

Below is a summary of Co-operative Group's Q1'2026 performance:

Balance Sheet Items	Q1'2025	Q1'2026	y/y change
Government Securities	242.1	272.9	12.7%
Net Loans and Advances	384.5	436.8	13.6%
Total Assets	774.1	884.6	14.3%
Customer Deposits	525.2	612.2	16.6%
Deposits per branch	2.5	2.8	11.3%
Total Liabilities	618.4	710.5	14.9%
Shareholders' Funds	155.9	173.8	11.5%

Balance Sheet Ratios	Q1'2025	Q1'2026	y/y change
Loan to Deposit Ratio	73.2%	71.3%	(1.9%)
Government Securities to Deposits Ratio	46.1%	44.6%	(1.5%)
Return on average equity	18.2%	18.9%	0.7%
Return on average assets	3.5%	3.8%	0.3%

Income Statement	Q1'2025	Q1'2026	y/y change
Net Interest Income	14.2	16.0	12.2%
Non-Interest Income	6.9	8.1	16.3%
Total Operating income	21.2	24.1	13.6%
Loan Loss provision	(2.1)	(2.1)	(1.5%)
Total Operating expenses	(11.7)	(12.7)	8.4%
Profit before tax	9.6	11.4	18.1%
Profit after tax	6.9	8.4	21.3%
Core EPS	1.2	1.4	21.3%

Income Statement Ratios	Q1'2025	Q1'2026	Y/Y Change
Yield from interest-earning assets	13.7%	13.0%	(0.8%)
Cost of funding	6.1%	4.7%	(1.4%)
Net Interest Spread	7.6%	8.3%	0.7%
Net Interest Income as % of operating income	67.2%	66.4%	(0.8%)
Non-Funded Income as a % of operating income	32.8%	33.6%	0.8%
Cost to Income	55.5%	53.0%	(2.5%)
CIR without provisions	45.5%	44.3%	(1.2%)
Cost to Assets	1.2%	1.2%	(0.0%)
Net Interest Margin	8.3%	8.9%	0.6%

Capital Adequacy Ratios	Q1'2025	Q1'2026	% points change
Core Capital/Total deposit Liabilities	23.7%	22.8%	(0.9%)
Minimum Statutory ratio	8.0%	8.0%	
Excess	15.7%	14.8%	(0.9%)
Core Capital/Total Risk Weighted Assets	19.8%	21.1%	1.3%
Minimum Statutory ratio	10.5%	10.5%	
Excess	9.3%	10.6%	1.3%
Total Capital/Total Risk Weighted Assets	22.8%	23.2%	0.4%

Minimum Statutory ratio	14.5%	14.5%	
Excess	8.3%	8.7%	0.4%
Liquidity Ratio	61.3%	63.4%	2.1%
Minimum Statutory ratio	20.0%	20.0%	
Excess	41.3%	40.0%	(1.3%)

Income Statement

- Core earnings per share grew by 21.3% to Kshs 1.4, from Kshs 1.2 in Q1'2025, driven by the 13.6% increase in total operating income to Kshs 24.1 bn, from Kshs 21.2 bn in Q1'2025. However, the performance was weighed down by an 8.4% increase in total operating expenses to Kshs 12.7 bn from Kshs 11.7 bn in Q1' 2025.
- The 13.6% increase in total operating income was mainly driven by a 16.3% growth in Non-Interest Income (NFI) to Kshs 8.1 bn, from Kshs 6.9 bn in Q1'2025 and a 12.2% increase in Net-Interest income to Kshs 16.0 bn in Q1'2026, from Kshs 14.2 bn in Q1'2025.
- Interest income grew by 4.8% to Kshs 23.3 bn from Kshs 22.2 bn in Q1'2025, mainly driven by a 4.6% growth in interest income from loans and advances to Kshs 14.6 bn, from Kshs 14.0 bn in Q1'2025, coupled with an 3.3% increase in interest income from government securities to Kshs 7.3 bn, from Kshs 7.0 bn in Q1'2025. The Yield on Interest-Earning Assets (YIEA) however, decreased by 0.8% points to 13.0% from 13.7% recorded in Q1'2026, attributable to the slower 5.8% growth in trailing interest income to Kshs 94.2 bn, from Kshs 89.0 bn in Q1'2025, compared to a faster 12.0% increase in average interest earning assets to Kshs 726.5 bn, from Kshs 648.7 bn in Q1'2025,
- Interest expenses declined by 8.3% to Kshs 7.3 bn from Kshs 8.0 bn in Q1'2025, mainly driven by 13.1% decrease in interest expense on customer deposits to Kshs 6.0 bn from Kshs 7.0 bn in Q1'2025. Consequently, Cost of funds (COF) decreased by 1.4% points to 4.7% from 6.1% recorded in Q1'2025, owing to a 15.3% decrease in trailing interest expense to Kshs 29.6 bn from Kshs 35.0 bn in Q1'2025, compared to a 10.7% increase in average interest-bearing liabilities to Kshs 635.5 bn from Kshs 574.3 bn recorded in Q1'2025. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 0.6% points to 8.9% from 8.3% in FY'2024, attributable to a faster 19.5% increase in trailing net interest income to Kshs 64.6 bn from Kshs 54.1 bn recorded in Q1'2025, which outpaced the 12.0% growth in average interest earning assets,
- Non-Funded Income (NFI) increased by 16.3% to Kshs 8.1 bn from Kshs 6.9 bn in Q1'2025, mainly driven by a 18.4 % increase fees and commissions on loans to Kshs 3.3 bn from Kshs 2.8 bn in Q1'2025 and 10.7% increase in other fees and commissions to Kshs 3.4 bn from Kshs 3.1 bn in Q1'2025. Foreign exchange trading income decreased by 2.2% to Kshs 0.78 bn from Kshs 0.8 bn in Q1'2025. The revenue mix shifted to 66:34, from 67:36 for the funded to Non-funded income owing to the 16.3% growth in Non-Funded Income compared to the 12.2% increase in the Funded Income,
- Total operating expense increased by 8.4% to Kshs 12.7 bn in Q1'2026, from Kshs 11.7 bn in Q1'2025, mainly attributable to 11.3% increase in staff costs to Kshs 5.5 bn, from Kshs 4.9 bn in Q1'2025.
- Cost to Income Ratio (CIR) decreased by 2.5% points to 53.0% from 55.5% in Q1'2025, owing to the slower 8.4% increase in total operating expenses, which was outpaced by the 13.6% increase in total operating income. Notably, CIR without LLP decreased by 1.2% points to 44.3%, from 45.5% recorded in Q1'2025,

