

Below is a summary of HF Group's FY'2025 performance:

Balance Sheet Items	FY'2024	FY'2025	y/y change
Net loans	38.9	41.1	5.8%
Government Securities	17.0	28.3	66.6%
Total Assets	70.1	82.4	17.5%
Customer Deposits	47.5	55.9	17.7%
Deposits Per Branch	2.2	2.5	17.7%
Total Liabilities	54.5	64.7	18.8%
Shareholder's Funds	15.7	17.7	12.7%

Balance Sheet Ratios	FY'2024	FY'2025	y/y change
Loan to deposit ratio	81.9%	73.6%	(8.3%)
Government Securities to deposit ratio	35.7%	50.6%	14.8%
Return on Average Equity	4.3%	8.5%	4.3%
Return on Average Assets	0.8%	1.9%	1.1%

Income Statement	FY'2024	FY'2025	y/y change
Net Interest Income	2.7	4.4	63.9%
Net non-Interest Income	1.5	1.8	19.9%
Total Operating income	4.2	6.2	48.0%
Loan Loss provision	(0.4)	(0.4)	12.0%
Total Operating expenses	(3.7)	(4.7)	25.5%
Profit before tax	0.5	1.6	249.9%
Profit after tax	0.5	1.4	171.1%
Core EPS	0.9	0.8	(16.7%)

Income Statement Ratios	FY'2024	FY'2025	y/y change
Yield from interest-earning assets	12.0%	11.9%	(0.2%)
Cost of funding	7.5%	5.7%	(1.8%)
Net Interest Spread	4.5%	6.2%	1.7%
Net Interest Margin	5.0%	6.9%	1.9%
Cost of Risk	8.7%	6.6%	(2.1%)
Net Interest Income as % of operating income	63.9%	70.7%	6.9%
Non-Funded Income as a % of operating income	36.1%	29.3%	(6.9%)
Cost to Income Ratio (with LLP)	89.5%	75.9%	(13.6%)
Cost to Income Ratio (without LLP)	80.8%	69.3%	(11.5%)

Capital Adequacy Ratios	FY'2024	FY'2025	y/y change
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Core Capital/Total Liabilities	18.1%	18.1%	0.0%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	10.1%	10.1%	0.0%
Core Capital/Total Risk Weighted Assets	21.4%	21.8%	0.4%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	10.9%	11.3%	0.4%
Total Capital/Total Risk Weighted Assets	24.6%	24.3%	(0.3%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	10.1%	9.8%	(0.3%)
Liquidity Ratio	41.8%	51.5%	9.7%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	21.8%	31.5%	9.7%

