



# **CO-OPERATIVE BANK OF KENYA**

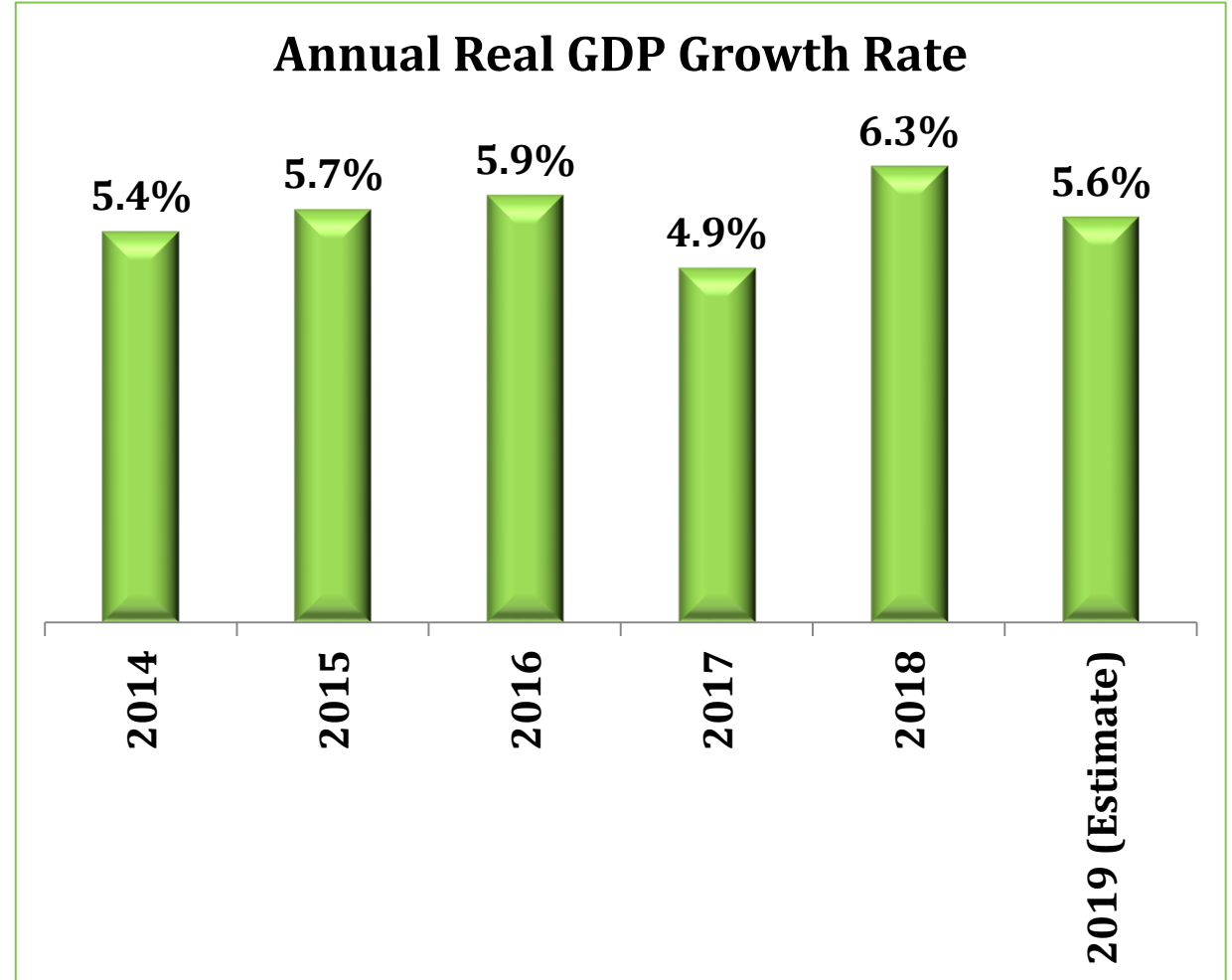
## **GROUP FINANCIAL RESULTS ANALYST BRIEFING FY2019**

**19 March 2020**

# **Macro Economic Highlights**

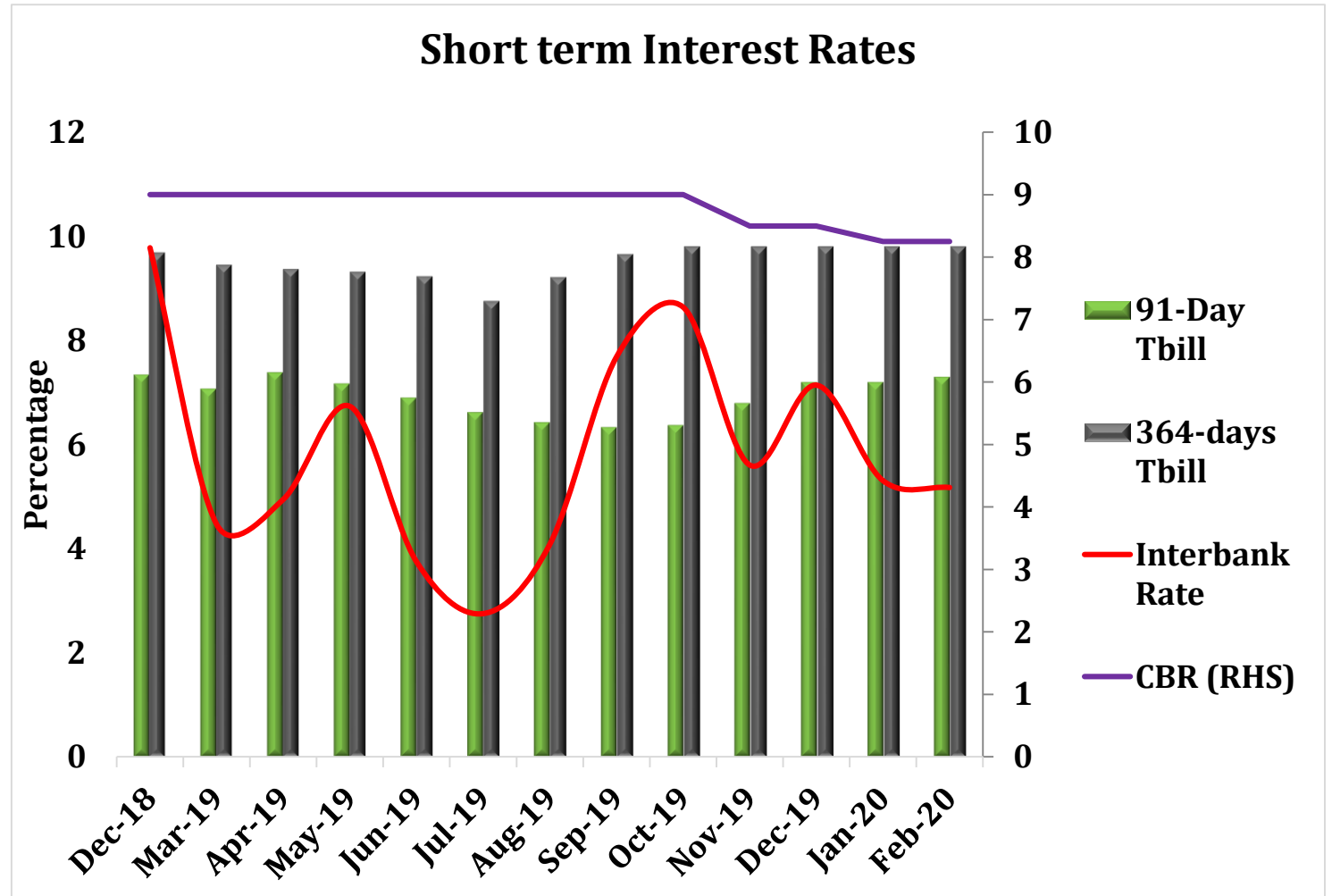
# Resilient Gross Domestic Product (GDP) Growth Rate

- ❖ 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.



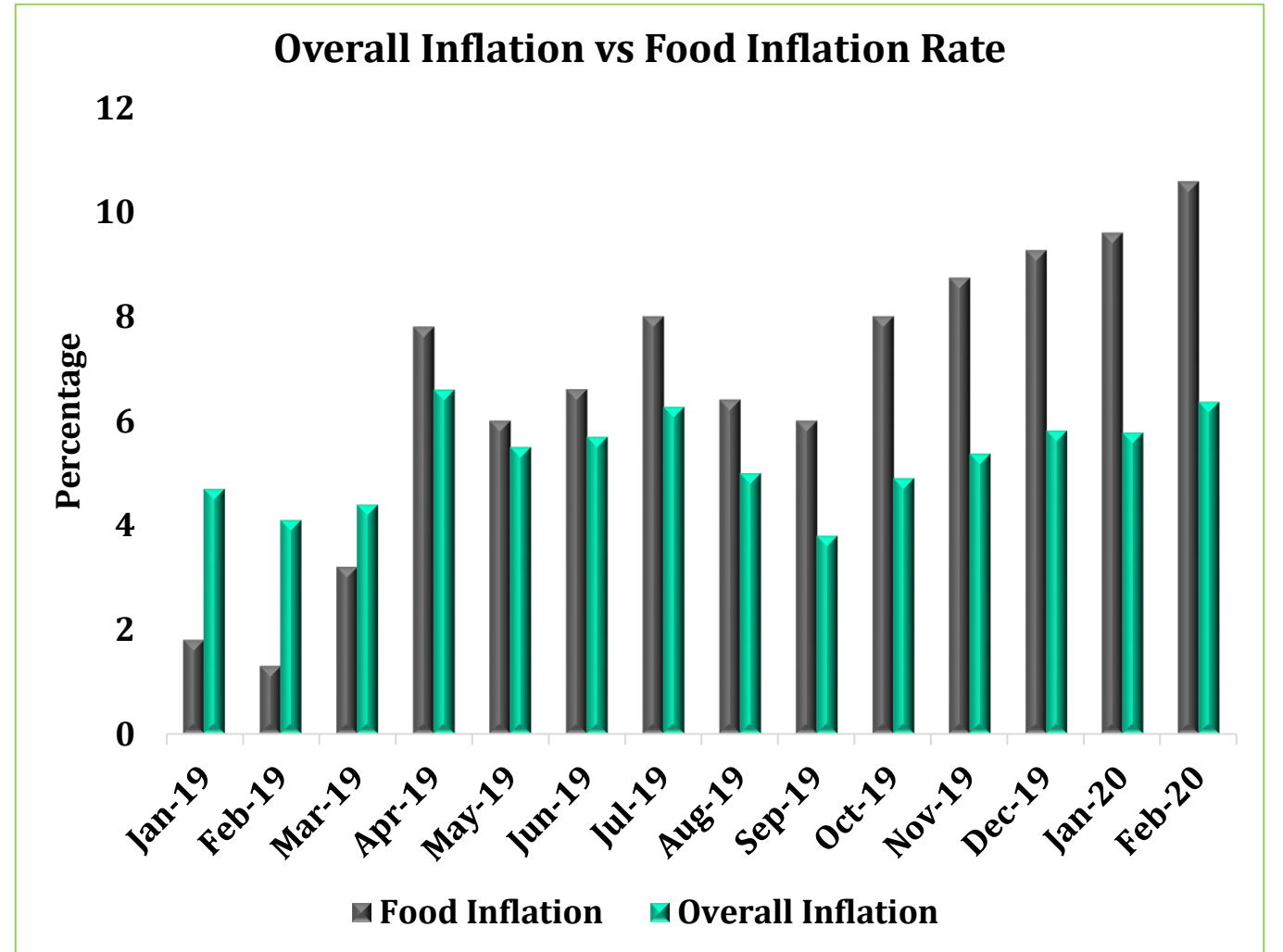
# Short Term Interest Rates

- ❖ In 2019 CBR remained at 9% until 25<sup>th</sup> November when it was revised downwards to 8.5%.
- ❖ A further revision to 8.25% was done on 27<sup>th</sup> 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.



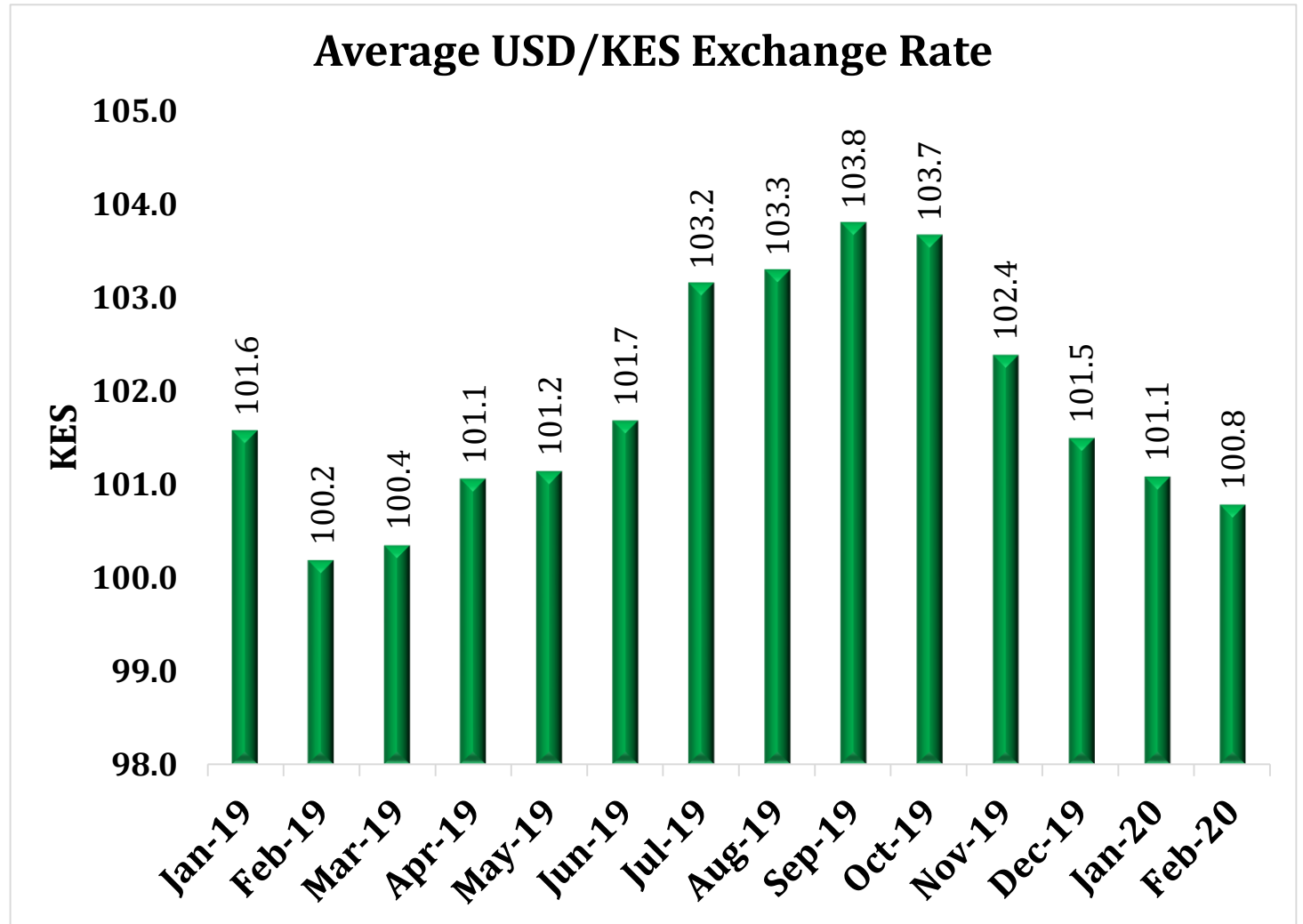
# Trend In Inflation Rate

- ❖ 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.



