Kenya Listed Commercial Banks Review

Cytonn FY'2021 Banking Sector Report

"Reduced Loan Provisions Spur Banking Sector Recovery in 2021"

Cytonn

18th April, 2022

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I. Introduction to 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**

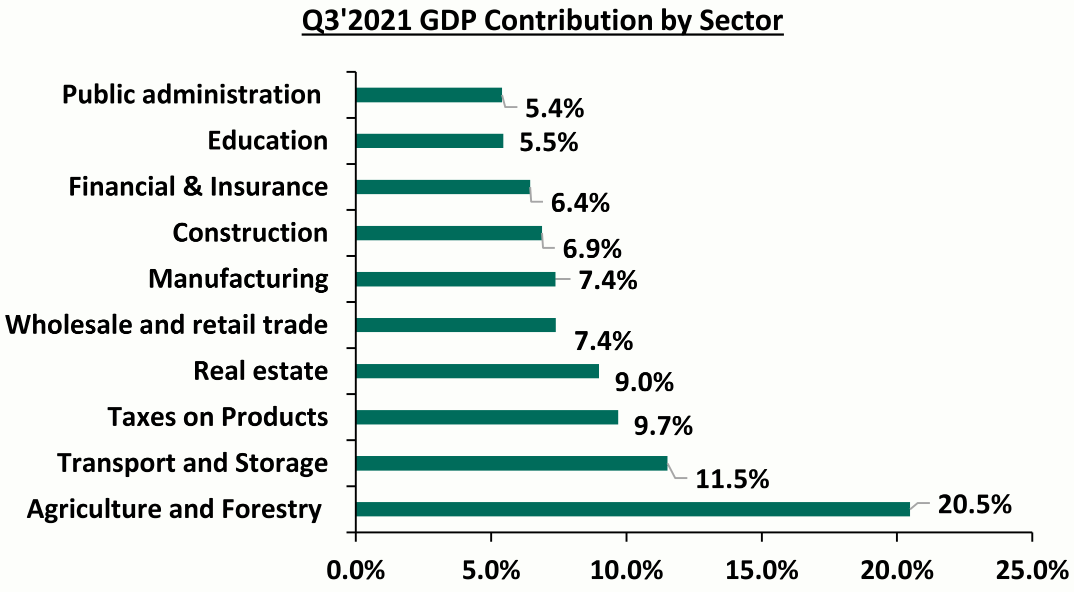
Our Business Structure

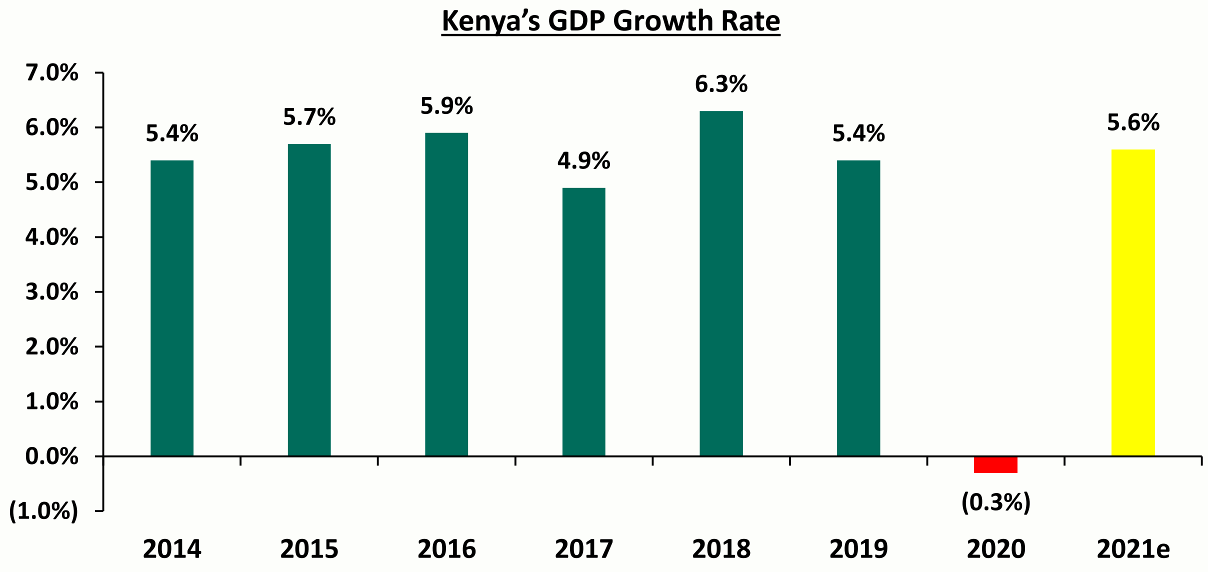
Cytonn Investments Management Plc

- **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

We expect gradual economic improvement in 2022





**Source: KNBS*

- The Kenyan Economy is projected to grow at an average rate of 4.9% in 2022, from an estimate of 5.6% in 2021, mainly on the back of the global recovery and the easing of COVID-19 containment measures following an increase in vaccination rates and reduced infections
- The move is expected to support growth in sectors like tourism, hospitality, manufacturing and trade, which are yet to fully recover from the pandemic.

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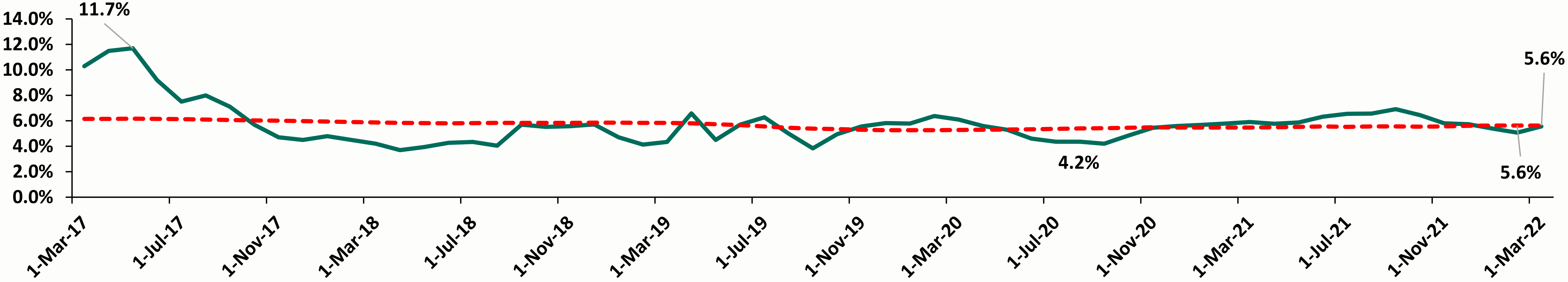
Inflation

Inflation averaged 5.3% in Q1'2022

5-Year Inflation Rates



**Source: KNBS*

- The average inflation rate declined to 5.3% in Q1'2022 compared to 5.8% in a similar period in 2021 mainly attributable to the unchanged fuel prices, during the period of review following a fuel subsidy programme under the Petroleum Development Fund
- we expect the inflation pressures to remain elevated but within the government's set range of 2.5% - 7.5%. However, concerns remain high on the rising food and fuel prices which are expected to put pressure on inflation, given that these are a major contributor to the inflation basket

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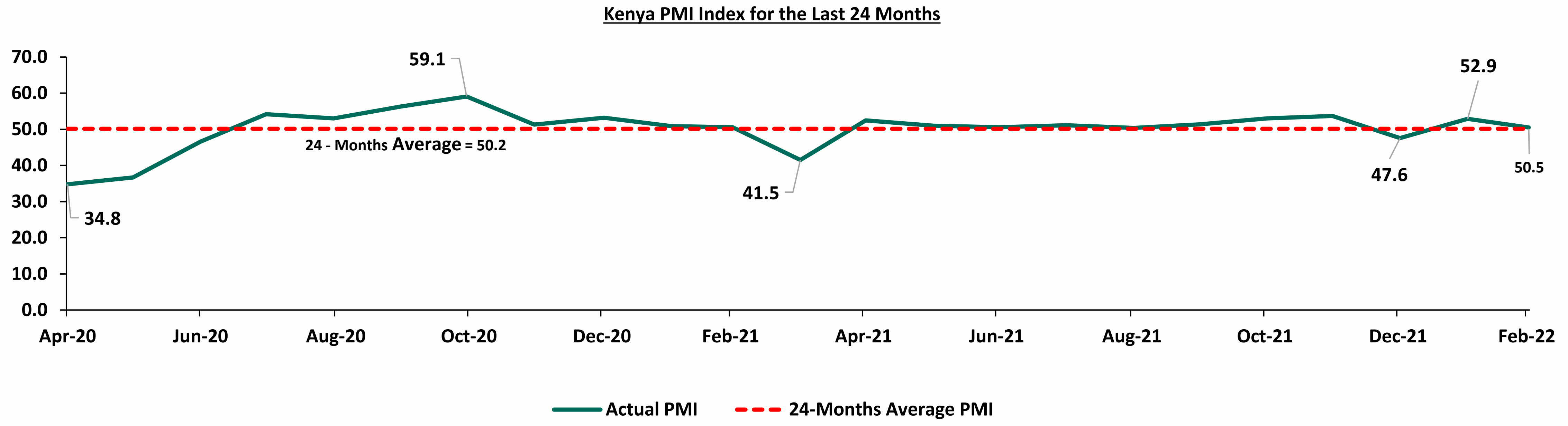
Stanbic PMI Index



**Source: Markit Economics*

- Kenya's general business environment has deteriorated in the first three months of 2022 with the average PMI coming in at 50.3, lower than the 51.6 that was recorded in a similar period in 2021
- Going forward, we maintain a cautious outlook in the short-term owing to the continued rise in cost of fuel and production materials which has led to reduced consumer spending

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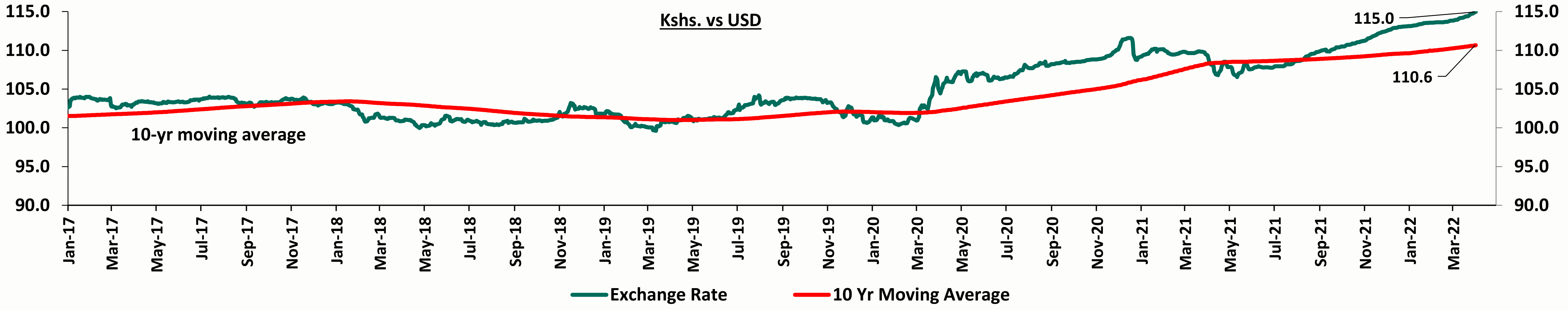
Currency

Year-to-date, the Kenyan shilling has depreciated by 2.0% against the US Dollar



**Source: Central Bank of Kenya*

- The Kenya Shilling depreciated against the US Dollar by 1.6% in Q1'2022, to close at Kshs 115.0, from Kshs 113.1 in December 2021, marking an all-time low. The depreciation was partly attributable to increased dollar demand from the oil and energy sectors
- In our view, the shilling will come under pressure due to continued uncertainty globally making people prefer holding dollars and other hard currencies. The local currency is however expected to be supported by the Forex reserves, currently at USD 8.4 bn (equivalent to 5.0-months of import cover), which is above the statutory requirement of maintaining at least 4.0-months of import cover

