MAKING MONEY WORK FOR YOU.

ADDITIONAL PUBLIC OFFER

NCB FINANCIAL GROUP LIMITED

Barita Investments Limited
15 St. Lucia Way, Kingston
Tel #: 1-888-429-5333

BARITA INSIGHTS: NCB Financial Group Limited

Barita
MAKING MONEY WORK FOR YOU.

Company Overview

NCB Financial Group Limited (NCBFG) is a Jamaican-based holding company that controls the largest commercial bank in Jamaica by assets and profits, National Commercial Bank Jamaica. The primary business of the Group and its subsidiaries includes life & general insurance, commercial banking, and wealth & investment management activities. Its major subsidiaries include National Commercial Bank Jamaica Limited, NCB Capital Markets Limited, NCB Insurance Company Limited, Guardian Life Holdings, and Clarien Bank Limited. Some of NCBFG's associate companies include RGM Limited, with 33.3% and Elite Diagnostic, with 18.7%, among others. Currently, 52.68% of NCBFG is owned by AIC (Barbados) Limited with the ultimate parent being Portland Holdings Inc, which is incorporated in Canada and controlled by the chairman of NCBFG, Michael Lee-Chin.

Investment Summary and Rationale

NCBFG has been challenged due to the macroeconomic environment in recent quarters, namely the shift to a more restrictive monetary policy that has challenged its capital position. This has necessitated management's focus on liquidity and therefore the decision to forego dividends for an extended period. These factors in conjunction with the general decline in the overall market and a specific weakening sentiment for financial sector stocks in general have negatively impacted the price performance of the Group. However, we do expect that the general operating environment will improve, particularly as we head towards the peak of the current hiking cycle.

Given the above, we expect to see a modest recovery in the Group's capital and liquidity position over the coming year, even as we foresee that earnings growth will continue to be subdued relative to prior years. We still believe that due in part to the current negative sentiment, the stock is priced attractively as we enter the new macroeconomic cycle. As such, we believe investors with a long-term time horizon, interested in a highly liquid blue-chip holding, may consider participating in the APO with a target price of J$81.37, representing an upside of 25.19% relative to the proposed general public offer price of J$65.00. However, it is notable that the stock has been trading below the APO offer price recently and this should be taken into consideration.

Action:	**Participate**
Industry Outlook	Positive
General Public Offer Price	J$65.00
Base Case Price Target	J$81.37
Potential Upside	**25.19%**
Current P/E	12.77x
Current P/B	1.01x

Financial Summary (J$)				
	2020	2021	2022	2023
Net Operating Income	108.8B	121.1B	145.3B	137.3B
Net Interest Income	52.5B	48.6B	59.2B	62.8B
Non-Interest Income	66.6B	75.9B	88.8B	79.8B
Net Profit	26.9B	20.1B	35.1B	15.3B
Total Assets	1.8T	1.9T	2.1T	2.2T
Equity (Shareholders')	156.1B	161.5B	146.1B	170.0B
Financial Ratios				
ROE (%)	12.57	8.96	15.53	4.80
Net Interest Margin (%)	3.7	3.1	3.5	3.5
Operating Profit Margin (%)	25.1	21.7	27.3	14.3
Efficiency Ratio (%)	68.5	76.2	71.4	82.5
Leverage Ratio (x)	9.0	9.3	10.8	10.0
Non- performing loan Ratio (%)	5.3	6.1	5.1	4.1

Offer Summary

Issuer	**NCB Financial Group Limited ("NCBFG")**
Offer	**Initial Public Offer of up to 78,500,000 Ordinary Shares, with the option to upside to 117,750,000 Ordinary Shares** **I. 77,715,000 Non-Reserved Shares** **II. 785,000 Key Partners Reserved**
Arranger	I. Lead Arranger and Broker: **NCB Capital Markets Limited**
Subscription Price	I. General Public: **J$65.00 per share** II. Reserved Share pool: **J$58.50 per share**
Minimum Subscription	I. Investors applying for shares must request a **minimum** of **100 shares** per applicant. Amounts above this shall be in **multiples of 10 shares**.
Use of Proceeds	The company is seeking to raise **J$5,097,397,500.00,** of which it expects to use **J$66,718,454.30** to cover the costs associated with arranging the IPO and the net proceeds of this offer are expected to be **J$5,030,679,045.70.** **I. NCBFG intends to use the net proceeds from this invitation to support a part of its deliberate plan to reallocate capital with a focus on reducing debt and bolstering the capital in the Group.** **II. This APO is one of multiple strategies that NCBFG is pursuing to reallocate capital.**
Dividend Policy	The Board of Directors will declare, at its discretion, dividends to shareholders. These dividends will be paid from the realised earnings of the Company. The dividends will be subject to a maximum of 50% of the net profits earned each year after taking into consideration any regulatory or other requirements. Furthermore, if the payout is less than 50% in any given year, the Board of Directors reserves the right to increase future distributions proportionately.

