

# **NCBA INVESTOR BRIEFING**

**Q1 2020**



**20<sup>th</sup> March 2020**

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# Who We Are





## OUR BRAND PROMISE – INSPIRE GREATNESS

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We have harnessed the strengths of both NIC Bank Kenya PLC and Commercial Bank of Africa Limited to create a bank that is anchored on our heritage of best-in class relationship management while embracing the power of cutting-edge digital banking.

At NCBA, our customers are at the heart of everything we do – we are driven by our promise to offer exceptional innovative products and services that are tailored to our customers' specific needs, from personal banking products to scalable business banking solutions that grow as your business does.

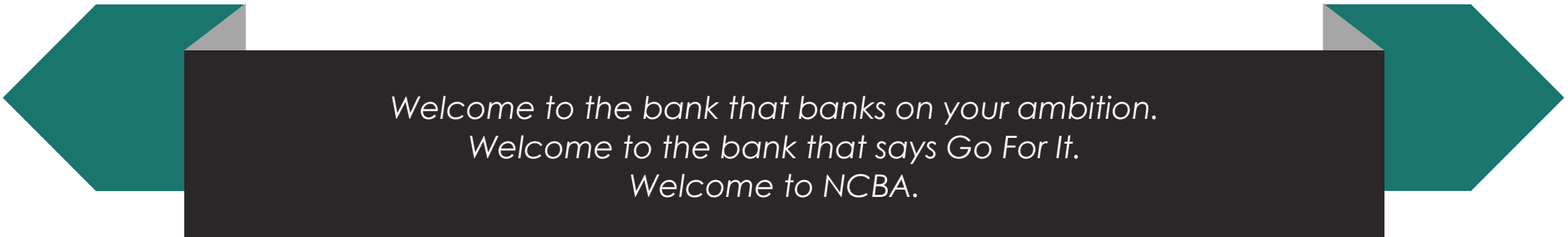
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## OUR COMMITMENT TO SHAREHOLDERS

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Successfully delivering on our purpose will drive shareholder returns



*Welcome to the bank that banks on your ambition.  
Welcome to the bank that says Go For It.  
Welcome to NCBA.*

# Our Strategic Direction



# Our Core Values



Our values are at the heart of our strategy and operating model

Our core values are driven by a spirit  
of partnership

## DRIVEN

We explore the full potential of our customers and ourselves.

## OPEN

We listen to our customers.  
We are inclusive and always show respect.

## RESPONSIVE

We are proactive, act quickly and resolutely to deliver results.  
We put our customer's interests at the heart of all that we do.

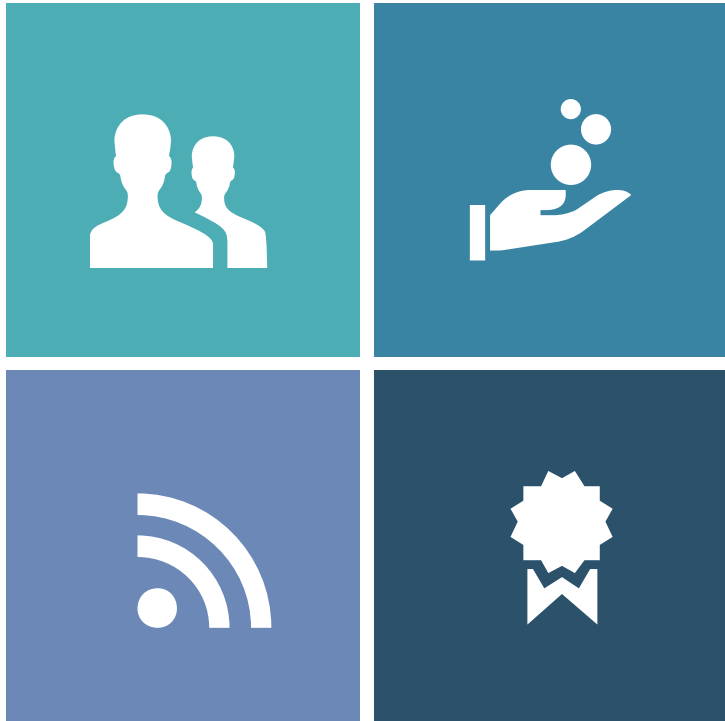
## TRUSTED

We are accountable to clients.  
We work with integrity and that builds trust over time.<sup>7</sup>

# Our Competitive Advantages



Our combined business has an enviable set of differentiated competitive assets



## RELATIONSHIP MANAGEMENT

- Expertise in high growth sectors and regions
- Strong regional presence
- Well respected brand

## DIGITAL LEADERSHIP

- Mobile first digital banking experience
- Digital products and services; 53M digital customers
- Automated assets and liability function

## DIVERSIFIED PRODUCTS

- Diversified suite of financial products for individuals, SMEs and corporates

## SERVICE EXCELLENCE

- Strong customer service culture
- Data driven personalized service
- Best in class turn around times



