

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

Balance Sheet Items	H1'2024	H1'2025	y/y change
Net Loans and Advances	309.7	288.1	(7.0%)
Government Securities	182.6	180.1	(1.3%)
Total Assets	689.1	663.0	(3.8%)
Customer Deposits	528.9	497.0	(6.0%)
Deposits per Branch	4.6	4.2	(8.4%)
Total Liabilities	587.7	544.5	(7.3%)
Shareholders' Funds	101.4	118.5	16.8%

Key Ratios	H1'2024	H1'2025	y/y change
Loan to Deposit Ratio	58.6%	58.0%	(0.6%)
Government Securities to Deposit ratio	34.5%	36.2%	1.7%
Return on average equity	23.1%	21.0%	(2.1%)
Return on average assets	3.2%	3.4%	0.2%

Income Statement	H1'2024	H1'2025	y/y change
Net Interest Income	16.5	20.8	26.7%
Net non-Interest Income	14.9	14.5	(2.9%)
Total Operating income	31.4	35.3	12.7%
Loan Loss provision	2.7	3.2	19.1%
Total Operating expenses	19.2	21.8	13.5%
Profit before tax	12.2	13.6	11.4%
Profit after tax	9.8	11.0	12.6%
Core EPS (Kshs)	6.0	6.7	12.6%
Dividend Per Share (Kshs)	2.25	2.50	11.1%
Dividend Yield (Annualized)	17.6%	9.3%	(8.3%)
Dividend Payout ratio	37.8%	37.3%	(0.5%)

Income Statement Ratios	H1'2024	H1'2025	y/y % points change
Yield from interest-earning assets	12.5%	12.4%	(0.1%)
Cost of funding	7.1%	6.1%	(1.0%)
Net Interest Spread	5.4%	6.3%	0.9%
Net Interest Margin	5.8%	6.7%	0.9%
Cost of Risk	8.6%	9.1%	0.5%
Net Interest Income as % of operating income	52.5%	59.0%	6.5%
Non-Funded Income as a % of operating income	47.5%	41.0%	(6.5%)
Cost to Income Ratio	61.2%	61.6%	0.4%
Cost to Income Ratio without LLP	52.6%	52.5%	(0.1%)

Capital Adequacy Ratios	H1'2024	H1'2025	y/y % points change
Core Capital/Total Liabilities	17.1%	21.2%	4.2%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	9.1%	13.2%	4.2%
Core Capital/Total Risk Weighted Assets	18.5%	21.5%	3.1%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	8.0%	11.0%	3.1%
Total Capital/Total Risk Weighted Assets	18.6%	21.6%	3.1%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	4.1%	7.1%	3.1%
Liquidity Ratio	51.6%	55.8%	4.2%

Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	31.6%	35.8%	4.2%

Income Statement

- Core earnings per share increased by 12.6% to Kshs 6.7, from Kshs 6.0 in H1'2024, mainly driven by the 12.7% increase in total operating income to Kshs 35.3 bn, from Kshs 31.4 bn in H1'2024, which outpaced the 13.5% increase in total operating expenses to Kshs 21.8 bn, from Kshs 19.2 bn in H1'2024,
- The 12.7% increase in total operating income was mainly driven by the 26.7% increase in Net Interest Income to Kshs 20.8 bn, from Kshs 16.5 bn in H1'2024. Additionally, Non funded Income (NFI) declined by 2.9% to Kshs 14.5 bn, from Kshs 14.9 bn in H1'2024,
- Interest income declined by 10.7% to Kshs 34.0 bn from Kshs 38.1 bn in H1'2024, mainly driven by a 14.2% decrease in interest income from loans and advances to Kshs 20.0 bn from Kshs 23.3 bn in H1'2024, coupled with a 18.9% decline in interest income from deposits and placements to Kshs 1.3 bn, from Kshs 1.7 bn in H1'2024, coupled with the 3.1% decrease in income from government securities to Kshs 12.6 bn in H1'2025 from Kshs 13.0 bn in H1'2024. Consequently, the Yield on Interest-Earning Assets (YIEA) decreased by 0.1% points to 12.4% from 12.5% recorded in H1'2024, mainly attributable to the 1.0% decrease in average interest earning assets to Kshs 579.1 bn, from Kshs 584.8 bn in H1'2024, compared to the lower 1.8% decline in trailing interest income to Kshs 71.6 bn, from Kshs 72.9 bn in H1'2024,
- Interest expenses declined by 39.3% to Kshs 13.1 bn, from Kshs 21.6 bn in H1'2024, driven by 39.6% decrease in interest from customer deposits to Kshs 12.2 bn, from Kshs 20.3 bn in H1'2024. Additionally, other interest expenses decreased by 23.4% to Kshs 0.3 bn in H1'2025, from Kshs 0.4 bn recorded in H1'2024. Interest expense from deposits and placements decreased by 38.6% to Kshs 0.6 bn, from Kshs 0.9 bn in H1'2024. Consequently, Cost of funds (COF) decreased by 1.0% points to 6.1%, from 7.1% recorded in H1'2024, owing to a faster 3.1% decrease in average interest bearing liabilities to Kshs 534.9 bn from Kshs 552.1 bn in H1'2024, compared to the 16.4% decrease in Trailing interest expense to Kshs 32.7 bn, from Kshs 39.1 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 0.9% points to 6.7% from 5.8% in H1'2024, attributable to the 1.0% decrease in average interest earning assets to Kshs 579.1 bn, from Kshs 584.8 bn in H1'2024, coupled with 15.0% increase in trailing net interest income to Kshs 38.9 bn, from Kshs 33.8 bn recorded in H1'2024,
- Non-Funded Income (NFI) decreased by 2.9% to Kshs 14.5 bn from Kshs 14.9 bn in H1'2024, mainly driven by a 34.0 % decrease in the foreign exchange trading income to Kshs 2.4 bn from Kshs 3.7 bn in H1'2024, highlighting the bank's reduced foreign exchange margins, coupled with the 0.3% decrease in the total fees to Kshs 9.2 bn from Kshs 9.3 bn in H1'2024. The revenue mix shifted to 59:41 from 52:48 in H1'2024 for the funded to non-funded income owing to the 26.7% growth in Funded Income, compared to 2.9% decline in Non Funded Income,
- Total operating expenses increased by 13.5% to Kshs 21.8 bn from Kshs 19.2 bn in H1'2024, driven by 19.1% increase in loan loss provisions to Kshs 3.2 bn from Kshs 2.7 bn in H1'2024, coupled with the 12.8 % increase in staff costs to Kshs 7.7 bn from Kshs 6.9 bn in H1'2024 and the 12.3% increase in other operating expenses to Kshs 10.8 bn from Kshs 9.6 bn in H1'2024.
- Cost to Income Ratio (CIR) increased by 0.4% points to 61.6% from 61.2% in H1'2024, owing to the 13.5% increase in total operating expenses, which fairly matched by a 12.7% increase in total operating income. CIR without LLP decreased by 0.1% points to 52.5% from 52.6% recorded in H1'2024, and,
- Profit before tax increased by 11.4% to Kshs 13.6 bn from Kshs 12.2 bn in H1'2024, with effective tax rate decreasing to 18.5% in H1'2025 from 19.3% in H1'2024. As such, profit after tax increased by 12.6% to Kshs 11.0 bn, from Kshs 9.8 bn in H1'2024.

