b>Profit Before Tax Q32019 KShs'000</b>	<b>Variance</b>	<b>%</b>
<b>The Co-operative Bank of Kenya Limited</b>	<b>12,888,373</b>	<b>14,705,868</b>	<b>(1,817,495)</b>	<b>-12%</b>
<b>Co-op Consultancy &amp; Ins Agency Limited</b>	<b>625,020</b>	<b>511,040</b>	<b>113,980</b>	<b>22%</b>
<b>Co-op trust Investments Limited</b>	<b>68,704</b>	<b>50,858</b>	<b>17,846</b>	<b>35%</b>
<b>Kingdom Securities Limited</b>	<b>(10,630)</b>	<b>(10,424)</b>	<b>(206)</b>	<b>2%</b>
<b>Co-operative Bank of South Sudan</b>	<b>217,787</b>	<b>174,739</b>	<b>43,048</b>	<b>25%</b>
<b>Total PBT before eliminations</b>	<b>13,789,254</b>	<b>15,432,081</b>	<b>(1,642,827)</b>	<b>-11%</b>
<b>Add: Share of profit from associates</b>	<b>(38,087)</b>	<b>22,685</b>	<b>(60,772)</b>	<b>-268%</b>
<b>Group profit before tax</b>	<b>13,751,167</b>	<b>15,454,766</b>	<b>(1,703,599)</b>	<b>-11%</b>
<b>Income tax expense</b>	<b>3,976,240</b>	<b>4,571,022</b>	<b>(594,782)</b>	<b>-13%</b>
<b>Group profit after tax</b>	<b>9,774,747</b>	<b>10,883,744</b>	<b>(1,108,997)</b>	<b>-10%</b>

# Sustainable Profitability Growth

Kshs. Billions (Except for EPS)	Q32020	Q32019	% Change (Y/Y)	
Interest Income	32.5	30.4	7.1%	↑
Interest Expense	8.9	9.2	-3.5%	↓
Net Interest Income	23.6	21.2	11.7%	↑
Fees & Commissions	11.3	11.6	-1.9%	↓
Forex Income	1.8	1.6	13.9%	↑
Other Income	0.4	0.91	-54.2%	↓
Total Operating Income	37.2	35.2	5.6%	↑
Loan Loss Provision	4.0	2.1	89.4%	↑
Staff Costs	9.7	9.1	6.3%	↑
Other Operating Expenses	9.8	8.6	13.5%	↑
Profit Before Tax and Exceptional Items	13.8	15.4	-10.6%	↓
Share of profit of associate	(0.04)	0.02	-267.9%	↓
<b>Profit Before Tax</b>	<b>13.8</b>	<b>15.5</b>	<b>-11.0%</b>	↓
<b>Tax</b>	<b>4.0</b>	<b>4.6</b>	<b>-13.0%</b>	↓
<b>Profit After Tax</b>	<b>9.8</b>	<b>10.9</b>	<b>-10.2%</b>	↓
<b>Basic Annualized EPS</b>	<b>2.2</b>	<b>2.5</b>	<b>-10.2%</b>	↓

# Key Ratio's

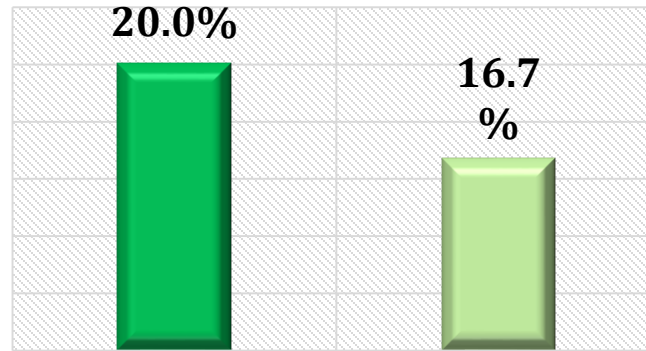
### Return On Average Assets (ROAA)



Q32019

Q32020

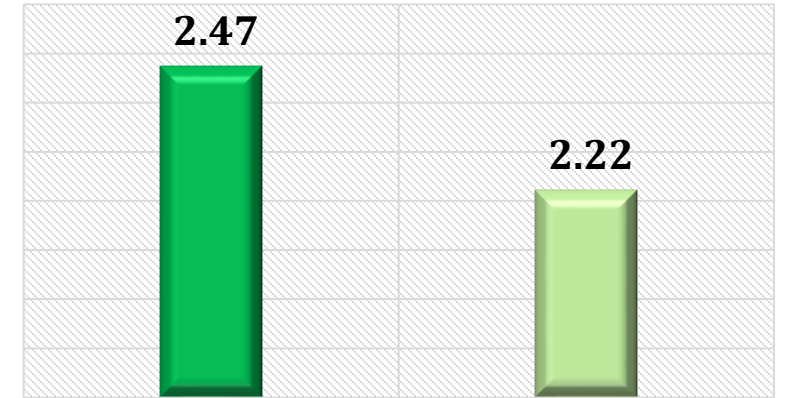
### Return On Average Equity (ROAE)



