Below is a summary of Standard Chartered Bank Ltd Q1’2024 performance:

Balance Sheet Items	Q1’2023	Q1’2024	y/y change
Government Securities	137.1	153.6	12.0%
Net Loans and Advances	95.1	69.0	(27.5%)
Total Assets	**388.6**	**391.3**	**0.7%**
Customer Deposits	302.9	306.0	1.0%
Deposits per branch	8.4	9.6	13.6%
Total Liabilities	**328.3**	**323.4**	**(1.5%)**
Shareholders’ Funds	**60.4**	**68.0**	**12.6%**

Balance Sheet Ratios	Q1’2023	Q1’2024	% points change
Loan to Deposit Ratio	45.3%	50.2%	4.9%
Government Securities to Deposit Ratio	31.4%	22.5%	(8.8%)
Return on average equity	23.0%	24.0%	1.1%
Return on average assets	3.7%	4.0%	0.3%

Income Statement	Q1’2023	Q1’2024	y/y change
Net Interest Income	6.9	8.3	20.0%
Net non-Interest Income	3.9	4.8	23.9%
Total Operating income	**10.8**	**13.1**	**21.4%**
Loan Loss provision	0.8	0.5	(30.7%)
Total Operating expenses	5.1	5.4	6.0%
Profit before tax	5.6	7.6	35.4%
Profit after tax	**4.0**	**5.6**	**39.5%**
Core EPS	**10.7**	**14.9**	**39.5%**

Income Statement Ratios	Q1’2023	Q1’2024	% points change
Yield from interest-earning assets	8.3%	9.6%	1.4%
Cost of funding	1.1%	1.2%	0.1%
Net Interest Spread	7.1%	8.5%	1.3%
Net Interest Margin	7.3%	8.6%	1.4%
Cost of Risk	7.3%	4.2%	(3.2%)
Net Interest Income as % of operating income	64.1%	63.3%	(0.7%)
Non-Funded Income as a % of operating income	35.9%	36.7%	0.7%
Cost to Income Ratio	47.6%	41.6%	(6.1%)
Cost to Income Ratio (without LLPs)	40.3%	37.4%	(2.9%)

Capital Adequacy Ratios	Q1’2023	Q1’2024	% points change
Core Capital/Total Liabilities	15.1%	17.6%	2.6%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	**7.1%**	**9.6%**	2.6%
Core Capital/Total Risk Weighted Assets	16.0%	18.4%	2.4%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	**5.5%**	**7.9%**	**2.4%**
Total Capital/Total Risk Weighted Assets	17.5%	18.5%	0.9%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	**3.0%**	**4.0%**	**0.9%**
Liquidity Ratio	73.8%	66.9%	(6.8%)
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	**53.8%**	**46.9%**	**(6.8%)**

