



CO-OPERATIVE BANK OF KENYA LTD

GROUP FINANCIAL RESULTS ANALYST BRIEFING

Q1 2018

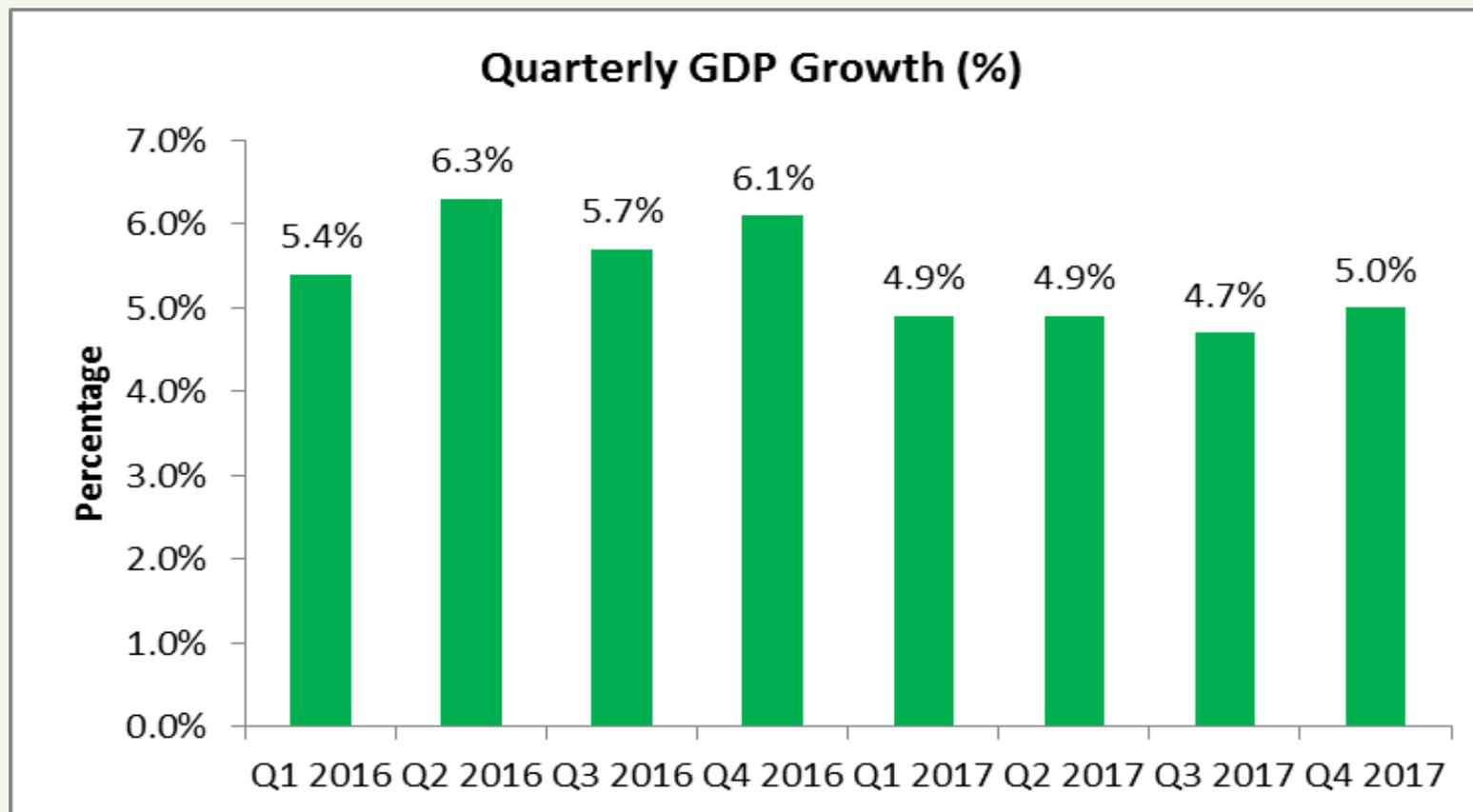
24 May 2018



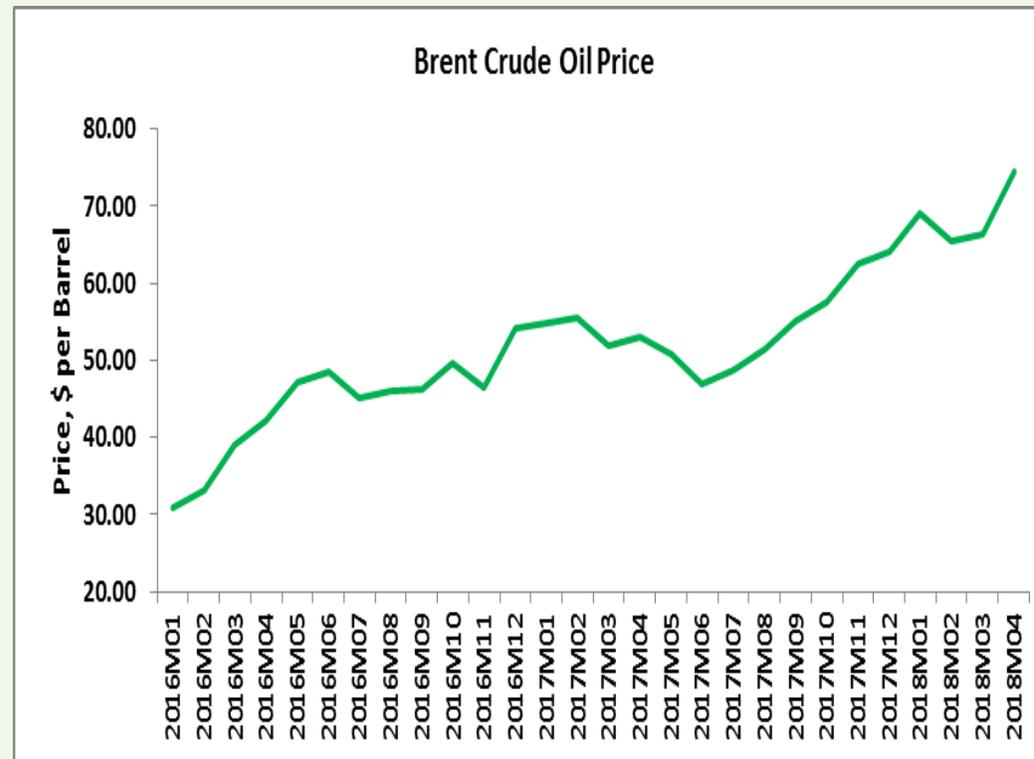
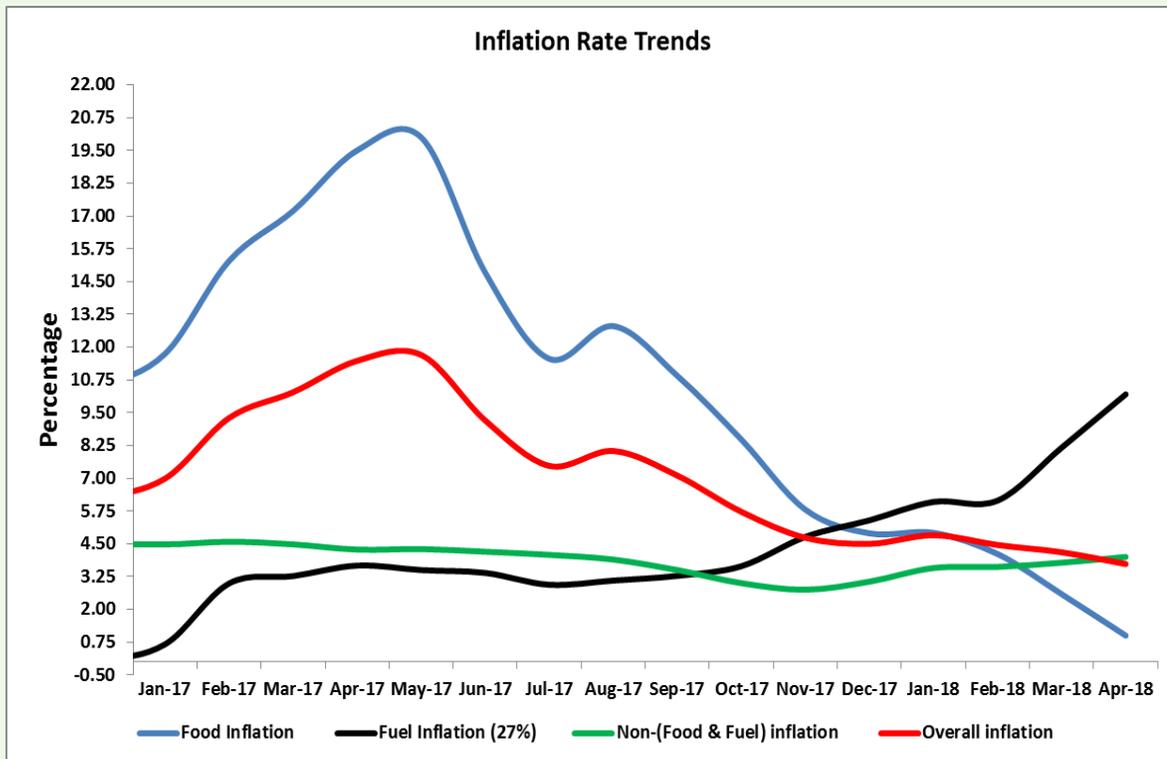
Macro Economic Update



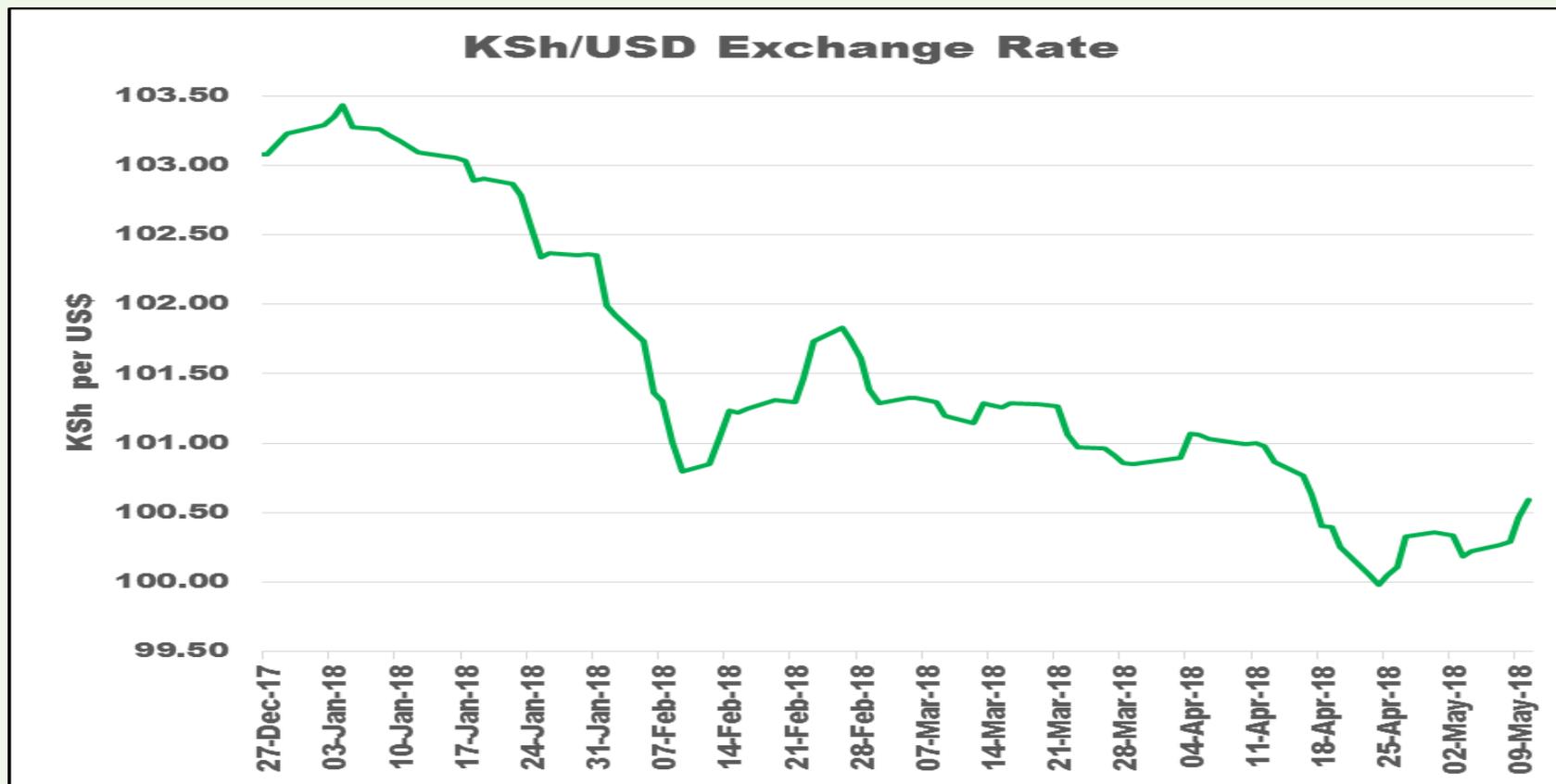
Quarterly real GDP growth has started picking up



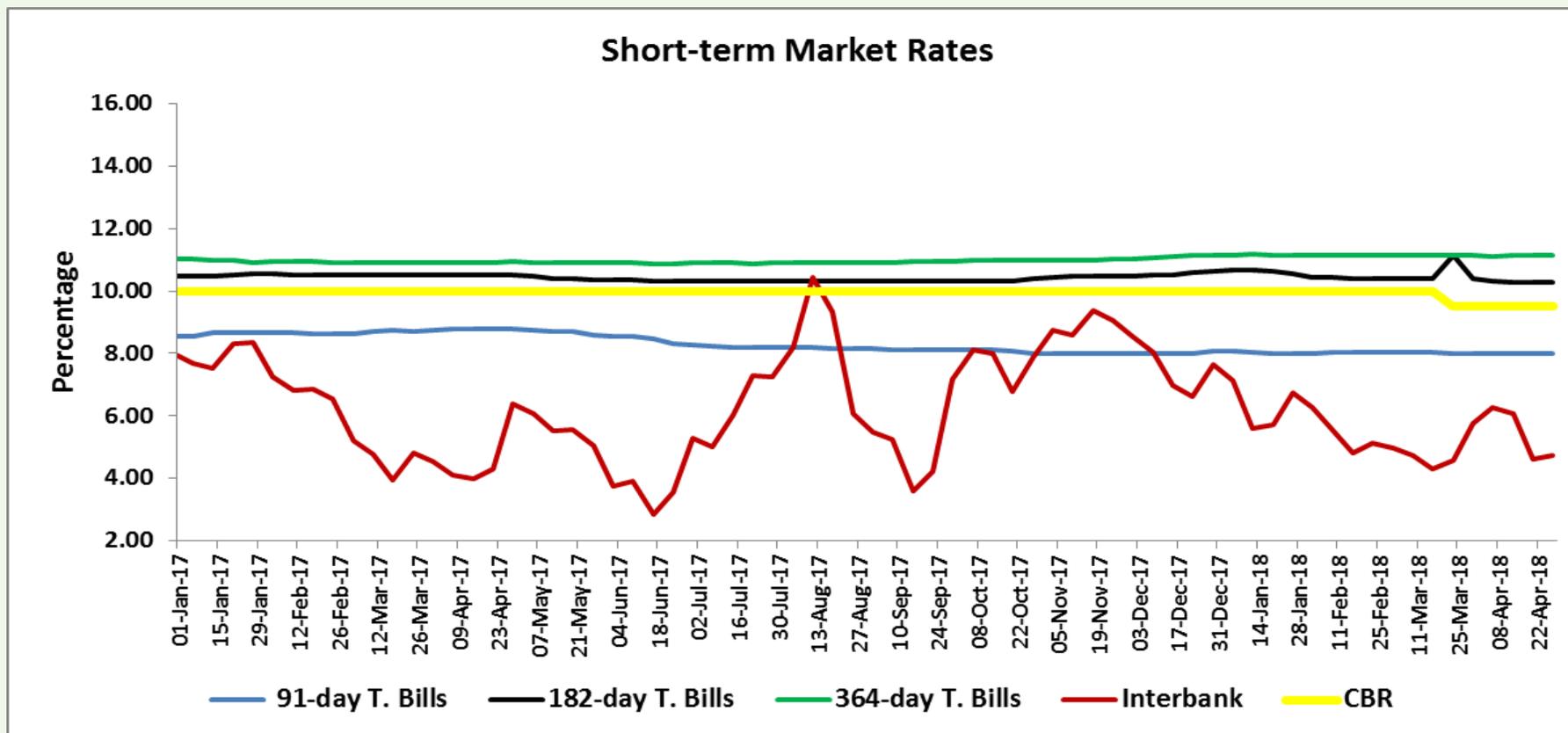
- In the fourth quarter of 2017, the economy recorded improved performance and grew by 5.0% compared to 4.7% in the third quarter. This was mainly supported by strong performance in the service sectors, such as Information and Communication, Tourism, Trade and Transport.



