

CO-OPERATIVE BANK OF KENYA LTD

HALF YEAR - 2014 FINANCIAL PERFORMANCE



CO-OPERATIVE BANK
We are you

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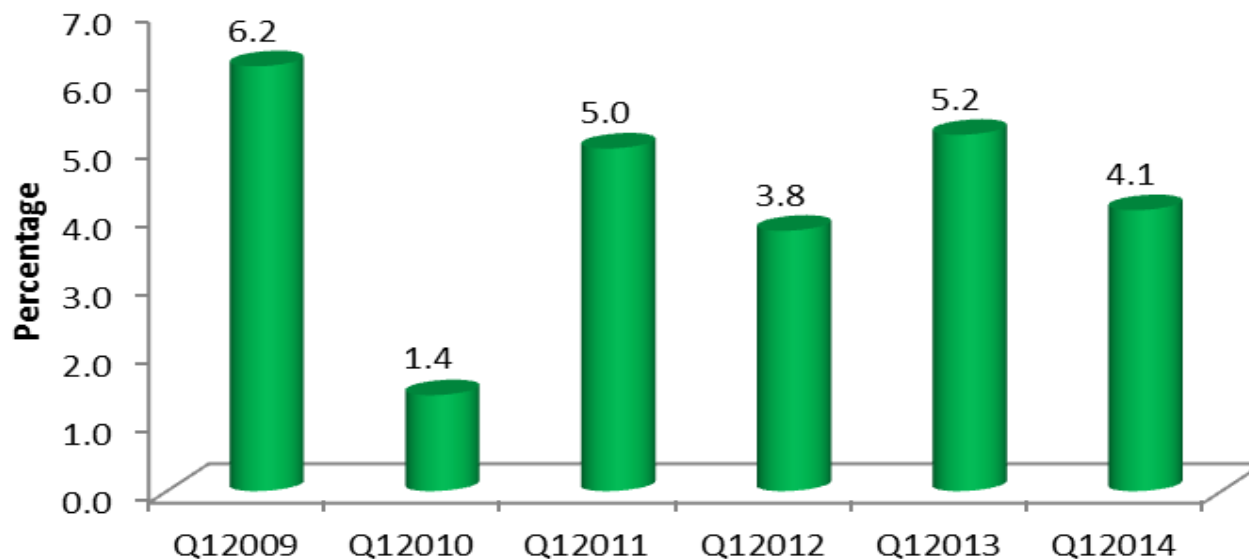
Pillars of our Strategic Growth



Update on Macroeconomic Environment



Q1 GDP Growth Rate



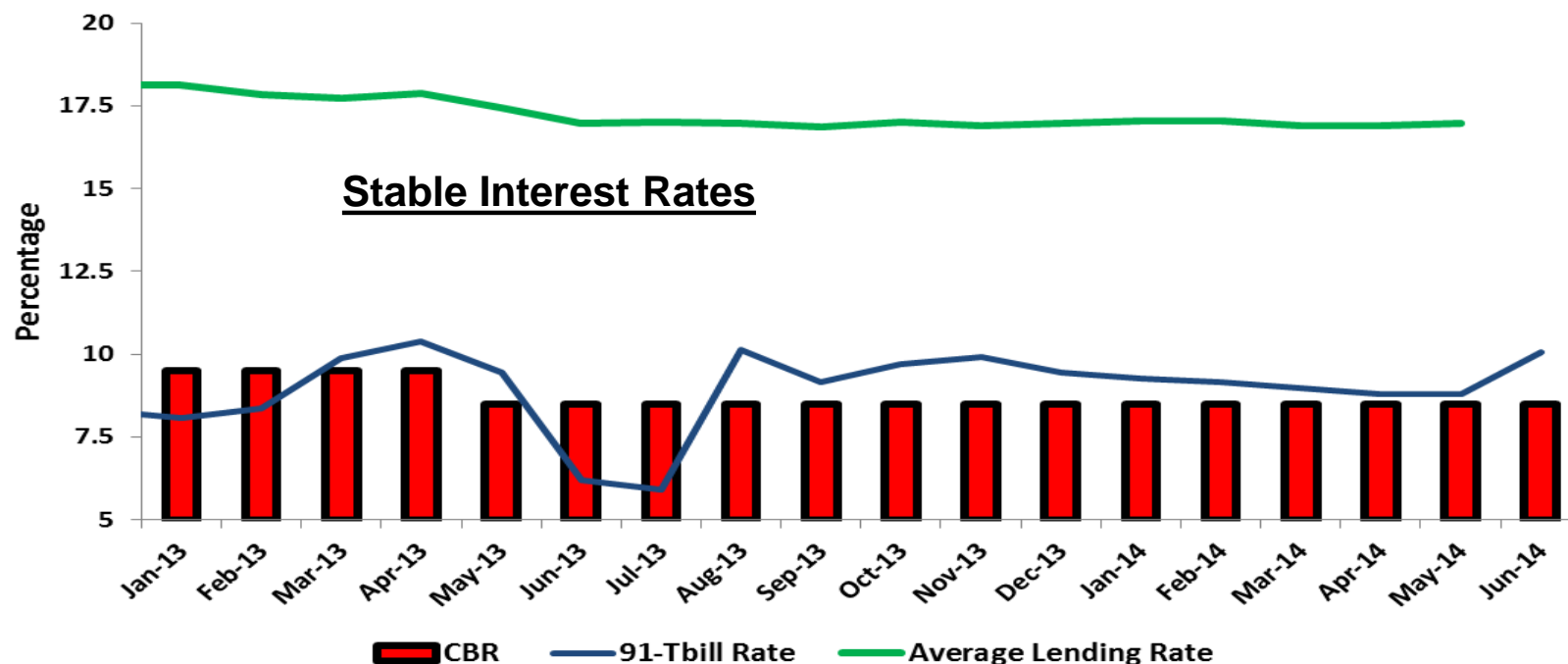
Trend in
GDP Growth

Source: KNBS

Economic Growth

- GDP expanded by 4.1% in 1Q2014.
- Growth was boosted by trade, manufacturing and consumer spending.
- Looking ahead, 2H2014 growth will be driven by manufacturing, trade services and government spending on various infrastructure and power projects.
- Insecurity and erratic weather conditions are the major contributing factors to the slide in GDP.
- The successful euro bond issue is expected to reduce the participation of the government in the domestic borrowing market, thus avail more funds to the private sector to borrow.



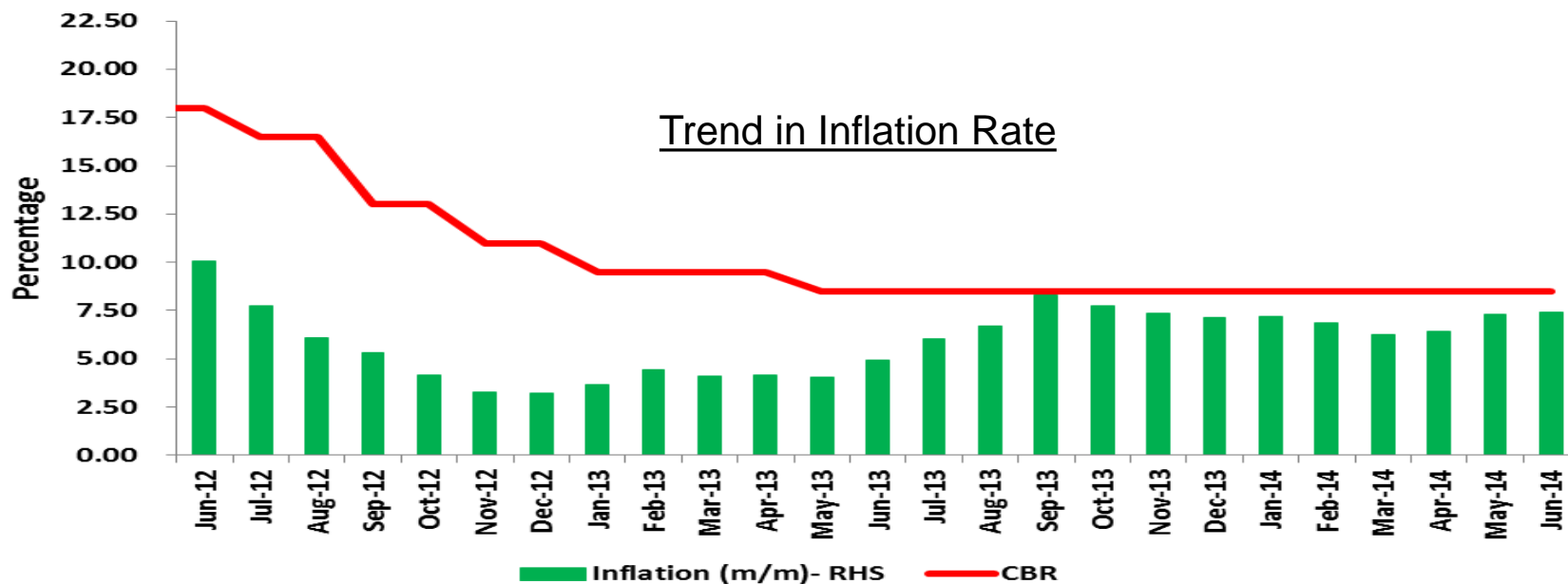


Interest Rates Stable

- Interest rates have been stable. However, lending rates have remained sticky downwards whenever CBR is lowered.
- KBRR was thus introduced to increase this transmission mechanism.

