Below is a summary of NCBA Group's FY'2024 performance:

Balance Sheet Items	FY'2023	FY'2024	y/y change
Net Loans and Advances	337.0	302.1	(10.4%)
Government Securities	203.4	180.8	(11.1%)
Total Assets	**734.6**	**665.9**	**(9.35%)**
Customer Deposits	579.4	502.0	(13.4%)
Deposit per Branch	5.3	4.3	(20.0%)
Total Liabilities	638.0	556.2	(12.8%)
Shareholder's Funds	**96.7**	**109.7**	**13.5%**

Balance Sheet Ratios	FY'2023	FY'2024	% points change
Loan to Deposit Ratio	58.2%	60.2%	2.0%
Govt Securities to Deposit ratio	35.1%	36.0%	0.9%
Return on average equity	24.0%	21.2%	(2.8%)
Return on average assets	3.2%	3.1%	(0.0%)

Income Statement	FY'2023	FY'2024	y/y change
Net Interest Income	34.6	34.5	(0.3%)
Net non-Interest Income	29.1	28.2	(3.1%)
Total Operating income	**63.7**	**62.7**	**(1.5%)**
Loan Loss provision	9.2	5.5	(40.1%)
Total Operating expenses	**38.2**	**37.6**	**(1.6%)**
Profit before tax	25.5	25.1	(1.3%)
Profit after tax	**21.5**	**21.9**	**1.9%**
Core EPS	**13.0**	**13.3**	**1.9%**
Dividend Per Share	**4.75**	**5.50**	**15.8%**
Dividend payout ratio	**36.5%**	**41.4%**	**5.0%**
Dividend Yield	**10.8%**	**10.5%**	**(0.4%)**

Income Statement Ratios	FY'2023	FY'2024	% points change
Yield from interest-earning assets	11.1%	12.5%	1.4%
Cost of funding	5.5%	7.4%	1.8%
Net Interest Spread	5.5%	5.1%	(0.5%)
Net Interest Margin	5.9%	5.7%	(0.2%)
Cost of Risk	14.4%	8.7%	(5.6%)
Net Interest Income as % of operating income	54.3%	55.0%	0.7%
Non-Funded Income as a % of operating income	45.7%	45.0%	(0.7%)
Cost to Income Ratio	60.0%	60.0%	(0.0%)
Cost to Income Ratio without LLP	45.7%	51.3%	5.6%

Capital Adequacy Ratios	FY'2023	FY'2024	% points change
Core Capital/Total Liabilities	16.3%	20.3%	4.0%
Minimum Statutory ratio	8.0%	8.0%	
Excess	**8.3%**	**12.3%**	**4.0%**
Core Capital/Total Risk Weighted Assets	18.0%	21.2%	3.2%
Minimum Statutory ratio	10.5%	10.5%	
Excess	**7.5%**	**10.7%**	**3.2%**
Total Capital/Total Risk Weighted Assets	18.0%	21.2%	3.2%
Minimum Statutory ratio	14.5%	14.5%	
Excess	**3.5%**	**6.7%**	**3.2%**
Liquidity Ratio	52.9%	53.7%	0.7%
Minimum Statutory ratio	20.0%	20.0%	
Excess	**32.9%**	**33.7%**	**0.7%**

