Kenya Listed Commercial Banks Review

Cytonn FY'2022 Banking Sector Report

"Banks Maintain Strong Profitability Despite Challenging Business Environment"

Cytonn

23rd April, 2023

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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

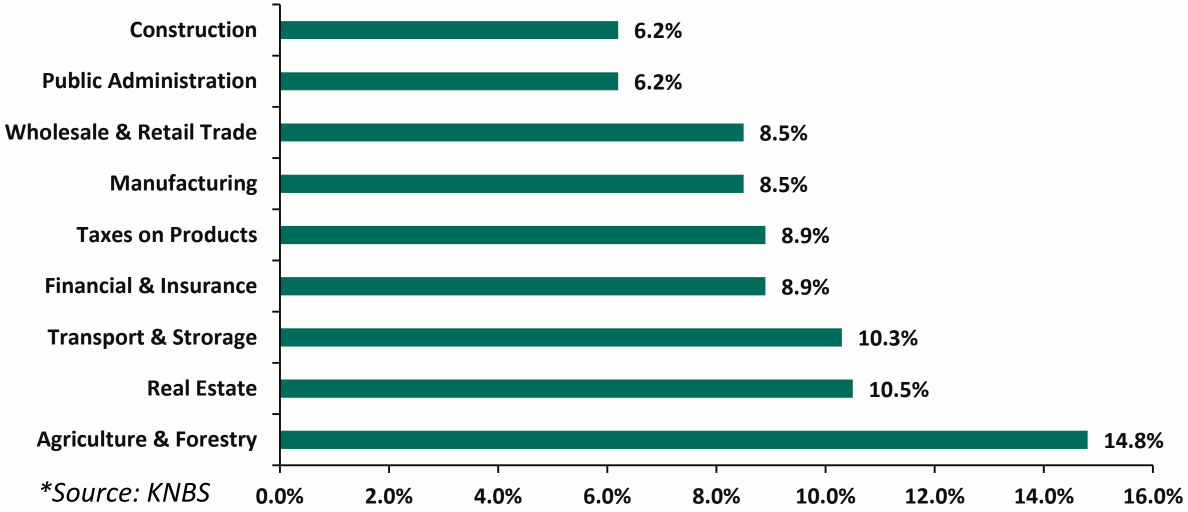
Cytonn Investments Management Plc

- **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

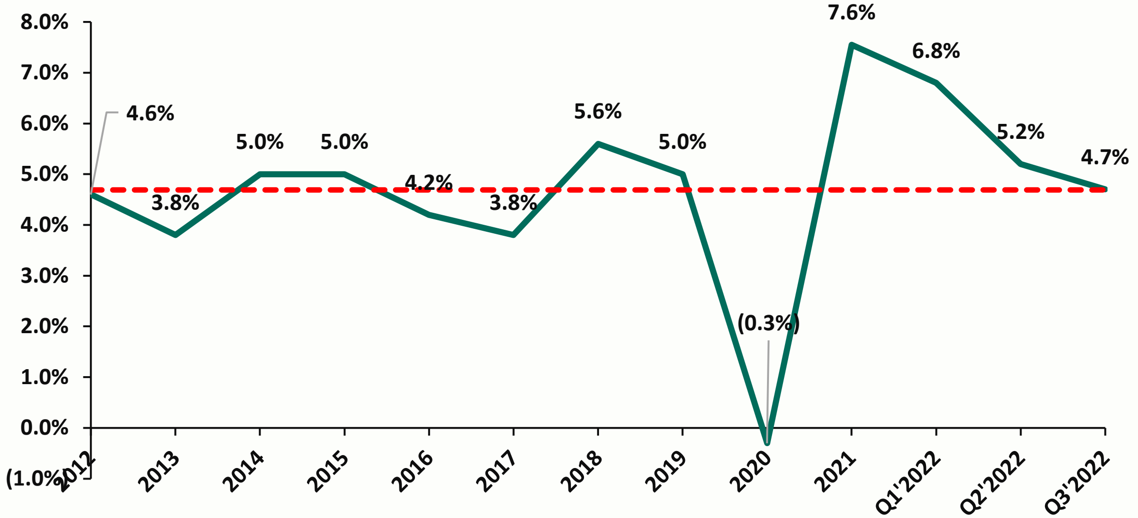
The Kenyan economy grew by 4.7% in Q3’2022, lower than 9.3% growth in Q3’2021

Q3'2022 GDP Contribution by Sector



*Source: KNBS

GDP Growth Rates



- The Kenyan Economy recorded a 4.7% expansion in Q3’2022, lower than the 5.2% and 9.3% growth recorded in Q2’2022 and Q3’2021, respectively pointing towards sustained economic recovery. The performance was largely supported by growth recorded in sectors like Accommodation and Food Services activities (22.9%), Wholesale and retail trade (9.1%), Professional, Administrative and Support services (8.7%) and Education (7.1%), among others,
- The biggest gainer in terms of sectoral contribution to GDP was Financial and Insurance sector, increasing by 0.8% points to 8.9% from 8.1% in Q3’2021, while Agriculture and Forestry was the biggest loser, declining by 1.5% points to 14.8% in Q3’2022, from 16.3% in Q3’2021

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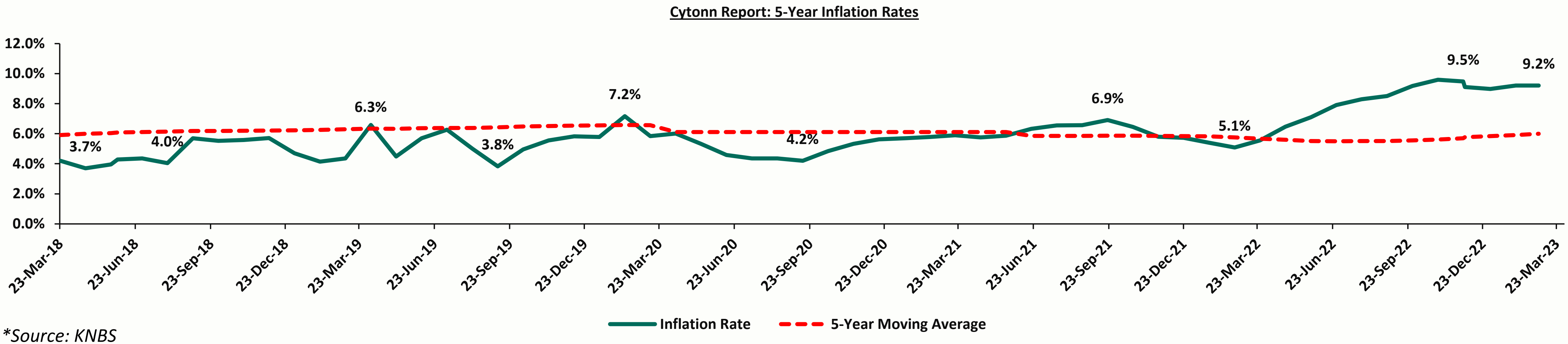
Inflation

Inflation averaged 7.6% in FY’2022, compared to 6.1% in in FY’2021



**Source: KNBS*

- The average inflation rate increased to 7.6% in FY’2022 compared to 6.1% in a similar period in 2021 mainly attributable to the surge in food and fuel prices. The year on year inflation rate in the month of March 2023 remained constant at 9.2%, from what was recorded in the month of February 2023. The high inflation rate was mainly attributable to a 13.4%, 12.6% and 7.5% increase in the food and non-alcoholic beverages index, transport as well as housing, water, electricity, gas and other fuels index
- Going forward, we expect inflationary pressures in the country to persist in the short term due to high fuel and electricity prices following the scaling down of fuel subsidies as well as higher electricity tariffs. However, we expect food inflationary pressures to ease in the medium term following the expected long rains in the coming months.

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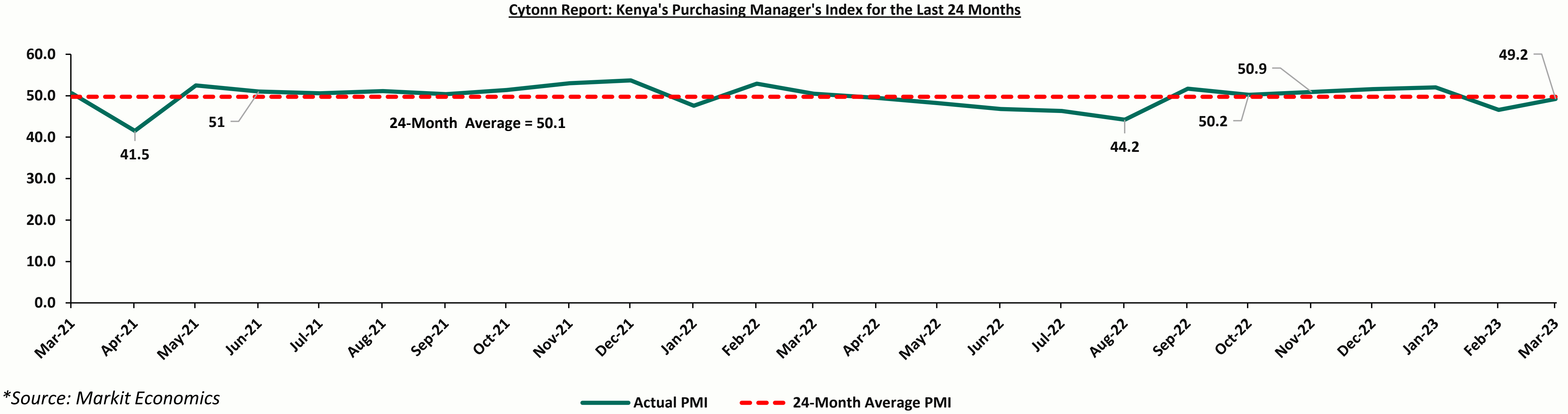
Stanbic PMI Index

The PMI averaged at months averaged 49.2 in FY’2022, compared to 50.8 in FY’2021



**Source: Markit Economics*

- Kenya’s average PMI came at 49.2 in FY’2022, below the 50.8 recorded in FY’2021 and lower than the 50.0 threshold, pointing towards a deterioration in the general business environment
- Going forward, we expect the general business environment to remain subdued in the short term owing primarily to the high cost of living arising from the elevated inflationary pressures which is expected to continue impede consumer spending

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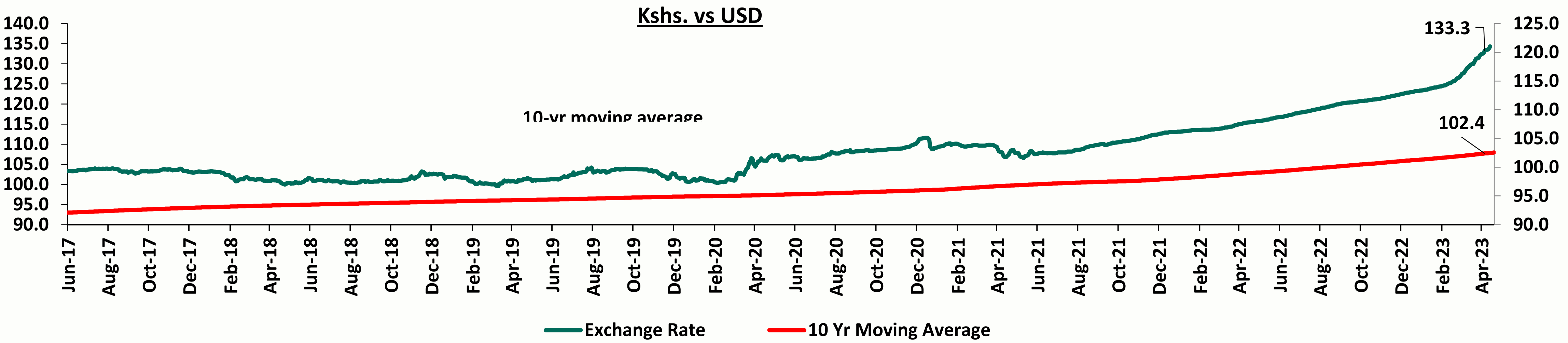
Currency

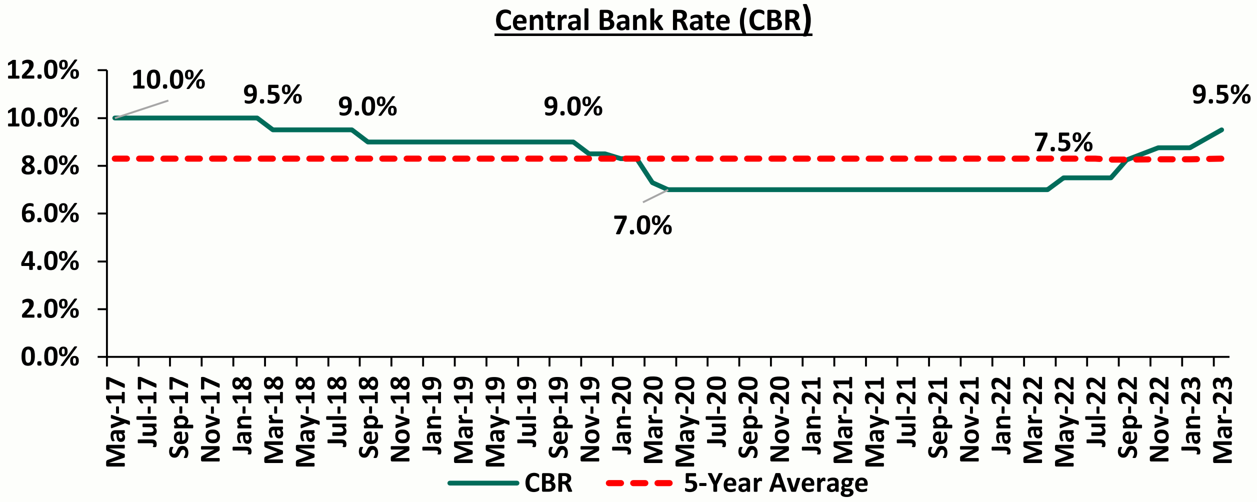
Year-to-date, the Kenyan shilling has depreciated by 9.5% against the US Dollar (as of 20th April 2022)

