



# KCB Group Q1 2026 Earnings Note

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# Summary



Normalised share price movement of KCB Group vs bank stocks and the market.



Source: Bloomberg

Last Price – 4 <sup>th</sup> June 2026 in KES	69.50
Valuation Estimate in KES :	83.25
<b>Upside</b>	<b>19.8%</b>
<b>Recommendation</b>	<b>BUY</b>
52-Week High	80.50
52-Week Low	42.70
52-Week Price Return	84.6%
<b>Year-to-Date Price Return</b>	<b>12.8%</b>
Price to Earnings Ratio (P/E)	3.34
Price to Book Ratio (P/B)	0.65

Source: Bloomberg and Faida Analysis

We recommend a **BUY** on **KCB Group** with a fair value of KES 83.25, representing an **upside of 19.8%** on 4<sup>th</sup> June 2026 closing price of KES 69.50.

This recommendation is underpinned by the Group's resilient earnings growth, improving asset quality, strengthened loan loss coverage, and enhanced operational efficiency. The Group's planned entry into Ethiopia presents a compelling growth opportunity, offering exposure to a large underserved market with significant banking sector potential. Although macroeconomic uncertainties, currency pressures, rising inflationary risks, and geopolitical developments may pose challenges in the near term, KCB's diversified business model, strong capital buffers, and strategic growth initiatives position it well to deliver sustainable earnings growth and attractive shareholder returns over the medium term.

# Interest Income



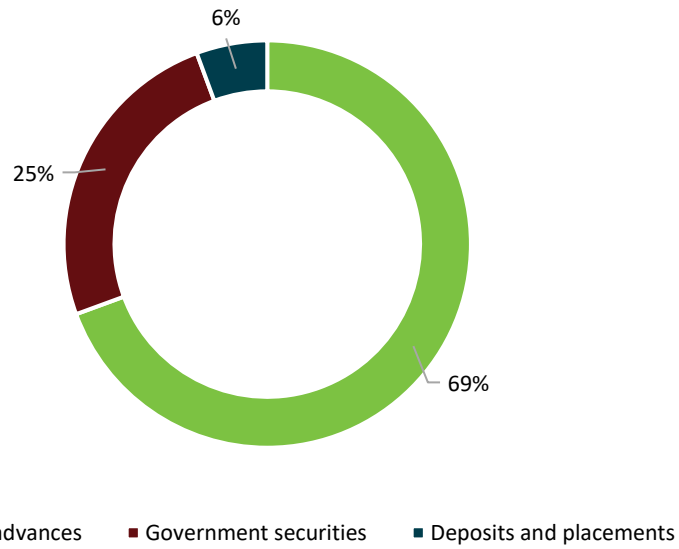
Interest income rose by 2.1% to KES 51.3 billion in Q1 2026 from KES 50.2 billion in Q1 2025, an increase of KES 1.1 billion.

Income from government securities grew by 4.3% to KES 12.8 billion from KES 12.3 billion, a rise of KES 524.2 million.

Income from loan and advances saw a modest 0.3% increase to KES 35.6 billion from KES 35.5 billion in Q1 2025.

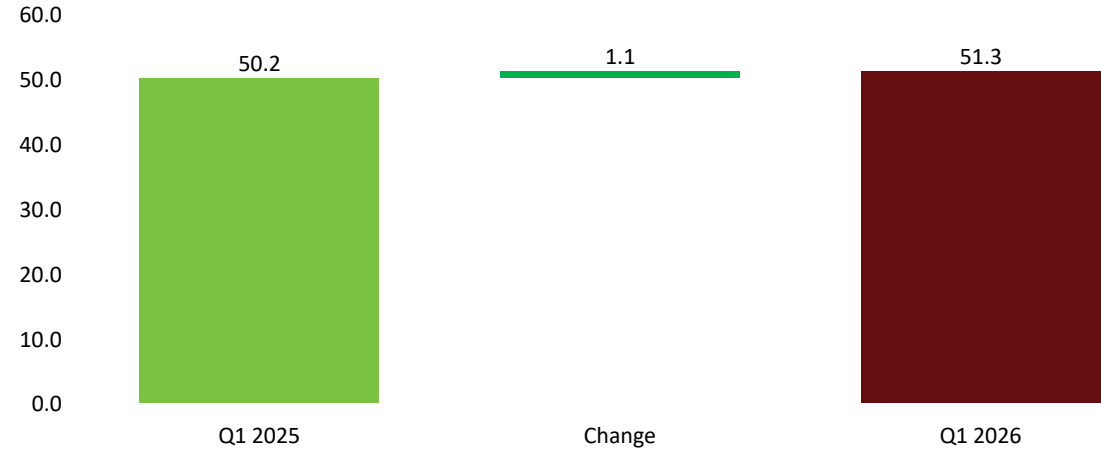
Deposits and placements advanced by 17.6% to KES 2.9 billion from KES 2.5 billion.

Interest income composition in Q1 2026



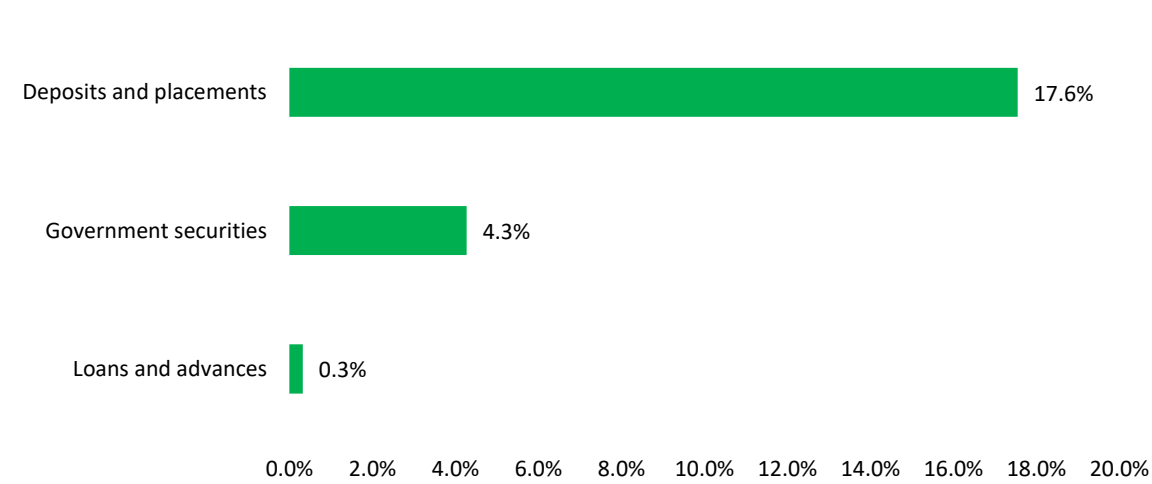
Source: Company Financials

Development in interest income (KES billions)



Source: Company Financials

Interest income growth rate (%)



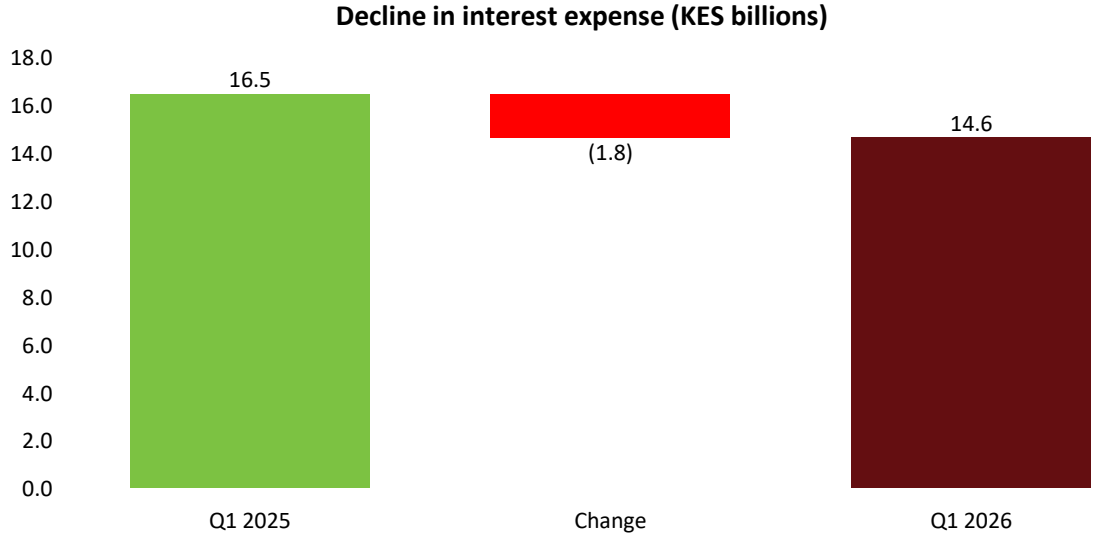
Source: Company Financials

# Interest Expense

Total interest expense declined by 11.1% to KES 14.6 billion in Q1 2026 from KES 16.5 billion in Q1 2025, a reduction of KES 1.8 billion. This was largely driven by a sharp 11.5% decline in interest on customer deposits to KES 11.4 billion from 12.9 billion, a decrease of KES 1.5 billion.

