Kenya Listed Commercial Banks Review
Cytonn FY'2020 Banking Sector Report

"Subdued Growth in Earnings Amidst Deteriorating Asset Quality"

Cytonn

16th April, 2021

Table of Contents

I. Introduction to Cytonn

Cytonn

About Us

Cytonn Investments is an alternative investment manager, with real estate development capability, and a primary focus on private equity and real estate investments in the high growth Kenyan Region. Cytonn has a unique strategy of coupling two compelling demand areas - the lack of high yielding investment products and the lack of institutional grade real estate. We provide high yielding investment instruments to attract funding from investors, and we deploy that funding to largely pre-sold investment grade real estate. With offices in Kenya and Washington, DC - USA, we are primarily focused on offering alternative investment solutions to global and local institutional investors, individual high net-worth investors, and diaspora investors interested in the East-African region. Real estate investments are made through our development affiliate, Cytonn Real Estate, where we currently have over Kshs. 82 billion (USD 820 mn) of projects under mandate across ten projects. In private equity, we invest in banking, education, and hospitality.

82	Over Kshs. 82 billion worth of projects under mandate
3	Three offices across 2 continents
500	Over 500 staff members, including Cytonn Distribution
10	10 investment ready projects in real estate

A unique franchise differentiated by:

Independence & Investor Focus

Focused on serving the interest of clients, which is best done on an independent platform to minimize conflicts of interest

Alternative Investments

Specialized focus on alternative assets - Real Estate, Private Equity, and Structured Solutions

Strong Alignment

Every staff member is an owner in the firm. When clients do well, the firm does well; and when the firm does well, staff do well

Committed Partners

Strong global and local partnerships in financing, land and Cytonn Real Estate, our development affiliate

Why We Exist

Africa presents an attractive investment opportunity for investors seeking attractive and long-term returns. Despite the alternative markets in Africa having high and stable returns, only a few institutional players serve the market. Cytonn is focused on delivering higher returns in the alternative markets, while providing the best client service and always protecting our clients' interests.

WE SERVE THREE MAIN CLIENT SEGMENTS:

- High Net-worth Individuals through Cytonn Private Wealth. This is done through our captive Distribution Network
- East Africans in the Diaspora through Cytonn Diaspora
- Global and Local Institutional Clients. These clients are served from our Investment & Fundraising Team

WE INVEST OUR CLIENT FUNDS IN:

- Real Estate, and Real Estate Related Businesses
- Private Equity
- Fixed Income Structured Solutions
- Equities Structured Solutions

We collect funds from our clients → **We invest them in high growth opportunities** → **We deliver the best possible returns**

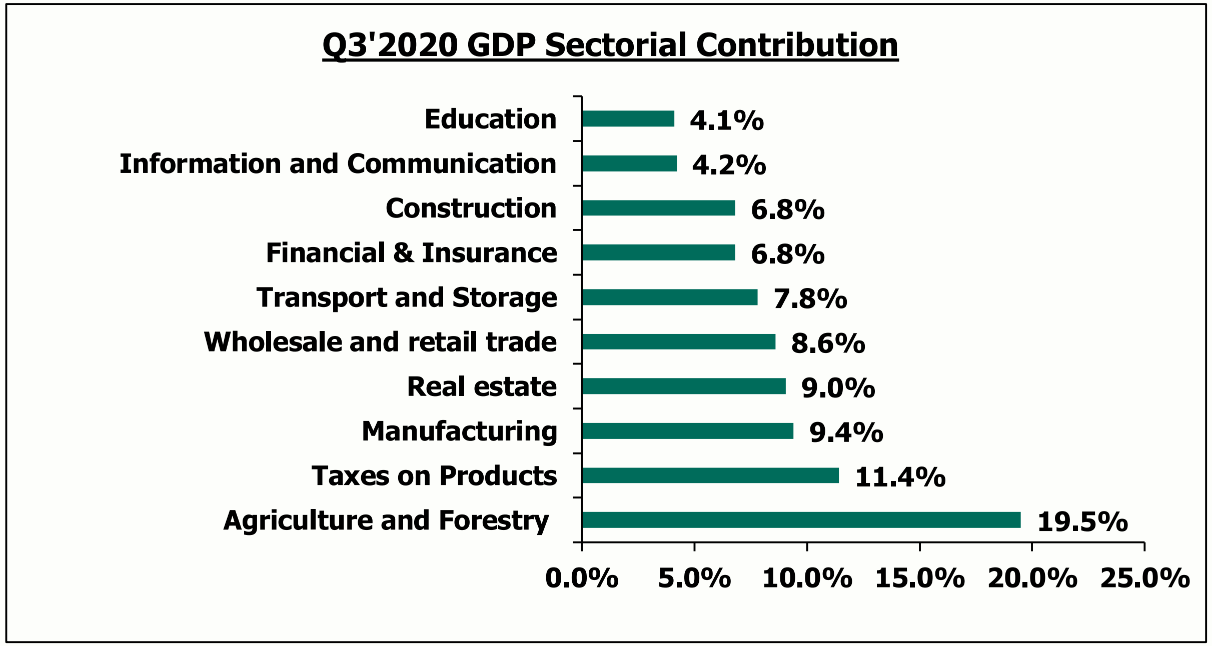
Our Business Structure

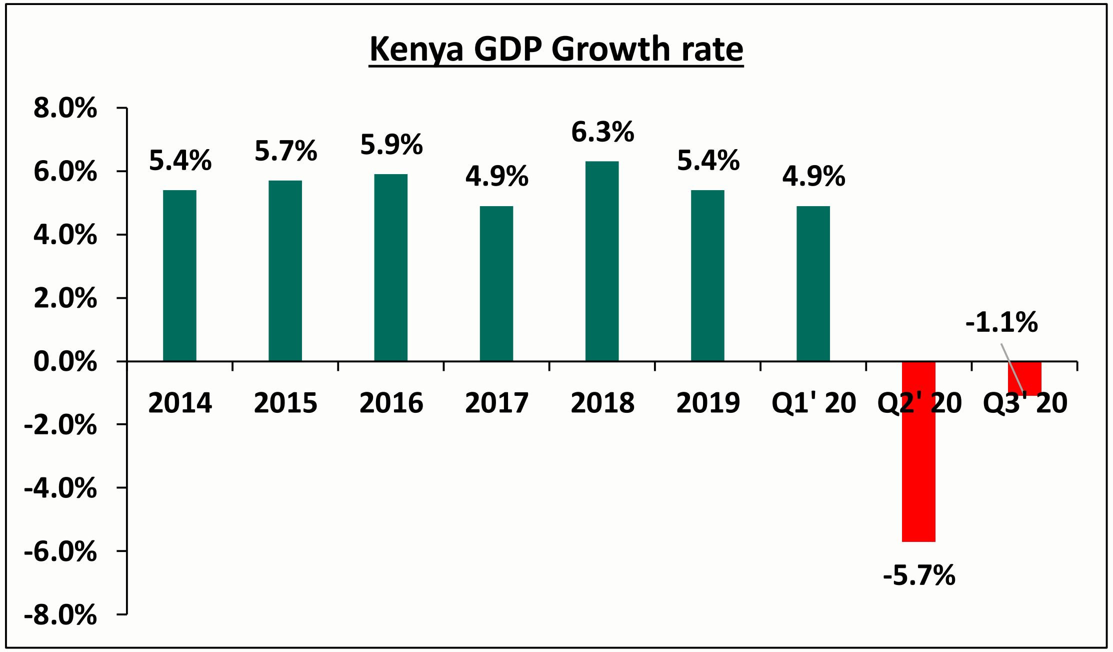
Cytonn Investments Management Plc

- **Cytonn Capital Partners** (Private Markets)
  - Private Offers and Real Estate Investments
  - Cytonn Hospitality
  - Superior Homes Kenya
- **Cytonn Asset Managers** (Regulated by CMA & RBA)
  - Unit Trust Funds
  - Cytonn Africa Financial Fund
  - Cytonn Advisory
  - Pension Fund Management
- **Cytonn Real Estate**
  - Research and Deal Origination
  - Project Management
  - Quality Assurance/ Control
  - Cytonn Procurement - Cymatt
  - Cytonn Real Estate Legal
  - Cytonn Properties
  - Cytonn Centre for Affordable Housing
- **Other Strategic Initiatives**
  - Cytonn Distribution
  - East African Forum for Alternative Investments

II. Kenya Economic Review and Outlook

The economic growth expected to remain slow in 2021



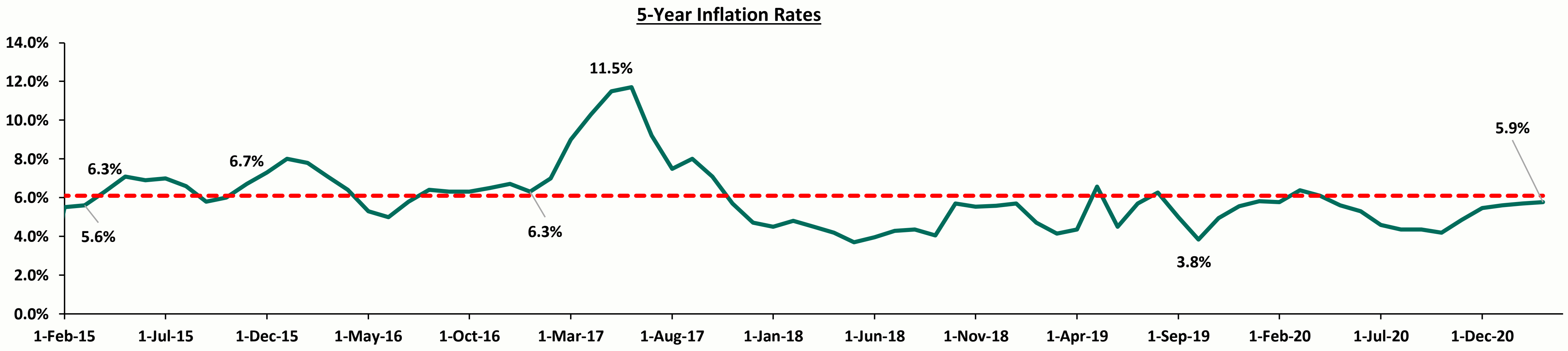


- According to Kenya National Bureau of Statistics (KNBS), the Kenyan economy recorded a 1.1% contraction in Q3'2020, down from a growth of 5.8% recorded in Q3'2019. This was the second consecutive contraction, following the 5.7% contraction recorded in Q2'2020
- We expect the growth rate to be slower in the coming quarters following the imposition of new restrictions owing to the spread of COVID-19 coupled with the absence of tax incentives issued in 2020

Cytonn

Inflation

Inflation averaged 5.3% in Q4'2020, up from 4.3% in Q3'2020

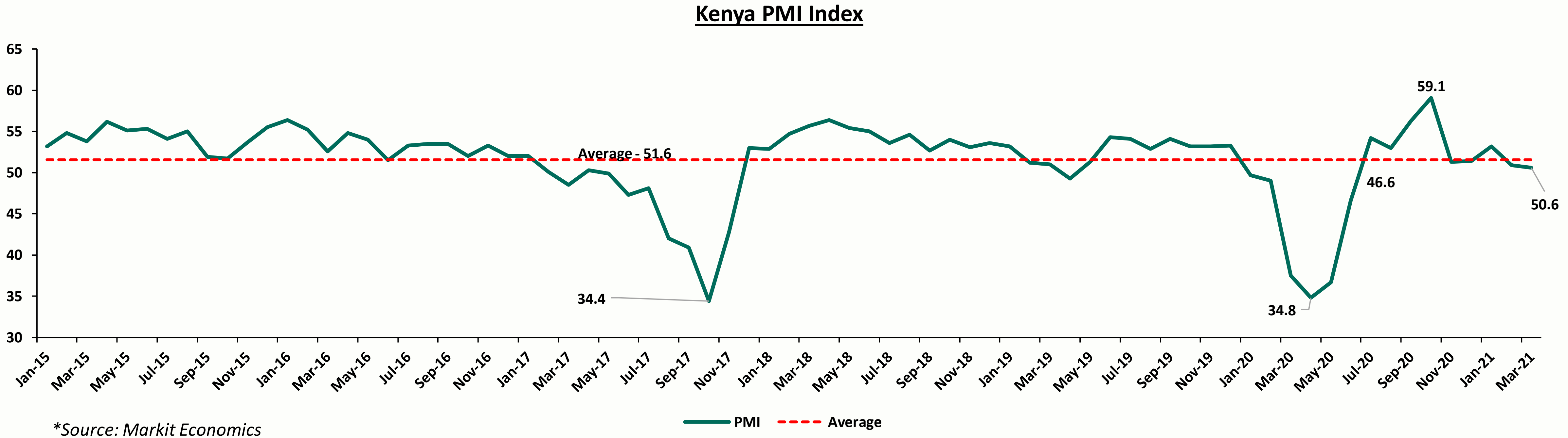


**Source: KNBS*

- In Q4'2020, inflation averaged 5.3%, a 1.0% points increase from the 4.3% recorded in Q3'2020. Q1'2021 inflation also increased to an average of 5.8%, while March inflation came in at 5.9%. The rising inflation rate can be attributed to the rising fuel prices since the start of the year
- We expect inflation to remain within the government's range of 2.5%-7.5% despite supply-side disruption due to COVID-19 mainly supported by stable food prices as a result of the current favorable weather conditions

Cytonn

Stanbic PMI Index



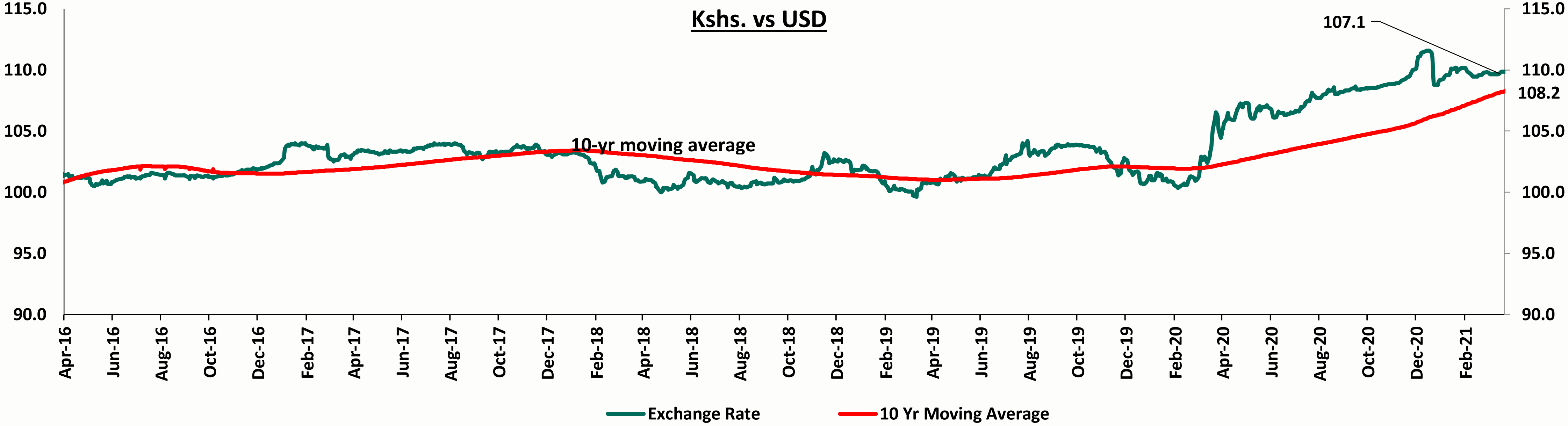
*Source: Markit Economics

- In Q4'2020, the economic prospects of the country deteriorated, with the Stanbic PMI index averaging 53.9, a decline from the 54.5 recorded in Q3'2020. In Q1'2021, the PMI Index also declined, coming in at an average of 51.6
- Key to note, a PMI reading of above 50 indicates improvements in the business environment, while a reading below 50 indicates a worsening outlook. Despite the stronger growth seen in the period under review, the level of sentiments was weak, as firms were concerned that the economy could face a setback from the pandemic

