

Below is a summary of HF Group's Q3'2025 performance:

Balance Sheet Items	Q3'2024	Q3'2025	y/y change
Net loans	38.2	39.3	2.8%
Government Securities	13.2	25.6	94.3%
Total Assets	65.6	79.9	21.9%
Customer Deposits	45.0	54.7	21.6%
Deposits Per Branch	2.0	2.5	21.6%
Total Liabilities	56.2	62.6	11.3%
Shareholder's Funds	9.4	17.4	85.1%

Balance Sheet Ratios	Q3'2024	Q3'2025	y/y change
Loan to deposit ratio	84.9%	71.7%	(13.2%)
Government Securities to deposit ratio	29.2%	46.7%	17.5%
Return on Average Equity	7.0%	7.7%	0.7%
Return on Average Assets	1.0%	1.4%	0.4%

Income Statement	Q3'2024	Q3'2025	y/y change
Net Interest Income	2.0	3.2	63.3%
Net non-Interest Income	1.0	1.3	28.6%
Total Operating income	3.0	4.5	51.6%
Loan Loss provision	(0.2)	(0.3)	20.7%
Total Operating expenses	(2.7)	(3.4)	26.5%
Profit before tax	0.3	1.1	264.9%
Profit after tax	0.5	1.0	104.5%
Core EPS	1.7	0.7	(58.3%)

Income Statement Ratios	Q3'2024	Q3'2025	y/y change
Yield from interest-earning assets	11.8%	12.3%	0.5%
Cost of funding	6.8%	6.1%	(0.7%)
Net Interest Spread	5.0%	6.2%	1.2%
Net Interest Margin	5.1%	6.6%	1.5%
Cost of Risk	8.4%	6.7%	(1.7%)
Net Interest Income as % of operating income	66.1%	71.2%	5.1%
Non-Funded Income as a % of operating income	33.9%	28.8%	(5.1%)
Cost to Income Ratio	89.5%	74.7%	(14.8%)
Cost to Income Ratio (without LLP)	81.1%	68.0%	(13.1%)

Capital Adequacy Ratios	Q3'2024	Q3'2025	y/y change
Core Capital/Total Liabilities	3.7%	16.8%	13.1%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	(4.3%)	8.8%	13.1%
Core Capital/Total Risk Weighted Assets	4.3%	21.9%	17.6%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	(6.2%)	11.4%	17.6%
Total Capital/Total Risk Weighted Assets	7.7%	24.6%	16.9%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	(6.8%)	10.1%	16.9%
Liquidity Ratio	26.1%	54.2%	28.1%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	6.1%	34.2%	28.1%

Income Statement

- Core earnings per share declined by 58.3% to Kshs 0.7 in Q3'2025, from Kshs 1.7 in Q3'2024, 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 51.6% increase in Total Operating Income to Kshs 4.5 bn in Q3'2025 from Kshs 3.0 bn in Q3'2024, which outpaced a 26.5% increase in total operating expenses to Kshs 3.4 bn from Kshs 2.7 bn over the same period,
- The total operating income increased by 51.6% to Kshs 4.5 bn from Kshs 3.0 bn in Q3'2024, mainly driven by a 63.3% growth in Net Interest Income (NII) to Kshs 3.2 bn, from Kshs 2.0 bn in Q3'2024, coupled with the 28.6% increase in Non- Interest Income (NFI) to Kshs 1.3 bn from Kshs 1.0 bn in Q3'2024,
- Interest income grew by 19.4% to Kshs 5.6 bn from Kshs 4.7 bn in Q3'2024, mainly driven by an 84.7% growth in interest income from government securities to Kshs 2.0 bn, from Kshs 1.1 bn in Q3'2024, but was weighed down by the 1.1% decline in interest income from loans and advances to Kshs 3.48 bn, from Kshs 3.52 bn in Q3'2024. As such, the Yield on Interest-Earning Assets (YIEA) increased by 0.5% points to 12.3% from 11.8% recorded in Q3'2024, attributable to a faster 20.3% increase in trailing interest income to Kshs 7.3 bn, from Kshs 6.1 bn in Q3'2024 compared to the slower 15.6% growth in average interest earning assets to Kshs 59.3 bn, from Kshs 51.3 bn in Q3'2024,
- Interest expenses declined by 12.4% to Kshs 2.4 bn from Kshs 2.7 bn in Q3'2024, mainly driven by a 84.4% decrease in interest expense from placements and deposits to Kshs 0.1 bn, from Kshs 0.3 bn recorded in Q3'2024 coupled with an 11.7% decrease in other interest expenses to Kshs 0.25 bn from Kshs 0.28 bn in Q3'2024. Consequently, cost of funds (COF) decreased by 0.7% points to 6.1% from 6.8% recorded in Q3'2024, owing to a 2.0% decrease in Trailing interest expense to Kshs 3.4 bn from Kshs 3.5 bn recorded in Q3'2024, compared to 9.6% increase in average interest-bearing liabilities to Kshs 55.7 bn from Kshs 50.8 bn in Q3'2024. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 1.5% points to 6.6% from 5.1% in Q3'2024, attributable to a

