



CO-OPERATIVE BANK OF KENYA LTD

GROUP FINANCIAL RESULTS ANALYST BRIEFING

Q3 2018

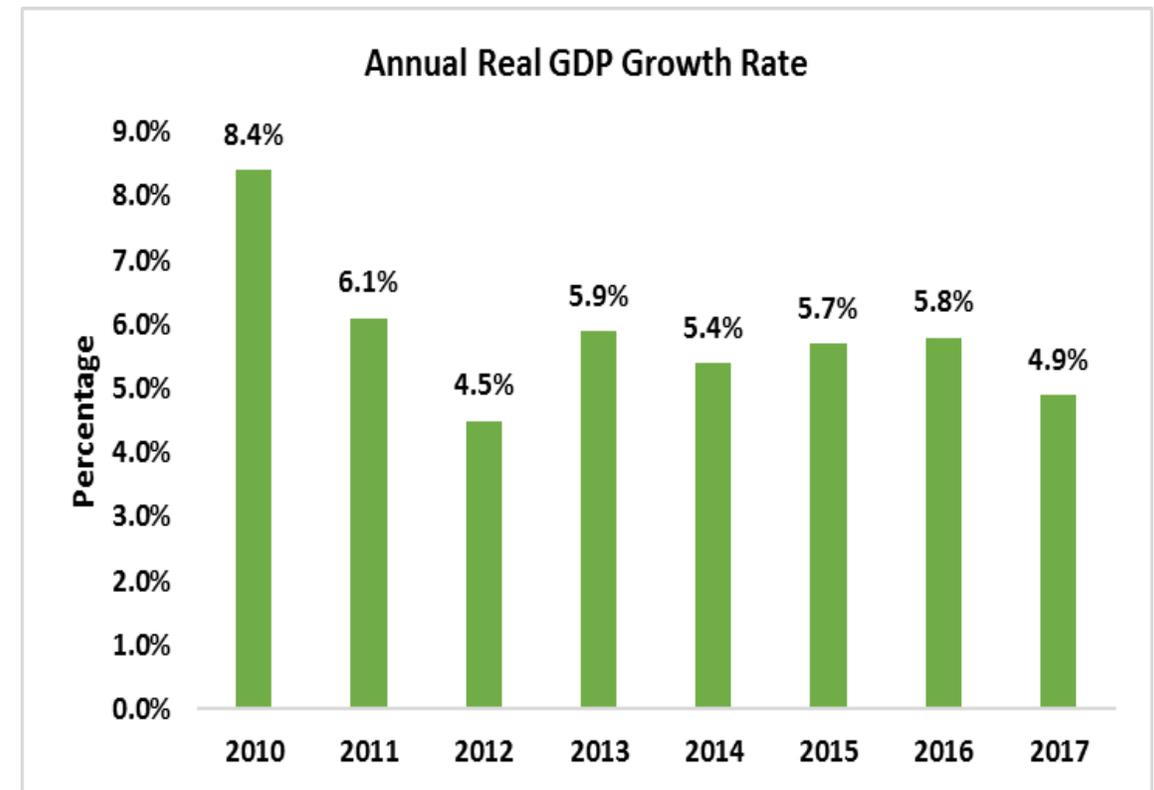
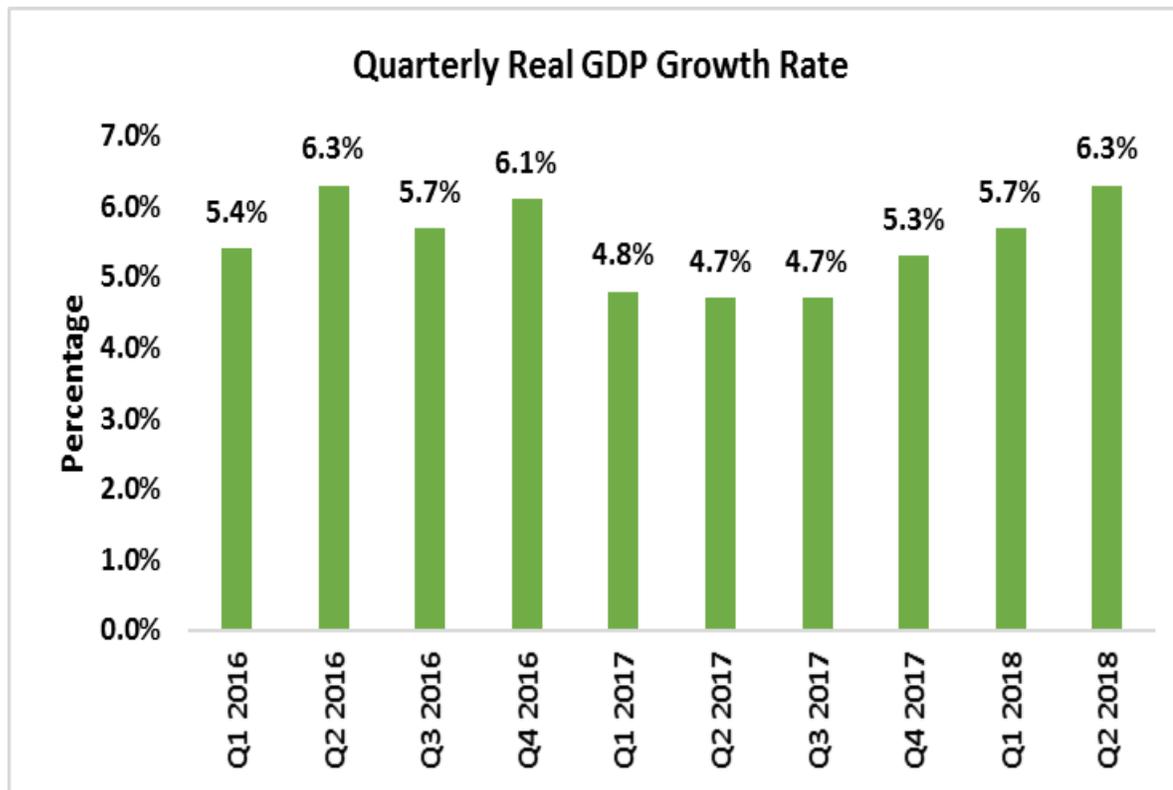
15 November 2018



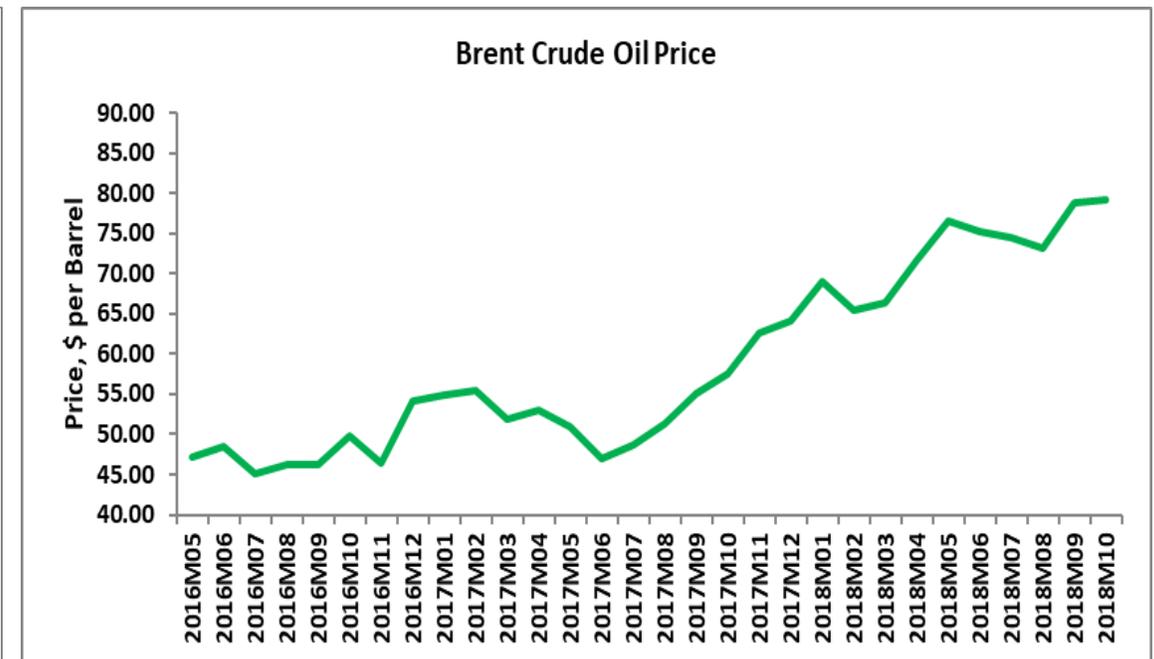
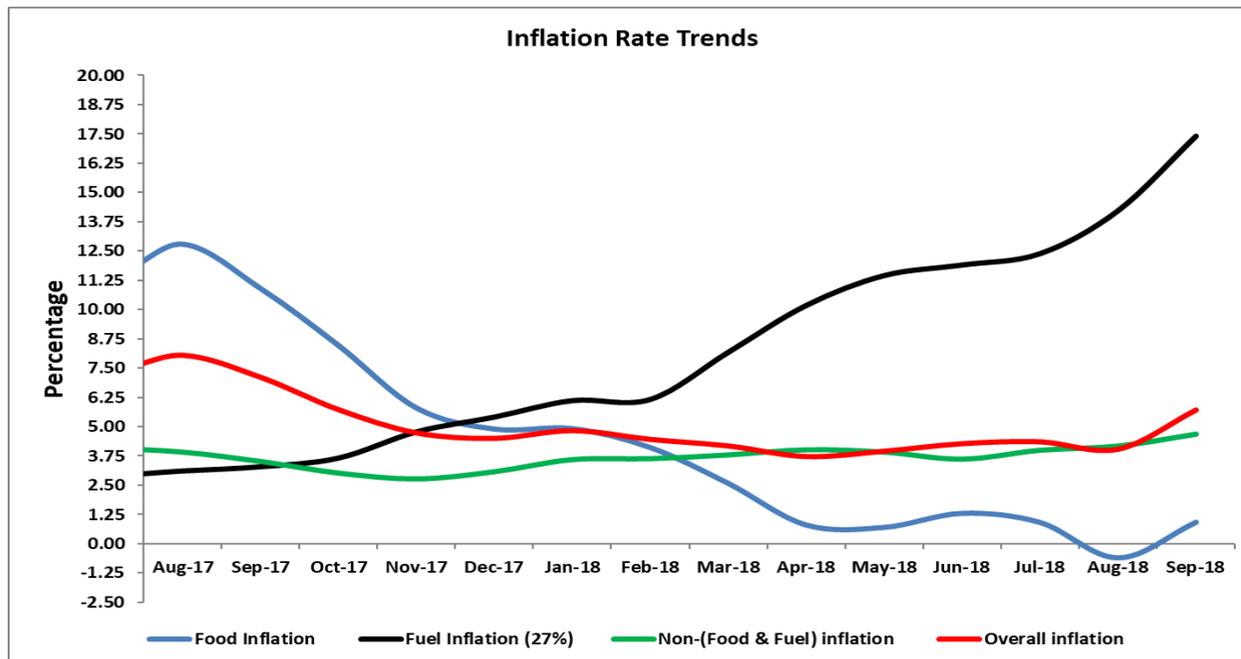
Macro Economic Update

Kenya's Q2 GDP growth rate picked up at 6.3% supported by a recovery in Agriculture following improved weather patterns, government infrastructure investment, growth in Information, Communication & Technology and improved tourist numbers.

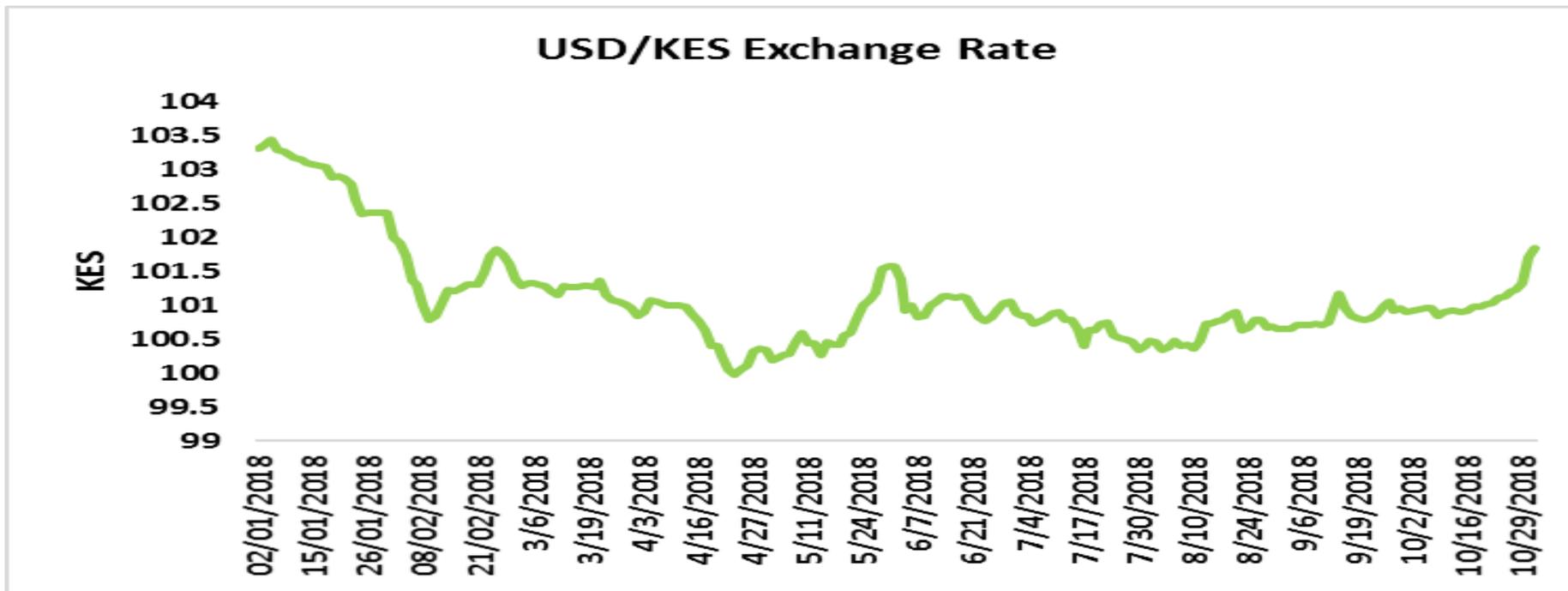
Charts on quarterly and annual GDP growth rate



- ❖ Overall rate of inflation in the nine months to September 2018 averaged 4.4% down from 7.5% in a similar period last year. Monthly inflation rate stood at 5.5% in October.
- ❖ The improved weather conditions resulted in lower prices of key food items in the review period.
- ❖ Fuel inflation has however increased to an average of 11% in the first nine months of 2018 up from 3% in 2017.
- ❖ Non-food-non-fuel inflation remained stable at about 4% since 2017 indicating little pressure on the demand side.

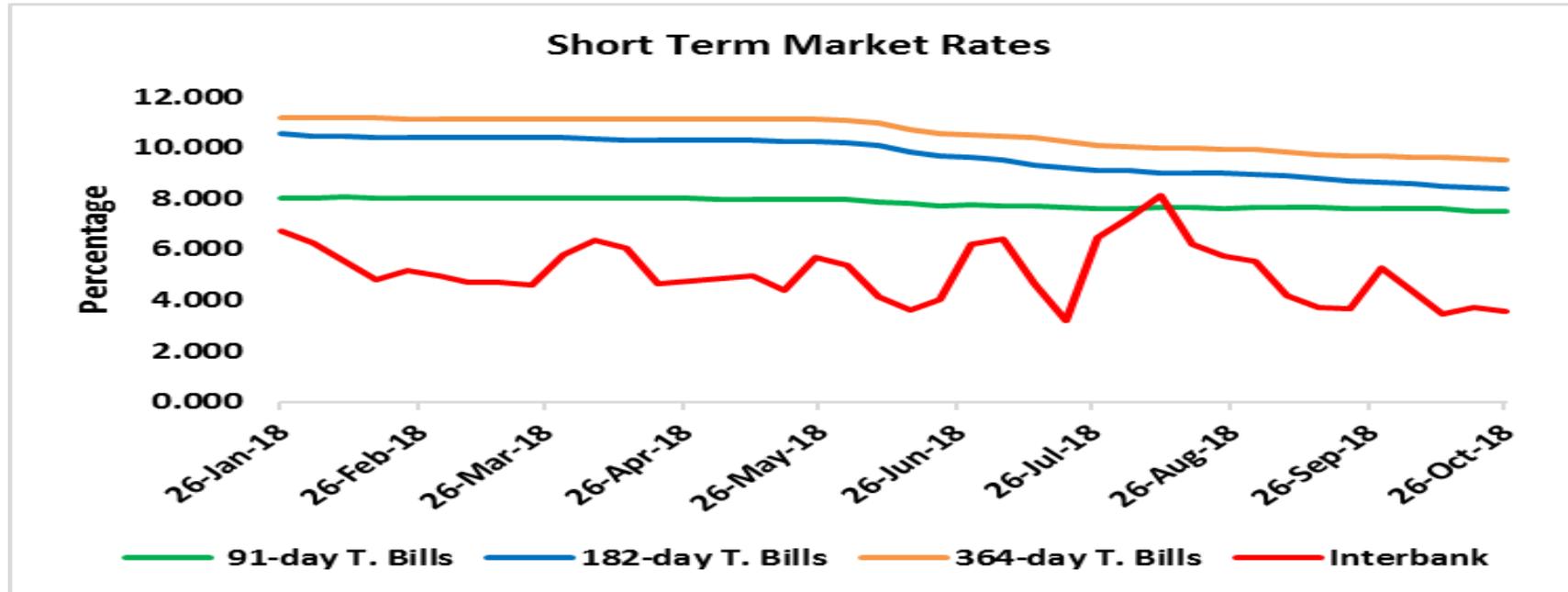


- ❖ Overall the KES has been relatively stable during most of 2018. It has however weakened in late October to trade at 101.8.
- ❖ The KES exchange rate against the USD at 101.1 in the nine months to September 2018 compared to 103.4 in a similar period in 2017.