- Inflation rate has trended downwards in 1Q 2018 compared to a similar period last year. Overall inflation for 1Q 2018 averaged 4.5% compared to 8.9% in 1Q 2017.
- Food inflation fell from 14.7% in 1Q 2017 to 3.9% in 1Q 2018 on account of favourable weather. Fuel inflation has however increased from 2.3% in 1Q 2017 to 6.8% in 1Q 2018 due to the pick up in global fuel prices.



- The KES traded to the USD at an average of 101.9 in 1Q 2018 compared to 103.4 in 1Q 2017. The strengthening is attributed to a low import bill at a period of increasing agricultural exports and lower food importation.
- The currently high CBK forex reserves equivalent to 6-months of import cover offers a good level of buffer against short term shocks in the FX market.



- The money market remained fairly stable in 1Q 2018. Yields on short-term government securities have remained relatively flat during most of 1Q2018.
- Interest rate on 91-days, 182-days and 364-days Treasury bills were 8.0%, 10.4% and 11.1%, respectively at the close of 1Q2018 compared to 8.8%, 10.6% and 10.9%, respectively for 1Q 2017. The average interbank rate fell to 5.5% in 1Q2018 compared to 6.4% in 1Q2017 indicating higher liquidity in the banking sector.



- South Sudan is an oil-dependent country, with oil accounting for almost the totality of exports, and around 60% of its gross domestic product (GDP).
- The World Bank estimates the economy to have contracted by about 6.9% in FY17 due to the ongoing conflict, oil production disruptions and below-average agriculture production.
- Overall inflation is estimated to have fallen from 362% in June 2017 to 118% to December 2017.
- The fiscal deficit is estimated at about 4.6% of GDP in FY17 due to falling government revenues and rising security-related spending.



Innovative Customer Delivery Platforms

Our channels

153 Branches

Mcoop cash mobile banking
(All telco, all products)

Co-op Kwa Jirani-Over 10000 agents

Over 580 ATMs, leading debit card issuer

CoopNet- Internet Banking (Corporate & Retail)

24 Hour Contact Centre

Self service Kiosks in all our branches

Dedicated Diaspora Banking Department

560 FOSAs

Subsidiaries offering advisory and investment services

Social Media Banking

Our customers

Over 7.2 Million growing direct account holders

Over 3.7 Million Mcoop Cash Customers

Over 80,402 Internet banking Customers

Over 1,081,037 Saccolink Customers

Over 13,573 Diaspora Banking Customers

Over 1.2 million Facebook followers

Over 211,000 Twitter followers

Instagram followers, You Tube subscribers

Telegram self service customers

“Soaring Eagle” Transformation Project Update

2014

2015

2016

2017

2018 and Beyond

Organization review and design

Implementation and sustainability

Implementation and sustainability

Review on ‘Digital Bank’ & Business Banking

Optimal growth in:
 1. Deposits
 2. Quality Loan Book
 3. Non- Funded Income

1

Branch Transformation: Customer Experience & Retail Sales Force Effectiveness

2

Sales Force Effectiveness

3

Shared Services & Digitization ‘The Digital Bank’

4

NPL Management & Credit processes

5

Cost Management

6

Data Analytics

7

MSME Transformation

8

Staff Productivity

Branch Transformation BT 2.0 Reloaded

Customer Experience & Retail Sales Force Effectiveness(SFE)

“To make our Channels Centers of Excellence in Sales, Service and Advisory”



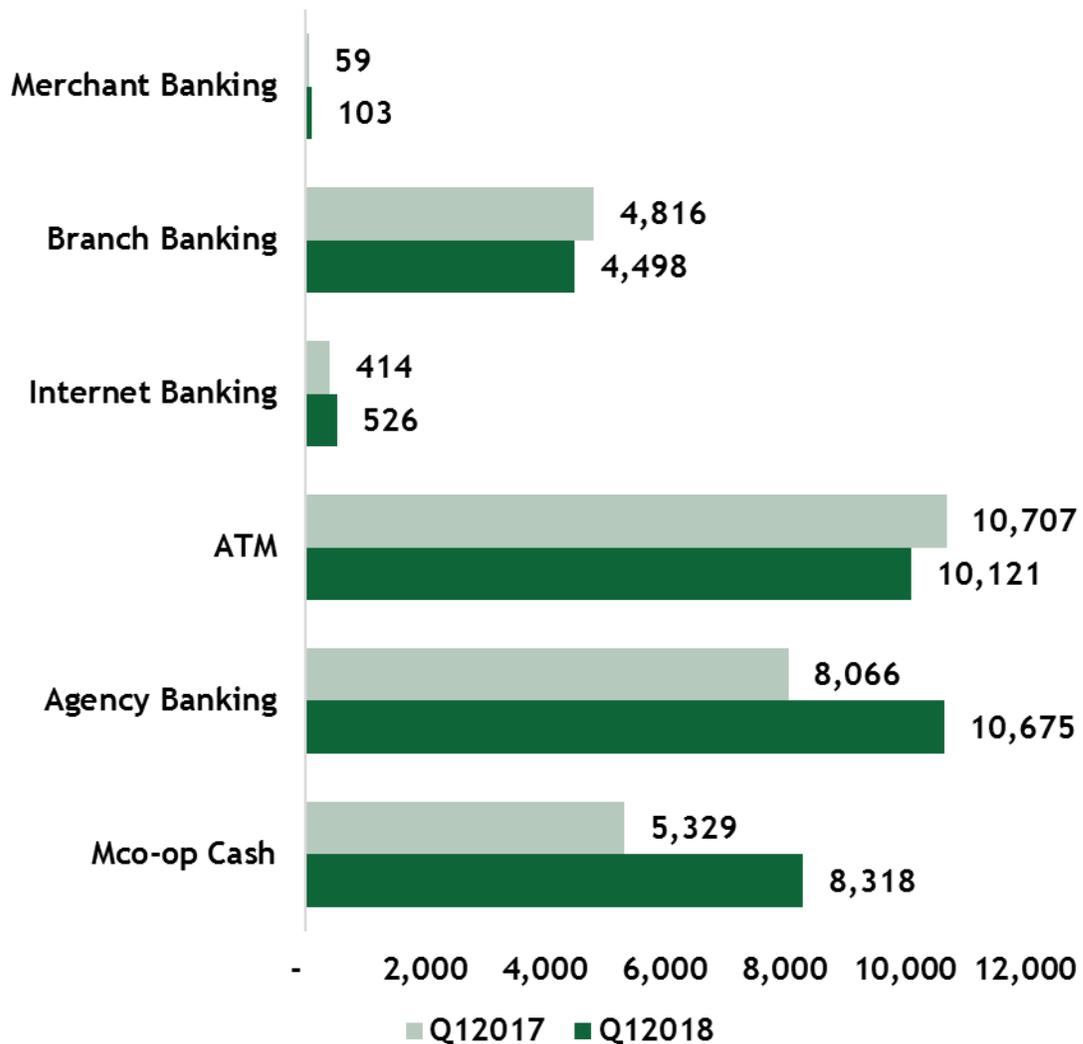
Key Achievements

- ✓ BT2.0 Reloaded has been divided into two projects to take advantage of emerging needs in Retail and Business Banking i.e.:
 - ✓ MSME Transformation project
 - ✓ Customer Experience & Retail SFE.
- ✓ 87% of transactions are on alternative channels.
- ✓ Queue time of 13.2 minutes against a target of 15 minutes.
- ✓ NPS score of 90.2 against 60 points.
- ✓ Overall customer experience score of 90 against a target of 95
- ✓ Customer satisfaction score (CSAT) of 95.2 against a target of 90%
- ✓ Product holding has increased to 3.8 from 1.7 in pilot branches

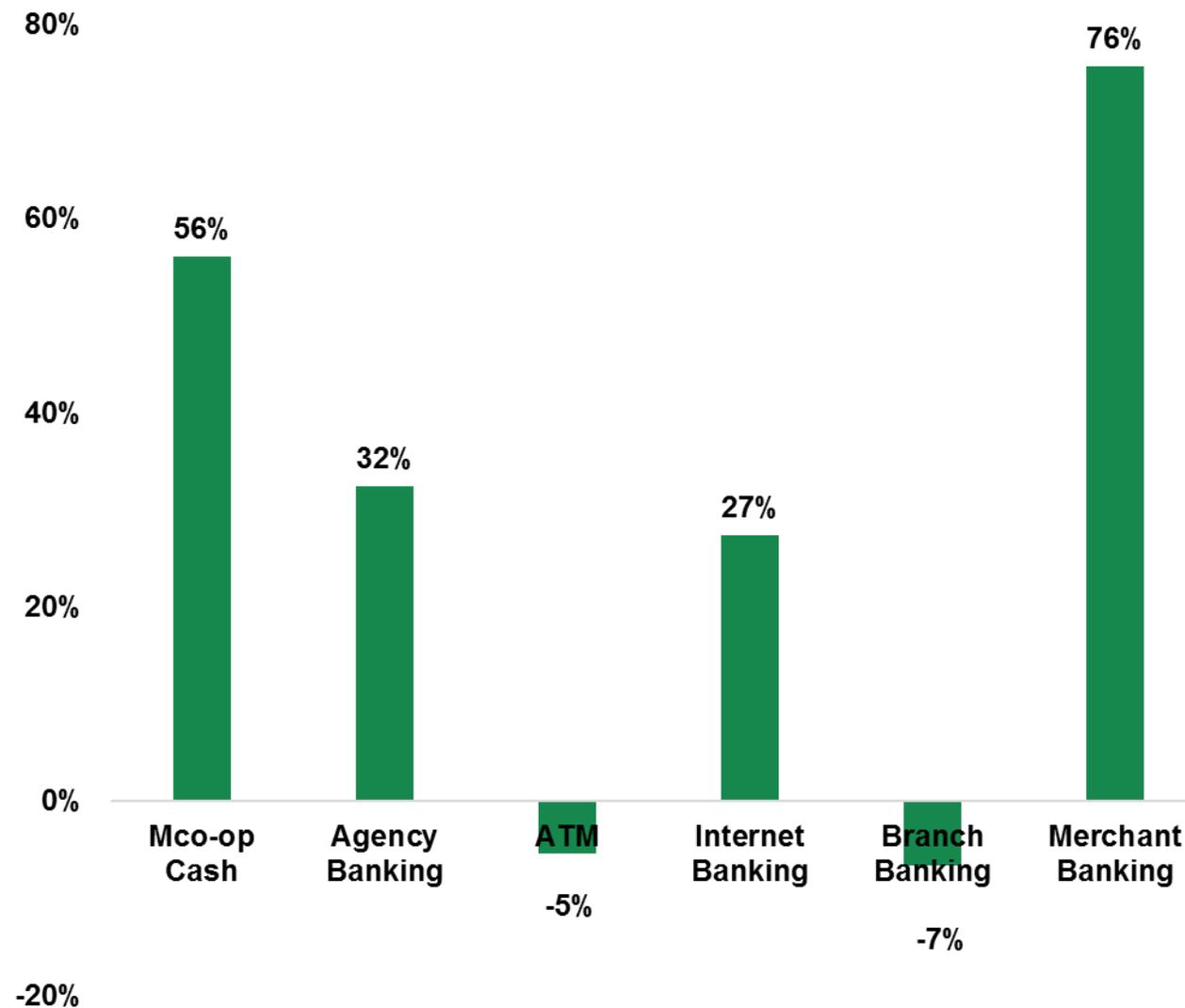
Customer Experience and Branch Transformation

Deepening Financial Inclusion with alternative channels

Channel Transactions '000'