# Synergy Realization



Our merger unlocked growth synergies which will enhance profitability and shareholder value



1

## **Revenue growth, Commercial organisation**

- Cross-selling and enhancing share of wallet
- Adoption of best in class sales practices
- Improved risk management to reduce impairments

2

## **Scale for growth**

- Alignment towards cost effective deposit raising
- Shift to improved deposits mix & current account deposits
- Improved access to capital markets from scale and credit rating

3









## **Operational Optimization**

- Branch and HQ optimization
- IT integration and consolidation
- Integration and optimisation of support functions
- Consolidated procurement and facility management

# Merger Status



We are on track to complete all integration milestones by Q3 2020

MILESTONES	 Kenya	 Rwanda	 Uganda	 Tanzania
Legal & Regulatory Approval	✓	✓	On Track	On Track
Creation of Legal Entity & Governance Model	✓	✓	✓	✓
Organizational Structure Definition	✓	✓	✓	✓
Alignment of Products, Processes & Customer Management	✓	✓	✓	✓
New Brand Rollout	✓	✓	On Track	On Track
Core System Upgrade & Consolidation	Q2 2020	✓	Q2 2020	Q3 2020
	 1st Oct 2019	 1st Feb 2020	 June-July 2020	 July - Aug 2020

# Clear Strategic Direction



Our 5 year growth agenda is anchored on 5 key priorities

## Scale Retail Banking: Expand Distribution



- Grow our retail footprint to match that of our peer group, and acquire new customers

## Deepen Leadership in Corporate Banking & Asset Finance



- Build Industry expertise in key sectors and specialize in growing sectors of the economy, emerging as leaders in all sectors
- Optimize balance sheet to drive profitability & efficiency

## Digital Transformation



- Digitize our core customer journeys to enhance digital experience for all customer segments
- Develop and extend digital payments

## Distinguished Brand Known For Customer Experience



- Develop and sustain a strong universal brand that resonates and attracts new customers
- Offer seamless and world class customer experience across physical & digital channels

## High Performance Employee Culture

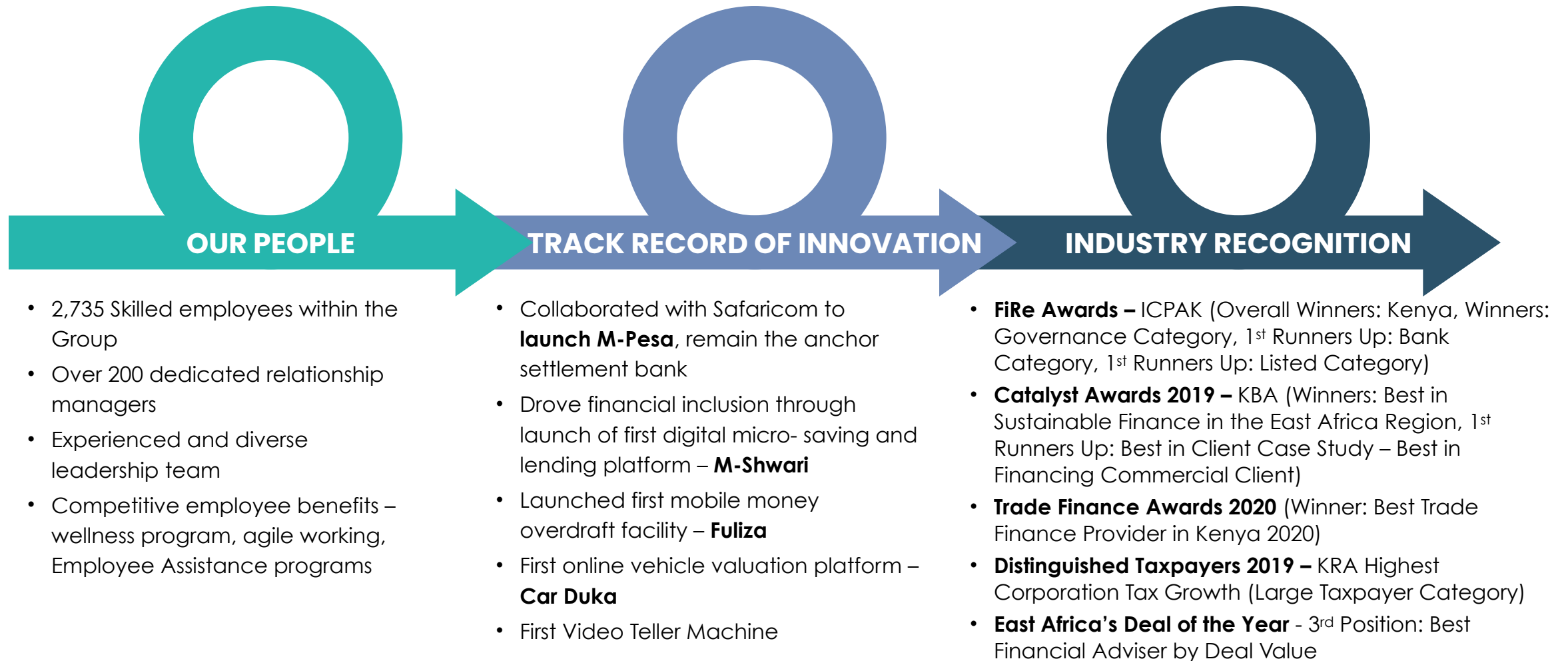


- Develop a culture that attracts and retains the best talent
- Invest in people for capacity, expertise and service

