



CO-OPERATIVE BANK OF KENYA LTD

GROUP FINANCIAL RESULTS
ANALYST BRIEFING Q1-2021

21st May 2021

KEY HIGHLIGHTS

We are Growing | We are Resilient | We are Agile

A transformational Bank



Largest Co-operative Bank in Africa 15 Million Members

Successful Universal Banking Model Increased Dominance in Kenya

Growth, Resilience and Agility in a pandemic environment

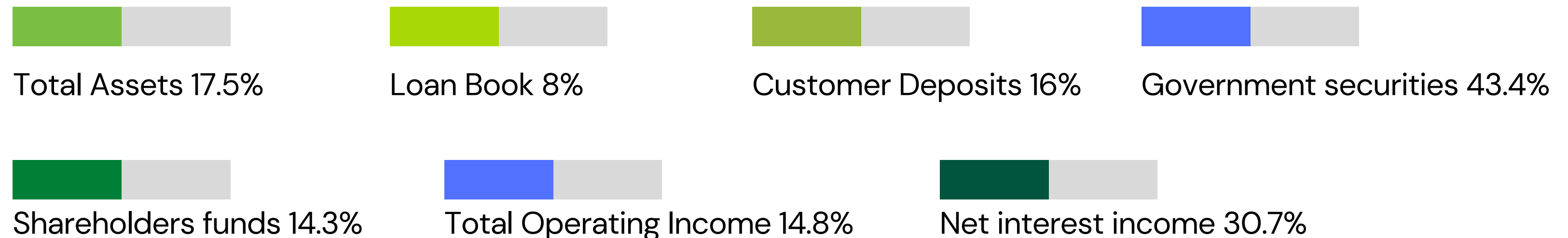
Over Kshs. 553 Billion in Total Assets

4604 Skilled, Motivated Staff Members

8.8 Million Direct Account Holders



Continued focus on optimizing opportunities to grow; Asset, liability & non funded income through an innovative array of financial solutions.



Investment in E-credit

- Strong penetration; disbursement of Kshs.5.5 Billion 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 credit risk

Proactive Regulatory compliance including measures put in place to mitigate the adverse economic impact due to the ongoing pandemic

We are Resilient

Protecting Value



- Profitable Bank **Kshs. 4.98 Billion**
- Strong Capital Buffers
- Proactive Enterprise Risk Management Framework.
- Proactive provisioning for NPL: Kshs. 2.3B in Q12021 (+154% YoY growth)
- Continuous support to our customers, staff and all our other stakeholders. Up to **Kshs.49 Billion** loan book restructured.
- Low relative exposure in high-risk sectors like Tourism (1%) and Manufacturing (2%). Up to **48% of our loan Book is in Consumer banking** which is performing well.
- **Optimal risk spread** with a 43% growth on T-bills and T-bonds.

Continued gains from our institutionalized Transformation seeking efficiency and growth.

Key ongoing transformation initiatives aimed at a quality loan book are;

- 1.Credit Review Implementation Project **“Project Kilele”** with McKinsey &Co.
- 2.Decentralization of loan portfolio management enabling **Project 3C** (Connect, Collect and Cure).

Operational efficiency with

93%

of our transactions in alternative channels. We have been able to offer uninterrupted services on these channels.

- Enhanced digitization of internal bank processes and engagement platforms, to ensure **contactless** capabilities for both customers and staff.
- New Core Banking Platform implementation on track. Expected Key benefits include enhanced;
 1. Business agility & Innovation
 2. Customer experience
 3. Cost management
 4. Analytics
 5. Process automation & Digitization

Staff Productivity

- Supporting new ways of working.
- +25% Pre-provision return per staff.

Proactive Regulatory compliance including measures put in place to mitigate the adverse economic impact due to the ongoing pandemic

MACROECONOMIC HIGHLIGHTS

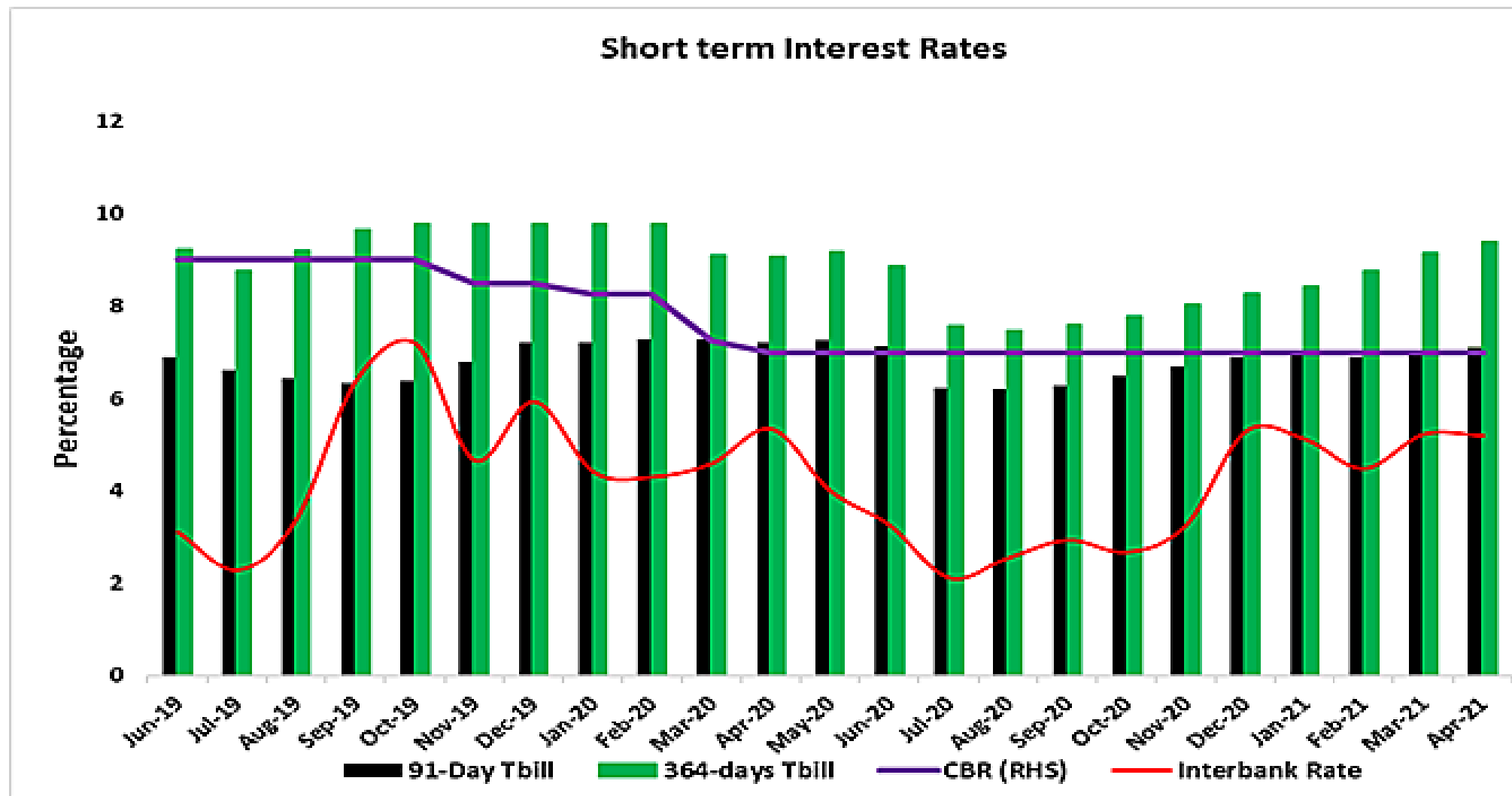
1. Economic Recovery Path- Kenya
2. Short Term Interest Rates
3. Exchange Rate
4. Inflation Rate
5. Private Sector Credit Growth
6. South Sudan Macro Environment

2021 Economic Growth Plan Uncertain



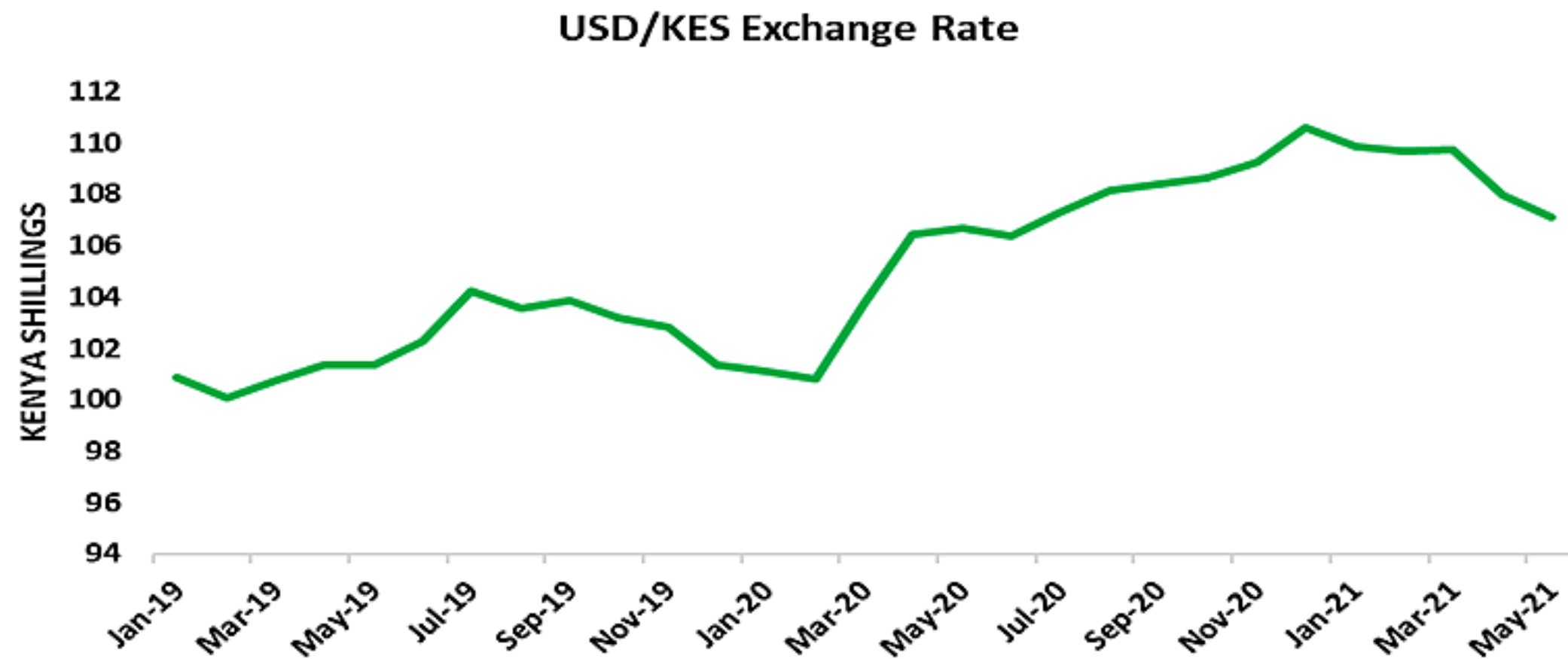
- In 2021, the economic growth path is still quite uncertain. This has resulted in varied Gross Domestic Product (GDP) forecasts by the CBK, IMF and World Bank ranging from 4% to 8%.
- The surprise third wave of COVID-19 pandemic in Kenya in March has meant an extended period before the country recovers in economic activity level.
- Agriculture and the education sector are projected to perform well in Q1 and Q2 of this year given a favorable weather forecast and resumption of schools, respectively.
- Tea and horticultural exports which are already 8% and 4% higher in 2021 compared to 2020 are projected to record a good performance this year.
- The level of consumer spending is still lower than pre-pandemic levels. Even after reversing VAT rate back to 16%, domestic VAT collection in Q1 2021 was still lower than the pre-pandemic levels.
- Manufacturers indicated in a Q1 2021 survey that 31% of the surveyed firms have less than normal order levels compared to only 15% in Q1 2019. The reasons sighted for low sales include; insufficient demand from household consumers the hospitality sector.
- The Government has entered into a \$2.34 Billion IMF program for 38-months to boost the country's COVID-19 response.

The money market remained fairly-stable in 1Q 2021. The yield curve has marginally shifted upwards since July 2020.



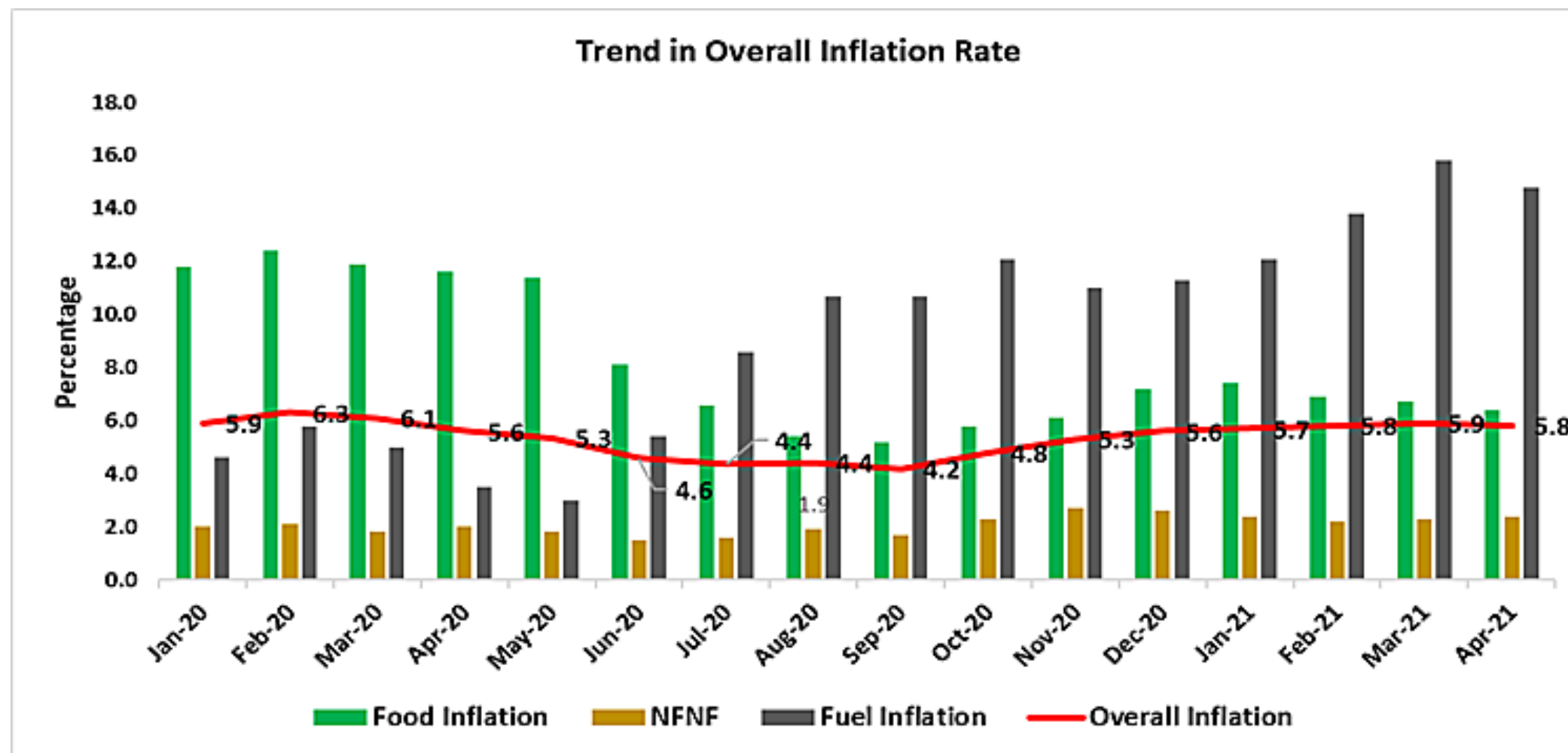
- The 91-days paper has risen (6.1% to 7.1%), 182-days (6.4% to 8.0%) and 364-days paper (7.4% to 9.5%) in the period July 2020 to April 2021.
- On average, interest rates on short term Government paper were slightly lower in Q1 2021 compared to Q1 2020, resulting from the Government's preference for long-tenor debt paper in 2021.
- The average interbank rate increased slightly to 5.0% in Q1 2021 from to 4.6% in Q1 2020.

The KES has gradually strengthened against the USD since March. It closed April at 107.8 from an average of 109.8 in January 2021.



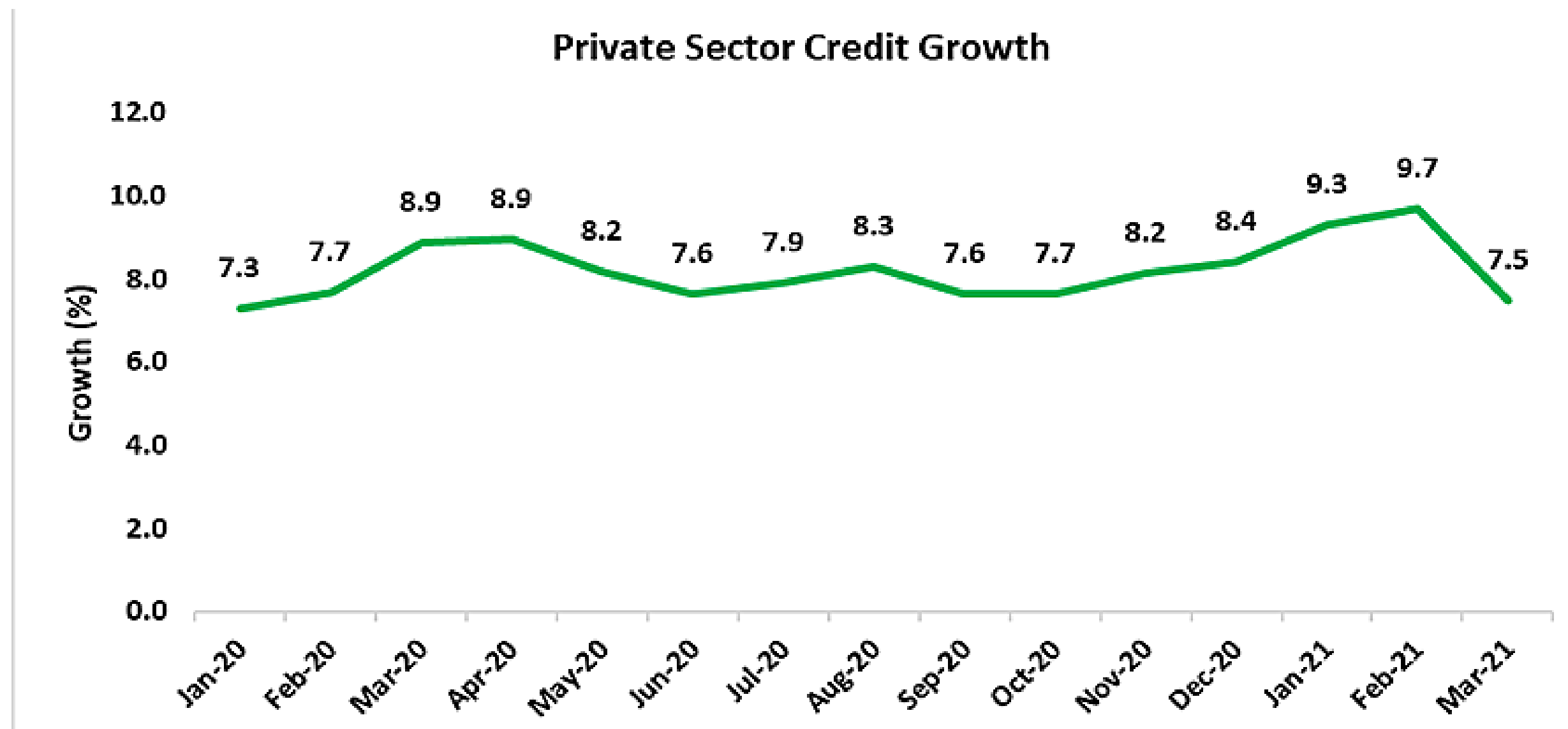
- We forecast marginal movement on the exchange rate in Q2 given low demand for imports, single digit credit growth, stable exports flow and increased forex reserves resulting from positive debt external flows.
- However, a sudden significant rise in value of oil imports would pose potential risk.