Balance Sheet

- The balance sheet recorded a contraction as total assets declined by 3.8% to Kshs 663.0 bn, from Kshs 689.1 bn in H1'2024, mainly driven by a 7.0% loan book contraction to Kshs 288.1 bn from Kshs 309.7 bn in H1'2024 and a 1.3% decrease in investment in government securities to Kshs 180.1 bn, from Kshs 182.6 bn in H1'2024,
- Total liabilities declined by 7.3% to Kshs 544.5 bn from Kshs 587.7 bn in H1'2024, driven by a 6.0% decrease in customer deposits to Kshs 497.0 bn, from Kshs 528.9 bn in H1'2024, coupled with the 71.3% decrease in placements to Kshs 5.8 bn in H1'2025 from Kshs 20.2 bn in H1'2024, and a 10.5% decrease in borrowings to Kshs 8.5 bn in H1'2025 from Kshs 9.5 bn in H1'2024.
- The lower 6.0% decrease in customer deposits as compared to the 7.0% decline in loans led to a 0.6% points decrease in the loan to deposits ratio to 58.0%, from 58.6% in H1'2024,
- The bank's Asset Quality improved, with Gross NPL ratio reduced by 0.1% points to 12.18% in H1'2025 from 12.24% in H1'2024, attributable to the 6.3% decrease in gross loans to Kshs 313.1 bn, from Kshs 334.1 bn recorded in H1'2024, which outpaced the 6.8% decrease in gross non-performing loans to Kshs 38.1 bn, from Kshs 40.9 bn in H1'2024,
- General Provisions (LLP) increased by 2.3% to Kshs 13.8 bn in H1'2025 from Kshs 13.5 bn in H1'2024. The NPL coverage increased to 65.5% in H1'2025, from 59.8% in H1'2024, attributable to 2.1% increase in interest in suspense to Kshs 11.2 bn in H1'2025 from Kshs 11.0 bn in H1'2024 and 6.8% decline in gross non-performing loans to Kshs 38.1 bn from Kshs 40.9 bn recorded in H1'2024 coupled with the 2.3% increase in general provisions to Kshs 13.8 bn, from Kshs 13.5 bn in H1'2024
- Shareholders' funds increased by 16.8% to Kshs 118.5 bn in H1'2025, from Kshs 101.4 bn in H1'2024, supported by a 18.8% increase in retained earnings to Kshs 88.8 bn, from Kshs 74.7 bn in H1'2024,
- NCBA Bank remained capitalized with a core capital to risk-weighted assets ratio of 21.6%, 11.1% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 21.6% exceeding the statutory requirement of 14.5% by 7.1% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.4%, and a Return on Average Equity (ROaE) of 21.0%.

Key Take-Outs:

1. **Increased earnings** – Core earnings per share increased by 12.6% to Kshs 6.7, from Kshs 6.0 in H1'2024, mainly driven by the 12.7% increase in total operating income to Kshs 35.3 bn, from Kshs 31.4 bn in H1'2024, which outpaced the 13.5% increase in total operating expenses to Kshs 21.8 bn, from Kshs 19.2 bn in H1'2024
2. **Improved asset quality** – The bank's Asset Quality improved, with Gross NPL ratio reduced by 0.1% points to 12.18% in H1'2025 from 12.24% in H1'2024, attributable to the 6.3% decrease in gross loans to Kshs 313.1 bn, from Kshs 334.1 bn recorded in H1'2024, which outpaced the 6.8% decrease in gross non-performing loans to Kshs 38.1 bn, from Kshs 40.9 bn in H1'2024,
3. **Decreased Lending** – The bank's loan book recorded a contraction of 7.0% to Kshs 288.1 bn from Kshs 309.7 bn in H1'2024 attributed to increased credit risk aversion with NPLs decreasing to 12.18% in June 2025, from 12.24% in June 2024.
4. **Contracted Balance sheet**- The balance sheet recorded a contraction as total assets declined by 3.8% to Kshs 663.0 bn, from Kshs 689.1 bn in H1'2024, mainly driven by a 7.0% loan book contraction to Kshs 288.1 bn from Kshs 309.7 bn in H1'2024.
5. **Declaration of dividends**- The board of directors declared an interim dividend of Kshs 2.50 per share a 11.1% increase from Kshs 2.25 declared in H1'2024. This translates to an annualized dividend yield of 9.3% and a dividend payout ratio of 37.3%.

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.

Valuation Summary

- We are of the view that NCBA Group is a "accumulate" with a target price of Kshs 72.3 representing an upside

of 16.0%, from the current price of 64.3 as of 29th August 2025, inclusive with a dividend yield of 3.9%.

- NCBA Group is currently trading at a P/TBV of 1.0x and a P/E of 4.6x vs an industry average of 1.3x and 4.5x respectively