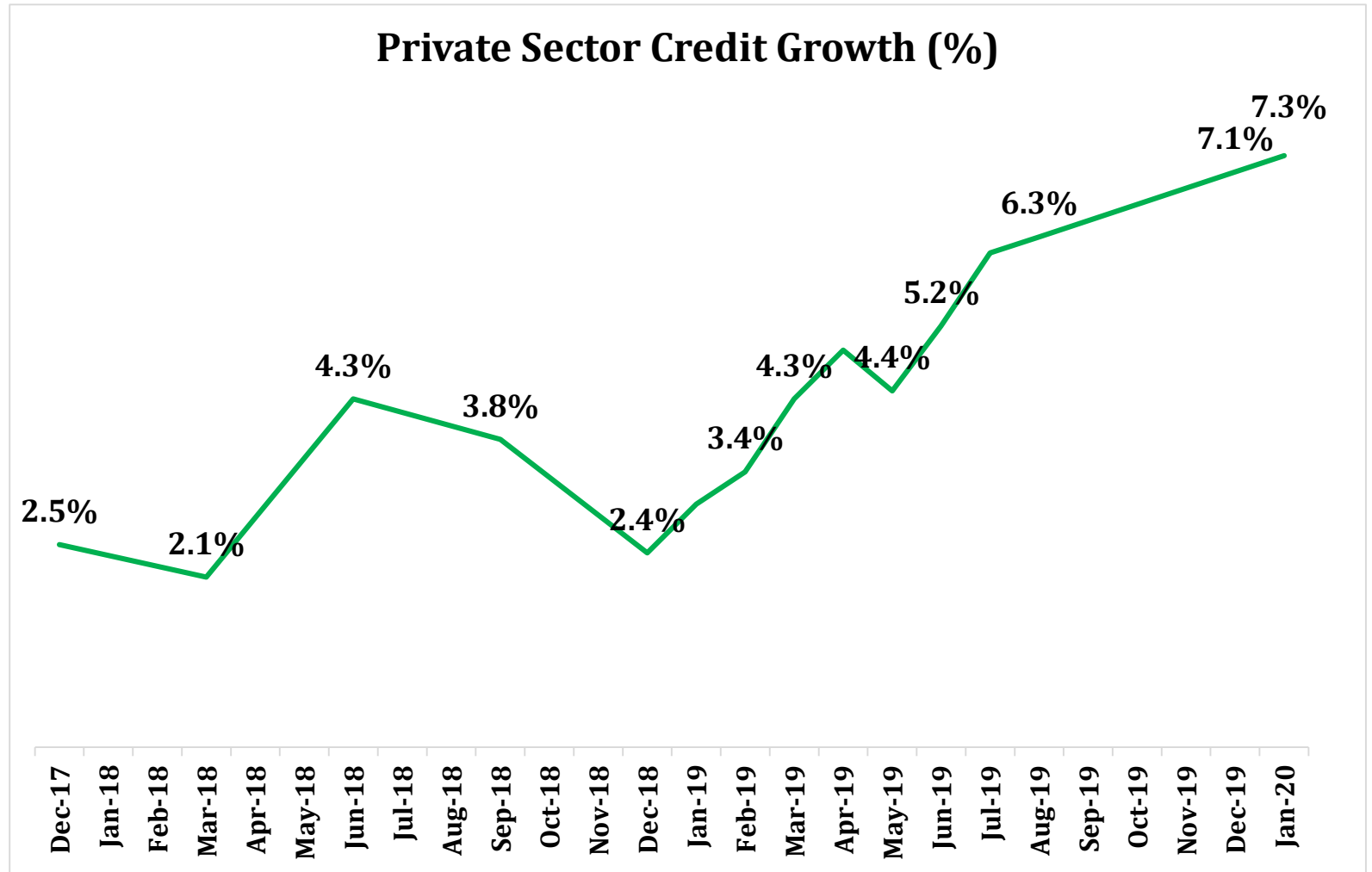
# KES Exchange Rate Has Remained Stable

- ❖ 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 22<sup>nd</sup> 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.**

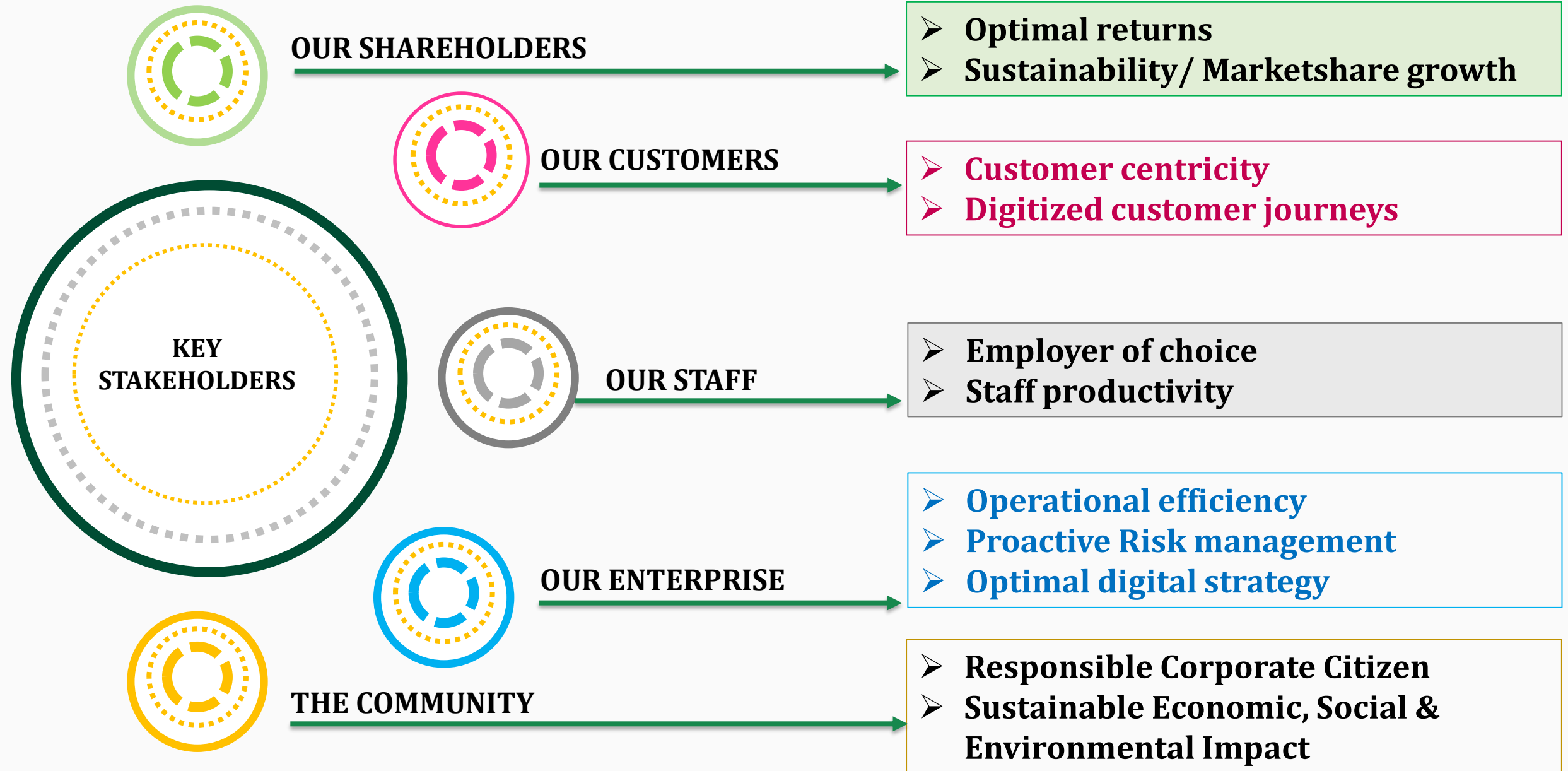


# Regulatory Environment

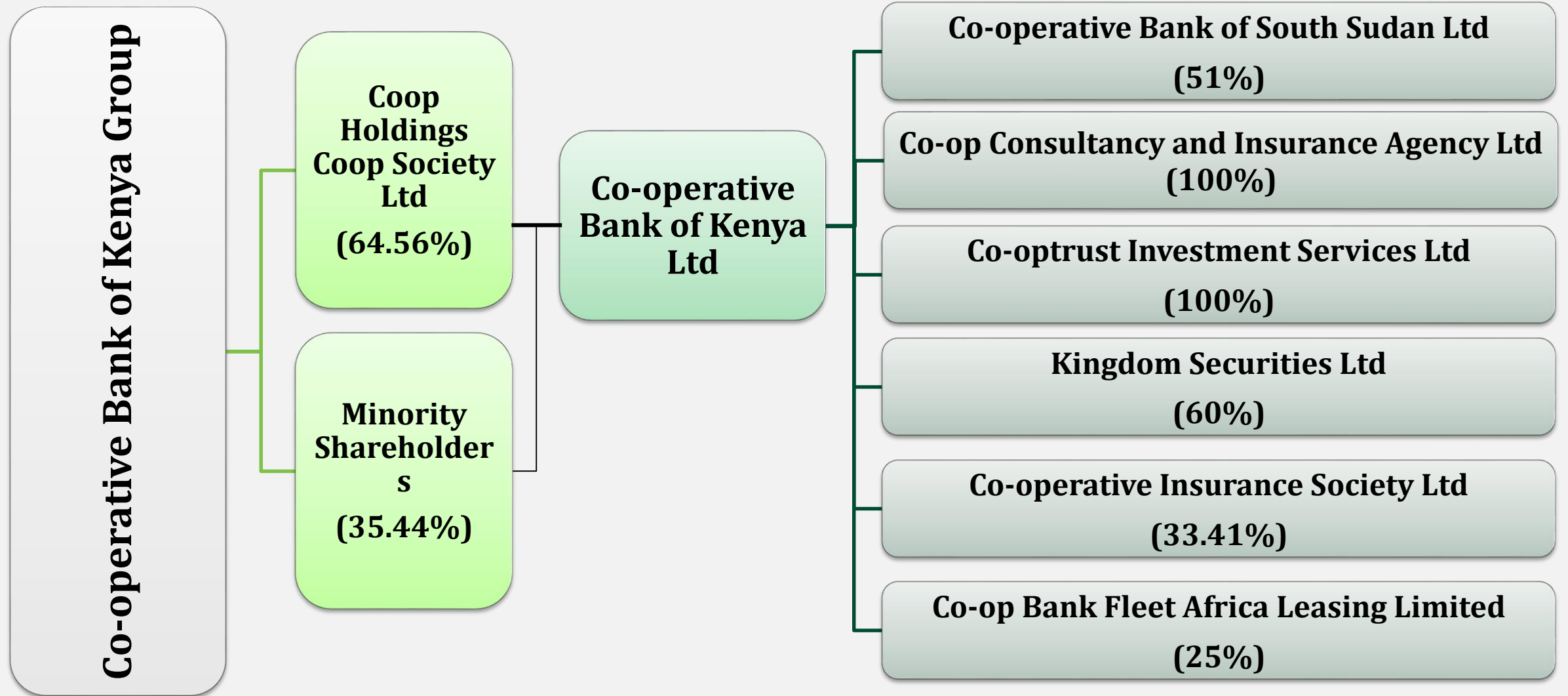
- 1. IFRS 16 Implementation:** The Group applied IFRS 16 for the first time using the modified retrospective method of adoption with the date of initial application of 1 January 2019. The Bank recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, 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

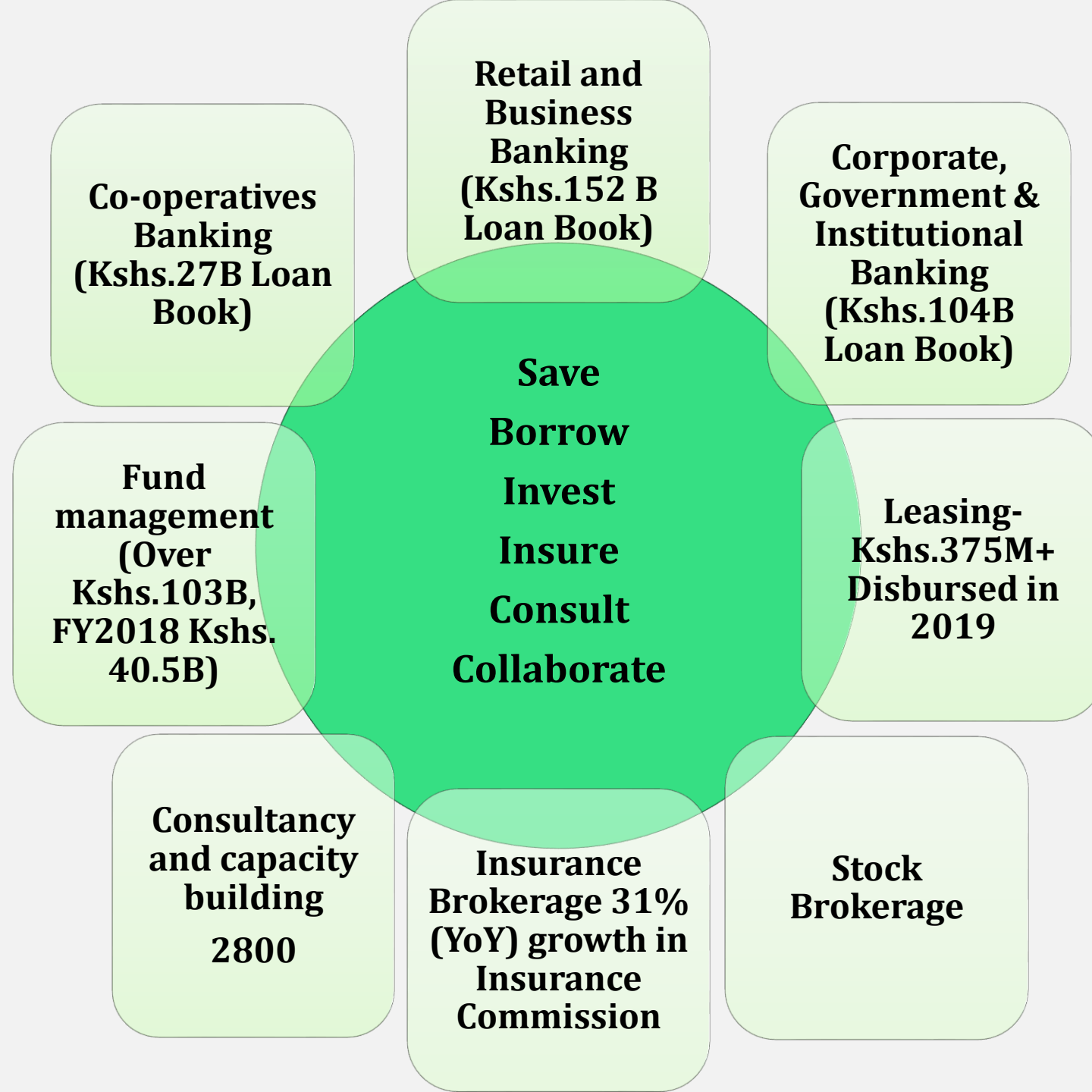
# Our Strategic Focus



# Co-operative Bank of Kenya Group Structure



# **A Successful Universal Banking Model**



# Our Presence

**159** Branches

**583** ATMs

**8.8M** Account holders

**4.8M** Mcoop Cash Customers

**16K +** Co-op Kwa Jirani Agents

**90K** Internet banking Customers

**464** Sacco Front Offices Branch network

**16.5K** Diaspora Banking Customers

**24 Hr.** Contact Centre

**4541** Staff

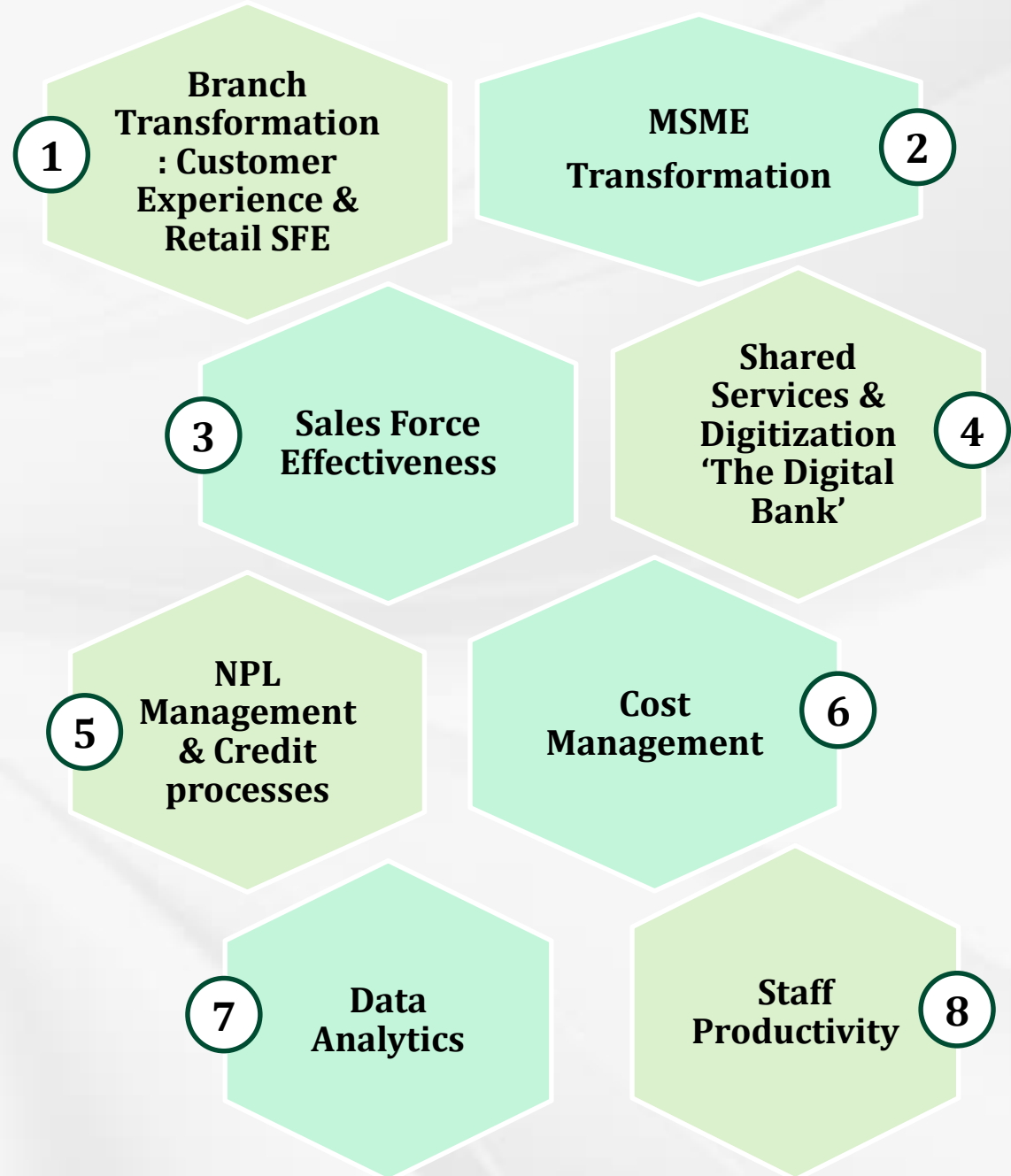
# Proposed Acquisition of 100% Shares of Jamii Bora Bank Limited