Top Ten shareholders as of December 31, 2023

Name	Number of Shares	Percentage owned (%)
AIC (Barbados) Limited	1,261,730,942	49.58
MF&G Asset Management Limited - NCB Share Scheme	101,406,205	3.98
Sagicor PIF Equity Fund	73,706,956	2.90
Patrick Hylton	60,838,988	2.39
NCB Insurance Agency & Fund Managers Limited WT 109	54,715,172	2.15
Harprop Limited	46,434,102	1.82
AIC Global Holdings Inc.	45,449,690	1.79
National Insurance Fund	33,139,232	1.30
Ideal Portfolio Services Company Limited	32,544,258	1.28
SJIML A/C 3119	31,039,032	1.22

Financial Performance

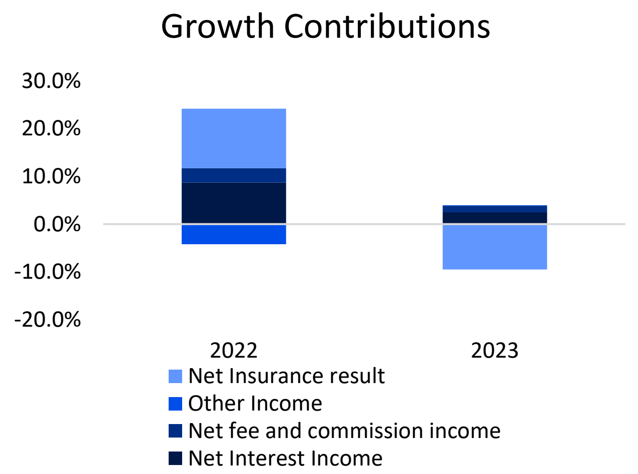
Income Statement Extract ('000)	FY2018	FY2019	FY2020	FY2021	FY2022	FY 2023
Interest Income	52,235,806	65,068,228	74,421,878	74,574,816	84,923,549	101,296,273
Interest Expense	-17,091,622	-20,473,144	-21,932,169	-25,947,849	-25,724,687	-38,495,233
Net Interest Income	35,144,184	44,595,084	52,489,709	48,626,967	59,198,862	62,801,040
Net Fee and Commission	15,863,974	19,179,833	21,369,407	22,488,994	26,132,751	28,077,569
Investments & Other Income	14,809,353	12,974,543	2,511,782	27,037,702	21,961,010	22,147,835
Net result from insurance activities	8,528,770	14,431,515	32,455,991	22,951,692	38,015,873	24,232,429
Operating Expense	-43,428,745	-64,736,903	-81,565,804	-94,850,111	-105,691,419	-117,673,606
EBT	33,988,918	37,588,396	27,573,476	26,595,533	40,349,590	19,961,884
Net Profit to Shareholders	**27,958,752**	**29,869,398**	**19,090,378**	**14,226,671**	**23,889,103**	**7,592,226**

Financial Year 2023
Slowed Operating Income Growth

NCB generates income from 4 four major line items, which we categorize as net interest income, net fees and commission income, net insurance income, and other (which includes gains and losses on foreign currency and investments, loan loss provisions, dividends, and other operating income). Total income from all these sources for 2023 amounted to $137.3 billion which represented a decline of 5.5% relative to 2022. **When we decompose the growth contribution of each of the income streams the largest contributor to the negative outturn was the 9.5% contraction in net insurance services, which was only marginally offset by positive contributions of 2.5%, 1.3%, and 0.1% for net interest income, net fees and commission income and other income respectively.**

Net Interest Income: Historic Highs Continue

The Group generated net interest income of $62.8 billion, the highest outturn over the 2017-2023 period, representing growth of 6.1% relative to 2022. This can be further decomposed into growth in interest income of 19.3% to $101.30 billion, with interest expense growing at a much faster pace of 49.6% to $38.50 billion. As such, while the improvement in net interest income for 2023 was partly due to higher rates (particularly on investment securities), a major contributing factor is also likely due to the relatively subdued increase in interest income compared to interest expense (which increased as the rate on J$ deposit liabilities on the Group's balance sheet increased from an average of 0.08% in 2022 to 1.26% in 2023). For reference, the Group's investment securities increased by 16.0% for 2023, compared to a growth of only 4.1% last year.



Historically, net interest income has seen double-digit growth for all but one of the years between 2018-2022. That was in 2021 when it contracted by 7.4%. The reduction in net interest income in 2021 was primarily due to stagnant growth in interest income of 0.21%, while interest expense increased by 18.31%. Therefore, while net interest income is currently at historic highs, the 2023 growth is still lower than historical norms, weighed down by the current monetary environment.

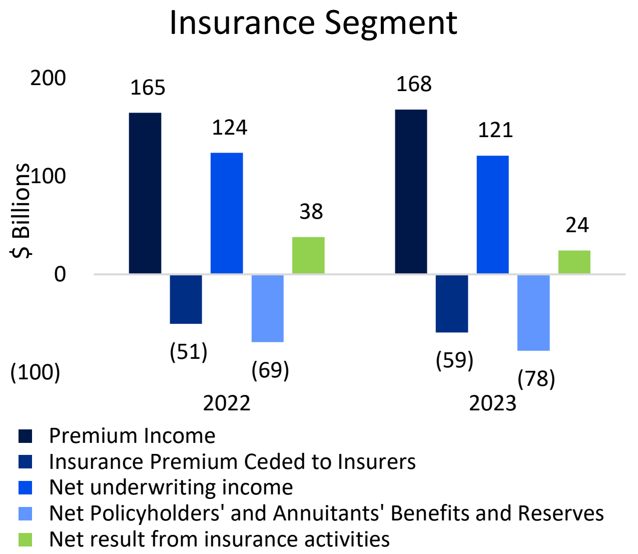
Fee and Commission Income: Stable reliable growth

The second largest positive contributor to net operating income growth was fees and commission income with a 1.3 percentage point overall contribution and growth of 7.4%, coming in at $28.1 billion. This has historically been the most consistent positive contributor to the Group's earnings. Management highlighted that the improvement was due to increased transaction volumes, particularly in the payment services segment, as well as credit card-related fees on new loans in the consumer SME Banking segment.

