Kenya Listed Commercial Banks Review

Cytonn H1'2023 Banking Sector Report

"Sustained Profitability Despite Challenging Business Environment"

Cytonn

24th September, 2023

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I. Introduction to Cytonn

About Us

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

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

A unique franchise differentiated by:

Independence & Investor Focus

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

Alternative Investments

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

Strong Alignment

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

Committed Partners

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

Why We Exist

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

WE SERVE THREE MAIN CLIENT SEGMENTS:

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

WE INVEST OUR CLIENT FUNDS IN:

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

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

Our Business Structure

Cytonn Investments Management Plc

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

II. Kenya Economic Review and Outlook

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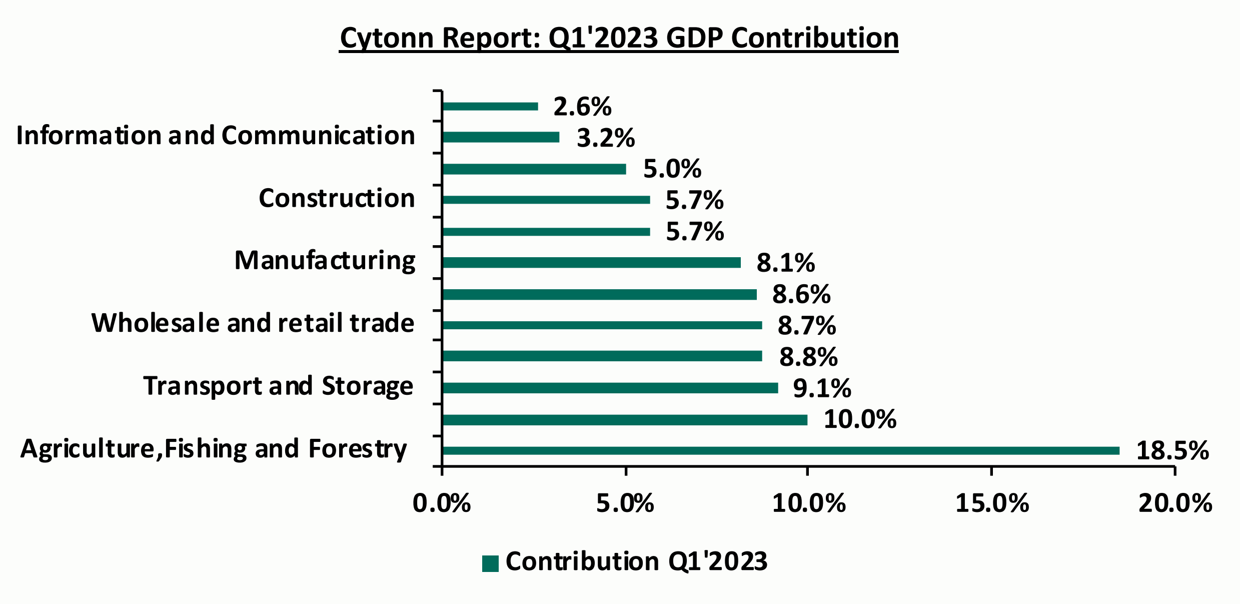
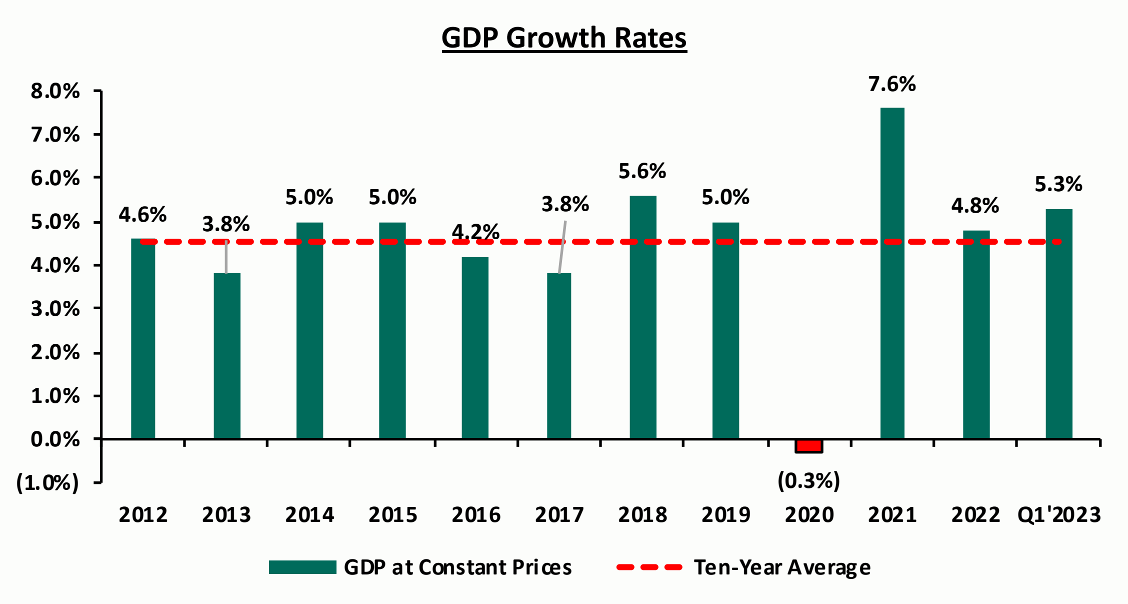
The Kenyan economy grew by 5.3% in Q1’2023, slower than the 6.2% growth in Q1’2022





**Source: KNBS*

- Kenyan economy recorded a 5.3% growth in Q1’2023, albeit slower than the 6.2% growth recorded in Q1’2022. The growth was mainly supported by a rebound in agricultural activities, which grew by 5.8% in Q1’2023 compared to a contraction of 1.7% in Q1’2022.
- All sectors in Q1’2023 recorded positive growth, with varying magnitudes. However, most sectors recorded subdued growth compared to Q1’2022 with Mining and Quarrying, Accommodation and Food Services, and Financial and Insurance sectors recording the highest growth declines of 20.5% points, 18.6% points, and 11.2% points, respectively.

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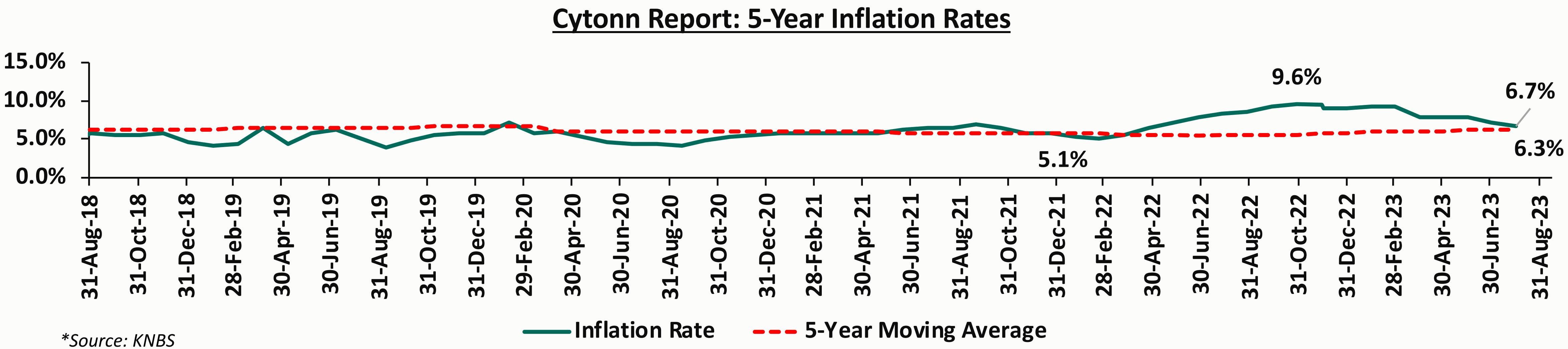
Inflation

Inflation averaged at 8.5% in H1'2023 compared to 6.3% in H1'2022



**Source: KNBS*

- The year-on-year inflation rate in the month of August 2023 eased to 6.7%, from the 7.3% inflation rate recorded in the month of July 2023, marking the second consecutive month that the inflation has remained within the CBK target range of 2.5%-7.5%.
- The headline inflation in August 2023 was majorly driven by increase in prices of commodities in the following categories, food and non-alcoholic beverages (7.5%); housing, water, electricity, gas and other fuels (7.5%); and transport (13.1%)
- Despite the easing of year-on-year inflation, the risk of an elevation of inflation above the CBK target range remains high following the effectuation of the Finance Act 2023, which provisions a double increase in VAT on petroleum products to 16.0% from 8.0%. With fuel being a major input in most businesses, the cost of production is expected to remain elevated.

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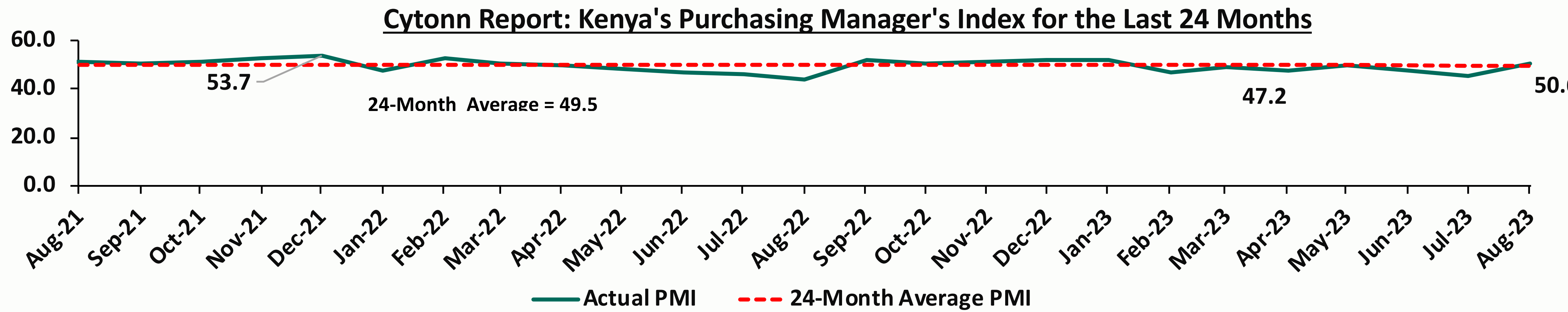
Stanbic PMI Index

The PMI averaged at 48.7 in H1’2023, compared to 49.3 in H1’2022



**Source: Markit Economics*

- The Stanbic Purchasing Managers Index (PMI) for the month of August 2023 came in at 50.6, up from 45.5 in July 2023, signalling an expansion in business conditions for the first time since January. The expansion was attributable to the greater political stability, improved food supply and increased marketing of products which led to the increase in new orders and higher purchasing activity especially in the services and manufacturing sectors. Output levels recovered slightly in August as new orders increased which saw firms grow more confident about their output prospects leading to an accelerated job creation
- Key to note, a PMI reading of above 50 indicates improvements in the business environment, while a reading below 50 indicates a worsening outlook. Going forward we project the business environment in Kenya will improve in the short term, primarily due to the eased political environment as well as increased food supply which saw the August inflation ease to 6.7%, from 7.3% recorded in the month of July

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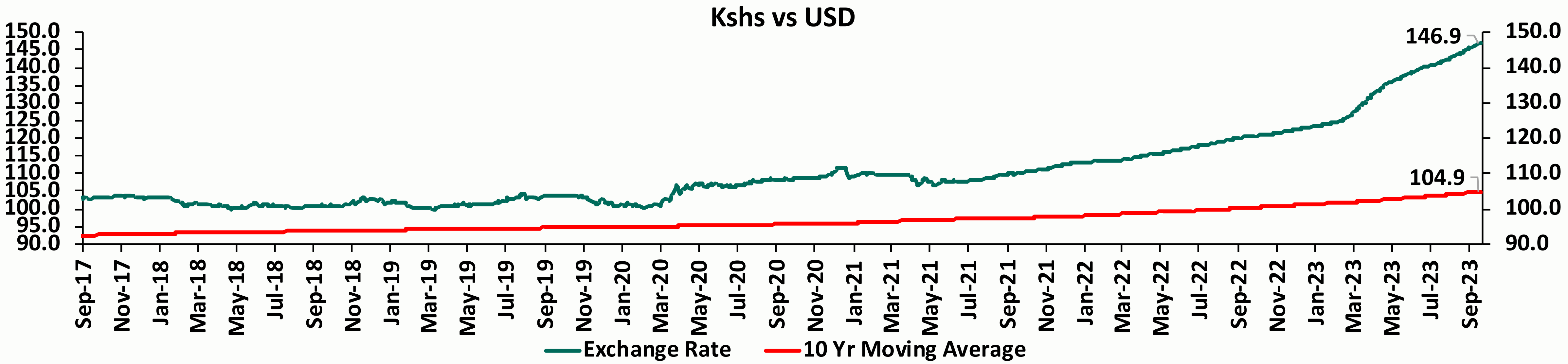
Currency

As of 22nd September 2023 the Kenyan shilling had depreciated by 19.3% on Year-To-Date basis against the US Dollar



**Source: Central Bank of Kenya*

- As of 22nd September 2023 the shilling had depreciated by 19.3% on year-to-date basis against the dollar, adding to the 9.0% depreciation recorded in 2022, partly attributable to the persistent dollar demand from importers, especially in the oil and energy sectors
- The local currency is however expected to be supported by the diaspora remittances which stood at USD 2,766.3 mn in 2023 as of August 2023, 3.4% higher than the USD 2,674.5 mn recorded over the same period in 2022