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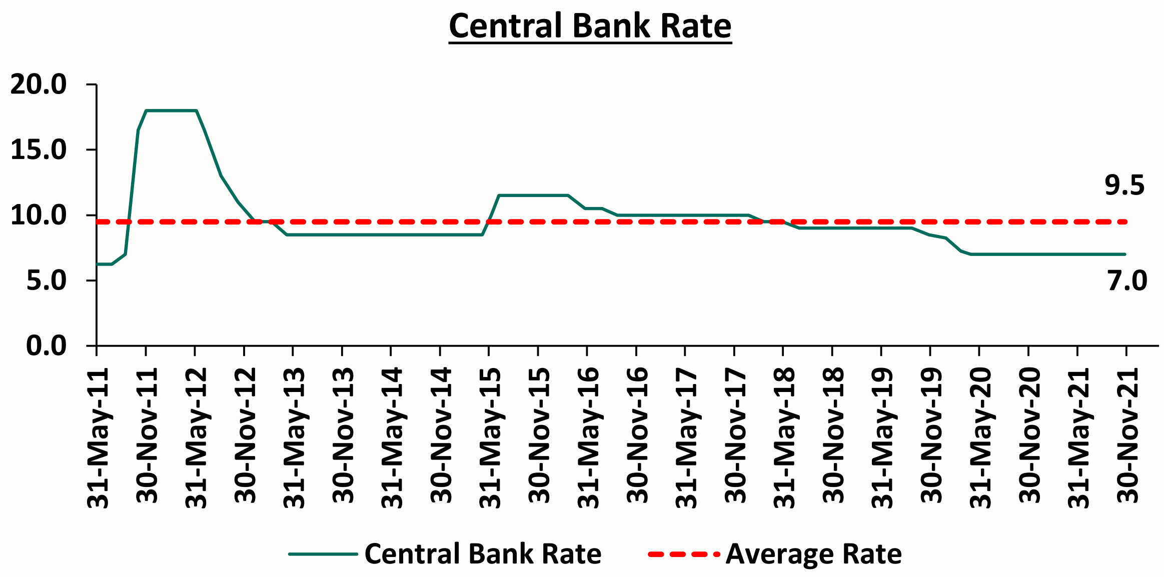
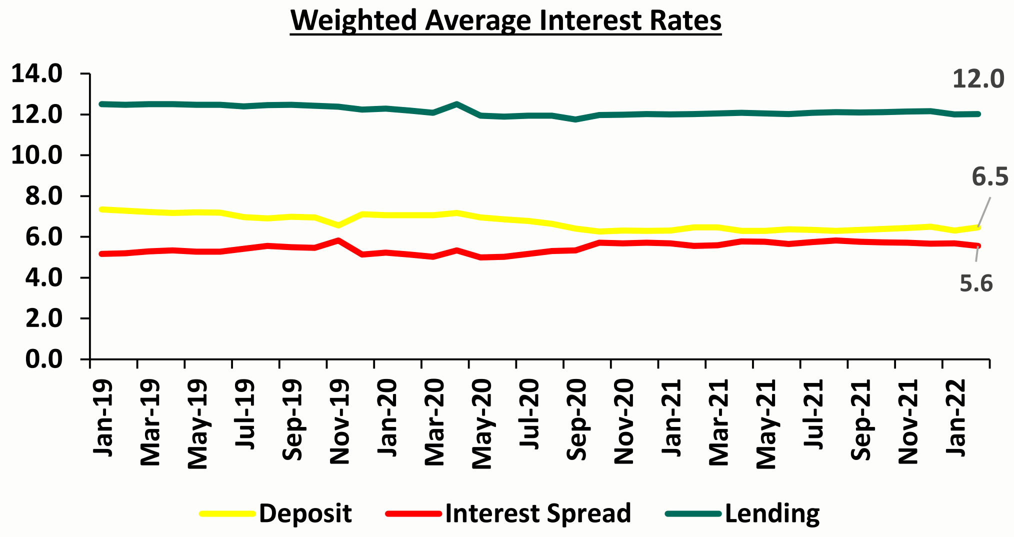
Interest Rates and Monetary Policy





- Since the start of the year, the Monetary Policy Committee has met two times and held the Central Bank Rate stable at 7.0% in all instances and the Cash Reserve ratio also remained unchanged at 4.25%
- The MPC concluded that the current accommodative monetary policies together with the package of policy measures implemented since March 2020 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 12.0% in February 2022 from 12.3% seen in January 2020

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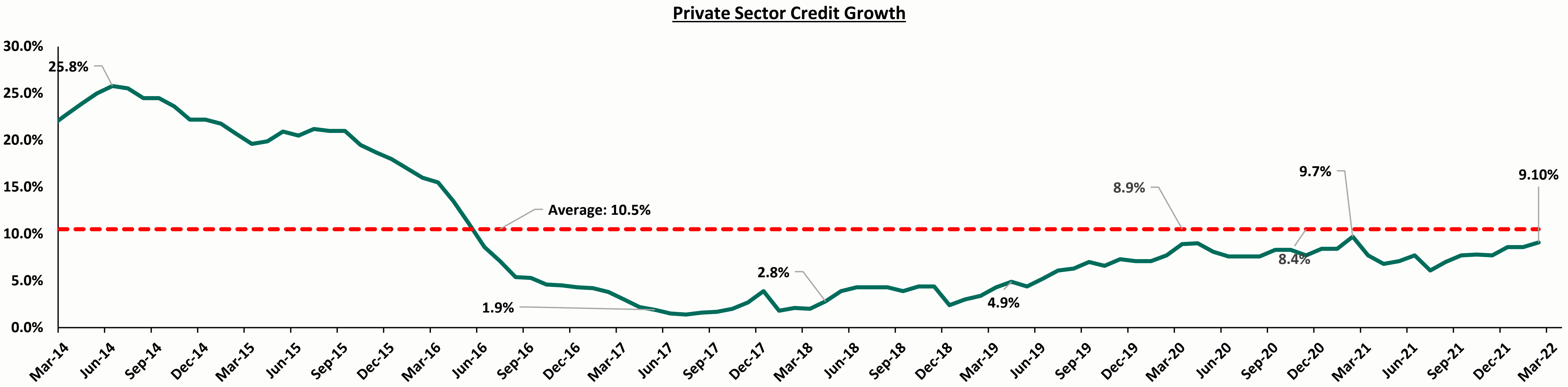
Private Sector Credit growth



**Source: KNBS*

- Growth in the private sector credit increased to 9.1% in February 2022, from 8.6% in December 2021, indicating that demand has improved as a result of increased economic activities coupled with the operationalization of the Credit Guarantee Scheme
- We however 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 emergence of new COVID-19 variants in the country's trading partners coupled with the current rising political temperatures preceding the elections

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III. Banking Sector Overview

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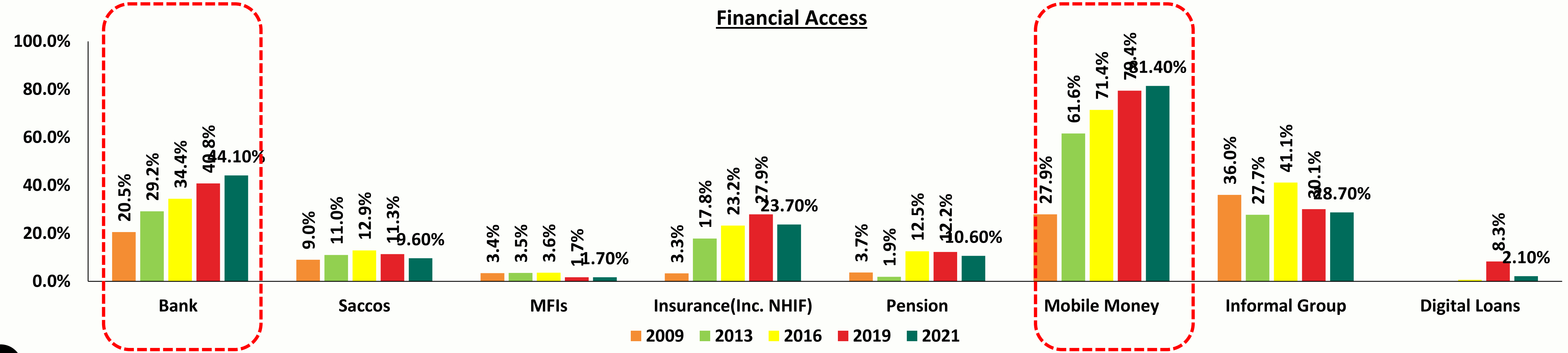
Kenyan Banking Sector Overview

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 83.7% 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 2020/2021, the banking services including mobile banking increased to 44.1% in 2021 from 40.8% in 2019 attributable to the increased usage of mobile banking accounts; whose proportion rose to 34.4% in 2021 from 25.3% in 2019



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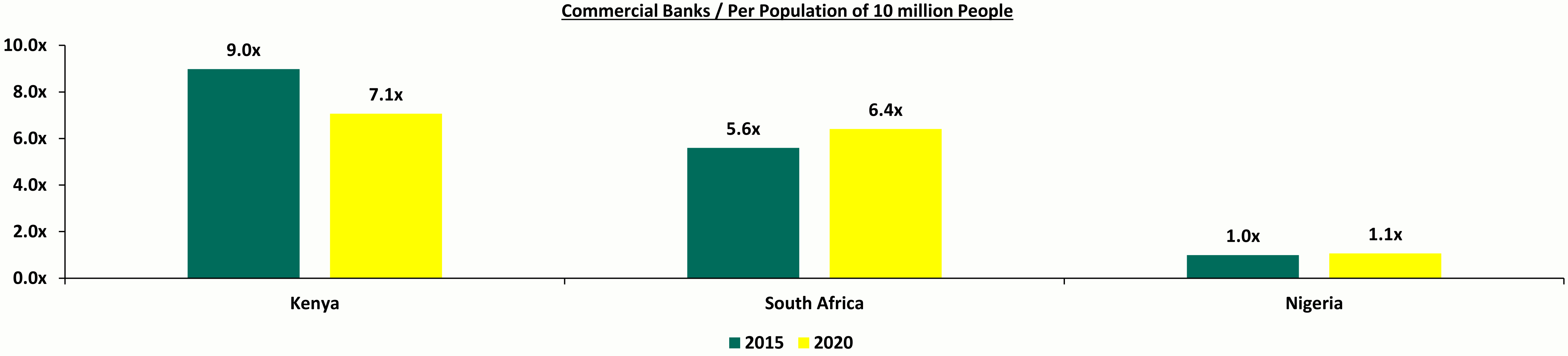
Source: Central Bank of Kenya, FinAccess report

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 in FY'2015. 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 IN FY'2015, 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

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Recent Developments in the Kenyan Banking Sector

1. Regulation:

- **Closure of Loan restructuring Window:** The loan restructuring window as per the Banking Circular No 3 of 2020 by the Central Bank of Kenya provided to commercial banks and mortgage finance companies on loan restructuring came to an end on March 2nd, having seen a total of loans worth Kshs 1.7 tn restructured, representing 57.0% of the banking sector's loan book. With this expiry the banks are now back to normal loan risk management. However, despite the expiry of the loan restructuring window, some banks still supported their borrowers during the period

- **Decrease in Capital Adequacy risk weighting for all residential mortgages:** The Central Bank of Kenya (CBK) published the Banking Circular No 2 of 2021, indicating that they had reduced the capital adequacy risk weighting for all residential mortgages to 35.0% from 50.0%, effective 1st July 2021. The move by CBK to reduce the capital adequacy risk weighting aims at creating an enabling environment for the banking sector to be able to lend more to the domestic residential mortgage market through availing long-term and secured funds to primary mortgage lenders. However, banks have been seen taking precautionary measures such as conducting frequent evaluations and demanding additional security from borrowers using real estate as collateral during the loan repayment period in the event that the value of the existing collateral drops to a level below that of the loan. Additionally, banks are anticipated to only accept collateral whose value is seven times bigger than the value of the loan being applied for

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Recent Developments in the Kenyan Banking Sector…..

- **Integration of Climate-Related Risk Management:** The Central Bank of Kenya (CBK) released Guidance on Climate-Related Risk Management, highlighting that all banks and mortgage finance companies ought to integrate the risks and opportunities arising from climate change in their risk management, strategy and governance structure. Opportunities expected to arise from climate change include financing activities such as the transition to renewable energy, appropriate housing, resilient infrastructure and innovative agricultural practices. On the other hand, banks are expected to build their capacity going forward to identify and mitigate the risks arising from climate change

- **Suspension of the Listing of Borrower's Negative Credit Information**: The Central Bank of Kenya (CBK) announced a 12 months suspension of listing of negative credit information for borrowers with loans below Kshs 5.0 mn, whose loans were performing previously, but have become non-performing from 1st October, 2021. The move by the CBK is an intervention measure aiming to cushion Micro Small and Medium Enterprises from adverse effects of the COVID-19 pandemic. We expect banks to be more cautious towards lending to MSMEs due to lack of adequate credit risk information on potential loan borrowers

Recent Developments in the Kenyan Banking Sector….

- **Regulation of Digital Lenders**: The Central Bank of Kenya (CBK) enacted the law to regulate digital lenders on 7th December 2021, granting the bank the authority to license and oversee previously unregulated digital credit providers. The regulations published on 18th March 2022, are aimed at protecting borrowers against the predatory practices of unregulated digital credit providers, particularly their high costs, unethical debt collection practices, and misuse of personal information. We expect the move to streamline the digital lending services sector and weed out unscrupulous digital lenders who have taken advantage of the unregulated space to violate various consumer rights and privacy. Additionally, lenders will be able to acquire licenses to increase their market share and operate in a more favourable environment. For more information see our Cytonn Weekly #49/2021

Recent Developments in the Kenyan Banking Sector…..

2. Regional Expansion through Mergers and Acquisitions:

Kenyan banks are looking at having an extensive regional reach and to this end, the following were the major M&A's activities announced in FY'2021:

- On 3rd May 2021, I&M Group announced that it had completed the 90.0% acquisition of Orient Bank Limited Uganda (OBL) share capital, after receiving all the required regulatory approvals. As highlighted in our Cytonn Weekly #50/2020, I&M Group was set to pay Kshs 3.6 bn for the deal. However, the final cost is yet to be revealed as it was expected to be higher after the base price was adjusted to take into account multiple factors such as appreciation of the Ugandan shilling against the US dollar, integration support, the short-term financial performance of the subsidiary and the sale of its property. I&M Group took over 14 branches from OBL, taking its total branches to 87, from 75 branches as at the end of 2020. For more information, please see Cytonn Weekly #18/2021, and Cytonn Weekly #45/2021

- On 16th May 2021, Equity Group disclosed that it had acquired an additional 7.7% stake valued at Kshs 996.0 mn in Equity bank Congo (EBC) from the German Sovereign Wealth Fund (KfW). The acquisition raised the total ownership in EBC to 94.3%, indicating that they valued the company at Kshs 14.2 bn following the acquisition of 66.5% stake in Banque Commerciale Du Congo (BCDC) by Equity at a cost of Kshs 10.2 bn in August 2020. For more information, please see Cytonn Weekly#20/2021

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Recent Developments in the Kenyan Banking Sector….