Income Statement

- Core earnings per share increased by 39.5% to Kshs 14.9, from Kshs 10.7 in Q1'2023, mainly driven by the 21.4% increase in total operating income to Kshs 13.1 bn, from Kshs 10.8 bn in Q1'2023 which outpaced the 6.0% increase in total operating expenses to Kshs 5.4 bn, from Kshs 5.1 bn in Q1'2023,
- The 21.4% growth in total operating income was mainly driven by a 20.0% growth in Net Interest Income to Kshs 8.3 bn, from Kshs 6.9 bn in Q1'2023, coupled with a 23.9% growth in Non funded Income (NFI) to Kshs 4.8 bn, from Kshs 3.9 bn in Q1'2023,
- Interest income grew by 25.4% to Kshs 9.5 bn from Kshs 7.6 bn in Q1'2023, mainly driven by a 56.7% growth in interest income from deposits and placements to Kshs 1.8 bn, from Kshs 1.1 bn in Q1'2023 coupled with a 45.5% increase in interest income from loans and advances to Kshs 5.7 bn from Kshs 3.9 bn in Q1'2023. The growth in interest expense was however weighed down by a 19.9% decrease in interest income from holdings in government securities to Kshs 2.0 bn, from Kshs 2.5 bn in Q1'2023. Similarly, the Yield on Interest-Earning Assets (YIEA) increased by 1.4% points to 9.6% from 8.3% recorded in Q1'2023, mainly attributable to the faster 25.1% growth in trailing interest income to Kshs 34.3 bn, from Kshs 27.4 bn in Q1'2023 compared to the 7.0% increase in average interest-earning assets to Kshs 355.3 bn, from Kshs 332.0 bn in Q1'2023,
- Interest expenses rose by 78.0% to Kshs 1.2 bn, from Kshs 0.7 bn in Q1'2023, driven by 66.5% increase in interest expense from customer deposits to Kshs 1.1 bn, from Kshs 0.7 bn in Q1'2023, coupled with a 30.4% increase in interest expense from placements to Kshs 0.1 bn in Q1'2024, from Kshs 0.05 bn recorded in Q1'2023. Consequently, Cost of funds (COF) increased marginally by 0.1% points to 1.2%, from 1.1% recorded in Q1'2023, owing to a faster 11.4% increase in Trailing interest expense to Kshs 3.6 bn, from Kshs 3.2 bn in Q1'2023, compared to the 7.1% increase in average interest-bearing liabilities to Kshs 304.8 bn from Kshs 284.5 bn in Q1'2023. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 1.4% points to 8.6% from 7.3% in Q1'2023, attributable to the 26.9% growth in trailing net interest income to Kshs 30.7 bn, from Kshs 24.2 bn recorded in Q1'2023, which outpaced the 7.0% increase in average interest-earning assets to Kshs 355.3 bn, from Kshs 332.0 bn in Q1'2023,
- Non-Funded Income (NFI) increased by 23.9% to Kshs 4.8 bn from Kshs 3.9 bn in Q1'2023, mainly driven by a 22.6% increase in the income from total fees and commissions to 1.7 bn from 1.4 bn in Q1'2023. The growth in NFI was as well anchored by the 15.3% increase in the foreign exchange trading income to Kshs 2.5 bn from Kshs 2.2 bn in Q1'2023, highlighting the bank's improved foreign exchange margins. The revenue mix shifted to 64:36 from 63:37 in Q1'2023 for the funded to Non-funded income owing to the 23.9% growth in Non Funded Income faster than the 20.0% growth in the Funded Income,
- Total operating expenses increased by 6.0% to Kshs 5.4 bn from Kshs 5.1 bn in Q1'2023, driven by the 24.1% increase in staff costs to Kshs 2.4 bn from Kshs 1.9 bn in Q1'2023, coupled with a 3.7% increase in other operating expenses to Kshs 2.5 bn from Kshs 2.4 bn in Q1'2023. The growth in total operating expenses was however weighed down by the 30.7% decrease in loan loss provisions to Kshs 0.5 bn, from Kshs 0.8 bn in Q1'2023. The decrease in provisioning is attributable to the 26.9% decrease in gross non-performing loans to Kshs 16.5 bn, from Kshs 22.6 bn in Q1'2023,
- Cost to Income Ratio (CIR) decreased to 41.6% from 47.6% in Q1'2023, owing to the 21.4% increase in total operating income, which outpaced the 6.0% increase in total operating expenses. Similarly, CIR without LLP decreased by 2.9% points to 37.4% from 40.3% recorded in Q1'2023, and,
- Profit before tax increased by 35.4% to Kshs 7.6 bn from Kshs 5.6 bn in Q1'2023, with the effective tax rate decreasing to 26.5% in Q1'2024 from 28.6% in Q1'2023. As such, profit after tax increased by 39.5% to Kshs 5.6 bn, from Kshs 4.0 bn in Q1'2023.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 0.7% to Kshs 391.3 bn, from Kshs 388.6 bn in Q1'2023, driven by a 12.0% increase in net loans and advances to Kshs 153.6 bn from Kshs 137.1 bn in Q1'2023. The performance was however weighed down by a 27.5% decrease in investments ingovernment securities to Kshs 69.0 bn, from Kshs 95.1 bn in Q1'2023,
- Total liabilities declined by 1.5% to Kshs 323.4 bn from Kshs 328.3 bn in Q1'2023, driven by a 30.0% decrease in placements to Kshs 0.3 bn, from Kshs 0.4 bn in Q1'2023. The decline in total liabilities was however supported

by the 1.0% growth in customer deposits to Kshs 306.0 bn, from Kshs 302.9 bn in Q1’2023. With 36 branches countrywide compared to 32 branches in Q1’2023, deposits per branch increased by 13.6% to Kshs 9.6 bn, from Kshs 8.4bn in Q1’2023,