- ✓ 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

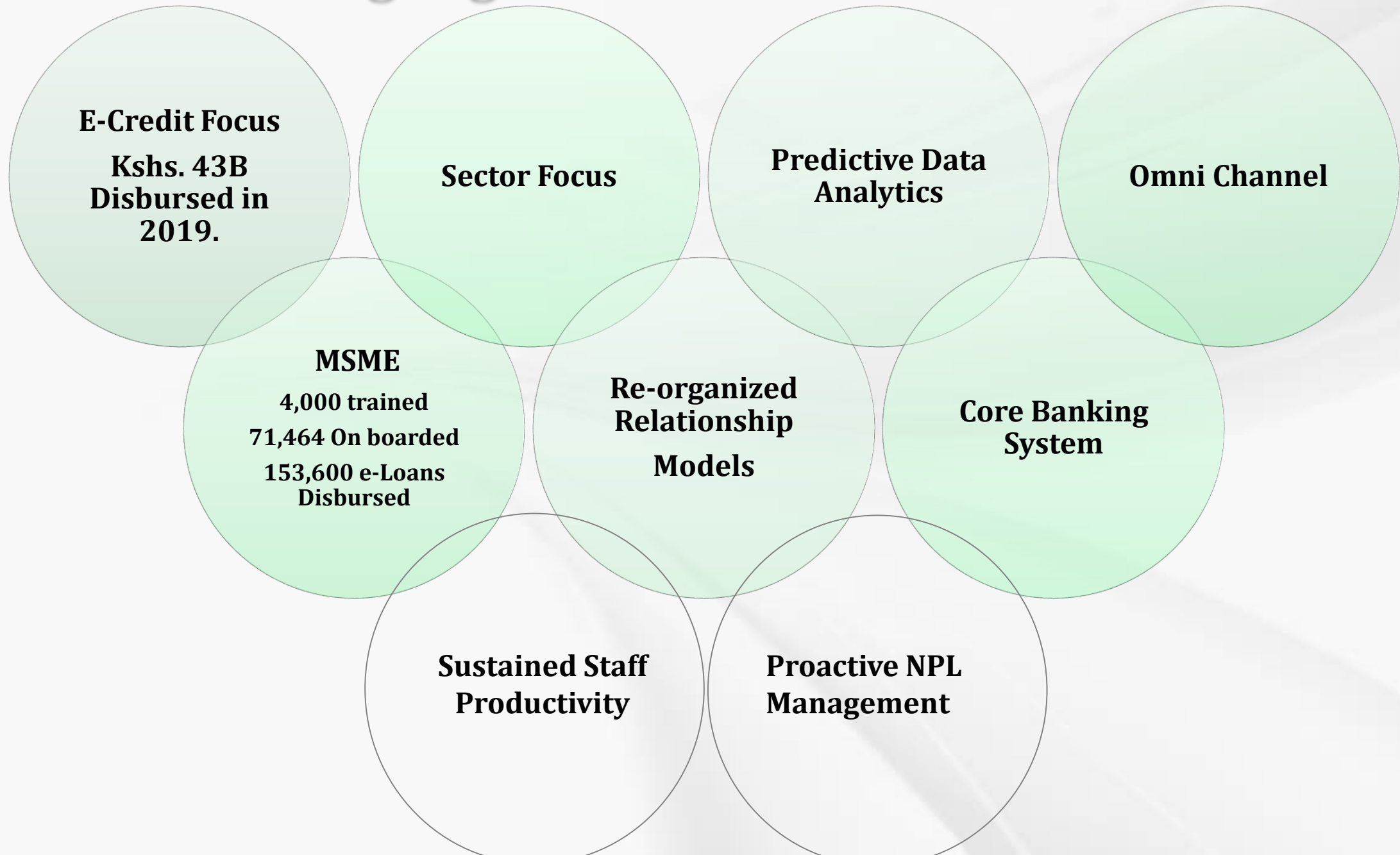
- **Growth**
- **Efficiency**

**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
- 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

## 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



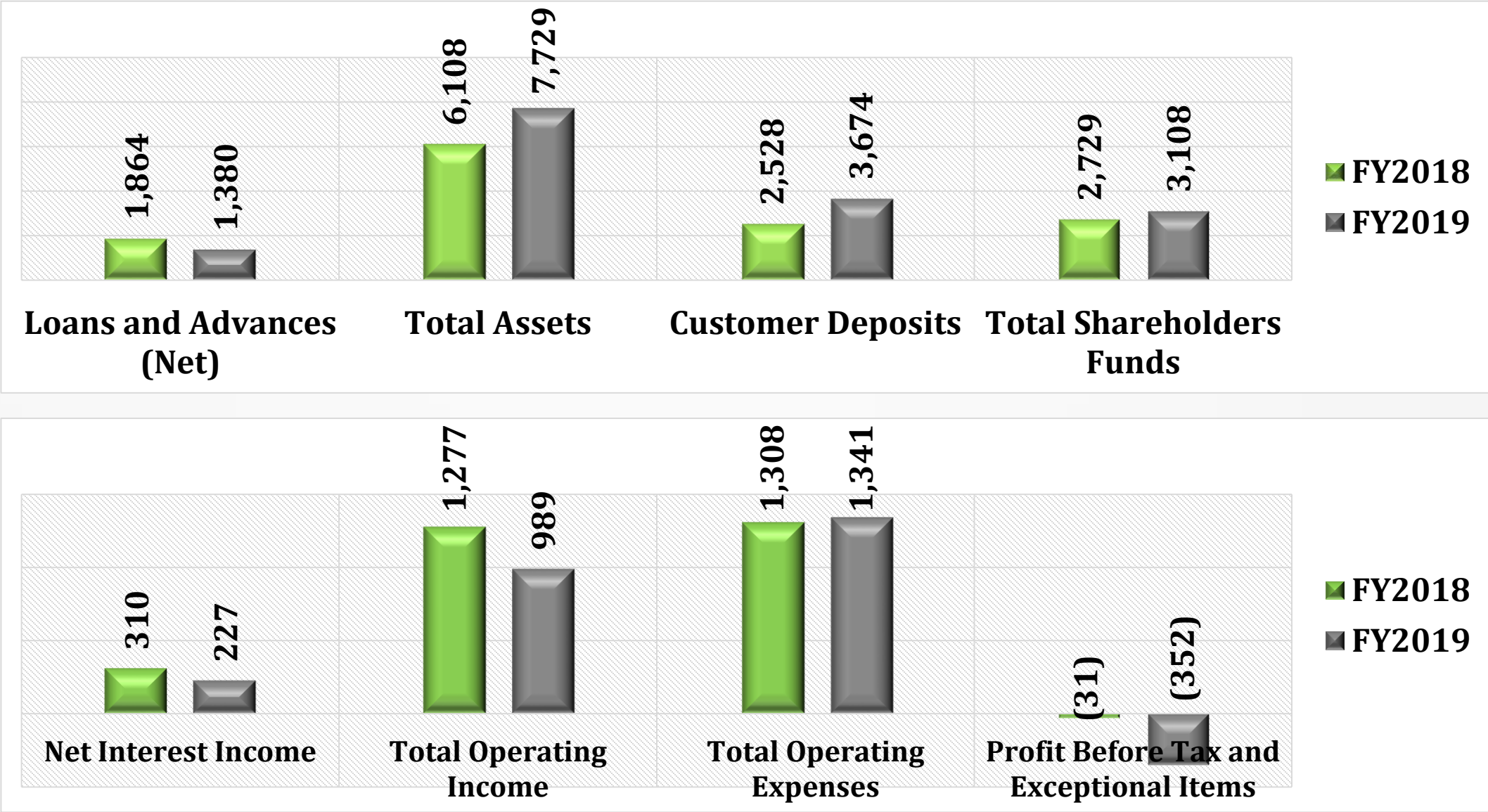


# Regional Business (Kshs. Million)

4 branches in Juba

5 Non-oil collection centers.

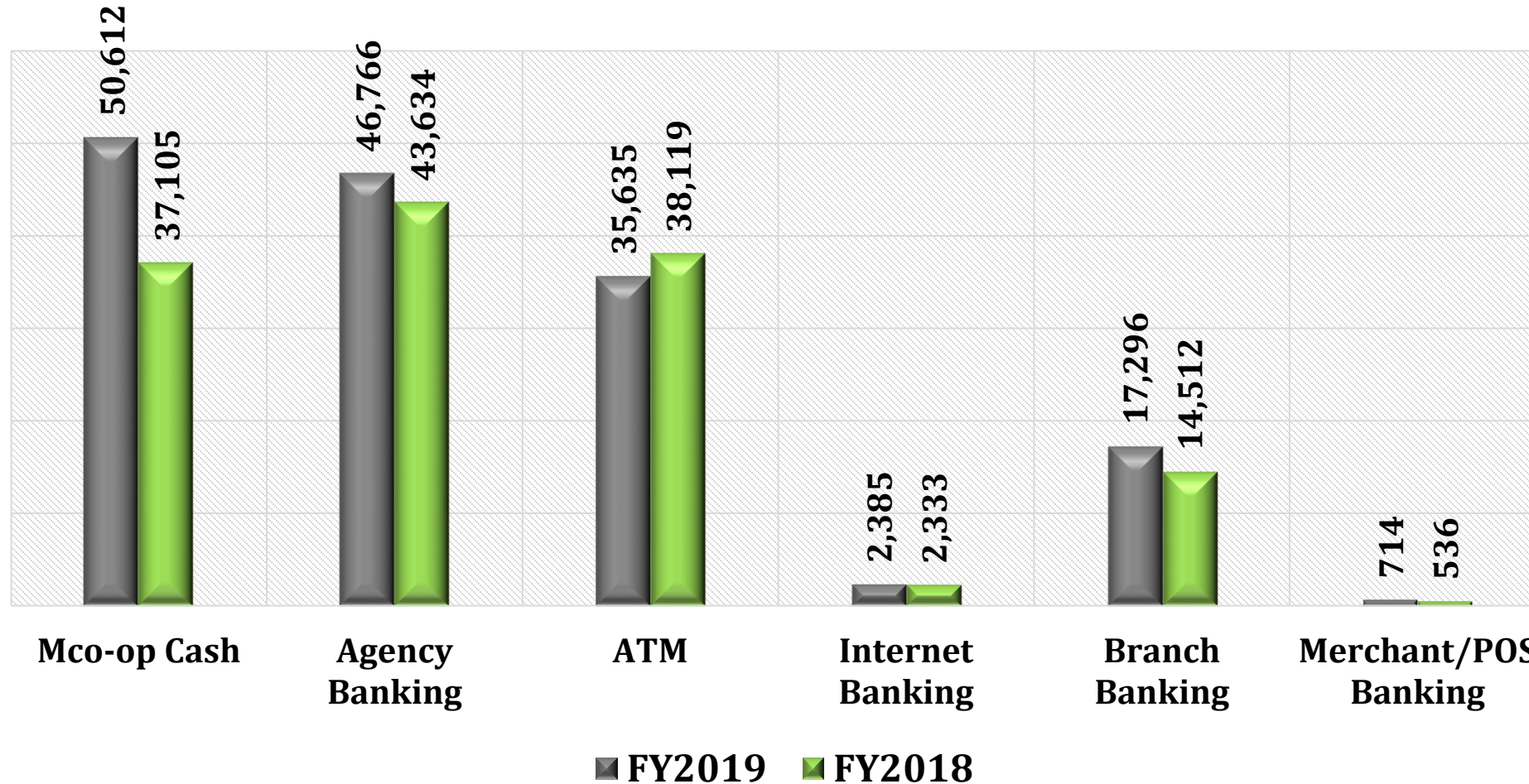
Owens 31% of CIC Africa Ltd- South Sudan



# **Channel Performance**

# Growing Digital Channels

Channel Transactions '000'

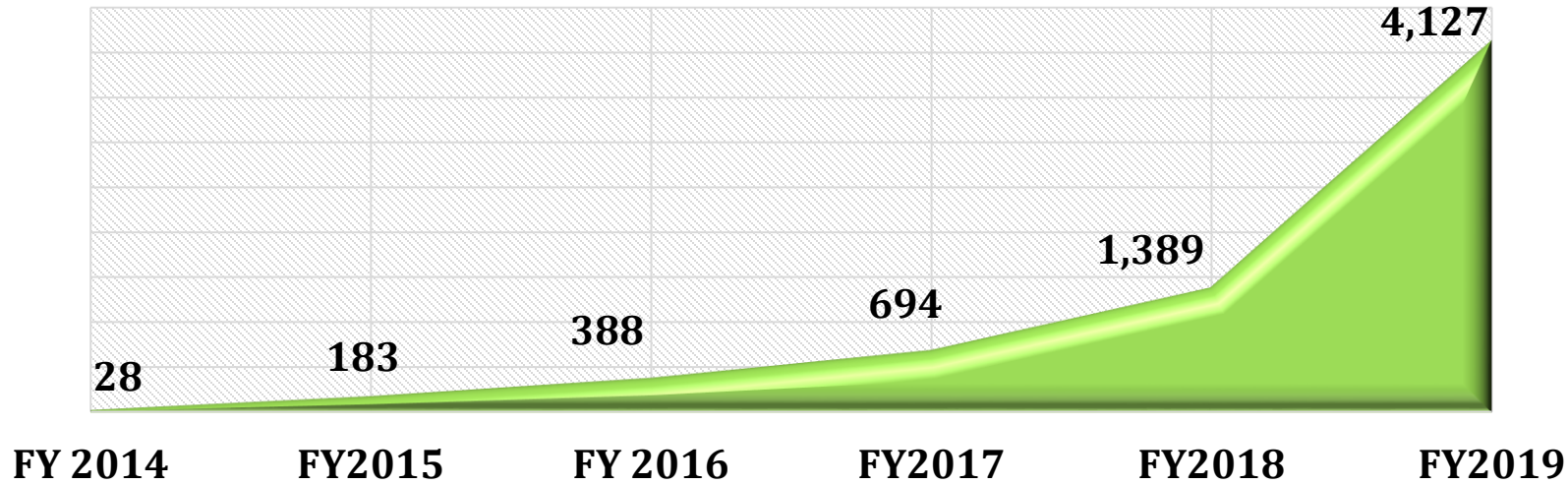


**89%** of our  
Transactions are on  
alternative Channels

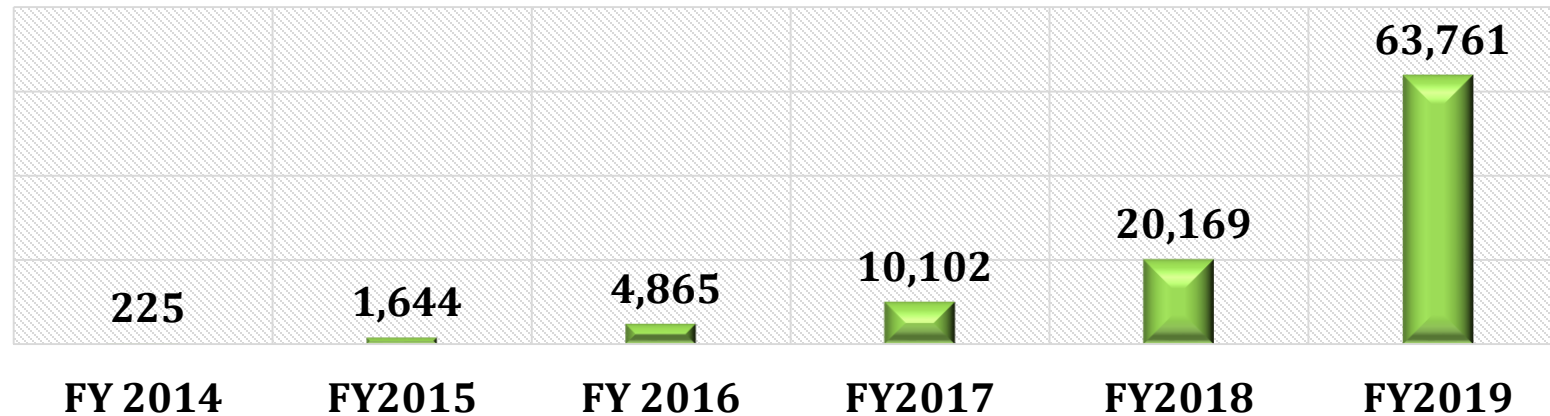
E-Credit is a key focus  
area, Kshs. 43B  
disbursed Year to Date