- KBRR and the successful euro bond will not lead to automatic fall in lending rates because inflationary pressure may rise while the government still plans to borrow KES 190.8 Billion from the domestic market.
- Commercial banks thus continue to earn interest rate spreads of close to 10%.

Macroeconomic Update



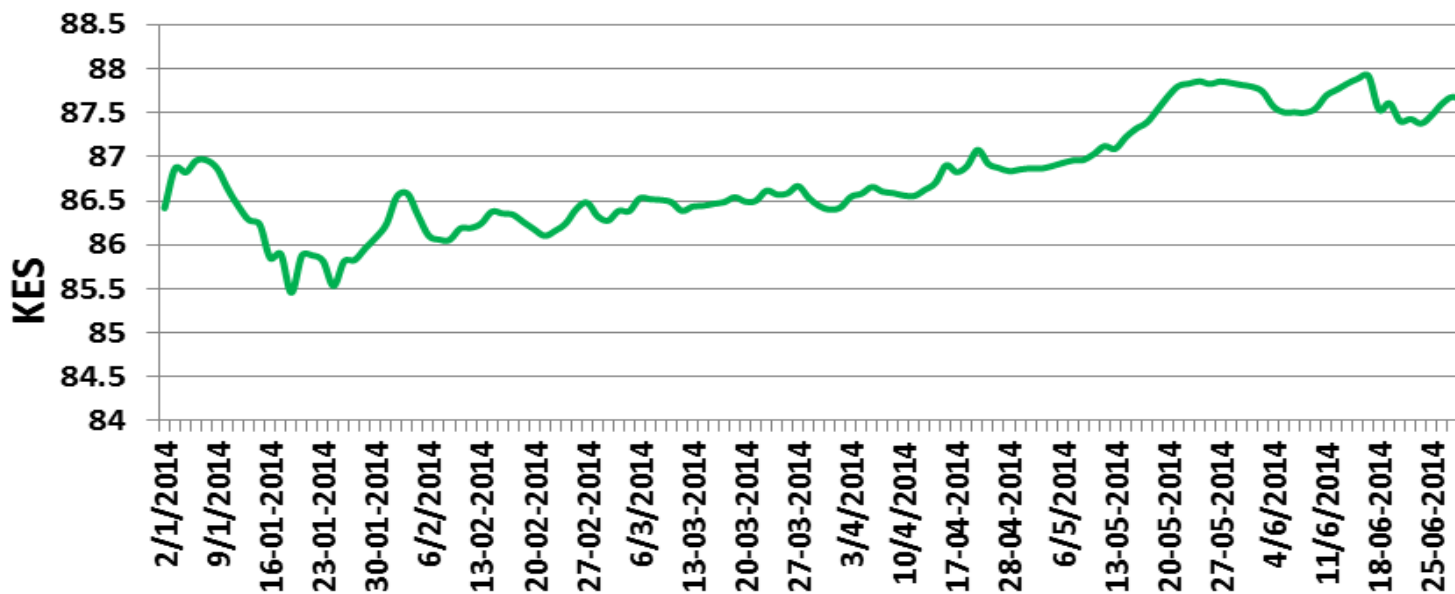
Source: KNBS

Inflation Rate Stable

- Inflationary pressure was mainly from food and cost of electricity. The government has increased allocation to power generation and thus in the long term power prices are expected to fall.
- Some food prices in the global market, for example wheat have started falling and thus we do not expect high imported inflation.
- Rate of inflation has been within the upper band government target in 1H2014.
- Inflation rate for the 1H2014 was an average of 6.90%.

Macroeconomic Update

USD/KES Exchange Rate



Source: CBK

The local currency has been relatively stable



It has traded at an average of KES 86.90 to the USD in H2014



The country's foreign exchange reserves which are worth 4.29 months of import cover as at end of June 2014 have held the KES at a narrow oscillating range.



Looking ahead, we expect the KES to remain in the same range for the remaining part of 2014.



The Co-operative Bank of Kenya

A RICH HERITAGE, A CONFIDENT FUTURE





Pillars of our strategic growth



Pillars Of Our Strategic Growth

- A powerful brand
- Strong transaction income base
- Strong risk management framework
- Robust technology & service delivery channels
- Strong investment in human capital
- Successful financial deepening & business diversification
- Heavy investments for future growth
- Strong & sustainable partnerships with Development Partners
- Social investment that inspires self reliance
- Strong capital base

Successful financial deepening & business diversification


Access your Co-op account through:

- ATM
- *667#
- Co-op Net
- Co-op Kwa Jirani



Associates:-
CIC

When investing in Kenya it pays to follow your instincts



CO-OP

Corporate & Institutional Banking

FOR NEW
IGN EXCHANGE



CO-OP BANK

Retail Banking

"Co-op Bank help another myself sec



Co-op over 5 and c bright over k The '1 in th

Co-operatives Banking

aking hapo tu kwa jirani.



Bank has partnered with businesses to bring banking services to...
CO-OP BANK
OFFICIAL CO-OPERATIVE BANK AGENT

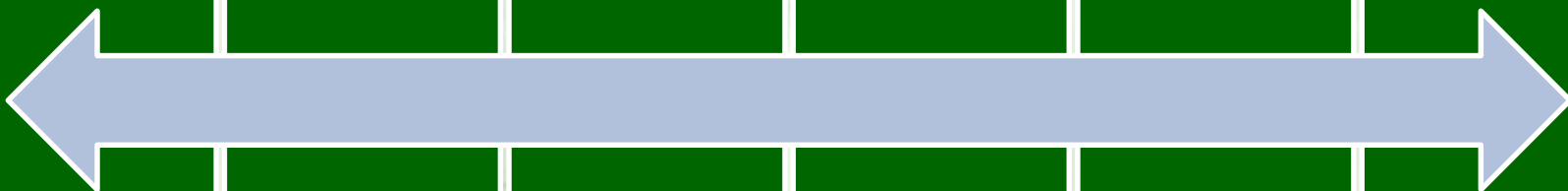
Subsidiaries:-

- Co-opTrust
- Kingdom Securities Ltd
- Co-op Consultancy & Ins. Agency
- Co-op Bank Foundation




Regional Expansion


- Co-op Bank of South Sudan




Successful Financial Deepening & Business Diversification


We deliver a diversified product offering

 To cover Retail (SME, Micro Credit and personal Banking), Co-operatives, Corporate, Agribusiness, Mortgage and Asset Finance & Has linkages with all sectors of the economy - Financial, Agriculture, building and construction, Trade, Tourism and hotels, Energy, Transport and Communication, real estate, Manufacturing and personal households.

 A diversified product offering increases the bank's coverage and fulfillment of customer needs, boosting wallet size growth.