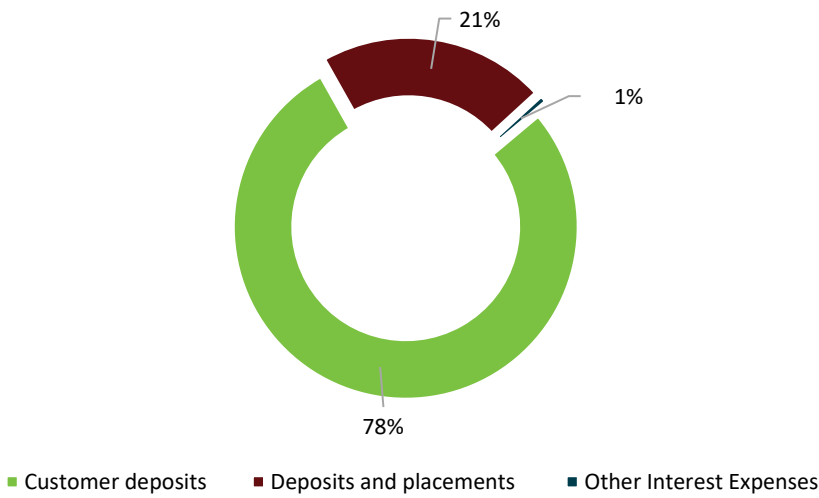
Interest on deposits and placements with banking institutions fell by 9.6% to KES 3.1 billion from KES 3.5 billion in Q1 2025.

Other interest expenses edged down by 6.9% to KES 101.4 million from KES 109.0 million.

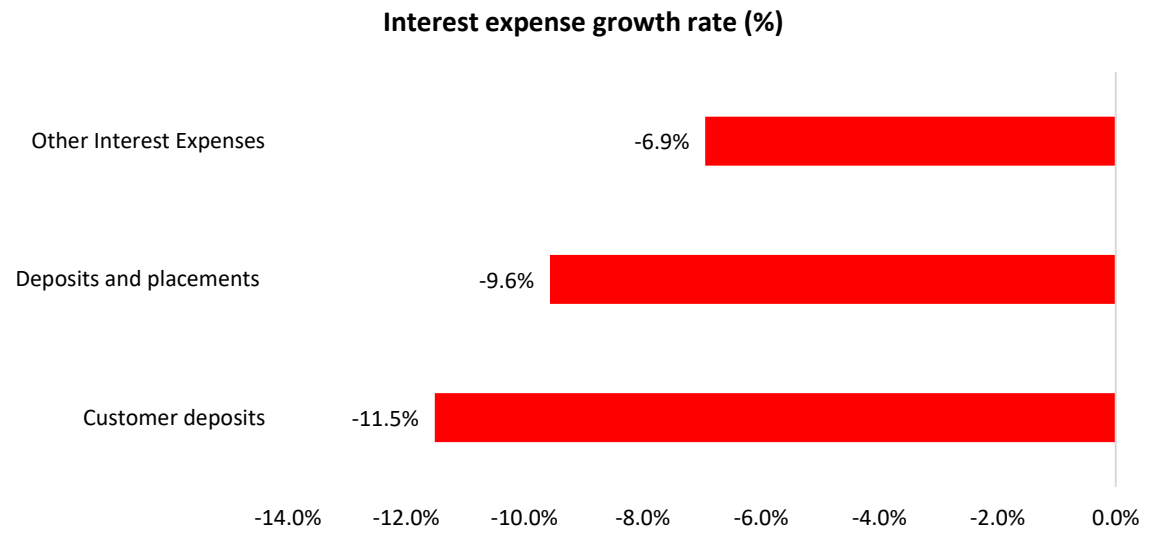


Source: Company Financials

Interest expense composition in Q1 2026



Source: Company Financials



Source: Company Financials

# Net Interest Income & Non-funded income



Net interest income (NII) grew by 8.6% to KES 36.6 billion in Q1 2026 from KES 33.7 billion in Q1 2025, an uptick of KES 2.9 billion.

Non-funded income (NFI) expanded by 8.3% to KES 17.0 billion from KES 15.7 billion. This was primarily driven by a significant 26.8% increase in fees and commissions income on loans and advances to KES 3.8 billion from KES 3.0 billion.

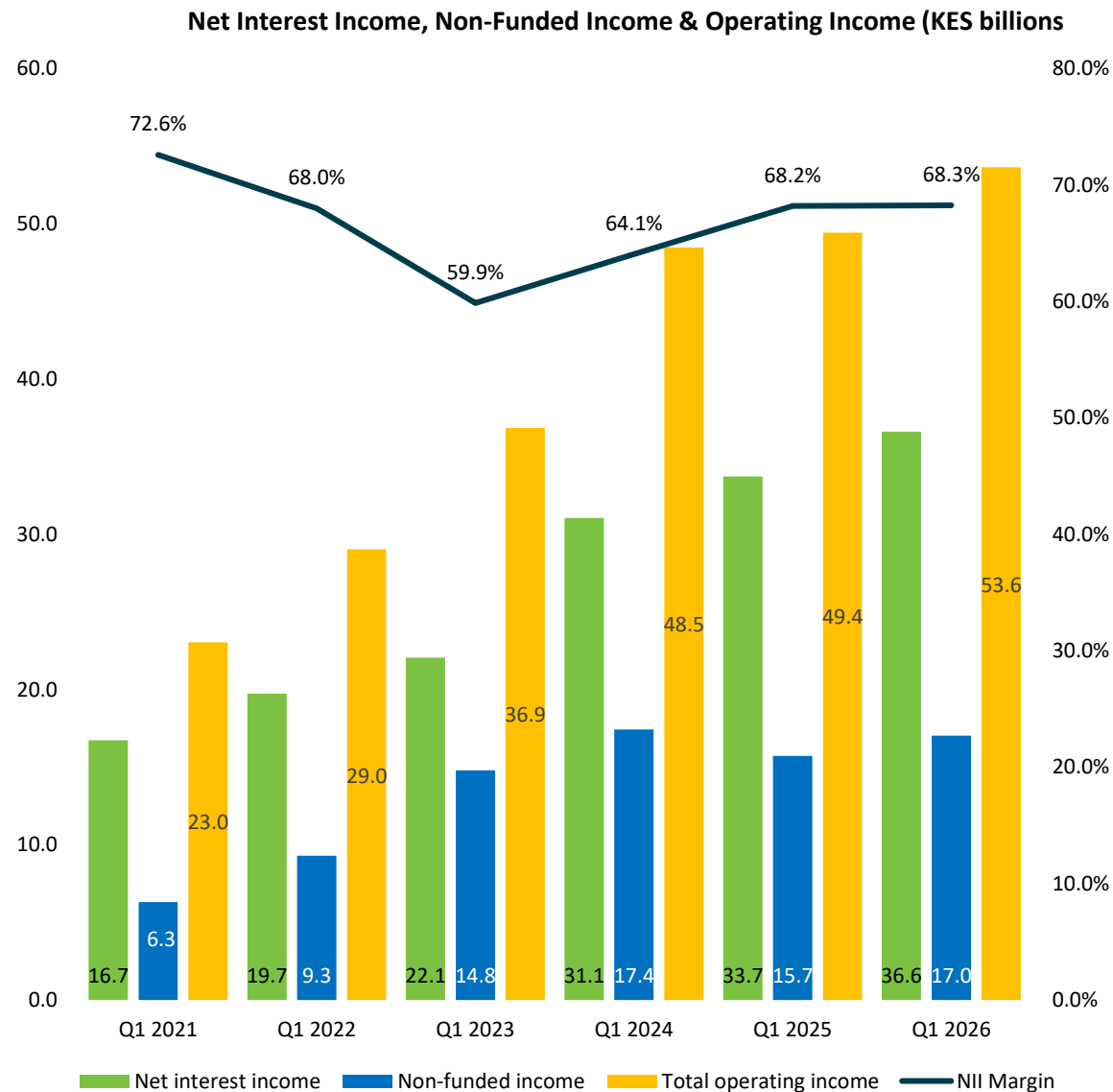
Other fees and commissions on loans and advances edged down by 1.9% to KES 6.9 billion from KES 7.1 billion.