- On 25th August 2021, KCB Group announced that it had completed the 62.1% acquisition of Banque Populaire du Rwanda Plc (BPR), after receiving all the required regulatory approvals. KCB Group and Atlas Mara Limited had signed a definitive agreement in November 2020 for KCB's acquisition of a 62.1% stake in BPR subject to shareholder and regulatory approval. In May 2021, KCB Group disclosed that it made an offer to the remaining BPR shareholders to raise its acquisition stake in the bank to 100.0% from 62.1% and received shareholders' approval for the acquisitions, with only regulatory approval pending for the finalization of the transactions. As highlighted in our Cytonn Weekly #29/2021 and Cytonn Weekly #19/2021, KCB Group agreed to purchase 62.1% stake in BPR from Atlas Mara Limited using a Price to Book Value (P/Bv) of 1.1x. According to the BPR financials released as of June 2021, the bank had a book value of Rwf 52.9 bn (Kshs 5.8 bn), and thus at the trading multiple of 1.1x, we expect KCB Group to have spent an estimated Kshs 6.3 bn to acquire BPR Rwanda. For more information on the acquisition, see our Cytonn Weekly #19/2021

Recent Developments in the Kenyan Banking Sector….

- On 2nd December 2021, KCB announced the termination of their initial plans to acquire a 100.0% stake in African Banking Corporation Limited (ABC Tanzania) following the failure to receive certain regulatory approvals. In November 2020, KCB Group and Atlas Mara Limited came to an agreement for KCB to acquire a 62.1% stake in Banque Populaire Du Rwanda (BPR) and a 100.0% stake in Africa Banking Corporation Tanzania Limited (BancABC) at a total of USD 56.9 mn (Kshs 6.4 bn), subject to shareholder and regulatory approval in the respective countries. However, despite the cancellation of the acquisition plans, KCB has assured its shareholders that it will continue pursuing attractive regional expansion opportunities to enhance their regional participation and accelerate growth. For more information on, see our Cytonn Monthly – November 2021.

Recent Developments in the Kenyan Banking Sector….

Consolidation continues in the banking sector, with the most recent being that KCB's acquisition of BPR

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs bn)	Transaction Stake	Transaction Value (Kshs bn)	P/Bv Multiple	Date
KCB Group	Banque Populaire du Rwanda	5.3	100.0%	5.6	1.1x	August 2021
I&M Holdings PLC	Orient Bank Limited Uganda	3.3	90.0%	3.6	1.1x	April-21
KCB Group**	ABC Tanzania	Unknown	100%	0.8	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			**76.7%**		**1.3x**	

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

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Recent Developments in the Kenyan Banking Sector….

3. Asset Quality:

Asset quality for listed banks improved in FY'2021, with the Gross NPL ratio declining by 1.0% points to 12.3%, from 13.5% in FY'2020. The improvement in asset quality is attributable to the declining credit risk on the back of the improving operating environment. The NPL coverage rose to 65.5% in FY'2021, from 62.3% recorded in FY'2020, in accordance with IFRS 9, where banks are expected to provide both for the incurred and expected credit losses. According to the March 2022 MPC Press Release, the NPL ratio for the entire banking sector stood at 13.1% as at December 2021, an improvement from the 14.1% in December 2020, signifying an improvement in asset quality for the sector in FY'2021. However, the economic recovery has not been entirely smooth with the NPL ratio increasing to 14.0% in February 2022 with notable increases in the manufacturing, tourism, restaurant and hotels, building and construction and real estate sectors. We expect credit risk to decline gradually but remain at relatively elevated levels compared to previous years

Recent Developments in the Kenyan Banking Sector….

4. **Capital Raising:** In FY'2021, listed banks' turned to borrowing from international institutions to not only strengthen their capital position but also boost their ability to lend to the perceived riskier Micro Small and Medium Sized Enterprises (MSMEs) segment in order to support the small businesses in the tough operating environment occasioned by the COVID-19 pandemic. In the period under review, Equity Group received Kshs 34.9 bn from several instutions including a Kshs 5.5 bn loan from Proparco, a private sector financing arm of Agence Française de Dévelopement Group (AFD Group). This was in addition to the two guarantee facilities totalling Kshs 5.0 bn (€ 39.0 mn) for onward lending to MSMEs and a Kshs 70.0 mn (€ 550,000) technical assistance grant to support Equity Group Foundation's health projects. The table below highlights the disclosed loan facilities that banks have secured for capital injection and lending to the MSMEs so far

Bank	Amount Borrowed For Onward Lending (Kshs bn)	Purpose
Equity Bank	86.5*	MSME lending
KCB Bank	16.4	MSME lending
Cooperative Bank	17.3***	MSME lending and Tier II Capital**
I&M Bank	5.4	MSME lending and Tier II Capital**
Total	**125.6**	

*Includes a Kshs 18.6 bn loan from IFC issued in January 2022
**Tier II Capital refers to a bank's supplementary capital which includes senior debt (debt that a company must repay first before going out of business) with a tenure of not less than five years
***Includes a Kshs 6.3 bn loan from European Investment Bank (EIB) for onward lending to MSMEs

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Banking Sector Growth Drivers

- **Growth in Interest income:** Going forward, we expect interest income growth to remain a key driver in the industry, evidenced by the 13.8% growth recorded in FY'2021. Despite the growth being slower than the 16.7% growth that was recorded in FY'2020, we believe the continued allocation to government securities which are witnessing increases in yields will lead to an increase in overall interest income. The disclosure by banks that most customers that had restructured their loans are now servicing them as normal means that banks are now earning interest on loans restructured at the height of the pandemic. Additionally, banks continued to have negotiations with the Central Bank of Kenya (CBK) seeking to switch to risk based lending, a model that has the ability to assess the risk profile of each customer and assign them a rate that matches their risk profile. In our view, this move will play a big role in increasing the lenders interest income, as more people who are not able to access credit due to their risk profile, will be able to borrow money,
- **Revenue Diversification:** In FY'2021, Non-Funded Income recorded a 10.9% weighted average growth, a significant increase from the 6.4% growth recorded in FY'2020, attributable to the expiry of the waiver on fees and commissions on loans and advances issued by the CBK in March 2020. However, the banking sector's Non-Funded Income to Operating Income declined, coming in at 34.7% in FY'2021, compared to 35.4% in FY'2020. There exists an opportunity for the sector to further increase NFI contribution to revenue going forward

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Banking Sector Growth Drivers….

- The expiry of the waiver on bank charges on 2nd March 2021 is also expected to continue spurring NFI growth in the medium-long term due to the increased adoption of digital channels, which present an avenue for an increase in fees on transactions. 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. The increase in mobile-banking transactions therefore provides an opportunity for banks to increase their Non-Funded income going forward
- **Provisioning:** Loan Loss Provisions recorded a weighted average decline of 44.3% in FY'2021, compared to a growth of 233.2% in FY'2020. However, given the resurgence of COVID-19 variants in Kenya's trading partners as well as the uncertainties surrounding the upcoming elections which are likely to disrupt the economic environment, we believe that a cautious approach is still required to manage credit risk in the banking sector
- **Cost Rationalization**: The majority of banks have continued to pursue their cost-cutting strategy by riding on the digital revolution wave to improve operational efficiency and the reliability of out-of-branch transactions. Increased adoption of alternative transaction channels such as mobile, internet, and agency banking has resulted in an increase in transactions carried out through alternative channels, limiting branch transactions to high-value transactions and other services such as advisory. This has seen banks reduce front-office operations, thereby cutting the number of staff required and by extension, reducing operating expenses and hence, improving operational efficiency

Banking Sector Growth Drivers….

- Increased efficiency has been witnessed across the listed banks with the cost to income ratio having declined by 16.9% points to 73.3% in FY’2021, from 56.4% in FY’2020. However, some of the banks such as NCBA and DTB-K have announced plans to open more branches with an aim of increasing their physical presence
- **Expansion and Further Consolidation:** With consolidation remaining a key theme going forward, the current environment may provide opportunities for larger banks with a sufficient capital base to expand and take advantage of the market's low valuations, as well as further consolidate/buy out smaller and weaker banks. Consolidation will be critical for most smaller banks that are still struggling during the recovery period, and it will also benefit larger banks by providing them with the opportunity to expand their operations locally and regionally and drive future growth. Furthermore, we believe Kenyan banks will continue to diversify into other African countries in order to reduce their reliance on the Kenyan market and distribute risks as well, and,
- **Integration of Climate-Related Risk Management:** Following the release of Guidance on Climate-Related Risk Management by the Central Bank of Kenya (CBK), we expect to see banks channel their long term financing into environmental-friendly assets that are more sustainable and have lower risk of damage loss as a result of climate change. Additionally, banks will focus on lending to companies whose activities do not pose an environmental risk and will ultimately lead to improvement of collateral quality consequently reducing their exposure to unexpected loss and obsolesce. This will lead to reduced non-performing loans and provisioning in the sector.

IV. Listed Banking Sector Metrics

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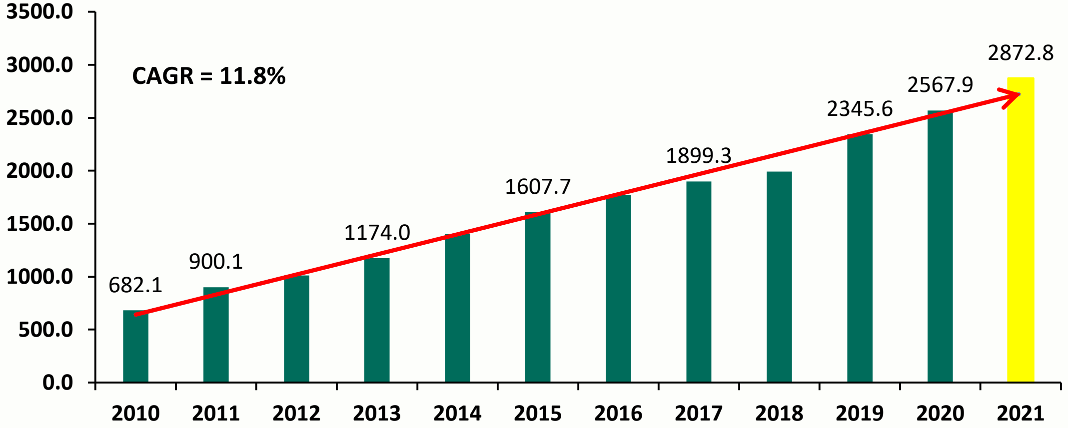
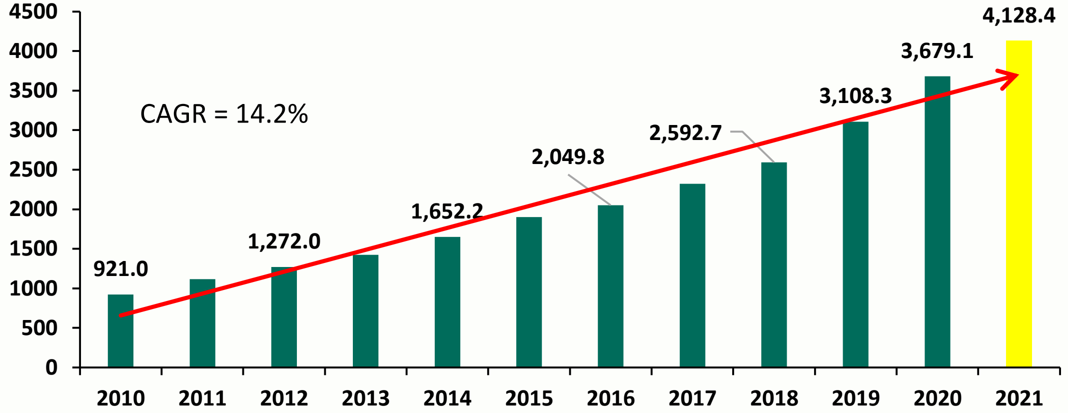
Listed Banking Sector Metrics

Deposits grew at a faster rate of 14.2% in FY'2021, as compared to the 11.8% growth in loans

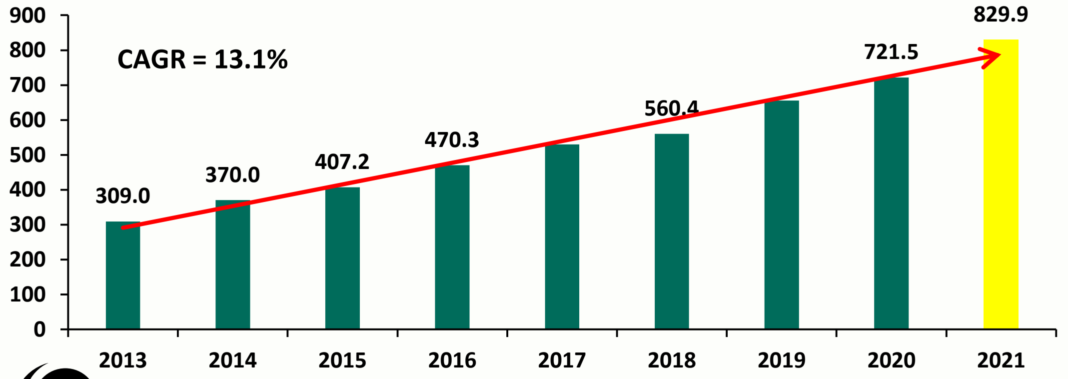
Loans and Advances (Kshs Bn)



