

KCB GROUP PLC

2023 HALF YEAR EARNINGS UPDATE



KCB GROUP PLC BUSINESS OVERVIEW

- KCB Group is registered as a non-operating holding company that started operations as a licensed banking institution on January 1, 2016.
- The holding company oversees KCB Kenya – incorporated with effect from January 1, 2016 – and all KCB’s regional units in Uganda, Tanzania, Rwanda, Burundi, Ethiopia and South Sudan. It also owns KCB Bancassurance Intermediary, KCB Capital, KCB Foundation, National Bank of Kenya and all associate companies.
- The holding company was set up to among other things enhance the Group’s oversight of operations of all its banking businesses and other incidental operations of the entities, limit liability, create synergies in operations and increase the Group's ability to access debt and equity capital.
- KCB Bank Kenya Limited is a financial services provider headquartered in Nairobi, Kenya. It is licensed as a commercial bank, by the Central Bank of Kenya, the national banking regulator. The bank has also been running Agency banking model.

KCB GROUP PLC	
Ticker symbol	KCB
Primary Industry	Banking and Investments
Primary exchange	Nairobi Securities Exchange
Shares Outstanding	3.21 bn
Market Capitalization	Kes. 88 billion
Current stock price	Kes. 26.90

KCB GROUP PLC SUBSIDIARIES

KCB GROUP PLC

Banking Subsidiaries

Non-Banking Subsidiaries

KCB Bank Kenya-
100%

National Bank of
Kenya- 100%

KCB Bank of
Tanzania- 100%

KCB Bank of
South Sudan-
100%

BPR Bank
Rwanda- 87%

KCB Bank
Burundi- 100%

KCB Bank
Uganda- 100%

Trust Merchant
Bank- 85%

KCB
Bancassurance-
100%

KCB Investment
Bank- 100%

KCB Asset
Management-
100%

Kencom House
Limited- 100%

Economic Review

- Kenya
 - The CBK noted sustained inflationary pressures driven by fuel, food and non-food non-fuel (NFNF) prices.
 - The global economic outlook remains uncertain, reflecting continuing concerns about financial sector stability in advanced economies.
 - The CBK foreign exchange reserves, which currently stand at USD 7,379 million (4.07 months of import cover), continue to provide adequate cover and a buffer against any short-term shocks in the foreign exchange market.
 - Leading economic indicators of the Kenyan economy pointed to strong economic performance in the first half of 2023, mainly driven by activity in the services sector and recovery in agriculture.
 - Exports of goods have remained strong, growing by 5.5% in the 12 months to May 2023 compared to a similar period in 2022.
 - The banking sector remained stable and resilient, with strong liquidity and capital adequacy ratios.
 - Growth in the private sector stood at 13.2% in both April and May 2023.
 - In Kenya, the GDP grew by just 4.8% while projected growth decreased to 5.8% from 6.1% because of lower growth in the agricultural sector.
- Rwanda
 - Their GDP growth reached 10.9% in 2021 before declining to 8.2% in 2022 due to climate shocks on domestic food production; high energy, food, and fertilizer prices; and weak external demand on exports.
- DRC
 - Economic growth in Congo picked up to 8.6% in 2022, keeping the strong momentum from 2021 (6.2%). Mining sector investment and exports remain their key drivers of growth, owing to capacity expansion and recovery in global demand.

Economic Review contd.

- Tanzania
 - Their real GDP growth slowed to 4.7% in 2022 from 4.9% in 2021 due in part to the impact of Russia's invasion of Ukraine, notably on food and energy prices. Growth was driven by services and agriculture on the supply side and by investment and consumption on the demand side.
- Uganda
 - Their GDP is projected to grow 6.5% in 2023 and 6.7% in 2024, assuming any global growth slowdown will be short lived. This expansion is projected to be supported by stronger growth in East Africa, while the Chinese economy has eased lockdowns, reducing global supply chain disruptions, supporting higher growth.
- South Sudan
 - South Sudan's real GDP contracted an estimated 2.9% in 2021/22, after contracting 4.9% in 2020/21, driven by the oil sector. Oil production declined to 156,000 barrels a day in 2021/22 from 169,000 in 2020/21 after several oilfields were damaged by floods.
- South Sudan
 - Their real GDP grew an estimated 4.0%, up from 3.1% in 2021, led by public investment. The effects of Russia's invasion of Ukraine worsened the budget deficit, which widened to 5.1% of GDP in 2022 from 2.9% in 2021.
- Ethiopia
 - Real GDP growth fell to 5.3% in 2022 from 5.6% in 2021 but remained above East Africa's average (4.7% in 2021 and 4.4% in 2022). Supply-side drivers of growth were industry and services, and demand-side drivers were private consumption and investment. Inflation rose to 34% in 2022 from 26.6% in 2021.

