Kenya Listed Commercial Banks Review

Cytonn Q1'2024 Banking Sector Report

"Improved Profitability Owing to Strengthened Business Environment"

16th June, 2024

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I. Introduction to Cytonn

Cytonn

About Us

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

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

A unique franchise differentiated by:

Independence & Investor Focus

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

Alternative Investments

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

Strong Alignment

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

Committed Partners

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

Why We Exist

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

WE SERVE THREE MAIN CLIENT SEGMENTS:

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

WE INVEST OUR CLIENT FUNDS IN:

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

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

Our Business Structure

Cytonn Investments Management Plc

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

II. Kenya Economic Review and Outlook

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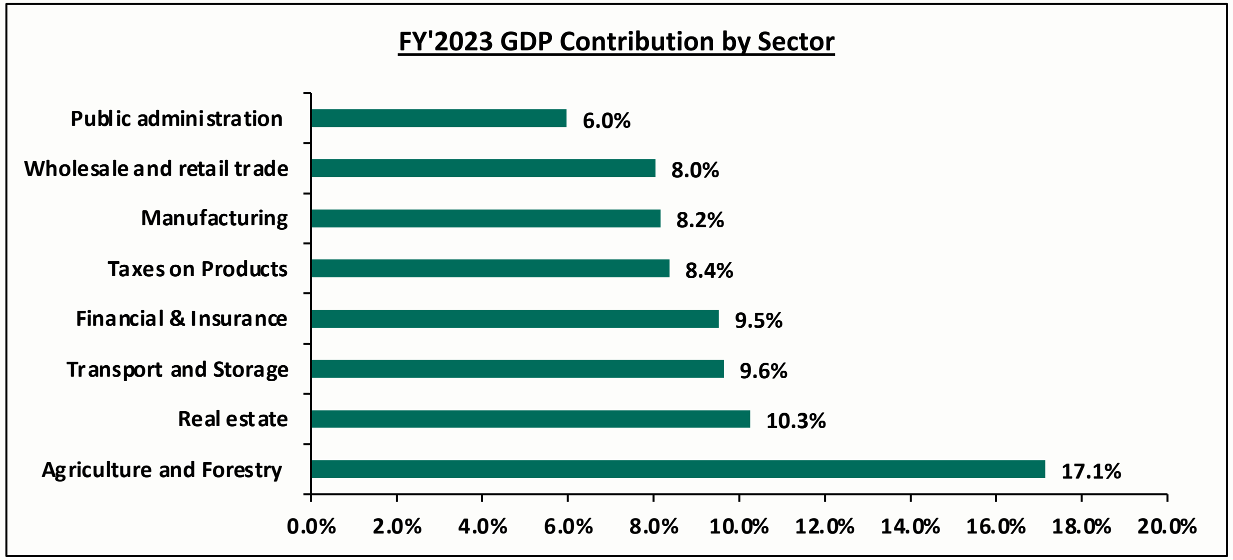
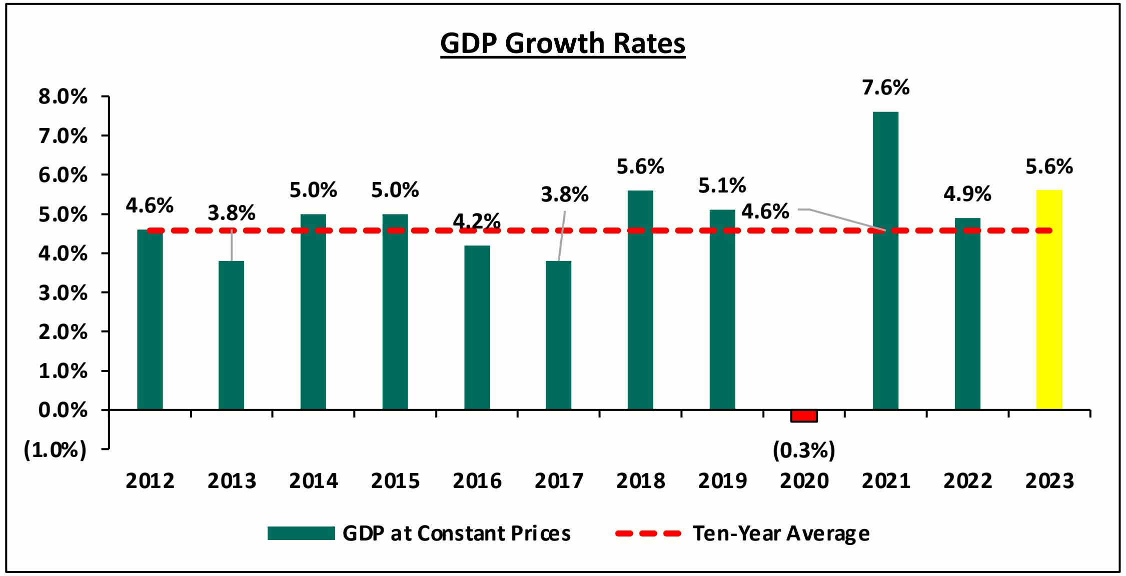
Economic Growth

The Kenyan economy expanded by 5.6% in FY'2023, faster than the 4.9% growth in FY'2022





Source: KNBS

- The Kenyan economy recorded a 5.6% growth in FY'2023, faster than the 4.9% growth recorded in FY'2022. The growth was mainly supported by a rebound in Agricultural activities, which grew by 6.5% in FY'2023 compared to a contraction of 1.5% in FY'2022. All sectors in Q3'2023,except Mining and Quarrying, recorded positive growth, with varying magnitudes across activities
- In terms of sectoral contribution to GDP, the biggest gainer was the Financial and Insurance sector, increasing by 0.4% points to 9.5% in FY'2023 from 9.1% in FY'2022, while the Manufacturing sector was the biggest loser, declining by 0.3% points to 8.2% in FY'2023, from 8.4% in FY'2022

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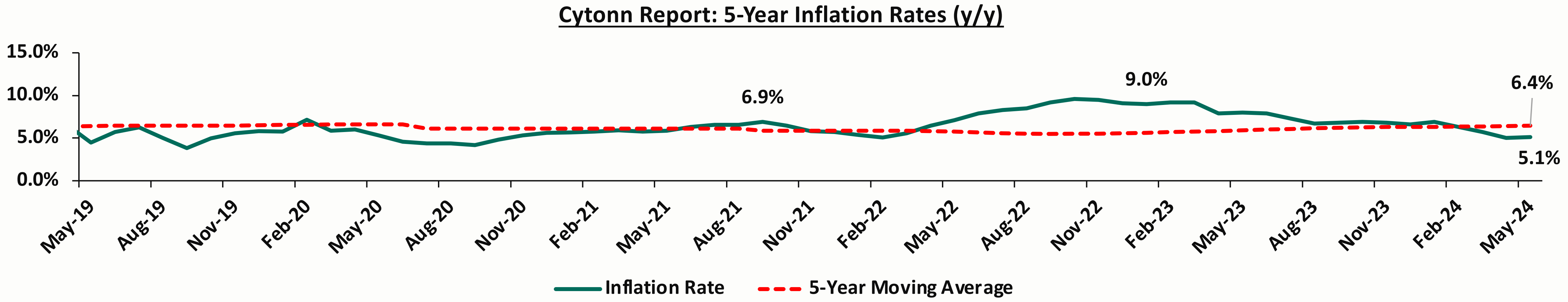
Inflation

Inflation averaged at 6.3% in Q1'2024, compared to 9.1% recorded in Q1'2023



**Source: KNBS*

- The year-on-year inflation rate in the month of May 2024 marginally tightened to 5.1%, from the 5.0% inflation rate recorded in the month of April 2024, marking the eleventh consecutive month that the inflation has remained within the CBK target range of 2.5%-7.5%
- The headline inflation in May 2024 was majorly driven by increase in prices of commodities in the following categories, transport; food and non-alcoholic beverages; and housing, water, electricity, and gas and other fuels of 8.1%, 6.2%, and 4.4%, respectively
- We expect inflationary pressures to remain within and close to the preferred CBK target of 5.0%, mainly on the back of a stronger Shilling, tight monetary policy, and reduced fuel and electricity prices. With fuel being a major input in most businesses, the cost of production is expected to reduce.

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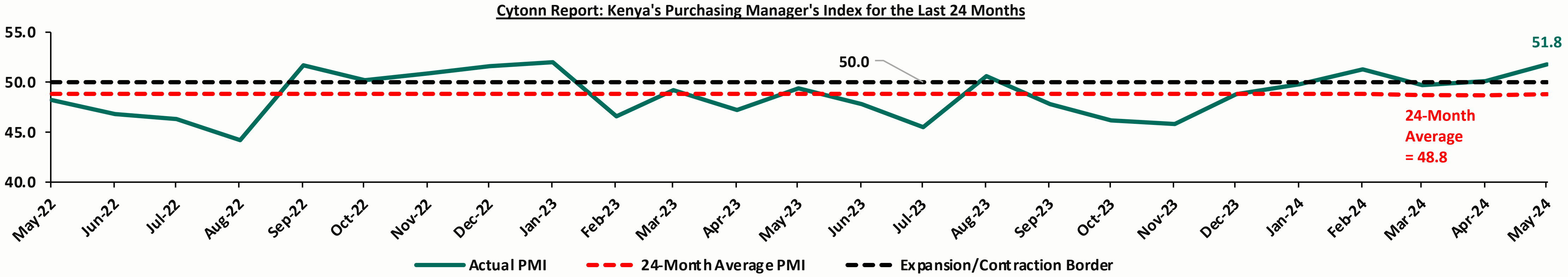
Stanbic PMI Index

The PMI averaged at 50.3 in Q1’2024, compared to 49.3 in Q1’2023



**Source: Market Economics, Stanbic PMI*

- The Stanbic Purchasing Managers Index (PMI) for the month of May 2024 improved to 51.8, up from 50.1 in April 2024 signaling a stronger upturn of the business environment for month of May. On a y/y basis, the index recorded a 4.9% improvement from the 49.4 recorded in May 2023. The improvement of the general business environment is mainly attributable to the easing inflationary pressure experienced in the country, currently at 5.1%, compared to 8.0% in May 2023, resulting in increased demand leading to increased business activity.
- 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 easing inflationary pressures and the strengthening of the Kenya Shilling.

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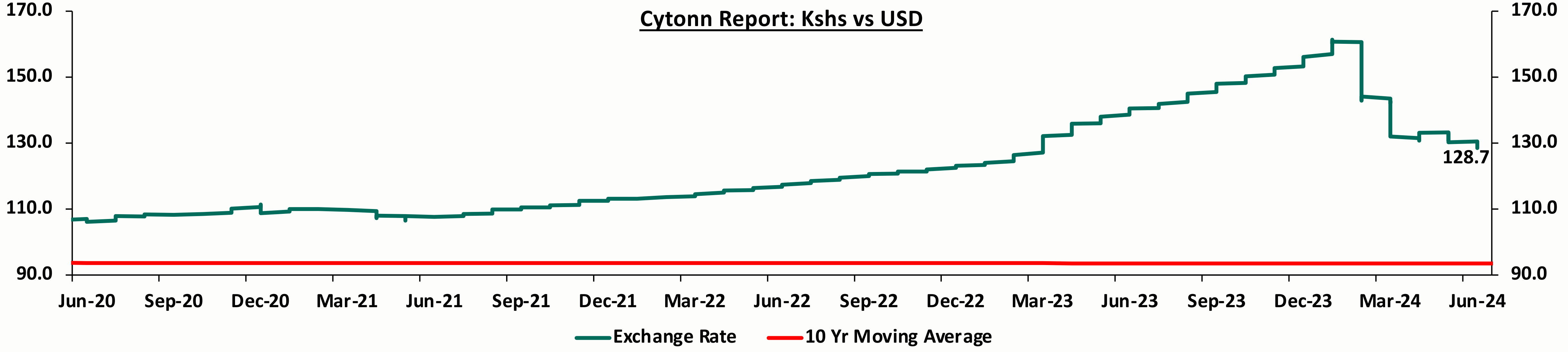
Currency