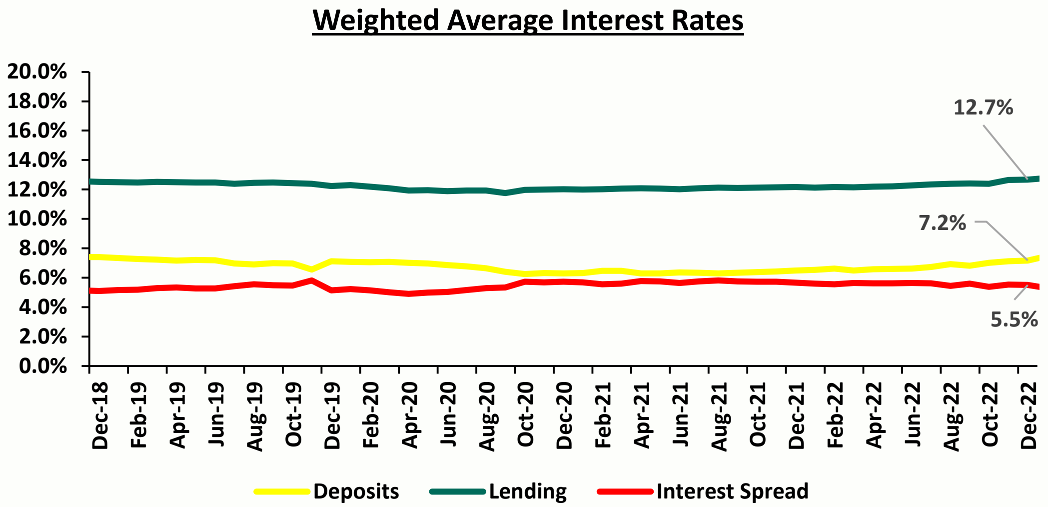


**Source: Central Bank of Kenya*

- The Kenya Shilling depreciated by 9.0% against the US Dollar to close at Kshs 123.4 in 2022, compared to Kshs 113.1 at the end of 2021. On a year to date basis, the shilling has depreciated by 9.5% against the dollar from Kshs 123.4 recorded at the beginning of the year. The depreciation is partly attributable to increased dollar demand from the oil and energy sectors against a slower supply of hard currency,
- Going forward, we expect the Kenyan Shilling to remain under significant pressure in the medium term as demand for the dollar continues to increase in the oil and energy sector. The local currency is however expected to be supported by diaspora remittances and tourism inflow receipts

Interest Rates and Monetary Policy





- The Monetary Policy Committee (MPC) met on March 29th, 2023 to review the outcome of its previous policy decisions and recent economic developments, and to decide the direction of the Central Bank Rates (CBR). Notably, the MPC decided to raise the Central Bank Rate (CBR) by 75.0 bps to 9.50% from 8.75% in their January2023 sitting, in a bid to contain the elevated inflation rate, which came at 9.2% in March 2023, similar to what was recorded in February 2023, and 1.7% points above the CBK ceiling of 7.5%.
- The Committee noted the sustained inflationary pressures, the elevated global risks such as interest rate hikes in advanced economies and their potential impact on the domestic economy, laid grounds for a further tightening of the monetary policy in order to anchor inflation expectations

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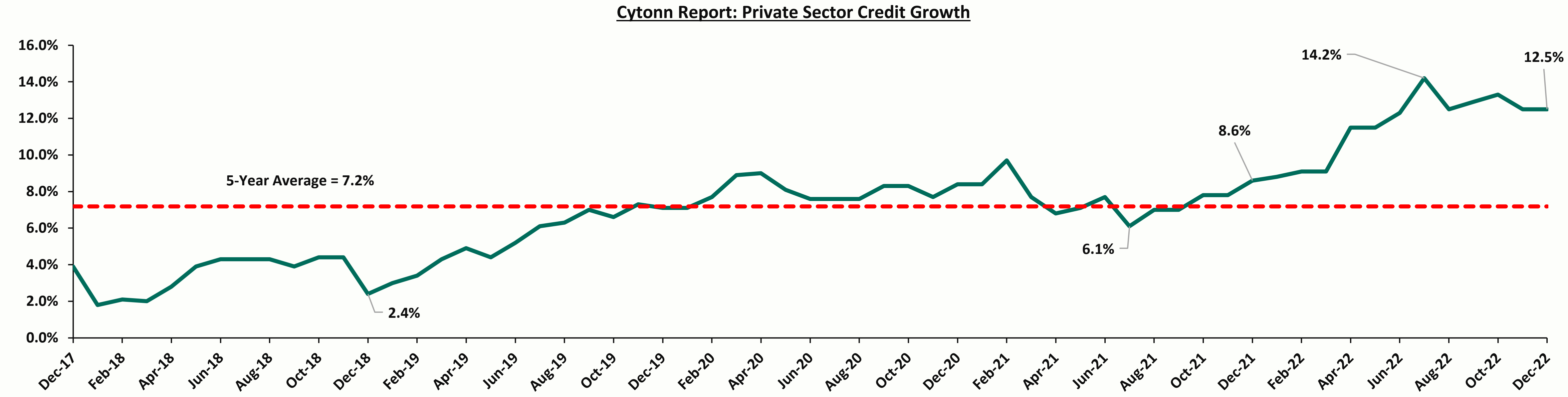
Private Sector Credit growth



**Source: KNBS*

- Private sector credit growth continues to recover, having grown by 12.5% in December 2022, as compared to 8.6% in the same period 2021, indicating that demand has improved on the back of increased economic activities
- We however expect private sector credit to remain subdued as commercial banks are expected to increase lending rates following the MPC's decision to continually hike the Central Bank Rate with the current at 9.50%

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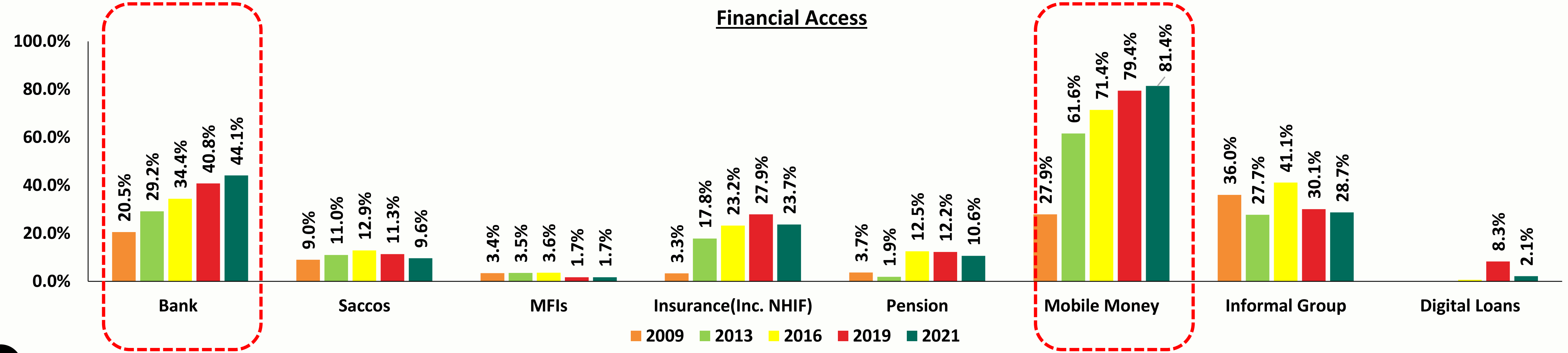
III. Banking Sector Overview

Kenyan Banking Sector Overview

Financial Inclusion in Kenya continues to rise, having expanded to 83.7% in 2021, from 82.9% in 2019

- In Kenya there are a total of 38 commercial banks, 1 mortgage finance company, 1 mortgage refinance company, 14 microfinance banks, 9 representative offices of foreign banks, 68 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 the 2021 FinAccess Household Report, the banking services including mobile banking stood at 44.1% as of 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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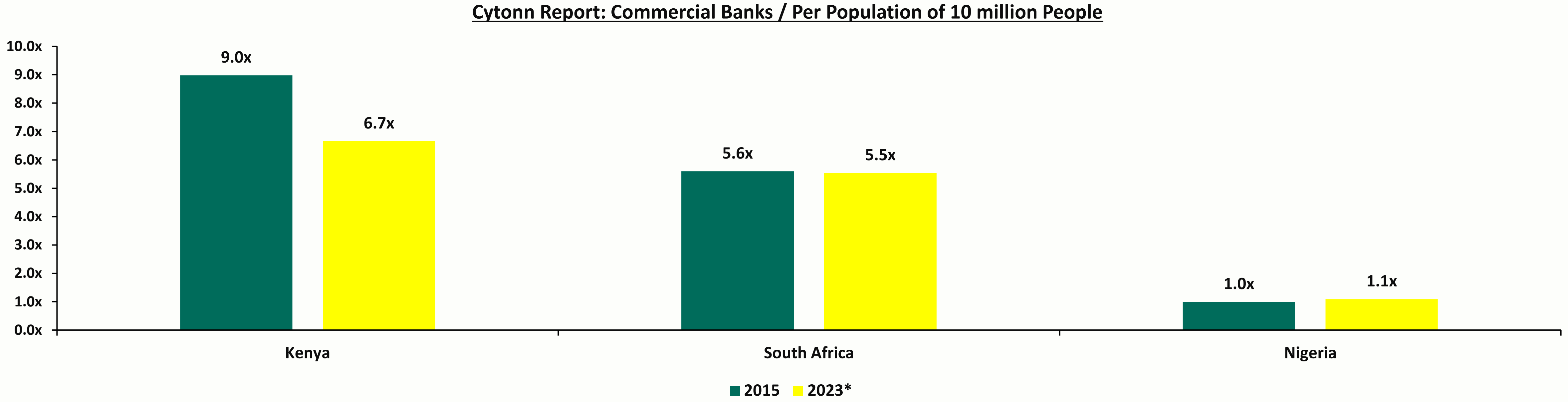
Source: Central Bank of Kenya, FinAccess report

Kenyan Banking Sector Overview

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



- The number of commercial banks in Kenya currently stands at 38, compared to 43 banks in FY'2015
- The ratio of the number of banks per 10 million population in Kenya now stands at 6.7x, which is a reduction from 9.0x in FY'2015, demonstrating continued consolidation activities in the banking sector. However, despite the ratio improving, Kenya still remains overbanked as the number of banks remains relatively high compared to the other African major economies

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Recent Developments in the Kenyan Banking Sector

1. Regulation:

- **Risk-based Lending-** The Central Bank of Kenya has been working on a risk-based lending model to price loans since the Interest Cap law was repealed in 2019. The model's main goal is to allow banks to lend in line with the estimated risks of each borrower. Additionally, this is a shift from negative listing of defaulters to a new system of credit score rating that does not deny borrowers credit on the strength of their credit bureau reference scores. Notably, as of November 2022, at least 23 of the banks had their models approved by the CBK, with Equity Bank being the first commercial bank to roll out the risked-based lending. However, the full implementation has also been slowed down as a result of insufficient data to assess client's risk profile,

- **Regulation of Digital Lenders:** . In March 2022, the Central Bank of Kenya (CBK) gazetted the digital lenders regulations paving way for the CBK to oversee licensing, governance and lending practices of Digital Credit Providers (DCPs). The regulations focus on addressing public concerns given the significance growth in number of digital lenders as well protecting borrowers from uncharacterized practices of unregulated digital credit providers, particularly their high costs, unethical debt collection practices, and misuse of personal information. Since the gazettement of the regulation last year, CBK has received a total of 401 applications, with only 32 DCPS having been licensed as of March 2023, while the other applicants are at different stages of approval process. The application period for licensing elapsed in September 2022 and the authority noted that all unregulated DCPs and those which did not apply for licensing will cease operations

Recent Developments in the Kenyan Banking Sector

1. Regulation Continuation:

- **Credit Repair Framework:** In November 2022, the Central Bank of Kenya (CBK) announced the roll out of a Credit Repair Framework by commercial banks, microfinance banks, and mortgage finance companies. The main objective of the Framework is to improve the credit standing of mobile phones digital borrowers who had been adversely listed with Credit Reference Bureaus (CRBs) for failing to service their mobile loans. The Framework will cover loans with a repayment period of 30 day or less, with the institutions expected to provide a discount of at least 50.0% of the non-performing mobile phone digital loans outstanding as at the end of October 2022. As such this is expected to increase access to credit and other financial services by borrowers operating in personal and micro-enterprises sectors which were largely affected by the Covid-19 pandemic

- **Reinstatement of mobile money and bank account transactions charges :** In December 2022, the central Bank of Kenya (CBK) announced the reinstatement of charges for transactions between mobile wallets and bank accounts which were waived in March 2020, as an emergency response to facilitate use of mobile money and reduce handling of hard cash during Covid-19 pandemic period. The reinstatement of the charges took effect on 1 January 2023. Notably, the reintroduced charges have the following elements: Revised maximum charges for transfers from bank accounts to mobile money wallets reduced by on average up to 61.0% & mobile money wallet to bank account by on average up to 47.0% and charges levied by banks for banks to mobile money transactions were reduced by on average 45.0%.

Recent Developments in the Kenyan Banking Sector

- **Foreign Exchange Code (the FX Code):** The Central Bank of Kenya announced the issuance of the Foreign Exchange Code (the FX Code) on 22 March 2023 to commercial banks, in a move to regulate wholesale transactions of the foreign exchange market in Kenya. The measure was in response to the wide variation of exchange rate spread in the market, as discussed in our currency review note. The FX Code aims to promote a robust and transparent foreign currency market through the following reporting guidelines;

i. **Compliance with FX Code**- All market participants (commercial banks and foreign exchange brokers) will be required to conduct a self-assessment and submit to the CBK a report on an institution's level of compliance with the FX Code by 30 April 2023. Further, all market participants will be required to submit to CBK a detailed compliance implementation plan that is approved by its Board by 30 June 2023, and each participant must be fully compliant with the aforementioned code by 31 December 2023,

ii. **Reporting Mechanism**- All market participants will be required to submit a quarterly report to CBK, on the level of compliance to the FX Code within 14 days after the end of every calendar quarter, with the first report due by July 14, 2023,

iii. **Prohibitive Practices**- The FX Code is majorly to identify practices that are geared towards market disruptions such as price quotations or manipulating price movements creating artificial delays, or false impression on market depth and liquidity by any market participants will result in heavy penalties. Additionally, market participants are not to engage in position or points parking (artificial transactions to conceal positions or transfer profits or losses).