KCB GROUP PLC Balance Sheet



STATEMENT OF FINANCIAL POSITION

	30th June 2019 KShs '000	30th June 2020 KShs '000	30th June 2021 KShs '000	30th June 2022 KShs '000	30th June 2023 KShs '000
ASSETS					
Cash (both local & foreign)	10,388,163	12,213,526	14,393,282	15,355,954	32,326,927
Balance due from Central Bank of Kenya	36,967,985	48,572,332	48,889,073	35,392,249	32,045,518
Investment Securities: Held at amortised cost- Kenya Government Securities	56,554,157	85,625,298	106,067,077	137,921,025	165,564,114
Investment Securities: Held at amortised cost- Other Securities	7,114,504	7,710,337	11,293,433	9,326,884	26,947,270
Investment Securities: Fair Value through OCI- Kenya Government Securities	69,252,495	106,351,164	89,011,282	108,330,195	154,732,158
Investment Securities: Fair Value through OCI- Other Securities	2,085,546	8,836,162	6,668,276	22,265,848	15,179,284
Deposits and balances due from local banking institutions	2,662,400	6,045,537	7,199,414	5,763,232	14,431,445
Deposits and balances due from banking institutions abroad	32,992,305	47,282,144	45,349,403	44,828,200	318,315,211
Loans and advances to customers (net)	478,730,510	559,884,343	606,967,409	730,335,492	964,808,684
Property, plant and equipment	13,551,623	20,238,654	18,180,756	21,631,098	30,268,920
Prepaid lease rentals	127,771	125,526	118,767	123,579	121,050
Intangible assets	2,523,758	7,312,992	5,081,917	7,112,689	19,369,802
Deferred tax assets	9,929,624	12,353,946	19,403,782	24,254,069	31,424,593
Other assets	22,850,037	30,519,821	31,121,316	29,163,018	45,131,644
TOTAL ASSETS	746,519,266	953,071,782	1,022,153,011	1,210,107,536	1,864,591,050
LIABILITIES					
Balances due to Central Bank of Kenya	-	4,914,250	-	-	-
Customer deposits	563,236,258	758,241,255	786,035,101	908,573,107	1,471,246,362
Deposits and balances due to local banking institutions	5,587,598	2,350,755	7,617,580	6,287,472	13,395,093
Deposits and balances due to foreign banking institutions	13,251,212	11,011,347	7,388,428	29,484,193	35,226,801
Borrowed funds	22,418,516	21,376,783	35,042,011	40,244,123	65,643,453
Other liabilities	18,178,520	22,519,128	30,649,993	37,498,979	55,198,628
TOTAL LIABILITIES	628,995,454	820,932,841	869,233,405	1,028,357,796	1,646,593,661
SHAREHOLDERS' FUNDS					
Paid up/ Assigned capital	3,066,057	3,213,456	3,213,463	3,213,463	3,213,463
Share premium/ (discount)	21,646,777	27,690,149	27,690,149	27,690,149	27,690,149
Revaluation reserves	1,142,982	1,654,512	1,225,905	1,200,558	2,487,666
Retained earnings/ Accumulated losses	94,839,017	105,218,406	126,482,898	143,548,168	166,299,907
Statutory loan loss reserve	1,222,095	3,329,760	3,795,390	14,570,306	25,197,867
Other Reserves/ Re-measurement of defined benefit asset/ liability	- 7,459,173	- 8,967,612	- 9,488,199	- 11,109,399	- 13,657,013
TOTAL SHAREHOLDER FUNDS	117,523,812	132,138,671	152,919,606	179,113,245	211,232,039
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	746,519,266	953,071,512	1,022,153,011	1,210,107,536	1,864,591,050