# E-Credit

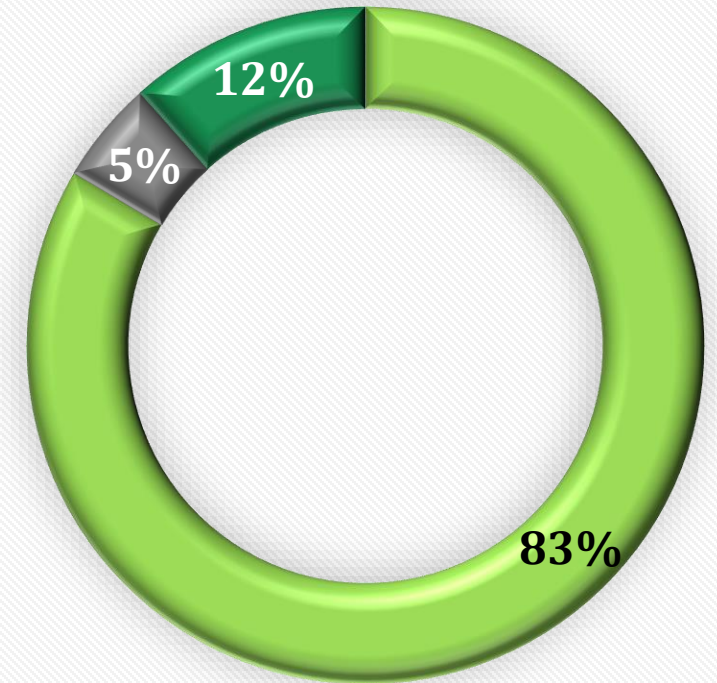
## Cumulative Mcoop Cash Loan Customer Numbers ('000')



## Cummulative MCo-op Cash loan Book - In Millions



## E-Credit – Key Growth Focus

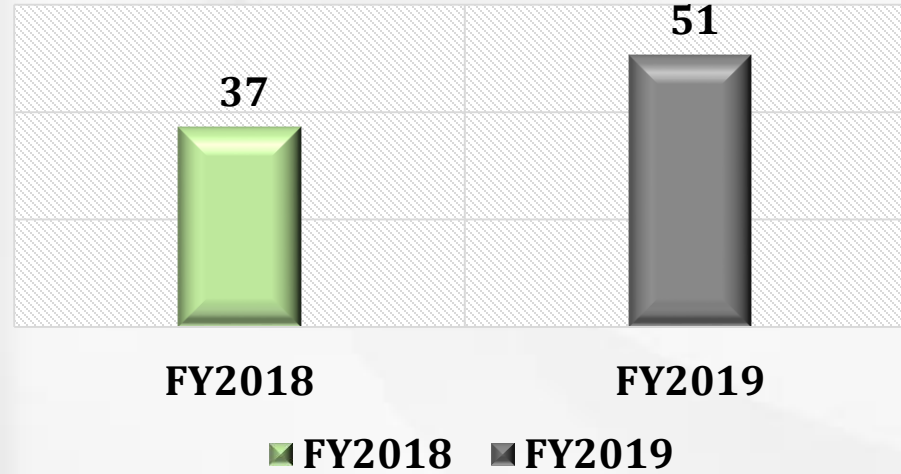


- E- Flexi
- Business
- Unsecured Business Plus

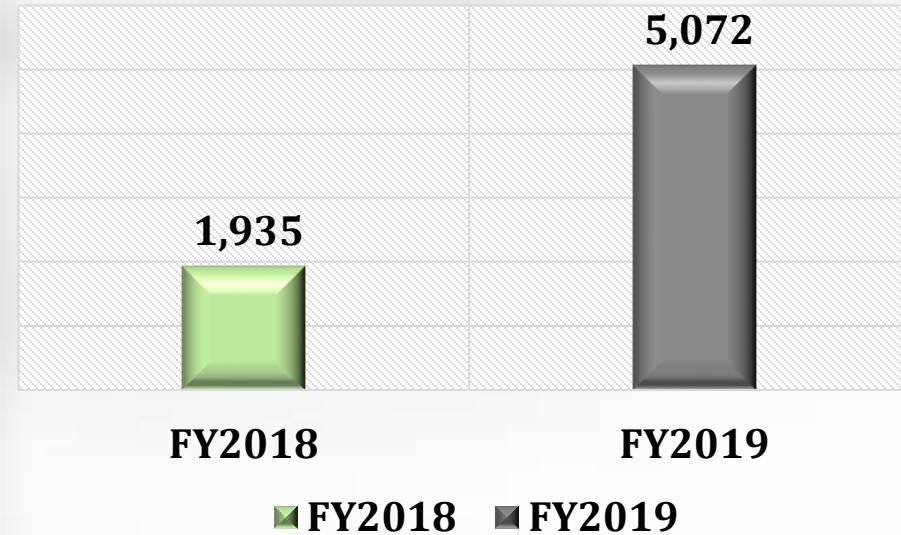
# ***MOBILE BANKING (MCOOP CASH)***

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

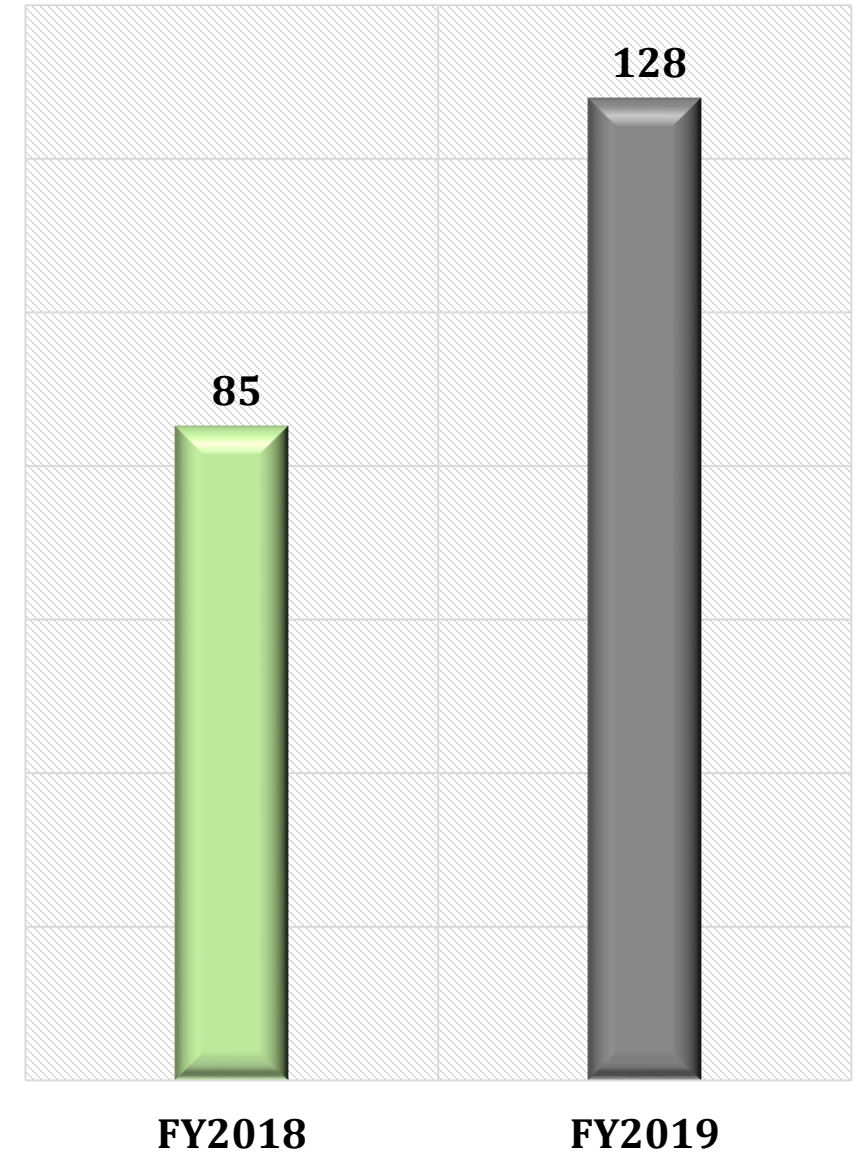
**Transactions - Millions**



**Commissions - Millions**



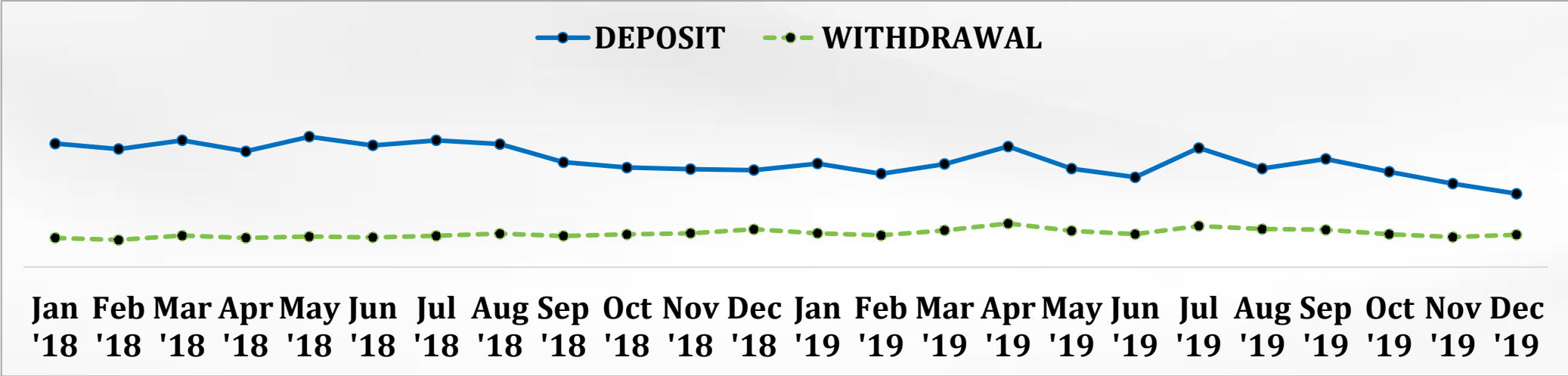
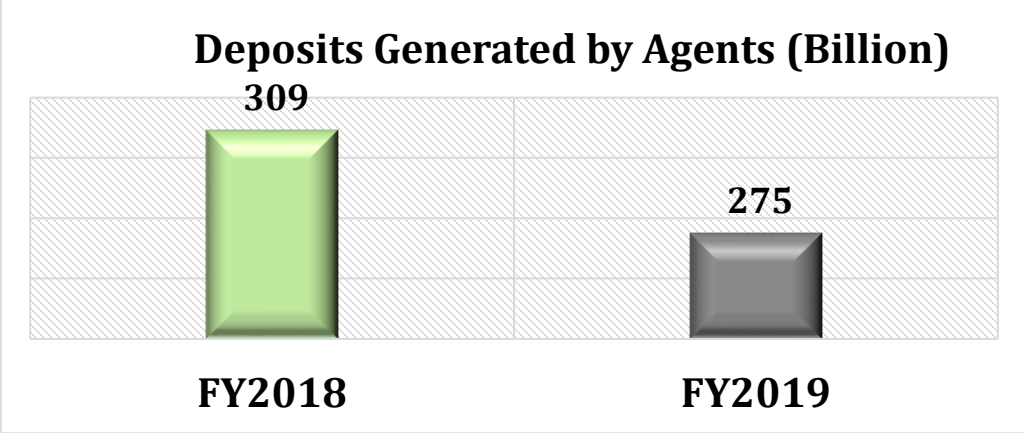
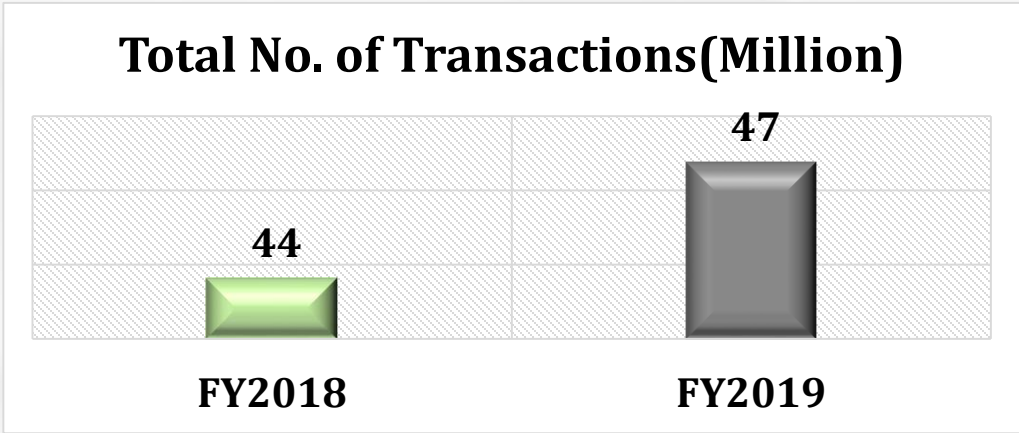
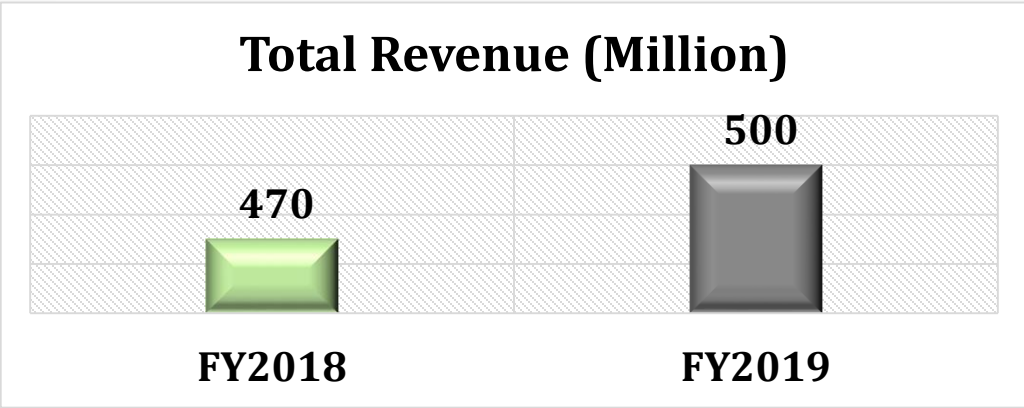
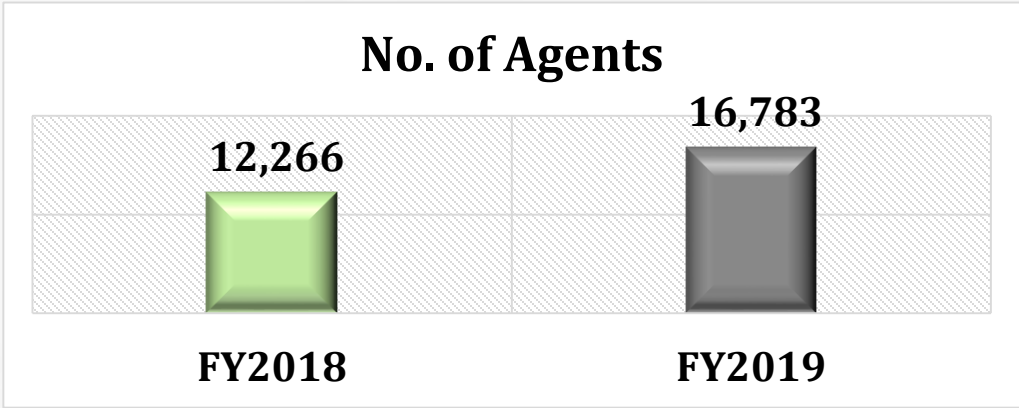
**Deposits through Mobile  
(Billions)**





# AGENCY Banking

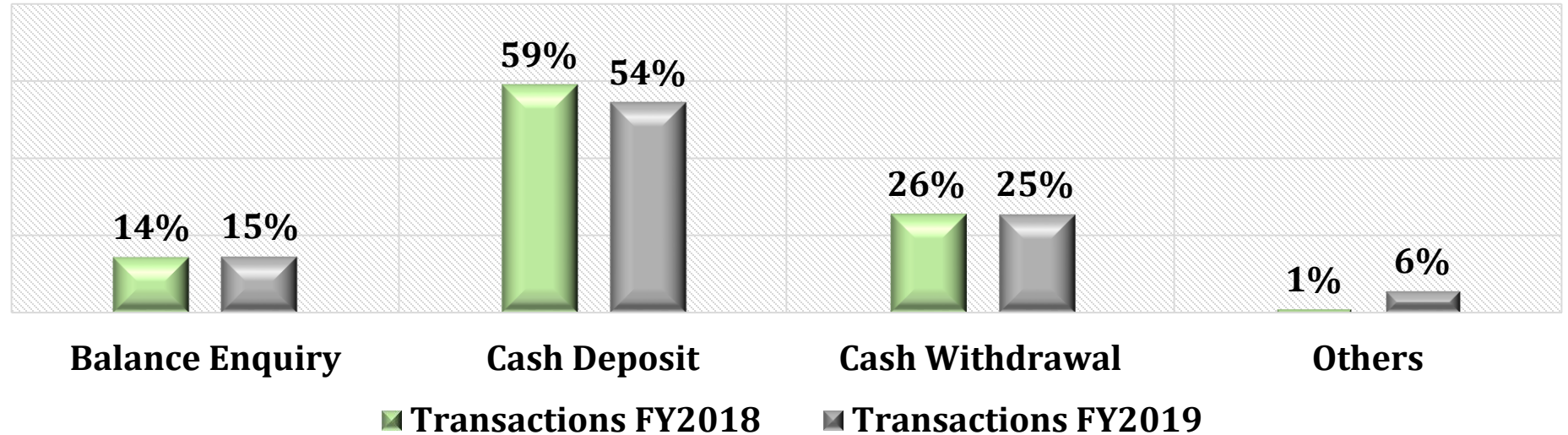
*Growing  
Co-op Kwa  
Jirani  
Agency  
Banking*



