Kenya Listed Commercial Banks Review
Cytonn H1'2020 Banking Sector Report

"Depressed Earnings and Deteriorating Asset Quality amid the COVID-19 Operating Environment"

Cytonn

11th September, 2020

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I. Introduction to Cytonn

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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

7 Seven offices across 2 continents

500 Over 500 staff members, including Cytonn Distribution

10 10 investment ready projects in real estate

A unique franchise differentiated by:

Independence & Investor Focus

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

Alternative Investments

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

Strong Alignment

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

Committed Partners

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

Why We Exist

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

WE SERVE THREE MAIN CLIENT SEGMENTS:

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

WE INVEST OUR CLIENT FUNDS IN:

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

We collect funds from our clients

We invest them in high growth opportunities

We deliver the best possible returns

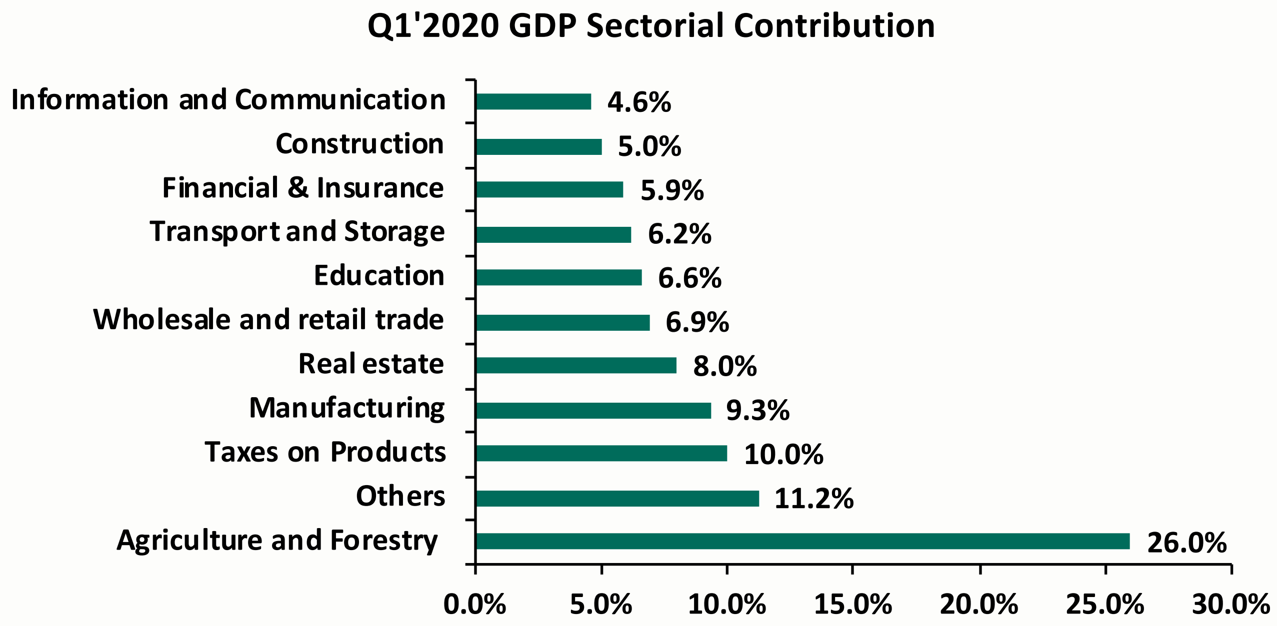
Our Business Structure

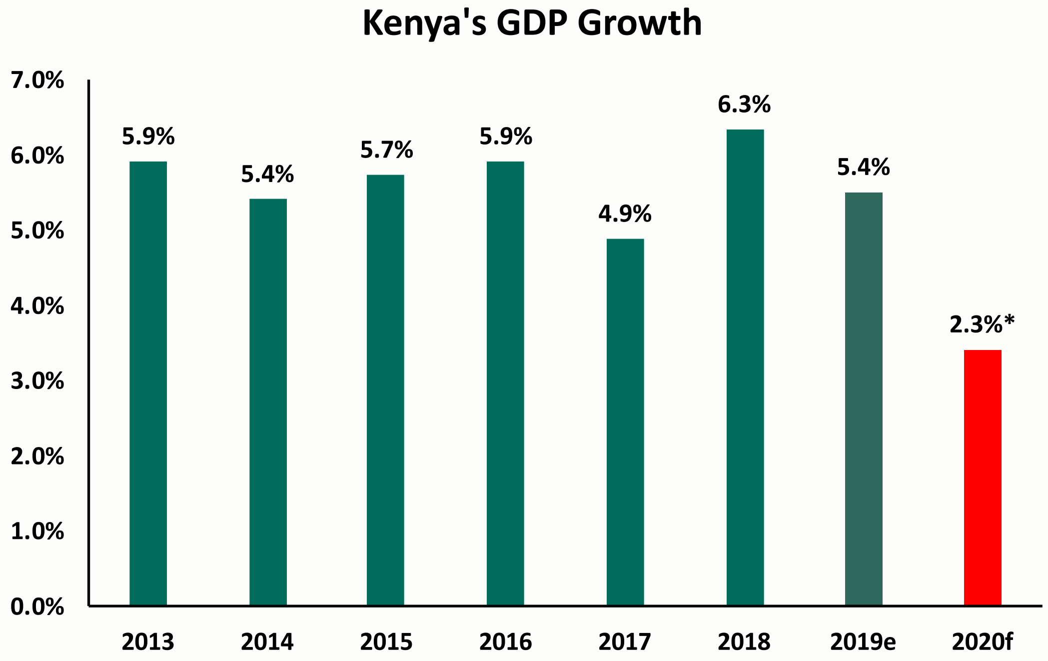
Cytonn Investments Management Plc

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

II. Kenya Economic Review and Outlook

The economic growth expected to slow down in 2020





- According to Kenya National Bureau of Statistics (KNBS), Kenya's economy slowed down during the first quarter of 2020 compared to the corresponding quarter in 2019. The economy recorded subdued growth expanding by 4.9% in Q1'2020, lower than 5.5% in Q1'2019 a 2-year low.
- The Central Bank of Kenya reduced the 2020 forecasted economic growth rate from a baseline estimate of 6.2% to 2.3% but our projections are growth of between 1.4%- 1.8%.

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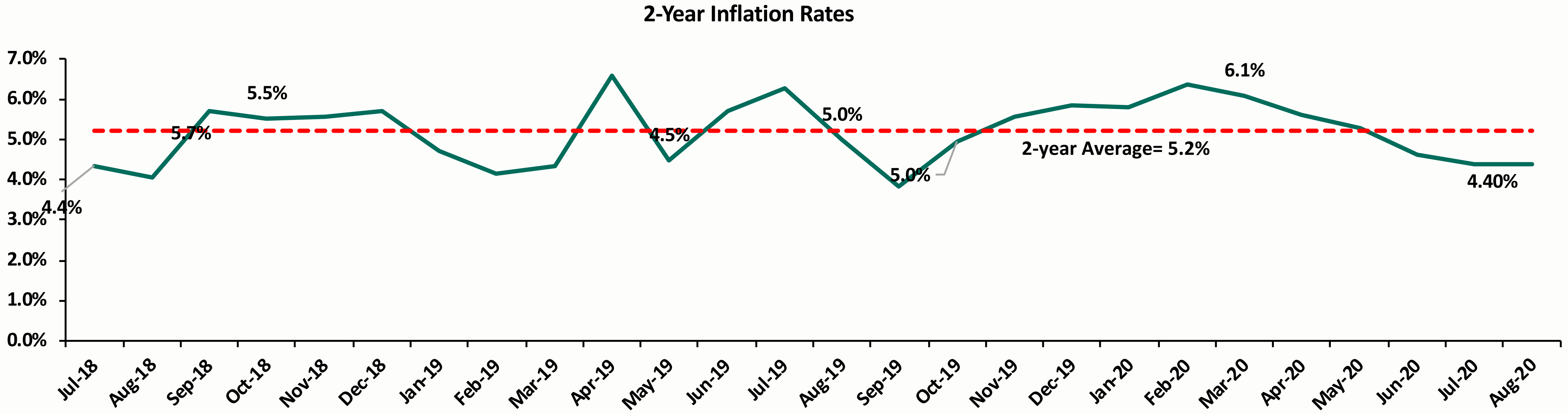
Inflation

For the second quarter of the year, the country’s average inflation came in at 5.2%



*Source: KNBS

- Inflation has remained low with the August inflation at 4.4% as food prices remain low
- The average inflation YTD came in at 5.3%, lower than the 5.2% seen a similar period last year
- We expect inflation to remain stable despite supply-side disruption due to COVID-19 mainly supported by stable food prices as a result of the current favorable weather conditions. The recent reopening of a majority of the global markets will also address supply chain issues causing import prices to stabilize.

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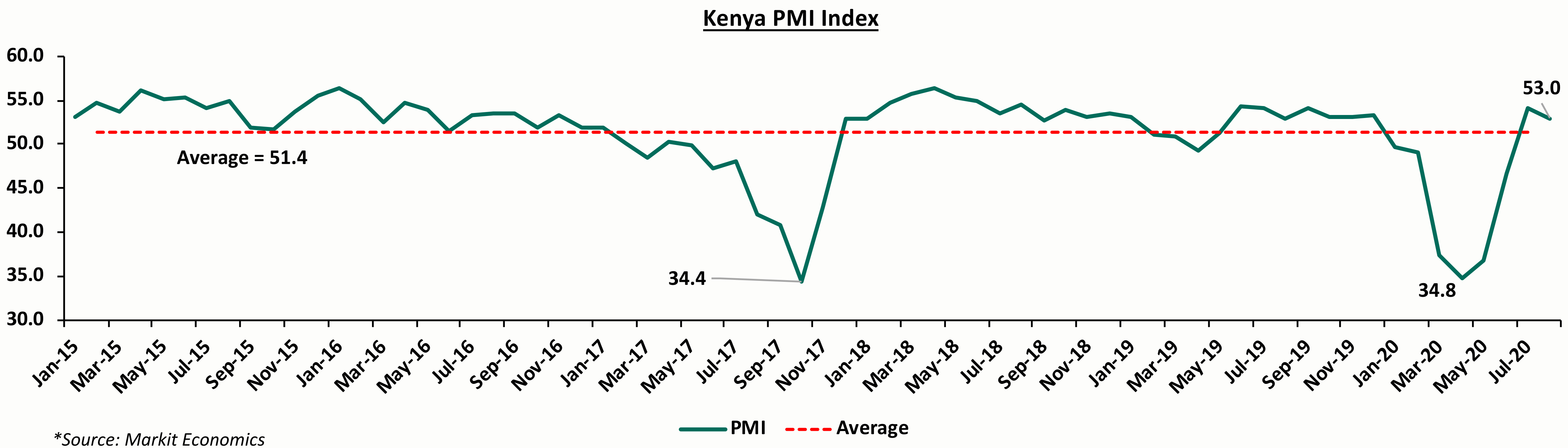
Stanbic PMI Index



**Source: Markit Economics*

- According to the August Stanbic PMI Index, Kenyan firms have seen improvement in economic conditions for the second month with the output and new orders rising solidly, export sales reached a new high, amid looser travel restrictions has recorded an improvement
- Business expectations improved for the first time in six months leading to new investment in branches but employment continued to fall. Key to note, a PMI reading of above 50 indicates improvements in the business environment, while a reading below 50 indicates a worsening outlook

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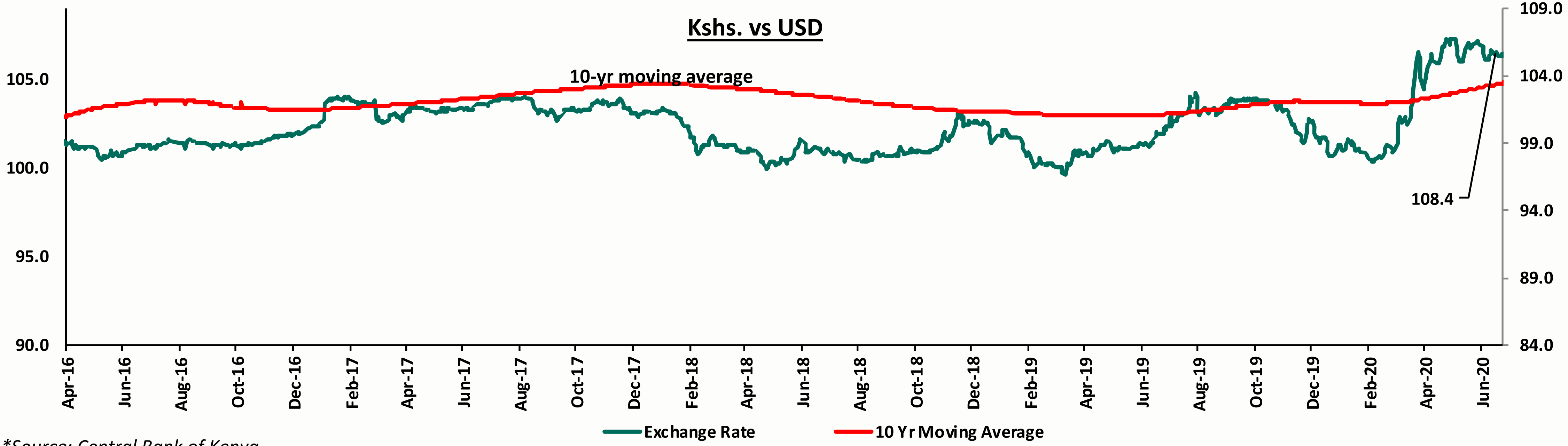
Currency

Year-to-date, the Kenyan shilling has depreciated by 7.0% against the US Dollar



**Source: Central Bank of Kenya*

- The Kenya Shilling has depreciated by 7.0% year to date, in comparison to the 0.5% appreciation in 2019.
- In our view, the shilling will come under pressure due to increased dollar demand from merchandise importers as the easing of coronavirus restrictions jumpstart economic activities amid a deteriorating current account position
- The support is mainly emanating from the high forex reserves.

