



### KCB Group vs Equity Group: 3Q24 Earnings.

Dear All,

KCB Group and Equity Group recently released their 3Q24 results. This is a summary comparing two of the biggest banking Groups in Kenya highlighting both their strengths and weaknesses.

Below please find key highlights:

**Profitability:** KCB Group reported a higher growth in after tax profits (+49.0% y-o-y to KES 45.8 BN) in comparison to Equity Group (+13.1% y-o-y to KES 40.9BN) in 3Q24.

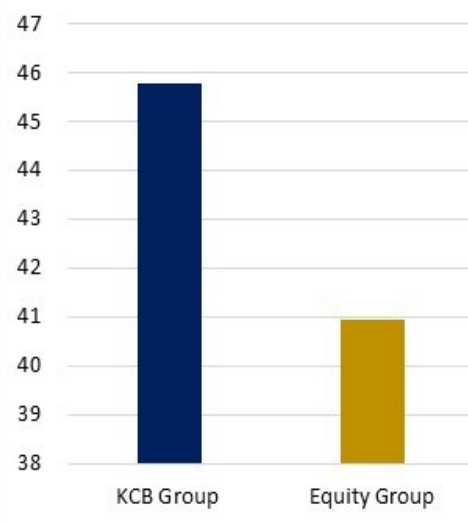
**Loan Book:** KCB Group reported a marginal growth in its loan book of 0.5% y-o-y to KES 1.1 TN while Equity's loan book a shrunk by 5.4% y-o-y to KES 800.1 BN.

**Investment in Government Securities:** Equity Group increased it's investment in government securities by 5.2% y-o-y to KES 468.1 BN while KCB reduced its investment in government securities by 1.7% y-o-y to KES 365.0 BN.

**Customer Deposits:** Equity Group customer deposits grew by 9.0% y-o-y to KES 1.3 BN while KCB customer deposits contracted by 7.1% y-o-y to KES 1.5 BN.

**Non-performing Loans (NPLs):** KCB's Gross NPL increased by 15.1% y-o-y to KES 215.3 MN while Equity's gross NPL increased marginally by 0.7% y-o-y to KES 125.3 MN. This led to KCB's NPL Ratio increasing by 183 bps y-o-y to 17.0% while Equity's NPL ratio increased by 71 bps y-o-y to 13.5%. Equity Group still has a better NPL Ratio in comparison to KCB Group.

Profits After Tax (KES BNs)



Source: Company

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## Profitability

**KCB Group** reported a higher growth in after-tax profits (+49.0% y-o-y to KES 45.8 BN) in comparison to **Equity Group** (+13.1% y-o-y to KES 40.9BN) in 3Q24.

The improvement in the financial performance of KCB Group was contributed by a 18.3% y-o-y rise in non-funded income to KES 50.1 BN and a 23.9% y-o-y upswing in net interest income to KES 92.8 BN. Equity Group's profitability growth was backed by an 11.0% y-o-y increase in net interest income to KES 80.6 BN and a 5.8% y-o-y growth in non-funded income to KES 61.1 BN.

Equity Group's profitability was mainly supported by lower provisioning in 3Q24 with operating profit edging down by 1.8% to KES 63.7 BN.

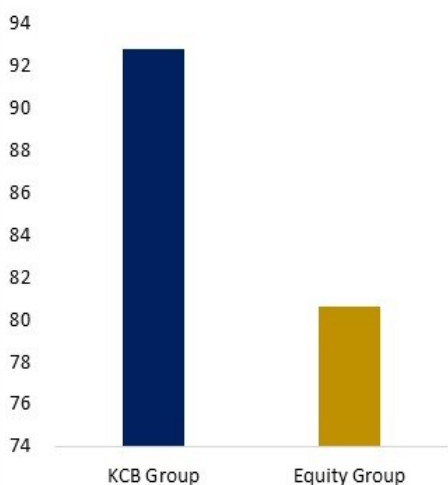
## Net Interest Income

**KCB Group's net interest income inched higher by 23.9% y-o-y to KES 92.8 BN**, led by a 30.8% y-o-y growth in total interest income to KES 149.0 BN against a 44.0% y-o-y advancement in total interest expenses to KES 56.2 BN. This translated into the group having yield on interest earning assets of 11.0% and a cost of funds of 4.4% resulting in a net interest margin (NIM) of 6.7%.

