

Below is a summary of KCB Group's Q1'2025 performance:

Balance Sheet Items	Q1'2024	Q1'2025	y/y change
Government Securities	393.0	312.6	(20.5%)
Net Loans and Advances	1,017.4	1,018.6	0.1%
Total Assets	1,996.2	2,034.2	1.9%
Customer Deposits	1,501.0	1,427.8	(4.9%)
Deposits/Branch	2.8	2.6	(9.4%)
Total Liabilities	1,757.6	1,728.7	(1.6%)
Shareholders' Funds	231.5	297.1	28.4%

Balance Sheet Ratios	Q1'2024	Q1'2025	% y/y change
Loan to Deposit Ratio	67.8%	71.7%	3.9%
Government Securities to Deposit Ratio	26.2%	21.9%	(4.3%)
Return on average equity	20.1%	23.4%	3.3%
Return on average assets	2.4%	3.1%	0.6%

Income Statement (Kshs Bn)	Q1'2024	Q1'2025	y/y change
Net Interest Income	31.1	33.7	8.5%
Net non-Interest Income	17.4	15.7	(9.8%)
Total Operating income	48.5	49.4	2.0%
Loan Loss provision	(6.3)	(5.6)	(11.3%)
Total Operating expenses	(27.3)	(28.3)	3.4%
Profit before tax	21.2	21.2	0.1%
Profit after tax	16.5	16.5	0.4%
Core EPS	5.1	5.1	0.4%

Income Statement Ratios	Q1'2024	Q1'2025	y/y change
Yield from interest-earning assets	11.6%	13.0%	1.4%
Cost of funding	4.6%	4.7%	0.1%
Net Interest Spread	7.0%	8.3%	1.3%
Net Interest Margin	7.4%	8.5%	1.1%
Cost of Risk	13.0%	11.3%	(1.7%)
Net Interest Income as % of operating income	64.1%	68.2%	4.1%
Non-Funded Income as a % of operating income	35.9%	31.8%	(4.1%)
Cost to Income Ratio	56.4%	57.2%	0.8%
Cost to Income Ratio (without LLP)	43.3%	45.8%	2.5%

Capital Adequacy Ratios	Q1'2024	Q1'2025	% points change
Core Capital/Total Liabilities	15.6%	19.7%	4.1%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	7.6%	11.7%	4.1%
Core Capital/Total Risk Weighted Assets	17.6%	16.7%	(0.9%)
Minimum Statutory ratio	10.5%	10.5%	0.0%

Excess	7.1%	6.2%	(0.9%)
Total Capital/Total Risk Weighted Assets	20.0%	19.7%	(0.3%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	5.5%	5.2%	(0.3%)
Liquidity Ratio	47.9%	47.6%	(0.3%)
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	27.9%	27.6%	(0.3%)