Foreign exchange trading income rose by 13.7% to KES 3.6 billion from KES 3.1 billion, an increase of KES 430.1 million.

Other income advanced by 7.9% to KES 2.7 billion from KES 2.5 billion in Q1 2025.

This led to a 8.5% growth in total operating income to KES 53.6 billion in Q1 2026 from KES 49.4 billion in Q1 2025.

Net Interest Income margin saw a modest gain to 68.3%, while the Non-Funded Income margin eased to 31.7% from 31.8%, reflecting a largely stable revenue mix during the period.



# Operating expenses



Total operating expenses increased by 3.4% to KES 29.2 billion in Q1 2026 from KES 28.3 billion in Q1 2025, reflecting an increase of KES 954.5 million. This was primarily driven by a sharp rise of 22.2% in other operating expenses to KES 10.9 billion from KES 8.9 billion, representing an expansion of KES 2.0 billion.

Loan loss provision declined by 12.4% to KES 4.9 billion from KES 5.6 billion, a reduction of KES 695.4 million.

Staff costs saw a marginal decline of 0.5% to KES 10.5 billion from KES 10.6 billion.

Directors' emoluments edged up by 5.5% to KES 441.3 million from KES 418.5 million.

Rental charges contracted by 53.0% to KES 232.7 million from KES 495.3 million.

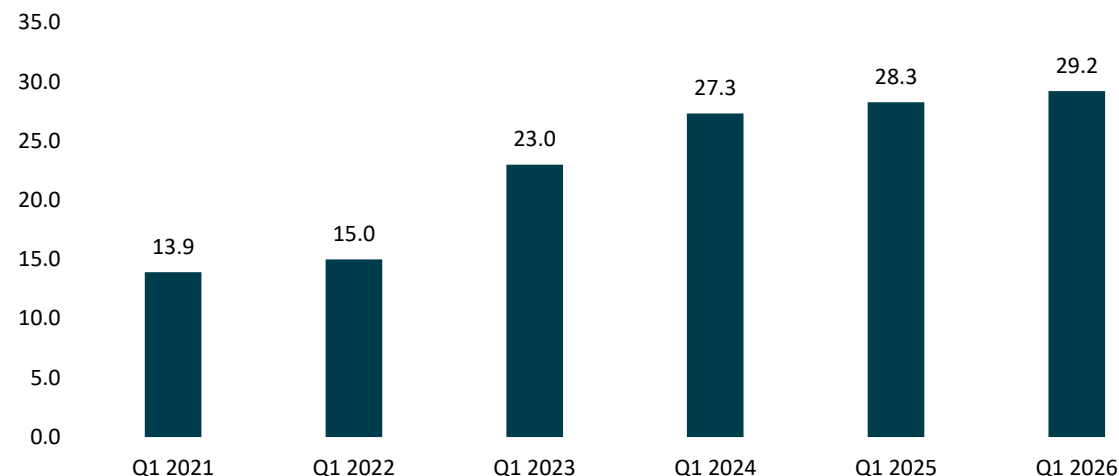
Depreciation on property and equipment edged up by 5.3% to KES 1.9 billion from KES 1.8 billion.

Amortization charges dropped by 32.0% reaching KES 277.7 million from KES 408.5 million.

The cost-to-income ratio (including loan loss provisions) declined to 54.5% in Q1 2026 from 57.2% in Q1 2025, reflecting improved cost management, while the ratio excluding provisions saw a marginal decline to 45.3% from 45.8%.

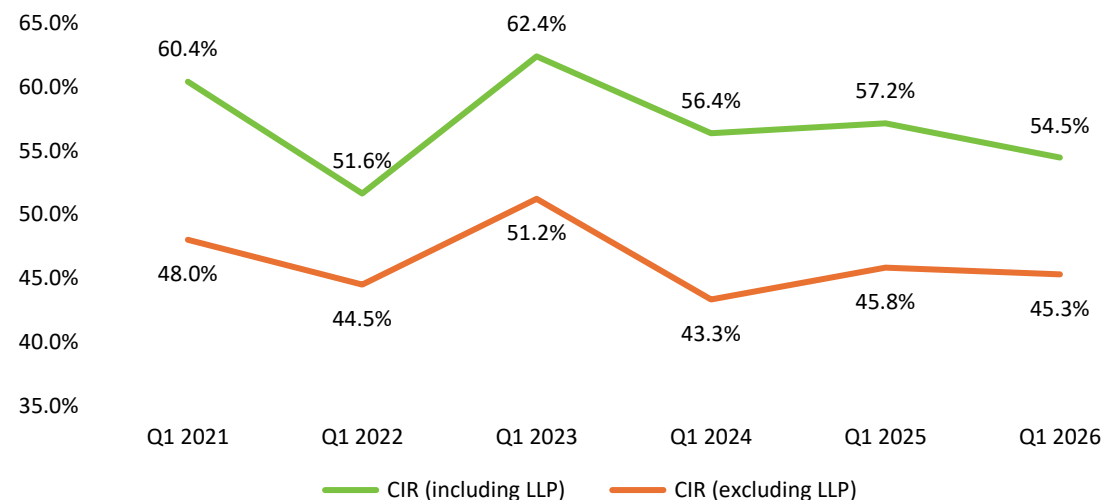
***\*The cost-to-income ratio measures operational efficiency, indicating the proportion of operating income consumed by operating expenses. A lower ratio reflects improved efficiency, with the bank generating higher income relative to its costs\****

Total operating expenses (KES billions)



Source: Company Financials

Cost-to-Income Ratio



Source: Company Financials

# Profitability

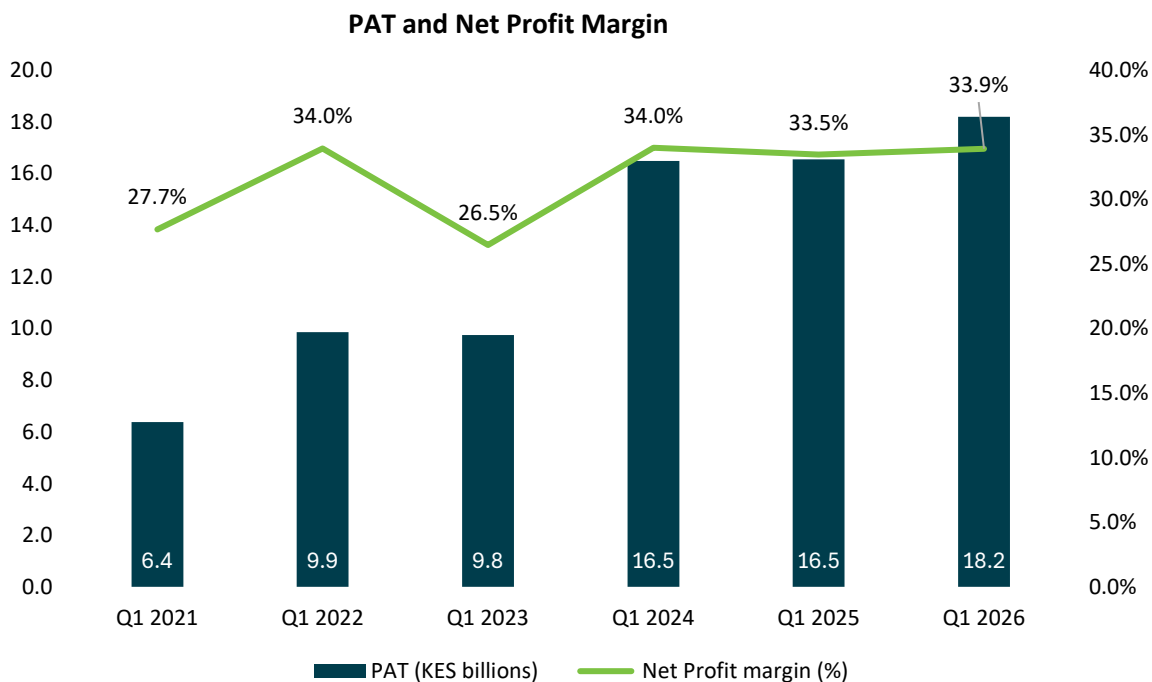


Profit before tax rose by 15.3% to KES 24.4 billion in Q1 2026 from KES 21.2 billion in Q1 2025.