**Equity Group's net interest income advanced by 11.0% y-o-y to KES 80.6 BN**, characterized by a 13.3% y-o-y growth in total interest income to KES 125.9 BN against a 17.7% y-o-y rise in total interest expenses to KES 45.3 BN. The annualized yield on interest earning assets rose by 14 bps y-o-y to 11.5% while the annualized cost of funds rose by 26 bps y-o-y to 4.4% resulting in a NIM of 7.1% (3Q23: 7.2%)

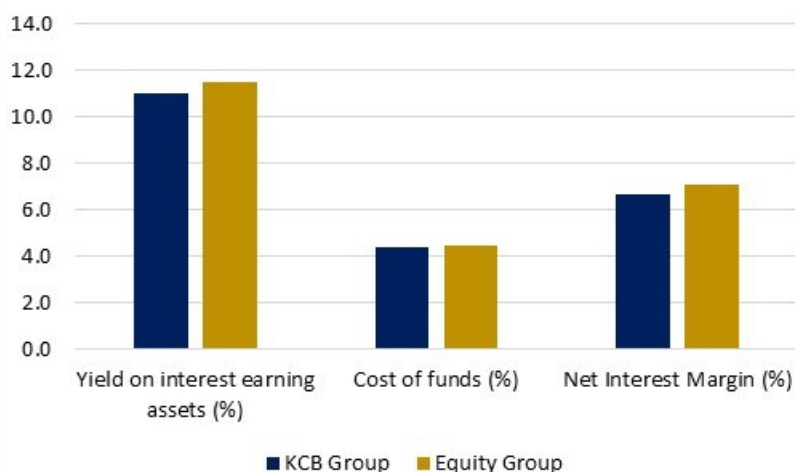
Equity Group therefore registered a higher NIM of 7.1% in comparison to KCB Group's of 6.7% in 3Q24.

Net Interest Income  
(KES BNs)



Source: Company

Annualized NIMs 3Q24 (%)



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## Loan Book

**KCB Group** net loans and advances to customers rose by 0.5% y-o-y to KES 1.1 TN (+2.0% q-o-q) while **Equity Group's** net loans and advances eased by 5.4% y-o-y to KES 800.1 BN (+1.1% q-o-q).

KCB Group still has the biggest loan book among all listed banks and the only loan book above KES 1.0 TN in value.

## Investment in Government Securities

**KCB Group's** government and investment securities decreased by 2.7% y-o-y to KES 361.1 BN (+1.1% q-o-q) while **Equity's** government and investment securities increased by 5.2% y-o-y to KES 468.1 BN (+1.9% q-o-q)