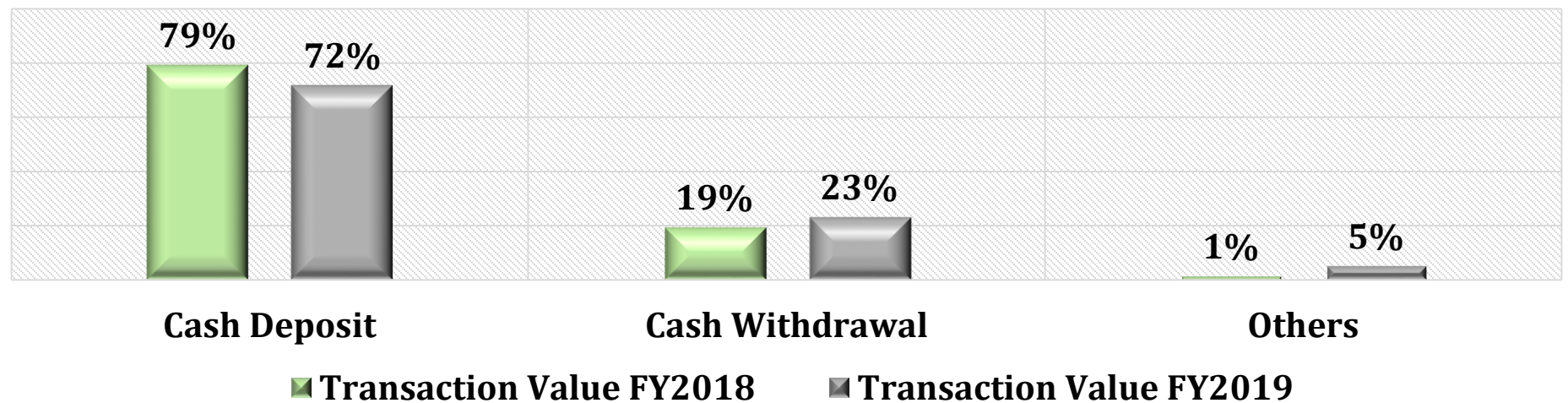
# ***AGENCY Banking***

## ***Growing Co-op Kwa Jirani Agency Banking***

**Transaction Types (%)**



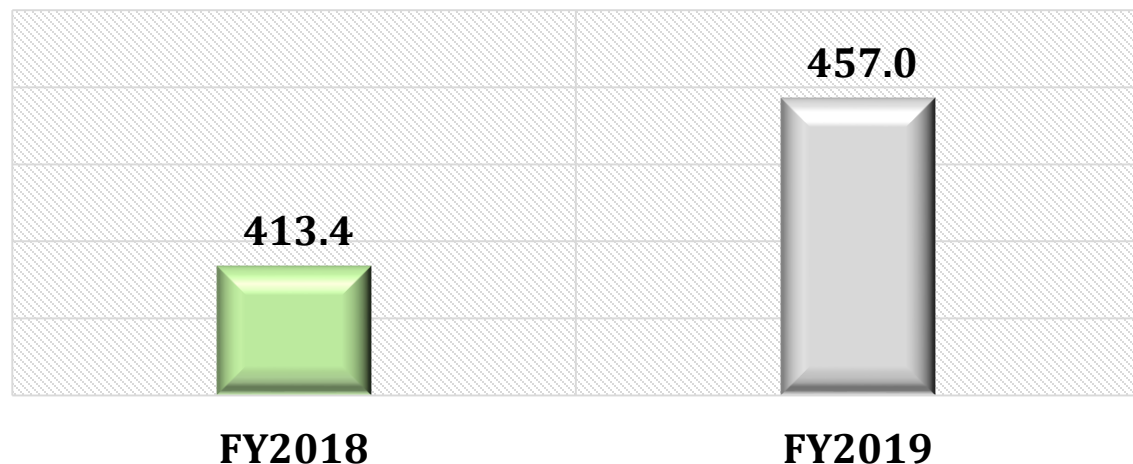
**Transaction Value Distribution (%)**



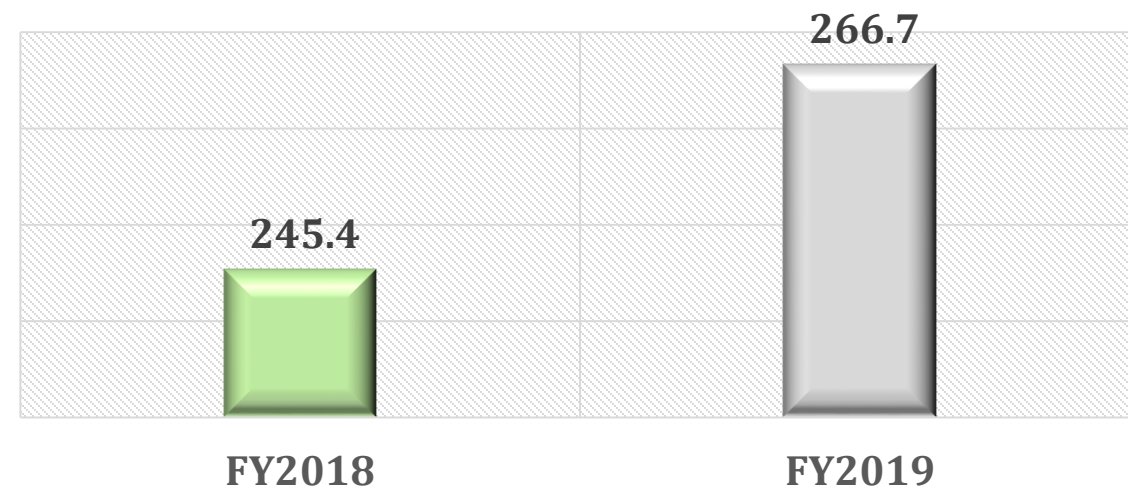
# Financial Highlights

# Strong Financial Position (Kshs. Billion)

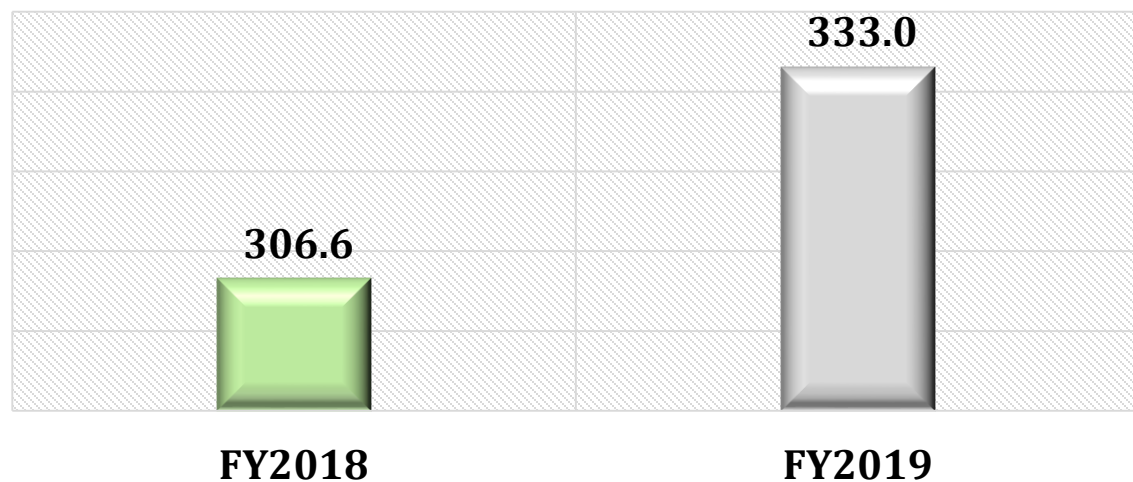
## Total Assets



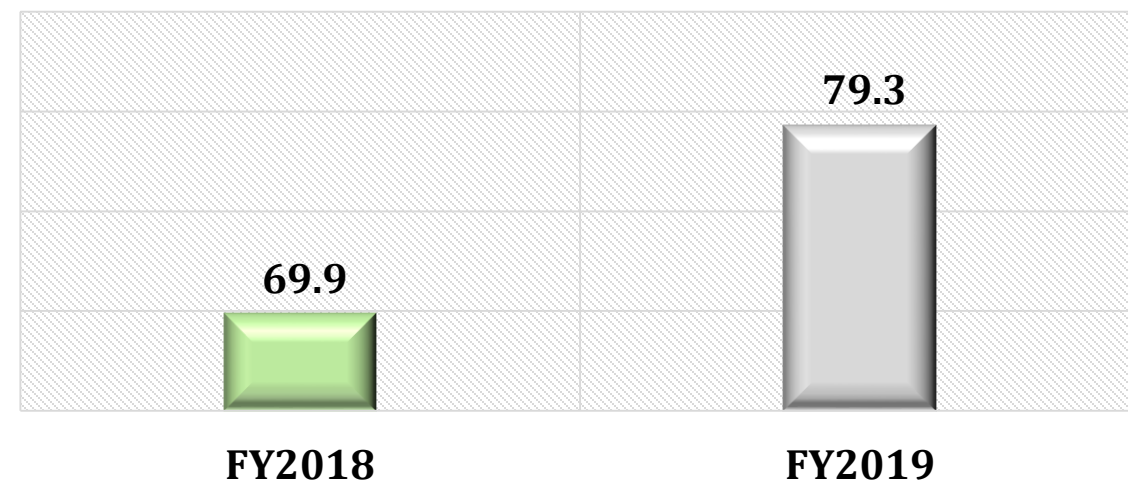
## Loan book (Net)



## Total Deposits



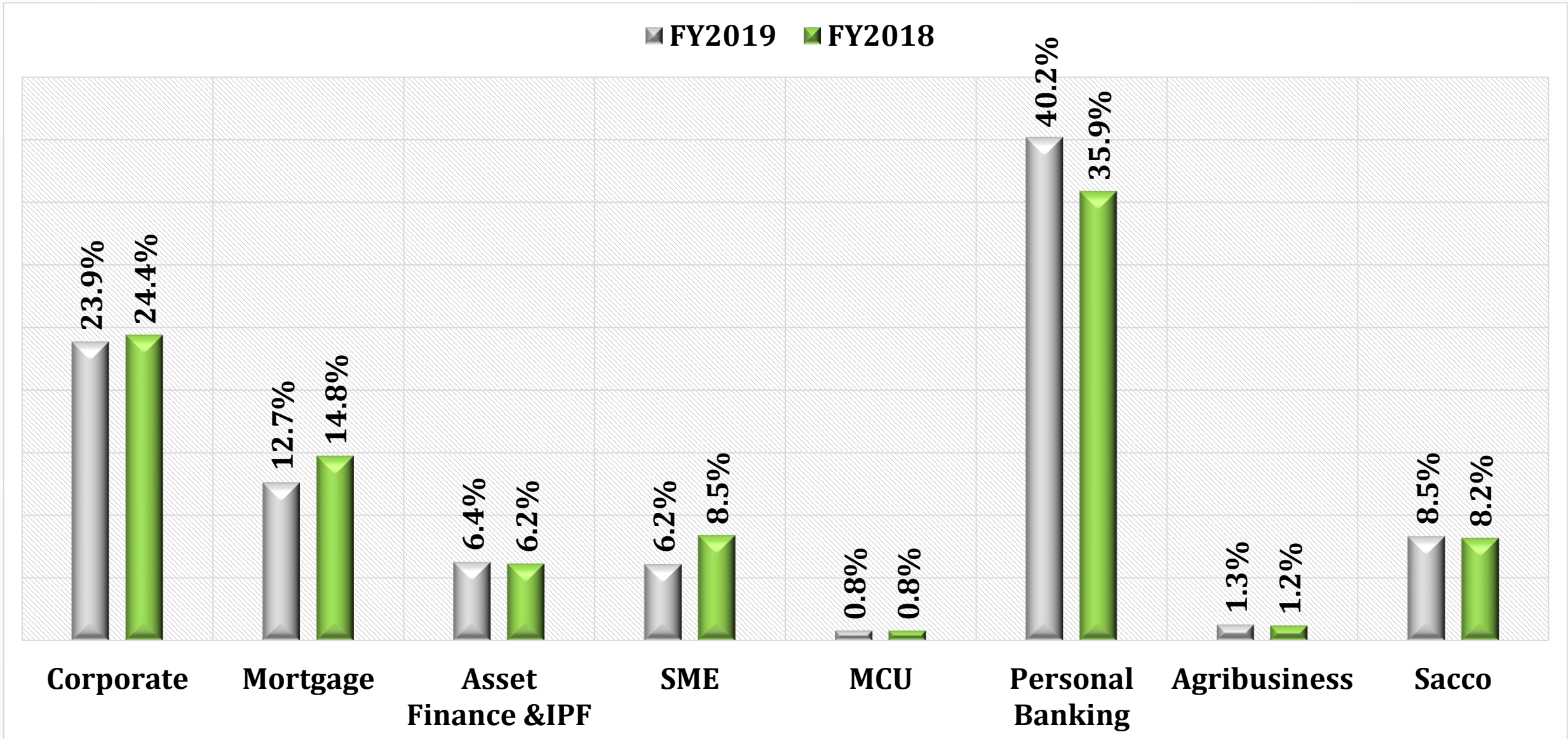
## Shareholders Funds



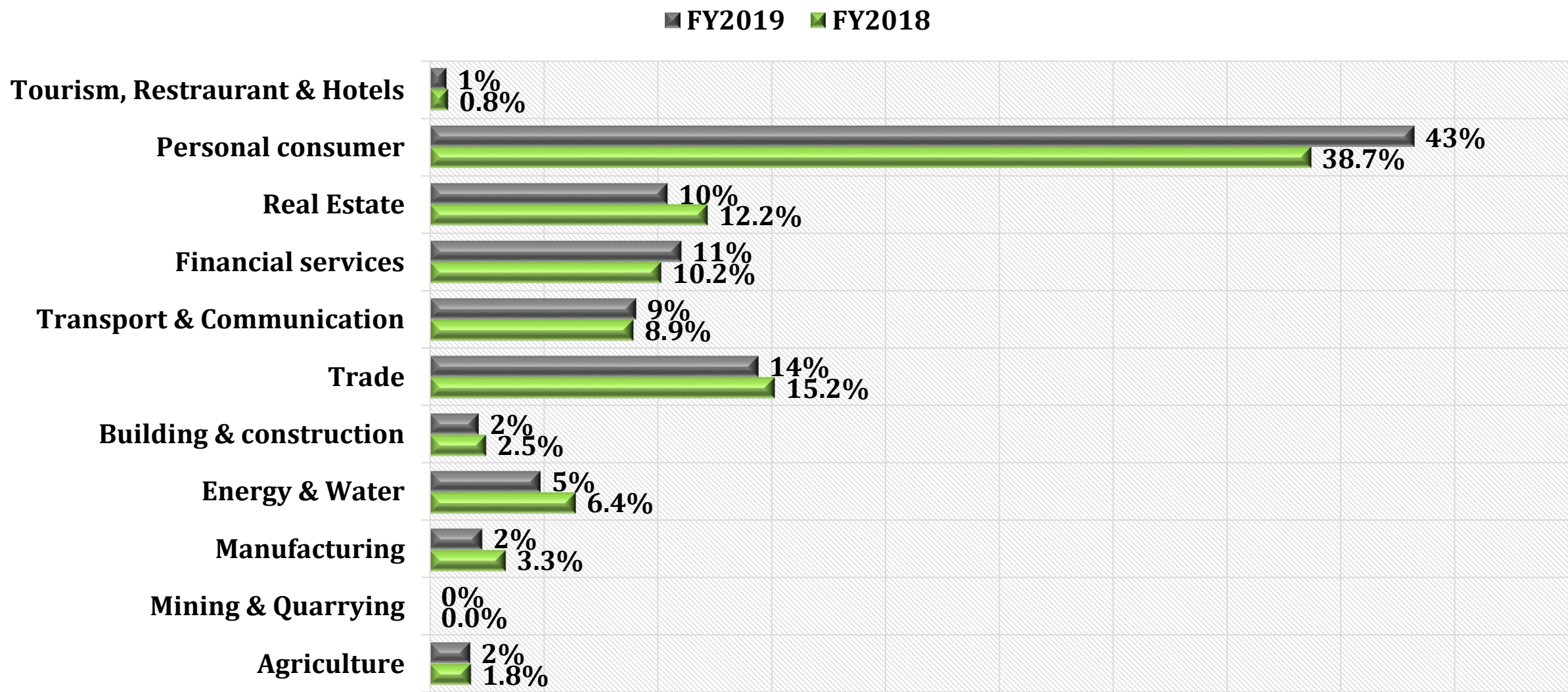
## Strong Financial Position (Kshs. Billion)