Cytonn

Currency

Year-to-date, the Kenyan shilling has appreciated by 1.9% against the US Dollar

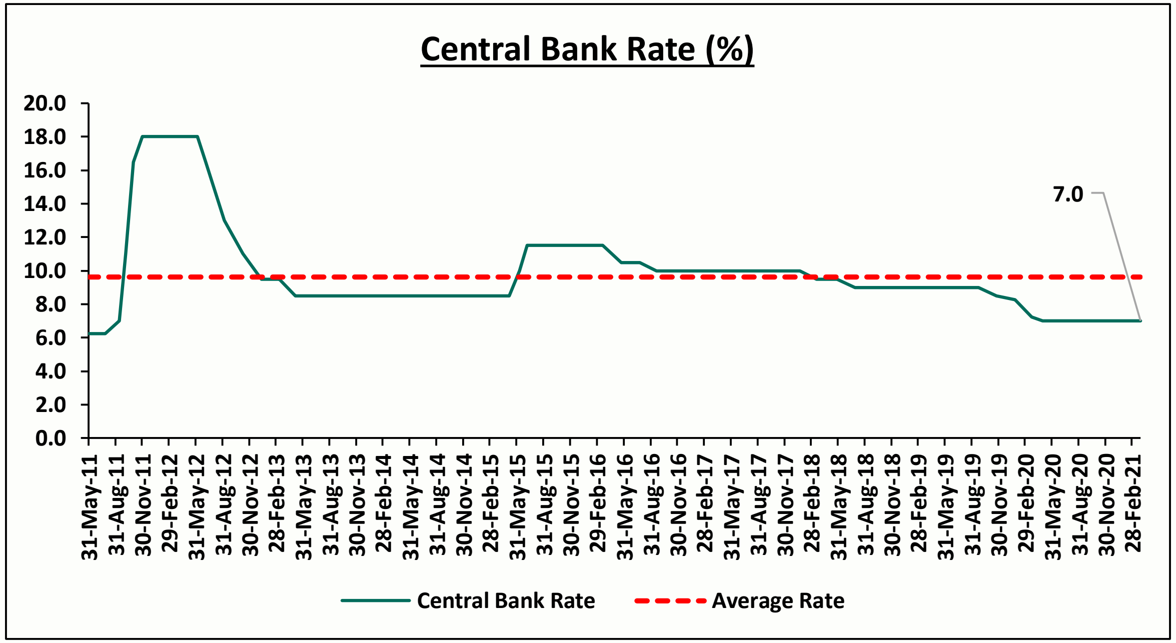


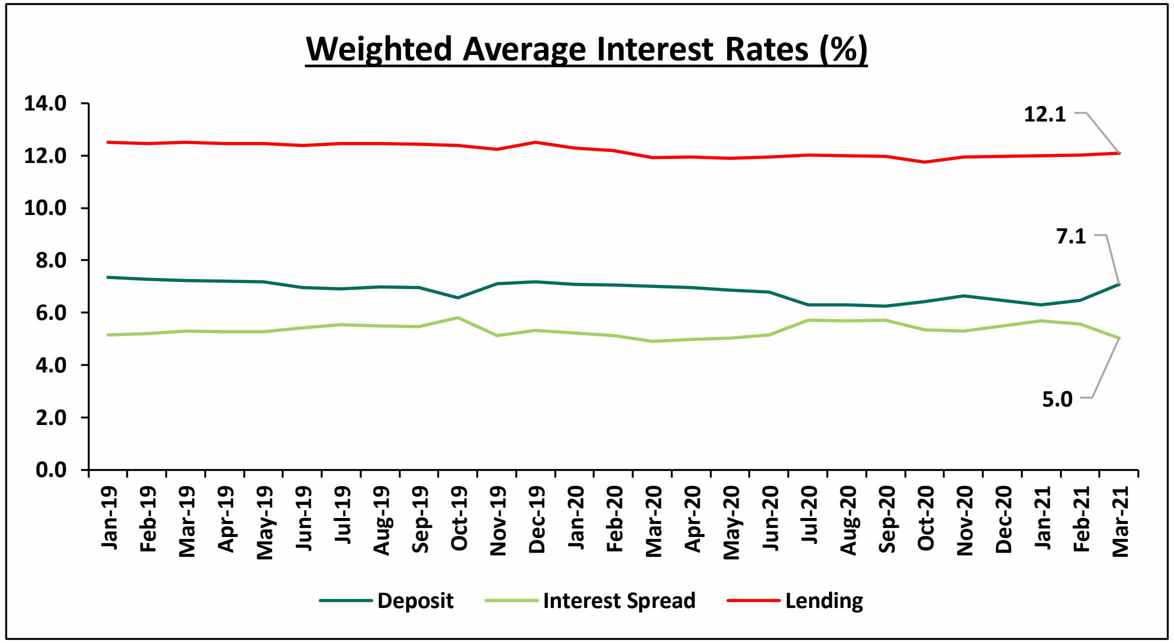
**Source: Central Bank of Kenya*

- In Q4'2020, the Kenya shilling depreciated by 0.6%, mainly attributable to the uncertainty in the global economy and also the decline in dollar inflows as trade was impacted. On a YTD basis, the shilling has appreciated by 1.9%, in comparison to the 7.7% depreciation in 2020
- In our view, the shilling will come under pressure due to continued uncertainty globally making people prefer holding dollars and other hard currencies

Cytonn

Interest Rates and Monetary Policy

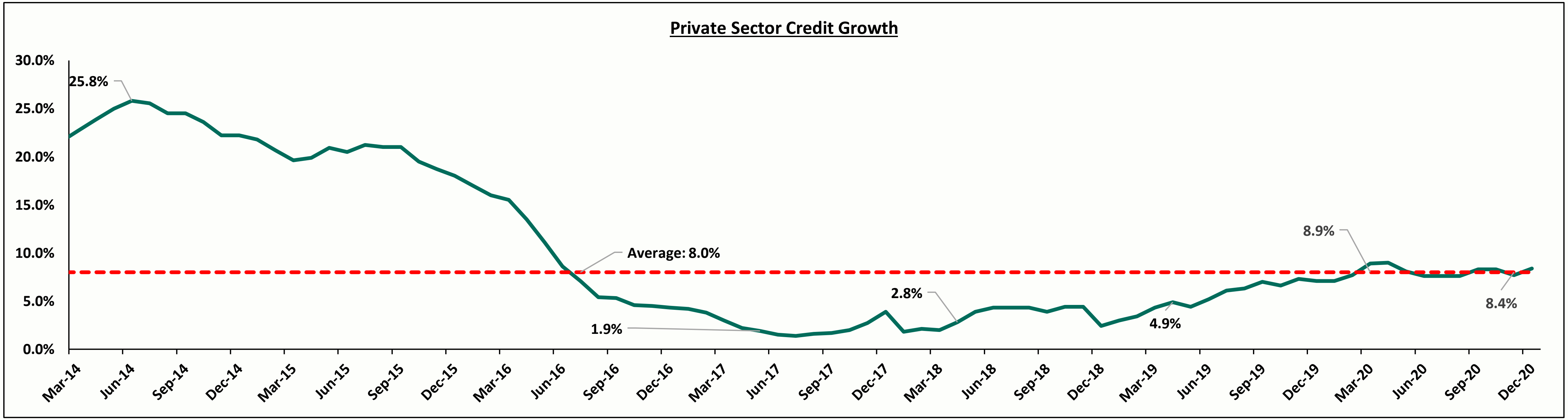




- During Q4’2020, the Monetary Policy Committee met once and held the both the Central Bank Rate stable at 7.0% and the Cash Reserve ratio remained unchanged at 4.25%
- The MPC concluded that the current accommodative monetary policies together with the package of policy measures implemented over the last year have protected the economy from substantial decline and supported vulnerable citizens. As a result of the adoption of the accommodative policy in 2020, commercial banks’ lending rates declined to 11.9% in December 2020 from 12.0% seen in September 2020.

Cytonn

Private Sector Credit growth



**Source: KNBS*

- In the 12 months to December 2020, growth in private sector credit stood at 8.4%, supported by recovery in demand with the improved economic activity following the easing of COVID-19 containment measures, and the accommodative monetary policy
- We expect to see increased caution on lending especially to businesses that rely on imports hence inhibiting private credit sector growth due to the high risk of credit default, with the possibility of heightened Non Performing Loans due to the continuing pandemic and the new restriction measures put in place

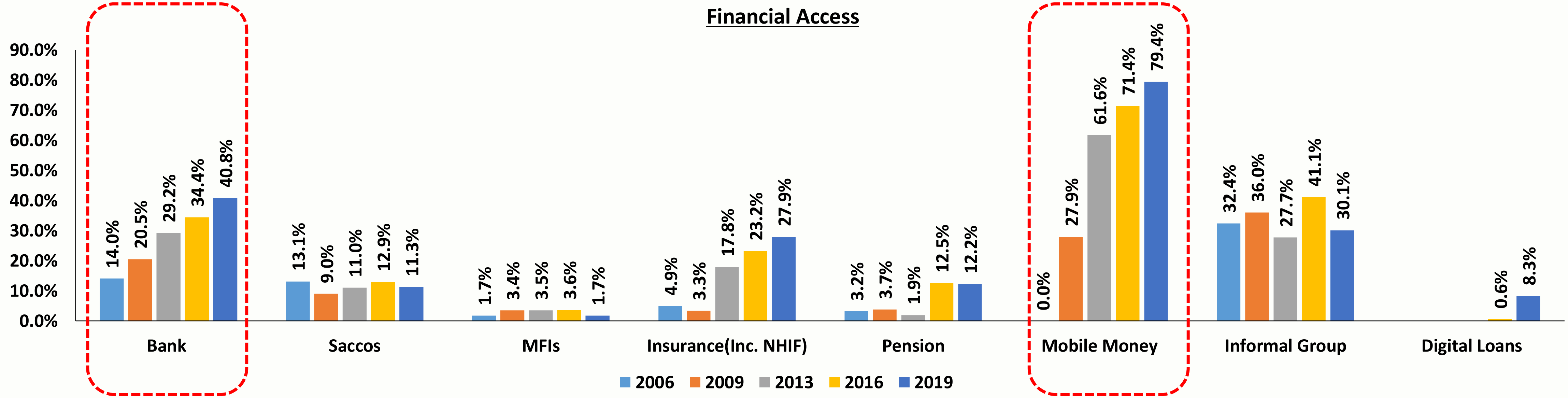
III. Banking Sector Overview

Cytonn

Kenyan Banking Sector Overview

Financial Inclusion in Kenya continues to rise, mainly driven by proliferation of mobile and digital channels

- In Kenya there are a total of 38 commercial banks, 1 mortgage finance company, 13 microfinance banks, 9 representative offices of foreign banks, 74 foreign exchange bureaus, 18 money remittance providers and 3 credit reference bureaus
- Financial inclusion in Kenya has continued to rise, with 82.9% of the adult population able to access formal financial services. This has largely been driven by digitization, with Mobile Financial Services (MFS), transfer and lending, rising to be the preferred method to access financial services. According to Central Bank Annual Report 2019/2020, 67.0% of banking transactions were conducted on mobile phones after the onset of the pandemic, compared to 55.0% of transactions before the pandemic

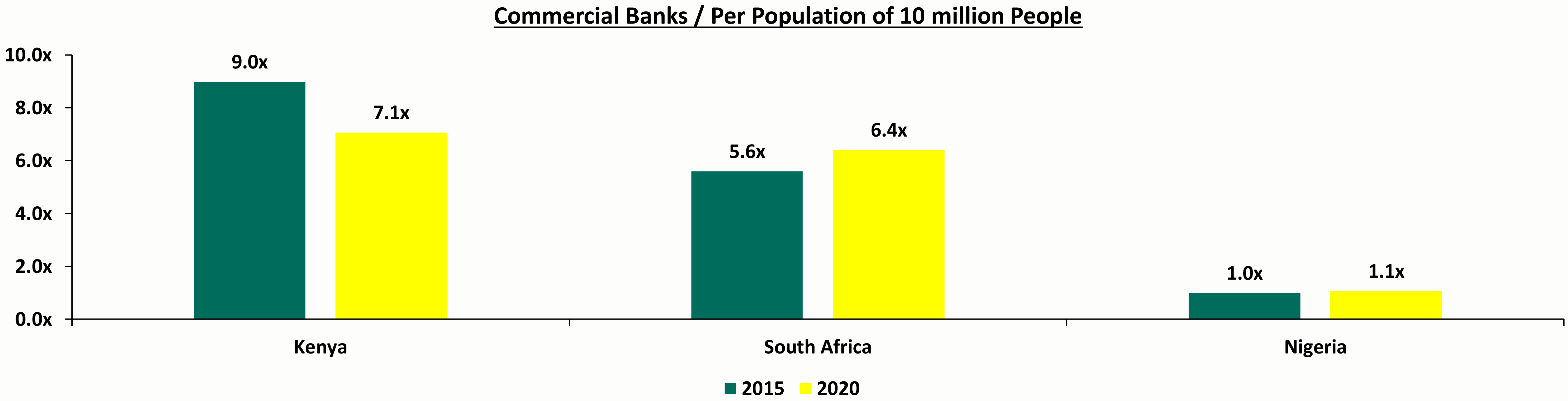


Cytonn

Source: Central Bank of Kenya, FinAccess report

Kenyan Banking Sector Overview

Kenya still remains overbanked as the number of banks remains relatively high compared to the population



- Despite the number of commercial banks in Kenya reducing to 38, compared to 43 banks 5-years ago. The ratio of the number of banks per 10 million population in Kenya now stands at 7.1x, which is a reduction from 9.0x 5-years ago, demonstrating continued consolidation of the banking sector. However, despite the ratio improving, Kenya still remains overbanked as the number of banks remains relatively high compared to the population

Cytonn

Recent Developments in the Kenyan Banking Sector

1. Regulation:

i. **Guidance on Loan Restructuring-** On March 27th 2020, the Central Bank of Kenya provided commercial banks and mortgage finance companies with guidelines on loan reclassification, and provisioning of extended and restructured loans as per the Banking Circular No 3 of 2020. The loan restructuring involves placing moratoriums on both interest and principal payments for three months, in effect giving reprieve to borrowers who found it difficult to repay their loans due to the impact caused by the pandemic. The table below highlights some of the major banks that have disclosed the amount of loans they have restructured;

