

Below is a summary of HF Group's H1'2025 performance:

Balance Sheet Items	H1'2024	H1'2025	y/y change
Government Securities	37.9	38.9	2.7%
Net Loans and Advances	12.2	23.9	96.0%
Total Assets	63.7	76.9	20.7%
Customer Deposits	45.0	52.5	16.6%
Deposits/Branch	2.0	2.4	16.6%
Total Liabilities	54.4	60.2	10.5%
Shareholders' Funds	9.3	16.8	79.8%

Balance Sheet Ratios	H1'2024	H1'2025	% y/y change
Loan to Deposit Ratio	84.2%	74.2%	(10.0%)
Government Securities to Deposit Ratio	27.1%	45.5%	18.4%
Return on average equity	5.2%	6.8%	1.6%
Return on average assets	0.8%	1.3%	0.5%

Income Statement (Kshs Bn)	H1'2024	H1'2025	y/y change
Net Interest Income	1.3	2.0	53.3%
Net non-Interest Income	0.7	0.8	17.9%
Total Operating income	2.0	2.9	40.9%
Loan Loss provision	(0.2)	(0.2)	25.9%
Total Operating expenses	(1.8)	(2.2)	23.7%
Profit before tax	0.3	0.7	148.3%
Profit after tax	0.3	0.6	134.5%
Core EPS	1.4	0.7	(52.2%)

Income Statement Ratios	H1'2024	H1'2025	y/y change
Yield from interest-earning assets	11.7%	12.3%	0.6%
Cost of funding	6.4%	6.8%	0.4%
Net Interest Spread	5.3%	5.5%	0.2%
Net Interest Margin	5.3%	5.9%	0.6%
Cost of Risk	8.2%	7.3%	(0.9%)
Net Interest Income as % of operating income	65.0%	70.8%	5.7%
Non-Funded Income as a % of operating income	35.0%	29.2%	(5.7%)
Cost to Income Ratio	86.2%	75.7%	(10.5%)
Cost to Income Ratio (without LLP)	78.0%	68.4%	(9.7%)

Capital Adequacy Ratios	H1'2024	H1'2025	% points change
-------------------------	---------	---------	-----------------

Core Capital/Total Liabilities	4.0%	17.1%	13.1%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	(4.0%)	9.1%	13.1%
Core Capital/Total Risk Weighted Assets	4.6%	21.3%	16.7%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	(5.9%)	10.8%	16.7%
Total Capital/Total Risk Weighted Assets	8.1%	24.2%	16.1%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	(6.4%)	9.7%	16.1%
Liquidity Ratio	24.9%	51.4%	26.5%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	4.9%	31.4%	26.5%

