

Below is a summary of Co-operative Group's H1'2025 performance:

Balance Sheet Items	H1'2024	H1'2025	y/y change
Government Securities	202.2	253.7	25.5%
Net Loans and Advances	375.6	391.3	4.2%
<b>Total Assets</b>	<b>716.9</b>	<b>811.9</b>	<b>13.2%</b>
Customer Deposits	507.4	547.7	7.9%
Deposits per branch	2.7	2.7	(0.5%)
Total Liabilities	589.8	655.6	11.2%
<b>Shareholders Funds</b>	<b>126.7</b>	<b>156.3</b>	<b>23.4%</b>

Balance Sheet Ratios	H1'2024	H1'2025	y/y change
Loan to Deposit Ratio	74.0%	71.4%	(2.6%)
Government Securities to Deposits Ratio	39.9%	46.3%	6.5%
Return on average equity	20.5%	18.8%	(1.7%)
Return on average assets	3.5%	3.5%	(0.0%)

Income Statement	H1'2024	H1'2025	y/y change
Net Interest Income	23.9	29.4	23.1%
Non-Interest Income	15.4	14.1	(8.2%)
<b>Total Operating income</b>	<b>39.2</b>	<b>43.5</b>	<b>10.8%</b>
Loan Loss provision	(3.0)	(4.5)	50.5%
Total Operating expenses	(21.3)	(24.0)	13.0%
Profit before tax	18.2	19.7	8.3%
<b>Profit after tax</b>	<b>13.0</b>	<b>14.1</b>	<b>8.4%</b>
<b>Core EPS</b>	<b>2.2</b>	<b>2.4</b>	<b>8.4%</b>

Income Statement Ratios	H1'2024	H1'2025	Y/Y Change
Yield from interest-earning assets	12.7%	13.7%	1.1%
Cost of funding	5.4%	5.7%	0.4%
Net Interest Spread	7.3%	8.0%	0.7%
Net Interest Income as % of operating income	60.8%	67.5%	6.7%
Non-Funded Income as a % of operating income	39.2%	32.5%	(6.7%)
Cost to Income	54.2%	55.3%	1.1%
CIR without provisions	46.6%	44.9%	(1.7%)
Cost to Assets	2.5%	2.4%	(0.1%)
Net Interest Margin	7.8%	8.6%	0.8%

Capital Adequacy Ratios	H1'2024	H1'2025	% points change
Core Capital/Total deposit Liabilities	23.1%	23.1%	0.0%
Minimum Statutory ratio	8.0%	8.0%	
<b>Excess</b>	<b>15.1%</b>	<b>15.1%</b>	<b>0.0%</b>
Core Capital/Total Risk Weighted Assets	18.1%	18.8%	0.7%
Minimum Statutory ratio	10.5%	10.5%	
<b>Excess</b>	<b>7.6%</b>	<b>8.3%</b>	<b>0.7%</b>

Total Capital/Total Risk Weighted Assets	21.3%	21.3%	0.0%
Minimum Statutory ratio	14.5%	14.5%	
<b>Excess</b>	<b>6.8%</b>	<b>6.8%</b>	<b>0.0%</b>
Liquidity Ratio	54.0%	66.7%	12.7%
Minimum Statutory ratio	20.0%	20.0%	
<b>Excess</b>	<b>34.0%</b>	<b>46.7%</b>	<b>12.7%</b>