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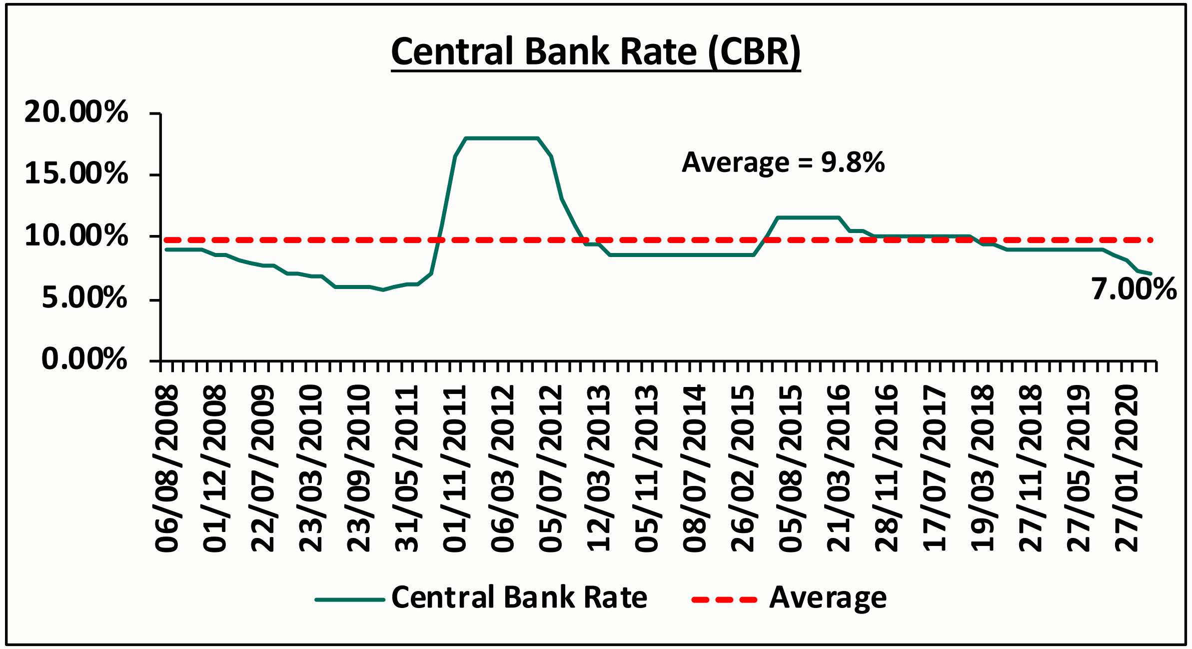
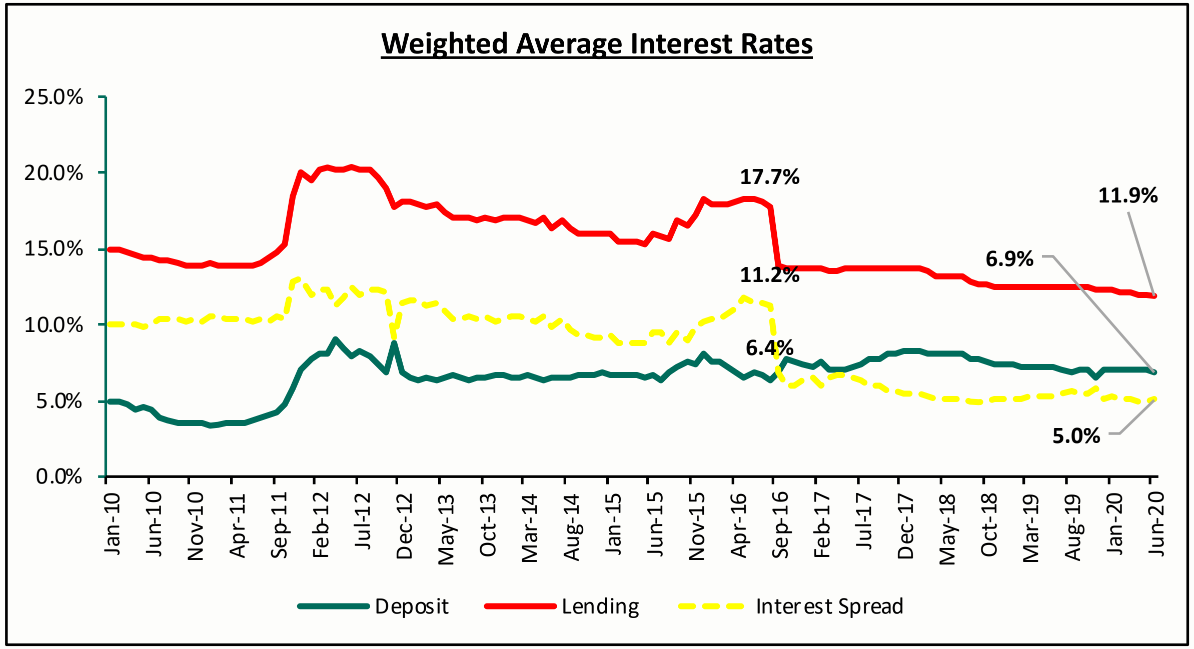
Interest Rates and Monetary Policy





- 2020 has so far seen the MPC cut the CBR by 150 bps in the 3 meetings held in 2020 to 7.00% in order to support economic growth, stabilize the financial markets and mitigate the economic and financial disruptions brought about by the Coronavirus pandemic. As a result of the adoption of the accommodative policy in 2020, commercial banks' lending rates declined to 11.9% in June 2020 from 12.3% seen in December 2019.

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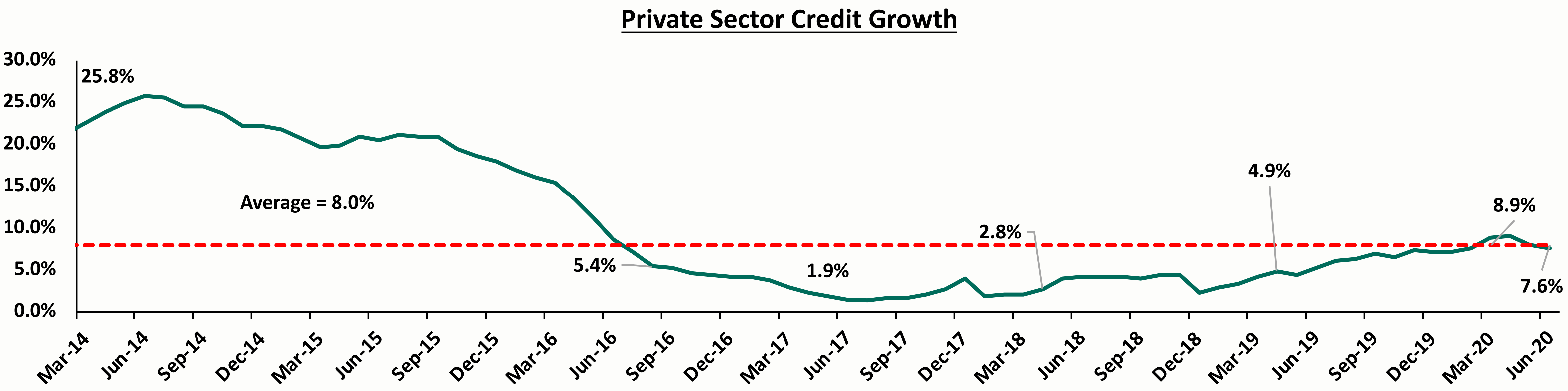
Private Sector Credit growth



Source: KNBS

- The tough economic conditions brought about by the pandemic has increased the cash constraint on businesses as well as households with most businesses struggling to keep afloat due to subdued revenues. Consequently, this led to a high Gross Non-Performing Loans Ratio in H1'2020 of 11.6%, from 10.0% recorded in H1'2019
- We expect to see increased caution on lending especially to businesses that rely on imports hence inhibiting private credit sector growth due to the high risk of credit default, with the possibility of heightened Non Performing Loans if the pandemic is to continue

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III. Banking Sector Overview

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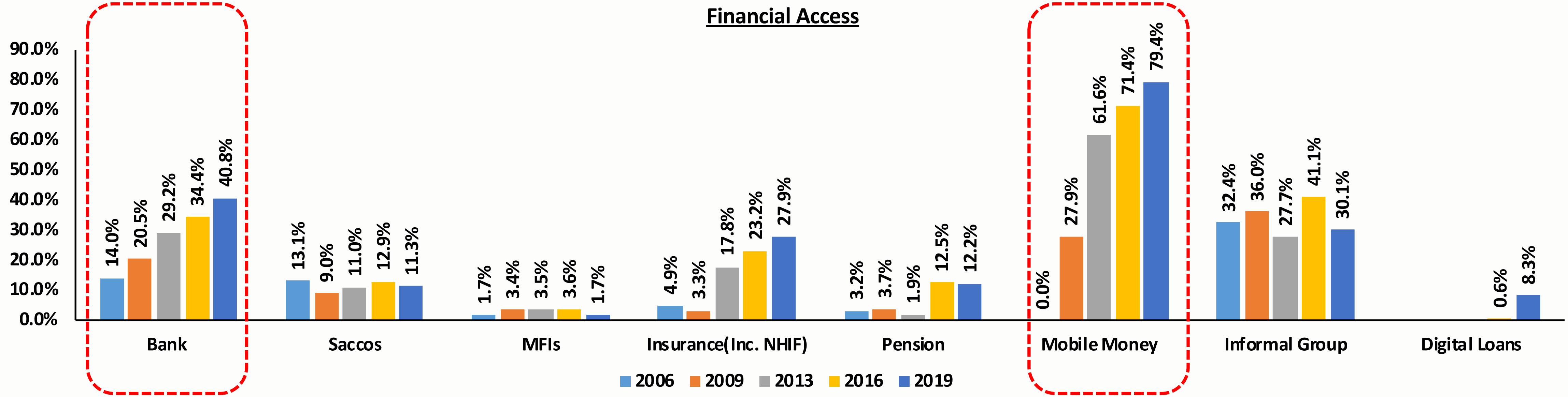
Kenyan Banking Sector Overview

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 82.9% of the adult population able to access formal financial services. This has largely been driven by digitization, with Mobile Financial Services (MFS), transfer and lending, rising to be the preferred method to access financial services in 2019, with 79.4% of the adult population using the channel



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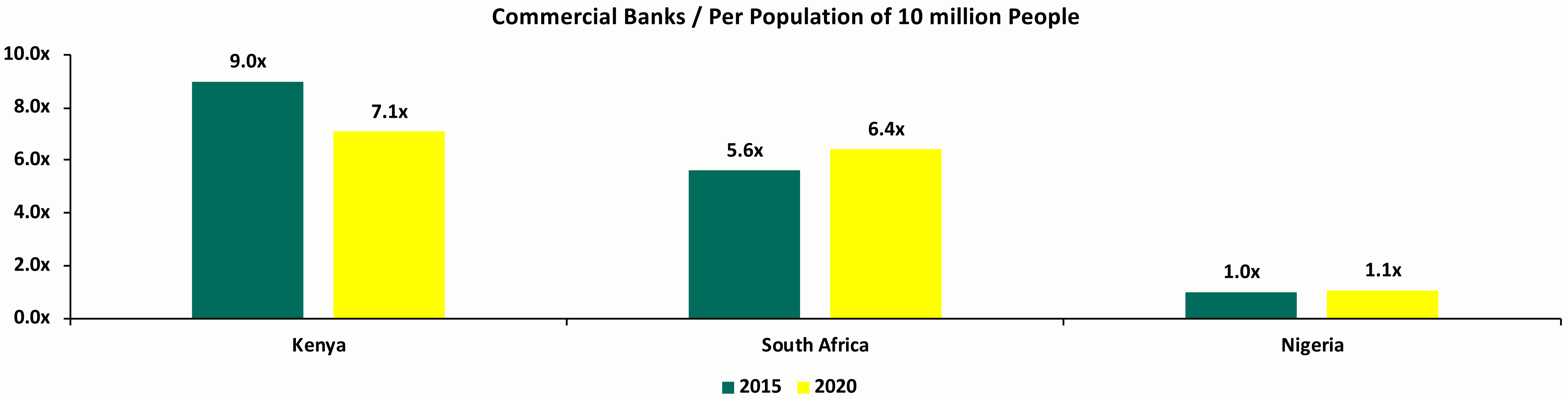
Source: Central Bank of Kenya, FinAccess report

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

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Recent Developments in the Kenyan Banking Sector

1. Regulation:

i. **Guidance on Loan Restructuring-** The Central Bank of Kenya on March 27th, 2020 provided commercial banks and mortgage finance companies with guidelines on loan reclassification, and provisioning of extended and restructured loans as per the Banking Circular No 3 of 2020. According to data from the July 2020 Monetary Policy Committee (MPC) Meeting, this has seen a total of Kshs 844.0 bn, representing 29.1% of the total Kshs 2.9 tn banking sector loan book, being restructured as at June 2020. The table below highlights some of the major banks that have disclosed the amount of loans they have restructured;

No.	Bank	Amount Restructured (Kshs bn)	% of restructured loans to total loans	H1'2020 y/y Change in Loan loss provision
1	Kenya Commercial Bank	120.2	21.7%	263.8%
2	Equity Group Holdings	92.0	23.5%	773.4%
3	Diamond Trust Bank	64.0	31.8%	249.2%
4	NCBA Group	58.0	23.4%	180.9%
5	Absa Bank Kenya	57.0	28.2%	228.1%
6	Co-operative Bank of Kenya	39.2	14.4%	57.9%
7	Standard Chartered Bank of Kenya	22.0	16.4%	328.8%
	Total	**452.4**	**22.8%**	**297.4%**

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Recent Developments in the Kenyan Banking Sector

Consolidation continues in the banking sector, with the most recent being that of Co-operative Bank and Jamii Bora Bank

2. Consolidation:

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

The following were the major M&A's activities witnessed during the first half of 2020:

i. On 27th January 2020, Nigerian lender, Access Bank PLC completed the acquisition of a 100% stake in Transnational Bank PLC for an undisclosed amount,

ii. On 7th April 2020, the Central Bank of Kenya (CBK) approved the acquisition of a 51.0% stake in Mayfair Bank Limited by an Egyptian lender, Commercial International Bank (CIB), effective 1st May 2020 for an undisclosed amount,

iii. On 4th May 2020, the Central Bank of Kenya approved the acquisition of Imperial Bank's assets and assumption of liabilities worth Kshs 3.2 bn each by KCB Group effective 2nd June 2020, and,

iv. On 25th August 2020, Co-operative Bank Kenya completed the 90.0% acquisition of Jamii Bora Bank and rebranded it to Kingdom Bank Limited.