Overall inflation remained stable within the medium-term target band, declining marginally to 5.8% in April from 5.9% in March, driven by lower food inflation.



- The food security balance sheet released in March and projected to end of May 2021 shows that the country is grain-secure into June 2021.
- The Long rains, though commenced late in April, are expected to keep vegetables prices low in Q2 and early Q3 of this year.
- With the uncertainty surrounding the local fuel pump price review, fuel inflation may remain stable at around current level of 14-15%.

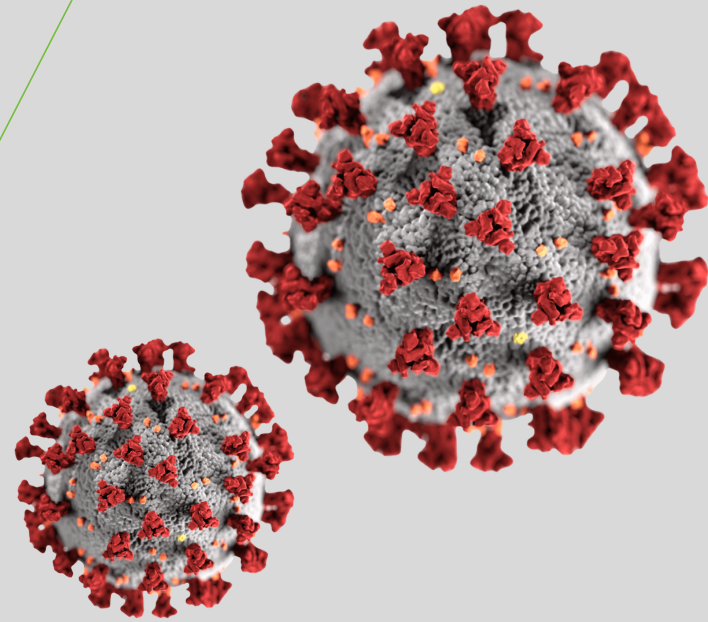
- Growth in private sector credit in Q1 2021 remained low, at an average rate of 8.8% compared to 8% in Q1 2020.
- Most of the lending has been to households and working capital for enterprises.



We project overall credit growth to remain low for most of 2021.



- The COVID-19 pandemic-related oil price shock and devastating floods have led to an economic downturn in Q1 2021.
- An IMF Rapid Credit Facility (RCF) disbursement of US\$174.2 million in April has come in handy to finance for urgent balance of payments needs and create fiscal space.
- Falling global oil prices have reduced government revenues by 40%, increasing the fiscal deficit further.
- The banking sector has been affected by the COVID-19 containment measures. Credit to the private sector, which fell by 20% in 2019, dropped another 40% in 2020, reflecting subdued economic activity.
- South Sudan's debt risk rating improved from debt distress to high risk, due to the restructuring of the country's commercial debt with Qatar National Bank, which accounts for 46% of external debt.
- Recent efforts by the Bank of South Sudan for example, an halt to monetary financing of the fiscal deficit have not yet succeeded in stabilizing the exchange rate.



COVID-19 RESPONSE

1. Co-ordination within the bank- Covid19 governance
2. Regulatory interaction: legal perspective
3. Policies, procedures and related controls
4. Risk assessment
5. Stakeholder Support

Covid-19 Response: Key Pillars

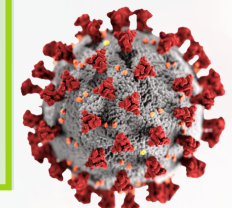
Co-ordination within the bank– Covid19 governance

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

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



Covid-19 Response: Key Pillars

Specific support to each stakeholder

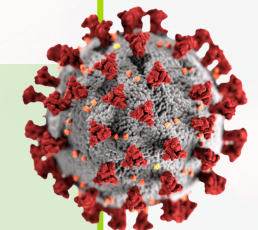
- We are providing specific support to our stakeholders. For our customers we have universal support, but we also have targeted support for customers whose operations /revenues have been halted or materially impacted by the pandemic.
- A portfolio of Kshs.49 Billion was been re-aligned to offer our customers the much needed support.

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.

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



Covid-19 Response: Key Pillars

Customers

- 49 Billion restructured to date
- Restructure cost borne by the Bank
- Waiver on Bank to wallet fees
- Fortified digital channels
- Digital loan approvals
- 24 hour contact centre
- Open banking solutions
- Virtual training – MSME

Staff

- Medical benefit
- Remote working
- Team A & B
- Constant Communication
- Hotline
- Trained medical personnel
- Telemarketing tools
- Digitization of internal processes

Co-operatives Movement

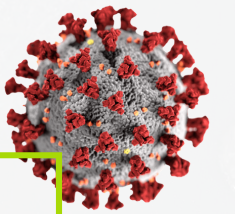
- Facilities re-alignment
- Working capital support
- Digital transaction capabilities

Shareholders

- Virtual AGM
- 5.8 B dividend– critical support/income to the 15 million member co-operative Movement

For all our stakeholders

Sanitizers | Thermal guns | Social Distancing | Virtual meeting tools | Enhanced cybersecurity



Covid-19 Response: Key Pillars

Regulators

- Implemented relief measures granted under the emergency by CBK
- Documented & reported all the extended and restructured facilities under the emergency measures.
- Deployed monitoring tools to keep track of the covid-19 restructures

Strategic Partners

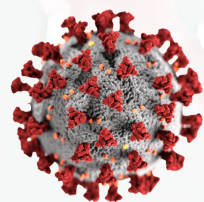
- Continued contractual agreements with our strategic partners throughout the pandemic. Secured Kshs. 8.25B from IFC.
- Partnered with them to reach out and train our customers e.g. IFC in our MSME clinics.

Suppliers

- Continued transparent procurement and tendering practices
- Observing contractual agreements with our contractors and suppliers

Community

- Donated Kes.100 Million to the covid-19 task force.
- Continued our operations as a responsible corporate citizen to support the society and the economy

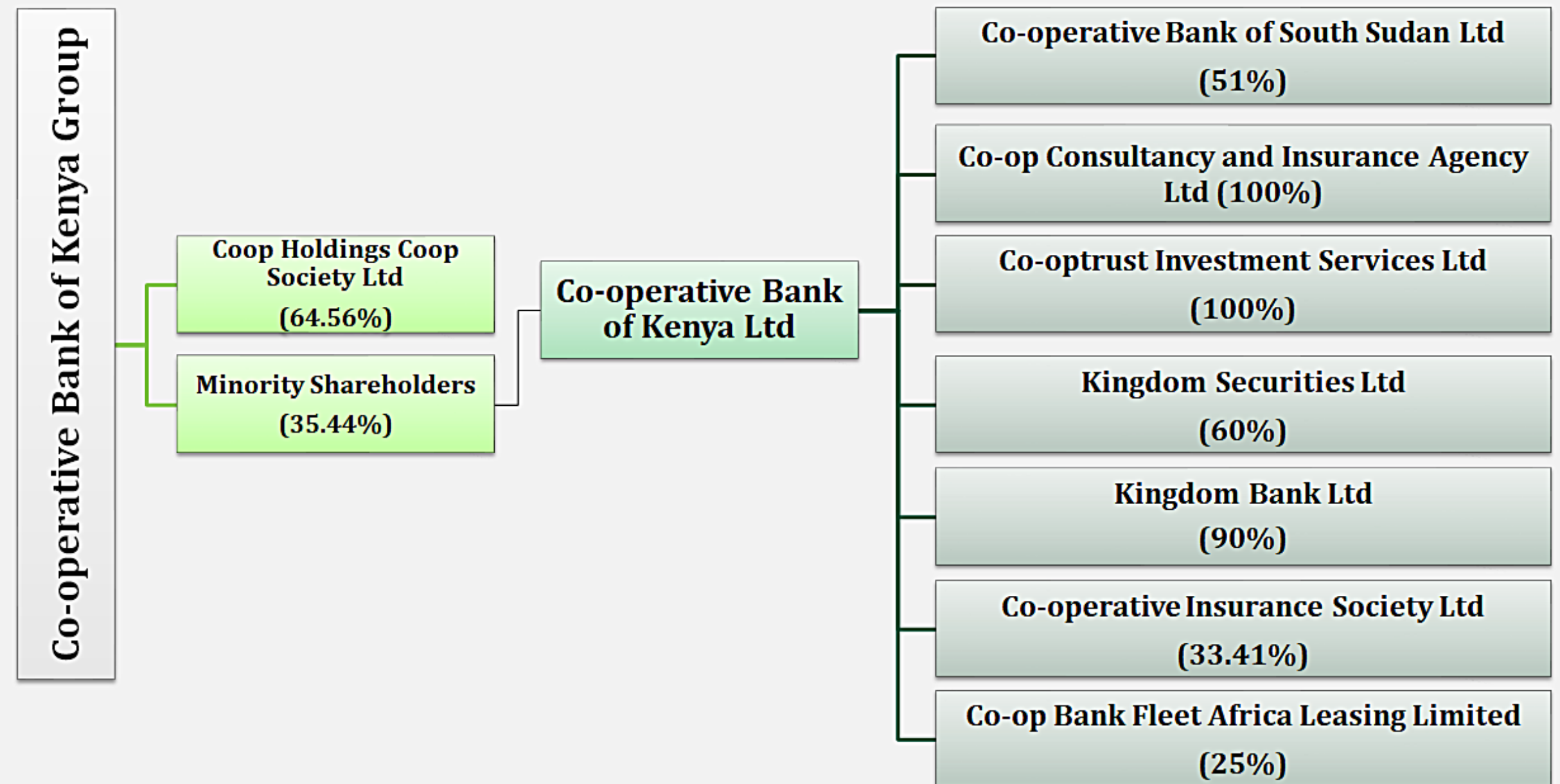


STRATEGIC FOCUS

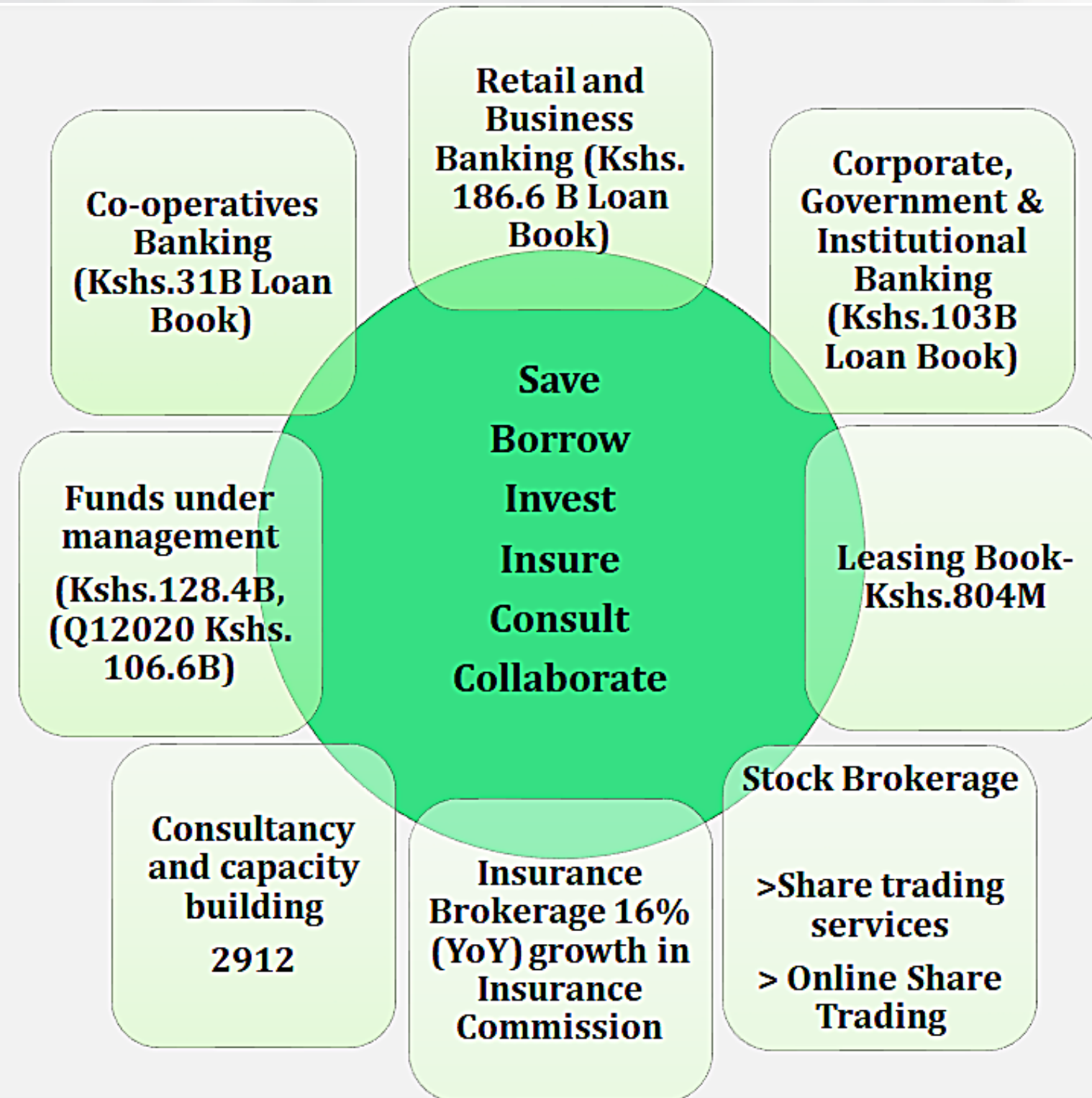
2020-2024 STRATEGIC THEMES

- Aggressive deepening of our dominance in the Kenya Market
- Dominant provider of financial services to the Co-operative Movement in Kenya and the region
- Customer experience that is seamless across all our touch points.
- Operating efficiency driven by digitization, innovative products & Processes, efficient business models, and staff productivity.
- Optimal Enterprise Risk and Compliance in the dynamic environment.
- Operate as a good corporate citizen

Group Structure



A Successful Universal Banking Model



Our Presence



 177 Branches

 8.8M Account holders

 24k+ Co-op Kwa Jirani Agents

 580 ATMs

 24hr Contact Centre

 16.5k Diaspora Banking Customers

 4604 Staff

 5.1 M Mcoop Cash Customers

 115k Internet banking Customers

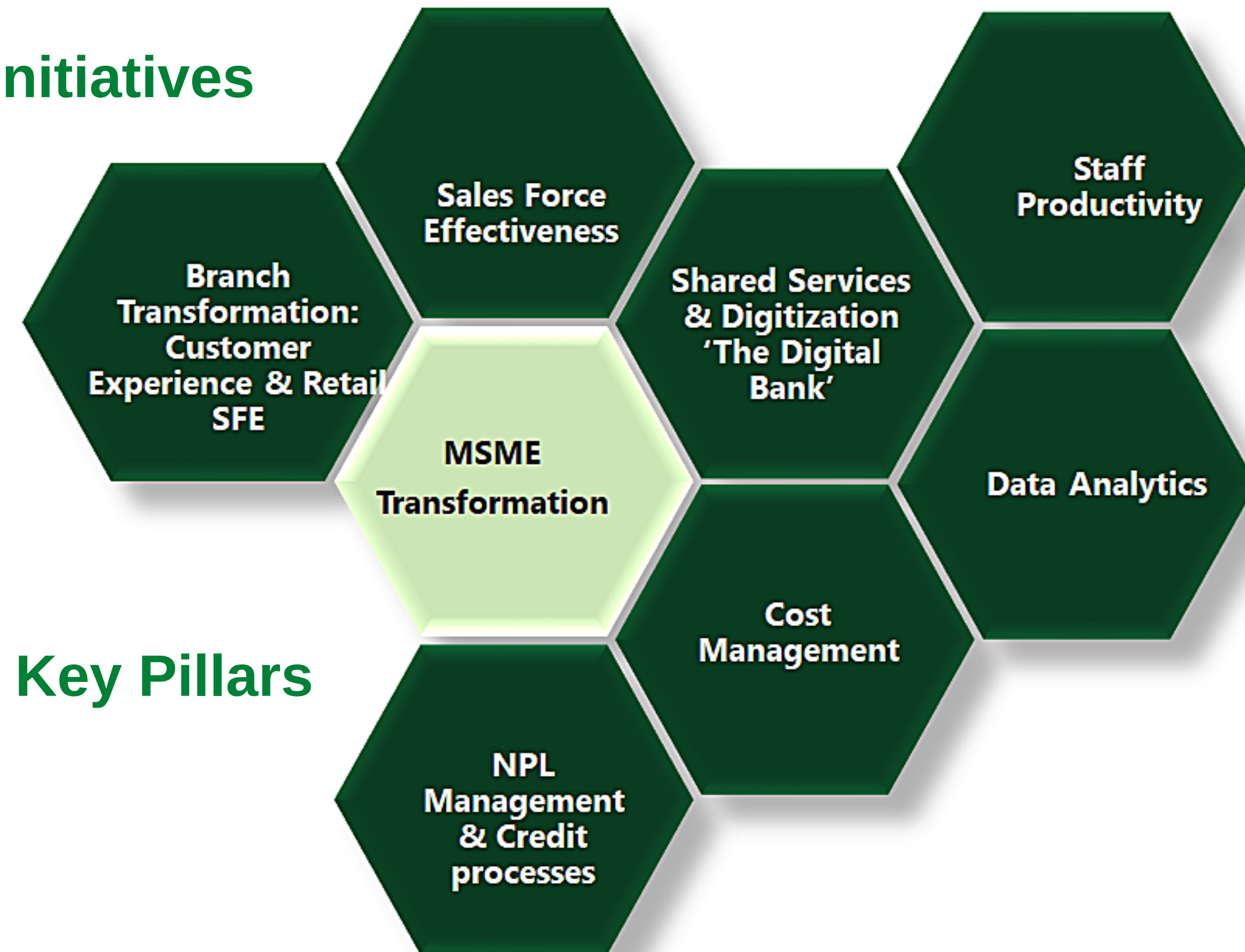
 479 Sacco Front Offices Branch network



“Soaring Eagle”

Transformation Initiatives

Growth
Efficiency



“Soaring Eagle” Transformation:

Key achievements

•E-Credit Focus: Kshs. 138.6B Disbursed so far.

- 1.Short term tenor of maximum 90 days .
- 2.Good yield of 8% flat.
- 3.Average disbursement of Ksh.5.5B per month.
- 4.Consumer Based that is on salary checkoff deductions at source.
- 5.Low credit risk

•Average queue time of 8.4 Minutes.

•93% transactions on alternative channels.