Net Insurance Results: Decreased Income, The Anchor for 2023

Despite the above-stated improvement in net interest income and fee income, the overall decline in total operating income was due to a 36.3% decline in net insurance results to $24.2 billion (negative contribution of 9.5%). In summary, this was due to a reduction in net underwriting income coupled with an increase in claims and benefits. This increase was linked to a general increase in claims and reserve movements during the year.

Looking at this further, premium income increased by 2.1% year-over-year. However, this was a noticeable slowdown in the pace of growth from recent years, with last year's premium growth, for example, being 9.8%. Additionally, in line with the global trend of higher reinsurance costs due to the tightening in global reinsurance capacity, the Group saw net reinsurance ceded (reinsurances net of commissions income) increase from $50.6 billion to $59.1 billion or 35.2% of premium income in 2023 compared to 30.7% in 2022. Essentially, this increased cost outweighed the slowing premium income growth and culminated in the decline in net underwriting income of approximately 2.4% to $121.0 billion.



Added to the above, the Group saw a fairly large increase in claims expenses and reserves movements. These items in total climbed to $78.0 billion compared to $69.2 billion in 2022. The increased claims expense as explained by management was primarily concentrated in their life segment, particularly health claims, with some additional general insurance claims. These claims were likely because of the delaying of elective surgeries by policyholders during the COVID-19 pandemic, which continues to drive higher than normal health claims today. However, management noted that they expect this to normalize in the coming financial years. Also, the positive actuarial reserve changes that reduced overall reserve and benefits charges in the 2022 financial year, were absent in 2023. Instead, the persistence of elevated rates harmed required actuarial reserves and led to higher charges, which further increased expenses. The outcome of these higher claims expenses and reserve charges, coupled with a 12.0% increase in commission and other selling expenses was the aforementioned 36.3% decline in Net insurance results.

---Note- Actuarial reserves for life and annuity contracts, which comprise the majority of Guardian Life's liabilities (NCB's largest insurance subsidiary), represent the estimation of the present value of future claims and expenses of their insurance contracts. Therefore, assumptions that go into changes in this reserve include investment returns, discount and borrowing rates, mortality rates, and policy maintenance expenditures. ---

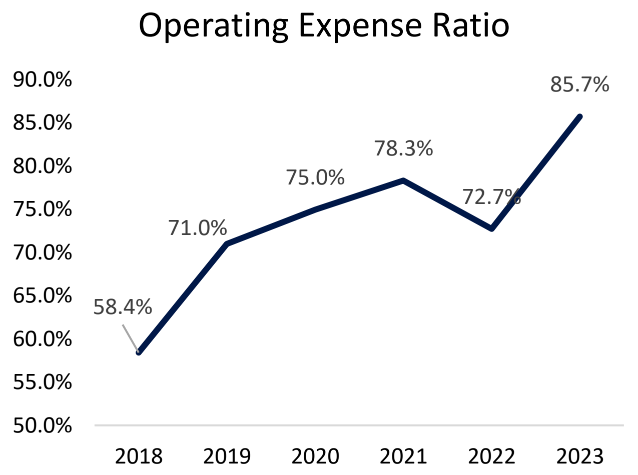
Other Income: Relatively Unchanged Year-Over-Year

The other income line item only grew by 0.9% for 2023 (a small growth contribution of 0.1 of a percentage point) to $22.1 billion, compared to $22.0 billion in 2022. The main contributor to the outturn was an improvement in foreign exchange and investment activities. Management attributed this improvement to the Group's holding of equity investments. In addition, the Government of Jamaica's debt securities, which account for a fairly large portion of the assets carried in profit and loss had a better price performance in 2023 compared to 2022. Historically, this revenue segment has been the most volatile revenue stream for NCB, which is expected since its performance is highly linked to the fortunes of the financial markets. That is, the sub-component most responsible for the volatility of this revenue stream has been the gains on foreign currency and investment activity components.

This improvement in fair value gains was complemented by marginal improvement in dividend income. However, these increases were outweighed by an increase in expected credit losses and general provisioning for loan losses, which grew by 96.3% to $5.3 billion, compared to $2.7 billion last year. However, this increased provisioning merely reflected a normalization, given that 2021 and 2020 had benefited from a reversal in expected credit losses arising from the economic recovery following the fallout from the pandemic, which reduced overall provisioning for both years relative to 2023. In addition to this, other operating income declined by 21.9% (this includes gains on disposal of assets etc.) to $4.4 billion. Against this backdrop, the impact of increased provisioning and ECL balanced the increase from foreign exchange and investment gains, which led to a fairly stable other income performance for 2023.

Operating Expenses: The Big Story.