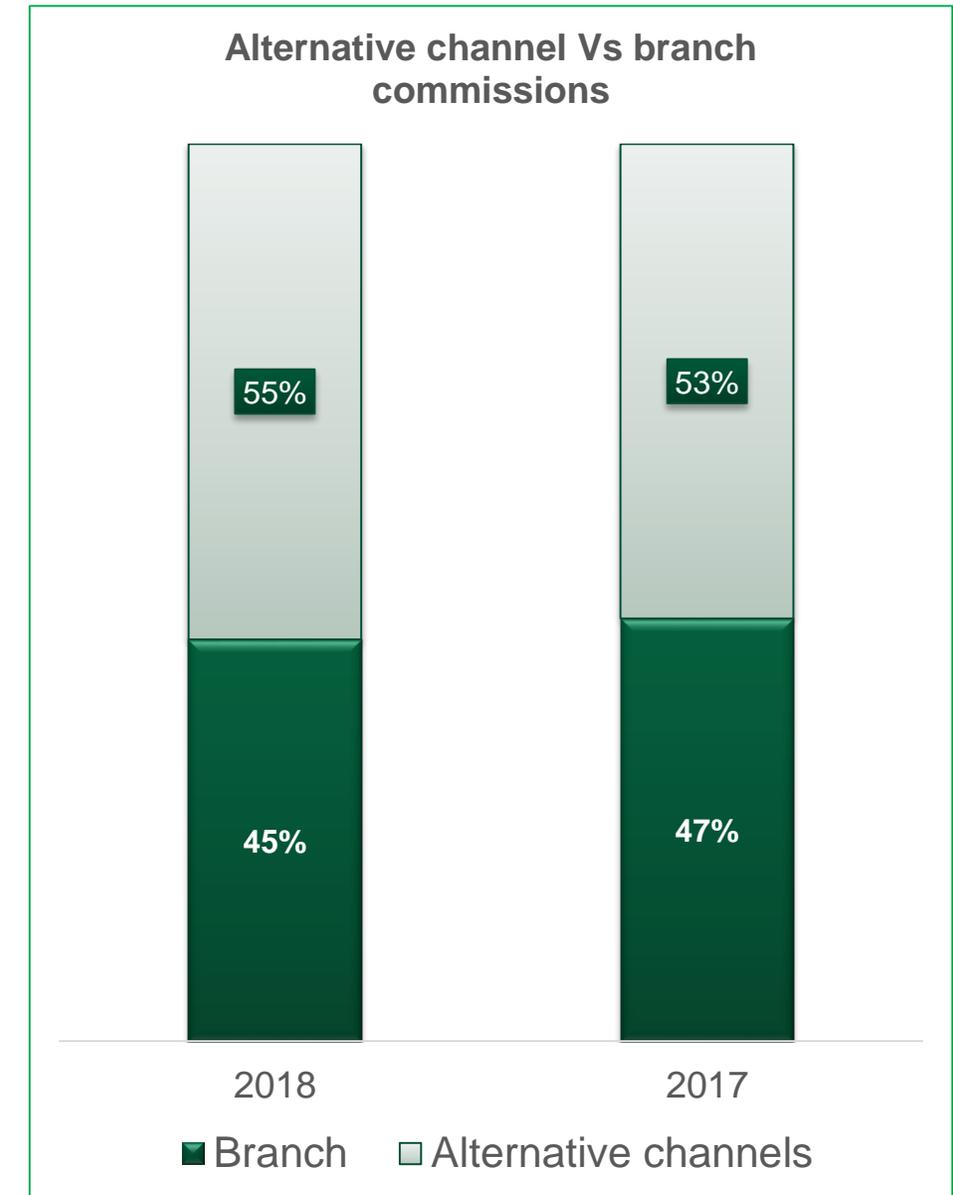
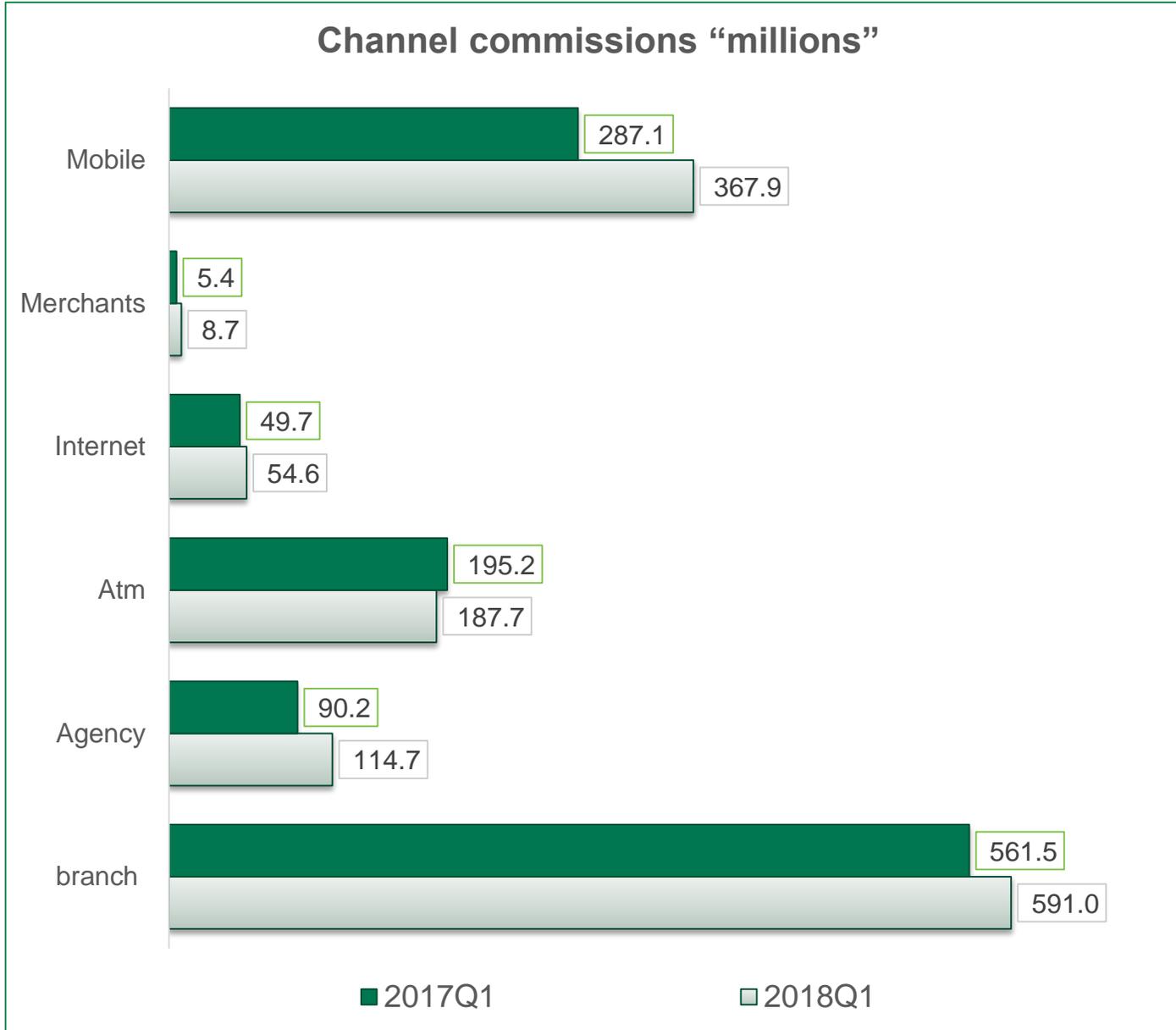


Channel Transaction growth Q12017-Q12018

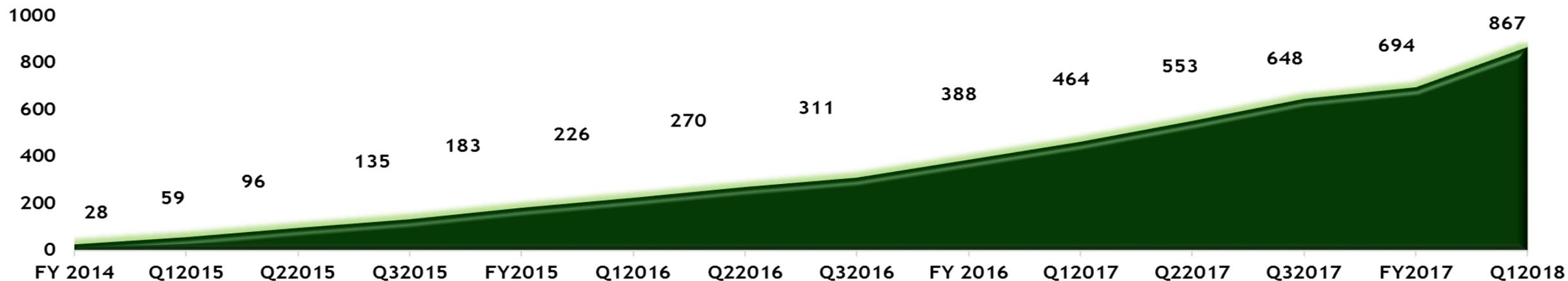


Customer Experience and Branch Transformation

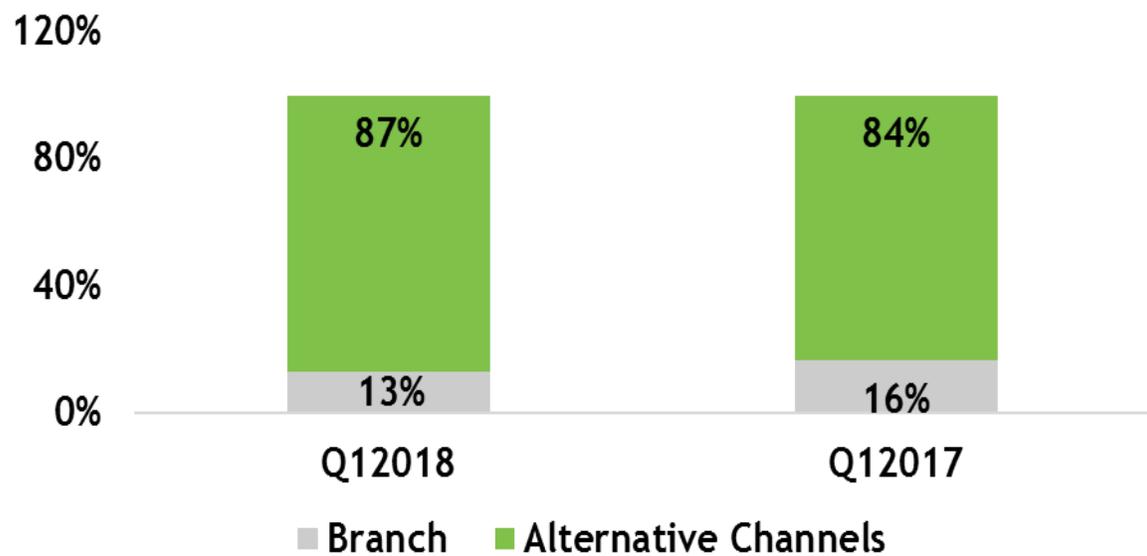
Deepening Financial Inclusion with alternative channels



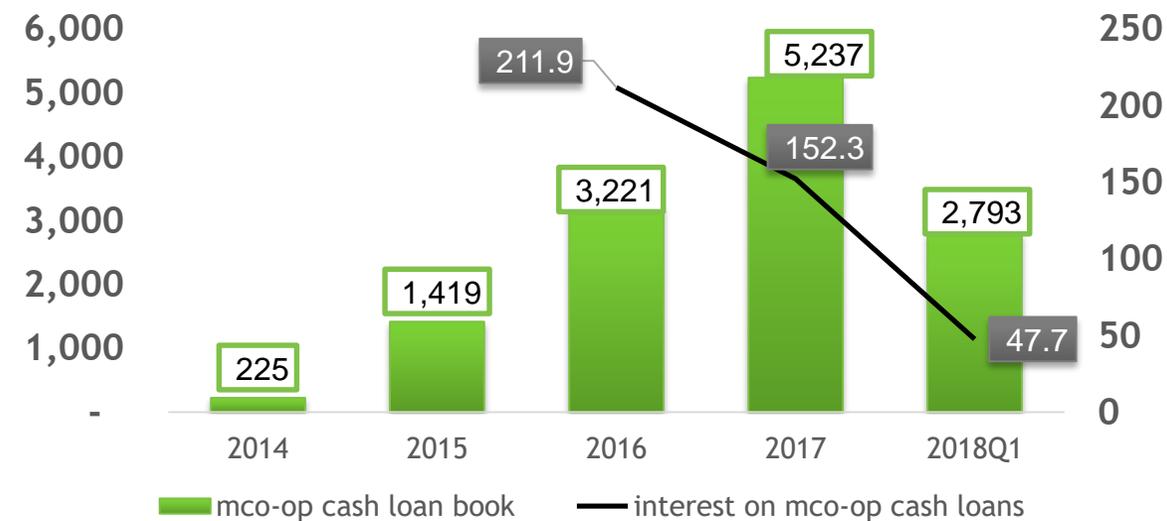
Cumulative MCo-op Cash loan Customer Numbers (In '000')



Alternative Channel Vs Branch



Mobile loans vs interest earned on mobile loans(millions)



Customer Experience and Branch Transformation

Deepening Financial Inclusion with alternative channels

- ✓ To be the dominant bank in Kenya in MSME Segment

Key Initiatives;

- ✓ Credit Scoring
- ✓ SCF- Supply Chain Financing
- ✓ CVP- Customer Value Proposition Model
- ✓ Segmentation
- ✓ Credit Process Review
- ✓ Product Offering Review
- ✓ Non Financial Service (NFS) offering

Key Achievements

- ✓ 417 Bankers trained on new MSME skills
- ✓ 100% completion of the Non-Financial Services Design
- ✓ 3.6 product holding against a target of 4 in pilot branches
- ✓ Over 200 new suppliers under the new supply chain solution
- ✓ 100% segmentation of MSME customers
- ✓ Over 2000 customers migrated to the new MSME packages with Kshs. 367 Million in new deposits
- ✓ New customer management policy for business customers

Salesforce Effectiveness (3.0.)

Corporate & Institutional Banking & Co-operatives Banking

SFE is built around customer centricity; One Relationship manager, One client, with a comprehensive account plan, multiple products with multiple visits



New Edge SFE 3.0

Focus:

- ✓ Deposit focused account planning.
- ✓ Pricing and negotiation
- ✓ Performance dialogue
- ✓ Automation of Transaction Banking solutions
- ✓ Sector Focus and Customer Value Proposition (CVP)

Key Achievements:

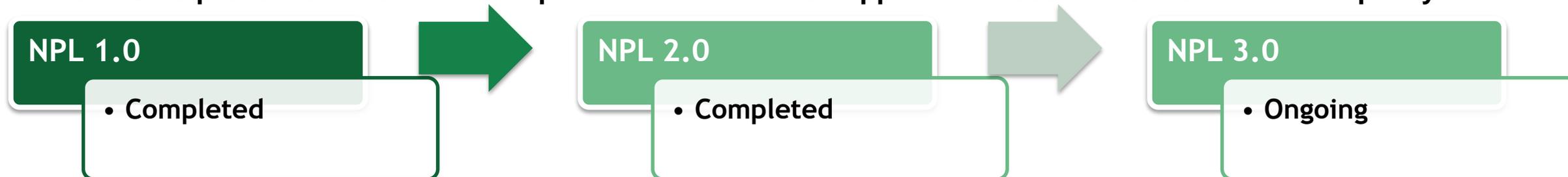
Corporate & Institutional Banking

- ✓ + 119% forex target
- ✓ + 165% Trade Finance target
- ✓ + 115% Transaction Banking target

Co-operatives Banking

- ✓ +107 deposit inflows
- ✓ +112% new client acquisition
- ✓ + 280 % NFI from Trade
- ✓ +223% NFI from Corporate Internet Banking/ Jumbolink

- ✓ To ensure proactive credit management (Pre-delinquent, 1-89 days and 90+ days Book)
- ✓ To ensure proactive review of credit processes in order to support business as well as maintain a quality book



Key Achievements

- ✓ 84% achievement of collections target
- ✓ Growth of utilization of E-collect system by 83% (YoY)
- ✓ Launch of collaborative curing/ realization of 90+ between Business departments and remedial department
- ✓ Outsourcing of collection for lower ticket Micro Credit Loans
- ✓ Launch of '*Ngarisha Jina*' campaign for longstanding NPL customers (Personal and Card)

To provide fast track technology enablers that will facilitate short term, medium term and strategic alignment to the Bank's transformation project

- ✓ FastTrack 37 ICT projects, prioritized by business segments (25 projects (71%) completed in Q12018)

Digital Transformation: Achievements

Omni-channel Banking

- ✓ Setup of omni-channel sandbox (at 'The Hive' digital hub) to FastTrack implementation of the omnichannel system

Innovative & Wow Customer Experience

- ✓ **Enovate** innovation platform to manage innovations in the Bank
- ✓ Airtime purchase short code *667* Amount # (airtime purchase has increased by 28%)
- ✓ Setup of customer experience sandbox

Automation

- ✓ Enterprise Resource Planning (ERP) system in use across the Bank

Deep Customer Knowledge

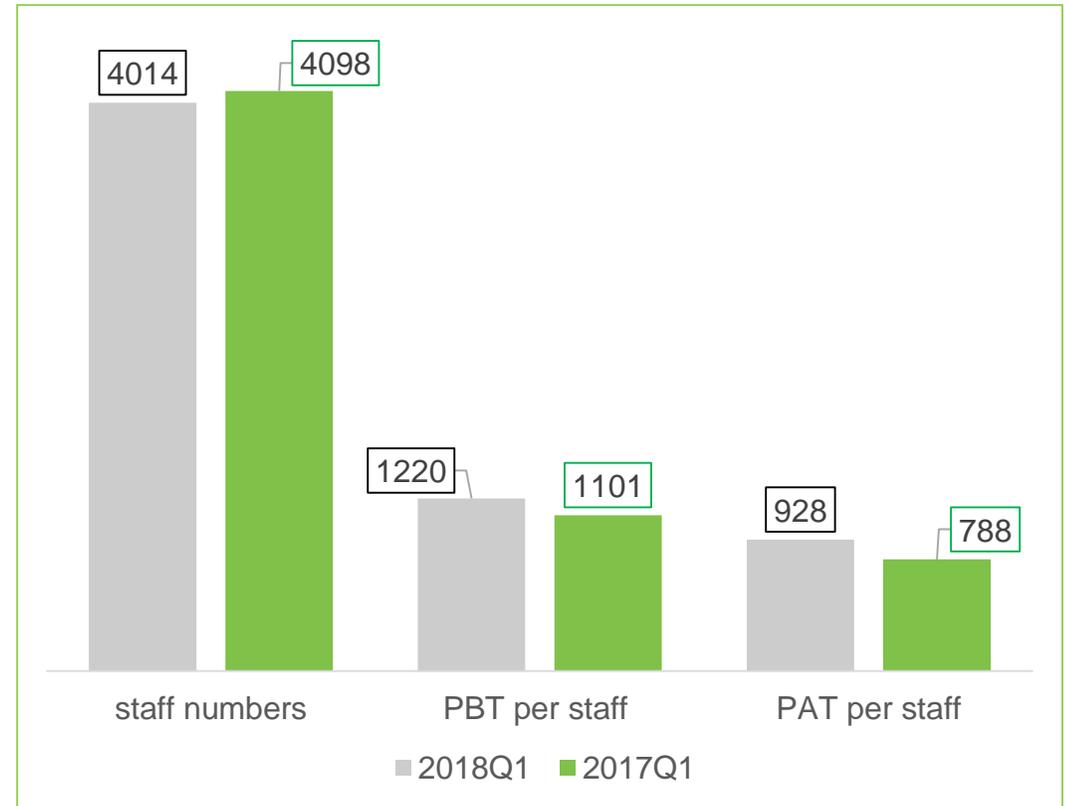
- ✓ Leveraging data analytics to enhance decisioning;
 - ✓ Credit scoring (Business Plus and Mobile Loans)
 - ✓ Lead generation in retail campaigns
 - ✓ Automation of performance management reports
 - ✓ Data enrichment through data governance

Achieving the Best with our People.