Recent Developments in the Kenyan Banking Sector

Consolidation continues in the banking sector, with the most recent being that of Co-operative Bank and Jamii Bora Bank

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs. Bns)	Transaction Stake	Transaction Value	P/Bv Multiple	Date
Co-operative Bank	Jamii Bora Bank	3.4	90.0%	1.0	0.3x	Aug-20
Commercial International Bank	Mayfair Bank Limited	1.0	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	7.0	100.0%	6.6	0.9x	Sep-19
CBA Group	NIC Group	33.5	53%:47%	23.0	0.7x	Sep-19
Oiko Credit	Credit Bank	3.0	22.8%	1.0	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-19
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	3.0	100.0%	5.0	1.7x	Jun-16
Mwalimu SACCO	Equatorial Commercial Bank	1.2	75.0%	2.6	2.3x	Mar-15
Centum	K-Rep Bank	2.1	66.0%	2.5	1.8x	Jul-14
GT Bank	Fina Bank Group	3.9	70.0%	8.6	3.2x	Nov-13
Average			**74.5%**		**1.3x**	

***Announcement date**
**** fell through**

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Recent Developments in the Kenyan Banking Sector

Asset Quality deteriorates and the banks conserving liquidity by canceling proposed dividend payment

3. **Deteriorating Asset Quality:** Asset quality for listed banks deteriorated in H1’2020 with the gross NPL ratio rising to 11.6% from 10.0% in H1’2019. This was high compared to the 5-year average of 8.5%. Consequently this saw increased provisioning across the industry to proactively manage risks given the tough economic conditions, which led to a rise in the NPL coverage to 57.8% in H1’2020 from 55.9% recorded in H1’2019. In accordance with IFRS 9, banks are expected to provide both for the incurred and expected credit losses. We expect higher provisional requirements to subdue profitability during the year across the banking sector on account of the tough business environment, and,

4. **Capital Conservation/Dividends Deferment:** During H1’2020, some listed companies including listed banks announced they were suspending cash dividends in a bid to conserve capital amid the current tough operating conditions emanating from the effects of the Coronavirus pandemic. A similar trend has been mirrored globally by both financial and non-financial businesses frantically seeking ways to save money with several regulators around the world encouraging companies to cease the discretionary payments of dividends to shareholders amid the COVID-19 pandemic in order to boost capital. For instance, in the United Kingdom (UK), the seven largest banks sought to cancel dividend pay-outs despite having solid capital bases, due to fears of an economic recession. Locally, the CBK on 14th August 2020, directed that Banks will have to get approval before declaring dividends for the current financial year. Equity Group Holdings withdrew their recommendation to pay a first and final dividend of Kshs 2.5 per share for FY’2019, while NCBA Group announced it would withhold the final dividend payment of Kshs 1.5 per share.

Banking Sector Growth Drivers

The liquidity remains high due to the lower Cash Reserve Ratio which has not led to an increase in loans

1. **Increased Liquidity due to lower Cash Reserve Ratio (CRR) -** The Cash Reserve Ratios was reduced to 4.25% from 5.25% injecting additional liquidity of approximately at Kshs. 35.0 bn, to commercial banks for onward lending to distressed borrowers. Additionally, given that a low CRR translates to a low amount held in the CBK at no interest, we expect this to lead to a decline in the interest rates charged on loans by the sector,

2. **Depressed Interest Income-** With the large amount of restructuring and reclassification of loans witnessed in H1'2020, we expect the bank's core source of revenue which is interest income to be negatively affected in the short term. Given the relaxation on the loan interest payments and the borrowers preference to long term tenor extensions on their loan holiday to between 9-12 months, the banks interest income is set to drop. Banks are also not lending aggressively with the credit risk being relatively elevated with many sectors having been affected by the pandemic. We foresee a slower growth in loans in the next quarter and thereafter if the pandemic is to persist further with banks turning to less risky investments such as government securities which rose by 25.9% faster than the 14.5% rise in loans in H1'2020,

Banking Sector Growth Drivers

Bank earnings to be affected by increased provisioning given that most of the sectors affected by the pandemic are not expected to fully recover by the end of FY'2020

3. **Lower Net Interest Margins (NIM):** The accommodative stance taken by the Monetary Policy Committee (MPC), a 150 bps cut in the Central Bank Rate (CBR), YTD, has seen the deposit rates, saving rates and lending rates decline by 0.3% points, 0.2% points and 0.4% points, to 6.8%, 4.1% and 11.9% from 7.1%, 4.3% and 12.3%, respectively, recorded in January 2020. The increased investments by banks to government securities as opposed to lending, coupled with the increased liquidity in the money market has also seen the yield curve readjust downwards. As such, we foresee the sector's Yield on Interest Earning Assets (YIEA) to continue to decline in tandem with the decline in the yields on government securities. Additionally, we foresee a continued decline in the sector's NIMs in the coming quarter, most especially for banks reducing their lending rates for customers in line with the CBR cuts and the lower government yield.

4. **Increased Provisioning-** The risk of loan defaults remain elevated following the Coronavirus pandemic that has affected many businesses globally due to disruption in the supply chain and reduced demand due to constrained cash flows. Despite an improvement in the operating environment in line with the relaxation of Coronavirus measures, we foresee increased provisioning in the sector as compared to FY'2019, given that most of the sectors that had been adversely affected by the pandemic are not expected to fully recover by the end of FY'2020. Additionally, we expect the higher provisioning requirements as per the IFRS guidelines to further subdue the profitability of the banking sector during the year.

Banking Sector Growth Drivers

Regional Expansion, consolidation and Revenue Diversification to lead banks growth in future

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

6. **Expansion and Further Consolidation -** With the Microfinance-Bill 2019 of increasing the minimum on core capital requirements still in its pilot stage more mergers and acquisitions would enable the unprofitable and/or smaller banks to manage the requirement and be able to increase profitability through cost efficiency and deposits growth.

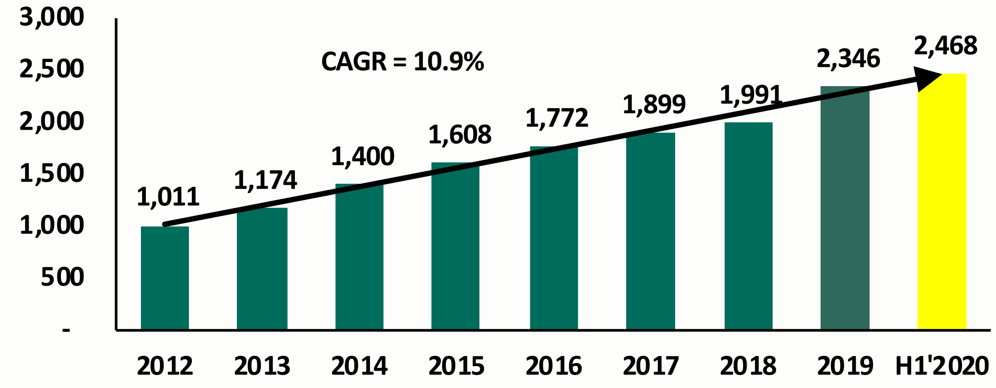
7. **Continued Revenue Diversification -** The increase in NFI growth outperformed that of interest income, thus, allowing the banks to remain profitable amid a rigid regulatory environment. However, with the new regulations put in place by the Central bank to cushion citizens against the effects of the COVID-19 pandemic, banks' non-interest income is likely to be depressed. Some measures such as waiving all charges for balance inquiry through digital platforms will see banks record lower income from the fees they charge,

IV. Listed Banking Sector Metrics

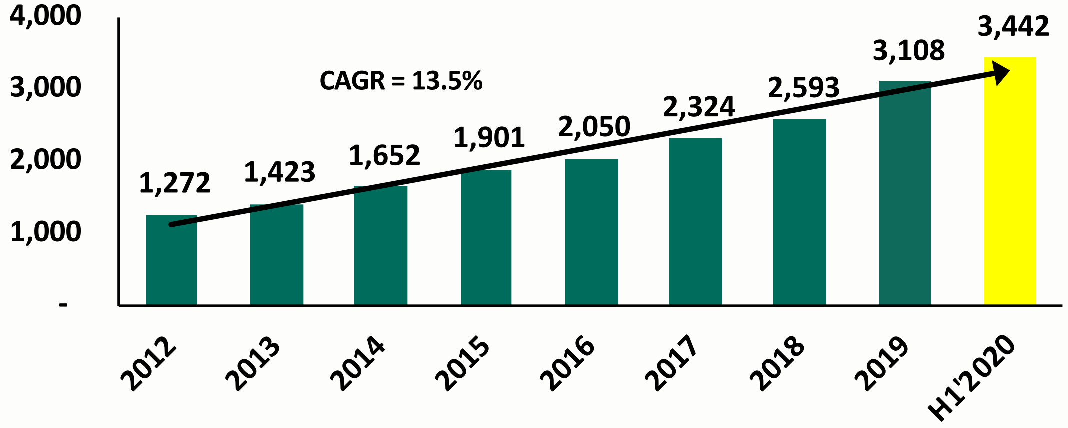
Listed Banking Sector Metrics

H1’2020 deposit witnessed a faster 18.5% growth as compared to the 14.5% growth in loans

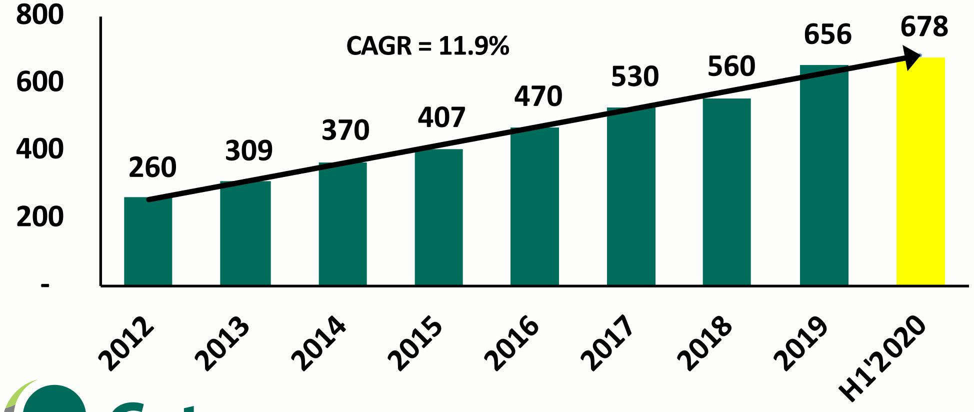
Loans and Advances (Kshs Bn)



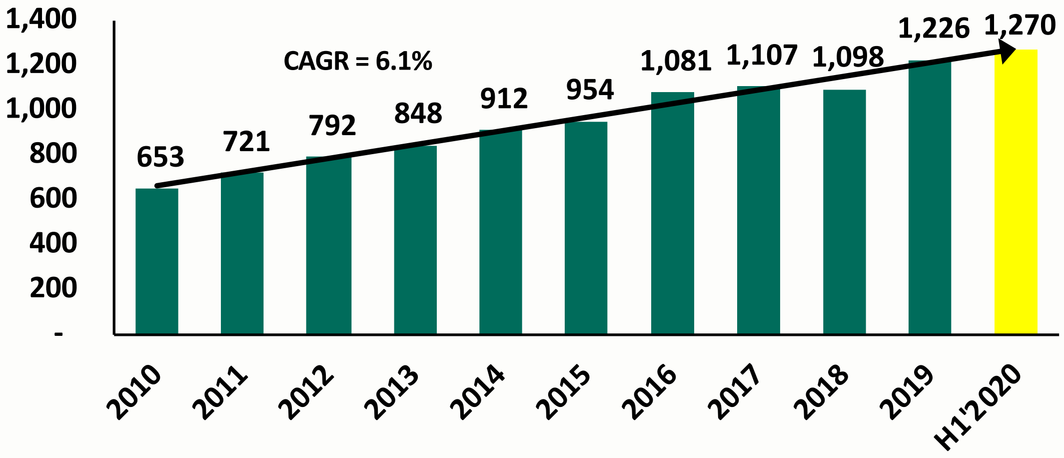
Deposits (Kshs Bn)