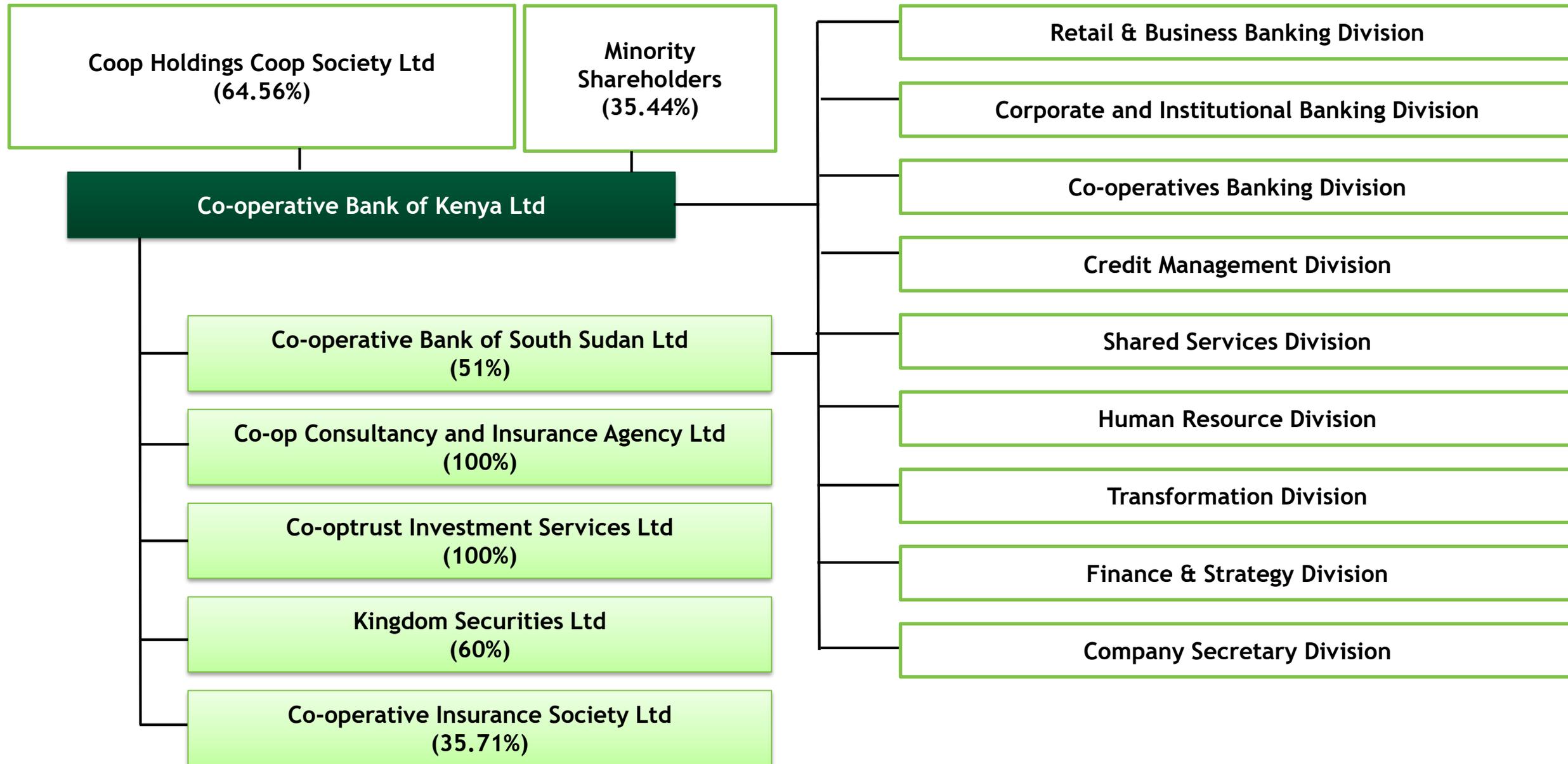


Macro-economic Update: Interest Rates

- ❖ The money market remained fairly stable in the nine months to September 2018.
- ❖ The yields on short term government paper have fallen during in 2018. Interest rate on 91-days, 182-days and 364-days Treasury bills were 7.6%, 8.7% and 9.7%, respectively at the close of 3Q2018 compared to 8.1%, 10.3% and 11%, respectively at close of 3Q 2017.
- ❖ The average interbank rate also fell to 5.3% at end of 3Q2018 compared to 7.2% in 3Q2017 indicating higher liquidity in the banking sector.
- ❖ The National Assembly amended the interest rate capping law by removing the floor on deposits through the Finance Bill 2018. However, the cap on lending rates was maintained at 4% above CBR.
- ❖ Private sector credit growth has started picking up. It grew at 4.3% in the month August 2018 (yoy) compared to 0.6% in August 2017.



Co-operative Bank of Kenya Group Structure





A Successful Universal Banking Model

Retail and Business Banking

- ✓ Micro Credit
- ✓ Small Medium Enterprises (SME)
- ✓ Personal Banking (mass & affluent)
- ✓ Diaspora Banking
- ✓ Banking the youth (Yea & Jumbo Junior)
- ✓ Asset Finance

Corporate, Government & Institutional Banking

- ✓ Corporate banking
- ✓ Government Banking
- ✓ Institutional Banking
- ✓ Structured, Trade & Commodity Finance
- ✓ NGO's
- ✓ Treasury

Co-operatives Banking

- ✓ Large Saccos
- ✓ Housing Saccos
- ✓ Agri Business
- ✓ PSV/ Transport Saccos
- ✓ Investment Saccos

Associates

We own 26% of CIC Insurance
 CIC Owns 31% of CIC Africa
 CIC has a Presence in Uganda, Malawi & South Sudan

Fund management

- ✓ Over 36 Billion in Funds under management

Consultancy and capacity building for the Co-operative movement

- ✓ Over 2500 consultancies

Insurance Brokerage

- ✓ Insurance Premiums

Stock brokerage

- ✓ Share trading services
- ✓ Online Share Trading

Foundation

Co-op Foundation; Supporting Bright, Needy students in all counties

Our channels

155 Branches

Mcoop cash mobile banking
(All telco, all products)

Co-op Kwa Jirani-Over 11000 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

464 FOSA Branch network

Subsidiaries offering advisory and investment services

Social Media Banking

Our customers

Over 7.6 Million growing direct account holders

Over 3.9 Million Mcoop Cash Customers

Over 82,492 Internet banking Customers

Over 1,094,166 Saccolink Customers

Over 14,399 Diaspora Banking Customers

Over 1.3 million Facebook followers

Over 255,000 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

MSME Transformation

3

Sales Force Effectiveness

4

Shared Services & Digitization ‘The Digital Bank’

5

NPL Management & Credit processes

6

Cost Management

7

Data Analytics

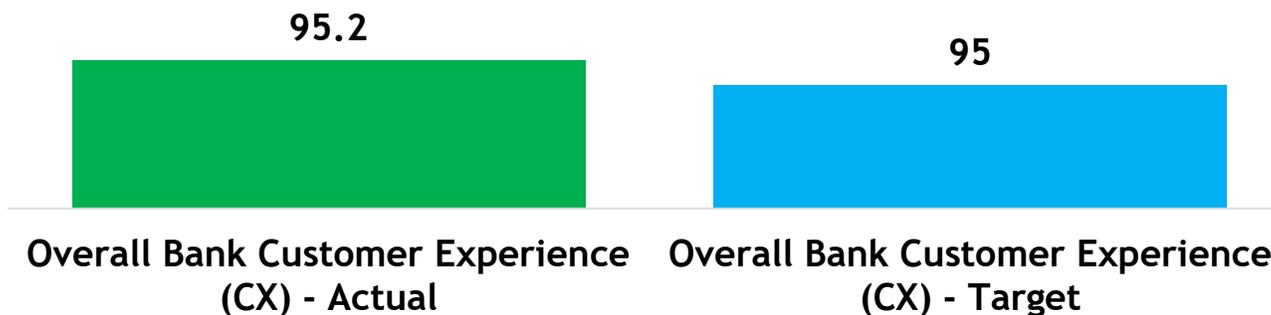
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Staff Productivity

✓ Branch Transformation: Customer Experience & Retail Sales Force Effectiveness

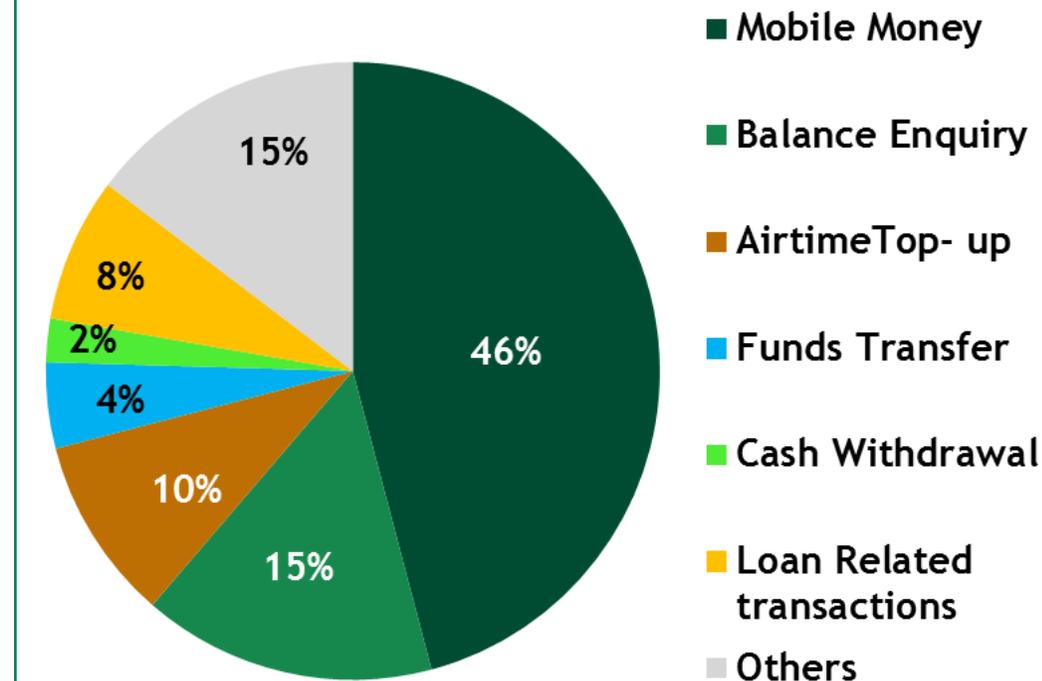
Retail Loan Book Growth YTD	12%
Retail Deposit Book Growth YTD	7%

CUSTOMER EXPERIENCE (CX) SCORE

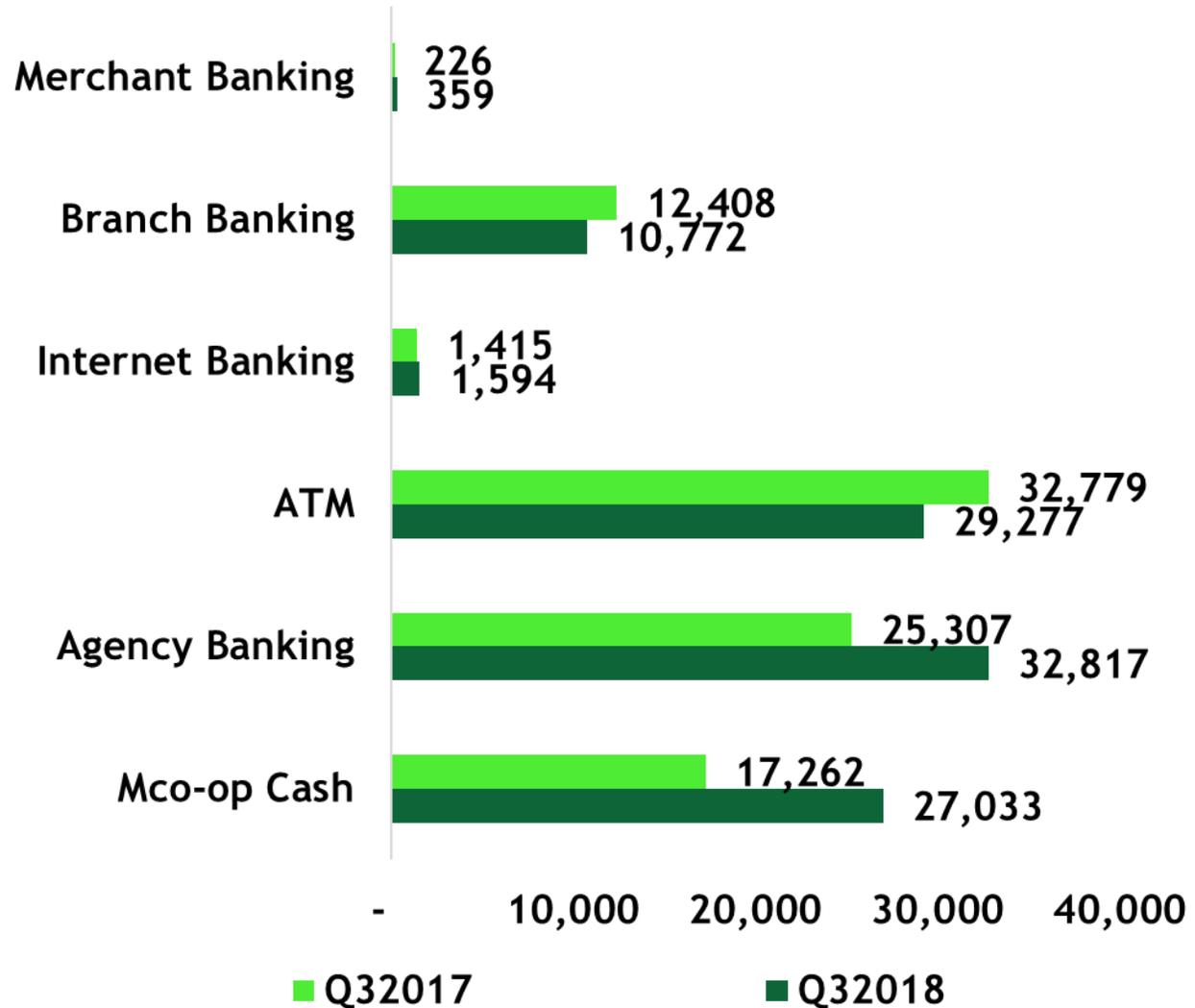


Money Transfer Organizations <ul style="list-style-type: none"> • MoneyGram • Western Union • Transfast • Xpress Money • Instant Cash • Worldremit 	Over 172K Transactions	5.7 Billion Transacted
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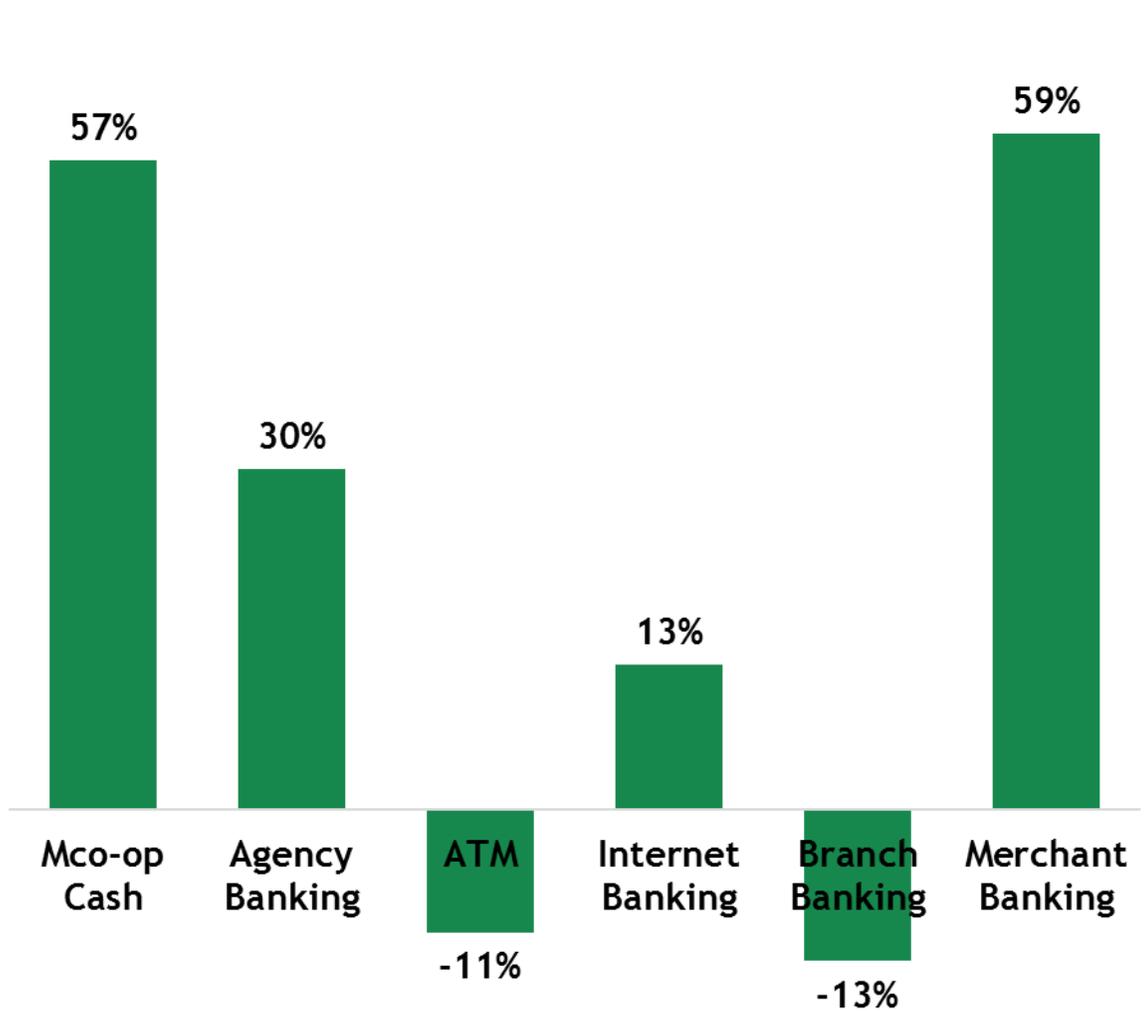
Mcoop Cash Transaction Types



