

Below is a summary of KCB Group's H1'2025 performance:

Balance Sheet Items	H1'2024	H1'2025	y/y change
Government Securities	313.4	305.1	(2.7%)
Net Loans and Advances	1,032.2	1,095.4	6.1%
<b>Total Assets</b>	<b>1,976.9</b>	<b>1,969.0</b>	<b>(0.4%)</b>
Customer Deposits	1,490.6	1,486.1	(0.3%)
Deposits per branch	2.6	3.3	25.6%
Total Liabilities	1,728.6	1,653.5	(4.3%)
<b>Shareholders' Funds</b>	<b>241.0</b>	<b>306.8</b>	<b>27.3%</b>

Balance Sheet Ratios	H1'2024	H1'2025	% y/y change
Loan to Deposit Ratio	69.2%	73.7%	4.5%
Government Securities to Deposit Ratio	21.0%	20.5%	(0.5%)
Return on average equity	22.7%	23.4%	0.7%
Return on average assets	2.7%	3.3%	0.6%

Income Statement (Kshs Bn)	H1'2024	H1'2025	y/y change
Net Interest Income	61.3	69.1	12.7%
Net non-Interest Income	33.3	29.5	(11.3%)
<b>Total Operating income</b>	<b>94.6</b>	<b>98.7</b>	<b>4.3%</b>
Loan Loss provision	(12.2)	(12.5)	2.2%
Total Operating expenses	(56.5)	(57.8)	2.4%
Profit before tax	38.1	40.8	7.1%
<b>Profit after tax</b>	<b>29.92</b>	<b>32.33</b>	<b>8.0%</b>
<b>Core EPS</b>	<b>18.2</b>	<b>19.6</b>	<b>8.0%</b>

Income Statement Ratios	H1'2024	H1'2025	y/y change (% points change)
Yield from interest-earning assets	11.4%	12.5%	1.1%
Cost of funding	4.6%	4.5%	(0.1%)
Net Interest Spread	6.8%	8.0%	1.1%
Net Interest Margin	7.1%	8.4%	1.3%
Cost of Risk	12.9%	12.6%	(0.3%)
Net Interest Income as % of operating income	64.8%	70.1%	5.3%
Non-Funded Income as a % of operating income	35.2%	29.9%	(5.3%)
Cost to Income Ratio	59.7%	58.6%	(1.1%)
Cost to Income Ratio (without LLP)	46.8%	46.0%	(0.8%)

Capital Adequacy Ratios	H1'2024	H1'2025	% points change
Core Capital/Total Liabilities	15.8%	18.7%	2.9%
Minimum Statutory ratio	8.0%	8.0%	0.0%
<b>Excess</b>	<b>7.8%</b>	<b>10.7%</b>	<b>2.9%</b>
Core Capital/Total Risk Weighted Assets	17.8%	17.0%	(0.8%)
Minimum Statutory ratio	10.5%	10.5%	0.0%
<b>Excess</b>	<b>7.3%</b>	<b>6.5%</b>	<b>(0.8%)</b>
Total Capital/Total Risk Weighted Assets	20.3%	19.7%	(0.6%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
<b>Excess</b>	<b>5.8%</b>	<b>5.2%</b>	<b>(0.6%)</b>
Liquidity Ratio	47.0%	47.6%	0.6%
Minimum Statutory ratio	20.0%	20.0%	0.0%
<b>Excess</b>	<b>27.0%</b>	<b>27.6%</b>	<b>0.6%</b>