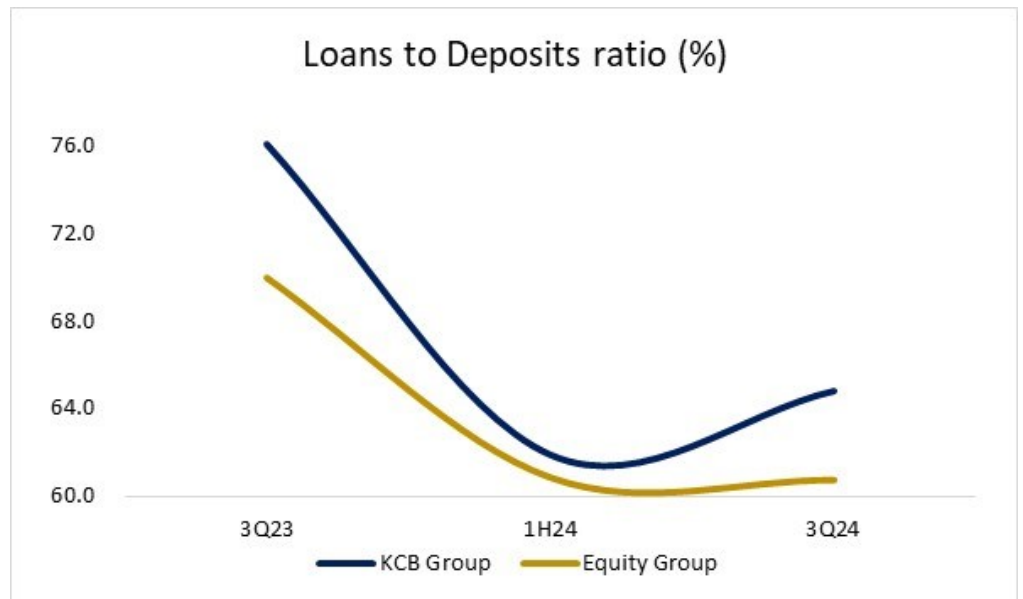
## Funding

On the funding side, **Equity Group's customer deposits** improved by 9.0% y-o-y to KES 1.3 TN (+1.3% q-o-q) while borrowed funds decreased by 38.3% y-o-y to KES 75.1 BN (-27.3% q-o-q). **KCB Group** on the other hand registered a decrease in customer deposits by 7.1% y-o-y to KES 1.5 TN (+3.2% q-o-q) while borrowed funds dropped by 45.6% y-o-y to KES 58.3 BN (-0.8% q-o-q).

**Equity Group loan-to-deposit ratio** declined by 923 bps y-o-y to 60.8% while the ratio of loans to customer deposits & borrowed funds went down by 610 bps y-o-y to 57.5%. **KCB Group loan-to-deposit ratio** increased by 539 bps y-o-y to 67.3% while the ratio of loans to customer deposits & borrowed funds went up by 655 bps y-o-y to 66.0%.

Equity's lower loan-to-deposit ratio confirms the Group's higher liquidity in comparison to KCB Group. As at 3Q24, Equity Group's liquidity ratio stood at 55.0%, 780 bps higher than KCB Group's liquidity ratio of 47.2%.

On the other hand, KCB Group's higher loan to deposit ratio suggests a higher lending intensity and deposit mobilization which maximizes interest income in comparison to Equity Group. This is backed by KCB Group's loans and advances growing by 0.5% y-o-y to KES 1.1 TN (+2.0% q-o-q) .