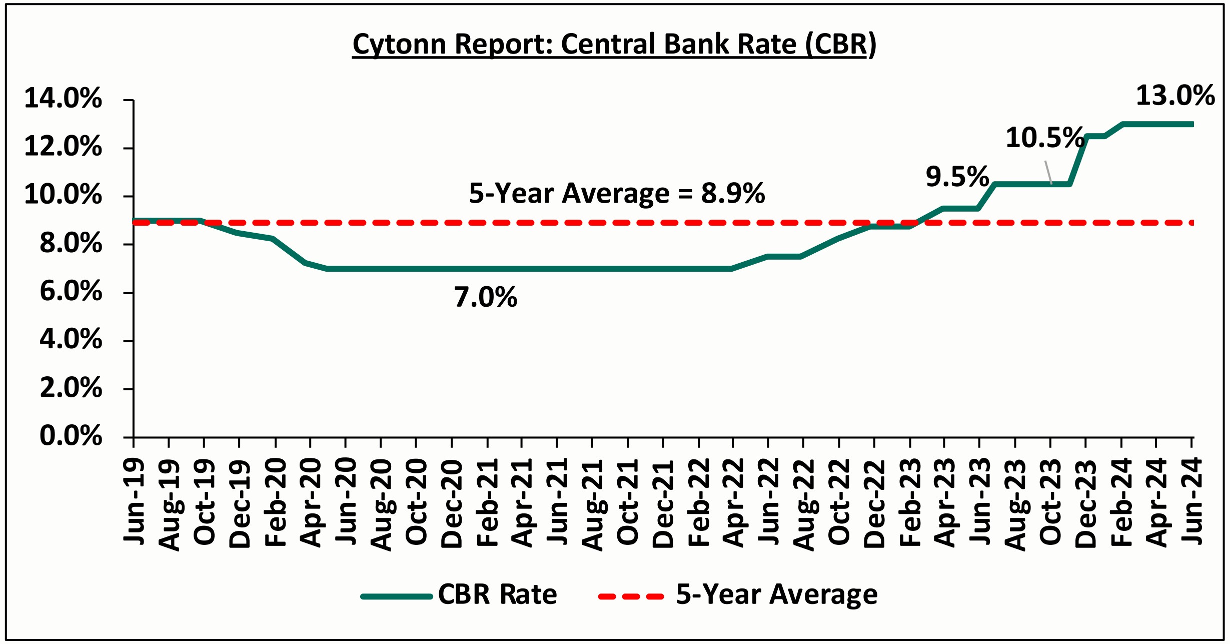
As of 14th June 2024 the Kenyan shilling had appreciated by 18.0% on Year-To-Date basis against the US Dollar

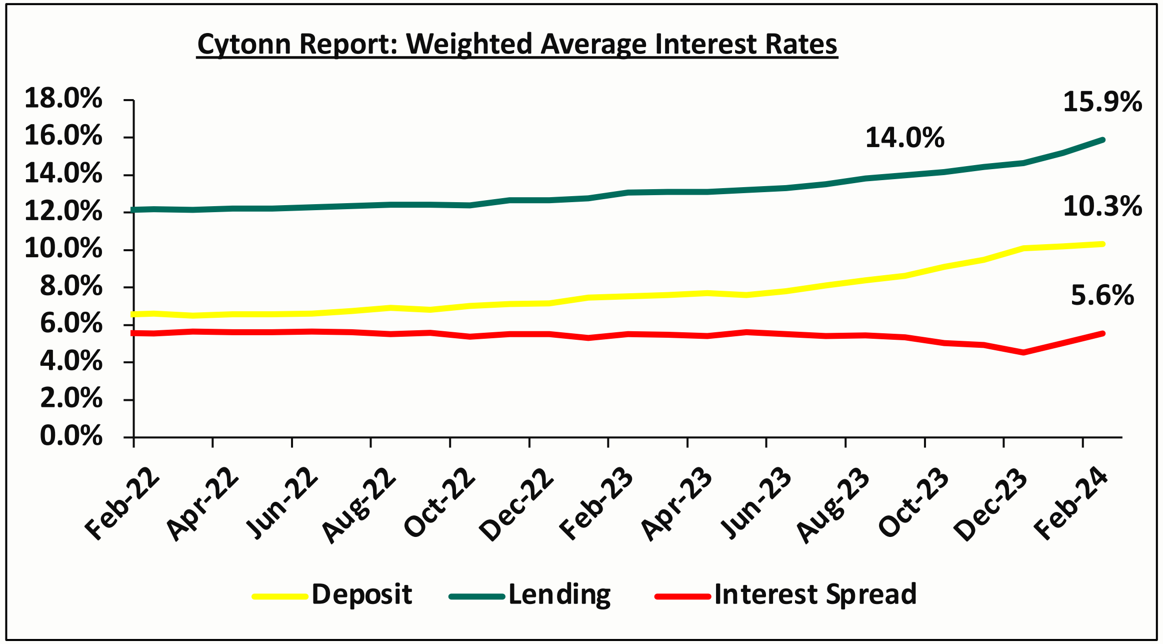


**Source: Central Bank of Kenya*

- As of 14th June 2024, the shilling had appreciated by 18.0% on year-to-date basis against the dollar, contrary to the 26.8% depreciation recorded in 2023, partly attributable to the buyback of the June Eurobond maturity which removed the debt risk on the country, coupled with World Bank and IMF disbursements, Eurobond issue, infrastructure bond and panic selling of the dollar by investors which increased dollar supply in the market.
- The local currency is expected to be supported by the diaspora remittances which stood at a cumulative USD 4,457.5 mn in the twelve months to April 2024, 11.9% higher than the USD 3,984.9 mn recorded over the same period in 2023

Interest Rates and Monetary Policy





**Source: CBK*

- In the last sitting in June 2024, the Monetary Policy Committee retained the CBR rate by 13.0% points, initially set in February 2024, on the backdrop of improved global outlook for growth and inflation, despite persistent geopolitical tensions. The retained CBR was made to continue supporting the local currency appreciation, continue anchoring inflation within the preferred target of 5.0%, as well as persistent high interest rates in the developed economies
- Additionally, the committee noted that inflation was already within the preferred target and was expected to stabilize further in the near term, supported by lower food and fuel prices and a stronger currency

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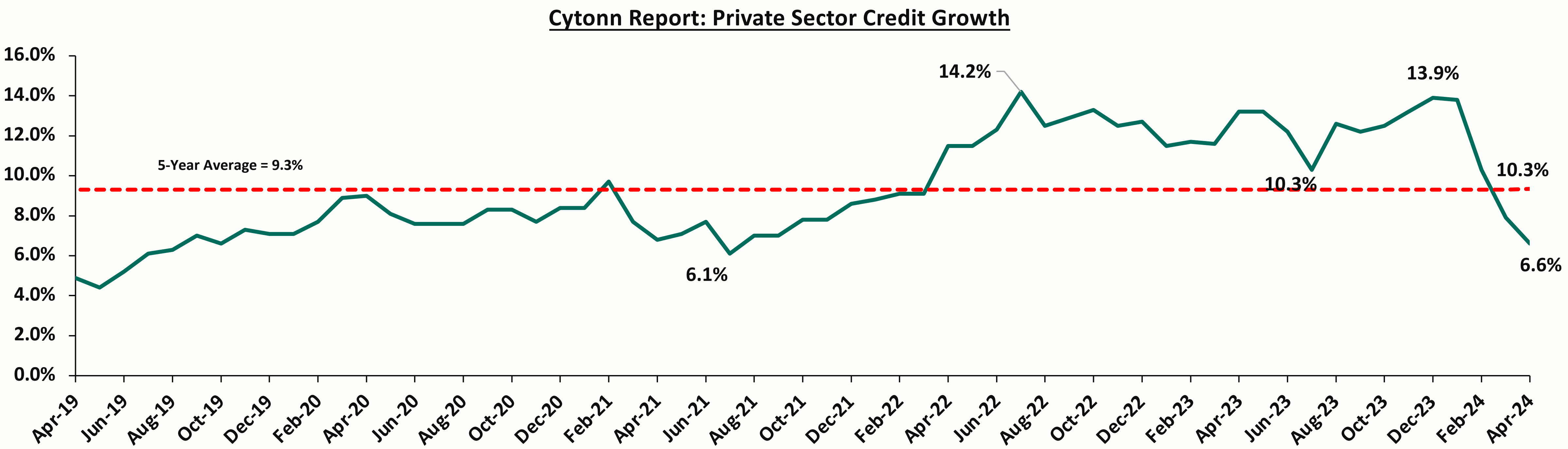
Private Sector Credit growth



*Source: KNBS

- Growth in private sector credit decreased to 6.6% in April 2024 from 7.9% March 2024, partly attributable to the strengthening of the Kenyan Shilling against the dollar. Strong credit growth was observed in sectors such as; agriculture, manufacturing, transport and communication, trade and consumer durables of 31.0%, 23.0%, 16.4%, 12.1% and 9.2% 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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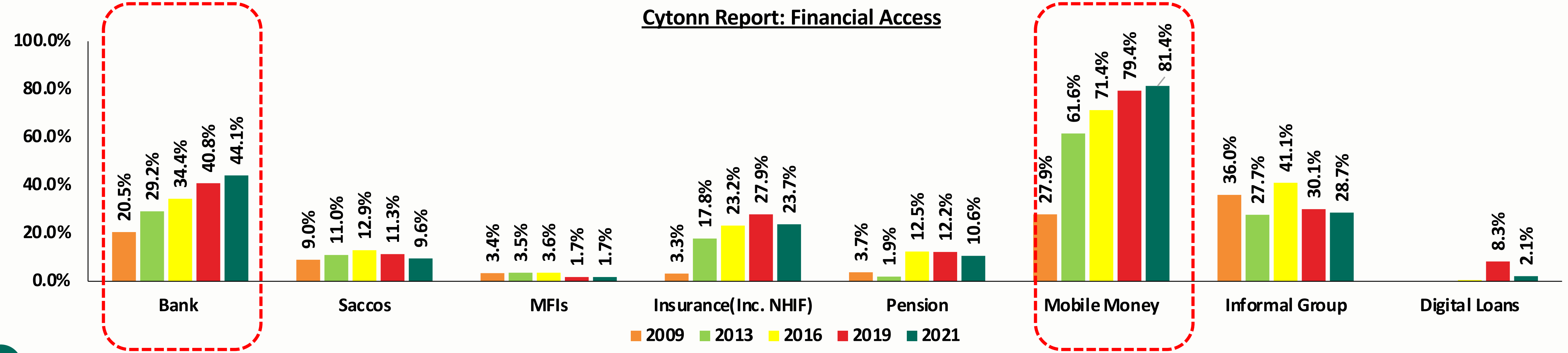
Kenyan Banking Sector Overview

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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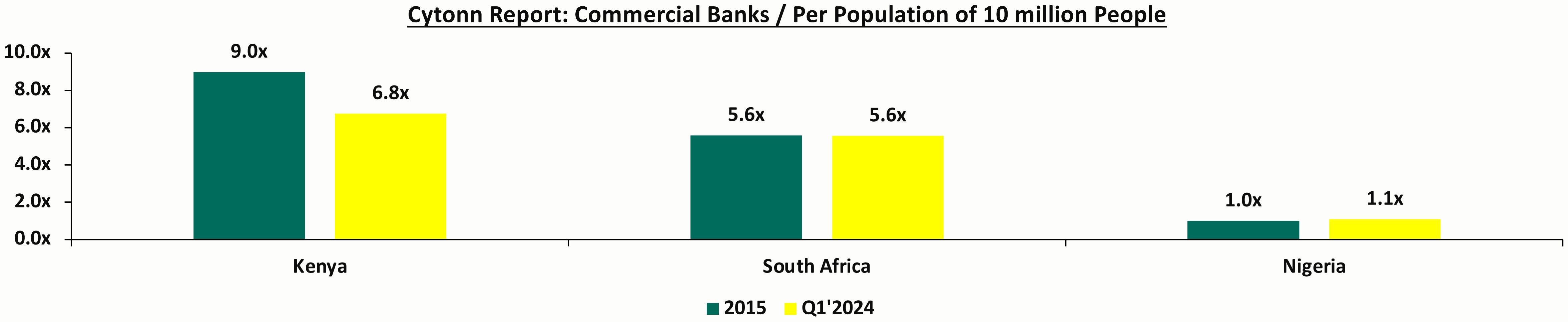
Source: Central Bank of Kenya, FinAccess report

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 March 2024*

- The number of commercial banks in Kenya currently stands at 38 (including 1 mortgage finance company), compared to 43 banks in FY'2015
- The ratio of the number of banks per 10 million population in Kenya now stands at 6.8x, 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:** Following the scrapping of the Interest Cap Law in 2019, the Central Bank of Kenya (CBK) intervened administratively, stopping banks from reprising their loans and requiring them to submit new risk-based lending formulas for approval. The main aim of the risk-based lending model is to assist banks in making lending decisions based on the predicted risks associated with each loan applicant. This signifies a move from the traditional practice of blacklisting defaulters to a new credit scoring system that doesn't reject loan applicants solely based on their credit bureau scores. This method primarily focuses on borrowers who pose higher risks, most of whom are involved in micro, small, and medium-sized enterprises that have had difficulties securing traditional credit. Notably, as of May 2023, 33 out of the 39 banks in the country had their models approved by the CBK, with Equity Bank being the first commercial bank to implement risk-based lending. Adoption of risk based credit models has seen an increase in lending to the private sector, with the growth in credit to the private sector coming in at 12.2% in September 2023, 3.4% points above the five-year average rate of 8.8%. Consequently, the banking sector has reduced its appetite for government securities
- **Changes to Interbank Foreign Exchange Market:** In August 2023, the CBK issued a circular detailing several modifications to the interbank foreign exchange market operations. These changes included the removal of the tenor limit for swaps between residents, a rule that also applies to residents of the East African Community.

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Recent Developments in the Kenyan Banking Sector

1. Regulation Continuation:

- For swaps that involve non-residents, a minimum tenor of 6 months was established. The regulator also permitted the use of Electronic Brokerage Systems and lowered the minimum trade amount in the interbank market from USD 500,000 to USD 250,000. These modifications have improved swap transactions, allowing banks to more effectively manage their exchange rate and interest rate risks, and to assume speculative positions,

- **Foreign Exchange Code:** On March 22, 2023, the CBK introduced the Foreign Exchange Code (FX Code) to commercial banks. This was an effort to regulate the wholesale transactions in Kenya's foreign exchange market. The decision was triggered by the significant fluctuations in the exchange rate spread in the market, as highlighted in our currency review note. Following the scrapping of the Interest Cap Law in 2019, the Central Bank of Kenya (CBK) intervened administratively, stopping banks from reprising their loans and requiring them to submit new risk-based lending formulas for approval. The FX Code is designed to foster a strong and transparent foreign currency market by implementing certain reporting guidelines;

i. **Compliance with FX Code:** All market participants (commercial banks and foreign exchange brokers) were 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, and submit a detailed compliance implementation plan that is approved by its Board by 30 June 2023.