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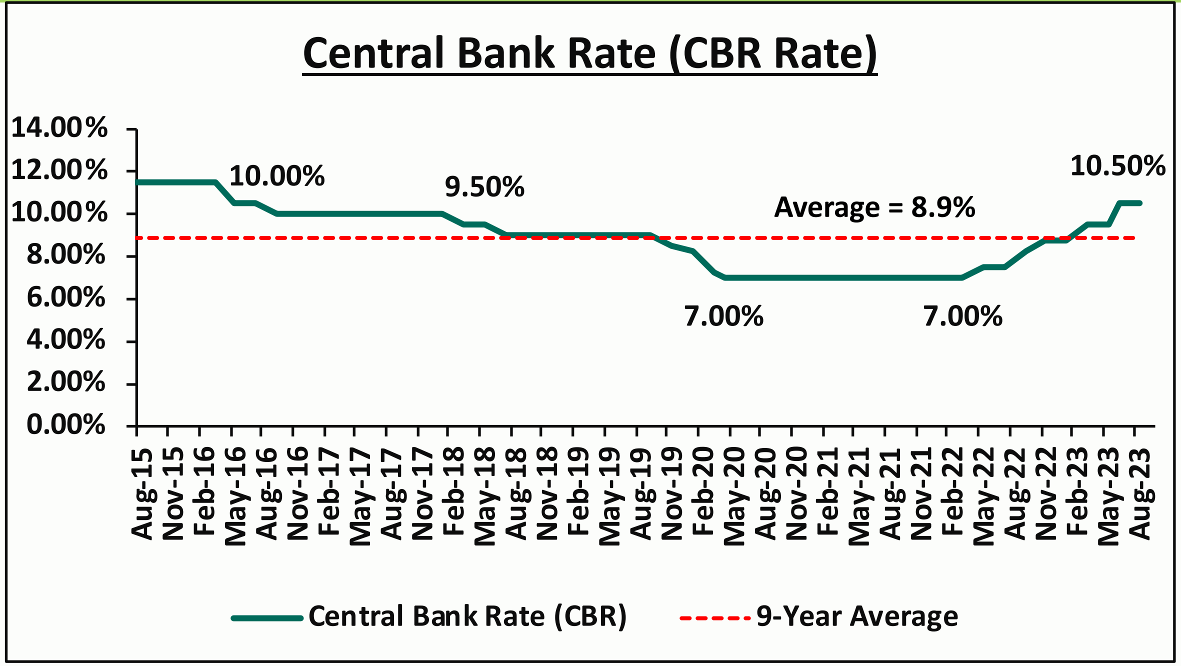
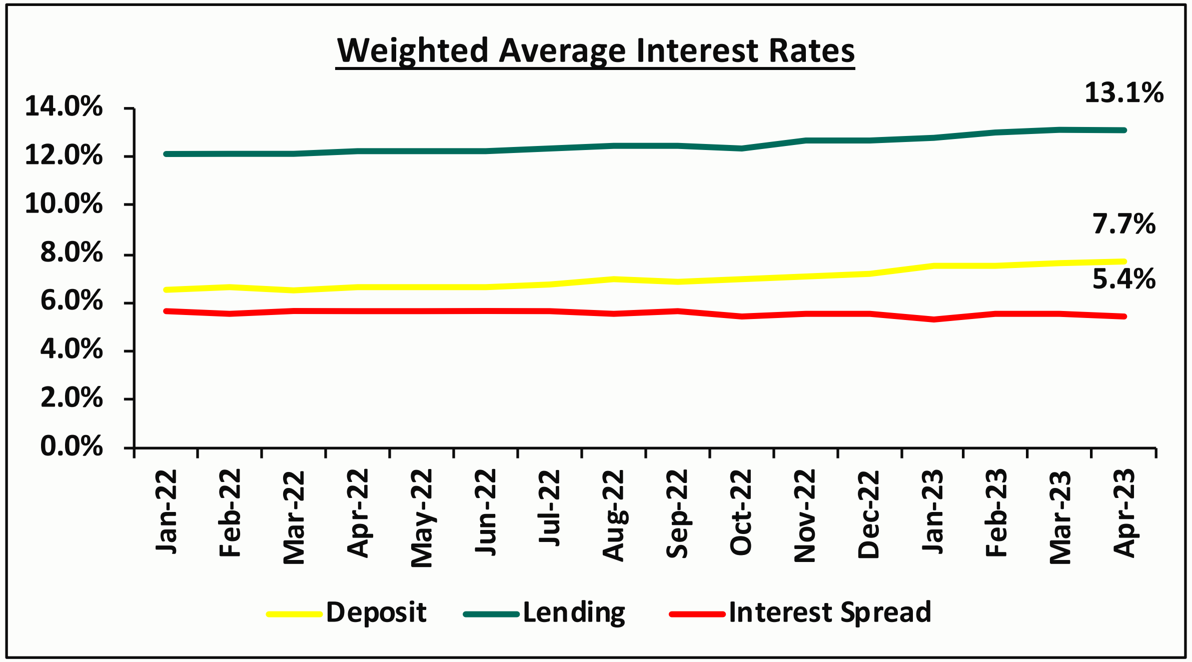
Interest Rates and Monetary Policy

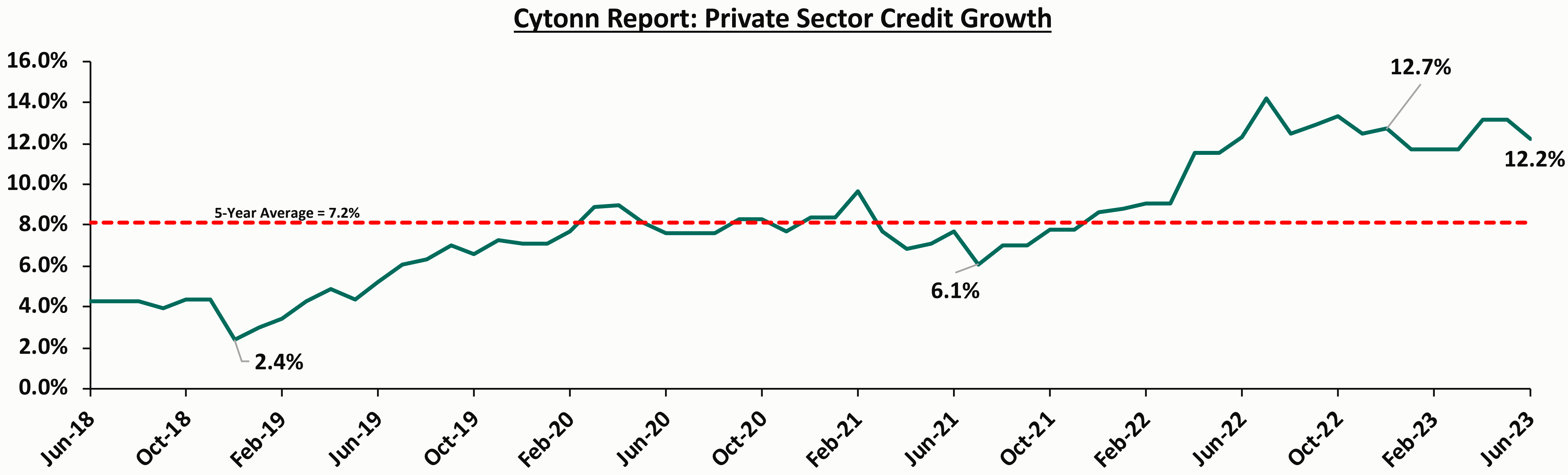




**Source: CBK*

- In the last sitting in September 2023, the Monetary Policy Committee noted that the impact of its move to tighten the monetary policy in June 2023 to anchor inflationary pressures was still in effect to the economy and therefore it concluded that the current stance on monetary policy was appropriate and decided to retain the Central Bank Rate at 10.50%.
- Additionally, the committee noted that inflation was already within the target range and was expected to decline further as food inflation is expected to come down.

Private Sector Credit growth



**Source: KNBS*

- Growth in private sector credit declined to 12.2% in June 2023 from 13.2% in May 2023. Strong credit growth was observed in sectors such as; transport and communication, manufacturing, trade, and consumer durables of 19.9%, 18.0%, 12.5% and 11.8% respectively. Additionally, the number of loan applications and approvals remained strong, reflecting resilience in economic activities.

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III. Banking Sector Overview

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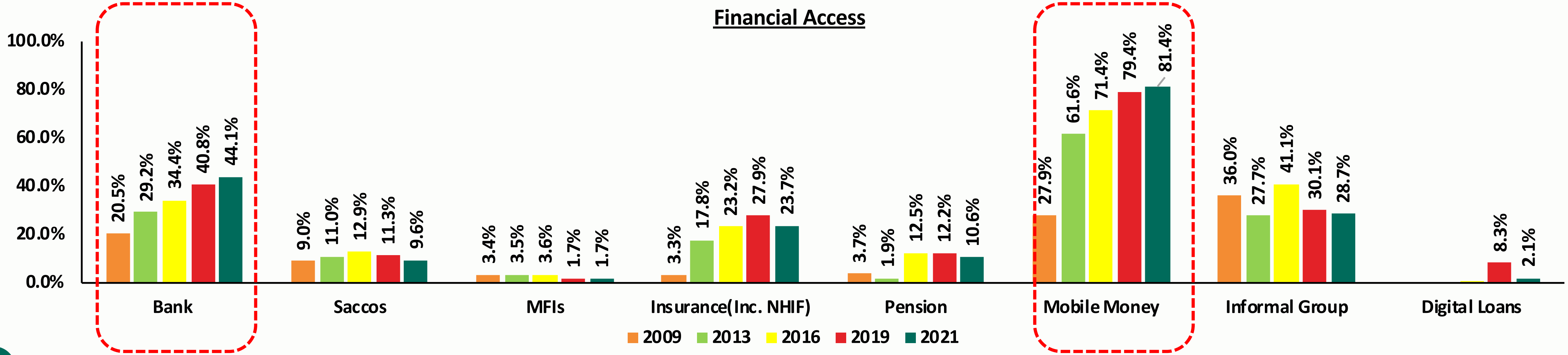
Kenyan Banking Sector Overview

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 37 commercial banks, 1 mortgage finance company, 14 microfinance banks, 10 representative offices of foreign banks, 72 foreign exchange bureaus, 19 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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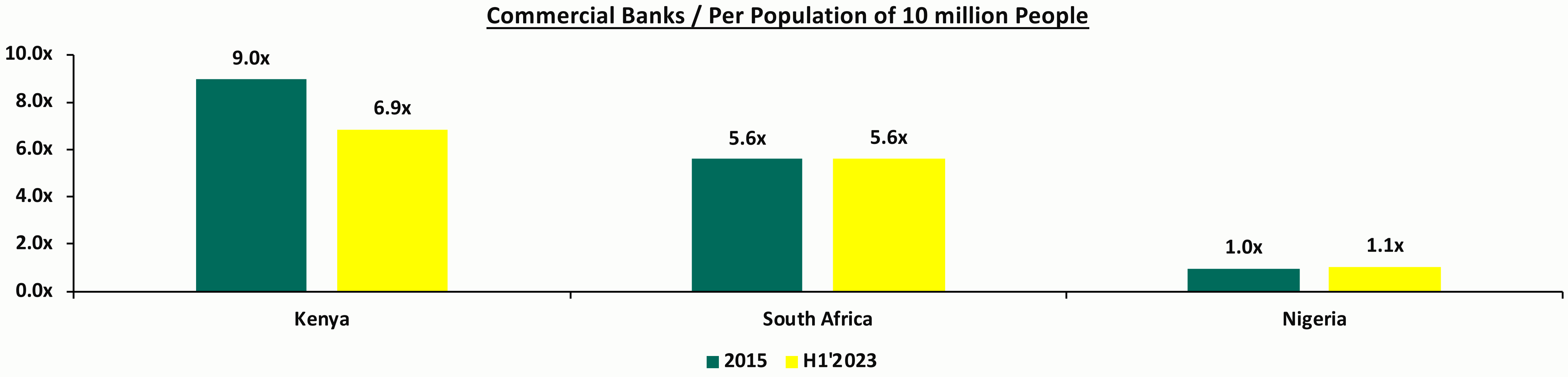
Source: Central Bank of Kenya, FinAccess report

Kenyan Banking Sector Overview

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



*Source: World Bank, Central Bank of Kenya, South Africa Reserve Bank, Central Bank of Nigeria; * Data as of June 2023*

- 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 populations in Kenya now stands at 6.9x, which is a reduction from 9.0x in FY'2015 demonstrating continued consolidation in the banking sector. However, despite the ratio improving, Kenya still remains overbanked as the number of banks remains relatively high compared to the African major economies

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Recent Developments in the Kenyan Banking Sector

1. Regulation:

- **Risk-based Lending-** Since the repeal of the Interest Cap Law in 2019, the Central Bank of Kenya has been developing a risk-based lending model to price loans. The model's primary purpose is to enable banks to lend based on the anticipated risks of each borrower. Furthermore, this represents a shift away from the negative listing of defaulters and toward a new credit score rating system that does not deny borrowers credit based on the quality of their credit bureau reference ratings. The approach targets riskier borrowers, with the majority operating in micro, small, and medium-sized businesses that have struggled to obtain conventional credit. Notably, the CBK had authorized 33 of the banks' models as of May 2023, with Equity Bank being the first commercial bank to implement risk-based lending. However, in order to prevent causing customers, anguish due to high interest rates, the approval rate for the models has been sluggish. Furthermore, the full deployment has been slowed due to a lack of data to analyse the client's risk profile

- **Foreign Exchange 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

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Recent Developments in the Kenyan Banking Sector

1. Regulation Continuation:

- 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,

iii. **In the event of non-compliance**, CBK may take appropriate enforcement and other administrative action including monetary penalties as provided for under the Banking Act against any market participant, and,

iv. **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 H1'2023, there were five completed acquisition as follows:

a) 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,

b) 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…..