# Why We Will Be Successful



We are poised to execute from a position of strength



# Operating Environment





Covid-19 pandemic causing the worst recession in modern history

- ✓ Q1 marked the start of a recession far worse than the financial crisis of 2008/09
- ✓ From preliminary data, Q2 will be worse due to effects of extended lockdowns – prolonged productivity freeze, rising unemployment
- ✓ EMs to record first contraction in nearly four-decades.
- ✓ Faced with a public health crisis, fragile external markets, low commodity prices, weak domestic demand and tighter credit markets EMs face worst economic & financial crisis in decades.

#NCBAResults

- ✓ Record monetary and fiscal stimuli have boosted sentiment
- ✓ Further upside from slower pace of infections, reopening prospects
- ✓ As a result oil prices have recovered 52% from April lows of \$19/barrel
- ✓ However, 55.5% YTD loss still reflects fragility in economic prospects.

- ✓ Global risk aversion has seen a sharp rise in Africa Eurobond yields for sovereigns
- ✓ Ratings for several countries including south Africa already downgraded to Junk or a tad above Junk
- ✓ This will complicate the region's response to the current shocks as access to capital markets is limited
- ✓ Wider spreads coupled with strong dollar will increase debt vulnerabilities
- ✓ Recovery will be slow and potentially very painful.

# Economic Overview & Outlook



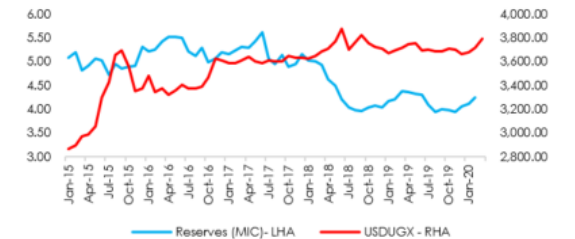
Covid-19 has drained the steam from the region's sound growth momentum



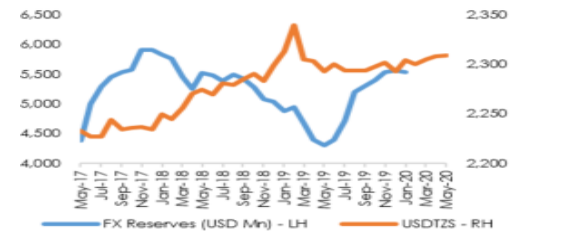
- GDP growth slowed to 5.4% in 2019 from 6.3% in 2018. Economic growth outlook has dramatically deteriorated from earlier projections of about 6.0%.
- COVID-19 could precipitate Kenya's first contraction since 1970.
- **We expect that GDP will grow at 0.2% in 2020. At best GDP may expand by 1.5%**
- **Core inflation reduced to a record low of 1.8% in April from 2.5% in March.**
- The central bank's response to COVID-19 (100bps CRR reduction, 125bps cut in CBR, extended Repos) have enhanced liquidity in the banking sector allowing for loan restructuring with minimal shocks to balance sheets.
- Over KES 81Bn worth of loans restructured so far – MPC.
- **KES has depreciated by 4.8%** due to decline in dollar liquidity from exports, remittances and capital



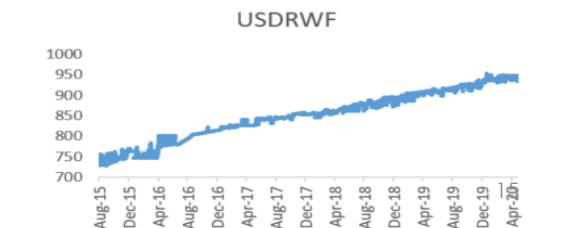
- **GDP growth downgraded from 5.8% to 2.3%, weakest in over two-decades**
- Aggressive COVID-19 containment measures (countrywide lockdown) has led to significant freeze on economic activity with weaknesses across services, industries and agriculture to some degree
- Fairly low public debt and debt service ratio, prospects of debt relief/restructuring may allow a wider deficit and hence strong interventions after lockdown
- **Inflation will remain in the lower band of the statutory target band** providing headroom for monetary accommodation
- **USDUGX has depreciated by 3.9%** since the pandemic begun to above 3800 against the US dollar
- Dollar liquidity shrunk due to Capital flight and reduced export earning and remittances



