

Below is a summary of HFCB Group's Q1'2026 performance:

Balance Sheet Items	Q1'2025	Q1'2026	y/y change
Net loans	38.9	41.8	7.4%
Government Securities	20.4	33.7	64.9%
Total Assets	73.4	90.5	23.3%
Customer Deposits	50.1	65.5	30.7%
Deposits Per Branch	2.3	3.0	30.7%
Total Liabilities	57.2	72.0	25.9%
Shareholder's Funds	16.2	18.5	14.3%

Balance Sheet Ratios	Q1'2025	Q1'2026	% points change
Loan to deposit ratio	77.6%	63.8%	(13.8%)
Government Securities to deposit ratio	40.7%	51.4%	10.7%
Return on Average Equity	5.6%	9.1%	3.5%
Return on Average Assets	1.0%	1.9%	0.9%

Income Statement	Q1'2025	Q1'2026	y/y change
Net Interest Income	1.0	1.3	27.9%
Net non-Interest Income	0.4	0.6	33.9%
Total Operating income	1.4	1.8	29.7%
Loan Loss provision	(0.1)	(0.1)	12.4%
Total Operating expenses	(1.1)	(1.23)	13.8%
Profit before tax	0.3	0.6	80.5%
Profit after tax	0.3	0.5	45.0%
Core EPS	0.1	0.2	67.0%

Income Statement Ratios	Q1'2025	Q1'2026	% points change
Yield from interest-earning assets	12.2%	9.7%	(2.5%)
Cost of funding	7.1%	6.1%	(1.0%)
Net Interest Spread	5.1%	3.6%	(1.5%)
Net Interest Margin	5.4%	6.8%	1.3%
Cost of Risk	7.1%	6.6%	(0.5%)
Net Interest Income as % of operating income	70.0%	69.0%	(1.0%)
Non-Funded Income as a % of operating income	30.0%	31.0%	1.0%
Cost to Income Ratio (with LLP)	76.2%	66.9%	(9.3%)
Cost to Income Ratio (without LLP)	69.1%	60.7%	(8.4%)

Capital Adequacy Ratios	Q1'2025	Q1'2026	% points change
Core Capital/Total Liabilities	18.1%	15.7%	(2.4%)

Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	10.1%	7.7%	(2.4%)
Core Capital/Total Risk Weighted Assets	21.3%	21.6%	0.3%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	10.8%	11.1%	0.3%
Total Capital/Total Risk Weighted Assets	24.3%	23.1%	(1.2%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	9.8%	8.6%	(1.2%)
Liquidity Ratio	45.1%	56.6%	11.5%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	25.1%	36.6%	11.5%

Income Statement

- Core earnings per share increased by 67.0% to Kshs 0.2 in Q1'2026, from Kshs 0.1 in Q1'2025, supported by a 29.7% increase in Total Operating Income to Kshs 1.8 bn in Q1'2026 from Kshs 1.4 bn in Q1'2025, which outpaced a 13.8% increase in total operating expenses to Kshs 1.2 bn from Kshs 1.1 bn over the same period,
- The total operating income increased by 29.7% to Kshs 1.8 bn from Kshs 1.4 bn in Q1'2025, mainly driven by a 27.9% growth in Net Interest Income (NII) to Kshs 1.3 bn, from Kshs 1.0 bn in Q1'2025, coupled with the 33.9% increase in Non- Interest Income (NFI) to Kshs 0.6 bn from Kshs 0.4 bn in Q1'2025,
- Interest income grew by 14.3% to Kshs 2.1 bn from Kshs 1.8 bn in Q1'2025, mainly driven by an 48.7% growth in interest income from government securities to Kshs 0.9 bn, from Kshs 0.6 bn in Q1'2025, but was weighed down by the 4.4% decline in interest income from loans and advances to Kshs 1.1 bn, from Kshs 1.2 bn in Q1'2025. As such, the Yield on Interest-Earning Assets (YIEA) declined by 2.5% points to 9.7% from 12.2% in Q1'2025, attributable to the faster 25.0% growth in average interest-earning assets, which outpaced the growth xx% in interest income,
- Interest expenses declined by 2.4% to Kshs 0.79 bn from Kshs 0.8 bn in Q1'2025, mainly driven by a 80.7% decrease in interest expense from placements and deposits to Kshs 0.006 bn, from Kshs 0.03 bn recorded in Q1'2025 coupled with an 19.3% decrease in other interest expenses to Kshs 0.06 bn from Kshs 0.07 bn in Q1'2025. Consequently, cost of funds (COF) decreased slightly by 1.9% points to 5.2% from 7.1% recorded in Q1'2025, owing to a 15.7% decrease in Trailing interest expense to Kshs 3.1 bn from Kshs 3.7 bn recorded in Q1'2025, coupled with a 16.6% increase in average interest-bearing liabilities to Kshs 60.7 bn from Kshs 52.0 bn in Q1'2025. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 1.3% points to 6.8% from 5.4% in Q1'2025, attributable to a faster 55.9% increase in trailing net interest income to Kshs 4.6 bn from Kshs 3.0 bn recorded in Q1'2025, outpacing the 25.0% growth in average interest earning assets,
- Non-Funded Income (NFI) increased by 33.9% to Kshs 0.6 bn from Kshs 0.4 bn in Q1'2025, mainly driven by a 61.4% increase in other income to Kshs 0.4 bn, from Kshs 0.2 bn in Q1'2025. Total fees and commissions increased by 1.9% to 0.148 bn from the Kshs 0.146 bn recorded in in Q1'2025. The revenue mix shifted to 69:31 from 70:30 for funded versus non-funded income, driven by the faster 33.9% growth in non-funded income compared to the 27.9% increase in net interest income,