### **Income Statement**

- Core earnings per share grew by 8.4% to Kshs 2.4, from Kshs 2.2 in H1'2024, driven by the 10.8% increase in total operating income to Kshs 43.5 bn, from Kshs 39.2 bn in H1'2024. However the performance was weighed down by a 13.0% increase in total operating expenses to Kshs 24.0 bn from Kshs 21.3 bn in H1' 2024.
- The 10.8% increase in total operating income was mainly driven by a 23.1% growth in Net Interest Income (NII) to Kshs 29.4 bn, from Kshs 23.9 bn in H1'2024, it was however weighed down by an 8.2% decrease in Non-Interest income to Kshs 14.1 bn in H1'2025, from Kshs 15.4 bn in H1'2024.
- Interest income grew by 12.6% to Kshs 44.8 bn from Kshs 39.8 bn in H1'2024, mainly driven by a 9.0% growth in interest income from loans and advances to Kshs 27.9 bn, from Kshs 25.6 bn in H1'2025, coupled with a 14.9% increase in interest income from government securities to Kshs 14.5 bn, from Kshs 12.6 bn in H1'2024. As such, the Yield on Interest-Earning Assets (YIEA) increased by 1.1% points to 13.7% from 12.7% recorded in H1'2024, attributable to the faster 18.7% growth in trailing interest income to Kshs 91.2 bn, from Kshs 76.9 bn in H1'2024, compared to a slower 9.1% Increase in average interest earning assets to Kshs 664.9 bn, from Kshs 609.3 bn in H1'2024,
- Interest expenses declined by 3.3% to Kshs 15.4 bn from Kshs 15.9 bn in H1'2024, mainly driven by 1.7% decrease in interest expense on customer deposits to Kshs 13.4 bn from Kshs 13.6 bn in H1'2024, coupled with 77.1% decrease in interest expense from placements to Kshs 0.1 bn, from Kshs 0.4 bn recorded in H1'2024. Consequently, Cost of funds (COF) increased by 0.4% points to 5.7% from 5.4% recorded in H1'2024, owing to a faster 16.6% increase in Trailing interest expense to Kshs 34.2 bn from Kshs 29.3 bn recorded in H1'2024, compared to a 9.1% increase in average interest-bearing liabilities to Kshs 595.2 bn from Kshs 545.6 bn in H1'2024. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 0.8% points to 8.6% from 7.8% in H1'2024, attributable to a faster 20.0% increase in trailing net interest income to Kshs 57.0 bn from Kshs 47.5 bn recorded in H1'2024, which outpaced the 9.1% growth in average interest earning assets,
- Non-Funded Income (NFI) decreased by 8.2% to Kshs 14.1 bn from Kshs 15.4 bn in H1'2024, mainly driven by a 41.6% decrease in forex trading income to Kshs 1.5 bn, from Kshs 2.6 bn in H1'2024, highlighting the bank's decreased foreign exchange margins. Total fees and commissions decreased by 3.4% to Kshs 11.9 bn from Kshs 12.3 bn in H1'2024. The revenue mix shifted to 68:32, from 61:39 for the funded to Non-funded income owing to the 23.1% growth in Funded Income coupled with the 8.2% decrease in the Non-Funded Income,
- Total operating expense increased by 13.0% to Kshs 24.0 bn in H1'2025, from Kshs 21.3 bn in H1'2024, mainly attributable to 50.5% increase in loan loss provision to Kshs 4.5 bn, from Kshs 3.0 bn in H1'2024, coupled with the 8.2% increase in staff cost to 9.9 bn from 9.1 in H1'2024. The increase in provisioning comes amid improved business environment and reduced credit risk as evidenced by the average H1'2025 Purchasing Managers Index (PMI) of 50.1, up from an average of 49.7 in H1'2024,

- Cost to Income Ratio (CIR) increased by 1.1% points to 55.3% from 54.2% in H1'2024, owing to the faster 13.0% increase in total operating expenses, which outpaced the 10.8% increase in total operating income. Notably, CIR without LLP decreased by 1.7% points to 44.9%, from 46.6% recorded in H1'2024,
- Profit before tax increased by 8.3% to Kshs 19.7 bn, from Kshs 18.2 bn recorded in H1'2024, with effective tax rate decreasing to 29.3% in H1'2025, from 29.5% in H1'2024, leading to a 8.4% increase in profit after tax to Kshs 14.1 bn in H1'2025, from Kshs 13.0 bn in H1'2024.
- The Board of Directors did not recommend dividend for the period consistent with H1'2024