No.	Bank	Amount Restructured (Kshs bn)	% of restructured loans to total loans	FY'2020 y/y Change in Loan loss provision
1	Equity Group Holdings	171.0	35.8%	402.2%
2	Kenya Commercial Bank	106.1	19.6%	209.5%
3	Diamond Trust Bank	101.0	45.0%	453.6%
4	NCBA Group	78.0	31.4%	227.0%
5	Absa Bank Kenya	62.0	29.7%	114.9%
6	Co-operative Bank of Kenya	46.0	14.9%	219.5%
7	Standard Chartered Bank of Kenya	22.0	18.1%	578.0%
	Total	**586.1**		

Cytonn

Recent Developments in the Kenyan Banking Sector

2. Consolidation:

Kenya's banking sector has witnessed heightened M&A activity over the last 5 years, leading to formation of relatively larger, well capitalized and possibly more stable entities. The following were the major M&A's activities witnessed in 2020:

i. On 27th January 2020, Nigerian lender, Access Bank PLC completed the acquisition of a 100.0% stake in Transnational Bank PLC for an undisclosed amount, with Access Bank PLC targeting to enhance its corporate and retail banking business in Kenya through the acquisition. Access Bank is Nigeria's largest lender by assets, with an asset base of USD 22.9 bn (equivalent to Kshs 2.5 tn) as at December 2020. The deal will see Nigerian banks deepen their presence in Kenya with the United Bank of Africa (UBA) and Guarantee Trust Bank already in the market,

ii. On 7th April 2020, the Central Bank of Kenya (CBK) approved the acquisition of a 51.0% stake in Mayfair Bank Limited by an Egyptian lender, Commercial International Bank (CIB), effective 1st May 2020 for an undisclosed amount. The Central Bank of Kenya (CBK) welcomed the transaction, citing it will diversify and strengthen the resilience of the Kenyan banking sector. Commercial International Bank, Egypt's leading private sector bank, has an asset base of USD 27.2 bn (Kshs 3.0 tn) as of December 2020. CIB's business model focusses on individuals, SMEs, institutions, and corporates and will be the first Egyptian bank to establish a presence in Kenya. The deal will see CIB provide Mayfair Bank Limited with the requisite skills, resources, and infrastructure to scale up its business,

Recent Developments in the Kenyan Banking Sector

iii. On 4th May 2020, the Central Bank of Kenya approved the acquisition of Imperial Bank's assets and assumption of liabilities worth Kshs 3.2 bn each by KCB Group effective 2nd June 2020. The move will see Imperial Bank depositors paid a total of Kshs 3.2 bn over a period of 4 years and will have cumulatively recovered 37.3% of the deposits since 2015, when payments commenced. Imperial Bank was put under receivership (a process that can assist creditors to recover funds in default and can help troubled companies to avoid bankruptcy) in October 2015 due to inappropriate banking practices, with the CBK transferring Imperial Bank's management and control to the KDIC,

iv. On 25th August 2020, Co-operative Bank Kenya completed the 90.0% acquisition of Jamii Bora Bank and rebranded it to Kingdom Bank Limited. The transaction that had started in March for a 100.0% purchase of the Bank at Kshs 1.1 bn, was completed in August after receiving all the approvals, with Co-operative Bank varying its initial offer of 100.0% stake to a 90.0% stake,

v. Equity Group Holdings completed the 66.5% stake acquisition of the Banque Commerciale Du Congo (BCDC) at a cost of USD 95.0 mn (Kshs 10.3 bn). Initially, the deal was to cost USD 105.0 mn (Kshs 11.4 bn), however factoring in the adverse effects of the COVID-19 pandemic on the two economies, the two parties agreed to reduce the amount to USD 95.0 mn (Kshs 10.3 bn),

Recent Developments in the Kenyan Banking Sector

vi. I&M Holdings plc issued a circular to its shareholders on 3rd November 2020 revealing it would pay Kshs 3.6 bn to acquire 90.0% of Orient Bank Limited Uganda (OBL) share capital. The amount would be subject to adjustments on account of several factors including exchange rate fluctuations and amounts raised from the sale of the Ugandan bank's property in Kampala (Orient Plaza). The announcement came 4 months after the two banks started negotiations, in July 2020, and,

vii. KCB Group disclosed it had entered into an agreement with Atlas Mara Limited (ATMA) to acquire a 62.1% stake in Banque De Populaire du Rwanda (BPR) in Rwanda and 100.0% stake in African Banking Corporation Ltd Tanzania (ABC Tanzania). The Group also separately intends to make an offer to acquire the remaining shares from the respective shareholders. The proposed acquisition is subject to approval from the shareholders, the Central Bank of Kenya, the National Bank of Rwanda, the COMESA Competition Commission and the Capital Markets Authority. KCB also agreed to purchase 96.6% stake of ABC Tanzania held by ABC Holdings Limited (ABCH), the wholly owned subsidiary of Atlas Mara. Additionally, KCB separately intends to make an offer to acquire the remaining shares of 3.4% from the Tanzania Development Finance Company Limited.

Recent Developments in the Kenyan Banking Sector

Consolidation continues in the banking sector, with the most recent being that of KCB Group and Atlas Mara

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs. Bns)	Transaction Stake	Transaction Value	P/Bv Multiple	Date
KCB Group	Banque Commerciale Du Congo	5.2	62.1%	5.7	1.1x	Nov-20*
KCB Group	ABC Tanzania	Unknown	100.0%	Undisclosed	0.4x	Nov-20*
Co-operative Bank	Jamii Bora Bank	3.4	90.0%	1	0.3x	Aug-20
Commercial International Bank	Mayfair Bank Limited	1	51.0%	Undisclosed	N/D	May-20*
Access Bank PLC (Nigeria)	Transnational Bank PLC.	1.9	100.0%	1.4	0.7x	Feb-20*
Equity Group **	Banque Commerciale Du Congo	8.9	66.5%	10.3	1.2x	Nov-19*
KCB Group	National Bank of Kenya	7	100.0%	6.6	0.9x	Sep-19
CBA Group	NIC Group	33.5	53%:47%	23	0.7x	Sep-19
Oiko Credit	Credit Bank	3	22.8%	1	1.5x	Aug-19
CBA Group**	Jamii Bora Bank	3.4	100.0%	1.4	0.4x	Jan-19
AfricInvest Azure	Prime Bank	21.2	24.2%	5.1	1.0x	Jan-18
KCB Group	Imperial Bank	Unknown	Undisclosed	Undisclosed	N/A	Dec-18
SBM Bank Kenya	Chase Bank Ltd	Unknown	75.0%	Undisclosed	N/A	Aug-18
DTBK	Habib Bank Kenya	2.4	100.0%	1.8	0.8x	Mar-17
SBM Holdings	Fidelity Commercial Bank	1.8	100.0%	2.8	1.6x	Nov-16
M Bank	Oriental Commercial Bank	1.8	51.0%	1.3	1.4x	Jun-16
I&M Holdings	Giro Commercial Bank	3	100.0%	5	1.7x	Jun-16
Mwalimu SACCO	Equatorial Commercial Bank	1.2	75.0%	2.6	2.3x	Mar-15
Centum	K-Rep Bank	2.1	66.0%	2.5	1.8x	Jul-14
GT Bank	Fina Bank Group	3.9	70.0%	8.6	3.2x	Nov-13
Average			**74.7%**		**1.2x**	

*** Announcement Date**
**** Deals that were dropped**

Recent Developments in the Kenyan Banking Sector

3. **Asset Quality Deterioration:** Asset quality for listed banks deteriorated in FY'2020, with the Gross NPL ratio rising by 3.0% points to 13.5% from 10.5% in FY'2019. This was high compared to the 5-year average of 9.9%. The deterioration in asset quality was due to the coronavirus-induced downturn in the economy, which led to an uptick in the non-performing loans. Consequently, the NPL coverage rose to 62.2% in FY'2020 from 57.6% recorded in FY'2019, in accordance with IFRS 9, where banks are expected to provide both for the incurred and expected credit losses. The significantly higher provisional requirements levels subdued profitability during the year across the banking sector, in line with our expectations, on account of the tough operating environment. 7 out of the 10 listed banks issued profit warnings during the financial year attributable to the deteriorating asset quality and higher provisioning requirements. High levels of NPLs were witnessed in sectors such as Real Estate, Agriculture, Personal and Household, and Manufacturing sectors, and,

4. **Capital Conservation/Dividends Deferment:** The Central Bank of Kenya, on 14th August 2020, directed that Banks will have to get approval before declaring dividends for the current financial year, in a bid to ensure that the banks have enough capital that will enable them to respond appropriately to the COVID-19 pandemic. The Central Bank gave guidance to lenders asking them to revise their ICAAP (Internal Capital Adequacy Assessment Process) based on the pandemic as highlighted in the Banking Circular No 11 of 2020. Subject to the submission of the revised Internal Capital Adequacy Assessment Process, (ICAAP), CBK will determine if it will endorse the board's decision to pay out dividends. Following the release of the FY'2020 results, 6 of the 10 listed banks issued dividends to their shareholders, an indication that the capital adequacy and risk management policies employed under ICAAP for most of the listed banks was satisfactory to the CBK in FY'2020.

Banking Sector Growth Drivers

i. **Growth in Interest Income:** With interest income growth at 16.7% as at FY'2020 outpacing the 3.2% growth recorded in FY'2019, interest income growth will remain a key industry driver going forward. The discovery and distribution of vaccines will be key for the recovery of the economy as restriction measures are gradually eased and credit risk declines. The expiry of the restructuring and moratorium window given to borrowers will also enable banks to further increase interest income growth which will lead to increased profitability,

ii. **Revenue Diversification:** In FY'2020, Non-Funded Income (NFI) recorded a 6.4% weighted average growth, compared to a growth of 17.4% in FY'2019. The banking sector's Non-Funded Income to Operating Income also declined, coming in at 35.4% in FY'2020 compared to 37.4% of Operating Income in FY'2019, consequently contributing to slower earnings growth across the sector. The slower growth in Non-Funded Income is attributable to the waiver on fees and commissions on loans and advances issued by the CBK on March 2020. Given that Non-Funded Income contributes less than 50.0% of listed banks' operating income, there exists an opportunity for the sector to increase NFI contribution to revenue going forward. With the expiry of the waiver on bank charges on 2nd March 2021, we expect NFI growth to recover in the medium-long term due to the increased adoption of digital channels. The increased uptake of digital channels will enable banks to leverage on their platforms and generate Non-Funded Income from transactions. This presents an ideal opportunity for the banking sector to diversify away from their reliance on interest income in the long term and boost revenue growth,

Banking Sector Growth Drivers

iii. **Provisioning:** Loan Loss Provisions recorded a growth of 233.2% in FY'2020, attributed to the heightened credit risk arising from the adverse effects of the pandemic which affected individuals and businesses' ability to service loans. Given that the duration of the pandemic remains unknown, coupled with the emergence of the 'third wave' of COVID-19, we believe that the normalization of the sector's provisioning levels to pre-pandemic levels will take longer than expected. Additionally, we expect the higher provisioning requirements as per the IFRS guidelines to further subdue the profitability of the banking sector,

iv. **Increased Liquidity due to lower Cash Reserve Ratio (CRR):** The Monetary Policy Committee (MPC) during their 29th April 2020 meeting lowered the Cash Reserve Ratio (CRR), which is a fraction of total customer deposits that the commercial banks have to hold with the Central Bank, by 100 bps to 4.25% from 5.25%. The reduction is projected to have injected approximately Kshs 35.2 bn in additional liquidity to commercial banks for onward lending to distressed borrowers. The MPC, during their November 2020 MPC Meeting highlighted that Kshs 32.6 bn, representing 92.7% of the Kshs 35.2 bn injected had been utilized by the banking sector to offer reprieve to their customers as well as support lending in the sectors that have been hard hit by the pandemic such as Tourism, Manufacturing and Real Estate. We expect the low CRR ratio to improve the banking sector's liquidity and as such, banks will have more money to loan to businesses and individuals as well as invest in other businesses. Additionally, given that a low CRR translates to a low amount held in the CBK at no interest, we expect this to lead to a decline in the interest rates charged on loans by the sector,

Banking Sector Growth Drivers

Regional Expansion and further consolidation to lead banks' growth in the future

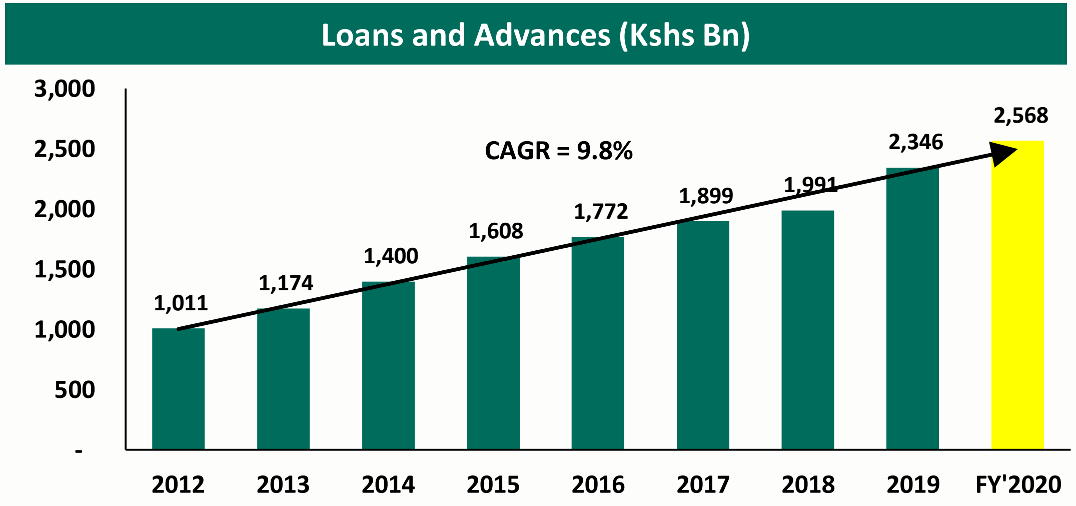
v. **Cost Rationalization:** Given the expected low revenues and increased automation, banks are expected to continue pursuing their cost rationalization strategies. A majority of banks have been riding on the digital revolution wave to improve their operational efficiency. Increased adoption of alternative channels of transactions such as mobile, internet, and agency banking, has led to increased transactions carried out via alternative channels and out of bank branches, which have been reduced to handling high-value transactions and other services such as advisory. Banks reduced front-office operations, thereby cutting the number of staff required and by extension, reducing operating expenses and hence, improving operational efficiency, and,

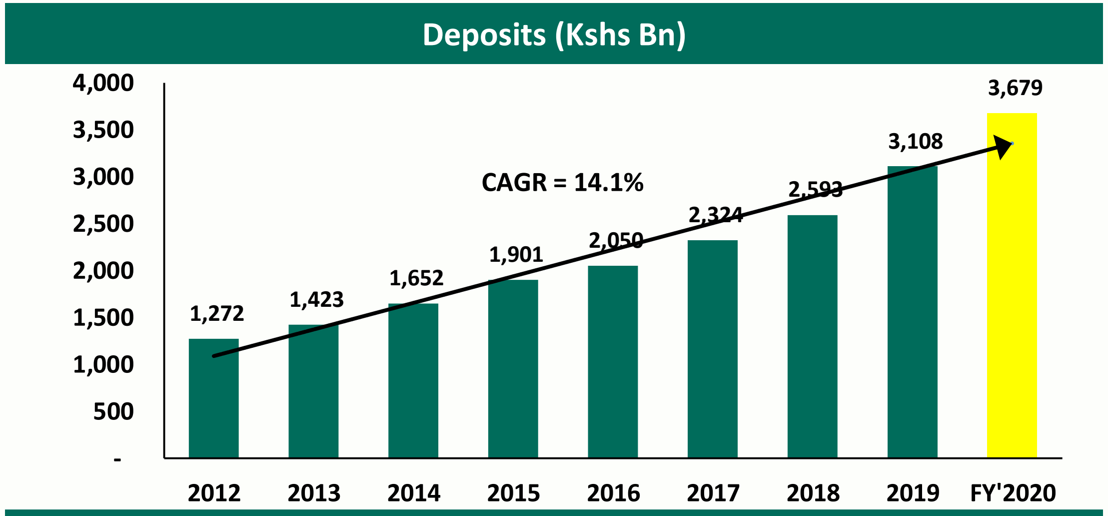
vi. **Expansion and Further Consolidation –** With consolidation remaining a key theme in FY'2020, the current environment could provide opportunities for bigger banks with an adequate capital base to expand and take advantage of the low valuations in the market to further consolidate and buy out smaller banks. Consolidation will be key for most of the smaller banks that suffered losses during the pandemic, and would also benefit larger banks with the opportunity to improve their asset base.