Income Statement

- Core earnings per share declined by 16.7% to Kshs 0.8 in FY'2025, from Kshs 0.9 in FY'2024, largely attributable to the dilution effect from the Kshs 6.0 bn rights issue in 2024, which increased the number of shares in issue. Despite this, the Group recorded a 48.0% increase in Total Operating Income to Kshs 6.2 bn in FY'2025 from Kshs 4.2 bn in FY'2024, which outpaced a 25.5% increase in total operating expenses to Kshs 4.7 bn from Kshs 3.7 bn over the same period,
- The total operating income increased by 48.0% to Kshs 6.2 bn from Kshs 4.2 bn in FY'2024, mainly driven by a 63.9% growth in Net Interest Income (NII) to Kshs 4.4 bn, from Kshs 2.7 bn in FY'2024, coupled with the 19.9% increase in Non- Interest Income (NFI) to Kshs 1.8 bn from Kshs 1.5 bn in FY'2024,
- Interest income grew by 17.3% to Kshs 7.5 bn from Kshs 6.4 bn in FY'2024, mainly driven by an 78.6% growth in interest income from government securities to Kshs 2.8 bn, from Kshs 1.6 bn in FY'2024, but was weighed down by the 2.9% decline in interest income from loans and advances to Kshs 4.6 bn, from Kshs 4.8 bn in FY'2024. As such, the Yield on Interest-Earning Assets (YIEA) marginally declined by 0.2% points to 11.9% from 12.0% recorded in FY'2024, attributable to a faster 19.0% growth in average interest-earning assets to Kshs 63.4 bn from Kshs 53.2 bn in FY'2024, which outpaced the 17.3% increase in trailing interest income to Kshs 7.5 bn from Kshs 6.4 bn in FY'2024,
- Interest expenses declined by 15.8% to Kshs 3.2 bn from Kshs 3.7 bn in FY'2024, mainly driven by a 84.3% decrease in interest expense from placements and deposits to Kshs 0.1 bn, from Kshs 0.4 bn recorded in FY'2024 coupled with an 8.0% decrease in other interest expenses to Kshs 0.3 bn from Kshs 0.4 bn in FY'2024. Consequently, cost of funds (COF) decreased by 1.8% points to 5.7% from 7.5% recorded in FY'2024, owing to a 15.8% decrease in Trailing interest expense to Kshs 3.2 bn from Kshs 3.7 bn recorded in FY'2024, compared to 11.4% increase in average interest-bearing liabilities to Kshs 55.6 bn from Kshs 49.9 bn in FY'2024. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 1.9% points to 6.9% from 5.0% in FY'2024, attributable to a faster 63.9% increase in trailing net interest income to Kshs 4.4 bn from Kshs 2.7 bn recorded in FY'2024, outpacing the 19.0% growth in average interest earning assets,
- Non-Funded Income (NFI) increased by 19.9% to Kshs 1.8 bn from Kshs 1.5 bn in FY'2024, mainly driven by a 53.7% increase in other income to Kshs 1.2 bn, from Kshs 0.8 bn in FY'2024. Total fees and commissions

decreased by 3.5% to 0.5 bn from the Kshs 0.6 bn recorded in in FY'2024. The revenue mix shifted to 71:29 from 64:36 for funded versus non-funded income, driven by the faster 63.9% growth in funded income compared to a 19.9% increase in non-funded income,

- Total operating expense increased by 25.5% to Kshs 4.7 bn in FY'2025, from Kshs 3.7 bn in FY'2024, mainly attributable to 22.0% increase in staff cost to Kshs 2.3 bn, from Kshs 1.9 bn in FY'2024. Notably, loan loss provisions expense increased by 12.0% to Kshs 0.41 bn, from Kshs 0.36 bn recorded in FY'2024,
- Cost to Income Ratio (CIR) decreased by 13.6% points to 75.9% from 89.5% in FY'2024, owing to the slower 25.5% increase in total operating expenses, which was outpaced by the 48.0% increase in total operating income. CIR without LLP decreased by 11.5% points to 69.3% from 80.0% in FY'2024.
- Profit before tax increased by 249.9% to Kshs 1.6 bn, from Kshs 0.5 bn recorded in FY'2024. Despite the effective tax rate turning positive to 11.6% in FY'2025 from negative 14.1% in FY'2024, profit after tax grew by 171.1% to Kshs 1.4 bn from Kshs 0.5 bn in FY'2024