Income Statement

- Core earnings per share increased by 1.9% to Kshs 13.3, from Kshs 13.0 in FY’2023, mainly driven by the 1.6% decrease in total operating expenses to Kshs 37.6 bn, from Kshs 38.2 bn in FY’2023, which outpaced the 1.5% decrease in total operating income to Kshs 62.7 bn, from Kshs 63.7 bn in FY’2023 ,
- The 1.5% decline in total operating income was mainly driven by 3.1% decrease in Non funded Income (NFI) to Kshs 28.2 bn, from Kshs 29.1 bn in FY’2023, coupled with a a 0.3% decrease in Net Interest Income to Kshs 34.5 bn, from Kshs 34.6 bn in FY’2023,
- Interest income grew by 16.0% to Kshs 75.7 bn from Kshs 65.2 bn in FY’2023, mainly driven by a 27.8% increase in interest income from loans and advances to Kshs 46.5 bn from Kshs 36.4 bn in FY’2023, coupled with a 123.9% growth in interest income from deposits and placements to Kshs 3.4 bn, from Kshs 1.5 bn in FY’2023, which outpaced the 5.6% decrease in income from government securities to Kshs 25.6 bn in FY’2024 from Kshs 27.2 bn in FY’2023 . Consequently, the Yield on Interest-Earning Assets (YIEA) increased by 1.4% points to 12.5% from 11.1% recorded in FY’2023, mainly attributable to the 16.0% growth in trailing interest income to Kshs 75.7 bn, from Kshs 65.2 bn in FY’2023, compared to the lower 3.3% increase in average interest earning assets to Kshs 607.8 bn, from Kshs 588.5 bn in FY’2023,
- Interest expenses rose by 34.5% to Kshs 41.2 bn, from Kshs 30.6 bn in FY’2023, driven by 34.5% increase in interest from customer deposits to Kshs 38.2 bn, from Kshs 28.4 bn in FY’2023, coupled with a 60.2% increase in other interest expenses to Kshs 1.1 bn in FY’2024, from Kshs 0.7 bn recorded in FY’2023. Additionally, interest expense from deposits and placements increased by 21.7% to Kshs 1.9 bn, from Kshs 1.5 bn in FY’2023. Consequently, Cost of funds (COF) increased by 1.8% points to 7.4%, from 5.5% recorded in FY’2023, owing to a faster 34.5% increase in Trailing interest expense to Kshs 41.2 bn, from Kshs 30.6 bn in FY’2023, compared to the 1.2% increase in average interest bearing liabilities to Kshs 559.5 bn from Kshs 553.1 bn in FY’2023. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) decreased by 0.2% points to 5.7% from 5.9% in FY’2023, attributable to the 3.3% increase in average interest earning assets to Kshs 607.8 bn, from Kshs 588.5 bn in FY’2023,coupled with 0.3% decrease in trailing net interest income to Kshs 34.5 bn, from Kshs 34.6 bn recorded in FY’2023,
- Non-Funded Income (NFI) decreased by 3.1% to Kshs 28.2 bn from Kshs 29.1 bn in FY’2023, mainly driven by a 25.4% decrease in the foreign exchange trading income to Kshs 6.2 bn from Kshs 8.4 bn in FY’2023, highlighting the bank’s reduced foreign exchange margins, but was however supported bythe 5.5% increase in the total fees to Kshs 18.4 bn from Kshs 17.5 bn in FY’2023.The revenue mix shifted to 55:45 from 54:46 in FY’2023 for the funded to non-funded income owing to the 3.1% decline in Non Funded Income, faster than 0.3% decline in Funded Income,
- Total operating expenses decreased by 1.6% to Kshs 37.6 bn from Kshs 38.2 bn in FY’2023, driven by 40.1% decrease in loan loss provisions to Kshs 5.5 bn from Kshs 9.2 bn in FY’2023, which outpaced the 10.7% increase in staff costs to Kshs 13.4 bn from Kshs 12.1 bn in FY’2023 coupled with the 10.5% increase in other operating expenses to Kshs 18.8 bn from Kshs 17.0 bn in FY’2023.The decrease in provisioning comes amid the alleviated credit risk as a result of improved business environment during the period as evidenced by the average FY’2024 Purchasing Managers Index (PMI) of 49.6, up from an average of 48.1 in FY’2023,
- Cost to Income Ratio (CIR) remained unchanged at 60.0% recorded in FY’2023, owing to the 1.6% decrease in total operating expenses,which fairly matched by a 1.5% decrease in total operating income. CIR without LLP increased by 5.6% points to 51.3% from 45.7% recorded in FY’2023, and,
- Profit before tax decreased by 1.3% to Kshs 25.1 bn from Kshs 25.5 bn in FY’2023, with effective tax rate decreasing to 13.0% in FY’2024 from 15.8% in FY’2023. As such, profit after tax increased by 1.9% to Kshs 21.9 bn, from Kshs 21.5 bn in FY’2023.