2. Regional Expansion through Mergers and Acquisitions:

c) 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,

d) On 22 may 2023, the Central Bank of Kenya (CBK) announced the acquisition of 20.0% stake of Credit Bank Plc by Shorecap III, LP a Private Equity fund registered under the laws of Mauritius, with Equator Capital Partners LLC as the managers of the fund. The value of the deal was not disclosed by the CBK, however, Shorecap III, LP will take over 7,289,928 ordinary shares which constitute of 20.0% of the ordinary shares of the Bank. This move comes after Oikocredit acquired 22.8% stake of the lender in August 2019, after paying a cash consideration of Kshs 1.0 bn, with the transaction trading at price to book (P/B) multiple of 1.5x. For more information, please see our Cytonn Weekly #21/2023

Recent Developments in the Kenyan Banking Sector…..

e) On 14 June 2023 Equity Group Holdings Plc (EGH) announced that it had entered into a binding agreement with Government of Rwanda, Rwanda Social Security Board and other investors of Compagnie Generale De Banque (Cogebanque) Plc Limited to acquire a 91.9% stake in the Rwanda based lender. Upon the completion of the acquisition, EGH plans to eventually merge the business of the Cogebanque with its Rwandan Subsidiary, Equity Bank Rwanda Plc. Additionally, EGH intends to make an offer to the remaining shareholders to acquire all their shares in Cogebanque in a move that will make EGH take over 100.0% of the issued shares of Cogebanque.

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Recent Developments in the Kenyan Banking Sector….

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

Cytonn Report: Banking sector Deals and Acquisitions						
Acquirer	Bank Acquired	Book Value at Acquisition (Kshs bn)	Transaction Stake	Transaction Value (Kshs bn)	P/Bv Multiple	Date
Equity Group	Cogebanque PLC ltd	5.7	91.90%	6.7	1.3x	Jun-23
Shorecap III	Credit Bank Plc	3	20.00%	Undisclosed	N/A	Jun-23
Premier Bank Limited	First Community Bank	2.8	62.50%	Undisclosed	N/A	Mar-23
KCB Group PLC	Trust Merchant Bank (TMB)	12.4	85.00%	15.7	1.5x	Dec-22
Equity Group	Spire Bank	Unknown	Undisclosed	Undisclosed	N/A	Sep-22*
Access Bank PLC (Nigeria)*	Sidian Bank	4.9	83.40%	4.3	1.1x	June-22*
KCB Group	Banque Populaire du Rwanda	5.3	100.00%	5.6	1.1x	Aug-21
I&M Holdings PLC	Orient Bank Limited Uganda	3.3	90.00%	3.6	1.1x	Apr-21
KCB Group**	ABC Tanzania	Unknown	100%	0.8	0.4x	Nov-20*
Co-operative Bank	Jamii Bora Bank	3.4	90.00%	1	0.3x	Aug-20
Commercial International Bank	Mayfair Bank Limited	1	51.00%	Undisclosed	N/D	May-20*
Access Bank PLC (Nigeria)	Transnational Bank PLC.	1.9	100.00%	1.4	0.7x	Feb-20*
Equity Group **	Banque Commerciale Du Congo	8.9	66.50%	10.3	1.2x	Nov-19*
KCB Group	National Bank of Kenya	7	100.00%	6.6	0.9x	Sep-19
CBA Group	NIC Group	33.5	53%:47%	23	0.7x	Sep-19
Oiko Credit	Credit Bank	3	22.80%	1	1.5x	Aug-19
CBA Group**	Jamii Bora Bank	3.4	100.00%	1.4	0.4x	Jan-19
AfricInvest Azure	Prime Bank	21.2	24.20%	5.1	1.0x	Jan-18
KCB Group	Imperial Bank	Unknown	Undisclosed	Undisclosed	N/A	Dec-18
SBM Bank Kenya	Chase Bank Ltd	Unknown	75.00%	Undisclosed	N/A	Aug-18
DTBK	Habib Bank Kenya	2.4	100.00%	1.8	0.8x	Mar-17
SBM Holdings	Fidelity Commercial Bank	1.8	100.00%	2.8	1.6x	Nov-16
M Bank	Oriental Commercial Bank	1.8	51.00%	1.3	1.4x	Jun-16
I&M Holdings	Giro Commercial Bank	3	100.00%	5	1.7x	Jun-16
Mwalimu SACCO	Equatorial Commercial Bank	1.2	75.00%	2.6	2.3x	Mar-15
Centum	K-Rep Bank	2.1	66.00%	2.5	1.8x	Jul-14
GT Bank	Fina Bank Group	3.9	70.00%	8.6	3.2x	Nov-13
Average			**75.0%**		**1.3x**	
2013 to 2018 Avg.			**73.5%**		**1.7x**	
2019 to 2023 Avg.			**75.8%**		**0.9x**	

*** Announcement Date**

**** Deals that were dropped**

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Recent Developments in the Kenyan Banking Sector….

3. Asset Quality:

- Asset quality for listed banks improved in H1'2023, with the weighted average Gross Non-Performing Loan ratio (NPL) decreasing by 0.3% points to 12.7%, from 13.0% recorded in H1'2022. The performance remained 3.0% points above the ten-year average of 9.8%. The deterioration in asset quality in H1'2023 was mainly driven by 3.4% points increase in I&M Bank NPL ratio to 12.7%, from 9.3% in H1'2022
- The deterioration in I&M Bank asset quality was mainly attributable to 57.5% increase in Gross non-performing loans to Kshs 36.6 bn in H1'2023 from Kshs 23.3 bn in H1'2022, which outpaced the 15.6% increase in gross loans to Kshs 288.0 bn from Kshs 249.1 bn recorded in H1'2022. However, the deterioration in listed banks asset quality was mitigated by an improvement in KCB Group's Asset quality, with Gross NPL ratio decreasing to 17.2% in H1'2023 from 21.4% in H1'2022, attributable to 30.6% increase in Gross loans to Kshs 1057.9 bn, from Kshs 809.8 bn in H1'2022, which outpaced the 4.9% increase in gross non-performing loans to Kshs 182.0 bn, from Kshs 173.4 bn recorded in H1'2022. A total of 5 out of the ten listed Kenyan banks recorded improvement in asset quality, despite the deteriorated general business environment which was evidenced by the average Purchasing Managers Index coming at 48.7 in H1'2023, lower than the average of 49.3 recorded in the same period in 2022. Going forward, we expect credit risk to remain elevated in the short to medium term mainly on the back of tough operating environment occasioned by elevated inflationary pressures as well as sustained depreciation of the Kenya shilling.

Banking Sector Growth Drivers

- **Revenue Diversification:** In H1'2023, non-funded income (NFI) recorded a 27.9% weighted average growth compared to a 24.4% weighted growth in H1'2022, with many banks diversifying their revenue sources. Consequentially, the weighted average contribution of NFI to total operating income came in at 38.9% in H1'2023, 1.8% points higher than the 37.1% weighted average growth contribution recorded in H1'2022. As such, there exists an opportunity for the sector to further increase NFI contributions to revenue given the continuous adoption of digitization.

- **Growth in Interest income:** Going forward, we expect interest income growth to remain a key driver in the banking industry, as evidenced by the weighted average growth of 28.2% in H1'2023, compared to 18.0% recorded in H1'2022. Additionally, the continued approval of banks risk-based lending models will enable banks to effectively price their risk, expand loan books, and consequently increase their interest income.

- **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, the majority of the bigger banks have continued to cushion 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 expansion and consolidation, which has largely contributed to their increased asset base as well as earnings growth. As such, we expect to see a continued expansion trend aimed at revenue optimization

IV. Listed Banking Sector Metrics

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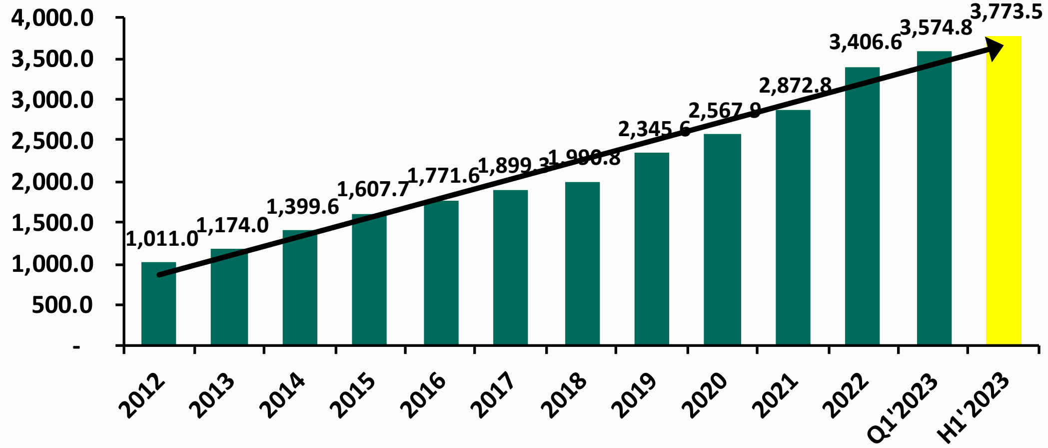
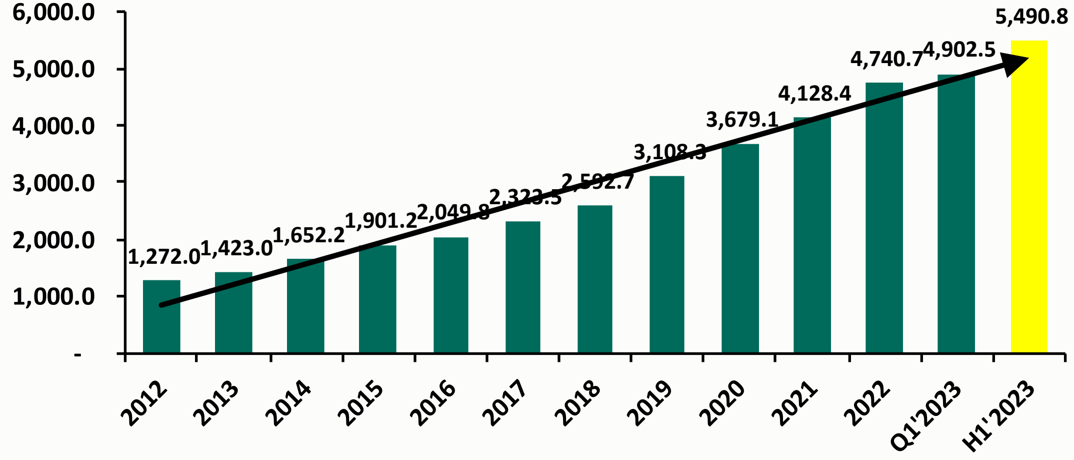
Listed Banking Sector Metrics

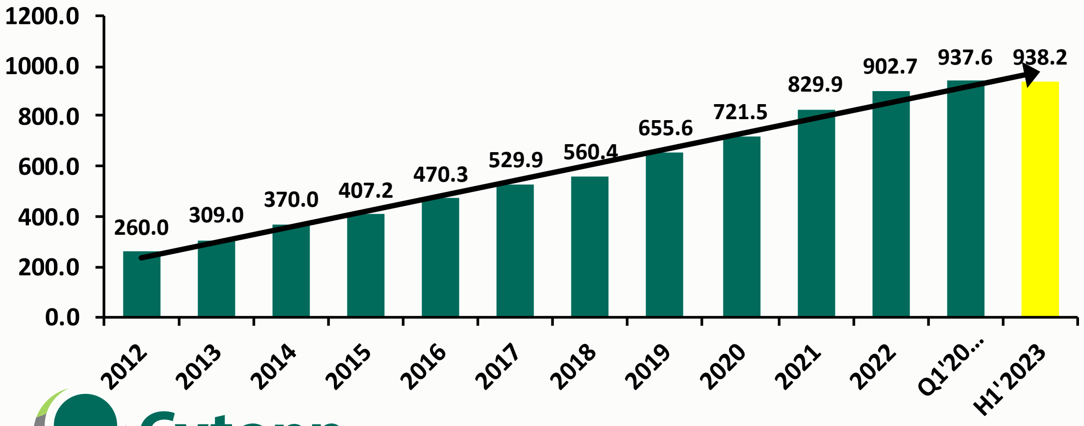
Loans and Advances (Kshs Bn)



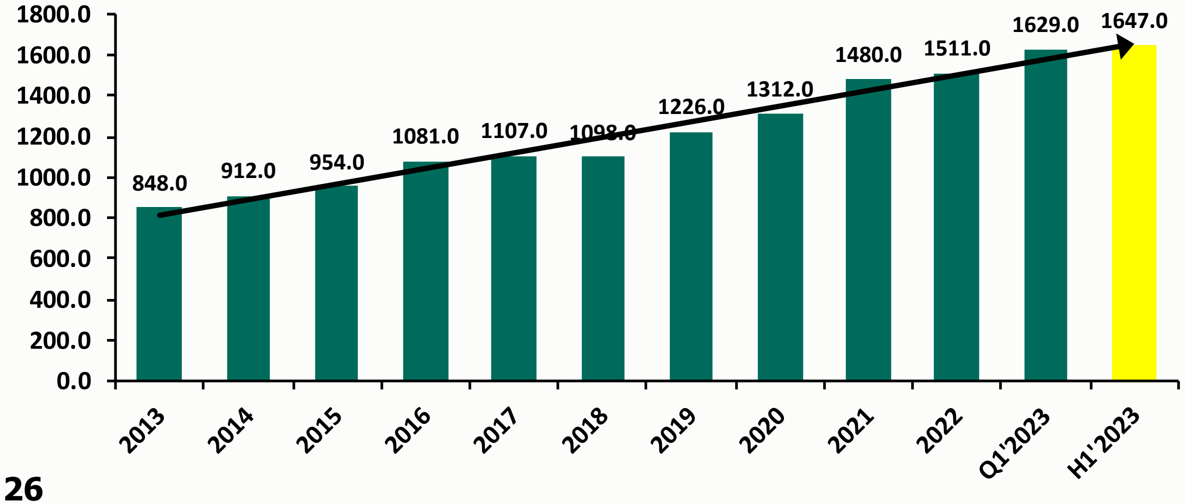
Deposits (Kshs Bn)



Shareholders Equity (Kshs Bn)