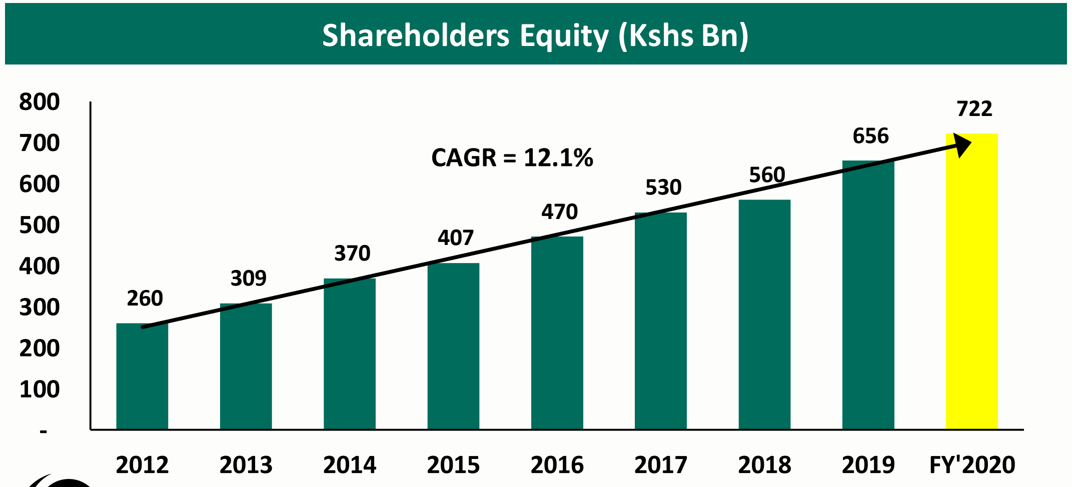
IV. Listed Banking Sector Metrics

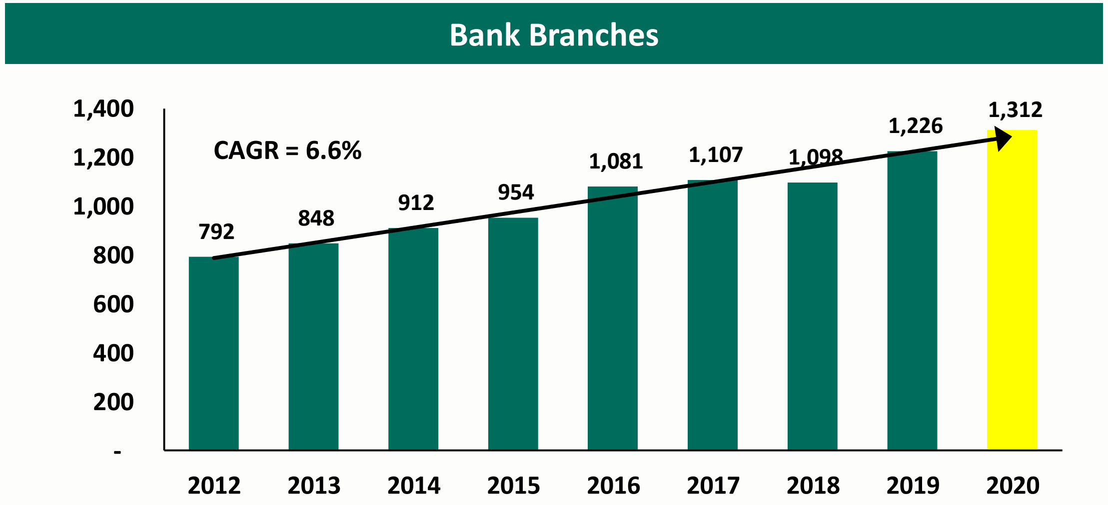
Listed Banking Sector Metrics

FY’2020 deposit witnessed a faster 22.3% growth as compared to the 11.7% growth in loans







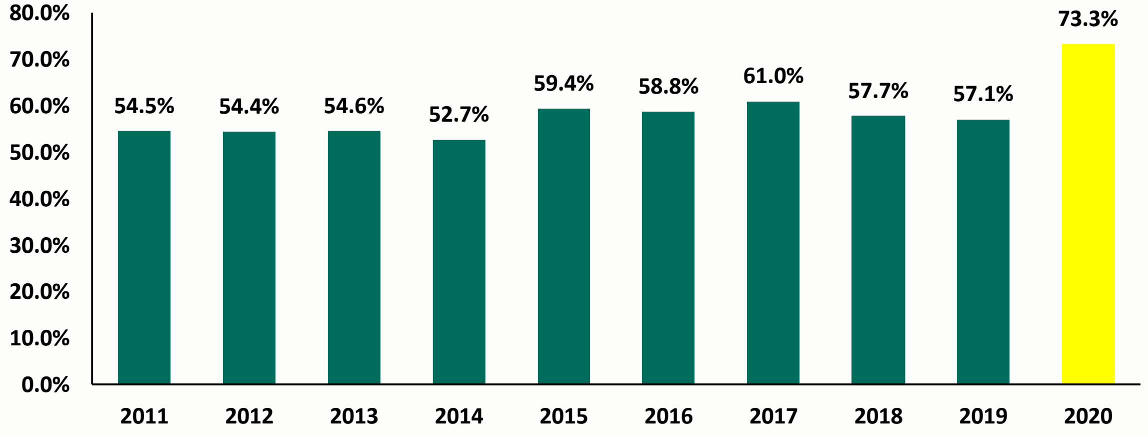


Cytonn

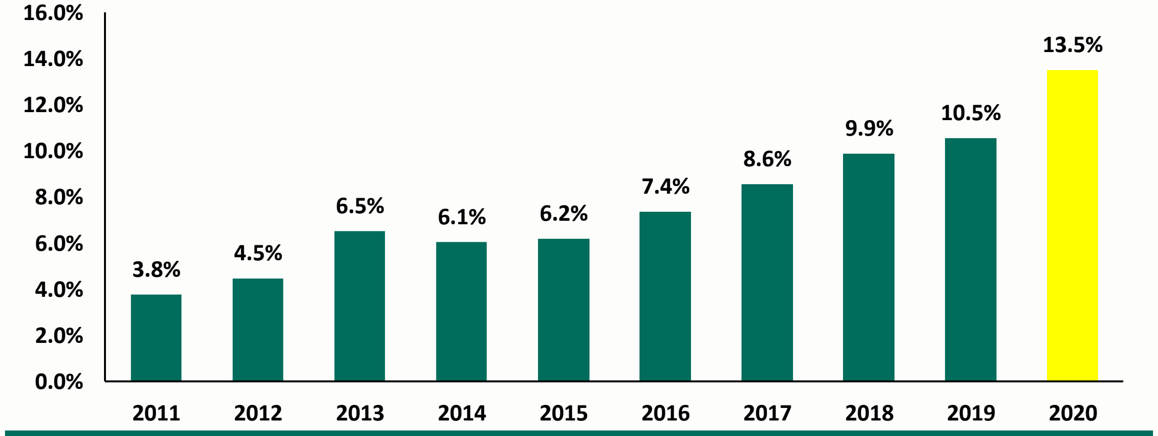
Listed Banking Sector Metrics

Banks asset quality and profitability were negatively impacted by the tough COVID-19 Operating Environment

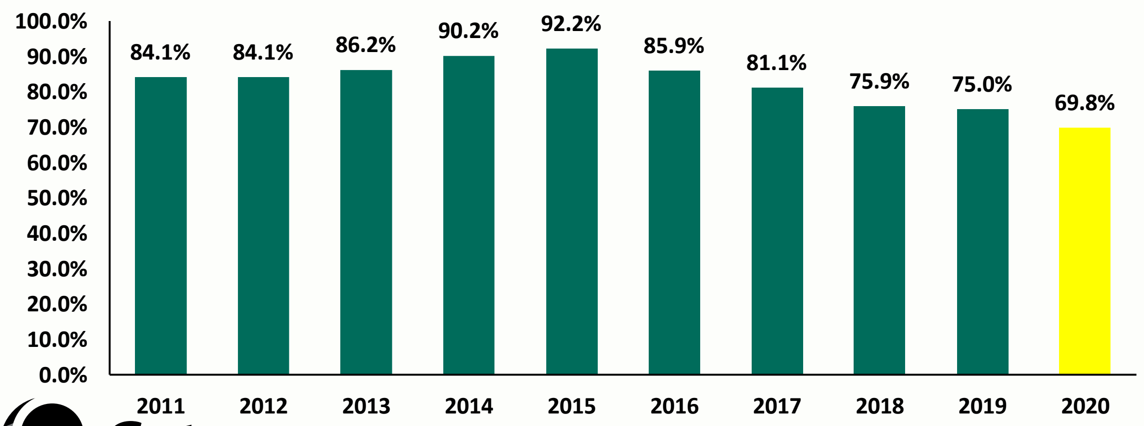
Cost to Income Ratio



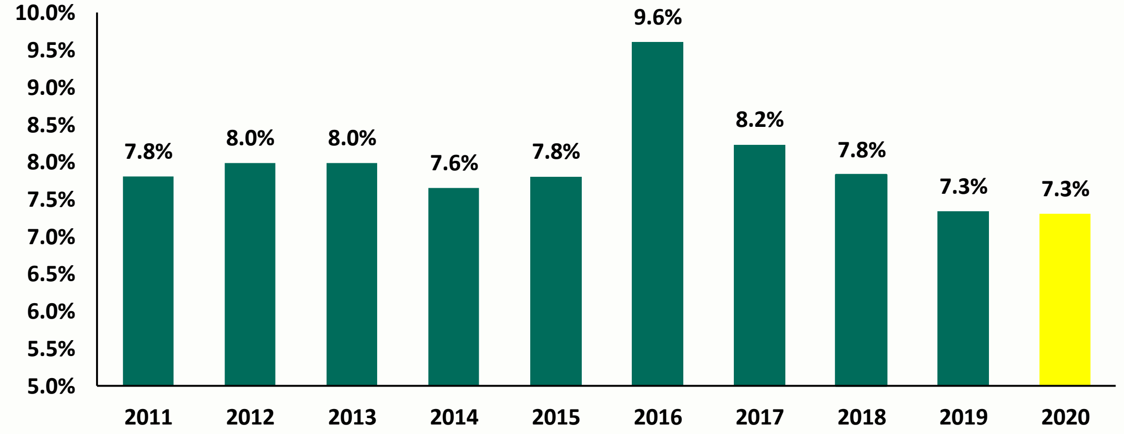
NPL Ratio



Loan to Deposit Ratio



Net Interest Margin



Listed Banking Earnings and Growth Metrics

Kenya's listed banking sector FY'2020 core EPS declined by a 26.8% compared to growth of 8.9% in FY'2019

Bank	Core EPS Growth	Net Interest Margin	NFI to Total Operating Income	Deposit Growth	Growth In Govt Securities	Loan Growth	LDR	Cost to Income	Return on Average Equity
I&M Holdings	(21.9%)	5.4%	35.6%	14.3%	88.6%	6.9%	71.3%	52.0%	13.2%
Absa Bank	(44.2%)	7.1%	32.3%	6.7%	2.5%	7.2%	82.3%	74.4%	15.1%
Equity Bank	(10.9%)	7.6%	41.1%	53.5%	26.8%	30.4%	64.5%	77.6%	16.5%
Coop Bank	(24.4%)	8.5%	32.5%	13.8%	37.4%	7.5%	75.7%	73.2%	12.5%
KCB Group	(22.1%)	8.5%	29.5%	11.7%	26.6%	10.3%	77.6%	73.3%	14.4%
SCBK	(33.9%)	6.8%	30.2%	12.3%	0.2%	(5.6%)	47.4%	73.0%	11.0%
Stanbic Bank	(18.6%)	4.7%	44.9%	15.7%	25.0%	2.7%	75.5%	52.2%	10.3%
DTBK	(51.5%)	5.0%	25.3%	6.4%	12.0%	4.8%	70.0%	81.3%	5.8%
NCBA Group	(72.6%)	5.8%	45.1%	11.4%	12.8%	(0.3%)	59.0%	86.2%	6.6%
HF Group	N/A	4.2%	21.8%	6.8%	54.4%	(4.0%)	92.6%	170.1%	(18.1%)
FY'2020 Weighted Average	**(26.8%)**	**7.3%**	**35.4%**	**22.2%**	**26.3%**	**11.7%**	**69.8%**	**73.3%**	**13.2%**
FY'2019 Weighted Average	**8.9%**	**7.3%**	**37.4%**	**12.7%**	**19.4%**	**12.8%**	**75.0%**	**49.4%**	**18.4%**

Cytonn

Takeout from Key Operating Metrics

Listed banks recorded a 26.8% decrease in core operating earnings, attributed to the tough operating environment

1. In FY'2020, core Earnings Per Share (EPS) recorded a weighted (26.8%) decline, compared to a weighted growth of 8.9% in FY'2019,
2. The sector recorded a weighted average deposit growth of 22.3%, faster than the 12.7% growth recorded in FY'2019,
3. Interest income rose by 16.7%, compared to a growth of 3.2% recorded in FY'2019. Despite the rise in interest income, the Yield on Interest Earning Assets (YIEA) declined to 10.1% from the 10.4% recorded in FY'2019, an indication of the increased allocation to lower-yielding government securities by the sector. The decline in the YIEA can also be attributed to the reduced lending rates for customers by the sector, in line with the Central Bank Rate cuts. The Net Interest Margin (NIM) remained flat at 7.3% recorded in FY'2019 for the whole listed banking sector,
4. Interest expense, on the other hand, grew faster by 12.5%, compared to 3.4% in FY'2019. Cost of funds, however, declined, coming in at a weighted average of 3.1% in FY'2020, from 3.2% in FY'2019, owing to the faster growth in average interest-bearing liabilities, an indication that the listed banks were able to mobilize cheaper deposits,