•Proactive credit management through;

- 1.Continuous Process improvement for enhanced End to End Turn Around Time on all loan applications.
- 2.Proactive early delinquency & NPL management through Connecting with our customers, collecting and offering customer centric solutions.
- 3.Credit Review Implementation Project “Project Kilele”

•MSME Transformation:

- 1.11,215 trained customers
- 2.125K on boarded on the new packages (Gold, Silver, Bronze)
- 3.Supply chain financing: 91 Anchors and 512 counter parties to date.
4. Non-Financial Services (NFS):181 NFS clinics, 13 Networking forums, 3 international business trips.
5. Government of Kenya Credit Guarantee Scheme
- 6.Kshs. 8.25 Billion MSME financing from IFC

“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 804 M.
- Akili Kali partnership; Fintech engagement challenge for digital co-operatives

•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

Credit Review Implementation Project

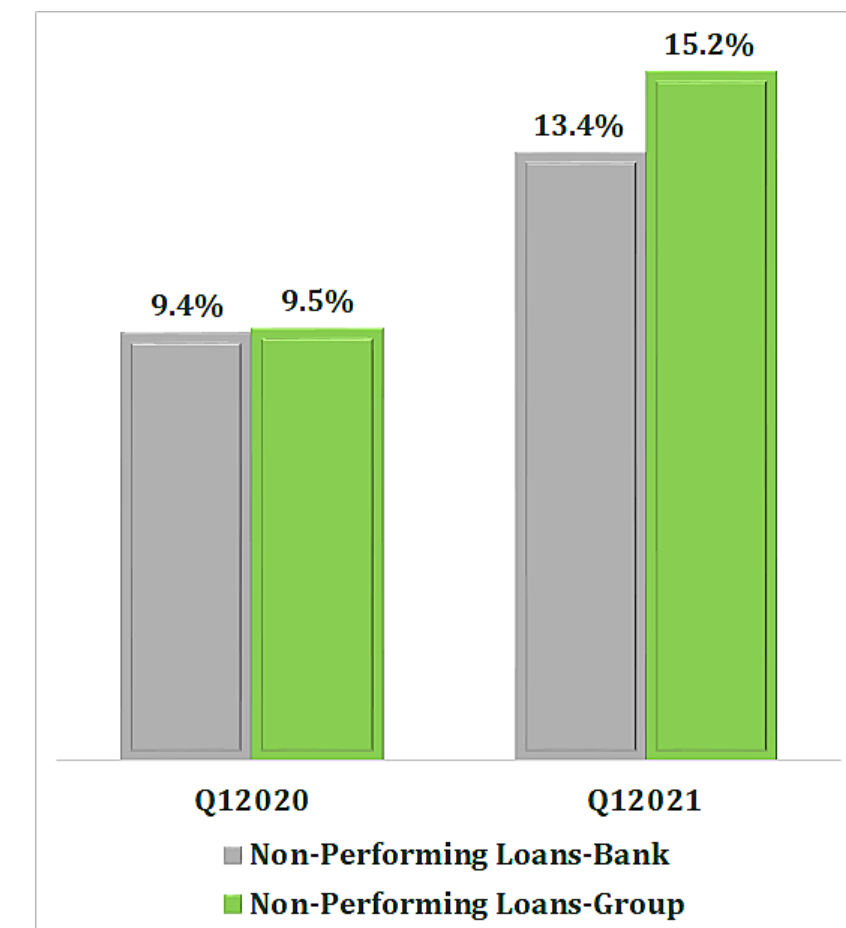
“Project Kilele”



Key Achievements

- Underwriting process optimization
- Reclassification of sectors and sub-sectors
- NPV (Net Present Value) Restructuring Model
- Early Warning System
- Enhanced Strategic Collections
- Client level action Plans

- 1.Roll out of new Application For Facility forms.
- 2.Improving Turn Around Time for facilities.
- 3.Auto disbursements.
- 4.Business Process Management System optimization
- 5.Training for Frontline staff and service teams done to enable onboarding new customers with the new sectors and subsectors.
- 6.Early Alert meetings at a segment level with the new guidelines.
- 7.NPV (Net Present Value) Restructuring Model deployed
- 8.Entire corporate and Co-operative book has been reclassified into the new Sector classification to enhance quarterly stress testing of customers by sector and subsector.
- 9.Enhanced Client level action Plans to ensure regular and comprehensive update and actioning.
- 10.Escrow buildup by our customers.



- **Co-op Consultancy & Insurance Agency Ltd**

- 2912 Consultancies
- 19 Dedicated Consultants
- 479 FOSA– Financial Inclusion Deepening

Co-op Foundation

- 7713 students supported to date
- 1.3 Billion since inception
- 18 University Students have completed Community Service in 2021 from a target of 30 for each year
- Digital transformation and Business Management for Youth in the Transport Sector in partnership with our partners.

Other Programs with;

- Ford Foundation
- Embassy of Finland
- Energy De Portugal
- GIZ

- Kshs. 49B loans restructured as support to customers affected by Covid-19.
- Financing the SME and MCU sector
- Sustainable financing towards;
 1. Big 4 Agenda
 2. 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
- USD 10M in partnership with Ecobusiness Fund to finance sustainable agriculture
- USD 75M-IFC MSME and green lending.
- IFC/Philips– Africa medical equipment.

Award Winning Brand



KENYA BANKERS ASSOCIATION: CATALYST AWARDS 2019

Overall Winner

Winner: Client case study- Financing SME

2nd – Best in sustainable finance

3rd – Client Case study-Financing Commercial Clients

2nd – Bank case study-Bank Operations

2nd – Bank case study- Financing and supporting clients in the informal sector

3rd – Most Innovative Bank



GLOBAL SME FINANCE AWARDS 2019

Product innovation of the year



EMEA FINANCE AFRICAN BANKING AWARDS 2020

Best Bank – Kenya

Award Winning Brand



**KENYA ASSOCIATION OF MANUFACTURERS
Best Bank in Sustainable Finance in Kenya – 2019**

**ANNUAL
ENERGY
MANAGEMENT
AWARDS**

**FINANCIAL REPORTING AWARDS 2019
Winner: Environmental Sustainability Reporting**



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

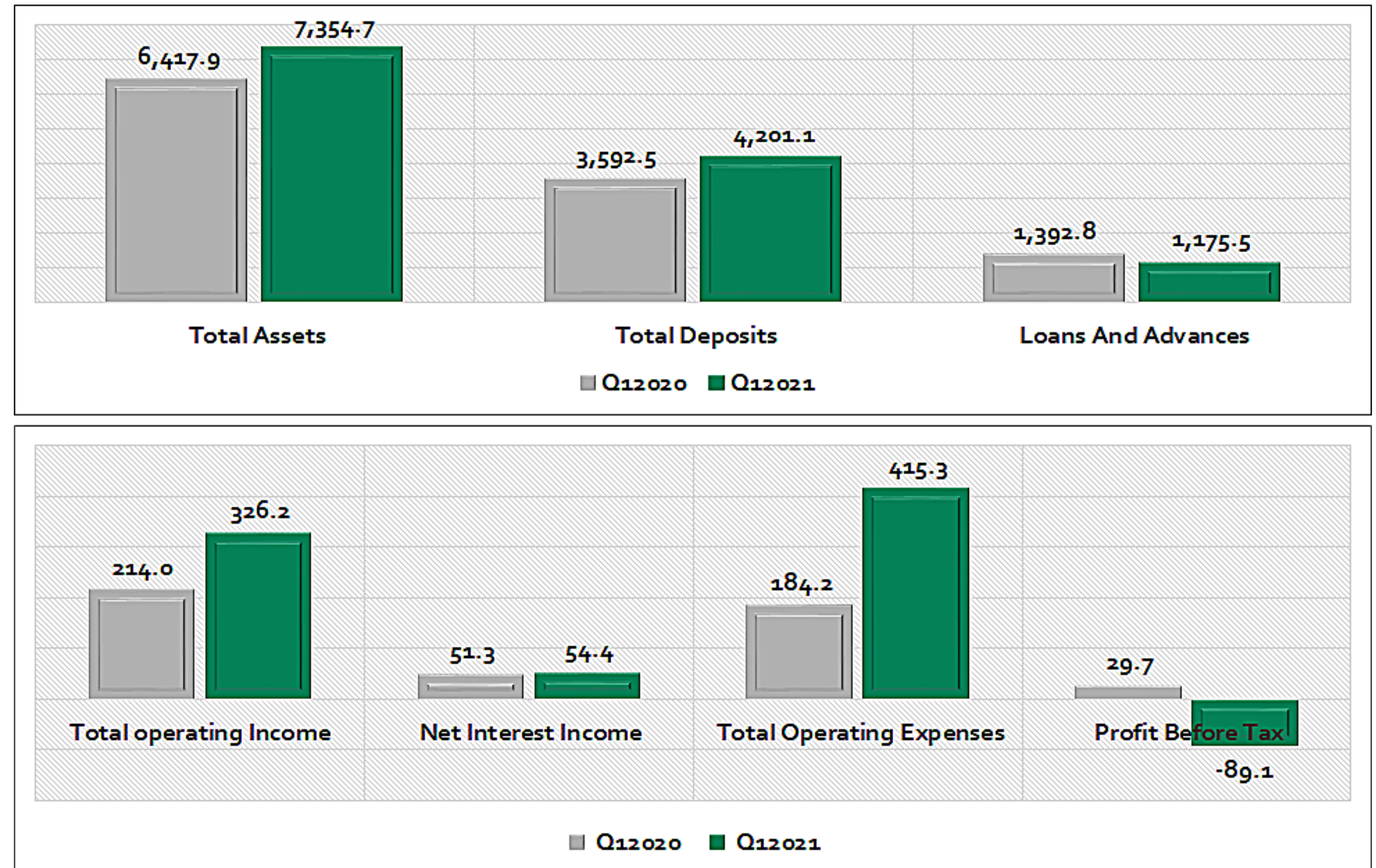
Regional Business (Kshs. Million)



4 branches in Juba

5 Non-oil collection centers.

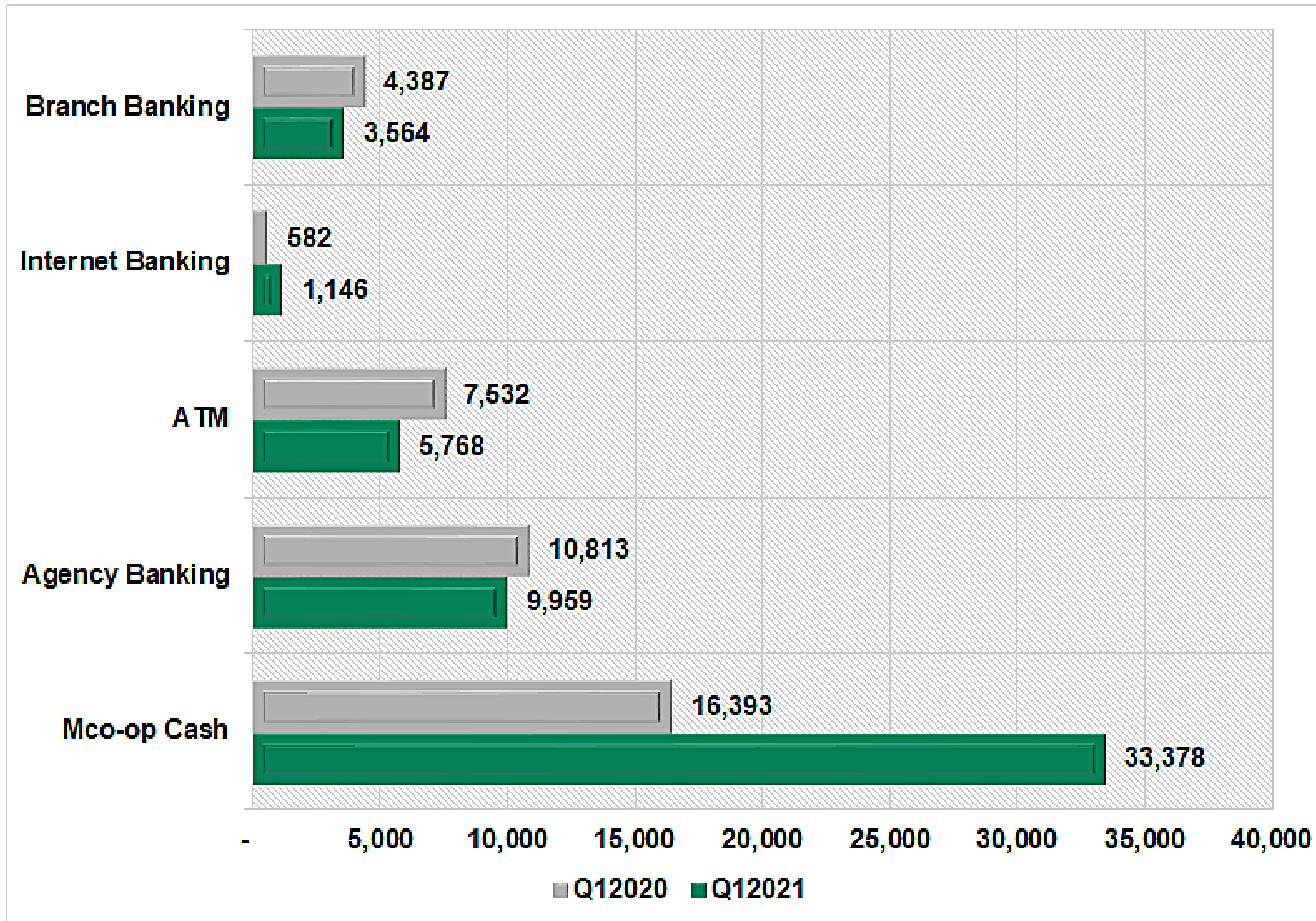
Owens 31% of CIC Africa Ltd- South Sudan



CHANNEL PERFORMANCE

Growing Digital Channels

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



93% of our Transactions are on alternative Channels providing opportunities for efficiency.

- Mobile
- Internet
- ATM
- Agency

104% growth in Mobile Transactions year on year.

Mco-op Cash Mobile Wallet – A unique Offering



MCo-op Cash is an all-telco, all products mobile banking service that enables customers to enjoy access to a variety of banking services, money transfer and payment services. It's a virtual account with a simple menu where the customers mobile number acts as the account number and can be opened and operated end-to-end from the phone without having to visit the branch. Mco-opcash has continued to reach many customers who would have remained unbanked and underbanked.

Mco-opcash main features includes;

- Full access to other wallets in the market
- Affordable pricing compared to Brick & Mortar
- Payment of goods and services directly to Telco Paybill/Till number
- Cardless withdrawal at the bank's agent and ATM network
- External and Internal funds transfer
- E-Credit – Access to the mobile based loans offered by the bank.



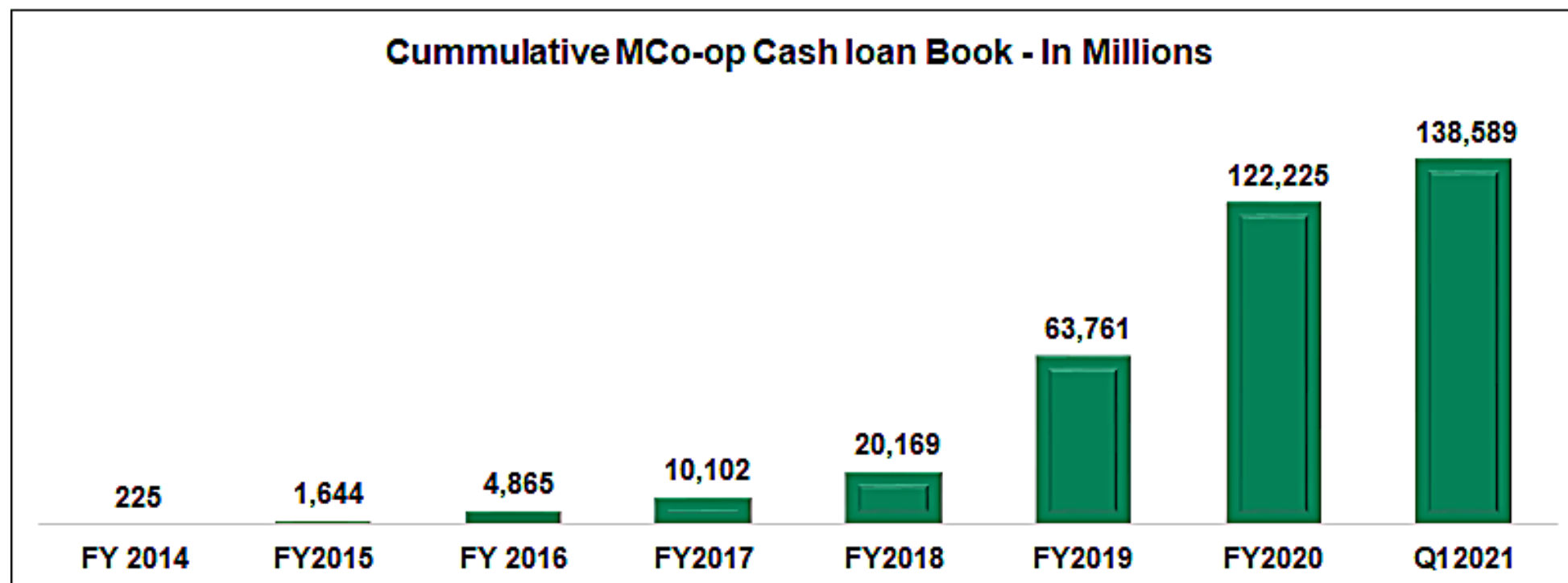
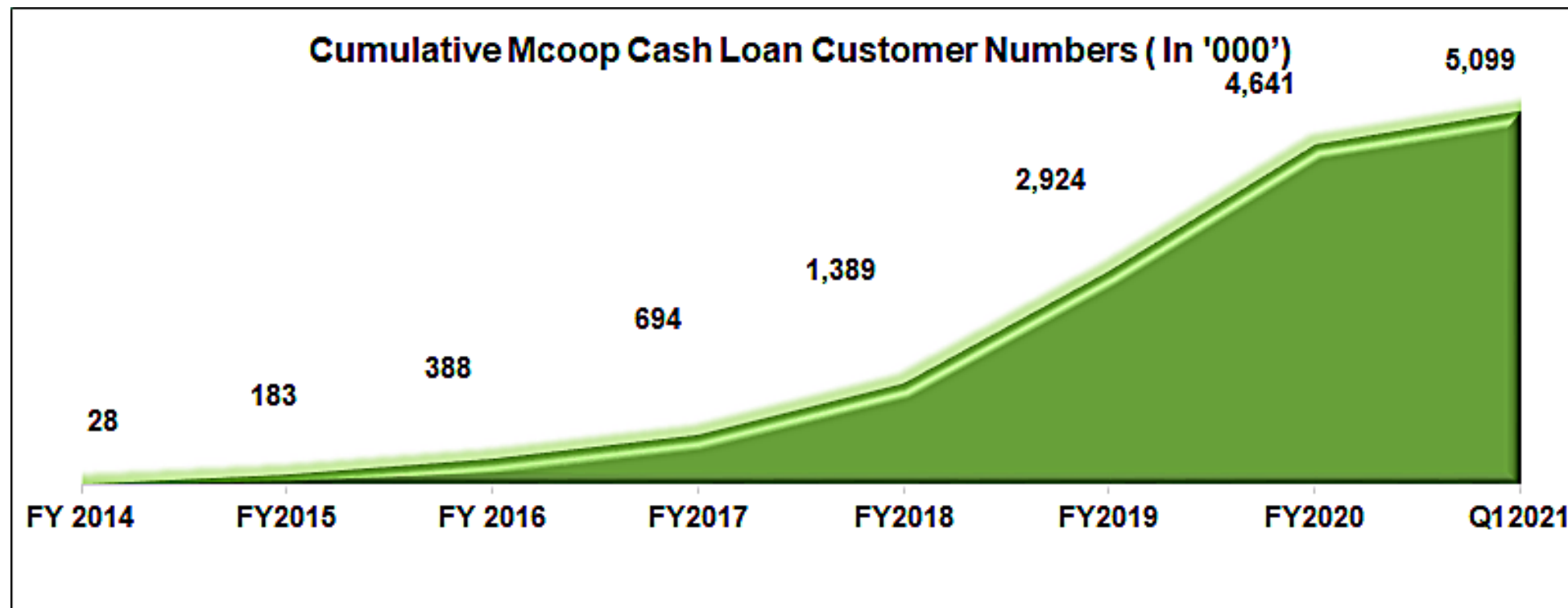
- A key focus area, Kshs. 138.6B disbursed to Date.
- Kshs. 5.5 Billion disbursed per month on average.
- Yield of 8% flat
- Consumer based salary checkoff hence lower credit risk.
- Short term tenure of maximum 90 days.



