

Below is a summary of KCB Group's Q1'2026 performance:

Balance Sheet Items	Q1'2025	Q1'2026	y/y change
Government Securities	309.2	366.4	18.5%
Net Loans and Advances	1,018.6	1,208.2	18.62%
<b>Total Assets</b>	<b>2,034.2</b>	<b>2,254.5</b>	<b>10.8%</b>
Customer Deposits	1,427.8	1,652.1	15.7%
Total Liabilities	1,728.7	1,892.7	9.5%
Shareholders' Funds	297.1	352.2	18.6%
<b>Government Securities</b>	<b>309.2</b>	<b>366.4</b>	<b>18.5%</b>

Balance Sheet Ratios	Q1'2025	Q1'2026	% point change
Loan to Deposit Ratio	71.3%	73.1%	1.8%
Government Securities to Deposit Ratio	21.7%	22.2%	0.5%
Return on average equity	23.4%	21.6%	(1.8%)
Return on average assets	3.1%	3.3%	0.2%

Income Statement (Kshs Bn)	Q1'2025	Q1'2026	y/y change
Net Interest Income	33.7	36.6	8.6%
Net non-Interest Income	15.7	17.0	8.3%
<b>Total Operating income</b>	<b>49.4</b>	<b>53.6</b>	<b>8.5%</b>
Loan Loss provision	(5.6)	(4.9)	(12.4%)
Total Operating expenses	(28.3)	(29.2)	3.4%
Profit before tax	21.2	24.4	15.3%
<b>Profit after tax</b>	<b>16.5</b>	<b>18.2</b>	<b>10.0%</b>
<b>Core EPS</b>	<b>5.2</b>	<b>5.7</b>	<b>10.0%</b>

Income Statement Ratios	Q1'2025	Q1'2026	% points change
Yield from interest-earning assets	12.6%	11.8%	(0.8%)
Cost of funding	4.7%	3.6%	(1.2%)
Net Interest Spread	7.9%	8.3%	0.4%
Net Interest Margin	8.2%	8.5%	0.2%
Cost of Risk	11.3%	9.2%	(2.2%)
Net Interest Income as % of operating income	68.2%	68.3%	0.1%
Non-Funded Income as a % of operating income	31.8%	31.7%	(0.1%)
Cost to Income Ratio	57.2%	54.5%	(2.7%)
Cost to Income Ratio (without LLP)	45.8%	45.3%	(0.5%)

Capital Adequacy Ratios	Q1'2025	Q1'2026	% points change
Core Capital/Total Liabilities	19.7%	20.0%	0.3%

Minimum Statutory ratio	8.0%	8.0%	0.0%
<b>Excess</b>	<b>11.7%</b>	<b>12.0%</b>	<b>0.3%</b>
Core Capital/Total Risk Weighted Assets	16.7%	18.2%	1.5%
Minimum Statutory ratio	10.5%	10.5%	0.0%
<b>Excess</b>	<b>6.2%</b>	<b>7.7%</b>	<b>1.5%</b>
Total Capital/Total Risk Weighted Assets	19.7%	21.6%	1.9%
Minimum Statutory ratio	14.5%	14.5%	0.0%
<b>Excess</b>	<b>5.2%</b>	<b>7.1%</b>	<b>1.9%</b>
Liquidity Ratio	48.9%	51.1%	2.2%
Minimum Statutory ratio	20.0%	20.0%	0.0%
<b>Excess</b>	<b>28.9%</b>	<b>31.1%</b>	<b>2.2%</b>