Income Statement

- Core earnings per share grew by 0.4% to Kshs 5.15, from Kshs 5.13 in Q1'2024, driven by the 2.0% increase in total operating income to Kshs 49.4 bn, from Kshs 48.5 bn in Q1'2024, which was weighed down by the 3.4% increase in total operating expenses to Kshs 28.3 bn from Kshs 27.3 bn in Q1'2024,
- The 2.0% increase in total operating income was mainly driven by an 8.5% growth in Net Interest Income (NII) to Kshs 33.7 bn, from Kshs 31.1 bn in Q1'2024, it was however weighed down by the 9.8% decrease in Non-Interest Income (NFI) to Kshs 15.7 bn from Kshs 17.4 bn in Q1'2024,
- Interest income grew by 2.2% to Kshs 50.2 bn from Kshs 49.1 bn in Q1'2024, mainly driven by a 5.4% growth in interest income from loans and advances to Kshs 35.5 bn, from Kshs 33.6 bn in Q1'2024, it was however weighed down by a 7.9% decrease in interest income from government securities to Kshs 12.3 bn, from Kshs 13.3 bn in Q1'2024. As such, the Yield on Interest-Earning Assets (YIEA) increased by 1.4% points to 13.0% from 11.6% recorded in Q1'2024, attributable to the faster 16.8% growth in trailing interest income to Kshs 214.5 bn, from Kshs 183.6 bn in Q1'2024, compared to a slower 4.1% Increase in average interest earning assets to Kshs 1646.4 bn, from Kshs 1,581.4 bn in Q1'2024,
- Interest expenses declined by 8.6% to Kshs 16.5 bn from Kshs 18.0 bn in Q1'2024, mainly driven by a 1.4% decrease in interest expense on customer deposits to Kshs 12.9 bn from Kshs 13.1 bn in Q1'2024, coupled with a 28.7% decrease in interest expense from placements to Kshs 3.5 bn, from Kshs 4.8 bn recorded in Q1'2024. Consequently, Cost of funds (COF) increased by 0.1% points to 4.7% from 4.6% recorded in Q1'2024, owing to a faster 10.7 % increase in Trailing interest expense to Kshs 74.5 bn from Kshs 67.3 bn recorded in Q1'2024, compared to a 7.3% increase in average interest-bearing liabilities to Kshs 1,573.8 bn from Kshs 1,466.9 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 1.1% points to 8.5% from 7.4% in Q1'2024, attributable to a faster 20.3% increase in trailing net interest income to Kshs 140.0 bn from Kshs 116.3 bn recorded in Q1'2024, which outpaced the 4.1% growth in average interest earning assets,
- Non-Funded Income (NFI) decreased by 9.8% to Kshs 15.7 bn from Kshs 17.4 bn in Q1'2024, mainly driven by a 34.7% decrease in forex trading income to Kshs 3.1 bn, from Kshs 4.8 bn in Q1'2024, highlighting the bank's decreased foreign exchange margins. Total fees and commissions increased by 0.4% to Kshs 10.1 bn from Kshs 10.0 bn in Q1'2024. The revenue mix shifted to 68:32, from 64:36 for the funded to Non-funded income owing to the 8.0% growth in Funded Income coupled with the 9.8% decrease in the Non-Funded Income,
- Total operating expense increased by 3.4% to Kshs 28.3 bn in Q1'2025, from Kshs 27.3 bn in Q1'2024, mainly attributable to 13.3% increase in staff cost to Kshs 10.9 bn, from Kshs 9.7 bn in Q1'2024, coupled with the 3.1% increase in other operating expenses to 11.7 bn from 11.4 in Q1'2024. Notably, loan loss provisions expense declined by 11.3% to Kshs 5.6 bn, from 6.3 bn in Q1'2024. The decrease 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 0.8% points to 57.2% from 56.4% in Q1'2024, owing to the slower 2.0% increase in total operating income, which was outpaced by the 3.4% increase in total operating income. Notably, CIR without LLP increased by 2.5% points to 45.8%, from 43.3% recorded in Q1'2024,
- Profit before tax increased by 0.1% to Kshs 21.18 bn, from Kshs 21.16 bn recorded in Q1'2024, with effective tax rate decreasing to 21.9% in Q1'2025, from 22.9% in Q1'2024, leading to a 0.4% increase in profit after tax to Kshs 16.54 bn in Q1'2025, from Kshs 16.48 bn in Q1'2024.
- The Board of Directors did not recommend an interim dividend for the period consistent with Q1'2024