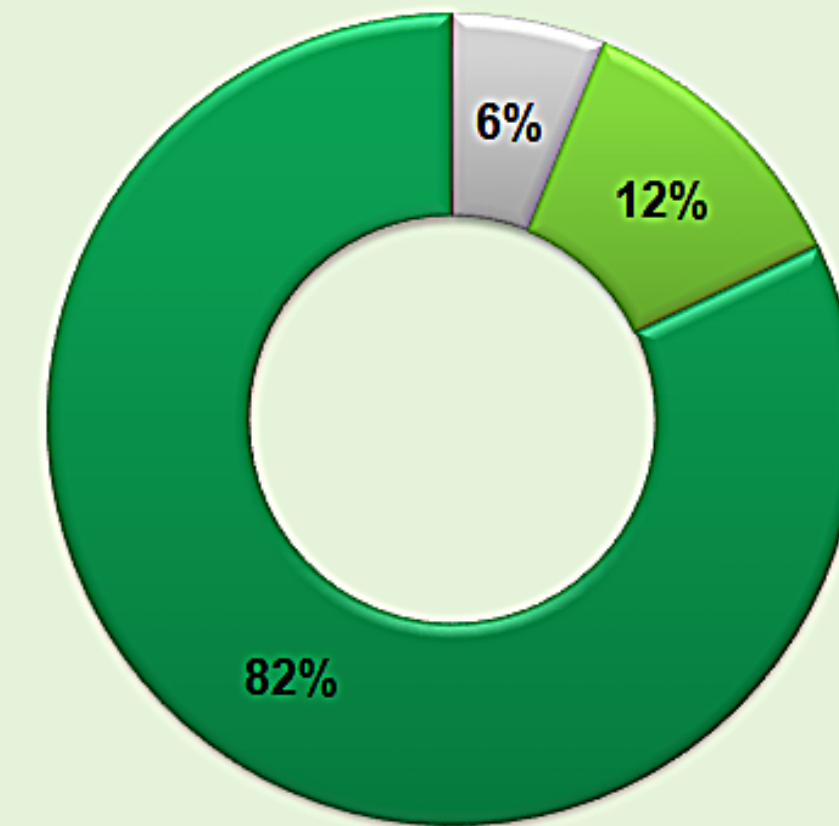
Get an instant relief from cash worries by applying for a Flexi Cash Salary Advance Loan

E-Credit

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



E-Credit – Key Growth Focus



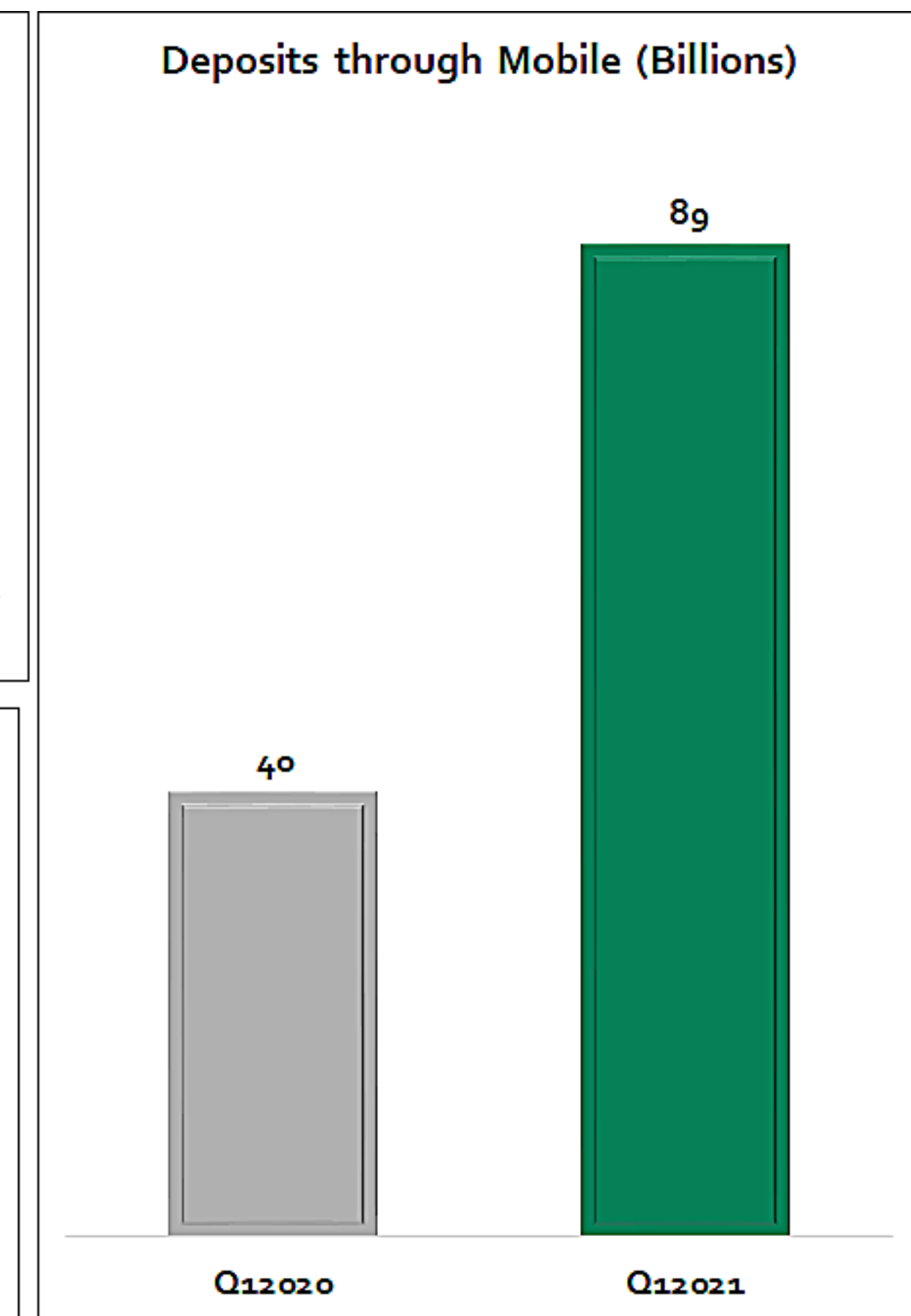
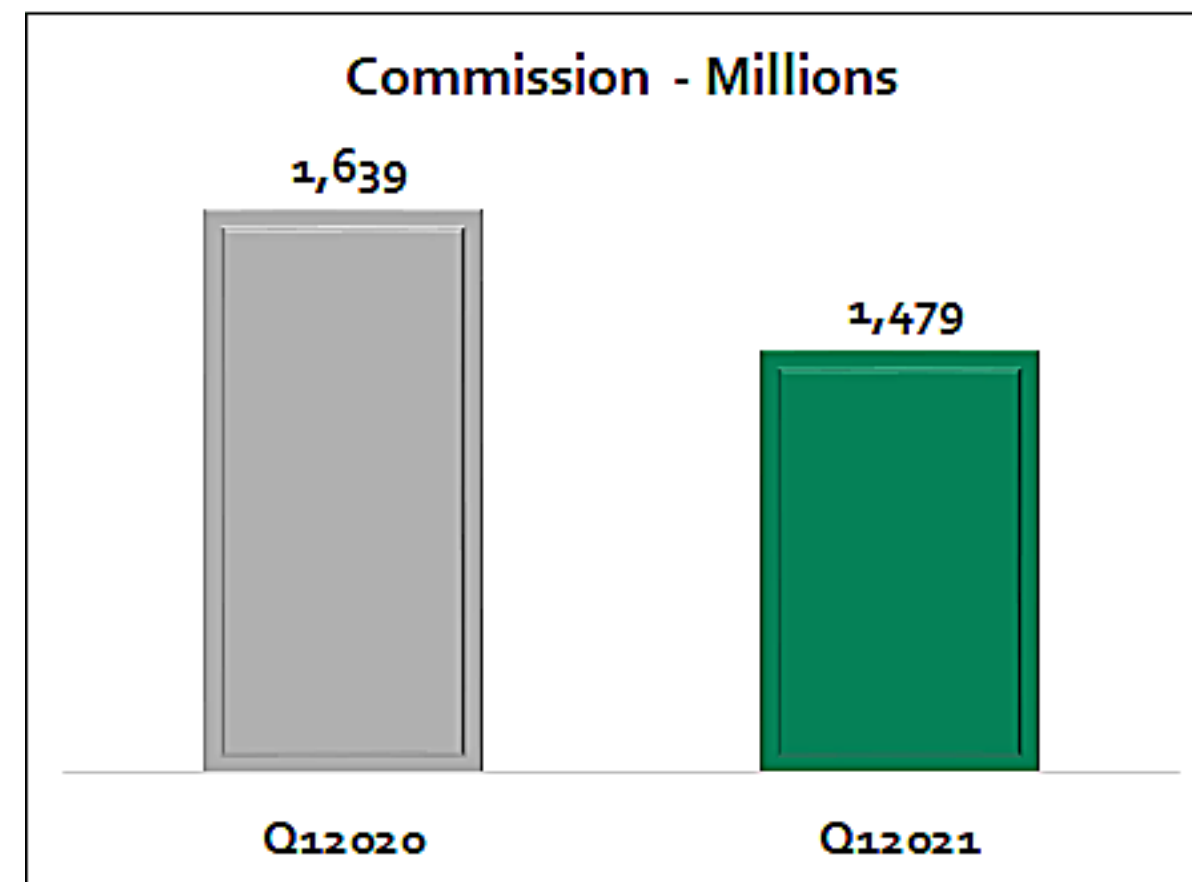
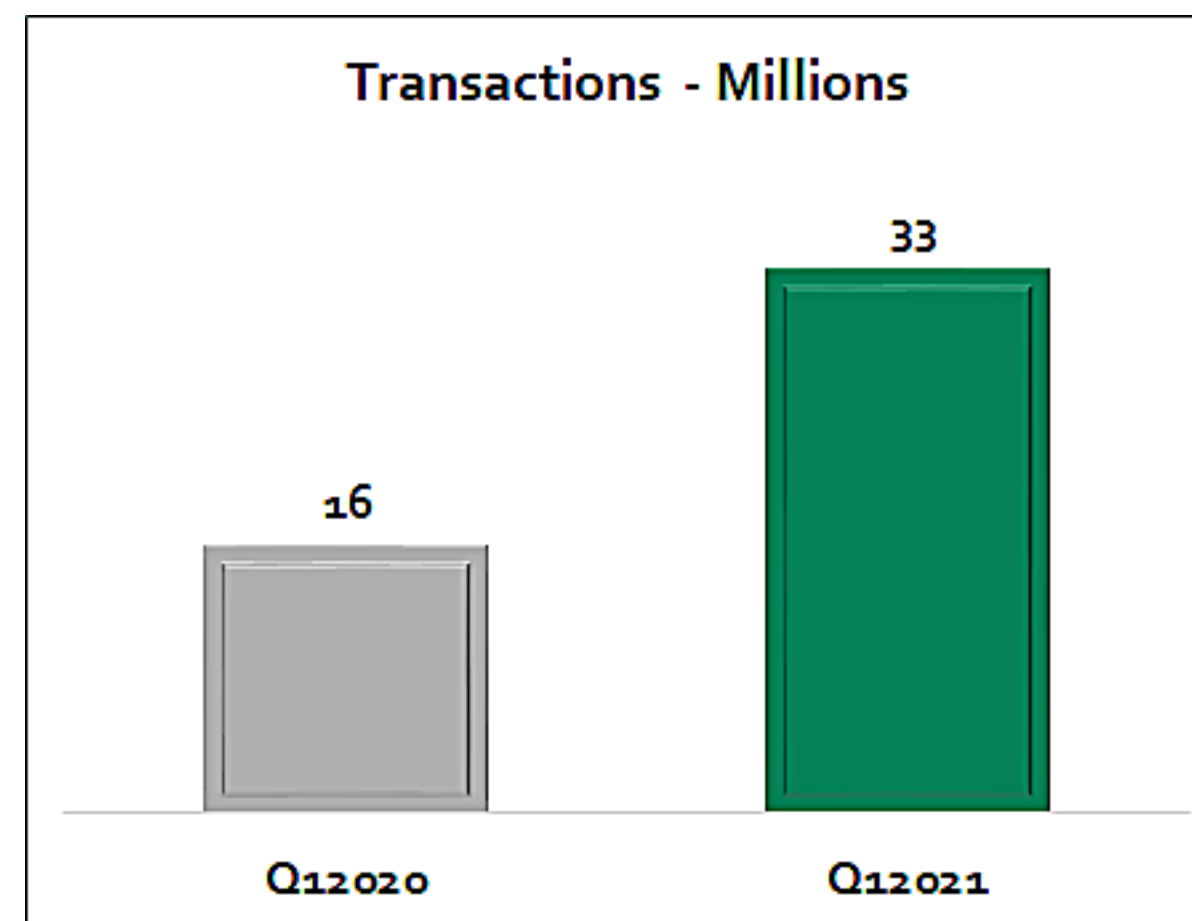
Business

Unsecured Business Plus Loan

MOBILE Banking

Leveraging Mobile Banking
to grow commissions

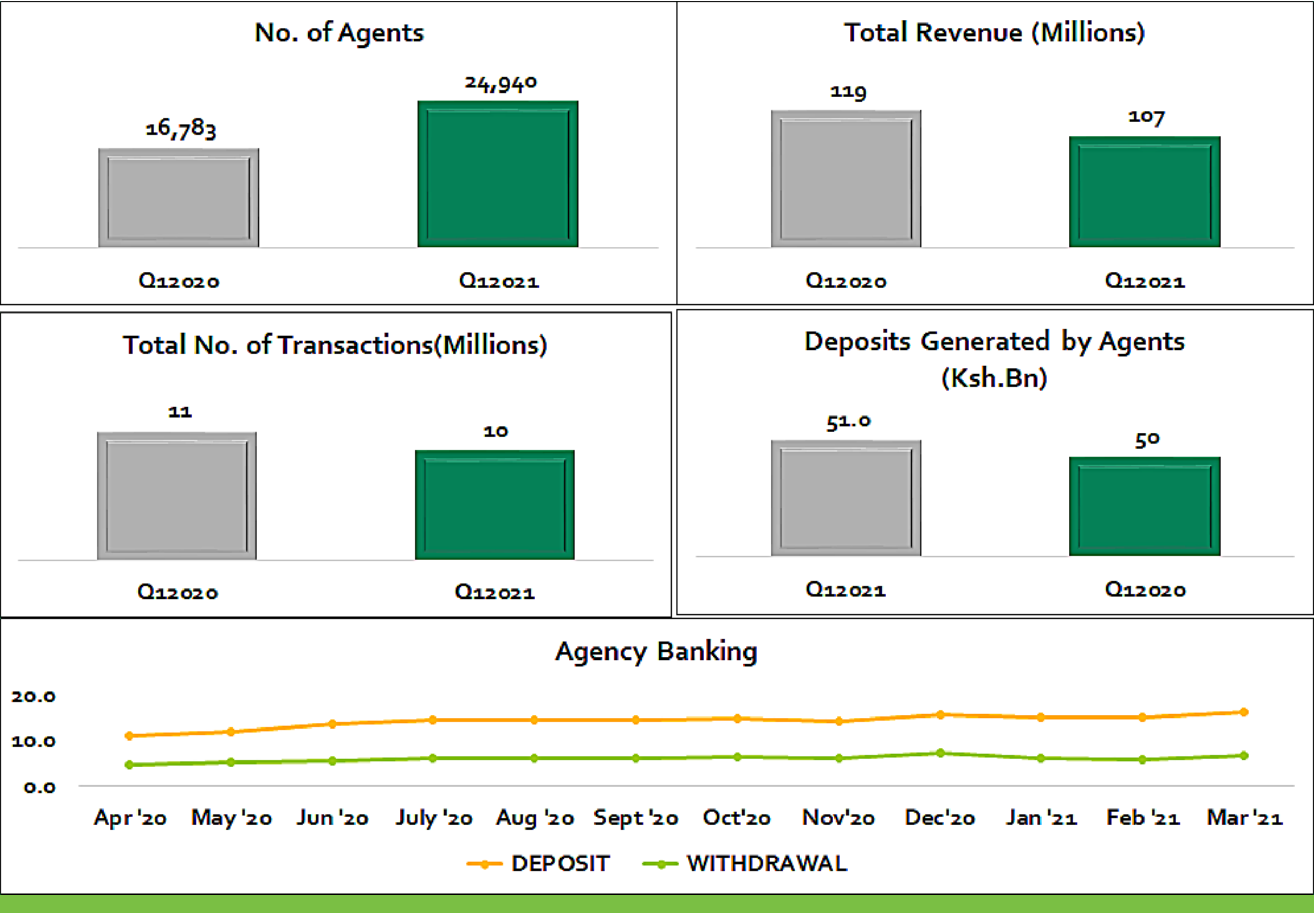
- 104% increase in Transactions.
- 123% growth in deposits through mobile.