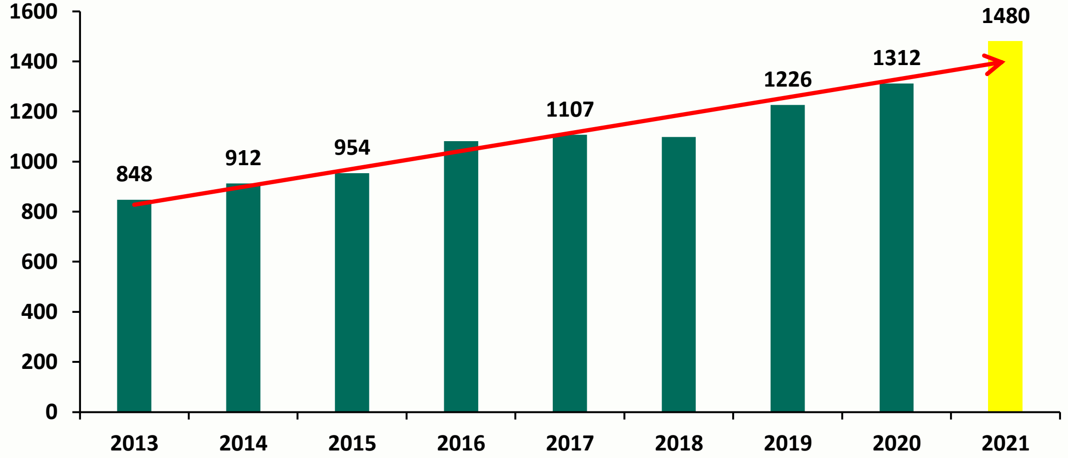
Deposits (Kshs Bn)



Shareholders Equity (Kshs Bn)



Bank Branches



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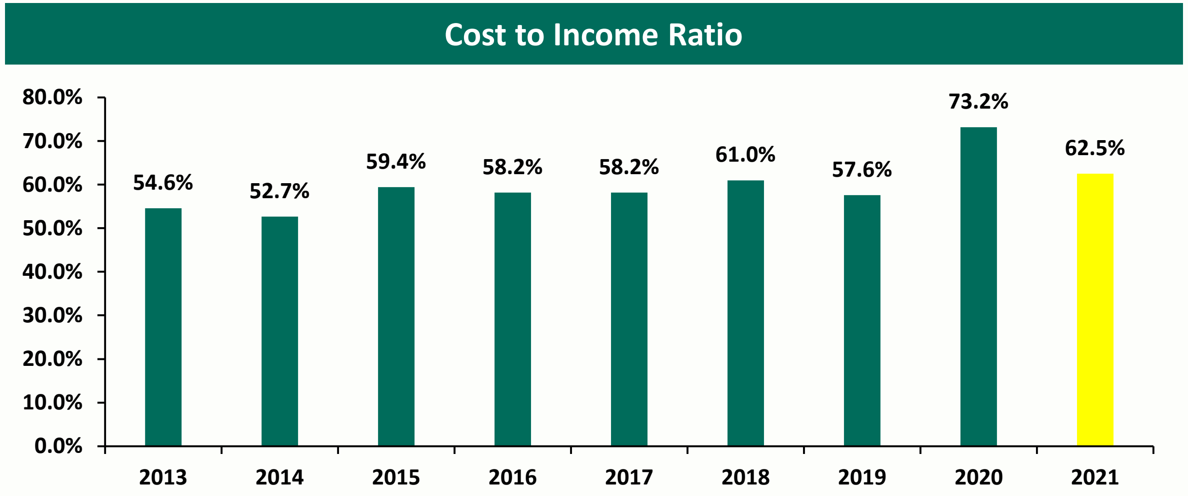
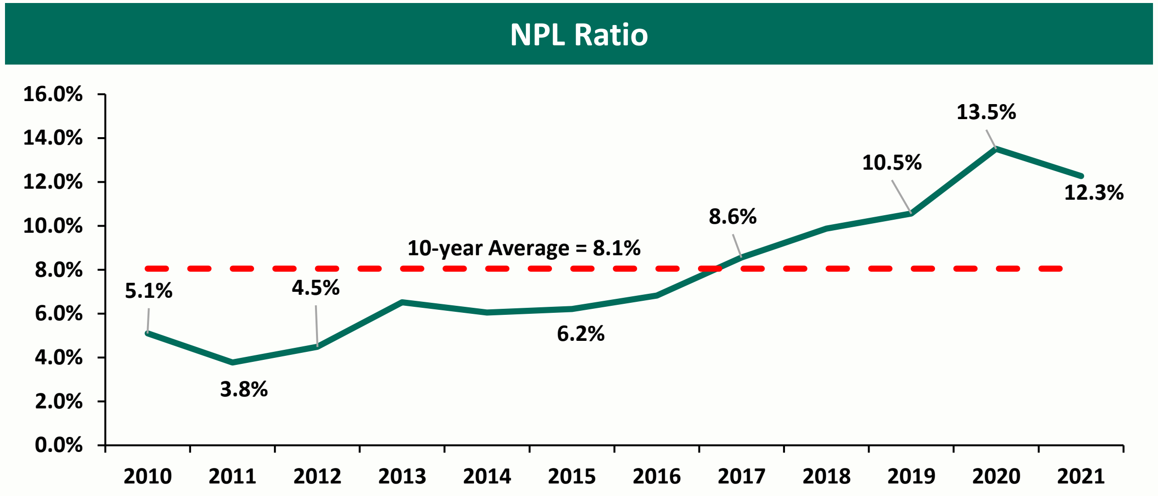
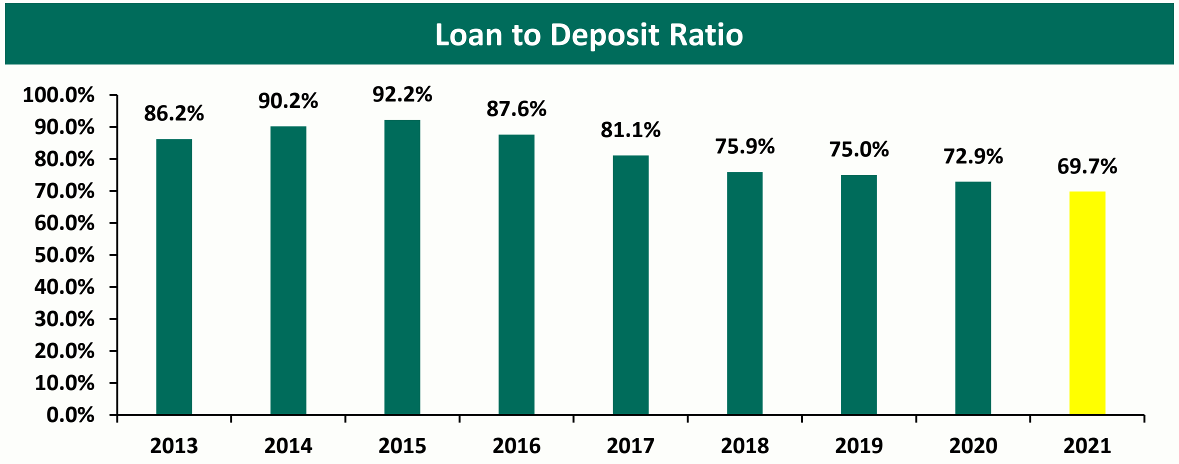
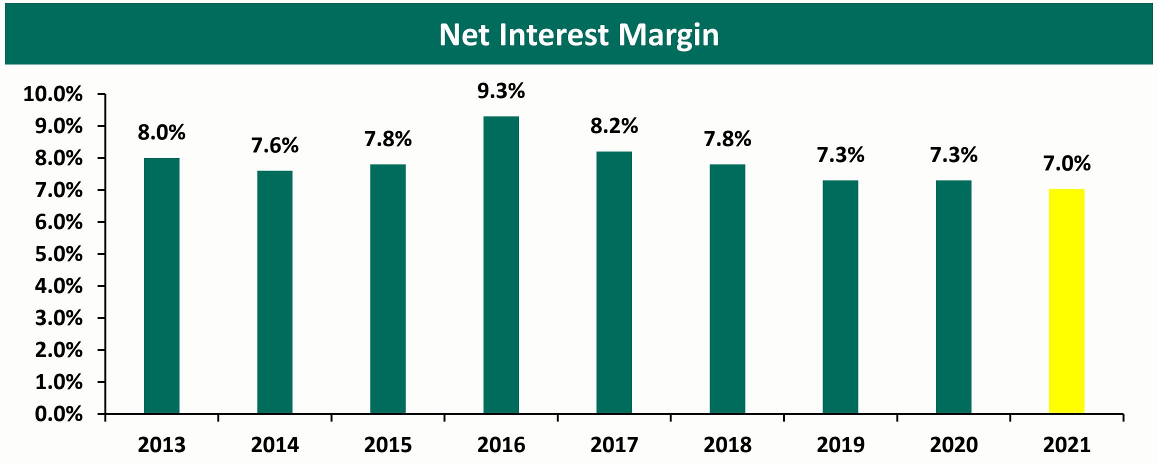
Listed Banking Sector Metrics

Banks' asset quality and profitability are gradually improving due to a more conducive Operating Environment









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Listed Banking Earnings and Growth Metrics

Kenya’s listed banking sector core EPS rose by 82.9% in FY’2021, compared to a decline of 26.8% in FY’2020

Bank	Core EPS Growth	Interest Income Growth	Interest Expense Growth	Net Interest Income Growth	Net Interest Margin	Non-Funded Income Growth	NFI to Total Operating Income	Growth in Total Fees & Commissions	Deposit Growth
ABSA	161.2%	1.9%	(15.9%)	8.0%	7.1%	4.7%	31.6%	11.6%	5.9%
NCBA	123.7%	5.1%	3.9%	6.1%	5.9%	5.6%	45.0%	2.5%	11.5%
Equity	99.4%	27.9%	37.2%	24.8%	6.8%	15.8%	39.3%	29.4%	29.5%
KCB	74.3%	15.1%	17.6%	14.4%	8.4%	8.8%	28.0%	9.0%	9.1%
SCBK	66.2%	(6.1%)	(24.7%)	(1.6%)	6.4%	24.9%	35.5%	19.9%	3.5%
Co-op	53.0%	13.9%	17.0%	12.9%	8.0%	11.0%	32.1%	18.1%	7.7%
Stanbic	38.8%	2.1%	(17.2%)	12.3%	5.0%	1.7%	42.5%	1.1%	(2.1%)
DTB-K	25.1%	9.1%	6.9%	10.6%	5.1%	3.0%	24.0%	10.8%	11.2%
I&M	0.7%	18.8%	(0.4%)	33.8%	6.3%	1.1%	29.0%	16.9%	13.0%
HF Group	(65.1%)	(8.0%)	(12.7%)	(2.1%)	4.2%	3.6%	22.8%	21.2%	(5.6%)
FY'21 Mkt Weighted Average*	**82.9%**	**13.8%**	**11.5%**	**15.2%**	**7.0%**	**10.9%**	**34.7%**	**16.6%**	**13.5%**
FY'20 Mkt Weighted Average**	**(26.8%)**	**16.7%**	**12.5%**	**18.9%**	**7.3%**	**6.4%**	**35.4%**	**(2.1%)**	**22.3%**

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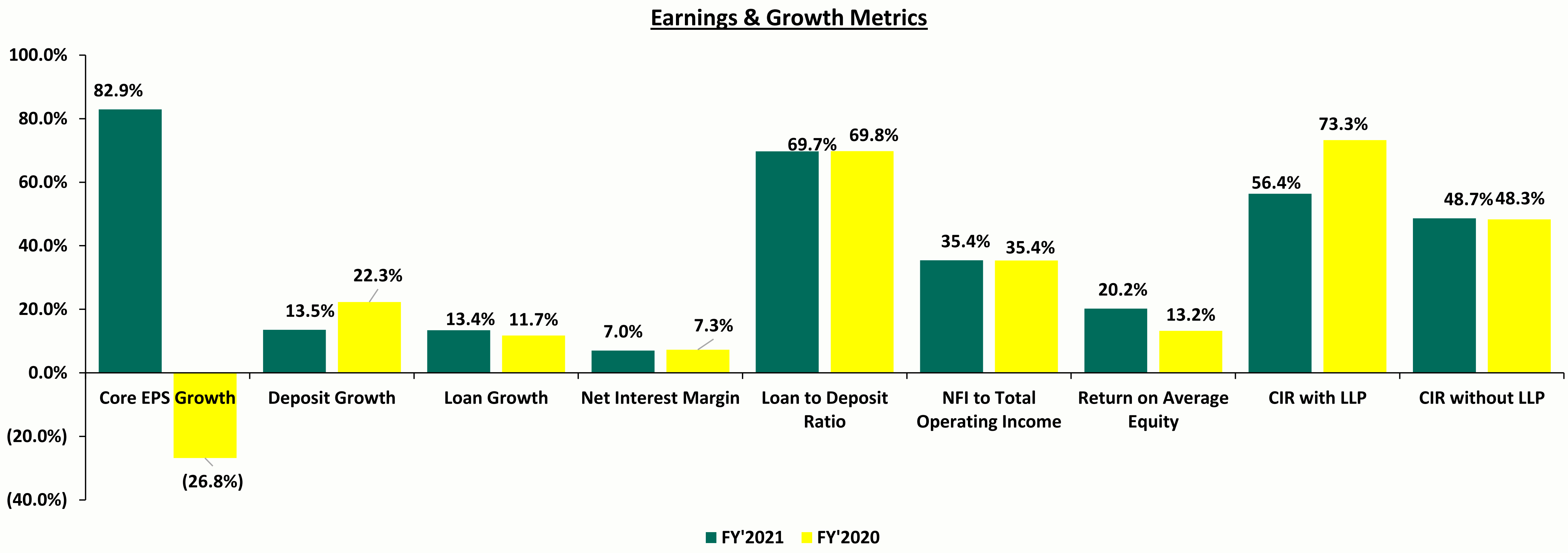
Takeout from Key Operating Metrics

Listed banks recorded an 82.9% increase in core Earnings Per Share (EPS) in FY'2021