Q32019

Q32020

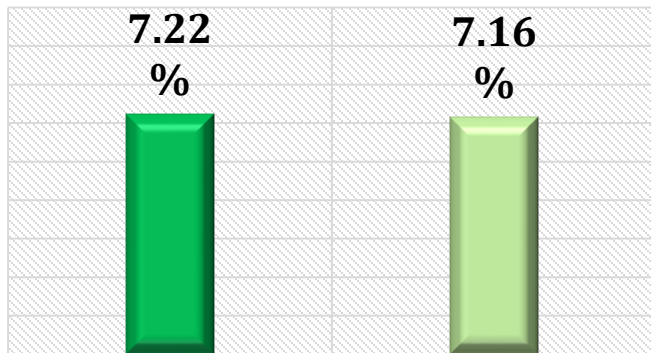
### Earnings Per Share (EPS)



Q32019

Q32020

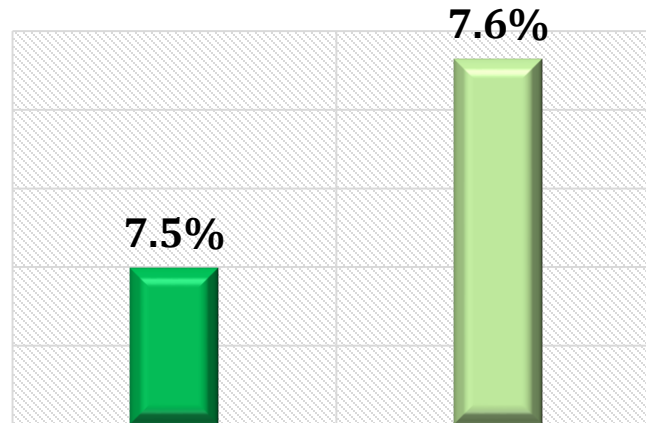
### NIM on Earning Assets



Q32019

Q32020

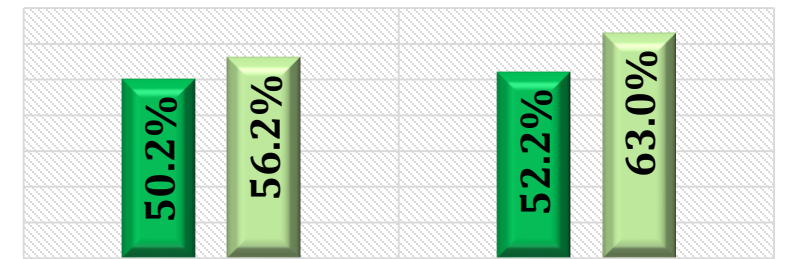
### NIM on Loans



Q32019

Q32020

### Cost to Income Ratio



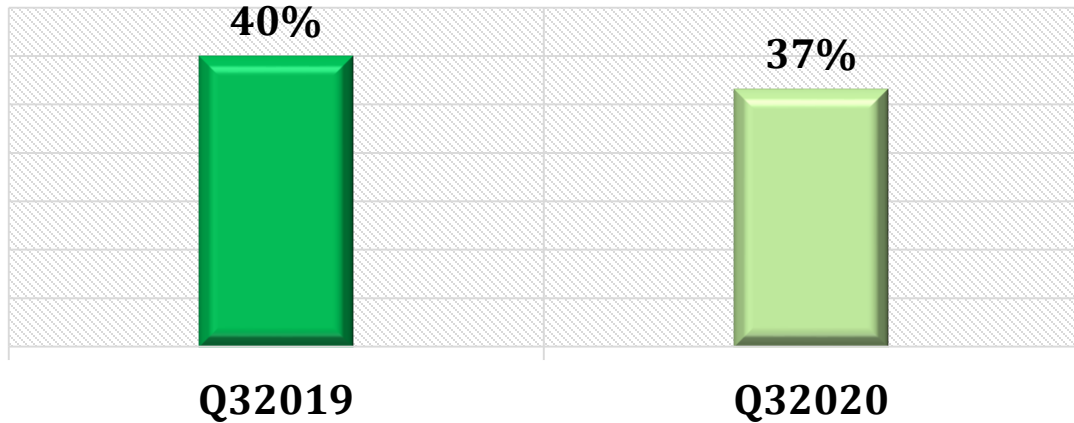
Q32019