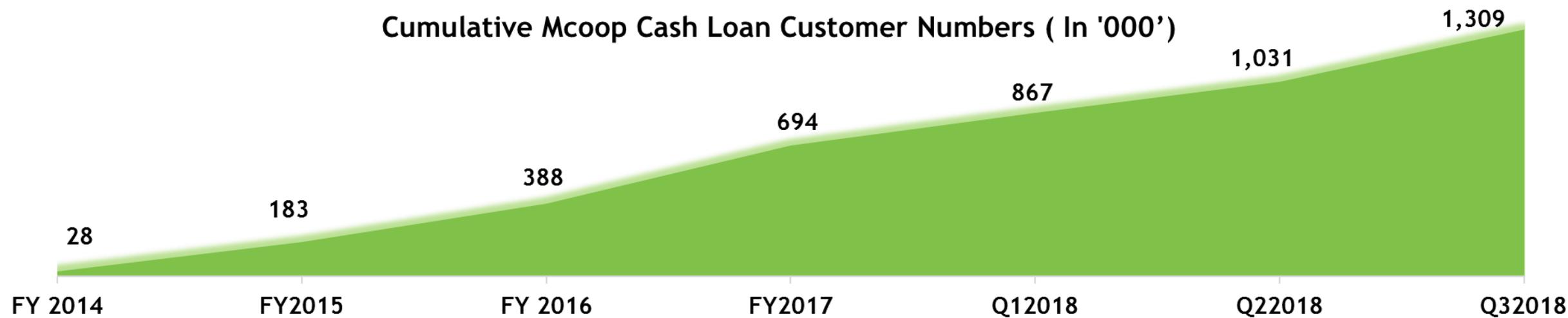
Channel Transactions '000'



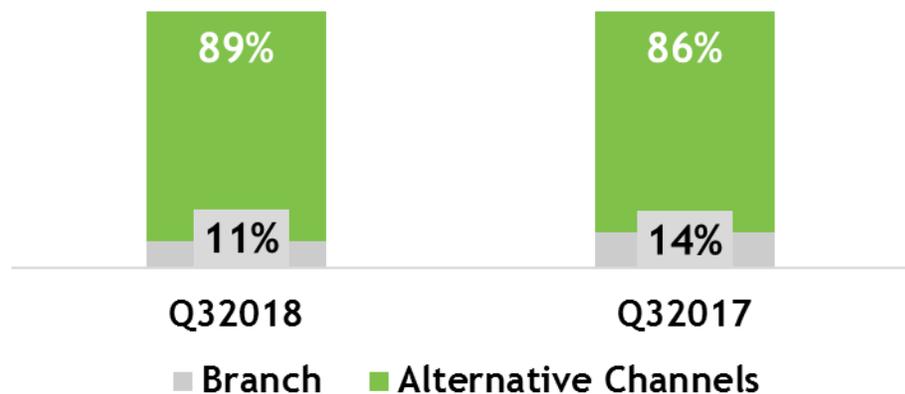
Channel Transaction Growth Q32017- Q32018



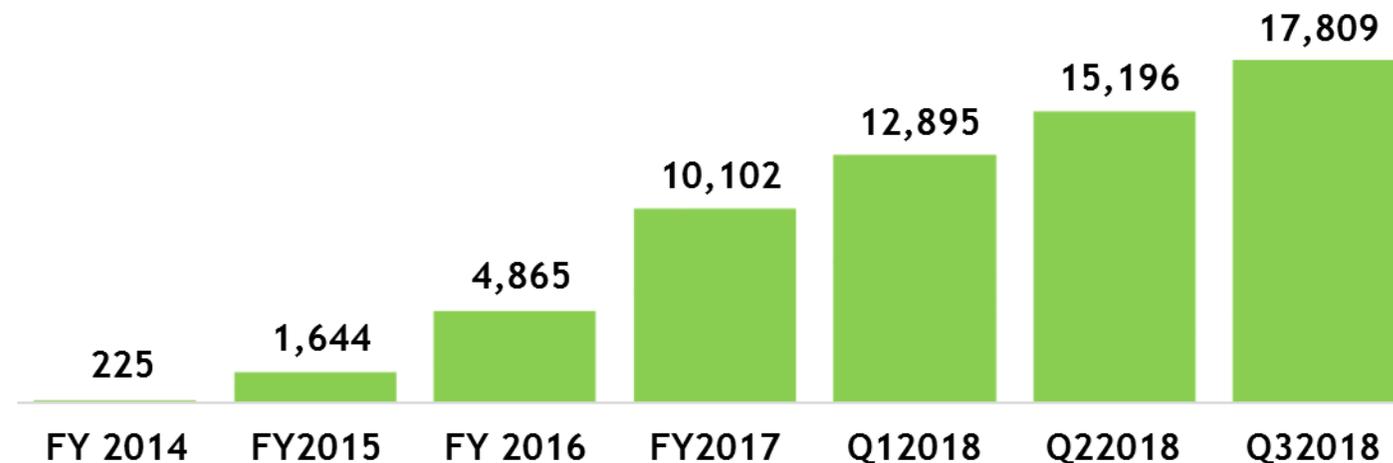
Cumulative Mcoop Cash Loan Customer Numbers (In '000')



Branch Vs Alternative Channels



Cummulative MCo-op Cash loan Book - In Millions



Module



Segmentation and
Customer value
proposition



Products and
services



Credit risk
management



Sales and
Customer
management



Frontline
Capacity
building



Non financial
services

- ✓ **MSME Transformation**
 - ✓ Clearly defined segments in Micro, Small and Medium enterprises enabling our bankers to serve them optimally.
 - ✓ Successful segmentation Customers on the new packages (Bronze, Silver & Gold).
 - ✓ Launch of unsecured business loan on mobile.
 - ✓ Market launch for the MSME initiatives was on 23rd Aug 2018.
 - ✓ All initiatives are now under roll out in the branches with support from Business Banking and Transformation
 - ✓ As at 30th September 2018, we had disbursed 3254 mobile loans during the pilot of the new mobile based unsecured business loan.
 - ✓ As at 30th September 2018, 57 Suppliers had been onboarded into the new Supply Chain Financing program under the MSME project.
 - ✓ As at 30th September 2018, 3819 customers were on the newly developed MSME packages.

✓ **Sales Force Effectiveness: Corporate and Co-operatives Division**

- ✓ New Edge SFE 4.0 is built around customer centricity; One Relationship manager, One client, with a comprehensive account plan, multiple products with multiple visits

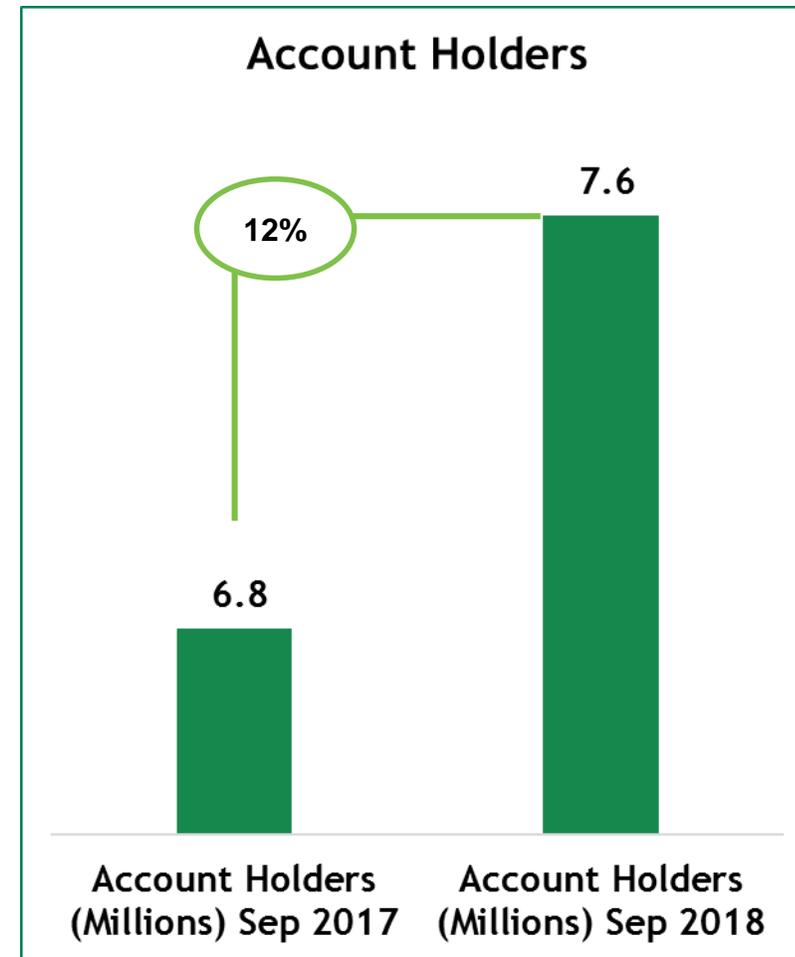
Proactive Strategies;

Deposit mobilization through

- Deposit focused Account planning
- Pricing and negotiation
- Performance dialogues
- Optimization of our Cash Management solutions
- Sector focused strategy and Customer Value Propositions
- The BIG 4 Agenda
- Supply Chain Finance
- Performance Rhythms

New clients:

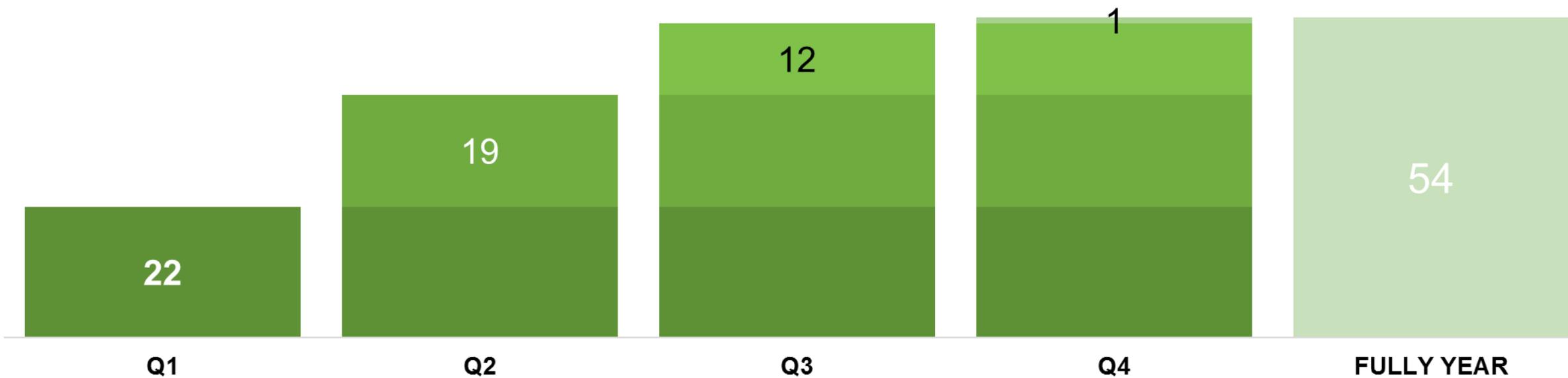
- CIBD - 94
- Co-operatives- 609



✓ Shared Services & Digitization ‘The Digital Bank’

- ✓ Digital Bank Transformation- under implementation
- ✓ Prioritization to digitized customer journeys to improve their experiences
- ✓ Innovation management (Enovate Software)
- ✓ Omni Channel Implementation for prioritized Segments
- ✓ Business Process Management (BPMS) with several delivered modules

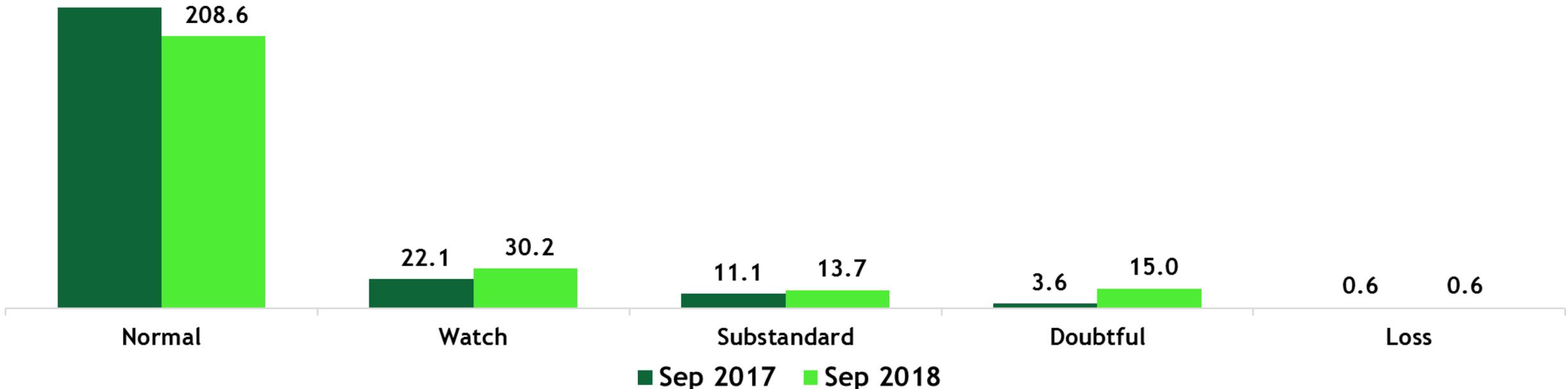
Distribution of prioritized initiatives for 2018



✓ NPL Management & Credit processes

- ✓ Proactive debt management including loan due reminders
- ✓ Enhanced frontline credit support and free up time for the sales teams
- ✓ Collaboration and regular touch points, training and coaching with business
- ✓ Enhancement of systems, processes and tooling to support Credit management mainly loan origination process.
- ✓ Sustained collections and follow up.