- For the FY'2021, listed banks recorded an 82.9% weighted average growth in core Earnings per Share (EPS), compared to a weighted average decline of 26.8% in FY'2020 for the listed banking sector. The performance was however largely skewed by the strong performance from ABSA Bank, NCBA and Equity Group whose core EPS grew by 161.2%, 123.7% and 99.4%, respectively,
- The Banks have recorded a weighted average deposit growth of 13.5%, slower than the 22.3% growth recorded in FY'2020,
- Interest expense recorded a slower growth of 11.5%, compared to the 12.5% growth in FY'2020 leading to a decline in the cost of funds to a weighted average of 2.8% in FY'2021, from 2.9% in FY'2020. This was due to the faster growth in average interest-bearing liabilities, an indication that the listed banks were able to mobilize cheaper deposits,
- Average loan growth came in at 13.5%, 1.8% points higher than the 11.7% growth recorded in FY'2020. Notably, the loan growth was lower than the 18.1% growth in government securities, an indication that banks shied away from lending due to uncertainties surrounding the emergence of new COVID-19 variants coupled with the slow recovery of some sectors such as tourism and hospitality
- Interest income grew by 13.8%, slower than the growth of 16.7% recorded in FY'2020 while the weighted average Yield on Interest Earning Assets (YIEA) declined to 9.7%, from the 10.1% recorded in FY'2020 for the listed banking sector, an indication of the increased allocation to higher-yielding assets by the sector during the period. Net Interest Margin (NIM) now stands at 7.0%, 0.3% points lower than the 7.3% recorded in FY'2020 for the whole listed banking sector

Listed Banks Earnings and Growth Metrics Cont…

The banking sector displayed recovery as evidenced by the increase in the core-earnings per share by 82.9%, as compared to a decline of 26.8% in FY’2020



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Listed Banks Operating Metrics

The sectors asset quality improved during the period, as evidenced by the 1.2% points decline in the NPL ratio to 12.3%, from 13.5% recorded in FY'2020

Bank	Deposit/Branch (bn)	Gross NPL Ratio	NPL Coverage	Tangible Common Ratio	Non Funded Income/Revenue
Absa Bank	3.2	7.9%	74.5%	13.1%	32.0%
Equity Bank	2.8	8.6%	60.6%	12.2%	39.7%
Stanbic Bank	10.2	9.3%	54.9%	14.5%	42.6%
DTBK	2.6	12.9%	40.0%	14.6%	24.5%
Coop Bank	2.3	14.6%	65.5%	16.4%	35.4%
SCBK	12.1	16.0%	82.8%	14.9%	33.9%
NCBA Group	4.5	16.0%	70.2%	12.3%	44.3%
KCB Group	1.7	16.6%	63.4%	14.5%	29.4%
I&M Holdings	3.4	21.1%	70.6%	15.4%	30.7%
HF Group	1.7	21.1%	60.0%	12.6%	24.7%
Weighted Average FY'2021*	**4.0**	**12.3%**	**65.5%**	**13.9%**	**35.4%**
Weighted Average FY'2020	**3.5**	**13.5%**	**62.2%**	**13.7%**	**35.4%**

Market cap weighted average as at 14th April 2022

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Listed Banks Trading Metrics

The listed banking sector has continued to trade at cheaper prices compared to historical averages, as it is currently trading at an average P/TBV of 1.0x and average P/E of 4.9x

Bank	No. of shares (bn)	Market Cap (bn)	P/E	Price*	P/TBV
SCBK	0.4	62.6	6.9x	144.3	1.3x
Absa Bank	5.4	67.4	6.2x	12.4	1.2x
Stanbic Bank	0.4	41.2	5.7x	104.3	0.9x
Equity Bank	3.8	188.7	4.7x	50.0	1.2x
Coop Bank	5.9	75.4	4.6x	12.9	0.8x
NCBA Group	1.6	44.2	4.3x	26.9	0.6x
KCB Group	3.2	139.6	4.1x	43.5	0.8x
I&M Holdings	1.7	33.7	3.9x	20.4	0.5x
DTBK	0.3	15.9	3.6x	57.0	0.2x
HF Group	0.4	1.2	-10.5x	3.0	0.2x
Weighted Average FY'2021*			**4.9x**		**1.0x**
Weighted Average FY'2020**			**7.4x**		**0.9x**

P/E calculation for HF used normalized earnings over a period of 5 years

**Prices as at 14th April 2022*

***Prices as at 13th April 2021*

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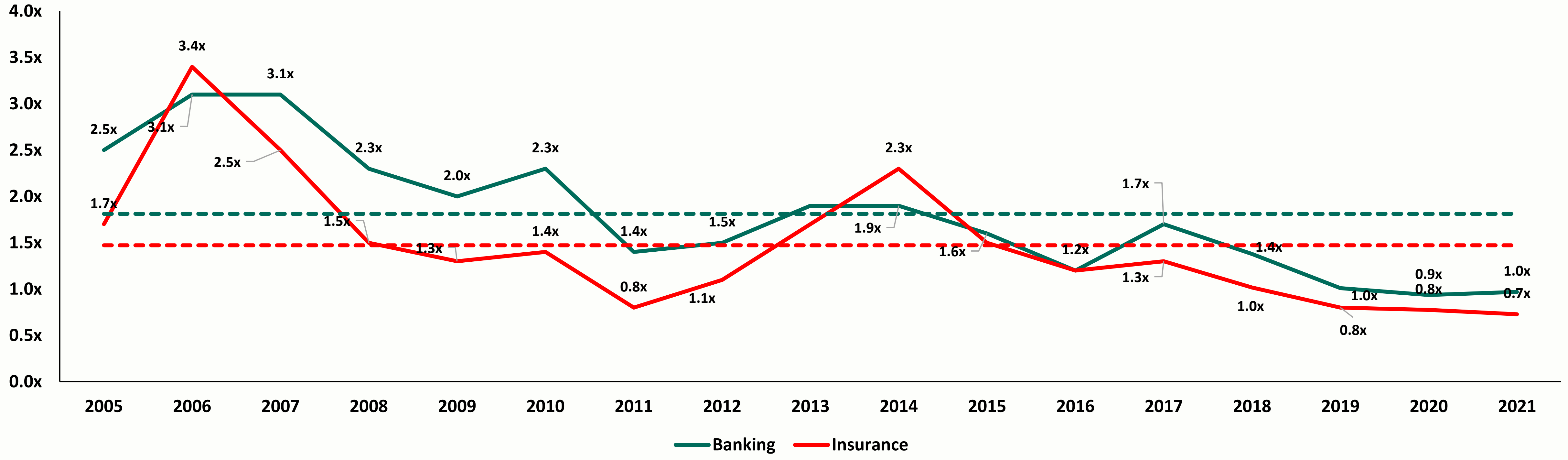
Listed Banks & Insurance Trading Metrics

Listed banks are trading at an average P/B of 1.0x, higher than the insurance sector, which is priced at 0.7x. Both sectors are trading below their 14-year averages of 1.8x and 1.5x, respectively

15 year Price to Book Value: Banking and Insurance



On a price to book valuation, listed banks are currently priced at a P/BV of 1.0x, higher than listed insurance companies at 0.7x, with both lower than their historical averages of 1.8x for the banking sector and 1.5x for the insurance sector

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V. Banks Valuation Reports

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Ranking by Franchise Value

ABSA Bank emerged top in the franchise ranking having had the lowest NPL Ratio which came in at 7.9% vs an industry average of 12.3%

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	Absa Bank	2	5	3	3	7	9	5	1	2	7	6	1	51
2	Equity Bank	8	1	1	4	2	8	6	2	7	10	3	2	54
3	Coop Bank	5	7	5	1	3	5	8	6	5	1	4	5	55
4	I&M Holdings	6	6	8	6	4	3	4	4	3	2	7	4	57
5	KCB Group	3	3	2	2	1	6	10	9	6	5	8	3	58
6	SCBK	10	4	4	5	9	10	1	7	1	3	5	6	65
7	Stanbic Bank	1	2	7	9	8	7	2	3	9	6	2	9	65
8	NCBA Group	9	8	6	7	6	4	3	8	4	9	1	8	73
9	DTBK	7	9	9	8	5	2	7	5	10	4	10	7	83
10	HF Group	4	10	10	10	10	1	9	10	8	8	9	10	99

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Valuation Summary of Listed Banks

I&M Group presents the highest upside with a total potential return of 36.7%

(all values in Kshs)

Bank	Current Price	Target Price	Upside/(Downside)	Dividend Yield	Total Potential Return
I&M Holdings	20.4	25.4	24.4%	12.3%	36.7%
KCB Group	43.5	50.5	16.2%	6.9%	23.1%
Coop Bank	12.9	14.7	14.2%	8.6%	22.8%
DTBK	57.0	65.6	15.1%	5.3%	20.3%
Equity Bank	50.0	56.2	12.3%	6.0%	18.3%
NCBA Group Plc	26.9	28.2	5.0%	13.0%	18.0%
ABSA Bank	12.4	13.4	8.2%	9.7%	17.9%
SCBK	144.3	147.1	1.9%	15.3%	17.2%
Stanbic Holdings	104.3	107.2	2.8%	8.6%	11.5%
HF Group	3.0	2.5	(17.7%)	0.0%	(17.7%)

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Cytonn Banking Report - Comprehensive Ranking

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

(all values in Kshs unless stated otherwise)

Bank	Franchise Value Rank	Intrinsic Value Rank	Weighted Rank	Q3'2021	FY'2021
I&M Holdings	4	1	23.4	3	**1**
Coop Bank	3	3	23.8	6	**2**
KCB Group	4	2	24.0	1	**3**
Equity Bank	2	5	24.6	4	**4**
Absa Bank	1	7	24.6	2	**4**
SCBK	6	8	30.8	5	**6**
Stanbic Bank	6	9	31.4	8	**7**
NCBA Group	8	6	32.8	7	**8**
DTBK	9	4	35.6	9	**9**
HF Group	10	10	45.6	10	**10**

VI. Appendix

A. Tier I Banks

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I. Equity Group Holdings

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Equity Group Summary of Performance – FY'2021

- Profit before tax increased by 99.4% to Kshs 51.9 bn, from Kshs 22.2 bn in FY'2020. Profit after tax increased by 99.4% to Kshs 40.1 bn in FY'2021, from Kshs 20.1 bn recorded in FY'2020 with the effective tax rate increasing to 22.8% from 9.3% in FY'2020,
- Total Operating Income rose by 21.1% to Kshs 113.4 bn, from Kshs 93.7 bn recorded in FY'2020 driven by a 24.8% increase in Net Interest Income (NII) to Kshs 68.8 bn, from Kshs 55.1 bn in FY'2020, coupled with a 15.8% increase in Non-Funded Income (NFI) to Kshs 44.6 bn, from Kshs 38.5 bn in FY'2020,
- Total operating expenses declined by 15.4% to Kshs 61.5 bn in FY'2021, from Kshs 72.7 bn recorded in FY'2020, mainly due to a 78.1% decline in Loans Loss Provision to Kshs 5.8 bn in FY'2021, from Kshs 26.6 bn recorded in FY'2020,
- The balance sheet recorded an expansion as Total Assets increased by 28.6% to Kshs 1,304.9 bn in FY'2021, from Kshs 1,015.1 bn recorded in FY'2020, and,
- The bank's asset quality improved, as evidenced by the 2.9% points decline in the NPL ratio to 8.6% in FY'2021, from 11.5% in FY'2020. The main sectors that contributed to the Non-Performing Loans were MSMEs and Agriculture, which contributed 18.5% and 6.5%, 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,, and,

ii. The bank's operating model of enhancing balance sheet agility is likely to place the bank in a prime position to take advantage of any opportunities that may arise, such as attractive inorganic growth via acquisitions or fast lending with the recent approval of the risk-based pricing lending model

Financial Statements Extracts

Equity Group's PAT is expected to grow at a 5-year CAGR of 31.2%

Income Statement	2019	2020	2021	2022f
Net Interest Income	45.0	55.1	68.8	104.1
Non Funded Income	30.8	38.5	44.6	49.0
Total Operating Income	75.8	**93.7**	**113.4**	153.1
Loan Loss Provision	(5.3)	(26.6)	(5.8))	(7.1)
Other Operating Expenses	(39.0)	(46.0)	(55.7)	(71.4)
Total Operating Expenses	**(44.3)**	**(72.7)**	**(61.5)**	**(83.5)**
Profit Before Tax	31.5	22.2	51.9	69.6
% PAT Change YoY	**13.8%**	**(10.9%)**	**99.4%**	**21.5%**
EPS	6.0	5.3	10.6	12.9
DPS	-	-	3.0	3.0
Cost to Income (with LLP)	58.5%	77.6%	54.2%	54.6%
NIM	**8.4%**	**7.6%**	**6.8%**	**8.2%**
ROaE	22.0%	16.5%	26.6%	22.6%
ROaA	3.6%	2.4%	3.5%	3.4%
Balance Sheet	**2019**	**2020**	**2021**	**2022f**
Net Loans and Advances	366.4	477.8	587.8	729.3
Government Securities	138.6	175.7	228.5	281.0
Other Assets	168.7	361.5	488.7	512.3
Total Assets	**673.7**	**1,015.1**	**1,304.9**	**1,522.6**
Customer Deposits	482.8	740.8	959.0	1,083.6
Other Liabilities	79.2	135.7	169.7	171.0
Total Liabilities	**561.9**	**876.5**	**1,128.7**	**1,254.6**
Shareholders Equity	**110.7**	**132.2**	**169.2**	**185.8**
Number of Shares	**3.8**	**3.8**	**3.8**	**3.8**
Book value Per share	29.3	35.0	44.8	49.2
% Change in BPS YoY	**17.7%**	**19.5%**	**28.0%**	**40.5%**