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Recent Developments in the Kenyan Banking Sector

1. Regulation Continuation:

- Each participant was required to be fully compliant with the aforementioned code by December 31, 2023.

ii. **Reporting Mechanism:** All market participants will be required to submit a quarterly report to CBK, detailing their adherence to the FX Code within 14 days following the conclusion of each 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 aims to prevent market participants from engaging in disruptive practices such as quoting prices or moving prices in ways that create artificial delays, or misrepresent the market's depth and liquidity. Such practices will incur severe sanctions. Moreover, market participants should not engage in position or points parking, which are fake transactions to hide positions or shift 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 first nine months leading to the end of Q3'2023, there were three completed acquisition done by Commercial International Bank (Egypt) S.A.E (CIB), Equity Group Holdings Plc and Premier Bank Limited Somalia as follows:

a) On January 30, 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. Consequently, MBL is now a fully owned subsidiary of CIB,

b) On January 30, 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 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 Cytonn Monthly-January 2023,

Recent Developments in the Kenyan Banking Sector…..

2. Regional Expansion through Mergers and Acquisitions:

c) On March 17, 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 May 22, 2023, the Central Bank of Kenya (CBK) announced that Shorecap III, LP, a Private Equity fund governed by the laws of Mauritius, had acquired a 20.0% stake in Credit Bank Plc. The fund is managed by Equator Capital Partners LLC and the acquisition took effective from June 15, 2023. While the CBK did not reveal the value of the deal, Shorecap III, LP will assume control of 7,289,928 ordinary shares, which make up 20.0% of the Bank's ordinary shares. This follows the acquisition of a 22.8% stake in the lender by Oikocredit in August 2019, for a cash consideration of Kshs 1.0 bn, with the transaction trading at a price to book (P/B) multiple of 1.5x. For additional details, refer to our Cytonn Weekly #21/2023,

Recent Developments in the Kenyan Banking Sector…..

e) On September 27, 2023, the NCBA Group declared its plan to purchase a 100% share in AIG Insurance. AIG Insurance is a well-established company in Kenya, having been in operation for over 50 years, providing general insurance services to corporations, SMEs, and individuals. Currently, the NCBA Group holds a minority stake in AIG Insurance and intends to negotiate with AIG Inc, the majority stakeholder, to acquire the remaining shares. This acquisition is part of NCBA Group's strategy to broaden its bancassurance operations, transforming it into a universal bank that caters to all the financial needs of its customers. The acquisition is contingent upon the necessary due diligence, approval from the boards of NCBA, AIG Kenya, AIG Group, and the relevant banking, insurance, and other regulatory authorities.

f) On December 1, 2023 Equity Group Holdings Plc (EGH) announced that it had successfully completed the acquisition of its Rwandan Subsidiary, Compagnie Générale de Banque (Cogebanque) Plc, marking a significant milestone in its regional expansion strategy. Equity Group now holds 198,250 shares representing 99.1% of the issued share capital of COGEBANQUE, following receipt of all regulatory and corporate approvals, officially making COGEBANQUE its subsidiary. EGH made the announcement it had entered into a binding agreement with the 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 on June 14, 2023.

Recent Developments in the Kenyan Banking Sector…..

g) On March 20, 2024 Access Bank Plc announced that it had entered into a share purchase agreement with KCB Group Plc that would allow Access Bank Plc to acquire 100% shareholding in National Bank of Kenya Limited (NBK) from KCB. Access Bank Plc is a wholly owned subsidiary of Access Holdings Plc listed on the Nigerian Exchange as Access Corporation. The announcement follows the release of the FY'2023 results for the KCB group, which revealed a decline in earnings with its Core earnings per share (EPS) declining by 8.3% to Kshs 11.7, from Kshs 12.7 in FY'2022.. In the signed deal, Access Bank will pay multiples of 1.3x the book value of NBK, which stood at Kshs 10.6 bn as of end December 2023. This values the deal at about Kshs 13.3 bn with the actual figure to be announced when the transaction is completed.

h) In April 2024, Sidian Bank disclosed that the founders of the bank and other nine individual shareholders relinquished a combined stake of 728,525 shares representing 16.6% stake to Pioneer General Insurance Limited, pioneer Life Investments Limited, Wizro Enterprises Limited, Afrah Limited, and Telesec Africa Limited. The transaction amounted to Kshs 0.8 bn translating to a price to book multiple (p/bv) of 1.0x. This follows an earlier transaction executed on October 2023 when Pioneer General Insurance, Wizpro Enterprise and Afram Limited bought 38.9% stake in the lender following a shareholders' resolution passed on 20th September 2023 approving the sale.

Recent Developments in the Kenyan Banking Sector….

The average acquisition valuations for banks remained unchanged at 1.3x in Q1'2024, similar to what was recorded in Q1'2023

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
Pioneer General Insurance and 4 other companies	Sidian Bank	5.0	16.57%	0.8	1.0x	Apr-24
Access Bank PLC (Nigeria)*	National Bank of Kenya	10.6	100.00%	13.3	1.3x	Mar-24*
Pioneer General Insurance and 2 other companies	Sidian Bank	5.0	38.91%	2.0	1.0x	Oct-23
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			**77.0%**		**1.X**	
2013 to 2018 Avg.			**73.5%**		**1.7x**	
2019 to 2023 Avg.			**78.9%**		**1.0x**	

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

Recent Developments in the Kenyan Banking Sector….

3. Asset Quality:

- Asset quality for listed banks deteriorated in Q1'2024, with the weighted average Gross Non-Performing Loan ratio (NPL) increasing by 0.9% points to 13.5%, from 12.6% recorded in Q1'2023. Likewise, the performance remained 2.5% points above the ten-year average of 11.0%. The deterioration in asset quality in Q1'2024 was mainly driven by 4.2% points increase in Equity Group NPL ratio to 14.2%, from 10.0% in Q1'2023

- The deterioration in Equity Group asset quality was mainly attributable to 50.0% increase in Gross non-performing loans to Kshs 120.4 bn in Q1'2024 from Kshs 80.3 bn in Q1'2023, which outpaced the 5.4% increase in gross loans to Kshs 849.4 bn from Kshs 806.1 bn recorded in Q1'2023. However, the deterioration in listed banks asset quality was mitigated by an improvement in Standard Chartered Bank's Asset quality, with Gross NPL ratio decreasing by 4.5% points to 9.9% in Q1'2024 from 14.4% in Q1'2023, attributable to the 26.9% decrease in gross non-performing loans to Kshs 16.5 bn, from Kshs 22.6 bn in Q1'2023, compared to the 6.8% increase in gross loans to Kshs 167.4 bn, from Kshs 156.7 bn recorded in Q1'2023. A total of three out of the ten listed Kenyan banks recorded improvement in asset quality, owing to the improvement in the economic environment. Going forward, we expect credit risk to decline gradually but remain at relatively elevated levels compared to previous years mainly on the back of the improved business environment owing to the eased inflationary pressures as well as the appreciation of the Kenya shilling.

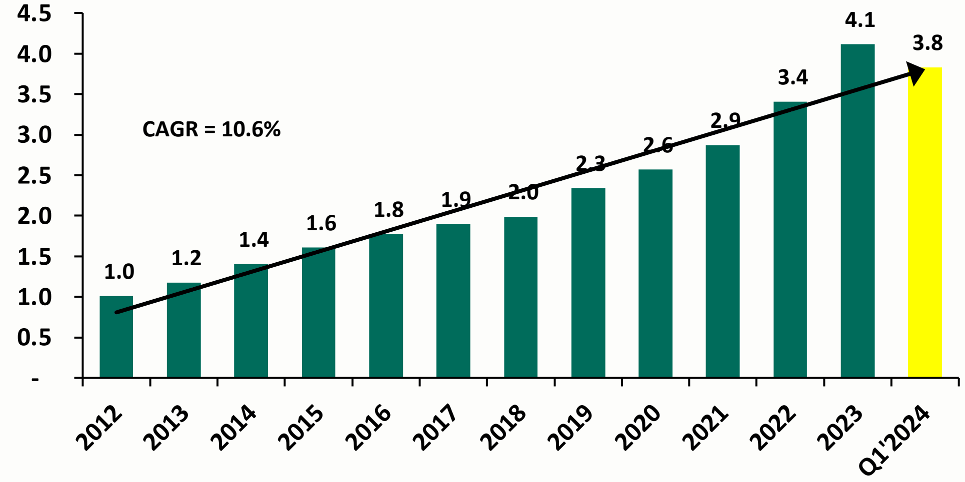
Banking Sector Growth Drivers

- **Growth in Interest income:** Going forward, we expect interest income growth to remain a key driver in the banking industry, evidenced by the significant 29.8% growth recorded in Q1'2024, higher than the 25.0% growth recorded in Q1'2023, partly on the back of continued high borrowing costs. Furthermore, 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,
- **Revenue Diversification:** In Q1'2024, non-funded income (NFI) recorded a 10.9% weighted average growth, slower than the 48.1% weighted growth in Q1'2023 with 7 out of the 10 listed Banks recording an increase in their non-funded income. As a result of the reduced growth in non-funded income, the weighted average contribution of NFI to total operating income came in at 38.6% in Q1'2024, 2.7% points lower than the 41.3% weighted average growth contribution recorded in Q1'2023. As such, there exists an opportunity for the sector to further increase NFI contributions to revenue given the continuous adoption of digitization, and,
- **Regional Expansion and Further Consolidation:** Consolidation remains a key theme going forward with the current environment offering opportunities for larger banks with a sufficient capital base to expand and take advantage of the market's low valuations, as well as further consolidate out smaller and weaker banks. Notably, the majority of the bigger banks have continued to cushion over unsystematic risks specific to the local market by expanding their operations into other African nations.

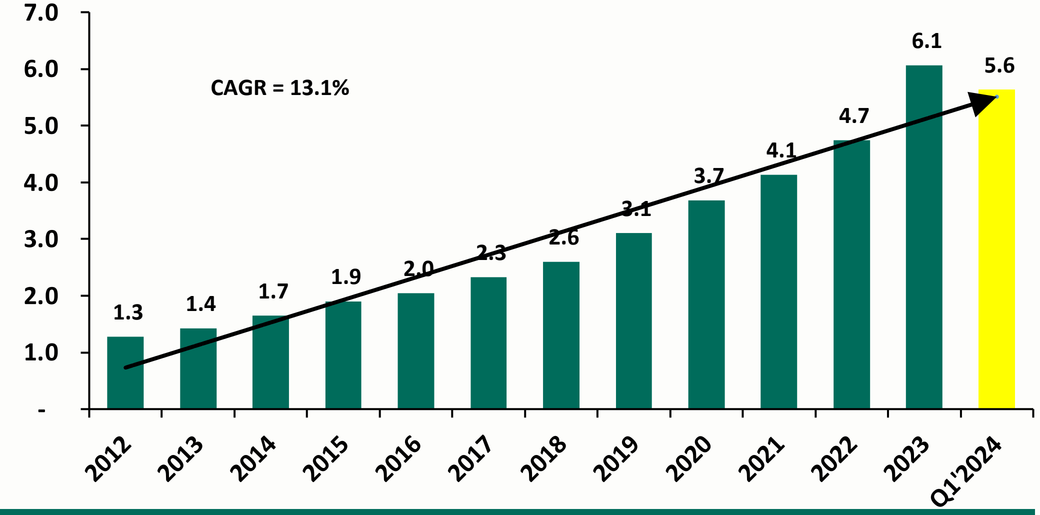
IV. Listed Banking Sector Metrics

Listed Banking Sector Metrics

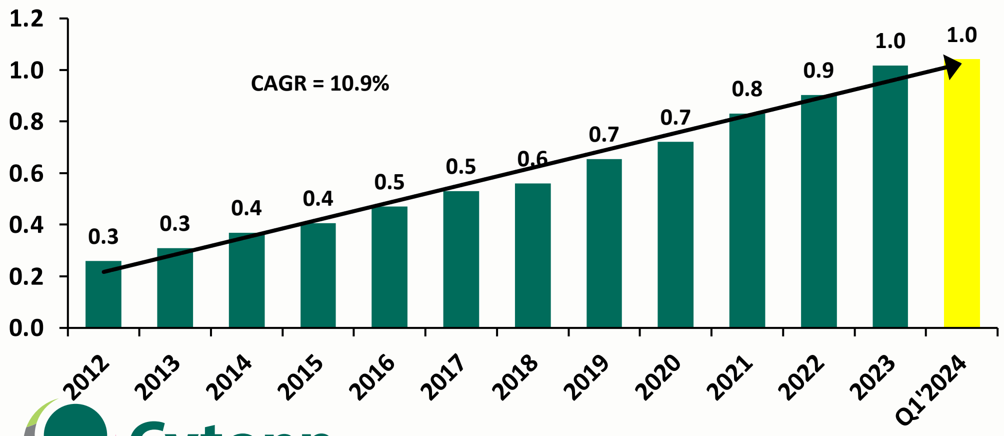
Loans and Advances (Kshs tn)