Total operating expenses for the year came in at $117.7 billion, up 11.3% from $105.7 billion in 2022. Before 2023, operating expense growth for the Group was on a downward trajectory as they sought cost-cutting measures directly after the pandemic, for example, expenses grew 26.0% in 2020 before falling to a growth rate of 11.3% in 2023. Notably, there would have been even greater cost savings this year had it not been for the anticipated restructuring costs, inclusive of remuneration packages for the Group's outgoing top executives. In this vein, the major driver for the expense increase for 2023 was a $10.3 billion or a 20.4% increase in staff costs, to $60.6 billion. The only other noticeable increase was a 7.0% increase in other operating expenses. These increases were only marginally offset by a 16.9% decrease in depreciation and amortization expenses to $7.4 billion.

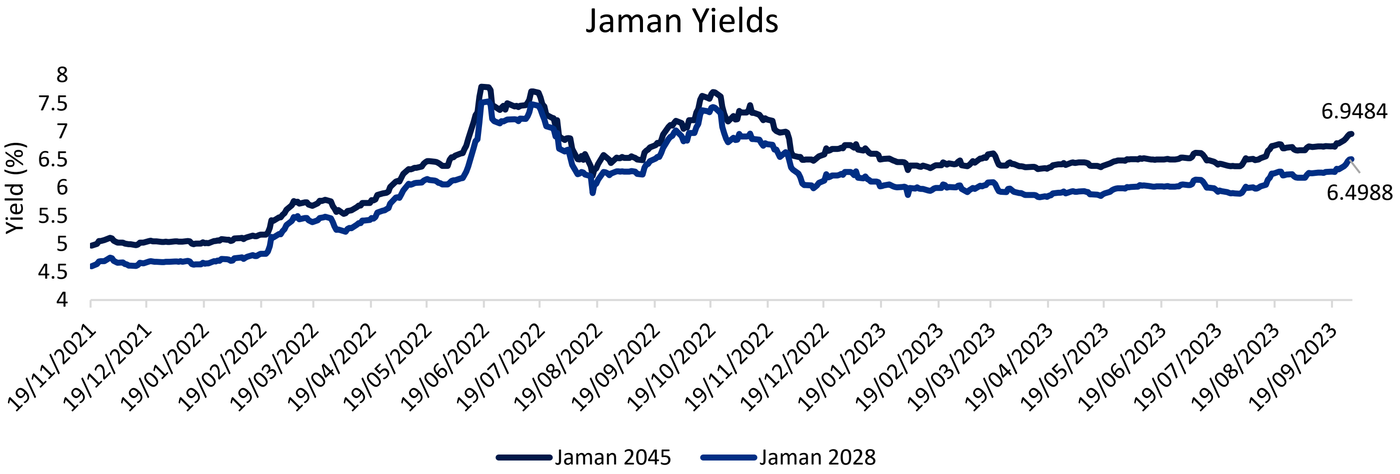


It was stated by management that the overall exercise resulted in total restructuring costs to the tune of $8.0 billion. It was also stated that it is expected that there will likely be an additional $8.0 billion going forward in cost savings that can be expected from changes made particularly in the last quarter of the 2023 financial year. Nonetheless, the increased restructuring cost meant that the Group's operating expense ratio increased significantly to 85.7%, relative to 72.7% in 2022 (Operating expenses as a portion of total operating income. Note that, management's cost to income ratio makes alterations by not including credit losses and was 82.5% in 2023 compared to 71.4%). Management, and particularly Mr. Lee Chin has emphasized that a ratio above 70.0% was unacceptable and was a large part of his decision to take a more hands-on approach in the Group's operation. Management has also previously committed to getting this ratio closer to 50.0%.

Finally, Lower Profitability

The aforementioned decline in net revenue from all sources, precipitated by a decline in insurance income partly due to claims and actuarial reserve charges combined with higher operating costs necessitated by the restructuring exercise, resulted in operating profits declining by 50.6% to $19.6 billion, compared to $39.6 billion in 2022. Likewise, earnings before taxes declined by 50.5% to $40.3 billion, or a decline of $20.4 billion. However, after netting out the effect of taxes and minority interest, Net profit attributable to shareholders amounted to $7.6 billion, representing a decline of 68.2% relative to 2022.

Other Comprehensive Income: Continued Rebound.
The Group saw other comprehensive income recover from a loss of $47.6 billion in 2022 to a profit of $15.7 billion in 2023. Last year was a particularly challenging market, particularly in the case of GOJ securities. The relatively steep decline in JAMAN prices seen throughout 2021 and 2022, eased in 2023 (as shown by the increasing yields in the chart below, Yields and prices move inversely). This facilitated improved comprehensive income as the fair value losses on securities carried at fair value through other comprehensive income also eased. In addition to this, the reclassification of some investment securities further cauterized some of these losses. Overall, unrealized fair value gains in OCI amounted to $16.8 billion compared to $52.3 billion in losses in 2022 and therefore drove the majority of the recovery in other comprehensive income.



Balance Sheet
The Group's total assets increased by $144.6 billion year-over-year as of September 2023 to $2.2 trillion. This change in the asset base was funded by a $114.4 billion increase in total liabilities and a $30.2 billion increase in total equity.

