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Press Release **March 12, 2020**

KCB Group Plc FY 2019 Profit after Tax up 5% to KShs.25.2B.

Improved profitability and shareholder returns driven by loan growth, non-funded income, cost management and NBK acquisition.

KCB Group Plc. delivered improved profitability and higher returns to shareholders for the full year ended December 2019, posting a 5% jump in profit after tax to KShs.25.2 billion.

Net earnings increased from KShs. 24 billion in 2018 on the back of loan book growth, non-funded income from the digital banking and cost management initiatives across the business.

Key Financial Highlights

	Performance Measure 2019 vs 2018
Profitability	• Net Profit – Up 5% to KShs.25.2B from KShs 24.0B • Total Operating Income- Up 17% from KShs.71.8B to KShs.84.3B
Operational Efficiency	• Operating Expenses (excl provisions)- up 10.0% from KShs.35.0B to KShs. 38.5B. • Cost to Income Ratio (excl. provisions) – 45.7% • Cost of Funds- 2.8% from 3.2%
Balance Sheet Position	• Total Assets- up 25.8% from KShs.714.3B to Kshs. 898.6B • Total capital to risk-weighted assets- 19.0% (CBK min 14.5%) • Core capital to total risk weighted assets- 17.2% (CBK min 10.5%)
Key Ratios	• Non Funded Income 33.4% from 32% • Return on Equity -20.7% • NPL Coverage- (IFRS)- 72.1% from 68.6% • Liquidity Ratio- 37.1% from 33.3%

Group CEO Review

KCB Group CEO and MD, Joshua Oigara said the business remained resilient despite the challenging economic conditions witnessed in the various markets and the wider global economy.

“The East African region continued to face various downside risks that ranged from adverse weather patterns to stress from currency fluctuations and the pressure from oil imports” he said while releasing the results in Nairobi on Thursday. “All business lines were strong on both funded and non-funded income as cost control, operational efficiency and driving excellent customer experience remained a top priority,” said Mr. Oigara.

Both the Kenya business and the international subsidiaries delivered strong income growth. Acquisition of National Bank of Kenya (NBK)—a transaction that was finalized in the last quarter of 2019— solidified the Group’s base from a revenue and balance sheet position.

Income Growth

Total income increased 17% to KShs.84.3 billion while operating expenses grew much slower by 10%, resulting in an improved cost to income ratio of 45.7%, compared to 48.7% the previous year.

Net interest income expanded 15% to KShs. 56.1 billion from KShs. 48.8 billion primarily due to a 17% growth in loan book, digital lending and additional interest income from NBK. Fees and commissions surged 39% to KShs. 19.8 billion on diversified income streams.

The Digital Bank

Enhanced investments in digital channels pushed non funded income up 22.6% to KShs.28.2 billion from KShs.23.0 billion in 2018.

“Our investments in diversified channels are giving our customers a means to access banking services conveniently, at a competitive prices and in line with our purpose of simplifying their world to enable their progress” said Mr Oigara.

During the year under review, the number of non-bank transactions increased to 97% with a majority of them conducted via mobile devices. Mobile loans advanced increased to KShs. 212 billion from KShs. 54 billion in 2018. The cumulative disbursement via mobile over the past five years totaled to KShs. 319 billion.

Cost Management and Efficiency

At KShs. 38.5 billion, total pre-provision operating expenses were relatively contained due to cost efficiency measures, growing from KShs. 35.0 billion, largely driven by staff costs which went up 13.4% in part due to the acquisition of NBK.

Balance Sheet Growth: The Ksh1 trillion Goal

KCB maintained its lending pattern in 2019, growing assets base despite lower asset yield, observed in the key market—Kenya— due to reduction of the benchmark lending rate.

Total assets surged 26% to KShs.899 billion from KShs. 714 billion in 2018. The key drivers for this growth were the loan book growth of 17 % to KShs 535.4 billion— reflecting the strong lending pipeline primarily driven by retail and corporate banking customer segment—and the customer deposits growth of 28% to KShs. 686.6 billion. The main driver for this growth was acquisition of NBK.

Credit Quality

The ratio of non-performing loans to total loan book increased to 10.9% (7.4% excl. NBK), well below the industry average of 12.0%. As a result, provisions for impairment increased to KShs. 8.9 billion from KShs.2.9 billion. The key sectors driving this deterioration in asset quality were trade, tourism and manufacturing sectors within the corporate banking book and on the mobile loan portfolio.

The stock of NPLs increased to KShs. 63.4 billion (KShs. 38.2 billion excluding NBK) up from KShs 32.7 billion in 2018, following consolidation with NBK.

Shareholder Returns

Overall, the business continued to generate good returns for its shareholders averaging a return on equity of 20.7% in 2019. Shareholders' equity was up 14.1% from KShs113.7 billion to KShs.129.7 billion.

KCB distributed part of the profit by way of an interim dividend of KShs 1.0 per share in the course of 2019. The KCB Group Board has proposed a final dividend of KShs. 2.5 per share to be presented to shareholders in the Annual General Meeting to be held in May this year.

Capital Position

KCB 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. This is expected to be addressed within the first half of 2020 through various initiatives at NBK.

The Group's core capital as a proportion of total risk weighted assets closed the period at 17.2% 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

Last year represented a significant period with the maturity of the Group's 2015-2019 Strategic Plan which was anchored on customer experience, network spread, youth agenda, digital financial services, new businesses, robust IT platform, and strategic partnerships. This year marks the start of our new 3-year strategic cycle.

Going forward, the business outlook for the year remains positive, with significant gains expected following the removal of the cap on interest rates in November 2019.

"The banking sector is seeing heightened regulatory scrutiny, increased competition, amplified adoption of digital banking, and shifting economic environment across the East African region. In the face of these shifts, we have positioned ourselves and tapped into opportunities presented as we navigate past the challenges. We are focused on deepening our contribution towards financial deepening and economic development," said the KCB Group Chairman, Andrew Kairu. **<Ends>**

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.

Accolades

Beyond financial performance, KCB was also feted with several accolades locally and globally. KCB Bank was named as the Best Bank in Kenya and the Region's Best Bank for SMEs during the Euromoney Awards for Excellence 2019. The Euromoney Awards for Excellence are recognized as the most prestigious in the financial services industry globally. KCB Bank was also named; Best Bank by Global Finance Best Bank Awards; Best Digital Transformation in Online Banking and Best CSR Initiative Awards by Global Business Outlook; Best Regional Bank and Best Innovation Bank by Africa Banker Awards and the Most Admired Financial Services Award by Brand 100. In recognition of our initiatives to provide stellar customer experience, KCB also was won Gold Awards for Best Customer Experience Team, Customer Experience Leadership as well as Best Digital Strategy at the 2019 International Customer Experience.