### **Income Statement**

- Core earnings per share grew by 8.0% to Kshs 19.6, from Kshs 18.2 in H1'2024, driven by the 4.3% increase in total operating income to Kshs 98.7 bn, from Kshs 94.6 bn in H1'2024, which outpaced the 2.4% increase in total operating expenses to Kshs 57.8 bn from Kshs 56.5 bn in H1'2024,
- The 4.3% increase in total operating income was mainly driven by an 12.7% growth in Net Interest Income (NII) to Kshs 69.1 bn, from Kshs 61.3 bn in H1'2024, it was however weighed down by the 11.3% decrease in Non- Interest Income (NFI) to Kshs 29.5 bn from Kshs 33.3 bn in H1'2024,
- Interest income grew by 3.2% to Kshs 100.5 bn from Kshs 97.4 bn in H1'2024, mainly driven by a 2.0% growth in interest income from loans and advances to Kshs 70.6 bn, from Kshs 69.2 bn in H1'2024, as well as a 115.0% growth in interest income from deposits and placements to Kshs 5.9 bn, from Kshs 2.8 bn in H1'2024, it was however weighed down by a 5.7% decrease in interest income from government securities to Kshs 24.0 bn, from Kshs 25.5 bn in H1'2024. As such, the Yield on Interest-Earning Assets (YIEA) increased by 1.2% points to 12.5% from 11.2% recorded in H1'2024, attributable to the faster 10.8% growth in trailing interest income to Kshs 216.5 bn, from Kshs 195.4 bn in H1'2024, compared to a slower 0.02% Increase in average interest earning assets to Kshs 1,738.0 bn, from Kshs 1,737.6 bn in H1'2024,
- Interest expenses declined by 13.1% to Kshs 31.4 bn from Kshs 36.1 bn in H1'2024, mainly driven by a 6.1% decrease in interest expense on customer deposits to Kshs 24.0 bn from Kshs 25.6 bn in H1'2024, coupled with a 37.9% decrease in interest expense from placements to Kshs 6.4 bn, from Kshs 10.3 bn recorded in H1'2024. Consequently, Cost of funds (COF) decreased by 0.1% points to 4.5% from 4.6% recorded in H1'2024, owing to the 1.3 % decrease in Trailing interest expense to Kshs 71.3 bn from Kshs 72.3 bn recorded in H1'2024, compared to a 0.3% increase in average interest-bearing liabilities to Kshs 1,588.8 bn from Kshs 1,584.7 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 1.3% points to 8.4% from 7.1% in H1'2024, attributable to a faster 17.9% increase in trailing net interest income to Kshs 145.2 bn from Kshs 123.2 bn recorded in H1'2024, which outpaced the 0.02% growth in average interest earning assets,
- Non-Funded Income (NFI) decreased by 11.3% to Kshs 29.5 bn from Kshs 33.3 bn in H1'2024, mainly driven by a 48.0% decrease in forex trading income to Kshs 5.2 bn, from Kshs 10.0 bn in H1'2024, highlighting the

bank's decreased foreign exchange margins. Total fees and commissions increased by 1.8% to Kshs 20.3 bn from Kshs 20.0 bn in H1'2024. The revenue mix shifted to 70:30, from 65:35 for the funded to Non-funded income owing to the 12.7% growth in Funded Income compared to the 11.3% decrease in the Non-Funded Income,

- Total operating expense increased by 2.4% to Kshs 57.8 bn in H1'2025, from Kshs 56.5 bn in H1'2024, mainly attributable to 8.1% increase in staff cost to Kshs 20.8 bn, from Kshs 19.3 bn in H1'2024, this was however weighed down by the 2.0% decrease in other operating expenses to 24.5 bn from 25.0 in H1'2024. Notably, loan loss provisions expense increased by 2.2% to Kshs 12.5 bn, from 12.2 bn in H1'2024. The increase in provisioning comes amid an improving business environment and reduced credit risk as evidenced by the average H1'2025 Purchasing Managers Index (PMI) of 50.5, up from an average of 50.0 in H1'2024,
- Cost to Income Ratio (CIR) decreased by 1.1% points to 58.6% from 59.7% in H1'2024, owing to the faster 4.3% increase in total operating income, which was outpaced by the 2.4% increase in total operating expenses. Notably, CIR without LLP decreased by 0.8% points to 46.0%, from 46.8% recorded in H1'2024,
- Profit before tax increased by 7.1% to Kshs 40.8 bn, from Kshs 38.1 bn recorded in H1'2024, with effective tax rate decreasing to 20.8% in H1'2025, from 21.5% in H1'2024, leading to an 8.0% increase in profit after tax to Kshs 32.3 bn in H1'2025, from Kshs 29.9 bn in H1'2024.
- The Board of Directors declared an interim dividend of Kshs 4.0 per share in HY'2025, comprising a Kshs 2.0 regular interim dividend and a Kshs 2.0 special dividend following the sale of NBK, from a total dividend of 1.5 in H1'2024. The payout ratio and annualized dividend yield came in at 39.8% and 15.2% respectively in H1'2025.

