HY 2020 Kenya Banks Earnings Update - KCB Group Plc

- KCB Group Ltd released its HY 2020 results reporting 40% decline in **Profit After Tax** (PAT) over HY 2019 to KES.7.6Bn from KES.12.7Bn caused by increased provisions in the wake of higher credit risk due to the COVID-19 pandemic.
- **Loans and Advances** up 17% year on year to KES.559.9Bn from KES.478.7Bn. This was a slow KES.6Bn growth compared to the end of Q1 2020 (March 2020) partially caused by a decline in mobile loans by 12% to KES.90.6Bn (HY 2019 -KES.103.1Bn).
- KCB Group has **restructured loan facilities** worth KES.101Bn to cushion customers against the effects of the pandemic.
- 73% of the restructured loans were corporate while loans restructured for the retail and mortgage segments accounted for 7% and 20% respectively.
- Investments in **Government Securities** increased by a significant 54% to KES.208.5Bn with all the investments recognized as held at amortized cost and Fair value through other comprehensive income.
- We expect this classification strategy to minimize potential losses in interest income that would be reported in the profit and loss accounts if the investments were held for dealing purposes in this period of falling interest rates.
- **Customer deposits** rose 35% to KES.758.2Bn over HY2019 on the back of onboarding new customers from acquisition of NBK.
- **Total Operating Income** - KES.45.0Bn equivalent to a 17% growth over the previous year with **Net interest income** expanding 22% to KES.31.1Bn **Non-Funded Income (NFI)** up 6% to KES.14.0Bn. Total fees and commissions marginally increased by 4.3% to KES.4.9Bn.
- **Interest Income** surged 23.2% to KES.41.4Bn mainly attributed to additional investment in government securities.
- **Total Operating expenses** increased 20% to KES.32.2Bn from KES.20.6Bn due to the NBK acquisition and staff costs that went up 13.5% to KES.10.1Bn from KES.8.9Bn.
- Loan loss provisions went up 266.7% from KES.3Bn to KES.11Bn to cover for potential loan losses arising from the pandemic.
- **Asset Quality - Non-Performing Loans** (NPLs) increased to KES.83.9Bn from KES.39.1Bn a direct result of consolidation with NBK which brought on board KES.25Bn in NPLs and heightened defaults associated with the pandemic. The group NPL Coverage also declined to 61.7% from 64.0% in HY2019.
- **Dividend-** The group did not declare an interim dividend. (HY 2019 - KES.1)

FY2020 Outlook

- Performance FY2020 will be significantly impacted by the pandemic that has seen economic performance dwindle across all the operating markets reducing customers' ability to service their loans and reducing the demand for credit.
- Synergies from the acquisition of NBK and the group-wide cost management drive are expected to mildly improve the operating expenses position in the second half of the year.
- We expect the group to continue investing in government securities to reduce potential losses brought about by lending to the retail sector.
- We anticipate additional capital to be injected to NBK that was below total capital requirement to ensure compliance and support the turnaround strategies and this will have a negative impact on the financials.
- We expect the stock price to remain subdued due to reduced profitability and lack of an interim dividend.

Attached, please find KCB Group Plc audited financial performance results HY2020