Successfully build an account base of over 4.6 Million customer accounts

 Excellent cross selling opportunities with a customer base of over 4.6 million accounts ; 76% with only 1 account

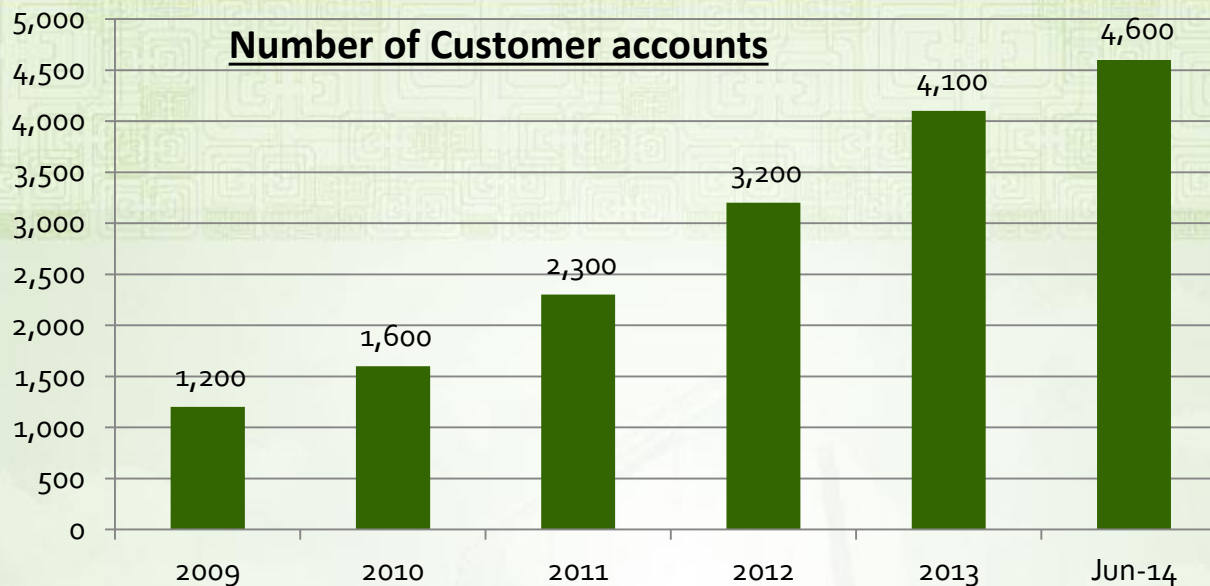
 Linkages with Saccos expands this mass retail base, boosting sales retail offerings; Sacco link.

 26% stake in CIC Insurance Group

Remarkable growth in account numbers



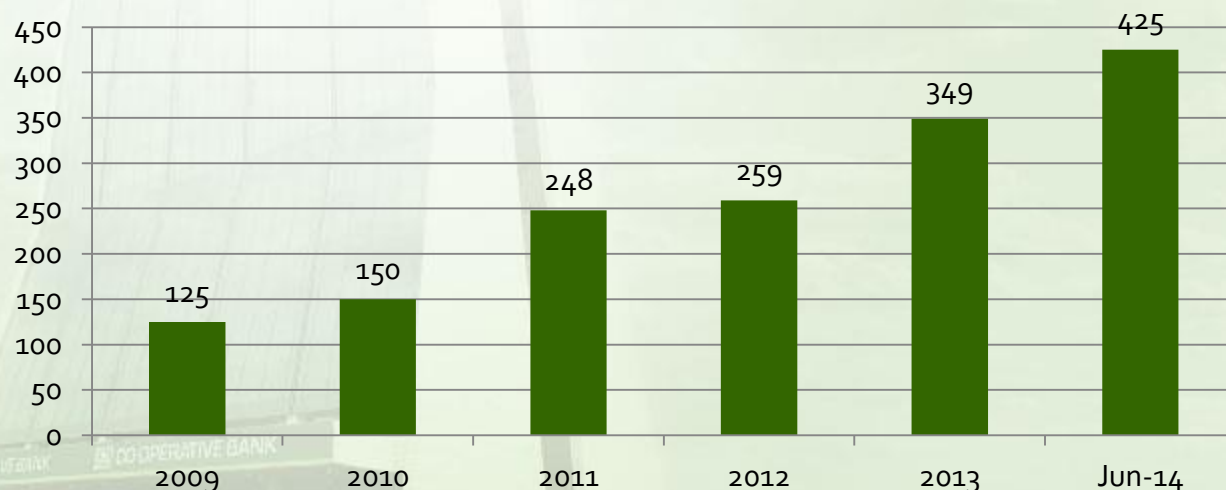
Account numbers, thousands



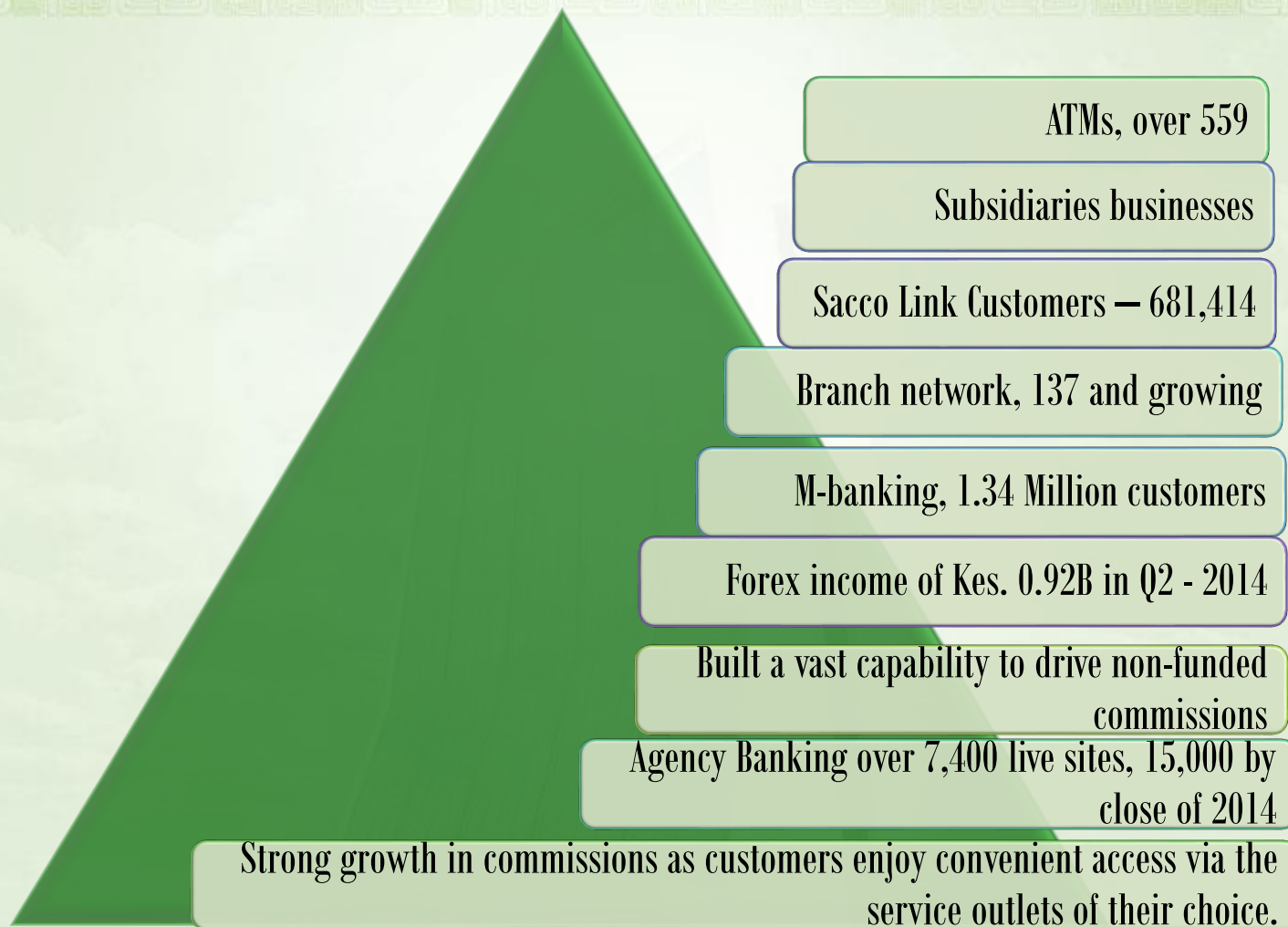
Number of borrowers, thousands

■ Number of borrowers, thousands

Strong growth in borrowing customer numbers continues to boost asset growth and the bottom line



2. Strong Transaction Income Base



Fungua account
ya benki
mkononi mwako
*667#



- 1 Bonyeza *667#
- 2 Fuata maelezo
- 3 Ujumbe wa SMS utathibitisha usajili
- 4 Weka pesa kukamilisha usajili



Pata huduma katika tawi lolote
la Co-op Bank, Co-op Kwa Jirani
au Co-op ATM kote nchini



Tuta ku-sort!