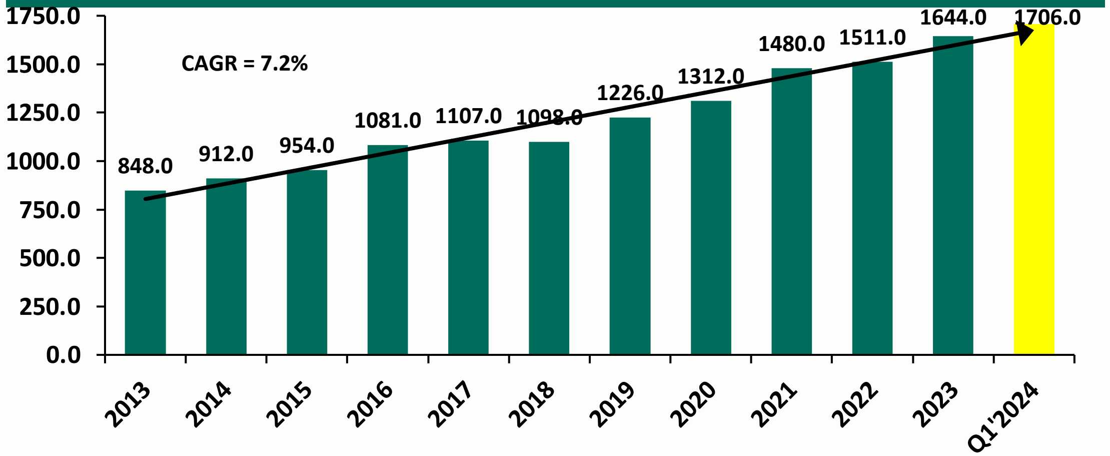
Deposits (Kshs tn)



Shareholders Equity (Kshs tn)



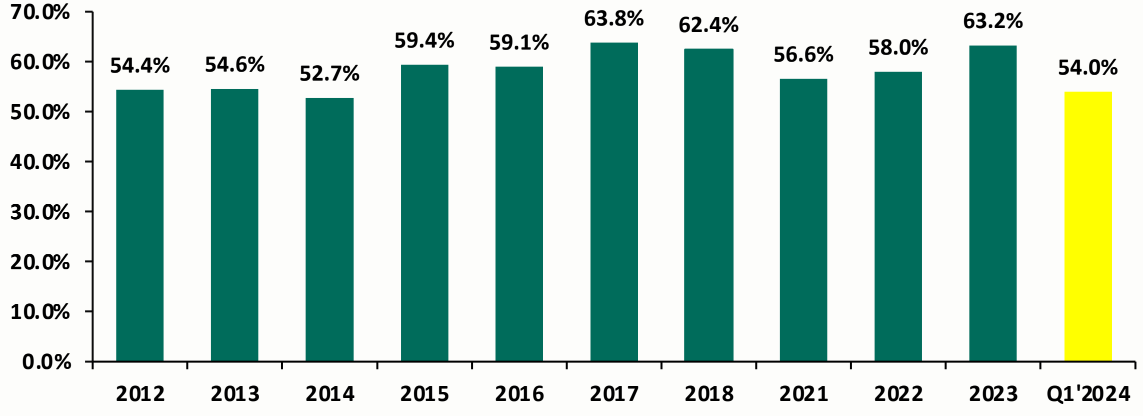
Bank Branches



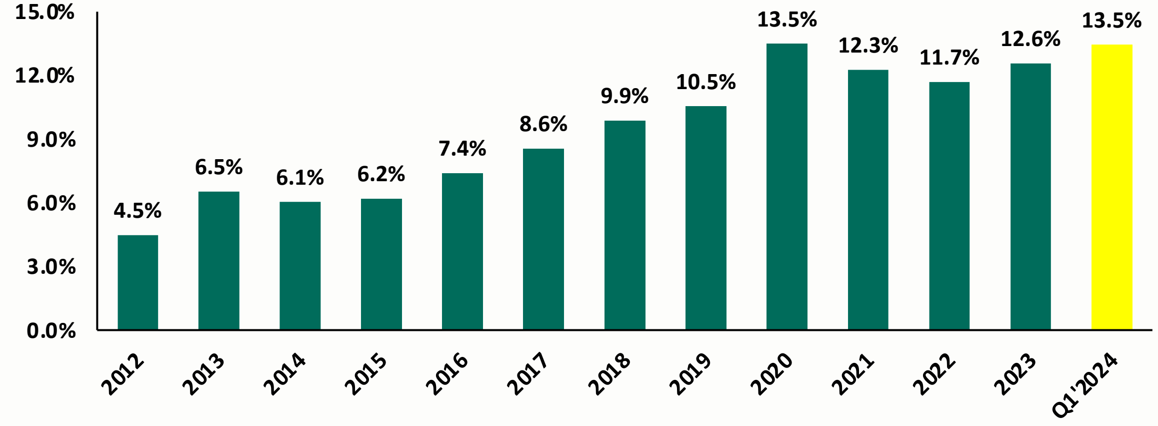
Listed Banking Sector Metrics

Banks’ asset quality deteriorated in Q1’2024, with the NPL ratio increasing to 13.5% from 12.6% in Q1’2023

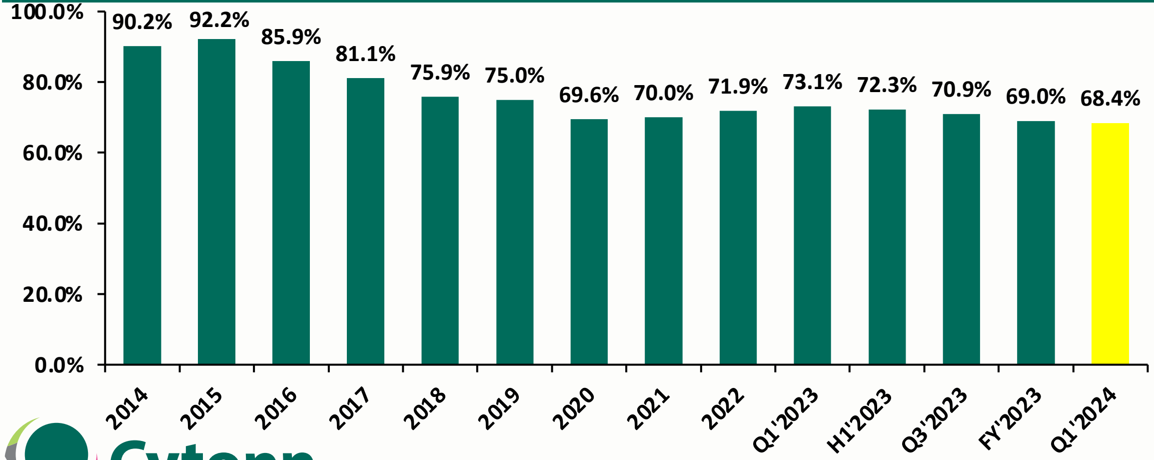
Cost to Income Ratio



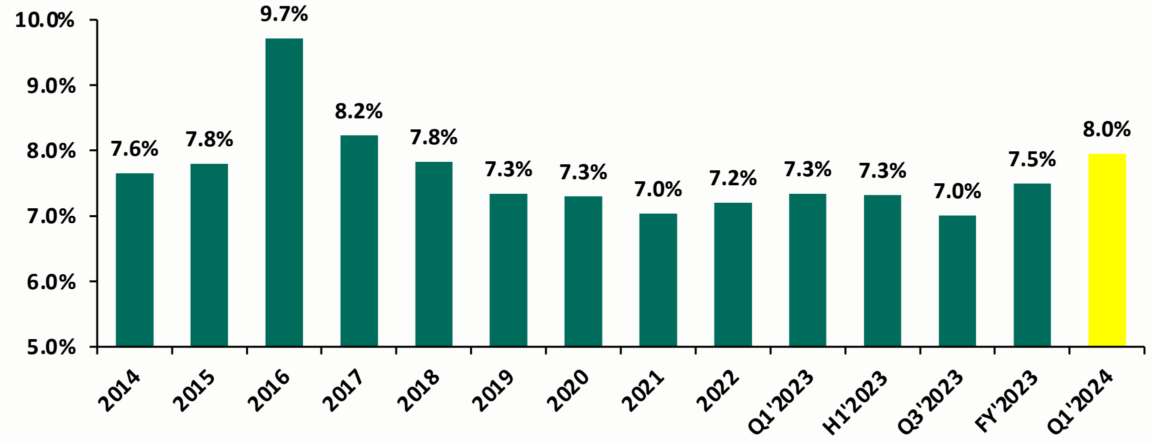
NPL Ratio



Loan to Deposit Ratio



Net Interest Margin



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Listed Banking Earnings and Growth Metrics

Kenya's listed banks weighted average core EPS grew by 29.8% in Q1'2024, compared to 25.0% in Q1'2023

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	Cost of Funds	YIEA
Equity	25.2%	32.7%	41.4%	28.4%	8.2%	21.0%	44.4%	22.6%	11.3%	16.2%	63.0%	3.0%	23.8%	4.2	12.3%
KCB	69.0%	46.0%	56.0%	40.8%	7.4%	17.8%	35.9%	2.4%	25.4%	39.6%	67.8%	9.5%	20.1%	4.6%	11.6%
Co-operative	7.7%	24.7%	60.8%	8.6%	7.8%	(0.3%)	37.7%	(7.3%)	14.8%	11.7%	78.5%	5.0%	19.7%	5.1%	12.3%
ABSA Bank	33.6%	33.8%	74.4%	21.7%	9.7%	12.7%	30.8%	5.1%	14.2%	(21.2%)	92.1%	5.4%	25.0%	4.7%	13.4%
Standard Chartered	39.5%	25.4%	78.0%	20.0%	8.6%	23.9%	36.7%	17.0%	1.0%	(27.5%)	50.2%	12.0%	24.0%	1.2%	9.6%
NCBA Group	4.7%	29.8%	70.8%	(1.2%)	6.0%	7.4%	48.3%	16.9%	9.7%	(14.0%)	58.5%	11.6%	23.2%	6.5%	12.2%
Stanbic Holdings	2.8%	53.9%	130.2%	19.6%	8.4%	(34.0%)	36.9%	(10.4%)	22.2%	(28.4%)	71.9%	11.1%	20.8%	4.5%	13.3%
I&M Group	35.4%	53.1%	76.0%	37.7%	8.0%	(9.4%)	27.4%	24.4%	18.2%	0.8%	75.9%	13.1%	15.0%	6.3%	14.5%
DTB-K	11.0%	20.0%	36.8%	6.2%	5.7%	31.8%	34.3%	42.7%	5.1%	(12.4%)	63.3%	(0.5%)	11.2%	6.0%	11.4%
HF Group	80.4%	28.5%	52.4%	7.6%	5.4%	40.7%	36.3%	56.0%	6.2%	6.4%	87.1%	3.1%	5.1%	6.3%	11.4%
Q1'2024 Mkt Weighted Average*	**29.8%**	**35.3%**	**64.7%**	**22.8%**	**8.0%**	**10.9%**	**38.6%**	**10.7%**	**14.1%**	**3.1%**	**68.4%**	**7.5%**	**21.9%**	**4.5%**	**12.2%**
Q1'2023 Mkt Weighted Average**	**25.0%**	**26.2%**	**40.2%**	**20.1%**	**7.3%**	**48.1%**	**41.3%**	**30.0%**	**19.0%**	**(1.2%)**	**73.1%**	**19.6%**	**22.1%**		

*Market cap weighted as at 13/06/2024

**Market cap weighted as at 15/06/2023

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Takeout from Key Operating Metrics

The listed banks recorded a 21.9% weighted average growth on RoaE, 0.2% points lower than 22.1% in Q1'2023

- Listed banks recorded a 29.8% growth in core Earnings per Share (EPS) in Q1'2024, compared to the weighted average growth of 25.0% in Q1'2023, an indication of sustained performance on the back of improved business environment. The performance was mainly supported by a 22.8% weighted average growth in net interest income, coupled with a 10.9% weighted average growth in non funded income,
- Investments in government securities by listed banks increased in Q1'2024, having recorded a market weighted average growth of 3.1%, up from the 1.2% decline recorded in Q1'2023. The trend was partly attributable to the reduced perceived risk of default by the government, following the February Eurobond buyback which removed default risk of the June 2024 Eurobond maturity by the government,
- Interest income recorded a weighted average growth of 35.3% in Q1'2024, compared to 26.2% in Q1'2023. Similarly, interest expenses recorded a market-weighted average growth of 64.7% in Q1'2024 compared to a growth of 40.2% in Q1'2023. Consequently, net interest income recorded a weighted average growth of 22.8% in Q1'2024, an increment from the 20.1% growth recorded in Q1'2023,
- The listed banks recorded a 21.9% weighted average growth on return on average equity (RoaE), 0.2% points lower than the 22.1% growth registered in Q1'2023.