- **GDP is projected to slowdown to 3.5% in 2020** from 6.7% in 2019, the highest in the region
- Limited social distancing restrictions may delay the economic hit from the pandemic
- Expect soind growth in Q1 and Q2 but potential for escalated containment measures in Q3 could see a sharp downturn
- **Inflation will remain below 5.0%** on the back of stable food prices, low fuel costs and fragile demand
- This should allow for a 100bps drop in SMR in addition to other liquidity support measures by the Bank of Tanzania
- The shilling is among the best performing currency in the world since the outbreak of COVID-19
- Limited covid-19 impact, fairly closed capital account, strong FX reserves and tight margin controls explains relative stability



- **GDP is projected to slow down to 3.1%** from earlier estimates of 7.8% and the 9.4% expansion in 2019
- COVID-19 has placed sharp breaks on Rwanda's enviable growth progression
- The lock down has frozen economic activity in the country, restricting transactions to essentials
- Central bank has dropped CBR by 50bps, CRR by 100bps since the pandemic
- The Franc has maintained an organized depreciation against the US dollar, typical in managed float exchange rate regime
- **With underdeveloped capital markets, capital outflows have been limited**



# Our COVID-19 Action Plan





# Our Covid-19 Response Principles



1

The **Health & Safety** of  
our Employees &  
Customers is our  
**#1 Priority**

2

We Will **Actively Monitor**  
the Risks to the Bank &  
**Act Swiftly & Judiciously**  
to Address them

3

We Will **Communicate**  
With our Stakeholders  
**Accurately** & in a **Timely**  
**Manner**

# Our Action Plan



We are organizing our crisis management efforts against 6 critical priorities



# Supporting Employees, Customers and Our Community



## Employees

- Enabled employees to work remotely
- One-time compassionate pay to all employees
- Shopping vouchers issued to 600 support staff
- Enhanced sanitation measures across all offices & branches; Increased cleaning frequency, issued masks, sanitizer and gloves and implemented temperature screening on entry to all bank premises
- Enabled use of taxis for all employees at company expense
- Established hotlines for employee counseling & advice in case of infection

## Customers

- Offered moratoriums on principle and interest
- Waived all mobile money transfer fees
- Waivers on penalty fees for a period of 3 months
- CRB delisting of loans < KES 1000
- Proactively engaging customers at risk to identify solutions
- Enhanced digital servicing
- Thus far, we have approved over KES30Bn worth of loans to be restructured

## Community

- Contributed KES 100M to the Government of Kenya Emergency Response Fund

# NCBA Group Performance YTD



# Basis of Financial Reporting



On 1 October 2019 NIC Group PLC (NIC) and Commercial Bank of Africa Limited (CBA) completed the merger of both institutions, the transaction was accounted for in accordance with IFRS 3 - Business combinations.

The Q1 2020 financial statements of the bank are prepared on a prospective basis (a continuation of CBA), representing 3 months performance of NCBA Bank (merged bank); prior year comparatives are those of CBA Bank. The consolidated financial statements are also a continuation of the financial statements of CBA with an adjustment to capital to reflect the legal capital of NIC. The prior year comparatives are those of CBA.

Merger related costs are included in the comprehensive income statements and are disclosed as exceptional items.

The planned Integration in the other jurisdictions where NCBA Group has a presence is ongoing and is expected to be completed by the close of the third quarter.