KCB GROUP PLC Income Statement



STATEMENT OF COMPREHENSIVE INCOME

	30th June 2019 KShs '000	30th June 2020 KShs '000	30th June 2021 KShs '000	30th June 2022 KShs '000	30th June 2023 KShs '000
NET INTEREST INCOME	25,401,569	31,069,588	36,416,260	40,591,530	45,508,331
OTHER OPERATING INCOME:					
Fees and commissions on loans and advances	4,661,799	4,925,178	3,992,559	5,305,574	5,551,179
Other Fees and commissions	4,240,259	4,471,398	5,194,690	6,119,235	12,283,788
Foreign exchange trading income/ (loss)	2,060,269	2,431,447	2,717,979	4,932,635	5,908,379
Other income	2,209,837	2,135,587	2,888,409	2,858,172	3,816,676
TOTAL OTHER OPERATING INCOME	13,172,164	13,963,610	14,793,637	19,215,616	27,560,022
TOTAL OPERATING INCOME	38,573,733	45,033,198	51,209,897	59,807,146	73,068,353
OTHER OPERATING EXPENSES					
Loan loss provision	3,031,105	11,027,244	6,583,174	4,318,678	10,191,358
Staff costs	8,946,745	10,098,346	12,254,755	14,091,422	17,461,120
Director's emoluments	151,614	153,522	176,680	371,660	449,211
Rental charges	184,713	172,146	246,398	299,018	410,360
Depreciation charge on property and equipment	1,216,887	1,398,996	1,749,274	1,967,867	3,887,036
Amortisation charges	666,209	1,152,365	1,123,996	1,067,820	1,110,392
Other operating expenses	6,443,384	8,205,821	7,159,968	9,512,285	17,101,495
TOTAL OTHER OPERATING EXPENSES	20,640,657	32,208,440	29,294,245	31,628,750	50,610,972
Profit/ (Loss) before tax and exceptional items	17,933,076	12,824,758	21,915,652	28,178,396	22,457,381
Profit/ (Loss) after exceptional items	17,933,076	12,824,758	21,915,652	28,178,396	22,457,381
Current tax	- 5,952,003	- 5,076,074	- 8,509,255	- 9,600,361	- 10,768,961
Deferred tax	741,870	- 171,079	1,894,518	1,068,596	4,368,984
PROFIT/ (LOSS) AFTER TAX AND EXCEPTIONAL ITEMS	12,722,943	7,577,605	15,300,915	19,646,631	16,057,404
OTHER COMPREHENSIVE INCOME:					
Gains/ (Losses) from translating the financial statements of foreign operations	- 362,138	- 111,624	- 1,707,271	2,622,412	2,448,699
Fair value changes in available-for-sale financial assets	- 1,012,348	1,572,807	159,493	- 2,860,519	- 2,575,924
Income tax relating to components of other comprehensive income	303,704	- 471,842	- 47,848	858,156	772,777
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX	- 1,070,782	989,341	- 1,595,626	620,049	645,552
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	11,652,161	8,566,946	13,705,289	20,266,680	16,702,956

Summary Analysis



	2019	2020	2021	2022	2023
Net Interest Income Growth YoY	5.20%	22.31%	17.21%	11.47%	12.11%
Loan to Deposit	85.00%	73.84%	77.22%	80.38%	65.58%
Cost to Income Ratio	53.51%	71.52%	57.20%	52.88%	69.27%
Core Capital to Total Deposit Liabilities	20.10%	17.50%	19.00%	17.30%	14.40%
Core Capital to Total Risk Weighted Assets	18.00%	17.90%	18.60%	17.70%	15.00%
ROE	12.85%	6.45%	11.58%	12.85%	8.96%
ROA	1.91%	1.02%	1.61%	1.92%	1.33%
Total assets (in Kes.)	746,519m	953,072m	1,002,153m	1,210,108m	1,864,591m
Earnings per share (in Kes.)	8.30	4.72	8.53	12.15	9.71
Non-Performing Loan Ratio	7.22%	12.90%	13.77%	21.78%	17.03%

