

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

Balance Sheet Items	Q1'2024	Q1'2025	y/y change
Government Securities	250.9	329.0	31.2%
Net Loans and Advances	779.2	804.7	3.3%
Total Assets	1685.9	1749.2	3.8%
Customer Deposits	1236.3	1322.8	7.0%
Deposits/Branch	3.5	3.3	(4.0%)
Total Liabilities	1467.1	1484.5	1.2%
Shareholders' Funds	210.9	251.3	19.2%

Balance Sheet Ratios	Q1'2024	Q1'2025	% y/y change
Loan to Deposit Ratio	63.0%	60.8%	(2.2%)
Government Securities to Deposit Ratio	32.2%	40.9%	8.7%
Return on average equity	23.8%	20.8%	(3.0%)
Return on average assets	2.9%	2.8%	(0.1%)

Income Statement (Kshs Bn)	Q1'2024	Q1'2025	y/y change
Net Interest Income	27.8	28.6	2.6%
Net non-Interest Income	22.2	19.6	(11.8%)
Total Operating income	50.1	48.2	(3.8%)
Loan Loss provision	(6.1)	(3.4)	(44.4%)
Total Operating expenses	(29.7)	(29.5)	(0.6%)
Profit before tax	20.4	18.7	(8.5%)
Profit after tax	16.0	15.3	(4.2%)
Core EPS	4.1	3.9	(3.9%)

Income Statement Ratios	Q1'2024	Q1'2025	y/y change
Yield from interest-earning assets	12.4%	11.5%	(0.9%)
Cost of funding	4.2%	4.3%	0.1%
Cost of risk	12.1%	7.0%	(5.1%)
Net Interest Margin	8.2%	7.4%	(0.8%)
Net Interest Income as % of operating income	55.6%	59.3%	3.7%
Non-Funded Income as a % of operating income	44.4%	40.7%	(3.7%)
Cost to Income Ratio	59.2%	61.2%	2.0%
CIR without LLP	47.1%	54.2%	7.1%
Cost to Assets	1.5%	1.5%	0.1%

Capital Adequacy Ratios	Q1'2024	Q1'2025	% points change
Core Capital/Total Liabilities	17.1%	18.2%	1.1%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	9.1%	10.2%	1.1%
Core Capital/Total Risk Weighted Assets	15.9%	16.5%	0.6%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	5.4%	6.0%	0.6%
Total Capital/Total Risk Weighted Assets	19.3%	18.3%	(1.0%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	4.8%	3.8%	(1.0%)
Liquidity Ratio	52.1%	58.5%	6.4%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	32.1%	38.5%	6.4%

Income Statement

- Core earnings per share declined by 3.9% to Kshs 3.9, from Kshs 4.1 in Q1'2024, driven by the 3.8% decrease in total operating income to Kshs 48.2 bn, from Kshs 50.1 bn in Q1'2024, which outpaced the 0.6% decrease in total operating expenses to Kshs 29.5 bn from Kshs 29.7 bn in Q1'2024,
- The 3.8% decrease in total operating income was mainly driven by a 11.8% decrease in Non- Interest Income (NFI) to Kshs 19.6 bn from Kshs 22.2 bn in Q1'2024, however supported by a 2.6% growth in Net Interest Income (NII) to Kshs 28.6 bn, from Kshs 27.8 bn in Q1'2024,
- Interest income declined by 2.7% to Kshs 41.9 bn from Kshs 43.0 bn in Q1'2024, mainly driven by 7.9% decline in interest income from loans and advances to Kshs 25.2 bn, from Kshs 27.3 bn in Q1'2024, however supported by a 26.1% increase in interest income from deposits and placements to Kshs 1.3 bn from Kshs 1.0 bn in Q1'2024, and a 4.4% increase in interest income from government securities to Kshs 15.2 bn from Kshs 14.6 bn in Q1'2024, and. The Yield on Interest-Earning Assets (YIEA) decreased by 0.9% points to 11.5% from 12.4% recorded in Q1'2024, attributable to the slower 1.5% growth in trailing interest income to Kshs 169.1 bn, from Kshs 166.6 bn in Q1'2024, compared to a faster 9.1% Increase in average interest earning assets to Kshs 1,469.9 bn, from Kshs 1,346.9 bn in Q1'2024,
- Interest expenses declined by 12.4% to Kshs 13.3 bn from Kshs 15.2 bn in Q1'2024, mainly driven by an 85.7% decrease in interest expense on customer deposits to Kshs 0.3 bn from Kshs 1.8 bn in Q1'2024, coupled with a 31.9% increase in other interest expenses to Kshs 1.6 bn, from Kshs 2.4 bn recorded in Q1'2024. Consequently, Cost of funds (COF) increased marginally by 0.1% points to 4.3% from 4.2% recorded in Q1'2024, owing to a faster 7.3% increase in Trailing interest expense to Kshs 59.7 bn from Kshs 55.6 bn recorded in Q1'2024, compared to a 4.9% increase in average interest-bearing liabilities to Kshs 1,379.9 bn from Kshs 1,315.9 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) decreased by 0.8% points to 7.4% from 8.2% in Q1'2024, attributable to a 1.4% decrease in trailing net interest income to Kshs 109.4 bn from Kshs 111.0 bn recorded in Q1'2024, compared to the 9.1% growth in average interest earning assets,
- Non-Funded Income (NFI) decreased by 11.8% to Kshs 19.6 bn from Kshs 22.2 bn in Q1'2024, mainly driven by a 29.9% decrease in forex trading income to Kshs 2.7 bn, from Kshs 3.8 bn in Q1'2024. Total fees and

commissions also decreased by 1.4% to Kshs 13.4 bn from Kshs 13.6 bn in Q1'2024. The revenue mix shifted to 59:41, from 56:44 for the funded to Non-funded income owing to the faster 2.6% growth in Non-Funded Income compared to a 11.8% decrease in the Funded Income,