The change in total assets over the year reflected growth of 7.0%, the majority of which was concentrated in the Group's holding of interest-earning assets. In particular, investment securities increased by $115.4 billion or 16.2% to $827.1 billion, loans and advances increased by $32.8 billion or 5.6% to $613.8 billion, and pledged assets increased by $27.8 billion or 10.8% to $284.4 billion. These assets accounted for the bulk of the increases in total assets and were partially offset by a decrease in the amounts due from other banks to the tune of $46.3 billion or 24.9% to $139.5 billion. In terms of noticeable changes in the general asset composition of the Group, investment securities now represent 37.2% of total assets, compared to 34.2% last year. Management attributed this to the recovery in asset prices as well as additions of new investment securities, coupled with the change in the business model at NCBJ, (to hold to collect) which led to investment securities being carried at a higher fair value on the balance sheet. In addition to this, the growing importance of investments coincided with fairly slow loan growth (expected given the current monetary policy regime). Notably, investment securities comprised only 22.0% of total assets in FY 2018. A part of the reason for the change in the composition of the Company's balance sheet is a result of the diversification of the Group's business, primarily the expansion of the life insurance line (i.e., Guardian Life).

Total Liabilities: increased by $114.4 billion or 6.1% to $2.0 trillion. This was facilitated by the usual culprits, consumer deposit growth of 4.6% or $32.6 billion to $747.9 billion, growth in the Group's repurchase agreements of 13.0% to $279.8 billion, and an increase in other borrowed funds to the tune of $26.4 billion or 17.2% to $179.7 billion and lastly an increase in annuity and insurance contract liabilities of $18.1 billion or 4.1%. Management highlighted that the deposit base increase was facilitated by the continued trust that the populace has in the institution. However, we note that this growth has slowed over the past year, partly as a result of monetary policy. For example, deposit growth averaged 14.1% over the 2019-2022 period (albeit the acquisition of Clarien Bank aided this growth in the past). Regarding the composition of the Group's liabilities, year over year there have been no significant changes, with consumer deposits, insurance contract liabilities, and repurchase agreement liabilities comprising 37.4%, 23.0%, and 14.0% of total liabilities respectively. Given the growth in the significance of the Group's insurance segment, liabilities under annuity and insurance contracts now feature more prominently in the balance sheet. Invariably, the share of customer deposits in the funding base declined, moving from 50% in FY 2018 to 37.5%.

Total Equity: The over $30.2 billion improvement in total equity year-over-year was mainly attributed to a $17.2 billion improvement in fair value and capital reserves. This was owing to the strong improvement in other comprehensive income seen for the 2023 financial year. As stated previously, this was due to improving asset prices coupled with the reclassification of security holdings, which bolstered unrealized gains on securities classified at fair value through other comprehensive income. This therefore means that the hole created from the decline in asset prices in 2021/2022, which led to fair value and capital reserves declining to -$26.9 billion has shrunk to -$9.8 billion. In addition to this, the continued profitability of the Group led to increased retained earnings of $8.1 billion, which further aided the increase in equity over the year.

Capital

Management noted that the Group is currently meeting all of its regulatory capital requirements. We do note however, that a crude measure of total equity to total assets has improved from 9.3% to 10.1% in 2023, which as already evidenced by the improving equity balance has shown that the Group's capital position has improved. Regarding asset quality, the ratio of non-performing loans improved to 4.1% for 2023, compared to 5.1% in 2022, and remains firmly below pre-pandemic levels (NPL stood at 4.8% and 5.3% respectively in FYE 2018 and 2019).

Six Months Ended (6M 2024) March 31, 2024

Net Operating Income and Profit

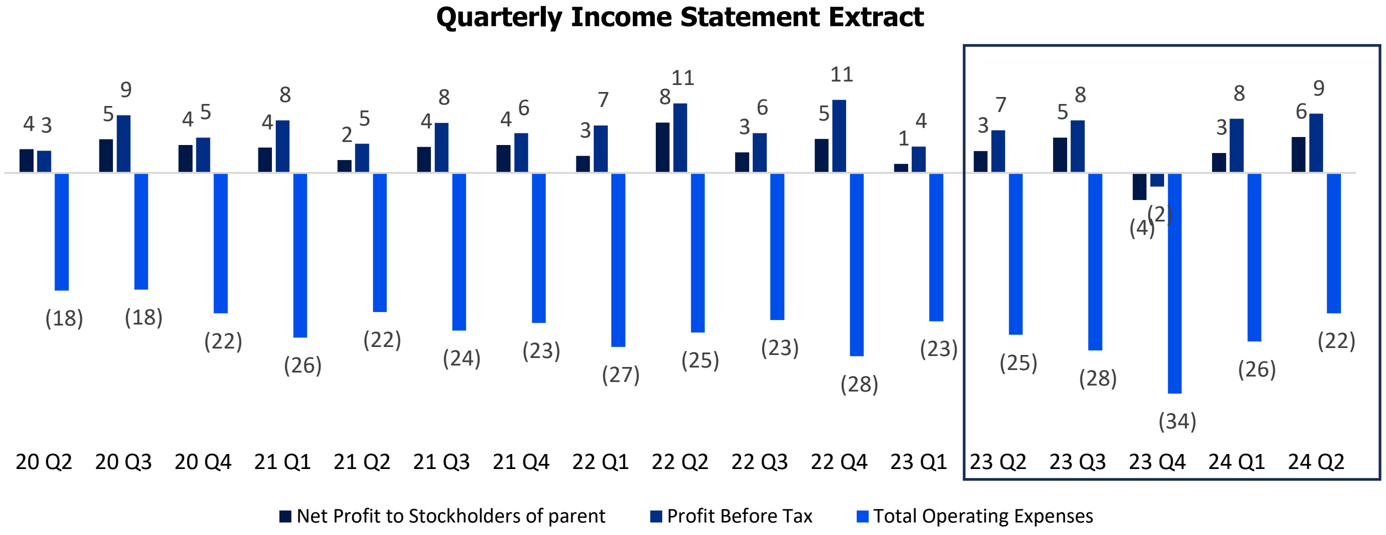
In the six months ended March 31, 2024, NCBFG reported net interest income of $23.8 billion, marking a 1.2% increase over the corresponding period of the previous year, which stood at $23.5 billion. Interest income experienced a growth of 14.0% to $43.5 billion, driven by an increase in the interest-earning assets on the Group's balance sheet. However, this growth was offset by a 34.4% increase in interest expense to $19.7 billion, a result of the relative impact of the higher interest rate environment. Net fee and commission income improved by 14.3% Year-over-Year (YoY) to $12.5 billion, reflecting growth in gross fee and commission income, which increased by 15.6% YoY to $18.9 billion, coupled with an increase in fee and commission expense of 18.2% to $6.4 billion. Notably, the rise in fees and commission income was attributed to increased card transaction volumes.