# Balance Sheet



Increased Group total assets by KES 15B vs YE 2019

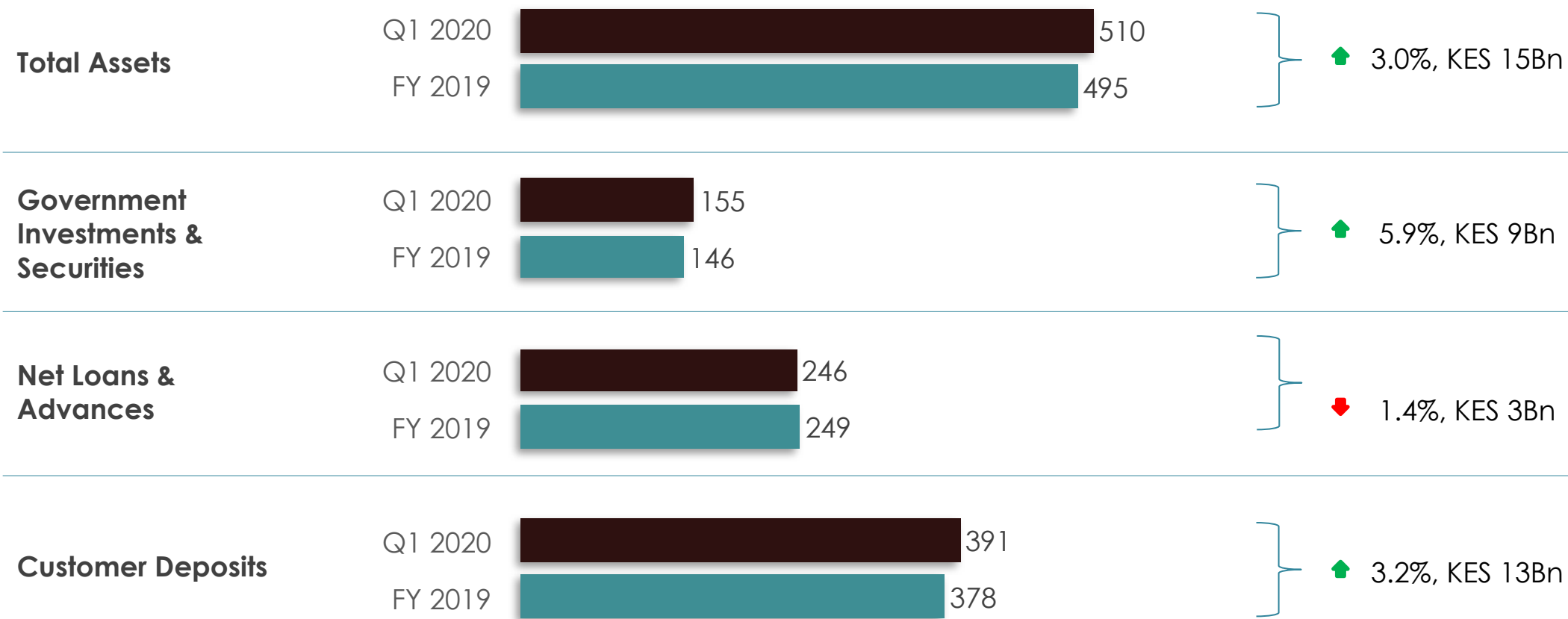
KES Millions	Bank			
	Q1 2020	FY 2019	Q1 2019	%Δ YTD
Cash & Balances with Central Banks & Banks	67,343	57,729	40,390	16.7%
Government & Investment Securities	145,944	137,968	64,373	5.8%
Net Loans and Advances	223,697	227,868	111,520	(1.8%)
Fixed Assets	10,001	10,167	5,063	(1.6%)
Other Assets	30,690	31,158	17,667	(1.5%)
<b>Total Assets</b>	<b>477,675</b>	<b>464,890</b>	<b>239,013</b>	<b>2.8%</b>
Customer Deposits	363,464	353,619	191,174	2.8%
Balances Due to Other Banks	5,205	6,686	711	(22.2%)
Borrowed Funds	28,488	29,051	9,392	(1.9%)
Other Liabilities	9,426	6,118	4,267	54.1%
<b>Total Liabilities</b>	<b>406,583</b>	<b>395,474</b>	<b>205,544</b>	<b>2.8%</b>
Shareholders Equity	71,092	69,416	33,469	2.4%
<b>Total Liabilities and Equity</b>	<b>477,675</b>	<b>464,890</b>	<b>239,013</b>	<b>2.8%</b>

Group			
Q1 2020	FY 2019	Q1 2019	%Δ YTD
72,982	62,779	44,439	16.3%
154,670	146,119	69,678	5.9%
245,858	249,355	122,326	(1.4%)
12,175	11,375	5,635	7.0%
23,910	25,216	11,040	(5.2%)
<b>509,595</b>	<b>494,844</b>	<b>253,118</b>	<b>3.0%</b>
390,529	378,237	204,228	3.2%
8,868	10,893	3,042	(18.6%)
31,186	32,974	11,427	(5.4%)
10,196	5,480	4,123	86.0%
<b>440,779</b>	<b>427,584</b>	<b>222,820</b>	<b>3.1%</b>
68,816	67,260	30,298	2.3%
<b>509,595</b>	<b>494,844</b>	<b>253,118</b>	<b>3.0%</b>