Recent Developments in the Kenyan Banking Sector…..

2. Regional Expansion through Mergers and Acquisitions:

Kenyan banks are continuously looking at having an extensive regional reach and in FY'2022, there was one completed acquisition done by KCB Group as follows:

- On 14 December 2022, KCB Group announced that it had completed acquisition of the 85.0% stake in Trust Merchant Bank (TMB), after receiving all the regulatory approvals. This came after KCB Group entered into a definitive agreement with the shareholders of TMB in August 2022 to acquire 85.0% of the shares in the Democratic Republic of Congo (DRC)- based lender, with an option to acquire the remaining stake after two years. This acquisition made KCB Group the second Kenyan banking group to enter the DRC banking market after Equity Group Holdings, with KCB Group now having its presence in seven countries. For this acquisition, KCB Group had not disclosed the actual value of the deal but as highlighted in our Cytonn Weekly 31/2022, KCB Group had cited that they would pay a cash consideration based on the net asset value of TMB at completion of the proposed transaction using a Price to Book (P/B) multiple of 1.5x

Recent Developments in the Kenyan Banking Sector…..

2. Regional Expansion through Mergers and Acquisitions:

The following are Mergers and Acquisitions that happened after FY'2022::

- On 30 January 2023, the Central Bank of Kenya (CBK) announced that Commercial International Bank (Egypt) S.A.E (CIB) had completed acquisition of additional 49.0% shareholding of Mayfair CIB Bank Limited (MBL) at Kshs 5.0 bn following the earlier acquisition of 51.0% stake in MBL announced in April 2020. As such, MBL is now a fully owned subsidiary of CIB,
- On 31 January 2023, Equity Group Holdings PLc, through Equity Bank Kenya Limited (EBKL) announced that it had completed the acquisition of certain assets and liabilities of the troubled local Bank, Spire Bank Limited after obtaining all the required regulatory approvals. The completion of the acquisition followed the Assets and Liabilities Purchase Agreement, which was announced in September 2022, as highlighted in our Cytonn Weekly #37/2022. As such, Equity Bank Kenya Limited took over Spire Banks's 12 branches as well as all existing depositors in Spire Bank, other than remaining deposits from its largest shareholder, Mwalimu Sacco. For more information, please see our Unit Trust Funds (UTFs) Performance, Q3'2022, &Cytonn Monthly-January 2023, and,

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Recent Developments in the Kenyan Banking Sector…..

- On 17 March 2023 the Central Bank of Kenya (CBK) announced that Premier Bank Limited Somalia (PBLS) had completed acquisition of 62.5% shareholding of First Community Bank Limited (FCB) effective 27 March 2023. This came after receiving regulatory approvals from the CBK and the Cabinet Secretary for the National Treasury. FCB, which has been in operation since June 2008, is classified as a tier 3 bank in Kenya with 18 branches and a market share of 0.3% as at December 2022. The acquisition by Premier Bank Limited Somalia (PBLS), came at a time when FCB has been struggling to meet regulatory Capital adequacy requirements. For more information, please see our Cytonn Weekly #11/2023,

Recent Developments in the Kenyan Banking Sector….

Consolidation continues in the banking sector, with the most recent being that of Equity's acquisition of Spire Bank

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs bn)	Transaction Stake	Transaction Value (Kshs bn)	P/Bv Multiple	Date
Equity Group	Spire Bank	0.01	Undisclosed	Undisclosed	N/A	Sept-22*
KCB Group PLC	Trust Merchant Bank (TMB)	12.4	85.0%	15.7	1.5x	August-22
Access Bank PLC (Nigeria)	Sidian Bank	4.9	83.4%	4.3	1.1x	June-22*
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	100.0%	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			**78.9%**		**1.2x**	

*** Announcement Date**

**** Deals that were dropped**

Recent Developments in the Kenyan Banking Sector….

3. Asset Quality:

- Asset quality for listed banks improved in FY'2022, with the weighted average Gross Non-Performing Loan ratio (NPL) declining by 0.6% points to 11.7%, from 12.3% recorded in FY'2021. However, the performance remained 2.9% points above the ten-year average of 8.8%. The improvement in asset quality in FY'2022 was mainly driven by 3.0% points decline in NCBA Group's NPL ratio to 13.0% in FY'2022, from 16.0% in FY'2021 coupled with 1.8% points decline in Standard Chartered Bank- Kenya NPL ratio to 14.2% from 16.0% in FY'2022. The significant improvement in NCBA Group's asset quality was mainly attributable to an 11.7% decline in gross non-performing loans to Kshs 39.1 bn in FY'2022 from Kshs 44.3 bn in FY'2021 coupled with a 9.1% increase in gross loans to Kshs 301.8 bn in FY'2022 from 276.7 bn in FY'2021. However, the improvement in asset quality was weighed down by 0.7% points increase in Stanbic bank's NPL ratio to 10.0% from 9.3% in FY'2021, attributable to 26.4% increase in Gross non-performing loans to Kshs 28.4 bn, from Kshs 22.5 bn in FY'2021. However, according to the March 2023 MPC Press Release, the NPL ratio for the entire banking sector stood at 13.3% in December 2022, a 0.2% points increase from 13.1% recorded in December 2021, signifying a deterioration in asset quality of the sector FY'2022. Going forward, we expect credit risk to remain elevated in the short term mainly as a result of the sustained inflationary pressures reflected in deterioration of general business environment in Q1'2023

Recent Developments in the Kenyan Banking Sector….

4. Capital Raising: In FY’2022, listed banks continued to borrow from international institutions to not only strengthen their capital positions but also boost their ability to lend to the perceived riskier Micro Small and Medium Sized Enterprises (MSMEs) segment. In the period under review;

i. Equity Group received USD 165.0 mn (Kshs 18.6 bn) facility from the International Finance Corporation (IFC) to Equity Bank Kenya in January 2022. For more information see our Weekly #19/2022,

ii. The International Finance Corporation (IFC) disclosed a USD 150.0 mn (Kshs 18.0 bn) credit facility to KCB Group in form of a senior unsecured loan with a maturity of 7-years and a grace period of 2-years. The credit facility was aimed at supporting the growth of the bank’s climate finance portfolio which entails clients in sectors such as manufacturing, real estate and agriculture. For more information please see our Cytonn Monthly-August 2022, and,

iii. The International Finance Corporation (IFC) disclosed that it would extend USD 100.0 mn (Kshs 12.2 bn) to Diamond Trust Bank (DTB) under the WCS COVID-19 FIGE response facility in form of a senior debt investment with 24-month maturity and renewable once on an aggregate of up to 36 months. For more information, please see our Cytonn Weekly #46/2022.

Banking Sector Growth Drivers

- **Growth in Interest income:** Going forward, we expect interest income growth to remain a key driver in the banking industry, evidenced by the weighted average growth of 19.7% in FY'2022, compared to 13.8% recorded in FY'2021. Additionally, the continued approval of banks risk-based lending models, will be enable banks to effectively price their risk, expand loan books and consequently increase the interest income,
- **Revenue Diversification:** In FY'2022, Non-Funded Income (NFI) recorded a 31.6% weighted average growth compared to a 10.9% weighted growth in FY'2021, with many banks diversifying their revenue sources. Consequentially, weighted average contribution of NFI contribution to total operating income came at 37.7% in FY'2022, 3.0% points higher than 34.7% weighted average growth contribution recorded in FY'2021. As such, there exists an opportunity for the sector to further increase NFI contribution to revenue given the continuous adoption of digitization. Additionally, the reinstatement of charges for transactions between bank accounts and mobile money wallets is also expected to continue spurring NFI growth due to the increased adoption of digital channels, and,

Banking Sector Growth Drivers….

- **Regional Expansion and Further Consolidation:** Consolidation remains a key theme going forward with the current environment offering opportunities for well capitalized banks to expand and take advantage of the market's low valuations, as well as further consolidate out smaller and less capitalized banks. Notably, majority of the bigger banks have continued to cushion over unsystematic risks specific to the local market by expanding their operations into other African nations. Banks such as KCB and Equity Group have been leveraging on expansion and consolidation which has largely contributed to their increased asset base as well as earnings growth. As such, we expect to see continued expansion trend aimed at revenue optimization. Additionally, Ethiopian government opened up the financial sector to foreign investors which provide a great opportunity for Kenyan banks to expand their operations into the untapped market.

IV. Listed Banking Sector Metrics

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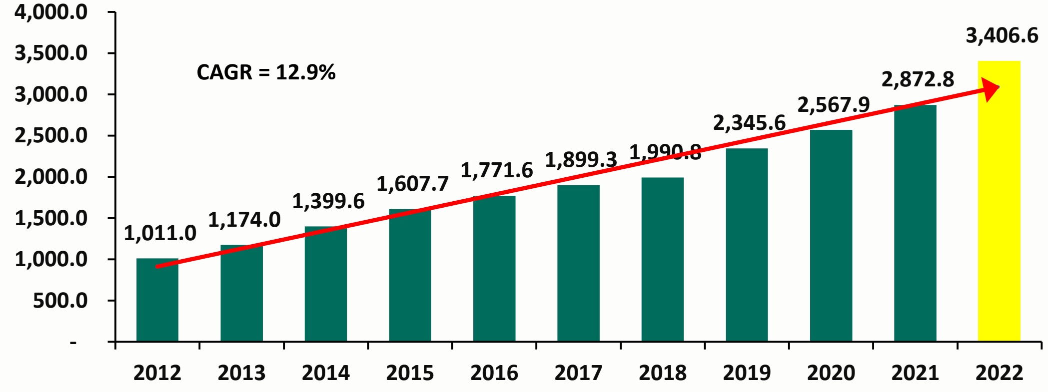
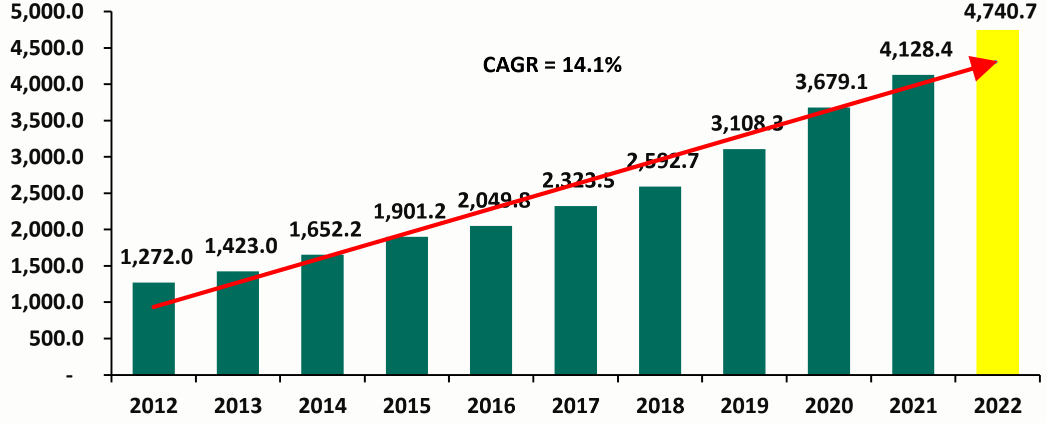
Listed Banking Sector Metrics

Deposits have grew at a faster CAGR of 14.1%, as compared to the CARG of 12.9% for loans

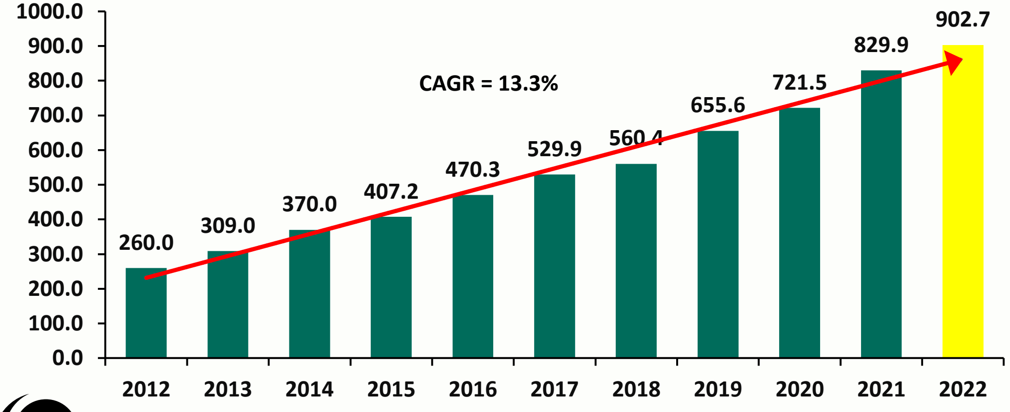
Loans and Advances (Kshs Bn)



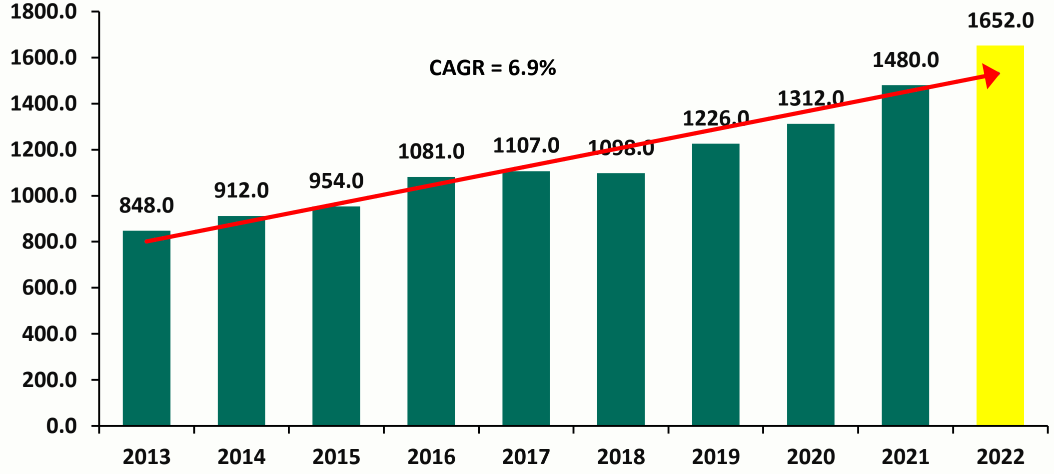
Deposits (Kshs Bn)