The increases in net interest income and net fee income were partially offset by the reduction in gains from foreign currency and investment activities, which declined by 11.2% year-over-year (YoY) to J$5.0 billion. The decline was likely due to unfavorable market conditions. Additionally, provisions for loan losses saw a 15.7% increase to $2.8 billion. Dividend income for the period fell by $76.0 million to $1.3 billion, while other income improved by $69.0 million to $235.0 million. The net result from banking and investment activities for the quarter amounted to $40.0 billion, representing an increase of 2.1% from the $39.2 billion recorded in the comparable period in the prior year.

Regarding the insurance business, the Group reported net insurance services results of $25.2 billion, reflecting a 51.5% improvement from the $16.7 billion recorded in the corresponding period of the prior year. This improvement was primarily attributable to strong performance from its life and health insurance & pension fund segment, partially offset by declines from its property & casualty portfolio. Insurance revenue experienced a 13.1% YoY growth, reaching $64.1 billion, while insurance service expenses grew 14.6% to $43.4 billion. Reinsurance costs increased by 10.1%, reaching $11.5 billion, ultimately leading to the improvement of the insurance service result to $9.3 billion, compared to $8.5 billion in the prior year's comparable period. However, net finance expenses from insurance and reinsurance contracts amounted to $11.0 billion, marking a 48.9% or $3.6 billion increase, tempering the services result. Investment and other income from the insurance segment grew by 73.0% or $11.4 billion, reaching $26.9 billion. In the prior quarter, the life insurance segment utilized an option on the adoption of IFRS 17 to redesignate certain financial assets on a change in business model, leading to a one-off gain of $3.3 billion. The period also saw improved unrealized gains YoY. Consequently, this facilitated the overall improved operating performance for the net insurance segment. Net Operating income for the year amounted to $65.3 billion, marking a 16.8% increase from $55.9 billion in the prior year's comparable period, driven largely by net insurance revenues, which contributed 91.3% to the growth.

Operating expenses increased by 4.5% (YoY), totalling J$47.9 billion, notably growing at a slower pace compared to revenues. Consequently, the Group's operating expense ratio saw a decline (improvement) from 82.1% in the 6M 2023 to 73.4% in the current period. The growth in operating expenses was partly due to a downward adjustment in the prior year for depreciation and amortization (D&A) expenses due to policy changes that extended the useful life of certain asset categories. This resulted in a 32.9% or $1.1 billion increase in D&A expenses to $4.4 billion. Staff costs and finance costs declined by 3.2% and 13.9% to $26.6 billion and $964.0 million, respectively. Despite efforts in cost optimization, other expenses rose by 14.6% to $16.0 billion as a result of inflationary pressures. Management has reiterated its focus on cost optimization going forward to steer financial performance in a positive direction.

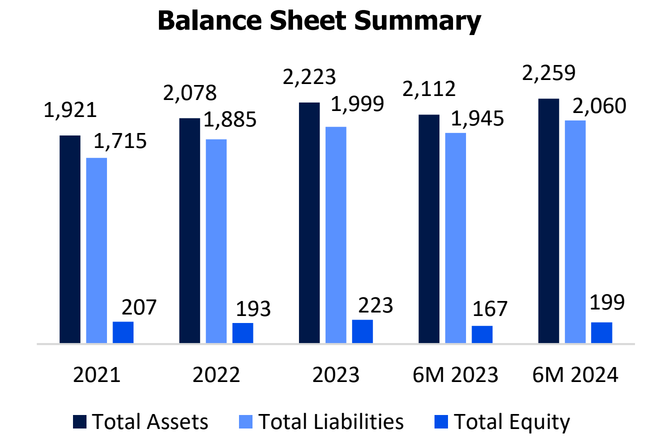
These developments resulted in strong growth in operating profit, reaching $17.3 billion, a 72.9% increase from $10.0 billion in the 6M 2023. Profit before tax also saw improvement, rising by 71.5% to $17.6 billion, reflecting the combination of the improved operating profit and a YoY increase in the share of profit from associates year-to-date (from $213.0 million in March 2023 to $229.0 million in March 2024). Taxation for the year increased by 16.4% YoY to $3.9 billion, accompanied by a reduction in the marginal tax rate from 32.5% in the prior year's comparable period to 22.0% in the current period. Ultimately, net profit for the period amounted to $13.7 billion, marking a YoY increase of approximately $6.8 billion or 98.1%, compared to the outcome in the 6M 2023 of $6.9 billion. Net Profit attributable to the stockholders of the parent company reached $8.7 billion, compared to J$4.6 billion for the 6M 2023.