### Income Statement

- Core earnings per share grew by 10.0% to Kshs 5.7, from Kshs 5.2 in Q1'2025, driven by the 8.5% increase in total operating income to Kshs 53.6 bn, from Kshs 49.4 bn in Q1'2025, it was however weighed down by the 3.4% increase in total operating expenses to Kshs 53.6 bn, from Kshs 49.4 bn in Q1'2025,
- The 8.5% increase in total operating income was mainly driven by an 8.6% growth in Net Interest Income (NII) to Kshs 36.6 bn, from Kshs 33.7 bn in Q1'2025, coupled with an 8.3% increase in Non-Interest income (NFI) to Kshs 17.0 bn from Kshs 15.7 bn in Q1'2025,
- Interest income grew by 2.1% to Kshs 51.3 bn from Kshs 50.2 bn in Q1'2025, mainly driven by a 17.6% increase in interest income from deposits and placements to Kshs 2.9 bn, from Kshs 2.5 bn in Q1'2025, as well as a 4.3% increase in interest income from government securities to Kshs 12.8 bn, from Kshs 12.3 bn in Q1'2025. However, the Yield on Interest-Earning Assets (YIEA) decreased by 0.8% points to 11.8% from 12.6% recorded in Q1'2025, attributable to the 1.7% decrease in trailing interest income to Kshs 210.8 bn, from Kshs 214.5 bn in Q1'2025, compared to the 4.8% increase in average interest earning assets to Kshs 1,780.3 bn, from Kshs 1,698.7 bn in Q1'2025,
- Interest expenses declined by 11.1% to Kshs 14.6 bn from Kshs 16.5 bn in Q1'2025, mainly driven by a 11.5% decrease in interest expense from customer deposits to Kshs 11.4 bn from Kshs 12.9 bn in Q1'2025, coupled with a 9.6% decrease in interest expense on placements to Kshs 3.1 bn, from Kshs 3.5 bn recorded in Q1'2025. Consequently, Cost of funds (COF) decreased by 1.2% points to 3.6% from 4.7% recorded in Q1'2025, owing to the 19.6% decrease in Trailing interest expense to Kshs 59.9 bn from Kshs 74.5 bn recorded in Q1'2025, compared to a 6.7% increase in average interest-bearing liabilities to Kshs 1,680.0 bn from Kshs 1,573.8 bn 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 0.2% points to 8.5% from 8.2% in Q1'2025, attributable to a faster 7.8% increase in trailing net interest income to Kshs 150.9 bn from Kshs 140.0 bn recorded in Q1'2025, coupled with the 4.8% increase in average interest earning assets,
- Non-Funded Income (NFI) increased by 8.3% to Kshs 17.0 bn from Kshs 15.7 bn in Q1'2025, mainly driven by a 26.8% increase in fees and commissions to Kshs 3.8 bn, from Kshs 3.0 bn in Q1'2025, highlighting the bank's increased fees and commissions margins. Foreign exchange income increased by 13.7% to Kshs 3.6 bn from Kshs 3.1 bn in Q1'2025. The revenue mix shifted to 68:26 from 68:20 for the funded to Non-funded income owing to the 8.6% growth in Funded Income which outpaced the 8.3% increase in the Non-Funded Income,

- Total operating expense increased by 3.4% to Kshs 29.2 bn in Q1'2026, from Kshs 28.3 bn in Q1'2025, despite the 3.1% decrease in staff costs to Kshs 10.5 bn from Kshs 10.9 bn in Q1'2025. Notably, loan loss provisions expense decreased by 12.4% to Kshs 4.9 bn, from 5.6 bn in Q1'2025,
- Cost to Income Ratio (CIR) decreased by 2.7% points to 54.5% from 57.2% in Q1'2025, owing to the faster 8.5% increase in total operating income, which outpaced the 3.4% increase in total operating expenses. Notably, CIR without LLP decreased by 0.5% points to 45.3%, from 45.8% recorded in Q1'2025,
- Profit before tax increased by 15.3% to Kshs 24.4 bn, from Kshs 21.2 bn recorded in Q1'2025, with effective tax rate increasing to 25.5% in Q1'2026, from 21.9% in Q1'2025, leading to an 10.0% increase in profit after tax to Kshs 18.2 bn in Q1'2026, from Kshs 16.5 bn in Q1'2025.
- The Board of Directors did not recommend an interim dividend for the period, consistent with Q1'2025.