- Total operating expense increased by 13.8% to Kshs 1.2 bn in Q1'2026, from Kshs 1.1 bn in Q1'2025, mainly attributable to 28.9% increase in staff cost to Kshs 0.7 bn, from Kshs 0.5 bn in Q1'2025. Notably, loan loss provisions expense increased by 12.4% to Kshs 0.11 bn, from Kshs 0.10 bn recorded in Q1'2025,
- Cost to Income Ratio (CIR) decreased by 9.3% points to 66.9% from 76.2% in Q1'2025, owing to the slower 13.8% increase in total operating expenses, which was outpaced by the 29.7% increase in total operating income. CIR without LLP decreased by 8.4% points to 60.7% from 69.1% in Q1'2025.
- Profit before tax increased by 80.5% to Kshs 0.6 bn, from Kshs 0.3 bn recorded in Q1'2025. Despite the effective tax rate remaining at positive 2.5% in Q1'2026, profit after tax grew by 45.0% to Kshs 0.5 bn from Kshs 0.3 bn in Q1'2025

Balance Sheet

- The balance sheet recorded an expansion as total assets increased by 23.3% to Kshs 90.5 bn, from Kshs 73.4 bn in Q1'2025, mainly driven by a 64.9% increase in government securities holdings to Kshs 33.7 bn, from 20.4 bn in Q1'2025, coupled with a 7.4% increase in net loans and advances to Kshs 41.8 bn, from Kshs 38.9 bn in Q1'2025. Total liabilities increased by 25.9% to Kshs 72.0 bn from Kshs 57.2 bn in Q1'2025, mainly driven by 30.7% increase in customer deposits to Kshs 65.5 bn, from Kshs 50.1 bn in Q1'2025. With 22 branches, similar to Q1'2025, deposits per branch increased by 30.7% to Kshs 3.0 bn, from Kshs 2.3 bn in Q1'2025,
- The 30.7% growth in customer deposits, which outpaced the 7.4% increase in net loans led to a 13.8% decrease in the loan to deposits ratio to 63.8%, from 77.6% in Q1'2025,
- The bank's asset quality improved, as the Gross NPL ratio declined to 21.7% in Q1'2026 from 25.2% in Q1'2025. This was supported by a 6.5% growth in gross loans to Kshs 50.6 bn from Kshs 47.5 bn in Q1'2025, compared to the 8.4% decline in gross non-performing loans to Kshs 11.0 bn from Kshs 12.0 bn in Q1'2025.
- General provisions (LLP) increased by 9.1% to Kshs 5.8 bn in Q1'2026 from Kshs 5.3 bn in Q1'2025. Consequently, NPL coverage improved to 80.6% from 72.1% in Q1'2025, supported by a 8.0% decline in interest in suspense to Kshs 3.1 bn in Q1'2026 from Kshs 3.3 bn in Q1'2025, alongside a 8.4% reduction in gross non-performing loans to Kshs 11.0 bn from Kshs 12.0 bn in Q1'2025. Gross loans grew by 6.5% to Kshs 50.6 bn from Kshs 47.5 bn in Q1'2025, reflecting overall portfolio growth while maintaining asset quality,
- HFCB Group remains well-capitalized, with a core capital to risk-weighted assets ratio of 21.6%, 11.1 percentage points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio stood at 23.1%, exceeding the minimum statutory requirement of 14.5% by 8.6% points. The liquidity position strengthened, with the liquidity ratio rising to 56.6%, well above the 20.0% statutory threshold, resulting in an excess of 36.6% points,
- The bank currently has a Return on Average Assets (ROaA) of 1.9%, and a Return on Average Equity (ROaE) of 9.1%.

Key Take-Outs:

1. **Improved Profitability** – HFCB posted a 45.0% increase in Profit After Tax to Kshs 0.5 bn from Kshs 0.3 bn in Q1'2025, supported by a 27.9% growth in net interest income to Kshs 1.3 bn from Kshs 1.0 bn in Q1'2025 and a 33.9% increase in non-interest income to Kshs 0.6 bn from Kshs 0.4 bn in Q1'2025. However, operating expenses rose by 13.8% to Kshs 1.2 bn from Kshs 1.1 bn, weighing on performance.
2. **Improved asset quality** – The bank's asset quality improved, as the Gross NPL ratio declined to 21.7% in Q1'2026 from 25.2% in Q1'2025. This was supported by a 6.5% growth in gross loans to Kshs 50.6 bn

from Kshs 47.5 bn in Q1'2025, compared to the 8.4% decline in gross non-performing loans to Kshs 11.0 bn from Kshs 12.0 bn in Q1'2025

- 3. Expanded Balanced sheet** - as total assets increased by 23.3% to Kshs 90.5 bn, from Kshs 73.4 bn in Q1'2025, mainly driven by a 64.9% increase in governments securities holdings to Kshs 33.7 bn, from 20.4 bn in Q1'2025, coupled with a 7.4% increase in net loans and advances to Kshs 41.8 bn, from Kshs 38.9 bn in Q1'2025.
- 4. Increased lending-** Customer net loans and advances increased by 7.4% to Kshs 41.8 bn in Q1'2026, from Kshs 38.9 bn in Q1'2025.

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

- **Commercial and SME lending growth** – HFCB Group is expected to continue expanding its commercial and SME lending segments, supported by its Tier II bank status, strong capital position, growing deposit base and diversified business model. Management has also guided for continued earnings growth in FY'2026, driven by expansion across its banking, property, and bancassurance

Valuation Summary

- We are of the view that HFCB Group is an “accumulate” with a target price of Kshs 11.2 representing a upside of 15.5%, from the current price of 9.70 as of 29th May 2026
- HFCB Group is currently trading at a P/TBV of 1.0x and a P/E of 11.7x vs an industry average of 1.1x and 5.7x respectively.