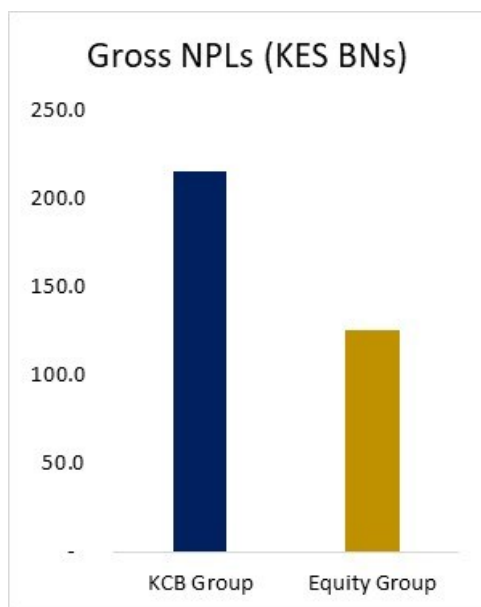


Source: Company

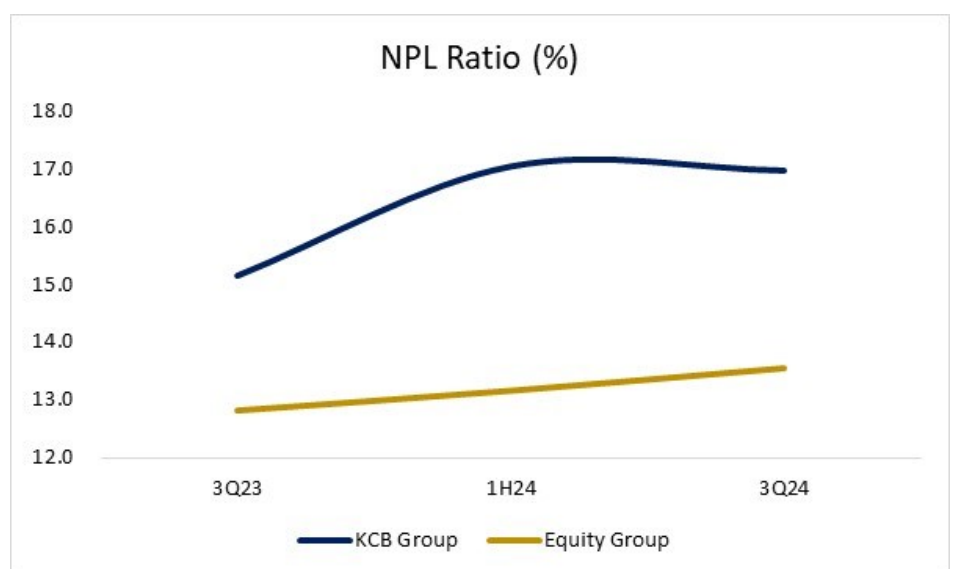
### Non-performing Loans

KCB's Gross NPLs increased by 15.1% to KES 215.3 MN while Equity's gross NPLs increased marginally by 0.7% to KES 125.3 MN. This led to KCB's NPL Ratio increasing by 183 bps to 17.0% while Equity's NPL ratio increased by 71 bps to 13.5%. Equity Group still has a better NPL Ratio in comparison to KCB Group y-o-y.

In 3Q24, Equity Group's loan loss provision decreased by 33.2% to KES 12.7 BN while KCB Group increased their loan loss provision by 12.2% to KES 17.8 BN mainly due to more lending. In the future, KCB Group can reduce provisions at a faster rate hence has room to grow its bottom line.