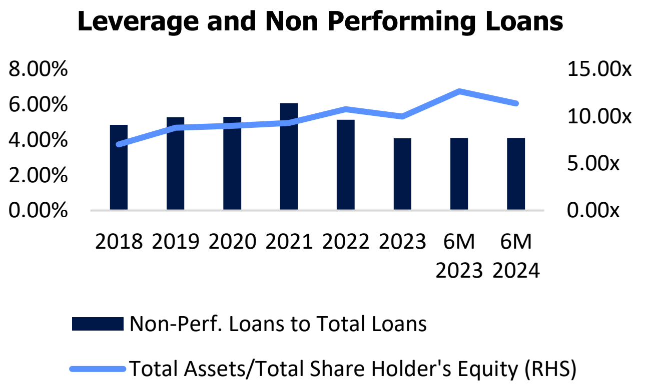
Balance Sheet

Total Assets: At the end of March 2024, the Group had total assets of $2.3 trillion, compared to $2.1 trillion at the end of March 2023. This represented an increase of $147.2 billion, or 7.0%. Much of this increase was attributed to investment securities and pledged assets, which together grew by $108.2 billion, or 10.5%, to $1.1 trillion. Loans and advances, net of credit impairment losses, expanded by 6.4% to $633.1 billion, primarily driven by growth in its consumer & SME banking, and payment services portfolios. Regarding asset composition, Loans, investment securities, and pledged assets continued to constitute the bulk of total assets, accounting for 78.3% collectively. Historically, NCBFG's largest asset line item was loans and advances, comprising 38.1% of the total assets as per its year-end 2018 balance sheet. However, as of March 2024, the largest asset group was investment securities at 36.9%, while loans and advances declined to 28.0% of total assets. One reason for this change in the composition of the Company's balance sheet is the diversification of the Group's business, primarily through the expansion of the life insurance line (i.e., Guardian Life).

Total Liabilities and Equity: Total liabilities amounted to $2.1 trillion, indicating a growth of 5.9% or $115.1 billion YoY. The expansion in the funding base was primarily driven by growth in customer deposits and repurchase agreements. Deposits grew by 5.6% to $754.7 billion, while repurchase agreements surged by 25.2% to $306.2 billion. Other notable contributors to the growth in liabilities included other borrowed funds, which increased by 6.1% to $183.7 billion, and liabilities under annuity and insurance contracts, which grew by 4.4% to $518.0 billion. The Group's funding base remains cost-effective, particularly in the banking division, positioning them advantageously in the current high-rate environment compared to other financial institutions, especially security dealers. The Group's equity base increased by 19.2% YoY to $199.1 billion, compared to $167.0 billion in March 2023. Equity attributable to shareholders grew by 15.7%, or $21.7 billion, to $160.0 billion. This increase was primarily driven by an uptick in retained earnings, rising by $16.5 billion to a total of $82.4 billion.



Capital: At the end of the period, NCBFG had a leverage ratio of 11.35x, marking an improvement from the ratio of 12.65x at the end of the first half of 2023. Regarding asset quality, non-performing loans represented 4.1% of total loans and remained unchanged YoY. However, this figure has steadily improved from 5.1% in Financial Year (FY) 2023, and a five-year high of 6.1% recorded at the end of FY 2021. For reference, this compares to the industry's non-performing loan (NPL) ratio of 2.5% as of December 2023. The Group did not provide details of their current regulatory capital ratios in their latest financial filings.



Outlook and considerations

General Environment

As it relates to the general macro and policy framework, while we don't anticipate a swift decline in policy rates as quickly as they were increased in 2022, we do believe we are at the peak monetary policy cycle. In this regard, we believe this will bode well for the Group's equity balance, primarily based on their exposure to domestic and global debt instruments (stemming fair value losses in both profit and loss and other comprehensive income). This in line with the continued expected growth of the economy in the short and medium term will positively impact key operating segments.

IRFS 17 and BASEL 3

While insurance income slowed during the year, apart from the weak insurance performance, the general volatility that we have seen in this segment over the last 2 years has been due to the IFRS 4 treatment of actuarial reserve charges particularly as assumptions have been rapidly changing given the macroeconomic environment. This has caused excessive swings in earnings that have affected the insurance segment (positively in 2022, negatively in 2023). However, management has noted that IFRS17 will allow for greater smoothing of these effects and might allow for reduced swings in earnings due to reserve releases. Therefore, the large negative impact of the charges seen in 2023 might become less extensive with the adoption of the new standard. Secondly, the Group has noted that the implementation of Basel 3 will likely lead to greater provisioning needs. It is typically seen that the impact on adoption is for lower profitability in the short term before a normalization going forward. As such, the lower variability in insurance along with a stable macroeconomic environment will be counterbalanced by possible IFRS implementation costs and costs associated with BASEL 3 implementation.