Shareholders Equity (Kshs Bn)



Bank Branches



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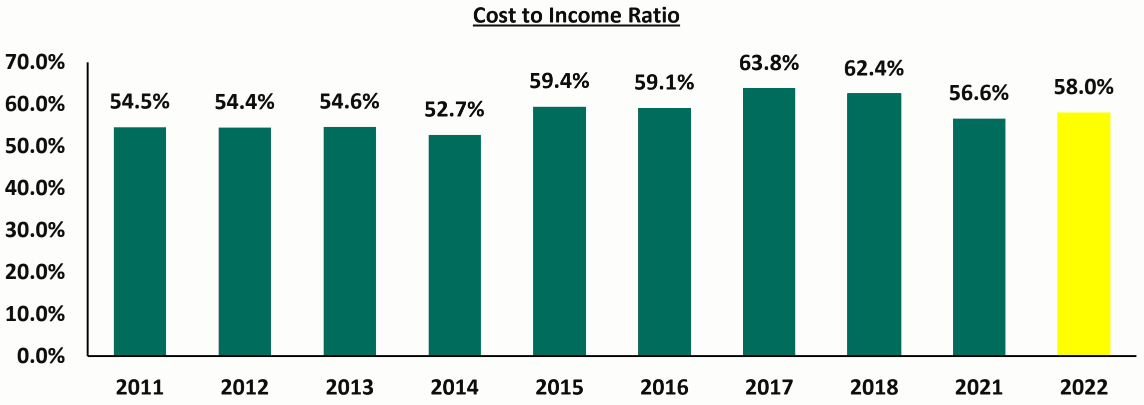
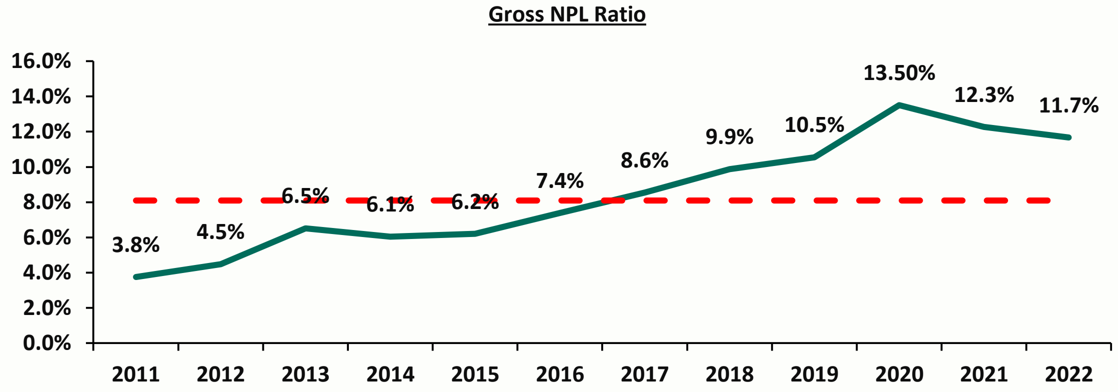
Listed Banking Sector Metrics

Banks’ asset quality improved in FY’2022, with the NPL ratio declining by 0.6% points

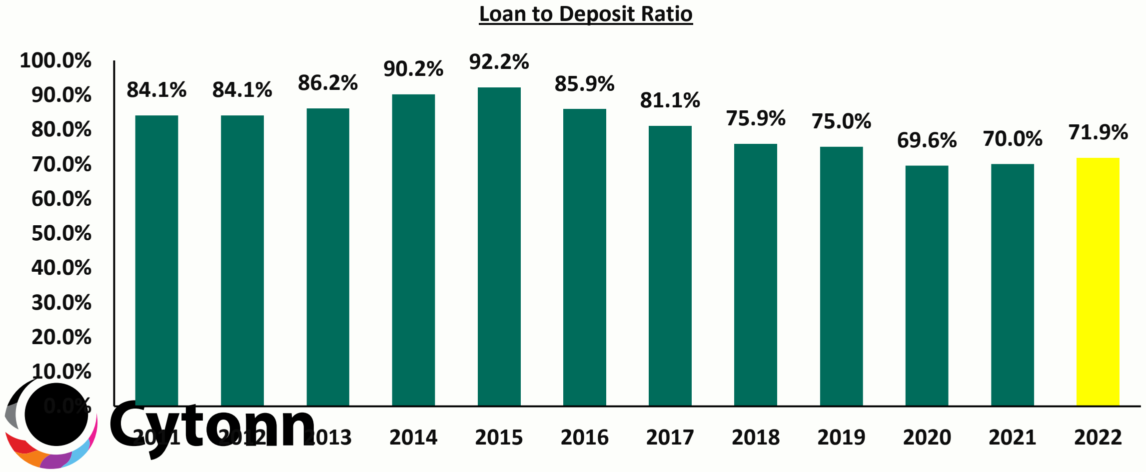
Cost to Income Ratio



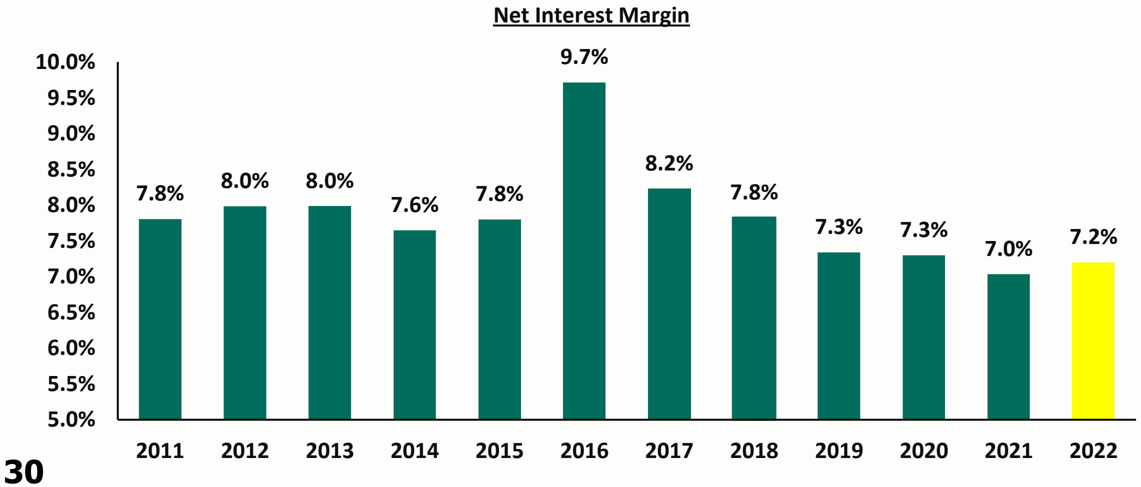
NPL Ratio



Loan to Deposit Ratio



Net Interest Margin



Listed Banking Earnings and Growth Metrics

Kenya's listed banking sector core EPS rose by 26.6% in FY'2022, compared to a growth of 82.9% in FY'2021

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	Growth in Government Securities	Loan to Deposit Ratio	Loan Growth	Return on Average Equity
HF	138.9%	8.8%	0.7%	18.2%	5.0%	63.5%	28.9%	(1.9%)	5.5%	30.4%	91.2%	4.6%	3.1%
DTB-K	53.9%	18.2%	23.5%	14.5%	5.3%	43.5%	28.3%	19.9%	16.9%	5.8%	66.5%	15.1%	10.0%
NCBA	34.8%	12.7%	11.5%	13.5%	5.9%	36.8%	49.7%	5.0%	7.0%	4.8%	55.5%	14.3%	17.2%
I&M	34.3%	12.9%	18.0%	9.9%	6.3%	45.7%	35.7%	20.7%	5.3%	(9.9%)	76.4%	13.3%	15.3%
ABSA	34.2%	27.5%	25.9%	27.9%	8.2%	17.2%	29.7%	0.3%	13.0%	0.7%	93.4%	21.1%	24.3%
SCB-K	34.0%	14.3%	(6.5%)	18.1%	7.0%	13.5%	34.6%	(17.7%)	5.1%	10.6%	50.0%	10.7%	22.1%
CO-OP	33.2%	10.9%	11.0%	10.9%	8.9%	32.7%	36.1%	32.7%	3.9%	(5.9%)	80.1%	9.4%	21.2%
Stanbic	25.7%	27.3%	15.2%	31.8%	5.9%	23.7%	40.9%	(0.5%)	19.5%	42.9%	87.8%	16.4%	15.3%
KCB	19.5%	15.3%	27.1%	11.5%	7.5%	39.8%	33.3%	18.6%	35.6%	2.7%	76.0%	27.8%	22.0%
Equity	15.1%	26.8%	31.7%	25.0%	7.2%	34.5%	41.1%	26.2%	9.7%	(4.1%)	67.2%	20.2%	26.7%
FY'22 Mkt Weighted Average*	**26.6%**	**19.7%**	**20.1%**	**19.2%**	**7.2%**	**31.6%**	**37.7%**	**13.8%**	**13.7%**	**3.1%**	**71.8%**	**18.1%**	**21.8%**
FY'21 Mkt Weighted Average**	**82.9%**	**13.8%**	**11.5%**	**15.2%**	**7.1%**	**10.9%**	**34.7%**	**16.6%**	**13.5%**	**18.1%**	**69.7%**	**13.5%**	**20.2%**
*Market cap weighted as at 20/04/2023													
**Market cap weighted as at 14/04/2022													

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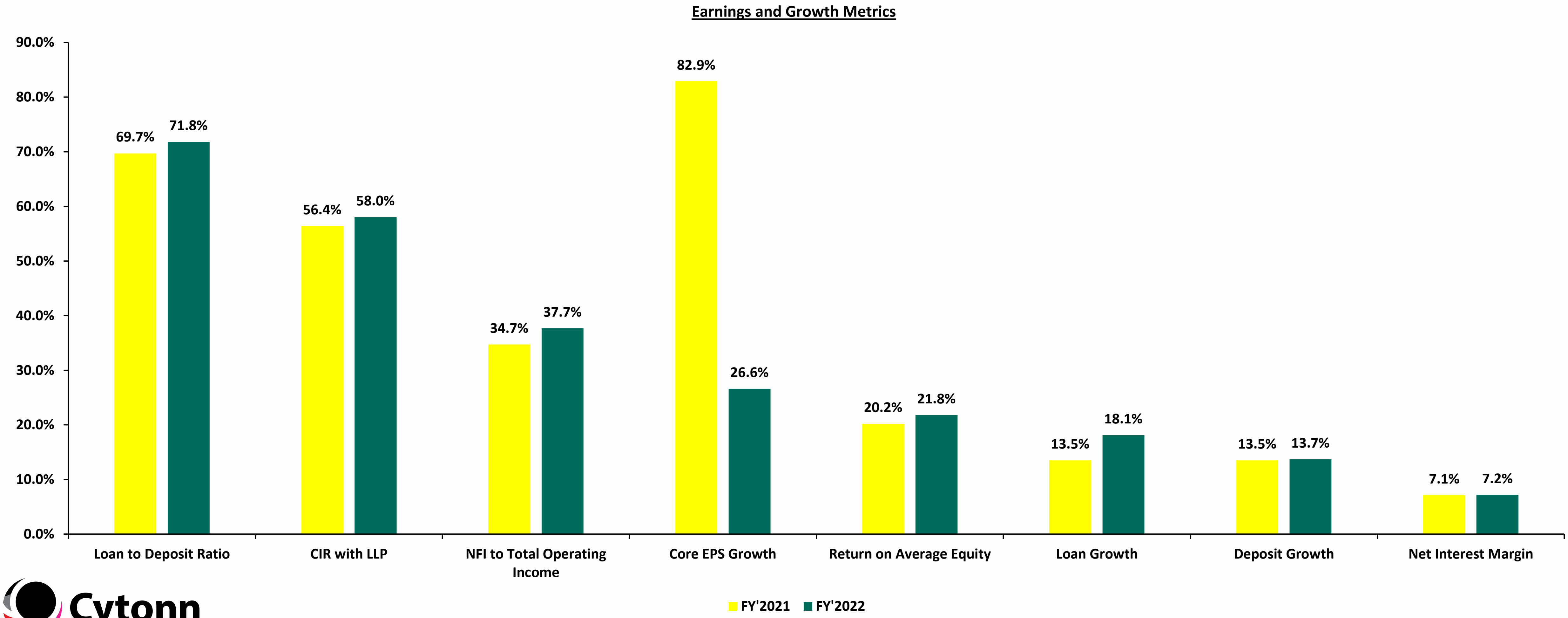
Takeout from Key Operating Metrics

Kenya's listed banking sector core EPS rose by 26.6% in FY'2022, compared to a growth of 82.9% in FY'2021

- The listed banks recorded a 26.6% growth in core Earnings per Share (EPS) in FY'2022, compared to the weighted average growth of 82.9% in FY'2021, an indication of sustained performance despite the tough operating environment experienced in FY'2022. The performance during the period was mainly driven by a 31.6% weighted average growth in non-funded income coupled with a 19.2% weighted average growth in net interest income,
- The listed banks continued to implement their revenue diversification strategies as evidenced by non-funded income weighted average growth of 31.6% in FY'2022 compared to a weighted average growth of 10.9% recoded in FY'2021. The performance was largely supported by increase in foreign exchange income recorded by the banks during the year as a result of increased dollar demand in the country,
- Listed banks investments in government securities slowed down in FY'2022 having recorded a market weighted average growth of 3.1% compared to a 18.1% growth recorded in FY'2021. The slowed growth of investment in Kenya government securities was partly attributable to the increased perceived risk of default by the government coupled with high debt sustainability concerns given the current high public debt stock as well as the upcoming Eurobond maturity in the next fiscal year,
- Interest income recorded a weighted average growth of 19.7% in FY'2022, compared to 13.8% in FY'2021. Similarly, interest expenses recorded a market weighted average growth of 20.1% in FY'2022 compared to a growth of 11.5% in FY'2022. As such, the net interest income recorded a weighted average growth of 19.2% in FY'2022 compared to 15.2% in FY'2022,

