

### NCBA Posts 8.8% EPS Jump; Counter Cools Short-Term, but Deal Dynamics Keep Story Alive

NCBA Group Plc released its Q1 2026 results with the numbers broadly mirroring prevailing industry trends. That said, the lender still delivered solid earnings growth, with Profit Before Tax (PBT), Profit After Tax (PAT), and Earnings Per Share (EPS) each rising by 8.8% y/y to KES 7.43Bn from KES 6.83Bn, KES 5.96Bn from KES 5.48Bn, and KES 3.62 from KES 3.33, respectively.

NCBA remains a counter of significant interest, particularly following the ongoing acquisition by Nedbank Group, one of Africa's oldest and largest financial services groups. On a y/y basis, the counter has outperformed the broader market, reflecting strong investor interest following the transaction announcement. However, recent trading trends point to short-term underperformance, with the share price remaining largely unchanged over the last three months, likely reflecting the exhaustion of the dividend and full-year earnings catalysts.

That notwithstanding, we continue to view the counter as an attractive event-driven opportunity anchored on merger completion dynamics. The offer price of KES 105 still presents meaningful upside relative to the current trading price. The offer is scheduled to open on 28<sup>th</sup> May 2026 and close on 10<sup>th</sup> July 2026, providing a defined transaction timeline for investors seeking tactical exposure to the deal.

#### Recommendation SPECULATIVE BUY Share Statistics

|                     |        |
|---------------------|--------|
| Current Price       | 88.25  |
| 3-Month Av          | 89.18  |
| 6 Month Av          | 88.09  |
| 12 Month Av         | 77.71  |
| 52 Week High - High | 98.25  |
| 52 Week High - Low  | 51.00  |
| Issued shares Mn    | 1.65   |
| Market Cap (KES Mn) | 145.39 |
| Market Cap (USD Mn) | 1.12   |
| P/E                 | 25.07  |
| PB                  | 0.68   |
| EPS                 | 3.62   |

## Income Statement

**Total Income:** Total operating income grew by 15.4% y/y to KES 20.00Bn from KES 17.33Bn, supported by strong growth in net interest income (NII) alongside steady expansion in non-funded income (NFI). **Net interest income** rose by 22.0% y/y to KES 12.17Bn from KES 9.97Bn in Q1 2025 while **non-funded income** increased by 6.4% y/y to KES 7.83Bn from KES 7.36Bn. The performance was primarily driven by a sharp decline in interest expense, which fell by 23.2% y/y to KES 5.53Bn from KES 7.20Bn. This more than offset the relatively modest 3.1% growth in interest income to KES 17.70Bn from KES 17.17Bn.

**Interest income** growth was largely supported by a 4.3% y/y increase in interest from government securities to KES 6.60Bn from KES 6.33Bn, while income from placements more than doubled to KES 1.13Bn from KES 0.54Bn. However, this was partly offset by a 3.1% decline in interest income from loans to KES 9.97Bn from KES 10.29Bn, reflecting lower lending rates and repricing of credit facilities in the easing interest rate environment.

On the funding side, the decline in **interest expense** was primarily driven by lower deposit costs. Interest expense on deposits declined by 20.2% y/y to KES 5.26Bn from KES 6.59Bn.

**Operating expenses** Total operating expenses rose by 16.6% y/y to KES 12.25Bn from KES 10.50Bn, slightly outpacing revenue growth. The increase was largely driven by a sharp 56.7% rise in loan loss provisions (LLP) to KES 2.54Bn from KES 1.62Bn, signaling a more cautious provisioning stance despite improving asset quality metrics.

Staff costs also increased by 13.6% y/y to KES 4.19Bn from KES 3.69Bn, reflecting inflationary pressures, business expansion costs, and continued investment in talent and operations.