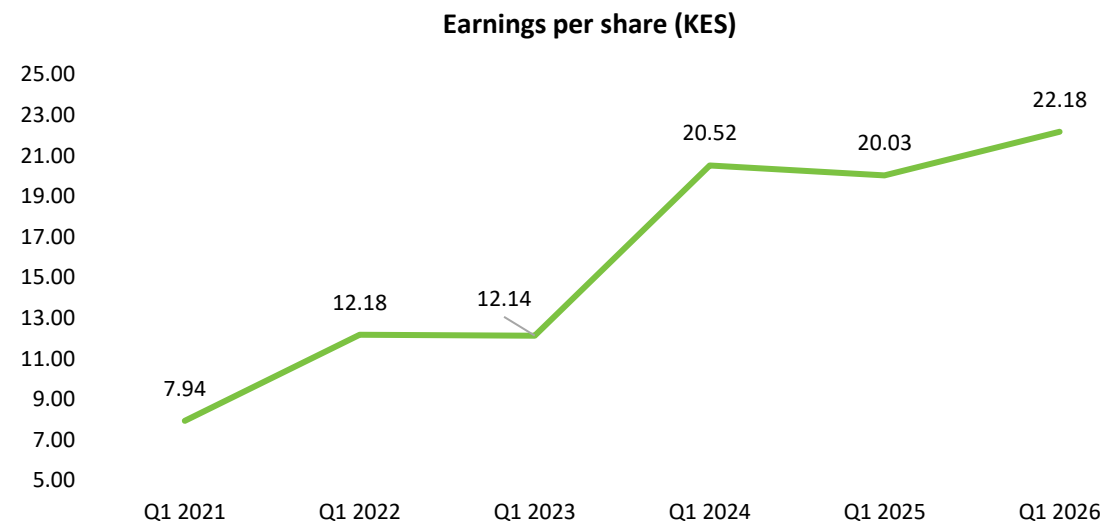
Profit after tax grew by 10.0% to KES 18.2 billion from KES 16.5 billion, an increase of KES 1.7 billion.

Total comprehensive income declined by 10.2% to KES 20.2 billion in Q1 2026 from KES 22.5 billion in Q1 2025, a reduction of KES 2.3 billion.

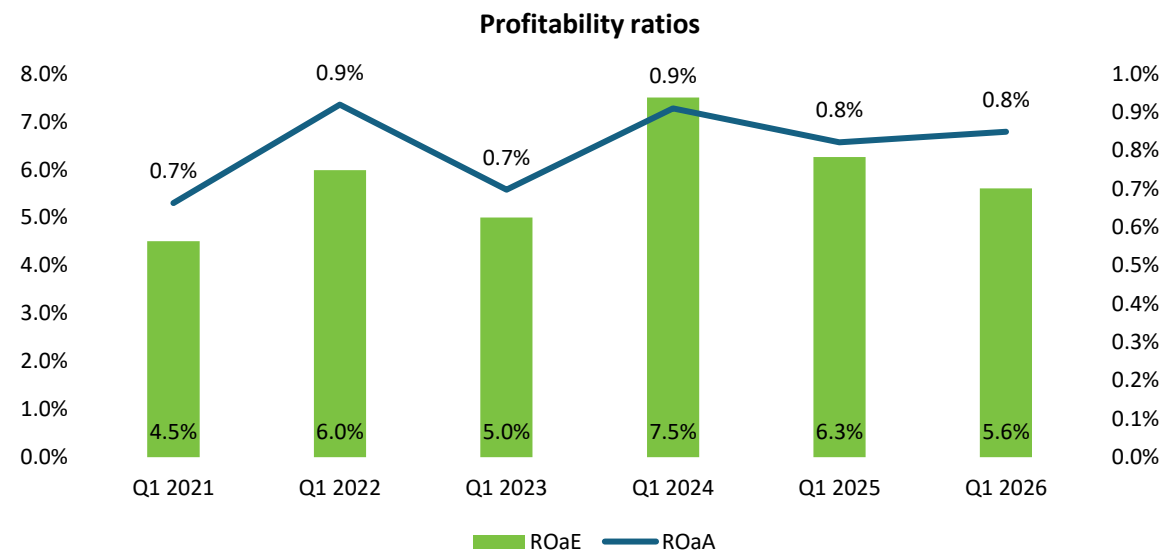
Earnings per share improved by 10.7% to KES 22.18 from KES 20.03 in Q1 2025.