Shareholders Equity (Kshs Bn)



Bank Branches



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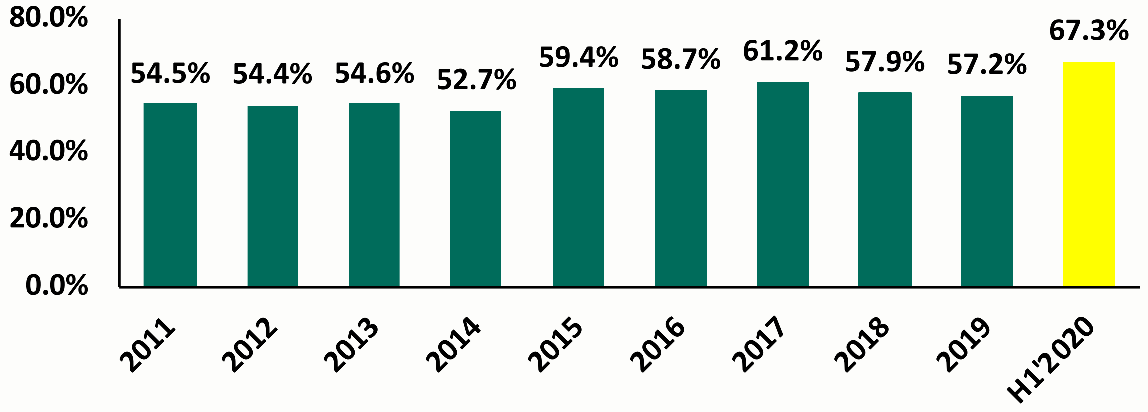
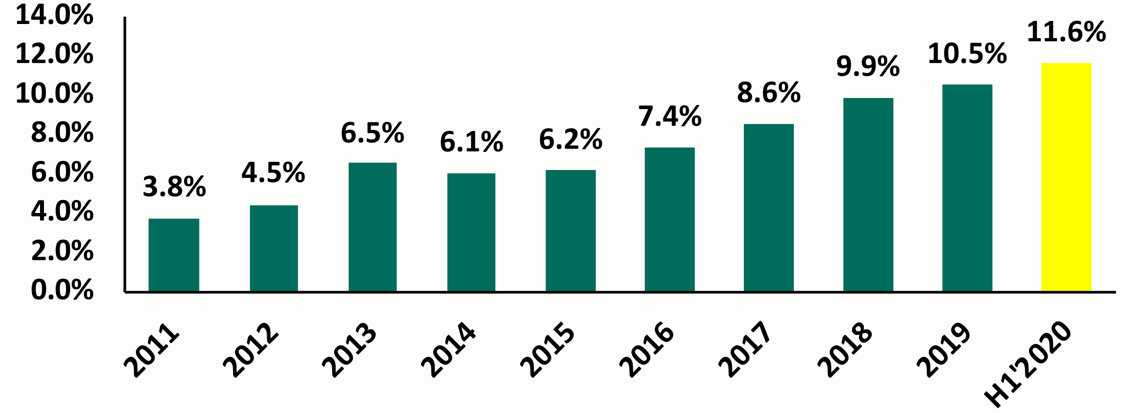
Listed Banking Sector Metrics

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

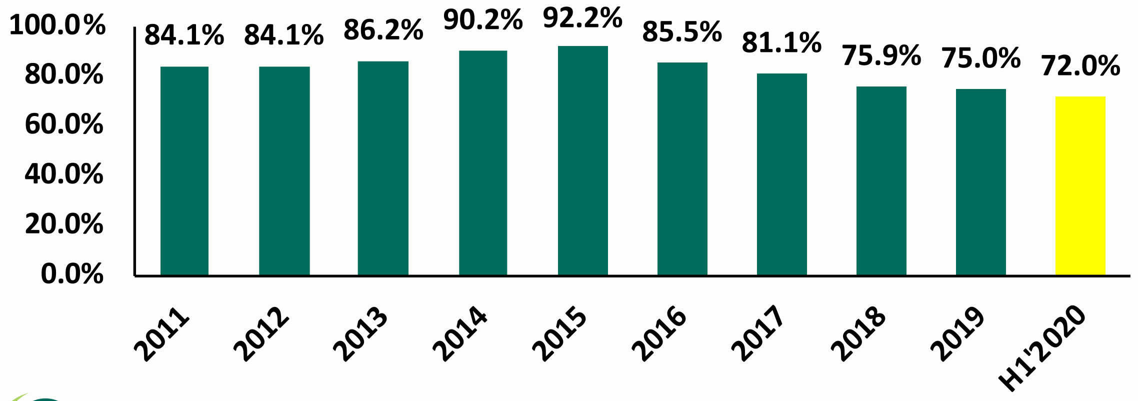
Cost to Income Ratio



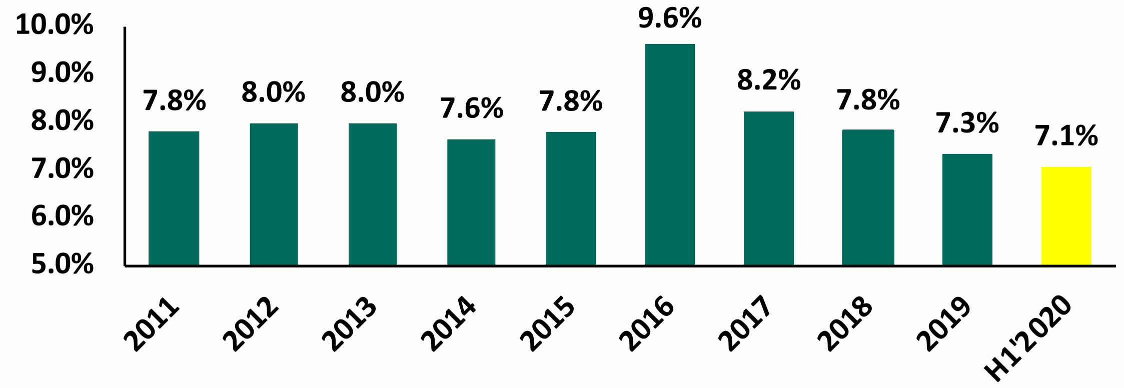
NPL Ratio



Loan to Deposit Ratio



Net Interest Margin



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Listed Banking Earnings and Growth Metrics

Kenya's listed banking sector H1'2020 core EPS declined by a 33.6% compared to growth of 9.0% in H1'2019

Bank	Core EPS Growth	Net Interest Margin	NFI to Total Operating Income	Deposit Growth	Growth In Govt Securities	Loan Growth	LDR	Cost to Income	Return on Average Equity
I&M Holdings	(29.5%)	5.5%	37.8%	6.4%	30.1%	7.2%	73.1%	54.4%	16.3%
Absa Bank	(84.8%)	7.3%	32.8%	8.3%	17.4%	8.2%	81.2%	80.6%	15.9%
KCB Group	(40.4%)	7.6%	31.0%	34.6%	54.5%	17.0%	73.8%	71.5%	16.0%
NCBA Group	(38.3%)	3.3%	47.3%	9.1%	24.0%	4.0%	63.6%	79.8%	8.9%
DTBK	(36.5%)	5.6%	25.3%	(1.0%)	9.8%	5.6%	71.9%	64.1%	9.8%
SCBK	(31.3%)	6.9%	31.9%	12.3%	2.1%	11.9%	52.4%	63.0%	13.7%
Stanbic Bank	(31.2%)	4.8%	44.0%	20.6%	(13.4%)	32.8%	81.9%	45.7%	10.9%
Equity Bank	(24.4%)	8.1%	36.9%	18.6%	24.2%	22.0%	72.0%	69.3%	17.5%
Coop Bank	(3.6%)	8.4%	34.3%	18.9%	28.8%	5.7%	75.6%	60.1%	18.6%
HF Group	N/A	4.3%	22.4%	15.8%	13.5%	(5.8%)	97.4%	123.0%	(3.0%)
H1'2020 Weighted Average	**(33.6%)**	**7.0%**	**35.2%**	**18.5%**	**25.9%**	**14.5%**	**72.0%**	**67.4%**	**15.5%**
H1'2019 Weighted Average	**9.0%**	**7.7%**	**37.2%**	**8.6%**	**12.1%**	**9.8%**	**73.8%**	**55.1%**	**19.3%**

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Takeout from Key Operating Metrics

Listed banks recorded a 33.6% decrease in core operating earnings, the depressed earnings recorded in the listed banking sector is partly attributed to the tough operating environment

1. For the first half of 2020, listed banks recorded a weighted (33.6%) growth in the core Earnings Per Share (EPS), compared to a 9.0% growth in H1'2019,
2. Listed Banks recorded a deposit growth of 18.5% up from the 8.6% growth recorded in H1'2019. Interest expense, on the other hand, grew faster by 10.0%, compared to 5.3% in H1'2019. Cost of funds, however, declined, coming in at a weighted average of 2.9% in H1'2020, from 3.0% in H1'2019, an indication that the sector was able to mobilize cheaper deposits,
3. Interest income for listed banks rose by 10.4%, compared to a growth of 3.7% recorded in H1'2019. The faster growth in interest income may be attributable to the 16.1% growth in loans and increased allocation to government securities. Despite the rise in interest income, the Yield on Interest Earning Assets (YIEA) declined to 9.7% from the 10.4% recorded in H1'2019, an indication of the increased allocation to lower-yielding government securities by the sector. The decline in the YIEA can also be attributed to the reduced lending rates for customers by the sector, in line with the Central Bank Rate cuts. Consequently, the Net Interest Margin (NIM) now stands at 7.0%, compared to the 7.7% recorded in H1'2019 for the listed banking sector,

Takeout from Key Operating Metrics

Listed banks recorded a 1.1% y/y decline in the Non Funded Income slower than 16.5% growth recorded in H1’2019

4. Average weighted loan growth came in at 14.5%, which was faster than the 9.8% recorded in H1’2019, but slower than the 25.9% growth in government securities, an indication of the banks preference of investing in Government securities compared to lending to individuals and businesses, and,
5. Non-Funded Income declined by 1.1% y/y, slower than 16.5% growth recorded in H1’2019. The performance in NFI was on the back of declined growth in fees and commission of 3.4%, which was slower than the 12.7% growth recorded in H1’2019. The low growth in fees and commission can be attributed to the recent waiver on fees on mobile transactions below Kshs 1,000 and the free bank-mobile money transfer. Banks with a large customer base who rely heavily on mobile money transactions are likely to take the biggest hit.

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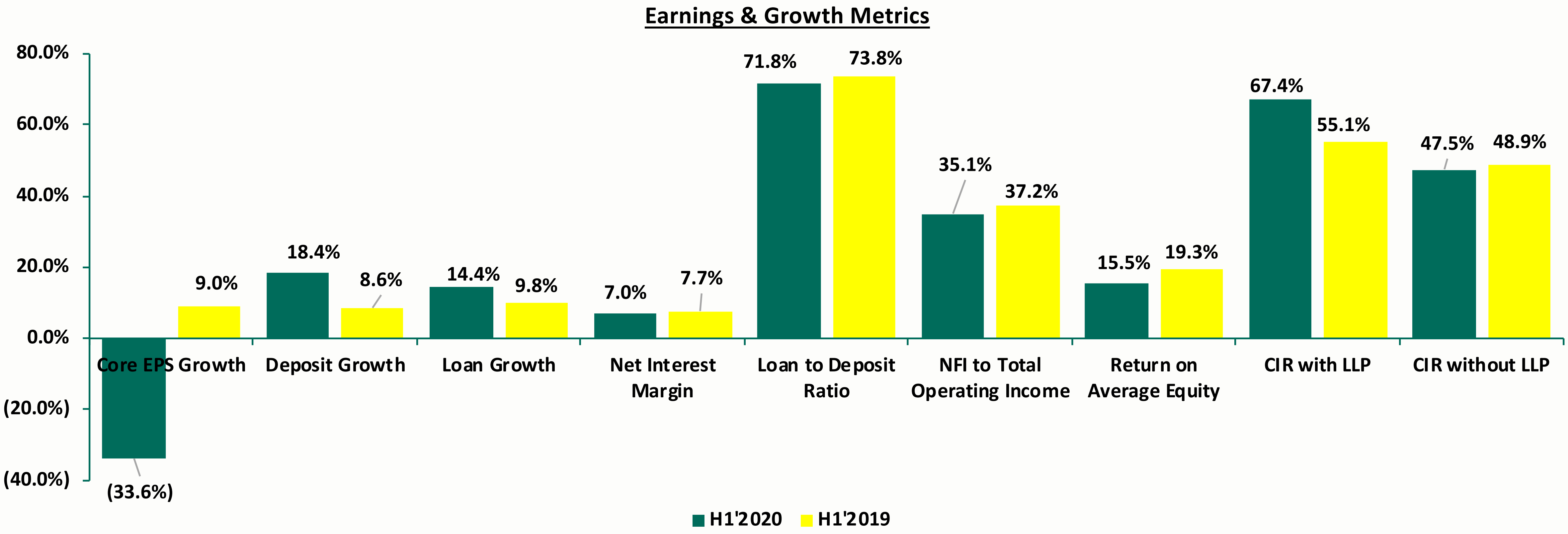
Listed Banks Earnings and Growth Metrics Cont…