| 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%          | ↑ |

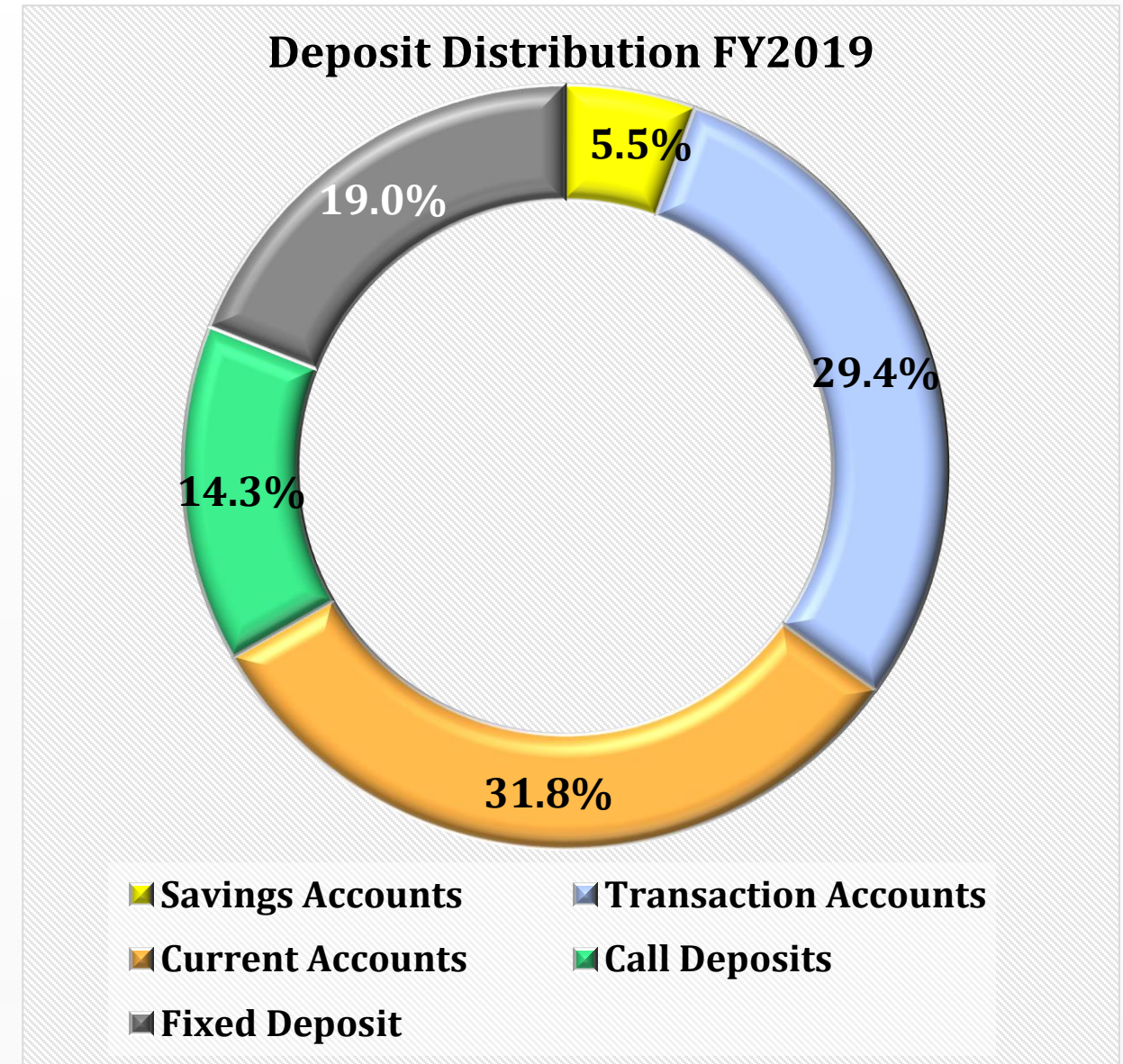
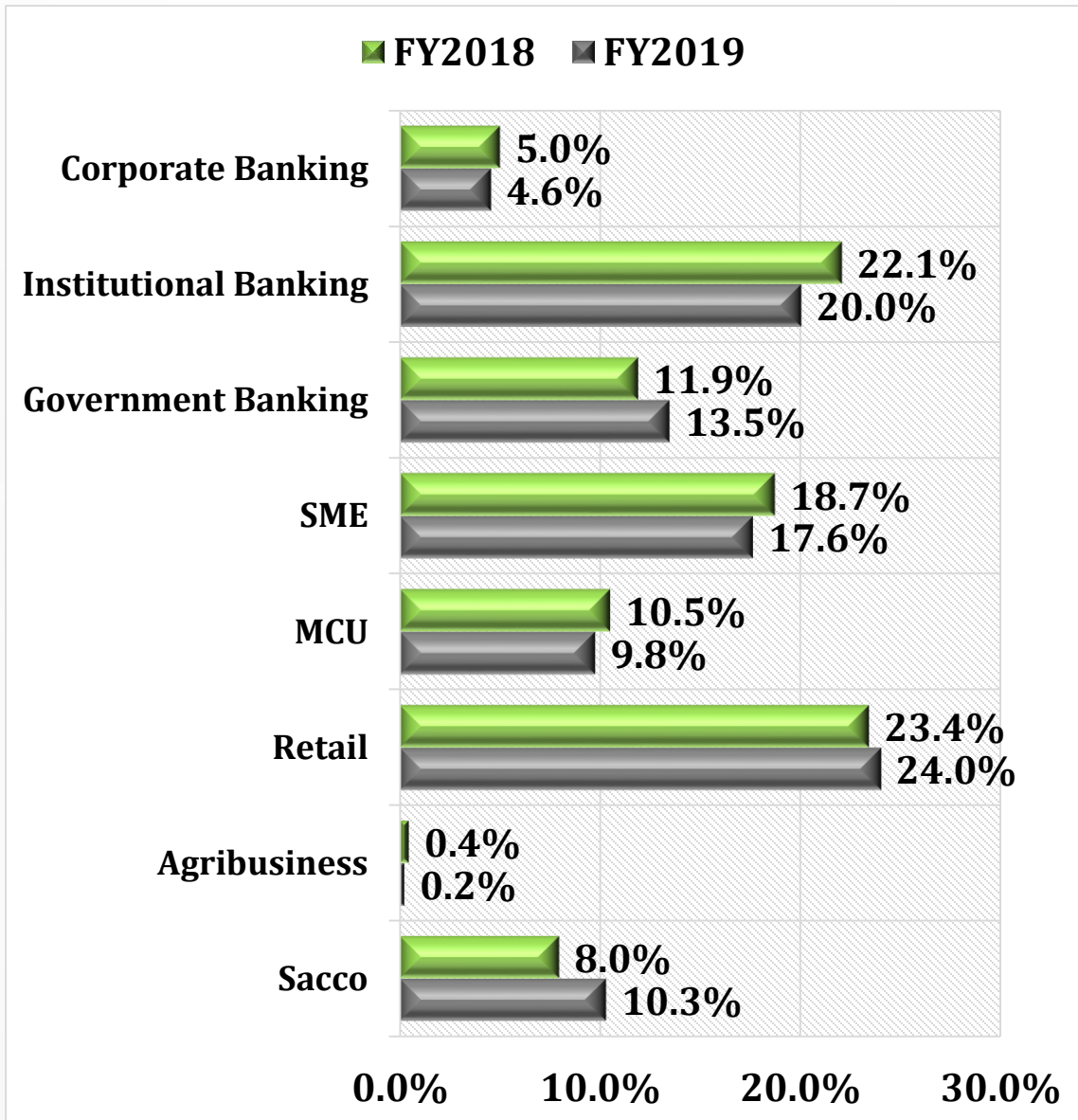
# Diversified loan book



# Diversified loan book



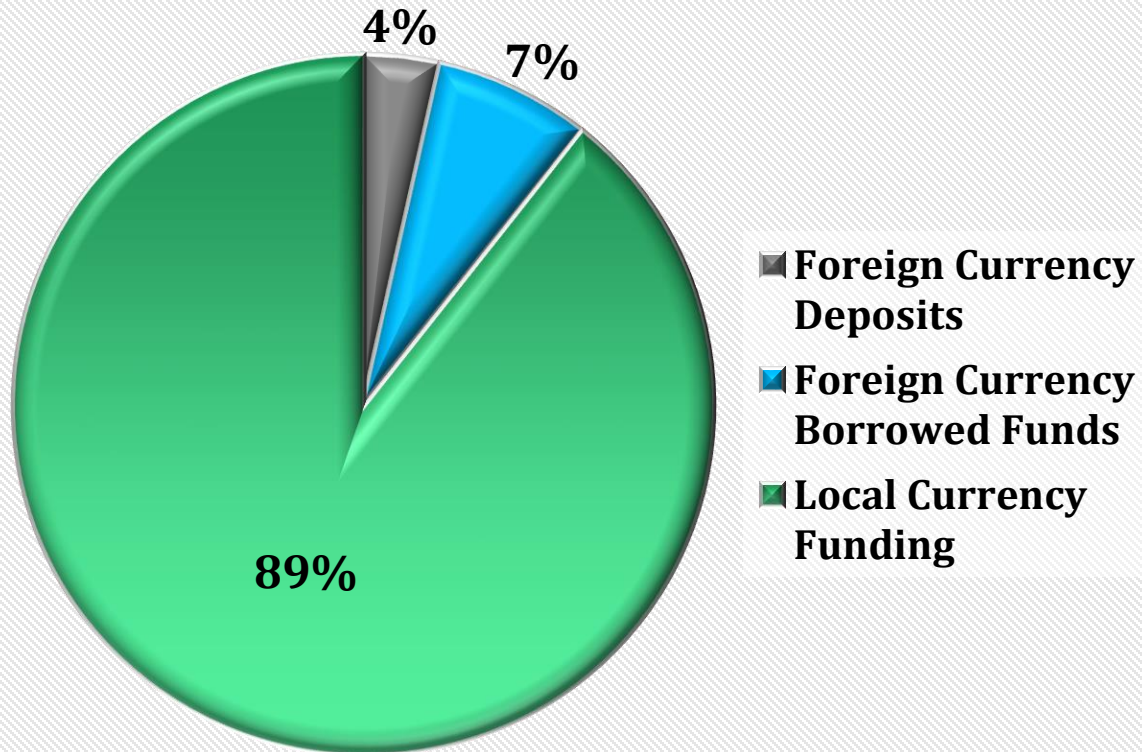
# Well-diversified Liability Portfolio



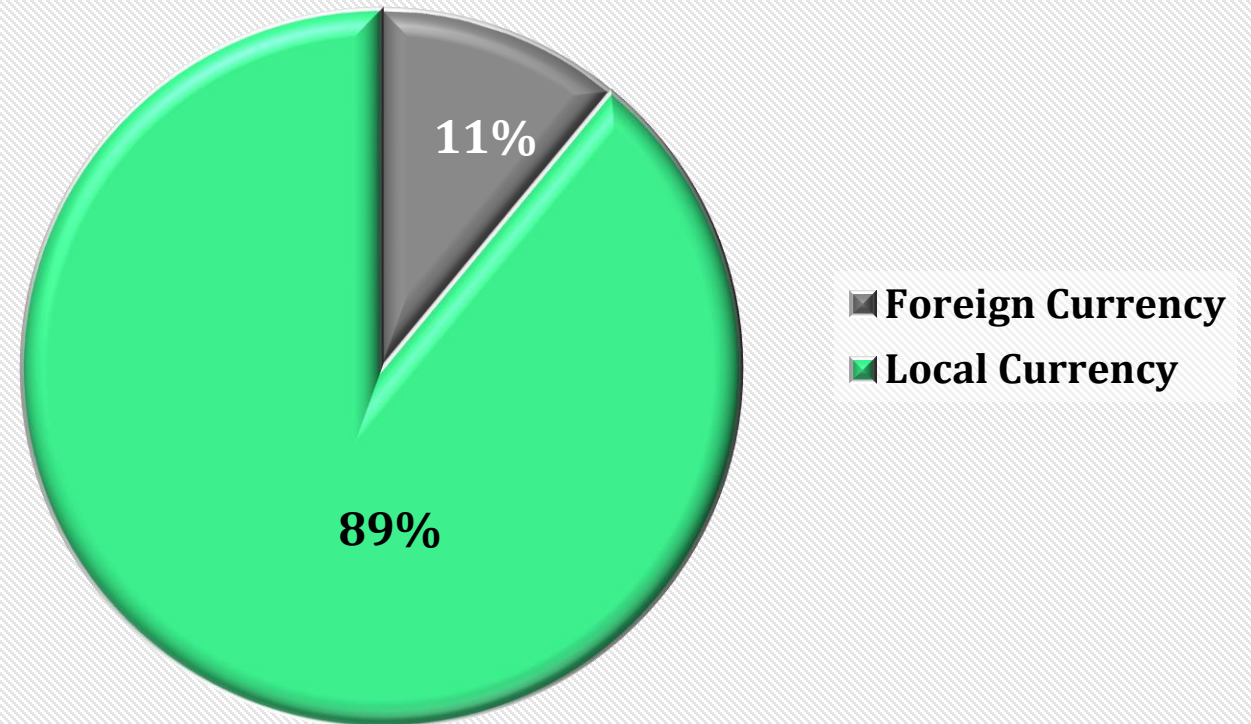


# Optimally balanced Kenya Shilling asset & funding book

**Funding (Local Vs Foreign Currency)  
FY2019**



**Loan Book (Local Vs Foreign Currency)  
FY2019**



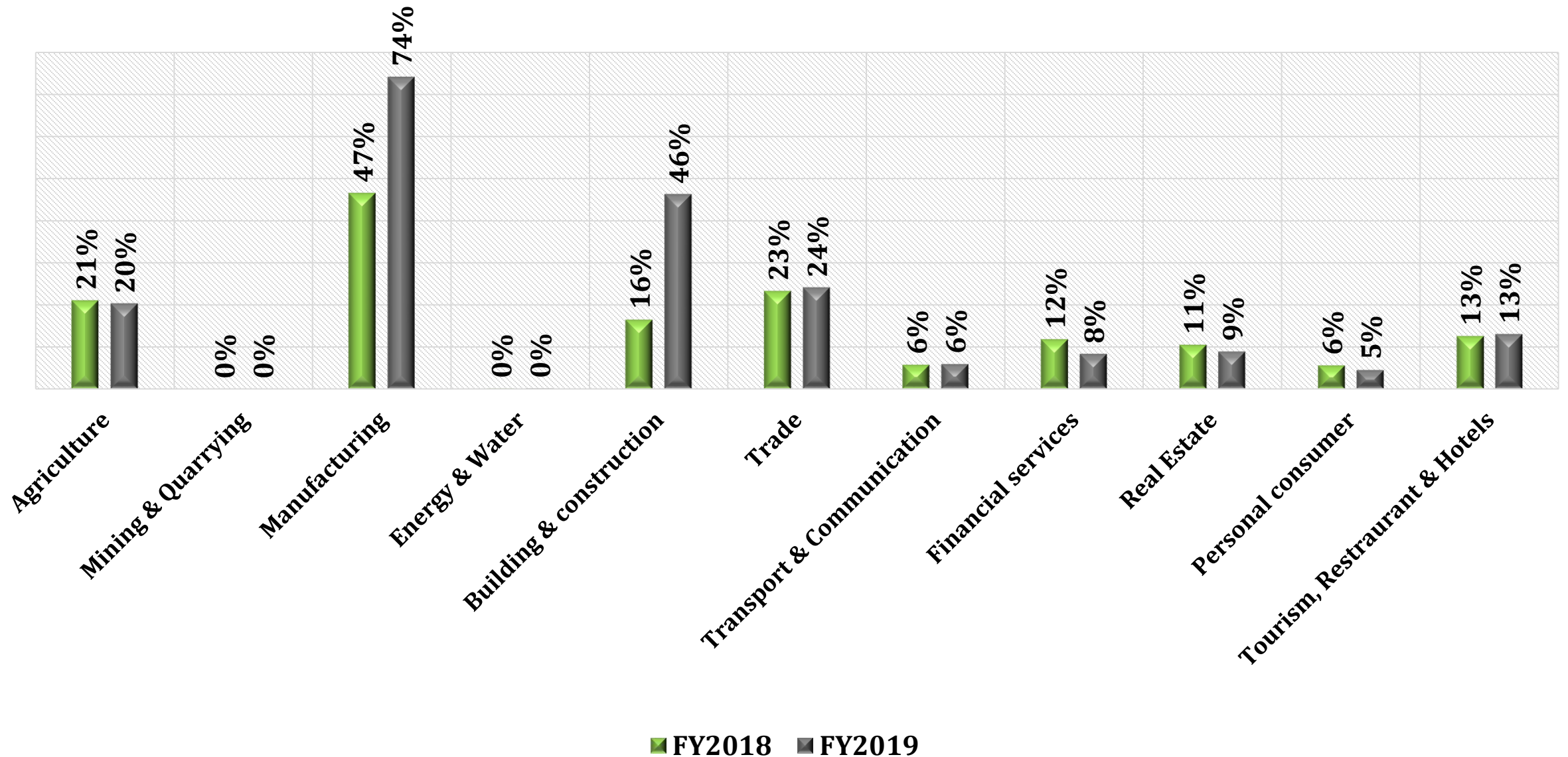
# Quality Loan Book - Bank

|                            | 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%        |
| <b>TOTAL (GROSS)</b>       | <b>283,698</b> | <b>100%</b> | <b>259,621</b> | <b>100%</b> |
| Provisions (IFRS)          | 18,365         |             | 16,075         |             |
| <b>NET LOAN BOOK</b>       | <b>265,333</b> |             | <b>243,546</b> |             |
| Gross Non-performing loans | 31,156         |             | 28,953         |             |