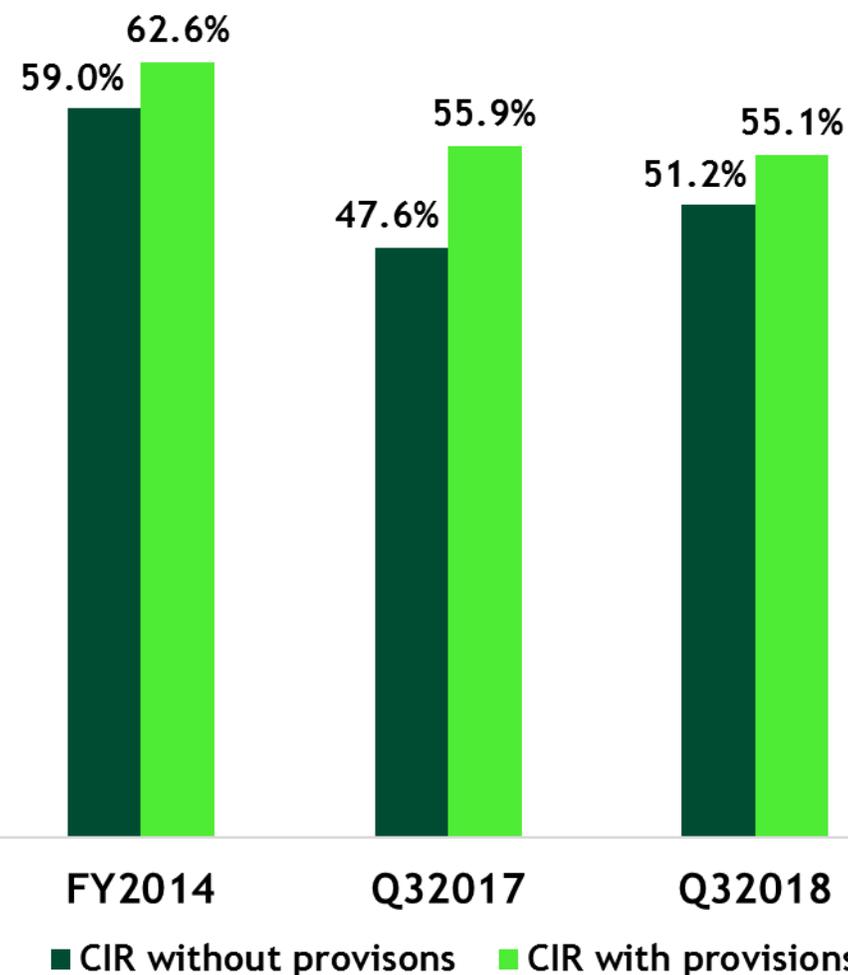
Loan Book Distribution by Grade (Kshs. Billion)



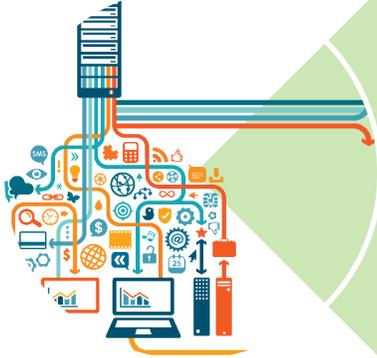
✓ Cost Management

- ✓ Focus on electronic delivery channels thus reducing brick and mortar costs.
- ✓ Successful implementation of an ERP (Enterprise Resource Planning) system to optimize our Procure-to-Pay processes.
- ✓ Continuous review of our cost lines for optimization.
- ✓ Appointment and approvals of evaluation committee for all sourcing
- ✓ Reviewed sourcing processes and procedures, including frequent retenders with significant savings.
- ✓ Market price comparison every 3 to 6 months
- ✓ Prequalification of suppliers every 6 months
- ✓ Renegotiated contracts with vendors especially systems.

Cost to Income Ratio (CIR)



✓ Data Analytics



Rapid Campaigns support

- >> Tracking performance rhythms for campaigns & reporting
- >> Extraction of campaign data, analysis and lead preparation for deposit mobilization and asset growth



Data Analytics support

- >> Track delivery of prioritized use cases by Business Intelligence & migration to new platform
- >> Coordinating and ensuring training of users on the new platform by business owners
- >> Track data cleansing initiatives across all Business Divisions
- >> Tracking utilization of data analytics use cases on new platform

✓ Staff Productivity

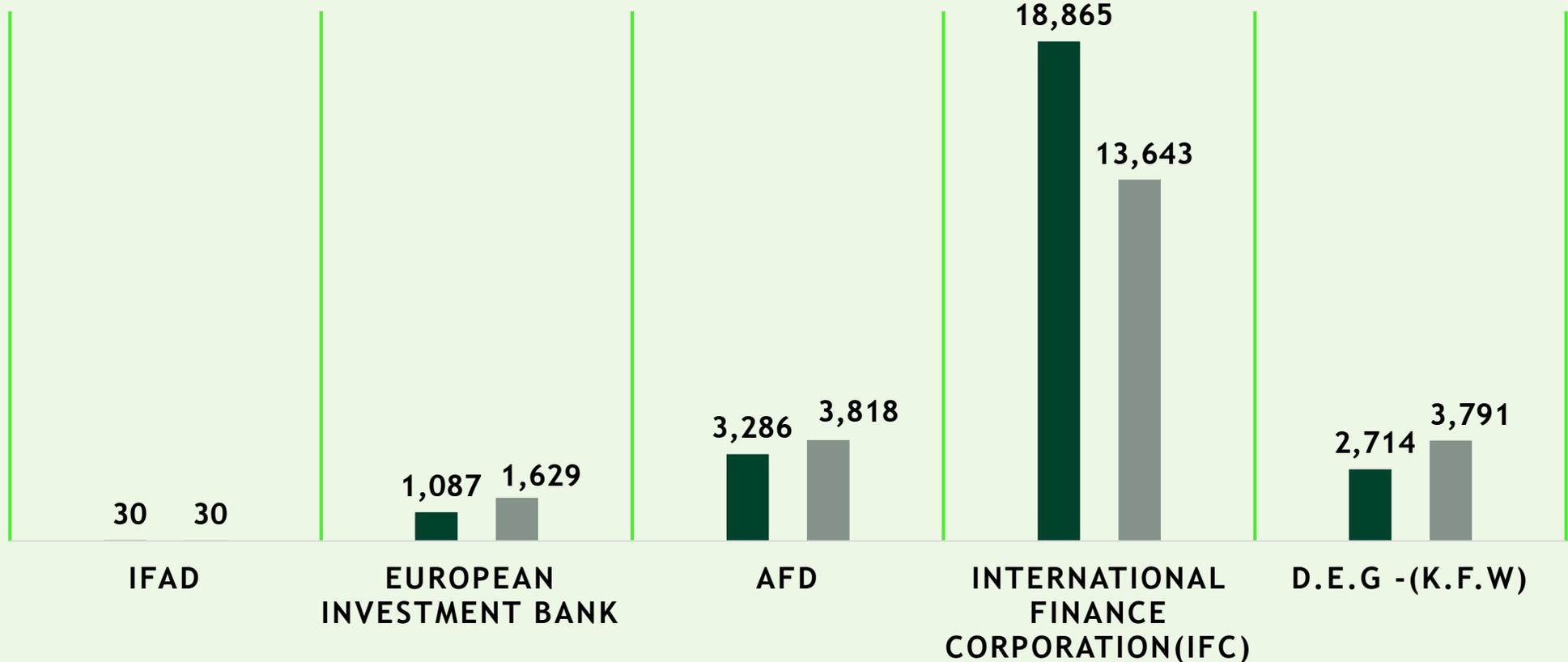
Achieving the Best with our People.

- Facilitating success of our people.
- Inspiring leadership.
- Right culture.
- Driving high performance practices.
- Reward our best.
- Employee engagement.
- Workforce stabilization



Long Term Funding (Kshs. Million)

■ 3Q2018 ■ 3Q2017



Funding Purpose;

- SME
- Energy Efficiency
- Renewable energy
- Agribusiness
- Construction
- Mortgage
- Corporate
- Horticulture



- 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

emeafinance

AFRICAN
BANKING
AWARDS
2018

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



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



**CONSULTANCY &
INSURANCE AGENCY LTD**

- ✓ Capacity building for Cooperative Societies.
- ✓ Over 2,500 consultancy and advisory mandates carried out from inception
- ✓ 464 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 6331 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



- ✓ The Bank entered into a Leasing business joint venture with Super Group of South Africa. The Joint Venture has been registered as Co-op Bank Fleet Africa Leasing Limited
- ✓ The joint venture will take advantage of key strengths by the two partners and focus on the emerging opportunities in leasing business with the bank providing a 7.6 million customer base and Super Group providing proven products, technology and the expertise on running a scalable leasing business.

✓ **Grow our Loan Book**

✓ **Grow our Leasing Customer Base**

✓ **Grow our Revenues**





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.235.12 Million in Q32018 compared to a loss of Kshs. 39.15 Million in Q32017.
- ✓ We have put in place proactive strategies to continue offering financial inclusion while considering the most optimal risk uptake

Key Financial Highlights

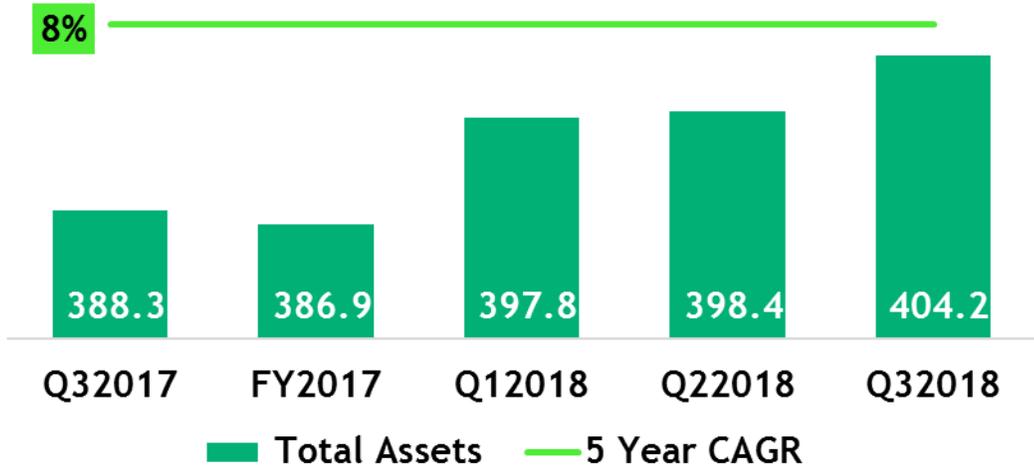


A Soaring Bank

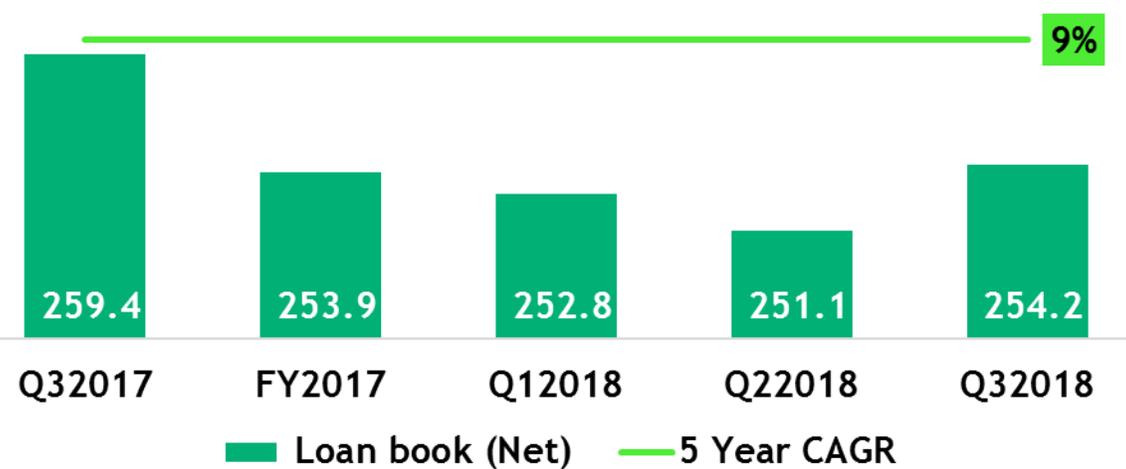
Kshs. Billions	Q32018	Q32017	% Change (YoY)		FY2017
Total Assets	404.2	388.3	4.1%	↑	386.9
Loan book (Net)	254.2	259.4	-2.0%	↓	253.9
Government Securities	83.2	68.1	22.3%	↑	69.2
Total Deposits	297.6	290.2	2.6%	↑	287.7
Borrowed Funds	26.0	28.0	-7.2%	↓	21.2
Shareholders Funds	70.9	67.3	5.3%	↑	69.6
No. of account holders (Millions)	7.6	6.8	11.8%	↑	7.1

A Soaring Bank (Kshs. Billion)

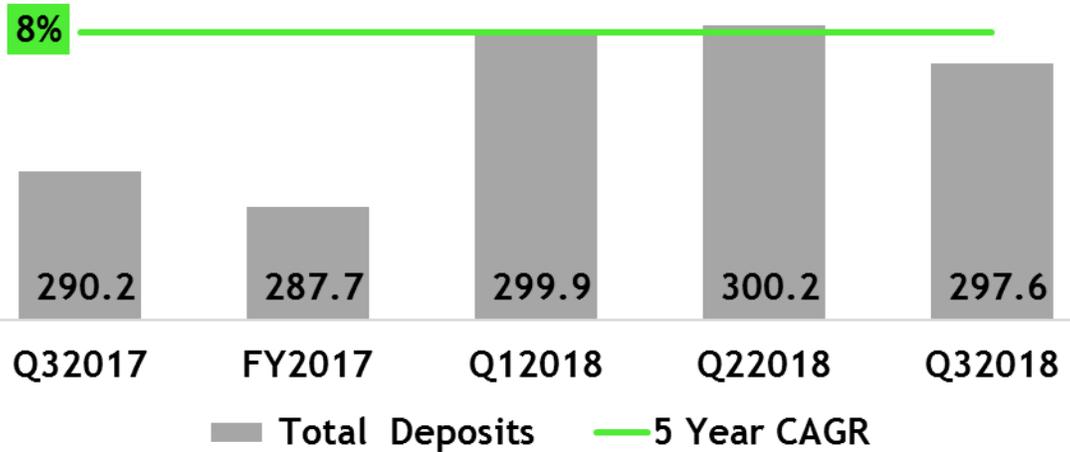
Total Assets



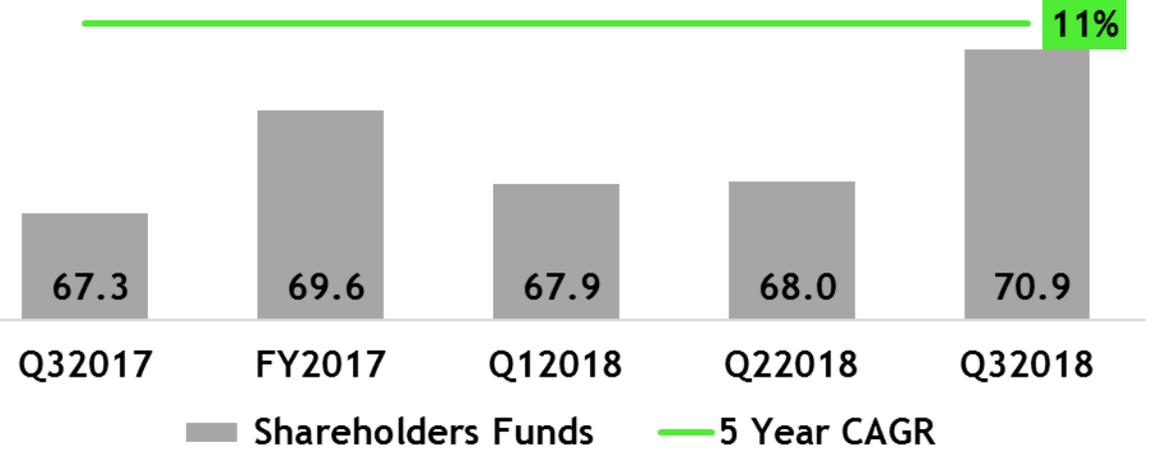
Loan book (Net)