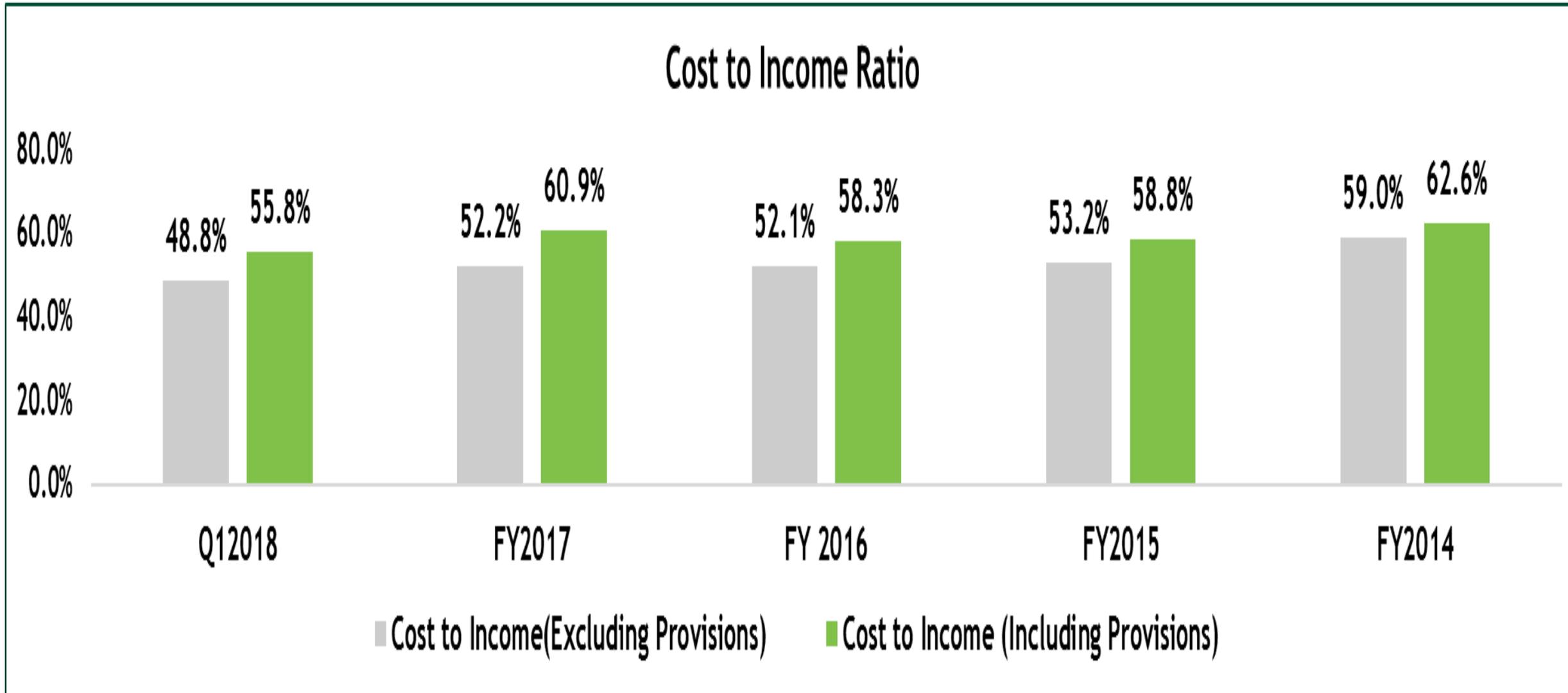
KEY DRIVERS

- ✓ High Performance Management culture
- ✓ Optimal resourcing & mobility
- ✓ High-impact leadership culture
- ✓ Achieve coaching & learning excellence
- ✓ Talent Management strategies
- ✓ Proactive Retention of our best people
- ✓ Strong Employer Branding & EVP
- ✓ Inspired Employee Experience journeys
- ✓ Differentiated rewards management
- ✓ Proactive cost rationalization
- ✓ Digital HR & data driven HR decisions
- ✓ Co-op Culture Re-alignment , Employee Engagement & Rewards

KEY ACHIEVEMENTS



Staff productivity grew from 18% to 19% YoY



LONG TERM FUNDING (Kshs. Million)

DEVELOPMENT PARTNER	Q12018	Q12017	PURPOSE
IFAD	30	30	To finance the Eastern Province Horticultural and Traditional Food crops project
EUROPEAN INVESTMENT BANK	1,087	2,171	To fund SMEs
AFD	3,508	4,022	To fund energy efficient and renewable energy projects
INTERNATIONAL FINANCE CORPORATION(IFC)	12,789	14,674	To fund SME's and agribusiness, construction and mortgage segments
D.E.G -(K.F.W)	3,240	4,304	To finance SME and Corporate customers
TOTAL	20,654	25,202	

NB: The bank has secured a US\$150 Million 7-year senior loan from the International Finance Corporation (IFC). The funds are aimed to help strengthen the bank's long-term funding position and enable it to expand its lending operations especially to micro small and medium enterprises.





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



KENYA BANKERS
ASSOCIATION

KENYA BANKERS ASSOCIATION: CATALYST AWARDS 2017 Overall Winner

- 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



Recognition for being **Socially Devoted**
By Social bakers
(a social media marketing platform)



**CONSULTANCY &
INSURANCE AGENCY LTD**

- ✓ Capacity building for Cooperative Societies.
- ✓ Over 2,400 consultancy and advisory mandates carried out from inception
- ✓ 560 FOSA's to serve Sacco customers.
- ✓ FOSAs have further entrenched our financial deepening model
- ✓ 20 dedicated consultants



- ✓ Our social investment program vehicle
- ✓ Providing Education Scholarships for bright but needy students
- ✓ The foundation is fully funded by the bank
- ✓ Since inception of program in 2007 to date 6341 students have been sponsored
- ✓ The bank awards scholarships per county and the rest are determined by the bank's regional Sacco delegates.



- ✓ Financing the SME and MCU sector
- ✓ Sustainable financing towards Vision 2030 and MDGs
- ✓ Staff CSR Involvement
- ✓ Corporate Social Responsibility: First Lady's Beyond Zero Campaign, Kenyatta National Hospital- Children Cancer Ward, Kenya Defense Forces games sponsorship, Kenya Diabetes Management and Information Centre, Kenya Psychological Association, National Police Service Athletics Bible Translation and Literacy Marathon, Wildlife Direct - Hands off our elephants





SOUTH SUDAN

- ✓ Currently operating 4 branches in Juba and 5 Non-oil collection centers. Owns 31% of CIC Africa Ltd- South Sudan
- ✓ The subsidiary, which has been operating in a hyperinflationary environment, made a PBT of Kshs.32.4 Million in Q12018 compared to a loss of Kshs. 34.7 Million in Q12017.
- ✓ We have put in place proactive strategies to continue offering financial inclusion while considering the most optimal risk uptake

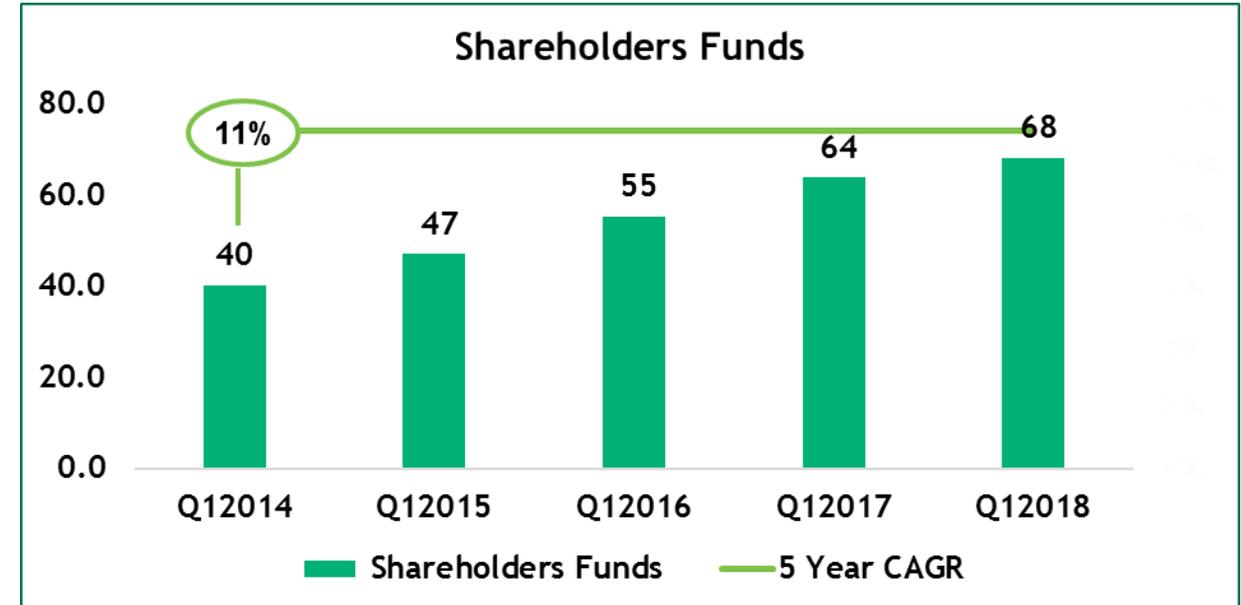
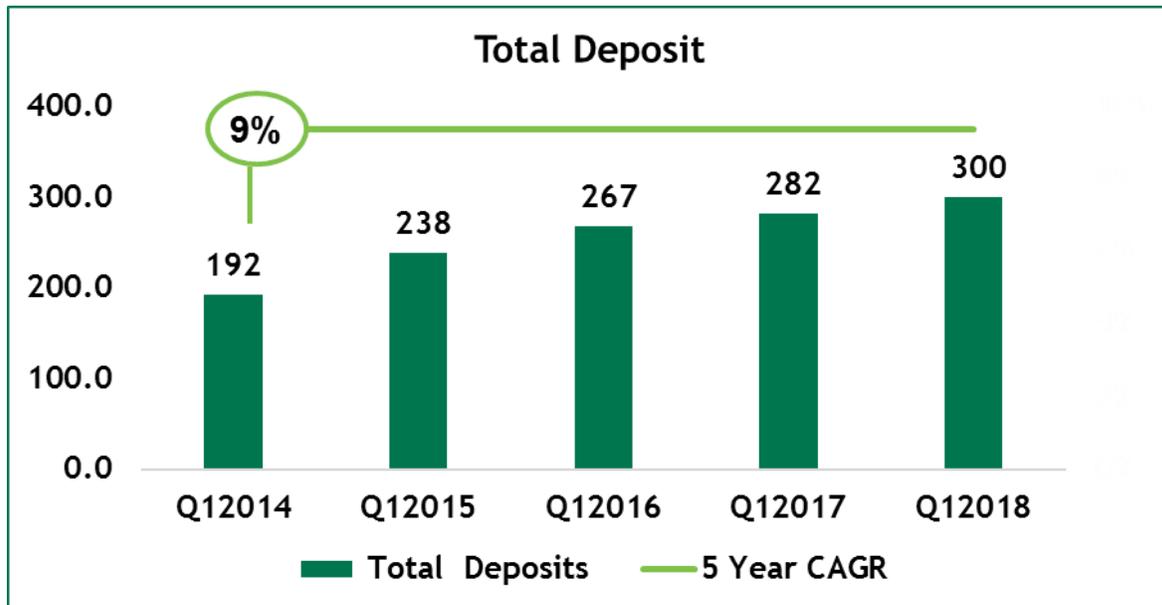
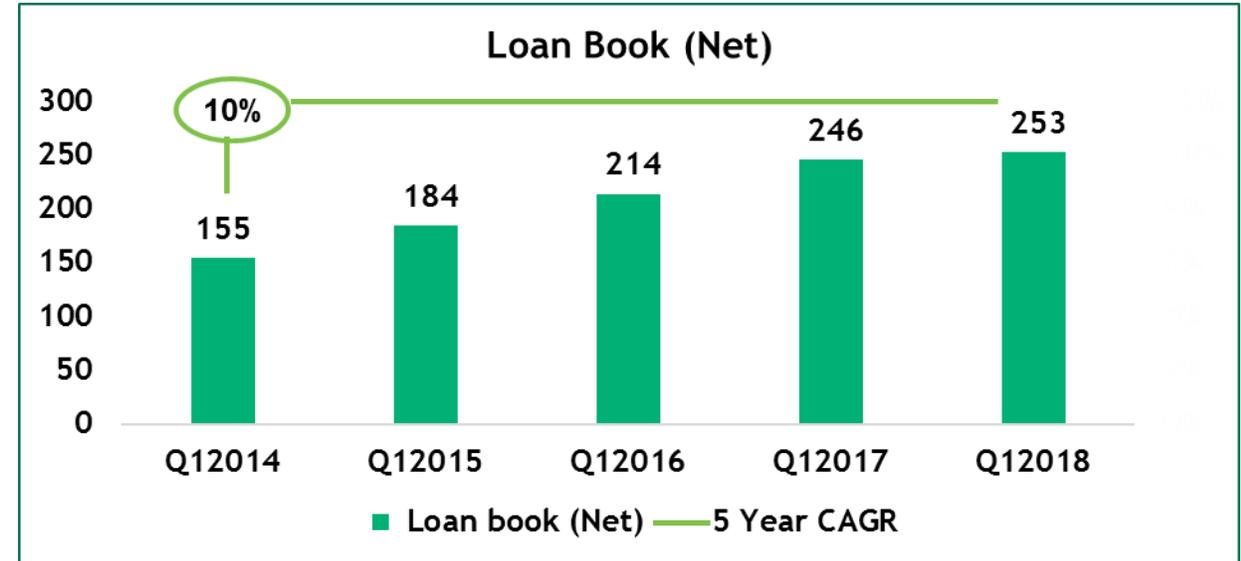
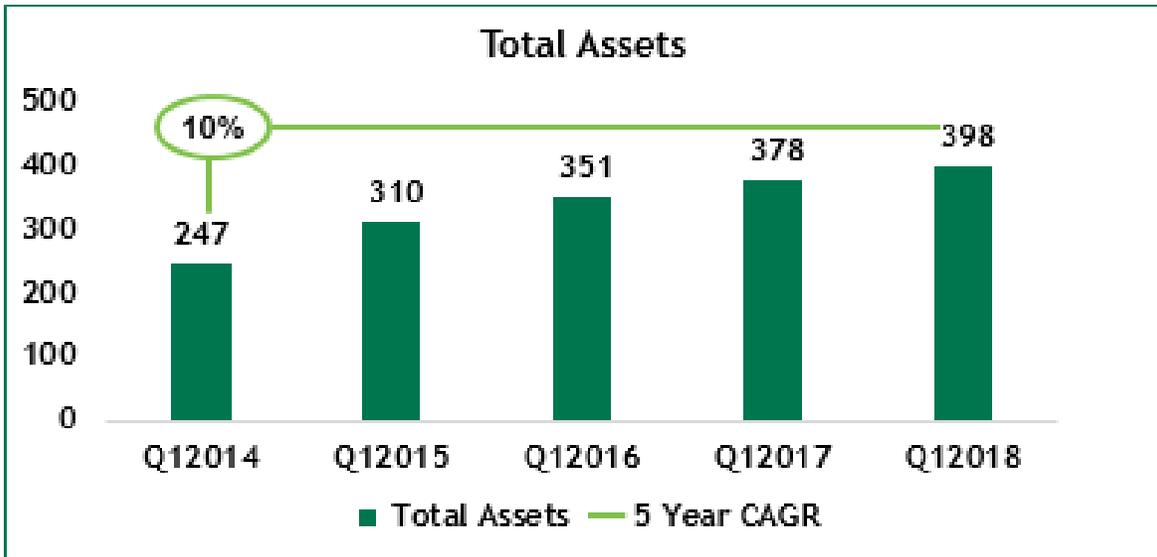
Key Financial Highlights