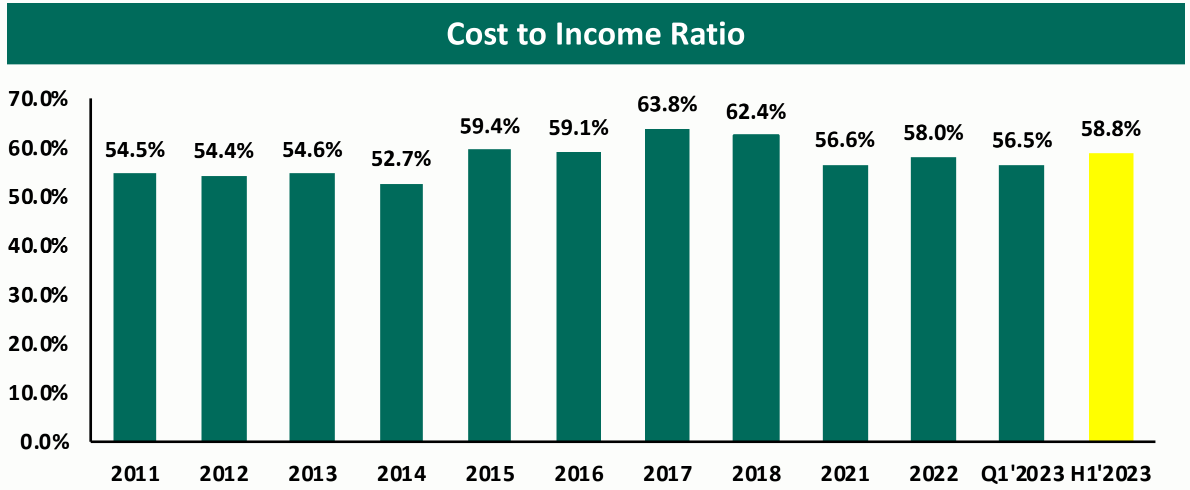


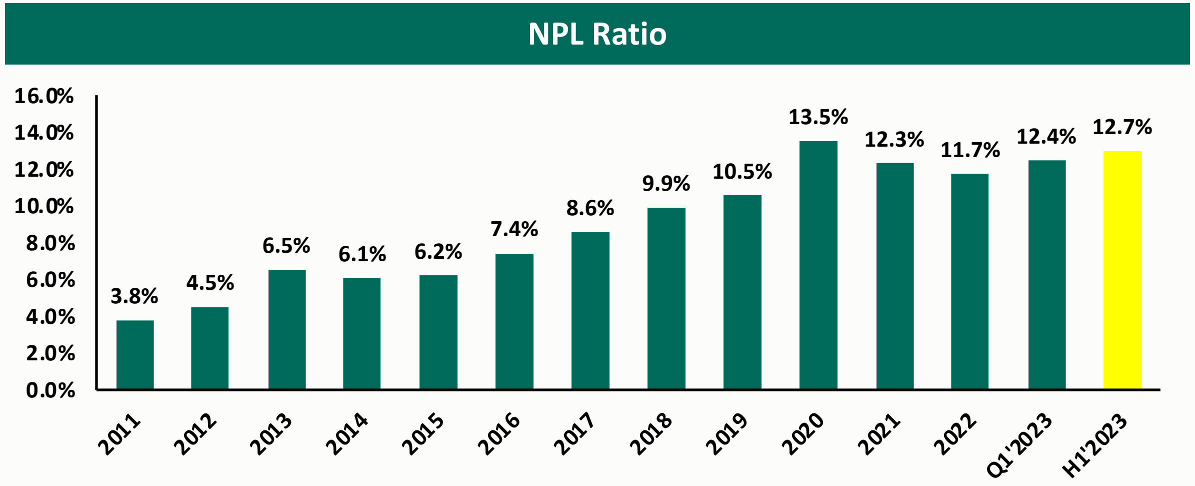
Bank Branches

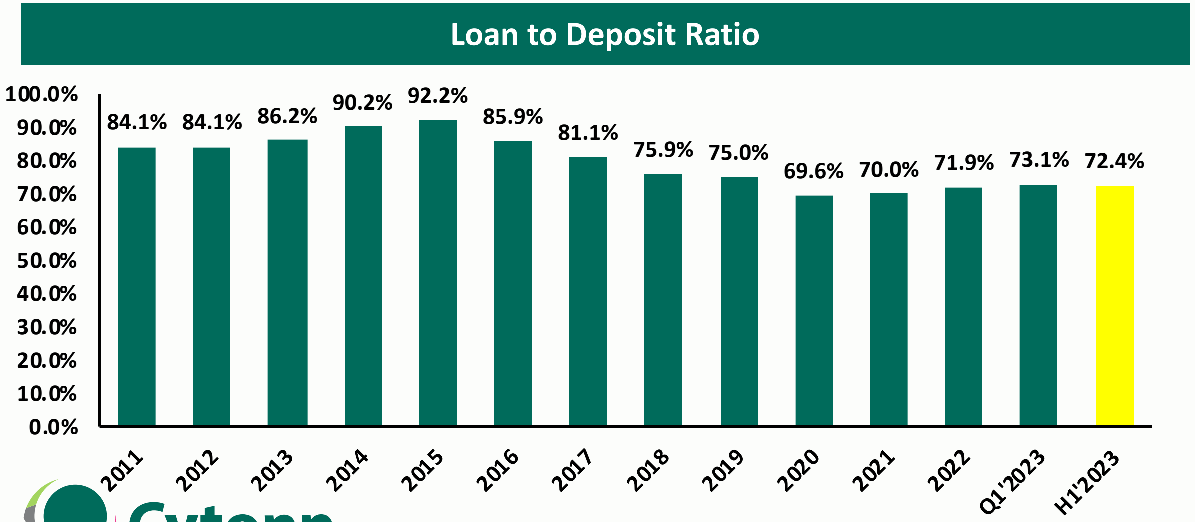


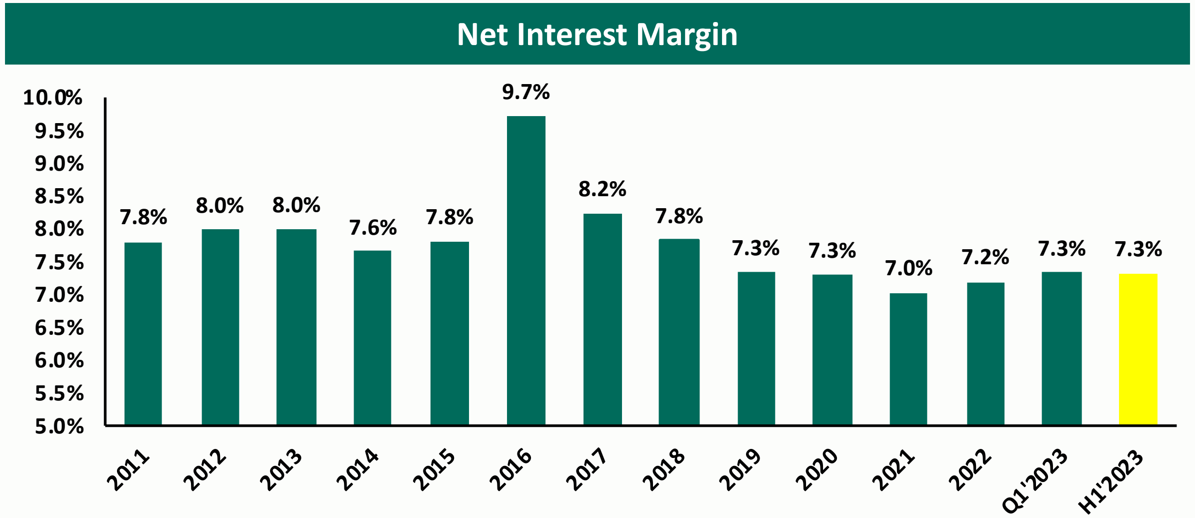
Listed Banking Sector Metrics

Banks' asset quality improved in H1'2023, with the NPL ratio increasing to decreasing to 12.7% from 13.0% in H1'2023









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Listed Banking Earnings and Growth Metrics

Kenya's listed banks weighted average core EPS grew by 14.3% in H1'2023, compared to 34.0% in H1'2022

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 Group	264.8%	18.5%	13.0%	24.2%	5.2%	10.1%	30.1%	51.1%	4.0%	6.3%	93.5%	9.1%	4.7%
Stanbic Bank	47.0%	46.3%	51.5%	44.4%	7.1%	29.7%	42.5%	22.5%	10.5%	10.1%	98.6%	15.3%	18.5%
Absa Bank	32.0%	36.9%	50.3%	33.2%	9.0%	25.7%	29.7%	21.1%	18.1%	(3.9%)	95.6%	21.6%	27.7%
NCBA Group	27.7%	33.4%	0.9%	38.3%	8.0%	26.8%	33.7%	11.7%	(1.1%)	(31.7%)	51.3%	13.2%	23.9%
SCBK	20.3%	21.7%	29.7%	16.3%	6.0%	(2.6%)	44.5%	10.0%	10.3%	(0.5%)	56.6%	16.7%	18.2%
DTBK	10.6%	32.4%	53.7%	17.8%	5.3%	42.2%	29.7%	36.7%	20.6%	4.2%	67.3%	20.4%	10.2%
Equity Bank	7.8%	27.0%	54.3%	16.5%	7.2%	41.2%	44.0%	38.3%	21.0%	17.6%	69.5%	25.6%	29.1%
Coop Bank	5.9%	12.0%	38.9%	2.3%	8.2%	4.0%	39.1%	8.4%	22.7%	2.9%	78.8%	10.7%	22.2%
KCB Group	2.2%	22.1%	31.2%	16.1%	6.2%	36.7%	36.1%	12.1%	13.9%	(7.6%)	75.6%	16.7%	15.0%
I&M Holdings	(18.3%)	28.6%	76.6%	12.1%	6.7%	43.4%	37.7%	56.1%	61.9%	30.1%	65.6%	32.1%	19.1%
H1'23 Mkt Weighted Average*	**14.3%**	**28.2%**	**44.8%**	**21.0%**	**7.3%**	**27.9%**	**38.9%**	**26.6%**	**21.3%**	**5.3%**	**72.3%**	**20.5%**	**22.9%**
H1'22 Mkt Weighted Average**	**34.0%**	**18.0%**	**18.6%**	**17.7%**	**7.3%**	**24.4%**	**37.1%**	**17.9%**	**11.3%**	**11.6%**	**72.7%**	**17.7%**	**21.9%**

*Market cap weighted as at 22/09/2023

**Market cap weighted as at 09/09/2022

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Takeout from Key Operating Metrics

The listed banks recorded a 22.9% weighted average growth on RoaE, 1.0% higher than the 21.9% H1’2022

- Listed banks recorded a 14.3% growth in core Earnings per Share (EPS) in H1’2023, compared to the weighted average growth of 34.0% in H1’2022, an indication of sustained performance despite the tough operating environment experienced in H1’2023 on the back of elevated inflationary pressures. The performance during the period was mainly supported by a 27.9% weighted average growth in non-funded income, coupled with a 21.0% weighted average growth in net interest income,
- Listed banks investments in government securities slowed down in H1’2023, having recorded a market weighted average growth of 5.3% compared to a 11.6% growth recorded in H1’2022. The slowed growth of investment in Kenya government securities is partly attributable to the increased perceived risk of default by the government, mainly on the back of high debt sustainability concerns given the current high public debt stock as well as the upcoming Eurobond maturity in June 2024,
- The listed banks Net loans and advances to customers recorded a weighted average growth of 20.5% in H1’2023 compared to 17.7% in H1’2023, an indication of increased lending despite the elevated credit risk,
- Interest income recorded a weighted average growth of 28.2% in H1’2023, compared to 18.0% in H1’2022. Similarly, interest expenses recorded a market weighted average growth of 44.8% in H1’2023 compared to a growth of 18.6% in H1’2022. As such, net interest income recorded a weighted average growth of 21.0% in H1’2022 compared to 17.7% in H1’2022
- The listed banks recorded a 22.9% weighted average growth on return on average equity (RoaE), 1.0% point higher than the 21.9% growth recorded in H1’2022. Additionally, the entire banking sector’s Return On Equity (ROE) recorded 3.2% points increase to 33.0% in H1’2023, from 26.8% recorded in H1’2022

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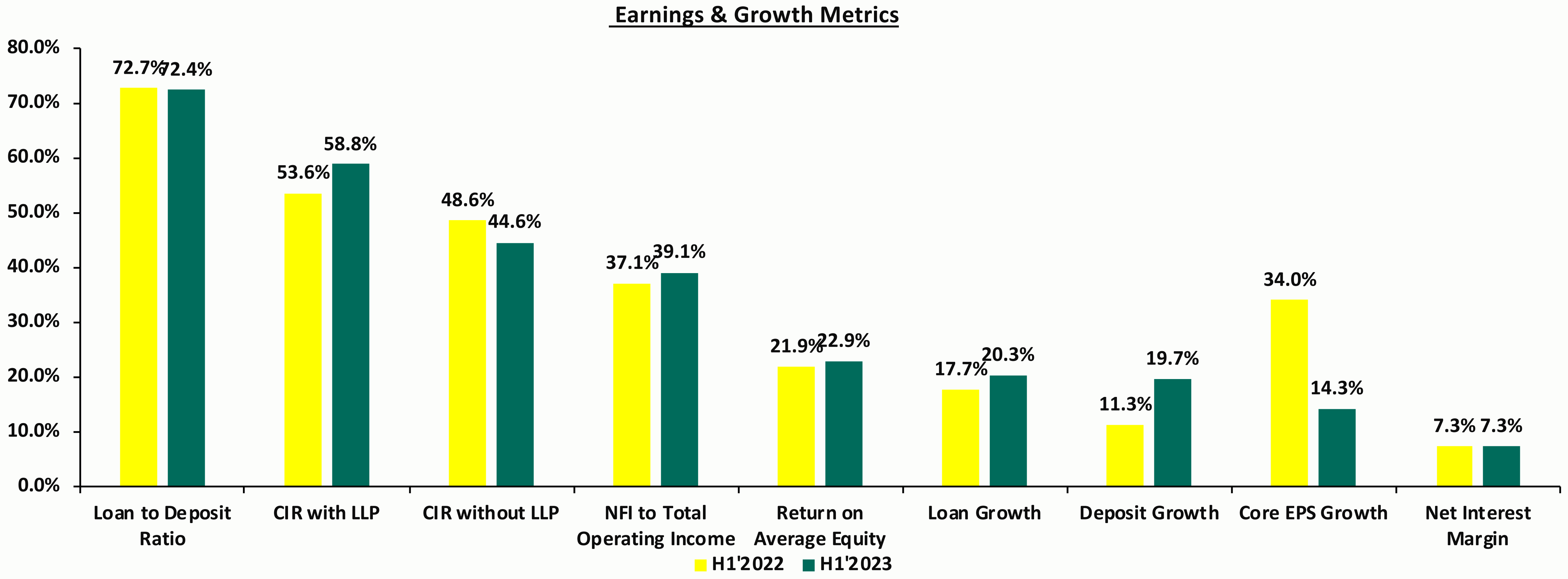
Listed Banks Earnings and Growth Metrics Cont…