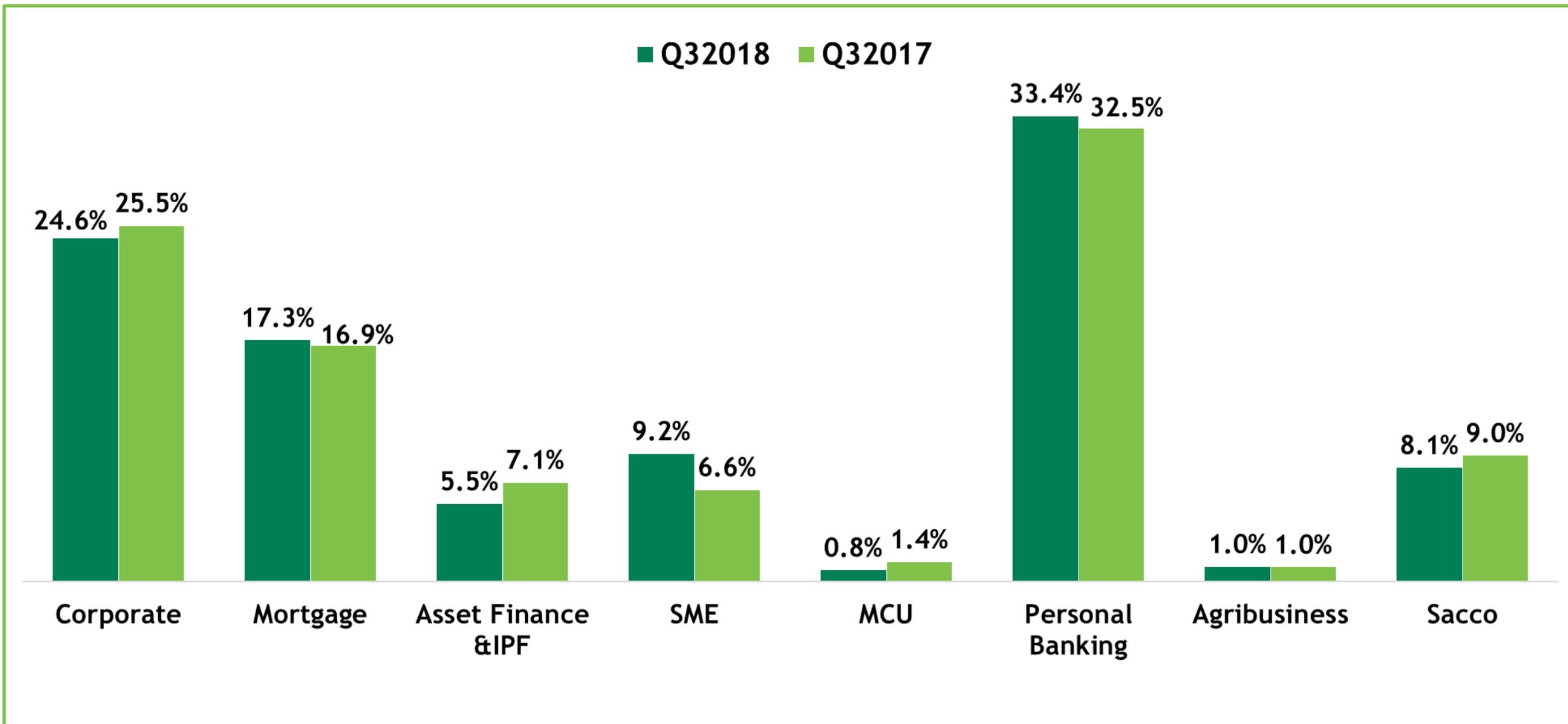
Total Deposits



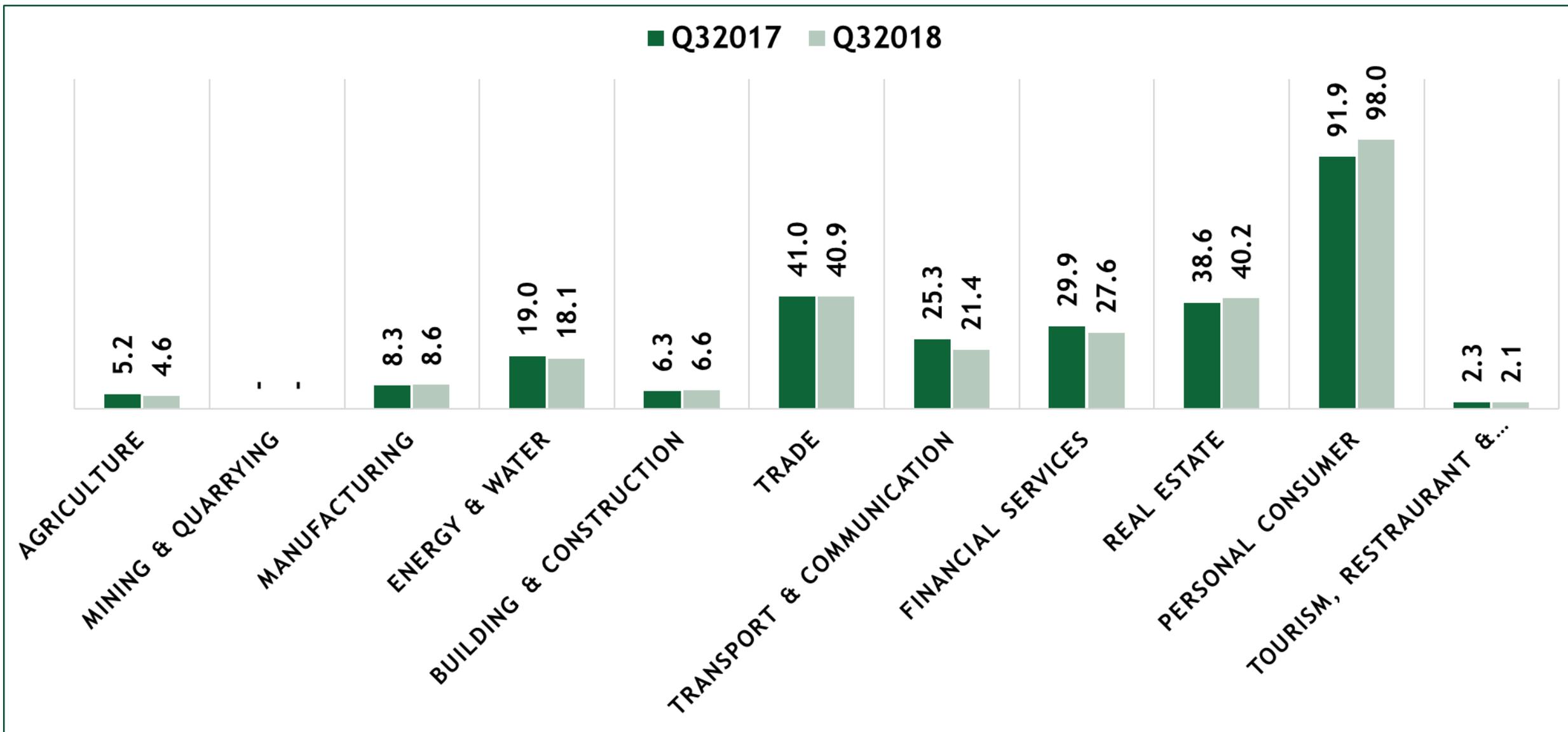
Shareholders Funds



A Soaring Bank - Loan Distribution

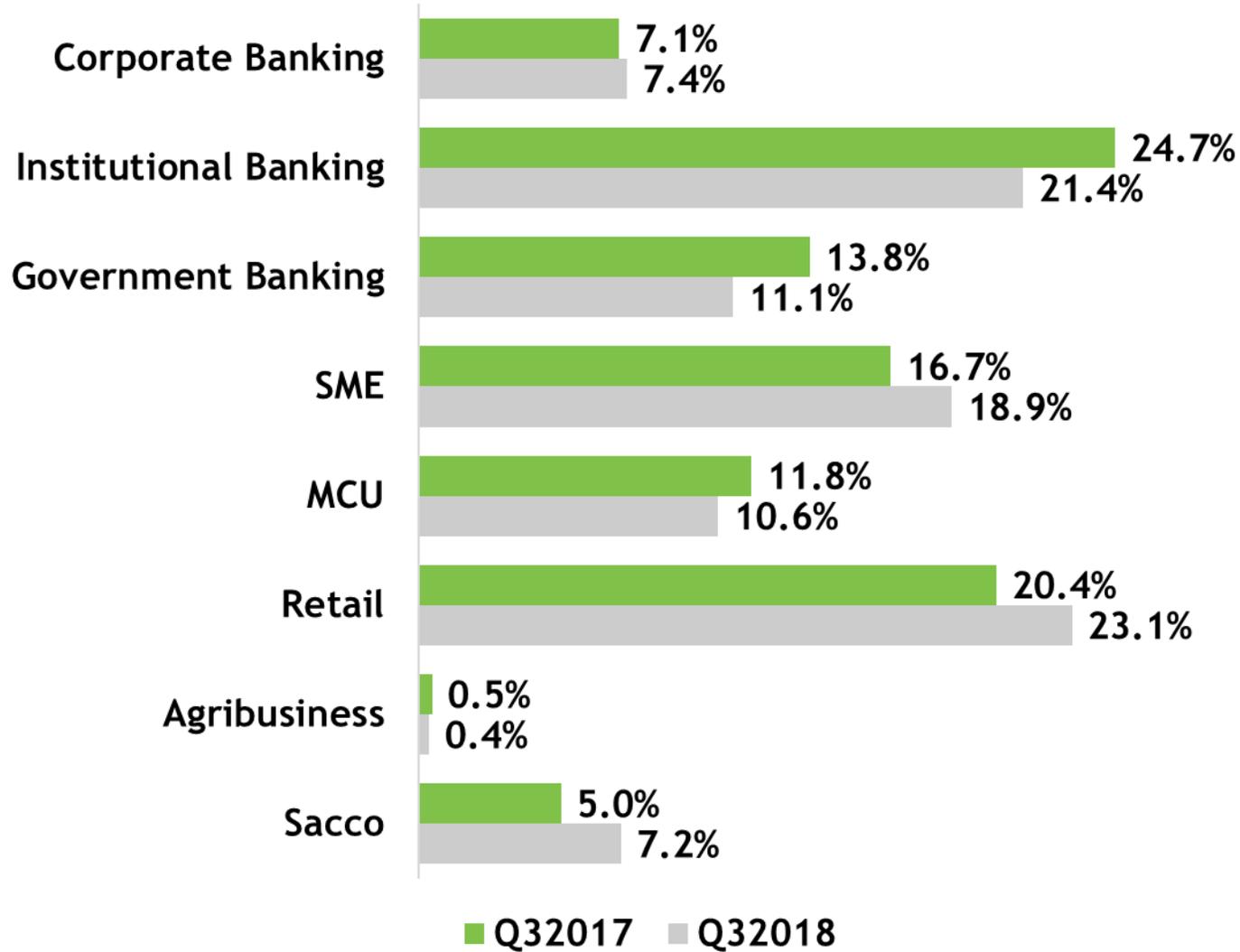


A Soaring Bank - Loan Distribution by Sector (Kshs. Billion)

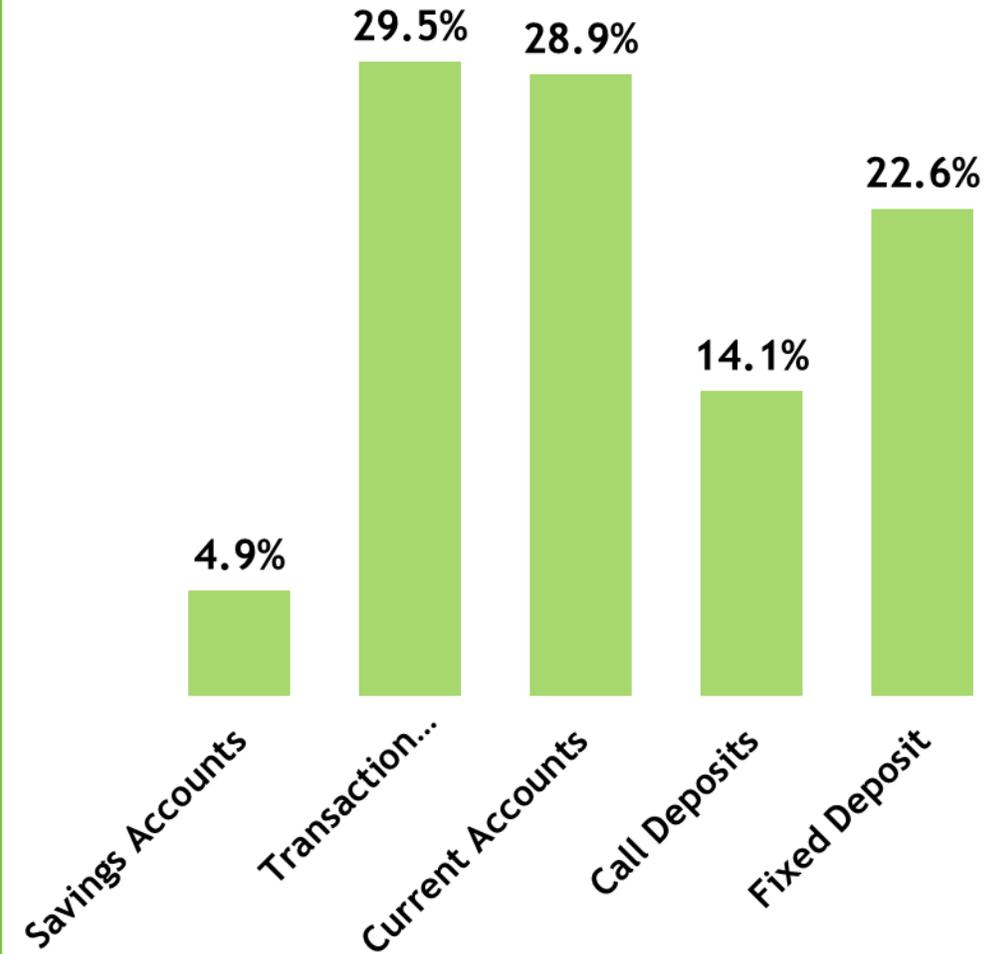


A Well-diversified Liability Portfolio

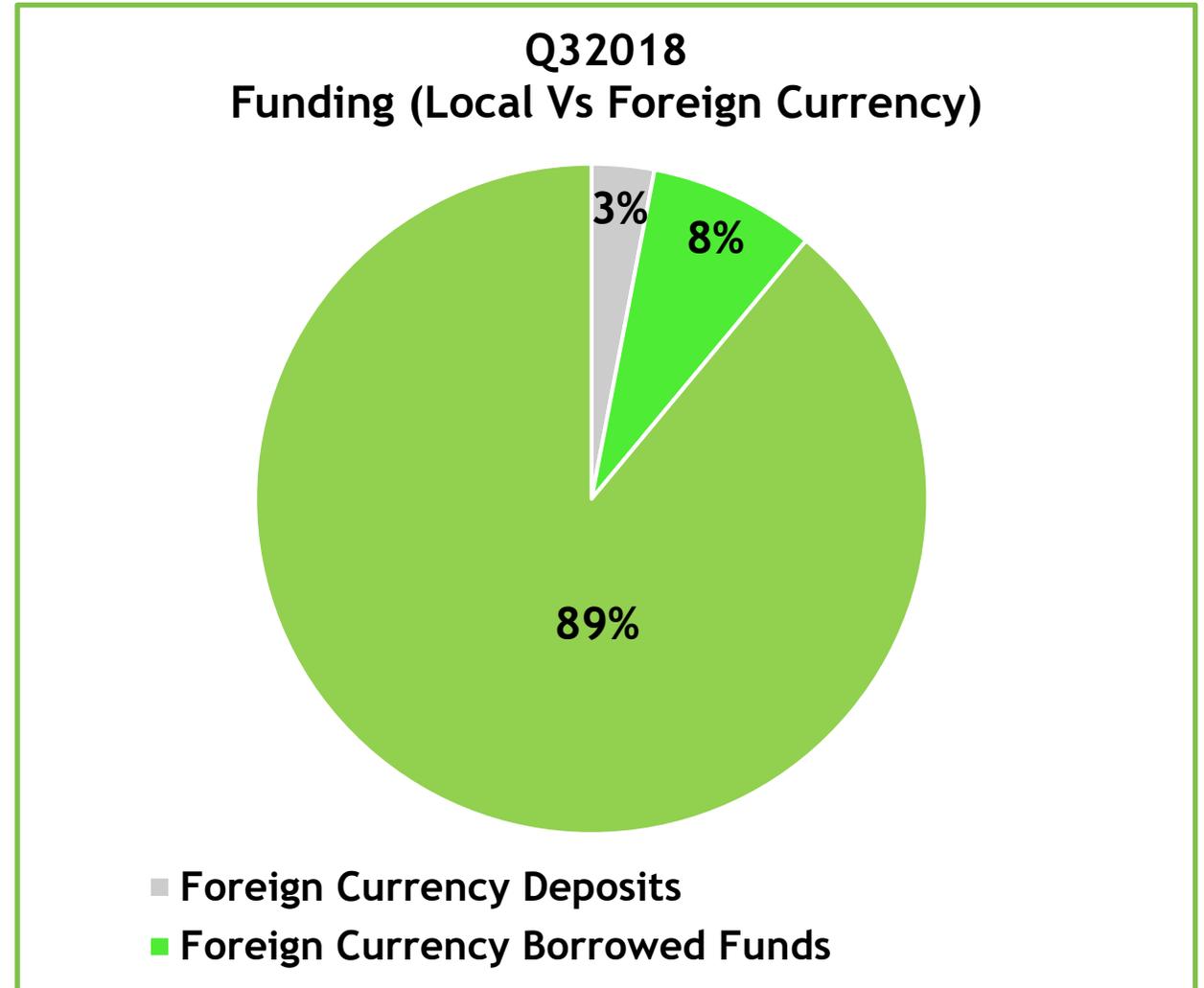
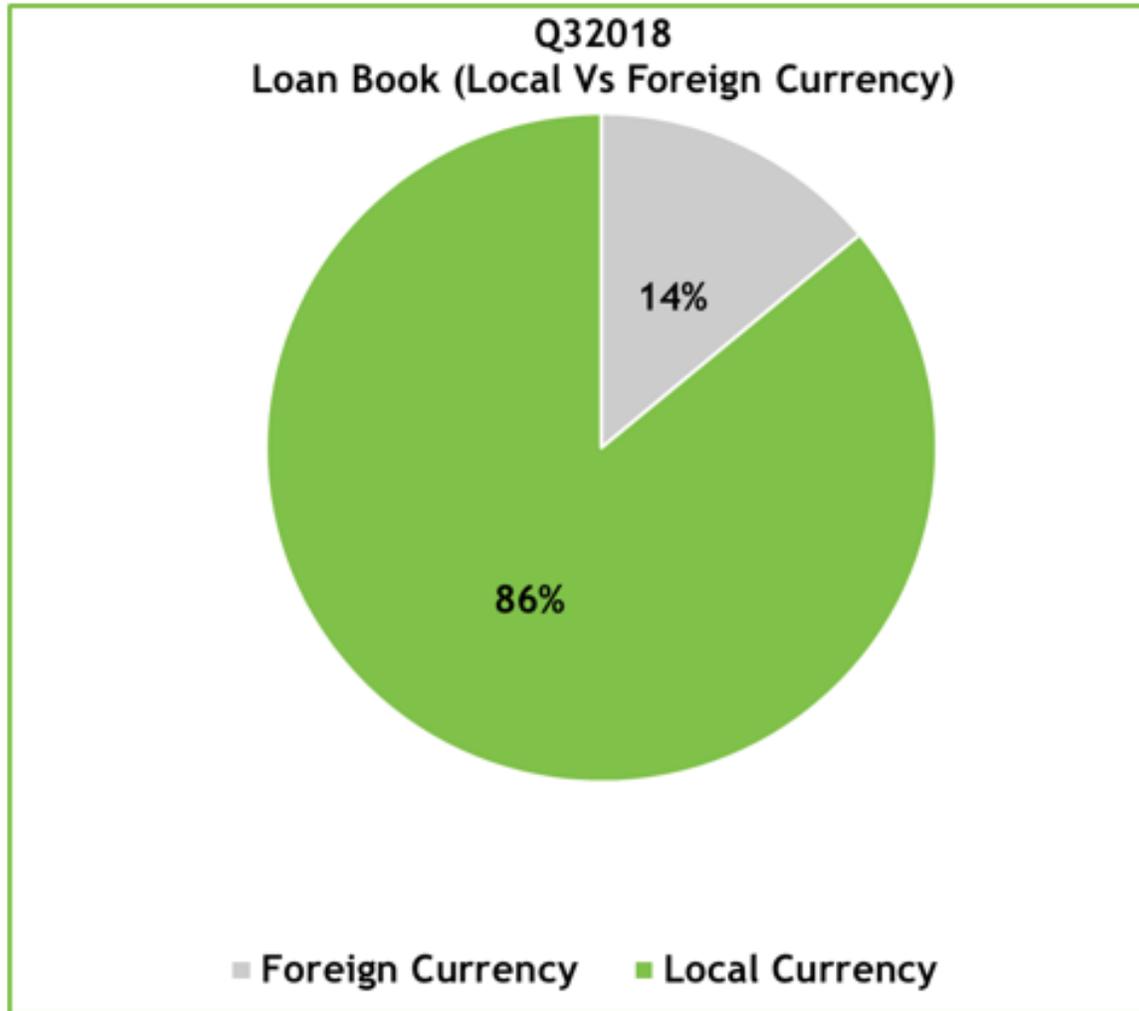
Deposit Distribution