**Need insurance?
Don't stress.
Just visit any
Co-op Bank branch.**



BANC ASSURANCE



For more information contact our call centre on
020 277 6000, 0703 027 000, 0736 690 101 or
email us at customerservice@co-opbank.co.ke

Home comes closer
with Jamhuri banking



Jamhuri Diaspora banking
Lets you do your banking just like
you would back home.



Do your banking hapo tu kwa jirani.

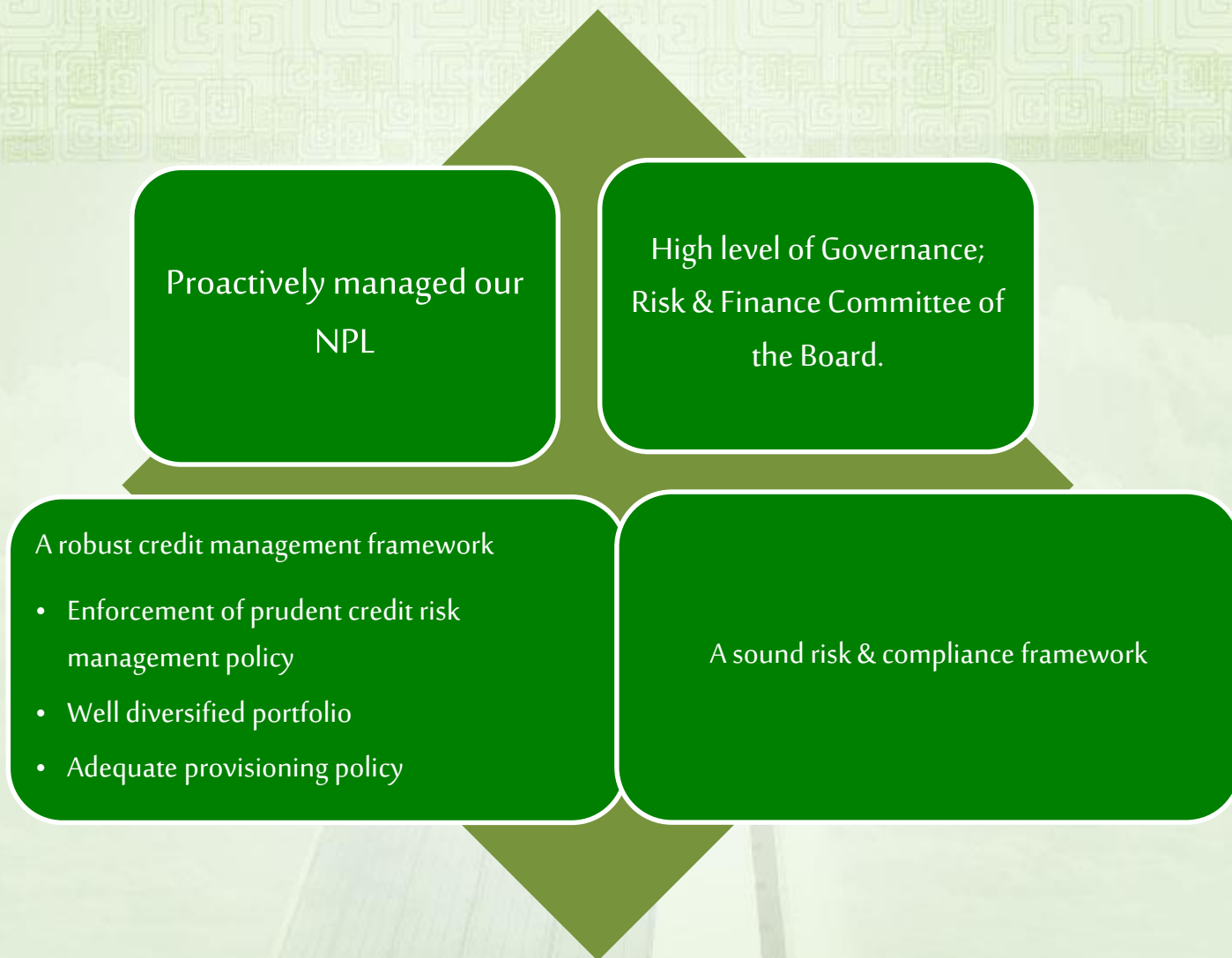
The Co-operative Bank has partnered with businesses to bring banking services to your neighbourhood through Co-op Kwa Jirani - our agency banking service. You can now make cash deposits & withdrawals, pay school fees and utility bills, apply for a loan plus much more closer to home. All you need to transact is your Co-op Cash or Sacco Link card.



For more information, call our Contact Centre on 020 277 6000, 0728 277 600, 0736 690 101, SMS 2020 or email us at customerservice@co-opbank.co.ke.
Co-op Kwa Jirani. Kabisa wakati wote!