Listed Banks Earnings and Growth Metrics Cont…

Revenue diversification has been witnessed in the banking sector as evidenced by the increase in the NFI contribution to Total Operating Income to 37.7% in FY'2022, from 34.7% in FY'2021



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Listed Banks Operating Metrics

The sectors asset quality improved during the period, as evidenced by the 0.6% points decrease in the NPL ratio to 11.7%, from 12.3% recorded in FY'2021

	FY'2022 NPL Ratio*	FY'2021 NPL Ratio**	% point change in NPL Ratio	FY'2022 NPL Coverage*	FY'2021 NPL Coverage**	% point change in NPL Coverage
ABSA	7.5%	7.9%	(0.4%)	80.5%	77.7%	2.8%
Equity	8.4%	8.6%	(0.2%)	70.5%	68.7%	1.8%
I&M	9.7%	9.5%	0.2%	71.9%	71.4%	0.5%
Stanbic	10.0%	9.3%	0.7%	63.1%	58.1%	5.0%
DTB-K	12.0%	12.9%	(0.9%)	46.3%	41.8%	4.5%
NCBA	13.0%	16.0%	(3.0%)	58.5%	73.6%	(15.1%)
CO-OP	14.0%	14.6%	(0.6%)	65.1%	62.6%	2.5%
SCB-K	14.2%	16.0%	(1.8%)	87.1%	84.4%	2.7%
KCB	17.0%	16.6%	0.4%	52.4%	52.9%	(0.5%)
HF	19.7%	21.1%	(1.4%)	78.8%	73.6%	5.2%
Mkt Weighted Average	**11.7%**	**12.3%**	**(0.6%)**	**67.4%**	**65.5%**	**1.9%**

*Market cap weighted as at 20/04/2022

**Market cap weighted as at 14/04/2021

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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 0.9x and average P/E of 3.0x

Bank	No. of shares (bn)	Market Cap (Kshs bn)	P/E	Price*	P/TBV
HF Group	0.3	13.4	4.2x	3.8	0.2x
Diamond Trust Bank	1.7	27.8	2.2x	53.8	0.2x
NCBA bank	3.2	120.8	4.7x	39.0	0.9x
I&M Group	0.4	37.6	2.9x	20.3	0.5x
Stanbic Holdings	5.9	71.6	5.0x	114.5	0.9x
Co-operative bank	1.6	57.7	3.5x	13.1	0.8x
KCB Group	3.8	170.0	2.6x	33.0	0.5x
Stanchart	0.4	55.2	5.4x	170.0	1.1x
ABSA Bank Kenya	5.4	65.2	4.6x	12.4	1.0x
Equity Holdings	0.4	1.3	3.7x	45.2	1.1x
Weighted Average FY'2022*			**3.0x**		**0.9x**
Weighted Average FY'2021**			**4.9x**		**1.0x**

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

**Prices as at 20th April 2023*

***Prices as at 14th April 2022*

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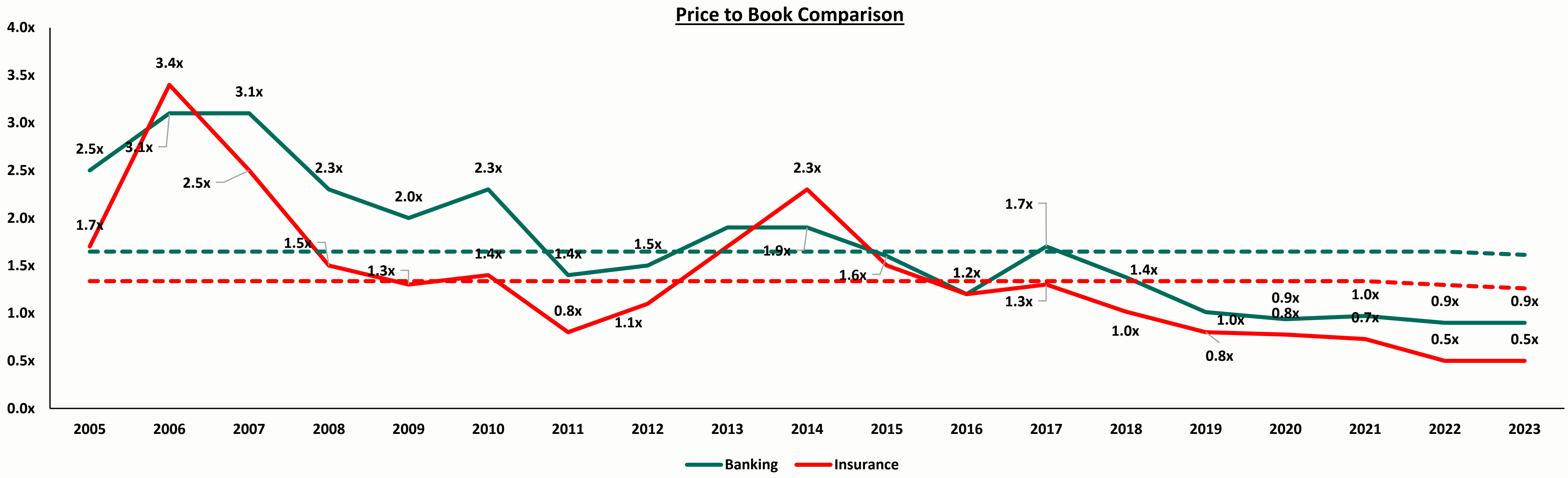
Listed Banks & Insurance Trading Metrics

Listed banks are trading at an average P/B of 0.9x, higher than the insurance sector, which is priced at 0.5x. Both sectors are trading below their 15-year averages of 1.6x and 1.3x, 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 0.9x, higher than listed insurance companies at 0.5x, with both lower than their historical averages of 1.6x for the banking sector and 1.3x for the insurance sector

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V. Banks Valuation Reports

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Ranking by Franchise Value

ABSA emerged top in the franchise ranking having had the lowest Gross NPL ratio of 7.5% against a market average of 11.7%

Cytonn Report: Franchise Value Rank														
Bank	Loan to Deposit Ratio	Cost to Income Ratio (With LLP)	Return On Average Capital Employed	Net Interest Margin	PEG ratio	PTBV	Deposits / Branch	Gross NPL Ratio	NPL Coverage	Tangible Common Ratio	Non Interest Income/ Revenue	Camel Rating	Total	Rank
Absa Bank	4	2	1	2	6	9	5	1	2	6	8	1	47	1
I&M Holdings	5	6	7	6	3	3	4	3	4	2	5	3	51	2
Coop Bank	2	5	5	1	4	5	8	7	6	1	4	4	52	3
Equity Bank	7	4	2	4	2	8	7	2	5	10	2	2	55	4
SCBK	10	1	3	5	7	10	2	8	1	4	6	6	63	5
Stanbic Bank	1	7	8	8	8	7	1	8	7	5	3	7	70	6
KCB Group	6	3	4	3	1	4	9	9	9	9	7	9	73	7
NCBA Group	9	8	6	7	9	6	3	6	8	8	1	7	78	8
DTBK	8	9	9	9	5	2	6	5	10	7	10	5	85	9
HF Group	3	10	10	10	10	1	10	10	3	3	9	10	89	10

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Valuation Summary of Listed Banks

KCB Group presents the highest upside with a total potential return of 44.2%

(all values in Kshs)

Bank	Current Price	Target Price	Upside/(Downside)	DPS	Dividend Yield	Total Potential Return	FY'2022 Ranking
KCB Group	33.0	45.5	38.1%	2.0	6.1%	44.2%	1
NCBA Group Plc	39.0	48.7	25.0%	4.3	10.9%	35.9%	2
Equity Bank	45.2	56.3	24.8%	4.0	8.9%	33.6%	3
Absa Bank	12.4	15.1	22.6%	1.4	10.9%	33.5%	4
Coop Bank	13.1	15.9	21.8%	1.5	11.5%	33.3%	5
I&M Holdings	20.3	24.5	20.9%	2.3	11.1%	32.0%	6
DTBK	53.8	64.6	20.2%	5.0	9.3%	29.5%	7
SCBK	170.0	195.4	14.9%	22.0	12.9%	27.9%	8
Stanbic Holdings	114.5	131.6	15.1%	12.6	11.0%	26.1%	9
HF Group	3.8	4.5	16.5%	0.0	0.0%	16.5%	10

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Cytonn Banking Report - Comprehensive Ranking

ABSA Bank Kenya 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	FY'2021	FY'2022
ABSA	1	4	2.8	4	1
Equity Group Holdings Ltd	4	3	3.4	4	2
KCB Group Plc	7	1	3.4	3	3
Co-operative Bank of Kenya Ltd	3	5	4.2	2	4
I&M Holdings	2	6	4.4	1	5
NCBA Group Plc	8	2	4.4	8	6
SCBK	5	8	6.8	6	7
Stanbic Bank/Holdings	6	9	7.8	7	8
DTBK	9	7	7.8	9	9
HF Group Plc	10	10	10	10	10

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VI. Appendix

A. Tier I Banks

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I. Equity Group Holdings

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Equity Group Summary of Performance –FY'2022

- Profit before tax increased by 15.3% to Kshs 59.8 bn, from Kshs 51.9 bn in FY'2021 with the effective tax rate increasing to 23.0% from 22.8% in FY'2021. Similarly, the profit after tax increased by 15.1% to Kshs 46.1 bn in FY'2022, from Kshs 40.1 bn recorded in FY'2021
- Total Operating Income rose by 28.7% to Kshs 145.9 bn, from Kshs 113.4 bn recorded in FY'2021 driven by a 25.0% increase in Net Interest Income (NII) to Kshs 86.0 bn, from Kshs 68.8 bn in FY'2021, coupled with a 34.5% increase in Non-Funded Income (NFI) to Kshs 59.9 bn, from Kshs 44.6 bn in FY'2021
- The balance sheet recorded an expansion as total assets increased by 10.9% to Kshs 1,447.0 bn in FY'2022, from Kshs 1,304.9 bn recorded in FY'2021
- The Group's Gross Non-Performing Loans (NPLs) increased by 17.2% to Kshs 63.1 bn in FY'2022, from Kshs 53.9 bn recorded in FY'2021, while Gross loans increased by 20.2% to Kshs 751.1 bn, from 624.8 bn in FY'2021, leading to an improvement in the NPL ratio to 8.4%, from 8.6% recorded in FY'2021
- Going forward, we expect the bank's growth to be driven by:

I. **Innovation and digitization continue to enhance high value transaction** - Innovation and digitization continue to enhance high value transaction which has seen 99.0% of all transactions of the bank being done on alternative channels, with mobile and internet transactions taking up 79.2% of all transactions, and agency banking contributing 6.2% of all transactions. Additionally, value of transactions has continued to increase with digital banking, branches and diaspora remittances contributing 48.0%, 26.6% and 4.9%, respectively. This highlights the transformation of branches to handle high-value transactions which aid the bank by offering its ecosystem banking products to retail and SME clients

II. **Continued expansion** through acquisition of other banks in Kenya as well as in the region, with Equity Bank Kenya having completed acquisition Spire Bank Limited in February 2023. Additionally, Ethiopian government opened up the financial sector to foreign investors which provide a great opportunity for Equity Group to expand its operations into the untapped market

Financial Statements Extracts

Equity Group's PAT is expected to grow at a 5-year CAGR of 11.0%

Income Statement	2020	2021	2022	2023f
Net Interest Income	55.1	68.8	86.0	101.0
Non Funded Income	38.5	44.6	59.9	63.1
Total Operating Income	93.7	113.4	145.9	164.1
Loan Loss Provision	(26.6)	(5.8)	(15.4)	(18.0)
Other Operating Expenses	(46.0)	(55.7)	(70.7)	(77.2)
Total Operating Expenses	**(72.7)**	**(61.5)**	**(86.1)**	**(95.2)**
Profit Before Tax	20.1	40.1	46.1	48.2
% PAT Change YoY	**(10.9%)**	**99.4%**	**15.1%**	**4.6%**
EPS	5.3	10.6	12.2	12.8
DPS	-	3.0	4.0	4.0
Cost to Income (with LLP)	77.6%	54.2%	59.0%	58.0%
NIM	**7.6%**	**6.8%**	**7.2%**	**7.6%**
ROaE	16.5%	26.6%	26.7%	21.2%
ROaA	2.4%	3.5%	3.4%	3.1%
Balance Sheet	**2020**	**2021e**	**2022e**	**2023f**
Net Loans and Advances	477.8	587.8	706.6	781.0
Government Securities	175.7	228.5	219.2	274.8
Other Assets	361.5	488.7	521.2	600.1
Total Assets	**1015.1**	**1304.9**	**1447.0**	**1656.0**
Customer Deposits	740.8	959.0	1052.2	1154.4
Other Liabilities	135.7	169.7	212.6	216.7
Total Liabilities	**876.5**	**1128.7**	**1264.8**	**1371.1**
Shareholders Equity	**132.2**	**169.2**	**176.2**	**278.9**
Number of Shares	**3.8**	**3.8**	**3.8**	**3.8**
Book value Per share	35.0	44.8	46.7	73.9
% Change in BPS YoY	**19.4%**	**28.0%**	**4.2%**	**58.3%**

Valuation Summary

Equity Group is undervalued with a total potential return of 33.6%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	73.9	40.0%	29.5
Residual Income	40.4	30.0%	12.1
PBV Multiple	49.0	15.0%	7.4
PE Multiple	48.8	15.0%	7.3
Fair Value			**56.3**
Current Price			**45.2**
Upside/(Downside)			24.8%
Dividend Yield			8.9%
Total Potential Return			**33.6%**

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II. KCB Group

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KCB Group Summary of Performance – FY’2022