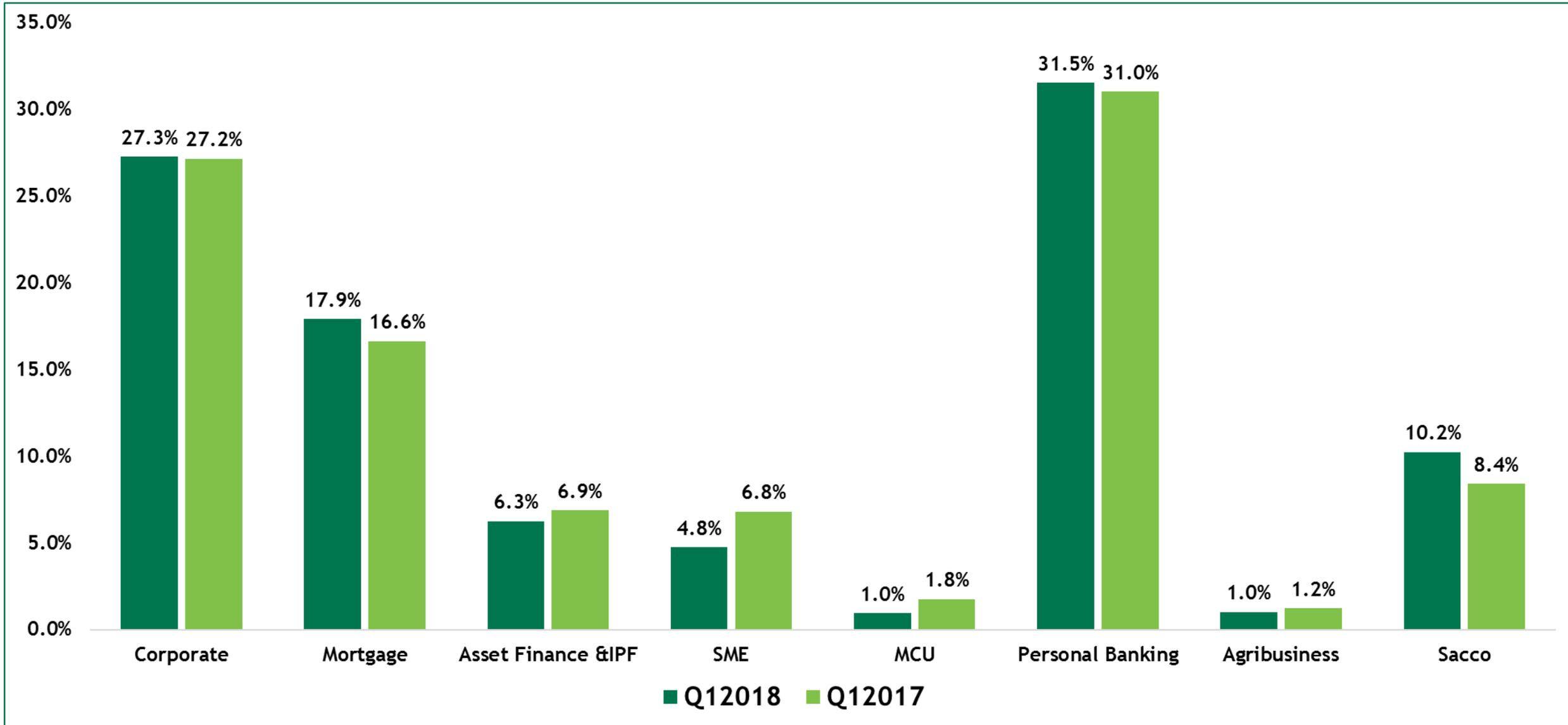
A Soaring Bank

Kshs. Billions	Q12018	Q12017	% Change (YoY)		FY2017
Total Assets	397.8	378.5	5.1%	↑	386.9
Loan book (Net)	252.8	245.9	2.8%	↑	253.9
Government Securities	75.0	60.5	23.8%	↑	69.2
Total Deposits	299.9	281.6	6.5%	↑	287.7
Borrowed Funds	20.7	24.3	-14.9%	↓	21.2
Shareholders Funds	67.9	63.8	6.9%	↑	69.6
No. of account holders (Millions)	7.2	6.4	12.5%	↑	7.1

A Soaring Bank (Kshs. Billion)