faster 50.1% increase in trailing net interest income to Kshs 3.9 bn from Kshs 2.6 bn recorded in Q3'2024, compared to the 15.6% growth in average interest earning assets,

- Non-Funded Income (NFI) increased by 28.6% to Kshs 1.3 bn from Kshs 1.0 bn in Q3'2024, mainly driven by a 85.1% increase in other income to Kshs 0.8 bn, from Kshs 0.5 bn in Q3'2024. Total fees and commissions decreased by 10.1% to 0.38 bn from the Kshs 0.42 bn recorded in in Q3'2024. The revenue mix shifted to 71:29, from 66:34 for the funded to Non-funded income owing to the faster 63.3% growth in Funded Income compared to a 28.6% increase in the Non-Funded Income,
- Total operating expense increased by 26.5% to Kshs 3.4 bn in Q3'2025, from Kshs 2.7 bn in Q3'2024, mainly attributable to 19.5% increase in staff cost to Kshs 1.6 bn, from Kshs 1.4 bn in Q3'2024. Notably, loan loss provisions expense increased by 20.7% to Kshs 0.30 bn, from Kshs 0.25 bn recorded in Q3'2024,
- Cost to Income Ratio (CIR) decreased by 14.8% points to 74.7% from 89.5% in Q3'2024, owing to the slower 26.5% increase in total operating expenses, which was outpaced by the 51.6% increase in total operating income. CIR without LLP decreased by 13.1% points to 68.0% from 81.1% in Q3'2024.
- Profit before tax increased by 264.9% to Kshs 1.1 bn, from Kshs 0.3 bn recorded in Q3'2024, and despite effective tax rate increasing to 13.2% in Q3'2025, from (54.8%) in Q3'2024, the profit after tax grew by 104.5% to Kshs 1.0 bn in Q3'2025, from Kshs 0.5 bn in Q3'2024.