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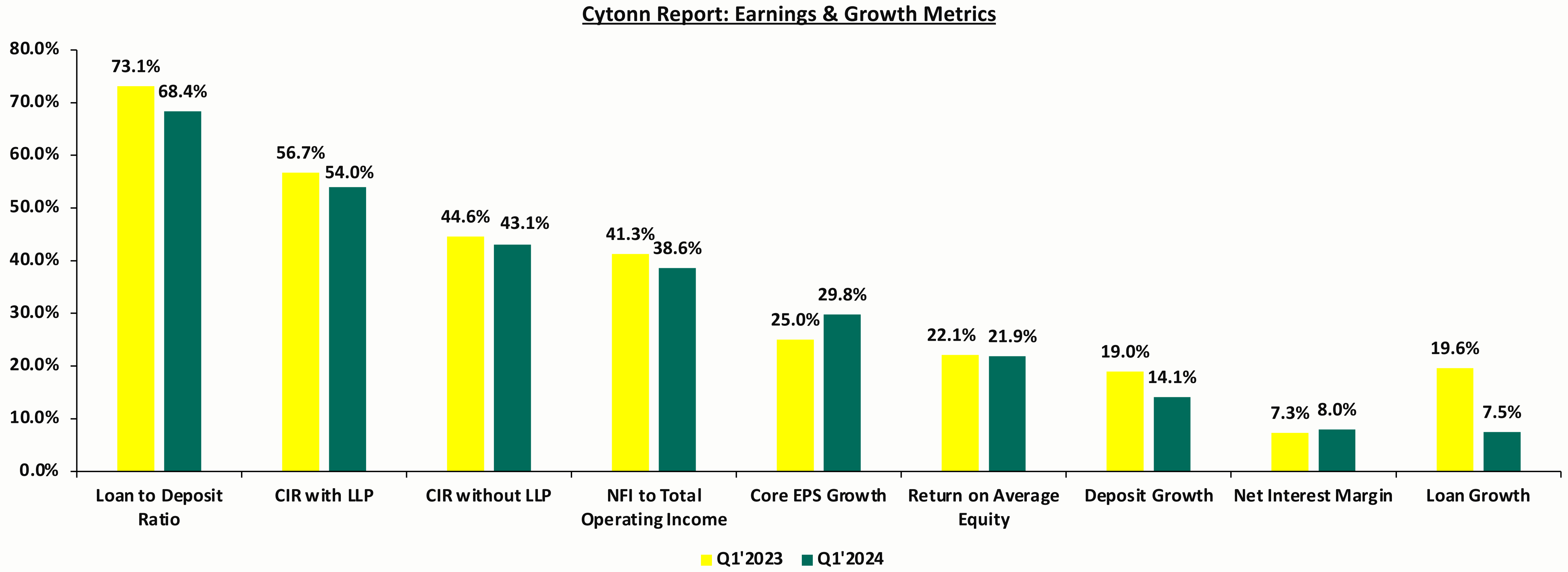
Listed Banks Earnings and Growth Metrics Cont…

The banking sector has witnessed decreased customer loans registering a growth rate of 7.5% in Q1’2024, 12.1% points lower than the 19.6% growth in Q1’2023



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Listed Banks Operating Metrics

Asset quality for the listed banks deteriorated during the period, with the market-weighted average NPL ratio increasing by 0.9% points to 13.5%, from 12.6% in Q1’2023

	Q1’2024 NPL Ratio*	Q1’2023 NPL Ratio**	% point change in NPL Ratio	Q1’2024 NPL Coverage*	Q1’2023 NPL Coverage**	% point change in NPL Coverage
Stanbic Bank	8.9%	11.7%	(2.9%)	72.3%	66.7%	5.6%
Standard Chartered Bank	9.9%	14.4%	(4.5%)	83.7%	86.8%	(3.1%)
I&M Group	10.8%	10.6%	0.3%	58.3%	65.8%	(7.5%)
Absa Bank	11.1%	9.4%	1.6%	62.3%	63.9%	(1.6%)
NCBA	11.7%	12.8%	(1.1%)	55.7%	56.8%	(1.0%)
Equity Group	14.2%	10.0%	4.2%	58.3%	62.0%	(3.8%)
Diamond Trust Bank	14.9%	12.3%	2.7%	44.0%	45.9%	(1.8%)
Co-operative Bank of Kenya	15.9%	14.1%	1.8%	58.6%	62.2%	(3.6%)
KCB Group	17.9%	17.1%	0.8%	62.0%	57.3%	4.8%
HF Group	24.1%	19.9%	4.2%	74.4%	81.4%	(7.0%)
Mkt Weighted Average*	**13.5%**	**12.6%**	0.8%	**62.7%**	**63.7%**	(1.0%)

*Market cap weighted as at 13/06/2024

**Market cap weighted as at 15/06/2023

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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 3.4x

Bank	No. of shares (bn)	Market Cap (Kshs bn)	P/E	Price*	P/TBV
NCBA Group	1.6	69.1	3.2x	42.0	0.8x
Absa Bank	5.4	75.2	4.2x	13.9	1.0x
Stanbic Bank	0.4	46.2	3.8x	116.8	0.8x
Equity Bank	3.8	164.9	3.5x	43.7	0.8x
SCBK	0.4	74.1	4.8x	196.0	1.2x
DTBK	0.3	12.9	1.6x	46.1	0.2x
Coop Bank	5.9	79.2	3.3x	13.5	0.7x
KCB Group	3.2	114.2	2.6x	35.6	0.5x
I&M Holdings	1.7	34.0	2.4x	20.6	0.4x
HF Group	0.4	1.6	3.6x	4.3	0.2x
Weighted Average Q1’2024			**3.4x**		**0.8x**

*Prices as at 13th June 2024

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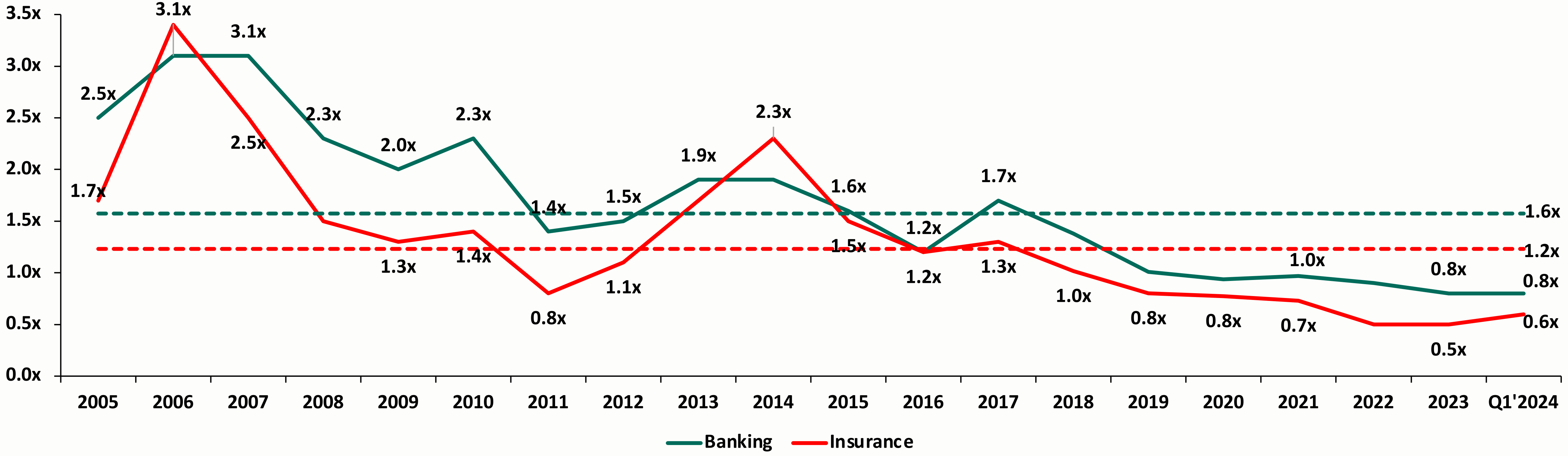
Listed Banks & Insurance Trading Metrics

Listed banks are trading at an average P/B of 0.8x, higher than the insurance sector, which is priced at 0.6x. Both sectors are trading below their 18-year averages of 1.6x and 1.2x, respectively

18 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 0.6x, with both lower than their historical averages of 1.6x for the banking sector and 1.2x for the insurance sector

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V. Banks Valuation Reports

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Ranking by Franchise Value

Standard Chartered Bank emerged top in the franchise ranking having had the lowest cost to income ratio of 41.6% against a weighted market average of 54.0% for the listed banks

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
SCBK	10	1	2	2	7	10	1	2	1	2	5	1	44	1
Stanbic Bank	5	2	5	3	6	6	2	1	3	7	4	5	49	2
Absa Bank	3	3	1	1	9	9	4	4	4	4	9	2	53	3
I&M Holdings	4	6	8	5	4	3	5	3	7	3	10	3	61	4
Coop Bank	2	4	7	6	5	5	9	8	6	1	3	6	62	5
Equity Bank	8	8	3	4	3	8	6	6	8	9	2	4	69	6
NCBA Group	9	7	4	8	8	7	3	5	9	6	1	7	74	7
KCB Group	6	5	6	7	1	4	8	9	5	10	7	9	77	8
DTBK	7	9	9	9	2	1	7	7	10	8	8	8	85	9
HF Group	1	10	10	10	10	2	10	10	2	5	6	10	86	10

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Valuation Summary of Listed Banks

Equity Bank presents the highest return with a total potential return of 47.1%

(all values in Kshs)

Bank	Market Price	Fair Value	Upside/(Downside)	DPS	Dividend Yield	Total Potential Return	Q1’2024 Ranking
Equity Bank	43.7	60.3	38.0%	4.00	9.2%	47.1%	1
DTBK	46.1	58.2	26.2%	6.00	13.0%	39.3%	2
Absa Bank	13.9	17.7	27.6%	1.55	11.2%	38.8%	3
Coop Bank	13.5	17.2	27.4%	1.50	11.1%	38.5%	4
NCBA Group	42.0	53.2	26.8%	4.75	11.3%	38.2%	5
Stanbic Bank	116.8	145.3	24.5%	15.35	13.1%	37.6%	6
I&M Holdings	20.6	25.5	24.1%	2.55	12.4%	36.5%	7
SCBK	196.0	225.2	14.9%	29.00	14.8%	29.7%	8
KCB Group	35.6	45.8	28.7%	0.00	0.0%	28.7%	9
HF Group	4.3	4.5	4.4%	0.00	0.0%	4.4%	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	Q1'2023 Rank	Q1'2024 Rank
Absa Bank	3	3	3.0	2	1
Stanbic Bank	2	6	3.6	6	2
SCBK	1	8	3.8	8	3
Equity Bank	6	1	4.0	1	4
Coop Bank	5	4	4.6	3	5
I&M Holdings	4	7	5.2	7	6
DTBK	9	2	6.2	9	7
NCBA Group	7	5	6.2	5	8
KCB Group	8	9	8.4	4	9
HF Group	10	10	10.0	10	10

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VI. Appendix

A. Tier I Banks

I. Equity Group Holdings

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Equity Group Summary of Performance – Q1’2024

- Profit before tax increased by 20.9% to Kshs 20.4 bn from Kshs 16.9 bn in Q1’2023, with effective tax rate declining to 21.5% in Q1’2024 from 24.2% in Q1’2023. As such, profit after tax increased by 25.2% to Kshs 16.0 bn in Q1’2024, from Kshs 12.8 bn in Q1’2023.
- Total operating income increased by 25.0% to Kshs 50.1 bn, from Kshs 40.1 bn in Q1’2023, mainly driven by a 28.4% growth in Net Interest Income to Kshs 27.8 bn, from Kshs 21.7 bn in Q1’2023, coupled with a 21.0% growth in Non funded Income (NFI) to Kshs 22.2 bn, from Kshs 18.4 bn in Q1’2023,
- Total operating expenses increased by 27.9% to Kshs 29.7 bn from Kshs 23.2 bn in Q1’2023, driven by a significant 74.5% increase in loan loss provisions to Kshs 6.1 bn from Kshs 3.5 bn recorded in Q1’2023, coupled with a 18.4% increase in staff costs to Kshs 7.9 bn from Kshs 6.6 bn in Q1’2023
- The balance sheet recorded an expansion as total assets increased by 9.6% to Kshs 1685.9 bn, from Kshs 1537.7 bn in Q1’2023.
- Gross Non-Performing Loans (NPLs) increased by 50.0% to Kshs 120.4 bn in Q1’2024 from Kshs 80.3 bn in Q1’2023, while Gross Loans increased by 5.4% to Kshs 849.4 bn from Kshs 806.1 bn in Q1’2023. Consequently, the asset quality deteriorated with the NPL ratio rising to 14.2% in Q1’2024 from 10.0% in Q1’2023
- 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 DRC, Rwanda, Tanzania, Uganda and Ethiopia. . Notably, in Q1’2024, Profit After Tax (PAT) of the Equity Group Holdings’ subsidiaries amounted to Kshs. 11.4 bn, representing 62.0% of the Group’s overall profit