Deposit Distribution- Q32018



Lending & Funding balances by Currency

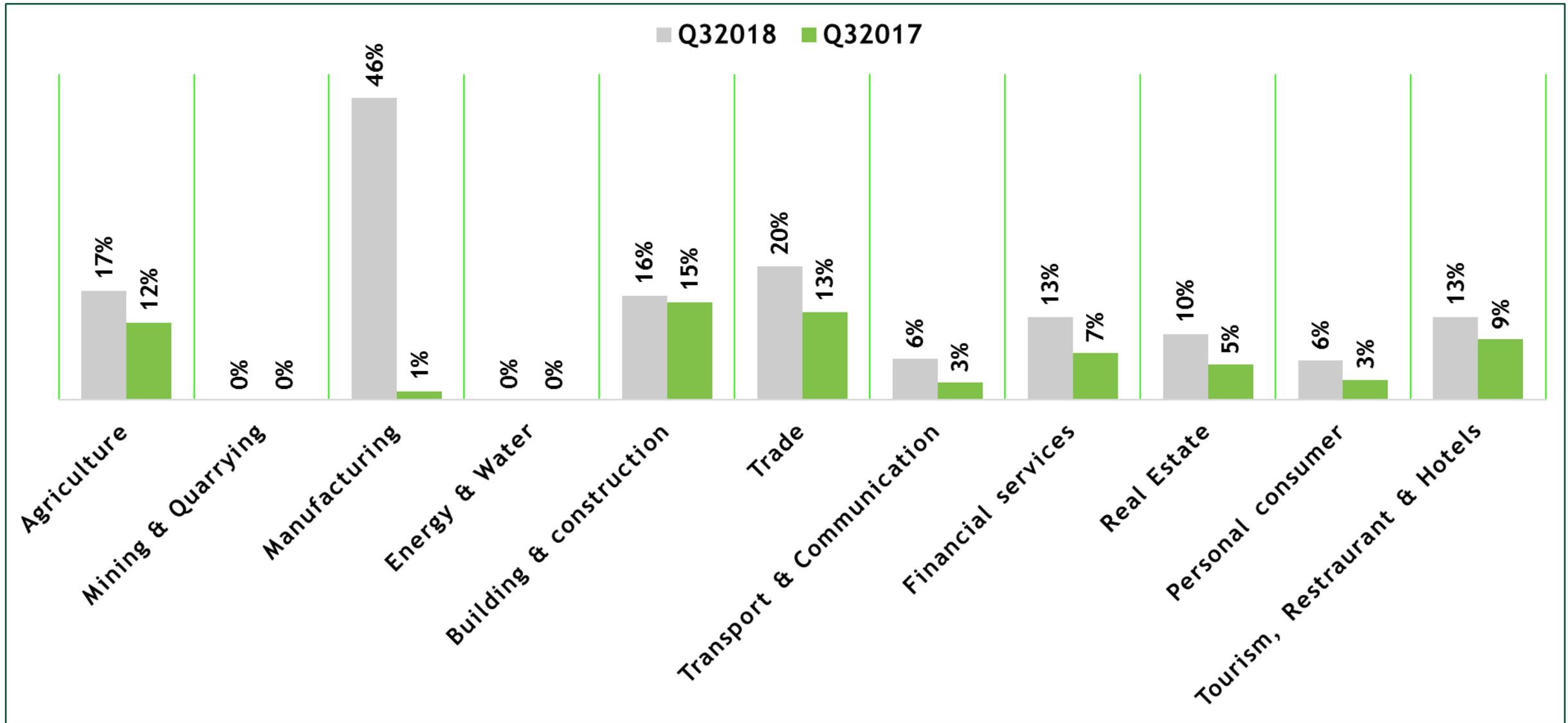


✓ Optimally balanced Kenya Shilling Loan book and Funding

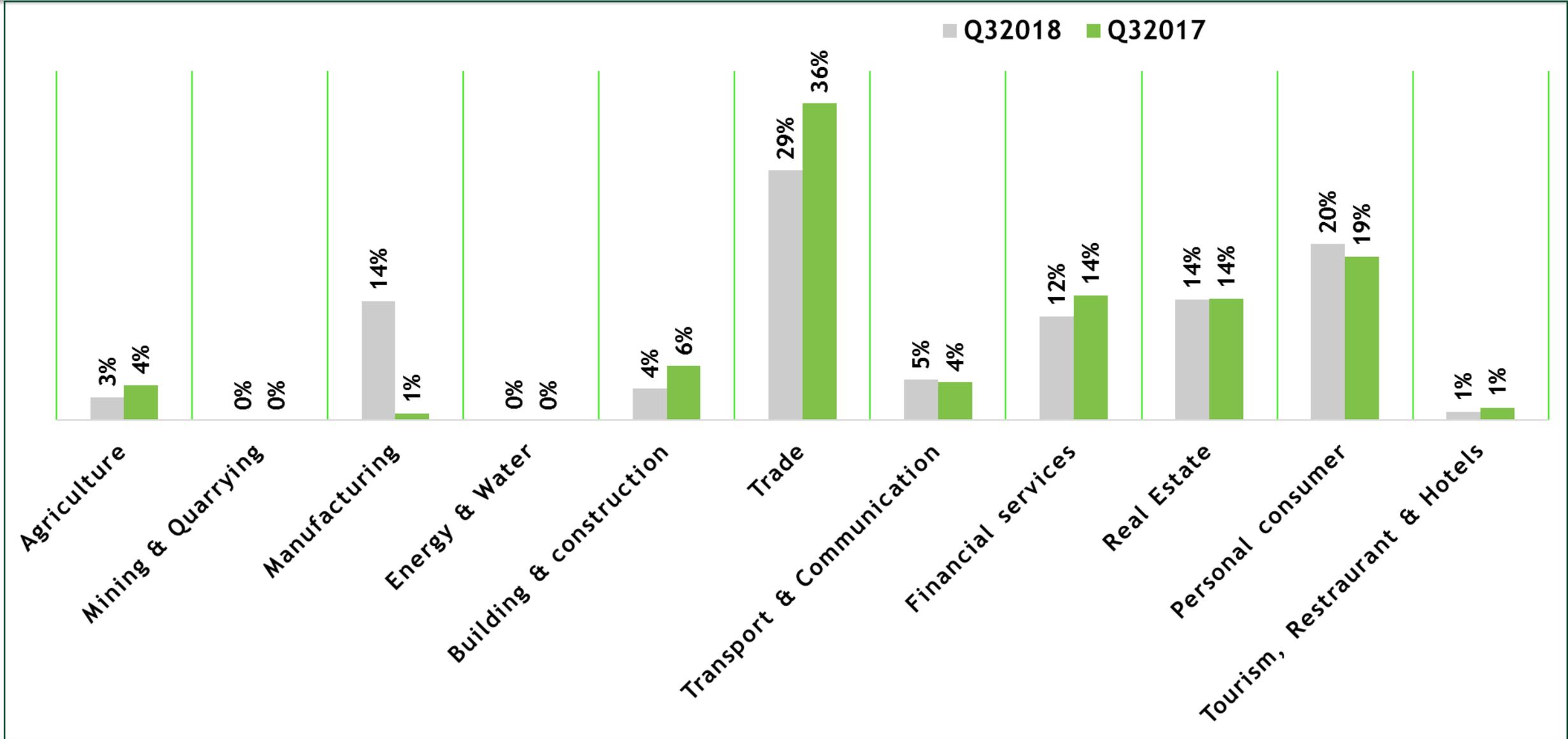
Portfolio Trends (Ksh. Millions)

	Q32018	%	Q32017	%	FY2017	
Normal	208,627	78%	231,725	86%	209,393	80%
Watch	30,154	11%	22,093	8%	34,446	13%
Substandard	13,747	5%	11,050	4%	9,934	4%
Doubtful	15,020	6%	3,557	1%	8,273	3%
Loss	559	0.2%	556	0.2%	506	0.2%
TOTAL	268,106	100%	268,982	100%	262,553	100%

Portfolio Trends - Specific Sector NPL By Sector Book



Portfolio Trends - Sector NPL By Total NPL Book

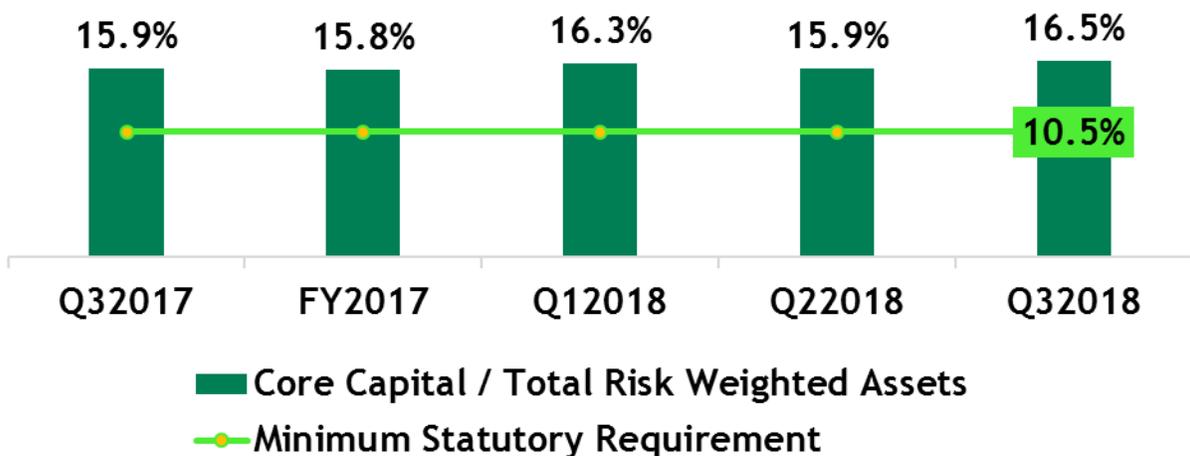


Loan Loss Provisions (Ksh. Millions)

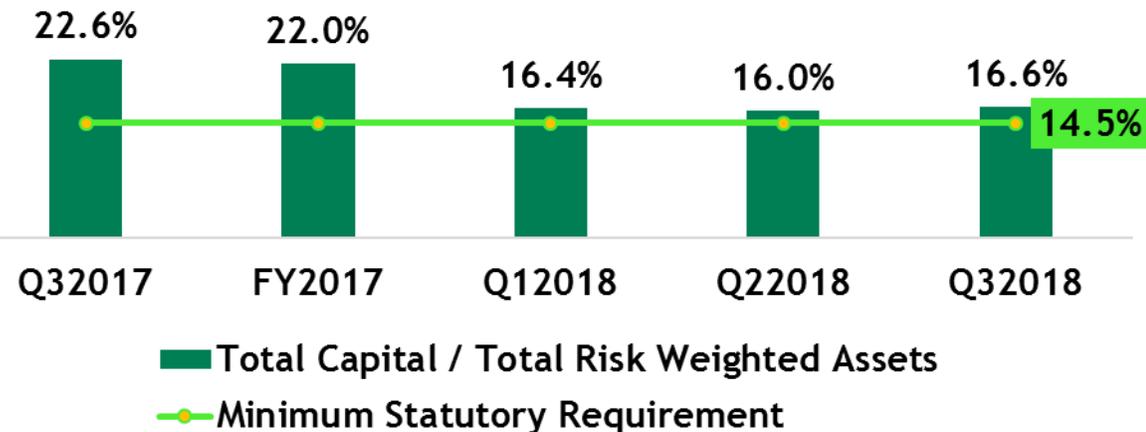
	Q32018	Q32017	FY2017
Provision for specific Bad & D Debts	9,799.81	5,559.90	6,075.83
Provision for Interest on Bad & D Debts	982.53	897.37	948.48
General Provision for B & D debts	5,065.60	3,134.54	3,166.83
Total	<u>15,847.94</u>	<u>9,591.81</u>	<u>10,191.14</u>

	Q32018	Q32017	FY2017
Core Capital / Total Deposits (8%)	20.6%	19.8%	20.0%
Core Capital / Total Risk weighted Assets (10.5%)	16.5%	15.9%	15.8%
Total Capital / Total Risk Weighted Asset (14.5%)	16.6%	22.6%	22.0%
Coverage (Loan loss prov+int in sus /Gross NPL) -IFRS	36.8%	38.1%	37.6%
Coverage(Loss loan+int in sus+gen prov)/Gross NPL- CBK	53.4%	56.7%	53.9%
Liquidity (20%)	41.7%	37.4%	33.8%
NPL / Total Loans	11.0%	6.3%	7.1%
Loans to Deposits	85.4%	89.4%	88.2%
Loans to Deposits & Borrowed Fund	78.6%	81.5%	82.2%

Core Capital / Total Risk Weighted Assets



Total Capital / Total Risk Weighted Assets

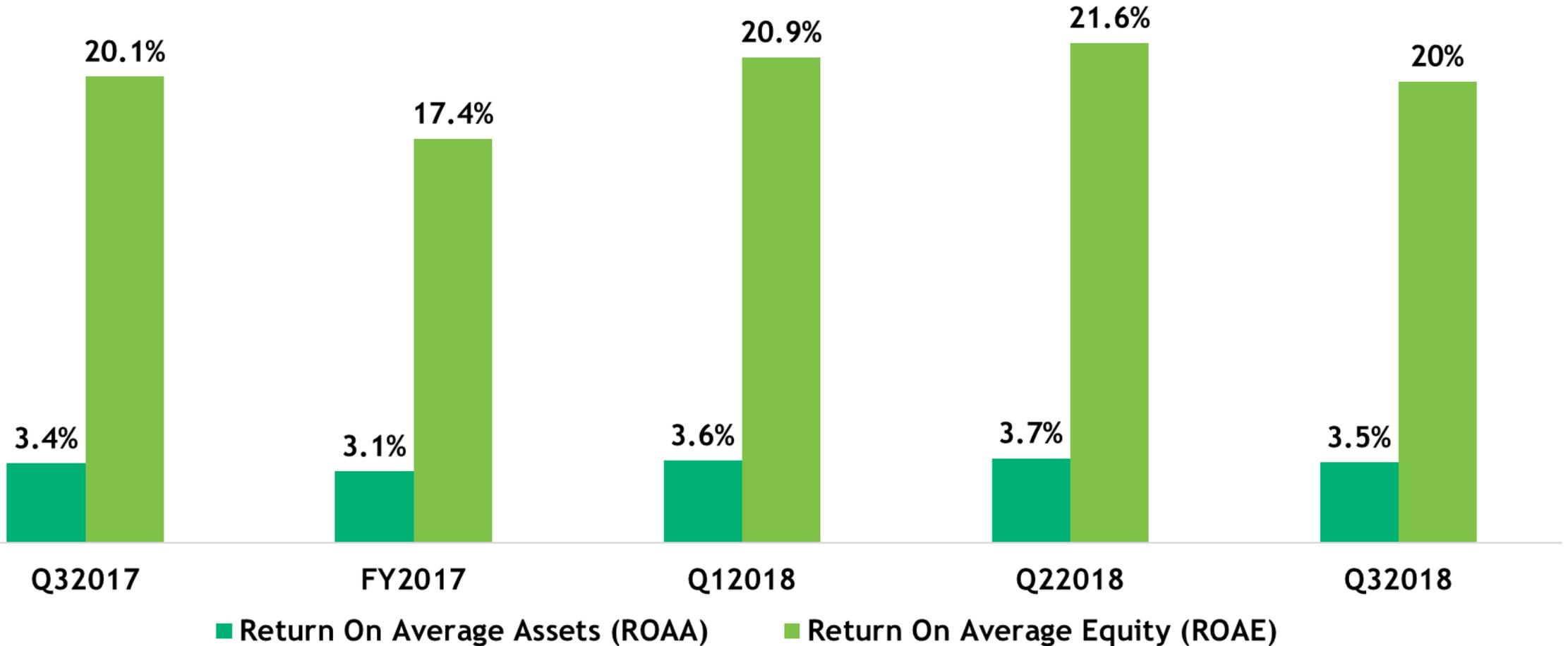


Profitability

Kshs. Billions (except for EPS)	Q32018	Q32017	% Change (Y/Y)		FY2017
Interest Income	30.9	29.9	3.5%	↑	40.4
Interest Expense	9.1	9.1	0.7%	↑	12.3
Net Interest Income	21.7	20.8	4.7%	↑	28.1
Fees & Commissions	7.9	7.8	0.6%	↑	9.8
Forex Income	1.8	1.5	13.6%	↑	2.2
Other Income	0.9	0.8	24.1%	↑	1.4
Total Operating Income	32.3	30.9	4.6%	↑	41.6
Loan Loss Provision	1.3	2.6	-50.3%	↓	3.6
Staff Costs	8.1	7.2	12.3%	↑	10.1
Other Operating Expenses	8.4	7.5	12.5%	↑	11.6
Profit Before Tax and Exceptional Items	14.5	13.6	6.4%	↑	16.3
Share of profit of associate	0.1	0.1	33.2%	↑	0.13
Profit Before Tax	14.6	13.7	6.6%	↑	16.4
Tax	4.3	4.2	3.1%	↑	4.99
Profit After Tax	10.3	9.5	8.2%	↑	11.4
Basic Annualized EPS	2.3	2.2	8.2%	↑	1.9