#### **Balance Sheet**

- The balance sheet recorded a contraction as total assets decreased by 0.4% to Kshs 1,969.0 bn, from Kshs 1,976.9 bn in H1'2024, mainly driven by a 2.7% decrease in investment in government securities to Kshs 305.1 bn, from 313.4 bn in H1'2024. Additionally, Net loans and advances increased by 6.1% to Kshs 1,095.4 bn from Kshs 1,032.2 bn in H1'2024. Total liabilities declined by 4.3% to Kshs 1,653.5 bn from Kshs 1,728.6 bn in H1'2024, mainly driven by a 0.3% decrease in customer deposits to Kshs 1,486.1 bn, from Kshs 1,490.6 bn in H1'2024, this was however supported by the 35.2% increase in borrowings to Kshs 79.5 bn, from Kshs 58.8 bn in H1'2024. With 455 branches, compared to 566 branches in H1'2024, deposits per branch increased by 25.6% to Kshs 3.3 bn, from Kshs 2.6 bn in H1'2024,
- The 0.3% decline in customer deposits, coupled with the 6.1% increase in net loans led to an increase in the loan to deposits ratio to 73.7%, from 69.2% in H1'2024,
- The bank's Asset Quality improved, with Gross NPL ratio decreasing to 17.9% in H1'2025, from 18.1% in H1'2024, attributable to a 5.6% increase in gross loans to Kshs 1,237.6 bn, from Kshs 1,171.9 bn recorded in H1'2024 which outpaced the 4.2% increase in Gross non-performing loans to Kshs 221.1 bn, from Kshs 212.1 bn in H1'2024,
- General Provisions (LLP) decreased by 0.3% to Kshs 110.3 bn in H1'2025 from Kshs 110.6 bn in H1'2024. The NPL coverage decreased to 64.3% in H1'2025, from 65.9% in H1'2024, attributable to the 0.3% decrease in general provisions coupled with the 9.6% increase in interest in suspense to Kshs 32.0 bn from 29.2 bn in H1'2024 which outpaced the 4.2% increase in Gross Non-performing Loans to Kshs 221.1 bn, from Kshs 212.1 bn in H1'2024.
- Shareholders' funds increased by 27.3% to Kshs 306.8 bn in H1'2025, from Kshs 241.0 bn in H1'2024, supported by a 19.7% increase in retained earnings to Kshs 270.7 bn, from Kshs 226.1 bn in H1'2024,

- KCB Group remains capitalized with a core capital to risk-weighted assets ratio of 17.0%, 6.5% 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 3.3%, and a Return on Average Equity (ROaE) of 23.4%.

**Key Take-Outs:**

1. **Increased earnings** - Core earnings per share (EPS) grew by 8.0% to Kshs 19.6, from Kshs 18.2 in H1'2024, driven by the 4.3% increase in total operating income to Kshs 98.7 bn, from Kshs 94.6 bn in H1'2024, which was however weighed down by the 2.4% increase in total operating expenses to Kshs 57.8 bn from Kshs 56.5 bn in H1'2024,
2. **Improved asset quality** –The bank's Asset Quality improved, with Gross NPL ratio decreasing to 17.9% in H1'2025, from 18.1% in H1'2024, attributable to a 5.6% increase in gross loans to Kshs 1,237.6 bn, from Kshs 1,171.9 bn recorded in H1 '2024 which outpaced the 4.2% increase in Gross non-performing loans to Kshs 221.1 bn, from Kshs 212.1 bn in H1'2024,
3. **Expanded balanced sheet** - The balance sheet recorded a contraction as total assets decreased by 0.4% to Kshs 1,969.0 bn, from Kshs 1,976.9 bn in H1'2024, mainly driven by a 2.7% decrease in investment in government securities to Kshs 305.1 bn, from 313.4 bn in H1'2024.

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 H1'2025, 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 had also disclosed in Q1'2025 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 56.1 representing an upside of 3.9%, from the current price of 54.0 as of 15<sup>th</sup> August 2025.
- KCB Group is currently trading at a P/TBV of 0.7x and a P/E of 2.8x vs an industry average of 1.0x and 4.6x respectively.