Income Statement

- Core earnings per share declined by 52.2% to Kshs 0.7 in H1'2025, from Kshs 1.4 in H1'2024, 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 40.9% increase in Total Operating Income to Kshs 2.9 bn from Kshs 2.0 bn, against a 23.7% increase in total operating expenses to Kshs 2.2 bn from Kshs 1.8 bn over the same period,
- The total operating income increased by 40.9% to Kshs 2.9 bn from Kshs 2.0 bn in H1'2024, mainly driven by a 53.3% growth in Net Interest Income (NII) to Kshs 2.0 bn, from Kshs 1.3 bn in H1'2024, coupled with the 17.9% increase in Non- Interest Income (NFI) to Kshs 0.8 bn from Kshs 0.7 bn in H1'2024,
- Interest income grew by 19.6% to Kshs 3.6 bn from Kshs 3.0 bn in H1'2024, mainly driven by an 88.0% growth in interest income from government securities to Kshs 1.3 bn, from Kshs 0.7 bn in H1'2024, coupled with a 0.4% increase in interest income from loans and advances to Kshs 2.33 bn, from Kshs 2.32 bn in H1'2024. As such, the Yield on Interest-Earning Assets (YIEA) increased by 0.6% points to 12.3% from 11.7% recorded in H1'2024, attributable to a faster 21.0% increase in trailing interest income to Kshs 7.0 bn, from Kshs 5.8 bn in H1'2024 compared to the slower 15.1% growth in average interest earning assets to Kshs 57.1 bn, from Kshs 49.6 bn in H1'2024,
- Interest expenses declined by 6.7% to Kshs 1.6 bn from Kshs 1.7 bn in H1'2024, mainly driven by a 76.8% decrease in interest expense from placements to Kshs 0.05 bn, from Kshs 0.2 bn recorded in H1'2024 coupled with a 13.4% decrease in other interest expenses to Kshs 0.16 bn from Kshs 0.18 bn in H1'2024. Cost of funds (COF) increased by 0.4% points to 6.8% from 6.4% recorded in H1'2024, owing to a faster 14.1% increase in Trailing interest expense to Kshs 3.6 bn from Kshs 3.2 bn recorded in H1'2024, compared to 7.9% increase in average interest-bearing liabilities to Kshs 53.7 bn from Kshs 49.8 bn in H1'2024. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 0.6% points to 5.9% from 5.3% in H1'2024, attributable to a 29.3% increase in trailing net interest income to Kshs 3.4 bn from Kshs 2.6 bn recorded in H1'2024, compared to the 15.1% growth in average interest earning assets,
- Non-Funded Income (NFI) increased by 17.9% to Kshs 0.8 bn from Kshs 0.7 bn in H1'2024, mainly driven by a 41.4% increase in other fees income to Kshs 0.3 bn, from Kshs 0.2 bn in H1'2024, coupled with a 30.9%

increase in other income to 0.4 bn from the Kshs 0.3 bn recorded in H1'2024. Total fees and commissions decreased by 19.6% to 0.35 bn from the Kshs 0.30 bn recorded in H1'2024. The revenue mix shifted to 71:29, from 65:35 for the funded to Non-funded income owing to the faster 53.3% growth in Funded Income compared to a 17.9% increase in the Non-Funded Income,

- Total operating expense increased by 23.7% to Kshs 2.2 bn in H1'2025, from Kshs 1.8 bn in H1'2024, mainly attributable to 19.3% increase in staff cost to Kshs 1.0 bn, from Kshs 0.9 bn in H1'2024. Notably, loan loss provisions expense increased by 25.9% to Kshs 0.21 bn, from Kshs 0.17 bn recorded in H1'2024,
- Cost to Income Ratio (CIR) decreased by 10.5% points to 75.7% from 86.2% in H1'2024, owing to the slower 23.7% increase in total operating expenses, which was outpaced by the 40.9% increase in total operating income. CIR without LLP decreased by 9.7% points to 68.4% from 78.0% in H1'2024.
- Profit before tax increased by 148.3% to Kshs 0.7 bn, from Kshs 0.3 bn recorded in H1'2024, and despite effective tax rate increasing to 11.1% in H1'2025, from 5.9% in H1'2024, the profit after tax grew by 134.5% to Kshs 0.6 bn in H1'2025, from Kshs 0.3 bn in H1'2024.

