

Below is a summary of Co-operative Group's Q1'2025 performance:

Balance Sheet Items	Q1'2024	Q1'2025	y/y change
Government Securities	200.2	242.1	20.9%
Net Loans and Advances	378.1	384.5	1.7%
Total Assets	714.7	774.1	8.3%
Customer Deposits	481.8	525.2	9.0%
Deposits per branch	2.5	2.6	0.5%
Total Liabilities	589.0	618.4	5.0%
Shareholders Funds	127.1	155.9	22.7%

Balance Sheet Ratios	Q1'2024	Q1'2025	y/y change
Loan to Deposit Ratio	78.5%	73.2%	(5.3%)
Government Securities to Deposits Ratio	41.6%	46.1%	4.5%
Return on average equity	19.7%	18.2%	(1.5%)
Return on average assets	3.5%	3.5%	(0.0%)

Income Statement	Q1'2024	Q1'2025	y/y change
Net Interest Income	11.7	14.2	21.7%
Non-Interest Income	7.1	6.9	(1.9%)
Total Operating income	18.8	21.2	12.8%
Loan Loss provision	(1.6)	(2.1)	32.6%
Total Operating expenses	(9.9)	(11.7)	19.1%
Profit before tax	9.0	9.6	6.8%
Profit after tax	6.6	6.9	5.3%
Core EPS	1.1	1.2	5.3%

Income Statement Ratios	Q1'2024	Q1'2025	Y/Y Change
Yield from interest-earning assets	12.3%	13.8%	1.4%
Cost of funding	5.1%	4.1%	(1.0%)
Net Interest Spread	7.3%	9.7%	2.4%
Net Interest Income as % of operating income	62.3%	67.2%	4.9%
Non-Funded Income as a % of operating income	37.7%	32.8%	(4.9%)
Cost to Income	52.5%	55.5%	2.9%
CIR without provisions	44.1%	45.5%	1.4%
Cost to Assets	1.2%	1.2%	0.1%
Net Interest Margin	7.8%	8.4%	0.5%

Capital Adequacy Ratios	Q1'2024	Q1'2025	% points change
Core Capital/Total deposit Liabilities	22.3%	23.7%	1.4%
Minimum Statutory ratio	8.0%	8.0%	
Excess	14.3%	15.7%	1.4%
Core Capital/Total Risk Weighted Assets	18.2%	19.8%	1.6%
Minimum Statutory ratio	10.5%	10.5%	
Excess	7.7%	9.3%	1.6%
Total Capital/Total Risk Weighted Assets	21.6%	22.8%	1.2%

Minimum Statutory ratio	14.5%	14.5%	
Excess	7.1%	8.3%	1.2%
Liquidity Ratio	51.2%	61.3%	10.1%
Minimum Statutory ratio	20.0%	20.0%	
Excess	31.2%	41.3%	10.1%