AGENCY Banking

Growing Co-op Kwa Jirani
Agency Banking

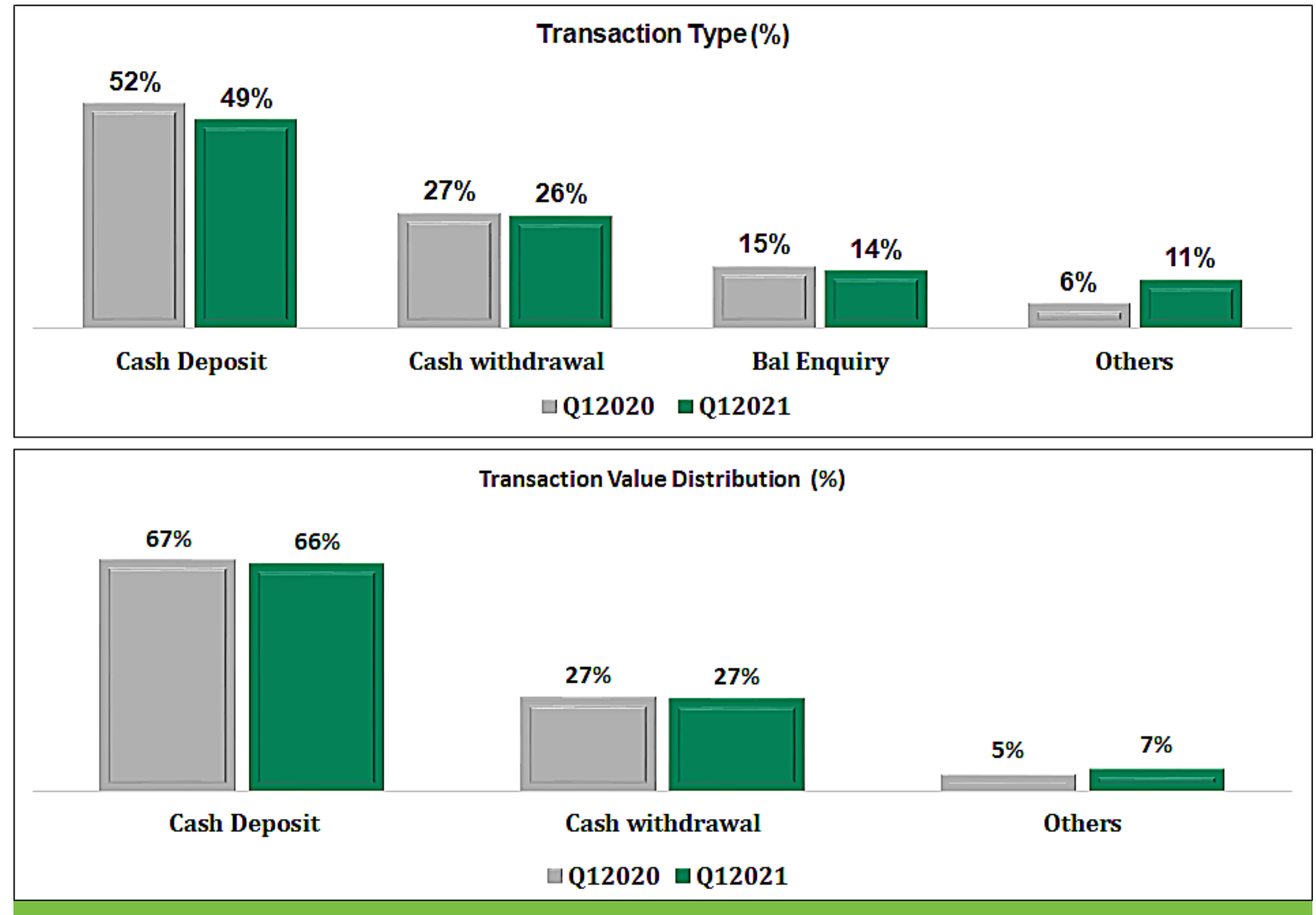
- Number of agents terminals up by 46%



AGENCY Banking

Growing Co-op Kwa Jirani Agency Banking

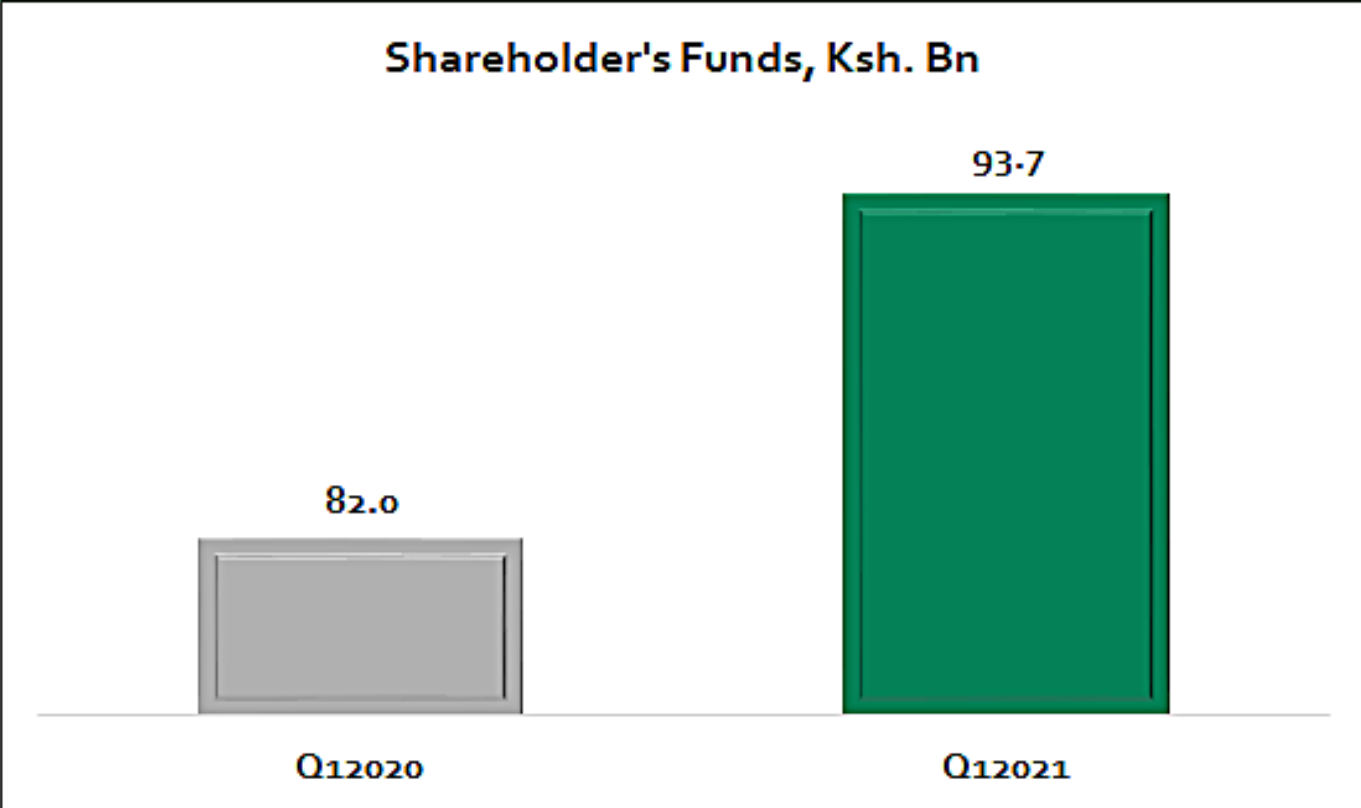
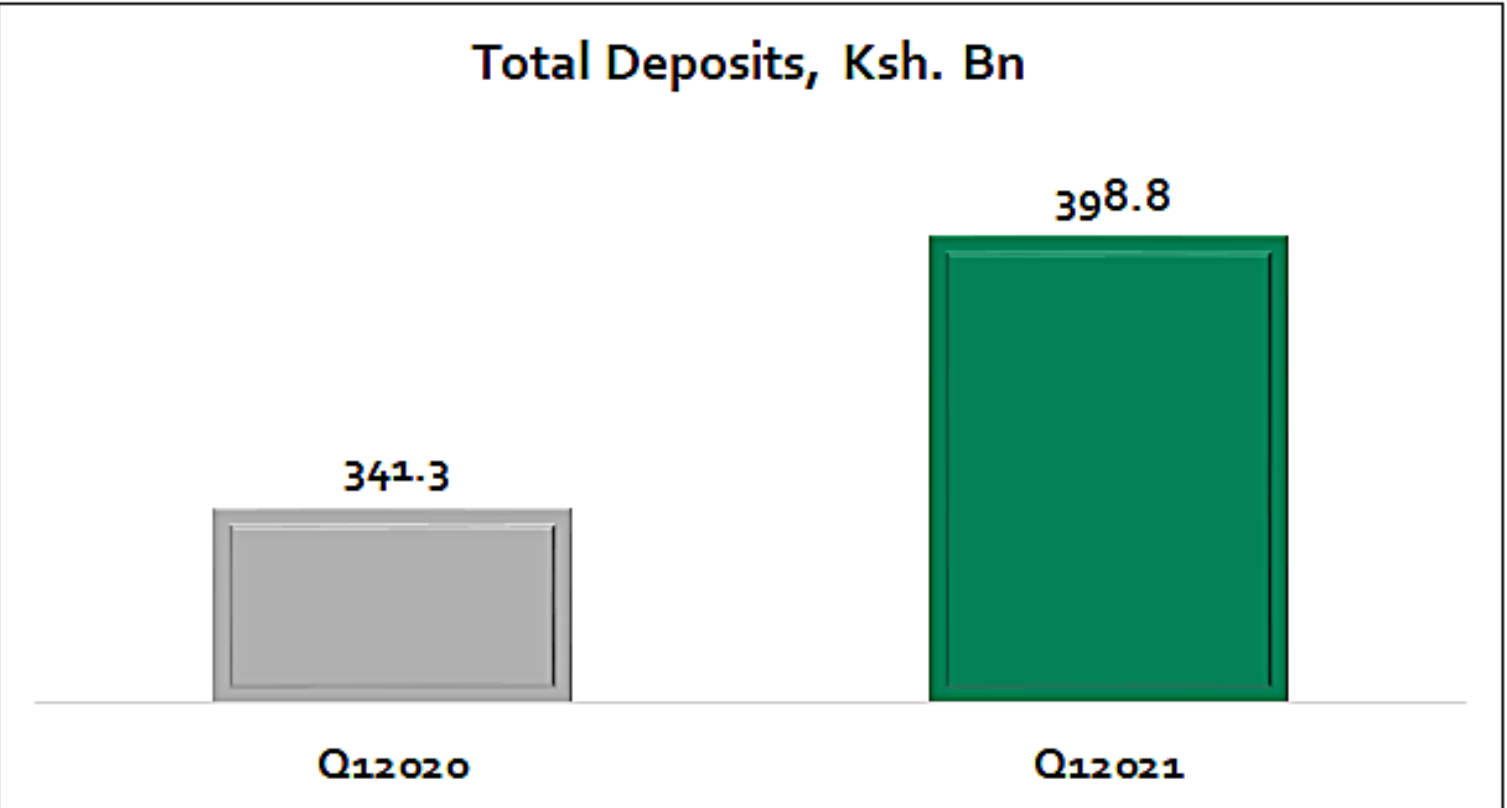
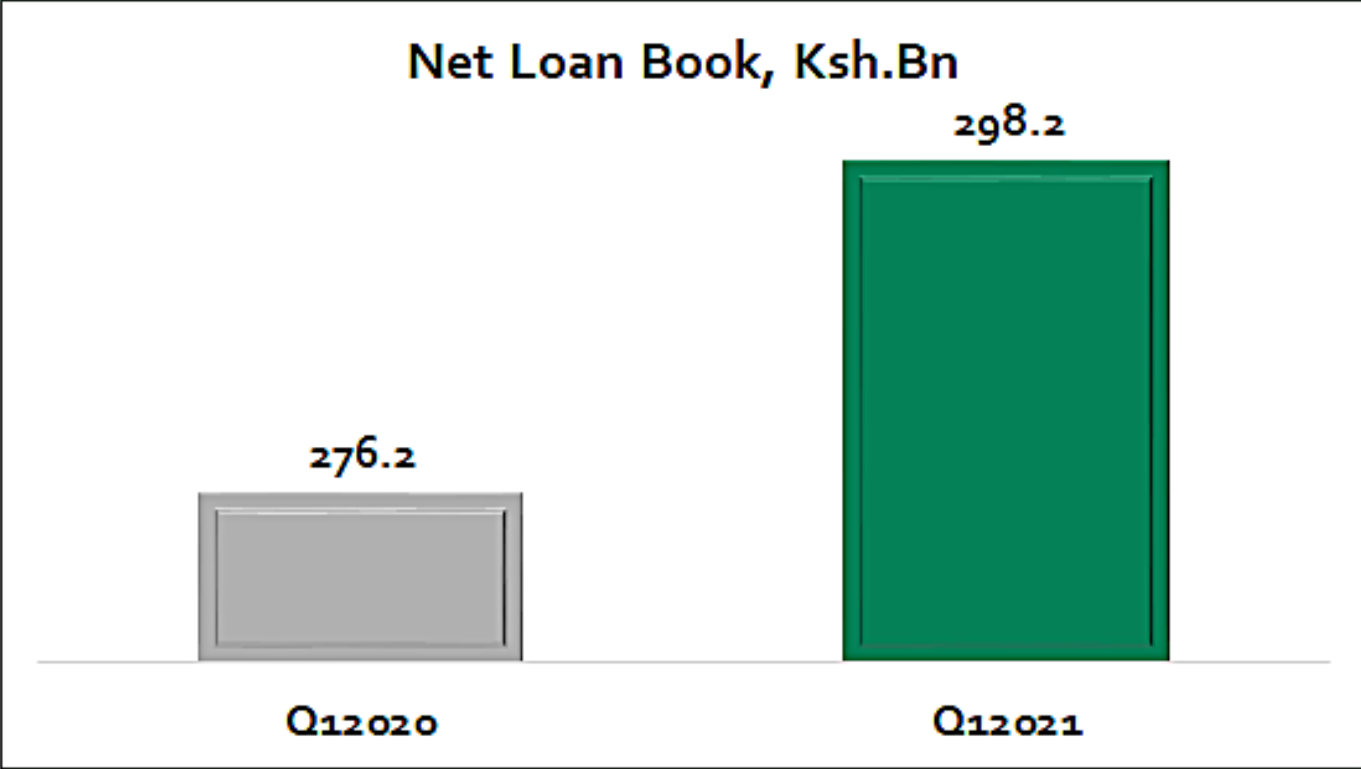
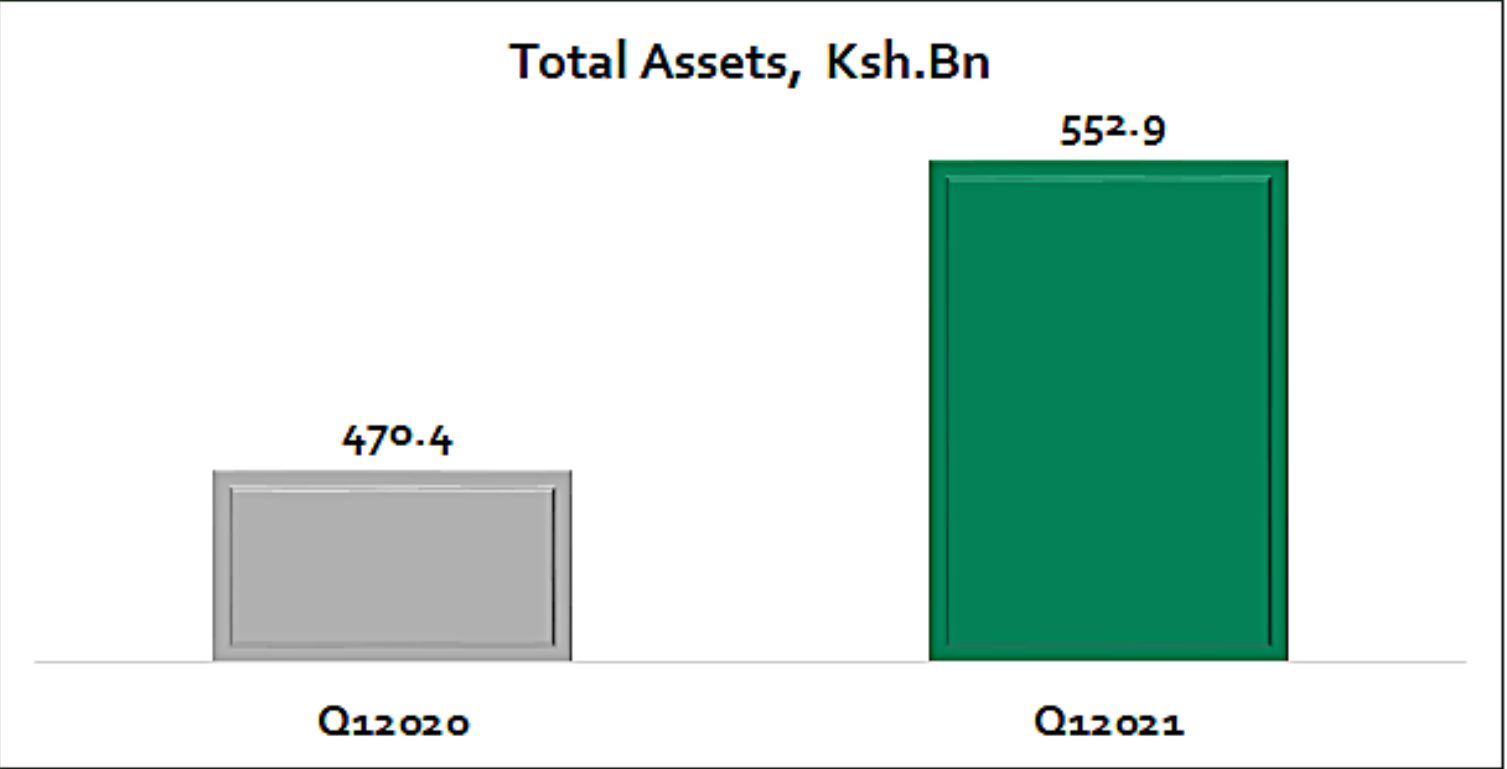
- Key deposit mobilization channel
- Higher deposit than withdrawal





FINANCIAL HIGHLIGHTS

Strong Financial Position (Kshs. Billion)



Strong Financial Position (Kshs. Billion)

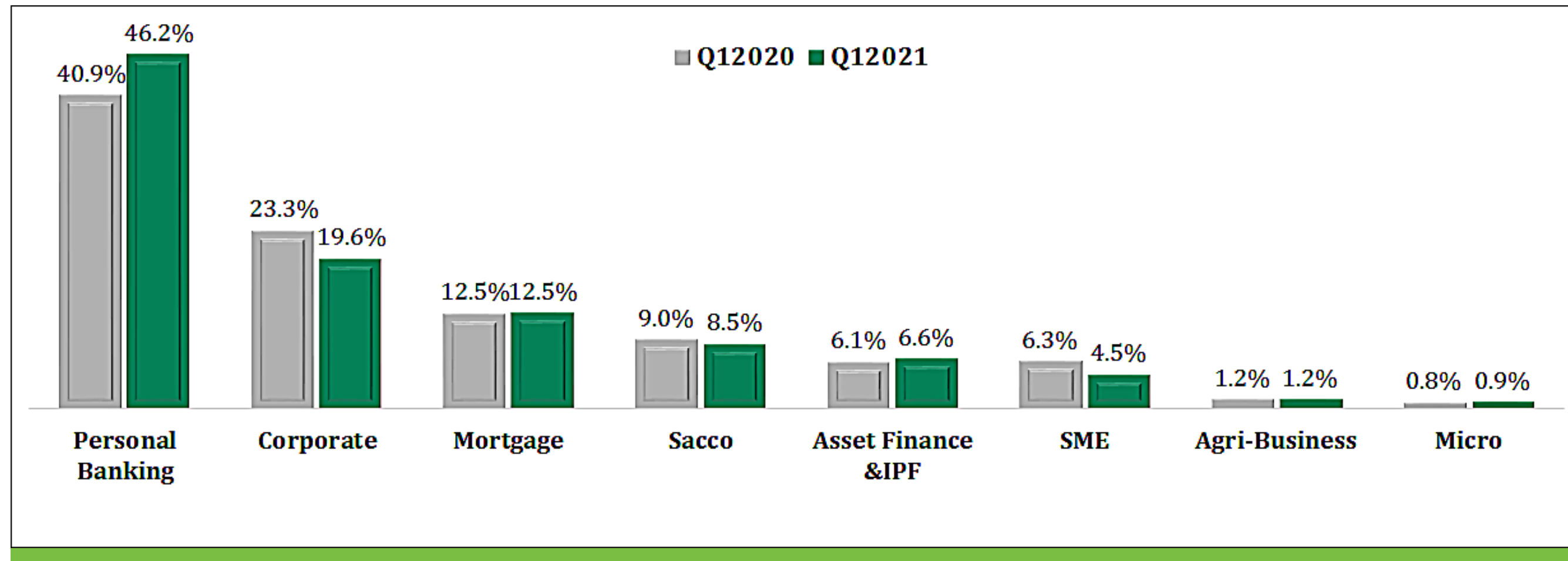


Kshs. Billions	Q12021	Q12020	% Change YoY		FY2020
Total Assets	552.9	470.4	18%	↑	536.9
Loan book (Net)	298.2	276.2	8%	↑	286.6
Government Securities	166.2	115.9	43%	↑	161.9
Total Deposits	398.8	341.3	17%	↑	378.9
Borrowed Funds	46.9	27.4	71%	↑	46.0
Shareholder's Funds	93.7	82.0	14%	↑	90.7

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.



