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KCB Group Plc Posts 8% Surge in Q1 Net Profit to KShs 6.3B.

Revenues hold up as Bank boosts loan provisions, business performance to be impacted by COVID-19 pandemic

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KCB Group Plc. reported KShs.6.3 billion in profit after tax in the first quarter of 2020 ending March.

This was an 8% jump from the KShs. 5.8 billion posted a similar period last year, driven by stronger non-funded income lines and interest income boost due to loan book growth.

Key Financial Highlights

Performance Theme	Parameter	Q1 2019	Q1 2020
Profitability	Profit After Tax	KShs.5.8B	KShs.6.3B
	Net Interest Income to Total Income	67.8%	65.6%
	Non Funded Income Ratio	32.2%	34.4%
Leverage	Debt to Equity	18.0%	16.2%
Liquidity	Liquid Assets to Customer Deposits	35.4%	41.8%
	Liquid Assets to Total Assets	45.0%	32.7%
Asset and Liability Management	Total Liabilities to Total Assets	83.5%	85.7%
	Gross Advances to customer deposits	91.1%	80.6%
	Total Deposits to Total Assets	76.1%	78.2%
	NPL Coverage (IFRS)	60.8%	65.3%
Balance Sheet & Capital Position	Total Assets	KShs.725.7B	KShs.947.1B
	Total capital to risk-weighted assets(CBK min 14.5%)	19.5%	19.0%
	Core capital to total risk weighted assets- (CBK min 10.5%)	18.1%	17.1%

Commentary- Group CEO & MD.

KCB Group CEO and MD Joshua Oigara said the overall quarterly performance was however below expectations because of a tougher macroeconomic operating environment.

"The operating landscape has further been exacerbated by COVID- 19 immediately shifting our focus to supporting our customers through the crisis, pursuing business continuity and the safety and well-being of our staff and all other stakeholders," said Mr. Oigara.

"We expect performance in the next two quarters to be impacted as the crisis is affecting the ability of customers to service their loans and reducing the demand for credit. We have taken measures to conserve out capital, manage costs and keep a keen eye on liquidity," he added.

Operating Income

According to the financials released on Wednesday, total operating income rose 22% to KShs. 22.95 billion in the period compared to KShs.18.76 billion in Q1 2019. Net interest income was up 18% to KShs.15 billion from additional investments in Government securities and lending. Non funded income surged 31% to KShs.7.9 billion from KShs.6.1 billion, driven by digital banking, improved foreign exchange earnings and additional income from National Bank of Kenya, the newest subsidiary of KCB Group

The continued focus on driving digital transactions saw non branch transactions rise 97% up from 94% in Q1 2019 mainly driven by mobile, internet and agency banking. Non Branch volumes increased by 31% (KShs.445 billion compared to KShs.340 billion) while branch decreased by 8% on channel migration initiatives.

Cost Management

On the cost side, operating expenses increased 22% to KShs.11.1 billion, from KShs.9.1 billon on the back of NBK acquisition, increased depreciation in line with IFRS 16 and annual staff salary increments effected in Q1.

The Group posted a higher provision expense—from last year's KShs1.2 billion to KShs.2.9 billion—to cover for downgraded facilities, with an expected growth in defaults across key sectors of the economy attributable to the pandemic that has shaken the country's, regional and global economy.

Balance Sheet Growth

The Group's balance sheet remained strong, growing 31% from KShs.725.7 billion to KShs.947.1 billion, well within range of the KShs.1 trillion target by the end of 2022.

Customer deposits rose 34% to KShs.740.4 billion on the back of NBK acquisition and onboarding of new customers. Customers put in an additional KShs.53 billion into the Bank as deposits for the 3 months from December 2019. The loan book expanded to KShs.553.9 billion, a 19% growth from KShs.464.3 billion reported in Q1 2019.

Asset Quality

During the period, the ratio of non-performing loans to total loan book increased to 11.1%, mainly due to consolidation of NBK.

The stock of NPLs increased to KShs. 66.2 billion up from KShs 38.8 billion in 2019, following consolidation with NBK which brought on board KShs.25 billion in NPLs. The NPL portfolio is concentrated in trade, personal and real estate segments. The Group increased the NPL coverage to 65.3% from 60.8% in 2019

Shareholder Returns.

Despite the challenging environment, the business continued to generate good returns for its shareholders. Shareholders' funds closed the period at KShs.135.6 billion from KShs.119.5 billion in 2019, a 13% improvement.

KCB Group Plc will hold its 49th Annual General Meeting (AGM) for shareholders via electronic communication on Thursday June 4, 2020 from 10.00am in view of the ongoing COVID-19 pandemic and government guidelines on public gatherings.

Capital Position

According to the Q1 numbers, the Group maintained healthy buffers on its capital ratios over the minimum regulatory requirement. All banking subsidiaries met regulatory capital requirement with the exception of NBK which was below total capital requirement. The Group has been injecting capital in a bid to improve its compliance and expected improved performance due to turn around strategies expected to bridge the deficit.

The Group's core capital as a proportion of total risk weighted assets closed the period at 17.1% against the Central Bank of Kenya statutory minimum of 10.5%. Total capital to risk-weighted assets stood at 19.0% against a regulatory minimum of 14.5%.

Outlook

"We are taking all the necessary precautions to safeguard the safety and well-being of our customers, staff and the general public in the wake of the pandemic. We expect our performance to be negatively impacted by the outbreak as business has been disrupted in all our markets. The crisis has taken toll on all segments of our customers, effectively suppressing demand for credit" said Mr Oigara.

"We are recalibrating our business to focus more on digital banking and excellence in customer experience to give our clients the best service under the current difficult circumstances" he added.

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For further information, please contact Judith Sidi Odhiambo-Group Head of Corporate & Regulatory Affairs; email: jsodhiambo@kcbgroup.com

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 has added to its Kenyan banking subsidiaries National Bank of Kenya, a listed lender. Today KCB Group Plc has the largest branch network in the region with 342 branches, 1,055 ATMs and over 23,302 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.