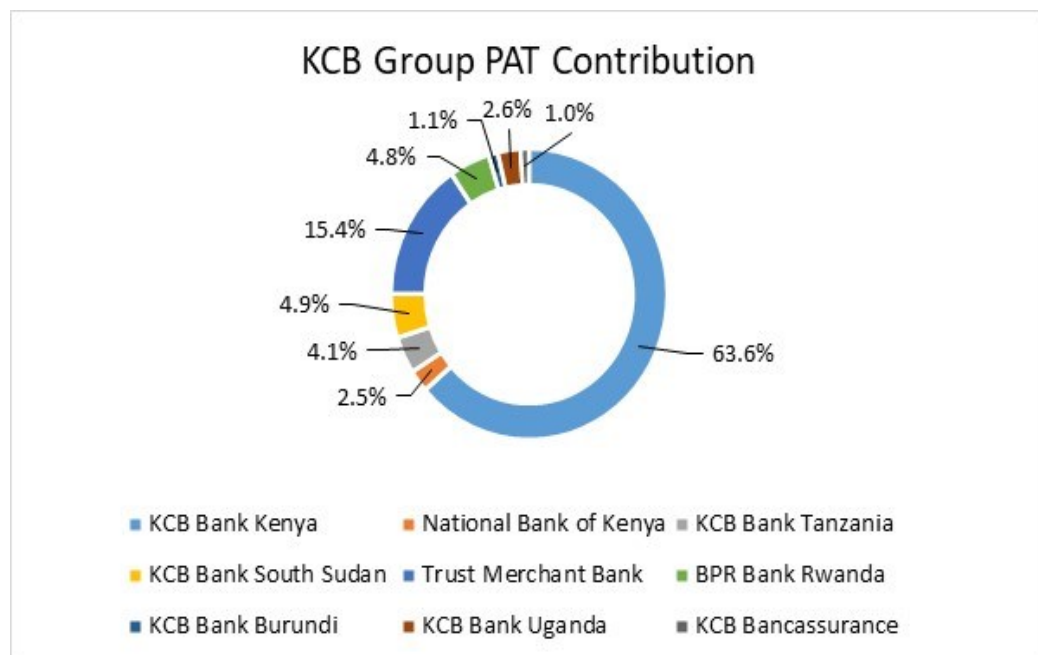
Source: Company



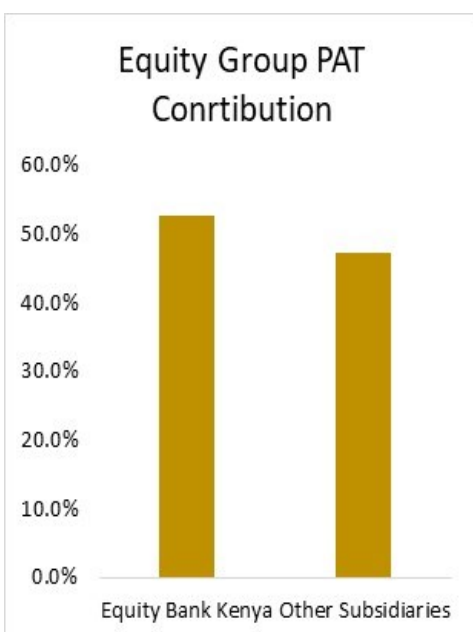
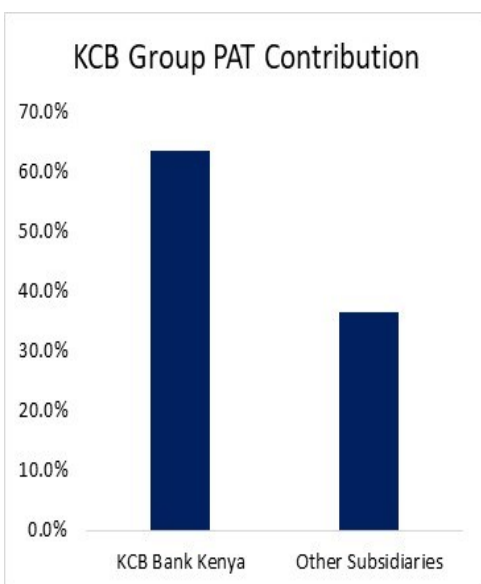
Source: Company

## Subsidiary Performances

KCB Group recorded improvements in profit after tax across all subsidiaries with the KCB Bank Kenya contributing 63.4% of the Group's profit in 3Q24 and all other regional subsidiaries contributing 36.6%. KCB Group still mainly relies on KCB Bank Kenya for its profits. The best performing regional subsidiary was Trust Merchant Bank (TMB) from DRC which contributed 15.4% to the Group's profitability. The sale of National Bank of Kenya (NBK) to Access Bank is also in progress with regulatory approvals currently on course.



Equity Group recorded improvement in profit after tax with Equity Bank Kenya contributing 52.8% of the Group's profit in 3Q24 and all other regional subsidiaries contributing 47.2%. Equity Group has a healthier reliance in terms of profit contribution between its Kenyan subsidiary and regional subsidiaries. The insurance subsidiary reported a 180.8% y-o-y increase in profits before tax (PBT) to KES 1.1 BN.



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## Capital Ratios

**KCB Group's core capital ratio (core capital/TRWA) increased by 200 bps y-o-y to 16.5%** above the statutory minimum of 10.5% while total capital/TRWA went up 150 bps y-o-y to 19.3% above the statutory minimum of 14.5%. **KCB Bank Kenya's core capital ratio (core capital/TRWA) increased by 240 bps y-o-y to 13.2%** above the statutory minimum of 10.5% while total capital/TRWA went up by 1800 bps y-o-y to 16.7% above the statutory minimum of 14.5%. The Group's liquidity ratio declined to 47.2% (3Q23: 50.3%) while KCB Bank Kenya's liquidity ratio increased by 560 bps y-o-y to 42.2% (3Q23: 47.8%).

	Group	Min.	KCB KN	Min.
Core capital ratio (%)	16.5	10.5	13.2	10.5
Total capital ratio (%)	19.3	14.5	16.7	14.5

*Source: Company*

**Equity Group's core capital ratio (core capital/TRWA) increased by 70 bps y-o-y to 15.9%** above the statutory minimum of 10.5% while total capital/TRWA went down 90 bps y-o-y to 18.3% above the statutory minimum of 14.5%. **Equity Bank Kenya's core capital ratio (core capital/TRWA) increased by 60 bps y-o-y to 15.8%** above the statutory minimum of 10.5% while total capital/TRWA went down by 140 bps y-o-y to 18.7% above the statutory minimum of 14.5%. The Group's liquidity ratio improved to 55.0% (3Q23: 49.7%) while Equity Bank Kenya's liquidity ratio increased by 3,150 bps y-o-y to 76.1% (3Q23: 44.6%).

	Group	Min.	KCB KN	Min.
Core capital ratio (%)	15.9	10.5	15.8	10.5
Total capital ratio (%)	18.3	14.5	18.7	14.5

*Source: Company*

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## Conclusion

**In terms of profitability,** KCB Group posted a 49.0% y-o-y growth in after-tax profits for KES 45.8 BN which was higher than Equity Group which registered a 13.1% y-o-y growth in after-tax profits to KES 40.9 BN. Despite this, Equity group had a better Net Interest Margin (NIM) of 7.1%, higher than KCB Group's 6.7%.