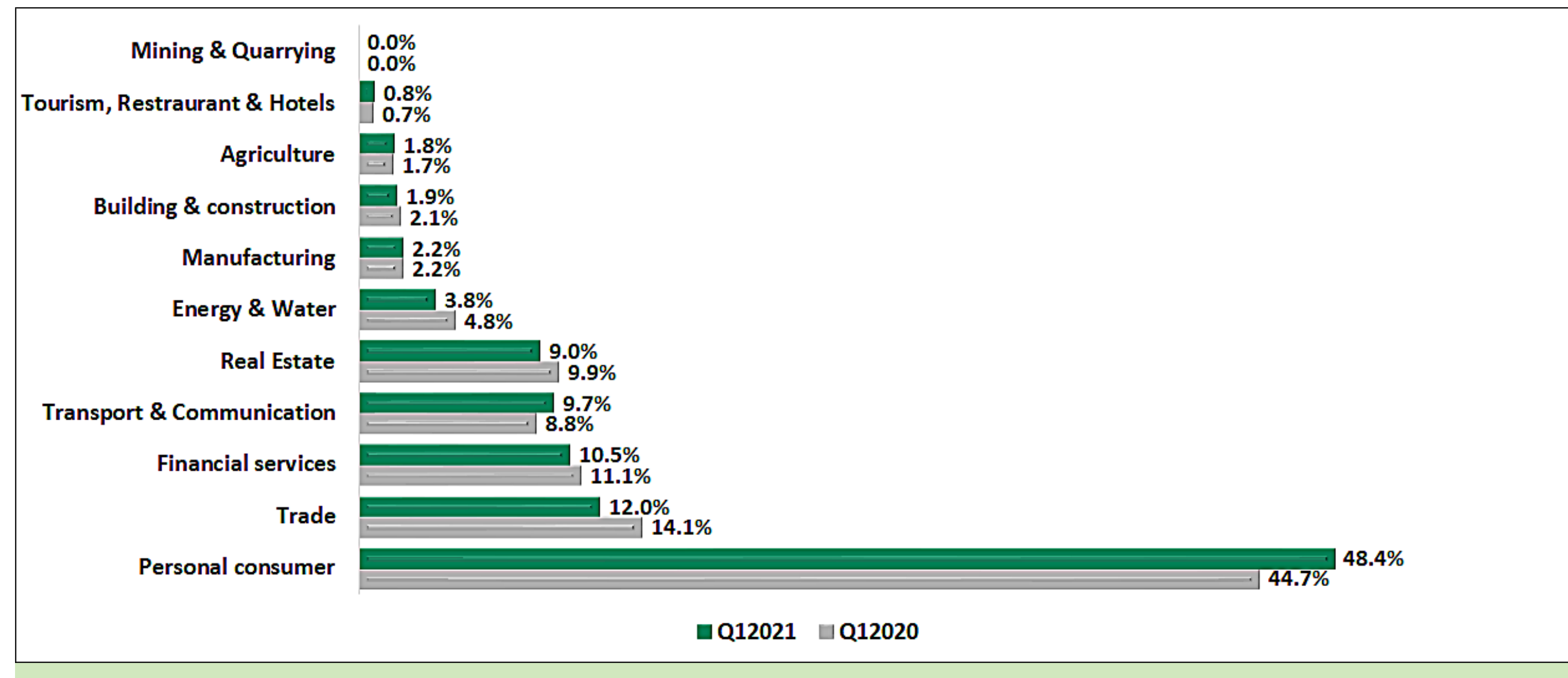
Diversified loan book across sectors

48.4% in Personal consumer which is well performing

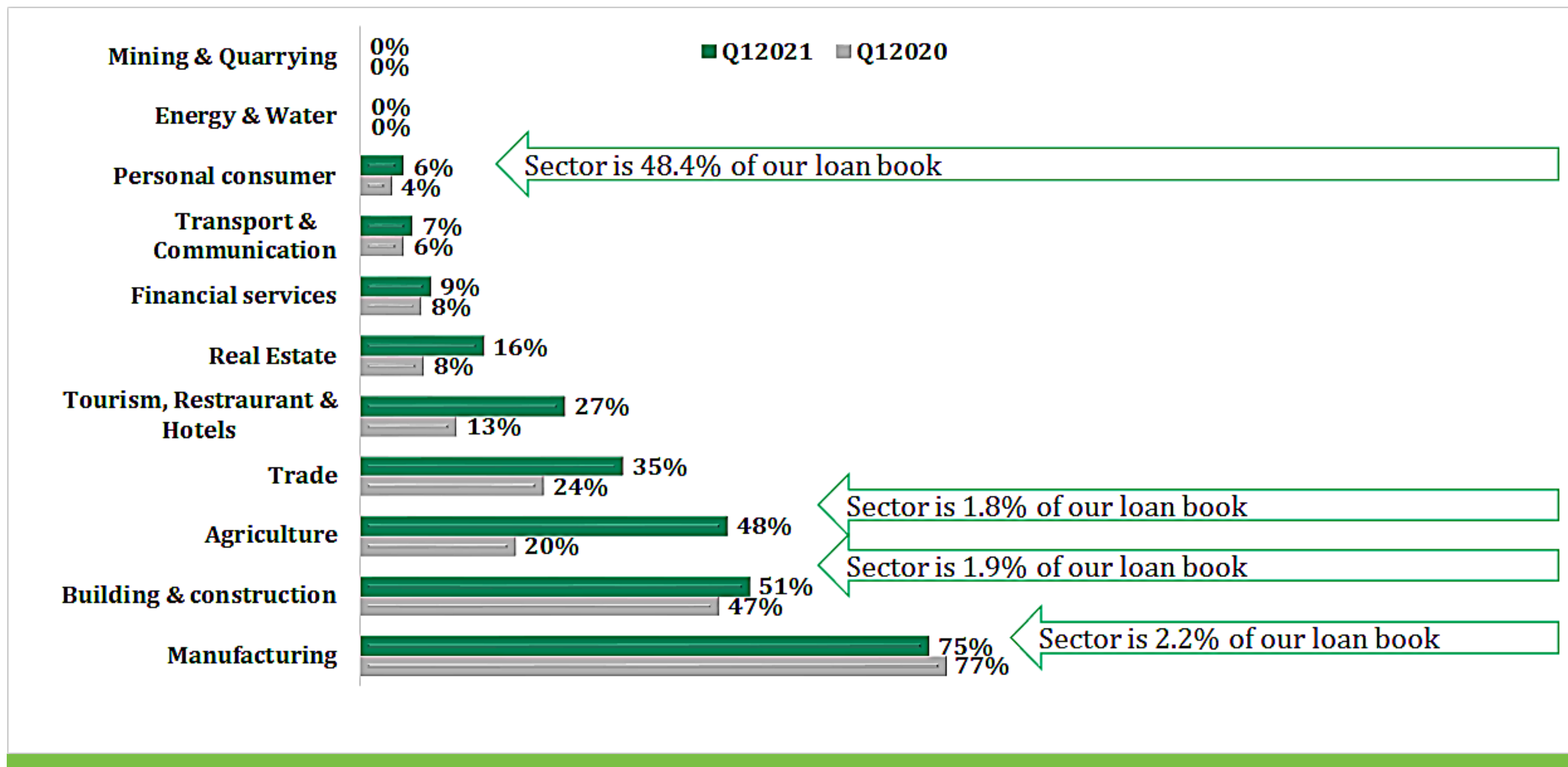
Low relative exposure in high-risk sectors

Tourism and Hotels <1%

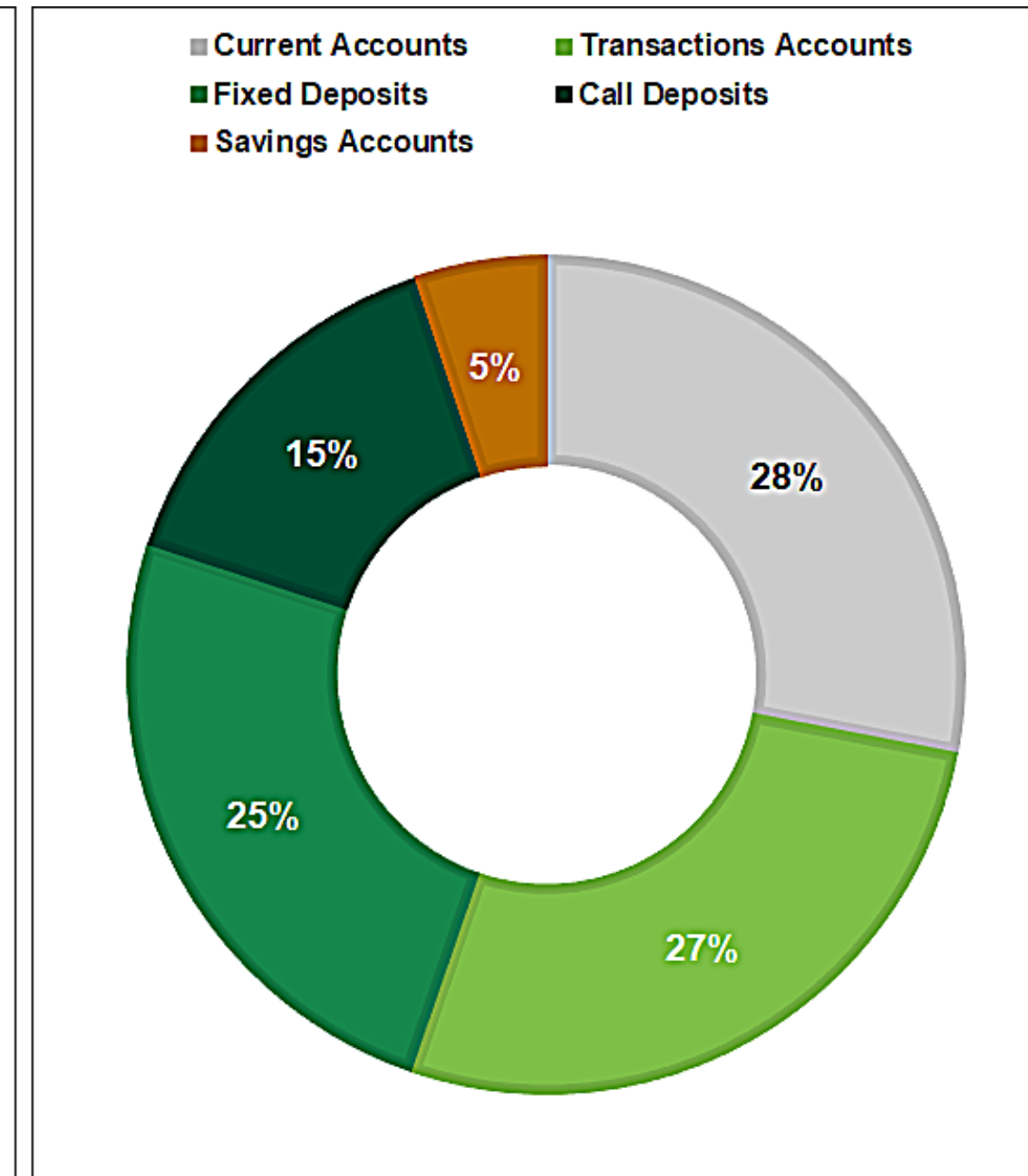
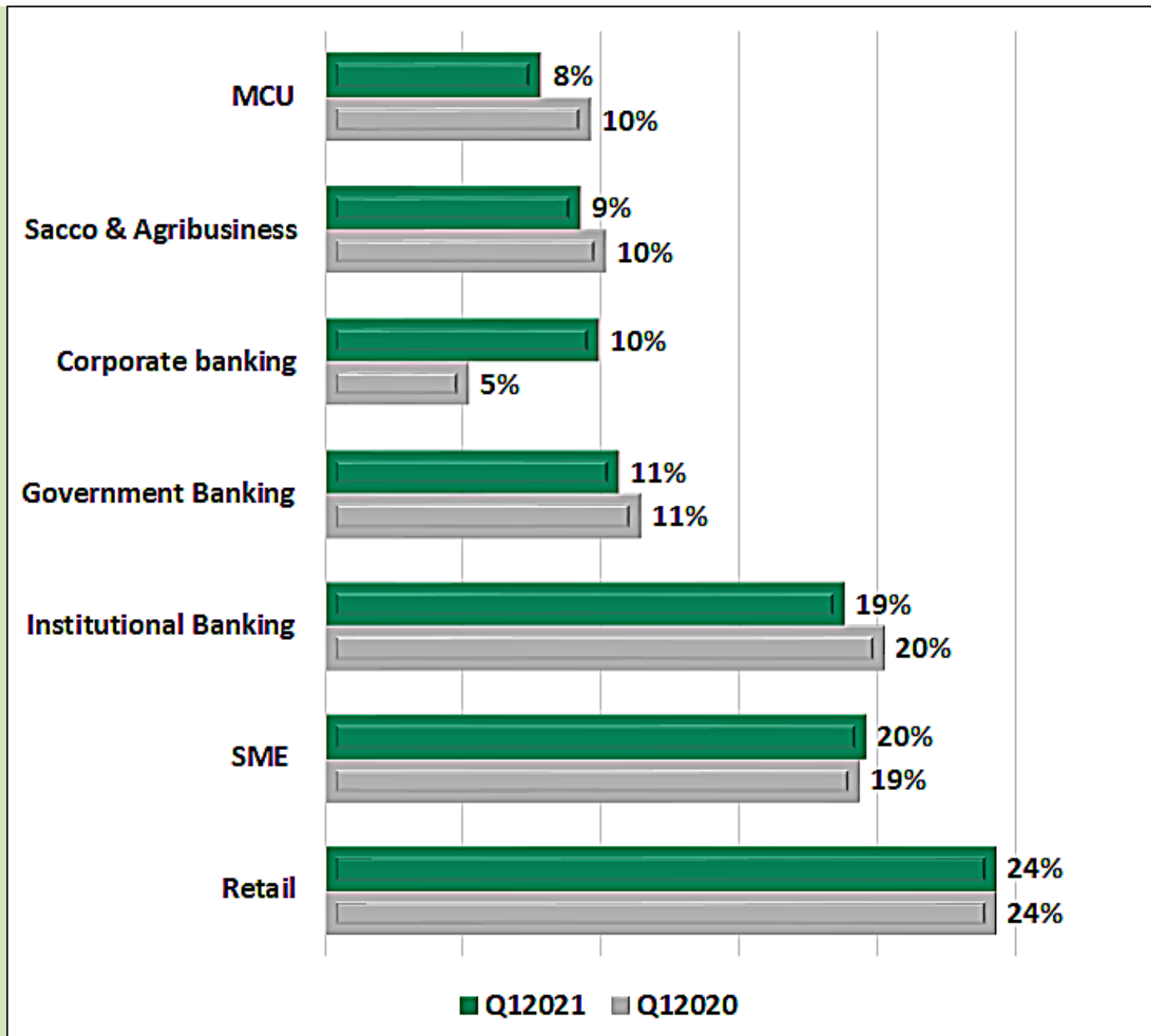
Manufacturing 2.2%.



Portfolio Trends – Sector NPL



Well-diversified Liability Portfolio

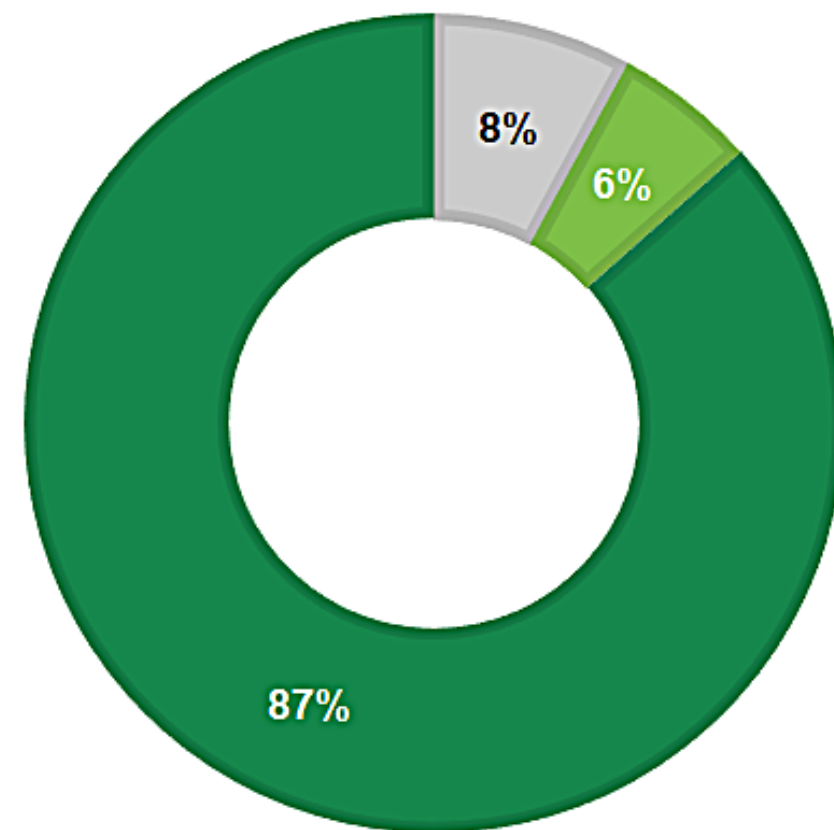


An Optimally balanced Kenya Shilling asset & funding book



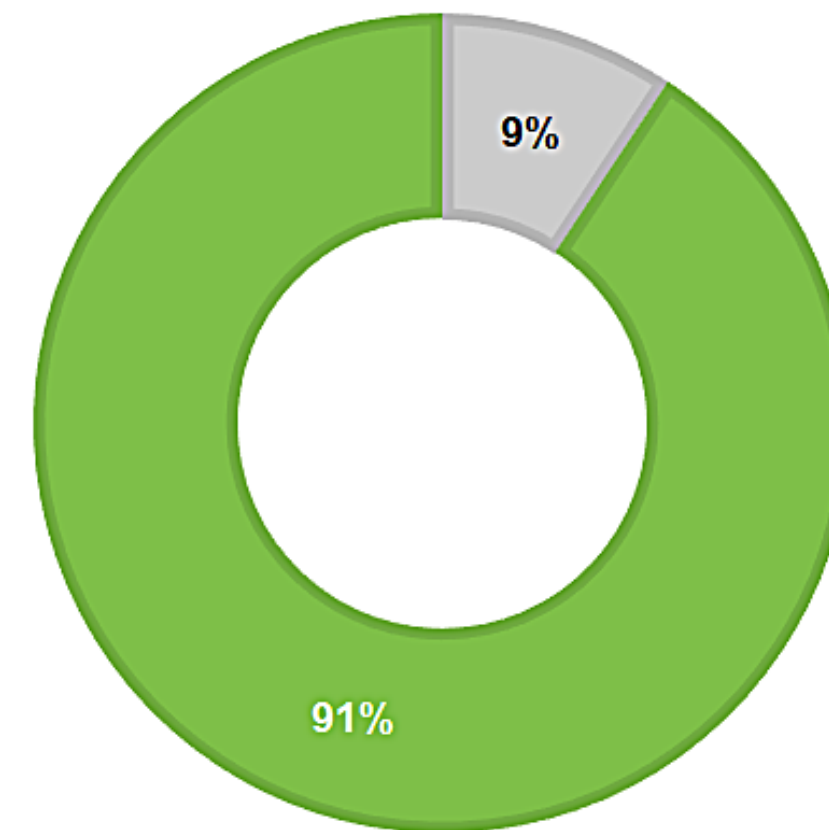
FUNDING (LOCAL VS. FOREIGN CURRENCY)

■ Fx Deposits ■ Fx Borrowed Funds ■ LCY Funding



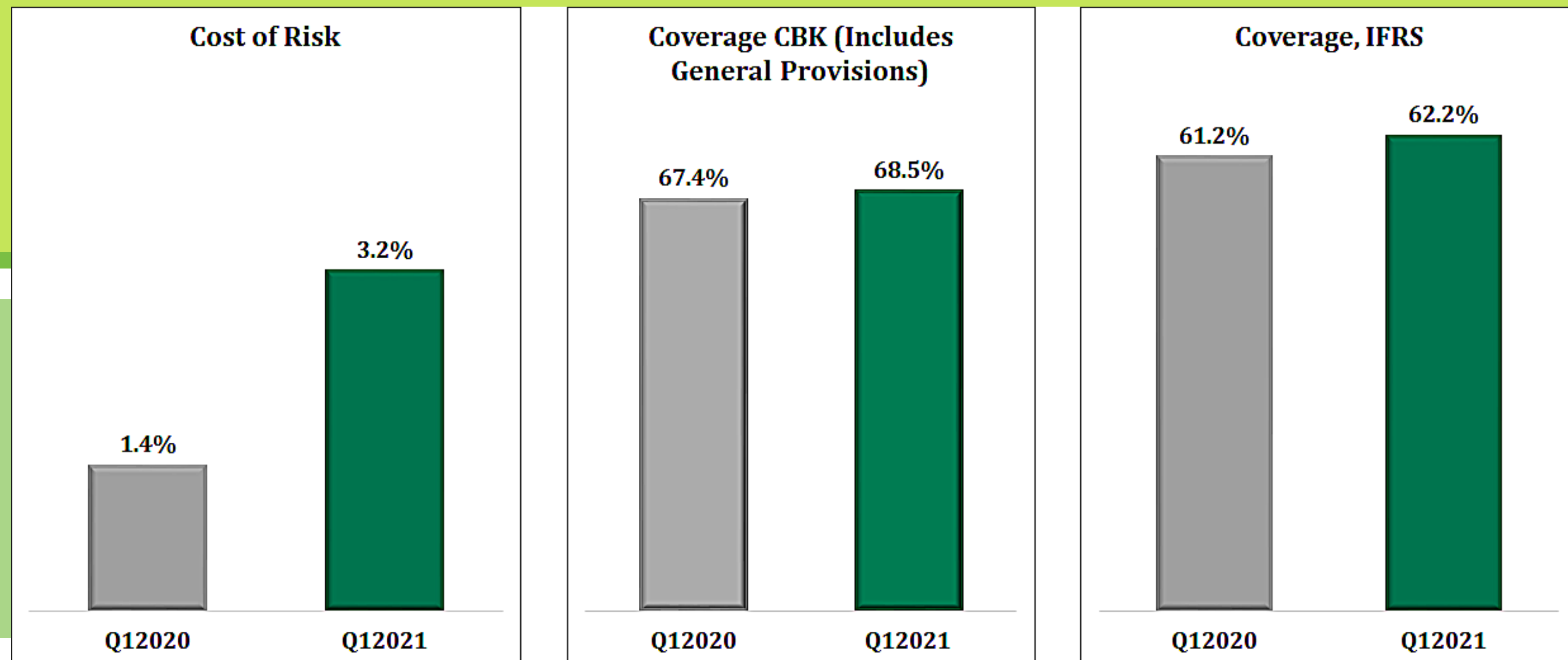
LOAN BOOK (LOCAL VS FOREIGN CURRENCY)