Balance Sheet

- The balance sheet recorded an expansion as total assets increased by 17.5% to Kshs 82.4 bn, from Kshs 70.1 bn in FY'2024, mainly driven by a 66.6% increase in governments securities holdings to Kshs 28.3 bn, from 17.0 bn in FY'2024, coupled with a 5.8% increase in net loans and advances to Kshs 41.1 bn, from Kshs 38.9 bn in FY'2024. Total liabilities increased by 18.8% to Kshs 64.7 bn from Kshs 54.5 bn in FY'2024, mainly driven by 17.7% increase in customer deposits to Kshs 55.9 bn, from Kshs 47.5 bn in FY'2024, coupled with the 31.3% increase in borrowings to Kshs 3.6 bn, from Kshs 2.7 bn in FY'2024. With 22 branches, similar to FY'2024, deposits per branch increased by 17.7% to Kshs 2.5 bn, from Kshs 2.2 bn in FY'2024,
- The 17.7% increased growth in customer deposits, which outpaced the 5.8% increase in net loans led to a 8.3% decrease in the loan to deposits ratio to 73.6%, from 81.9% in FY'2024,
- The bank's asset quality improved, as the Gross NPL ratio declined to 22.2% in FY'2025 from 25.3% in FY'2024. This was supported by a 5.3% growth in gross loans to Kshs 49.8 bn from Kshs 47.3 bn in FY'2024, compared to the 7.5% decline in gross non-performing loans to Kshs 11.1 bn from Kshs 12.0 bn in FY'2024.
- General provisions (LLP) increased by 9.5% to Kshs 5.6 bn in FY'2025 from Kshs 5.2 bn in FY'2024. Consequently, NPL coverage improved to 78.2% from 70.3% in FY'2024, supported by a 7.6% decline in interest in suspense by 7.6% to Kshs 3.0 bn in FY'2025 from Kshs 3.3 bn in FY'2024, alongside a 7.5% reduction in gross non-performing loans to Kshs 11.1 bn from Kshs 12.0 bn in FY'2024. Gross loans grew by 5.3% to Kshs 49.8 bn from Kshs 47.3 bn in FY'2024, reflecting overall portfolio growth while maintaining asset quality,
- HF Group remains well-capitalized, with a core capital to risk-weighted assets ratio of 21.8%, 11.3 percentage points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio stood at 24.3%, exceeding the minimum statutory requirement of 14.5% by 9.8% points. The liquidity position strengthened, with the liquidity ratio rising to 51.5%, well above the 20.0% statutory threshold, resulting in an excess of 31.5% points,
- The bank currently has a Return on Average Assets (ROaA) of 1.9%, and a Return on Average Equity (ROaE) of 8.5%.

Key Take-Outs:

1. **Improved Profitability** – HF posted a 171.1% increase in Profit After Tax to Kshs 1.4 bn from Kshs 0.5 bn in FY'2024, supported by a 63.9% growth in net interest income to Kshs 4.4 bn from Kshs 2.7 bn in FY'2024 and

a 19.9% increase in non-interest income to Kshs 1.8 bn from Kshs 1.5 bn in FY'2024. However, operating expenses rose by 25.5% to Kshs 4.7 bn from Kshs 3.7 bn, weighing on performance.

2. **Improved asset quality** – The bank's asset quality improved, as the Gross NPL ratio declined to 22.2% in FY'2025 from 25.3% in FY'2024. This was supported by a 5.3% growth in gross loans to Kshs 49.8 bn from Kshs 47.3 bn in FY'2024, compared to the 7.5% decline in gross non-performing loans to Kshs 11.1 bn from Kshs 12.0 bn in FY'2024
3. **Expanded Balanced sheet** - The balance sheet recorded an expansion as total assets increased by 17.5% to Kshs 82.4 bn, from Kshs 70.1 bn in FY'2024, mainly driven by a 66.6% increase in governments securities holdings to Kshs 28.3 bn, from 17.0 bn in FY'2024, coupled with a 5.8% increase in net loans and advances to Kshs 41.1 bn, from Kshs 38.9 bn in FY'2024.
4. **Increased lending**- Customer net loans and advances increased by 5.8% to Kshs 41.1 bn in FY'2025, from Kshs 38.9 bn in FY'2024.

Going forward, the factors that would drive the bank's growth would be:

- **Capital injection through rights issue** - The Group successfully raised Kshs 6.0 bn in 2024 via a rights issue. This capital boosted HF Group's financial position, enabling further investment in growth initiatives. The capital raised was for product expansion, technological advancements and for regulatory compliance requiring banks to increase their capital base to Kshs 10.0 bn by 2028. The successful completion of the rights issue positioned HF Group to implement its growth strategies effectively and navigate the evolving financial landscape.

Valuation Summary

- We are of the view that HF Group is an "accumulate" with a target price of Kshs 11.0 representing a upside of 10.1%, from the current price of 9.08 as of 2nd April 2026
- HF Group is currently trading at a P/TBV of 1.0x and a P/E of 12.0x vs an industry average of 1.1x and 5.6x respectively.