- The loan to deposits ratio increased to 50.2%, from 45.3% in Q1’2023 attributable to the the slower 1.0% growth in customer deposits as compared to the 12.0% growth in loans,
- The bank’s Asset Quality improved, with Gross NPL ratio decreasing to 9.9% in Q1’2024, from 14.4% in Q1’2023, attributable to the 26.9% decrease in gross non-performing loans to Kshs 16.5 bn, from Kshs 22.6 bn in Q1’2023, relative to the slower 6.8% increase in gross loans to Kshs 167.4 bn, from Kshs 156.7 bn recorded in Q1’2023,
- General Provisions (LLP) decreased by 24.6% to Kshs 7.8 bn in Q1’2024 from Kshs 10.3 bn in Q1’2023. The NPL coverage decreased to 83.7% in Q1’2024, from 86.8% in Q1’2023, attributable to the 26.9% decline in gross non-performing loans to Kshs 16.5 bn from Kshs 22.6 bn recorded in Q1’2023, which outpaced the 24.6% decrease in general provisions to Kshs 7.8 bn, from Kshs 10.3 bn in Q1’2023,
- Shareholders’ funds increased by 12.6% to Kshs 68.0 bn in Q1’2024, from Kshs 60.4 bn in Q1’2023, supported by a 14.4% increase in retained earnings to Kshs 46.4 bn, from Kshs 40.6 bn in Q1’2023,
- Standard Chartered Bank Kenya Ltd remained capitalized with a core capital to risk-weighted assets ratio of 18.4%, 7.9% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 18.5% exceeding the statutory requirement of 14.5% by 4.0% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 4.0%, and a Return on Average Equity (ROaE) of 23.0%.

Key Take-Outs:

1. **Strong earnings growth -** Core earnings per share (EPS) grew by 39.5% to Kshs 14.9, from Kshs 10.7 in Q1’2023, driven by the 21.4% growth in total operating income to Kshs 13.1 bn, from Kshs 10.8 bn in Q1’2024,
2. **Improved asset quality –** The bank’s gross NPL ratio decreased to 9.9% in Q1’2023 from 14.4% in Q1’2023, attributable to 26.9% decrease in Gross non-performing loans to Kshs 16.5 bn, from Kshs 22.6 bn in Q1’2023, compared to the 6.8% increase in gross loans to Kshs 167.4 bn, from Kshs 156.7 bn recorded in Q1’2023, and,
3. **Improved Lending –** The bank’s loan book increased by 12.0% to Kshs 153.6 bn, from Kshs 137.1 bn in Q1’2023, compared to the 27.5% decline in government securities to Kshs 69.0 bn, from Kshs 95.1 bn in Q1’2023, highlighting the bank’s strategy to increase lending through digital transformation, while at the same time managing its non-performing loan book**.**

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

- **Digital transformation -** The lender has leveraged digital innovation to enhance service delivery, enabling customers to invest in various funds such as offshore mutual funds, government securities, and local money market funds, as well as to access digital loans. This digital shift has significantly contributed to the lender's financial performance. The convenience and speed offered by digital banking services have made it easier for customers to manage their finances and access financial products, leading to higher customer satisfaction and loyalty. Consequently, the lender's adoption of digital solutions has positioned it as a competitive player in the financial market, driving growth and expanding its market share**.**

Valuation Summary

- We are of the view that Standard Chartered Bank is a “**Buy**” with a target price of Kshs 233.1 representing an upside of 24.6%, from the current price of Kshs 187.00 as of 31st May 2024, and,
- Standard Chartered Bank Kenya is currently trading at a P/TBV of 1.1x and a P/E of 5.1x vs an industry average of 0.8x and 3.7x respectively.