# Balance Sheet: Q1 2020 Group Highlights



Solid deposit growth, up 3% vs YE 2019

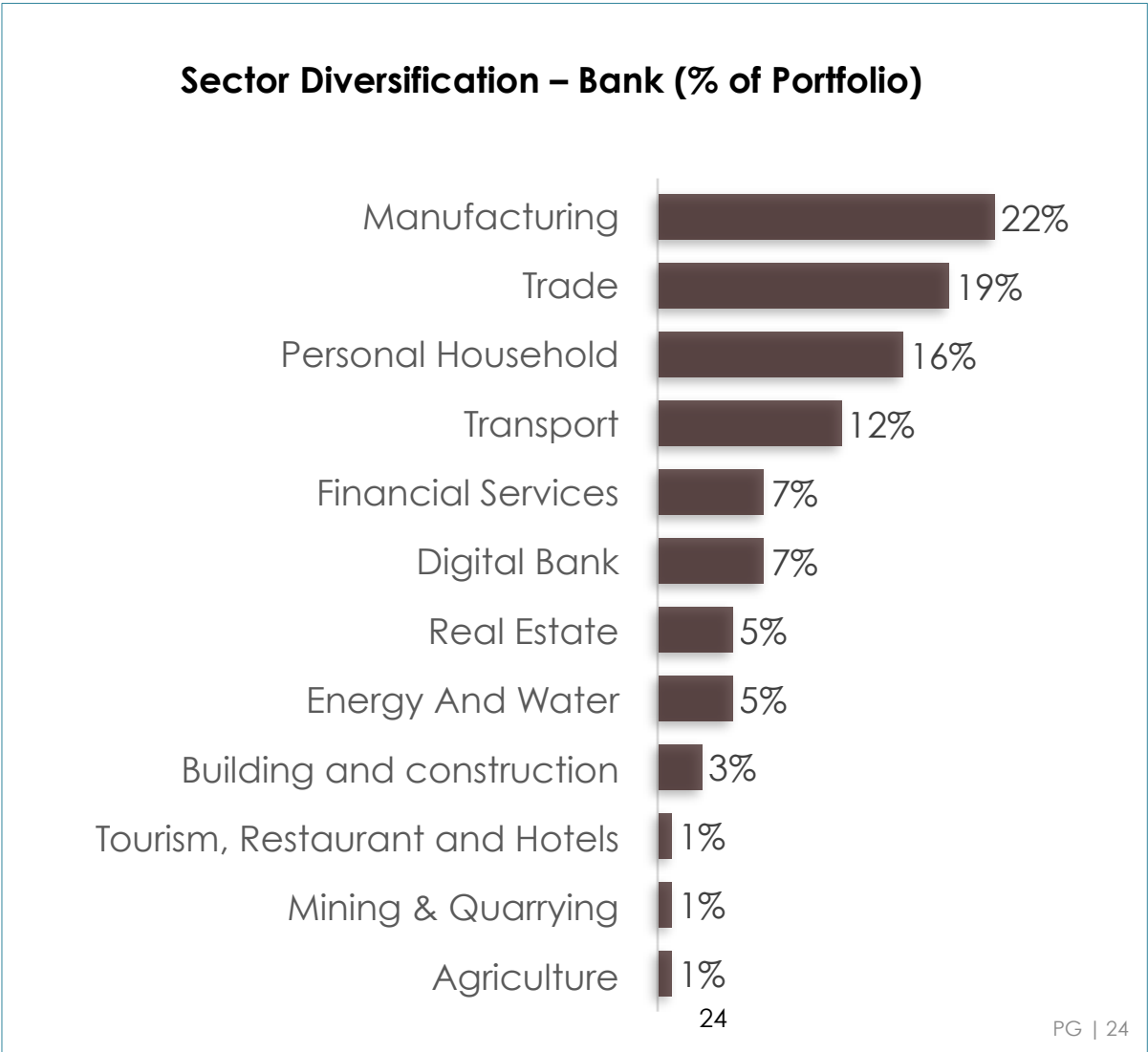
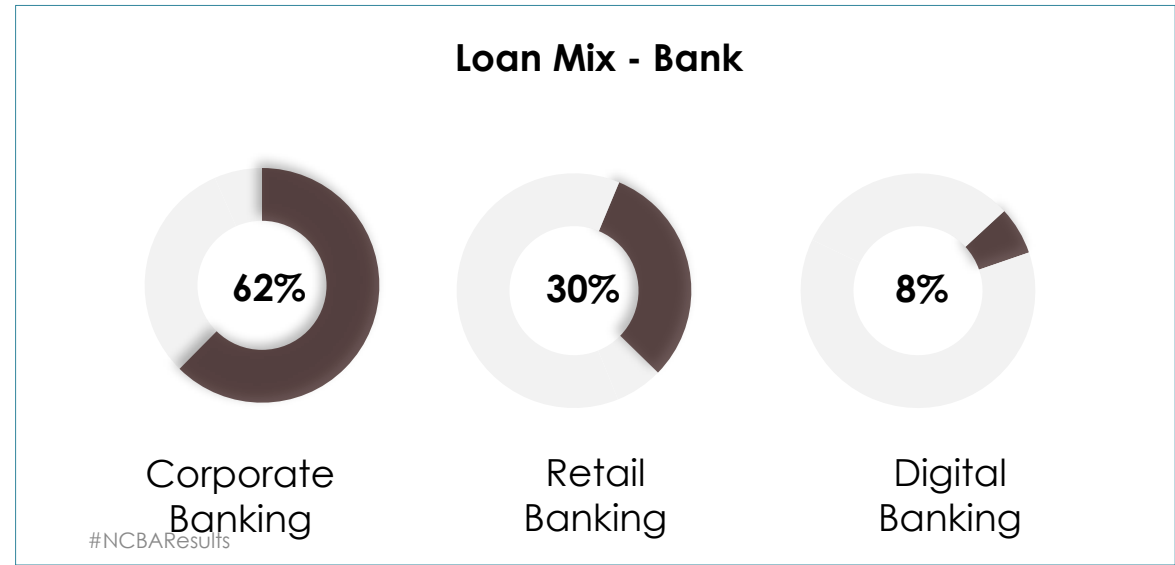


