Q3 2020 Kenya Banks Earnings Update - CO-OP Bank Ltd

- Co-operative Bank Group net **Profit After Tax** for Q3 2020 has dropped 10.2% to KES.9.8Bn (Q3 2019 – KES.10.9Bn), weighed down by loan loss provisioning that rose by 89.4% due to the economic downturn caused by the COVID-19 pandemic.
- **Total Assets** for the period grew 15.9% to KES.510.9Bn attributable to a 50.5% growth in **Government securities** to KES.142.3Bn (Q3 2019 – KES.94.6Bn).
- **Loans and advances** grew by a modest 5.7% to KES.284.2Bn as the bank took up a conservative lending approach to manage credit risk.
- The lender has so far restructured loans valued at KES.46Bn equivalent to 16.2% of the loan book to accommodate customers seeking flexible repayment options.
- **Interest income** rose by a relatively modest 7.1% to KES.32.5Bn with interest from Government securities growing 19.9% to KES.9.8Bn compared to interest from loans and advances that rose 2.1% to KES.22.3Bn.
- **Non-funded income** dropped by 3.5% to KES.13.6Bn largely due to a 31.7% decline in fees and commissions from loans and advances which declined 31.7% to KES.1.2Bn.
- **Total operating expenses** rose to KES.23.5Bn an 18.3% increase from the same period in 2019 with loan loss provisions exhibiting the biggest increase.
- **Loan loss provisions** up 89.4% to KES.4.0Bn compared to KES.2.1Bn Q3 2019, resulting in an 18.3% increase in total operating expenses.
- **Asset Quality - Gross Non-Performing Loans** (NPLs) increased 33.6% to KES.40.2Bn from KES.30.1Bn due to increased customer defaults as a result of COVID-19 pandemic.
- **Customer deposits** increased 16.4% to KES.375.5Bn compared to KES.322.5Bn Q3 2019.
- Co-op says 90% of transactions have now moved from branches to digital channels such as M-Co-op cash as mobile wallet disbursed KES.42Bn Q3 2020, in contrast with KES.27.6Bn in Q3 2019.

FY2020 Outlook

- In spite of feeling the negative impact of the pandemic, the Group has performed relatively well compared to its Tier 1 peers.
- We expect the group to record an overall decline in profitability FY2020 mainly due to the significant increase in loan loss provision expense.
- The extension of waiver on fees for funds transfers between mobile wallets and banks to the end of the year is likely to result in a further decline in no- interest income
- With the lower risk presented by government securities, we expect increased investment in government securities as the bank maintains a conservative lending strategy.
- We also expect the bank to continue managing its operating expense. Notable during the period in review was a 51.7% decline in rental charges perhaps an indication of the growing popularity of branchless banking (use of alternative banking channels).
- The bank paid a KES.1.00 dividend FY2019 and there is an increasing possibility that it will withhold dividend payments FY2020.