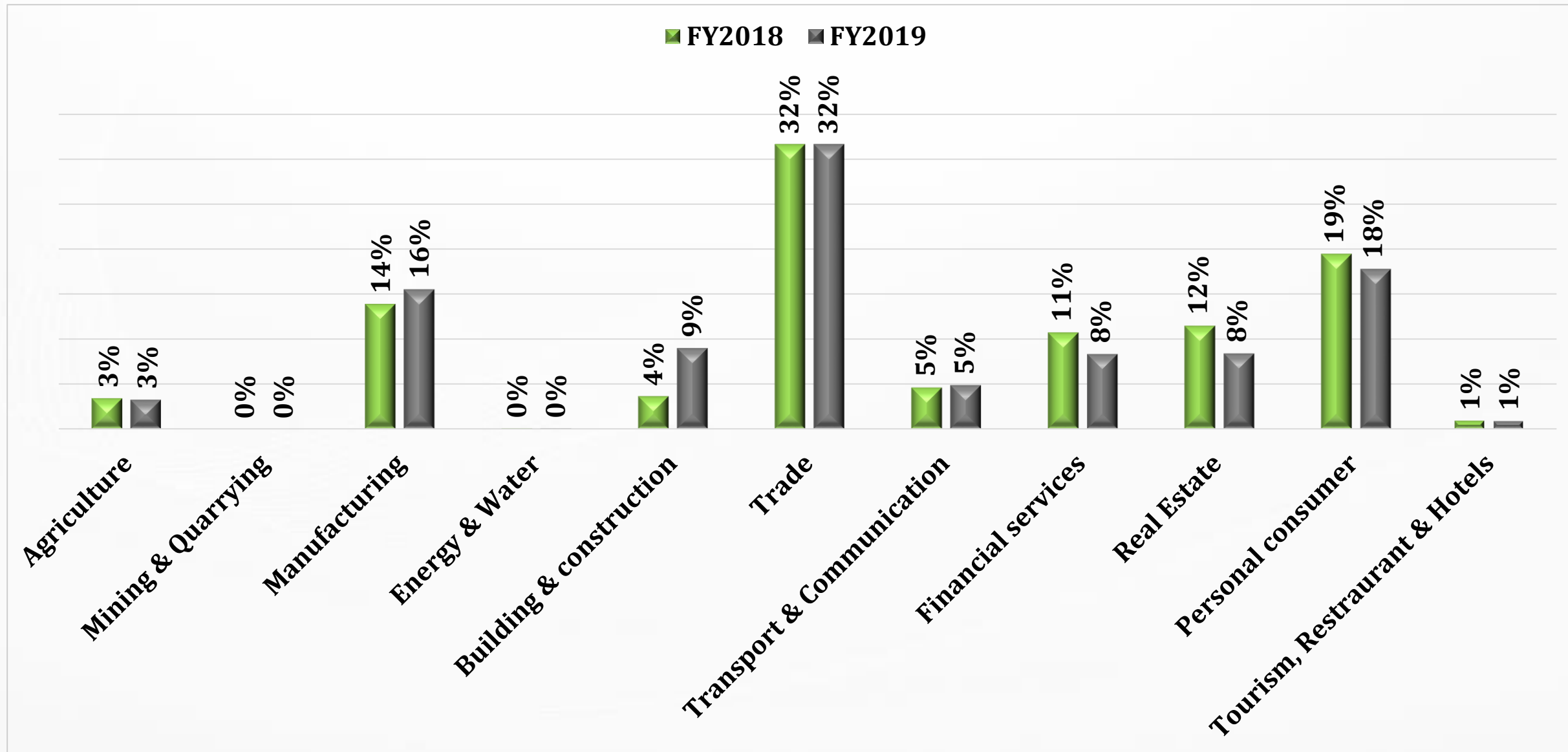
# Quality Loan Book – Bank (IFRS 9)

| 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

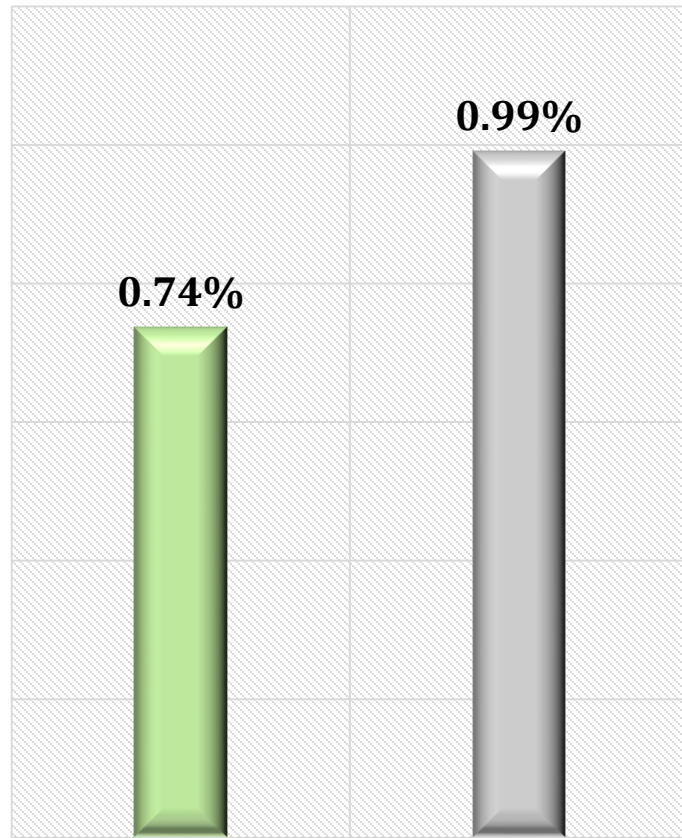


# Portfolio Trends – Sector NPL By Total Bank NPL Book



# Adequate Coverage

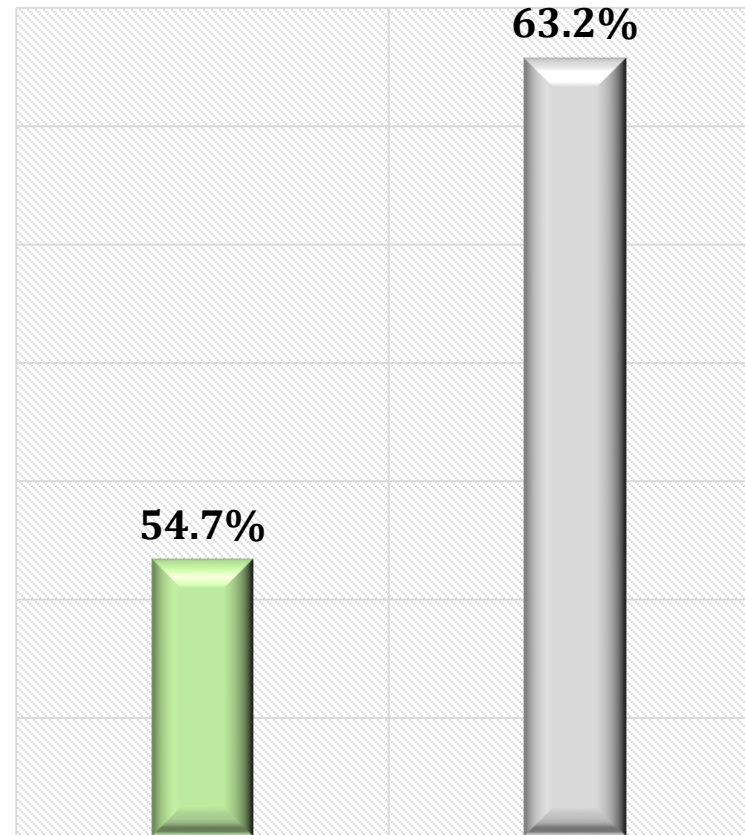
**Cost of Risk**



**FY2018**

**FY2019**

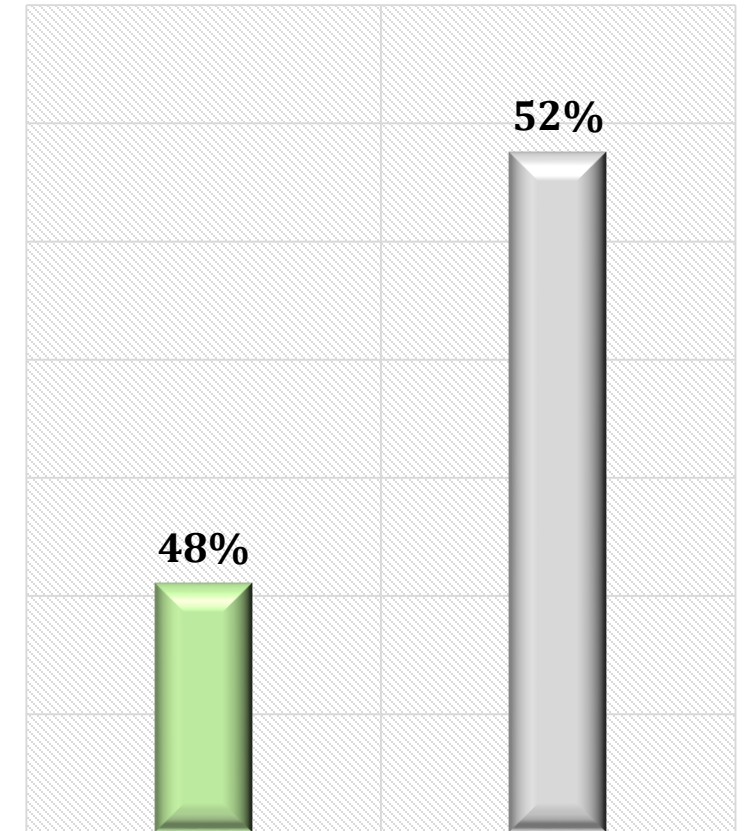
**Coverage CBK (Includes Gen. Prov.)**



**FY2018**

**FY2019**

**Coverage (IFRS) Excludes General Provisions**

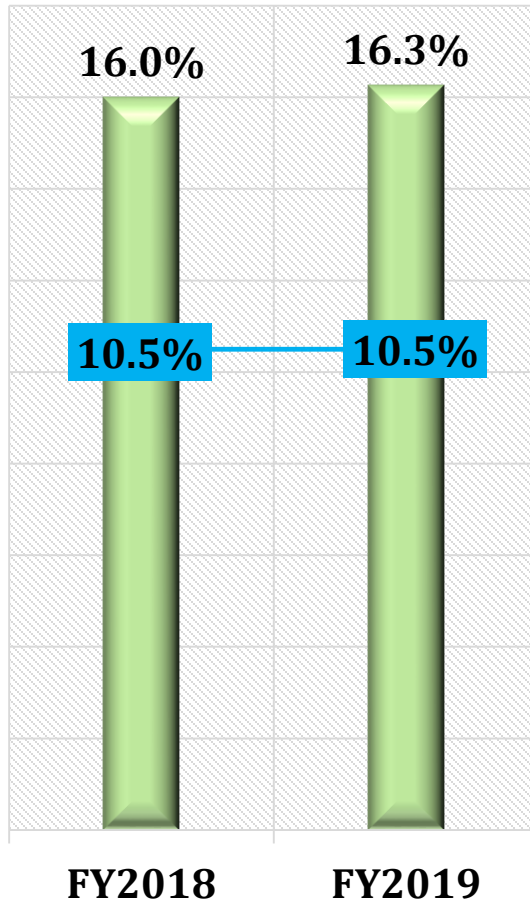


**FY2018**

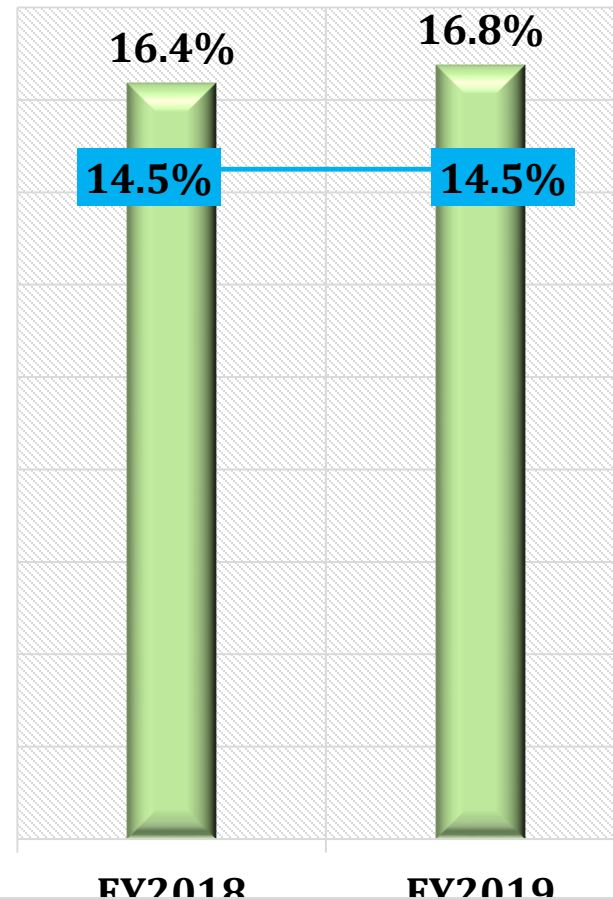
**FY2019**

# Strong capital to support future growth

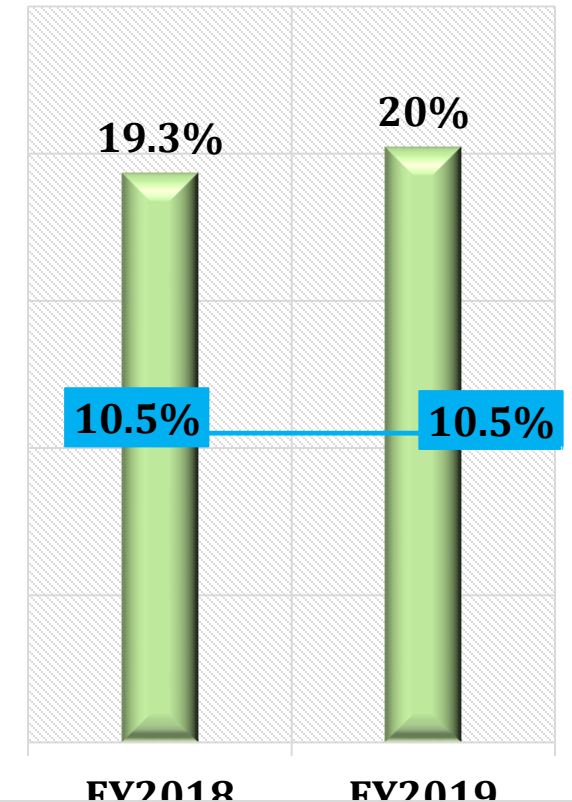
■ Core Capital / Total Risk Weighted Assets  
— Minimum Statutory Requirement



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



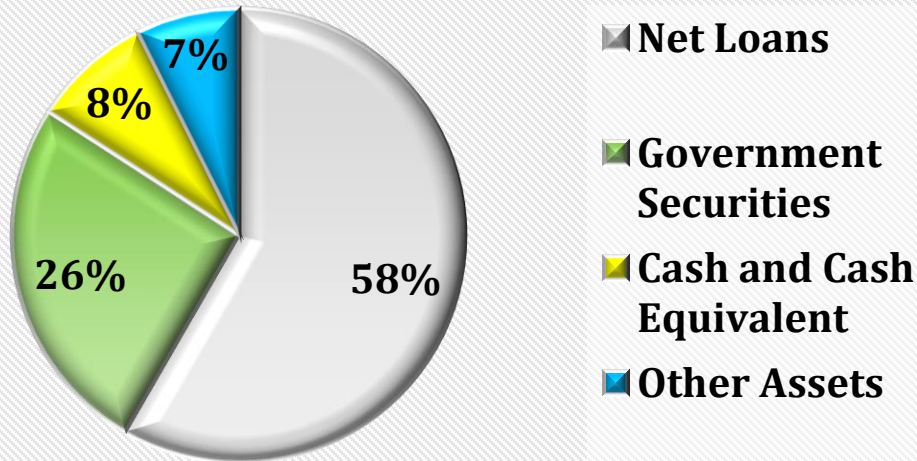
■ Core Capital / Total deposit Liabilities  
— Minimum Statutory Requirement