Revenue diversification has been witnessed in the banking sector as evidenced by the increase in the NFI contribution to Total Operating Income to 39.1% in H1'2023, compared to a 37.1% in H1'2023



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Listed Banks Operating Metrics

Asset quality for the listed banks improved during the period, with the market-weighted average NPL ratio decreasing by 0.3% points to 12.7%, from 13.0% in H1’2022

	H1'2023 NPL Ratio*	H1'2022 NPL Ratio**	% point change in NPL Ratio	H1'2023 NPL Coverage*	H1'2022 NPL Coverage**	% point change in NPL Coverage
Stanbic Bank	8.1%	9.4%	(1.3%)	57.4%	56.0%	1.4%
ABSA Bank Kenya	9.5%	7.1%	2.4%	69.4%	78.5%	(9.1%)
Equity Group	11.2%	8.8%	2.4%	54.5%	64.1%	(9.6%)
Diamond Trust Bank	12.3%	12.8%	(0.5%)	46.4%	44.2%	2.2%
I&M Holdings	12.7%	9.3%	3.4%	49.8%	77.5%	(27.7%)
NCBA Group	13.4%	13.6%	(0.2%)	57.8%	62.0%	(4.2%)
Standard Chartered Bank Kenya	14.4%	15.4%	(1.0%)	84.8%	83.9%	0.9%
Co-operative Bank of Kenya	14.6%	14.1%	0.5%	60.7%	65.8%	(5.1%)
KCB	17.2%	21.4%	(4.2%)	51.1%	45.8%	5.3%
HF Group	23.1%	20.1%	3.0%	72.0%	77.6%	(5.6%)
Mkt Weighted Average	**12.7%**	**13.0%**	**(0.3%)**	**60.1%**	**62.3%**	**(2.2%)**

*Market cap weighted as at 21/09/2023

**Market cap weighted as at 09/09/2021

Cytonn

Listed Banks Trading Metrics

The listed banking sector has continued to trade at cheaper prices compared to historical averages, currently trading at an average P/TBV of 0.8x and average P/E of 3.5x

Bank	No. of shares (bn)	Market Cap (Kshs bn)	P/E	Price*	P/TBV
HF Group	0.4	**1.7**	4.8x	4.5	0.2x
Diamond Trust Bank	0.3	**13.4**	2.0x	48.0	0.2x
NCBA bank	1.6	**61.4**	4.5x	37.3	0.7x
I&M Group	1.7	**28.9**	2.5x	17.5	0.4x
Stanbic Holdings	0.4	**43.9**	4.8x	111.0	0.8x
Co-operative bank	5.0	**58.4**	3.2x	11.8	0.8x
KCB Group	3.2	**71.8**	1.8x	22.4	0.4x
Stanchart	0.4	**61.6**	5.2x	163.0	1.1x
ABSA Bank Kenya	5.4	**64.4**	4.4x	11.9	1.0x
Equity Holdings	3.8	**139.2**	3.0x	36.9	0.8x
Weighted Average H1'2023			**3.5x**		**0.8x**

*Prices as at 22nd Sept 2023

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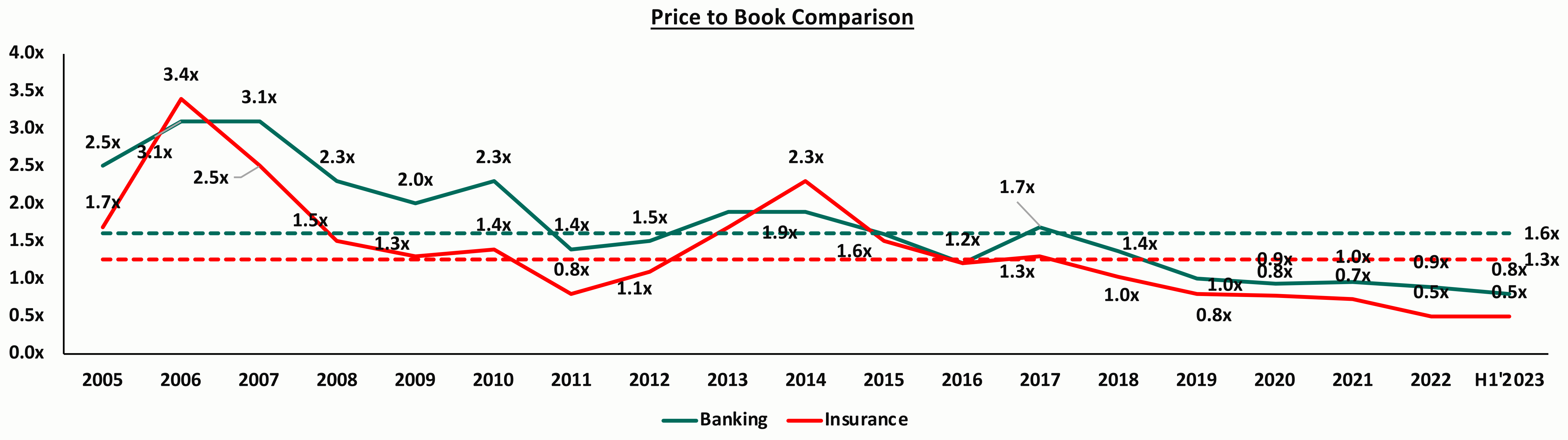
Listed Banks & Insurance Trading Metrics

Listed banks are trading at an average P/B of 0.8x, 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 0.8x, 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

Ranking by Franchise Value

Stanbic Bank emerged top in the franchise ranking having had the lowest Cost to Income Ratio (CIR) of 53.5% against a market average of 58.8%

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
Stanbic Bank	5	1	6	5	8	7	1	7	2	3	3	2	**50**	**1**
Coop Bank	1	3	4	2	4	5	9	8	5	1	4	5	**51**	**2**
Absa Bank	4	4	2	1	6	9	5	1	4	6	10	1	**53**	**3**
Equity Bank	6	5	1	4	2	8	6	2	7	9	2	3	**55**	**4**
SCBK	10	2	3	3	7	10	2	7	1	2	7	6	**60**	**5**
I&M Holdings	3	7	8	7	3	4	3	5	8	4	6	7	**65**	**6**
NCBA Group	9	6	7	8	9	6	4	6	6	7	1	4	**73**	**7**
KCB Group	8	9	5	6	1	3	8	9	10	10	5	9	**83**	**8**
DTBK	7	8	9	9	5	1	7	4	9	8	9	8	**84**	**9**
HF Group	2	10	10	10	10	2	10	10	3	5	8	10	**90**	**10**

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Valuation Summary of Listed Banks

KCB Group presents the highest return with a total potential return of 46.1%

(all values in Kshs)

Bank	Market Price	Fair Value	Upside/(Downside)	DPS	Dividend Yield	Total Potential Return	H1’2023 Ranking
KCB Group	22.4	30.7	37.1%	2.00	8.9%	46.1%	1
I&M Holdings	17.5	21.8	24.3%	2.25	12.9%	37.2%	2
Absa Bank	11.9	14.8	24.5%	1.35	11.4%	35.9%	3
DTBK	48.0	58.1	20.9%	5.00	10.4%	31.4%	4
NCBA Group Plc	37.3	43.2	15.9%	4.25	11.4%	27.3%	5
Coop Bank	11.8	13.5	14.2%	1.50	12.7%	26.9%	6
Equity Bank	36.9	42.6	15.4%	4.00	10.8%	26.2%	7
SCBK	163.0	170.9	4.9%	22.00	13.5%	18.4%	8
Stanbic Holdings	111.0	118.2	6.5%	12.60	11.4%	17.8%	9
HF Group	4.5	3.2	(27.6%)	0.00	0.0%	(27.6%)	10

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 Score	H1'2023 Rank	H1'2023 Rank
Absa Bank	3	3	3.0	3	1
I&M Holdings	6	2	3.6	5	2
KCB Group	8	1	3.8	4	3
Coop Bank	2	6	4.4	2	4
Stanbic Bank	1	9	5.8	6	5
Equity Bank	4	7	5.8	1	6
NCBA Group	7	5	5.8	9	7
DTBK	9	4	6.0	8	8
SCBK	5	8	6.8	7	9
HF Group	10	10	10.0	10	10

VI. Appendix

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A. Tier I Banks

I. Equity Group Holdings

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Equity Group Summary of Performance –H1’2023

- Profit before tax decreased by 2.1% to Kshs 7.0 bn in H1’2023, from Kshs 7.2 bn in H1’2022, with effective tax rate declining to 28.5% in H1’2023, from 31.5% in H1’2022. As such, the profit after tax increased by 2.2% to Kshs 5.0 bn in H1’2023, from Kshs 4.9 bn in H1’2022
- Total Operating Income rose by 22.8% to Kshs 19.1 bn in H1’2023, from Kshs 15.6 bn in H1’2022 mainly driven by a 16.1% increase in Net Interest Income (NII) to Kshs 12.2 bn, from Kshs 10.5 bn in H1’2022, coupled with a 36.7% growth in Non-Funded Income (NFI) to Kshs 6.9 bn, from Kshs 5.1 bn in H1’2022
- Total operating expenses increased by 45.9% to Kshs 12.5 bn in H1’2023, from Kshs 8.6 bn in H1’2022, driven by 144.5% increase in loan loss provisions to Kshs 3.2 bn, from Kshs 1.3 bn recorded in H1’2022, coupled with a 15.7% increase in staff costs to Kshs 3.5 bn, from Kshs 3.0 bn in H1’2022.
- The balance sheet recorded an expansion as total assets grew by 14.5% to Kshs 503.5 bn, from Kshs 439.7 bn in H1’2022
- The Group’s Gross Non-Performing Loans (NPLs) increased by 57.5% to Kshs 36.6 bn in H1’2023, from Kshs 23.3 bn in H1’2022, while Gross loans increased by 15.6% to Kshs 288.0 bn, from Kshs 249.1 bn recorded in H1’2022, leading to an deterioration in the asset quality with the NPL ratio rising to 12.7%, from 9.3% recorded in H1’2023
- Going forward, we expect the bank’s growth to be driven by:

I. **Digital diversification:** The bank launched digital unsecured personal loans in Kenya in 2021 and as of December 2022, the bank had disbursed a cumulative total of Kshs 2.1 bn from Kshs 0.1 bn as of December 2021. As such, we expect the Group’s focus on investing in digital platforms to diversify revenue and increase on its business opportunities

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Financial Statements Extracts

Equity Group's PAT is expected to grow at a 5-year CAGR of 13.4%

Income Statement	2020	2021	2022	2023f
Net Interest Income	55.1	68.8	86.0	115.3
Non Funded Income	38.5	44.6	59.9	63.2
Total Operating Income	93.7	113.4	145.9	178.5
Loan Loss Provision	(26.6)	(5.8)	(15.4)	(20.0)
Other Operating Expenses	(46.0)	(55.7)	(70.7)	(85.8)
Total Operating Expenses	**(72.7)**	**(61.5)**	**(86.1)**	**(105.9)**
Profit Before Tax	22.2	51.9	59.8	72.6
Profit After tax	20.1	40.1	46.1	50.8
% PAT Change YoY	**(10.9%)**	**99.4%**	**15.1%**	**10.3%**
EPS	5.3	10.6	12.2	13.5
DPS	-	3.0	4.0	5.0
Cost to Income	77.6%	54.2%	59.0%	59.3%
NIM	**7.6%**	**6.8%**	**7.2%**	**7.8%**
ROaE	16.5%	26.6%	26.7%	23.3%
ROaA	2.4%	3.5%	3.4%	3.0%
Balance Sheet	**2020**	**2021e**	**2022e**	**2023f**
Net Loans and Advances	477.8	587.8	706.6	952.0
Government Securities	175.7	228.5	219.2	332.0
Other Assets	361.5	488.7	521.2	670.7
Total Assets	**1015.1**	**1304.9**	**1447.0**	**1954.6**
Customer Deposits	740.8	959.0	1052.2	1363.8
Other Liabilities	135.7	169.7	212.6	322.0
Total Liabilities	**876.5**	**1128.7**	**1264.8**	**1685.8**
Shareholders Equity	**132.2**	**169.2**	**176.2**	**260.5**
Number of Shares	**3.8**	**3.8**	**3.8**	**3.8**
Book value Per share	35.0	44.8	46.7	69.0
% Change in BPS YoY	**19.4%**	**28.0%**	**4.2%**	**47.8%**

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Valuation Summary

Equity Group is undervalued with a total potential return of 26.2%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	56.6	40.0%	22.7
Residual Income	22.2	30.0%	6.7
PBV Multiple	40.5	15.0%	6.1
PE Multiple	47.9	15.0%	7.2
Fair Value			**42.59**
Current Price			**36.9**
Upside/(Downside)			15.4%
Dividend Yield			10.8%
Total Potential Return			**26.2%**