Balance Sheet

- The balance sheet recorded a contraction as total assets declined by 9.4% to Kshs 665.9 bn, from Kshs 734.6 bn in FY'2023, mainly driven by a 10.4% loan book contraction to Kshs 302.1 bn from Kshs 337.0 bn in FY'2023, coupled with a 10.4% decrease in investment in government securities to Kshs 180.8 bn, from Kshs 203.4 bn in FY'2023,
- Total liabilities declined by 12.8% to Kshs 556.2 bn from Kshs 638.0 bn in FY'2023, driven by a 13.4% decrease in customer deposits to Kshs 502.0 bn, from Kshs 579.4 bn in FY'2023, which outpaced the 576.7% increase in placements to Kshs 13.4 bn in FY'2024 from Kshs 7.6 bn in FY'2023,coupled with 376.0% increase in borrowings to Kshs 10.2 bn in FY'2024 from Kshs 6.4 bn in FY'2023. With 118 branches countrywide compared to 109 branches in FY'2023, deposits per branch decreased by 20.0% to Kshs 4.3 bn, from Kshs 5.3 bn in FY'2023. The decline in total liabilities was however supported by the 576.7% increase in placements to 13.4 bn, from Kshs 7.6 bn recorded in FY'2023
- The higher 13.4% decrease in customer deposits as compared to the 10.4% decline in loans led to a 2.0% points increase in the loan to deposits ratio to 60.2%, from 58.2% in FY'2023,
- The bank's Asset Quality improved, with Gross NPL ratio decreasing to 11.5% in FY'2024, from 12.3% in FY'2023, attributable to the 16.6% decrease in gross non-performing loans to Kshs 37.2 bn, from Kshs 44.6 bn in FY'2023, which outpaced the 10.4% decrease in gross loans to Kshs 324.1 bn, from Kshs 361.6 bn recorded in FY'2023,
- General Provisions (LLP) decreased by 27.1% to Kshs 11.3 bn in FY'2024 from Kshs 15.5 bn in FY'2023. The NPL coverage increased to 59.2% in FY'2024, from 55.2% in FY'2023, attributable to 17.6% increase in interest in suspense to Kshs 10.7 bn in FY'2023 from Kshs 9.1 bn FY'2023 and 16.6% decline in gross non-performing loans to Kshs 37.2 bn from Kshs 44.6 bn recorded in FY'2023 which outpaced the 27.1% increase in general provisions to Kshs 11.3 bn, from Kshs 15.5 bn in FY'2023
- Shareholders' funds increased by 13.5% to Kshs 109.7 bn in FY'2024, from Kshs 96.7 bn in FY'2023, supported by a 19.8% increase in retained earnings to Kshs 77.7 bn, from Kshs 64.9 bn in FY'2023,
- NCBA Group remained capitalized with a core capital to risk-weighted assets ratio of 21.2%, 10.7% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 21.2% exceeding the statutory requirement of 14.5% by 6.7% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.1%, and a Return on Average Equity (ROaE) of 21.2%.

Key Take-Outs:

1. **Increased earnings –** Core earnings per share increased by 1.9% to Kshs 13.3, from Kshs 13.0 in FY'2023, mainly driven by the 1.6% decrease in total operating expenses to Kshs 37.6 bn, from Kshs 38.2 bn in FY'2023, which outpaced the 1.5% decrease in total operating income to Kshs 62.7 bn, from Kshs 63.7 bn in FY'2023 ,

- **Improved asset quality –** The bank's Asset Quality improved, with Gross NPL ratio decreasing to 11.5% in FY'2024, from 12.3% in FY'2023, attributable to the 16.6% decrease in gross non-performing loans to Kshs 37.2 bn, from Kshs 44.6 bn in FY'2023, which outpaced the 10.4% decrease in gross loans to Kshs 324.1 bn, from Kshs 361.6 bn recorded in FY'2023,

2. **Decreased Lending –** The bank's loan book recorded a contraction of 10.4% to Kshs 302.1 bn from Kshs 337.0 bn in FY'2023 attributed to increased credit risk with NPLs rising to 16.4% in December 2024, from 14.8% in December 2023.
3. **Declaration of dividends -** The Board of Directors recommended a final dividend of Kshs 3.25, in addition to an interim dividend of 2.25 paid during the year, bringing the total dividend to Kshs 5.50 per share compared to Kshs 4.75 per share FY'2023. This translates to a dividend payout ratio of 41.4% and a dividend yield of 10.5% as of 28th March 2025, compared to a dividend payout ratio of 36.5% and a dividend yield of 10.8% in a similar period for FY'2023.

Going forward, the factors that would drive the group’s growth would be:

- **Revenue diversification -** The lender has also capitalized on revenue diversification and increasing the bottom line contribution of all the business lines. Notably, the group acquired AIG Kenya in July 2024 with the company being rebranded as NCBA-IG on March 2025 joining NCBA’s six other subsidiaries, reinforcing the group’s commitment to its footprints in the financial services landscape

Valuation Summary

- We are of the view that NCBA Group is a “buy” with a target price of Kshs 57.4 representing an upside of 8.8%, from the current price of 52.50 as of 29th March 2025, inclusive of a dividend yield of 10.5%.
- NCBA Group is currently trading at a P/TBV of 0.9x and a P/E of 4.0x vs an industry average of 1.0x and 4.8x respectivel