Valuation Summary

Equity Group is undervalued with a total potential return of 18.3%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	71.0	40.0%	28.4
Residual Income	45.5	35.0%	15.9
PBV Multiple	45.3	20.0%	9.1
PE Multiple	55.4	5.0%	2.8
Target Price			**56.2**
Current Price			**50.0**
Upside/(Downside)			12.3%
Dividend Yield			6.0%
Total Potential Return			**18.3%**

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II. KCB Group

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KCB Group Summary of Performance – FY’2021

- Profit before tax increased by 85.9% to Kshs 47.8 bn, from Kshs 25.7 bn in FY’2020 due to the 12.7% increase in total operating income to Kshs 108.6 bn, from Kshs 96.4 bn in FY’2020. Profit after tax increased by 74.3% to Kshs 34.2 bn in FY’2021, from Kshs 19.6 bn in FY’2020, with the effective tax rate increasing to 28.5%, from 23.8% in FY’2020,
- Total operating income increased by 12.7% to Kshs 108.6 bn, from Kshs 96.4 bn in FY’2020, driven by a 14.4% increase in Net Interest Income (NII) to Kshs 77.7 bn, from Kshs 67.9 bn in FY’2020, coupled with an 8.8% increase in Non-Funded Income (NFI) to Kshs 30.9 bn, from Kshs 28.5 bn in FY’2020,
- Total operating expenses decreased by 13.9% to Kshs 60.8 bn, from Kshs 70.7 bn in FY’2020, largely driven by a 52.8% decline in Loan Loss Provisions (LLP) to Kshs 13.0 bn, from Kshs 27.5 bn in FY’2020,
- The group’s asset quality deteriorated, with the NPL ratio increasing to 16.6% in FY’2021, from 14.8% in FY’2020. Key to note, KCB’s NPL ratio of 16.6% is 3.5% points above the industry average of 13.1% as at December 2021. The performance of non-performing loans was mainly attributable to the poor performance from the corporate segment, mortgage segment, MSME segment, and Check-Off loans which recorded NPL ratios of 18.9%, 11.6%, 8.5% and 2.3%, respectively,
- Going forward, we expect the bank’s growth to be driven by:

i. **Geographical Diversification** – The bank has been aggressively expanding in the region, as evidenced by the completion of the acquisition of Banque De Populaire du Rwanda (BPR) in Rwanda. The bank is also planning on expanding into the Ethiopian market, further expanding its presence in the region. This is also expected to drive growth in the near future

Financial Statements Extracts

KCB Group's PAT is expected to grow at a 5-year CAGR of 23.7%

Income Statement	2019	2020	2021	2022f
Net Interest Income	56.1	67.9	77.7	88.9
Non Funded Income	28.2	28.5	30.9	35.9
Total Operating Income	**84.3**	**96.4**	**108.6**	**124.8**
Loan Loss Provision	8.9	27.5	13.0	12.3
Other Operating Expenses	38.5	43.2	47.8	54.2
Total Operating Expenses	**47.4**	**70.7**	**60.5**	**66.6**
Profit Before Tax	36.9	25.7	47.8	58.2
% PAT Change YoY	**4.9%**	**(22.1%)**	**74.3%**	**19.3%**
EPS	7.8	6.1	10.6	12.7
DPS	3.5	1.0	3.0	3.0
Cost to Income (with LLP)	56.2%	73.3%	56.0%	53.3%
NIM	**8.2%**	**8.5%**	**8.4%**	**13.4%**
ROE	20.7%	14.4%	21.8%	26.4%
ROA	3.1%	2.1%	3.2%	4.4%
Balance Sheet	**2019**	**2020**	**2021**	**2022f**
Net Loans and Advances	539.7	595.3	675.5	733.0
Government Securities	164.9	208.8	270.8	310.6
Other Assets	194.0	183.8	193.4	260.5
Total Assets	**898.6**	**987.8**	**1,139.7**	**1,304.1**
Customer Deposits	686.6	767.2	837.1	933.4
Other Liabilities	82.2	78.2	129.0	131.2
Total Liabilities	**768.8**	**845.4**	**966.2**	**1,064.7**
Shareholders Equity	**129.7**	**142.4**	**171.7**	**237.7**
Number of Shares	**3.2**	**3.2**	**3.2**	**3.2**
Book value Per share	40.4	44.3	53.4	74.0
% Change in BPS YoY	**7.5%**	**9.8%**	**20.6%**	**38.4%**

Valuation Summary

KCB Group is undervalued with a total potential return of 23.1%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	41.5	35.0%	14.5
Residual Income	53.4	20.0%	10.7
PBV Multiple	57.1	5.0%	2.9
PE Multiple	56.0	40.0%	22.4
Target Price			**50.5**
Current Price			**43.5**
Upside/(Downside)			16.2%
Dividend Yield			6.9%
Total Return			**23.1%**

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III. Co-operative Bank

Co-operative Bank Summary of Performance – FY'2021

- The bank registered a 53.0% increase in profit after tax to Kshs 16.5 bn in FY'2021, from Kshs 10.8 bn in FY'2020, driven by a 12.3% increase in total operating income to Kshs 60.4 bn in FY'2021, from Kshs 53.8 bn in FY'2020, coupled with a 3.3% decline in the total operating expenses to Kshs 38.1 bn in FY'2021, from Kshs 39.4 bn in FY'2020,
- Total operating income rose by 12.3% to Kshs 60.4 bn in FY'2021, from Kshs 53.8 bn in FY'2020 mainly due to a 12.9% increase in Net Interest Income (NII) to Kshs 41.0 bn, from Kshs 36.3 bn in FY'2020, coupled with the 11.0% growth in Non-Funded Income (NFI) to Kshs 19.4 bn, from Kshs 17.5 bn in FY'2020,
- Total operating expenses reduced by 3.3% to Kshs 38.1 bn in FY'2021, from Kshs 39.4 bn in FY'2020, largely driven by the 2.3% reduction in Loan Loss Provisions (LLP) to Kshs 7.9 bn, from Kshs 8.1 bn in FY'2020 coupled with a 5.7% decrease in other operating expenses to Kshs 16.8 bn, from Kshs 17.9 bn in FY'2020,
- The balance sheet recorded an expansion as total assets grew by 8.0% to Kshs 579.8 bn in FY'2021, from Kshs 536.9 bn in FY'2020,
- The bank's asset quality improved, with the NPL ratio reducing to 14.6% in FY'2021, from 18.7% in FY'2020, owing to the 15.9% decline in gross non-performing loans coupled with the 7.9% growth in gross loans. The improved asset quality is attributable to the improved business environment in 2021, which saw significant recovery in sectors such as Transport and Communication,
- Going forward, we expect the bank's growth to be driven by:

1. **Focus on diversification:** The bank's continued focus on channel diversification will likely continue to help the bank in generating profitability, as they continue to record increased usage and traffic. The focus on branch transformation and innovation centered on alternative channels will continue to drive NFI growth as well as transform braches to handle advisory, wealth management and advisory services

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Financial Statements Extracts

Co-operative Bank's PAT is expected to grow at a 5-year CAGR of 10.0%

Income Statement	2019	2020	2021	2022f
Net Interest Income	31.3	36.3	41.0	46.8
Non Funded Income	17.2	17.5	19.4	23.7
Total Operating Income	**48.5**	**53.8**	**60.4**	**70.4**
Loan Loss Provision	(2.5)	(8.1)	(7.9)	(6.3)
Other Operating Expenses	(25.3)	(31.3)	(30.2)	(33.9)
Total Operating Expenses	**(27.8)**	**(39.4)**	**(38.1)**	**(39.6)**
Profit Before Tax	20.7	14.3	22.6	31.2
% PAT Change YoY	**12.4%**	**(24.4%)**	**53.0%**	**20.4%**
EPS	2.1	1.6	2.4	3.7
DPS	1.0	1.0	1.0	1.1
Cost to Income (with LLP)	57.4%	73.2%	63.0%	56.2%
NIM	**8.5%**	**8.5%**	**8.0%**	**8.6%**
ROE	**19.2%**	**12.5%**	**17.3%**	18.9%
ROA	**3.3%**	**2.1%**	**3.0%**	3.5%
Balance Sheet	**2019**	**2020**	**2021**	**2022f**
Net Loans and Advances	266.7	286.6	310.2	370.2
Government Securities	117.8	161.9	184.9	200.3
Other Assets	72.5	88.4	85.5	86.8
Total Assets	457.0	536.9	579.8	657.3
Customer Deposits	332.8	378.6	407.7	459.1
Other Liabilities	43.3	66.3	71.3	71.6
Total Liabilities	376.2	444.9	479.0	530.6
Shareholders Equity	79.3	90.7	100.2	126.1
Number of Shares	5.87	5.87	5.87	5.87
Book value Per share	13.5	15.5	17.1	21.5
% Change in BPS YoY	**13.6%**	**14.4%**	**10.5%**	**25.8%**

Cytonn

Valuation Summary

Co-operative Bank is undervalued with a total potential return of 21.8%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	14.1	40.0%	5.6
Residual income	15.8	35.0%	5.5
PBV Multiple	13.4	20.0%	2.7
PE Multiple	15.0	5.0%	0.8
Target Price			**14.6**
Current Price			**12.8**
Upside/(Downside)			14.0%
Dividend Yield			7.8%
Total Return			**21.8%**

Cytonn

IV. NCBA Bank

Cytonn

NCBA Bank Summary of Performance – FY'2021

- Profit before tax increased by 201.8% to Kshs 15.0 bn, from Kshs 5.0 bn in FY'2020. Profit after tax increased by 123.7% to Kshs 10.2 bn from Kshs 4.6 bn in FY'2020 with the effective tax rate increased to 32.0% from 8.3% recorded in FY'2020,
- Total operating income rose by 5.8% to Kshs 49.2 bn in FY'2021, from Kshs 46.4 bn in FY'2020. This was due to a 6.1% increase in Net Interest Income (NII) to Kshs 27.0 bn, from Kshs 25.5 bn recorded in FY'2020, coupled with a 5.6% increase in Non-Funded Income (NFI) to Kshs 22.1 bn, from the Kshs 20.9 bn recorded in FY'2020,
- Total operating expenses declined by 16.4% to Kshs 33.4 bn, from Kshs 40.0 bn in FY'2020, largely driven by the 37.8% decline in loan loss provision to Kshs 12.7 bn, from Kshs 20.4 bn in FY'2020. Staff costs increased by 10.0% to Kshs 8.0 bn, from Kshs 7.2 bn recorded in FY'2020,
- The balance sheet recorded an expansion with total assets growth of 12.0% to Kshs 591.1 bn, from Kshs 528.0 bn in FY'2020,
- The group's asset quality deteriorated, as evidenced by the rise in NPL ratio to 16.0%, from 14.7% in FY'2020 driven by the 10.7% increase in NPLs to Kshs 44.3 bn from Kshs 40.1 bn. The deterioration is partly due to its lending to SMEs and the construction sectors, both of which were hard hit by the pandemic and have yet to fully recover, resulting in an increase in NPLs
- Going forward, we expect the bank's growth to be driven by:

i. The bank intends to leverage on risk diversification, economies of scale, diversified earnings, and access to cheaper funding to continue building a strong and resilient business that is delivering on its strategic objectives. Further, the bank is expected to perform better as the economy gradually recovers and the results of the group's focus on strategic initiatives centered on customer experience, and,

ii. Brand visibility backed by great customer experience as it scales its retail banking primarily through expanding its branch network to enhance customer reach. So far, the group has 85 branches in Kenya with expectations of 11 more which will amount to a total of 96 branches by the end of 2022

Financial Statements Extracts

NCBA Group's PAT is expected to grow at a 5-year CAGR of 10.6%

Income Statement	2019	2020	2021	2022f
Net Interest Income	13.3	25.5	27.0	31.4
Non Funded Income	20.3	20.9	22.1	26.3
Total Operating Income	**33.7**	**46.4**	**49.2**	**57.7**
Loan Loss Provision	(6.3)	(20.4)	(12.7)	(16.2)
Other Operating Expenses	(14.1)	(19.6)	(20.8)	(24.0)
Total Operating Expenses	**(20.4)**	**(40.0)**	**(33.4)**	**(40.2)**
Profit Before Tax	11.3	5.0	15.0	16.8
Profit After Tax	7.8	4.6	10.2	13.1
% PAT Change YoY	**(12.4%)**	**(41.7%)**	**123.7%**	**28.1%**
EPS	11.1	2.8	6.2	8.0
DPS	0.3	2.3	3.0	3.5
Cost to Income (with LLP)	60.5%	86.2%	68.1%	69.7%
NIM	**3.3%**	**5.8%**	**5.9%**	6.0%
ROE	11.8%	6.6%	13.6%	14.5%
ROA	1.7%	0.9%	1.8%	2.1%

Balance Sheet	2019	2020	2021	2022f
Net Loans and Advances	249.4	248.5	244.0	295.4
Government Securities	145.0	163.5	196.1	211.9
Other Assets	100.5	116.0	151.0	162.7
Total Assets	494.8	528.0	591.1	670.0
Customer Deposits	378.2	421.5	469.9	519.3
Other Liabilities	49.3	33.9	43.2	47.5
Total Liabilities	427.6	455.4	513.1	566.8
Shareholders Equity	67.0	72.4	77.9	103.5
Number of Shares	0.7	1.5	1.5	1.6
Book value Per share	44.7	43.9	47.3	62.6
% Change in BPS YoY	**1.5%**	**(1.8%)**	**7.6%**	**32.4%**

Cytonn

Valuation Summary

NCBA Group is undervalued with a total potential return of 16.2%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM Integrated	32.3	40%	12.9
Residual Valuation	20.6	35%	7.2
PBV Multiple	33.0	20%	6.6
PE Multiple	29.1	5%	1.5
Target Price			**28.2**
Current Price			**26.9**
Upside/(Downside)			5.0%
Dividend Yield			11.2%
Total Potential Return			**16.2%**