- Total operating expense decreased by 0.6% to Kshs 29.5 bn in Q1'2025, from Kshs 29.7 bn in Q1'2024, mainly attributable to the 44.4% decrease in loan loss provisions expense to 3.4 bn from 6.1 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. Notably, staff costs increased by 10.8% to Kshs 8.7 bn, from 7.9 bn in Q1'2024,
- Cost to Income Ratio (CIR) increased by 2.0% points to 61.2% from 59.2% in Q1'2024, owing to the 0.6% decrease in total operating expenses, compared to the 3.8% decrease in total operating income. Notably, CIR without LLP increased by 7.1% points to 54.2%, from 47.1% recorded in Q1'2024,
- Profit before tax decreased by 8.5% to Kshs 18.7 bn, from Kshs 20.4 bn recorded in Q1'2024, with effective tax rate decreasing to 17.8% in Q1'2025, from 21.5% in Q1'2024, leading to a 4.2% decrease in profit after tax to Kshs 15.3 bn in Q1'2025, from Kshs 16.0 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 3.8% to Kshs 1,749.2 bn, from Kshs 1,685.9 bn in Q1'2024, mainly driven by a 31.2% increase in government securities holdings to Kshs 329.0 bn, from 250.9 bn in Q1'2024, coupled with a 3.3% increase in net loans and advances to Kshs 804.7 bn, from Kshs 779.2 bn in Q1'2024. Total liabilities increased by 1.2% to Kshs 1,484.5 bn from Kshs 1,467.1 bn in Q1'2024, mainly driven by a 7.0% increase in customer deposits to Kshs 1,322.8 bn, from Kshs 1,236.3 bn in Q1'2024, but was weighed down by the 35.0% decrease in borrowings to Kshs 71.2 bn, from Kshs 109.6 bn in Q1'2024,
- The 7.0% growth in customer deposits, which outpaced by the 3.3% decline in net loans led to a decrease in the loan to deposits ratio to 60.8%, from 63.0% in Q1'2024,
- The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 15.0% in Q1'2025, from 14.2% in Q1'2024, attributable to a 10.3% increase in Gross non-performing loans to Kshs 132.8 bn, from Kshs 120.4 bn in Q1'2024, relative to the 4.2% increase in gross loans to Kshs 885.1 bn, from Kshs 849.4 bn recorded in Q1'2024,
- General Provisions (LLP) increased by 3.2% to Kshs 51.3 bn in Q1'2025 from Kshs 49.7 bn in Q1'2024. The NPL coverage increased to 60.5% in Q1'2025, from 58.3% in Q1'2024, attributable to the 3.2% increase in general provisions coupled with the 42.1% increase in interest in suspense to Kshs 29.1 bn from 20.5 bn in Q1'2024 which outpaced the 10.3% increase in Gross Non-performing Loans to Kshs 132.8 bn, from Kshs 120.4 bn in Q1'2024.
- Shareholders' funds increased by 19.2% to Kshs 251.3 bn in Q1'2025, from Kshs 210.9 bn in Q1'2024, however weighed down by a 4.2% decrease in retained earnings to Kshs 15.3 bn, from Kshs 16.0 bn in Q1'2024,
- Equity Group remains capitalized with a core capital to risk-weighted assets ratio of 16.5%, 6.0% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 18.3%, exceeding the statutory requirement of 14.5% by 3.8% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.8%, and a Return on Average Equity (ROaE) of 20.8%.

Key Take-Outs:

1. **Decreased earnings** - Core earnings per declined by 3.9% to Kshs 3.9, from Kshs 4.1 in Q1'2024, driven by the 3.8% decrease in total operating income to Kshs 48.2 bn, from Kshs 50.1 bn in Q1'2024, which outpaced the 0.6% decrease in total operating expenses to Kshs 29.5 bn from Kshs 29.7 bn in Q1'2024,
2. **Deteriorated asset quality** – The bank's Asset Quality deteriorated, with Gross NPL increasing to 15.0% in Q1'2025, from 14.2% in Q1'2024, attributable to a 10.3% increase in Gross non-performing loans to Kshs 132.8 bn, from Kshs 120.4 bn in Q1'2024, relative to the 4.2% increase in gross loans to Kshs 885.1 bn, from Kshs 849.4 bn recorded in Q1'2024,
3. **Expanded Balanced sheet** - The balance sheet recorded a expansion as total assets increased by 3.8% to Kshs 1,749.2 bn, from Kshs 1,685.9 bn in Q1'2024, mainly driven by a 31.2% increase in government securities holdings to Kshs 329.0 bn, from 250.9 bn in Q1'2024, coupled with a 3.3% increase in net loans and advances to Kshs 804.7 bn, from Kshs 779.2 bn in Q1'2024,
4. **Increased lending**- Customer net loans and advances increased by 3.3% to Kshs 804.7 bn, from Kshs 779.2 bn in Q1'2024.

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

- **Digital Transformation**– Equity Group Holdings has been at the forefront of digital transformation within Kenya's banking sector, implementing innovative solutions to enhance customer experience and operational efficiency, reducing the need for physical branch operations. A cornerstone of this strategy is Equitel, the Group's mobile virtual network operator, which has significantly influenced the financial landscape.

Valuation Summary

- We are of the view that Equity Group is a "buy" with a target price of Kshs 57.5 representing an upside of 33.6%, from the current price of 43.1 as of 30th May 2025,
- Equity Group is currently trading at a P/TBV of 0.8x and a P/E of 4.0x vs an industry average of 0.9x and 3.8x respectively.