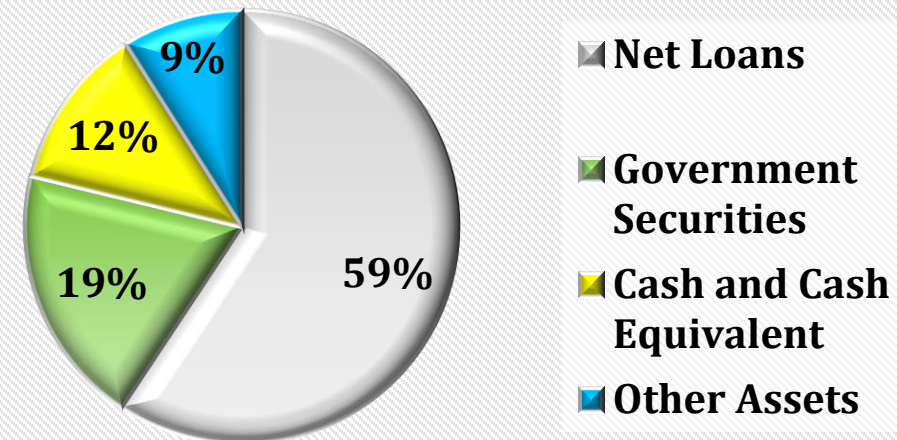
# Optimal Asset and Funding Mix

## Asset Categories

FY2019

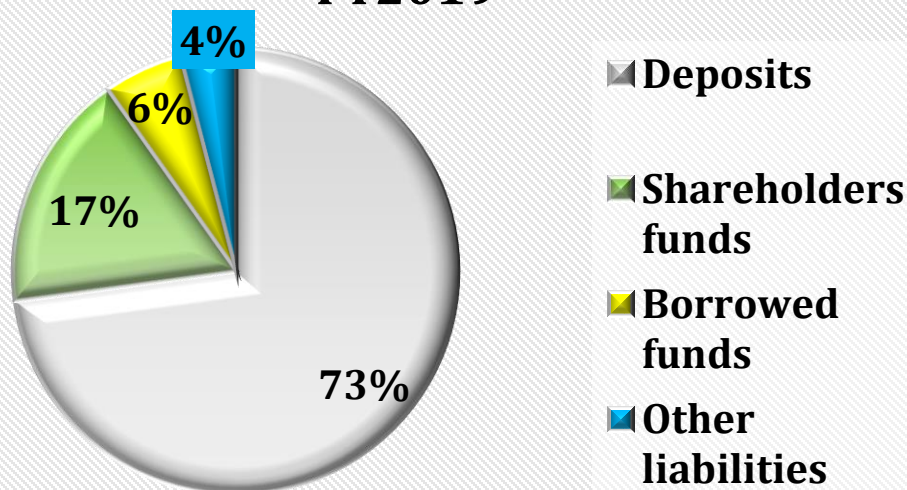


FY2018

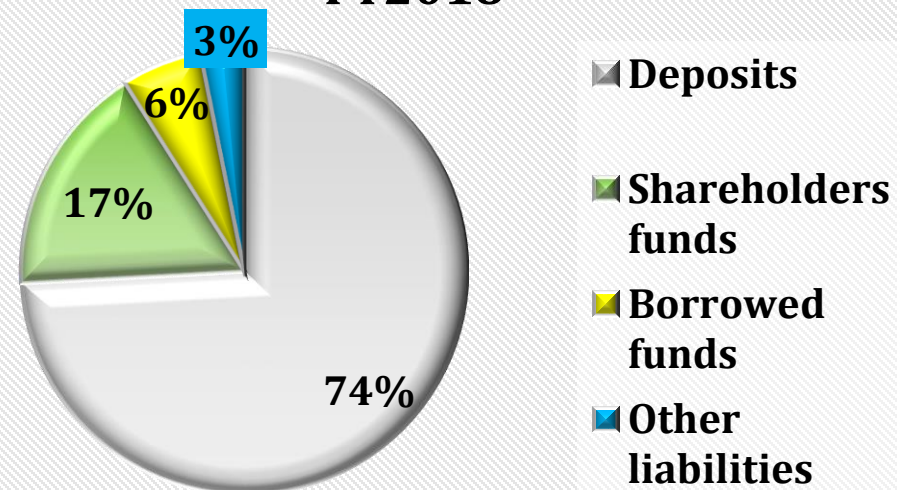


## Funding Categories

FY2019



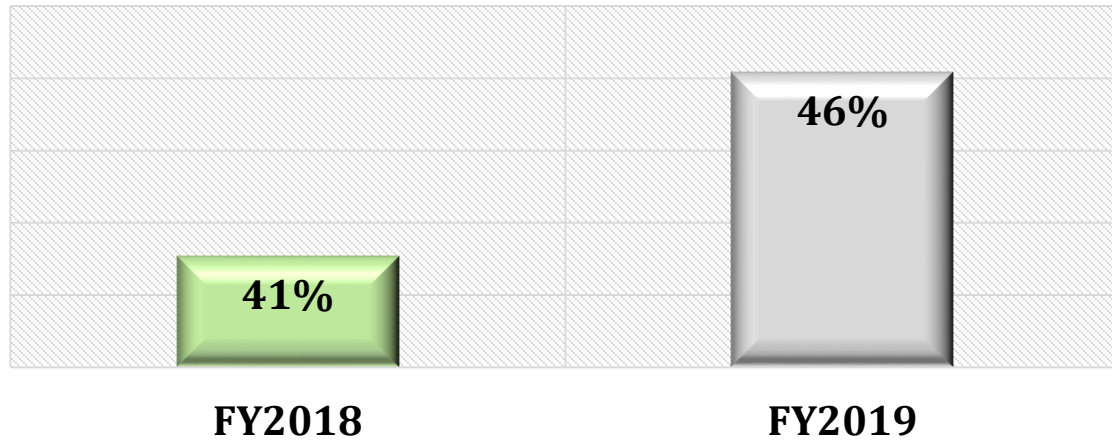
FY2018



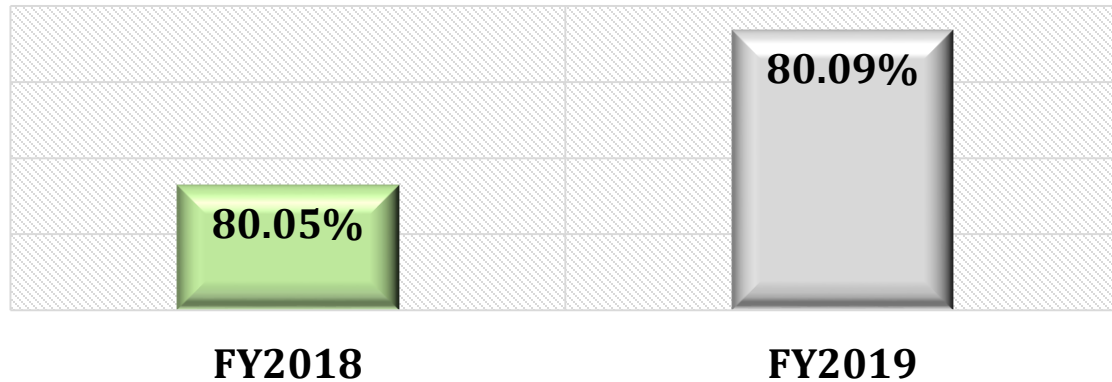


# Strong liquidity to support investments

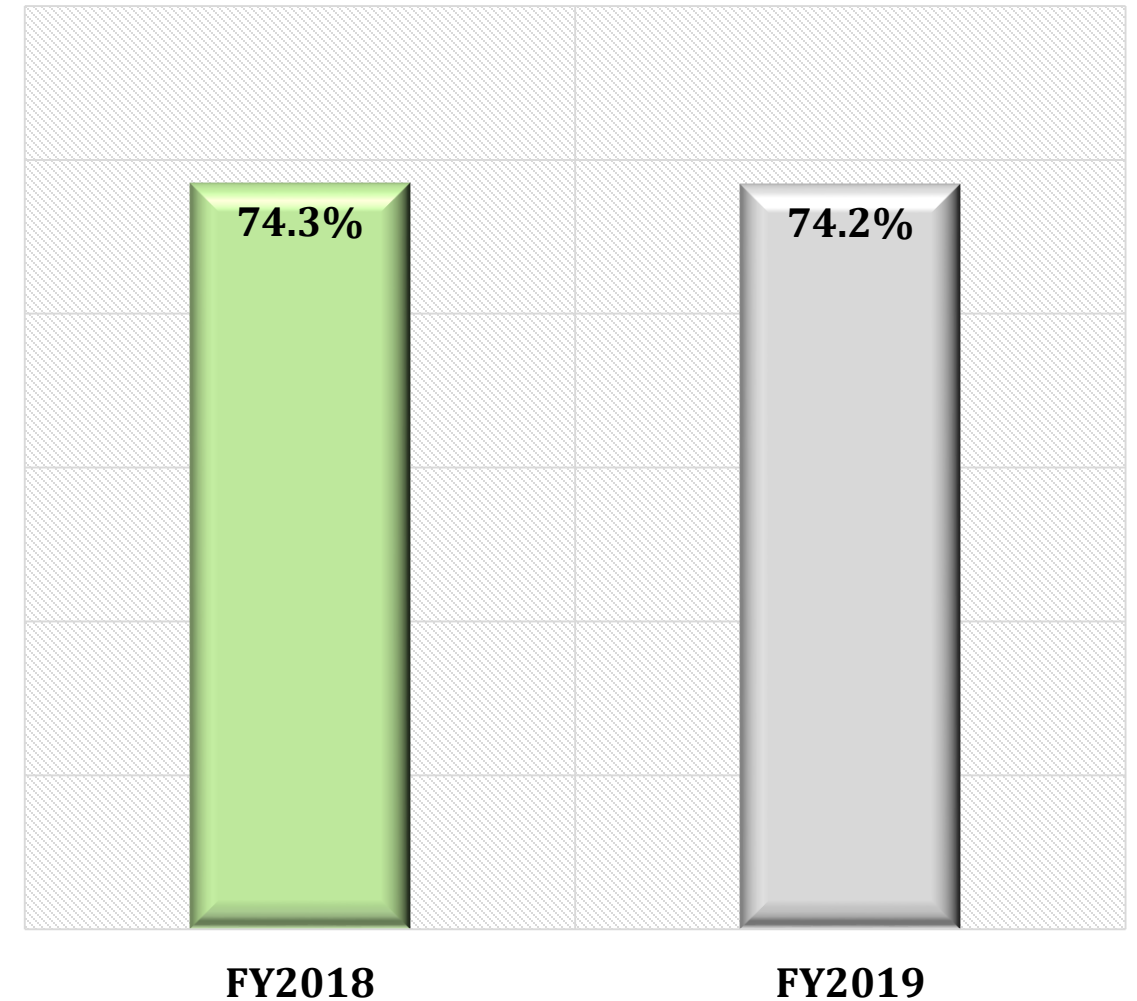
## Liquidity



## Loans to Deposit



## Loans to Deposits+ Borrowed Funds



# Improved Subsidiary Contribution

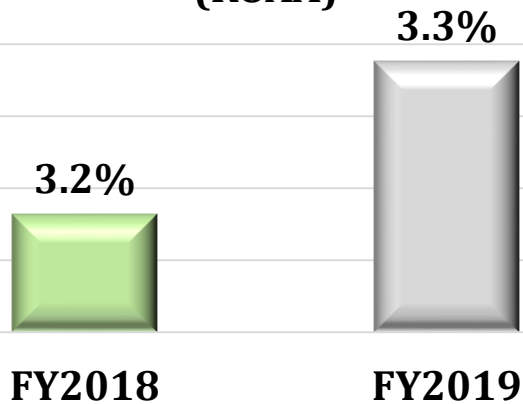
| COMPANY                                | Profit Before Tax<br>FY2019<br>KShs'000 | Profit Before Tax<br>FY2018<br>KShs'000 | Variance  | %     |    |
|----------------------------------------|-----------------------------------------|-----------------------------------------|-----------|-------|----|
| 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%   | 42 |

# Sustainable Profitability Growth

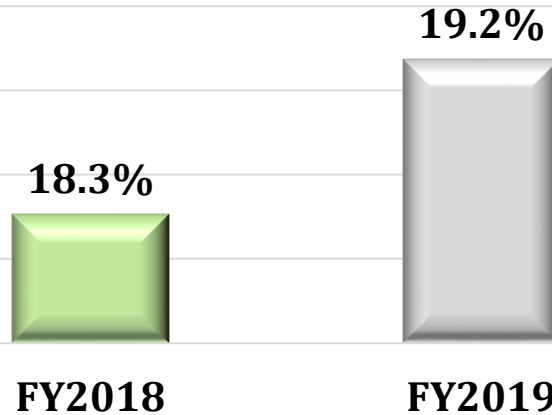
| Kshs. Billions (except for EPS)         | FY2019 | FY2018 | % Change (Y/Y) |   |
|-----------------------------------------|--------|--------|----------------|---|
| Interest Income                         | 43.64  | 43.02  | 1.4%           | ↑ |
| Interest Expense                        | 12.34  | 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

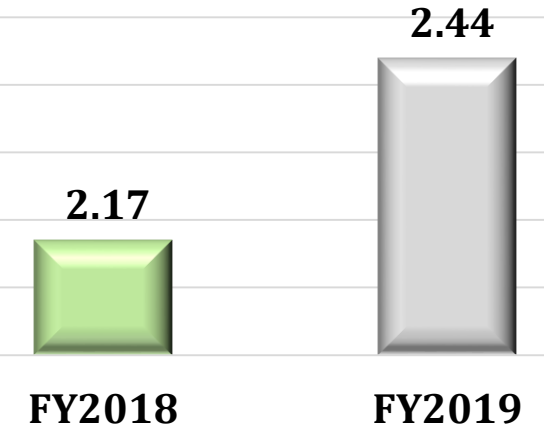
**Return On Average Assets  
(ROAA)**



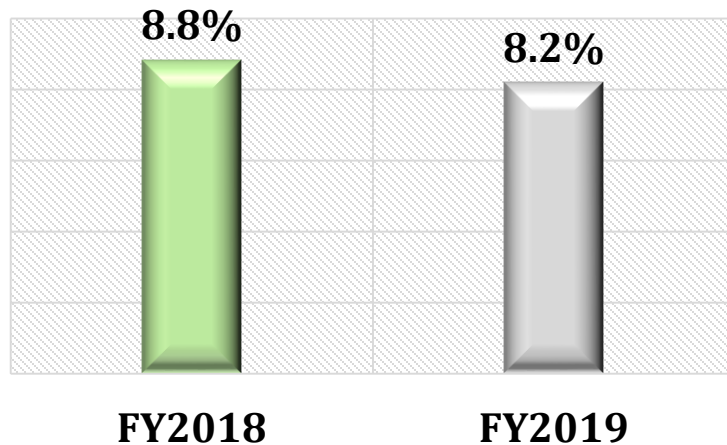
**Return On Average Equity (ROAE)**



**Earnings Per Share (EPS)**

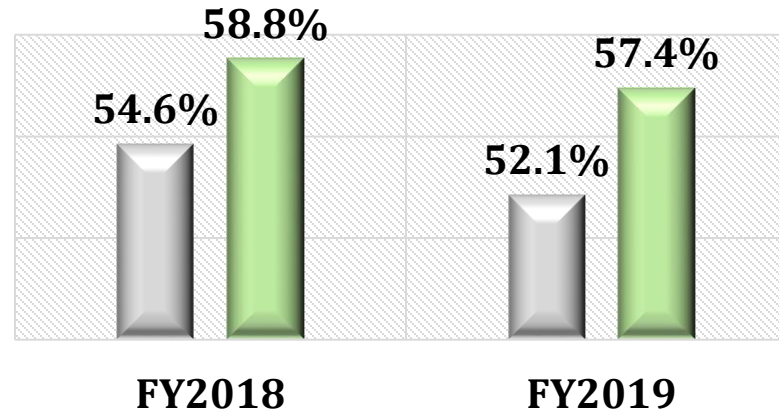


**NIM on Earning Assets**

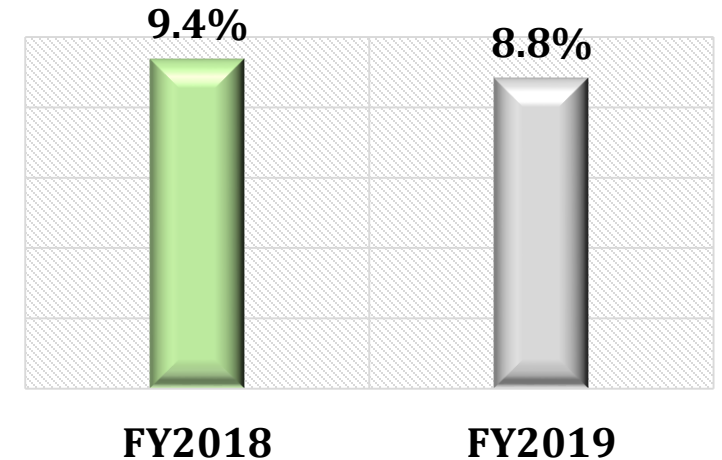


■ CIR without provisions

■ 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**