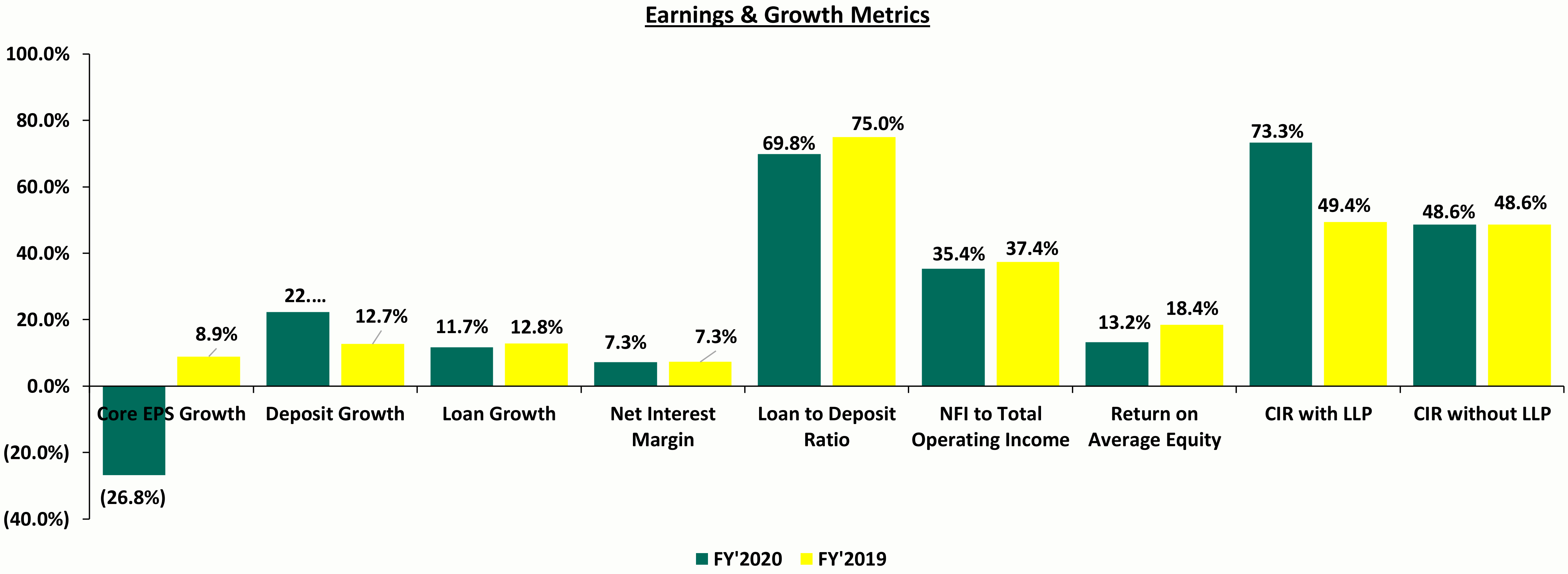
Takeout from Key Operating Metrics

Listed banks recorded a 6.4% y/y Non Funded Income growth, slower than 17.4% growth recorded in FY'2019

5. Average loan growth came in at 11.7%, slower than the 12.8% recorded in FY'2019. The loan growth was also slower than the 26.3% growth in government securities, an indication of the banks' preference of investing in Government securities as opposed to lending due to the elevated credit risk occasioned by the pandemic, and,
6. Non-Funded Income grew by 6.4% y/y, slower than 17.4% growth recorded in FY'2019. The performance in NFI was on the back of declined growth in fees and commission of (2.1%), which was slower than the 18.4% growth recorded in FY'2019. The poor performance of the growth in fees and commission can be attributed to the waiver on fees on mobile transactions below Kshs 1,000 and the free bank-mobile money transfer. Banks with a large customer base who rely heavily on mobile money transactions are likely to take the biggest hit.

Listed Banks Earnings and Growth Metrics Cont…

The banking sector showed subdued performance as evidenced by the decline in the core-earnings per share by 26.8%, as compared to a growth of 8.9% in FY’2019



Cytonn

Listed Banks Operating Metrics

The sectors asset quality continues to deteriorate as evidenced by the high NPL ratio of 13.5%, from 10.5% recorded in FY’2019

Bank	Deposit/Branch (bn)	Gross NPL Ratio	NPL Coverage	Tangible Common Ratio	Non Funded Income/Revenue
Absa Bank	3.0	7.7%	71.1%	12.2%	32.3%
DTBK	2.2	10.4%	44.6%	14.4%	25.3%
Equity Bank	2.2	11.5%	62.4%	12.2%	41.1%
I&M Holdings	4.0	11.6%	66.8%	16.6%	35.6%
Stanbic Bank	10.4	11.8%	60.6%	13.0%	44.9%
NCBA Group	6.0	14.7%	60.9%	12.6%	45.1%
KCB Group	2.1	14.8%	59.8%	13.9%	29.5%
SCBK	7.1	16.0%	80.6%	14.8%	30.2%
Coop Bank	2.1	18.7%	50.3%	15.9%	32.5%
HF Group	1.8	24.6%	63.4%	14.1%	21.8%
Weighted Average FY'2020*	**3.5**	**13.5%**	**62.2%**	**13.7%**	**35.4%**
Weighted Average FY'2019	**3.2**	**10.5%**	**57.6%**	**14.7%**	**37.4%**

*Market cap weighted average as at 15th April 2021

Cytonn

Listed Banks Trading Metrics

The listed banking sector is currently trading at an average P/TBV of 0.9x and average P/E of 7.4x

Bank	No. of shares (bn)	Market Cap (bn)	P/E	Price*	P/TBV
HF Group	0.4	1.5	1.0x	3.9	0.2x
NCBA Group	1.6	43.6	9.5x	26.5	0.7x
DTBK	0.3	18.2	5.2x	65.0	0.3x
Coop Bank	5.9	68.1	6.3x	11.6	0.8x
I&M Holdings	0.8	38.8	4.8x	47.0	0.7x
KCB Group	3.2	134.5	6.9x	41.9	1.0x
Stanbic Bank	0.4	32.8	6.3x	83.0	0.8x
Absa Bank	5.4	48.0	11.5x	8.8	1.0x
SCBK	0.3	49.1	9.0x	143.0	1.0x
Equity Bank	3.8	145.5	7.2x	38.6	1.2x
Weighted Average FY'2020			**7.4x**		**0.9x**
Weighted Average FY'2019**					

P/E calculation for HF used normalized earnings over a period of 5 years
**Prices as at 15th April 2021*
***Prices as at 13th April 2020*

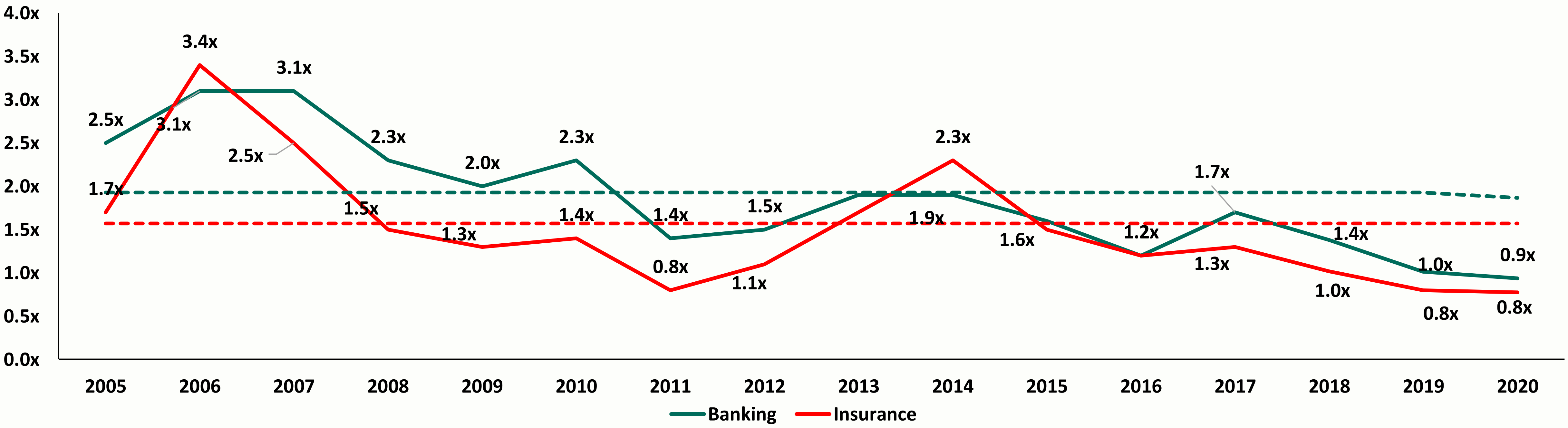
Cytonn

Listed Banks & Insurance Trading Metrics

Listed banks trade at an average P/B of 0.9x, higher than the insurance sector, which is priced at 0.8x. Both sectors are trading below their 14-year averages of 1.9x and 1.5x, respectively

15 year Price to Book Value: Banking and Insurance

Price to Book Comparison



On a price to book valuation, listed banks are currently priced at a PBV of 0.9x, higher than listed insurance companies at 0.8x, with both lower than their historical averages of 1.9x for the banking sector and 1.5x for the insurance sector

V. Banks Valuation Reports

Cytonn

Ranking by Franchise Value

I&M Holdings emerged top in the franchise ranking due to high efficiency levels as evidenced by a low Cost to Income ratio which came in at 52.0% vs an industry average of 73.3%

Rank	Bank	LDR	CIR	ROACE	NIM	PEG ratio	PTBV	Deposits/ Branch	Gross NPL Ratio	NPL Coverage	Tangible Common Ratio	Non Interest Income/ Revenue	Camel Rating	Total
1	I&M Holdings	6	1	4	7	3	4	4	4	3	1	4	3	44
2	Absa Bank	1	6	2	4	10	9	5	1	2	10	6	1	57
3	KCB Group	2	5	3	1	2	7	9	7	8	6	8	4	62
4	Equity Bank	8	7	1	3	5	10	6	3	5	9	3	2	63
5	Coop Bank	4	4	5	2	4	6	8	9	9	2	5	6	64
6	Stanbic Bank	5	2	7	9	7	5	1	5	7	7	2	8	65
7	SCBK	10	3	6	5	8	8	2	8	1	3	7	9	70
8	NCBA Group	9	9	8	6	9	3	3	6	6	8	1	7	75
9	DTBK	7	8	9	8	6	2	7	2	10	4	9	5	77
10	HF Group	3	10	10	10	1	1	10	10	4	5	10	10	84

Cytonn

Valuation Summary of Listed Banks

I&M Holdings presents the highest upside with a total potential return of 32.1%

(all values in Kshs)

Bank	Current Price	Target Price	Upside/(Downside)	DPS	Dividend Yield	Total Potential Return	FY'2020 Ranking
I&M Holdings	47.0	59.5	26.6%	2.6	5.5%	32.1%	1
Equity Bank	38.3	49.5	29.2%	1.0	2.6%	31.9%	2
DTBK	65.0	84.3	29.7%	0.8	1.2%	30.9%	3
KCB Group	41.4	49.8	20.4%	3.5	8.5%	28.9%	4
Absa Bank	8.8	10.2	16.4%	1.0	11.4%	27.9%	5
Stanbic Holdings	83.0	99.4	19.8%	6.0	7.2%	27.0%	6
Coop Bank	11.8	13.6	15.3%	1.0	8.5%	23.7%	7
SCBK	143.0	164.4	15.0%	12.0	8.4%	23.4%	8
NCBA Group Plc	26.5	28.4	7.2%	2.0	7.5%	14.7%	9
HF Group	3.9	3.8	-2.8%	0.0	0.0%	(2.8%)	10

Cytonn Banking Report - Comprehensive Ranking

I&M emerged top of the ranking in terms of comprehensive ranking

(all values in Kshs unless stated otherwise)

Bank	Franchise Value Score	Intrinsic Value Score	Weighted Score	Q3'2020 Rank	FY'2020 Rank
I&M Holdings	1	1	1.0	1	**1**
Equity Group Holdings Ltd	4	2	2.8	4	**2**
KCB Group Plc	3	4	3.6	5	**3**
ABSA	2	5	3.8	7	**4**
DTBK	9	3	5.4	2	**5**
Stanbic Bank/Holdings	6	6	6.0	6	**6**
Co-operative Bank of Kenya Ltd	5	7	6.2	3	**7**
SCBK	7	8	7.6	9	**8**
NCBA Group Plc	8	9	8.6	8	**9**
HF Group Plc	10	10	10.0	10	**10**

Cytonn

VI. Appendix

A. Tier I Banks

I. Equity Group Holdings

Cytonn

Equity Group Summary of Performance – FY'2020

- Profit before tax declined by 29.6% to Kshs 22.2 bn, from Kshs 31.5 bn in FY'2019. Profit after tax declined by 10.9% to Kshs 20.1 bn in FY'2020, from Kshs 22.6 bn recorded in FY'2019,
- Total operating income rose by 23.6% to Kshs 93.7 bn, from Kshs 75.8 bn recorded in FY'2019. This was driven by a 25.1% increase in Non-Funded Income (NFI) to Kshs 38.5 bn, from Kshs 30.8 bn in FY'2019, coupled with a 22.6% increase in Net Interest Income (NII) to Kshs 55.1 bn, from Kshs 45.0 bn in FY'2019,
- Total operating expenses grew by 64.1% to Kshs 20.0 bn in FY'2020, from Kshs 16.5 bn recorded in FY'2019, mainly driven by the 402.2% increase in Loans Loss Provision to Kshs 26.6 bn, from Kshs 5.3 bn recorded in FY'2019. The increased provision level was on the back of the subdued operating environment seen during the year,
- The balance sheet recorded an expansion as Total Assets increased by 50.7% to Kshs 1,015.1 bn, from Kshs 673.7 bn recorded in FY'2019, and,
- The bank's asset quality deteriorated, as evidenced by the 2.0% points rise in the NPL ratio to 11.5% in FY'2020, from 9.5% in FY'2019. The main sectors that contributed to the deterioration in asset quality were SMEs and large enterprises sectors, which contributed the largest portion of the Non-Performing loans with NPL Ratios of 15.5% and 9.1%, respectively.
- Going forward, we expect the bank's growth to be driven by:

i. **Channeled diversification** is likely to further improve on efficiency with emphasis on alternative channels of transactions, as the bank rides on the digital revolution wave, thereby further improving the cost to income ratio by cost rationalization and revenue expansion. This will likely propel the bank's prospects of achieving sustainable growth, as it replicates its successful business model across its various regional subsidiaries