- Profit before tax increased by 19.9% to Kshs 57.3 bn, from Kshs 47.8 bn in FY’2021, with the effective tax rate declining slightly to 28.8%, from 28.5% in FY’2021. The performance was driven by the 19.6% growth in total operating income to Kshs 129.9 bn, from Kshs 108.6 bn in FY’2021, which outpaced the 19.3% growth in total operating expenses to Kshs 72.6 bn, from Kshs 60.8 bn in FY’2021. Similarly, Profit after tax increased by 19.5% to Kshs 40.8 bn in FY’2022, from Kshs 34.2 bn in FY’2021
- Total operating income increased by 19.6% to Kshs 29.9 bn, from Kshs 108.6 bn in FY’2021, driven by an 11.5% increase in Net Interest Income (NII) to Kshs 86.7 bn, from Kshs 77.7 bn in FY’2021, coupled with a 39.8% increase in Non-Funded Income (NFI) to Kshs 43.3 bn, from Kshs 30.9 bn in FY’2021
- Total operating expenses increased by 19.3% to Kshs 72.6 bn, from Kshs 60.8 bn in FY’2021, largely driven by 26.0% increase in other operating expenses to Kshs 29.1 bn from Kshs 23.1 bn in FY’2021, coupled with a 22.4% increase in staff costs to Kshs 30.3 bn from Kshs 24.7 bn in FY’2021. Loan Loss provisions also increased marginally by 1.7% to Kshs 13.2 bn, from Kshs 13.0 bn in FY’2021
- The group’s Asset Quality deteriorated, with the NPL ratio increasing to 17.0% in FY’2022, from 16.6% in FY’2021, attributable to the faster 31.2% growth in Non-Performing loans, which outpaced the 29.0% growth in gross loans
- Going forward, we expect the bank’s growth to be driven by:

i. **Geographical Diversification** – The bank has continued with its expansion in the region, as evidenced by the completion of the 85.0% acquisition of Trust Merchant Bank (TMB) in DRC in 2022. The acquisition has boosted KCB’s regional presence and participation, as well as accelerated its growth as evidenced by customer deposits hitting a Kshs 1.0 tn mark and a 36.4% growth of assets to Kshs 1.6 tn. The Group is also planning on expanding into the Ethiopian market, further expanding its presence in the region and consequently drive growth in the near future

Financial Statements Extracts

KCB Group's PAT is expected to grow at a 5-year CAGR of 6.0%

Income Statement	2020	2021	2022	2023f
Net Interest Income	67.9	77.7	86.7	104.5
Non Funded Income	28.5	30.9	43.3	59.4
Total Operating Income	**96.4**	**108.6**	**129.9**	**163.8**
Loan Loss Provision	27.5	13.0	13.2	27.5
Other Operating Expenses	43.2	47.8	59.4	73.7
Total Operating Expenses	**70.7**	**60.8**	**72.6**	**101.2**
Profit Before Tax	25.7	47.8	57.3	62.6
% PAT Change YoY	**-22.1%**	**74.3%**	**19.5%**	**7.3%**
EPS	6.1	10.6	12.7	13.6
DPS	1.0	3.0	2.0	2.0
Cost to Income (with LLP)	73.3%	56.0%	55.9%	61.8%
NIM	**8.5%**	**8.4%**	**7.5%**	**7.3%**
ROE	14.4%	21.8%	22.0%	17.3%
ROA	2.1%	3.2%	3.0%	2.6%
Balance Sheet	**2020**	**2021**	**2022**	**2023f**
Net Loans and Advances	595.3	675.5	863.3	1037.9
Government Securities	208.8	270.8	278.0	338.3
Other Assets	183.8	193.4	412.7	414.1
Total Assets	**987.8**	**1139.7**	**1554.0**	**1790.2**
Customer Deposits	767.2	837.1	1135.4	1249.0
Other Liabilities	78.2	129.0	212.3	230.1
Total Liabilities	**845.4**	**966.2**	**1347.8**	**1479.0**
Shareholders Equity	**142.4**	**171.7**	**200.2**	**305.2**
Number of Shares	**3.2**	**3.2**	**3.2**	**3.2**
Book value Per share	44.3	53.4	62.3	95.0
% Change in BPS YoY	**9.8%**	**20.6%**	**16.6%**	**52.4%**

Valuation Summary

KCB Group is undervalued with a total potential return of 44.2%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	23.6	40%	9.4
Residual Income	60.7	20%	12.1
PBV Multiple	52.9	10%	5.3
PE Multiple	61.8	30%	18.5
Target Price			**45.5**
Current Price			**33.0**
Upside/(Downside)			38.1%
Dividend Yield			6.1%
Total Return			**44.2%**

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III. Co-operative Bank

Co-operative Bank Summary of Performance – FY'2022

- The bank registered a 33.2% increase in profit after tax to Kshs 22.0 bn in FY'2022, from Kshs 16.5 bn in FY'2021, driven by a 17.9% increase in total operating income to Kshs 71.3 bn in FY'2022, from Kshs 60.4 bn in FY'2021, which outpaced the 10.9% increase in the total operating expenses to Kshs 42.2 bn in FY'2022, from Kshs 38.1 bn in FY'2021,
- Total operating income rose by 17.9% to Kshs 71.3 bn in FY'2022, from Kshs 60.4 bn in FY'2021 mainly driven by an 10.9% increase in Net Interest Income coupled with a 32.7% growth in Non-Funded Income (NFI),
- Total operating expenses increased by 10.9% to Kshs 42.2 bn in FY'2022, from Kshs 38.1 bn in FY'2021, largely driven by an 11.6% increase in other operating expenses to Kshs 18.8 bn, from Kshs 16.8 bn in FY'2021 coupled with an 11.0% increase in staff costs to Kshs 14.8 bn, from Kshs 13.3 bn in FY'2021
- The balance sheet recorded an expansion as total assets grew by 4.7% to Kshs 607.2 bn in FY'2022, from Kshs 579.8 bn in FY'2021,
- The group's asset quality improved, with the NPL ratio reducing to 14.0% in FY'2022, from 14.6% in FY'2021, owing to the 9.4% growth in gross loans to Kshs 373.5 bn, from Kshs 341.3 bn in FY'2021, which outpaced the 5.2% increase in gross non-performing loans. The improved asset quality is attributable to the continued economic recovery, improved business environment as well as the Group's proactive credit management strategies
- Going forward, we expect the bank's growth to be driven by:

Focus on diversification: The bank's continued concentration on channel diversification will likely see it continue generating more profit, as they will continue to record increased usage and traffic. The Group's platforms such as MCo-op Cash is offering convenience by offering variety of mobile banking services such as money transfer and payment services

Financial Statements Extracts

Co-operative Bank's PAT is expected to grow at a 5-year CAGR of 3.2%

Income Statement	2020	2021	2022	2023f
Net Interest Income	28.7	41.0	45.5	46.1
Non Funded Income	15.7	19.4	25.7	29.5
Total Operating Income	**44.4**	**60.4**	**71.3**	**75.5**
Loan Loss Provision	(6.0)	(7.9)	(8.7)	(10.2)
Other Operating Expenses	(21.9)	(30.2)	(33.6)	(33.9)
Total Operating Expenses	**(28.0)**	**(38.1)**	**(42.2)**	**(44.1)**
Profit Before Tax	16.5	22.6	29.4	31.9
% PAT Change YoY	**(18.8%)**	**42.3%**	**33.2%**	**1.3%**
EPS	1.7	2.4	3.2	3.3
DPS	0.0	1.0	1.5	1.5
Cost to Income (with LLP)	63.0%	63.0%	59.3%	58.3%
NIM	8.5%	8.5%	8.9%	8.3%
ROE	14.2%	17.3%	21.2%	16.4%
ROA	2.3%	3.0%	3.7%	3.4%
Balance Sheet	**2020**	**2021**	**2022**	**2023**
Net Loans and Advances	306.3	310.2	339.4	369.6
Government Securities	193.3	184.1	173.3	207.2
Other Assets	93.3	85.5	94.5	131.6
Total Assets	592.9	579.8	607.2	708.4
Customer Deposits	420.4	407.7	423.8	468.7
Other Liabilities	77.1	71.3	75.4	75.6
Total Liabilities	497.5	479.0	499.3	544.4
Shareholders Equity	95.0	100.2	107.7	163.8
Number of Shares	6.9	6.9	6.9	6.9
Book value Per share	13.8	14.6	15.7	23.9
% Change in BPS YoY	**19.8%**	**5.5%**	**7.4%**	**52.1%**

Cytonn

Valuation Summary

Co-operative Bank is undervalued with a total potential return of 33.4%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	21.0	40%	8.4
Residual income	10.2	30%	3.1
PBV Multiple	16.7	20%	3.3
PE Multiple	11.2	10%	1.1
Target Price			**15.9**
Current Price			**13.1**
Upside/(Downside)			21.9%
Dividend Yield			11.5%
Total Return			**33.4%**

Cytonn

IV. NCBA Bank

Cytonn

NCBA Bank Summary of Performance – FY'2022

- Profit before tax rose by 49.6% to Kshs 22.5 bn, from Kshs 15.0 bn in FY'2021. Similarly, the Group recorded a 34.8% increase in profit after tax to Kshs 13.8 bn, from Kshs 10.2 bn in FY'2021, with the effective tax rate increasing to 38.7%, from 32.0% seen in FY'2021
- Total operating income increased by 26.2% to Kshs 45.8 bn, from Kshs 36.3 bn in Q3'2021, driven by a 15.1% increase in Net Interest Income (NII) to Kshs 23.2 bn, from Kshs 20.2 bn in Q3'2021, coupled with a 40.1% increase in Non-Funded Income (NFI) to Kshs 22.5 bn, from Kshs 16.1 bn in Q3'2021,
- Total operating income rose by 24.0% to Kshs 60.9 bn, from Kshs 49.2 bn, mainly driven by a 13.5% increase in Net Interest Income (NII) to Kshs 30.7 bn, from Kshs 27.0 bn in FY'2021 coupled with a 36.8% growth in Non-Funded Income (NFI) to Kshs 30.3 bn, from Kshs 22.1 bn in FY'2021
- The balance sheet recorded an expansion as total assets grew by 4.8% to Kshs 619.7 bn, from Kshs 591.1 bn in FY'2021
- The group's asset quality improved with the NPL ratio significantly declining by 3.0% points to 13.0%, from 16.0% in FY'2021, with gross non-performing loans declining by 11.7% to Kshs 39.1 bn, from Kshs 44.3 bn in FY'2021
- Going forward, we expect the bank's growth to be driven by:
- **Diversification through Digitization:** The bank has continued to leverage on mobile based lending through its digital lending platform Mshwari and Fuliza. The bank digital loan disbursement increased by 145.0 bn to a cumulative of Kshs 729.0 bn in FY'2022, from a cumulative of Kshs 584.0 bn in FY'2021. The bank also continues to partner with other telecommunication companies in other markets in order to offer mobile based credit facilities across different markets. As such, we expect this to drive the banks revenue growth, as well as aid in its expansion regionally

Financial Statements Extracts

NCBA Group's PAT is expected to grow at a 5-year CAGR of 16.5%

Income Statement	2020	2021	2022	2023f
Net Interest Income	25.5	27.0	30.7	35.1
Non Funded Income	20.9	22.1	30.3	41.3
Total Operating Income	**46.4**	**49.2**	**60.9**	**76.4**
Loan Loss Provision	(20.4)	(12.7)	(13.1)	(22.1)
Other Operating Expenses	(19.6)	(20.8)	(24.9)	(30.6)
Total Operating Expenses	**(40.0)**	**(33.4)**	**(37.9)**	**(52.7)**
Profit Before Tax	5.0	15.0	22.5	23.2
Profit After Tax	4.6	10.2	13.8	14.2
% PAT Change YoY	**(41.7%)**	**123.7%**	**34.8%**	**3.1%**
EPS	2.8	6.2	8.4	8.6
DPS	2.3	3.0	0.5	0.5
Cost to Income (with LLP)	86.2%	68.1%	62.2%	69.0%
NIM	**5.8%**	**5.9%**	**5.9%**	**6.2%**
ROE	6.6%	13.6%	17.2%	14.2%
ROA	0.9%	1.8%	2.3%	2.2%
Balance Sheet	**2020**	**2021**	**2022**	**2023f**
Net Loans and Advances	248.5	244.0	278.9	301.3
Government Securities	163.5	196.1	205.4	233.1
Other Assets	116.0	151.0	135.4	167.1
Total Assets	528.0	591.1	619.7	701.6
Customer Deposits	421.5	469.9	502.7	545.3
Other Liabilities	33.9	43.2	34.6	38.3
Total Liabilities	455.4	513.1	537.2	583.6
Shareholders Equity	72.4	77.9	82.4	118.0
Number of Shares	1.5	1.5	1.6	1.6
Book value Per share	43.9	47.3	50.0	71.6
% Change in BPS YoY	**(1.8%)**	**7.6%**	**5.9%**	**43.1%**

Valuation Summary

NCBA Group is undervalued with a total potential return of 35.9%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM Integrated	60.6	40%	24.2
Residual Valuation	44.4	40%	17.8
PBV Multiple	35.4	15%	5.3
PE Multiple	28.8	5%	1.4
Target Price			**48.8**
Current Price			**39.0**
Upside/(Downside)			25.0%
Dividend Yield			10.9%
Total Potential Return			**35.9%**

V. Standard Chartered Bank Kenya

SCBK's Summary of Performance –FY'2022

- Profit before tax increased by 35.8% to Kshs 17.1 bn, from Kshs 12.6 bn in FY'2021, with the effective tax rate rising slightly to 29.5%, from 28.2% in FY'2021. Similarly, Profit after tax increased by 33.3% to Kshs 12.1 bn in FY'2022, from Kshs 9.0 bn in FY'2021
- Total operating income increased by 16.5% to Kshs 34.0 bn, from Kshs 29.2 bn in FY'2021, driven by 18.1% increase in Net Interest Income (NII) to Kshs 22.2 bn, from Kshs 18.8 bn in FY'2021, coupled with a 13.5% increase in Non-Funded Income (NFI) to Kshs 11.8 bn, from Kshs 10.4 bn in FY'2021
- Total operating expenses increased by 1.9% to Kshs 16.9 bn, from Kshs 16.6 bn in FY'2021, largely driven by a 7.6% increase in staff cost expense to Kshs 6.8 bn, from Kshs 6.3 bn in FY'2021 in addition to a 6.2% increase in other operating expenses to Kshs 8.8 bn, from Kshs 8.2 bn in FY'2021
- The balance sheet recorded an expansion as total assets grew by 13.9% to Kshs 381.3 bn, from Kshs 334.9 bn in FY'2021
- The Group's Gross non-performing loans declined by 3.0% to Kshs 22.6 bn, from Kshs 23.3 bn in FY'2021, while gross loans increased by 9.2% to Kshs 159.1 bn from Kshs 145.6 bn in FY'2021. Consequently, the group's Asset Quality improved, with the NPL ratio declining to 14.2% in FY'2022, from 16.0% in FY'2021,