Company Analysis

A. Strategic Review

- KCB has recognized the role of sustainability within the group and we have therefore implemented sustainability initiatives and embedded them into their business as part of our long term strategic vision.
- This has been done through our sustainability framework which addresses four key areas – financial stability, economic, environmental and social sustainability in line with the 3Ps: People, Planet and Profit.
- The sustainability framework outlines ways in which corporate strategy could help the group drive revenue, reduce costs, risks and build on its brand and reputation.
- Under financial stability pillar the strategies include: Financial Performance, Economic Development, Sustainable Banking Products and Services, Embracing Technology and Innovation and Regulatory Compliance.
- Under economic sustainability pillar the strategies include: Long Term Profitability, Risk management mitigation, Community Investment Strategy and Marketing Strategy and Analysis.
- Under environmental sustainability pillar the strategies include: Energy efficiency, Business Travel, Resource Usage, E-waste and Water Management.
- Under social sustainability pillar the strategies include: Employee Development, Community Health and Well Being, Corporate Social Responsibility, Enterprise Development and Employment Practices.

Company Analysis Contd.

B. Financial Review

- Their half year loan book has been growing at a Compounded Annual Growth Rate (CAGR) of 19.15% over the past 5 years indicating exponential growth rate.
- Their half year deposits have increased at a CAGR of 27.13% over the past fast 5 years rapidly increasing their pool of capital for lending.
- Their loan to deposit ratio has been decreasing steadily since 2019 and is currently at its lowest at 65.58% indicating decrease in their risk profile.
- Net interest income has increased at a CAGR of 15.69% showing that they have increased their earnings from their interest earning assets relative to their interest-bearing liabilities.
- Decline in net interest margin was due to increased cost of funds as a result of the high-interest-rate environment.
- The net interest income growth Year on Year has increased slightly from last year 2022, this shows a slight increase in the efficiency of the company in converting sales to actual profit.
- The cost to income ratio has been on relative increase since 2021 indicating lower profitability and a decrease in operational efficiency. Growth in operating costs was driven by exceptional cost items from the consolidation of TMB, provision for NBK court ruling and staff rationalization program.
- The capital adequacy ratios have been on a relative decrease since 2021. However, they're all higher than the statutory minimum indicating adequate though decreasing ability from the group to meet its' obligations.
- A decrease in the level of profitability was observed from the returns against company's total assets and shareholder's equity compared to last year 2022, with ROOA at 1.33% and ROOE at 8.96% in this year's second quarter.
- There has also been an impressive increase in total asset base at a CAGR of 25.71% over the past 5 years. This rise indicates an increase in the company's opportunities in maintaining its growth. This was largely due to their acquisition of Trust Merchant Bank SA (TMB) after receiving all the regulatory approvals. The Group now owns 85% stake in the Democratic Republic of Congo (DRC) based lender.
- There has also been a general increase the Earnings Per Share over the past 5 years with CAGR of 4% currently at Kes. 9.71. This higher EPS indicates greater value because investors will pay more for a company's shares if they think the company has higher profits relative to its share price.
- There has been a general increase in the Non-performing loan ratio over the years from 2019 to 2022. However, it decreased slightly this year compared to last year thus signaling an increase in repayment likelihood of their loans.

Company Analysis Contd.

Management View

- They entered 2023 with positive momentum and they plan to build on this and ensure that they make significant step change in culture and performance, across all their business units, supported by their new brand purpose. Despite a challenging operating environment, the belief in our people, embedded purpose, enhanced digital capabilities, impetus in their regional businesses and onboarding of TMB makes them bullish about 2023. Their unwavering commitment to customer centricity will continue to drive our vision and strategy.

Investment Analysis

Our View

- Despite the increase in costs and macroeconomic tailwinds that have plagued the banking sector, its strong asset base with increased diversification in financial services sector means that KCB GROUP PLC is poised to achieve its strategy over the next few years. Its loan book will also likely continue growing with the implementation of risk-based pricing. Their diversification and increased brand visibility is also quite something to be admired. With the increasing interest rates, it will be interesting to see how they navigate, whether they'll pass on those costs to the end consumers and how that will impact their business.

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