Source: Company Financials



Source: Company Financials

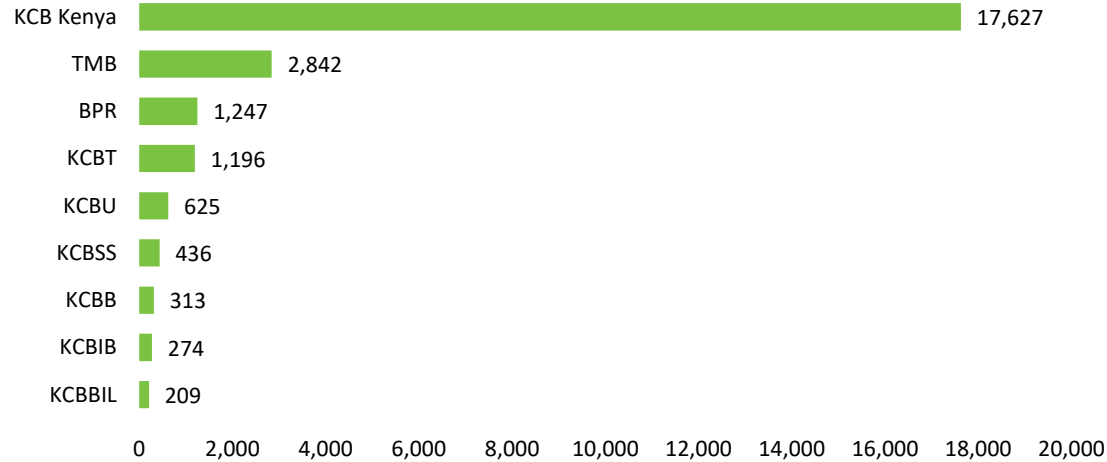


Source: Company Financials

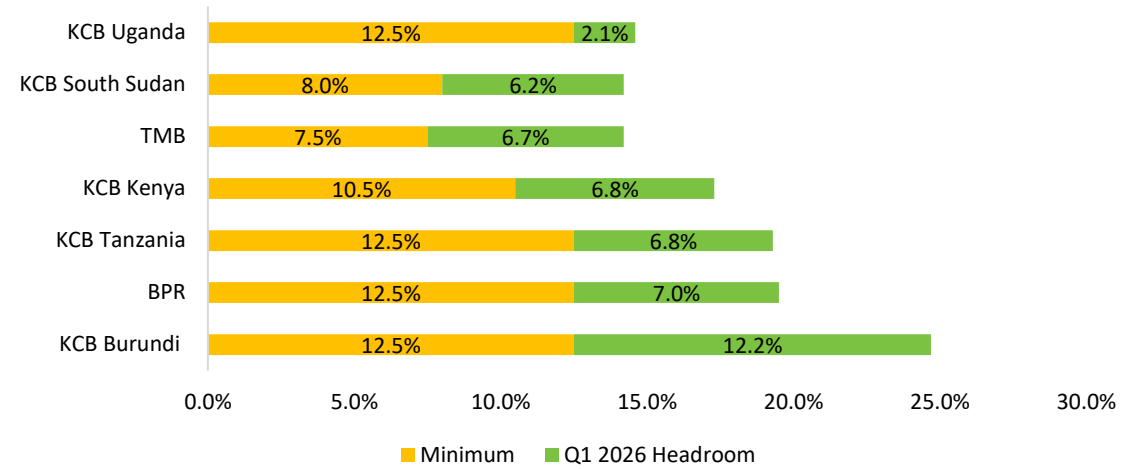
# Subsidiary Performance



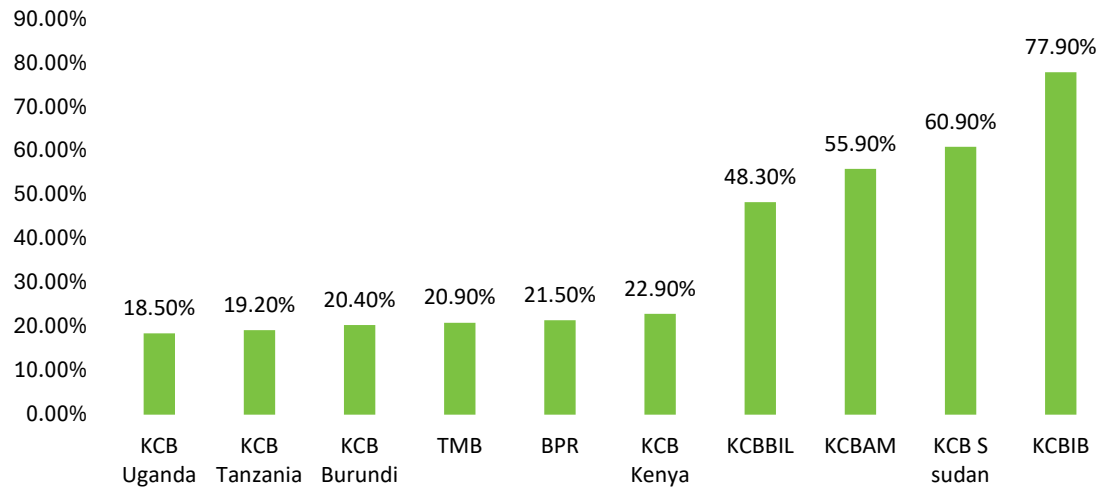
PBT Contribution per subsidiary (KES millions)



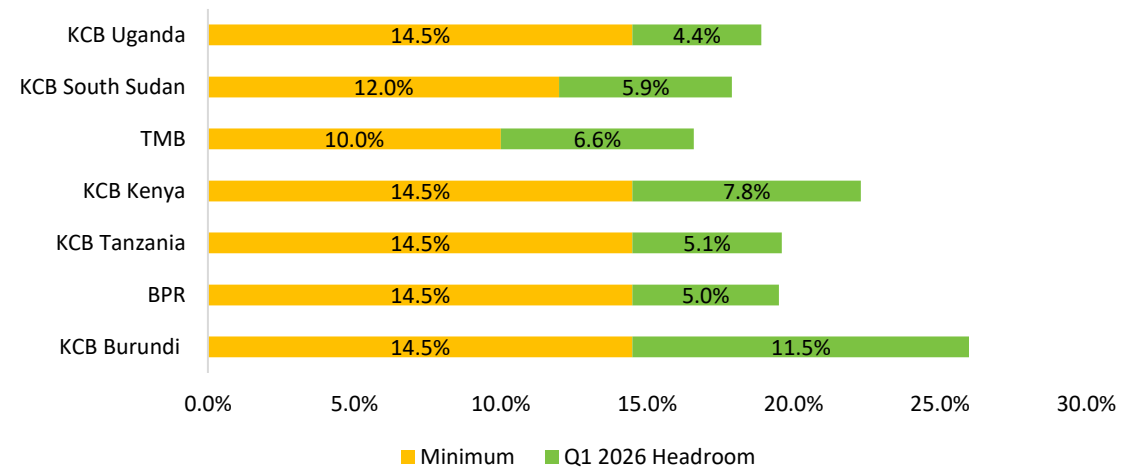
Subsidiaries core capital ratios



Subsidiaries' Return on Equity (%)



Subsidiaries total capital ratios



Source: Company Financials

Source: Company Financials

# Balance Sheet Rundown



Total assets grew by 10.8% to KES 2.25 trillion in Q1 2026 from KES 2.03 trillion in Q1 2025, reflecting an increase of KES 220.3 billion. Other assets decreased by 65.5% to KES 70.4 billion from KES 203.9 billion.

Kenya government and other securities held for dealing purposes surged by 120.3% to KES 41.9 billion from KES 19.0 billion, an increase of KES 22.9 billion.

Loans and advances to customers expanded by 18.6% to KES 1.21 trillion in Q1 2026 from KES 1.02 trillion in Q1 2025, reflecting an uptick of KES 189.6 billion.

Total liabilities rose by 9.5% to KES 1.89 trillion from KES 1.73 trillion. Other liabilities dropped by 66.6% to KES 60.9 billion from KES 182.1 billion.

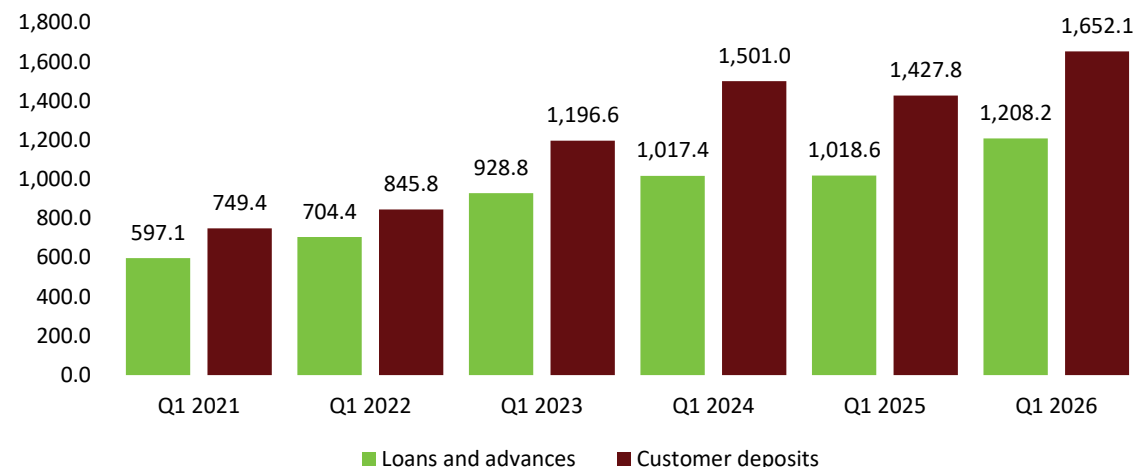
Customer deposits grew by 15.7% to KES 1.65 trillion from KES 1.43 trillion, an uptick of KES 224.3 billion.

Borrowed funds rose by 13.7% to KES 92.8 billion from KES 81.6 billion.

Loan-to-deposit ratio edged up to 73.1% from 71.3% in Q1 2025 while Loan-to-asset ratio rose to 53.6% from 50.1%.

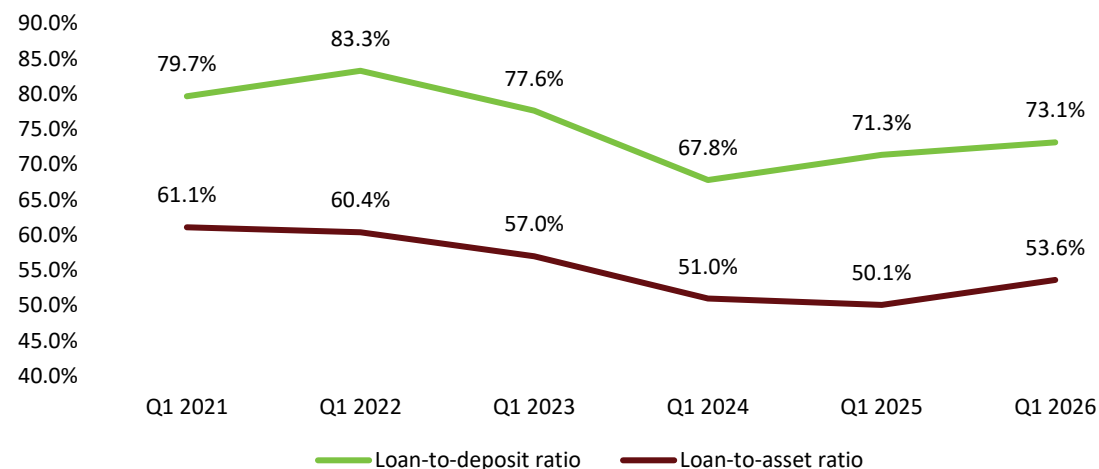
Total shareholders' funds advanced by 18.6% to KES 352.2 billion from KES 297.1 billion in Q1 2025. This was driven by a significant 18.0% increase in retained earnings to KES 309.2 billion from KES 262.1 billion.