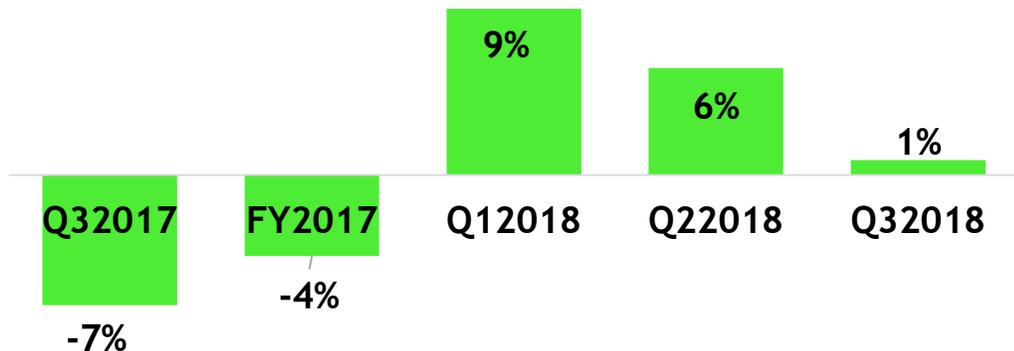
Return on Asset and Equity

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

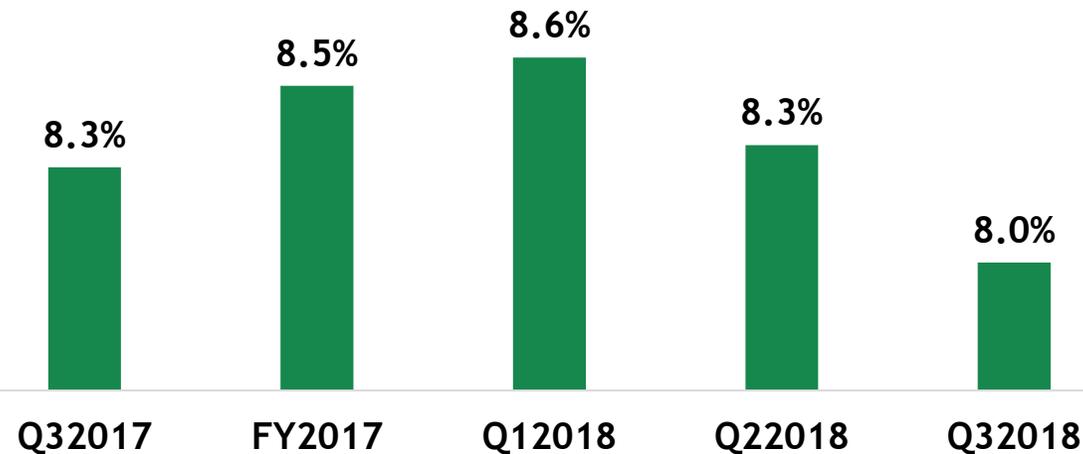


Returns on Assets post interest rates cap

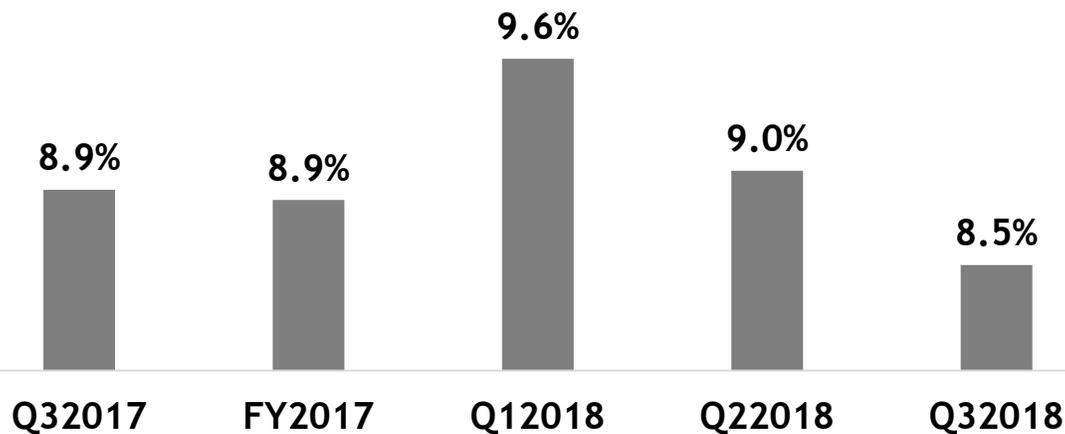
■ Loan Interest growth(yoy)



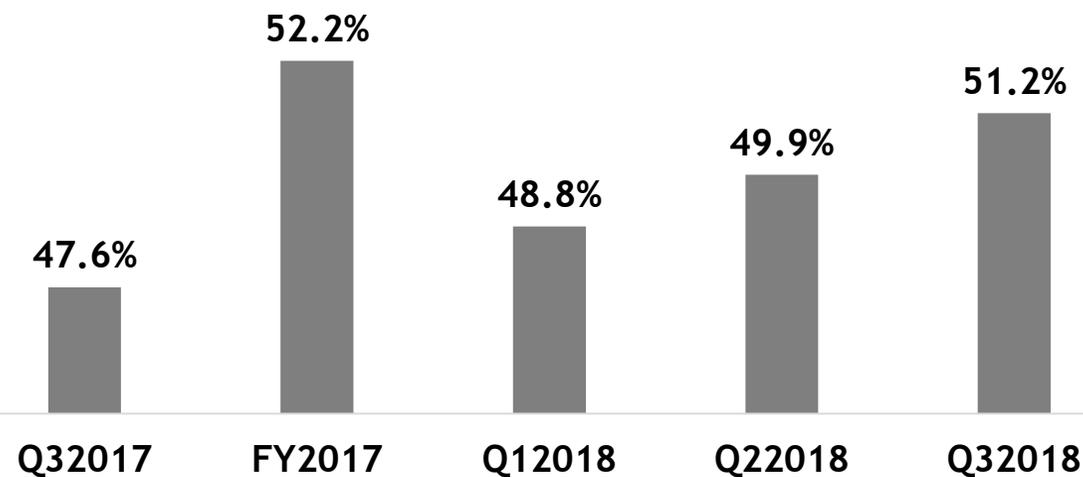
NIM on Earning Assets



■ NIM

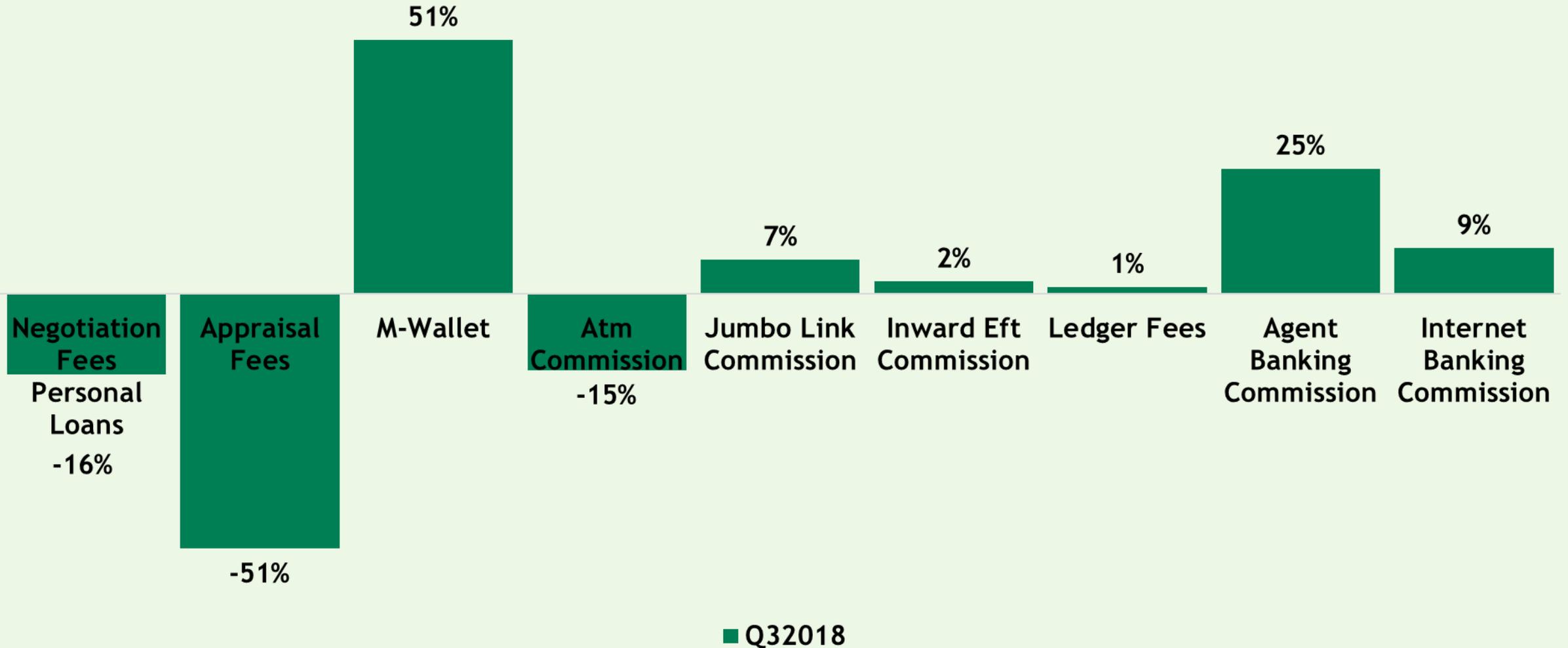


■ CIR without provisons

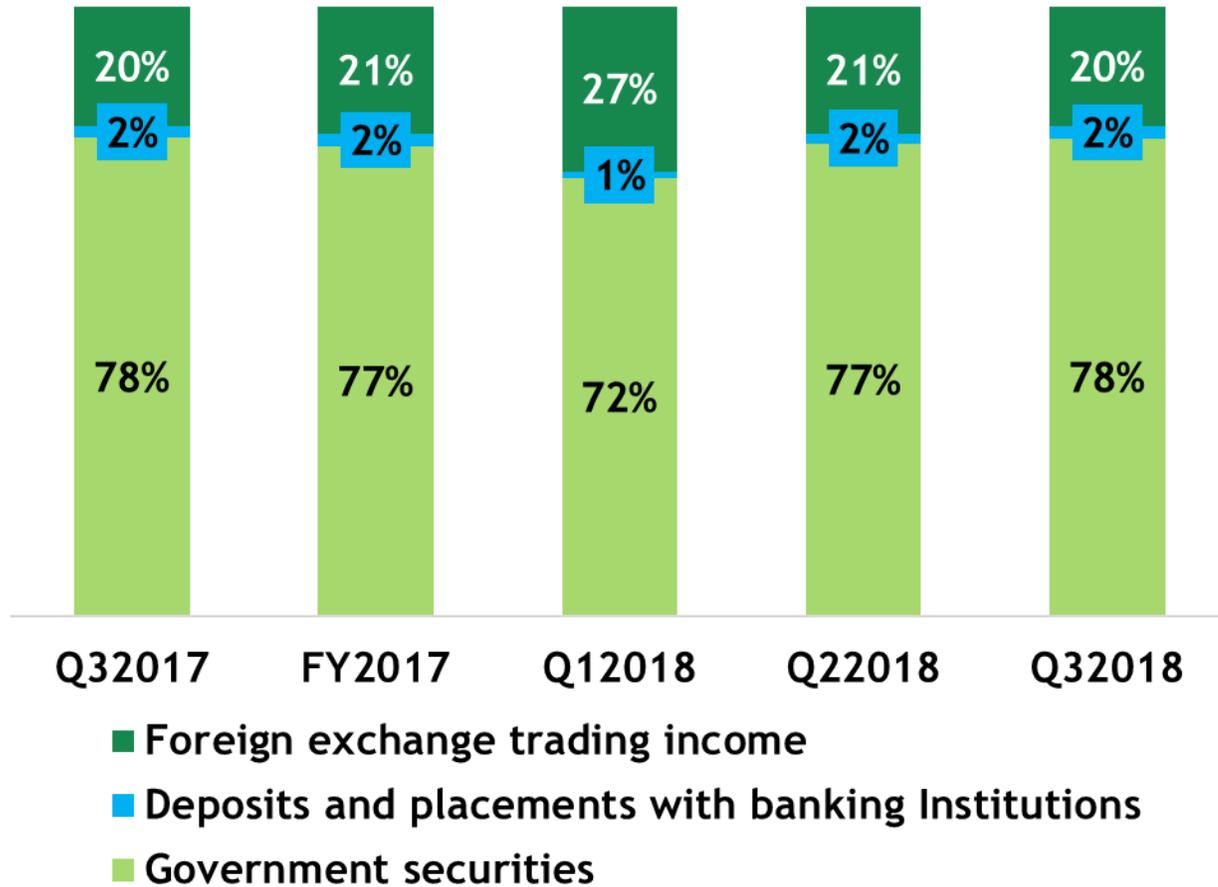


Top Non- Funded Income

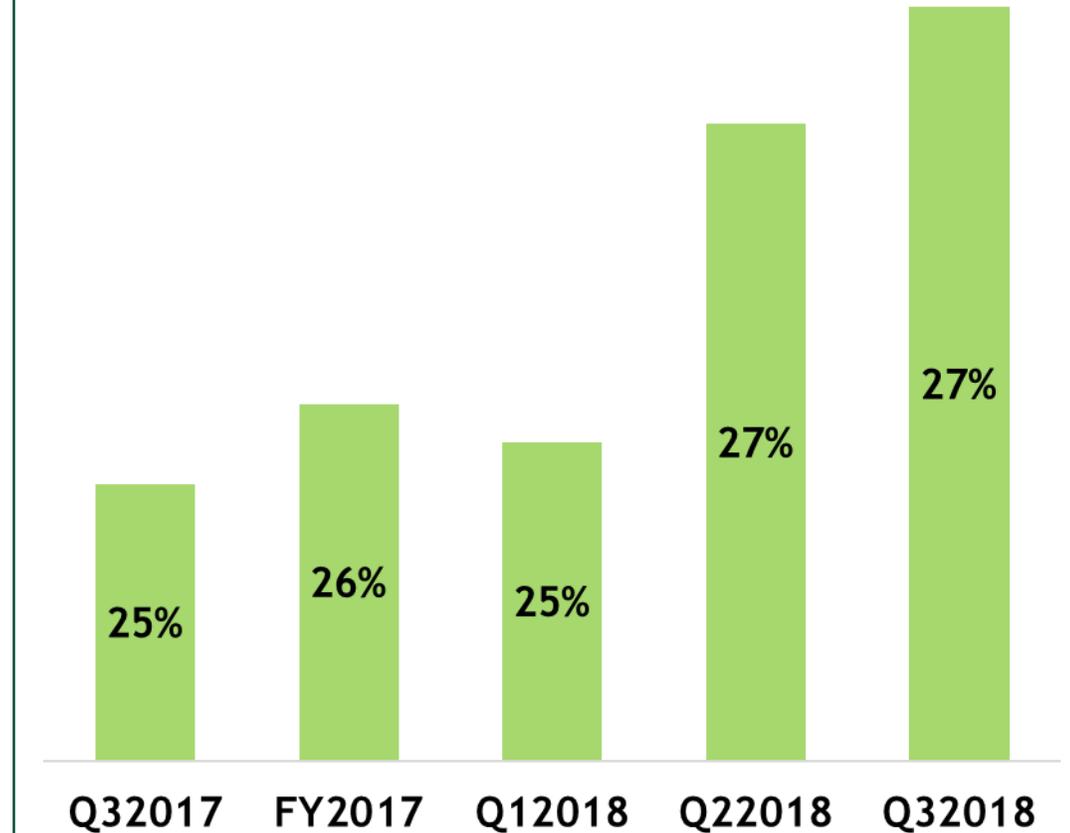
Top Non-Funded Income Lines Growth (YOY)