Cytonn

V. Standard Chartered Bank Kenya

SCBK's Summary of Performance – FY'2021

- Profit before tax increased by 70.3% to Kshs 12.6 bn, from Kshs 7.4 bn in FY'2020. Profit after tax increased by 66.2% to Kshs 9.0 bn in FY'2021, from Kshs 5.4 bn recorded in FY'2020 with the effective tax rate increasing to 28.2% from 26.4% in FY'2020,
- Total operating income rose by 6.4% to Kshs 29.2 bn, from Kshs 27.4 bn recorded in FY'2020 driven by a 24.9% growth in Non-Funded Income (NFI) to Kshs 10.4 bn, from Kshs 8.3 bn in FY'2020. However, Net Interest Income (NII) recorded a decline of 1.6% to Kshs 18.8 bn, from Kshs 19.1 bn in FY'2020,
- Total operating expenses declined by 17.2% to Kshs 16.6 bn in FY'2021, from Kshs 20.0 bn in FY'2020, mainly attributable to a 46.4% decline in Loan Loss Provisions (LLPs) to Kshs 2.1 bn in FY'2021, from Kshs 3.9 bn in FY'2020 partly attributable to the improved business environment,
- Cost to Income Ratio (CIR) improved to 56.8%, from 73.0% in FY'2020 owing to a 17.1% decline in total operating expenses coupled with a 6.4% growth in total operating income. Without LLP, Cost to Income ratio improved as well to 49.7%, from 58.8% in FY'2020, an indication of improved efficiency levels,
- The balance sheet recorded an expansion as total assets grew by 2.8% to Kshs 334.9 bn in FY'2021, from Kshs 325.6 bn in FY'2020,
- The bank's asset quality improved slightly with the NPL ratio declining marginally to 15.99% in FY'2021, from 16.01% recorded in FY'2020. The improvement in the asset quality is attributable to the 4.8% growth in Gross loans, which outpaced the 4.2% increase in Gross Non-Performing Loans (NPLs)
- 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 which is likely to continue boosting the company's Non-Funded Income (NFI). 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 13.2%

Income Statement	2019	2020	2021	2022f
Net Interest Income	19.5	19.1	18.8	19.6
Non Funded Income	9.2	8.3	10.4	10.8
Total Operating Income	**28.7**	**27.4**	**29.2**	**30.3**
Loan Loss Provision	(0.6)	(3.9)	(2.1)	(1.9)
Other Operating Expenses	(16.0)	(16.1)	(14.5)	(15.7)
Total Operating Expenses	**(16.5**	**(20.0)**	**(16.6)**	**17.5**
Profit Before Tax	12.2	7.4	12.6	12.8
% PAT Change YoY	**1.7%**	**(33.9%)**	**66.2%**	**4.7%**
EPS	24.0	14.4	24.0	25.1
DPS	20.0	10.5	19.0	22.0
Cost to Income (with LLP)	57.6%	73.0%	56.8%	56.3%
NIM	**7.4%**	**6.8%**	**6.4%**	**6.8%**
ROaE	17.5%	11.0%	17.4%	15.7%
ROaA	2.8%	1.7%	2.7%	2.7%
Balance Sheet	**2019**	**2020**	**2021**	**2022f**
Net Loans and Advances	128.7	121.5	126.0	132.6
Government Securities	99.6	99.8	95.6	113.0
Other assets	73.8	104.3	113.3	119.8
Total Assets	**302.1**	**325.6**	**334.9**	**365.4**
Customer Deposits	228.4	256.5	265.5	281.9
Other Liabilities	25.9	18.2	16.2	16.3
Total Liabilities	**254.4**	**274.7**	**281.7**	**298.2**
Shareholders Equity	**47.8**	**50.9**	**53.2**	**67.2**
Number of shares	**0.4**	**0.4**	**0.4**	**0.3**
Book value Per share	119.5	135.0	141.2	157.9
% Change in BPS YoY	**2.6%**	**12.9%**	**4.6%**	**11.8%**

Cytonn

Valuation Summary

SCBK is undervalued with a total potential return of 11.7%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	181.6	40.0%	72.6
Residual Income	119.4	35.0%	41.8
PBV Multiple	130.7	20.0%	26.1
PE Multiple	130.8	5.0%	6.5
Target Price			**147.1**
Current Price			**144.3**
Upside/(Downside)			2.0%
Dividend Yield			9.7%
Total Return			**11.7%**

Cytonn

VI. Diamond Trust Bank Kenya

DTBK's Summary of Performance – FY'2021

- Profit before tax rose by 41.9% to Kshs 6.6 bn, from Kshs 4.7 bn in FY'2020. Profit after tax increased by 25.1% to Kshs 4.4 bn in FY'2021, from Kshs 3.5 bn recorded in FY'2020, with the effective tax rate increasing to 33.4%, from 24.4% in FY'2020,
- Total operating income increased by 8.7% to Kshs 26.3 bn, from Kshs 24.2 bn in FY'2020 mainly driven by a 10.6% increase in the Net Interest Income (NII) to Kshs 20.0 bn, from Kshs 18.1 bn in FY'2020, coupled with a 3.0% growth in Non-Funded Income (NII) to Kshs 6.3 bn, from Kshs 6.1 bn in FY'2020,
- Total operating expenses rose by 1.1% to Kshs 19.9 bn, from Kshs 19.7 bn in FY'2020, largely driven by the 3.2% increase in Loan Loss Provisions (LLP) to Kshs 7.6 bn from Kshs 7.3 bn in FY'2020 coupled with a 2.5% increase in staff costs to Kshs 4.8 bn from Kshs 4.7 bn in FY'2020. On the other hand, other operating expenses declined by 1.8% to Kshs 7.5 bn from Kshs 7.6 bn recorded in FY'2020,
- The balance sheet recorded an expansion as Total Assets increased by 7.5% to Kshs 456.8 bn, from Kshs 425.1 bn recorded in FY'2020,
- The bank's asset quality deteriorated, with the NPL ratio increasing to 12.9% in FY'2021, from 10.4% in FY'2020, due to the faster 32.0% growth in gross NPLs, which outpaced the 6.5% growth in gross loans,
- Going forward, we expect the bank's growth to be driven by:

i. **Digital Platforms** – The bank intends to expedite its digital transformation agenda and leverage on the strategy in improving their customer experience. Further, the Group is set to invest Kshs 3.5 bn in technology between 2022 and 2023 to expand its digital lending footprints, having already invested Kshs 2.4 bn between 2018 and 2021

Financial Statements Extracts

DTBK's PAT is expected to grow at a 5-year CAGR of 18.8%

Income Statement	2019	2020	2021	2022f
Net Interest Income	18.7	18.1	20.0	21.9
Non Funded Income	5.8	6.1	6.3	6.8
Total Operating Income	**24.5**	**24.2**	**26.3**	**28.7**
Loan Loss Provision	(1.3)	(7.3)	(7.6)	(8.4)
Other Operating Expenses	(11.9)	(12.3)	(12.3)	(13.3)
Total Operating Expenses	**(13.2)**	**(19.7)**	**(19.9)**	**(21.6)**
Profit Before Tax	11.3	4.7	6.6	7.3
% PAT Change YoY	**2.6%**	**(51.5%)**	**25.1%**	**55.2%**
EPS	26.0	12.6	15.8	24.5
DPS	2.7	0.0	3.0	3.0
Cost to Income (With LLP)	54.0%	81.3%	75.6%	75.4%
NIM	**5.6%**	5.0%	5.1%	**5.0%**
ROE	12.9%	5.8%	6.8%	8.8%
ROA	1.9%	0.9%	1.0%	1.4%
Balance Sheet	**2019**	**2020**	**2021**	**2022f**
Net Loans and Advances	199.1	208.6	220.4	249.8
Government Securities	130.3	148.4	169.0	145.5
Other Assets	56.8	68.1	67.4	122.5
Total Assets	**386.2**	**425.1**	**456.8**	**517.7**
Customer Deposits	280.2	298.2	331.5	364.6
Other Liabilities	41.5	58.5	50.8	58.1
Total Liabilities	**321.7**	**356.7**	**382.3**	**422.7**
Shareholders Equity	58.9	62.0	67.3	87.8
Number of Shares	0.3	0.3	0.3	0.3
Book value Per share	210.5	221.6	240.7	313.9
% Change in BPS YoY	**9.7%**	**5.3%**	**8.6%**	**30.4%**

Cytonn

Valuation Summary

DTBK is undervalued with a total potential return of 20.3%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	60.7	40.0%	24.3
Residual Income	64.4	35.0%	22.5
PBV Multiple	74.5	20.0%	14.9
PE Multiple	76.7	5.0%	3.8
Target Price			**65.6**
Current Price			**57.0**
Upside/(Downside)			15.0%
Dividend yield			5.3%
Total return			**20.3%**

Cytonn

VII. ABSA Bank Kenya

ABSA Bank's Summary of Performance – FY'2021

- Profit before tax and exceptional items increased by 75.7% to Kshs 15.5 bn in FY'2021, from Kshs 8.8 bn in FY'2020. Profit after tax increased by 161.2% to Kshs 10.9 bn in FY'2021, from Kshs 4.2 bn recorded in FY'2020 with the effective tax rate increasing to 30.1%, from 16.8% in FY'2020,
- Total operating income rose by 7.0% to Kshs 36.9 bn, from Kshs 34.5 bn recorded in FY'2020 driven by a 8.0% increase in Net Interest Income (NII) to Kshs 25.3 bn, from Kshs 23.4 bn in FY'2020, coupled with a 4.7% gain in Non-Funded Income (NFI) to Kshs 11.7 bn, from Kshs 11.1 bn in FY'2020,
- Total operating expenses declined by 16.8% to Kshs 21.4 bn in FY'2021, from Kshs 25.7 bn in FY'2020, mainly attributable to a 47.8% decline in Loan Loss Provisions (LLPs) to Kshs 4.7 bn in FY'2021, from Kshs 9.0 bn recorded in FY'2020 on the back of the gradual economic recovery. Staff Costs declined by 3.3% to Kshs 9.4 bn in FY'2021, from Kshs 9.8 bn recorded in FY'2020,
- Cost to Income Ratio (CIR) improved to 57.9%, from 74.4% in FY'2020, owing to the 7.0% growth in total operating income coupled with the 16.8% decline in total operating expenses. Without LLP, the cost to income ratio improved as well to 45.1%, from 48.2% in FY'2020, an indication of improved efficiency,
- The bank's asset quality deteriorated, with the NPL ratio increasing to 7.9% in FY'2021, from 7.7% in FY'2020, owing to the faster 15.9% growth in Gross Non-Performing Loans (NPLs), compared to the relatively slower 13.0% increase in gross loans,
- 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 at FY'2020, 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.

Financial Statements Extracts

Absa Bank's PAT is expected to grow at a 5-year CAGR of 11.8%

Income Statement	2019	2020	2021	2022f
Net Interest Income	23.2	23.4	25.3	28.4
Non Funded Income	10.6	11.1	11.7	12.7
Total Operating Income	**33.8**	**34.5**	**36.9**	**41.0**
Loan Loss Provision	(4.2)	(9.0)	(4.7)	(5.4)
Other Operating Expenses	(17.3)	(16.7)	(16.7)	(17.4)
Total Operating Expenses	**(21.5)**	**(25.7)**	**(21.4)**	**(22.8)**
Profit Before Tax	10.8	8.9	15.6	18.3
% PAT Change YoY	**0.5%**	**(44.2%)**	**161.2%**	**17.7%**
EPS	1.4	0.7	2.0	2.4
DPS	1.1	0.0	1.1	1.3
Cost to Income (with LLP)	63.6%	74.4%	57.9%	55.5%
Cost to Income (without LLP)	51.2%	48.2%	45.1%	42.3%
NIM	**7.7%**	**7.1%**	**7.1%**	**7.2%**
ROaE	16.7%	*9.1%	21.1%	19.0%
ROaA	2.1%	1.1%	2.7%	2.8%
Balance Sheet	**2019**	**2020**	**2021**	**2022f**
Net Loans and Advances	194.9	208.9	234.2	256.2
Government Securities	123.0	126.1	132.6	161.3
Other Assets	56.1	44.5	61.9	60.3
Total Assets	**374.0**	**379.4**	**428.7**	**477.8**
Customer Deposits	237.7	253.6	268.7	295.7
Other Liabilities	91.1	79.3	103.5	104.0
Total Liabilities	**328.8**	**332.9**	**372.2**	**399.7**
Shareholders Equity	**45.2**	**46.5**	**56.5**	**78.1**
Number of shares	**5.4**	**5.4**	**5.4**	**5.4**
Book value Per share	8.3	8.6	10.4	14.4
% Change in BPS YoY	**2.2%**	**2.9%**	**21.4%**	**38.4%**

*Excluding exceptional costs associated with the change of brand, ABSA's FY'2020 ROaE came in at 13.5%

Valuation Summary

Absa Bank is undervalued with a total potential return of 17.1%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	14.5	40.0%	5.8
Residual Income	12.9	35.0%	4.5
PBV Multiple	10.1	20.0%	2.0
PE Multiple	10.8	10.0%	1.1
Target Price			**13.4**
Current Price			**12.4**
Upside/(Downside)			8.2%
Dividend Yield			8.9%
Total Return			**17.1%**

Cytonn

VIII. Stanbic Holdings

Cytonn

Stanbic Holdings’ Summary of Performance – FY’2021

- Profit after tax increased by 38.8% to Kshs 7.2 bn in FY’2021, from Kshs 5.2 bn in FY’2020. The performance was driven by a 7.5% increase in total operating income to Kshs 25.0 bn in FY’2021, from Kshs 23.2 bn in FY’2020. The increase was however weighed down by the 4.7% increase in total operating expenses to Kshs 12.7 bn, from Kshs 12.1 bn in FY’2020,
- Total operating income increased by 7.5% to Kshs 25.0 bn in FY’2021 from Kshs 23.2 bn in FY’2020 was mainly driven by a 12.3% increase in Net-Interest Income (NII) to Kshs 14.4 bn, from Kshs 12.8 bn in FY’2020, coupled with a 1.7% increase in Non-Funded Income (NFI) to Kshs 10.6 bn, from Kshs 10.4 bn in FY’2020,
- Total Operating Expenses increased by 4.7% to Kshs 12.7 bn in FY’2021, from Kshs 12.1 bn in FY’2020, attributable to an 8.8% increase in the bank’s staff costs to Kshs 6.2 bn in FY’2021, from Kshs 5.5 bn recorded in Q3’2020 coupled with a 17.2% increase in other expenses to Kshs 5.2 bn, from Kshs 4.4 bn in FY’2020,
- The balance sheet recorded a slight expansion as total assets grew by 0.1% to Kshs 328.9 bn, from Kshs 328.6 bn in FY’2020. The increase was largely driven by a 16.8% increase in net loans to Kshs 229.3 bn, from Kshs 196.3 bn in FY’2020,

- **Asset Quality -** The bank’s asset quality improved, with the NPL ratio reducing to 9.3% in FY’2021 from 11.8% in FY’2020. The performance in the NPL ratio is attributable to the 10.1% decline in Gross Non-Performing Loans (NPLs) coupled with the 14.6% increase in Gross Loans,
- **Revenue Diversification -** The bank recorded a relatively stronger performance in both funded and non-funded segments where Net Interest Income grew by 12.3% while Non-Funded Income grew by 1.7%.