Both Group's recorded a deterioration in **asset quality** with KCB's NPL Ratio increasing by 183 bps to 17.0% while Equity's NPL ratio increased by 71 bps to 13.5%. Equity Group still has a better asset quality than KCB Group due to its lower NPL Ratio. Both Groups NPL Coverage ratios also increased y-o-y with KCB Group NPL coverage ratio rising by 995 bps to 57.9% and Equity Group's NPL Coverage ratio rising by 227 bps to 45.9%.

KCB Group still majorly relies on its Kenyan Subsidiary for most of its profits with KCB Kenya contributing 63.4% of its 3Q24 after-tax profits. Equity group has divested away from the Kenyan unit and has a more healthier contribution of 52.8% coming from Equity Bank Kenya in after-tax profits. KCB Group is looking to finalize the sell National Bank of Kenya in 1Q25 and investors can expect some of the windfall of the sale through dividends.

In 3Q24, KCB Group outperformed Equity Group in most metrics especially profitability. Equity Group still boasts a better asset quality but KCB Group has a higher NPL Coverage ratio hence it is better equipped to cover its Non-performing loans. We expect both Groups to payout healthy dividends in full year but the prospect of the NBK sale gives KCB Group a better futuristic payout once the sale is completed.

## KCB GROUP PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	3Q24	3Q23	y-y% ch
Interest income	149,033	113,925	30.8
Interest expense	56,235	39,051	44.0
Net interest income	92,798	74,874	23.9
Other operating income	5,270	6,085	(13.4)
Fees and commission income	31,115	28,111	10.7
Net income from forex dealings	13,762	8,192	68.0
Total non-interest income	50,148	42,388	18.3
Total income	142,946	117,262	21.9
Less operating expenses	67,732	60,819	11.4
Operating profit	75,214	56,443	33.3
Bad debt charge	(17,781)	(15,849)	12.2
Exceptional items	-	-	-
Profit before tax	57,432	40,594	41.5
Less tax	(11,672)	(9,873)	18.2
Profit after tax	45,761	30,721	49.0
Attributable Income	44,503	29,929	48.7
EPS (KES)	18.99	12.75	48.9

(Source: Company, DBIB Research)

## KCB GROUP BALANCE SHEET SUMMARY (KES MN)

Year End: December	3Q24	1H24	3Q23	y-y % ch	q-q % ch
Total shareholder's equity	248,953	241,007	218,819	13.8	3.3
Minority interest	7,655	7,247	7,274	5.2	5.6
Total Equity	256,608	248,253	226,093	13.5	3.4
Deposits due to other banks	26,394	34,569	36,121	(26.9)	(23.6)
Customer deposits	1,538,432	1,490,593	1,656,370	(7.1)	3.2
Borrowed funds	58,320	58,801	107,303	(45.6)	(0.8)
Other liabilities	113,302	144,640	73,654	53.8	(21.7)
Total equity and liabilities	1,993,055	1,976,856	2,099,541	(5.1)	0.8
Central bank balances	84,105	82,608	103,997	(19.1)	1.8
Deposits due from banks	333,749	357,137	426,035	(21.7)	(6.5)
Investment securities	361,111	357,065	371,274	(2.7)	1.1
Held for dealing securities	3,915.70	-	-	-	-
Customer loans and advances	1,053,199.39	1,032,170	1,047,866	0.5	2.0
Other assets	118,793	109,894	100,080	18.7	8.1
Intangible assets	14,649	15,291	18,011	(18.7)	(4.2)
Fixed assets	23,532	22,690	32,279	(27.1)	3.7
Total assets	1,993,055	1,976,856	2,099,541	(5.1)	0.8
Total assets	1,996,196	2,170,874	1,630,604	22.4	(8.0)

(Source: Company, DBIB Research)

## KCB GROUP INVESTMENT RETURN

	3Q24	1H24	3Q23	y-y bps ch	q-q bps ch
ROA (%)*	3.1	3.0	2.0	111	3
ROIC (%)*	3.3	3.3	2.1	123	(4)
ROE (%)*	23.1	24.1	17.6	547	(98)

(Source: Company, DBIB Research)