#### Return Performance

| Periods     | NCBA   | NASI   |
|-------------|--------|--------|
| 3mtd PriceΔ | 0.00%  | -1.96% |
| 6mtd PriceΔ | 4.75%  | 9.50%  |
| YTD Δ       | 5.06%  | 10.28% |
| Y/Y Δ       | 73.04% | 53.24% |

|                     |       |
|---------------------|-------|
| NII                 | 22.0% |
| Provisions          | 56.7% |
| Opex                | 16.6% |
| Opex Excl. LLPs     | 9.3%  |
| PBT                 | 8.8%  |
| PAT                 | 8.8%  |
| Loans               | 13.0% |
| Govt. Securities    | 15.6% |
| Deposits            | 9.8%  |
| Shareholders' Funds | 14.7% |

# KINGDOM SECURITIES

## Balance Sheet

**Assets:** NCBA's total assets expanded by 13.0% y/y to KES 741.12Bn from KES 655.97Bn, supported by robust growth in both the loan book and investment portfolio.

**Net loans** increased by 13.0% y/y to KES 324.40Bn from KES 287.02Bn, reflecting continued credit uptake across key sectors of the economy while **investments** grew by 15.6% y/y to KES 216.63Bn from KES 187.47Bn, indicating continued allocation towards government securities and other interest-earning assets.

**Customer Deposits:** Customer deposits grew by 9.8% y/y to KES 544.43Bn from KES 495.67Bn, supporting overall balance sheet expansion and reinforcing the lender's strong deposit franchise.

As such, total liabilities increased by 12.6% y/y to KES 607.75Bn from KES 539.65Bn. Meanwhile, borrowings declined by 14.5% y/y to KES 6.75Bn from KES 7.89Bn, signaling reduced reliance on external funding and improved internal liquidity generation.

**Shareholders' funds** rose strongly by 14.7% y/y to KES 133.37Bn from KES 116.32Bn, supported by retained earnings which rose by 14.6% to Kes 95.39Bn, from Kes 83.20Bn.

| <u>Interest Income</u>               | <u>Q1 2025</u>      | <u>Q1 2026</u>      |
|--------------------------------------|---------------------|---------------------|
| Loans                                | 10.29               | 9.97                |
| Government securities                | 6.33                | 6.60                |
| Placements                           | 0.54                | 1.13                |
| <b><u>Total Interest Income</u></b>  | <b><u>17.17</u></b> | <b><u>17.70</u></b> |
| <u>Interest Expense</u>              | <u>Q1 2025</u>      | <u>Q1 2026</u>      |
| Deposits                             | 6.59                | 5.26                |
| Placements                           | 0.43                | 0.08                |
| Other Expenses                       | 0.18                | 0.19                |
| <b><u>Total Interest Expense</u></b> | <b><u>7.20</u></b>  | <b><u>5.53</u></b>  |

## Key Ratios

- Yield on interest-earning assets declined to 12.2% from 13.6%, reflecting the lower interest rate environment and repricing of earning assets downward.
- Cost of funds fell sharply to 4.2% from 7.0%, significantly supporting profitability and driving a 1.6 percentage point expansion in net interest margin (NIM) to 8.2% from 6.7%.
- Net interest income contribution to operating income increased to 60.8% from 57.5%, while non-funded income contribution declined to 39.2% from 42.5%, highlighting the stronger growth momentum in funded income.
- Cost-to-income ratio (CIR) edged up slightly to 61.2% from 60.6%, mainly due to higher provisioning costs. However, CIR excluding LLP improved to 48.6% from 51.2%, indicating improved operational efficiency at the core business level.
- Cost of risk rose to 12.7% from 9.3%, reflecting the lender's more conservative provisioning approach despite improving asset quality trends.
- Asset quality improved, with the NPL ratio declining to 11.2% from 12.2%, signalling easing credit risk pressures and improved loan performance.
- Loan-to-deposit ratio increased to 59.6% from 57.9%, reflecting stronger loan growth relative to deposit mobilization while remaining within comfortable liquidity levels.
- Return on average equity (ROaE) softened to 19.1% from 20.5%, largely due to the faster growth in shareholders' funds relative to earnings.
- Return on average assets (ROaA) improved slightly to 3.4% from 3.3%, indicating marginally better asset utilization and earnings generation efficiency.

