## Q3 2020 Kenya Banks' Earnings Update – NCBA Group Plc

- NCBA announced KES.2.5Bn in **Profit After Tax** Q3 2020, a 45.3% decline compared to KES.4.6Bn Q3 2019 largely attributable to an increase in operating expenses majorly caused by an upsurge in loan loss provisions.
- **Asset book** increased 90.9% to KES.519.2Bn mainly supported by 93.7% growth in the **loans and advances** to KES.249.7Bn coupled with a 120.2% growth in **holdings of government securities** to KES.151.4Bn.
- On the funding side, **customer deposits** increased 88.0% to KES.402.6Bn compared to KES.214.2Bn Q3 2019.
- **Total Interest Income** increased 107.3% on the back of 98.3% rise in interest income from loans and advances to KES.17.9Bn as well 131.0% increase in interest income from government securities to KES.12.6Bn.
- **Interest expense** rose by 94.9% to KES.14.2Bn compared to KES.7.3Bn Q3 2019, attributable to 103.1% cutback in interest costs on customer deposits.
- **Non-Funded Income (NFI)** up 58.7% to KES.16.1Bn (Q3 2019 – KES.10.2Bn) as a result of a 64.5% jump in foreign exchange trading income and an 85.5% increase in income from fees and commissions on loans and advances.
- **Loan loss provisions** went up 571.2% to KES.13.4Bn compared to KES.2.0Bn Q3 2019, resulting in a 165.6% increase in total operating expenses to KES.28.6Bn.
- **Asset Quality - Gross Non-Performing Loans (NPLs)** increased 162.6% to KES.38.4Bn from KES.14.6Bn due to increased customer defaults following the pandemic.
- Consequently**, Earnings Per Share (EPS)** declined to KES.1.65 from KES.16.01 over the same period in 2019.

### FY2020 Outlook

- We expect an overall decline in the bank's profitability FY2020 driven by provisioning for expected credit losses during the pandemic.
- NPLs remain a major issue from legacy accounts hence expect the bank's NPL ratio to further collapse due to defaults that are pegged on how quickly businesses are able to reopen.
- Risk of capital loss diminishes the bank's appetite for private sector lending. Credit risk is thus expected to worsen following an increase in loan loss provisions with this negatively impacting operating expenses.
- We anticipate the bank to adopt strategies to aid in cost management to mitigate the high operating expenses such as retrenchment of workers considering staffing costs spiked 58.7% Q3 2020.
- NCBA pulled its final dividend FY2019 of KES.1.50 per share and offered investors a bonus share issue of one for every 10 held instead. The bank is therefore likely to withhold dividend payments FY2020.
- However, it is not all gloom as NFI performed positively backed by digital platforms such as LOOP. We therefore expect the bank to focus on this kind of income to diversify its revenue streams.