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II. KCB Group

KCB Group Summary of Performance – H1'2023

- Profit before tax decreased by 20.3% to Kshs 22.5 bn from Kshs 28.2 bn in H1'2022, with effective tax rate decreasing to 28.5% in H1'2023 from 30.3% in H1'2022. The performance was driven by the 60.0% growth in total operating expense to Kshs 50.6 bn, from Kshs 31.6 bn in H1'2022, which outpaced the 22.2% growth in total operating Income to Kshs 73.1 bn, from Kshs 59.8 bn in H1'2022. Similarly, profit after tax decreased by 18.3% to kshs 16.1 bn, from kshs 19.6 bn in H1'2022
- Total operating income increased by 22.2% to Kshs 73.1 bn, from Kshs 59.8 bn in H1'2022, driven by a 12.1% growth in Net Interest Income to Kshs 45.5 bn, from Kshs 40.6 bn in H1'2022, coupled with a 43.4% growth in Non funded Income (NFI) to Kshs 27.6 bn, from Kshs 19.2 bn in H1'2022
- Total operating expenses increased by 60.0% to Kshs 50.6 bn, from Kshs 31.6 bn in H1'2022, largely driven by a 73.7% increase in other operating expenses to Kshs 23.0 bn, from Kshs 13.2 bn in H1'2022 coupled with a 23.9% increase in staff costs to Kshs 17.5 bn from Kshs 14.1 bn in H1'2022. Loan Loss Provisions (LLP) also increased significantly by 136.0% to Kshs 10.2 bn, from Kshs 24.3 bn in H1'2022
- The bank's Asset Quality improved, with Gross NPL ratio decreasing to 17.2% in H1'2023 from 21.4% in H1'2022, attributable to 30.6% increase in Gross loans to Kshs 1057.9 bn, from Kshs 809.8 bn in H1'2022, which outpaced the 4.9% increase in gross non-performing loans to Kshs 182.0 bn, from Kshs 173.4 bn recorded in H1'2022
- Going forward, we expect the bank's growth to be driven by:

i. **Continued Digitization -** The Group has continued to maximize on digital transformation. As of FY'2022, 99.0% of the transactions were done through the non-branch channels. The growth is also to be supported by the continued growth in mobile lending such as Fuliza and KCB Mpesa. The digital channel transactions has led to increase in NFI by 43.4% in H1'2023 to kshs 27.6 bn, from kshs 19.2 bn in H1'2022, mainly on the back of increased mobile and internet banking

Financial Statements Extracts

KCB Group's PAT is expected to grow at a 5-year CAGR of 3.3%

Income Statement	2020	2021	2022	2023f
Net Interest Income	67.9	77.7	86.7	72.7
Non Funded Income	28.5	30.9	43.3	53.8
Total Operating Income	**96.4**	**108.6**	**129.9**	**126.6**
Loan Loss Provision	27.5	13.0	13.2	16.0
Other Operating Expenses	43.2	47.8	59.4	67.2
Total Operating Expenses	**70.7**	**60.8**	**72.6**	**83.2**
Profit Before Tax	25.7	47.8	57.3	43.4
% PAT Change YoY	**(22.1%)**	**74.3%**	**19.5%**	**(25.7%)**
EPS	6.1	10.6	12.7	9.4
DPS	1.0	3.0	2.0	2.0
Cost to Income (with LLP)	73.3%	56.0%	55.9%	65.7%
NIM	8.5%	8.4%	7.5%	4.3%
ROE	14.4%	21.8%	22.0%	13.1%
ROA	2.1%	3.2%	3.0%	1.6%
Balance Sheet	**2020**	**2021**	**2022**	**2023f**
Net Loans and Advances	595.3	675.5	863.3	1203.9
Government Securities	208.8	270.8	278.0	453.3
Other Assets	183.8	193.4	412.7	657.0
Total Assets	**987.8**	**1139.7**	**1554.0**	**2314.1**
Customer Deposits	767.2	837.1	1135.4	1843.4
Other Liabilities	78.2	129.0	212.3	200.5
Total Liabilities	**845.4**	**966.2**	**1347.8**	**2044.0**
Shareholders Equity	**142.4**	**171.7**	**200.2**	**263.4**
Number of Shares	**3.2**	**3.2**	**3.2**	**3.2**
Book value Per share	44.3	53.4	62.3	82.0
% Change in BPS YoY	**9.8%**	**20.6%**	**16.6%**	**31.6%**

Valuation Summary

KCB Group is undervalued with a total potential return of 46.1%

Valuation Summary	Implied Price	Weighting	Weighted Value
Residual Income	10.4	35%	3.7
PBV Multiple	55.8	15%	8.4
PE Multiple	43.6	10%	4.4
DDM	35.7	40%	14.3
Target Price			**30.6**
Current Price			**22.4**
Upside/(Downside)			37.1%
Dividend Yield			8.9%
Total Return			**46.1%**

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III. Co-operative Bank

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Co-operative Bank Summary of Performance – H1’2023

- The bank registered a 5.9% increase in profit after tax to Kshs 12.1 bn in H1’2023, from Kshs 11.5 bn in H1’2022, driven by a a 3.0% increase in total operating income to Kshs 35.4 bn in H1’2023, from Kshs 34.4 bn in H1’2022. However, the performance was weighed down by the 12.6% increase in staff costs to Kshs 8.0 bn in H1’2022, from Kshs 7.1 bn in H1’2022
- Total operating income rose by 3.0% to Kshs 35.4 bn in H1’2023, from Kshs 34.4 bn in H1’2022 mainly driven by a 4.0%% increase in Non-Funded Income (NFI) to Kshs 13.8 bn, from Kshs 13.3 bn in H1’2022, coupled with a 2.3% growth in Net Interest Income (NII) to Kshs 21.5 bn, from Kshs 21.1 bn in H1’2022
- Total operating expenses decreased by 0.1% to Kshs 19.1 bn from Kshs 19.2 bn in H1’2022, driven by 14.4% decrease in loan loss provisions to Kshs 2.9 bn from Kshs 3.3 bn recorded in H1’2022, coupled with a 4.9% decrease in other expenses to Kshs 8.3 bn from Kshs 8.7 bn in H1’2022, which outpaced the 12.6% increase in staff costs to Kshs 8.0 bn, from Kshs 7.1 bn in H1’2022,
- The balance sheet recorded an expansion as total assets grew by 10.1% to Kshs 664.9 bn in H1’2023, from Kshs 603.9 bn in H1’2022,
- The group’s Asset Quality deteriorated, with Gross NPL ratio increasing to 14.6% in H1’2023 from 14.1% in H1’2022, attributable to 14.2% increase in Gross non-performing loans to Kshs 58.4 bn, from Kshs 51.2 bn in H1’2022, compared to the 10.2% increase in gross loans to Kshs 400.9 bn, from Kshs 363.8 bn recorded in H1’2022,
- Going forward, we expect the bank’s growth to be driven by:

i. **Digital expansion**. The lender’s continued diversification through its digital platforms like Mco-op Cash is set to continue increasing usage owing to the convenience in payment services as well as money transfer. As of FY’2022, ony 8.0% of all transactions happened at the branch while the rest were all digital transactions. In turn, the Non- Funded Income has continued to grow, registering a 4.0% growth to Kshs 13.8 bn in H1’2023 from Kshs 13.3 bn in H1’2022

Cytonn

Financial Statements Extracts

Co-operative Bank's PAT is expected to grow at a 5-year CAGR of 12.0%

Income Statement	2020	2021	2022	2023F
Net Interest Income	36.3	41.0	45.5	54.2
Non Funded Income	17.5	19.4	25.7	28.8
Total Operating Income	**53.8**	**60.4**	**71.3**	**83.0**
Loan Loss Provision	(8.1)	(7.9)	(8.7)	(10.8)
Other Operating Expenses	(31.3)	(30.2)	(33.6)	(36.2)
Total Operating Expenses	**(39.4)**	**(38.1)**	**(42.2)**	**(47.0)**
Profit Before Tax	14.3	22.6	29.4	36.1
Profit After tax	10.8	16.5	22.0	25.3
% PAT Change YoY	**(24.4%)**	**53.0%**	**33.2%**	**14.7%**
EPS	1.6	2.8	3.8	4.3
DPS	1.0	1.0	1.5	1.7
Cost to Income(with LLP)	73.2%	63.0%	59.3%	56.7%
NIM	**8.5%**	**8.5%**	**8.9%**	**8.1%**
ROE	12.5%	17.3%	21.2%	20.3%
ROA	2.2%	3.0%	3.7%	3.7%
Balance Sheet				
Net Loans and Advances	286.6	310.2	339.4	413.0
Government Securities	161.9	184.1	173.3	216.5
Other Assets	88.4	85.5	94.5	126.1
Total Assets	536.9	579.8	607.2	755.5
Customer Deposits	378.6	407.7	423.8	524.3
Other Liabilities	66.3	71.3	75.4	89.0
Total Liabilities	444.9	479.0	499.3	613.3
Shareholders Equity	90.7	100.2	107.7	141.9
Number of Shares	6.9	5.9	5.9	5.9
Book value Per share	13.2	17.1	18.4	24.2
% Change in BPS YoY	**14.4%**	**29.3%**	**7.4%**	**31.8%**

Valuation Summary

Co-operative Bank is undervalued with a total potential return of 26.9%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	16.5	40%	6.6
Residual income	9.6	30%	2.9
PBV Multiple	15.1	20%	3.0
PE Multiple	9.6	10%	1.0
Target Price			**13.5**
Current Price			**11.8**
Upside/(Downside)			14.2%
Dividend Yield			12.7%
Total Return			**26.9%**

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IV. NCBA Bank

NCBA Bank Summary of Performance – H1’2023

- Profit before tax increased by 10.5% to Kshs 12.4 bn from Kshs 11.2 bn in H1’2022, with effective tax rate decreasing to 24.4% in H1’2023 from 30.5% in H1’2022, leading to an 20.3% increase in profit after tax to Kshs 9.3 bn in H1’2023, from Kshs 7.8 bn in H1’2022.
- Total operating income increased by 7.0% to Kshs 31.0 bn, from Kshs 29.0 bn in H1’2022, driven by a 16.3% growth in Net Interest Income to Kshs 17.2 bn from Kshs 14.8 bn in H1’2022, despite the 2.6% decrease in Non Funded Income (NFI) to Kshs 13.8 bn, from Kshs 14.2 bn in H1’2022
- Total operating expenses increased by 9.3% to Kshs 18.7 bn from Kshs 17.1 bn in H1’2022, driven by 29.3% increase in staff costs to Kshs 5.8 bn from Kshs 4.5 bn recorded in H1’2022, which outpaced 21.0% decrease in loan loss provision cost to Kshs 4.4 bn from Kshs 5.6 bn in H1’2022
- The balance sheet recorded an expansion as total assets growing by 9.3% to to Kshs 660.3 bn, from Kshs 604.3 bn in H1’2022
- The group’s Asset Quality improved, with Gross NPL ratio decreasing to 13.4% in H1’2023 from 13.6% in H1’2022, attributable to the 15.9% increase in gross loans to Kshs 317.0 bn, from Kshs 273.6 bn recorded in H1’2022, which outpaced the 14.6% increase in Gross non-performing loans to Kshs 42.6 bn, from Kshs 37.2 bn in H1’2022
- Going forward, we expect the bank’s growth to be driven by:

i. **Diversification through Digitization:** The lender has capitalized on partnering with telecommunication companies to offer mobile based loaning services like Mshwari and Fuliza, which is expected to continue growing the revenue growth. 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

Cytonn

Financial Statements Extracts

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

Income Statement	2020	2021	2022	2023f
Net Interest Income	25.5	27.0	30.7	34.7
Non Funded Income	20.9	22.1	30.3	34.5
Total Operating Income	**46.4**	**49.2**	**60.9**	**69.2**
Loan Loss Provision	(20.4)	(12.7)	(13.1)	(13.8)
Other Operating Expenses	(19.6)	(20.8)	(24.9)	(31.8)
Total Operating Expenses	**(40.0)**	**(33.4)**	**(37.9)**	**(45.6)**
Profit Before Tax	5.0	15.0	22.5	23.6
Profit After Tax	4.6	10.2	13.8	17.8
% PAT Change YoY	**(41.7%)**	**123.7%**	**34.8%**	**29.4%**
EPS	2.8	6.2	8.4	10.8
DPS	2.3	3.0	0.5	0.5
Cost to Income (with LLP)	86.2%	68.1%	62.2%	65.9%
NIM	**5.8%**	**5.9%**	**5.9%**	5.7%
ROE	6.6%	13.6%	17.2%	18.5%
ROA	0.9%	1.8%	2.3%	2.5%
Balance Sheet	**2020**	**2021**	**2022**	**2023F**
Net Loans and Advances	248.5	244.0	278.9	350.3
Government Securities	163.5	196.1	205.4	240.3
Other Assets	116.0	151.0	135.4	193.4
Total Assets	528.0	591.1	619.7	784.0
Customer Deposits	421.5	469.9	502.7	615.8
Other Liabilities	33.9	43.2	34.6	57.9
Total Liabilities	455.4	513.1	537.2	673.6
Shareholders Equity	72.4	77.9	82.4	110.4
Number of Shares	1.5	1.5	1.6	1.6
Book value Per share	43.9	47.3	50.0	67.0
% Change in BPS YoY	**(1.8%)**	**7.6%**	**5.9%**	**33.9%**

Valuation Summary

NCBA Group is undervalued with a total potential return of 27.3%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM Integrated	63.7	40%	25.5
Residual Valuation	7.4	5%	0.4
PBV Multiple	33.0	35%	11.6
PE Multiple	28.9	20%	5.8
Target Price			**43.2**
Current Price			**37.3**
Upside/(Downside)			15.9%
Dividend Yield			11.4%
Total Potential Return			**27.3%**

