

Below is a summary of NCBA Group's Q1'2025 performance:

| Balance Sheet Items        | Q1'2024      | Q1'2025      | y/y change     |
|----------------------------|--------------|--------------|----------------|
| Net Loans and Advances     | 320.5        | 287.0        | (10.4%)        |
| Government Securities      | 178.0        | 187.5        | 5.3%           |
| <b>Total Assets</b>        | <b>694.9</b> | <b>656.0</b> | <b>(5.60%)</b> |
| Customer Deposits          | 548.1        | 495.7        | (9.6%)         |
| Deposit per Branch         | 5.0          | 4.2          | (17.2%)        |
| <b>Total Liabilities</b>   | <b>596.1</b> | <b>539.7</b> | <b>(9.5%)</b>  |
| <b>Shareholder's Funds</b> | <b>98.8</b>  | <b>116.3</b> | <b>17.8%</b>   |

| Balance Sheet Ratios             | Q1'2024 | Q1'2025 | % points change |
|----------------------------------|---------|---------|-----------------|
| Loan to Deposit Ratio            | 58.5%   | 57.9%   | (0.6%)          |
| Govt Securities to Deposit ratio | 32.5%   | 37.8%   | 5.3%            |
| Return on average equity         | 23.2%   | 21.2%   | (2.1%)          |
| Return on average assets         | 3.3%    | 3.4%    | 0.1%            |

| Income Statement                | Q1'2024     | Q1'2025     | y/y change   |
|---------------------------------|-------------|-------------|--------------|
| Net Interest Income             | 8.3         | 10.0        | 20.6%        |
| Net non-Interest Income         | 7.7         | 7.4         | (4.5%)       |
| <b>Total Operating income</b>   | <b>16.0</b> | <b>17.3</b> | <b>8.5%</b>  |
| Loan Loss provision             | 1.4         | 1.6         | 20.3%        |
| <b>Total Operating expenses</b> | <b>9.4</b>  | <b>10.5</b> | <b>11.3%</b> |
| Profit before tax               | 6.5         | 6.8         | 4.5%         |
| <b>Profit after tax</b>         | <b>5.3</b>  | <b>5.5</b>  | <b>3.4%</b>  |
| <b>Core EPS</b>                 | <b>3.2</b>  | <b>3.3</b>  | <b>3.4%</b>  |

| Income Statement Ratios                      | Q1'2024 | Q1'2025 | % points change |
|--|---------|---------|-----------------|
| Yield from interest-earning assets           | 12.2%   | 10.9%   | (1.2%)          |
| Cost of funding                              | 6.5%    | 5.0%    | (1.5%)          |
| Net Interest Spread                          | 5.7%    | 5.9%    | 0.2%            |
| Net Interest Margin                          | 6.0%    | 6.5%    | 0.5%            |
| Cost of Risk                                 | 8.5%    | 9.4%    | 0.9%            |
| Net Interest Income as % of operating income | 51.7%   | 57.5%   | 5.8%            |
| Non-Funded Income as a % of operating income | 48.3%   | 42.5%   | (5.8%)          |
| Cost to Income Ratio                         | 59.1%   | 60.6%   | 1.5%            |
| Cost to Income Ratio without LLP             | 50.6%   | 51.2%   | 0.6%            |

| Capital Adequacy Ratios                  | Q1'2024      | Q1'2025      | % points change |
|--|--------------|--------------|-----------------|
| Core Capital/Total Liabilities           | 17.1%        | 21.2%        | 4.2%            |
| Minimum Statutory ratio                  | 8.0%         | 8.0%         |                 |
| <b>Excess</b>                            | <b>9.1%</b>  | <b>13.2%</b> | <b>4.2%</b>     |
| Core Capital/Total Risk Weighted Assets  | 18.5%        | 21.5%        | 3.1%            |
| Minimum Statutory ratio                  | 10.5%        | 10.5%        |                 |
| <b>Excess</b>                            | <b>8.0%</b>  | <b>11.0%</b> | <b>3.1%</b>     |
| Total Capital/Total Risk Weighted Assets | 18.6%        | 21.6%        | 3.1%            |
| Minimum Statutory ratio                  | 14.5%        | 14.5%        |                 |
| <b>Excess</b>                            | <b>4.1%</b>  | <b>7.1%</b>  | <b>3.1%</b>     |
| Liquidity Ratio                          | 51.6%        | 55.8%        | 4.2%            |
| Minimum Statutory ratio                  | 20.0%        | 20.0%        |                 |
| <b>Excess</b>                            | <b>31.6%</b> | <b>35.8%</b> | <b>4.2%</b>     |