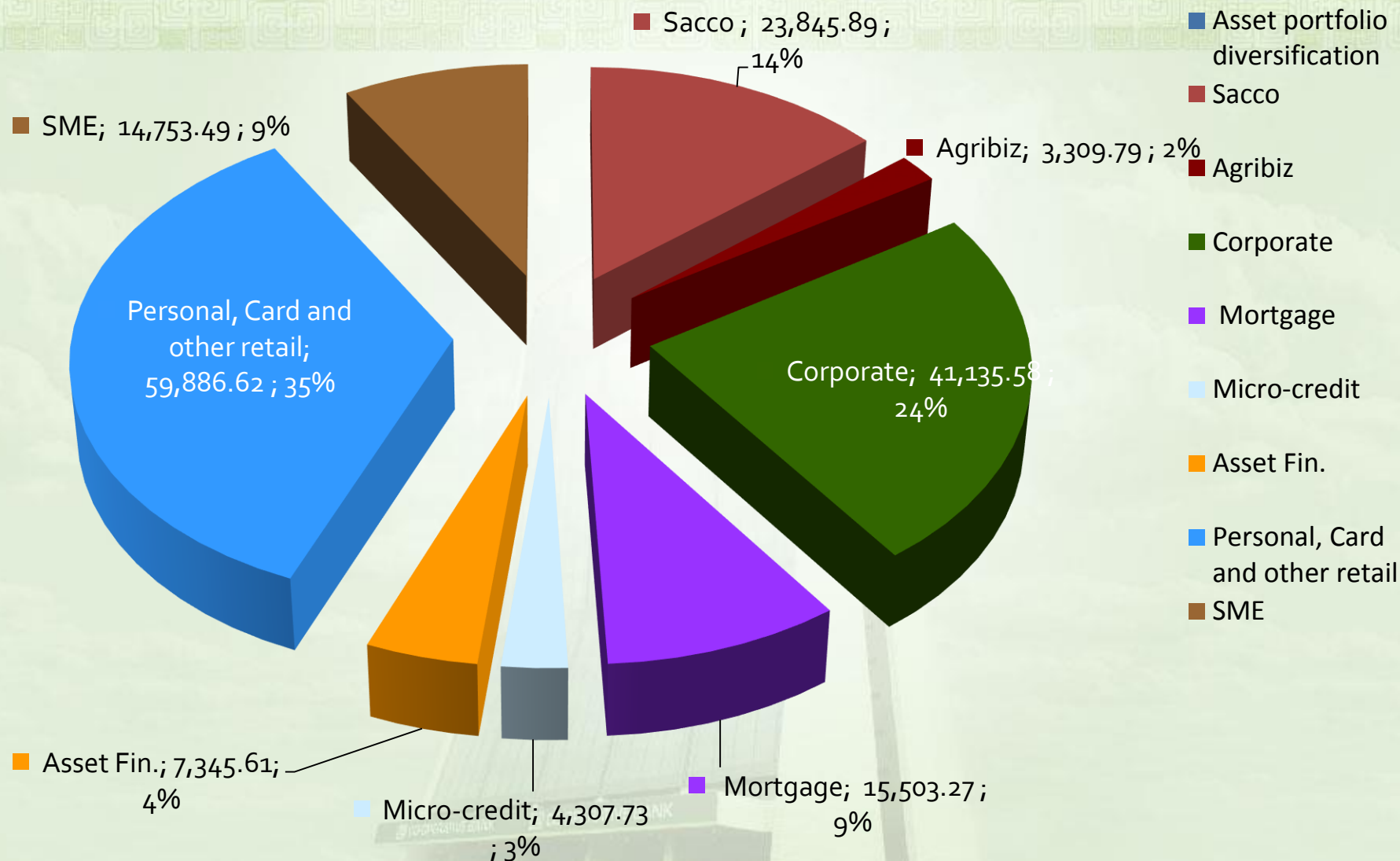
CO-OPERATIVE BANK OF KENYA
We are you

3. STRONG RISK MANAGEMENT FRAMEWORK





Loan Distribution in Kshs Billions

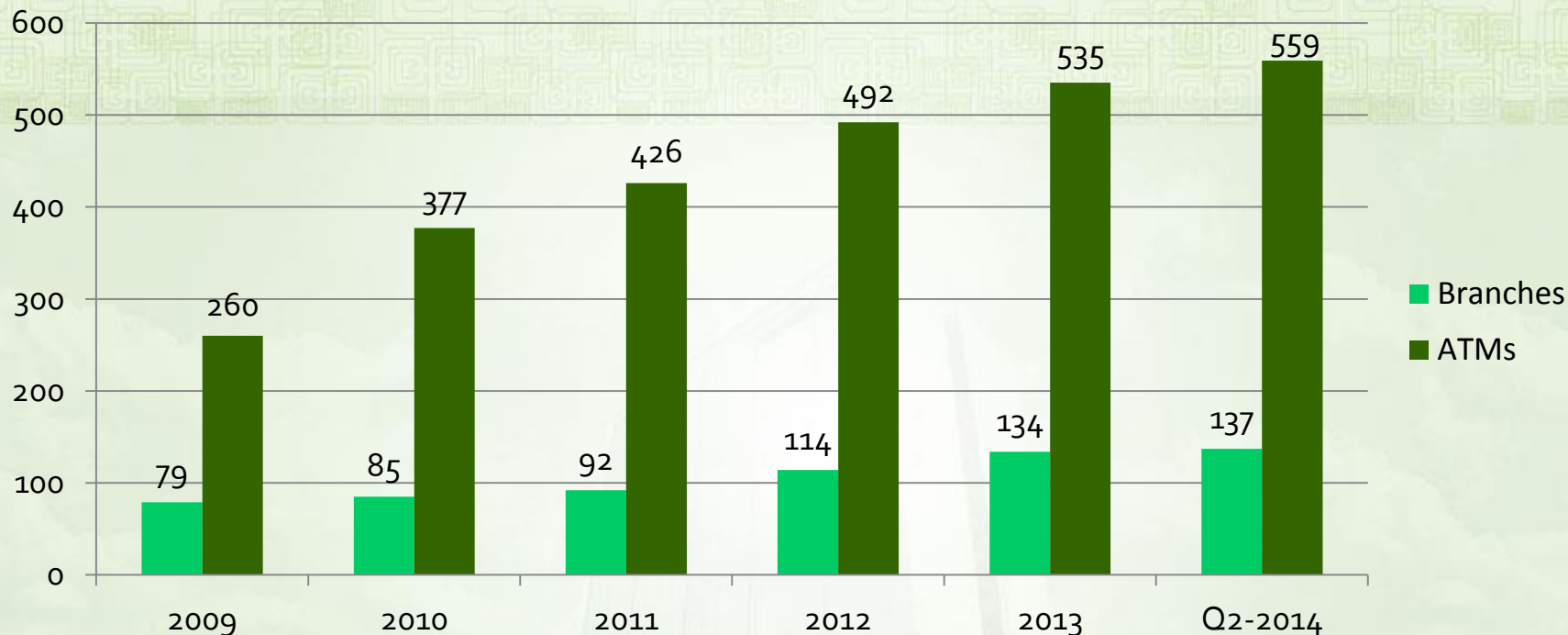


4. Robust technology and service delivery channels

- Sustained investment in world-class technologies and service channels to optimize operational efficiency while providing unrivalled service
- Banking on the latest Bank Fusion Universal Banking (BFUB) core banking platform from Misys with a world-class support structure with the following:
 - Latest 6 IBM P7 series servers
 - Tier 3 Data centre
 - Fiber connection
 - MPLS technology on data movement between head office and branches.
- Investment in specialized systems: **Opics** (Treasury System) and **Trade Innovation** for Trade Finance



Branch and ATM network

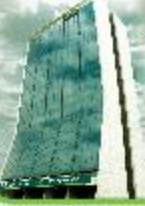


- Strong focus on our county banking strategy

- Continued focus on developing innovative ways to optimize operational efficiency while providing unrivalled service



5. Strong Investment In Human Capital



- The Bank is undoubtedly an employer of choice in the industry
- We have a clear and functional organization and leadership structure
- We have enshrined a performance-based culture and the Balanced Score Card system
- We have a vibrant workforce with a good mix of age and skill sets.
- Runs own Leadership & Management Centre; center of excellence in banking training.
- Includes training for Sacco's management.



6. A Powerful Brand

- **Co-op Bank is the face of Kenya.** We embody the legacy of a successful enterprise by indigenous Kenyans, represented by the Co-operative movement.
- Our brand speaks to the character of the Kenyan people, as engrained in our tagline '*we are you*' and BoD Declaration of the '*Kingdom Bank*'
- We are a successful African story, being the number one Co-operative Bank in Africa
- A reputable Board of Directors; A track record of a most successful business and operational restructuring from a huge Kes 2.3Bn loss in Year 2001

Co-op Bank wins both National & International recognition

Awards

In the concluded quarter, Coop Bank was recognized with two top international banking awards by the *International Banker* magazine, in their **2014 Africa and Middle East Banking Awards**.

The awards are:-

Bank CEO of the Year – Africa, awarded to Dr. Gideon Muriuki, Group CEO

Best Innovation in Retail Banking, awarded to the Co-operative Bank of Kenya

Co-op Bank wins both National & International recognition



Co-op Bank wins both National & International recognition

- ✿ While granting the awards, the *International Banker* issued a rousing citation that is not only pleasant to behold, but also one which gives a ringing endorsement to our strategy.

- ✿ During the **2014 East African Banking Awards**, the Kingdom bank beat other contestants in East Africa to scoop and two other key awards:-
 - i. **Best Bank in Retail Banking**

 - i. **Best Bank in Micro-Finance**

Co-op Bank wins both National & International recognition

The East African Awards came only days after the *International Banker* awards that recognized the Group CEO as the Best Bank CEO in Africa, and the bank as Best in Retail Banking in Kenya, the above awards are a resounding re-affirmation of our claim to be Market Leader in retail banking in East Africa.





Presented by



Knowledge for a competitive edge

BANKING AWARDS 2014 [EAST AFRICA EDITION]



This Certificate is Awarded to

CO-OPERATIVE BANK

WINNER

for emerging

Category

BEST BANK IN RETAIL BANKING

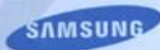
Chief Judge

Judging Process Partner

Chairman



Sponsors:



Exclusive Media Partner



Knowledge Partner



Strathmore Business School

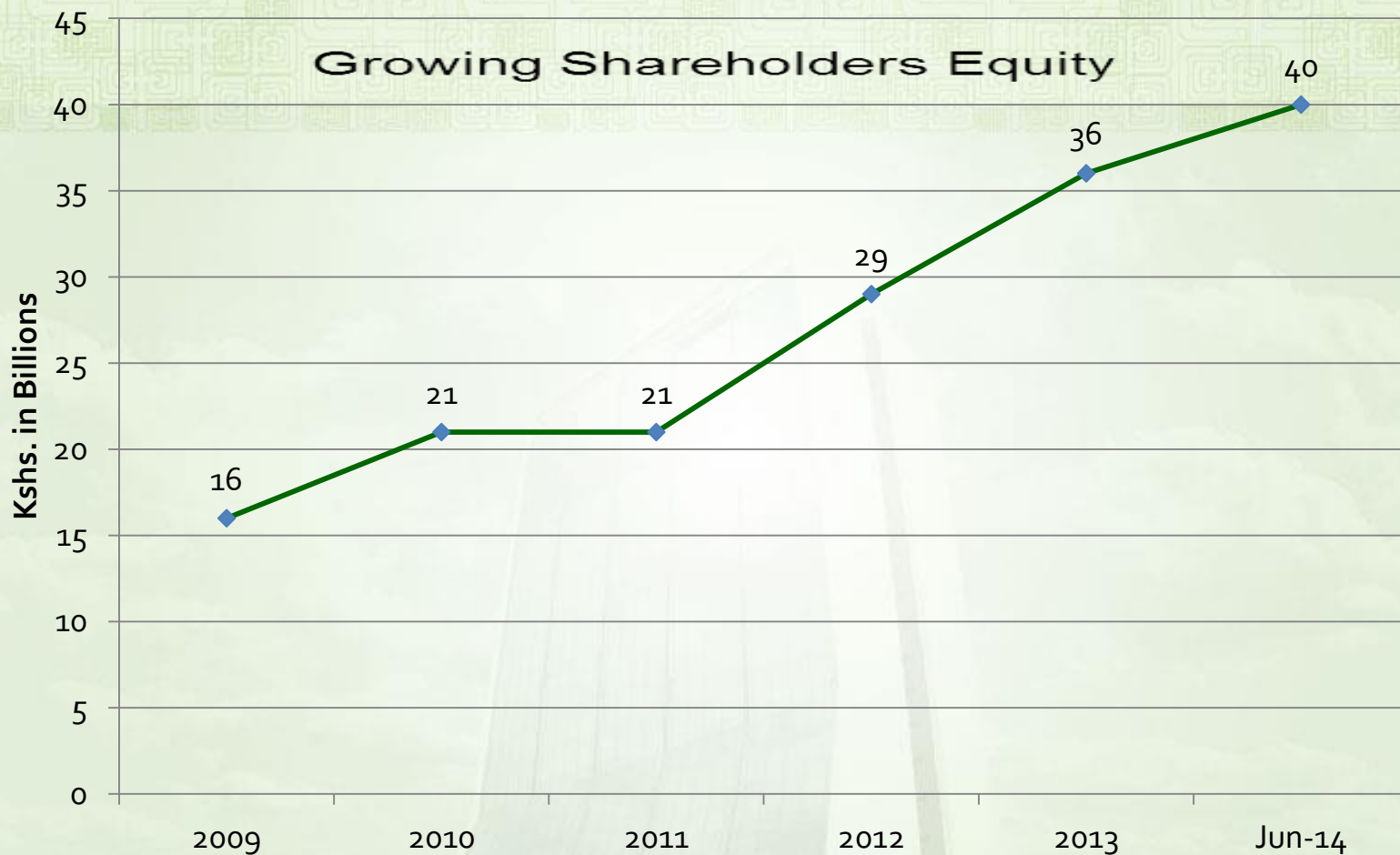
Judging Process Partner



Research Partner



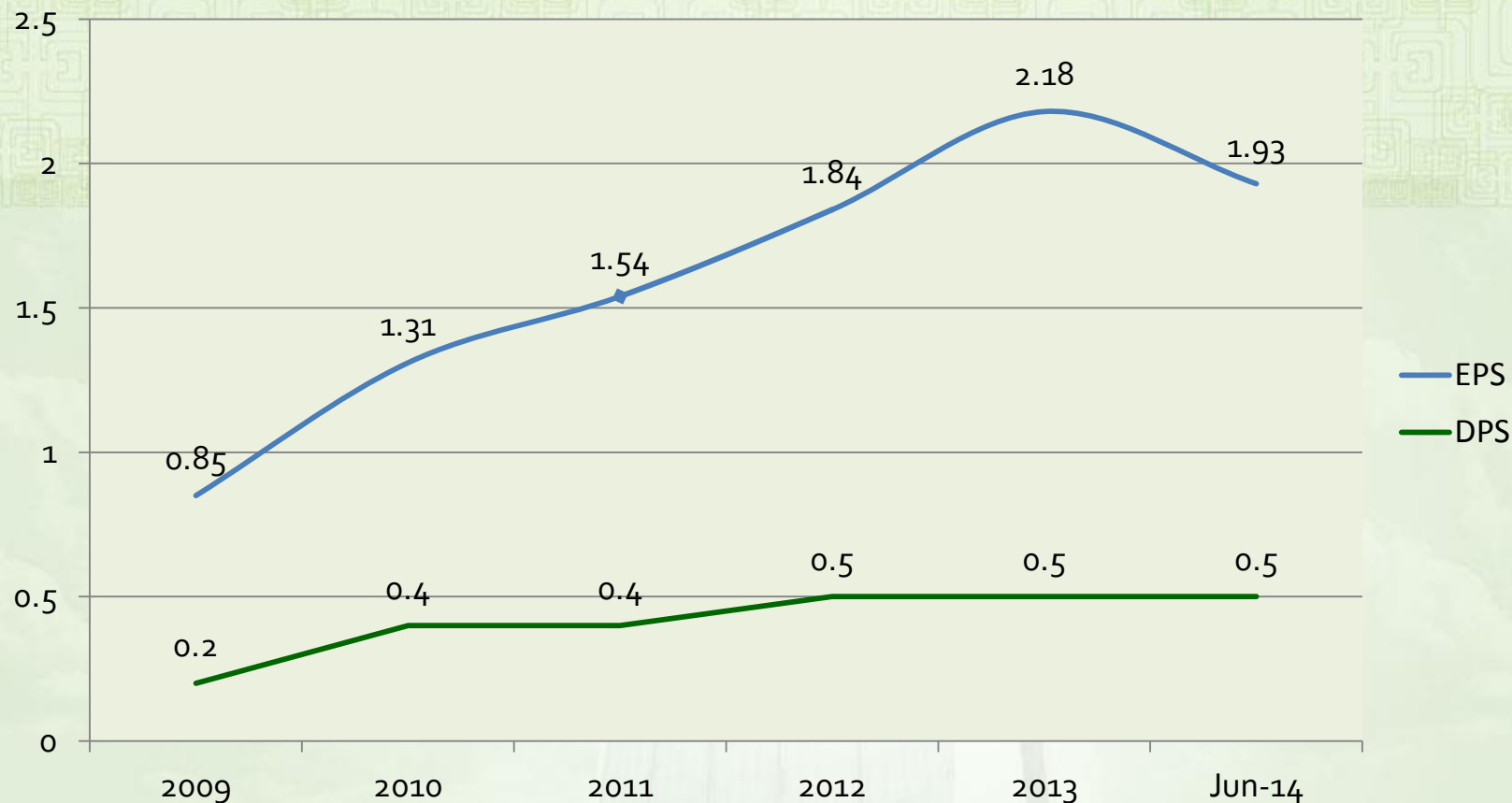
7. Strong capital base



7. Strong capital base

- Steady and consistent growth in shareholders equity
- Ability to **double** our deposit base within statutory requirements
- Ability to lend more than Kshs 10 B to a single customer
- Capital retention strategy to grow business.
 - Progressive dividend payout as our earnings grow
 - Long term plan of deepening shareholder value
 - Affordable means of funding growth

Strong return on investment



- Progressive dividend payout as our earnings grow
- Critical focus of deepening shareholders value

8. Strong And Sustainable Partnerships With Development Partners

- Leveraged on our strong balance sheet to secure long-term debt from developmental partners for over 20 billion as hereunder:
 - IFC US\$ 60 million (Kshs.5.1 billion)
 - EIB Euro 70 million (Kshs.8 billion)
 - AFD US\$ 36 million (Kshs.3.14 billion)
- Under negotiation: DEG US\$ 52.5 million (Kshs.4.51 billion)

Strong And Sustainable Partnerships With Development Partners

- Senior debt has enhanced asset-liability match
- Mitigated our shilling exposure
- Diversified our asset portfolio
- Expanded our client base to export-led sectors
- Boosted our competitive position on account of affordable lending rates

9. Social Investment That Inspires Self Reliance

- ✚ **Social investment philosophy:** empower institutions and individuals so that in future they don't need to be helped again.
- ✚ Board of Directors went out of its way to incorporate a full consultancy company - Coop Consultancy Services - with 20 consultants to support Sacco's and related community benefit institutions.
 - ✚ Capacity building for Sacco's making them more competitive.
Carried out over 500 mandates in 3 years.
 - ✚ Supports Sacco's to establish FOSA's



Co-op Bank Foundation:-

- One of the main pillars of the Co-op Bank Social Responsibility program
- Currently the program has 1,730 needy but bright children who we are paying their tuition, meals and accommodation and fees.
- In the current financial year we spent over Kes.110 Million on this venture
- The bank will have sponsored in 4 years, over 2,800 needy but bright students to pursue Secondary, University & College education.