# KINGDOM SECURITIES

| P&L (Kes. Bn) except EPS & DPS | Q1 2025      | Q1 2026      | %Δ Y/Y       |
|--------------------------------|--------------|--------------|--------------|
| Interest Income                | 17.17        | 17.70        | 3.1%         |
| Interest Expense               | (7.20)       | (5.53)       | (23.2%)      |
| <b>NII</b>                     | <b>9.97</b>  | <b>12.17</b> | <b>22.0%</b> |
| NFI                            | 7.36         | 7.83         | 6.4%         |
| <b>Total Operating income</b>  | <b>17.33</b> | <b>20.00</b> | <b>15.4%</b> |
| Loan Loss provision (LLP)      | (1.62)       | (2.54)       | 56.7%        |
| Staff Costs                    | (3.69)       | (4.19)       | 13.6%        |
| Total Operating expenses       | (10.50)      | (12.25)      | 16.6%        |
| Opex excl Provision            | (8.88)       | (9.71)       | 9.3%         |
| <b>PBT</b>                     | <b>6.83</b>  | <b>7.43</b>  | <b>8.8%</b>  |
| <b>PAT</b>                     | <b>5.48</b>  | <b>5.96</b>  | <b>8.8%</b>  |
| <b>EPS</b>                     | <b>3.33</b>  | <b>3.62</b>  | <b>8.8%</b>  |

| Balance Sheet (Kes. Bn)    | Q1 2025       | Q1 2026       | %Δ Y/Y       |
|----------------------------|---------------|---------------|--------------|
| Investments                | 187.47        | 216.63        | 15.6%        |
| Net Loans and Advances     | 287.02        | 324.40        | 13.0%        |
| <b>Total Assets</b>        | <b>655.97</b> | <b>741.12</b> | <b>13.0%</b> |
| Customer Deposits          | 495.67        | 544.43        | 9.8%         |
| Borrowing                  | 7.89          | 6.75          | (14.5%)      |
| <b>Total Liabilities</b>   | <b>539.65</b> | <b>607.75</b> | <b>12.6%</b> |
| <b>Shareholders' Funds</b> | <b>116.32</b> | <b>133.37</b> | <b>14.7%</b> |

| Key Ratios                                   | Q1 2025      | Q1 2026      | %Δ Y/Y        |
|--|--------------|--------------|---------------|
| Yield from interest-earning assets           | 13.6%        | 12.2%        | (1.3%)        |
| <b>Cost of funds</b>                         | <b>7.0%</b>  | <b>4.2%</b>  | <b>(2.8%)</b> |
| Net Interest Margin                          | 6.7%         | 8.2%         | 1.6%          |
| Net Interest Income as % of operating income | 57.5%        | 60.8%        | 3.3%          |
| Non-Funded Income as a % of operating income | 42.5%        | 39.2%        | (3.3%)        |
| <b>Cost to Income Ratio (CIR)</b>            | <b>60.6%</b> | <b>61.2%</b> | <b>0.7%</b>   |
| CIR without LLP                              | 51.2%        | 48.6%        | (2.7%)        |
| Cost of risk                                 | 9.3%         | 12.7%        | 3.3%          |
| Cost to Assets                               | 1.6%         | 1.7%         | 0.1%          |
| <b>NPL Ratio</b>                             | <b>12.2%</b> | <b>11.2%</b> | <b>(0.9%)</b> |
| Loan to Deposit Ratio                        | 57.9%        | 59.6%        | 1.7%          |
| Return on average equity                     | 20.5%        | 19.1%        | (1.4%)        |
| Return on average assets                     | 3.3%         | 3.4%         | 0.2%          |

# KINGDOM SECURITIES

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\*Expected Return (ER) represents the sum total of both capital appreciation and the dividend yield.

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