### Income Statement

- Core earnings per share increased by 3.4% to Kshs 3.3, from Kshs 3.2 in Q1'2024, mainly driven by the 8.5% increase in total operating income to Kshs 17.3 bn, from Kshs 16.0 bn in Q1'2024, which outpaced the 11.3% increase in total operating expenses to Kshs 10.5 bn, from Kshs 9.4 bn in Q1'2024,
- The 8.5% increase in total operating income was mainly driven by the 20.6% increase in Net Interest Income to Kshs 10.0 bn, from Kshs 8.3 bn in Q1'2024. Additionally, Non funded Income (NFI) declined by 4.5% to Kshs 7.4 bn, from Kshs 7.7 bn in Q1'2024,
- Interest income declined by 10.1% to Kshs 17.2 bn from Kshs 19.1 bn in Q1'2024, mainly driven by a 11.1% decrease in interest income from loans and advances to Kshs 10.3 bn from Kshs 11.6 bn in Q1'2024, coupled with a 27.2% decline in interest income from deposits and placements to Kshs 0.5 bn, from Kshs 0.7 bn in Q1'2024, coupled with the 6.2% decrease in income from government securities to Kshs 6.3 bn in Q1'2025 from Kshs 6.7 bn in Q1'2024 . Consequently, the Yield on Interest-Earning Assets (YIEA) decreased by 1.2% points to 10.9% from 12.2% recorded in Q1'2024, mainly attributable to the 2.5% decrease in average interest earning assets to Kshs 557.3 bn, from Kshs 571.4 bn in Q1'2024, compared to the lower 9.1% decline in trailing interest income to Kshs 63.3 bn, from Kshs 69.6 bn in Q1'2024,
- Interest expenses declined by 33.5% to Kshs 7.2 bn, from Kshs 10.8 bn in Q1'2024, driven by 35.9% decrease in interest from customer deposits to Kshs 6.6 bn, from Kshs 10.3 bn in Q1'2024. Additionally, other interest expenses increased marginally by 14.4% in to Kshs 0.18 bn in Q1'2025, from Kshs 0.16 bn recorded in Q1'2024. Interest expense from deposits and placements increased marginally by 7.9% to Kshs 0.43 bn, from Kshs 0.40 bn in Q1'2024. Consequently, Cost of funds (COF) decreased by 1.2% points to 5.3%, from 6.5% recorded in Q1'2024, owing to a faster 5.4% decrease in average interest bearing liabilities to Kshs 510.5 bn from Kshs 539.7 bn in Q1'2024, compared to the 23.1% increase in Trailing interest expense to Kshs 27.0 bn, from Kshs 35.1 bn in Q1'2024. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 0.5% points to 6.5% from 6.0% in Q1'2024, attributable to the 2.5% decrease in average interest earning assets to Kshs 557.3 bn, from Kshs 571.4 bn in Q1'2024, coupled with 5.2% increase in trailing net interest income to Kshs 36.3 bn, from Kshs 34.5 bn recorded in Q1'2024,
- Non-Funded Income (NFI) decreased by 4.5% to Kshs 7.4 bn from Kshs 7.7 bn in Q1'2024, mainly driven by a 49.6% decrease in the foreign exchange trading income to Kshs 1.2 bn from Kshs 2.3 bn in Q1'2024, highlighting the bank's reduced foreign exchange margins, coupled with the 2.8% decrease in the total fees to Kshs 4.5 bn from Kshs 4.7 bn in Q1'2024. The revenue mix shifted to 58:42 from 52:48 in Q1'2024 for the funded to non-funded income owing to the 20.6% growth in Funded Income, compared to 4.5% decline in Non Funded Income,
- Total operating expenses increased by 11.3% to Kshs 10.5 bn from Kshs 9.4 bn in Q1'2024, driven by 20.3% increase in loan loss provisions to Kshs 1.6 bn from Kshs 1.4 bn in Q1'2024, coupled with the 13.4% increase in staff costs to Kshs 3.7 bn from Kshs 3.3 bn in Q1'2024 and the 7.3% increase in other operating expenses to Kshs 5.2 bn from Kshs 4.8 bn in Q1'2024. The increase in provisioning comes despite the alleviated credit risk as a result of improved business environment during the period as evidenced by the average Q1'2025 Purchasing Managers Index (PMI) of 50.9, up from an average of 50.3 in Q1'2024,
- Cost to Income Ratio (CIR) increased by 1.5% points to 60.6% from 59.1% in Q1'2024, owing to the 11.3% increase in total operating expenses, which fairly matched by a 8.5% increase in total operating income. CIR without LLP increased by 0.6% points to 51.2% from 50.6% recorded in Q1'2024, and,
- Profit before tax increased by 4.5% to Kshs 6.8 bn from Kshs 6.5 bn in Q1'2024, with effective tax rate increasing to 19.7% in Q1'2025 from 18.9% in Q1'2024. As such, profit after tax increased by 3.4% to Kshs 5.5 bn, from Kshs 5.3 bn in Q1'2024.