The banking sector showed subdued performance as evidenced by the decline in the core-earnings per share by 33.6%, as compared to a growth of 9.0% in H1'2020



Listed Banks Operating Metrics

The sectors asset quality continues to deteriorate as evidenced by the high NPL ratio of 11.6%, from 10.0% recorded in H1'2019

Bank	Deposit/Branch (bn)	Gross NPL Ratio	NPL Coverage	Tangible Common Ratio	Non Funded Income/Revenue
NCBA Group	4.8	13.1%	53.2%	12.5%	47.3%
Stanbic Bank	11.0	8.5%	64.8%	13.0%	44.0%
HF Group	1.9	26.7%	54.3%	16.4%	22.4%
Equity Bank	1.8	11.0%	48.5%	15.5%	36.9%
Coop Bank	2.4	11.8%	54.6%	15.1%	34.3%
I&M Holdings	3.8	11.1%	63.1%	15.9%	37.8%
KCB Group	2.1	13.8%	56.9%	13.2%	31.0%
SCBK	7.1	13.9%	78.2%	15.0%	31.9%
Absa Bank	3.0	8.0%	63.6%	10.9%	32.8%
DTBK	2.0	8.3%	51.2%	15.5%	25.3%
Weighted Average H1'2020*	**3.5**	**11.6%**	**57.9%**	**14.2%**	**35.2%**
Weighted Average H1'2019	**3.3**	**10.0%**	**55.9%**	**14.8%**	**37.2%**

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 6.2x

Bank	No. of shares (bn)	Market Cap (bn)	P/E	Price*	P/TBV
HF Group	0.4	1.6	1.0x	4.0	0.2x
NCBA Group	1.5	34.4	5.6x	23.0	0.5x
DTBK	0.3	18.2	3.2x	65.0	0.3x
Coop Bank	5.9	67.5	4.8x	11.5	0.9x
I&M Holdings	0.8	36.6	4.0x	44.3	0.7x
KCB Group	3.2	115.8	5.8x	36.1	0.9x
Stanbic Bank	0.4	31.0	5.9x	78.5	0.7x
Absa Bank	5.4	53.4	7.9x	9.8	1.3x
SCBK	0.3	58.0	8.6x	168.8	1.2x
Equity Bank	3.8	132.1	6.7x	35.0	1.2x
Weighted Average H1'2020			**6.2x**		**1.0x**
Weighted Average H1'2019**			**6.0x**		**1.2x**

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

**Prices as at 8th September 2020*

*** Prices as at 6th September 2019*

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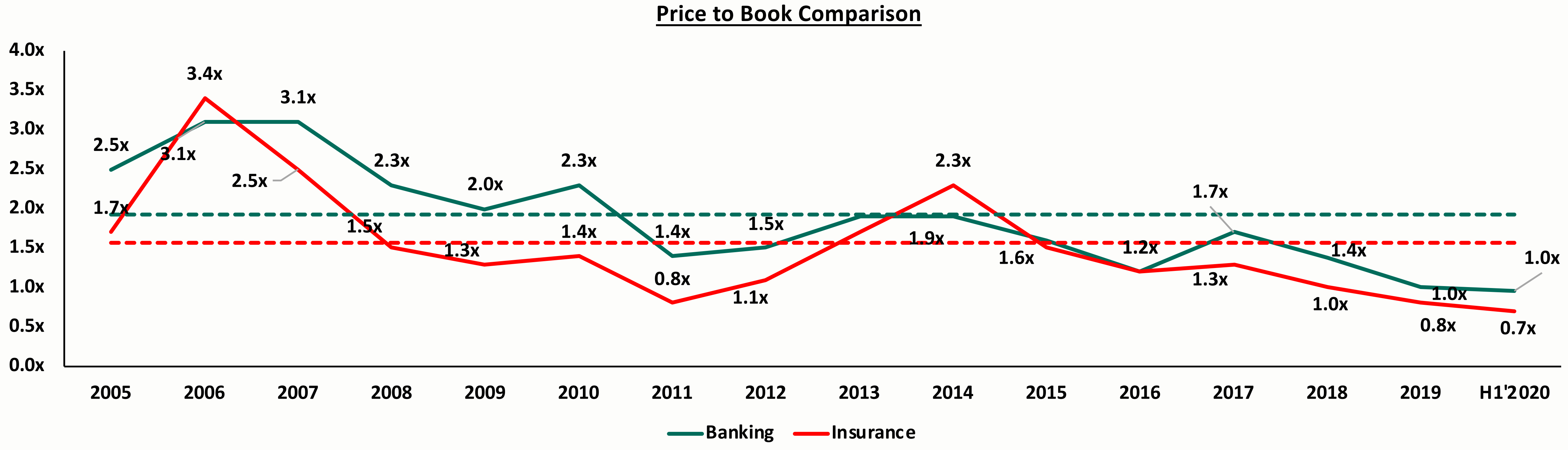
Listed Banks & Insurance Trading Metrics

Listed banks trade 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 1.9x and 1.6x, respectively

15 year Price to Book Value: Banking and Insurance



On a price to book valuation, listed banks are currently priced at a PBV of 1.0x, higher than listed insurance companies at 0.7x, with both lower than their historical averages of 1.9x for the banking sector and 1.6x for the insurance sector

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V. Banks Valuation Reports

Ranking by Franchise Value

Cooperative Bank emerged top in the franchise ranking due to high efficiency levels as evidenced by a low Cost to Income ratio which came in at 60.1% vs an industry average of 67.4%

Rank	Bank	LDR	CIR	ROACE	NIM	PEG ratio	PTBV	Deposits/ Branch (Kshs bn)	Gross NPL Ratio	NPL Coverage	Tangible Common Ratio	Non Interest Income/ Revenue	Camel Rating	Total
1	Coop Bank	3	3	1	1	4	6	6	6	6	5	5	3	49
2	I&M Holdings	5	2	3	7	5	5	4	5	4	2	3	6	51
3	Stanbic Bank	1	1	7	8	7	4	1	3	2	8	2	8	52
4	Equity Bank	7	6	2	2	6	8	10	4	10	3	4	2	64
5	Absa Bank	2	9	5	4	9	10	5	1	3	10	6	1	65
6	KCB Group	4	7	4	3	3	7	7	8	5	7	8	4	67
7	DTBK	8	5	8	6	2	2	8	2	9	4	9	5	68
8	SCBK	10	4	6	5	10	9	2	9	1	6	7	9	78
9	NCBA Group	9	8	9	10	8	3	3	7	8	9	1	7	82
10	HF Group	6	10	10	9	1	1	9	10	7	1	10	10	84

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Valuation Summary of Listed Banks

Diamond Trust Bank Kenya presents the highest upside with an expected total return of 87.8%

(all values in Kshs)

Bank	Current Price	Target Price	Upside/(Downside)	Dividend Yield	Total Potential Return
DTBK	65.0	119.4	83.7%	4.2%	87.8%
KCB Group	36.1	46.4	28.5%	9.7%	38.2%
I&M Holdings	44.3	57.8	30.5%	5.8%	36.2%
NCBA Group Plc	23.0	30.7	33.5%	0.0%	33.5%
Equity Bank	35.0	44.5	27.1%	5.7%	32.9%
Coop Bank	11.5	14.2	23.5%	8.7%	32.2%
SCBK	168.8	197.2	16.8%	7.4%	24.2%
Absa Bank	9.8	10.8	10.2%	11.2%	21.4%
Stanbic Holdings	78.5	84.9	8.2%	9.0%	17.1%
HF Group	4.0	4.1	2.5%	0.0%	2.5%

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Cytonn Banking Report - Comprehensive Ranking

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

(all values in Kshs unless stated otherwise)

Bank	Franchise Value Score	Intrinsic Value Score	Weighted Score	H1'2020 Rank
I&M Holdings	2	3	2.4	1
Co-operative Bank of Kenya Ltd	1	6	3.0	2
KCB Group Plc	6	2	4.4	3
Equity Group Holdings Ltd	4	5	4.4	4
DTBK	7	1	4.6	5
Stanbic Bank/Holdings	3	9	5.4	6
ABSA	5	8	6.2	7
NCBA Group Plc	9	4	7.0	8
SCBK	8	7	7.6	9
HF Group Plc	10	10	10.0	10

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VI. Appendix

A. Tier I Banks

I. Equity Group Holdings

Equity Group Summary of Performance – H1’2020

- Profit before tax declined by 29.5% to Kshs 12.0 bn, down from Kshs 17.0 bn in H1’2019. Profit after tax recorded a 24.4% decline to Kshs 9.1 bn, from Kshs 12.0 bn, with the effective tax rate declining to 24.2% from 29.3% in H1’2019,
- Total operating income rose by 3.8% to Kshs 39.0 bn, from Kshs 37.6 bn in H1’2019. This was driven by a 16.9% rise in Net Interest Income (NII) to Kshs 24.6 bn, from Kshs 21.1 bn in H1’2019. The growth on the operating income was however weighed down by the 13.0% decline in the Non – Funded Income to Kshs 14.4 bn from Kshs 16.5 bn in H’1 2019,
- Total operating expenses rose by 31.1% to Kshs 27.1 bn, from Kshs 20.6 bn in H1’2019, largely driven by a 773.4% increase in Loan Loss Provisions (LLP) to Kshs 8.0 bn, from Kshs 0.9 bn in H1’2019, on the back of the subdued business environment, coupled with a 13.0% rise in staff costs to Kshs 6.7 bn, from Kshs 6.0 bn in H1’2019,
- The balance sheet recorded an expansion as total assets increased by 16.9% to Kshs 746.5 bn, from Kshs 638.7 bn in H1’2019,
- The bank’s asset quality deteriorated, with the NPL ratio deteriorating to 11.0% in H1’2020 from 8.8% in H1’2019. The main sectors that contributed to the deterioration in asset quality were large enterprises and SMEs sectors, which contributed the largest portion of the Non-Performing loans at 13.0% and 12.4%, respectively.
- Going forward, we expect the bank’s growth to be driven by:

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

Financial Statements Extracts

Equity Group's PAT is expected to grow at a 5-year CAGR of 12.9%

Income Statement	2018	2019	2020e	2021f
Net Interest Income	41.4	45.0	49.7	63.0
Non Funded Income	25.9	30.8	31.8	37.9
Total Operating Income	67.3	75.8	81.5	100.9
Loan Loss Provision	(3.7)	(5.3)	(13.8)	(13.7)
Other Operating Expenses	(35.1)	(39.0)	(41.2)	(50.9)
Total Operating Expenses	**(38.8)**	**(44.3)**	**(55.0)**	**(64.6)**
Profit Before Tax	28.5	31.5	26.5	36.3
% PAT Change YoY	**4.8%**	**13.8%**	**(17.9%)**	**37.1%**
EPS	5.3	6.0	4.9	6.7
DPS	2.0	-	1.5	2.0
Cost to Income	57.7%	58.5%	67.5%	64.0%
NIM	**8.5%**	**8.4%**	**7.8%**	**8.5%**
ROaE	21.2%	22.0%	15.9%	19.4%
ROaA	3.6%	3.6%	2.5%	3.1%
Balance Sheet	**2018**	**2019**	**2020e**	**2021f**
Net Loans and Advances	297.2	366.4	422.0	494.1
Government Securities	130.4	138.6	180.7	196.9
Other Assets	145.7	168.7	180.3	179.6
Total Assets	**573.4**	**673.7**	**783.0**	**870.5**
Customer Deposits	422.8	482.8	580.8	650.5
Other Liabilities	55.7	79.2	79.2	79.2
Total Liabilities	**478.4**	**561.9**	**660.1**	**729.8**
Shareholders Equity	**94.1**	**110.7**	**121.8**	**139.7**
Number of Shares	**3.8**	**3.8**	**3.8**	**3.8**
Book value Per share	24.9	29.3	32.3	37.0
% Change in BPS YoY	**1.0%**	**17.7%**	**10.0%**	**14.7%**

Valuation Summary

Equity Group is undervalued with a total potential return of 33.0%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	50.8	40.0%	19.6
Residual Income	45.7	35.0%	15.3
PBV Multiple	32.3	20.0%	6.5
PE Multiple	35.1	5.0%	1.8
Target Price			**44.5**
Current Price			**35.0**
Upside/(Downside)			23.2%
Dividend Yield			5.7%
Total Potential Return			**33.0%**

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** Five years average yields on a 10 year Treasury bond*

II. KCB Group

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KCB Group Summary of Performance – H1’2020