Loan book and Customer deposits (KES billions)



Source: Company Financials

Loan-to-deposit & Loan-to-asset ratio

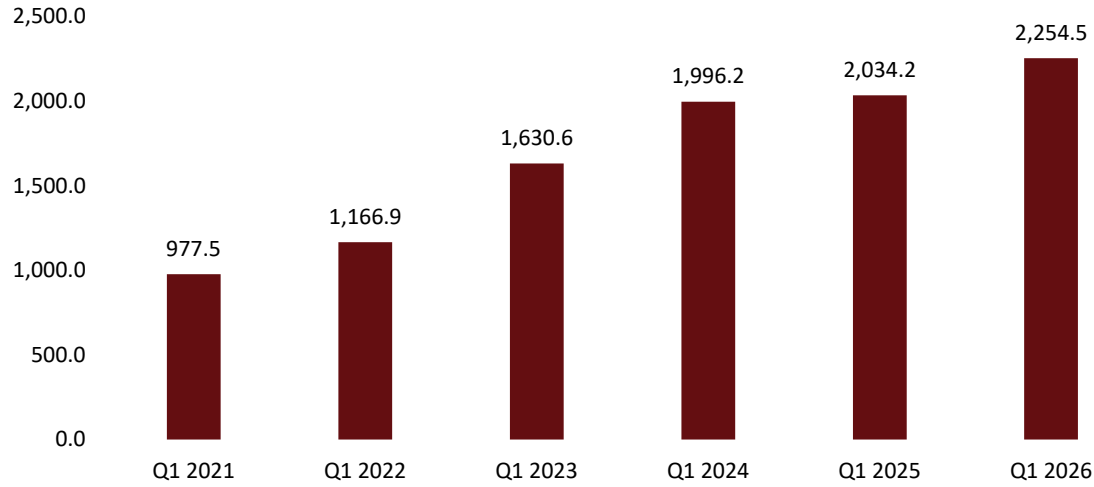


Source: Company Financials

# Balance Sheet Rundown

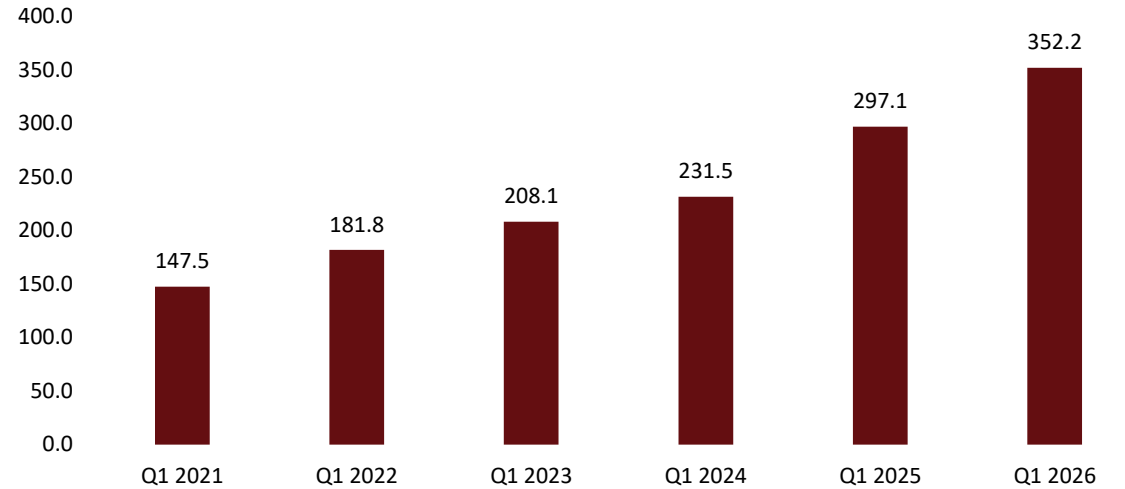


**Total Assets (KES billions)**



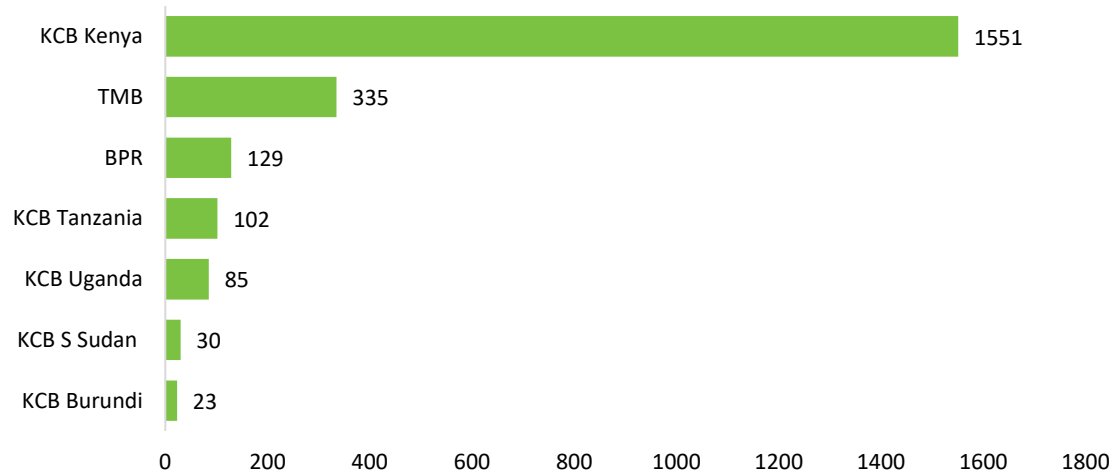
Source: Company Financials

**Total equity (KES billions)**



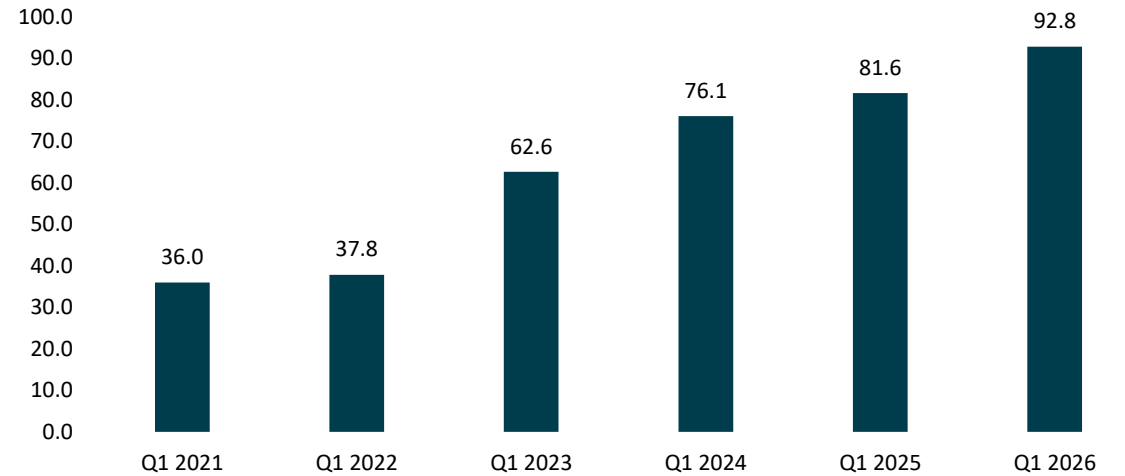
Source: Company Financials

**Total Assets distribution (KES billions)**



Source: Company Financials

**Borrowed funds (KES billions)**



Source: Company Financials

# Asset Quality

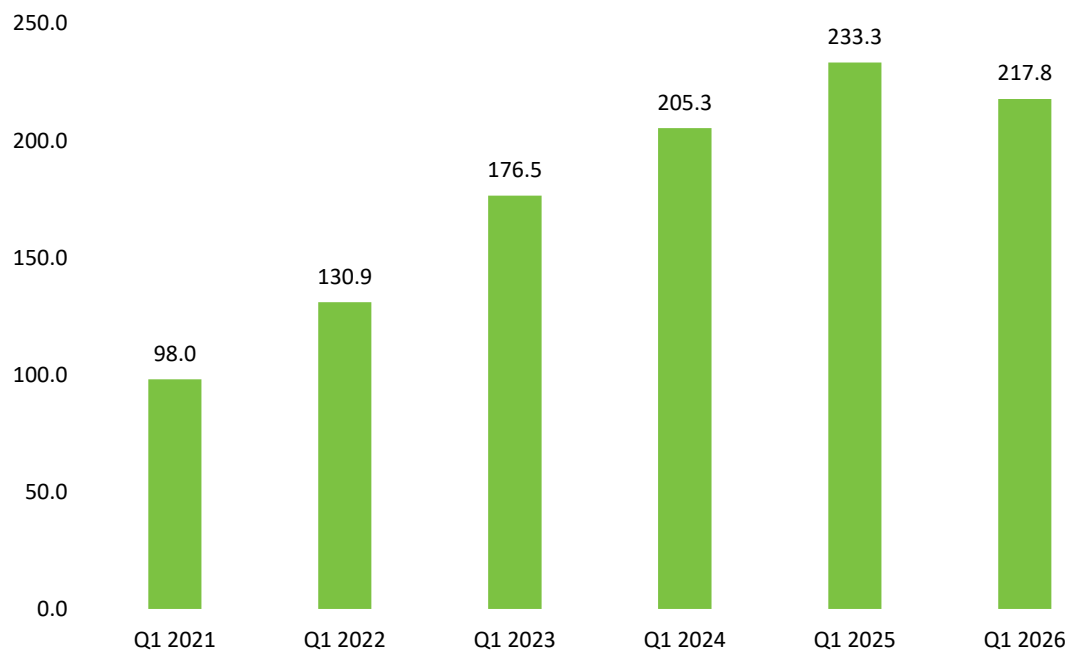


Gross non-performing loans (NPLs) declined by 6.6% to KES 217.8 billion in Q1 2026 from KES 233.3 billion in Q1 2025, reflecting a reduction of KES 15.5 billion.