Financial Statements Extracts

Equity Group's PAT is expected to grow at a 5-year CAGR of 20.4%

Income Statement	2019	2020	2021e	2022f
Net Interest Income	45.0	55.1	72.1	80.8
Non Funded Income	30.8	38.5	41.1	44.9
Total Operating Income	75.8	**93.7**	113.2	125.7
Loan Loss Provision	(5.3)	(26.6)	(10.2)	(10.0)
Other Operating Expenses	(39.0)	(46.0)	(54.4)	(62.5)
Total Operating Expenses	**(44.3)**	**(72.7)**	**(64.6)**	**(72.5)**
Profit Before Tax	31.5	22.2	49.8	54.4
% PAT Change YoY	**13.8%**	**(10.9%)**	**73.5%**	**9.2%**
EPS	6.0	5.3	9.2	10.1
DPS	-	-	2.5	2.0
Cost to Income	58.5%	77.6%	57.0%	57.7%
NIM	**8.4%**	**7.6%**	**7.9%**	**8.1%**
ROaE	22.0%	16.5%	21.2%	17.5%
ROaA	3.6%	2.4%	3.2%	3.2%
Balance Sheet	**2019**	**2020e**	**2021e**	**2022f**
Net Loans and Advances	366.4	477.8	542.0	614.7
Government Securities	138.6	175.7	234.1	241.0
Other Assets	168.7	361.6	397.3	381.5
Total Assets	**673.7**	**1,015.1**	**1,173.3**	**1237.3**
Customer Deposits	482.8	740.8	819.3	843.9
Other Liabilities	79.2	135.7	151.3	154.5
Total Liabilities	**561.9**	**876.5**	**970.6**	**998.3**
Shareholders Equity	**110.7**	**132.2**	**196.3**	**232.5**
Number of Shares	**3.8**	**3.8**	**3.8**	**3.8**
Book value Per share	29.3	35.0	52.0	61.6
% Change in BPS YoY	**17.7%**	**19.5%**	**48.5%**	**15.1%**

Cytonn

Valuation Summary

Equity Group is undervalued with a total potential return of 32.8%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	59.5	40.0%	23.8
Residual Income	48.6	35.0%	17.0
PBV Multiple	32.1	20.0%	6.4
PE Multiple	46.1	5.0%	2.3
Fair Value			**49.5**
Current Price			**38.1**
Upside/(Downside)			30.2%
Dividend Yield			2.6%
Total Potential Return			**32.8%**

Cytonn

II. KCB Group

Cytonn

KCB Group Summary of Performance – FY’2020

- Profit before tax declined by 30.3% to Kshs 25.7 bn, down from Kshs 36.9 bn in FY’2019 owing to the 209.5% rise in Loan Loss Provisions (LLP) to Kshs 27.5 bn from Kshs 8.9 bn given the poor operating environment due to COVID-19. Profit after tax declined by 22.1% to Kshs 19.6 bn in FY’2020, from Kshs 25.2 bn in FY’2019,
- Total operating income increased by 14.3% to Kshs 96.4 bn, from Kshs 84.3 bn in FY’2019. This was driven by a 21.0% increase in Net Interest Income (NII) to Kshs 67.9 bn, from Kshs 56.1 bn in FY’2019, coupled with a 1.0% increase in Non-Funded Income (NFI) to Kshs 28.5 bn, from Kshs 28.2 bn in FY’2019,
- Total operating expenses increased by 49.1% to Kshs 70.7 bn, from Kshs 47.4 bn in FY’2019, largely driven by a 209.5% increase in Loan Loss Provisions (LLP) to Kshs 27.5 bn, from Kshs 8.9 bn in FY’2019, on the back of the subdued operating environment seen during the year,
- The balance sheet recorded an expansion as total assets grew by 9.9% to Kshs 987.8 bn, from Kshs 898.6 bn in FY’2019,
- The group’s asset quality remains under threat as seen in the increase of the group's Non- Performing Loans (NPL) ratio to 14.8% from 11.0% in FY’2019. The rise in non-performing loans was mainly attributable to the poor performance from the Corporate segment, MSME segment, mortgage segment and Check-Off loans recording NPL ratios of 18.6%, 13.9%, 8.7% and 2.6%, respectively
- Going forward, we expect the bank’s growth to be driven by:

i. **Increased channeled diversification**, which is likely to help the bank to continue improving its operational efficiency. The benefits of this are already being felt, as the bank aligned its staff head count to its operational needs. Continued emphasis on these alternative channels of transactions, as the bank rides on the digital revolution wave, will likely lead to further cost to income ratio improvements by cost rationalization and NFI expansion.

Financial Statements Extracts

KCB Group's PAT is expected to grow at a 5-year CAGR of 18.7%

Income Statement	2019	2020	2021e	2022f
Net Interest Income	56.1	67.9	67.2	76.5
Non Funded Income	28.2	28.5	33.8	38.2
Total Operating Income	**84.3**	**96.4**	**101.0**	**114.7**
Loan Loss Provision	8.9	27.5	19.0	20.1
Other Operating Expenses	38.5	43.2	50.0	57.5
Total Operating Expenses	**47.4**	**70.7**	**69.0**	**77.6**
Profit Before Tax	36.9	25.7	32.0	37.1
% PAT Change YoY	**4.9%**	**-22.1%**	**14.3%**	**15.8%**
EPS	7.8	6.1	7.0	8.1
DPS	3.5	1.0	3.5	3.5
Cost to Income	56.2%	73.3%	68.3%	67.7%
NIM	**8.2%**	**8.5%**	**7.5%**	**12.3%**
ROE	20.7%	14.4%	13.5%	19.4%
ROA	3.1%	2.1%	2.1%	3.2%
Balance Sheet	**2019**	**2020**	**2021e**	**2022f**
Net Loans and Advances	539.7	595.3	671.1	765.0
Government Securities	164.9	208.8	235.8	259.7
Other Assets	194.0	183.8	229.6	240.5
Total Assets	**898.6**	**987.8**	**1136.5**	**1265.2**
Customer Deposits	686.6	767.2	867.0	979.7
Other Liabilities	82.2	78.2	79.3	80.6
Total Liabilities	**768.8**	**845.4**	**946.3**	**1060.3**
Shareholders Equity	**129.7**	**142.4**	**190.2**	**204.9**
Number of Shares	**3.2**	**3.2**	**3.2**	**3.2**
Book value Per share	40.4	44.3	59.2	63.8
% Change in BPS YoY	**7.5%**	**9.8%**	**33.6%**	**7.7%**

Cytonn

Valuation Summary

KCB Group is undervalued with a total potential return of 30.2%

Valuation Summary	Implied Price	Weighting	Weighted Value
Residual Income	46.7	35%	16.3
PBV Multiple	44.4	20%	8.9
PE Multiple	53.5	5%	2.7
DDM	54.7	40%	21.9
Target Price			**49.8**
Current Price			**40.9**
Upside/(Downside)			21.7%
Dividend Yield			8.6%
Total Return			**30.2%**

Cytonn

III. Co-operative Bank

Co-operative Bank Summary of Performance – FY'2020

- The bank registered a 24.4% decline in profit after tax to Kshs 10.8 bn in FY'2020 from Kshs 14.3 bn in FY'2019. Profit before tax and exceptional items declined by 31.0% to Kshs 14.3 bn from Kshs 20.7 bn in FY'2019,
- Total operating income rose by 11.1% to Kshs 53.8 bn in FY'2020, from Kshs 48.5 bn in FY'2019. This was mainly due to a 16.1% increase in Net Interest Income (NII) to Kshs 36.4 bn, from Kshs 31.3 bn in FY'2019, coupled with the 1.9% increase in Non-Funded Income (NFI) to Kshs 17.5 bn, from Kshs 17.2 bn in FY'2019,
- Total operating expenses rose by 41.7% to Kshs 39.4 bn in FY'2020, from Kshs 27.8 bn in FY'2019, largely driven by the 219.5% rise in Loan Loss Provisions (LLP) to Kshs 8.1 bn, from Kshs 2.5 bn in FY'2019, coupled with a 38.7% rise in other operating expenses to Kshs 17.9 bn in FY'2020, from Kshs 12.9 bn in FY'2019. The increased provisioning levels by the lender is mainly as a result of the elevated levels of risk currently in the market. Staff costs also increased by 8.5% to Kshs 13.4 bn, from the Kshs 12.4 bn recorded in 2019,
- The balance sheet recorded an expansion as total assets grew by 17.5% to Kshs 537.0 bn in FY'2020 from Kshs 457.0 bn in FY'2019,
- The bank's asset quality deteriorated, with the NPL ratio coming in at 18.7% in FY'2020, from 11.2% in FY'2019 owing to slower growth in gross loans by 11.8% compared to the 87.0% growth in gross non-performing loans. Generally, banks have had to go back to the drawing board to come up with new strategies to manage the worsening asset quality in the wake of the ongoing global pandemic,
- Going forward, we expect the bank's growth to be driven by:

    I. Lending to SMEs: Putting into consideration the current state of affairs in the banking sector, it is evident that the risk factor when lending to businesses has increased significantly. It is, however, key to note that loan restructurings and increasing their loan book exposure to MSMEs will help support the bank during this period of uncertainty.

Financial Statements Extracts

Co-operative Bank's PAT is expected to grow at a 5-year CAGR of 17.5%

Income Statement	2019	2020	2021e	2022f
Net Interest Income	31.3	32.1	42.4	43.7
Non Funded Income	17.2	14.9	21.8	22.5
Total Operating Income	**48.5**	**46.9**	**64.2**	**66.2**
Loan Loss Provision	(2.5)	(7.9)	(10.0)	(6.9)
Other Operating Expenses	(25.3)	(22.1)	(34.3)	(36.1)
Total Operating Expenses	**(27.8)**	**(30.0)**	**(44.3)**	**(43.0)**
Profit Before Tax	20.7	16.7	19.8	23.1
% PAT Change YoY	**12.4%**	**(18.2%)**	**18.1%**	**17.0%**
EPS	2.1	2.0	2.4	2.8
DPS	1.0	0.0	1.0	1.0
Cost to Income	57.4%	64.0%	69.0%	64.9%
NIM	**8.5%**	**6.4%**	**8.3%**	**8.1%**
ROE	19.2%	12.9%	14.4%	15.1%
ROA	3.3%	2.1%	2.4%	2.5%
Balance Sheet	**2019**	**2020**	**2021e**	**2022f**
Net Loans and Advances	266.7	348.5	318.7	367.5
Government Securities	117.8	145.0	162.2	169.0
Other Assets	72.5	94.7	119.2	133.4
Total Assets	457.0	588.2	600.2	669.8
Customer Deposits	332.8	421.8	430.7	490.0
Other Liabilities	43.3	66.1	66.3	66.4
Total Liabilities	376.2	487.9	497.1	556.4
Shareholders Equity	79.3	99.1	101.8	112.1
Number of Shares	6.9	5.9	5.9	5.9
Book value Per share	11.6	16.9	17.4	19.1
% Change in BPS YoY	**13.6%**	**46.1%**	**2.8%**	**10.1%**

Cytonn

Valuation Summary

Co-operative Bank is undervalued with a total potential return of 24.1%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	15.2	40.0%	6.1
Residual income	10.2	35.0%	3.6
PBV Multiple	16.1	20.0%	3.2
PE Multiple	15.9	5.0%	0.8
Target Price			**13.6**
Current Price			**11.8**
Upside/(Downside)			15.6%
Dividend Yield			8.5%
Total Return			**24.1%**

Cytonn

IV. NCBA Bank

NCBA Bank Summary of Performance – FY'2020

- Profit before tax declined by 56.0% to Kshs 5.0 bn, from Kshs 11.0 bn in FY'2019. Profit after tax declined by 41.7% to Kshs 4.6 bn from Kshs 7.8 bn in FY'2019,
- Total operating income rose by 38.0% to Kshs 46.4 bn in FY'2020, from Kshs 33.7 bn in FY'2019. This was due to a 91.1% increase in Net Interest Income (NII) to Kshs 25.5 bn, from Kshs 13.3 bn recorded in FY'2019, coupled with a 3.1% increase in Non-Funded Income (NFI) to Kshs 20.9 bn, from the Kshs 20.3 bn recorded in FY'2019,
- Total operating expenses rose by 96.7% to Kshs 40.0 bn, from Kshs 20.4 bn in FY'2019, largely driven by the 227.0% increase in loan loss provision to Kshs 20.4 bn, from Kshs 6.3 bn in FY'2019. The high increase in Loan loss provision was driven by the expectations of a significant increase in NPLs due to the subdued operating environment,
- The balance sheet recorded an expansion with total assets growth of 6.7% to Kshs 528.0 bn, from Kshs 494.8 bn in FY'2019,
- The group's asset quality deteriorated, as evidenced by the rise in NPL ratio to 14.7%, from 12.6% in FY'2019 driven by the 19.0% increase in NPLs to Kshs 40.1 bn from Kshs33.7 bn. Key to note, this is the highest it has been in over a decade owing to the subdued economic environment that led to increased defaults on corporate and SME credit as a consequence of the pandemic,
- Going forward, we expect the bank's growth to be driven by:

1. The Bank is expected to continue increasing it synergy as it remains cautious and observant while the Board focuses on the Group's priorities and continues to re-assess and re-align operations to match the economic environment. This is on the back of expressed confidence by the Board on the group's capital strength to withstand any anticipated shocks and the ability to achieve its long-term objectives amidst challenging times.

Financial Statements Extracts

NCBA Group's PAT is expected to grow at a 5-year CAGR of 17.5%

Income Statement	2019	2020	2021e	2022f
Net Interest Income	13.3	25.5	23.9	22.8
Non Funded Income	20.3	20.9	23.0	25.6
Total Operating Income	**33.7**	**46.4**	**47.0**	**48.4**
Loan Loss Provision	(6.3)	(20.4)	(18.2)	(16.8)
Other Operating Expenses	(14.1)	(19.6)	(20.0)	(19.5)
Total Operating Expenses	**(20.4)**	**(40.0)**	**(38.2)**	**(36.3)**
Profit Before Tax	11.3	5.0	7.3	10.7
% PAT Change YoY	**(12.4%)**	**(41.7%)**	**12.0%**	**45.8%**
EPS	11.1	2.8	3.1	4.5
DPS	0.3	0.5	0.6	0.4
Cost to Income	60.5%	86.2%	81.4%	75.0%
NIM	**3.3%**	**5.8%**	**5.1%**	**4.6%**
ROE	11.8%	6.6%	6.7%	9.0%
ROA	1.7%	0.9%	0.9%	1.3%
Balance Sheet	**2019**	**2020**	**2021e**	**2022f**
Net Loans and Advances	249.4	248.5	272.4	288.9
Government Securities	145.0	163.5	174.8	174.3
Other Assets	100.5	115.9	108.4	118.9
Total Assets	494.8	528.0	555.6	582.1
Customer Deposits	378.2	421.5	442.6	464.7
Other Liabilities	49.3	33.9	32.2	32.3
Total Liabilities	427.6	455.4	474.7	497.1
Shareholders Equity	67.0	72.3	80.7	84.8
Number of Shares	0.7	1.6	1.6	1.6
Book value Per share	95.2	43.9	49.0	51.5
% Change in BPS YoY	**1.5%**	**-53.9%**	**11.5%**	**5.2%**

Valuation Summary

NCBA Group is undervalued with a total potential return of 20.5%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM Integrated	26.9	40%	10.8
Residual Valuation	25.1	35%	8.8
PBV Multiple	38.6	20%	7.7
PE Multiple	22.8	5%	1.1
Target Price			**28.4**
Current Price			**25.3**
Upside/(Downside)			12.5%
Dividend Yield			7.9%
Total Potential Return			**20.5%**

Cytonn

V. Standard Chartered Bank Kenya

Cytonn

SCBK's Summary of Performance – FY'2020

- Profit before tax declined by 39.2% to Kshs 7.4 bn, from Kshs 12.2 bn in FY'2019. Profit after tax declined by 33.9% to Kshs 5.4 bn in FY'2020, from Kshs 8.2 bn recorded in FY'2019,
- Total operating income declined by 4.5% to Kshs 27.4 bn, from Kshs 28.4 bn recorded in FY'2019. This was driven by a 10.2% decline in Non-Funded Income (NFI) to Kshs 8.3 bn, from Kshs 9.2 bn in FY'2019, coupled with a 1.8% decline in Net Interest Income (NII) to Kshs 19.1 bn, from Kshs 19.5 bn in FY'2019,
- Total operating expenses grew by 21.1% to Kshs 20.0 bn in FY'2020, from Kshs 16.5 bn in FY'2019, mainly attributable to a 578.0% increase in Loans Loss Provision (LLP) to Kshs 3.9 bn, from Kshs 0.6 bn recorded in FY'2019. The increased provision level was on account of the poor operating environment brought about by COVID-19 which has adversely affected individuals and businesses' ability to repay loans,
- The balance sheet recorded an expansion as total assets grew by 7.8% to Kshs 325.6 bn, from Kshs 302.1 bn in FY'2019, and,
- The bank's asset quality deteriorated owing to the 2.1% points increase in NPL ratio to 16.0% in FY'2020, from 13.9% recorded in FY'2019. Notably, the FY'2020 NPL ratio is the highest it has been since FY'2018 at 16.3%. Given that the bank mainly focuses on retail banking, whose exposure as at FY'2019 stood at 56.2%, and the adverse effects of the pandemic in this sector, the bank adopted a conservative lending strategy in order to alleviate credit risk and as such gross loans declined by 3.4% to Kshs 139.5 bn, from Kshs 144.5 bn in FY'2019.
- Going forward, we expect the bank's growth to be driven by:

i. Continued focus on promoting the usage of the bank's alternative channels is likely to continue boosting the company's Non-Funded Income as well as aiding in improving operational efficiency levels, which deteriorated in FY'2020 as evidenced by the worsening of the cost to income ratio to 73.0% from 57.6% in FY'2019. Revenue expansion coupled with cost containment will be key in boosting the bank's bottom line.