Going forward, we expect the bank's growth to be driven by:

i. **Revenue Diversification –** We expect the bank to continue to grow its revenue through the non-funded income as evidenced by the 13.5% growth of non-funded income to Kshs 11.8 bn, from 10.4 bn in FY'2021, on the back of 34.9% growth in Wealth Management Assets under Management (AUM) to Kshs 4.3 bn in FY'2022, from Kshs 3.2 bn in FY'2021, coupled with SC Shillingi fund accumulating Kshs 1.3 bn in investment AUM in FY'2022

Financial Statements Extracts

SCBK's PAT is expected to grow at a 5-year CAGR of 8.8%

Income Statement	2020	2021	2022e	2023f
Net Interest Income	19.1	18.8	22.2	24.3
Non Funded Income	8.3	10.4	11.8	14.1
Total Operating Income	**27.4**	**29.2**	**34.0**	**38.4**
Loan Loss Provision	3.9	2.1	1.3	1.5
Other Operating Expenses	16.1	14.5	15.5	17.5
Total Operating Expenses	**20.0**	**16.6**	**16.9**	**19.1**
Profit Before Tax	5.4	9.0	12.1	14.6
% PAT Change YoY	**(33.9%)**	**66.2%**	**33.3%**	**20.7%**
EPS	14.4	24.0	32.0	38.6
DPS	10.5	14.0	16.0	16.0
Cost to Income (with LLP)	73.0%	56.8%	49.7%	49.7%
NIM	**6.8%**	**6.4%**	**7.0%**	**6.6%**
ROaE	11.0%	17.4%	22.1%	20.9%
ROaA	1.7%	2.7%	3.4%	3.5%
Balance Sheet	**2020**	**2021**	**2022e**	**2023f**
Net Loans and Advances	121.5	126.0	139.4	161.1
Government Securities	99.8	95.6	105.7	123.5
Other assets	104.3	113.3	136.2	160.5
Total Assets	**325.6**	**334.9**	**381.3**	**445.1**
Customer Deposits	256.5	265.5	278.9	321.4
Other Liabilities	18.2	16.2	46.2	40.5
Total Liabilities	**274.7**	**281.7**	**325.1**	**361.9**
Shareholders Equity	**50.9**	**53.2**	**56.1**	**83.2**
Number of shares	**0.3**	**0.3**	**0.3**	**0.3**
Book value Per share	135.0	141.2	148.9	220.7
% Change in BPS YoY	**6.6%**	**4.6%**	**5.5%**	**48.2%**

Valuation Summary

SCBK is undervalued with a total potential return of 27.9%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM Integrated	193.8	40%	77.5
Residual Income	258.0	30%	77.4
PBV Multiple	137.5	15%	20.6
PE Multiple	132.3	15%	19.9
Target Price			**195.38**
Current Price			**170.0**
Upside/(Downside)			14.9%
Dividend Yield			12.9%
Total Return			**27.9%**

Cytonn

VI. Diamond Trust Bank Kenya

Cytonn

DTBK’s Summary of Performance – FY’2022

- Profit before tax and exceptional items rose by 43.8% to Kshs 9.5 bn, from Kshs 6.6 bn in FY’2021, with the effective tax rate declining to 28.7% in FY’2022, from 33.4% seen in FY’2021. Similarly, the bank recorded a 53.9% increase in profit after tax to Kshs 6.8 bn in FY’2022, from Kshs 4.4 bn in FY’2021
- Total operating income rose by 21.4% to Kshs 31.9 bn in FY’2022, from Kshs 26.3 bn in FY’2021 mainly driven by a 14.5% increase in Net Interest Income (NII) to Kshs 22.9 bn, from Kshs 20.0 bn in FY’2021 coupled with a 43.5% growth in Non-Funded Income (NFI) to Kshs 9.1 bn, from Kshs 6.3 bn in FY’2021
- Total operating expenses increased by 11.1% to Kshs 22.1 bn in FY’2022, from Kshs 19.9 bn in FY’2021, largely driven by an 26.9% increase in staff costs to Kshs 6.1 bn, from Kshs 4.8 bn in FY’2021 coupled with a 17.5% increase in other operating expenses to Kshs 8.8 bn, from Kshs 7.5 bn in FY’2021,
- The balance sheet recorded an expansion as total assets grew by 15.4% to Kshs 527.0 bn in FY’2022, from Kshs 456.8 bn in FY’2021
- The Bank’s asset quality improved, with the NPL ratio declining to 12.0% in FY’2022, from 12.9% in FY’2021, owing to the 15.3% growth in gross loans, which outpaced the 7.2% increase in Gross non-performing loans to Kshs 32.2 bn, from Kshs 30.1 bn in FY’2021
- Going forward, we expect the bank’s growth to be driven by:

i. **Digitization:** The bank, through its agile digital platform has been able to have majority of the transactions done through mobile platforms. Digital banking has enhanced remote account opening, launched employee loan scheme and improved mobile banking. Additionally, the bank targets to launch retail mobile lending solution and mobile app for SMEs in 2023. The bank has already invested Kshs 2.4 bn between 2018 to 2021 on digital transformation and is expected to further spend Kshs 3.5 bn between 2022-2024 on the same. As of September 2022, 86.0% of all the Group’s transactions were done outside branches with 79.0% on mobile banking platforms. The continued leverage on technology is expected to improve customer experience by expediting service delivery

Financial Statements Extracts

DTBK's PAT is expected to grow at a 5-year CAGR of 15.0%

Income Statement	2020	2021	2022	2023f
Net Interest Income	18.1	20.0	22.9	24.4
Non Funded Income	6.1	6.3	9.1	11.3
Total Operating Income	**24.2**	**26.3**	**31.9**	**35.6**
Loan Loss Provision	7.3	7.6	7.1	7.1
Other Operating Expenses	12.3	12.3	14.9	16.9
Total Operating Expenses	**19.7**	**19.9**	**22.1**	**23.9**
Profit Before Tax	4.7	6.6	9.5	11.4
% PAT Change YoY	**(51.5%)**	**25.1%**	**53.9%**	**62.8%**
EPS	12.6	15.8	24.3	39.6
DPS	0.0	3.0	5.0	5.5
Cost to Income (With LLP)	81.3%	75.6%	69.1%	67.1%
NIM	**5.0%**	**5.1%**	**5.3%**	**4.9%**
ROE	5.8%	6.8%	10.0%	13.6%
ROA	0.9%	1.0%	1.4%	1.9%
Balance Sheet	**2020**	**2021**	**2022**	**2023f**
Net Loans and Advances	208.6	220.4	253.7	289.2
Government Securities	111.1	83.3	73.5	88.8
Other Assets	105.3	153.1	199.8	238.3
Total Assets	**425.1**	**456.8**	**527.0**	**616.3**
Customer Deposits	298.2	331.5	387.6	441.9
Other Liabilities	58.6	50.8	61.8	72.2
Total Liabilities	**356.7**	**382.3**	**449.3**	**514.1**
Shareholders Equity	62.0	67.3	69.0	93.5
Number of Shares	0.3	0.3	0.3	0.3
Book value Per share	221.6	240.7	246.6	334.4
% Change in BPS YoY	**5.3%**	**8.6%**	**2.5%**	**35.6%**

Cytonn

Valuation Summary

DTBK is undervalued with a total potential return of 29.6%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	115.0	40.0%	46.0
Residual Income	5.8	40.0%	2.3
PBV Multiple	74.7	10.0%	7.5
PE Multiple	88.5	10.0%	8.8
Target Price			**64.6**
Current Price			**53.8**
Upside/(Downside)			20.3%
Dividend yield			9.3%
Total return			**29.6%**

Cytonn

VII. ABSA Bank Kenya

ABSA Bank's Summary of Performance – FY'2022

- Profit before tax and exceptional items increased by 34.1% to Kshs 20.8 bn in FY'2022, from Kshs 15.5 bn in FY'2021. Similarly, profit after tax increased by 34.2% to Kshs 14.6 bn in FY'2022, from Kshs 10.9 bn in FY'2021 with the effective tax rate declining to 30.0%, from 30.1% in FY'2021,
- Total operating income rose by 24.6% to Kshs 46.0 bn, from Kshs 36.9 bn recorded in FY'2021 driven by a 27.9% increase in Net Interest Income (NII) to Kshs 32.3 bn, from Kshs 25.3 bn in FY'2021, coupled with a 17.2% gain in Non-Funded Income (NFI) to Kshs 13.7 bn, from Kshs 11.7 bn in FY'2021,
- Total operating expenses increased by 17.6% to Kshs 25.1 bn in FY'2022, from Kshs 21.4 bn in FY'2021, mainly attributable to a 37.6% increase in Loan Loss Provisions (LLPs) to Kshs 6.5 bn, from Kshs 4.7 bn in FY'2021, coupled with an 11.2% increase in staff costs to Kshs 10.5 bn from Kshs 9.4 bn in FY'2021. Additionally, other operating expenses increased by 13.0% to Kshs 8.2 bn in FY'2022, from Kshs 7.2 bn in FY'2021
- Cost to Income Ratio (CIR) improved to 54.7%, from 57.9% in FY'2021, owing to 24.6% increase in total operating income, which outpaced the 17.6% growth in total operating expenses. Similarly, Without LLP the cost to income ratio improved significantly, declining by 4.5% points to 40.6%, from 45.1% in FY'2021, an indication of improved efficiency
- The balance sheet recorded an expansion as total assets grew by 11.3% to Kshs 477.2 bn in FY'2022, from Kshs 428.7 bn in FY'2021
- The bank's asset quality improved, with the NPL ratio declining by 0.4% points to 7.5% in FY'2022, from 7.9% in FY'2021, owing to the faster 20.9% growth in Gross Loans, as compared to the 13.6% increase in Gross Non-Performing Loans (NPLs)
- Going forward, we expect the bank's growth to be driven by:

i. **Diversification –** The bank has continued to expand its product offerings aimed at growing Non-Funded income and reduce the bank's reliance on interest income. Notably, some of the new product offerings include business lines such Banc-assurance, Investment banking advisory, Risk Management products, fixed income brokerage and Asset Management which will continue growing the Non-Funded Income (NFI),

ABSA Bank's Summary of Performance – FY'2022

i. **Digital transformation**- The bank has capitalized on digitization with 52.0% of its processes having been automated as of December 2022. The continued digital transformation is expected to improve service delivery as well as enhance operational efficiency and in turn accelerate financial performance. Additionally, the uptake of "Timiza" which is a digital banking App, has also accelerated leading to higher Non-Interest Income, and,

ii. **Implementation of risk-based lending-** ABSA Bank's loan book is expected continue growing as the lender will implement risk-based lending by June 2023. This is also expected to increase credit access especially by Micro, Small and Medium Enterprises (MSMEs) and in turn increase interest income

Financial Statements Extracts

Absa Bank's PAT is expected to grow at a 5-year CAGR of 13.2%

Income Statement	2020	2021	2022	2023f
Net Interest Income	23.4	25.3	32.3	35.7
Non Funded Income	11.1	11.7	13.7	16.8
Total Operating Income	**34.5**	**36.9**	**46.0**	**52.5**
Loan Loss Provision	(9.0)	(4.7)	(6.5)	(7.7)
Other Operating Expenses	(16.6)	(16.7)	(18.7)	(20.9)
Total Operating Expenses	**(25.7)**	**(21.4)**	**(25.1)**	**(28.6)**
Profit Before Tax	5.6	15.5	20.8	23.9
% PAT Change YoY	**(44.2%)**	**161.2%**	**34.2%**	**14.4%**
EPS	0.8	2.0	2.7	3.1
DPS	0.0	1.1	1.2	1.7
Cost to Income (with LLP)	74.4%	57.9%	54.7%	54.6%
Cost to Income (without LLP)	48.2%	45.1%	40.6%	39.9%
NIM	**7.1%**	**7.1%**	**8.2%**	**7.9%**
ROaE	9.1%	21.1%	24.3%	21.3%
ROaA	1.1%	2.7%	3.2%	3.2%
Balance Sheet	**2020**	**2021**	**2022**	**2023f**
Net Loans and Advances	208.9	234.2	283.6	322.2
Government Securities	126.1	132.6	133.5	157.1
Other Assets	44.5	61.9	60.2	74.2
Total Assets	**379.4**	**428.7**	**477.2**	**553.5**
Customer Deposits	253.6	268.7	303.8	349.1
Other Liabilities	79.3	103.5	109.9	111.2
Total Liabilities	**332.9**	**372.2**	**413.6**	**460.3**
Shareholders Equity	**46.5**	**56.4**	**63.6**	**93.1**
Number of shares	**5.4**	**5.4**	**5.4**	**5.4**
Book value Per share	8.6	10.4	11.7	17.1
% Change in BPS YoY	**2.9%**	**21.4%**	**36.8%**	**65.0%**

Cytonn

*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 33.5%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	17.7	40%	7.1
Residual Income	15.7	35%	5.5
PBV Multiple	10.4	20%	2.1
PE Multiple	9.3	5%	0.5
Target Price			**15.1**
Current Price			**12.4**
Upside/(Downside)			22.6%
Dividend Yield			10.9%
Total Return			**33.5%**