Balance Sheet

- The balance sheet recorded an expansion as total assets increased by 1.9% to Kshs 2,034.2 bn, from Kshs 2,996.2 bn in Q1'2024, mainly driven by a 0.1% increase in net loans and advances to Kshs 1,018.6 bn, from 1,017.4 bn in Q1'2024. Additionally, investment in government securities declined by 20.5% to Kshs 312.6 bn from Kshs 393.0 bn in Q1'2024. Total liabilities declined by 1.6% to Kshs 1,728.7 bn from Kshs 1,757.6 bn in Q1'2024, mainly driven by a 4.9% decrease in customer deposits to Kshs 1,427.8 bn, from Kshs 1,501.0 bn in Q1'2024, this was however weighed down by the 7.3% increase in borrowings to Kshs 81.6 bn, from Kshs 76.1 bn in Q1'2024. With 536 branches, compared to 594 branches in Q1'2024, deposits per branch increased by 5.4% to Kshs 2.7 bn, from Kshs 2.5 bn in Q1'2024,
- The 4.9% decline in customer deposits, coupled with the 0.1% increase in net loans led to an increase in the loan to deposits ratio to 71.3%, from 67.8% in Q1'2024,
- The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 19.9% in Q1'2025, from 17.9% in Q1'2024, attributable to a 13.6% increase in Gross non-performing loans to Kshs 233.3 bn, from Kshs 205.3 bn in Q1'2024, relative to the 2.6% increase in gross loans to Kshs 1,174.8 bn, from Kshs 1,144.8 bn recorded in Q1'2024,
- General Provisions (LLP) increased by 20.1% to Kshs 122.5 bn in Q1'2025 from Kshs 102.1 bn in Q1'2024. The NPL coverage increased to 67.0% in Q1'2025, from 62.0% in Q1'2024, attributable to the 20.1% increase in general provisions coupled with the 33.2% increase in interest in suspense to Kshs 33.7 bn from 25.3 bn in Q1'2024 which was outpaced by the 13.6% increase in Gross Non-performing Loans to Kshs 233.3 bn, from Kshs 205.3 bn in Q1'2024.
- Shareholders' funds increased by 28.4% to Kshs 297.1 bn in Q1'2025, from Kshs 231.5 bn in Q1'2024, supported by a 18.8% increase in retained earnings to Kshs 262.1 bn, from Kshs 220.6 bn in Q1'2024,
- KCB Group remains capitalized with a core capital to risk-weighted assets ratio of 16.7%, 6.2% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 19.7%, exceeding the statutory requirement of 14.5% by 5.2% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.1%, and a Return on Average Equity (ROaE) of 23.4%.

Key Take-Outs:

1. **Increased earnings** - Core earnings per share (EPS) grew by 0.4% to Kshs 5.15, from Kshs 5.13 in Q1'2024, driven by the 2.0% increase in total operating income to Kshs 49.4 bn, from Kshs 48.5 bn in Q1'2024, which was however weighed down by the 3.4% increase in total operating expenses to Kshs 28.3 bn from Kshs 27.3 bn in Q1'2024,

2. **Deteriorated asset quality** –The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 19.9% in Q1'2025, from 17.9% in Q1'2024, attributable to a 13.6% increase in Gross non-performing loans to Kshs 233.3 bn, from Kshs 205.3 bn in Q1'2024, compared to the 2.6% increase in gross loans to Kshs 1,174.2 bn, from Kshs 1,144.1 bn recorded in Q1'2024,
3. **Increased Provisioning** – General Provisions (LLP) increased by 20.1% to Kshs 122.5 bn in Q1'2025 from Kshs 102.1 bn in Q1'2024.

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

- **Continued Digitization** - The Group has sustained its focus on digital transformation. As of Q1'2025, 99.0% of the transactions by number were done through the non-branch channels. Notably, the Group witnessed growth in the value of mobile loans disbursed mainly driven by Fuliza, introduction of term loans on KCB Mobi and new mobile lending products for small businesses. The group also disclosed its acquisition of a 75.0% controlling interest in Riverbank Solutions Limited, a fintech entity focused on payment systems, as part of its strategic initiative to bolster digital capabilities and reinforce its footprint in banking, agency solutions, and business services across Kenya, Uganda, and Rwanda.

Valuation Summary

- We are of the view that KCB Group is a "buy" with a target price of Kshs 50.7 representing an upside of 31.6%, from the current price of 40.8 as of 23th May 2025.
- KCB Group is currently trading at a P/TBV of 0.5x and a P/E of 2.1x vs an industry average of 1.1x and 4.9x respectively.