### **Balance Sheet**

- The balance sheet recorded an expansion as total assets increased by 10.8% to Kshs 2,254.5 bn, from Kshs 2,034.2 bn in Q1'2025, mainly driven by a 16.3% increase in net loans and advances to Kshs 1,208.2 bn, from 1,018.6 bn in Q1'2025. Government securities increased by 18.5% to Kshs 366.4 bn from Kshs 309.2 bn in Q1'2025. Total liabilities increased by 9.5% to Kshs 1,892.7 bn from Kshs 1,728.7 bn in Q1'2025, mainly driven by a 15.7% increase in customer deposits to Kshs 1,652.1 bn, from Kshs 1,427.8 bn in Q1'2025, coupled with the 13.7% increase in borrowings to Kshs 92.8 bn, from Kshs 81.6 bn in Q1'2025. With 458 branches, compared to 536 branches in Q1'2025, deposits per branch increased by 35.4% to Kshs 3.6 bn, from Kshs 2.7 bn in Q1'2025,
- The 15.7% increase in customer deposits, coupled with the 18.6% increase in net loans led to an increase in the loan to deposits ratio to 73.1%, from 71.3% in Q1'2025,
- The bank's Asset Quality improved, with Gross NPL ratio decreasing to 15.9% in Q1'2026, from 19.9% in Q1'2025, attributable to a 15.0% increase in gross loans to Kshs 1,373.0 bn, from Kshs 1,174.8 bn recorded in Q1'2025 compared to the 6.6% decrease in Gross non-performing loans to Kshs 217.8 bn, from Kshs 233.3 bn in Q1'2025,
- General Provisions (LLP) increased by 0.9% to Kshs 123.6 bn in Q1'2026 from Kshs 122.5 bn in Q1'2025. The NPL coverage increased to 75.7% in Q1'2026, from 67.0% in Q1'2025, attributable to the 0.9% increase in general provisions coupled with the 22.4% increase in interest in suspense to Kshs 41.2 bn from 33.7 bn in Q1'2025 compared to the 6.6% decrease in Gross Non-performing Loans to Kshs 217.8 bn, from Kshs 233.3 bn in Q1'2025.
- Shareholders' funds increased by 18.6% to Kshs 352.2 bn in Q1'2026, from Kshs 297.1 bn in Q1'2025, supported by a 10.0% increase in retained earnings to Kshs 18.2 bn, from Kshs 16.5 bn in Q1'2025,
- KCB Group remains capitalized with a core capital to risk-weighted assets ratio of 18.2%, 7.7% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 21.6%, exceeding the statutory requirement of 14.5% by 7.1% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.3%, and a Return on Average Equity (ROaE) of 21.6%.

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

1. **Increased earnings** - Core earnings per share grew by 10.0% to Kshs 5.7, from Kshs 5.2 in Q1'2025, driven by the 8.5% increase in total operating income to Kshs 53.6 bn, from Kshs 49.4 bn in Q1'2025, it was however weighed down by the 3.4% increase in total operating expenses to Kshs 53.6 bn, from Kshs 49.4 bn in Q1'2025,

2. **Improved asset quality** – The bank's Asset Quality improved, with Gross NPL ratio decreasing to 15.9% in Q1'2026, from 19.9% in Q1'2025, attributable to a 15.0% increase in gross loans to Kshs 1,373.0 bn, from Kshs 1,174.8 bn recorded in Q1'2025 compared to the 6.6% decrease in Gross non-performing loans to Kshs 217.8 bn, from Kshs 233.3 bn in Q1'2025,
3. **Expanded balanced sheet** - The balance sheet recorded an expansion as total assets increased by 10.8% to Kshs 2,254.5 bn, from Kshs 2,034.2 bn in Q1'2025, mainly driven by a 16.3% increase in net loans and advances to Kshs 1,208.2 bn, from 1,018.6 bn in Q1'2025.

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 Q1'2026, transactions done through the non-branch channels mainly driven by rolling out a new unified mobile app featuring easy and fast self-onboarding for account and wallet opening and integrated MMF. Notably, the Group witnessed 25.0% growth in mobile loans disbursement to Kshs 151.0 bn in Q1'2026, equivalent to Kshs 1.7 bn per day.

#### **Valuation Summary**

- We are of the view that KCB Group is a "Buy" with a target price of Kshs 83.2 representing an upside of 24.6%, from the current price of 66.8 as of 22<sup>nd</sup> May 2026.
- KCB Group is currently trading at a P/TBV of 0.6x and a P/E of 3.1x vs an industry average of 1.1x and 5.7x respectively.