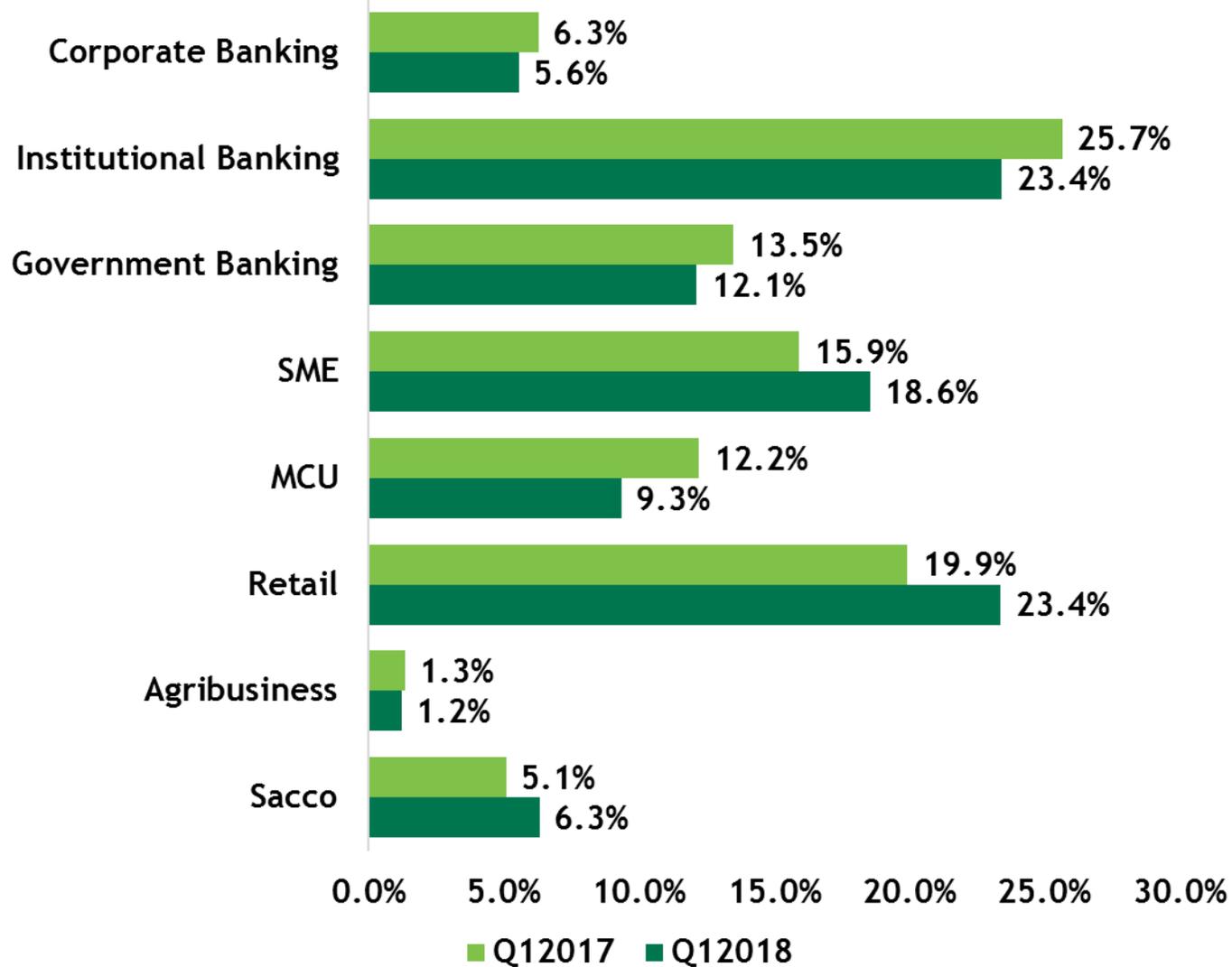


A Soaring Bank - Loan Distribution

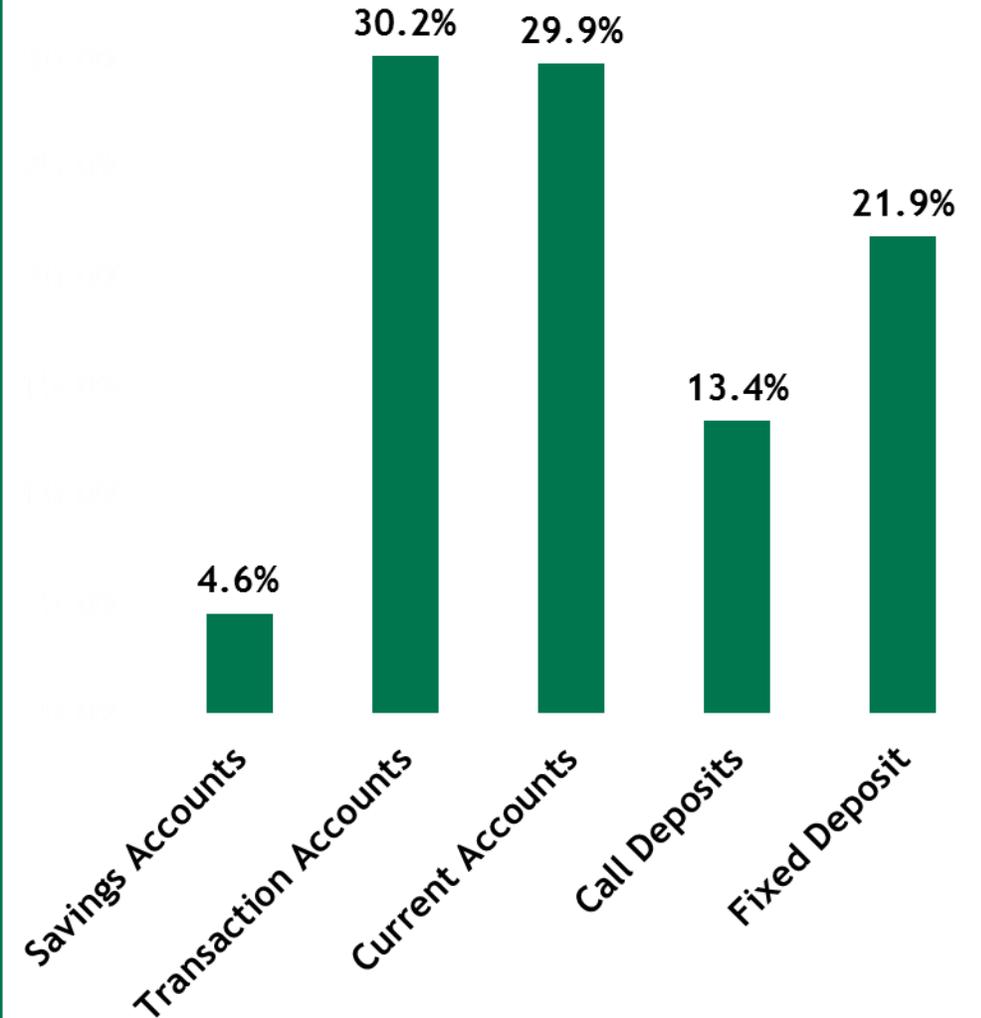


A Well-diversified Liability Portfolio

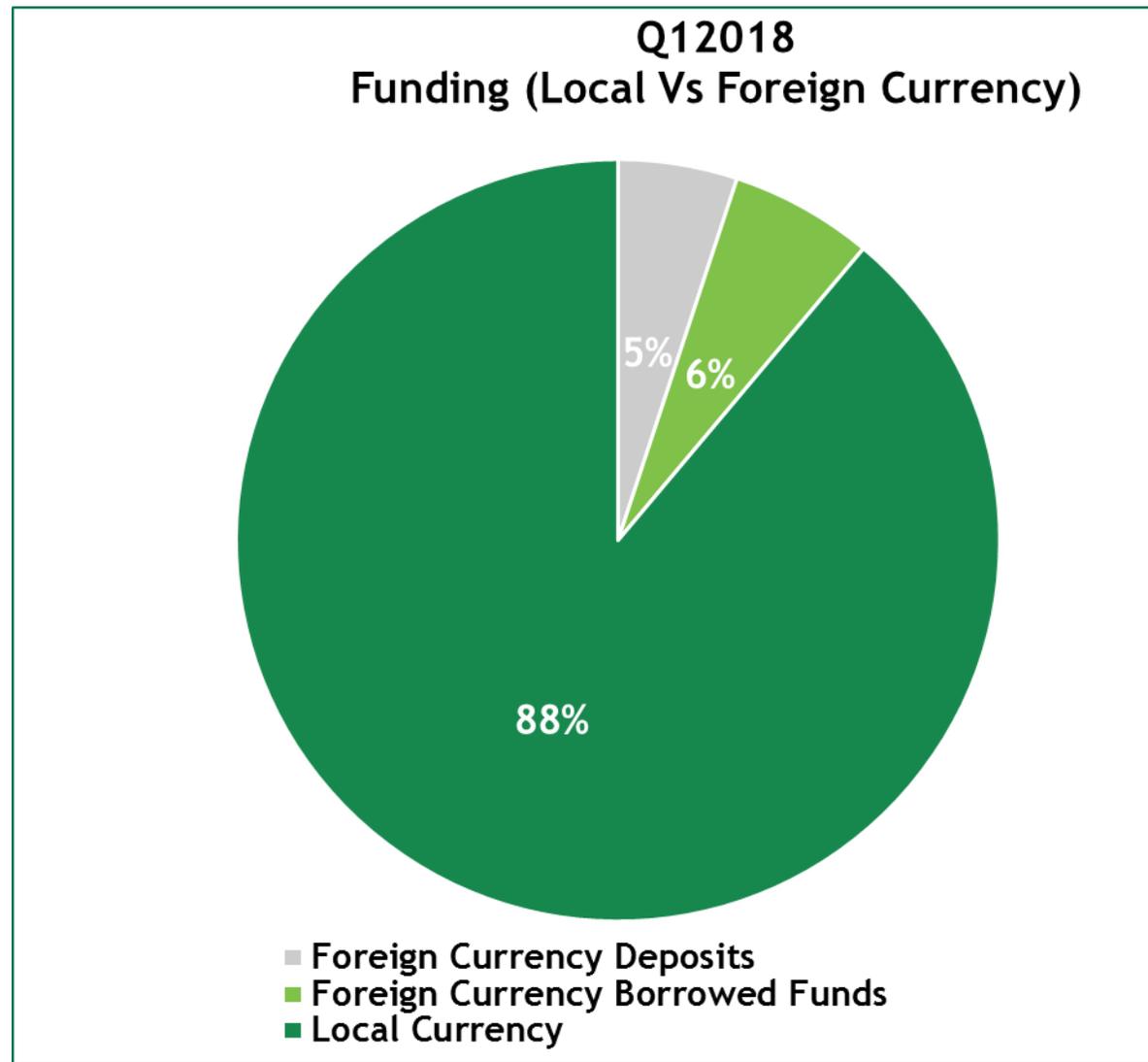
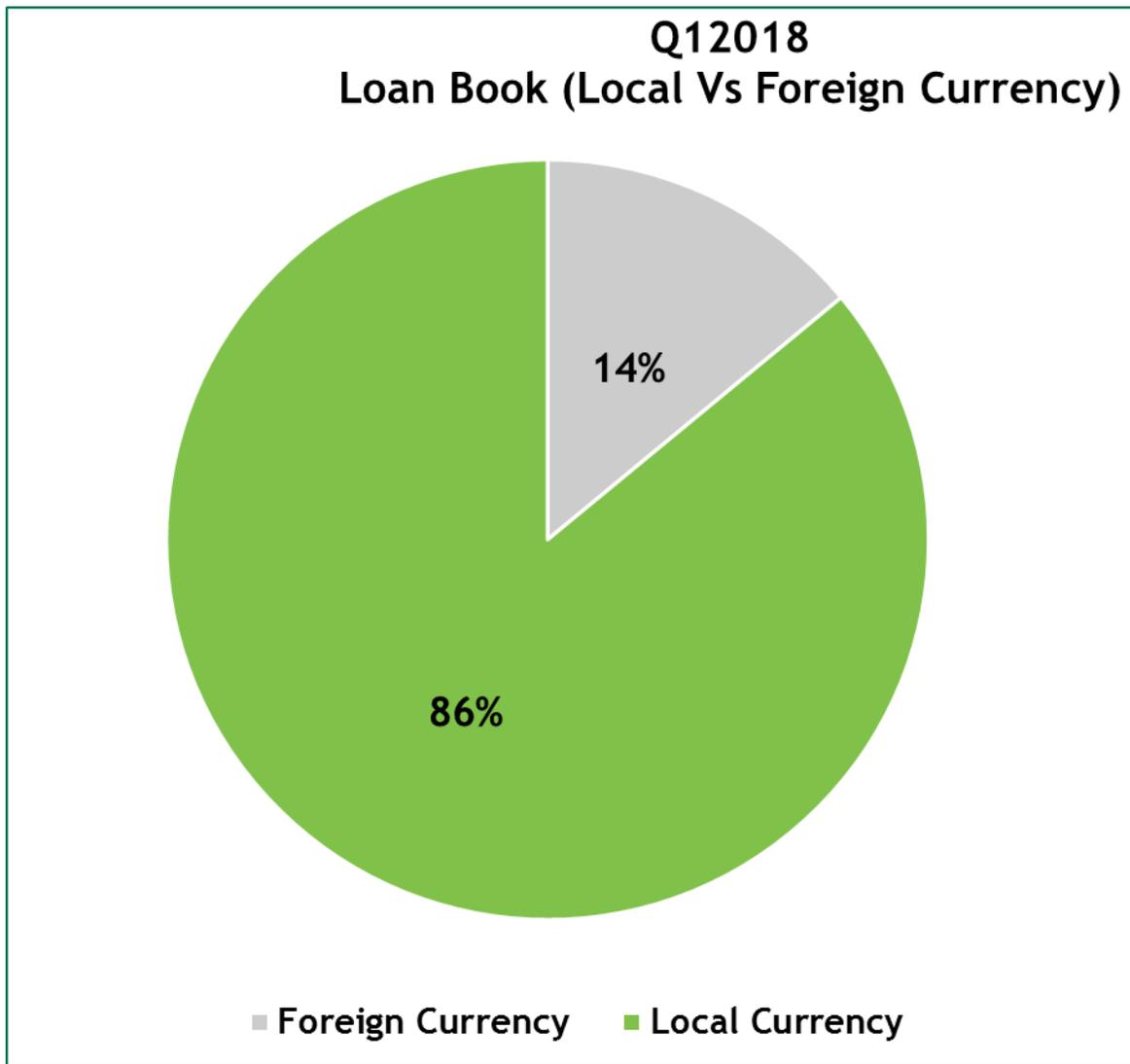
Deposit Distribution- Q12018



Deposit Type- Q12018



Lending & Funding balances by Currency



✓ Optimally balanced Kenya Shilling Loan book and Funding

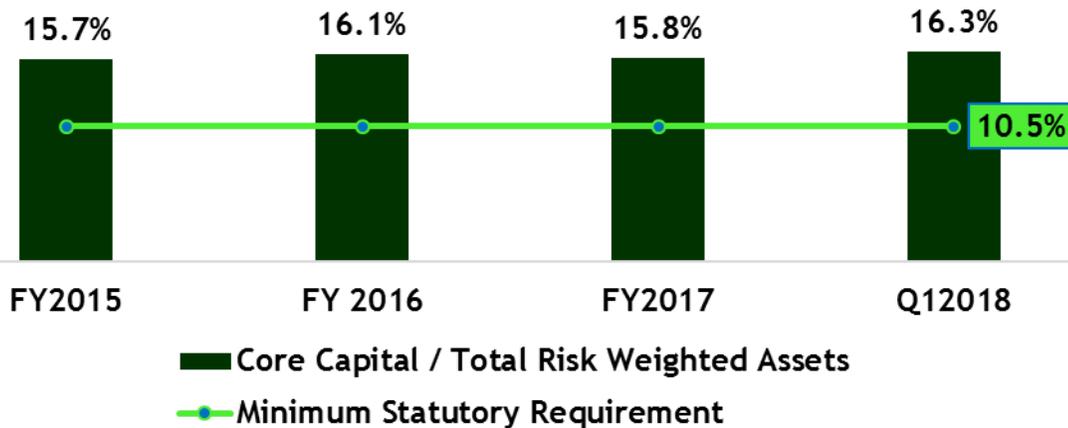
Portfolio Trends (Ksh. Millions)

	Q12018	%	Q12017	%	FY2017	%
Normal	208,847	78.4%	208,056	82.2%	209,393	79.8%
Watch	29,274	11.0%	33,886	13.4%	34,446	13.1%
Substandard	15,043	5.6%	7,621	3.0%	9,934	3.8%
Doubtful	12,716	4.8%	2,974	1.2%	8,273	3.2%
Loss	558	0.2%	640	0.3%	506	0.2%
TOTAL	266,438	100.0%	253,177	100.0%	262,553	100.0%

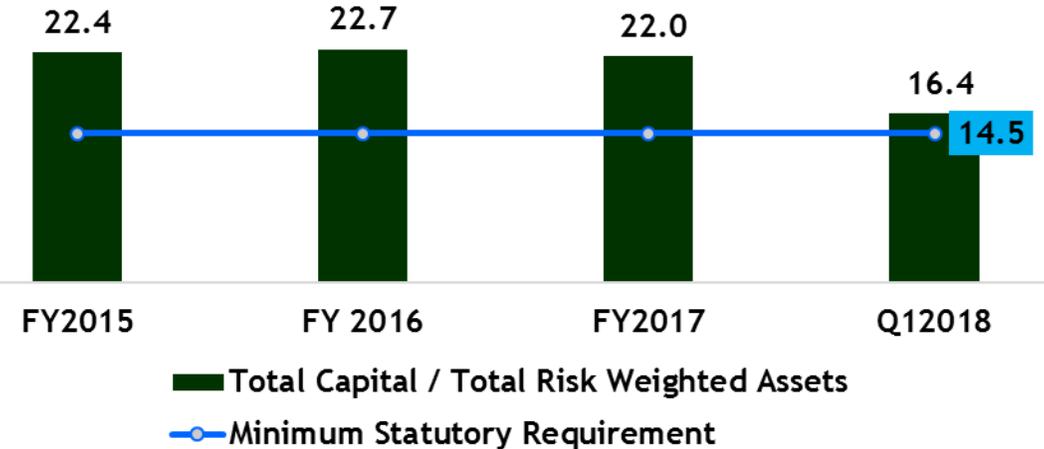
Capital adequacy

	Q12018	Q12017	FY2017
Core Capital / Total Deposits (8%)	19.5%	19.8%	20.0%
Core Capital / Total Risk weighted Assets (10.5%)	16.3%	17.0%	15.8%
Total Capital / Total Risk Weighted Asset (14.5%)	16.4%	24.8%	22.0%
Coverage (Loan loss prov+int in sus /Gross NPL) -IFRS	28.7%	34.3%	34.3%
Coverage(Loss loan+int in sus+gen prov)/Gross NPL- CBK	52.6%	67.5%	52.0%
Liquidity (20%)	38.4%	37.6%	33.5%
NPL / Total Loans	10.9%	4.2%	7.0%
Loans to Deposits	84.3%	87.3%	88.2%
Loans to Deposits & Borrowed Fund	78.9%	80.4%	82.2%

Core Capital / Total Risk Weighted Assets



Total Capital / Total Risk Weighted Assets(%)

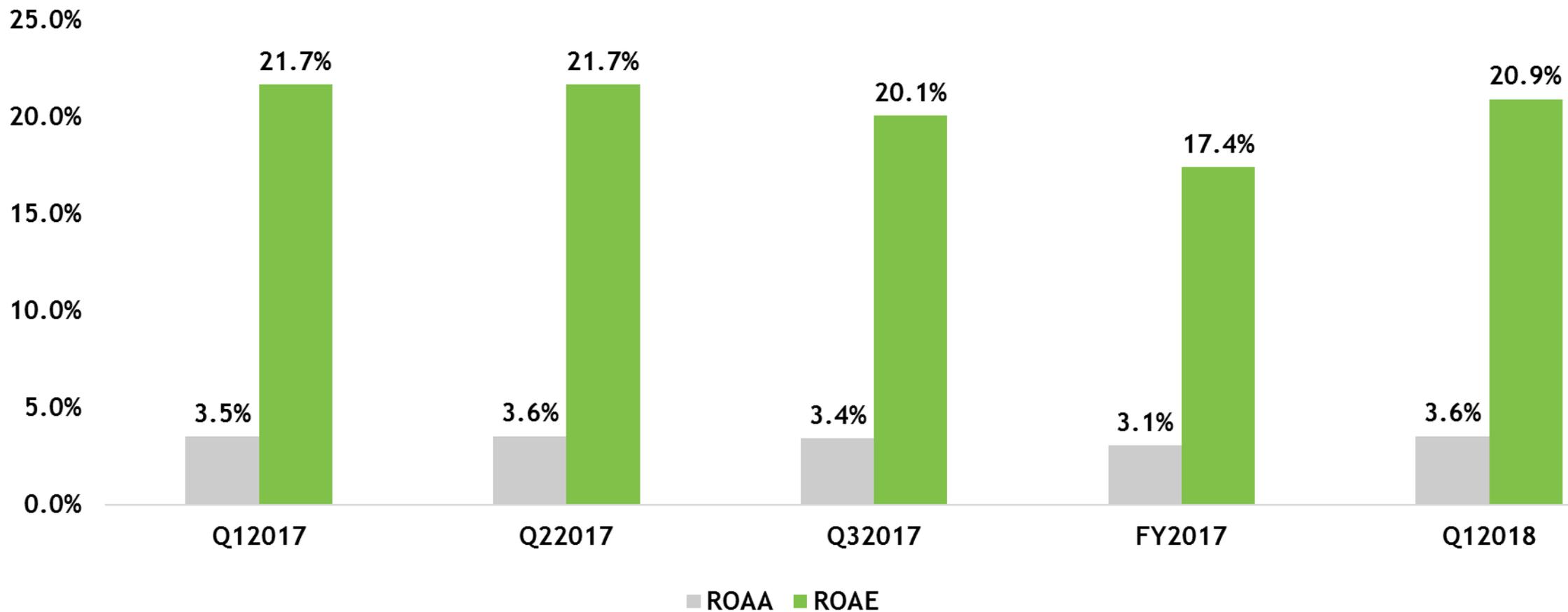


Profitability

Kshs. Billions (except for EPS)	Q12018	Q12017	% Change (Y/Y)		FY2017
Interest Income	10.4	9.5	9.1%	↑	40.4
Interest Expense	3.0	2.8	5.0%	↑	12.3
Net Interest Income	7.4	6.7	10.8%	↑	28.1
Fees & Commissions	2.6	2.6	-0.5%	↓	9.8
Forex Income	0.8	0.6	34.4%	↑	2.2
Other Income	0.2	0.3	-20.5%	↓	1.4
Total Operating Income	10.9	10.1	8.4%	↑	41.6
Loan Loss Provision	0.8	0.8	1.7%	↑	3.6
Staff Costs	2.6	2.3	13.1%	↑	10.1
Other Operating Expenses	2.7	2.5	8.2%	↑	11.6
Profit Before Tax and Exceptional Items	4.8	4.5	7.3%	↑	16.3
Share of profit of associate	0.1	0.0	514.2%	↑	0.13
Profit Before Tax	4.9	4.5	8.6%	↑	16.4
Tax	1.4	1.3	13.1%	↑	4.99
Profit After Tax	3.4	3.2	6.8%	↑	11.4
Basic Annualized EPS	2.35	2.2	6.8%	↑	1.94

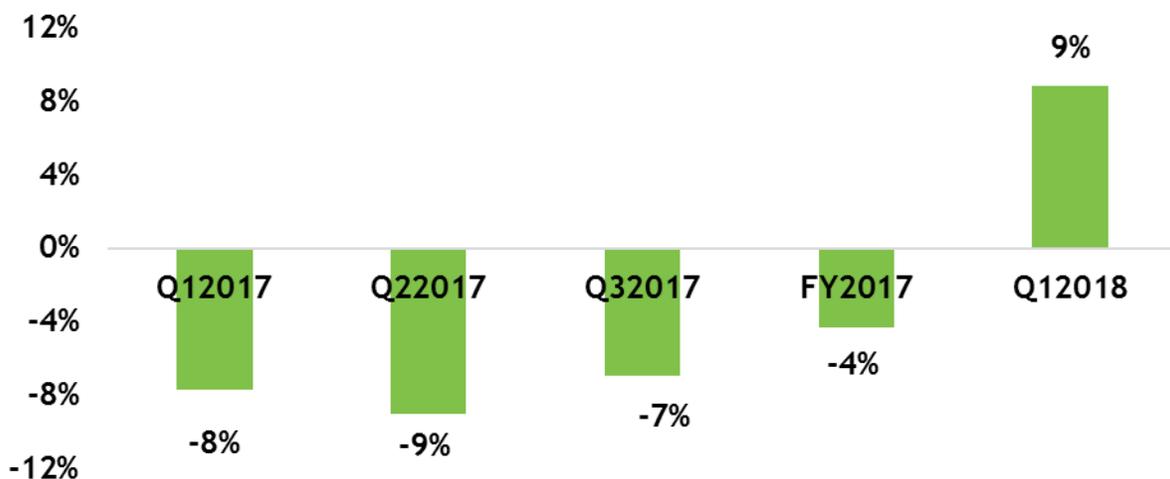
Return on Asset and Equity

Return on Average Assets (ROAA)
Return on Average Equity (ROAE)