\*Annualized



## EQUITY GROUP PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	3Q24	3Q23	y-y% ch
Interest income	125,931	111,128	13.3
Interest expense	45,345	38,524	17.7
Net interest income	80,586	72,605	11.0
Other operating income	11,908	7,379	61.4
Fees and commission income	40,006	36,522	9.5
Net income from forex dealings	9,237	13,899	(33.5)
Total non-interest income	61,152	57,801	5.8
Total income	141,737	130,405	8.7
Less operating expenses	78,032	65,508	19.1
Operating profit	63,705	64,897	(1.8)
Bad debt charge	(12,683)	(18,990)	(33.2)
Exceptional items	-	-	-
Profit before income tax	51,022	45,907	11.1
Less tax	(10,081)	(9,703)	3.9
Profit after tax	40,941.6	36,204	13.1
Attributable Income	39,287	34,589	13.6
EPS (KES)	10.41	9.17	13.5

(Source: Company, DBIB Research)

## EQUITY GROUP BALANCE SHEET SUMMARY (KES MN)

Year End: December	3Q24	1H24	3Q23	y-y % ch	q-q % ch
Total shareholder's equity	216,937	211,079	183,922	18.0	2.8
Minority interest	10,103	9,435	9,287	0.0	7.1
Total Equity	227,040	220,515	193,209	17.5	3.0
Deposits due to other banks	13	22	877	(98.5)	(41.5)
Customer deposits	1,316,829	1,299,484	1,207,698	9.0	1.3
Borrowed funds	75,126	103,313	121,774	(38.3)	(27.3)
Other liabilities	84,106	122,697	167,596	(49.8)	(31.5)
Total equity and liabilities	1,703,114	1,746,030	1,691,154	0.7	(2.5)
Cash & Central bank balances	95,535	115,113	103,020	(7.3)	(17.0)
Deposits due from banks	199,927	225,896	159,666	25.2	(11.5)
Investment securities	468,136	459,220	445,177	5.2	1.9
Held for dealing securities	-	-	-	-	-
Customer loans and advances	800,140	791,117	845,919	(5.4)	1.1
Other assets	101,262	116,794	100,195	1.1	(13.3)
Intangible assets	15,373	15,487	14,723	4.4	(0.7)
Fixed assets	22,741	22,404	22,455	1.3	1.5
Total assets	1,703,114	1,746,030	1,691,154	0.7	(2.5)

(Source: Company, DBIB Research)

## EQUITY GROUP INVESTMENT RETURN

	3Q24	1H24	3Q23	y-y bps ch	q-q bps ch
ROA (%)	3.2	2.9	2.9	35	29
ROIC (%)	3.4	3.2	3.2	20	24
ROE (%)	23.1	24.1	23.9	(80)	(105)

(Source: Company, DBIB Research)

\*Annualized

## OPERATING PERFORMANCE

	<b>KCB Group</b>	<b>Equity Group</b>
Yield on interest earning assets (%)*	11.0	11.5
Cost of funds (%)*	4.4	4.4
Net Interest Margin (%)*	6.7	7.1
Yield on Loans (%)*	13.2	12.9
Yield on Government Securities (%)*	13.7	12.4
Cost of Customer deposits (%)*	3.4	3.6
Loan-to-Deposits ratio (%)	67.3	60.8
Loan-to-Dep.&Borrowed Funds ratio (%)	64.9	57.5
Funded Income Reliance (%)	64.9	56.9
NFI contribution to total income (%)	35.1	43.1
Cost to income ratio (%)	47.4	55.1
Cost of Risk (%)*	2.3	2.1
Pre-tax margin (%)	40.2	36.0
PAT margin (%)	32.0	28.9

*(Source: Company, DBIB Research)*

*\* Annualized*

## APPENDIX

### COMPANY INVESTMENT RATINGS

**Buy:** Share price may generate more than 15.0% upside over the next 12 months

**Overweight:** Share price may generate between 5.0% and 15.0% upside over the next 12 months

**Hold:** Share price may fall within the range of <+5.0/ -10.0% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels. Company fundamentals however remain strong

**Underweight:** Share price may generate between 10.0% and 15.0% downside over the next 12 months

**Sell:** Share price may generate more than 15.0% downside over the next 12 months, significant business and/or financial risks present, industry concerns

**Not Rated:** Counter is not within regular research coverage

### SECTOR INVESTMENT RATINGS

**Overweight:** Industry performance better than that of the whole market

**Equal weight:** Industry performance about the same as that of the whole market

**Underweight:** Industry performance worse than that of the whole market

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