# Gross Loans



Our loan portfolio is stable, diversified and well balanced across sectors

Gross Loans		
KES Billions	FY'19	Q1'20
Gross Loans - Group	278	275
Regional Subsidiaries	24	23
Kenya	254	252





# Loan Portfolio Quality



Despite slight deterioration in portfolio, our provisions and collateral remain sufficient to cover the risk

Group	FY'19	Q1'20
Gross Loans (KES B)	277	275
Gross NPL (KES B)	33	38
NPL Ratio	12.1%	14.1%
Gross Provisions(KES B)	18	21
Provision Coverage Ratio	55.9%	54.5%

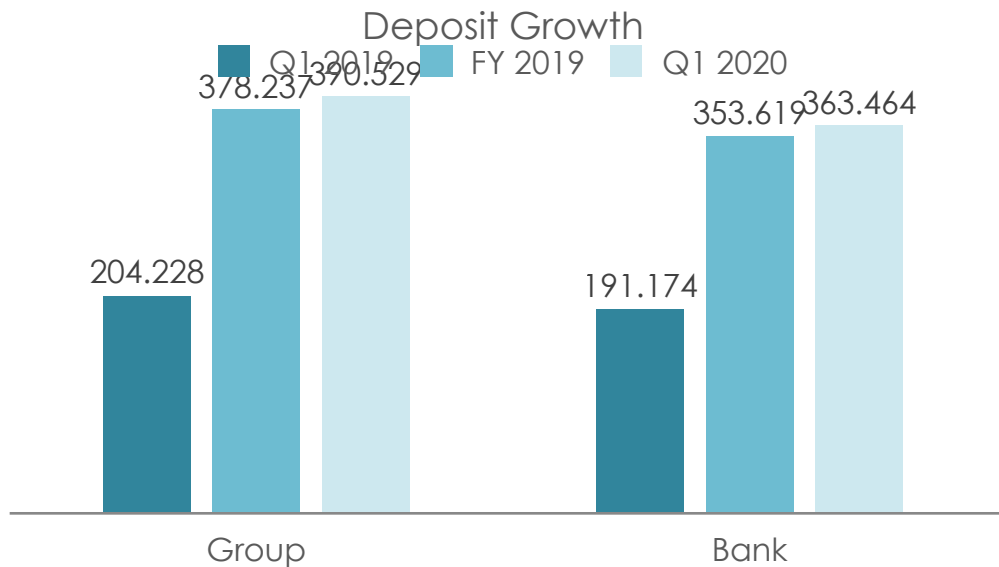
Bank	FY'19	Q1'20
Gross Loans (KES B)	254	252
Gross NPL (KES B)	30	34
NPL Ratio	12.0%	13.8%
Gross Provisions(KES B)	16	18
Provision Coverage Ratio	54.2%	53.3%

Industry Exposure NPLs - Bank	
Sector 'KES 'M	Share of NPLs Q1 2020
Manufacturing	28%
Trade	23%
Personal Household	16%
Digital Banking	15%
Transport	7%
Building and construction	3%
Real Estate	3%
Mining & Quarrying	1%
Agriculture	1%
Energy And Water	1%
Financial Services	1%
Tourism, Restaurant and Hotels	0.5%
<b>Total</b>	<b>100%</b>

# Customer Deposits



Group deposits grew by KES 12Bn YTD and maintained healthy local vs foreign currency mix



## Customer Deposits - Bank

### Deposit by Product

Currency	FY 2019	Q1 2020
Term and Call Deposits	172,060	170,133
Current Accounts	170,815	182,254
Savings Accounts	10,744	11,077
Total	353,619	363,464

### Deposit by Currency

Currency	FY 2019	Q1 2020
LCY	75%	76%
FCY	25%	24%

# Group Capital & Liquidity Adequacy



Our capital, funding and liquidity positions continue to strengthen

## Capital Adequacy

KES Billions	Q1'19	Q1'20
Shareholders Equity	30	69

## Core Capital / Total RWA

18.9%

17.8%

7.8%

8.9%

Buffer

10.0%

10.0%

Regulatory minimum

## Liquid Assets

	FY'19	Q1'20
Government Securities	129,008	136,549
Balances due from Central Banks	26,358	30,318
Foreign Bank Balances	19,952	21,456
Other Securities	16,013	16,943
Cash	10,852	13,038
Local Bank Balances	5,618	8,169
Financial Assets	1,098	1,178
<b>Total KES M</b>	<b>208,898</b>	<b>227,652</b>

→ ▲ 9.0%,  
KES 18Bn

## Liquidity Ratio

50.95%

54.55%

FY 2019

Q1 2020

# Income Statement



Delivered KES 6.4Bn in operating profits driven by an increase in operating income coupled with a reduction in OPEX