Restructuring Cost and Profit Guidance

A theme from the Group's latest quarterly briefing was that the majority of the restructuring costs are now likely done. In addition to this, it was stated that there were additional cost savings done in the quarter and over the last year that were masked by one-off restructuring costs. In that regard, management places a figure of approximately $8.0 billion due to restructuring costs as well as the cost savings going forward also being to the tune of $8.0 billion. As such, in addition to the $7.1 billion in net profit attributable to shareholders, management effectively gave guidance on the possible runway profit for 2024 of approximately $19.5 billion (using a 25% effective tax rate). In addition to this guidance was given for a return on equity of mid to high teens. Using 15% places this at around $25.5 billion, ultimately putting the implied 2024 net profit guidance in the range of between $19.5-$25.5 billion.

Equity Raise

Firstly, it is expected that a portion of the raise will be used to pay down debt, which will have the impact of reducing the Group's current interest cost. While this has an immediate positive impact on the group's bottom line, this will to an extent, be counterbalanced by equity dilution, which all else being equal will have an uncertain impact on earnings per share. The second reason for the capital raise, however, is to bolster the Group's capital position. We note that the recent downturn in debt markets has eroded the Group's capital base, which is further complicated by the expectation of BASEL 3 being implemented, introducing increased capital requirements. Therefore, if successful, a potential raise will increase the Group's capital cushion at a crucial juncture in time and help to further strengthen the financial stability of the Group for further long-term growth, even if it comes at the expense of short-term dilution.

Valuation

To value NCB we opted to use a residual income model and a market-based Price-to-Book approach. The latter was utilized to incorporate into our analysis the possible scenario of sentiment, which has been fairly-negative for the sector for the majority of the last two (2) years, failing to improve, resulting in the current trading multiple remaining over the next year.

Stock	NCBFG
Last Closing	J$63.73
APO Price	**J$65.00**
52 Week High	J$76.00
52 Week Low	J$55.00
YTD Return	-3.70%
Trailing P/B	1.01x
Trailing P/E	12.77x
Forward P/E	6.15x
Target Price	J$81.37
Upside Potential	**25.19%**
Date	May 13, 2024

We utilized several assumptions for the residual income model, in arriving at our projections of total comprehensive income for the financial year 2024. The first of which is positive but slowed economic growth, which impacts business lines such as commissions and fee income, as well as insurance premium growth. We also assumed that the financial markets, particularly the debt markets, notably the market for Jamaica Government securities, will see a better price performance in 2024 relative to 2023 as we expect that by mid to late 2024, there will be a concerted global push towards less restrictive monetary policy. **Given these assumptions, along with a cost of equity of 12.27%, we arrive at a multi-stage residual income model valuation for NCB of $83.12.**

To supplement this valuation, we applied the peer-average P/B of 1.23x to NCB to our forecast of the book value for the end of the 2024 financial year. Given our macroeconomic and capital market assumptions that fed into the total comprehensive income forecast for NCB as well as an expectation of a normalization of dividends and the impending dilution resulting from a successful close of the APO, we arrive at a forecasted book value per share of $64.82 at the end of the 2024 financial year. Currently, the stock trades at a multiple of roughly 1.00x book value, hence in the scenario that sentiment does not improve, this would give us a fair value target of $79.63. **As such, our current fair value target price range is $79.63-$83.12, with a final target arrived at by taking the simple average of $81.37.**

Based on an offer price of $65.00, we estimate a one-year total potential upside of 25.19%. As such, we recommend that investors participate in the APO. Further, investors should take note that the stock has been trading below the APO offer price, which might be a consideration in investors' decision process.

Financial Statement Summary

J$'000	2019	2020	2021	2022	2023
Net Operating Income	91,180,975	108,826,889	121,105,355	145,308,496	137,258,873
Net Interest Income	44,595,084	52,489,709	48,626,967	59,198,862	62,801,040
Non-Interest Income	51,410,625	66,622,174	75,863,514	88,833,189	79,761,142
Net Income	31,164,938	26,883,412	20,075,606	35,132,381	15,335,927
Total Assets	1,616,299,602	1,800,260,275	1,921,368,172	2,078,186,259	2,222,801,512
Loans and Advances	423,102,600	452,954,936	523,488,890	580,987,814	613,788,134
Investment Securities	759,496,006	853,085,972	900,512,195	959,486,735	1,102,641,823
Customer Deposits	504,678,536	573,968,886	647,085,400	715,276,682	747,872,120
Liabilities Under Annuity and Insurance Contracts	394,615,307	405,014,541	433,056,798	441,463,531	459,549,252
Equity Attributable to Shareholders of the Parent	147,590,179	156,114,678	161,456,191	146,098,192	170,022,091
Return on Average Equity	21.52%	12.57%	8.96%	15.53%	4.80%
% Income From Banking Activities	84.17%	70.18%	81.05%	73.84%	82.35%
% Income from Insurance Activities	15.83%	29.82%	18.95%	26.16%	17.65%
Cost to Income Ratio	67.43%	68.48%	76.19%	71.40%	82.54%