Income Statement

- Core earnings per share grew by 5.3% to Kshs 1.2, from Kshs 1.1 in Q1'2024, driven by the 12.8% increase in total operating income to Kshs 21.2 bn, from Kshs 18.8 bn in Q1'2024. However the performance was weighed down by a 19.1% increase in total operating expenses to Kshs 11.7 bn from Kshs 9.9 bn in Q1'2024.
- The 12.8% increase in total operating income was mainly driven by a 21.7% growth in Net Interest Income (NII) to Kshs 14.2 bn, from Kshs 11.7 bn in Q1'2024, it was however weighed down by a 1.9% decrease in Non-Interest income to Kshs 6.9 bn in Q1'2025, from Kshs 7.1 bn in Q1'2024.
- Interest income grew by 14.4% to Kshs 22.2 bn from Kshs 19.4 bn in Q1'2024, mainly driven by a 12.2% growth in interest income from loans and advances to Kshs 14.0 bn, from Kshs 12.5 bn in Q1'2024, coupled with a 12.8% increase in interest income from government securities to Kshs 7.0 bn, from Kshs 6.2 bn in Q1'2024. As such, the Yield on Interest-Earning Assets (YIEA) increased by 1.4% points to 13.8% from 12.3% recorded in Q1'2024, attributable to the faster 22.1% growth in trailing interest income to Kshs 89.0 bn, from Kshs 72.9 bn in Q1'2024, compared to a slower 1.5% increase in average interest earning assets to Kshs 600.0 bn, from Kshs 590.9 bn in Q1'2024,
- Interest expenses rose by 3.3% to Kshs 8.0 bn from Kshs 7.7 bn in Q1'2024, mainly driven by 8.9% increase in interest expense on customer deposits to Kshs 7.0 bn from Kshs 6.4 bn in Q1'2024, this was however weighed down by a 90.8% decrease in interest expense from placements to Kshs 0.03 bn, from Kshs 0.3 bn recorded in Q1'2024. Consequently, Cost of funds (COF) increased by 1.0% points to 6.1% from 5.1% recorded in Q1'2024, owing to a faster 30.8% increase in Trailing interest expense to Kshs 35.0 bn from Kshs 26.8 bn recorded in Q1'2024, compared to a 9.2% increase in average interest-bearing liabilities to Kshs 574.3 bn from Kshs 525.8 bn in Q1'2024. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 1.2% points to 9.0% from 7.8% in Q1'2024, attributable to a faster 17.1% increase in trailing net interest income to Kshs 54.1 bn from Kshs 46.2 bn recorded in Q1'2024, which outpaced the 1.5% growth in average interest earning assets,
- Non-Funded Income (NFI) decreased by 1.9% to Kshs 6.9 bn from Kshs 7.1 bn in Q1'2024, mainly driven by a 44.5% decrease in forex trading income to Kshs 0.8 bn, from Kshs 1.4 bn in Q1'2024, highlighting the bank's decreased foreign exchange margins. Total fees and commissions increased by 6.7% to Kshs 5.8 bn from Kshs 5.5 bn in Q1'2024. The revenue mix shifted to 67:33, from 62:38 for the funded to Non-funded income owing to the 21.7% growth in Funded Income coupled with the 1.9% decrease in the Non-Funded Income,
- Total operating expense increased by 19.1% to Kshs 11.7 bn in Q1'2025, from Kshs 9.9 bn in Q1'2024, mainly attributable to 32.6% increase in loan loss provision to Kshs 2.1 bn, from Kshs 1.6 bn in Q1'2024, coupled with the 23.8% increase in other operating expenses to 4.7 bn from 3.8 in Q1'2024. The increase in provisioning comes amid improved business environment and reduced credit risk as evidenced by the average Q1'2025 Purchasing Managers Index (PMI) of 50.9, up from an average of 50.3 in Q1'2024,

- Cost to Income Ratio (CIR) increased by 2.9% points to 55.5% from 52.5% in Q1'2024, owing to the faster 19.1% increase in total operating expenses, which outpaced the 12.8% increase in total operating income. Notably, CIR without LLP increased by 1.4% points to 45.5%, from 44.1% recorded in Q1'2024,
- Profit before tax increased by 6.8% to Kshs 9.6 bn, from Kshs 9.0 bn recorded in Q1'2024, with effective tax rate increasing to 29.0% in Q1'2025, from 27.6% in Q1'2024, leading to a 5.3% increase in profit after tax to Kshs 6.9 bn in Q1'2025, from Kshs 6.6 bn in Q1'2024.
- The Board of Directors did not recommend dividend for the period