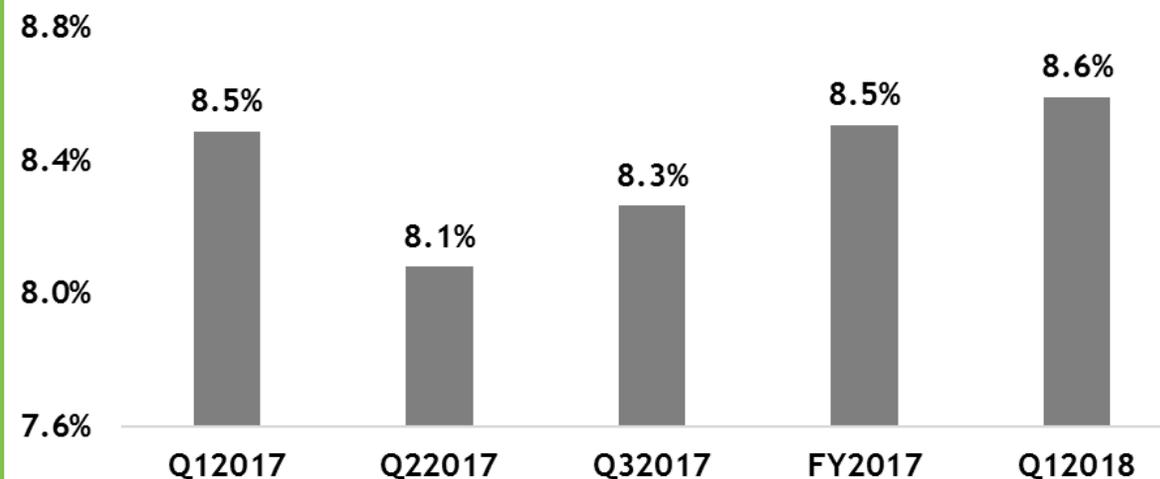


Stable Returns on Assets post interest rates cap

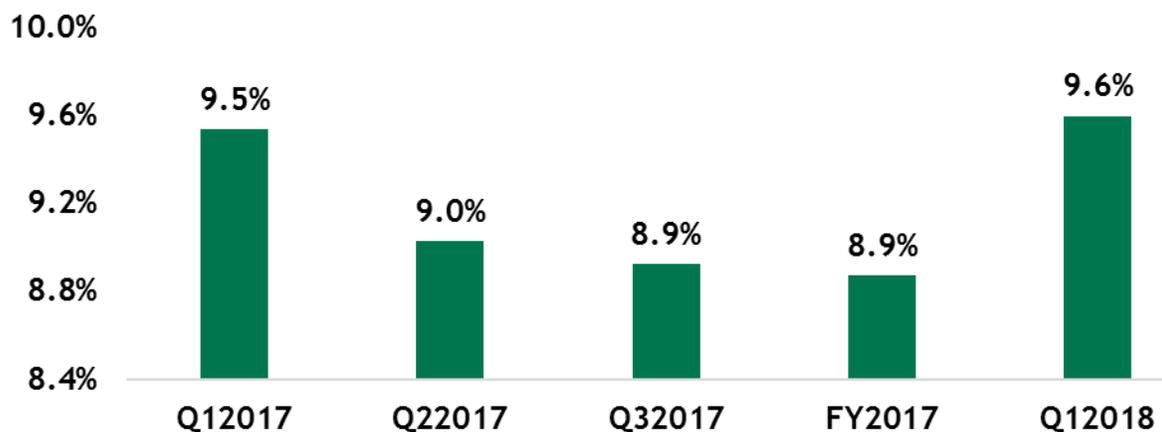
Loan Interest growth(yoy)



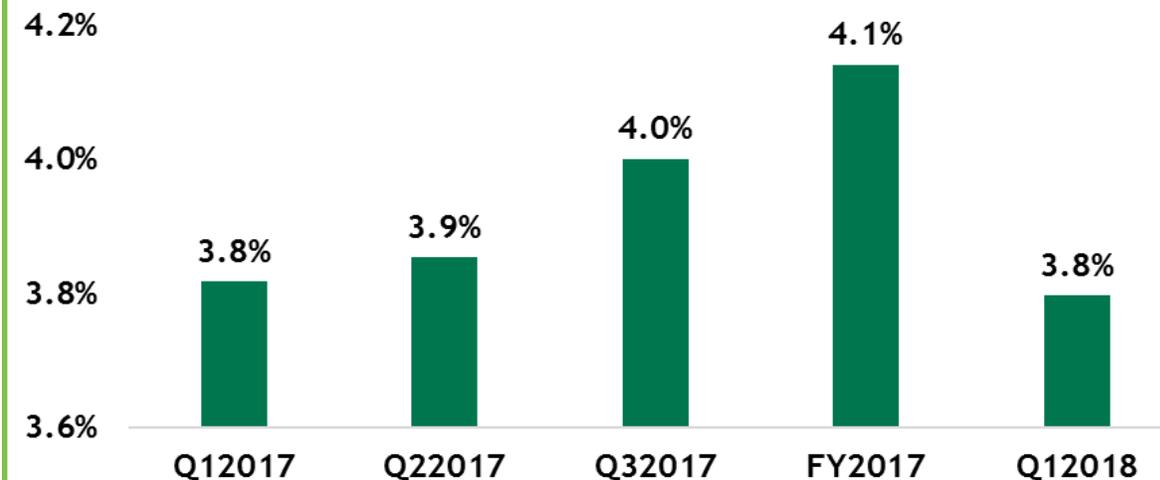
Yield on earning assets



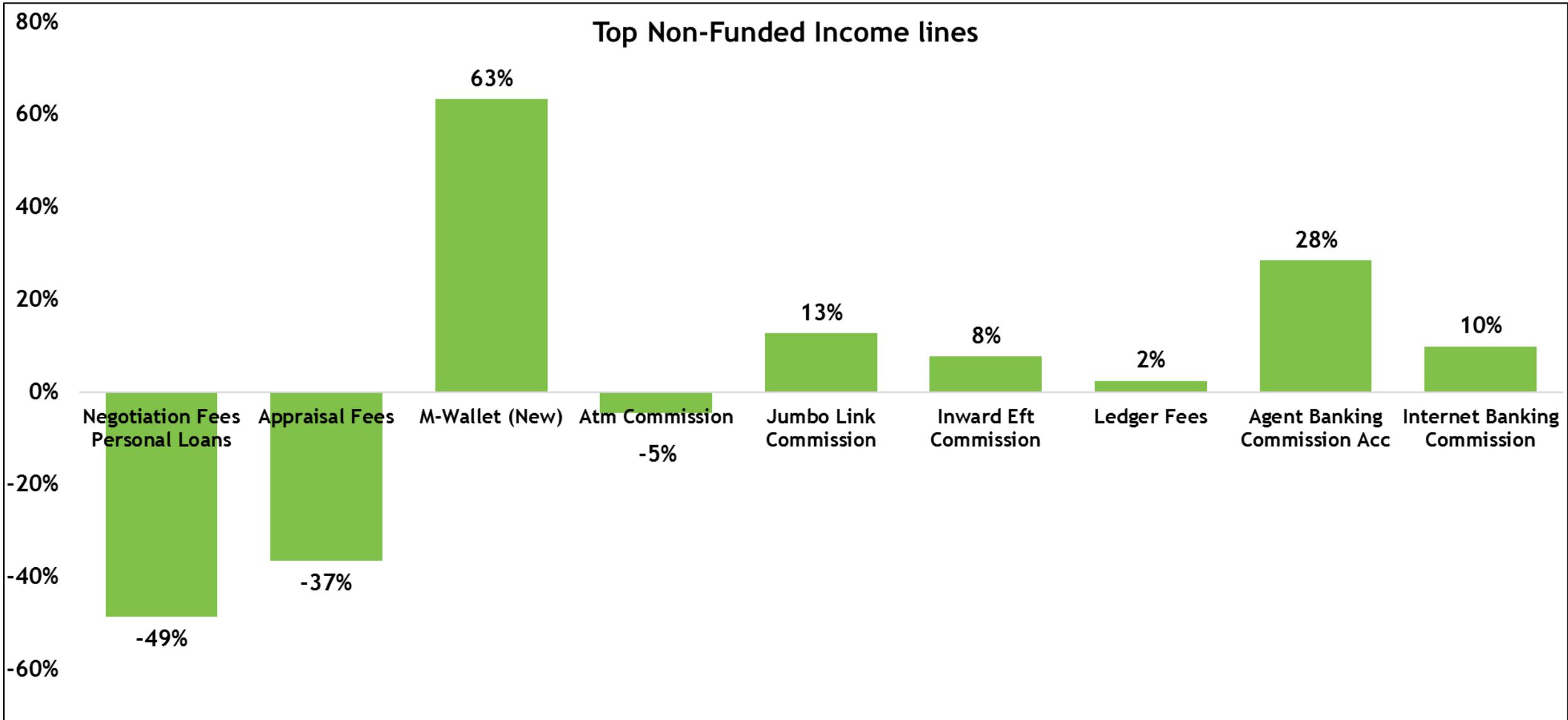
Net Interest Margin (NIM)