Financial Statements Extracts

Equity Group's PAT is expected to grow at a 5-year CAGR of 27.8%

Income Statement	2021	2022	2023	2024f
Net Interest Income	68.8	86.0	104.2	172.1
Non Funded Income	44.6	59.9	78.31	118.3
Total Operating Income	113.4	145.9	182.5	290.4
Loan Loss Provision	(5.1)	(15.4)	(35.3)	(21.7)
Other Operating Expenses	(55.7)	(70.7)	(95.4)	(150.6)
Total Operating Expenses	**(61.5)**	**(86.1)**	**(130.6)**	**(172.3)**
Profit Before Tax	51.9	59.8	51.9	118.1
Profit After tax	40.1	46.1	43.7	82.6
% PAT Change YoY	**99.4%**	**15.1%**	**(5.1%)**	**88.9%**
EPS	10.6	12.2	11.6	21.9
DPS	3.0	4.0	4.0	5.0
Cost to Income	54.2%	59.0%	71.6%	59.3%
NIM	**6.8%**	**7.2%**	**7.4%**	**17.6%**
ROaE	26.6%	26.7%	22.8%	28.0%
ROaA	3.5%	3.4%	2.7%	3.0%
Balance Sheet	**2021**	**2022**	**2023**	**2024f**
Net Loans and Advances	587.8	706.6	887.4	1921.1
Government Securities	228.5	219.2	246.7	328.7
Other Assets	488.7	521.2	687.4	1377.3
Total Assets	**1304.9**	**1447.0**	**1821.4**	**3627.1**
Customer Deposits	959.0	1052.2	1358.2	2952.3
Other Liabilities	169.7	212.6	241.1	281.2
Total Liabilities	**1128.7**	**1264.8**	**1603.3**	**3233.5**
Shareholders Equity	**169.2**	**176.2**	**207.8**	**383.3**
Number of Shares	**3.8**	**3.8**	**3.8**	**3.8**
Book value Per share	44.8	46.7	55.1	101.57
% Change in BPS YoY	**28.0%**	**4.2%**	**17.9%**	**84.5%**

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Valuation Summary

Equity Group is undervalued with a total potential return of 47.1%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	90.8	40.0%	36.3
Residual Income	34.0	30.0%	10.2
PBV Multiple	45.2	15.0%	6.8
PE Multiple	46.5	15.0%	7.0
Fair Value			**60.3**
Current Price			**43.7**
Upside/(Downside)			38.0%
Dividend Yield			9.2%
Total Potential Return			**47.1%**

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II. KCB Group

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KCB Group Summary of Performance – Q1'2024

- Profit before tax increased by 52.7% to Kshs 21.2 bn from Kshs 13.9 bn in Q1'2023, with effective tax rate decreasing to 22.1% in Q1'2024 from 29.6% in Q1'2023. As such, profit after tax increased by 69.0% to kshs 16.5 bn, from kshs 9.8 bn in Q1'2023. .
- Total operating income increased by 31.6% to Kshs 48.5 bn, from Kshs 36.9 bn in Q1'2023, mainly driven by a 40.8% growth in Net Interest Income to Kshs 31.1 bn, from Kshs 22.1 bn in Q1'2023, coupled with a 17.8% growth in Non funded Income (NFI) to Kshs 17.4 bn, from Kshs 14.8 bn in Q1'2023,
- Total operating expenses increased by 18.8% to Kshs 27.3 bn from Kshs 23.0 bn in Q1'2023, driven by the 53.4% increase in loan loss provisions to Kshs 6.3 bn from Kshs 4.1 bn in Q1'2023 an indication of increased provisioning, coupled with a 19.4% increase in other operating expenses to Kshs 11.4 bn from Kshs 9.5 bn in Q1'2023,
- The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 17.9% in Q1'2024, from 17.1% in Q1'2023, attributable to the 16.3% increase in gross non-performing loans to Kshs 205.3 bn, from Kshs 176.5 bn in Q1'2023, relative to the 11.2% increase in gross loans to Kshs 1,144.8 bn, from Kshs 1,029.9 bn recorded in Q1'2023,
- Going forward, we expect the bank's growth to be driven by:

i. **Continued Digitization -** The Group has continued to maximize on digital trasformation. As of Q1'2024, 99.0% of the transactions by number were done through the non-branch channels. Notably, the Group continues to witness growth in the value of mobile loans disbursed mainly driven by Fuliza, introduction of term loans on KCB Mobi and new mobile lending products for small businesses.

Financial Statements Extracts

KCB Group's PAT is expected to grow at a 5-year CAGR of 21.2%

Income Statement	2021	2022	2023	2024f
Net Interest Income	77.7	86.7	107.3	123.9
Non Funded Income	30.9	43.3	57.9	72.1
Total Operating Income	**108.6**	**129.9**	**165.2**	**196.0**
Loan Loss Provision	13.0	13.2	(33.6)	43.5
Other Operating Expenses	47.8	59.4	150.4	86.3
Total Operating Expenses	**60.8**	**72.6**	**116.8**	**129.7**
Profit Before Tax	47.8	57.3	48.5	66.3
% PAT Change YoY	**74.3%**	**19.5%**	**(8.3%)**	**23.9%**
EPS	10.6	12.7	11.7	14.4
DPS	3.0	2.0	0.0	2.5
Cost to Income (with LLP)	56.0%	55.9%	70.7%	66.2%
NIM	**8.4%**	**7.5%**	**4.3%**	**5.7%**
ROE	21.8%	22.0%	17.5%	17.2%
ROA	3.2%	3.0%	2.0%	1.9%
Balance Sheet	**2021**	**2022**	**2023**	**2024f**
Net Loans and Advances	675.5	863.3	1095.9	1436.4
Government Securities	270.8	278.0	397.2	522.4
Other Assets	193.4	412.7	677.7	738.4
Total Assets	**1139.7**	**1554.0**	**2170.9**	**2697.1**
Customer Deposits	837.1	1135.4	1690.9	2121.1
Other Liabilities	129.0	212.3	243.6	258.6
Total Liabilities	**966.2**	**1347.8**	**1934.5**	**2379.7**
Shareholders Equity	**171.7**	**200.2**	**228.3**	**310.4**
Number of Shares	**3.2**	**3.2**	**3.2**	**3.2**
Book value Per share	53.4	62.3	71.1	96.6
% Change in BPS YoY	**20.6%**	**16.6%**	**14.0%**	**35.9%**

Valuation Summary

KCB Group is undervalued with a total potential return of 28.7%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	61.2	40%	24.5
Residual Income	22.4	35%	7.8
PBV Multiple	59.8	15%	9.0
PE Multiple	45.5	10%	4.6
Target Price			**45.8**
Current Price			**35.6**
Upside/(Downside)			28.7%
Dividend Yield			0.0%
Total Return			**28.7%**

III. Co-operative Bank

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Cooperative Bank Summary of Performance – Q1'2024

- Profit before tax increased by 7.7% to Kshs 6.6 bn from Kshs 6.1 bn in Q1'2023, with the effective tax rate increasing to 30.9% in FY'2023 from 30.0% in FY'2022. As such, profit after tax increased by 7.7% to Kshs 23.2 bn in FY'2023, from Kshs 22.0 bn in FY'2022.
- Core earnings per share grew by 7.7% to Kshs 1.1, from Kshs 1.0 in Q1'2023, driven by the 5.1% increase in total operating income to Kshs 18.8 bn, from Kshs 17.9 bn in Q1'2023. However, the performance was weighed down by a 0.5% increase in total operating expenses to Kshs 9.9 bn from Kshs 9.8 bn in Q1'2023,
- The 5.1% increase in total operating income was mainly driven by the 8.6% increase in Net Interest Income (NII) to Kshs 11.7 bn from Kshs 10.8 bn in Q1'2023, which outpaced the 0.3% decline in Non Funded Income (NFI) to remain relatively unchanged at Kshs 7.1 bn Q1'2023,
- The balance sheet recorded an expansion as total assets grew by 13.2% to Kshs 714.7 bn, from Kshs 631.1 bn in Q1'2023, driven by a 5.0% increase in net loans and advances to Kshs 378.1 bn, from Kshs 360.1 bn in Q1'2023, coupled with the 11.7% increase in investment in government securities to Kshs 200.2 bn, from Kshs 179.2 bn in Q1'2023,
- The bank's Asset Quality declined, with Gross NPL ratio increasing to 15.9% in Q1'2024, from 14.1% in Q1'2023, attributable to 19.4% increase in Gross non-performing loans to Kshs 66.5 bn, from Kshs 55.7 bn in Q1'2023, compared to the 5.7% increase in gross loans to Kshs 417.1 bn, from Kshs 394.7 bn recorded in Q1'2023,

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

- **Strong Customer Base –** Cooperative Bank still retains a loyal yet diverse customer base that includes cooperatives, SMEs, retail customers, and government institutions. We anticipate that the bank will keep leveraging on this base to improve its loan book which this year expanded by 10.3% to Kshs 374.2 bn from Kshs 339.4 bn in FY'2022.

- **Diversified products –** The bank has in recent days launched a number of products and continues to simultaneously offer differentiated products for diaspora bankers, micro and small enterprises, home and vehicle insurance, bancassurance and the Sacco Mco-op cash. This diversification is expected to continue improving the Non-funded Income of the bank which this year came in at 26.5 bn, a 2.8% increase from Kshs 25.7 bn in FY'2022,

Financial Statements Extracts

Cooperative Bank's PAT is expected to grow at a 5-year CAGR of 5.3%

Income Statement	2018	2019	2020	2021	2022	2023	2024F
Interest Income	43.0	43.6	39.6	55.6	61.7	69.1	79.0
Interest Expense	(12.2)	(12.3)	(10.9)	(14.6)	(16.2)	(23.8)	(25.4)
Net Interest Income	30.8	31.3	28.7	41.0	45.5	45.2	53.6
Non Funded Income	12.9	17.2	15.7	19.4	25.7	26.5	29.5
Total Operating Income	**43.7**	**48.5**	**44.4**	**60.4**	**71.3**	**71.7**	**83.1**
Loan Loss Provision	(1.8)	(2.5)	(6.0)	(7.9)	(8.7)	(6.0)	(4.5)
Other Operating Expenses	(23.9)	(25.3)	(21.9)	(30.2)	(33.6)	(33.7)	(38.5)
Total Operating Expenses	**(25.7)**	**(27.8)**	**(28.0)**	**(38.1)**	**(42.2)**	**(39.7)**	**(43.0)**
Profit Before Tax	18.2	20.7	16.5	22.6	29.4	32.4	40.5
Profit After tax	12.7	14.3	11.6	16.5	22.0	23.2	28.8
% PAT Change YoY	**11.6%**	**12.4%**	**-18.8%**	**42.3%**	**33.2%**	**5.2%**	**24.1%**
EPS	1.9	2.1	1.7	2.8	3.8	4.0	4.9
DPS	1.0	1.0	0.0	1.0	1.5	1.5	2.0
Cost to Income	58.8%	57.4%	63.0%	63.0%	59.3%	55.3%	51.7%
ROE	18.3%	19.2%	14.2%	17.3%	21.2%	21.0%	23.3%
ROA	3.2%	3.3%	2.3%	3.0%	3.7%	3.6%	4.0%
Balance Sheet							
Net Loans and Advances	245.4	266.7	306.3	310.2	339.4	374.2	421.6
Government Securities	80.3	117.8	193.3	184.1	173.3	189.0	209.7
Other Assets	87.7	72.5	93.3	85.5	94.5	107.9	121.3
Total Assets	413.4	457.0	592.9	579.8	607.2	671.1	752.6
Customer Deposits	306.1	332.8	420.4	407.7	423.8	451.6	508.8
Other Liabilities	36.1	43.3	77.1	71.3	75.4	105.8	110.4
Total Liabilities	342.2	376.2	497.5	479.0	499.3	557.5	619.2
Shareholders Equity	69.9	79.3	95.0	100.2	107.7	113.6	133.3
Number of Shares	6.9	6.9	6.9	5.9	5.9	5.9	5.9
Book value Per share	10.2	11.6	13.8	17.1	18.4	19.4	22.7
% Change in BPS YoY	**-14.2%**	**13.6%**	**19.8%**	**23.4%**	**7.4%**	**5.5%**	**17.4%**

Cytonn

Valuation Summary

Co-operative Bank is undervalued with a total potential return of 38.5%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	17.9	40%	7.2
Residual Income	18.8	35%	6.6
PBV Multiple	14.6	20%	2.9
PE Multiple	13.0	5%	0.7
Target Price			**17.2**
Current Price			**13.5**
Upside/(Downside)			27.4%
Dividend Yield			11.1%
Total Return			**38.5%**

Cytonn

IV. NCBA Bank

Cytonn

NCBA Bank Summary of Performance – Q1’2024

- Profit before tax increased by 2.2% to Kshs 6.5 bn from Kshs 6.4 bn in Q1’2023, with effective tax rate decreasing to 18.9% in Q1’2024, from 20.8% in Q1’2023, leading to a 4.7% increase in profit after tax to Kshs 5.3 bn in Q1’2024, from Kshs 5.1 bn in Q1’2023.
- Total operating income increased by 2.8% to Kshs 16.0 bn, from Kshs 15.5 bn in Q1’2023, driven by 7.4% increase in Non Interest Income (NFI) to Kshs 7.7 bn from Kshs 7.2 bn in Q1’2023, which outpaced the 1.2% decline in Net Interest Income (NII) to Kshs 8.3 bn, from Kshs 8.4 bn in Q1’2023,
- Total operating expenses increased by 3.1% to Kshs 9.4 bn from Kshs 9.2 bn in Q1’2023, driven by 11.4% increase in staff costs to Kshs 3.3 bn from Kshs 2.9 bn recorded in Q1’2023, coupled with a 13.0% increase in other operating expenses to Kshs 4.8 bn, from Kshs 4.3 bn recorded in Q1’2023, which outpaced the 30.9% decrease in loan loss provisions to Kshs 1.4 bn, from Kshs 2.0 bn recorded in Q1’2023
- The balance sheet recorded an expansion with total assets growing by 10.5% to Kshs 694.9 bn, from Kshs 628.8 bn in Q1’2024
- The group’s Asset Quality improved, with Gross NPL ratio decreasing to 11.7% in Q1’2024, from 12.8% in Q1’2023, attributable to the slower 1.1% increase in Gross non-performing loans to Kshs 40.2 bn, from Kshs 39.7 bn in Q1’2023, compared to the 10.7% increase in gross loans to Kshs 342.9 bn, from Kshs 309.7 bn recorded in Q1’2023,
- Going forward, we expect the bank’s growth to be driven by:

i. **Digital transformation**. The lender has capitalized on digital innovation for service delivery over the past years to improve its operational efficiency, which has been a key factor in its financial performance. In March 2024, the lender disclosed that they had disbursed a total of Kshs 930.0 bn via digital banking avenues, including Fuliza, Mshwari and Loop, remaining a market leader in digital lending.

ii. **Revenue diversification**. The lender has also capitalized on revenue diversification and increasing the bottom line contribution of all the business lines. Notably, subsidiary contribution to group’s profitability has increased over the period, standing at Kshs 4.0 bn in FY’2023. Further, the planned 100.0% acquisition of AIG Kenya Insurance is set to increase the non-funded revenue base more.

iii. .