Asset quality improved with the NPL ratio decreasing from 19.9% in Q1 2025 to 15.9% in Q1 2026, though slightly above the industry average of 15.5%.

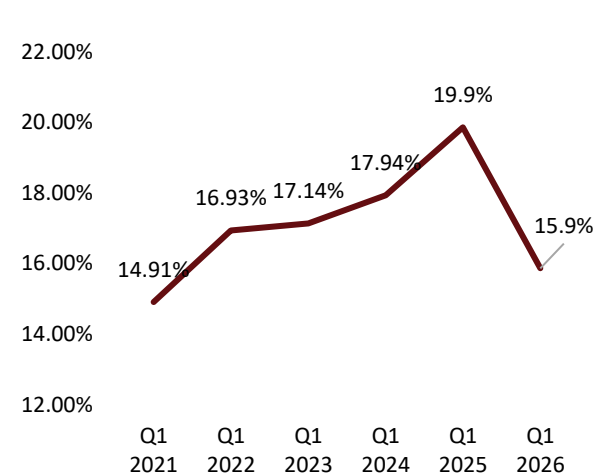
The NPL coverage ratio increased to 75.7% from 67.0% in Q1 2025, showing that the bank is strengthening its buffer against potential loan losses.

**Gross non-performing loans and advances (KES billions)**



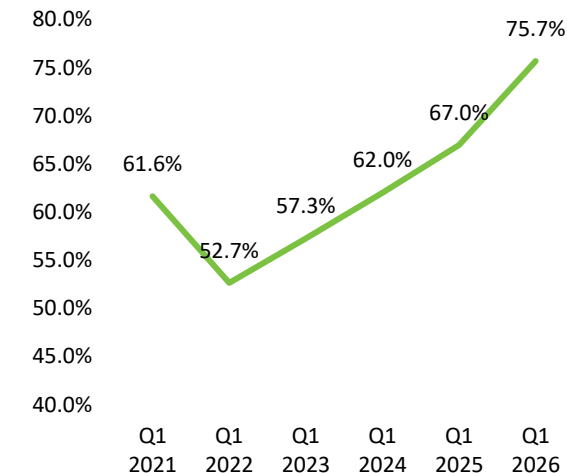
Source: Company Financials

**Gross NPL Ratio (%)**

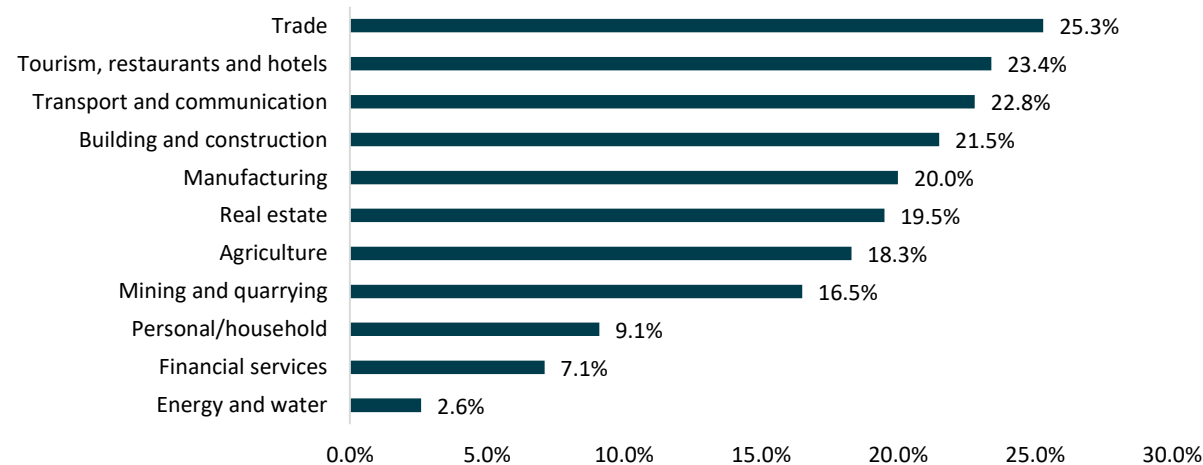


Source: Company Financials

**NPL Coverage Ratio (%)**



**Sectoral distribution of NPLs**



Source: Company Financials

# Outlook



KCB Group PLC is expected to maintain a positive growth trajectory in 2026, supported by resilient earnings growth, improving asset quality, and a strong capital position across its regional subsidiaries. The 10.0% growth in profit after tax, coupled with a decline in the NPL ratio to 15.9% and an increase in the NPL coverage ratio to 75.7%, reflects strengthening credit risk management and enhanced balance sheet resilience. The improvement in the cost-to-income ratio further demonstrates ongoing operational efficiency initiatives, which should support profitability even in a more challenging operating environment.

Growth prospects are also supported by the Group's strategic initiatives, including the implementation of the USD 96.9 million Green Climate Fund (GCF) programme aimed at supporting MSMEs and farmers in adopting climate-smart technologies, which is expected to unlock new lending opportunities while advancing sustainable finance objectives. In addition, the successful upgrade of TMB's core banking system is expected to enhance operational efficiency and customer experience, while the proposed acquisition of a minority stake in Pesapal Ltd could strengthen KCB's digital payments ecosystem and deepen its fintech capabilities.

However, the outlook remains subject to several downside risks. The effects of geopolitical tensions in the Middle East continue to filter through regional economies, contributing to currency volatility, trade uncertainties, and broader macroeconomic risks across KCB's operating markets. These developments could negatively impact trade flows, remittance inflows, credit demand, and asset quality across the Group's regional operations. Furthermore, rising inflationary pressures, partly driven by higher energy costs, have pushed yields on short-dated government securities higher, signaling elevated inflation expectations. This may prompt a more cautious monetary policy stance in the near term, which could moderate credit demand and increase borrowing costs for households and businesses.

KCB's planned entry into Ethiopia presents a compelling long-term growth opportunity. As Africa's second most populous country with relatively low banking penetration, Ethiopia offers significant potential for customer acquisition, loan growth, and revenue diversification. While the Group has identified a potential entry vehicle and is pursuing the necessary regulatory approvals, execution risks, regulatory complexities, and a gradually evolving banking landscape may temper the pace of value realization in the near term. Nevertheless, a successful market entry would strengthen KCB's regional footprint, enhance earnings diversification, and support its long-term growth ambitions.