Cytonn

V. Standard Chartered Bank Kenya

SCBK's Summary of Performance –H1'2023

- Profit before tax increased by 27.4% to Kshs 9.6 bn in H1'2023, from Kshs 7.6 bn in H1'2022, with the effective tax rate declining to 28.4%, from 28.5% in H1'2022. Similarly, Profit after tax increased by 27.7% to Kshs 6.9 bn in H1'2023, up from Kshs 5.4 bn in H1'2022
- Total operating income increased by 34.2% to Kshs 20.9 bn in H1'2023, from Kshs 15.6 bn in H1'2022, mainly driven by 38.3% increase in Net Interest Income (NII) to Kshs 13.9 bn, from Kshs 10.0 bn in H1'2022, coupled with a 26.8% increase in Non Funded Income (NFI) to Kshs 7.0 bn, from Kshs 5.5 bn in H1'2022
- Total operating expenses increased by 40.7% to Kshs 11.2 bn H1'2023, from Kshs 8.0 bn in H1'2022, largely driven by 1781.5% increase in loan loss provisions to Kshs 2.0 bn from Kshs 0.1 bn recorded in H1'2022, coupled with a 13.2% increase in staff costs to Kshs 4.1 bnin h1'2023, from Kshs 3.6 bn in H1'2022.
- The balance sheet recorded an Contraction as total assets declined marginally by 0.7% to Kshs 361.7 bn in H1'2023, from Kshs 364.3 bn in H1'2022
- Gross non-performing loans increased by 4.6% to Kshs 23.8 bn in H1'2023, from kshs 22.7 bn H1'2022, while gross loans increased by 12.2% to Kshs 165.6 bn, from Kshs 147.6 bn in H1'2022. Consequently, the group's Asset Quality improved, with the NPL ratio declining to 14.4% in H1'2023, from 15.4% in H1'2022, attributable to the 12.2% growth in gross loans, which outpaced the 4.6% increase in gross non-performing loans
- Going forward, we expect the bank's growth to be driven by:

i. **Digitalization –** Standard Chartered Bank Kenya is taking advantage of technology to improve its digital presence having digitalized 97.0% of its banking procedures as of FY'2022, consequently limiting the use of brick and mortar branches, especially with the SC Mobile App, the SC Shilling fund and enhanced product delivery to its clients.

Cytonn

Financial Statements Extracts

SCBK's PAT is expected to grow at a 5-year CAGR of 7.6%

Income Statement	2020	2021e	2022	2023f
Net Interest Income	19.1	18.8	22.2	24.7
Non Funded Income	8.3	10.4	11.8	25.2
Total Operating Income	**27.4**	**29.2**	**34.0**	**49.9**
Loan Loss Provision	3.9	2.1	1.3	3.6
Other Operating Expenses	16.1	14.5	15.5	20.6
Total Operating Expenses	**20.0**	**16.6**	**16.9**	**24.3**
Profit Before Tax	7.4	12.6	17.1	25.6
Profit After tax	5.4	9.0	12.1	16.6
% PAT Change YoY	**(33.9%)**	**66.2%**	**33.3%**	**37.7%**
EPS	14.4	24.0	32.0	44.0
DPS	10.5	14.0	16.0	19.0
Cost to Income	73.0%	56.8%	49.7%	48.6%
NIM	**6.8%**	**6.4%**	**7.0%**	**7.0%**
ROaE	11.0%	17.4%	22.1%	24.7%
ROaA	1.7%	2.7%	3.4%	4.2%
Balance Sheet	**2020**	**2021**	**2022**	**2023f**
Net Loans and Advances	121.5	126.0	139.4	166.2
Government Securities	99.8	95.6	105.7	76.0
Other assets	104.3	113.3	136.2	162.1
Total Assets	**325.6**	**334.9**	**381.3**	**404.3**
Customer Deposits	256.5	265.5	278.9	304.5
Other Liabilities	18.2	16.2	46.2	21.4
Total Liabilities	**274.7**	**281.7**	**325.1**	**325.9**
Shareholders Equity	**50.9**	**53.2**	**56.1**	**78.4**
Number of shares	**0.3**	**0.3**	**0.3**	**0.3**
Book value Per share	135.0	141.2	148.9	207.9
% Change in BPS YoY	**6.6%**	**4.6%**	**5.5%**	**39.6%**

Cytonn

Valuation Summary

SCBK is undervalued with a total potential return of 18.4%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM Integrated	235.3	40%	94.1
Residual Income	107.6	10%	10.8
PBV Multiple	126.3	20%	25.3
PE Multiple	136.2	30%	40.8
Target Price			**171.0**
Current Price			**163.0**
Upside/(Downside)			4.9%
Dividend Yield			13.5%
Total Return			**18.4%**

Cytonn

VI. Diamond Trust Bank Kenya

Cytonn

DTBK's Summary of Performance – H1'2023

- Profit before tax rose by 7.3% to Kshs 6.0 bn in H1'2023, from Kshs 5.6 bn in H1'2022. Similarly, the bank recorded a 10.5% increase in profit after tax to Kshs 4.4 bn in H1'2023, from Kshs 3.9 bn in H1'2022, with the effective tax rate declining to 27.6% in H1'2023, from 29.7% in H1'2022
- Total operating income rose by 24.1% to Kshs 18.7 bn in H1'2023, from Kshs 15.0 bn in H1'2022 mainly attributable to a 17.8% increase in Net Interest Income (NII) to Kshs 13.1 bn, from Kshs 11.1 bn in H1'2022 coupled with a 42.2% growth in Non-Funded Income (NFI) to Kshs 5.5 bn, from Kshs 3.9 bn in H1'2022
- Total operating expenses increased by 35.6% to Kshs 12.7 bn from Kshs 9.4 bn in H1'2022, driven by a 41.0% increase in staff costs to Kshs 4.1 bn from Kshs 2.9 bn in H1'2022, coupled with a 34.0% increase in loan loss provisions to Kshs 3.3 bn from Kshs 2.4 bn recorded in H1'2022,
- The balance sheet recorded an expansion as total assets grew by 19.4% to Kshs 579.2 bn in Q1'2023, from Kshs 485.0 bn in H1'2022
- The bank's Asset Quality improved, with Gross NPL ratio decreasing to 12.3% in H1'2023 from 12.8% in H1'2022, attributable to 15.0% increase in Gross non-performing loans to Kshs 36.5 bn, from Kshs 31.8 bn in H1'2022, compared to the higher 20.4% increase in gross loans to Kshs 298.1 bn, from Kshs 247.7 bn recorded in H1'2022
- Going forward, we expect the bank's growth to be driven by:

i. **Digitization:** 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 7.7%

Income Statement	2020	2021e	2022f	2023f
Net Interest Income	18.1	20.0	22.9	24.8
Non Funded Income	6.1	6.3	9.1	10.5
Total Operating Income	**24.2**	**26.3**	**31.9**	**35.3**
Loan Loss Provision	7.3	7.6	7.1	2.6
Other Operating Expenses	12.3	12.3	14.9	16.8
Total Operating Expenses	**19.7**	**19.9**	**22.1**	**19.3**
Profit Before Tax	4.7	6.6	9.5	16.0
Profit After tax	3.5	4.4	6.8	11.2
% PAT Change YoY	**(51.5%)**	**25.1%**	**53.9%**	**64.8%**
EPS	12.6	15.8	24.3	40.0
DPS	0.0	3.0	5.0	6.0
Cost to Income	81.3%	75.6%	69.1%	54.8%
NIM	**5.0%**	**5.1%**	**5.3%**	**4.8%**
ROE	5.8%	6.8%	10.0%	14.1%
ROA	0.9%	1.0%	1.4%	1.9%
Balance Sheet	**2020**	**2021e**	**2022f**	**2023f**
Net Loans and Advances	208.6	220.4	253.7	314.9
Government Securities	111.1	83.3	73.5	83.4
Other Assets	105.3	153.1	199.8	252.5
Total Assets	**425.1**	**456.8**	**527.0**	**650.8**
Customer Deposits	298.2	331.5	387.6	467.5
Other Liabilities	58.6	50.8	61.8	83.6
Total Liabilities	**356.7**	**382.3**	**449.3**	**551.2**
Shareholders Equity	62.0	67.3	69.0	89.5
Number of Shares	0.3	0.3	0.3	0.3
Book value Per share	221.6	240.7	246.6	320.0
% Change in BPS YoY	**5.3%**	**8.6%**	**2.5%**	**29.7%**

Cytonn

Valuation Summary

DTBK is undervalued with a total potential return of 31.3%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	88.4	40.0%	35.4
Residual Income	3.4	30.0%	1.0
PBV Multiple	68.0	20.0%	13.6
PE Multiple	80.6	10.0%	8.1
Target Price			**58.0**
Current Price			**48.0**
Upside/(Downside)			20.9%
Dividend yield			10.4%
Total return			**31.3%**

Cytonn

VII. ABSA Bank Kenya

ABSA Bank's Summary of Performance – H1'2023

- Profit before tax increased by 32.5% to Kshs 12.1 bn from Kshs 9.1 bn in H1'2022, with effective tax rate increasing to 31.2% in H1'2023 from 30.9% in H1'2022. As a result, the profit after tax increased by 32.0% to kshs 8.3 bn, from kshs 6.3 bn in H1'2022.
- Total operating income rose by 30.9% to Kshs 27.4 bn, from Kshs 20.9 bn in recorded in H1'2022 driven by a 33.2% growth in Net Interest Income to Kshs 19.2 bn, from Kshs 14.4 bn in H1'2022, coupled with a 25.7% growth in Non funded Income (NFI) to Kshs 8.1 bn, from Kshs 6.5 bn in H1'2022
- Total operating expenses increased by 29.7% to Kshs 15.3 bn from Kshs 11.8 bn in H1'2022, driven by 74.4% increase in loan loss provisions to Kshs 5.2 bn from Kshs 3.0 bn recorded in H1'2022, coupled with a 16.5% increase in staff costs to Kshs 5.6 bn from Kshs 4.8 bn in H1'2022 and the 12.5% increase in other operating expenses to Kshs 4.5 bn from Kshs 4.0 bn in H1'2022
- The balance sheet recorded an expansion as total assets grew by 13.1% to Kshs 503.7 bn, from Kshs 445.3 bn in H1'2022
- The asset quality deteriorated, with Gross NPL ratio increasing to 9.5% in H1'2023 from 7.1% in H1'2022, attributable to 62.6% increase in gross non-performing loans to Kshs 32.2 bn, from Kshs 19.8 bn in H1'2022, which outpaced the 22.8% increase in gross loans to Kshs 340.3 bn, from Kshs 277.1 bn recorded in H1'2022
- Going forward, we expect the bank's growth to be driven by:

i. **Continued Mordernization of Financial Services:** The bank has continued to maximize on digital transformation and mordernization of its financial services. The bank continues to support SMEs through its Wezesha Biashara proposition, and has launched first-to-market digital solutions such as Mobi-Tap, which enables safe card-based mobile payments, and Absa Buy Now Pay Later proposition. The digital channel transactions has led to increase in NFI by 25.7% in H1'2023 to kshs 8.1 bn, from kshs 6.5 bn in H1'2022, mainly on the back of increased mobile and internet banking

Financial Statements Extracts

Absa Bank's PAT is expected to grow at a 5-year CAGR of 15.9%

Income Statement	2020	2021	2022	2023f
Net Interest Income	23.4	25.3	32.3	36.8
Non Funded Income	11.1	11.7	13.7	16.9
Total Operating Income	**34.5**	**36.9**	**46.0**	**53.8**
Loan Loss Provision	(9.0)	(4.7)	(6.5)	(8.2)
Other Operating Expenses	(16.6)	(16.7)	(18.7)	(21.4)
Total Operating Expenses	**(25.7)**	**(21.4)**	**(25.1)**	**(29.6)**
Profit Before Tax	5.6	15.5	20.8	24.2
% PAT Change YoY	**(44.2%)**	**161.2%**	**34.2%**	**14.1%**
EPS	0.8	2.0	2.7	3.1
DPS	0.0	1.1	1.2	1.0
Cost to Income (with LLP)	74.4%	57.9%	54.7%	55.0%
NIM	**7.1%**	**7.1%**	**8.2%**	**8.3%**
ROaE	9.1%	21.1%	24.3%	22.4%
ROaA	1.1%	2.7%	3.2%	3.3%
Balance Sheet	**2020**	**2021**	**2022**	**2023f**
Net Loans and Advances	208.9	234.2	283.6	340.1
Government Securities	126.1	132.6	133.5	121.3
Other Assets	44.5	61.9	60.2	79.0
Total Assets	**379.4**	**428.7**	**477.2**	**540.3**
Customer Deposits	253.6	268.7	303.8	347.7
Other Liabilities	79.3	103.5	109.9	107.9
Total Liabilities	**332.9**	**372.2**	**413.6**	**455.6**
Shareholders Equity	**46.5**	**56.4**	**63.6**	**84.7**
Number of shares	**5.4**	**5.4**	**5.4**	**5.4**
Book value Per share	8.6	10.4	11.7	15.6
% Change in BPS YoY	**2.9%**	**21.4%**	**36.8%**	**50.1%**

Cytonn

Valuation Summary

Absa Bank is undervalued with a total potential return of 35.9%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	16.7	40%	6.7
Residual Income	16.0	35%	5.6
PBV Multiple	10.3	20%	2.1
PE Multiple	8.5	5%	0.4
Target Price			**14.8**
Current Price			**11.9**
Upside/(Downside)			24.5%
Dividend Yield			11.4%
Total Return			**35.9%**

Cytonn

VIII. Stanbic Holdings

Stanbic Holdings' Summary of Performance – H1'2023

- Profit before tax increased by 47.3% to Kshs 9.7 bn from Kshs 6.6 bn in H1'2022, with effective tax rate increasing to 27.6% in H1'2023 from 27.4% in H1'2022, leading to an 47.0% increase in profit after tax to Kshs 7.1 bn in H1'2023, from Kshs 4.8 bn in H1'2022.
- Total operating income increased by 37.8% to Kshs 20.9 bn, from Kshs 15.2 bn in H1'2022, driven by a a 29.7% increase in Non-Funded Income to Kshs 8.9 bn, from Kshs 6.9 bn in H1'2022, coupled with a 44.4% growth in Net Interest Income (NII) to Kshs 12.1 bn, from Kshs 8.3 bn in Q1'2022
- Total operating expenses increased by 52.9% to Kshs 11.2 bn from Kshs 7.3 bn in H1'2022, driven by 98.0% increase in loan loss provisions to Kshs 2.5 bn from Kshs 1.3 bn recorded in H1'2022, and coupled with a 43.5% increase in other expenses to Kshs 8.7 bn from Kshs 6.1 bn in H1'2022
- The balance sheet recorded an expansion as total assets grew by 12.5% to Kshs 384.3 bn, from Kshs 341.6 bn in H1'2022
- The bank's Asset Quality improved, with Gross NPL ratio decreasing to 8.1% in H1'2023 from 9.4% in H1'2022, attributable to 1.2% decrease in Gross non-performing loans to Kshs 23.8 bn, from Kshs 24.1 bn in H1'2022, compared to the 14.6% increase in gross loans to Kshs 295.1 bn, from Kshs 257.5 bn recorded in H1'2022,
- Going forward, the factors that would drive the bank's growth would be:

i. **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. In FY'2022, 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.