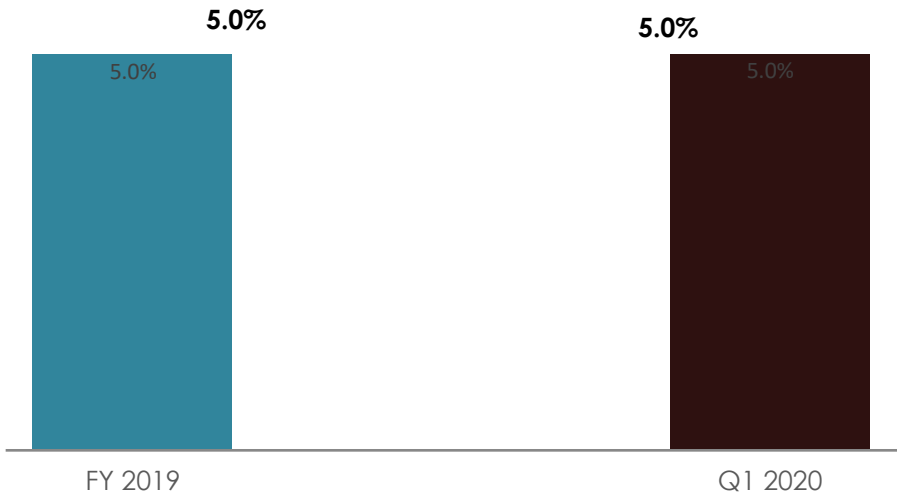
KES M	Bank			Group		
	Q1 2020	FY 2019	Q1 2019	Q1 2020	FY 2019	Q1 2019
Interest Income	9,246	22,796	4,285	10,177	25,513	4,805
Interest Expense	4,264	11,090	2,109	4,677	12,175	2,310
<b>Net Interest Income</b>	<b>4,982</b>	<b>11,706</b>	<b>2,176</b>	<b>5,500</b>	<b>13,338</b>	<b>2,495</b>
Net Fees and Commissions	3,433	10,761	2,054	3,972	11,896	2,300
Foreign exchange trading income	949	2,652	509	1,011	2,842	555
Other income	243	1,112	97	440	5,583	161
Total Non Interest Income	4,625	14,525	2,660	5,423	20,321	3,016
<b>Total Operating Income</b>	<b>9,607</b>	<b>26,231</b>	<b>4,836</b>	<b>10,923</b>	<b>33,659</b>	<b>5,511</b>
Operating Expenses	3,515	10,958	2,357	4,535	14,107	2,971
<b>Operating Profit</b>	<b>6,092</b>	<b>15,273</b>	<b>2,479</b>	<b>6,388</b>	<b>19,552</b>	<b>2,540</b>
Impairment Provisions	3,337	5,985	615	3,775	6,250	585
<b>Profit Before Tax and Exceptional Items</b>	<b>2,755</b>	<b>9,288</b>	<b>1,864</b>	<b>2,613</b>	<b>13,302</b>	<b>1,955</b>
Exceptional Items – Merger Related	196	1,176	0	196	2,133	0
<b>Profit Before Tax</b>	<b>2,559</b>	<b>8,112</b>	<b>1,864</b>	<b>2,417</b>	<b>11,169</b>	<b>1,955</b>
<b>Profit After Tax and Exceptional Items</b>	<b>1,791</b>	<b>6,090</b>	<b>1,256</b>	<b>1,631</b>	<b>7,842</b>	<b>1,296</b>

# Group Income Statement: Key Ratios

Merger synergies increasing efficiencies and unlocking shareholder value



Net Interest Margin



Cost To Income Ratio



# Regional Business: Key Highlights Q1 2020



Regional businesses make up 9% of Group Gross Loans and 7% of Deposits

KES M

	Profit Before Taxes (PBT)	Gross Loans	Customer Deposits
NIC Tanzania	(66)	4,106	3,949
CBA TZ	(100)	9,611	10,546
<b>Total TZ Business</b>	<b>(166)</b>	<b>13,717</b>	<b>14,495</b>
NC Uganda	23	4,022	4,323
CBA Uganda	44	4,072	5,668
<b>Total Uganda Business</b>	<b>67</b>	<b>8,094</b>	<b>9,991</b>
<b>NCBA Rwanda</b>	<b>(91)</b>	<b>2,249</b>	<b>2,580</b>
<b>Regional (Uganda, Tanzania &amp; Rwanda Business)</b>	<b>(190)</b>	<b>24,060</b>	<b>27,066</b>
<b>NCBA Bank</b>	<b>2,558</b>	<b>252,088</b>	<b>363,463</b>
<b>Group</b>	<b>2,416</b>	<b>276,148</b>	<b>390,529</b>

Completion of integration by Q3'2020 to unlock synergies

# Key Takeaways & Outlook



1

Our merger has unlocked synergies which will enhance profitability and shareholder value

2

We have a clear strategy to drive growth across the business

3

While we are actively managing the near term impact of Covid-19, we remain focused on our long term growth objectives

# For further queries please contact:



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**THANK YOU**