■ FCY ■ LCY



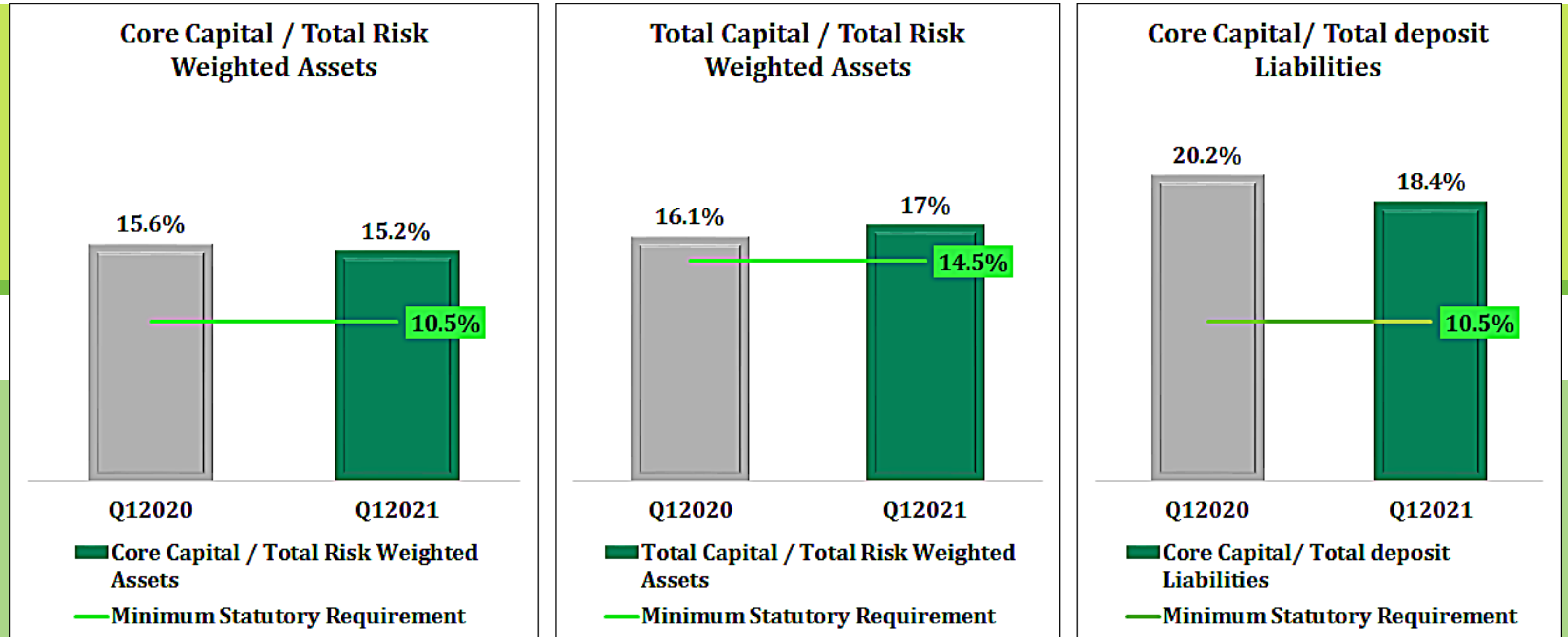
Adequate Coverage

•154% increase in loan loss provision from Kshs. 900 Million in Q12020 to Kshs. 2.3 Billion in Q12021, in appreciation of the challenges that businesses and households are grappling with from the disruption occasioned by the ongoing pandemic.



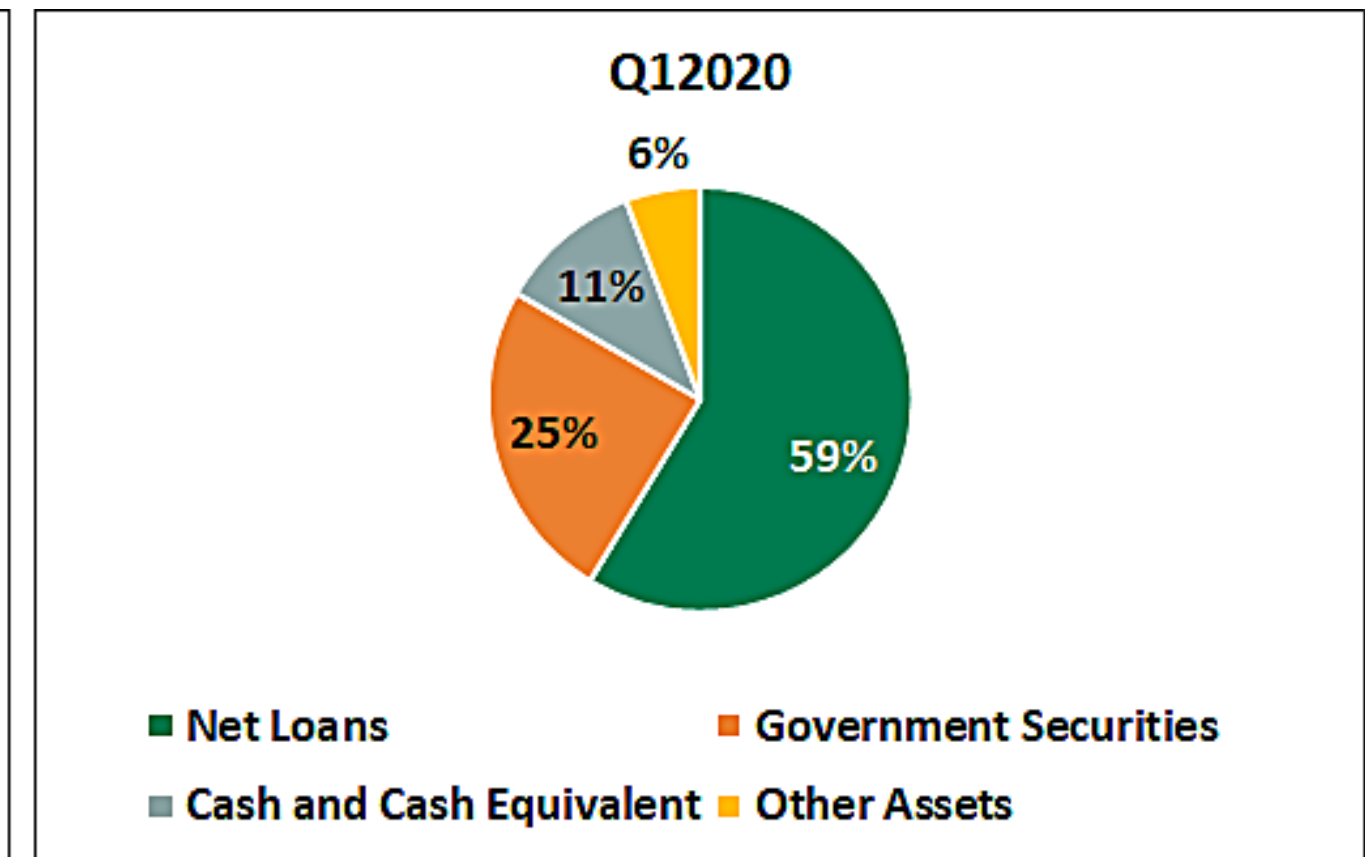
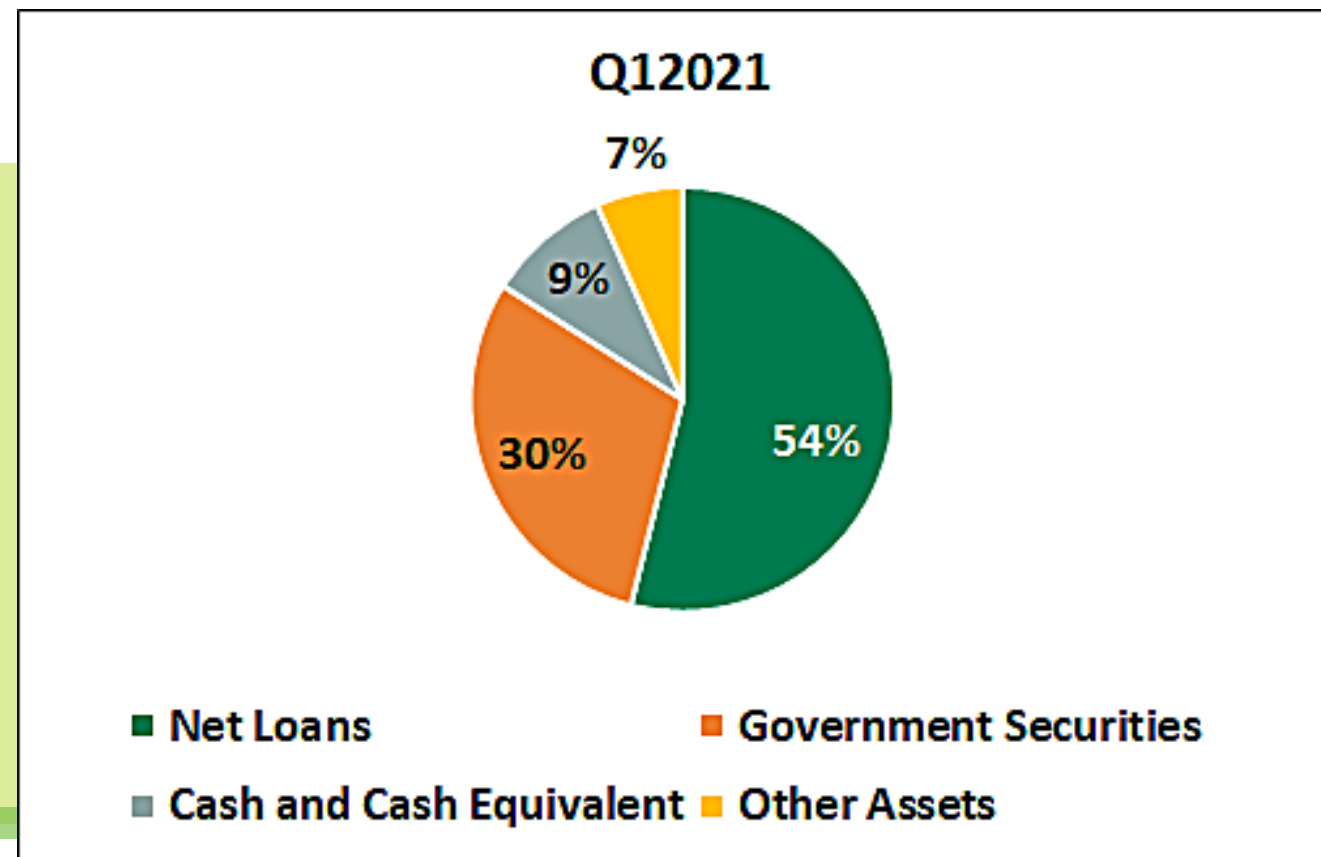
Strong capital to support future growth

Capital buffers for sustainable growth

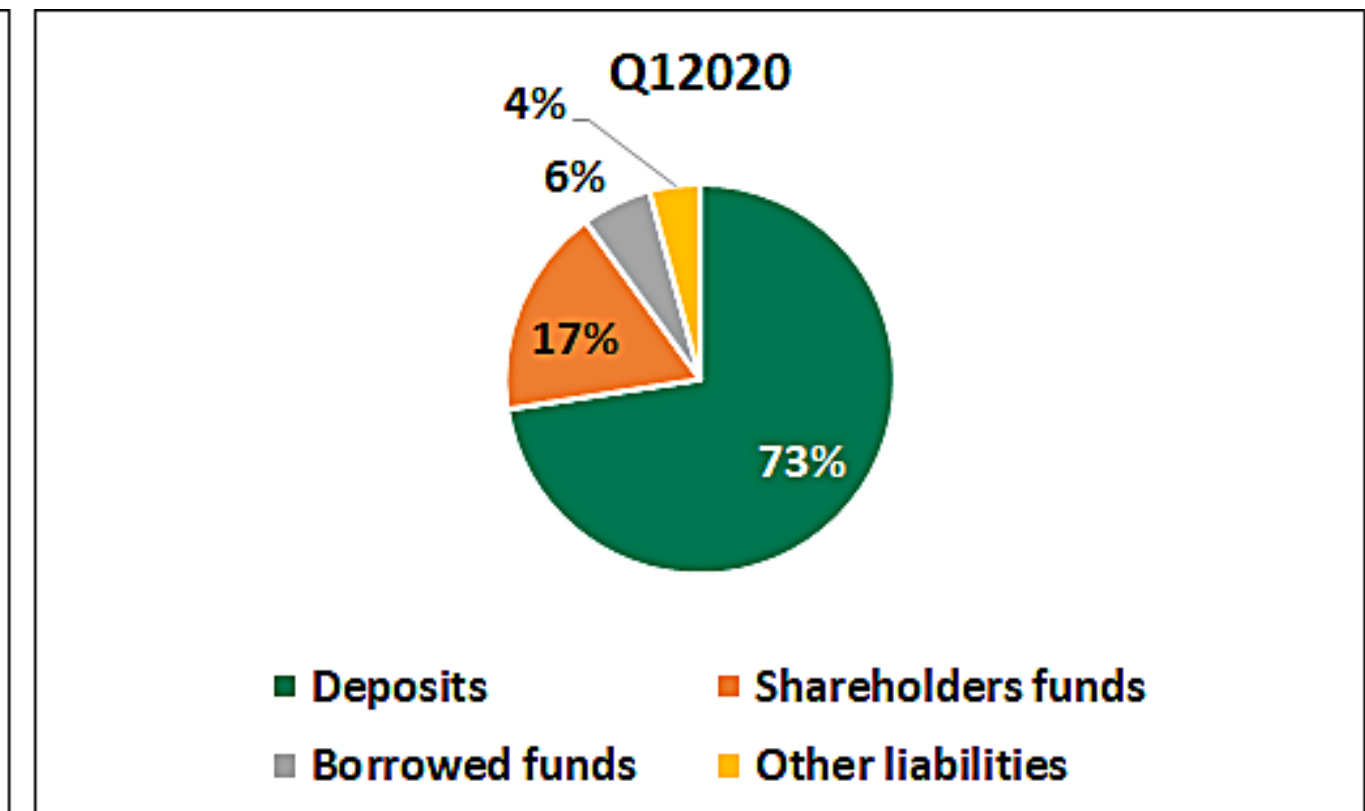
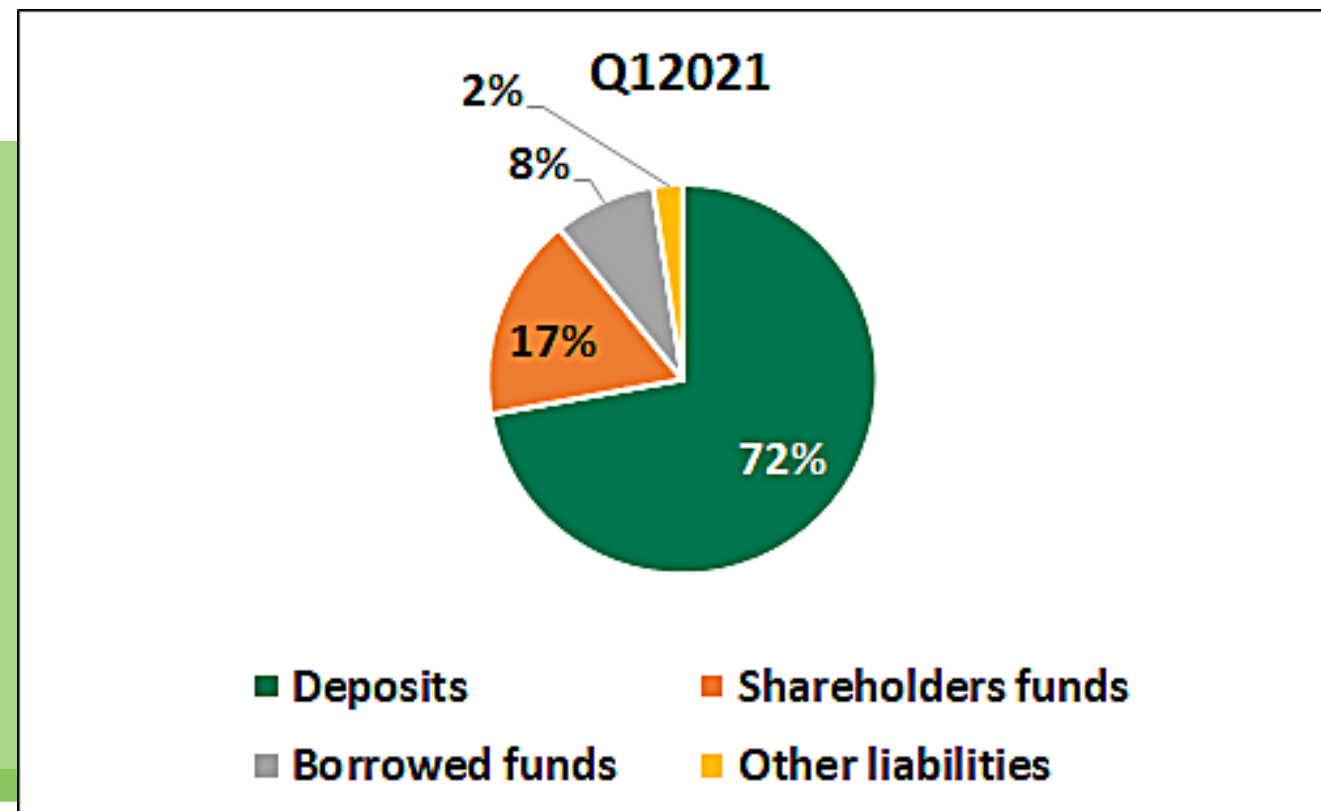