9. Social Investment That Inspires Self Reliance

- Supported the establishment of Kenya Co-operative Coffee Exporters Ltd to help coffee farmers maximize return on their business and take greater control of the coffee value chain.
- Our social investment has greatly boosted our corporate image and brand visibility.

10. Heavy Investments for future revenue growth

- In line with the County Governance Structure, we have opened over 60 branches in the last 3 years;
 - Leveraging on these branches to be key banker to most of the county governments.
 - A good number will contribute positively to our profits from this year.
- South Sudan operations: we opened our doors for customers from September 2013. This strategic joint venture (Co-op bank 51% / GOSS 49%), is expected to contribute to our profits from this year.
- The unique joint venture guarantees quick turnaround of our business.



Replace your old card today with our new more secure chip card

We are migrating all our ATM/Debit and Credit cards from magnetic strip technology to the new Chip and PIN technology. The new Chip and PIN cards will reduce the risk of fraud and safeguard your personal details. This is an industry wide shift and will allow you to transact with peace of mind at any ATM or point of sale. We will be mailing you the new cards soon. Contact Diaspora Banking at diasporabanking@co-opbank.co.ke or call 254-020-3276972 for your new card today.

*Please note your current card will soon be disabled. Terms and conditions apply

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www.co-opbank.co.ke

**Fungua account
ya benki
mkononi mwako
*667#**

Account Opening 1

1 Bonyeza *667# 2 Fuata maelezo 3 Lijumbe wa SMS utathibitisha usajili 4 Weka pesa kukamilisha usajili

Co-op Bank **M Co op Cash**

Pata huduma katika tawi lolote la Co-op Bank, Co-op kwa Jirani au Co-op ATM kote nchini

www.co-opbank.co.ke

When investing in Kenya it pays to follow your instincts

We know the elephant by its strength. But we also know the elephant by its ability to lead. The elephant is a symbol of strength and leadership. In the same way, the Co-operative Bank is a symbol of strength and leadership. We are proud to be a part of the Co-operative Bank family. We are proud to be a part of the Co-operative Bank family. We are proud to be a part of the Co-operative Bank family.

CO-OPERATIVE BANK

Margaret Chao (Beneficiary)
Co-op Bank Foundation Scholarship

"Co-op Bank Foundation will in four years help another 2,800 needy students like myself secure a brighter future"

Co-op Bank Foundation will have provided over 5,000 free secondary school scholarships and over 200 University Sponsorships to bright and disadvantaged children from all over Kenya, by 2017.

The 'Kingdom Bank' is proud to be investing in the future of Kenya.

CO-OPERATIVE BANK FOUNDATION

CO-OPERATIVE BANK

LOOKING FOR NEGOTIABLE FOREIGN EXCHANGE RATES?



Financial Performance Update

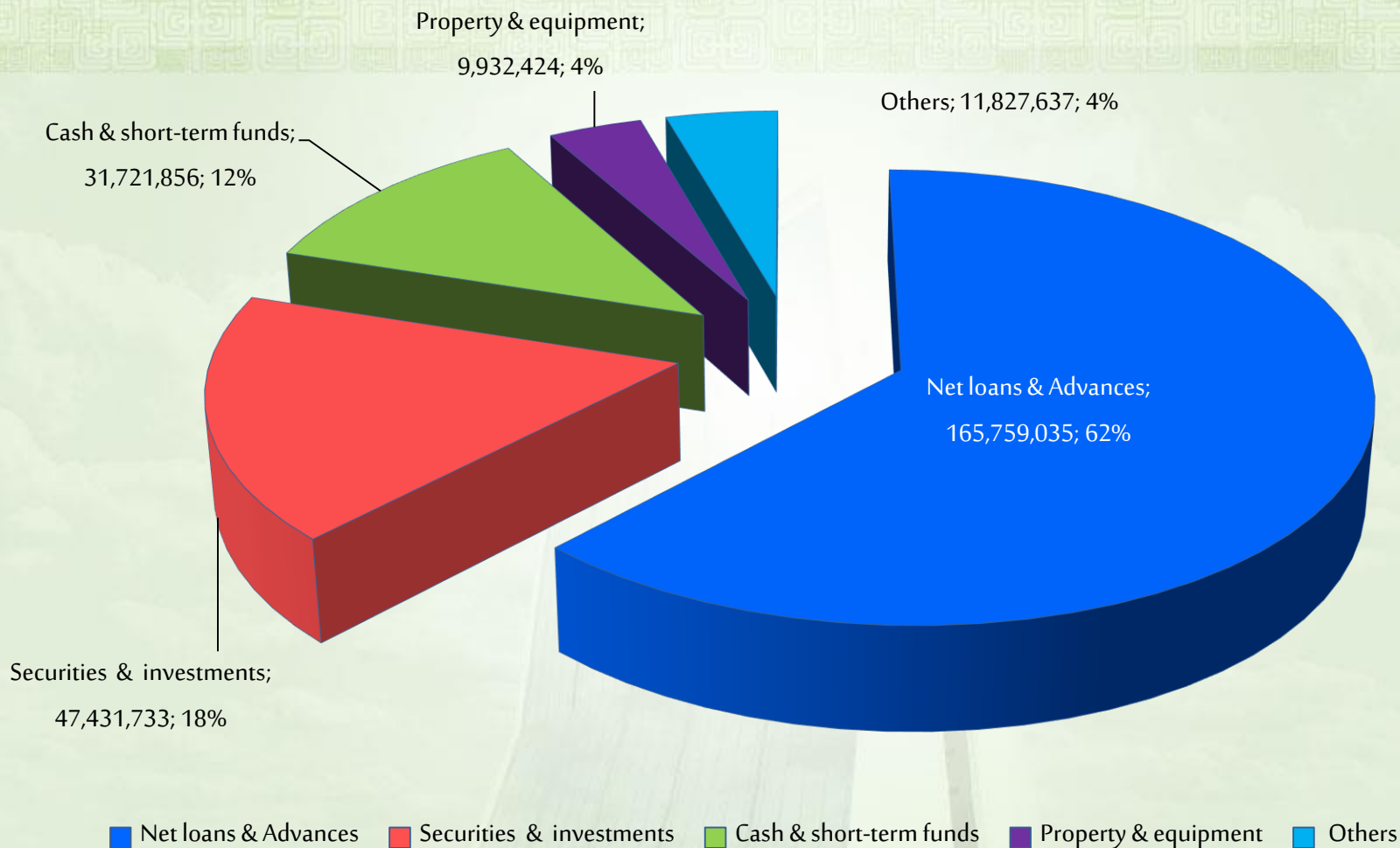


KES Billions	June 30th 2014	Dec. 31st 2013	June 30th 2013	% Change (Year on Year)	
Total Assets	266.7	231.2	225.3	18%	↑
Loan book (NET)	165.8	137.1	124.9	33%	↑
Government securities	41	33.6	34.4	19%	↑
Total Deposits	203.3	181.2	178.7	14%	↑
Number of Customers (Millions)	4.6	4.1	3.5	31%	↑
Branch Network	137	135	125	10%	↑





Balance sheet : Asset distribution



Strong Profitability Growth



KES Billions (except for Earnings per share)	June 30, 2014 (Unaudited)	Dec 31, 2013 (Audited)	June 30, 2013 (Unaudited)	% Change (Year on Year)	
Interest Income	13.65	24.54	11.74	16%	↑
Interest Expense	3.72	5.92	2.88	29%	↑
Net Interest Income	9.93	19.63	8.86	12%	↑
Fees & Commissions	1.03	1.94	0.87	18%	↑
Forex Income	0.92	1.47	0.67	37%	↑
Total Income	16.17	27.89	13.36	21%	↑
Loan Loss Provision	0.4	0.78	0.5	-20%	↓
Operating Expenses	9.44	17.38	7.61	24%	↑
Profit Before Tax	6.76	10.87	5.87	15%	↑
Profit After Tax	4.72	9.11	4.71	0%	↑
Earnings per Share	1.93	2.17	2.25	14.2%	↓