### **Balance Sheet**

- The balance sheet recorded an expansion as total assets increased by 13.2% to Kshs 811.9 bn, from Kshs 716.9 bn in H1'2024, mainly driven by a 25.5% increase in governments securities holdings to Kshs 253.7 bn, from 202.2 bn in H1'2024. Net loans and advances increased by 4.2% to Kshs 391.3 bn, from Kshs 375.6 bn in H1'2024. Total liabilities increased by 11.2% to Kshs 655.6 bn from Kshs 589.9 bn in H1'2024, mainly driven by a 7.9% increase in customer deposits to Kshs 547.7 bn, from Kshs 507.4 bn in H1'2024, coupled with the 30.8% increase in borrowings to Kshs 65.7 bn, from Kshs 50.2 bn in H1'2024. With 205 branches, compared to 189 branches in H1'2024, deposits per branch decreased by 0.5% to Kshs 2.67 bn, from Kshs 2.68 bn in H1'2024,
- The 7.9% increase growth in customer deposits, compared to the 4.2% increase in net loans led to a decrease in the loan to deposits ratio to 71.4%, from 74.0% in H1'2024,
- The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 17.3% in H1'2025, from 16.7% in H1'2024, attributable to a 9.7% increase in Gross non-performing loans to Kshs 76.3 bn, from Kshs 69.6 bn in H1'2024, relative to the 5.9% increase in gross loans to Kshs 441.5 bn, from Kshs 417.0 bn recorded in H1'2024,
- General Provisions (LLP) increased by 24.6% to Kshs 45.2 bn in H1'2025 from Kshs 36.3 bn in H1'2024. The NPL coverage increased to 65.8% in H1'2025, from 59.5% in H1'2024, attributable to the 24.6% increase in general provisions coupled with the 2.3% decrease in interest in suspense to Kshs 5.0 bn from 5.1 bn in H1'2024 which outpaced the 9.7% increase in Gross Non-performing Loans to Kshs 76.3 bn, from Kshs 69.6 bn in H1'2024.
- Shareholders' funds increased by 23.4% to Kshs 156.3 bn in H1'2025, from Kshs 126.7 bn in H1'2024, supported by an 8.4% increase in retained earnings to Kshs 14.1 bn, from Kshs 13.0 bn in H1'2024,
- Cooperative Bank Group remains capitalized with a core capital to risk-weighted assets ratio of 18.8%, 8.3% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 21.3%, exceeding the statutory requirement of 14.5% by 6.8% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.5%, and a Return on Average Equity (ROaE) of 18.8%.

### **Key Take-Outs:**

1. **Increased earnings** - Core earnings per share grew by 8.4% to Kshs 2.4, from Kshs 2.2 in H1'2024, driven by the 10.8% increase in total operating income to Kshs 43.2 bn, from Kshs 39.2 bn in H1'2024. However, the performance was weighed down by a 13.0% increase in total operating expenses to Kshs 24.0 bn from Kshs 21.3 bn in H1'2024,
2. **Deteriorated asset quality** – The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 17.3% in H1'2025, from 16.7% in H1'2024, attributable to a 9.7% increase in Gross non-performing loans

to Kshs 76.3 bn, from Kshs 69.6 bn in H1'2024, relative to the 5.9% increase in gross loans to Kshs 441.5 bn, from Kshs 417.0 bn recorded in H1'2024,

3. **Expanded Balanced sheet** - The balance sheet recorded an expansion as total assets increased by 13.2% to Kshs 811.9 bn, from Kshs 716.9 bn in H1'2024, mainly driven by a 25.5% increase in governments securities holdings to Kshs 253.7 bn, from 202.2 bn in H1'2024, Notably, Net loans and advances increased by 4.2% to Kshs 391.3 bn, from Kshs 375.6 bn in H1'2024.
4. **Increased lending-** Customer net loans and advances increased by 4.2% to Kshs 391.3 bn in H1'2025, from Kshs 371.6 bn in H1'2024 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 4.2% to Kshs 391.3 bn from Kshs 375.6 bn in H1'2024.
- **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 14.1 bn, an 8.2% decrease from Kshs 15.4 bn in H1'2024

#### **Valuation Summary**

- We are of the view that Cooperative Bank is a “buy” with a target price of Kshs 21.58 representing an upside of 24.4%, from the current price of 17.4 as of 15<sup>th</sup> August 2025.
- Co-operative Bank is currently trading at a P/TBV of 0.7x and a P/E of 4.0x vs an industry average of 1.0x and 4.6x respectively.