- Profit before tax increased by 18.1% to Kshs 11.4 bn, from Kshs 9.6 bn recorded in Q1'2025, with effective tax rate decreasing to 27.2% in Q1'2026, from 29.0% in Q1'2025, leading to a 21.3% increase in profit after tax to Kshs 8.4 bn in Q1'2026, from Kshs 6.9 bn in Q1'2025.

Balance Sheet

- The balance sheet recorded an expansion as total assets increased by 14.3% to Kshs 884.6 bn, from Kshs 774.1 bn in Q1'2025, mainly driven by a 13.6% increase in net loans and advances to Kshs 436.8 bn from Kshs 384.5 bn and 12.7% increase in governments securities to Kshs 272.9 bn from Kshs 242.1 bn in Q1'2025. Total liabilities increased by 14.9% to Kshs 710.5 bn from Kshs 618.4 bn in Q1'2025, mainly driven by a 16.6% increase in customer deposits to Kshs 612.2 bn, from Kshs 525.2 bn in Q1'2025, coupled with the 13.5% increase in borrowings to Kshs 62.2 bn, from Kshs 54.8 bn in Q1'2025. With 222 branches, compared to 212 branches in Q1'2025, deposits per branch increased by 11.3% to Kshs 2.8 bn, from Kshs 2.5 bn in Q1'2025,
- The 16.6% increase in customer deposits, compared to the 13.6% increase in net loans led to a decrease in the loan to deposits ratio to 71.3%, from 73.2% in Q1'2025,
- The bank's Asset Quality improved slightly, with Gross NPL ratio decreasing by 2.4% to 14.7% in Q1'2026, from 17.1% in Q1'2025, attributable to a 3.6% decrease in Gross non-performing loans to Kshs 71.4 bn, from Kshs 74.1 bn in Q1'2025, relative to the 12.3% increase in gross loans to Kshs 485.1 bn, from Kshs 432.1 bn recorded in Q1'2025,
- General Provisions (LLP) increased by 2.9% to Kshs 43.8 bn in Q1'2026 from Kshs 42.5 bn in Q1'2025. The NPL coverage increased to 67.7% in Q1'2026, from 64.2% in Q1'2025, attributable to the 2.9% increase in general provisions coupled with the 9.2% decrease in interest in suspense to Kshs 4.6 bn from 5.0 bn in Q1'2025 which outpaced the 3.6 % decrease in Gross Non-performing Loans.
- Shareholders' funds increased by 11.5% to Kshs 173.8 bn in Q1'2026, from Kshs 155.9 bn in Q1'2025, this was supported by a 11.9% increase in retained earnings to Kshs 152.3 bn, from Kshs 136.1 bn in Q1'2025,
- Cooperative Bank Group remains capitalized with a core capital to risk-weighted assets ratio of 21.1%, 10.6% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 23.2%, exceeding the statutory requirement of 14.5% by 8.7% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.8%, and a Return on Average Equity (ROaE) of 18.9%.

Key Take-Outs:

- 1. Increased earnings** - Core earnings per share grew by 21.3% to Kshs 1.4, from Kshs 1.2 in Q1'2025, driven by the 13.6% increase in total operating income to Kshs 24.1 bn, from Kshs 21.2 bn in Q1'2025. However, the performance was weighed down by an 8.4% increase in total operating expenses to Kshs 12.7 bn from Kshs 11.7 bn in Q1' 2025,
- 2. Improved asset quality** – The bank's Asset Quality improved slightly, with Gross NPL ratio decreasing by 2.4% to 14.7% in Q1'2026, from 17.1% in Q1'2025, attributable to a 3.6% decrease in Gross non-performing loans to Kshs 71.4 bn, from Kshs 74.1 bn in Q1'2025, relative to the 12.3% increase in gross loans to Kshs 485.1 bn, from Kshs 432.1 bn recorded in Q1'2025,
- 3. Expanded Balanced sheet** - The balance sheet recorded an expansion as total assets increased by 14.3% to Kshs 884.6 bn, from Kshs 774.1 bn in Q1'2025, mainly driven by a 13.6% increase in net loans and advances to Kshs 436.8 bn from Kshs 384.5 bn and 12.7% increase in governments securities to Kshs 272.9 bn from Kshs 242.1 bn in Q1'2025.

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 expanded by 13.6% to Kshs 436.8 bn from Kshs 384.5 bn in Q1'2025.
- **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 8.1 bn, a 16.3% increase from Kshs 6.9 bn in Q1'2025

Valuation Summary

- We are of the view that Cooperative Bank is a “Buy” with a target price of Kshs 39.8 representing an upside of 22.5%, from the current price of 32.5 as of 15th May 2026.
- Co-operative Bank is currently trading at a P/TBV of 1.2x and a P/E of 6.4x vs an industry average of 1.3x and 6.0x respectively.