Balance Sheet

- The balance sheet recorded an expansion as total assets increased by 21.9% to Kshs 79.9 bn, from Kshs 65.6 bn in Q3'2024, mainly driven by a 94.3% increase in governments securities holdings to Kshs 25.6 bn, from 13.2 bn in Q3'2024, coupled with a 2.8% increase in net loans and advances to Kshs 39.3 bn, from Kshs 38.2 bn in Q3'2024. Total liabilities increased by 11.3% to Kshs 62.6 bn from Kshs 56.2 bn in Q3'2024, mainly driven by 21.6% increase in customer deposits to Kshs 54.7 bn, from Kshs 45.0 bn in Q3'2024, coupled with the 37.9% increase in borrowings to Kshs 4.1 bn, from Kshs 3.0 bn in Q3'2024. With 22 branches, similar to Q3'2024, deposits per branch increased by 21.6% to Kshs 2.5 bn, from Kshs 2.0 bn in Q3'2024,
- The 21.6% increased growth in customer deposits, which outpaced the 2.8% increase in net loans led to a 13.2% decrease in the loan to deposits ratio to 71.7%, from 84.9% in Q3'2024,
- The bank's asset quality improved, as the Gross NPL ratio declined to 23.3% in Q3'2025 from 24.4% in Q3'2024. This was supported by a 1.2% growth in gross loans to Kshs 47.5 bn from Kshs 46.9 bn in Q3'2024, compared to the 3.3% decline in gross non-performing loans to Kshs 11.1 bn from Kshs 11.5 bn in Q3'2024.
- General Provisions (LLP) decreased by 0.4% to Kshs 5.28 bn in Q3'2025 from Kshs 5.30 bn in Q3'2024. The NPL coverage decreased to 74.3% in Q3'2025, from 76.1% in Q3'2024, attributable to the 13.5% decrease in interest in suspense to Kshs 2.9 bn from 3.4 bn in Q3'2024 coupled with the 0.4% decline in general provisions compared to the 3.3% decrease in Gross Non-performing Loans to Kshs 11.1 bn, from Kshs 11.5 bn in Q3'2024.
- Shareholders' funds increased by 85.1% to Kshs 17.4 bn in Q3'2025, from Kshs 9.4 bn in Q3'2024, supported by fresh capital injections. Notably, accumulated losses, declined by 67.3% to Kshs 1.0 bn in Q3'2025, from Kshs 3.1 bn in Q3'2024,
- HF Group remains capitalized with a core capital to risk-weighted assets ratio of 21.9%, 11.4% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 24.6%, exceeding the statutory requirement of 14.5% by 10.1% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 1.4%, and a Return on Average Equity (ROaE) of 7.7%.

Key Take-Outs:

1. **Improved Profitability** – HF posted a 104.5% increase in Profit After Tax to Kshs 1.0 bn from Kshs 0.5 bn in Q3'2024, supported by a 63.3% growth in net interest income to Kshs 3.2 bn from Kshs 2.0 bn in Q3'2024 and a 28.6% increase in non-interest income to Kshs 1.3 bn from Kshs 1.0 bn in Q3'2024. However, operating expenses rose by 26.5% to Kshs 3.4 bn from Kshs 2.7 bn, weighing on performance, while core EPS declined by 58.3% to Kshs 0.7 from Kshs 1.7 due to dilution from the Kshs 6.0 bn rights issue in 2024.
2. **Improved asset quality** – The bank's asset quality improved, as the Gross NPL ratio declined to 23.3% in Q3'2025 from 24.4% in Q3'2024. This was supported by a 1.2% growth in gross loans to Kshs 47.5 bn from Kshs 46.9 bn in Q3'2024, compared to the 3.3% decline in gross non-performing loans to Kshs 11.1 bn from Kshs 11.5 bn in Q3'2024
3. **Expanded Balanced sheet** - The balance sheet recorded an expansion as total assets increased by 21.9% to Kshs 79.9 bn, from Kshs 65.6 bn in Q3'2024, mainly driven by a 94.3% increase in governments securities holdings to Kshs 25.6 bn, from 13.2 bn in Q3'2024, coupled with a 2.8% increase in net loans and advances to Kshs 39.3 bn, from Kshs 38.2 bn in Q3'2024.
4. **Increased lending**- Customer net loans and advances increased by 2.8% to Kshs 39.3 bn in Q3'2025, from Kshs 38.2 bn in Q3'2024.

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 12.0 representing a upside of 7.2%, from the current price of 9.98 as of 28th November 2025
- HF Group is currently trading at a P/TBV of 0.2x and a P/E of 4.3x vs an industry average of 1.0 and 47 respectively.