- Profit before tax declined by 28.5% to Kshs 12.8 bn, down from Kshs 17.9 bn in H1’2019 owing to the 263.8% rise in Loan Loss Provisions (LLP) to Kshs 11.0 bn from Kshs 3.0 bn given the poor operating environment due to COVID-19. Profit after tax declined by 40.4% to Kshs 7.6 bn in H1’2020, from Kshs 12.7 bn in H1’2019 with the effective tax rate increasing to 40.9% from 29.1% in H1’2019,
- Total operating income rose by 16.7% to Kshs 45.0 bn, from Kshs 38.6 bn in H1’2019. This was driven by a 22.3% rise in Net Interest Income (NII) to Kshs 31.1 bn, from Kshs 25.4 bn in H1’2019, coupled with a 6.0% rise in Non-Funded Income (NFI) to Kshs 14.0 bn, from Kshs 13.2 bn in H1’2019,
- Total operating expenses grew by 56.0% to Kshs 32.2 bn, from Kshs 20.6 bn, largely driven by a 263.8% spike in Loan Loss Provisions (LLP) to Kshs 11.0 bn in H1’2020, from Kshs 3.0 bn in H1’2019,
- The balance sheet recorded an expansion as total assets grew by 27.7% to Kshs 953.1 bn, from Kshs 746.5 bn in H1’2019,
- The group’s asset quality remains under threat as seen in the increase of the group's Non- Performing Loans (NPL) ratio to 13.8% from 7.8% in H1’2019. Given the effects emanating from the pandemic, the rise in non-performing loans was also driven by the poor performance from the MSMEs segment, Corporate Segment Mortgage segment and Check-off Loans recording NPL Ratios of 14.9%, 12.0%, 10.3% and 2.9%, respectively
- Going forward, we expect the bank’s growth to be driven by:

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

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Financial Statements Extracts

KCB Group's PAT is expected to grow at a 5-year CAGR of 10.8%

Income Statement	2018	2019	2020e	2021f
Net Interest Income	48.8	56.1	64.8	70.8
Non Funded Income	23.0	28.2	21.8	28.7
Total Operating Income	**71.8**	**84.3**	**86.6**	**99.5**
Loan Loss Provision	2.9	8.9	16.6	16.4
Other Operating Expenses	35.0	38.5	36.0	45.3
Total Operating Expenses	**37.9**	**47.4**	**52.7**	**61.7**
Profit Before Tax	33.9	36.9	33.9	37.8
% PAT Change YoY	**21.8%**	**4.9%**	**(5.6%)**	**11.5%**
EPS	7.9	7.8	7.4	8.2
DPS	3.0	3.5	3.5	3.5
Cost to Income	52.8%	56.2%	60.8%	62.0%
NIM	**8.2%**	**8.2%**	**8.1%**	**7.9%**
ROE	21.9%	20.7%	18.1%	18.8%
ROA	3.5%	3.1%	2.5%	2.6%
Balance Sheet	**2018**	**2019**	**2020e**	**2021f**
Net Loans and Advances	455.9	535.4	573.7	639.6
Government Securities	120.1	169.2	223.4	232.2
Other Assets	138.4	194.0	206.9	180.6
Total Assets	**714.3**	**898.6**	**1004.0**	**1052.5**
Customer Deposits	537.5	686.6	800.5	832.5
Other Liabilities	63.2	82.2	70.5	71.8
Total Liabilities	**600.7**	**768.8**	**871.0**	**904.3**
Shareholders Equity	**113.7**	**129.7**	**132.9**	**148.2**
Number of Shares	**3.0**	**3.2**	**3.2**	**3.2**
Book value Per share	37.6	40.4	41.4	46.1
% Change in BPS YoY	**7.3%**	**7.5%**	**2.4%**	**11.5%**

Valuation Summary

KCB Group is undervalued with a total potential return of 38.3%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	47.6	40.0%	19.0
Residual Income	44.4	35.0%	15.5
PBV Multiple	45.0	20.0%	9.0
PE Multiple	55.8	5.0%	2.8
Target Price			**46.4**
Current Price			**36.1**
Upside/(Downside)			28.6%
Dividend Yield			9.7%
Total Return			**38.3%**

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** Five years average yields on a 10 year Treasury bond*

III. Co-operative Bank

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Co-operative Bank Summary of Performance – H1'2020

- Profit before tax and exceptional items declined by 8.0% to Kshs 9.6 bn from Kshs 10.4 bn in H1'2019. The bank registered a 3.6% decline in profit after tax to Kshs 7.2 bn in H1'2020 from Kshs 7.5 bn in H1'2019, with the effective tax rate declining to 25.0% in H1'2020 from 28.4% seen in H1'2019,
- Total operating income increased by 5.3% to Kshs 24.2 bn in H1'2020, from Kshs 23.0 bn in H1'2019. This was mainly due to an 11.6% increase in Net Interest Income (NII) to Kshs 15.9 bn from Kshs 14.3 bn in H1'2019, which was weighed down by the 5.1% decline in Non-Funded Income (NFI) to Kshs 8.3 bn from Kshs 8.8 bn in H1'2019,
- Total operating expenses rose by 15.7% to Kshs 14.6 bn in H1'2020, from Kshs 12.6 bn in H1'2019, largely driven by the 57.9% rise in Loan Loss Provisions (LLP) to Kshs 1.9 bn from Kshs 1.2 bn in H1'2019, coupled with a 15.5% rise in staff costs to Kshs 6.6 bn in H1'2020 from Kshs 5.7 bn in H1'2019,
- The balance sheet recorded an expansion as total assets grew by 19.6% to Kshs 513.9 bn in H1'2020 from Kshs 429.6 bn in H1'2019,
- The bank's asset quality deteriorated, with the NPL ratio coming in at 11.8% in H1'2020, from 11.2% in H1'2019, H1'2019 owing to slower growth in gross loans by 6.4% compared to the 12.3% growth in gross non-performing loans. Generally, banks have had to go back to the drawing board to come up with new strategies to manage the worsening asset quality in the wake of the ongoing global pandemic.
- Going forward, we expect the bank's growth to be driven by:

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

Financial Statements Extracts

Co-operative Bank's PAT is expected to grow at a 5-year CAGR of 7.2%

Income Statement	2018	2019	2020e	2021f
Net Interest Income	30.8	31.3	34.2	38.0
Non Funded Income	12.9	17.2	16.0	18.2
Total Operating Income	**43.7**	**48.5**	**50.3**	**56.3**
Loan Loss Provision	(1.8)	(2.5)	(3.4)	(3.6)
Other Operating Expenses	(23.9)	(25.3)	(25.9)	(28.8)
Total Operating Expenses	**(25.7)**	**(27.8)**	**(29.3)**	**(32.4)**
Profit Before Tax	18.2	20.7	21.0	23.9
% PAT Change YoY	**11.6%**	**12.4%**	**2.8%**	**13.8%**
EPS	1.9	2.1	2.1	2.9
DPS	1.0	1.0	0.8	1.0
Cost to Income	58.8%	57.4%	58.3%	57.6%
NIM	**9.1%**	**8.5%**	**8.2%**	**8.3%**
ROE	18.3%	19.2%	17.5%	17.7%
ROA	3.2%	3.3%	3.0%	3.0%
Balance Sheet	**2018**	**2019**	**2020e**	**2021f**
Net Loans and Advances	245.4	266.7	285.3	310.1
Government Securities	80.3	117.8	136.2	135.0
Other Assets	87.7	72.5	111.5	123.1
Total Assets	413.4	457.0	532.9	568.1
Customer Deposits	306.1	332.8	395.6	419.1
Other Liabilities	36.1	43.3	46.8	47.6
Total Liabilities	342.2	376.2	442.4	466.7
Shareholders Equity	69.9	79.3	89.0	99.9
Number of Shares	6.9	6.9	6.9	5.9
Book value Per share	10.2	11.6	13.0	17.0
% Change in BPS YoY	**(14.2%)**	**13.6%**	**12.2%**	**31.3%**

Valuation Summary

Co-operative Bank is undervalued with a total potential return of 32.1%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	15.2	40.0%	6.1
Residual income	13.6	35.0%	4.8
PBV Multiple	12.7	20.0%	2.5
PE Multiple	16.1	5.0%	0.8
Target Price			**14.2**
Current Price			**11.5**
Upside/(Downside)			23.4%
Dividend Yield			8.7%
Total Return			**32.1%**

Cytonn

** Five years average yields on a 10 year Treasury bond*

IV. NCBA Bank

NCBA Bank Summary of Performance – H1’2020

- Profit before tax declined by 42.0% to Kshs 3.9 bn from Kshs 6.7 bn in H1’2019. Profit after tax declined by 38.3% to Kshs 2.6 bn in H1’2020 from Kshs 4.3 bn in H1’2019. The effective tax rate decreased to 29.8% from 32.2% recorded in H1’2019,
- Total operating income increased by 10.0% to Kshs 21.3 bn in H1’2020 from Kshs 19.4 bn in H1’2019. This was due to a 13.7% increase in Non-Funded Income (NFI) to Kshs 10.1 bn in H1’2020, from Kshs 8.9 bn recorded the previous year, coupled with an 6.8% increase in Net Interest Income (NII) to Kshs 11.2 bn from the Kshs 10.5 bn recorded in H1’2019,
- Total operating expenses increased by 39.6% to Kshs 17.0 bn, from Kshs 12.2 bn in H1’2019, largely driven by a 180.9% increase in loan loss provision to Kshs 7.6 bn in H1’2020 from Kshs 2.7 bn in H1’2019, coupled with other operating expenses which increased by 6.4% to Kshs 5.9 bn in H1’2020 from Kshs 5.5 bn in H1’2019. The high increase in Loan loss provision was driven by the expectations of a significant increase in NPLs due to the economic fallouts of the Coronavirus. Staff costs, on the other hand, decreased by 11.2% to Kshs 3.5 bn, from Kshs 3.9 bn recorded in H1’2019,
- The balance sheet recorded an expansion with a total assets growth of 8.0% to Kshs 514.0 bn from Kshs 476.1 bn in H1’2019,
- The bank’s asset quality deteriorated, with NPL ratio deteriorating to 13.1% in H1’2020 from 11.8% in H1’2019 attributable to the faster 15.3% increase in NPLs that outpaced the 4.3% increase in gross loans which came in at Kshs 34.9 bn in H1’2020, from the Kshs 30.3 bn in H1’2019.
- Going forward, we expect the bank’s growth to be driven by:

i. The Bank is expected to continue increasing it synergy by capitalizing on the strengths of the previous entities where the use of their LOOP digital platform will allow the bank diversify its revenue streams and support the bank’s operation given the current situation surrounding the spread of the Novel Coronavirus

Financial Statements Extracts

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

Income Statement	2018	2019	2020e	2021f
Net Interest Income	20.3	13.3	13.4	19.4
Non Funded Income	16.1	20.3	11.7	15.5
Total Operating Income	**36.4**	**33.7**	**25.1**	**34.9**
Loan Loss Provision	(6.1)	(6.3)	(8.2)	(11.5)
Other Operating Expenses	(18.1)	(14.1)	(12.0)	(12.2)
Total Operating Expenses	**(24.1)**	**(20.4)**	**(20.2)**	**(23.7)**
Profit Before Tax	12.3	11.3	4.9	11.2
% PAT Change YoY	**9.3%**	**(12.4%)**	**(56.6%)**	**129.7%**
EPS	12.7	11.1	2.3	5.2
DPS	0.0	0.3	0.0	0.2
Cost to Income	66.3%	60.5%	80.6%	68.0%
NIM	**5.2%**	**3.3%**	**3.0%**	**4.0%**
ROE	13.7%	11.8%	5.3%	11.9%
ROA	2.0%	1.7%	0.7%	1.5%
Balance Sheet	**2018**	**2019**	**2020e**	**2021f**
Net Loans and Advances	239.6	249.4	282.1	292.9
Government Securities	129.7	145.0	161.4	164.2
Other Assets	84.3	100.5	80.7	81.8
Total Assets	453.6	494.8	524.2	538.8
Customer Deposits	341.0	378.2	408.5	415.7
Other Liabilities	46.2	49.3	53.0	54.0
Total Liabilities	387.2	427.6	461.5	469.7
Shareholders Equity	66.0	67.0	62.4	68.9
Number of Shares	0.7	0.7	1.5	1.5
Book value Per share	93.8	95.2	41.7	46.0
% Change in BPS YoY	**2.5%**	**1.5%**	**(56.2%)**	**10.4%**

Cytonn

Valuation Summary

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

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	28.5	40.0%	11.4
Residual Valuation	32.5	35.0%	11.4
PBV Multiple	38.1	20.0%	7.6
PE Multiple	6.7	5.0%	0.3
Target Price			**30.7**
Current Price			**23.0**
Upside/(Downside)			33.6%
Dividend Yield			0.0%
Total Potential Return			**33.6%**

Cytonn

** Five years average yields on a 10 year Treasury bond*

V. Standard Chartered Bank Kenya

Cytonn

SCBK's Summary of Performance – H1'2020

- Profit before tax declined by 26.2% to Kshs 5.1 bn, from Kshs 6.9 bn in H1'2019. Profit after tax also declined by 31.3% to Kshs 3.2 bn in H1'2020, from Kshs 4.7 bn in H1'2019 with the effective tax rate increasing to 36.7% from 32.0% in H1'2019,
- Total operating income declined by 5.2% to Kshs 13.8 bn, from Kshs 14.6 bn in H1'2019. This was driven by a 6.6% decline in Non-Funded Income (NFI) to Kshs 4.4 bn, from Kshs 4.7 bn in H1'2019, coupled with a 4.6% decline in Net Interest Income (NII) to Kshs 9.4 bn, from Kshs 9.8 bn in H1'2019,
- Total operating expenses grew by 13.8% to Kshs 8.7 bn, from Kshs 7.6 bn, largely driven by 328.8% rise in Loan Loss Provisions (LLP) to Kshs 1.6 bn in H1'2020, from Kshs 0.4 bn in H1'2019 on account of the poor operating environment brought about by COVID-19. Staff costs, on the other hand, recorded a 5.3% decline to Kshs 3.3 bn from Kshs 3.5 bn in H1'2019,
- The balance sheet recorded an expansion as total assets grew by 11.1% to Kshs 327.2 bn, from Kshs 294.5 bn in H1'2019,
- The bank's asset quality improved owing to the 13.9% decline in the NPL ratio in H1'2020 from 14.6% recorded in H1'2019. The improvement of the NPL depicts the bank's conservative lending strategies as well as the faster 11.9% growth in loans, which outpaced the 5.6% growth 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 is likely to continue boosting the company's Non-Funded Income (NFI) as well as aiding in improving operational efficiency levels, which deteriorated in H1'2020 as evidenced by the worsening of the cost to income ratio to 63.0% from 52.5% in H1'2019. Revenue expansion coupled with cost containment will be key in boosting the bank's bottom line.