Treasury Income Mix

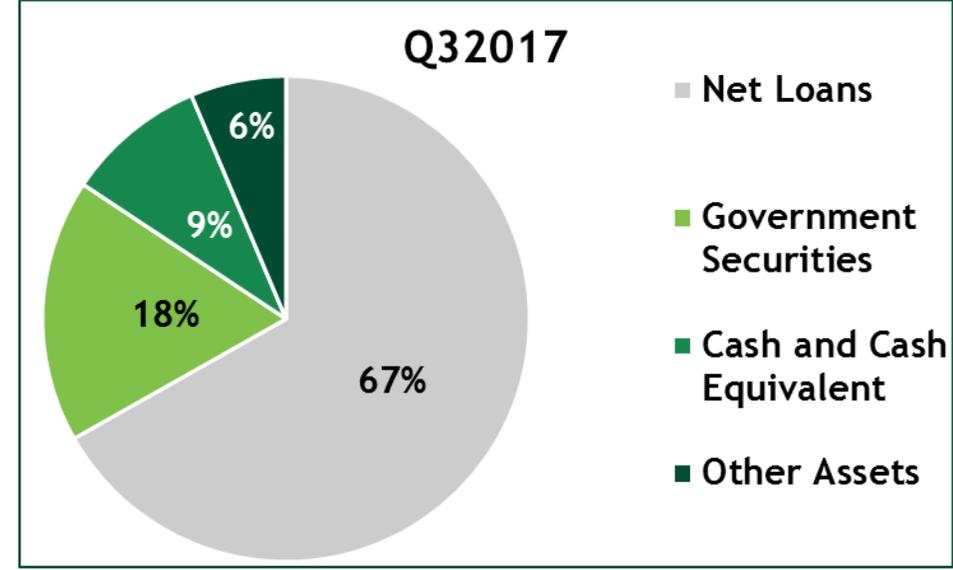
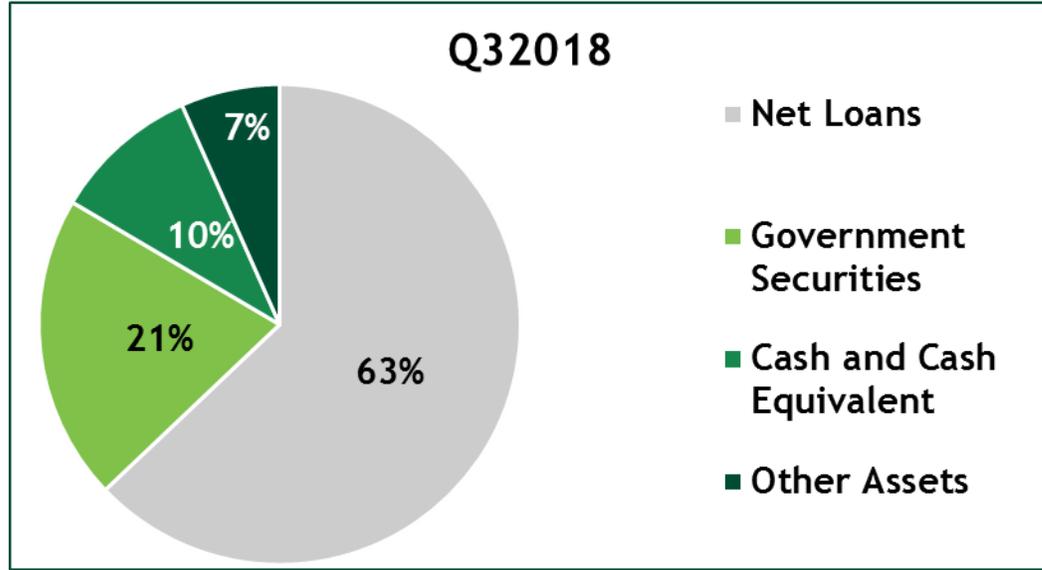


Treasury income to Total Operating Income

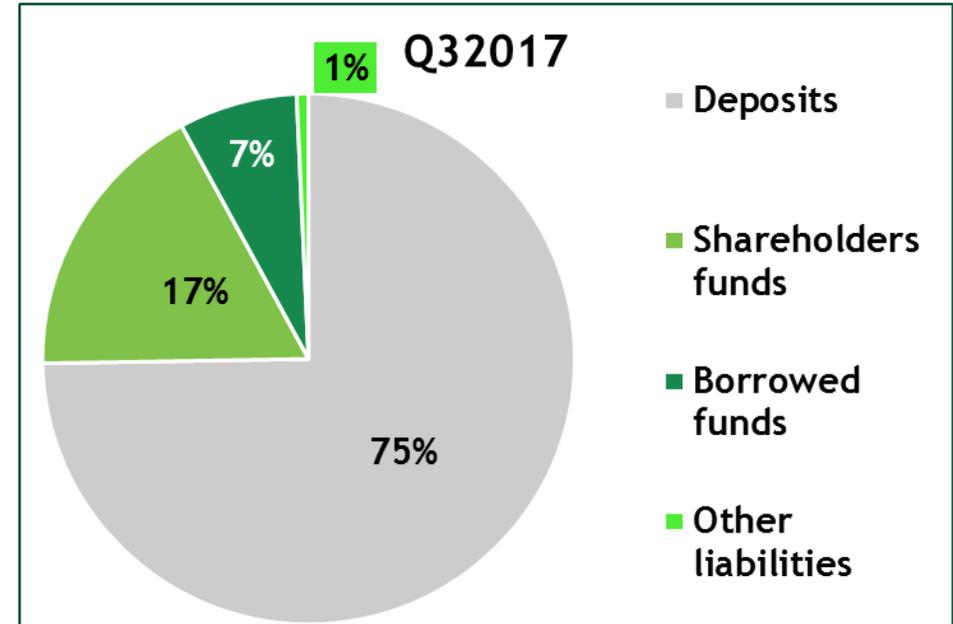
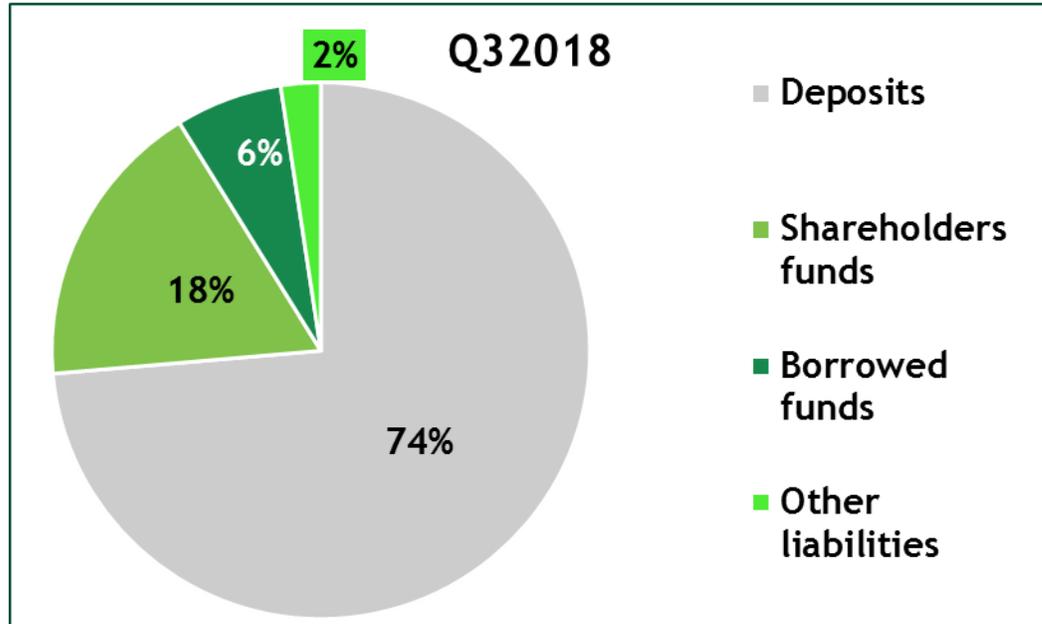


Balance Funding

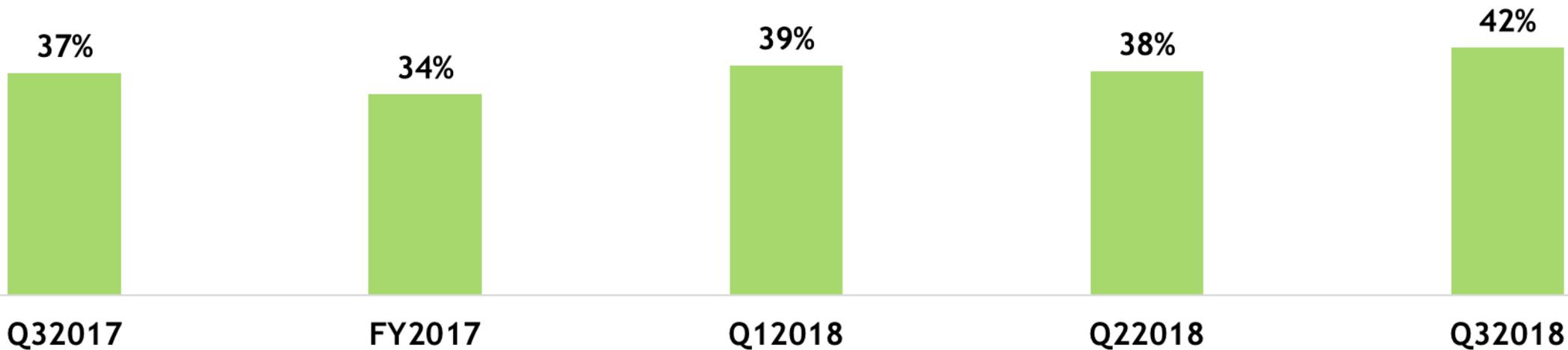
Asset Categories



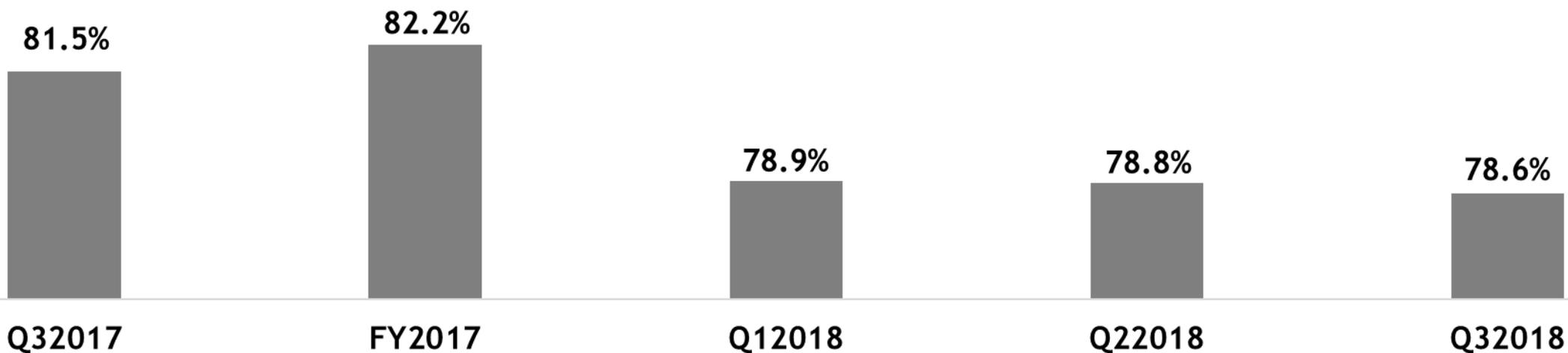
Funding Categories



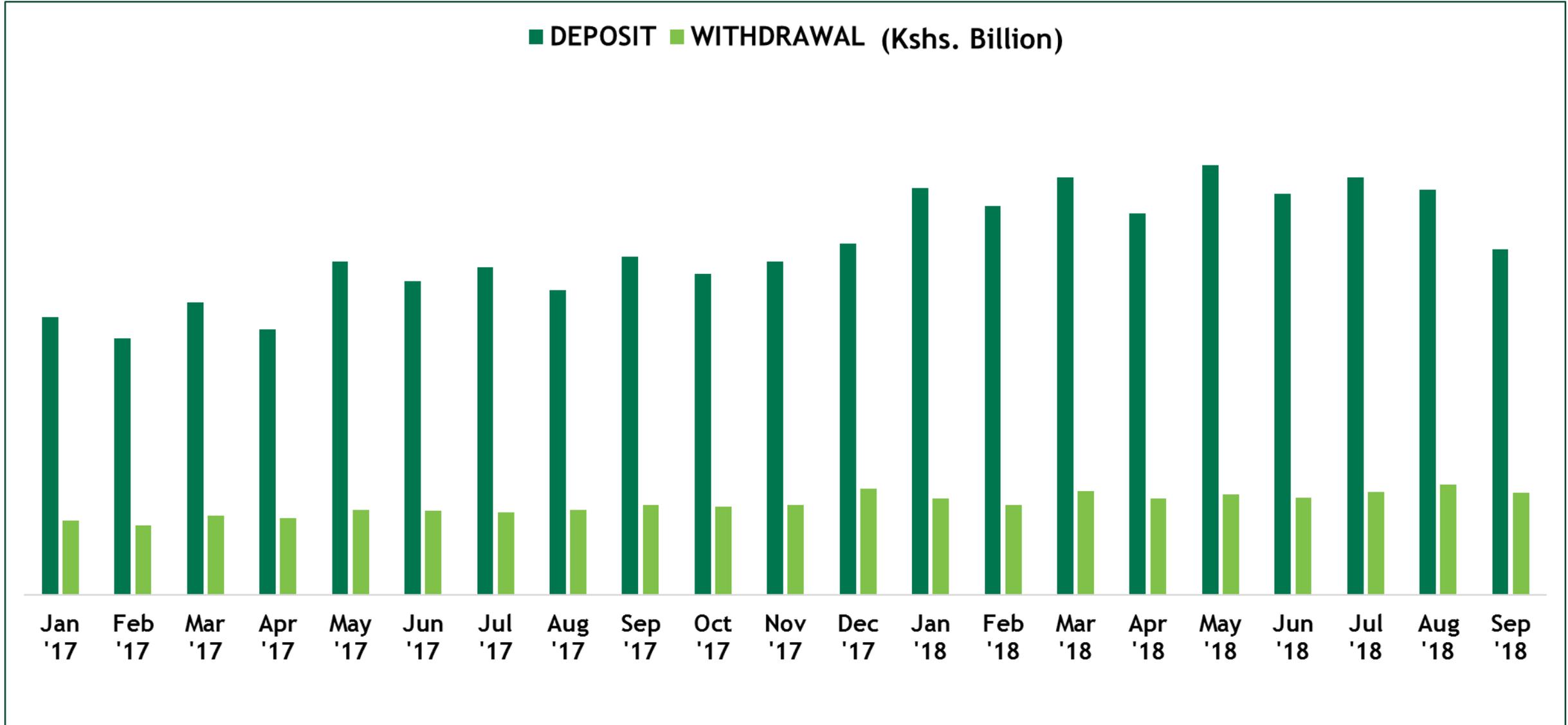
Liquidity trend



Loans to Deposits+ Borrowed Funds



Agency Banking



Company Performance

COMPANY	Profit Before Tax Q32018	Profit Before Tax Q32017	%
	KShs'000	KShs'000	
The Co-operative Bank of Kenya Limited	13,879,249	13,215,655	5%
Co-op Consultancy & Ins Agency Limited	376,735	353,907	6%
Co-op trust Investments Limited	38,197	29,999	27%
Kingdom Securities Limited	(15,599)	82	(19123%)
Co-operative Bank of South Sudan	235,116	39,149	501%
Total PBT before eliminations	14,513,698	13,638,792	6%
Add: Share of profit from associates	131,948	99,093	33%
Group profit before tax	14,645,646	13,737,886	7%
Income tax expense	4,331,710	4,201,626	3%
Group profit after tax	10,313,936	9,536,259	8%

Key Profit & Loss Ratios

	Q32018	Q32017	FY2017
Cost to Income(Excluding Provisions)	51.2%	47.6%	52.2%
Cost to Income (Including Provisions)	55.1%	55.9%	60.9%
Cost of funds	3.8%	4.0%	4.1%
Debt to Equity	36.7%	41.6%	30.4%
Average Return on Equity	19.9%	20.1%	17.4%
Average Return on assets	3.5%	3.4%	3.1%
FX to Non Funded income	16.5%	15.2%	16.5%
Non - Funded to Total Income	32.7%	32.8%	32.4%
Net Interest Margin(loans)	8.5%	8.9%	8.9%
Net Interest Margin(Earning Assets)	8.0%	8.3%	8.5%
Effective Corporate Tax Rate	29.6%	30.6%	30.9%

2018 Financial Outlook

	<u>Actual</u> Q32018	<u>Projections</u> FY 2018
Profit Before Tax Growth	6.6%	10%
Loans & Advances Growth	-2.0%	5%
Deposits Growth	2.6%	5%
Cost to Income Ratio	51.2%	50%
Non Funded to Total Income	32.7%	35%
Return On Average Equity (ROAE)	19.9%	22%
Return On Average Assets (ROAA)	3.5%	3.8%
Non Performing Loans (NPL)	11%	9%
Cost of average funds	3.8%	4%
Net Interest Margin (NIM)	8.5%	8.5%
Cost of risk	0.7%	1%

The Bank has proactive strategies in place to remain resilient in the Balance sheet and profitability growth in a changed Banking Environment.

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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