KCB GROUP HY25 EARNINGS UPDATE

KCB Group released its HY2025 financial results, posting **8% growth in profit after tax** to KES 32.3Bn, attributable to a 12.7% increase in net interest income to KES 69.13Bn, which offset an 11.3% decline in non-funded income on lower forex trading revenues. The earnings per share rose to **KES 19.61** from KES 18.15 in the previous year.

As a result, the Board of Directors has recommended an **interim dividend** of KES 2.00 per share for the 2025 period and a further **special dividend** of KES 2.00 per share (in relation to the sale of National Bank of Kenya), amounting to a total shareholder payout of KES 13Bn, the largest interim payment and first ever special dividend in the Bank's history.

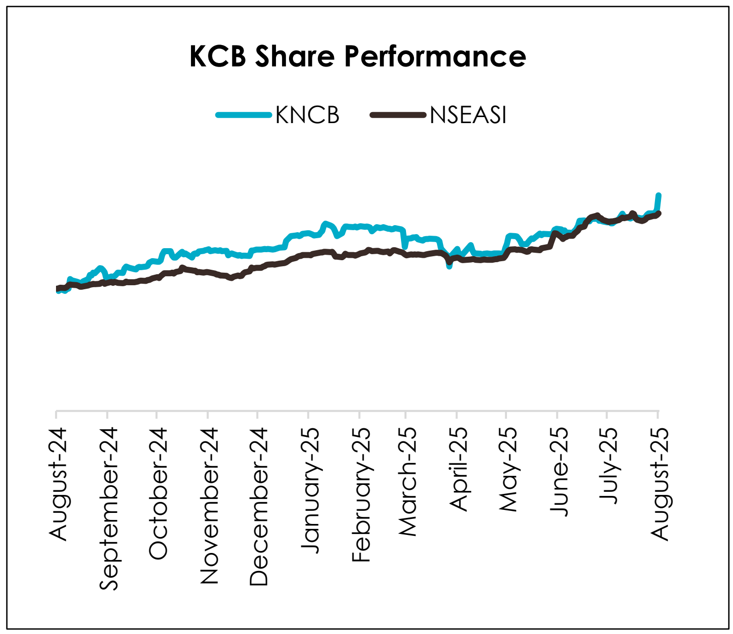
Subsidiaries outside KCB Bank Kenya sustained strong momentum, contributing 33.4% of Group profit before tax and 31.4% of total assets. **Non-banking units**, KCB Investment Bank, KCB Asset Management, and KCB Bancassurance grew their PBT share to 2.1%, up from 1.8% last year.

At the current market value of **KES 52.75**, the stock is trading within its fair value range. However, given its consistent dividend payouts, KCB presents an attractive long-term investment opportunity.

We maintain a **Buy** stance on the stock with an upside potential of **28%** at a target price of **KES 67.62**

Share Data	KCB Group
Ticker	KNCB KN
Recommendation	Buy
Current Price (KES)	52.75
Target Price (KES)	67.62
52WK High (KES)	55.00
52WK Low (KES)	33.70
Market Cap (KES Bn)	169
Interim Dividend	KES 2.00
Special Dividend	KES 2.00
P/E	1.26x
P/B	0.52x