Financial Statements Extracts

NCBA Group's PAT is expected to grow at a 5-year CAGR of 19.0%

Income Statement	2021	2022	2023	2024e
Net Interest Income	27.0	30.7	34.6	41.3
Non Funded Income	22.1	30.3	29.1	35.4
Total Operating Income	**49.2**	**60.9**	**63.7**	**76.6**
Loan Loss Provision	(12.7)	(13.1)	(9.2)	(10.8)
Other Operating Expenses	(20.7)	(24.9)	(29.1)	(35.0)
Total Operating Expenses	**(33.4)**	**(37.9)**	**(38.2)**	**(45.8)**
Profit Before Tax	15.0	22.5	25.5	30.8
Profit After Tax	10.2	13.8	21.5	24.5
% PAT Change YoY	**70.6%**	**34.8%**	**55.7%**	**14.3%**
EPS	6.2	8.4	13.0	14.9
DPS	3.0	4.3	4.8	4.8
Cost to Income (with LLP)	68.1%	62.2%	60.0%	59.8%
NIM	**5.7%**	**5.9%**	**5.9%**	**5.9%**
ROE	13.6%	17.2%	24.0%	23.4%
ROA	1.8%	2.3%	3.2%	3.1%
Balance Sheet	**2021e**	**2022f**	**2023F**	**2024F**
Net Loans and Advances	244.0	278.9	337.0	398.8
Government Securities	196.1	205.4	203.4	255.9
Other Assets	151.0	135.4	194.2	217.4
Total Assets	591.1	619.7	734.6	872.0
Customer Deposits	469.9	502.7	579.4	667.8
Other Liabilities	43.2	34.6	58.6	58.7
Total Liabilities	513.1	537.2	638.0	726.6
Shareholders Equity	77.9	82.4	96.7	113.4
Number of Shares	1.6	1.6	1.6	1.6
Book value Per share	47.3	50.0	58.7	68.8
% Change in BPS YoY	**7.6%**	**5.9%**	**17.3%**	**17.3%**

Cytonn

Valuation Summary

NCBA Group is undervalued with a total potential return of 38.2%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM Integrated	81.6	40%	32.6
Residual Valuation	30.7	35%	10.7
PBV Multiple	38.9	20%	7.8
PE Multiple	40.8	5%	2.0
Target Price			**53.2**
Current Price			**42.0**
Upside/(Downside)			26.8%
Dividend Yield			11.3%
Total Potential Return			**38.2%**

Cytonn

V. Standard Chartered Bank Kenya

Cytonn

SCBK's Summary of Performance – Q1'2024

- Core earnings per share increased by 39.5% to Kshs 14.9, from Kshs 10.7 in Q1'2023, mainly driven by the 21.4% increase in total operating income to Kshs 13.1 bn, from Kshs 10.8 bn in Q1'2023 which outpaced the 6.0% increase in total operating expenses to Kshs 5.4 bn, from Kshs 5.1 bn in Q1'2023,
- The 21.4% growth in total operating income was mainly driven by a 20.0% growth in Net Interest Income to Kshs 8.3 bn, from Kshs 6.9 bn in Q1'2023, coupled with a 23.9% growth in Non funded Income (NFI) to Kshs 4.8 bn, from Kshs 3.9 bn in Q1'2023,
- Total operating expenses increased by 6.0% to Kshs 5.4 bn from Kshs 5.1 bn in Q1'2023, driven by the 24.1% increase in staff costs to Kshs 2.4 bn from Kshs 1.9 bn in Q1'2023, coupled with a 3.7% increase in other operating expenses to Kshs 2.5 bn from Kshs 2.4 bn in Q1'2023. The growth in total operating expenses was however weighed down by the 30.7% decrease in loan loss provisions to Kshs 0.5 bn, from Kshs 0.8 bn in Q1'2023. The decrease in provisioning is attributable to the 26.9% decrease in gross non-performing loans to Kshs 16.5 bn, from Kshs 22.6 bn in Q1'2023,
- The balance sheet recorded an expansion as total assets grew by 0.7% to Kshs 391.3 bn, from Kshs 388.6 bn in Q1'2023,
- The bank's Asset Quality improved, with Gross NPL ratio decreasing to 9.9% in Q1'2024, from 14.4% in Q1'2023, attributable to the 26.9% decrease in gross non-performing loans to Kshs 16.5 bn, from Kshs 22.6 bn in Q1'2023, relative to the slower 6.8% increase in gross loans to Kshs 167.4 bn, from Kshs 156.7 bn recorded in Q1'2023,

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

i. **Digital transformation -** The lender has leveraged digital innovation to enhance service delivery, enabling customers to invest in various funds such as offshore mutual funds, government securities, and local money market funds, as well as to access digital loans. This digital shift has significantly contributed to the lender's financial performance. The convenience and speed offered by digital banking services have made it easier for customers to manage their finances and access financial products, leading to higher customer satisfaction and loyalty.

Financial Statements Extracts

SCBK's PAT is expected to grow at a 5-year CAGR of 24.5%

Income Statement	2019	2020	2021	2022	2023	2024f
Net Interest Income	19.5	19.1	18.8	22.2	29.3	32.5
Non Funded Income	9.2	8.3	10.4	11.8	12.4	19.8
Total Operating Income	**28.7**	**27.4**	**29.2**	**34.0**	**41.7**	**52.3**
Loan Loss Provision	0.6	3.9	2.1	1.3	3.4	1.8
Other Operating Expenses	16.0	16.1	14.5	15.5	18.7	22.5
Total Operating Expenses	**16.5**	**20.0**	**16.6**	**16.9**	**22.1**	**24.4**
Profit Before Tax	12.2	7.4	12.6	17.1	19.7	28.0
Profit After tax	8.2	5.4	9.0	12.1	13.8	18.5
% PAT Change YoY	**1.7%**	**-33.9%**	**66.2%**	**33.3%**	**14.7%**	**33.6%**
EPS	21.9	14.4	24.0	32.0	36.7	49.0
DPS	20.0	10.5	14.0	22.0	29.0	30.0
Cost to Income	57.6%	73.0%	56.8%	49.7%	52.9%	46.5%
NIM	**7.4%**	**6.8%**	**6.4%**	**7.0%**	**8.3%**	**7.8%**
ROaE	17.5%	11.0%	17.4%	22.1%	23.5%	21.8%
ROaA	2.8%	1.7%	2.7%	3.4%	3.4%	3.8%

Balance Sheet	2019	2020	2021	2022	2023	2024f
Net Loans and Advances	128.7	121.5	126.0	139.4	163.2	204.0
Government Securities	99.6	99.8	95.6	105.7	69.6	96.6
Other assets	73.8	104.3	113.3	136.2	196.2	253.1
Total Assets	**302.1**	**325.6**	**334.9**	**381.3**	**429.0**	**553.6**
Customer Deposits	228.4	256.5	265.5	278.9	342.9	421.5
Other Liabilities	25.9	18.2	16.2	46.2	24.6	24.5
Total Liabilities	**254.4**	**274.7**	**281.7**	**325.1**	**367.4**	**446.0**
Shareholders Equity	**47.8**	**50.9**	**53.2**	**56.1**	**61.5**	**107.6**
Number of shares	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Book value Per share	126.7	135.0	141.2	148.9	163.2	285.5
% Change in BPS YoY	**2.4%**	**6.6%**	**4.6%**	**5.5%**	**9.6%**	**74.9%**

Cytonn

Valuation Summary

SCBK is undervalued with a total potential return of 29.7%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM Integrated	380.5	40%	152.2
Residual Income	123.4	35%	43.2
PBV Multiple	118.0	20%	23.6
PE Multiple	125.3	5%	6.3
Target Price			**225.2**
Current Price			**196.0**
Upside/(Downside)			22.4%
Dividend Yield			14.8%
Total Return			**29.7%**

Cytonn

VI. Diamond Trust Bank Kenya

DTB K Holdings Summary of Performance –Q1'2024

- Profit before tax increased by 9.2% to Kshs 4.0 bn from Kshs 3.6 bn in Q1'2023, with the effective tax rate decreasing to 26.2% in Q1'2024 from 27.4% in Q1'2023. As such, profit after tax increased by 11.0% to Kshs 2.9 bn in Q1'2024, from Kshs 2.6 bn in Q1'2023.
- Core earnings per share grew by 11.0% to Kshs 10.5, from Kshs 9.5 in Q1'2023, driven by the 13.8% increase in total operating income to Kshs 10.8 bn, from Kshs 9.5 bn in Q1'2023. However, the performance was weighed down by a 16.4% increase in total operating expenses to Kshs 6.8 bn from Kshs 5.9 bn in Q1'2023,
- The 13.8% increase in total operating income was mainly driven by a 31.8% increase in Net Non Interest Income (NFI) to Kshs 3.7 bn from Kshs 2.8 bn in Q1'2023, coupled with the 6.2% growth in Net Interest Income (NII) to Kshs 7.1 bn, from Kshs 6.7 bn in Q1'2023,
- Total operating expenses increased by 16.4% to Kshs 6.8 bn from Kshs 5.9 bn in Q1'2023, driven by 12.8% increase in staff costs to Kshs 2.3 bn from Kshs 2.0 bn recorded in Q1'2023, coupled with a 21.0% increase in other operating expenses to Kshs 3.0 bn from Kshs 2.5 bn recorded in Q1'2023, and the 13.1% increase in loan loss provisions to Kshs 1.5 bn from Kshs 1.4 bn recorded in Q1'2023.
- • The balance sheet recorded an expansion as total assets grew by 3.4% to Kshs 571.9 bn, from Kshs 553.3 bn in Q1'2024,
- The bank's Asset Quality declined, with Gross NPL ratio increasing to 14.9% in Q1'2024, from 12.3% in Q1'2023, attributable to 22.4% increase in Gross non-performing loans to Kshs 43.0 bn, from Kshs 35.1 bn in Q1'2023, which outpaced the 0.5% increase in gross loans to Kshs 287.9 bn, from Kshs 286.5 bn recorded in Q1'2023,

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

- **Revenue Diversification.** The lender has a great opportunity to explore the growth of its non-funded income streams, which grew by 31.8% to Kshs 3.7 bn from Kshs 2.8 bn in Q1'2023. They have, over the years, launched a number of products and continues to simultaneously offer differentiated products for diaspora bankers, micro and small enterprises, home and vehicle insurance, bancassurance and the DTB weza platform which makes overdrafts much more accessible**,**

Cytonn

Financial Statements Extracts

DTB K Holdings PAT is expected to grow at a 5-year CAGR of 30.3%

Income Statement	2017	2018f	2019	2020	2021	2022	2023	2024f
Net Interest Income	19.7	20.0	18.7	18.1	20.0	22.9	27.6	28.6
Non Funded Income	5.3	5.4	5.8	6.1	6.3	9.1	12.2	14.1
Total Operating Income	**25.0**	**25.5**	**24.5**	**24.2**	**26.3**	**31.9**	**39.7**	**42.8**
Loan Loss Provision	4.3	3.0	1.3	7.3	7.6	7.1	10.3	11.5
Other Operating Expenses	10.6	11.5	11.9	12.3	12.3	14.9	20.5	21.1
Total Operating Expenses	**14.9**	**14.5**	**13.2**	**19.7**	**19.9**	**22.1**	**30.9**	**32.6**
Profit Before Tax	10.1	11.0	11.3	4.7	6.6	9.5	9.0	10.3
Profit After tax	6.9	7.1	7.3	3.5	4.4	6.8	7.8	12.7
% PAT Change YoY	**-10.3%**	**2.3%**	**2.6%**	**-51.5%**	**25.1%**	**53.9%**	**14.7%**	**62.7%**
EPS	24.8	25.3	26.0	12.6	15.8	24.3	27.9	45.4
DPS	2.6	2.6	2.7	0.0	3.0	5.0	6.0	5.5
Cost to Income	59.6%	56.9%	54.0%	81.3%	75.6%	69.1%	77.7%	76.3%
NIM	**6.5%**	**6.2%**	**5.6%**	**5.0%**	**5.1%**	**5.3%**	**5.5%**	**4.7%**
ROE	14.4%	13.9%	12.9%	5.8%	6.8%	10.0%	10.8%	14.8%
ROA	2.0%	1.9%	1.9%	0.9%	1.0%	1.4%	1.3%	1.9%