Financial Statements Extracts

SCBK's PAT is expected to grow at a 5-year CAGR of 25.1%

Income Statement	2019	2020	2021e	2022f
Net Interest Income	19.5	19.1	20.9	23.9
Non Funded Income	9.2	8.3	10.6	11.7
Total Operating Income	**28.7**	**27.4**	**31.5**	**35.6**
Loan Loss Provision	0.6	3.9	0.6	1.0
Other Operating Expenses	16.0	16.1	16.7	18.2
Total Operating Expenses	**16.5**	**20.0**	**17.3**	**19.2**
Profit Before Tax	12.2	7.4	14.2	16.4
% PAT Change YoY	**1.7%**	**-33.9%**	**82.6%**	**15.8%**
EPS	21.9	14.4	26.4	30.5
DPS	20.0	10.5	12.0	23.4
Cost to Income	57.6%	73.0%	54.9%	53.8%
NIM	**7.4%**	**6.8%**	**6.7%**	**6.9%**
ROaE	17.5%	11.0%	16.3%	15.8%
ROaA	2.8%	1.7%	2.9%	3.0%
Balance Sheet	**2019**	**2020**	**2021e**	**2022f**
Net Loans and Advances	128.7	121.5	144.4	160.3
Government Securities	99.6	99.8	126.7	143.7
Other assets	73.8	104.3	99.1	100.6
Total Assets	**302.1**	**325.6**	**370.2**	**404.6**
Customer Deposits	228.4	256.5	280.8	311.7
Other Liabilities	25.9	18.2	18.5	18.5
Total Liabilities	**254.4**	**274.7**	**299.3**	**330.3**
Shareholders Equity	**47.8**	**50.9**	**70.9**	**74.4**
Number of shares	**0.3**	**0.3**	**0.3**	**0.3**
Book value Per share	126.7	135.0	188.1	197.3
% Change in BPS YoY	**2.4%**	**6.6%**	**39.4%**	**4.9%**

Valuation Summary

SCBK is undervalued with a total potential return of 22.9%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM Integrated	201.5	40%	80.6
Residual Income	150.5	35%	52.7
PBV Multiple	126.8	20%	25.4
PE Multiple	114.8	5%	5.7
Target Price			**164.4**
Current Price			**143.5**
Upside/(Downside)			14.5%
Dividend Yield			8.4%
Total Return			**22.9%**

Cytonn

VI. Diamond Trust Bank Kenya

Cytonn

DTBK's Summary of Performance – FY'2020

- Profit before tax fell by 58.6% to Kshs 4.7 bn, from Kshs 11.3 bn in FY'2019. Profit after tax declined by 51.5% to Kshs 3.5 bn in FY'2020, from Kshs 7.3 bn recorded in FY'2019,
- Total operating income declined by 1.1% to Kshs 24.2 bn, from Kshs 24.5 bn in FY'2019 mainly driven by a 3.4% decline in the Net Interest Income (NII) to Kshs 18.1 bn, from Kshs 18.7 bn in FY'2019. The decline was however mitigated by a 6.1% growth in Non-Funded Income (NII) to Kshs 6.1 bn, from Kshs 5.8 bn in FY'2019,
- Total operating expenses rose by 48.7% to Kshs 19.7 bn, from Kshs 13.2 bn in FY'2019, largely driven by the 453.6% increase in Loan Loss Provisions (LLP) to Kshs 7.3 bn from Kshs 1.3 bn in FY'2019 on the back of the subdued operating environment seen during the year. Staff costs increased by 1.1% to Kshs 4.72 bn from Kshs 4.67 bn in FY'2019,
- The balance sheet recorded an expansion as Total Assets increased by 10.1% to Kshs 425.1 bn, from Kshs 386.2 bn recorded in FY'2019,
- The bank's asset quality deteriorated, with the NPL ratio increasing to 10.4% in FY'2020, from 7.7% in FY'2019, due to the faster 43.1% growth in gross NPLs, which outpaced the 6.4% growth in gross loans. The NPL ratio has been deteriorating q/q and notably, this is the highest it has been for more than a decade attributable to the faster growth in gross NPLs as opposed to the growth in gross loans, Net loans increased by 4.8% to Kshs 208.6 bn, from Kshs 199.1 bn in FY'2019. The muted growth in the loan book is as a result of the bank's continuous selective lending to prevent further erosion of the asset quality,
- Going forward, we expect the bank's growth to be driven by:

i. **Digital platform** - The bank intends to capitalize on its digital platform to support their business model which will enhance convenience for customers, having considered the current status quo since the advent of the coronavirus.

Financial Statements Extracts

DTBK's PAT is expected to grow at a 5-year CAGR of 15.3%

Income Statement	2019	2020	2021e	2022f
Net Interest Income	18.7	18.1	18.7	21.2
Non Funded Income	5.8	6.1	7.4	7.9
Total Operating Income	**24.5**	**24.2**	**26.0**	**29.1**
Loan Loss Provision	1.3	7.3	4.3	6.1
Other Operating Expenses	11.9	12.3	11.4	12.9
Total Operating Expenses	**13.2**	**19.7**	**15.7**	**19.1**
Profit Before Tax	11.3	4.7	10.5	10.1
% PAT Change YoY	**2.6%**	**-51.5%**	**108.1%**	**-3.3%**
EPS	26.0	12.6	26.3	25.4
DPS	2.7	0.0	1.0	2.7
Cost to Income	54.0%	81.3%	60.3%	65.6%
NIM	**5.6%**	**5.0%**	**4.8%**	**5.0%**
ROE	12.9%	5.8%	10.4%	8.6%
ROA	1.9%	0.9%	1.6%	1.5%
Balance Sheet	**2019**	**2020**	**2021e**	**2022f**
Net Loans and Advances	199.1	208.6	235.8	255.5
Government Securities	119.3	138.4	143.1	148.4
Other Assets	67.8	78.1	92.3	87.3
Total Assets	**386.2**	**425.1**	**471.2**	**491.2**
Customer Deposits	280.2	298.2	338.0	351.2
Other Liabilities	41.5	58.6	47.5	48.2
Total Liabilities	**321.7**	**356.7**	**385.5**	**399.4**
Shareholders Equity	58.9	62.0	79.4	85.5
Number of Shares	0.3	0.3	0.3	0.3
Book value Per share	210.5	221.6	284.0	305.7
% Change in BPS YoY	**9.7%**	**5.3%**	**28.2%**	**7.6%**

Cytonn

Valuation Summary

DTBK is undervalued with a total potential return of 31.3%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	101.2	40.0%	40.5
Residual Income	42.4	35.0%	14.8
PBV Multiple	121.9	20.0%	24.4
PE Multiple	93.3	5.0%	4.7
Target Price			**84.3**
Current Price			**65.0**
Upside/(Downside)			29.7%
Dividend yield			1.5%
Total return			**31.3%**

Cytonn

VII. Absa Bank Kenya

Cytonn

Absa Bank’s Summary of Performance – FY’2020

- Profit after tax and exceptional items declined by 44.2% to Kshs 4.2 bn in FY’2020, from Kshs 7.5 bn in FY’2019, attributable to the costs incurred as part of the brand transition to ABSA which was finalized in 2020. The effective tax rate declined by 10.0% points to 16.8% from 26.8% in FY’2019, mainly attributable to the low corporate tax rate of 25.0% which was implemented by the government in order to cushion businesses against possible effects of COVID-19 Pandemic
- Total operating income rose by 2.2% to Kshs 34.5 bn, from Kshs 33.8 bn in FY’2019. This was supported by a 5.2% rise in Non-Funded Income (NFI) to Kshs 11.1 bn, from Kshs 10.6 bn in FY’2019, coupled with a 0.9% increase in Net Interest Income (NII) to Kshs 23.4 bn, from Kshs 23.2 bn in FY’2019
- Total operating expenses rose by 19.5% to Kshs 25.7 bn, from Kshs 21.5 bn in FY’2019, largely driven by a 114.9% increase in Loan Loss Provisions (LLP) to Kshs 9.0 bn in FY’2020, from Kshs 4.2 bn in FY’2019. The increased provisions is attributed to the bank adopting a cautious stance on the back of the expectations of increase in defaults due to the subdued operating environment
- The balance sheet recorded an expansion as total assets rose by 1.5% to Kshs 379.4 bn, from Kshs 374.0 bn in FY’2019, and,
- The bank’s asset quality deteriorated, with the NPL ratio increasing to 7.7% in FY’2020, from 6.6% in FY’2019, owing to the faster 26.5% growth in gross NPLs, which outpaced the 24.5% growth in gross loans (after adding back interest suspense).
- Going forward, we expect the bank’s growth to be driven by:

i. **Increased Channel diversification**, which is likely to help the bank to continue improving its operational efficiency. The benefits of this are already being felt with 87.0% of all transactions happening outside the branch, as well as the “Timiza” which is a digital banking App, that is already recording accelerated growth, and consequently higher Non-Interest Revenue. This coupled with the expansion of its agent-banking network and product offerings such as Bancassurance and fixed income trading will see the bank expand its top-line revenue, going forward.

Cytonn

Financial Statements Extracts

Absa Bank's PAT is expected to grow at a 5-year CAGR of 31.8%

Income Statement	2019	2020	2021e	2022f
Net Interest Income	23.2	23.4	27.0	28.8
Non Funded Income	10.6	11.1	12.8	14.5
Total Operating Income	**33.8**	**34.5**	**39.7**	**43.4**
Loan Loss Provision	(4.2)	(9.0)	(6.6)	(6.8)
Other Operating Expenses	(17.3)	(16.6)	(17.8)	(19.1)
Total Operating Expenses	**(21.5)**	**(25.7)**	**(24.4)**	**(25.9)**
Profit Before Tax	10.8	5.6	14.5	16.6
% PAT Change YoY	**0.5%**	**-44.2%**	**143.3%**	**14.7%**
EPS	1.4	0.8	1.9	2.1
DPS	1.1	0.0	1.0	1.1
Cost to Income	63.6%	74.4%	61.3%	59.6%
NIM	**7.7%**	**7.1%**	**7.5%**	**7.5%**
ROaE	16.7%	9.1%	19.5%	19.1%
ROaA	2.1%	1.1%	2.5%	2.7%
Balance Sheet	**2019**	**2020**	**2021e**	**2022f**
Net Loans and Advances	194.9	208.9	229.5	241.3
Government Securities	123.0	126.1	145.1	134.3
Other Assets	56.1	44.5	41.7	67.0
Total Assets	**374.0**	**379.4**	**416.2**	**442.6**
Customer Deposits	237.7	253.6	279.0	298.5
Other Liabilities	91.1	79.3	79.7	80.0
Total Liabilities	**328.8**	**332.9**	**358.7**	**378.6**
Shareholders Equity	**45.2**	**46.5**	**57.5**	**64.1**
Number of shares	**5.4**	**5.4**	**5.4**	**5.4**
Book value Per share	8.3	8.6	10.6	11.8
% Change in BPS YoY	**2.2%**	**2.9%**	**23.7%**	**37.8%**

Cytonn

Valuation Summary

Absa Bank is undervalued with a total potential return of 26.7%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	12.3	40.0%	4.9
Residual Income	10.1	35.0%	3.5
PBV Multiple	7.4	20.0%	1.5
PE Multiple	5.5	5.0%	0.3
Target Price			**10.2**
Current Price			**8.9**
Upside/(Downside)			15.4%
Dividend Yield			11.3%
Total Return			**26.7%**

Cytonn

VIII. Stanbic Holdings

Stanbic Holdings' Summary of Performance – FY'2020

- Profit after tax declined by 18.6% to Kshs 5.2 bn in FY'2020, from Kshs 6.4 bn in FY'2019. The performance was driven by a 54.8% increase in loan loss provision to Kshs 4.9 bn from Kshs 3.2 bn in FY'2019, coupled with a 6.2% decline in total operating income to Kshs 23.2 bn from Kshs 24.8 in FY'2019,
- Total operating income declined by 6.2% to Kshs 23.2 bn, from Kshs 24.8 bn in FY'2019. This was driven by a 4.1% decline in Net Interest Income (NII) to Kshs 12.8 bn, from Kshs 13.3 bn in FY'2019 coupled with an 8.7% decline in Non-Funded Income (NFI) to Kshs 10.4 bn, from Kshs 11.4 bn in FY'2019,
- Total operating expenses declined by 12.8% to Kshs 12.1 bn from Kshs 13.9 bn in FY'2019, largely driven by a 32.6% decline in Stanbic Bank's staff costs and other operating expenses to Kshs 7.3 bn, from Kshs 10.8 bn in FY'2019. Loan Loss Provisions (LLP), on the other hand, increased by 54.8% to Kshs 4.9 bn from Kshs 3.2 bn recorded in FY'2019,
- The balance sheet recorded an expansion as total assets rose by 8.2% to Kshs 328.6 bn from Kshs 303.6 bn in FY'2019,
- The bank's asset quality deteriorated, with the NPL ratio increasing to 11.8% in FY'2020, from 9.6% in FY'2019, due to the faster growth in non-performing loans that outpaced growth in the net loans,
- Going forward, we expect the bank's growth to be driven by:

i. The bank has put in place plans to promote digitization on the bank's functions which we believe will improve efficiencies in the bank's activities in a cost-effective manner. They also intend to use the digital platforms to push their ecosystem and help increase adoption in their customer base,