Financial Statements Extracts

Stanbic Holdings' PAT is expected to grow at a 5-year CAGR of 15.7%

Income Statement	2019	2020	2021	2022f	2023f
Net Interest Income	13.3	12.8	14.4	16.2	
Non Funded Income	11.4	10.4	10.6	11.8	
Total Operating Income	**24.7**	**23.2**	**25.0**	**28.0**	
Loan Loss Provision	(3.2)	(4.9)	(2.5)	(2.4)	
Total Operating Expenses	**(13.9)**	**(12.1)**	**(12.7)**	**(14.1)**	
Profit Before Tax	7.7	6.2	9.8	13.9	
% PAT Change YoY	**1.6%**	**(18.6%)**	**38.8%**	**34.6%**	
EPS	16.1	13.1	18.2	24.5	
DPS	7.1	3.8	9.0	9.0	
Cost to Income (with LLP)	56.2%	52.2%	50.9%	50.0%	
NIM	**5.2%**	**4.7%**	**5.0%**	**5.1%**	
ROaE	13.6%	10.3%	13.3%	16.0%	
ROaA	2.1%	1.6%	2.2%	2.9%	
Balance Sheet	**2019**	**2020**	**2021**	**2022f**	**2023f**
Net Loans and Advances	191.2	196.3	229.3	235.5	
Other Assets	112.4	132.3	99.6	113.2	
Total Assets	**303.6**	**328.6**	**328.9**	**348.8**	
Customer Deposits	224.7	260.0	254.6	263.5	
Borrowings	9.1	5.5	5.7	5.7	
Other Liabilities	20.8	11.4	12.1	12.1	
Total Liabilities	**254.6**	**276.9**	**272.4**	**281.3**	
Shareholders Equity	49.0	51.7	56.5	67.4	
No of Ordinary Shares	0.4	0.4	0.4	0.4	
Book value Per share	124.0	130.9	142.8	170.6	
% Change in BVPS	**9.9%**	**5.5%**	**9.1%**	**19.5%**	

Cytonn

Valuation Summary

Stanbic Holdings is fairly valued with a total potential return of 11.5%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	132.1	40.0%	52.9
Residual Income	92.9	35.0%	32.5
PBV Multiple	86.6	20.0%	17.3
PE Multiple	89.9	5.0%	4.5
Target Price			**107.2**
Current Price			**104.3**
Upside/(Downside)			2.8%
Dividend Yield			8.6%
Total return			**11.5%**

Cytonn

IX. I&M Group

Cytonn

I&M Group Summary of Performance – FY'2021

- Profit before tax increased by 13.3% to Kshs 12.4 bn, down from Kshs 11.0 bn in FY'2020. Profit after tax increased by 2.5% to Kshs 8.6 bn, down from Kshs 8.4 bn in FY'2020, with the effective tax rate declining to 31.3%, from 34.6% in FY'2020,
- Total operating income increased by 22.2% to Kshs 29.6 bn, from Kshs 24.2 bn in FY'2020 driven by a 33.8% increase in Net Interest Income (NII) to Kshs 20.9 bn, from Kshs 15.6 bn in FY'2020, coupled with a 1.1% increase in Non-Funded Income (NFI) to Kshs 8.7 bn, from Kshs 8.6 bn in FY'2020,
- Total operating expenses rose by 40.8% to Kshs 17.7 bn from Kshs 12.6 bn in FY'2020, largely driven by a 69.8% increase in Loan Loss Provisions (LLP) to Kshs 4.2 bn, from Kshs 2.5 bn in FY'2020, as the bank took a proactive stance in provisioning for the existing Non-performing loans (NPLs). Staff costs as well, increased by 32.1% to Kshs 5.9 bn in FY'2021, from Kshs 4.5 bn in FY'2020,
- The balance sheet recorded an expansion as total assets grew by 15.9% to Kshs 415.2 bn, from Kshs 358.1 bn in FY'2020 attributable to a 12.4% loan book expansion to Kshs 210.6 bn, from Kshs 187.4 bn in FY'2020 partly due to the gradual economic recovery coupled with a 23.4% increase in government securities to Kshs 125.5 bn, from Kshs 101.7 bn in FY'2020, and,
- The bank's asset quality improved, with the NPL ratio declining to 9.5%, from 11.6% in FY'2020. The NPL coverage improved to 71.4% in FY'2021 from 66.8% in FY'2020,
- Going forward, we expect the bank's growth to be driven by:

i. **Digitization** – The Group has increased its investments in infrastructure to support the group's digital transformation strategy, standardize operations, systems and processes across its subsidiaries in the region and for better risk management. This has seen 79.0% of the Group's transactions with a value of Kshs 543.0 bn executed in FY'2021. Going forward, the group is expected to leverage on its synergies to support customers regional business operation and experience

Financial Statements Extracts

I&M Group's PAT is expected to grow at a 5-year CAGR of 8.9%

Income Statement	2019	2020	2021	2022f
Net Interest Income	15.5	15.6	20.9	20.6
Non- Funded Income	8.3	8.6	8.7	9.2
Total Operating Income	**23.8**	**24.2**	**29.6**	**29.8**
Loan Loss Provision	0.6	2.5	(4.2)	(3.1)
Other Operating Expenses	9.5	10.1	(13.5)	(13.9)
Total Operating Expenses	**(10.1)**	**(12.6)**	**(17.7)**	**(17.0)**
Profit Before Tax	14.6	11.0	12.4	13.3
% PAT Change YoY	**26.6%**	**(21.9%)**	**2.5%**	**7.5%**
EPS	13.0	10.2	4.9	5.7
DPS	2.6	2.3	1.5	2.5
Cost to Income (with LLP)	42.4%	52.0%	59.9%	57.1%
NIM	**5.9%**	**5.4%**	**6.3%**	**5.7%**
ROaE	19.5%	13.2%	12.2%	11.4%
ROaA	3.4%	2.3%	2.1%	2.1%
Balance Sheet	**2019**	**2020**	**2021**	**2022f**
Government securities	53.9	101.7	125.5	121.9
Net Loans and Advances	175.3	187.4	210.6	230.9
Other Assets	86.0	69.0	79.0	88.0
Total Assets	**315.3**	**358.1**	**415.2**	**440.8**
Customer Deposits	229.7	262.7	296.7	311.6
Other Liabilities	24.7	27.4	44.4	37.8
Total Liabilities	**254.4**	**290.0**	**341.1**	**349.4**
Shareholders Equity	57.7	64.2	69.6	86.8
Number of Shares	0.8	0.8	1.7	1.7
Book Value Per Share	69.8	77.6	42.1	52.5
% BVPS Change YoY	**(39.7%)**	**11.2%**	**(45.8%)**	**24.8%**

Valuation Summary

I&M Group is undervalued with a total potential return of 31.8%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	28.8	40.0%	11.5
Residual income	19.7	35.0%	6.9
PBV Multiple	28.6	20.0%	5.2
PE Multiple	24.7	5.0%	1.2
Target Price			**25.4**
Current Price			**20.4**
Upside/(Downside)			24.4%
Dividend yield			7.4%
Total return			**31.8%**

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B. Tier II Bank

I. HF Group

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HF Group Summary of Performance – FY'2021

- HF Group recorded a loss per share of Kshs 1.5 in FY'2021, lower than the loss per share of Kshs 4.4 recorded in FY'2020. The performance of the group can be attributed to a 20.5% decline in total operating expenses to Kshs 3.2 bn, from Kshs 4.1 bn in FY'2020, coupled with a slight 0.8% decline in total operating income to Kshs 2.37 bn, from Kshs 2.38 bn in FY'2020,
- Total Operating Income slightly declined by 0.8% to Kshs 2.37 bn, from Kshs 2.38 bn in FY'2020, attributable to the 2.1% decrease in Net Interest Income (NII) to Kshs 1.8 bn, from Kshs 1.9 bn recorded in FY'2020. The decline was however mitigated by a 3.6% increase in Non-Funded Income (NFI) to Kshs 0.54 bn, from Kshs 0.52 bn recorded in FY'2020,
- Total Operating Expenses declined by 20.5% to Kshs 3.2 bn in FY'2021, from Kshs 4.1 bn in FY'2020, partly attributable to a 30.7% decline in Loans Loss Provisions (LLPs) to Kshs 0.3 bn in FY'2021, from Kshs 0.4 bn recorded in FY'2020, attributable to the reduced credit risk on the back of increased business activity in 2021 following the gradual economic recovery in Kenya
- The balance sheet recorded a contraction as Total Assets decreased by 4.6% to Kshs 52.9 bn in FY'2021, from Kshs 55.4 bn recorded in FY'2020
- The bank experienced an improvement in asset quality as the NPL ratio improved by 3.5% points to 21.1%, from the 24.6% recorded in FY'2020, following the faster 19.7% decline in NPLs that outpaced the 6.3% decline in gross loans which came in at Kshs 41.1 bn in FY'2021, from Kshs 43.8 bn recorded in FY'2020
- 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 H1'2021. 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

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Financial Statements Extracts

HF's PAT is expected to grow at a 5-year CAGR of (153.0%) to profitability in 2025

Income Statement	2019	2020	2021	2022f
Net Interest Income	2.0	1.9	1.8	1.8
Non- Funded Income	1.4	0.5	0.5	0.5
Total Operating Income	**3.4**	**2.4**	**2.4**	**2.3**
Loan Loss Provision	(0.4)	(0.4)	(0.3)	(0.2)
Other Operating Expenses	(3.2)	(3.6)	(2.9)	(2.7)
Total Operating Expenses	**(3.5)**	**(4.1)**	**(3.2)**	**(2.9)**
Profit Before Tax	(0.1)	(1.7)	(0.9)	(0.5)
% PAT Change YoY	**(81.6%)**	**1443.7%**	**65.1%**	**36.2%**
EPS	(0.3)	(4.4)	(1.5)	(1.0)
DPS	0.0	0.0	0.0	0.0
Cost to Income	104.2%	153.1%	136.3%	121.9%
NIM	**4.3%**	**4.2%**	**4.2%**	4.2%
ROaE	(1.1%)	(18.1%)	(7.2%)	(5.3%)
ROaA	(0.2%)	(3.0%)	(1.1%)	(0.7%)
Balance Sheet	**2019**	**2020**	**2021**	**2022f**
Net Loans and Advances	38.6	37.0	34.7	38.9
Government securities	4.6	7.1	6.6	4.5
Other Assets	13.3	11.3	11.7	13.1
Total Assets	**56.5**	**55.4**	**52.9**	**56.5**
Customer Deposits	37.4	39.9	37.7	41.6
Other Liabilities	8.8	6.9	7.2	8.7
Total Liabilities	**46.2**	**46.9**	**44.9**	**50.3**
Shareholders Equity	10.2	8.6	8.0	6.3
Number of Shares	0.4	0.4	0.4	0.4
Book Value Per Share	26.6	22.3	20.7	16.4
% BVPS Change YoY	**(1.5%)**	**(16.2%)**	**(6.9%)**	**(20.9%)**

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Valuation Summary

Housing Finance is overvalued with a total potential return of (17.7%)

Valuation Summary	Implied Price	Weighting	Weighted Value
Residual Income	1.8	60.0%	1.1
PTBV Multiple	3.7	35.0%	1.3
PE Multiple	2.0	5.0%	0.1
Fair Value			**2.5**
Current Price			**3.0**
Upside/(Downside)			(17.7%)
Dividend Yield			0.0%
Total return			***(17.7%)***

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Feedback Summary

During the preparation of this FY'2021 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
Co-operative Bank of Kenya	Yes	Yes
Standard Chartered Bank Kenya	Yes	Yes
I&M Group	Yes	Responsive
Stanbic Holdings	Yes	Responsive
Diamond Trust Bank	Yes	Unresponsive
KCB Group	Yes	Unresponsive
NCBA Group	Yes	Unresponsive
Housing Finance Group	Yes	Unresponsive
Equity Group Holdings	Yes	Unresponsive
Absa Bank Kenya	Yes	Unresponsive

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Licensed Financial Institutions

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I. Banks and Mortgage Finance Institutions

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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	Kingdom Bank Kenya 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

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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 Group
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

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

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