Balance Sheet

- The balance sheet recorded an expansion as total assets increased by 20.7% to Kshs 76.9 bn, from Kshs 63.7 bn in H1'2024, mainly driven by a 96.0% increase in governments securities holdings to Kshs 23.9 bn, from 12.2 bn in H1'2024, coupled with a 2.7% increase in net loans and advances to Kshs 38.9 bn, from Kshs 37.9 bn in H1'2024. Total liabilities increased by 10.5% to Kshs 60.2 bn from Kshs 54.4 bn in H1'2024, mainly driven by 16.6% increase in customer deposits to Kshs 52.5 bn, from Kshs 45.0 bn in H1'2024, coupled with the 35.5% increase in borrowings to Kshs 4.2 bn, from Kshs 3.1 bn in H1'2024. With 22 branches, similar to H1'2024, deposits per branch increased by 16.6% to Kshs 2.4 bn, from Kshs 2.0 bn in H1'2024,
- The 16.6% increased growth in customer deposits, which outpaced the 2.7% increase in net loans led to a 10.0% decrease in the loan to deposits ratio to 74.2%, from 84.2% in H1'2024,
- The bank's asset quality improved marginally, as the Gross NPL ratio declined to 24.0% in H1'2025 from 24.2% in H1'2024. This was supported by a 2.5% growth in gross loans to Kshs 47.6 bn from Kshs 46.4 bn in H1'2024, which outpaced the 2.0% increase in gross non-performing loans to Kshs 11.4 bn from Kshs 11.2 bn in H1'2024.
- General Provisions (LLP) increased by 3.1% to Kshs 5.3 bn in H1'2025 from Kshs 5.1 bn in H1'2024. The NPL coverage decreased to 75.4% in H1'2025, from 75.6% in H1'2024, attributable to the 3.1% increase in general provisions, coupled with a 0.3% decrease in interest in suspense to Kshs 3.3 bn from 3.4 bn in H1'2024 compared to a 2.0% increase in Gross Non-performing Loans to Kshs 11.4 bn, from Kshs 11.2 bn in H1'2024.
- Shareholders' funds increased by 79.8% to Kshs 16.8 bn in H1'2024, from Kshs 9.3 bn in H1'2023, supported by fresh capital injections. However, this was weighed down by an increase in accumulated losses, which rose to Kshs 2.1 bn in H1'2024, from Kshs 3.3 bn in H1'2023, reflecting a 37.2% deterioration,
- HF Group remains capitalized with a core capital to risk-weighted assets ratio of 21.3%, 10.8% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 24.2%, exceeding the statutory requirement of 14.5% by 9.7% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 1.3%, and a Return on Average Equity (ROaE) of 6.8%.

Key Take-Outs:

1. **Improved Profitability** – HF posted a 134.5% increase in Profit After Tax to Kshs 0.6 bn from Kshs 0.3 bn in H1'2024, supported by a 53.3% growth in net interest income to Kshs 2.0 bn from Kshs 1.3 bn in H1'2024 and a 17.9% increase in non-interest income to Kshs 0.8 bn from Kshs 0.7 bn in H1'2024. However, operating expenses rose by 23.7% to Kshs 2.2 bn from Kshs 1.8 bn, weighing on performance, while core EPS declined by 52.2% to Kshs 0.7 from Kshs 1.4 due to dilution from the Kshs 6.0 bn rights issue in 2024.
2. **Improved asset quality** – The bank's asset quality improved marginally, as the Gross NPL ratio declined to 24.0% in H1'2025 from 24.2% in H1'2024. This was supported by a 2.5% growth in gross loans to Kshs 47.6 bn from Kshs 46.4 bn, which outpaced the 2.0% increase in gross non-performing loans to Kshs 11.4 bn from Kshs 11.2 bn.
3. **Expanded Balanced sheet** - The balance sheet recorded an expansion as total assets increased by 20.7% to Kshs 76.9 bn, from Kshs 63.7 bn in H1'2024, mainly driven by a 96.0% increase in governments securities holdings to Kshs 23.9 bn, from 12.2 bn in H1'2024, coupled with a 2.7% increase in net loans and advances to Kshs 38.9 bn, from Kshs 37.9 bn in H1'2024.
4. **Increased lending**- Customer net loans and advances increased by 2.7% to Kshs 38.9 bn in H1'2025, from Kshs 37.9 bn in H1'2024.

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 10.7 representing a upside of 11.7%, from the current price of 9.6 as of 29th August 2025
- HF Group is currently trading at a P/TBV of 1.1x and a P/E of 14.5x vs an industry average of 0.7x and 3.8x respectively.