### Balance Sheet

- The balance sheet recorded a contraction as total assets declined by 5.6% to Kshs 656.0 bn, from Kshs 694.9 bn in Q1'2024, mainly driven by a 10.4% loan book contraction to Kshs 287.0 bn from Kshs 320.5 bn in Q1'2024, however supported by a 5.3% increase in investment in government securities to Kshs 187.5 bn, from Kshs 178.0 bn in Q1'2024,
- Total liabilities declined by 9.5% to Kshs 539.7 bn from Kshs 596.1 bn in Q1'2024, driven by a 9.6% decrease in customer deposits to Kshs 495.7 bn, from Kshs 548.1 bn in Q1'2024, coupled with the 883.3% decrease in placements to Kshs 4.0 bn in Q1'2025 from Kshs 12.8 bn in Q1'2024, however supported by 290.7% increase in borrowings to Kshs 7.9 bn in Q1'2025 from Kshs 5.0 bn in Q1'2024. With 119 branches countrywide compared to 109 branches in Q1'2024, deposits per branch decreased by 17.2% to Kshs 4.2 bn, from Kshs 5.0 bn in Q1'2024.
- The lower 9.6% decrease in customer deposits as compared to the 10.4% decline in loans led to a 0.6% points decrease in the loan to deposits ratio to 57.9%, from 58.5% in Q1'2024,
- The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 12.2% in Q1'2025, from 11.7% in Q1'2024, attributable to the 9.4% decrease in gross loans to Kshs 310.8 bn, from Kshs 342.9 bn recorded in Q1'2024, which outpaced the 5.9% decrease in gross non-performing loans to Kshs 37.8 bn, from Kshs 40.2 bn in Q1'2024,
- General Provisions (LLP) increased by 7.8% to Kshs 13.6 bn in Q1'2025 from Kshs 12.6 bn in Q1'2024. The NPL coverage increased to 63.0% in Q1'2025, from 55.7% in Q1'2024, attributable to 4.3% increase in interest in suspense to Kshs 10.2 bn in Q1'2024 from Kshs 9.8 bn Q1'2024 and 5.9% decline in gross non-performing loans to Kshs 37.8 bn from Kshs 40.2 bn recorded in Q1'2024 coupled with the 7.8% increase in general provisions to Kshs 13.6 bn, from Kshs 12.6 bn in Q1'2024
- Shareholders' funds increased by 17.8% to Kshs 116.3 bn in Q1'2025, from Kshs 98.8 bn in Q1'2024, supported by a 18.5% increase in retained earnings to Kshs 83.2 bn, from Kshs 70.2 bn in Q1'2024,
- NCBA Group remained capitalized with a core capital to risk-weighted assets ratio of 21.5%, 11.0% 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 21.2%.

#### **Key Take-Outs:**

1. **Increased earnings** – Core earnings per share increased by 3.4% to Kshs 3.3, from Kshs 3.2 in Q1'2024, mainly driven by the 8.5% increase in total operating income to Kshs 17.3 bn, from Kshs 16.0 bn in Q1'2024, which outpaced the 11.3% increase in total operating expenses to Kshs 10.5 bn, from Kshs 9.4 bn in Q1'2024
2. **Deteriorated asset quality** – The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 12.2% in Q1'2025, from 11.7% in Q1'2024, attributable to the 9.4% decrease in gross loans to Kshs 310.8 bn, from Kshs 342.9 bn recorded in Q1'2024, which outpaced the 5.9% decrease in gross non-performing loans to Kshs 37.8 bn, from Kshs 40.2 bn in Q1'2024,
3. **Decreased Lending** – The bank's loan book recorded a contraction of 10.4% to Kshs 287.0 bn from Kshs 320.5 bn in Q1'2024 attributed to increased credit risk with NPLs rising to 12.2% in March 2025, from 11.7% in March 2024.
4. **Contracted Balance sheet**- The balance sheet recorded a contraction as total assets declined by 5.6% to Kshs 656.0 bn, from Kshs 694.9 bn in Q1'2024, mainly driven by a 10.4% loan book contraction to Kshs 287.0 bn from Kshs 320.5 bn in Q1'2024

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 57.3 representing an upside of 10.2%, from the current price of 52.00 as of 23<sup>rd</sup> May 2025.
- NCBA Group is currently trading at a P/TBV of 0.8x and a P/E of 3.9x vs an industry average of 1.1x and 4.8x respectively