Optimal Asset and Funding Mix

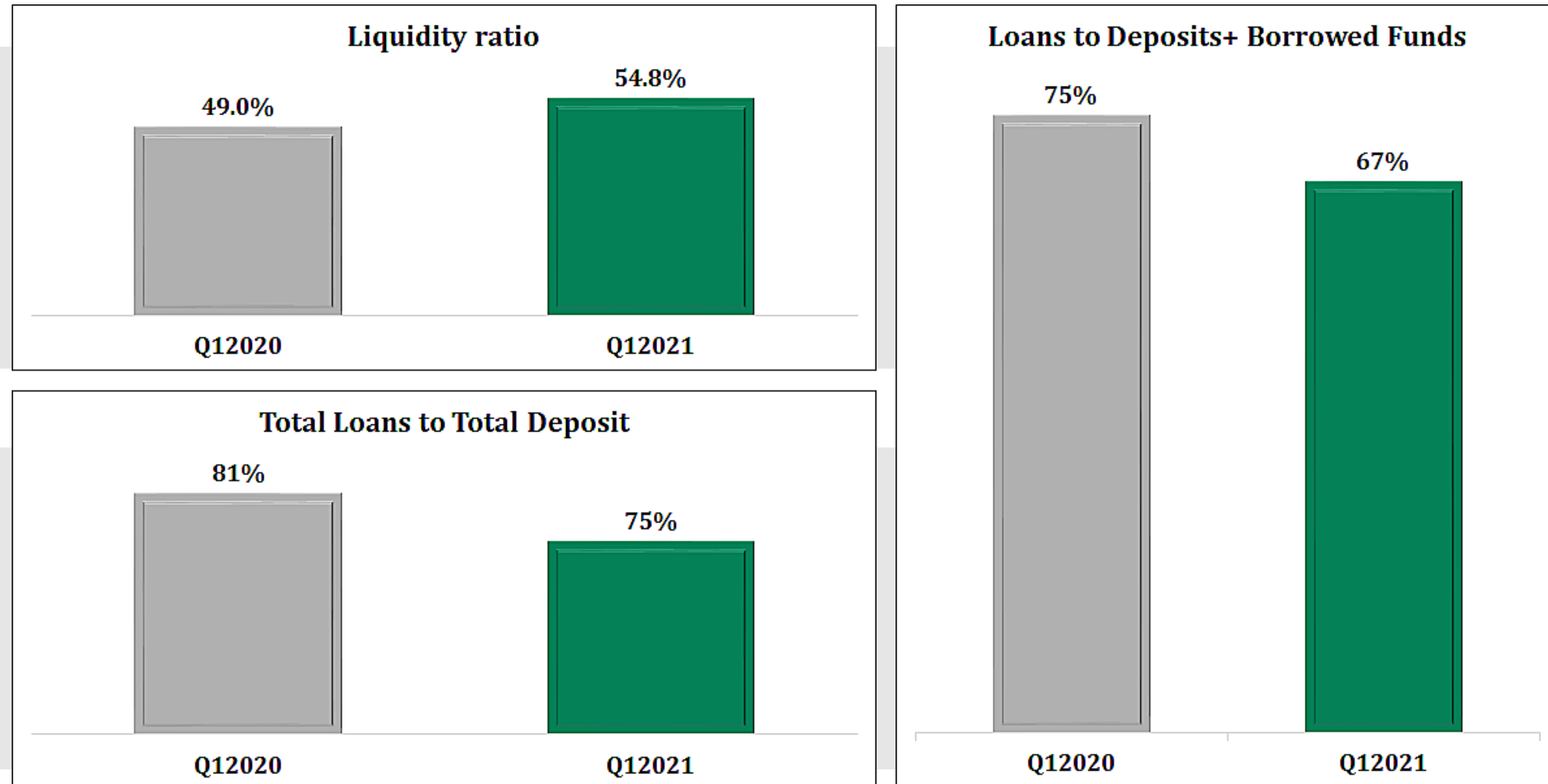
Asset Categories



Funding Categories



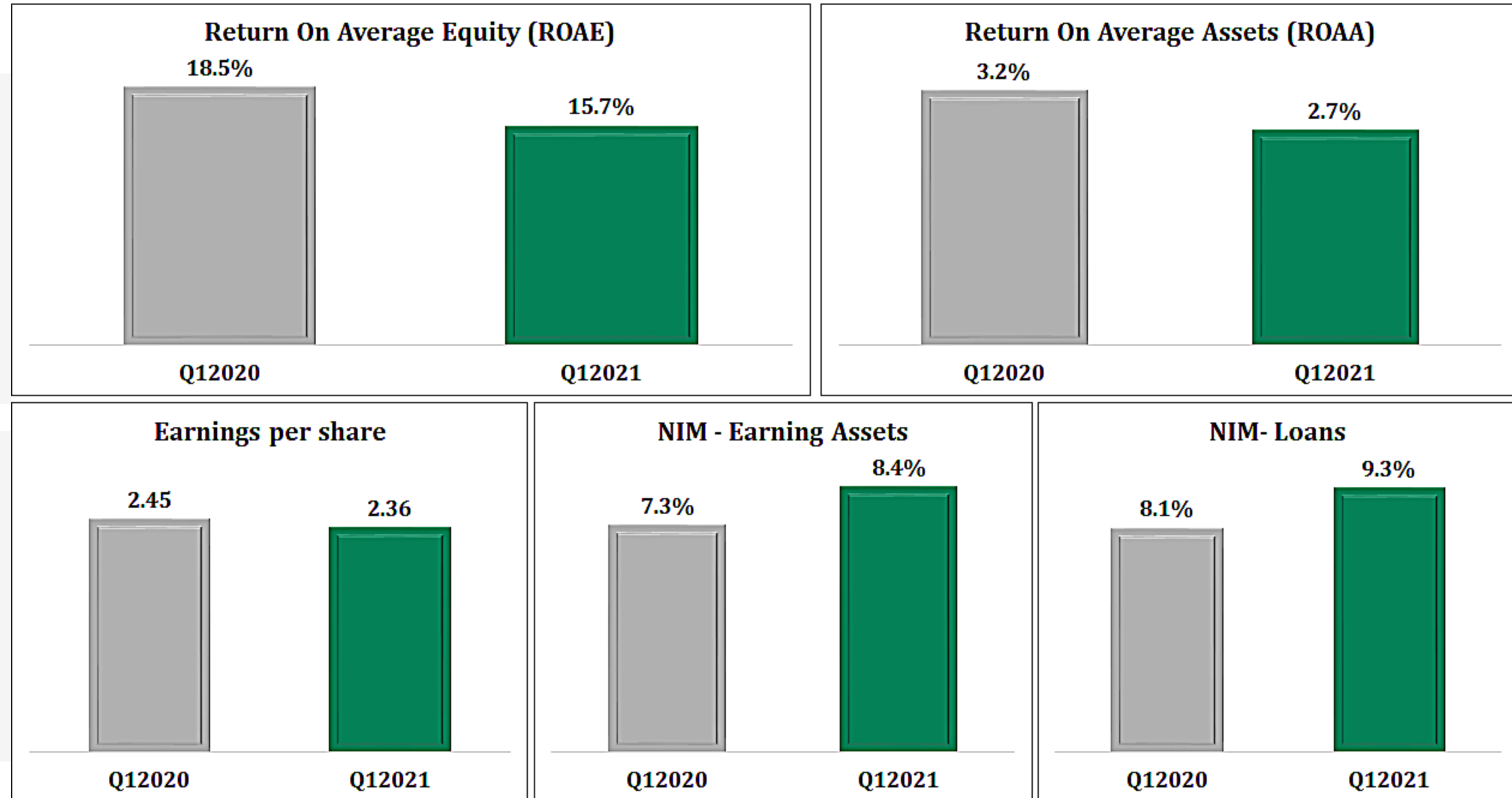
Strong Liquidity to support investments



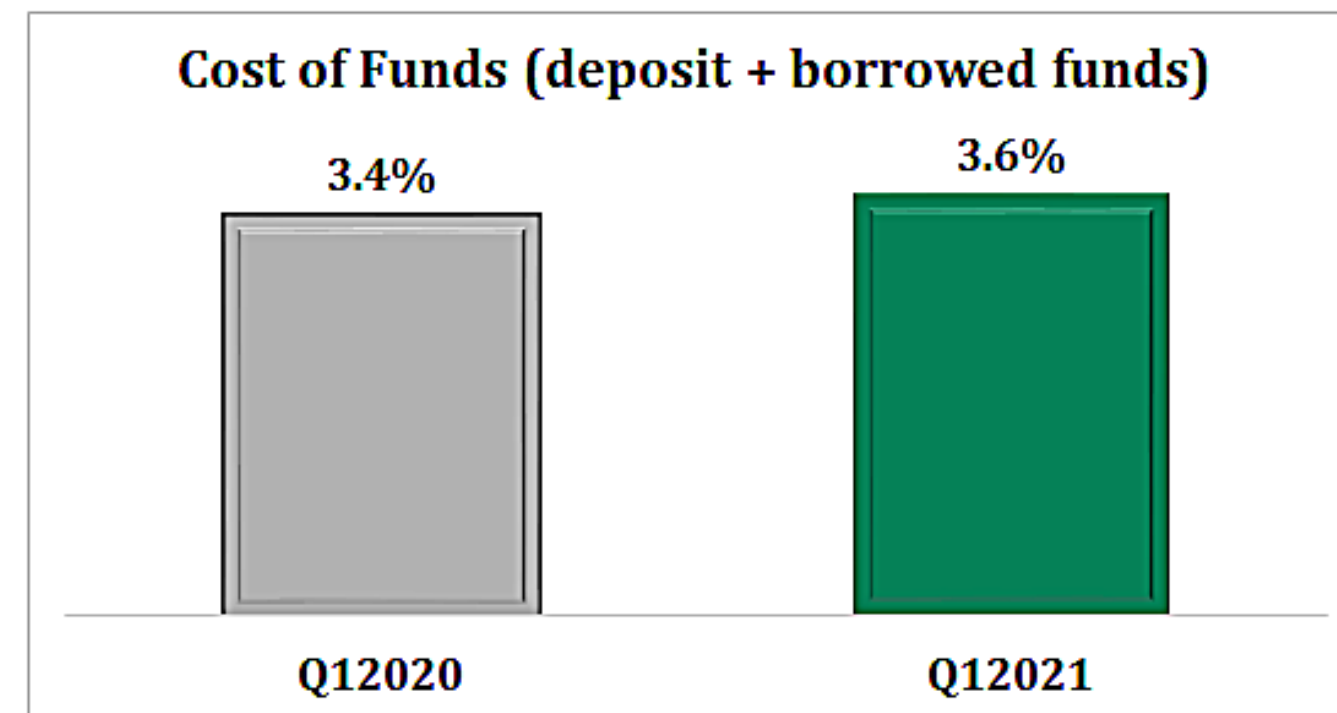
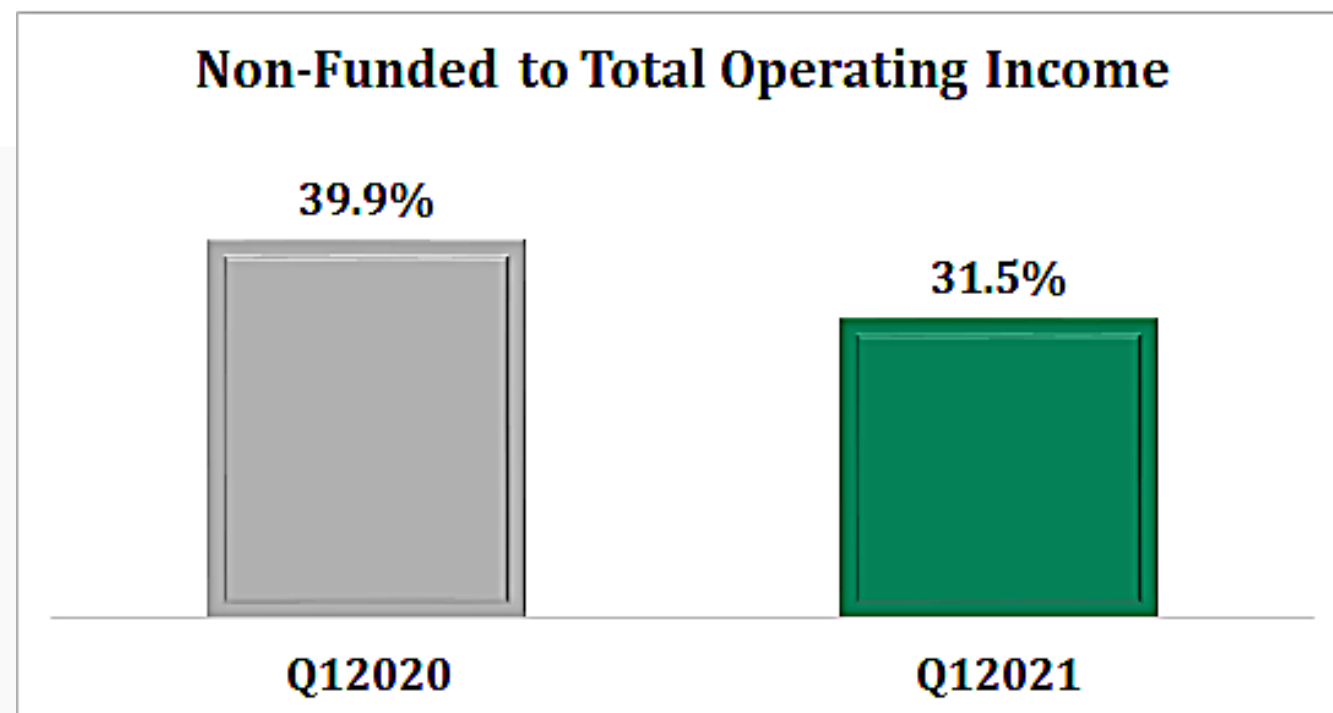
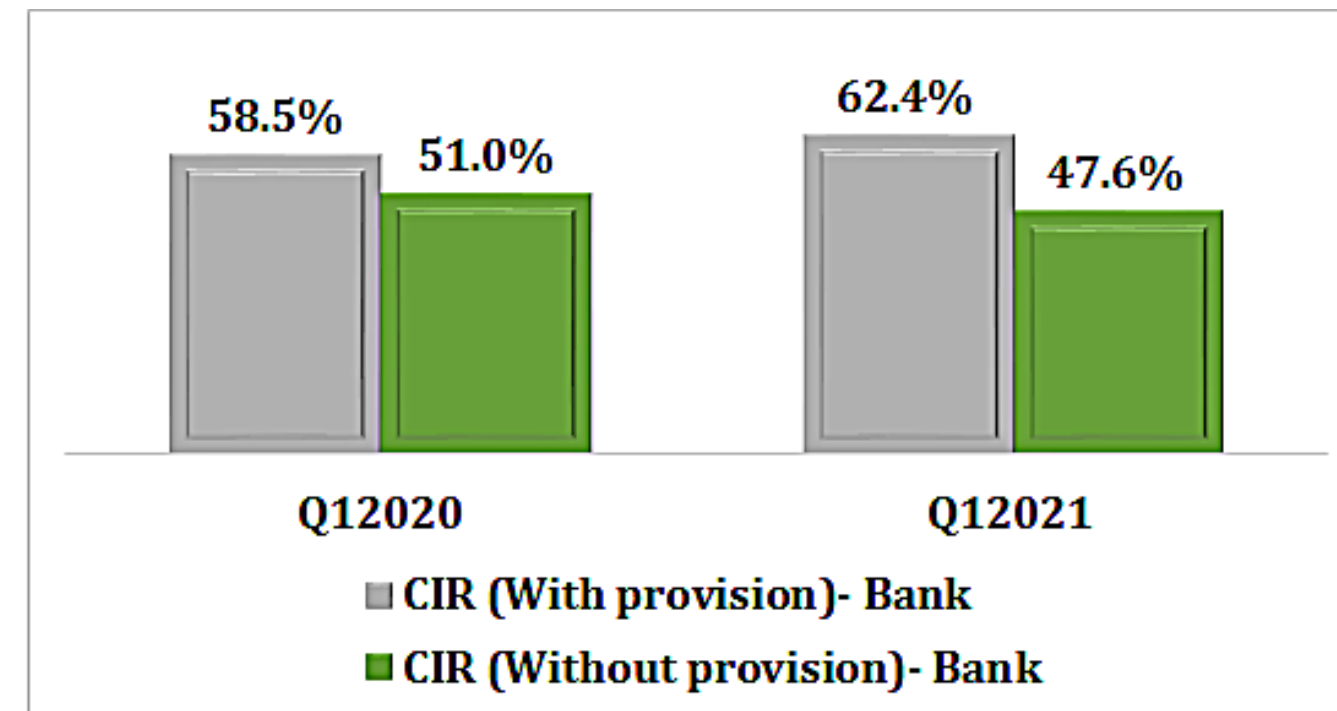
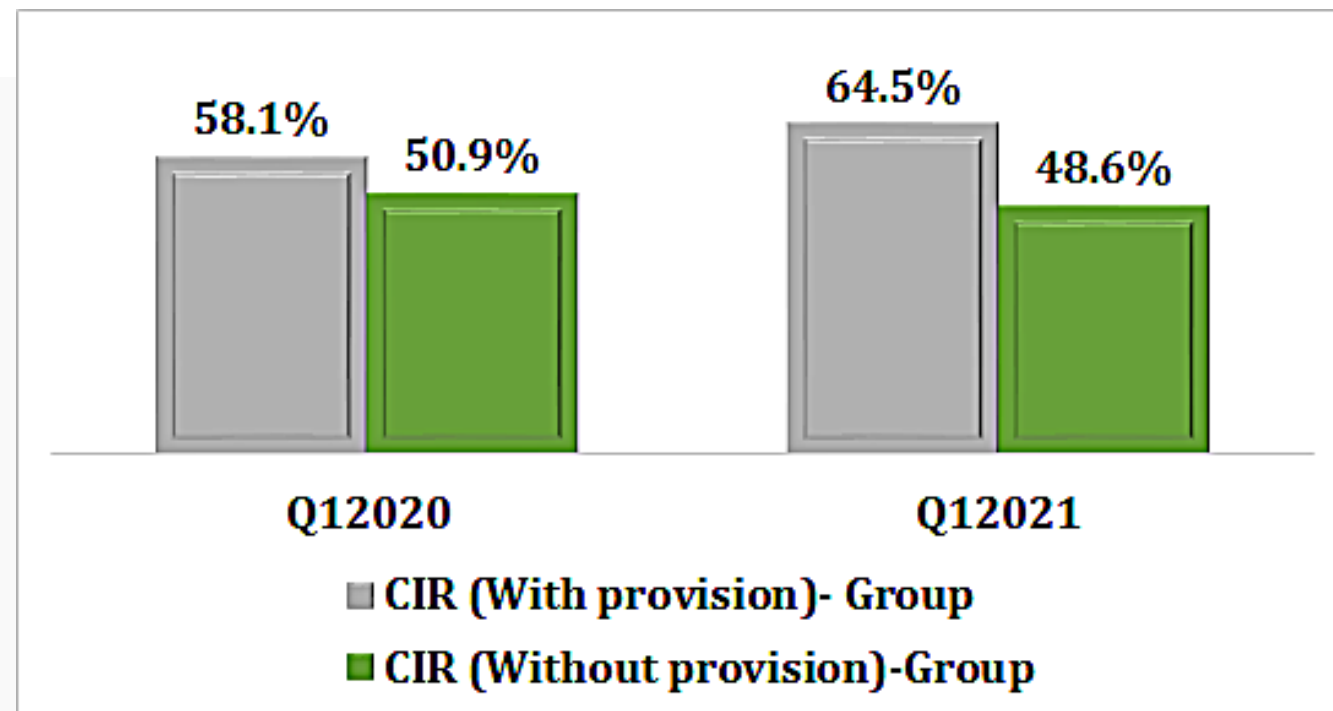
Sustainable Profitability Growth

Kshs. Billions (Except for EPS)	Q12021	Q12020	YoY % Change	
Total Interest Income	13.4	10.5	27.6%	↑
Total Interest Expenses	3.6	3.0	19.8%	↑
Net Interest Income	9.8	7.5	30.7%	↑
Fees and commissions	3.7	4.4	-15.7%	↓
Forex trading income	0.7	0.5	41.5%	↑
Other income	0.1	0.1	20.9%	↑
Total Operating Income	14.4	12.5	14.8%	↑
Loan loss provision	2.3	0.9	153.5%	↑
Staff costs	3.2	3.5	-7.8%	↓
Other operating expenses	3.8	2.9	30.5%	↑
Profit before tax and exceptional items	5.1	5.2	-2.7%	↓
Exceptional items-Share of profit of associate	(0.1)	(0.1)	-4.3%	↓
Profit before tax	5.0	5.1	-2.6%	↓
Income tax	1.5	1.5	0.05%	↓
Profit after tax and exceptional items	3.5	3.6	-3.7%	↓
Basic Annualized EPS	2.36	2.45	-3.7%	↓

Key Ratios



Key Ratios





Thank You