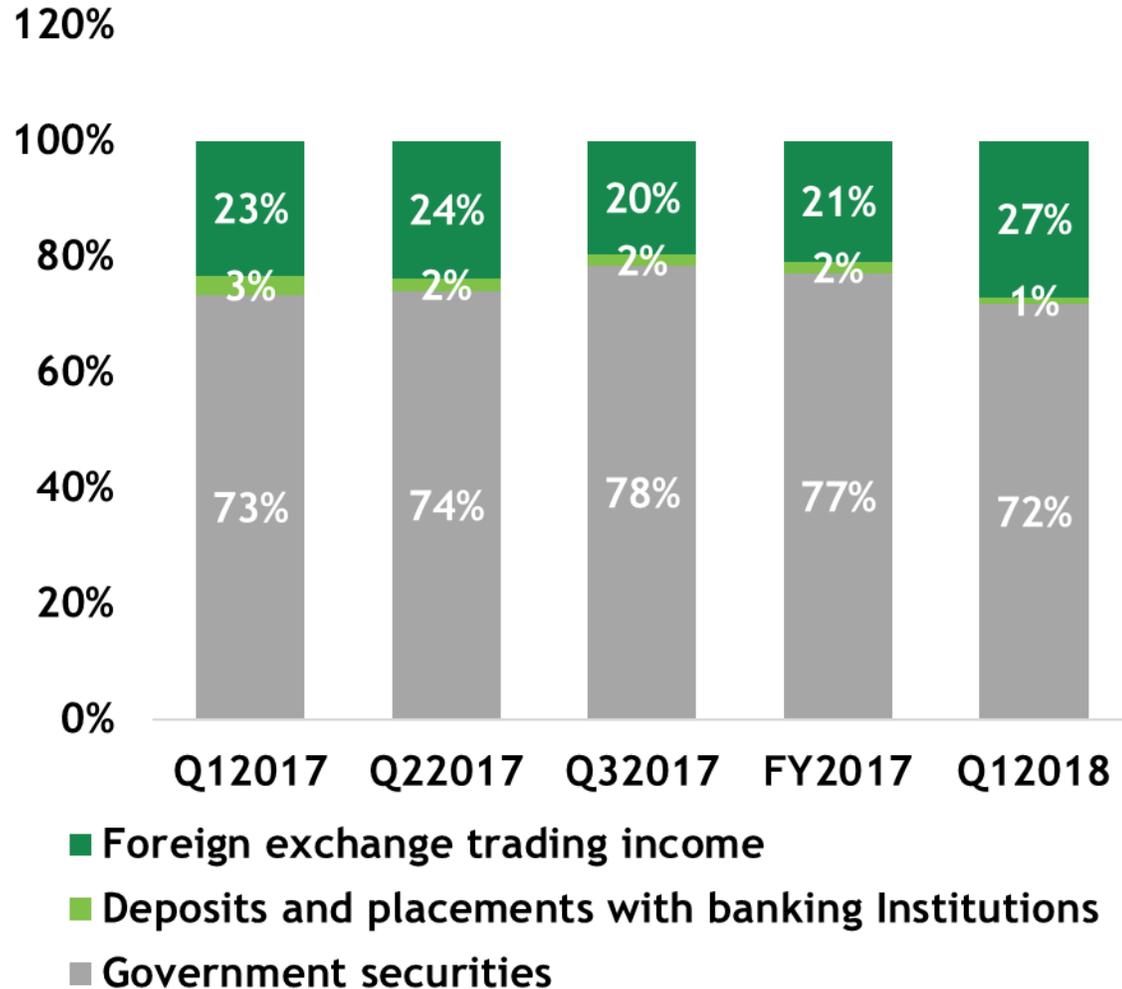
Cost of Funds



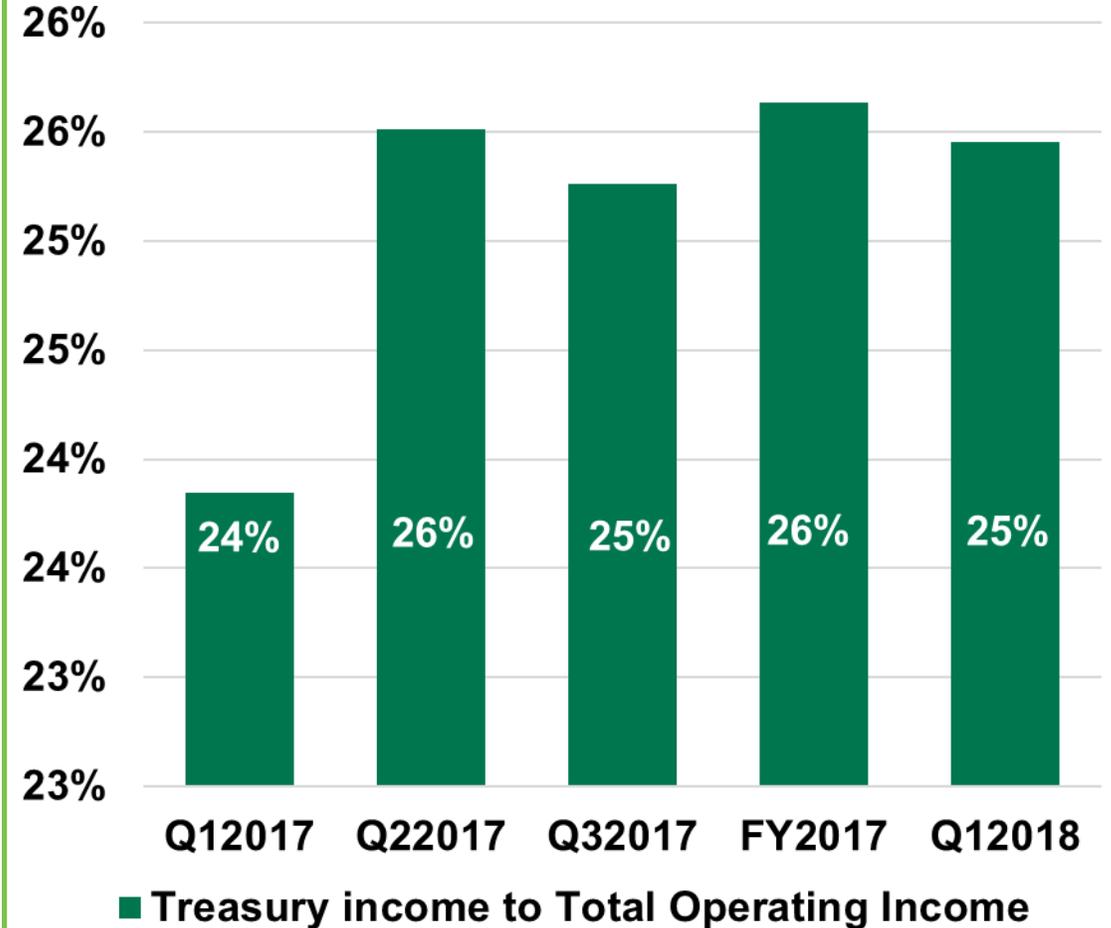
Top Non- Funded Income



Treasury Income Mix

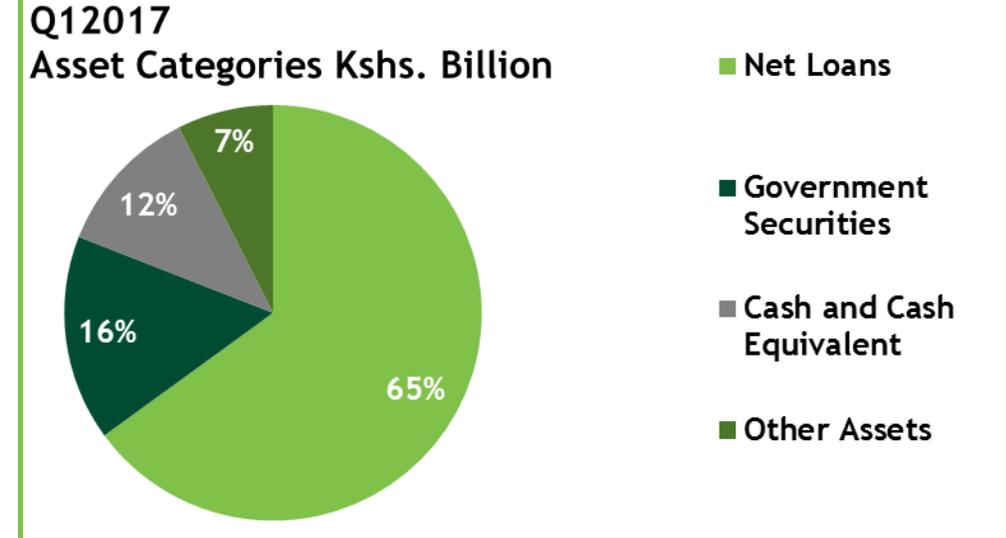
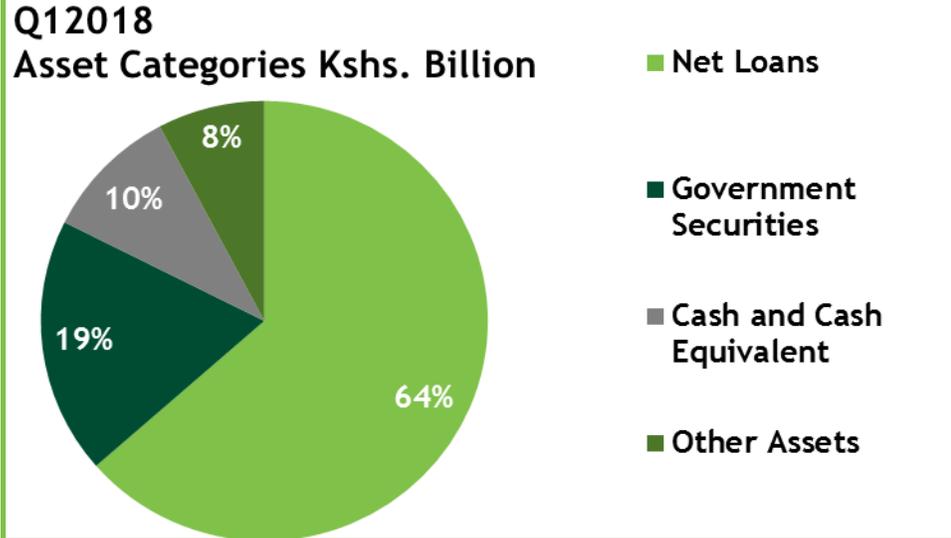


Treasury income to Total Operating Income

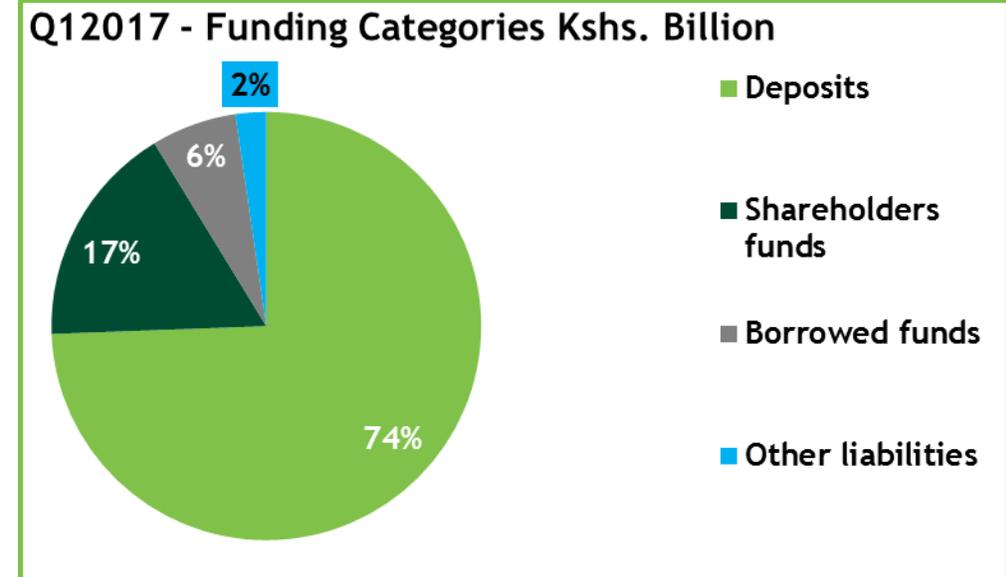
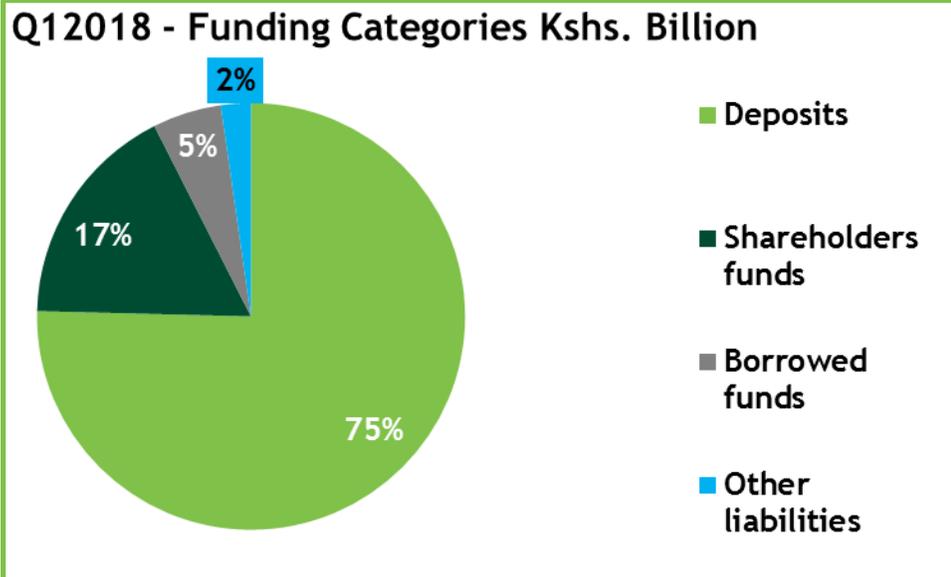


Balance Funding

Asset Categories



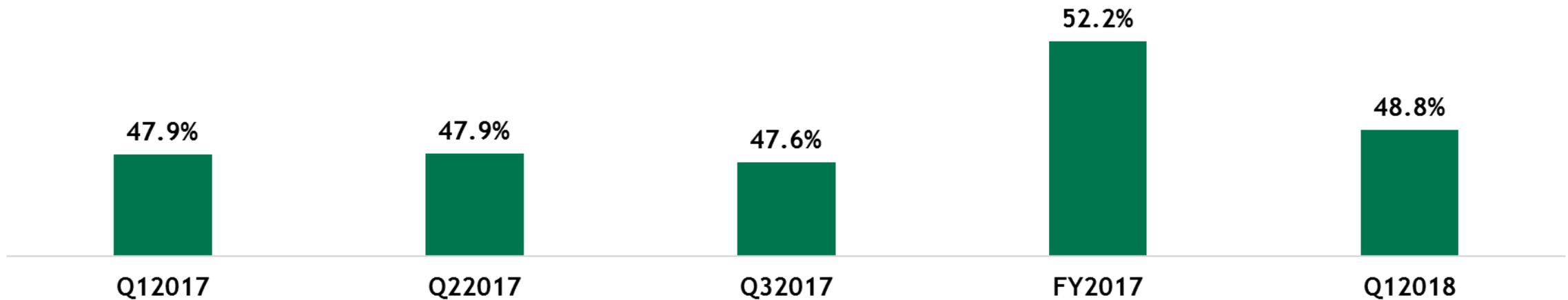
Funding Categories



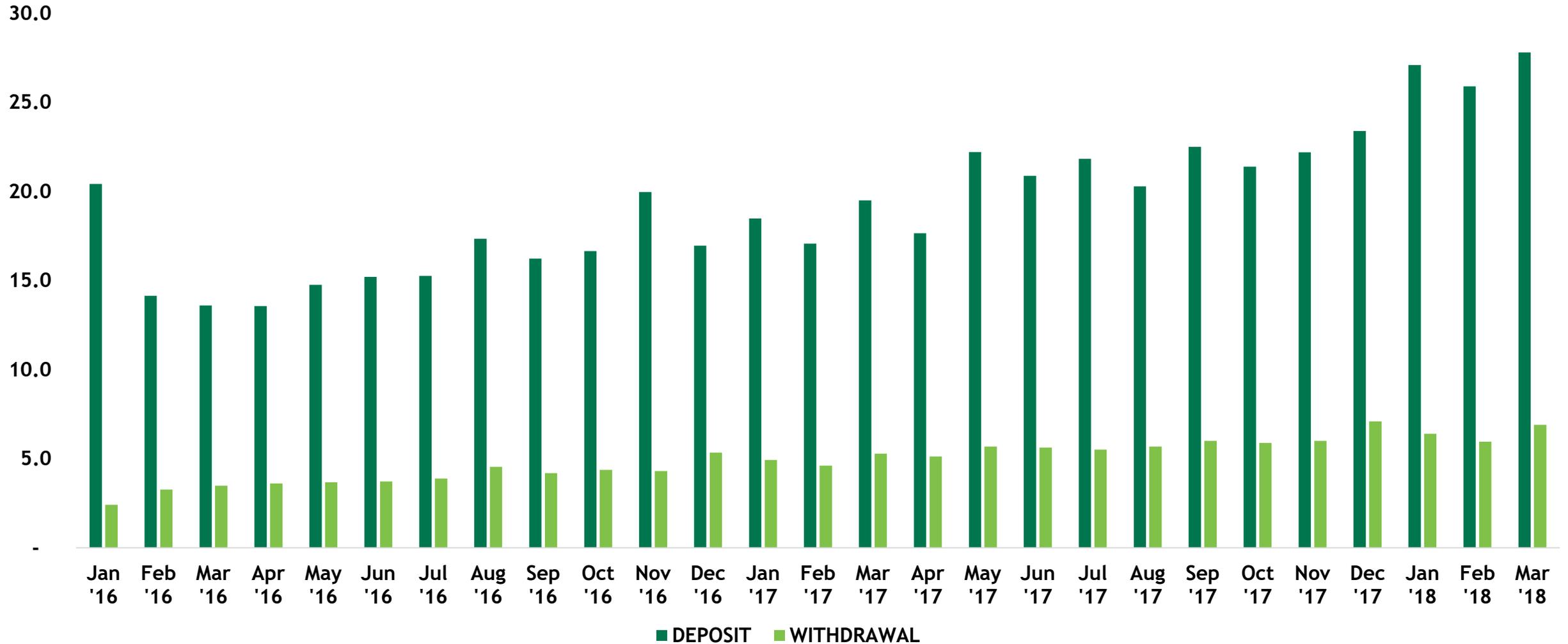
Liquidity trend



Cost to Income Ratio (CIR) without provisions



Agency Banking (Kshs. Billion)



COMPANY	Profit Before Tax Q12018	Profit Before Tax Q12017	%
	KShs'000	KShs'000	
The Co-operative Bank of Kenya Limited	4,626,912	4,398,793	5.2%
Co-op Consultancy & Ins Agency Limited	164,905	137,119	20.3%
Co-op trust Investments Limited	8,153	4,766	71.1%
Kingdom Securities Limited	-5,234	(7,450)	-29.8%
Co-operative Bank of South Sudan	32,436	(34,689)	193.5%
Total PBT before eliminations	4,827,172	4,498,538	7.3%
Add: Share of profit from associates	70,949	11,552	514.2%
Group profit before tax	4,898,121	4,510,091	8.6%
Income tax expense	1,449,855	1,282,237	13.1%
Group profit after tax	3,448,266	3,227,854	6.8%

Key Profit & Loss Ratios

	Q12018	Q12017	FY2017
Cost to Income(Excluding Provisions)	48.8%	47.9%	52.2%
Cost to Income (Including Provisions)	55.8%	55.3%	60.7%
Cost of funds	3.8%	3.8%	4.1%
Debt to Equity	30.4%	38.0%	30.3%
Average Return on Equity	20.9%	21.7%	17.5%
Average Return on assets	3.6%	3.5%	3.1%
FX to Non Funded income	21.4%	16.5%	16.5%
Non - Funded to Total Income	32.2%	33.6%	32.4%
Net Interest Margin(loans)	9.6%	9.5%	8.9%
Net Interest Margin(Earning Assets)	8.6%	8.5%	8.5%
Effective Corporate Tax Rate	29.6%	28.4%	30.9%

2018 Financial Outlook

	<u>Actual</u> Q12018	<u>Projections</u> FY 2018
Profit Before Tax Growth	8.6%	15%
Loans & Advances Growth	2.8%	10%
Deposits Growth	6.5%	15%
Cost to Income Ratio	48.8%	48%
Non Funded to Total Income	32.2%	35%
Return On Average Equity (ROAE)	20.9%	22%
Return On Average Assets (ROAA)	3.6%	3.8%
Non Performing Loans (NPL)	10.9%	8%
Cost of average funds	3.8%	4%
Net Interest Margin on Loans (NIM)	9.6%	9%
Cost of risk	1.2%	1.4%

Co-operative Bank will continue to show resilience in the Balance sheet and profitability growth.

The political environment has stabilized and is expected to have a positive impact on the economic environment. The Bank is well positioned to take the opportunities that will arise as the Government continues to carry out Vision 2030 projects in infrastructure, ICT, Energy Generation etc.

The Bank supports fully the policy direction shown by the Government to remove interest rates capping; its long overdue.

We will leverage on our strong balance sheet, a cost effective operating structure anchored on the ongoing 'Soaring Eagle' Transformation project and a highly motivated team.

Thank You



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