Balance Sheet

- The balance sheet recorded an expansion as total assets increased by 8.3% to Kshs 774.1 bn, from Kshs 714.7 bn in Q1'2024, mainly driven by a 20.9% increase in governments securities holdings to Kshs 242.1 bn, from 200.2 bn in Q1'2024. Net loans and advances increased by 1.7% to Kshs 384.5 bn, from Kshs 378.1 bn in Q1'2024. Total liabilities increased by 5.0% to Kshs 618.4 bn from Kshs 589.0 bn in Q1'2024, mainly driven by a 9.0% increase in customer deposits to Kshs 525.2 bn, from Kshs 481.8 bn in Q1'2024, the increase was weighed down by the 8.8% decline in borrowings to Kshs 54.8 bn, from Kshs 60.1 bn in Q1'2024. With 205 branches, compared to 189 branches in Q1'2024, deposits per branch increased by 0.5% to Kshs 2.6 bn, from Kshs 2.5 bn in Q1'2024,
- The 9.0% increase growth in customer deposits, compared to the 1.7% increase in net loans led to a decrease in the loan to deposits ratio to 73.2%, from 78.5% in Q1'2024,
- The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 17.1% in Q1'2025, from 15.9% in Q1'2024, attributable to a 11.4% increase in Gross non-performing loans to Kshs 74.1 bn, from Kshs 66.5 bn in Q1'2024, relative to the 3.6% increase in gross loans to Kshs 432.1 bn, from Kshs 417.1 bn recorded in Q1'2024,
- General Provisions (LLP) increased by 25.7% to Kshs 42.5 bn in Q1'2025 from Kshs 33.8 bn in Q1'2024. The NPL coverage increased to 64.2% in Q1'2025, from 58.6% in Q1'2024, attributable to the 25.7% increase in general provisions coupled with the 2.4% decrease in interest in suspense to Kshs 5.0 bn from 5.1 bn in Q1'2024 which outpaced the 11.4% increase in Gross Non-performing Loans to Kshs 74.1 bn, from Kshs 66.5 bn in Q1'2024.
- Shareholders' funds increased by 22.7% to Kshs 155.9 bn in Q1'2025, from Kshs 127.1 bn in Q1'2024, supported by a 5.3% increase in retained earnings to Kshs 6.9 bn, from Kshs 6.6 bn in Q1'2024,
- Cooperative Bank Group remains capitalized with a core capital to risk-weighted assets ratio of 19.8%, 9.3% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 22.8%, exceeding the statutory requirement of 14.5% by 8.3% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.5%, and a Return on Average Equity (ROaE) of 18.2%.

Key Take-Outs:

- 1. Increased earnings** - Core earnings per share (EPS) grew by 5.3% to Kshs 1.2, from Kshs 1.1 in Q1'2024, driven by the 12.8% increase in total operating income to Kshs 21.2 bn, from Kshs 18.8 bn in Q1'2024. However the performance was weighed down by a 19.1% increase in total operating expenses to Kshs 11.7 bn from Kshs 9.9 bn in Q1'2024
- 2. Deteriorated asset quality** –The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 17.1% in Q1'2025 from 15.9% in Q1'2024, attributable to a 11.4% increase in Gross non-performing

loans to Kshs 74.1 bn, from Kshs 66.5 bn in Q1'2024, relative to the 3.6% increase in gross loans to Kshs 432.1 bn, from Kshs 417.1 bn recorded in Q1'2024

3. **Expanded Balanced sheet** - The balance sheet recorded an expansion as total assets increased by 8.3% to Kshs 774.1 bn, from Kshs 714.7 bn in Q1'2024, mainly driven by a 20.9% increase in governments securities holdings to Kshs 242.1 bn, from 200.2 bn in Q1'2024, Notably Net loans and advances increased by 1.7% to Kshs 384.5 bn, from Kshs 378.1 bn in Q1'2024.
4. **Increased lending**- Customer net loans and advances increased by 1.7% to Kshs 384.5 bn in Q1'2025, from Kshs 378.1 bn in Q1'2024 despite increased credit risk with high NPLs in the industry, with the lender preferring to increase customer lending.

Going forward, the factors that would drive the bank's growth would be:

- **Strong Customer Base** – Cooperative Bank still retains a loyal yet diverse customer base that includes cooperatives, SMEs, retail customers, and government institutions. We anticipate that the bank will keep leveraging on this base to improve its loan book which this year expanded by 1.7% to Kshs 384.5 bn from Kshs 378.1 bn in Q1'2024.
- **Diversified products** – The bank has in recent days launched a number of products and continues to simultaneously offer differentiated products for diaspora bankers, micro and small enterprises, home and vehicle insurance, bancassurance and the Sacco Mco-op cash. This diversification is expected to continue improving the Non-funded Income of the bank which came in at 6.9 bn, an 1.9% decrease from Kshs 7.1 bn in Q1'2024

Valuation Summary

- We are of the view that Cooperative Bank is a “buy” with a target price of Kshs 18.6 representing an upside of 29.8%, from the current price of 15.5 as of 16th May 2025.
- Co-operative Bank is currently trading at a P/TBV of 0.8x and a P/E of 3.7x vs an industry average of 1.1x and 4.9x respectively.