Q32020

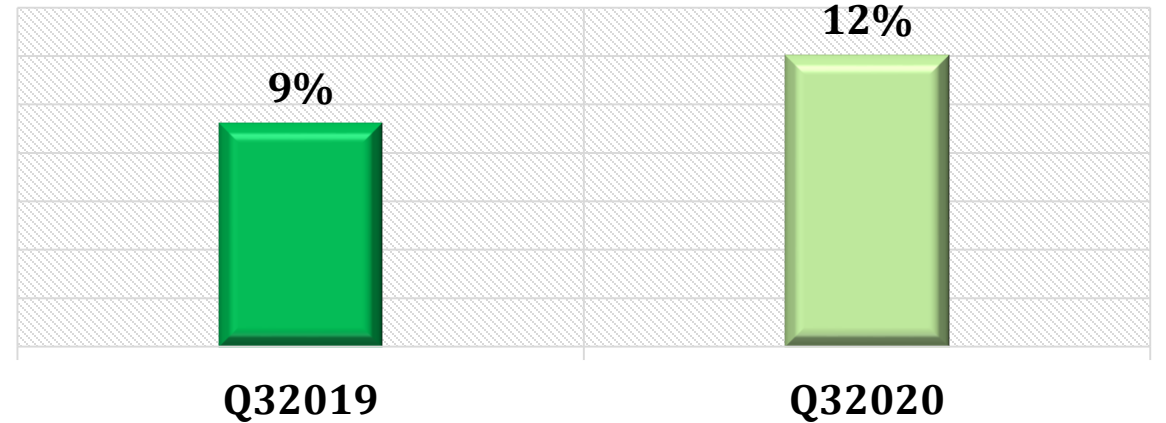
- CIR without provisions
- CIR with provisions

# Key Ratio's

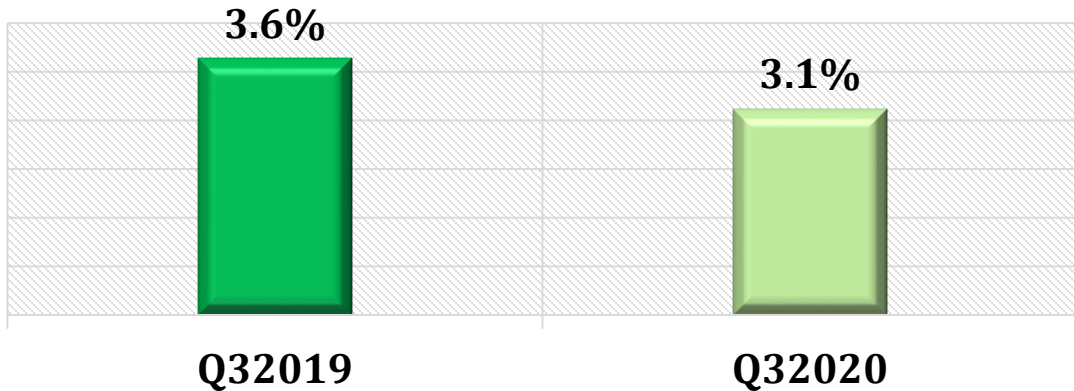
### Non Funded to Total Income



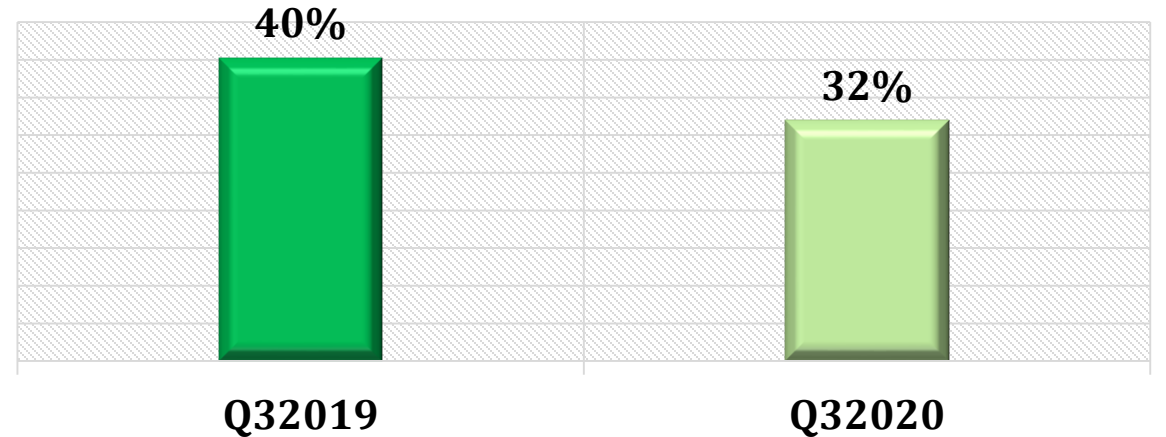
### Non Performing Loans (NPL)



### Cost of average funds including borrowed funds



### Debt to Equity



**Thank  
You**