Current Price = as of 14th August 2025



Analyst: Anjali Patel

Anjali.patel@ncbagroup.com

PERFORMANCE HIGHLIGHTS

- **Earnings:** Net interest income grew by 13% to KES 69Bn mainly driven by higher earnings from increased lending. Non-interest income rose 20.8% to KES 33.3Bn, buoyed by a 68.8% drop in FX income and an 18.2% rise in fee income. Total revenue grew 4.3% to KES 69.1Bn, while the cost of funds remained flat and is expected to ease as interest rates trend down across most markets.
- **Loan book:** The Group's loan portfolio stood at KES 1.2Tr, representing a 2.8% growth (12% rise excluding the impact of NBK), supported by new business across subsidiaries. The growth in net loans was driven by disbursements in priority segments in Kenya, Uganda, Tanzania and Burundi,
- **Customer deposits:** Deposits from customers dropped marginally by 0.3% to KES 1.48Tr, as deposit mobilization during the period netted off the impact of the sale of NBK and the impact of Uganda transitioning to its own Government to Government oil importation Programme. The stable deposit book highlighted the growing customer confidence in the brand.
- **Efficiency:** The bank's disciplined approach to cost control allowed operating income to outpace expense growth. The Group maintained its prudent cost management approach, with costs growing by 2.4% driven by variable costs and investments for future growth. Total expenses closed the period at KES 45Bn, with the cost-to-income ratio stable at 46.0%. This increase was driven by rising staff costs, general inflationary pressures, and continued investment in technology and expansion
- **Asset Quality:** NPL ratio improved by 1.5% to **16.79%** from 17.04% but remained high. The lender continues to implement multiple resolution strategies, including enhanced recoveries, loan rehabilitation, full and final settlements, engagement with the government for associated entities, and targeted write-offs. The non-performing loan book remains fully covered by a combination of cash provisions and collateral.
- The lender continues to focus on customer discussions to support and resolve distressed exposures Gross non-performing loans rose 4.24% to KES 221Bn, predominantly driven by the Kenya and DRC (TMB) operations, now compounded by a sharp deterioration in South Sudan
- As at H1 2025, **KCB Bank Kenya** maintained a high NPL ratio of 22.2%, unchanged from H1 2024, while TMB's ratio edged slightly higher to 11.8%. South Sudan recorded the most pronounced jump, rising from about 1% to 6.9% within the year, signaling emerging credit stress.
- **Real estate loans** remained the largest contributor at KES 47Bn, up from KES 37Bn a year earlier, while trade (KES 33Bn) and personal/household lending (KES 29Bn) also posted y/y increases. Manufacturing NPLs moderated to KES 41Bn from KES 49Bn, indicating some sectoral recovery, whereas construction loans remained broadly flat at KES 22Bn. While manufacturing showed some recovery, structural credit risks persist across key geographies and sectors.
- **Stable Balance Sheet**: Total assets remained stable at KES1.97Tr, despite the sale of NBK in the second quarter of the year, demonstrating the Group's capacity and capability to support its customers across the seven countries where KCB operates in.

Key Financial Metrics.

HY 25 KCB Group Kenya PLC	Key Metrics Y/Y
Loans and Advances	Uo 6.1% to KES 1.10Tr
Customer Deposits	Down 0.3% to KES 1.49Tr
Government Securities	Down 2.7% to KES 305.13Bn
Net Interest Income	**Up 12.7% to KES 69.13Bn**
Non-Funded Income	**Down 11.3% to KES 29.5Bn**
Forex trading income	Down 48.0% to KES 5.19Bn
Loan Loss Provisions	Up 2.2% to KES 12.5Bn
PBT	Up 7.1% to KES 40.8Bn
PAT	**Up 8.0% to KES 32.3Bn**
EPS	Up 8.0% to KES 19.61

KCB Group Kenya PLC	Key Ratios Y/Y
Loan Deposit ratio	Up to 73.71% from 69.25%
Net Interest Margin	**Up to 3.51% from 3.10%**
Cost to Income	Down to 58.62% from 59.72%
NPL Ratio	**Up to 16.79% from 17.04%**
ROE	Down to 11% from 12%
Current Market Price	KES 49.35
P/E(Annualized)	1.26x
P/B	0.52x
Interim Dividend (H1)	**KES 2.00**
Special Dividend (H1)	**KES 2.00**

Source: Company financials, NCBA IB Research

OUTLOOK

We expect KCB to record steady growth, boosted by:

1. **Expanding its Regional Footprint:** The strategic use of the NBK sale proceeds to bolster KCB Tanzania is a clear signal of this intent. KCB plans to continue its focus on growing its presence and market share in key East and Central African markets. This strategy is driven by the potential for higher growth rates in these emerging economies.

2. **Subsidiaries performance and contribution:** Subsidiaries outside KCB Bank Kenya contributed 33.4% of Group earnings and accounted for 31.4% of the balance sheet. Profit before tax from non-banking entities—KCB Investment Bank, KCB Asset Management, and KCB Bancassurance Intermediary Limited—rose to 2.1% from 1.8% in the same period last year.

3. **Enhancing Digital Capabilities:** Enhancing Digital Capabilities: KCB is intensifying its investment in technology to drive efficiency, improve customer experience, and expand fee-based income. With 99% of transactions by number now conducted through non-branch channels, the Group continues to strengthen its digital footprint. On August 11, 2025, KCB launched a unified mobile app for all Kenyan customers, introducing instant self-onboarding, AI-driven personalization, advanced data analytics, and a mini-app ecosystem. This scalable, agile, and inclusive platform is designed to capture the growing mobile-first customer base while deepening financial inclusion.

With these growth levers in place, the group is well-positioned for steady, long-term expansion.

Investment recommendation:

KCB'S wide regional footprint along with its well diversified portfolios of business and capital buffers position the lender to gain significant momentum in balance sheet growth across all subsidiaries driven by increased lending on the back of continued recovery in economic activities in the regions that it operates in.

At the current market price, the stock is trading below its fair value, which presents a value pick for long-term investors.

We expect the bank to continue generating long-term profitability supported by an aggressive lending strategy, subsidiaries' performance, and regional diversification.

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