Financial Statements Extracts

SCBK's PAT is expected to grow at a 5-year CAGR of 12.5%

Income Statement	2018	2019	2020e	2021f
Net Interest Income	19.4	19.5	20.8	23.9
Non Funded Income	9.2	9.2	9.0	10.4
Total Operating Income	**28.6**	**28.7**	**29.8**	**34.3**
Loan Loss Provision	1.9	0.6	2.0	3.0
Other Operating Expenses	14.8	16.0	16.1	17.9
Total Operating Expenses	**16.8**	**16.5**	**18.1**	**20.9**
Profit Before Tax	11.8	12.2	11.7	13.4
% PAT Change YoY	**17.1%**	**1.7%**	**(10.1%)**	**27.0%**
EPS	23.6	24.0	21.6	27.4
DPS	19.0	20.0	20.0	20.0
Cost to Income	58.6%	57.6%	60.8%	60.9%
NIM	**7.5%**	**7.4%**	**7.3%**	**7.7%**
ROaE	17.5%	17.5%	15.4%	18.9%
ROaA	2.8%	2.8%	2.3%	2.6%

Balance Sheet	2018	2019	2020e	2021f
Net Loans and Advances	118.7	128.7	138.0	146.5
Government Securities	98.7	99.6	119.5	123.7
Other assets	68.0	73.8	90.4	92.0
Total Assets	**285.4**	**302.1**	**347.9**	**362.2**
Customer Deposits	224.3	228.4	265.6	274.8
Other Liabilities	14.5	25.9	33.8	36.3
Total Liabilities	**238.8**	**254.4**	**299.3**	**311.1**
Shareholders Equity	**46.6**	**47.8**	**48.5**	**51.1**
Number of shares	**0.3**	**0.3**	**0.3**	**0.3**
Book value Per share	135.8	139.0	141.3	148.7
% Change in BPS YoY	**2.1%**	**2.4%**	**1.6%**	**5.2%**

Valuation Summary

SCBK is undervalued with a total potential return of 25.8%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	233.3	40.0%	93.3
Residual Income	208.1	35.0%	72.9
PBV Multiple	127.5	20.0%	25.5
PE Multiple	111.6	5.0%	5.6
Target Price			**197.2**
Current Price			**168.8**
Upside/(Downside)			16.9%
Dividend Yield			8.9%
Total Return			**25.8%**

Cytonn

** Five years average yields on a 10 year Treasury bond*

VI. Diamond Trust Bank Kenya

Cytonn

DTBK’s Summary of Performance – H1’2020

- Profit before tax fell by 24.7% to Kshs 4.5 bn, from Kshs 6.0 bn in H1’2019. Profit after tax declined by 36.5% to Kshs 2.6 bn in H1’2020, from Kshs 4.1 bn in H1’2019, with the effective tax rate increasing to 31.8% from 28.7% in H1’2019,
- Total operating income rose by 2.3% to Kshs 12.5 bn from Kshs 12.2 bn in H1’2019. This was mainly driven by a 5.9% increase in Non-Funded Income (NFI) to Kshs 3.2 bn, from Kshs 3.0 bn in H1’2019, coupled with a 1.2% increase in Net Interest Income (NII) to Kshs 9.3 bn, from Kshs 9.2 bn in H1’2019,
- Total operating expenses rose by 28.1% to Kshs 8.0 bn, from Kshs 6.2 bn in H1’2019, largely driven by the 249.2% increase in Loan Loss Provisions (LLP) to Kshs 1.9 bn from Kshs 0.5 bn in H1’2019, other expenses which rose by 7.6%, to Kshs 3.7 bn from Kshs 3.5 bn in H1’2019, and staff costs which increased by 6.8% to Kshs 2.4 bn, from Kshs 2.2 bn,
- The balance sheet recorded an expansion as total assets increased by 3.3% to Kshs 388.3 bn from Kshs 375.9 bn in H1’2019,
- The bank’s asset quality deteriorated, with the NPL ratio increasing to 8.3% in H1’2020, from 7.6% in H1’2019, due to the faster 16.0% growth in gross NPLs, which outpaced the 6.2% growth in gross loans. General Loan Loss Provisions increased by 15.5% to Kshs 6.2 bn from Kshs 5.4 bn in H1’2019.
- Going forward, we expect the bank’s growth to be driven by:

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

Financial Statements Extracts

DTBK's PAT is expected to grow at a 5-year CAGR of 5.7%

Income Statement	2018	2019	2020e	2021f
Net Interest Income	20.0	18.7	19.5	21.9
Non Funded Income	5.4	5.8	5.8	6.1
Total Operating Income	**25.5**	**24.5**	**25.3**	**28.0**
Loan Loss Provision	3.0	1.3	3.3	2.1
Other Operating Expenses	11.5	11.9	11.1	12.6
Total Operating Expenses	**14.5**	**13.2**	**14.4**	**14.7**
Profit Before Tax	11.0	11.3	10.9	13.3
% PAT Change YoY	**2.3%**	**2.6%**	**(12.1%)**	**22.0%**
EPS	25.3	26.0	22.9	27.9
DPS	2.6	2.7	2.7	2.7
Cost to Income	56.9%	54.0%	56.9%	52.5%
NIM	**6.2%**	**5.6%**	**5.6%**	**6.0%**
ROE	13.9%	12.9%	10.7%	12.3%
ROA	1.9%	1.9%	1.6%	1.9%
Balance Sheet	**2018**	**2019**	**2020e**	**2021f**
Net Loans and Advances	193.1	199.1	206.9	220.7
Government Securities	115.0	130.3	123.3	127.0
Other Assets	69.6	56.8	67.1	63.5
Total Assets	**377.7**	**386.2**	**397.3**	**411.2**
Customer Deposits	282.9	280.2	289.6	298.3
Other Liabilities	35.9	41.5	41.3	40.0
Total Liabilities	**318.8**	**321.7**	**330.9**	**338.3**
Shareholders Equity	53.7	58.9	60.3	66.9
Number of Shares	0.3	0.3	0.3	0.3
Book value Per share	191.9	210.5	215.8	239.2
% Change in BPS YoY	**10.9%**	**9.7%**	**2.5%**	**10.9%**

Cytonn

Valuation Summary

DTBK is undervalued with a total potential return of 83.7%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	100.6	40.0%	40.2
Residual Income	84.8	35.0%	29.7
PBV Multiple	214.5	20.0%	42.9
PE Multiple	131.6	5.0%	6.6
Target Price			**119.4**
Current Price			**65.0**
Upside/(Downside)			83.7%
Dividend yield			0.0%
Total return			**83.7%**

Cytonn

** Five years average yields on a 10 year Treasury bond*

VII. Absa Bank Kenya

Cytonn

Absa Bank's Summary of Performance – H1'2020

- Profit before tax declined by 72.1% to Kshs 1.6 bn, from Kshs 8.7 bn in H1'2019. Profit after tax before exceptional items declined by 49.2% to Kshs 2.3 bn in Q1'2020, from Kshs 4.4 bn in Q1'2019 attributable to the costs incurred as part of the brand transition to ABSA. Profit after tax declined by 84.8% to Kshs 0.6 bn in H1'2020, from Kshs 3.9 bn in H1'2019, with the effective tax rate increasing to 30.8% from 29.3% in H1'2019,
- Total operating income rose by 3.0% to Kshs 16.8 bn, from Kshs 16.3 bn in H1'2019. This was supported by a 4.2% rise in Non-Funded Income (NFI) to Kshs 5.5 bn, from Kshs 5.3 bn in H1'2019, coupled with a 2.5% rise in Net Interest Income (NII) to Kshs 11.3 bn, from Kshs 11.0 bn in H1'2019,
- Total operating expenses rose by 34.9% to Kshs 13.6 bn, from Kshs 10.0 bn in H1'2019, largely driven by a 228.1% increase in Loan Loss Provisions (LLP) to Kshs 5.4 bn in H1'2020, from Kshs 1.6 bn in H1'2019, coupled with a 4.9% increase in staff costs to Kshs 5.0 bn in H1'2020, from Kshs 4.8 bn in H1'2019,
- The balance sheet recorded an expansion as total assets rose by 10.8% to Kshs 391.9 bn, from Kshs 353.8 bn in H1'2019,
- The bank's asset quality deteriorated, with the NPL ratio increasing to 8.0% in H1'2020, from 7.9% in H1'2019, owing to the faster 8.4% growth in gross NPLs, which outpaced the 7.4% growth in gross loans (after adding back interest suspense),
- Going forward, we expect the bank's growth to be driven by:

i. **Increased Channel diversification**, which is likely to help the bank to continue improving its operational efficiency. The benefits of this are already being felt with "Timiza" 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 9.3%

Income Statement	2018	2019	2020e	2021f
Net Interest Income	22.0	23.2	27.1	29.0
Non Funded Income	9.7	10.6	10.5	10.4
Total Operating Income	**31.7**	**33.8**	**37.6**	**39.4**
Loan Loss Provision	(3.9)	(4.2)	(7.3)	(5.3)
Other Operating Expenses	17.2)	(17.3)	(19.2)	(20.8)
Total Operating Expenses	**(21.0)**	**(21.5)**	**(26.5)**	**(26.2)**
Profit Before Tax	10.6	10.8	9.4	11.6
% PAT Change YoY	**7.1%**	**0.5%**	**(12.4%)**	**23.9%**
EPS	1.4	1.4	1.2	1.5
DPS	1.1	1.1	1.1	1.1
Cost to Income	66.4%	63.6%	70.4%	66.4%
NIM	**8.6%**	**7.7%**	**8.0%**	**7.9%**
ROaE	16.8%	16.7%	14.7%	18.2%
ROaA	2.7%	2.1%	1.7%	2.0%
Balance Sheet	**2018**	**2019**	**2020e**	**2021f**
Net Loans and Advances	177.4	194.9	208.8	223.9
Government Securities	92.9	123.0	137.0	148.0
Other Assets	54.5	56.1	52.1	48.2
Total Assets	**324.8**	**374.0**	**398.0**	**420.1**
Customer Deposits	207.4	237.7	253.7	271.5
Other Liabilities	73.2	91.1	100.3	100.9
Total Liabilities	**280.6**	**328.8**	**354.1**	**372.4**
Shareholders Equity	**44.2**	**45.2**	**43.5**	**45.6**
Number of shares	**5.4**	**5.4**	**5.4**	**5.4**
Book value Per share	8.1	8.3	8.0	8.4
% Change in BPS YoY	**0.2%**	**2.2%**	**(3.8%)**	**4.9%**

Valuation Summary

Absa Bank is undervalued with a total potential return of 20.9%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	11.3	40.0%	4.5
Residual Income	12.2	35.0%	4.3
PBV Multiple	8.1	20.0%	1.6
PE Multiple	8.1	5.0%	0.4
Target Price			**10.8**
Current Price			**9.8**
Upside/(Downside)			9.7%
Dividend Yield			11.2%
Total Return			**20.9%**

Cytonn

** Five years average yields on a 10 year Treasury bond*

VIII. Stanbic Holdings

Stanbic Holdings' Summary of Performance – H1'2020

- Profit before tax declined by 20.7% to Kshs 4.1 bn, down from Kshs 5.2 bn in H1'2019. Profit after tax declined by 31.2% to Kshs 2.6 bn in H1'2020, from Kshs 3.7 bn in H1'2019, highlighting the decline in the effective tax rate to 16.1%, from 28.7% in H1'2019,
- Total operating income declined by 12.0% to Kshs 10.7 bn in H1'2020, from Kshs 12.2 bn in H1'2019. This was driven by an 18.8% decline in Non-Funded Income (NFI) to Kshs 4.7 bn, from Kshs 5.8 bn in H1'2019, coupled with a 5.9% decline in Net Interest Income (NII) to Kshs 6.0 bn, from Kshs 6.4 bn in H1'2019,
- Total operating expenses increased marginally by 1.3% to Kshs 6.8 bn, largely driven by an 83.6% increase in Loan Loss Provisions (LLP) to Kshs 1.7 bn in H1'2020, from Kshs 0.9 bn in H1'2019, which outweighed the 11.7% decline in staff costs to Kshs 5.2 bn, from Kshs 5.8 bn, in H1'2019,,
- The balance sheet recorded an expansion as total assets increased by 15.4% to Kshs 361.5 bn, from Kshs 313.3 bn in H1'2019,
- The bank's asset quality has deteriorated significantly with the gross non-performing loans (NPLs) increasing by 20.2% to Kshs 21.2 bn from Kshs 17.6 bn recorded in H1'2019. To curb this, the bank has had to increase its provisioning where general provisions rose by 20.8% to Kshs 8.6 bn, from Kshs 7.1 bn in H1'2019,
- Going forward, we expect the bank's growth to be driven by:

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

Financial Statements Extracts

Stanbic Holdings' PAT is expected to grow at a 5-year CAGR of 7.2%

Income Statement	2018	2019	2020e	2021f
Net Interest Income	12.1	13.3	16.0	16.0
Non Funded Income	10.0	11.4	11.1	14.7
Loan Loss Provision	(1.7)	(2.6)	(5.5)	(5.6)
Total Operating Expenses	**(11.1)**	**(13.9)**	**(19.0)**	**(21.6)**
Profit Before Tax	8.9	7.7	8.1	9.1
Profit After tax	6.3	6.4	5.7	6.4
% PAT Change YoY	**45.7%**	**1.6%**	**(11.3%)**	**12.7%**
EPS	15.9	16.1	14.3	16.1
DPS	5.8	7.1	6.8	6.3
Cost to Income	42.3%	45.6%	50.0%	52.0%
NIM	**5.0%**	**5.2%**	**5.4%**	**4.7%**
ROaE	14.3%	13.6%	11.5%	12.5%
ROaA	2.3%	2.1%	1.7%	1.7%
Balance Sheet	**2018**	**2019**	**2020e**	**2021f**
Net Loans and Advances	175.0	191.2	240.9	250.4
Other Assets	115.6	112.4	127.7	133.9
Total Assets	**290.6**	**303.6**	**368.6**	**384.2**
Customer Deposits	219.5	224.7	294.2	306.0
Borrowings	7.1	9.1	5.4	5.4
Other Liabilities	19.4	20.8	19.7	19.7
Total Liabilities	**245.9**	**254.6**	**319.3**	**331.1**
Shareholders Equity	44.6	49.0	49.3	53.1
No of Ordinary Shares				
Book value Per share	112.9	124.0	124.6	134.4
% Change in BVPS	**3.9%**	**9.9%**	**0.4%**	**7.9%**

Cytonn

Valuation Summary

Stanbic Holdings is undervalued with a total potential return of 16.8%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	102.7	40.0%	41.1
Residual income	69.8	35.0%	24.4
PBV Multiple	80.3	20.0%	16.1
PE Multiple	65.9	5.0%	3.3
Target Price			**84.9**
Current Price			**78.5**
Upside/(Downside)			8.2%
Dividend Yield			8.7%
Total return			**16.8%**

Cytonn

** Five years average yields on a 10 year Treasury bond*

IX. I&M Holdings

I&M Holdings' Summary of Performance – H1'2020

- Profit before tax declined by 27.7% to Kshs 4.5 bn, down from Kshs 6.2 bn in H1'2019. Profit after tax declined by 29.5% to Kshs 3.2 bn in H1'2020 from Kshs 4.5 bn in H1'2019, with the effective tax rate increasing to 29.1%, from 27.2% in H1'2019,
- Total operating income was down by 3.6% to Kshs 11.1 bn, from Kshs 11.6 bn in H1'2019. This was driven by a 7.1% decline in Non-Funded Income (NFI) to Kshs 4.2 bn, from Kshs 4.5 bn in H1'2019, coupled with a 1.4% decline in Net Interest Income (NII) to Kshs 6.9 bn, from Kshs 7.0 bn in H1'2019,
- Total operating expenses rose by 5.5% to Kshs 6.1 bn from Kshs 5.7 bn in H1'2019, largely driven by a 17.2% increase in other operating expenses to Kshs 2.7 bn from Kshs 2.3 bn in H1'2019. The decline was however weighed down by the 7.0% decline in Loan Loss Provisions (LLP) to Kshs 1.0 bn from Kshs 1.1 bn in H1'2019, coupled with marginal declines of 0.04% in Staff costs to Kshs 2.325 bn from Kshs 2.326 bn in H1'2019,
- The balance sheet recorded an expansion as total assets grew by 7.4% to Kshs 340.6 bn, from Kshs 317.1 bn in H1'2019,
- The bank's asset quality improved, with the NPL ratio improving to 11.0%, from 13.0% in H1'2019. NPL coverage also improved to 63.1%, up from 62.4% in H1'2019 as the 17.4% rise in general provisions to Kshs 9.8 bn, from Kshs 8.3 bn in H1'2019, outpaced the 9.4% decline in gross NPL to Kshs 22.1 bn in H1'2020 from Kshs 24.4 bn in H1'2019
- Going forward, we expect the bank's growth to be driven by:

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

Financial Statements Extracts

I&M Holdings' PAT is expected to grow at a 5-year CAGR of 2.9%

Income Statement	2018	2019	2020e	2021f
Net Interest Income	15.6	15.5	17.1	20.0
Non- Funded Income	7.6	8.3	7.3	8.6
Total Operating Income	**23.2**	**23.8**	**24.4**	**28.6**
Loan Loss Provision	(3.8)	(0.6)	(1.1)	(1.9)
Other Operating Expenses	(8.5)	(9.5)	(9.9)	(11.4)
Total Operating Expenses	**(12.3)**	**(10.1)**	**(11.0)**	**(13.3)**
Profit Before Tax	11.5	14.6	12.9	14.7
% PAT Change YoY	**17.1%**	**26.6%**	**(16.3%)**	**14.3%**
EPS	20.6	13.0	10.9	12.5
DPS	3.9	2.6	2.6	2.6
Cost to Income	53.0%	42.4%	44.9%	46.6%
NIM	**6.7%**	**5.9%**	5.8%	6.5%
ROaE	17.2%	19.5%	15.8%	16.9%
ROaA	3.0%	3.4%	2.6%	2.9%
Balance Sheet	**2018**	**2019**	**2020e**	**2021f**
Government securities	52.2	53.9	75.3	77.6
Net Loans and Advances	166.7	175.3	183.0	204.4
Other Assets	69.6	86.0	90.4	85.7
Total Assets	**288.5**	**315.3**	**348.6**	**367.7**
Customer Deposits	213.1	229.7	261.4	269.2
Other Liabilities	24.5	24.7	27.1	31.1
Total Liabilities	**237.6**	**254.4**	**288.5**	**300.3**
Shareholders Equity	47.9	57.7	56.8	65.0
Number of Shares	0.4	0.8	0.8	0.8
Book Value Per Share	115.8	69.8	68.7	78.6
% BVPS Change YoY	**8.0%**	**(39.7%)**	**(1.6%)**	**14.4%**

Cytonn

Valuation Summary

I&M Holdings is undervalued with a total potential return of 36.5%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	59.7	40.0%	23.9
Residual income	66.3	35.0%	23.2
PBV Multiple	38.1	20.0%	7.6
PE Multiple	63.0	5.0%	3.2
Target Price			**57.8**
Current Price			**44.3**
Upside/(Downside)			30.7%
Dividend yield			5.8%
Total return			**36.5%**

Cytonn

** Five years average yields on a 10 year Treasury bond*

B. Tier II Bank

I. HF Group

HF Group Summary of Performance – H1’2020

- HF Group recorded a loss before tax of Kshs 293.1 mn, a decline from a loss before tax of Kshs 94.3 mn in H1’2019. The Group’s Loss after Tax declined to Kshs 294.9 mn in H1’2020, from the Kshs 97.0 mn loss recorded in H1’2019,
- Total Operating Income declined by 34.4% to Kshs 1.3 bn in H1’2020 from Kshs 1.9 bn, this can be attributed to the 68.8% decline in Non-Funded Income (NFI) to Kshs 0.3 bn from Kshs 0.9 bn recorded in H1’2019, coupled with the 3.9% dip in Net Interest Income (NII) to Kshs 987.3 mn from Kshs 1.0 bn seen in H1’2019,
- Total Operating Expenses declined by 23.1% to Kshs 1.6 bn from Kshs 2.0 bn seen in H1’2019. This is attributable to a 28.4% drop in Other Expenses to Kshs 0.8 bn from Kshs 1.2 bn in H’2019, coupled with a 276% decline in Loan Loss Provisions from Kshs 0.4 bn to Kshs 0.3 bn in H1’2019, and a 7.1% decline in Staff Costs to Kshs 462.9 mn from Kshs 498.5 mn recorded in H1’2019,
- The company’s balance sheet recorded a contraction as total assets declined by 0.9% from Kshs 57.0 bn to Kshs 56.5 bn in H1’2019,
- The bank experienced an improvement in asset quality as Non-performing Loans (NPLs) by 8.2% to Kshs 11.9 bn from Kshs 13.0 bn recorded in H1’2019. Consequently, the NPL ratio improved to 26.7% from the 28.2% following the faster 8.2% decline in NPLs that outpaced the 2.8% decline in gross loans which came in at Kshs 44.6 bn in H1’2020, from Kshs 45.9 bn recorded in H1’2019. Putting into consideration the current state of affairs regarding the COVID-19 pandemic, there is a lot more to be done to mitigate the effects experienced in the economy.
- 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. 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, in an effort to capitalize on HF’s strength in mortgages and real estate development.

Financial Statements Extracts

HF's PAT is expected to grow at a 5-year CAGR of 44.8%

Income Statement	2018	2019	2020e	2021f
Net Interest Income	2.3	2.0	1.1	2.3
Non- Funded Income	1.3	1.4	1.7	1.8
Total Operating Income	**3.6**	**3.4**	**2.8**	**4.1**
Loan Loss Provision	(0.4)	(0.4)	(0.3)	(0.4)
Other Operating Expenses	(3.9)	(3.2)	(2.6)	(3.3)
Total Operating Expenses	**(4.2)**	**(3.5)**	**(3.0)**	**(3.7)**
Profit Before Tax	(0.6)	(0.1)	(0.2)	0.4
% PAT Change YoY	**(573.9%)**	**(81.6%)**	**15.5%**	**(330.1%)**
EPS	(1.6)	(0.3)	(0.3)	0.8
DPS	0.0	0.0	0.0	0.0
Cost to Income	118.2%	104.2%	106.1%	89.8%
NIM	**4.4%**	**4.3%**	**2.4%**	**4.5%**
ROaE	(5.5%)	(1.1%)	(1.4%)	3.5%
ROaA	(0.9%)	(0.2%)	(0.2%)	0.5%
Balance Sheet	**2018**	**2019**	**2020e**	**2021f**
Government securities	43.4	38.6	42.1	45.5
Net Loans and Advances	3.2	4.6	5.1	5.3
Other Assets	13.9	13.3	13.5	13.8
Total Assets	**60.5**	**56.5**	**60.7**	**64.5**
Customer Deposits	34.7	37.4	44.4	48.0
Other Liabilities	15.5	8.8	7.9	8.0
Total Liabilities	**50.2**	**46.2**	**52.3**	**55.9**
Shareholders Equity	10.4	10.2	8.3	8.6
Number of Shares	0.4	0.4	0.4	0.4
Book Value Per Share	27.0	26.6	21.7	22.4
% BVPS Change YoY	**(17.0%)**	**(1.5%)**	**(18.4%)**	**3.5%**

Valuation Summary

Housing Finance is undervalued with a total potential return of 2.8%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	4.8	40.0%	1.9
Residual income	2.6	35.0%	0.9
PBV Multiple	5.8	20.0%	1.2
PE Multiple	2.5	5.0%	0.1
Target Price			4.1
Current Price			4.0
Upside/(Downside)			2.8%
Dividend yield			0.0%
Total return			**2.8%**

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** Five years average yields on a 10 year Treasury bond*

Feedback Summary

During the preparation of this H1’2020 Banking Sector Report, we shared with the subject companies the operating metrics that were used in the Report for their confirmation and verification

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

Bank	Operating Metrics Shared	Sent Feedback
Co-operative Bank of Kenya	Yes	Yes
Diamond Trust Bank	Yes	Yes
I&M Holdings	Yes	Yes
KCB Group	Yes	Unresponsive
Standard Chartered Bank Kenya	Yes	Unresponsive
NCBA Group	Yes	Unresponsive
Housing Finance Group	Yes	Unresponsive
Stanbic Holdings	Yes	Unresponsive
Equity Group Holdings	Yes	Unresponsive
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	Jamii Bora Bank Limited
5	Bank of Baroda (Kenya) Limited	24	KCB Bank Kenya Limited
6	Bank of India	25	Mayfair CIB Bank Limited
7	Citibank N.A Kenya	26	Middle East Bank (K) Limited
8	Consolidated Bank of Kenya Limited	27	M-Oriental Bank Limited
9	Co-operative Bank of Kenya Limited	28	National Bank of Kenya Limited
10	Credit Bank Limited	29	NCBA Bank Kenya PLC
11	Development Bank of Kenya Limited	30	Paramount Bank Limited
12	Diamond Trust Bank Kenya Limited	31	Prime Bank Limited
13	DIB Bank Kenya Limited	32	SBM Bank Kenya Limited
14	Ecobank Kenya Limited	33	Sidian Bank Limited
15	Equity Bank Kenya Limited	34	Spire Bank Ltd
16	Family Bank Limited	35	Stanbic Bank Kenya Limited
17	First Community Bank Limited	36	Standard Chartered Bank Kenya Limited
18	Guaranty Trust Bank (K) Ltd	37	UBA Kenya Bank Limited
19	Guardian Bank Limited	38	Victoria Commercial Bank Limited

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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 Holdings
5. KCB Group
6. M Holdings Limited
7. NCBA Group
8. Stanbic Group Holdings

II. Micro-Finance Institutions

Licensed Microfinance Banks in Kenya

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

Source : CBK

Thank You!

For More Information

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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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Q&A / AOB

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