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KCB Group Plc Records KShs.7.6B in Half Year Net Profit.

Performance impacted by Covid-19 pandemic as Bank raises provisions to cover increased credit risk.

KCB Group Plc posted KShs.7.6 billion in after-tax profits for the first six months of 2020, marking a 40% decline from the previous year. This was largely caused by increased provisions in the wake of higher credit risk due to the COVID-19 pandemic.

Commentary- Group CEO & MD.

“The second quarter was the toughest in our recent history as the pandemic hurt economic activity across markets. Most of the key sectors were nearly shut down and our customers continue to face unprecedented challenges,” said KCB Group CEO and MD Joshua Oigara.

“When the virus hit home in March, we made a commitment to look after our customers, staff and other stakeholders while pursuing business continuity. We intend to keep on this promise even under the current worsening operating environment,” said Mr Oigara.

Key Financial Highlights.

Performance Theme	Q2 2020	Q2 2019
Profitability	KShs.7.6B	KShs.12.7B
Total Assets	KShs. 953.1B	KShs.746.5B
Customer Deposit Growth	34.6%	7.3%
Net Loans Growth	17.0%	13.6%
Cost to Income Ratio	47.0%	45.7%
% of Non-Funded Income	31.0%	34.1%
% of NPLs	13.7%	7.8%

Cushioning Stakeholders against COVID-19 Impact.

In response to the pandemic, KCB Group has instituted a raft of interventions to cushion and support key stakeholders such as customers and employees. For the period under review, the Bank restructured facilities worth KShs. 101 billion to cushion customers against the effects of the crisis.

The debt-relief measures have seen customers apply for their loans to be restructured, credit lines expanded and loan tenures extended to keep them financially afloat. KCB has also waived fees associated with loan restructuring and those for mobile transactions below a thousand shillings.

Operating Income

According to the financials released on Wednesday, total operating income surged 17% to KShs. 45.0 billion in the period compared to KShs. 38.6 billion in June 2019. Net interest income was up 22% to KShs.31.1 billion from KShs.25.4 billion, riding on additional investments in Government securities and lending.

Non funded income was up 6% to KShs. 14.0 billion from KShs.13.2 billion, driven largely by revenues from the digital proposition, growth in the forex income and additional income from National Bank of Kenya, the newest subsidiary of KCB Group.

The continued focus on driving digital transactions saw the proportion of non-branch transactions rise to 98% up from 95% in Q2 2019 mainly driven by mobile, internet and agency banking.

Total operating expenses were up 20% on the back of the NBK acquisition. The synergies from the acquisition and the Group-wide cost management drive are expected to improve this position in the second half of the year.

The Group set aside Kshs. 11 billion as provision expense for potential loan losses that could crystalize as a result of the coronavirus pandemic, compared to KShs. 3 billion provision during a similar period last year.

Balance sheet Growth

Total Assets grew by 28% to KShs. 953.1 billion, funded by customer deposits and existing business growth. Net loans and advances grew 17% to close the period at KShs. 559.9 billion. On the funding side, customer deposits were up 35% to KShs. 758.2 billion.

Asset Quality

For the six months, the ratio of non-performing loans (NPLs) to total loan book increased to 13.7% from 7.8% in 2019, mainly due to consolidation of NBK and heightened defaults associated with the pandemic. The stock of NPLs increased to KShs.83.9 billion up from KShs 39.1 billion in 2019.

Shareholder Funds.

Shareholders' equity grew 12% from KShs. 117.5 billion to KShs. 132.1 billion. This was driven by the growth in retained earnings over the 12-month period to June 2020.

Capital Position

The Group maintained healthy buffers on its capital ratios over the minimum regulatory requirement. The Group's core capital as a proportion of total risk weighted assets closed the period at 17.9% against the Central Bank of Kenya statutory minimum of 10.5%. Total capital to risk-weighted assets stood at 19.5% against a regulatory minimum of 14.5%. All banking subsidiaries met regulatory capital requirement with the exception of NBK which was below total capital requirement. The Group plans to inject additional capital before the end of this year to ensure compliance and support the turnaround strategies expected to drive performance.

Outlook

"We project a continued strain on the business and economy in the remaining part of the year as the COVID-19 pandemic evolves. We will accelerate our support to customers, roll out cost management initiatives and seek avenues to boost efficiency though digitization to cushion the business from emerging pressures," said Mr Oigara.
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About KCB Group PLC

KCB Group Plc is East Africa's largest commercial Bank that was established in 1896 in Kenya. Over the years, the Bank has grown and spread its wings into Tanzania, South Sudan, Uganda, Rwanda, Burundi and Ethiopia (Rep). Further to the banking businesses in these markets, KCB Group owns National Bank of Kenya, a Kenyan lender. Today KCB Group Plc has the largest branch network in the region with 359 branches, 1,0825 ATMs and over 23,192 merchants and agents offering banking services on a 24/7 basis in East Africa. Additionally, KCB Group owns KCB Insurance Agency, KCB Capital Limited, KCB Foundation and Kencom House Limited as non-banking businesses. This is complemented by mobile banking and internet banking services with a 24hour contact center services for our customers to get in touch with the Bank. The Bank has a wide network of correspondent relationships totaling over 200 banks across the globe and our customers are assured of a seamless facilitation of their international trade requirements wherever they are.