Cytonn

Financial Statements Extracts

Stanbic Holdings' PAT is expected to grow at a 5-year CAGR of 11.4%

Income Statement	2020	2021	2022	FY'2023
Interest Income	19.7	20.1	25.6	27.5
Interest Expense	(7.5)	(6.2)	(7.2)	(9.2)
Net Interest Income	12.8	14.4	18.9	18.2
Non Funded Income	10.4	10.6	13.1	13.1
Total Operating Income	23.2	25.0	32.1	31.3
Loan Loss Provision	(4.9)	(2.5)	(4.9)	(4.2)
Other Operating Expenses	(7.3)	(12.7)	(15.0)	(12.2)
Total Operating Expenses	(12.1)	(15.2)	(19.9)	(16.4)
Profit Before Tax	6.2	9.8	12.2	14.9
% PAT Change YoY	**(18.6%)**	**38.8%**	**25.7%**	**16.8%**
EPS	25.5	18.2	22.9	26.8
DPS	3.8	9.0	12.6	15.0
Cost to Income	52.2%	61.0%	62.1%	52.3%
NIM	**4.7%**	**5.0%**	**5.9%**	**5.0%**
ROE	10.3%	13.3%	15.3%	15.1%
ROA	1.6%	2.2%	2.5%	2.5%
Balance Sheet	**2020**	**2021**	**2022**	**FY'2023**
Net Loans and Advances	196.3	229.3	266.8	301.6
Government Securities	87.6	59.5	83.6	67.0
Other Assets	44.7	40.0	49.5	71.6
Total Assets	328.6	328.9	399.8	440.2
Customer Deposits	260.0	254.6	304.3	363.8
Other Liabilities	16.9	17.8	33.3	37.4
Total Liabilities	276.9	272.4	337.6	401.1
Shareholders Equity	51.7	56.5	62.2	76.3
Number of Shares	0.4	0.4	0.4	0.4
Book value Per share	130.9	142.8	157.3	193.0
% Change in BPS YoY	**5.5%**	**9.1%**	**10.2%**	**19.3%**

Valuation Summary

Stanbic Holdings is undervalued with a total potential return of 17.7%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	161.1	40%	64.4
Residual Income	42.2	5%	2.1
PBV Multiple	87.0	20%	17.4
PE Multiple	97.5	35%	34.1
Target Price			**118.1**
Current Price			**111.0**
Upside/(Downside)			6.4%
Dividend Yield			11.4%
Total return			**17.7%**

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IX. I&M Group

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I&M Group Summary of Performance – H1'2023

- Profit before tax decreased by 2.1% to Kshs 7.0 bn from Kshs 7.2 bn in H1'2022, with effective tax rate declining to 28.5% in H1'2023 from 31.5% in H1'2022. As such, profit after tax increased by 2.2% to Kshs 5.0 bn in H1'2023, from Kshs 4.9 bn in H1'2022
- Total operating income rose by 22.8% to Kshs 19.1 bn in H1'2023 from Kshs 15.6 bn in H1'2022 mainly driven by a 16.1% growth in Net Interest Income to Kshs 12.2 bn, from Kshs 10.5 bn in H1'2022, coupled with a 36.7% growth in Non funded Income (NFI) to Kshs 6.9 bn, from Kshs 5.1 bn in H1'2022
- Total operating expenses increased by 45.9% to Kshs 12.5 bn from Kshs 8.6 bn in H1'2022, driven by 144.5% increase in loan loss provisions to Kshs 3.2 bn from Kshs 1.3 bn recorded in H1'2022, coupled with a 37.0% increase in other operating expenses to Kshs 5.9 bn from Kshs 4.3 bn in H1'2022 and a 15.7% increase in staff costs to Kshs 3.5 bn from Kshs 3.0 bn in H1'2022
- The balance sheet recorded an expansion as total assets grew by 14.5% to Kshs 503.5 bn, from Kshs 439.7 bn in H1'2022
- The group's asset quality deteriorated with the NPL ratio rising to 12.7% in H1'2023 from 9.3% in H1'2022 attributed to the 57.5% increase in Gross Non-Performing Loans (NPLs) to Kshs 36.6 bn in H1'2023 from Kshs 23.3 bn in H1'2022, which outpaced 15.6% increase in Gross Loans to Kshs 288.0 bn from Kshs 249.1 bn in H1'2022
- Going forward, we expect the bank's growth to be driven by:

i. **Digital diversification:** The bank launched digital unsecured personal loans in Kenya in 2021 and as of December 2022, the bank had disbursed a cumulative total of Kshs 2.1 bn from Kshs 0.1 bn as of December 2021. Earlier this year, I&M Bank announced a waiver of transaction charges from its digital banking platform becoming the first lender in Kenya to officially offer Zero fees for Bank to Mpesa and Airtel Money transactions in an effort to enhance on its digital banking solutions and increase revenues

Financial Statements Extracts

I&M Group's PAT is expected to grow at a 5-year CAGR of 3.1%

Income Statement	2020	2021	2022	2023f
Net Interest Income	15.6	20.9	22.9	25.6
Non- Funded Income	8.6	8.7	12.7	18.3
Total Operating Income	**24.2**	**29.6**	**35.7**	**43.9**
Loan Loss Provision	2.5	(4.2)	(5.2)	(6.2)
Other Operating Expenses	10.1	(13.5)	(16.1)	(19.0)
Total Operating Expenses	**(12.6)**	**(17.7)**	**(21.3)**	**(25.2)**
Profit Before Tax	11.0	12.4	15.0	19.2
% PAT Change YoY	**(21.9%)**	**2.5%**	**34.3%**	**15.8%**
EPS	10.2	4.9	7.0	8.1
DPS	2.3	1.5	2.3	3.5
Cost to Income (with LLP)	52.0%	59.9%	59.8%	57.4%
NIM	**5.4%**	**6.3%**	6.3%	6.3%
ROaE	13.2%	12.2%	14.4%	15.7%
ROaA	2.3%	2.1%	2.6%	2.8%
Balance Sheet	**2020**	**2021**	**2022f**	**2023F**
Government securities	101.7	125.5	113.1	118.5
Net Loans and Advances	187.4	210.6	238.6	295.1
Other Assets	69.0	79.0	84.9	124.0
Total Assets	**358.1**	**415.2**	**436.6**	**537.7**
Customer Deposits	262.7	296.7	312.3	372.9
Other Liabilities	27.4	44.4	42.6	64.2
Total Liabilities	**290.0**	**341.1**	**355.0**	**437.2**
Shareholders Equity	64.2	69.6	76.5	94.6
Number of Shares	0.8	1.7	1.7	1.7
Book Value Per Share	77.6	42.1	46.3	57.2
% BVPS Change YoY	**11.2%**	**(45.8%)**	**9.9%**	**23.6%**

Valuation Summary

I&M Group is undervalued with a total potential return of 36.9%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	24.8	40.0%	9.9
Residual income	2.7	20.0%	0.5
PBV Multiple	28.5	20.0%	5.7
PE Multiple	27.8	20.0%	5.6
Target Price			**21.7**
Current Price			**17.5**
Upside/(Downside)			24.0%
Dividend yield			12.9%
Total return			**36.9%**

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B. Tier II Bank

I. HF Group

HF Group Summary of Performance – H1’2023

- Profit before tax increased by 240.4% to Kshs 199.7 mn in H1’2023, from Kshs 58.7 mn in H1’2022, with the effective tax rate, declining to 8.9%, from 15.0% in H1’2022. Similarly, Profit after tax improved by 264.8% to Kshs 182.0 mn, from Kshs 49.9 mn in H1’2022
- Total operating income increased by 19.6% to Kshs 1.8 bn in H1’2023, from Kshs 1.5 bn in H1’2022, driven by 24.2% increase in Net Interest Income (NII) to Kshs 1.3 bn, from Kshs 1.0 bn in H1’2022, coupled with a 10.1% increase in Non-Funded Income (NFI) to Kshs 0.6 bn, from Kshs 0.5 bn in H1’2022
- Total operating expenses increased by 11.0% to Kshs 1.6 bn, from Kshs 1.5 bn in H1’2022, driven by the 55.0% increase in Loan Loss Provision (LLP) to Kshs 159.0 mn in H1’2023, from Kshs 102.6 mn in H1’2022, coupled with a 18.6% increase in staff cost to Kshs 743.0 mn, from Kshs 626.6 mn in H1’2022
- The balance sheet recorded an expansion as total assets grew by 8.9% to Kshs 60.7 bn in H1’2023, from Kshs 55.7 bn in H1’2022
- The Group’s Gross Non-Performing Loans increased by 26.6% to Kshs 10.5 bn, from Kshs 8.3 bn in H1’2022, while gross loans increased by 10.4% to Kshs 45.6 bn from Kshs 41.3 bn in H1’2022. Consequently, the group’s Asset Quality deteriorated, with the NPL ratio increasing by 3.0% points to 23.1% in H1’2023, from 20.1% in H1’2022
- Going forward, we expect the bank’s growth to be driven by:

I. **Portfolio Diversification**. The lender remains undercapitalized with core capital ratios below the statutory requirements. As such, it can expand its client base to cover more financial interests of the economy like commercial banking, insurance as well as as get a good grounding in capitalizing on its strengths, that is, mortgage and real estate financing.

Financial Statements Extracts

HF's PAT is expected to grow at a 5-year CAGR of 16.9%

Income Statement	2020	2021	2022	2023F
Net Interest Income	1.9	1.8	2.2	2.5
Non Funded Income	0.5	0.5	0.9	1.1
Total Operating Income	**2.4**	**2.4**	**3.0**	**3.6**
Loan Loss Provision	(0.4)	(0.3)	(0.2)	(0.2)
Other Operating Expenses	(3.7)	(3.0)	(2.6)	(2.6)
Total Operating Expenses	**(4.1)**	**(3.3)**	**(2.8)**	**(2.9)**
Profit Before Tax	(1.8)	(1.0)	0.2	0.7
Profit After tax	(1.7)	(0.7)	0.3	0.6
% PAT Change YoY	**1443.7%**	**(59.8%)**	**(138.9%)**	**125.9%**
EPS	(4.4)	(1.8)	0.7	1.6
DPS	0.0	0.0	0.0	0.0
Cost to Income	170.1%	140.1%	93.5%	80.0%
NIM	4.2%	4.2%	5.0%	5.2%
ROE	(18.1%)	(8.1%)	3.1%	5.5%
ROA	(3.0%)	(1.3%)	0.5%	0.8%
Balance Sheet	**2020**	**2021**	**2022**	**2023F**
Net Loans and Advances	37.0	34.7	36.3	41.2
Government Securities	7.1	6.6	8.5	10.6
Other Assets	11.3	12.0	12.2	14.2
Total Assets	**55.4**	**53.2**	**57.0**	**66.0**
Customer Deposits	39.9	37.7	39.8	44.0
Other Liabilities	6.9	7.2	8.4	12.3
Total Liabilities	**46.9**	**44.9**	**48.2**	**56.4**
Shareholders Equity	8.6	8.3	8.8	9.4
Number of Shares	0.4	0.4	0.4	0.4
Book value Per share	22.3	21.5	22.8	24.4
% Change in BPS YoY	**(16.2%)**	**(3.3%)**	**6.0%**	**6.8%**

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Valuation Summary

Housing Finance is overvalued with a total potential return of (27.6%)

Valuation Summary:	Implied Price	Weighting	Weighted Value
Residual Income	2.6	60%	1.6
PTBV Multiple	4.2	35%	1.5
PE Multiple	3.2	5%	0.2
Fair Value			**3.20**
Current Price			**4.46**
Upside/(Downside)			(27.6%)
Dividend Yield			0.0%
Total return			***(27.6%)***

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Feedback Summary

During the preparation of this H1’2023 Banking Sector Report, we shared with the subject companies the operating metrics that were used in the Report for their confirmation and verification

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

Bank	Operating Metrics Shared	Sent Feedback
Co-operative Bank of Kenya	Yes	Yes
Standard Chartered Bank Kenya	Yes	Unresponsive
I&M Group	Yes	Yes
Stanbic Holdings	Yes	Unresponsive
Diamond Trust Bank	Yes	Unresponsive
KCB Group	Yes	Yes
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	Lolc Microfinance Bank Limited
2	Branch 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	Salaam Microfinance Bank Ltd
6	Kenya Women Microfinance Bank Limited	13	Maisha Microfinance Bank Limited
7	Rafiki Microfinance Bank Limited	14	Muungano Microfinance Bank PLC

Source : CBK

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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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