Financial Statements Extracts

Stanbic Holdings' PAT is expected to grow at a 5-year CAGR of 20.2%

Income Statement	2019	2020	2021f	2022f
Net Interest Income	13.3	12.8	14.3	17.7
Non Funded Income	11.4	10.4	11.4	14.8
Loan Loss Provision	(3.2)	(4.9)	(4.5)	(6.3)
Total Operating Expenses	**(13.9)**	**(12.1)**	**(13.5)**	**(17.6)**
Profit Before Tax	7.7	6.2	12.2	14.9
% PAT Change YoY	**1.6%**	**-18.6%**	**64.3%**	**21.9%**
EPS	16.1	13.1	21.6	26.3
DPS	7.1	3.8	6.0	7.1
Cost to Income	43.5%	31.2%	35.0%	35.0%
NIM	**5.2%**	**4.7%**	**4.4%**	**4.5%**
ROaE	13.6%	10.3%	16.6%	19.1%
ROaA	2.1%	1.6%	2.3%	2.4%
Balance Sheet	**2019**	**2020e**	**2021f**	**2022f**
Net Loans and Advances	191.2	196.3	251.7	317.4
Other Assets	112.4	132.3	146.6	171.0
Total Assets	**303.6**	**328.6**	**398.2**	**488.4**
Customer Deposits	224.7	260.0	330.2	412.7
Borrowings	9.1	5.5	5.5	5.5
Other Liabilities	20.8	11.4	11.4	11.4
Total Liabilities	**254.6**	**276.9**	**347.1**	**429.6**
Shareholders Equity	49.0	51.7	51.2	58.8
No of Ordinary Shares	0.4	0.4	0.4	0.4
Book value Per share	124.0	130.9	129.5	148.7
% Change in BVPS	**9.9%**	**5.5%**	**-1.1%**	**14.9%**

Valuation Summary

Stanbic Holdings is undervalued with a total potential return of 27.0%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	113.8	40.0%	45.5
Residual Income	99.7	35.0%	34.9
PBV Multiple	76.5	20.0%	15.3
PE Multiple	73.2	5.0%	3.7
Target Price			**99.4**
Current Price			**83.0**
Dividend Yield			**7.2%**
Upside/(Downside)			**27.0%**

Cytonn

IX. I&M Holdings

I&M Holdings' Summary of Performance – FY'2020

- Profit before tax declined by 25.0% to Kshs 11.0 bn, down from Kshs 14.6 bn in FY'2019. Profit after tax declined by 21.9% to Kshs 8.4 bn in FY'2020 from Kshs 10.8 bn in FY'2019,
- Total operating income increased by 1.9% to Kshs 24.2 bn, from Kshs 23.8 bn in FY'2019 driven by a 4.3% increase in Non-Funded Income (NFI) to Kshs 8.6 bn, from Kshs 8.3 bn in FY'2019, coupled with a 0.6% increase in Net Interest Income (NII) to Kshs 15.6 bn, from Kshs 15.5 bn in FY'2019,
- Total operating expenses rose by 24.8% to Kshs 12.6 bn from Kshs 10.1 bn in FY'2019, largely driven by a 288.5% increase in Loan Loss Provisions (LLP) to Kshs 2.5 bn, from Kshs 0.6 bn in FY'2019. Staff costs on the other hand, declined by 4.3% to Kshs 4.5 bn in FY'2020, from Kshs 4.7 bn in FY'2019,
- The balance sheet recorded an expansion as total assets grew by 13.6% to Kshs 358.1 bn, from Kshs 315.3 bn in FY'2019, and,
- The bank's asset quality deteriorated, with the NPL ratio increasing to 11.6%, from 11.3% in FY'2019. NPL coverage improved to 66.8% in FY'2020 from 59.1% in FY'2019, as general Loan Loss Provisions increased by 25.7% to Kshs 10.8 bn from Kshs 8.6 bn in FY'2019.
- Going forward, we expect the bank's growth to be driven by:

i. **Geographical Diversification** – The bank has been aggressively expanding into other regions, namely Tanzania, Rwanda, and Uganda. On this front, the bank is set to acquire 90.0% of the share capital of Orient Bank Limited Uganda (OBL). This will see the bank expand its operations in the Ugandan Market thus reducing its reliance on the Kenyan Market. This is also expected to drive growth in the near future.

Financial Statements Extracts

I&M Holdings' PAT is expected to grow at a 5-year CAGR of 27.9%

Income Statement	2019	2020	2021e	2022f
Net Interest Income	15.5	15.6	19.3	22.9
Non- Funded Income	8.3	8.6	10.1	11.5
Total Operating Income	**23.8**	**24.2**	**29.4**	**34.4**
Loan Loss Provision	-0.6	2.5	-2.0	-2.4
Other Operating Expenses	-9.5	10.1	-11.5	-12.6
Total Operating Expenses	**-10.1**	**12.6**	**-13.5**	**-14.9**
Profit Before Tax	14.6	11.0	15.2	18.8
% PAT Change YoY	**26.6%**	**(21.9%)**	**26.8%**	**23.2%**
EPS	13.0	10.2	6.2	7.7
DPS	2.6	2.3	2.5	2.7
Cost to Income	42.4%	52.0%	45.9%	43.4%
NIM	**5.9%**	**5.4%**	**5.6%**	**6.0%**
ROaE	19.5%	13.2%	14.4%	15.4%
ROaA	3.4%	2.3%	2.7%	2.9%
Balance Sheet	**2019**	**2020**	**2021e**	**2022f**
Government securities	53.9	101.7	120.8	135.3
Net Loans and Advances	175.3	187.4	217.3	253.7
Other Assets	86.0	69.0	75.0	69.9
Total Assets	**315.3**	**358.1**	**413.1**	**458.9**
Customer Deposits	229.7	262.7	302.1	338.3
Other Liabilities	24.7	27.4	28.1	29.1
Total Liabilities	**254.4**	**290.0**	**330.2**	**367.4**
Shareholders Equity	57.7	64.2	79.0	87.6
Number of Shares	0.8	0.8	1.7	1.7
Book Value Per Share	69.8	77.6	47.7	53.0
% BVPS Change YoY	**-39.7%**	**11.2%**	**-38.5%**	**11.0%**

Cytonn

Valuation Summary

I&M Holdings is undervalued with a total potential return of 31.4%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	62.3	40.0%	24.9
Residual income	60.8	35.0%	21.3
PBV Multiple	48.5	20.0%	9.7
PE Multiple	71.7	5.0%	3.6
Target Price			**59.5**
Current Price			**47.2**
Upside/(Downside)			26.1%
Dividend yield			5.3%
Total return			**31.4%**

Cytonn

B. Tier II Bank

Cytonn

I. HF Group

Cytonn

HF Group Summary of Performance – FY’2020

- HF Group recorded a loss before tax of Kshs 1.8 bn, an increase from a loss before tax of Kshs 0.1 bn in FY’2019. The Group’s Loss after Tax increased to Kshs 1.7 mn in FY’2020, from the Kshs 0.1 bn loss recorded in FY’2019,
- Total Operating Income declined by 29.2% to Kshs 2.4 bn in FY’2020, from Kshs 3.0 bn in FY’2019, attributable to the 63.0% decline in Non-Funded Income (NFI) to Kshs 0.5 bn, from Kshs 1.4 bn recorded in FY’2019, coupled with the 5.2% dip in Net Interest Income (NII) to Kshs 1.9 bn, from Kshs 2.0 bn recorded in FY’2019,
- Total Operating Expenses increased by 15.6% to Kshs 4.1 bn, from Kshs 3.5 bn seen in FY’2019. This is mainly attributable to a 15.6% increase in Loan Loss Provisions to Kshs 450.1 mn, from Kshs 350.4 mn recorded in FY’2019, coupled a 13.8% increase in staff costs to Kshs 1.2 bn, from Kshs 1.1 bn recorded in FY’2019The company’s balance sheet recorded a contraction as total assets declined by 4.0% to Kshs 55.1 bn from Kshs 57.4 bn in Q3’2019,
- The bank experienced an improvement in asset quality as the NPL ratio improved by 3.1% points to 24.6% from the 27.7%, following the faster 12.3% decline in NPLs that outpaced the 1.3% decline in gross loans which came in at Kshs 43.9 bn in FY’2020, from Kshs 44.4 bn recorded in FY’2019. Key to Note, NPL coverage improved as well by 15.6% points to 63.4% from 47.8% recorded in 2019. Given that the NPL Ratio in H1’2020 was 26.7% the FY’2020 Ratio of 24.6% is a commendable improvement.
- Going forward, we expect the bank’s growth to be driven by:

i. We maintain our view that HF Group as a conventional bank has a long way to go, even with the injection of tier II capital of Kshs 1.0 bn, by the majority shareholder Britam Holdings in Q1’2021. They will ultimately have to adjust their business model, or couple up with a strong bank with a sizeable asset base, and a strong deposit gathering capability, to capitalize on HF’s strength in mortgages and real estate development.

Cytonn

Financial Statements Extracts

Income Statement	2019	2020	2021e	2022f
Net Interest Income	2.0	1.9	2.2	2.2
Non- Funded Income	1.4	0.5	0.7	0.9
Total Operating Income	**3.4**	**2.4**	**3.0**	**3.2**
Loan Loss Provision	(0.4)	(0.4)	(0.3)	(0.2)
Other Operating Expenses	(3.2)	(3.7)	(3.1)	(3.4)
Total Operating Expenses	**(3.5)**	**(4.1)**	**(3.4)**	**(3.6)**
Profit Before Tax	(0.1)	(1.8)	(0.6)	(0.5)
% PAT Change YoY	**(81.6%)**	**(1443.7%)**	**(66.7%)**	**(8.3%)**
EPS	(0.3)	(4.4)	(1.5)	(1.4)
DPS	0.0	0.0	0.0	0.0
Cost to Income	104.2%	170.1%	115.8%	113.3%
NIM	4.3%	4.2%	5.0%	4.8%
ROaE	(1.1%)	(18.1%)	(7.0%)	(7.1%)
ROaA	(0.2%)	(3.0%)	(1.0%)	(0.9%)
Balance Sheet	**2019**	**2020F**	**2021e**	**2022f**
Net Loans and Advances	38.6	37.0	39.3	40.3
Government securities	4.6	7.1	4.7	5.1
Other Assets	13.3	11.3	13.7	15.3
Total Assets	**56.5**	**55.4**	**57.7**	**60.7**
Customer Deposits	37.4	39.9	43.1	46.6
Other Liabilities	8.8	6.9	7.0	7.1
Total Liabilities	**46.2**	**46.9**	**50.1**	**53.7**
Shareholders Equity	10.2	8.6	7.6	7.1
Number of Shares	0.4	0.4	0.4	0.4
Book Value Per Share	26.6	22.3	19.8	18.4
% BVPS Change YoY	**(1.5%)**	**(16.2%)**	**(11.2%)**	**(6.8%)**

Cytonn

Valuation Summary

Housing Finance is overvalued with a total potential return of (4.8%)

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	3.4	40.0%	1.4
Residual Income	3.5	35.0%	1.2
PTBV Multiple	5.3	20.0%	1.1
PE Multiple	3.0	5.0%	0.2
Fair Value			**3.8**
Current Price			**4.0**
Upside/(Downside)			(4.8%)
Dividend Yield			0.0%
Total return			**(4.8%)**

Cytonn

Feedback Summary

During the preparation of this FY'2020 Banking Sector Report, we shared with the subject companies the operating metrics that were used in the Report for their confirmation and verification

- Below is a summary of the banks we were able to acquire feedback from and those that went unresponsive

Bank	Operating Metrics Shared	Sent Feedback
I&M Holdings	Yes	Yes
Co-operative Bank of Kenya	Yes	Yes
Absa Bank Kenya	Yes	Yes
Diamond Trust Bank	Yes	Yes
KCB Group	Yes	Unresponsive
Standard Chartered Bank Kenya	Yes	Unresponsive
NCBA Group	Yes	Unresponsive
Housing Finance Group	Yes	Unresponsive
Stanbic Holdings	Yes	Unresponsive
Equity Group Holdings	Yes	Unresponsive

Licensed Financial Institutions

I. Banks and Mortgage Finance Institutions

Licensed Banks in Kenya

#	Bank	#	Bank
1	ABSA Bank Kenya	20	Gulf African Bank Limited
2	Access Bank Kenya	21	Habib Bank A.G Zurich
3	African Banking Corporation Limited	22	I&M Bank Limited
4	Bank of Africa Kenya Limited	23	Jamii Bora Bank Limited
5	Bank of Baroda (Kenya) Limited	24	KCB Bank Kenya Limited
6	Bank of India	25	Mayfair CIB Bank Limited
7	Citibank N.A Kenya	26	Middle East Bank (K) Limited
8	Consolidated Bank of Kenya Limited	27	M-Oriental Bank Limited
9	Co-operative Bank of Kenya Limited	28	National Bank of Kenya Limited
10	Credit Bank Limited	29	NCBA Bank Kenya PLC
11	Development Bank of Kenya Limited	30	Paramount Bank Limited
12	Diamond Trust Bank Kenya Limited	31	Prime Bank Limited
13	DIB Bank Kenya Limited	32	SBM Bank Kenya Limited
14	Ecobank Kenya Limited	33	Sidian Bank Limited
15	Equity Bank Kenya Limited	34	Spire Bank Ltd
16	Family Bank Limited	35	Stanbic Bank Kenya Limited
17	First Community Bank Limited	36	Standard Chartered Bank Kenya Limited
18	Guaranty Trust Bank (K) Ltd	37	UBA Kenya Bank Limited
19	Guardian Bank Limited	38	Victoria Commercial Bank Limited

Licensed Banks in Kenya

Licensed Mortgage Finance Institution

1. HFC Limited

Authorized Non-operating Bank Holding Companies

1. Bakki Holdco Limited
2. Equity Group Holdings Limited
3. HF Group Limited
4. I&M Holdings
5. KCB Group
6. M Holdings Limited
7. NCBA Group
8. Stanbic Group Holdings

II. Micro-Finance Institutions

Licensed Microfinance Banks in Kenya

#	Microfinance Bank	#	Microfinance Bank
1	Caritas Microfinance Bank Limited	8	Remu Microfinance Bank Limited
2	Century Microfinance Bank Limited	9	SMEP Microfinance Bank Limited
3	Choice Microfinance Bank Limited	10	Sumac Microfinance Bank Limited
4	Daraja Microfinance Bank Limited	11	U & I Microfinance Bank Limited
5	Faulu Microfinance Bank Limited	12	Uwezo Microfinance Bank Ltd
6	Kenya Women Microfinance Bank Limited	13	Maisha Microfinance Bank Limited
7	Rafiki Microfinance Bank Limited		

Source : CBK

Thank You!

For More Information

- **Free Market Research: www.cytonnreport.com**
- **Follow on Twitter: @CytonnInvest**
- **On Facebook: Cytonn Investments**

For more information or any further clarification required, kindly contact the research team at investment@cytonn.com

Q&A / AOB

Cytonn