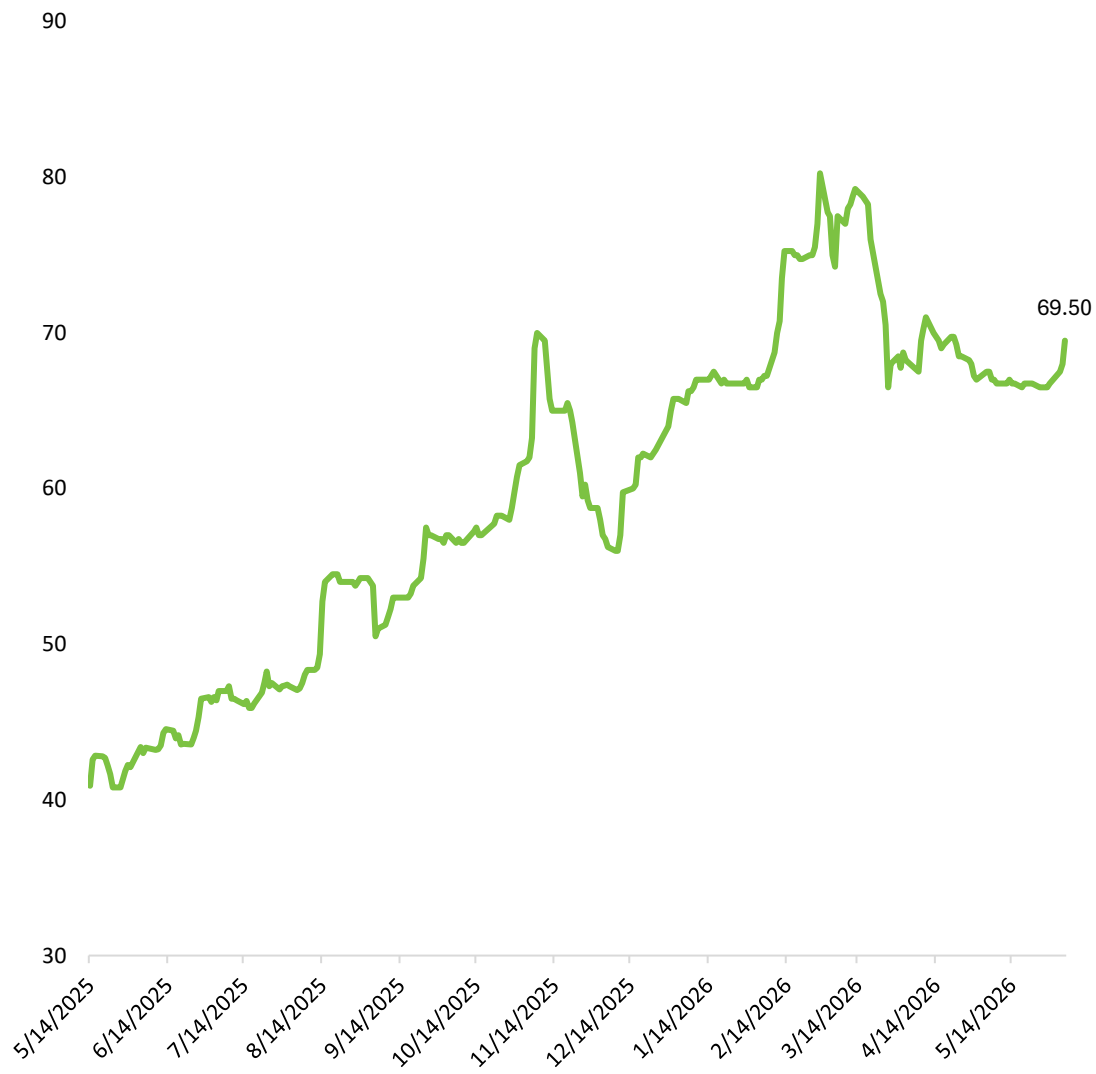
Overall, KCB remains well positioned to sustain earnings growth over the medium term, supported by improving asset quality, strong capital buffers, regional diversification, strategic investments in technology, and multiple growth initiatives across its operating markets.

We recommend a **BUY** on **KCB Group** with a fair value of KES 83.25, representing an **upside of 19.8%** on 4<sup>th</sup> June 2026 closing price of KES 69.50.

# Outlook

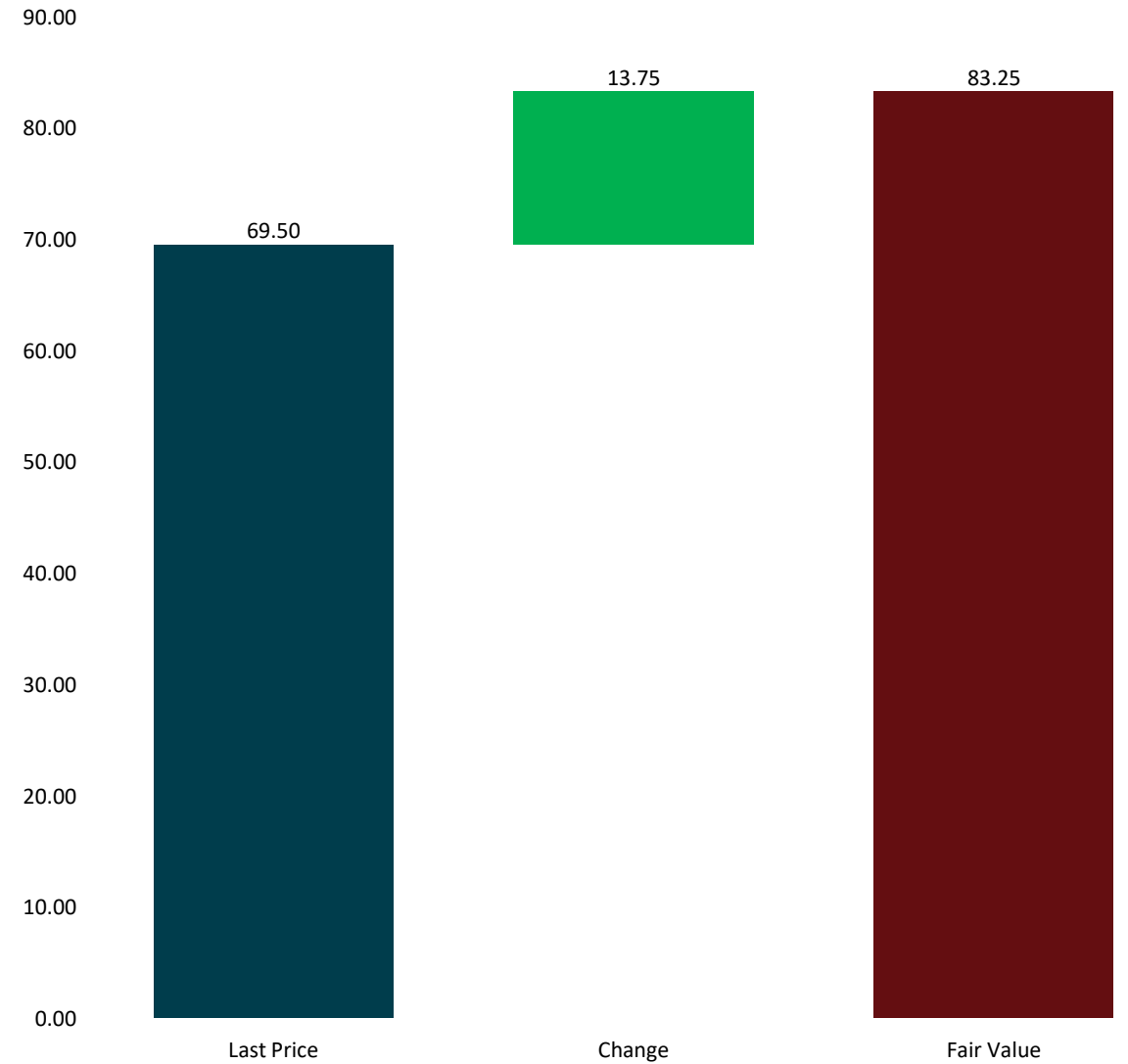


KCB Group Share Price Trend



Source: Bloomberg

Price Upside



Source: Company Financials and Faيدا Forecasts

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### Glossary of Terms

Target Price – Analyst estimate of the fair value or intrinsic value of the company.

Cost of Funds - This is the effective average interest rate paid on interest-earning liabilities. It is calculated as Total Interest Expense/Average Interest Earning Liabilities.

Loan Yield - This is the effective average interest rate received on average loans and advances. It is calculated as Interest on Loans and Advances/Average Loans and Advances.

Cost of Risk – This ratio measures the amount of risk involved in lending. It is calculated as Net Impairment Provisions/Average Gross Loans in the period.

Non-Performing Loans -These are loans that have been classified as impaired. The CBK classifies loans into five categories i.e. Normal, Watch, Substandard, Doubtful, and Loss depending on the performance of the loan. The last three i.e. sub-standard, doubtful, and loss are referred to as non-performing loans. Under IFRS, these are classified as stage 3 loans.

Non-Performing Loans (NPL) Ratio - This is the proportion of NPLs in the loan book. It is calculated as Gross NPLs/Gross Loans.

Non-Funded/Non-Interest Income– This represents income that is not classified as interest income.

### Recommendation

BUY – Minimal risks to catalysts.

SELL- Risks outweigh the catalysts.

NEUTRAL – This is where the positives and negatives in a company almost balance out. You can accumulate for the long term