Cytonn

VIII. Stanbic Holdings

Cytonn

Stanbic Holdings' Summary of Performance – FY'2022

- Profit before tax increased by 24.8% to Kshs 12.2 bn, from Kshs 9.8 bn in FY'2021, with effective tax rate decreasing to 25.6% in FY'2022 from 26.1% in FY'2021, leading to a 25.7% increase in profit after tax to Kshs 9.1 bn in FY'2022, from Kshs 7.2 bn in FY'2021
- Total operating income increased by 28.4% to Kshs 32.1 bn, from Kshs 25.0 bn in FY'2021, driven by a 31.8% increase in Net Interest Income (NII) to Kshs 18.9 bn, from Kshs 14.4 bn in FY'2021, coupled with a 23.7% increase in Non-Funded Income (NFI) to Kshs 13.1 bn, from Kshs 10.6 bn in FY'2021
- Total operating expenses increased by 30.7% to Kshs 19.9 bn, from Kshs 15.2 bn in FY'2021, driven by 95.9% increase in loan loss provisions to Kshs 4.9 bn from Kshs 2.5 bn recorded in FY'2021
- The balance sheet recorded an expansion as total assets grew by 21.6% to Kshs 399.8 bn, from Kshs 328.9 bn in FY'2021,
- Asset Quality - The bank's Asset Quality improved, with NPL ratio increasing to 10.0% in FY'2022, from 9.3% in FY'2021, attributable to 26.4% increase in Gross non-performing loans to Kshs 28.4 bn, from Kshs 22.5 bn in FY'2021, which outpaced the 17.5% increase in gross loans to Kshs 284.8 bn, from Kshs 242.4 bn recorded in FY'2021

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

Digital transformation. The lender has capitalized on digital innovation for service delivery over the past two years to improve its operational efficiency, which has been a key factor in its financial performance. The lender disclosed that 93.0% of customer's transactions in 2022 were conducted through its digital channels. In 2022 the bank introduced borderless banking, allowing its customers across East Africa to conduct transaction smoothly and in real time

Financial Statements Extracts

Stanbic Holdings' PAT is expected to grow at a 5-year CAGR of 16.7%

Income Statement	2020	2021	2022	2023f
Net Interest Income	12.8	14.4	18.9	19.1
Non Funded Income	10.4	10.6	13.1	15.6
Total Operating Income	**23.2**	**25.0**	**32.1**	**34.7**
Loan Loss Provision	(4.9)	(2.5)	(4.9)	(4.7)
Total Operating Expenses	**(12.1)**	**(12.7)**	**(19.9)**	**(20.5)**
Profit Before Tax	6.2	9.8	12.2	17.0
% PAT Change YoY	**(18.6%)**	**38.8%**	**25.7%**	**30.7%**
EPS	13.1	18.2	22.9	30.1
DPS	3.8	9.0	12.6	13.0
Cost to Income (with LLP)	52.2%	61.0%	62.1	51.0%
NIM	**4.7%**	**5.0%**	**5.9%**	**5.4%**
ROaE	10.3%	13.3%	15.3%	15.3%
ROaA	1.6%	2.2%	2.5%	2.8%
Balance Sheet	**2020**	**2021**	**2022**	**2023f**
Net Loans and Advances	196.3	229.3	266.8	301.9
Other Assets	132.3	99.6	133.0	149.3
Total Assets	**328.6**	**328.9**	**399.8**	**458.44**
Customer Deposits	260.0	254.6	304.3	339.8
Borrowings	5.5	5.7	10.1	10.1
Other Liabilities	11.4	12.1	23.2	23.2
Total Liabilities	**276.9**	**272.4**	**337.6**	**373.1**
Shareholders Equity	51.7	56.5	62.2	85.3
No of Ordinary Shares	0.4	0.4	0.4	0.4
Book value Per share	130.9	142.8	157.3	215.8
% Change in BVPS	**5.5%**	**9.1%**	**2.0%**	**37.2%**

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Valuation Summary

Stanbic Holdings is undervalued with a total potential return of 26.1%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	191.9	35%	67.2
Residual Income	102.0	35%	35.7
PBV Multiple	95.7	20%	19.1
PE Multiple	97.8	10%	9.8
Target Price			**131.8**
Current Price			**114.5**
Upside/(Downside)			15.1%
Dividend Yield			11.0%
Total return			**26.1%**

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IX. I&M Group

I&M Group Summary of Performance – FY'2022

- Profit before tax rose by 20.8% to Kshs 15.0 bn in FY'2022, from Kshs 12.4 bn in FY'2021, with the effective tax rate declining to 22.7% in FY'2022 from 30.5% seen in FY'2021. As such, the bank recorded a 34.3% increase in profit after tax to Kshs 11.6 bn in FY'2022 from Kshs 8.6 bn in FY'2021
- Total operating income rose by 20.4% to Kshs 35.7 bn in FY'2022, from Kshs 29.6 bn in FY'2021 mainly driven by a 9.9% increase in Net Interest Income (NII) to Kshs 22.9 bn from Kshs 20.9 bn in FY'2021 coupled with a 45.7% growth in Non-Funded Income (NFI) to Kshs 12.7 bn from Kshs 8.7 bn in FY'2021
- Total operating expenses increased by 20.2% to Kshs 21.3 bn in FY'2022 from Kshs 17.7 bn in FY'2021, largely driven by a 9.8% increase in staff costs to Kshs 6.5 bn from Kshs 5.9 bn in FY'2021, coupled with a 25.7% increase in other operating expenses to Kshs 9.6 bn in FY'2022 from Kshs 7.7 bn in FY'2021. Notably, Loan loss provision increased by 24.9% to Kshs 5.2 bn in FY'2022 from Kshs 4.2 bn,
- The balance sheet recorded an expansion as total assets grew by 5.2% to Kshs 436.6 bn in FY'2022 from Kshs 415.2 bn in FY'2021, mainly attributable to the 13.3% growth in net loans and advances to Kshs 238.6 bn in FY'2022 from Kshs 210.6 bn in FY'2021
- The group's asset quality deteriorated with the NPL ratio rising to 9.7% in FY'2022 from 9.5% in FY'2021, with the Gross Non-Performing Loans (NPLs) increasing by 16.4% to Kshs 25.0 bn in FY'2022 from Kshs 21.4 bn in FY'2021, while Gross Loans increasing by 13.5% to Kshs 256.5 bn from Kshs 225.9 bn in FY'2021

Going forward, we expect the bank's growth to be driven by:

i. **Leveraging on Digital Technology**– The bank launched digital unsecured personal loans in Kenya in 2021 and since then, the bank has disbursed a cumulative total of Kshs 2.1 bn as at December 2022 from Kshs 0.1 bn as of December 2021. Additionally, the lender launched a workplace banking and currently has a total of 24 schemes with close to 200,000 customers. As such, the Group's focus on investing in digital platforms to diversify revenue is expected to scale it business opportunities

Financial Statements Extracts

I&M Group's PAT is expected to grow at a 5-year CAGR of 8.6%

Income Statement	2020	2021	2022	2023f
Net Interest Income	15.6	20.9	22.9	26.0
Non- Funded Income	8.6	8.7	12.7	15.2
Total Operating Income	**24.2**	**29.6**	**35.7**	**41.3**
Loan Loss Provision	2.5	(4.2)	(5.2)	(5.6)
Other Operating Expenses	10.1	(13.5)	(16.1)	(18.0)
Total Operating Expenses	**(12.6)**	**(17.7)**	**(21.3)**	**(23.6)**
Profit Before Tax	11.0	12.4	15.0	18.3
% PAT Change YoY	**(21.9%)**	**2.5%**	**11.6**	**12.8**
EPS	10.2	4.9	7.0	7.7
DPS	2.3	1.5	2.3	2.5
Cost to Income (with LLP)	52.0%	59.9%	59.8%	57.3%
NIM	**5.4%**	**6.3%**	**6.3%**	**6.5%**
ROaE	13.2%	12.2%	14.4%	14.4%
ROaA	2.3%	2.1%	2.6%	2.7%
Balance Sheet	**2020**	**2021**	**2022**	**2023F**
Government securities	101.7	125.5	113.1	131.3
Net Loans and Advances	187.4	210.6	238.6	269.2
Other Assets	69.0	79.0	84.9	101.7
Total Assets	**358.1**	**415.2**	**436.6**	**502.2**
Customer Deposits	262.7	296.7	312.3	350.8
Other Liabilities	27.4	44.4	42.6	45.2
Total Liabilities	**290.0**	**341.1**	**355.0**	**396.0**
Shareholders Equity	64.2	69.6	76.5	101.1
Number of Shares	0.8	1.7	1.7	1.7
Book Value Per Share	77.6	42.1	46.3	61.1
% BVPS Change YoY	**11.2%**	**(45.8%)**	**9.9%**	**32.1%**

Valuation Summary

I&M Group is undervalued with a total potential return of 32.0%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	33.4	40.0%	13.4
Residual income	13.2	40.0%	5.3
PBV Multiple	30.0	10.0%	3.0
PE Multiple	28.5	10.0%	2.9
Target Price			**24.5**
Current Price			**20.3**
Upside/(Downside)			20.9%
Dividend yield			11.1%
Total return			**32.0%**

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B. Tier II Bank

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I. HF Group

HF Group Summary of Performance – FY'2022

- Profit before tax increased by 119.7% to Kshs 0.2 bn, from a loss before tax of Kshs 1.0 bn in FY'2021, with the effective tax rate rising to 39.5%, from 29.3% in FY'2021. Similarly, Profit after tax improved by 138.9% to Kshs 0.3 bn, from a loss after tax of Kshs 0.7 bn in FY'2021, a notable turnaround in full year profits, ending a four year loss making trend
- Total operating income increased by 28.5% to Kshs 3.0 bn, from Kshs 2.4 bn in FY'2021, driven by 18.2% increase in Net Interest Income (NII) to Kshs 2.2 bn, from Kshs 1.8 bn in FY'2021, coupled with a 63.5% increase in Non-Funded Income (NFI) to Kshs 0.9 bn, from Kshs 0.5 bn in FY'2021
- Total operating expenses declined by 14.3% to Kshs 2.8 bn, from Kshs 3.3 bn in FY'2021, largely driven a 28.8% decrease in other operating expenses to Kshs 1.3 bn, from Kshs 1.9 bn in FY'2021, coupled with a 30.8% reduction in loan loss provision (LLP) to Kshs 0.2 bn, from Kshs 0.3 bn recorded in FY'2021, signifying reduced provisioning
- The balance sheet recorded an expansion as total assets grew by 7.1% to Kshs 57.0 bn, from Kshs 53.2 bn in FY'2021
- The Group's Gross Non-Performing Loans declined by 2.1% to Kshs 8.5 bn, from Kshs 8.7 bn in FY'2021, while gross loans increased by 4.7% to Kshs 43.0 bn from Kshs 41.1 bn in FY'2021. Consequently, the group's Asset Quality improved, with the gross NPL ratio declining to 19.7% in FY'2022, from 21.1% in FY'2021
- Going forward, we expect the bank's growth to be driven by:

i. We commend HF Group's turnaround performance , recording a profit after tax of Kshs 0.3 bn in FY'2022, with the last full year profits earned in FY'2017 at Kshs 0.1 bn. Despite the four consecutive quarters of profitability witnessed in FY'2022, HF Group faces a major downside with its capital adequacy ratios remaining below the minimum statutory requirements set for banks. The group will have to review its business model or merge with a bank with stronger capital ratios so as to overcome its undercapitalization

Financial Statements Extracts

HF's PAT is expected to grow at a 5-year CAGR of 28.5%

Income Statement	2020	2021	2022e	2023F
Net Interest Income	4.3	3.9	4.3	4.6
Non- Funded Income	(2.4)	(2.1)	(2.1)	(2.3)
Total Operating Income	1.9	1.8	2.2	2.3
Loan Loss Provision	0.5	0.5	0.9	1.9
Other Operating Expenses	**2.4**	**2.4**	**3.0**	**4.2**
Total Operating Expenses	(0.4)	(0.3)	(0.2)	(0.3)
Profit Before Tax	(1.7)	(0.7)	0.3	0.3
% PAT Change YoY	**1443.7%**	**-59.8%**	**-138.9%**	**28.9%**
EPS	(4.4)	(1.8)	0.7	0.9
DPS	0.0	0.0	0.0	0.0
Cost to Income	170.1%	140.1%	93.5%	91.6%
NIM	4.2%	4.2%	5.0%	4.7%
ROaE	(18.1%)	(8.1%)	3.1%	5.6%
ROaA	(3.0%)	(1.3%)	0.5%	0.8%
Balance Sheet	**2020**	**2021**	**2022e**	**2023F**
Net Loans and Advances	37.0	34.7	36.3	40.7
Government securities	7.1	6.6	8.5	10.8
Other Assets	11.3	12.0	12.2	12.3
Total Assets	**55.4**	**53.2**	**57.0**	**63.8**
Customer Deposits	39.9	37.7	39.8	46.3
Other Liabilities	6.9	7.2	8.4	8.4
Total Liabilities	**46.9**	**44.9**	**48.2**	**54.7**
Shareholders Equity	8.6	8.3	8.8	9.1
Number of Shares	0.4	0.4	0.4	0.4
Book Value Per Share	22.3	21.5	22.8	23.7
% BVPS Change YoY	**-16.2%**	**-3.3%**	**6.0%**	**3.9%**

Valuation Summary

Housing Finance is undervalued with a total potential return of 16.5%

Valuation Summary:	Implied Price	Weighting	Weighted Value
Residual Income	4.8	60%	2.9
PTBV Multiple	4.1	35%	1.4
PE Multiple	2.7	5%	0.1
Fair Value			**4.5**
Current Price			**3.8**
Upside/(Downside)			16.5%
Dividend Yield			0.0%
Total return			***16.5%***

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Feedback Summary

During the preparation of this FY'2022 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	Unresponsive
Standard Chartered Bank Kenya	Yes	Unresponsive
I&M Group	Yes	Yes
Stanbic Holdings	Yes	Unresponsive
Diamond Trust Bank	Yes	Unresponsive
KCB Group	Yes	Unresponsive
NCBA Group	Yes	Yes
Housing Finance Group	Yes	Unresponsive
Equity Group Holdings	Yes	Unresponsive
Absa Bank Kenya	Yes	Unresponsive

Licensed Financial Institutions

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	Stanbic Bank Kenya Limited
16	Family Bank Limited	35	Standard Chartered Bank Kenya Limited
17	First Community Bank Limited	36	UBA Kenya Bank Limited
18	Guaranty Trust Bank (K) Ltd	37	Victoria Commercial Bank Limited
19	Guardian 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 Group
5. KCB Group
6. M Holdings Limited
7. NCBA Group
8. Stanbic Group Holdings

II. Micro-Finance Institutions

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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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