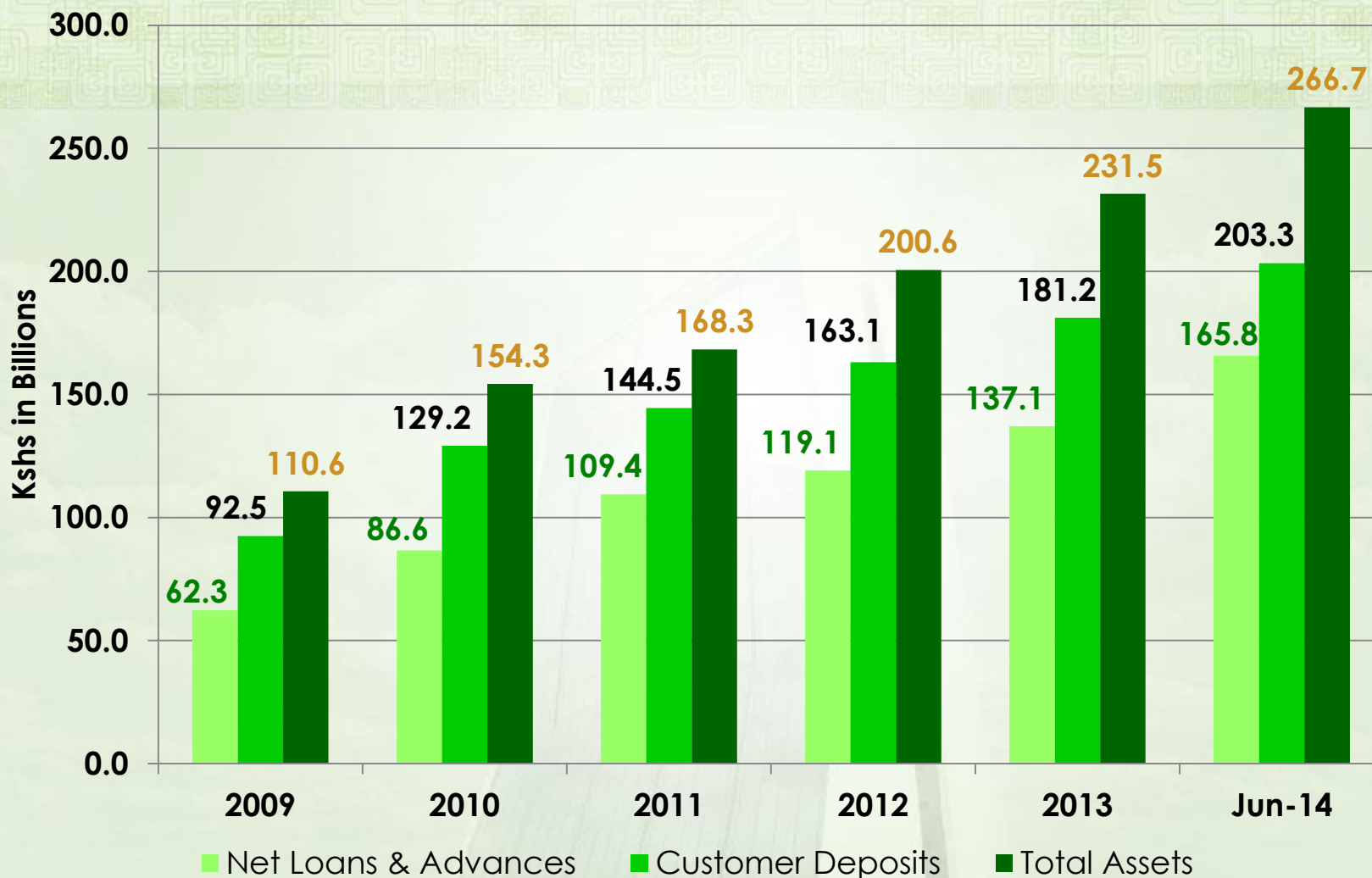


	Q2-2014	Q2-2013
Core Capital / Total Deposits	17.1%	18.2%
NPL / Total Loans	4.1%	4.6%
Total Capital / Total Risk Weighted Asset	20.0%	21.1%
Liquidity	33.1%	39.3%
Loans to Deposits	82.6%	72.3%



Strong Balance Sheet Growth

Strong balance sheet growth



Portfolio Trends Kshs. '000



	<u>Q2 - 2014</u>	<u>Q1 - 2014</u>	<u>Q4 - 2013</u>	<u>Q3 - 2013</u>	<u>Grand Weight</u>
Normal	154,647,450	142,256,688	132,546,365	127,272,035	91%
Watch	8,520,405	8,579,963	6,976,031	5,832,210	4%
Substandard	2,739,398	2,999,170	2,127,743	2,715,400	2%
Doubtful	3,092,341	2,717,177	2,791,828	2,725,043	2%
Loss	1,088,387	1,130,699	1,183,892	827,196	1%
TOTAL	170,087,981	157,683,697	145,625,859	139,371,884	100%
NPL Amount	6,920,126	6,847,046	6,103,463	6,267,639	
NPL %	4.1%	4.3%	4.2%	4.5%	



- The gross loan book has grown at a relatively high rate whilst maintaining Par at stable levels, below 4.5%
- Our key strength has been on ensuring an error proof appraisal system
- Upon approval and disbursement, our loan monitoring process is also very consistent – providing early signs that prompt early action

NPL by Business Segment *(Kshs Millions)*



<u>Segment</u>	NPL By Business Segment				<u>Lending</u>	<u>Closing</u>
	<u>Q3 - 2013</u>	<u>Q1 - 2014</u>	<u>Q2 - 2014</u>		<u>Book</u>	<u>NPL</u>
Retail NPL	1,728	1,735	2,630		39,744	6.6%
Sacco Banking	1,110	1,051	758		27,156	2.8%
Corporate NPL	357	1,695	964		41,136	2.3%
Mortgage NPL	747	140	489		15,503	3.2%
Check Off NPL	2,162	2,226	2,080		46,549	4.5%
Total NPL	6,104	6,847	6,921		170,088	

Sectorial Concentration (Kshs Millions)

	<u>Sector Value</u>	<u>NPL Value</u>	<u>NPL%</u>	<u>exposure %</u>
Agricultural	7,422.37	491.04	7%	7%
Building And Construction	2,909.33	90.01	3%	1%
Energy And Water	8,390.59	15.18	0%	0%
Financial Services	28,473.92	450.82	2%	7%
Manufacturing	7,762.50	20.19	0%	0%
Mining And Quarrying	-	-	0%	0%
Personal Household	59,312.12	2,975.90	5%	43%
Real Estate	16,895.55	140.87	1%	2%
Tourism, Restaurant And Hotels	1,383.71	656.44	47%	9%
Trade	28,360.37	1,936.38	7%	28%
Transport	9,177.52	143.30	2%	2%
Total	170,087.98	6,920.13		100%



Profit before Tax



Key Profit & Loss Ratios

	Q2-2014	Q2-2013
Cost to Income (Absolute)	58.4%	56.9%
Cost to Income	55.9%	53.2%
Average Return on Equity	25.60%	36.30%
Non - Funded to Total Income	38.60%	33.7%
FX to Non Funded income	14.80%	14.90%
Average Return on assets	3.83%	4.19%
Net Interest Margin	8.8%	9.6%
Effective Corporate Tax Rate	30%	20%

- ✚ We are pleased with the strong balance sheet and P&L growth with the Profit before tax of Ksh. 6.8B for the 2nd quarter 2014 representing a 15 % growth over the 2013 PBT of Kes. 5.9B
- ✚ With the major investment in the branch network, ICT infrastructure and new operations in South Sudan, we expect the growth momentum to be sustained and better profitability in 2014



Thank you for your continued support.

God bless you.



THANK YOU



CO-OPERATIVE BANK
We are you