Balance Sheet	2017	2018	2019	2020	2021e	2022f	2023f	2024f
Net Loans and Advances	196.0	193.1	199.1	208.6	220.4	253.7	308.5	355.4
Government Securities	112.5	115.0	119.3	111.1	83.3	73.5	58.5	96.6
Other Assets	54.7	69.6	67.8	105.3	153.1	199.8	268.0	268.0
Total Assets	**363.3**	**377.7**	**386.2**	**425.1**	**456.8**	**527.0**	**635.0**	**720.0**
Customer Deposits	266.2	282.9	280.2	298.2	331.5	387.6	486.1	540.1
Other Liabilities	43.4	35.9	41.5	58.6	50.8	61.8	62.6	71.8
Total Liabilities	**309.7**	**318.8**	**321.7**	**356.7**	**382.3**	**449.3**	**548.7**	**611.8**
Shareholders Equity	48.4	53.7	58.9	62.0	67.3	69.0	74.9	96.7
Number of Shares	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Book value Per share	173.0	191.9	210.5	221.6	240.7	246.6	267.8	345.7
% Change in BPS YoY	**17.9%**	**10.9%**	**9.7%**	**5.3%**	**8.6%**	**2.5%**	**8.6%**	**29.1%**

Cytonn

Valuation Summary

DTB-K Holdings is undervalued with a total potential return of 39.3%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	66.0	40%	26.4
Residual Income	44.7	35%	15.6
PBV Multiple	61.3	20%	12.3
PE Multiple	77.0	5%	3.9
Target Price			58.2
Current Price			46.1
Upside/(Downside)			26.2%
Dividend yield			13.0%
Total return			**39.3%**

Cytonn

VII. ABSA Bank Kenya

Cytonn

ABSA Bank's Summary of Performance – Q1'2024

- Core earnings per share increased by 33.6% to Kshs 1.1, from Kshs 0.8 in Q1'2023, mainly driven by the 18.8% increase in total operating income to Kshs 16.5 bn, from Kshs 13.9 bn in Q1'2023 which outpaced the 7.3% increase in total operating expenses to Kshs 8.0 bn, from Kshs 7.4 bn in Q1'2023,
- The 18.8% growth in total operating income was mainly driven by a 21.7% growth in Net Interest Income to Kshs 11.4 bn, from Kshs 9.4 bn in Q1'2023, coupled with a 12.7% growth in Non funded Income (NFI) to Kshs 5.1 bn, from Kshs 4.5 bn in Q1'2023,
- Total operating expenses increased by 7.3% to Kshs 8.0 bn from Kshs 7.4 bn in Q1'2023, driven by the 11.5% increase in staff costs to Kshs 3.0 bn from Kshs 2.7 bn in Q1'2023, coupled with a 10.0% increase in other operating expenses to Kshs 2.6 bn from Kshs 2.4 bn in Q1'2023 as well as the marginal 0.1% increase in loan loss provisions to remain relatively unchanged at Kshs 2.4 bn.
- The balance sheet recorded a contraction as total assets declined by 3.3% to Kshs 497.7 bn, from Kshs 514.6 bn in Q1'2023, driven by a 21.2% decrease in investment in government securities to Kshs 68.6 bn from Kshs 87.0 bn in Q1'2023. The performance was however supported by a 5.4% loan book expansion to Kshs 326.8 bn, from Kshs 310.0 bn in Q1'2023,
- The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 11.1% in Q1'2024, from 9.4% in Q1'2023, attributable to the 24.7% increase in gross non-performing loans to Kshs 38.8 bn, from Kshs 31.1 bn in Q1'2023, relative to the 6.4% increase in gross loans to Kshs 351.0 bn, from Kshs 329.9 bn recorded in Q1'2023,Going forward, the factors that would drive the bank's growth would be:
- **Continued Digitization and Improved Branding-** The bank has continued to leverage digital transformation as a strategy to enhance financial services and customer experience. This expansion in digital distribution has led to an increase in digital loan disbursements and growth in consumer business through Timiza Insurance, significantly contributing to its financial performance. Additionally, in February 2024, the bank introduced a new brand promise, 'Your Story Matters,' to ensure that Absa's entire range of services and offerings aligns with a more human-centered and empathetic banking ethos across the continent.

Financial Statements Extracts

Absa Bank's PAT is expected to grow at a 5-year CAGR of 20.9%

Income Statement	2019	2020	2021	2022	2023	2024f
Net Interest Income	23.2	23.4	25.3	32.3	40.0	48.8
Non Funded Income	10.6	11.1	11.7	13.7	14.5	19.1
Total Operating Income	**33.8**	**34.5**	**36.9**	**46.0**	**54.6**	**67.9**
Loan Loss Provision	(4.2)	(9.0)	(4.7)	(6.5)	(9.2)	(10.4)
Other Operating Expenses	(17.3)	(16.6)	(16.7)	(18.7)	(21.6)	(25.4)
Total Operating Expenses	**(21.5)**	**(25.7)**	**(21.4)**	**(25.1)**	**(30.9)**	**(35.8)**
Profit Before Tax	10.8	5.6	15.5	20.8	23.7	32.2
Profit After tax	**7.5**	**4.2**	**10.9**	**14.6**	**16.4**	**22.6**
% PAT Change YoY	**0.5%**	**-44.2%**	**161.2%**	**34.2%**	**12.2%**	**37.8%**
EPS	1.4	0.8	2.0	2.7	3.0	4.2
DPS	1.1	0.0	1.1	1.4	1.6	1.8
Cost to Income	63.6%	74.4%	57.9%	54.7%	56.6%	52.7%
NIM	**7.7%**	**7.1%**	**7.1%**	**8.2%**	**9.4%**	**10.5%**
ROaE	16.7%	9.1%	21.1%	24.3%	24.6%	26.2%
ROaA	2.1%	1.1%	2.7%	3.2%	3.3%	4.1%
Balance Sheet	**2019**	**2020**	**2021**	**2022**	**2023**	**2024f**
Net Loans and Advances	194.9	208.9	234.2	283.6	335.7	388.6
Government Securities	123.0	126.1	132.6	133.5	95.2	101.0
Other Assets	56.1	44.5	61.9	60.2	88.9	104.3
Total Assets	**374.0**	**379.4**	**428.7**	**477.2**	**519.8**	**593.9**
Customer Deposits	237.7	253.6	268.7	303.8	362.7	418.3
Other Liabilities	91.1	79.3	103.5	109.9	87.9	72.6
Total Liabilities	**328.8**	**332.9**	**372.2**	**413.6**	**450.6**	**490.9**
Shareholders Equity	**45.2**	**46.5**	**56.4**	**63.6**	**69.2**	**103.0**
Number of shares	**5.4**	**5.4**	**5.4**	**5.4**	**5.4**	**5.4**
Book value Per share	8.3	8.6	10.4	11.7	12.7	19.0
% Change in BPS YoY	**2.2%**	**2.9%**	**21.4%**	**36.8%**	**22.6%**	**48.8%**

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Valuation Summary

Absa Bank is undervalued with a total potential return of 38.8%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	22.2	40%	8.9
Residual Income	18.5	35%	6.5
PBV Multiple	9.3	20%	1.9
PE Multiple	9.4	5%	0.5
Target Price			**17.7**
Current Price			**13.9**
Upside/(Downside)			27.6%
Dividend Yield			11.2%
Total Return			**38.8%**

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VIII. Stanbic Holdings

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Stanbic Holdings' Summary of Performance – Q1'2024

- Profit before tax decreased marginally by 0.5% to remain unchanged at Kshs 5.5 bn recorded in Q1'2024, with effective tax rate decreasing to 26.9% in Q1'2024 from 29.2% in Q1'2023, leading to an 2.8% increase in profit after tax to Kshs 4.0 bn in Q1'2024, from Kshs 3.9 bn in Q1'2023.
- Total operating income decreased by 8.0% to Kshs 10.3 bn, from Kshs 11.2 bn in Q1'2023, driven by a 34.0% decrease in Non Interest Income (NFI) to Kshs 3.8 bn from Kshs 5.7 bn in Q1'2023, which outpaced the 19.6% growth in Net Interest Income (NII) to Kshs 6.5 bn, from Kshs 5.4 bn in Q1'2023,
- Total operating expenses decreased by 15.2% to Kshs 4.8 bn from Kshs 5.7 bn in Q1'2023, driven by 34.6% decrease in other operating expenses to Kshs 1.7 bn from Kshs 2.6 bn recorded in Q1'2023, coupled with a minimal 0.5% decrease in loan loss provisions to remain relatively unchanged at Kshs 1.1 bn recorded in Q1'2023, which outpaced the 3.2% increase in staff costs to remain unchanged at Kshs 1.9 bn recorded in Q1'2023
- The balance sheet recorded an expansion as total assets grew by 25.5% to Kshs 491.5 bn, from Kshs 391.5 bn in Q1'2024
- The bank's Asset Quality improved, with Gross NPL ratio decreasing to 8.9% in Q1'2024, from 11.7% in Q1'2023, attributable to 17.3% decrease in Gross non-performing loans to Kshs 24.2 bn, from Kshs 29.3 bn in Q1'2023, compared to the 9.4% increase in gross loans to Kshs 273.3 bn, from Kshs 249.8 bn recorded in Q1'2023,
- 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 three years to improve its operational efficiency, which has been a key factor in its financial performance. In March 2024, the lender disclosed that 90.0% of transactions happened on digital channels. In 2022 the bank introduced borderless banking, allowing its customers across East Africa to conduct transaction smoothly and in real time, which has registered USD 697.0 mn worth of transactions as of December 2023.

Financial Statements Extracts

Stanbic Holdings' PAT is expected to grow at a 5-year CAGR of 16.6%

Income Statement	2021	2022	2023	2024f
Net Interest Income	12.8	14.4	**18.9**	**21.4**
Non Funded Income	10.4	10.6	**13.1**	**14.2**
Total Operating Income	**23.2**	**25.0**	**32.1**	**35.6**
Loan Loss Provision	(4.9)	(2.5)	(4.9)	(7.4)
Total Operating Expenses	**(12.1)**	**(12.7)**	**(19.9)**	**(20.5)**
Profit Before Tax	6.2	9.8	12.2	15.1
% PAT Change YoY	**(18.6%)**	**38.8%**	**25.7%**	**19.3%**
EPS	13.1	18.2	22.9	27.4
DPS	3.8	9.0	12.6	12.6
Cost to Income (with LLP)	52.2%	61.0%	62.1	57.6 57.6%
NIM	**4.7%**	**5.0%**	**5.7%**	**5.9%**
ROaE	10.3%	13.3%	15.3%	17.2%
ROaA	1.6%	2.2%	2.5%	2.5%
Balance Sheet	**2021**	**2022**	**2023**	**2024f**
Net Loans and Advances	196.3	229.3	266.8	283.0
Other Assets	132.3	99.6	133.0	169.9
Total Assets	**328.6**	**328.9**	**399.8**	**452.6**
Customer Deposits	260.0	254.6	304.3	336.3
Borrowings	5.5	5.7	10.1	14.8
Other Liabilities	11.4	12.1	23.2	40.1
Total Liabilities	**276.9**	**272.4**	**337.6**	**391.2**
Shareholders Equity	51.7	56.5	62.2	61.5
No of Ordinary Shares	0.4	0.4	0.4	0.4
Book value Per share	130.9	142.8	157.3	170.1
% Change in BVPS	**5.5%**	**9.1%**	**2.0%**	**8.1%**

Valuation Summary

Stanbic Holdings is undervalued with a total potential return of 37.6%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	198.9	35%	69.6
Residual Income	127.6	35%	44.7
PBV Multiple	97.3	20%	19.5
PE Multiple	115.3	10%	11.5
Target Price			**145.3**
Current Price			**116.8**
Upside/(Downside)			24.5%
Dividend Yield			13.1%
Total return			**37.6%**

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IX. I&M Group

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I&M Group Summary of Performance – Q1'2024

- Profit before tax increased by 36.2% to Kshs 5.1 bn from Kshs 3.7 bn in Q1'2023, with effective tax rate increasing to 29.7% in Q1'2024 from 29.1% in Q1'2023. As such, profit after tax increased by 35.4% to Kshs 3.6 bn in Q1'2024, from Kshs 2.7 bn in Q1'2023
- Total operating income rose by 20.6% to Kshs 11.5 bn in Q1'2024 from Kshs 9.6 bn in Q1'2023 mainly driven by the 37.7% growth in Net Interest Income to Kshs 8.4 bn, from Kshs 6.1 bn in FY'2022, but was weighed down by a 9.4% decline in Non funded Income (NFI) to Kshs 3.2 bn, from Kshs 3.5 bn in Q1'2023
- Total operating expenses increased by 10.0% to Kshs 6.6 bn from Kshs 6.0 bn in Q1'2023, driven by a 24.2% increase in staff costs to Kshs 2.0 bn from Kshs 1.6 bn recorded in Q1'2023, coupled with a 11.7% increase in other operating expenses to Kshs 3.1 bn from Kshs 2.8 bn in Q1'2023
- The balance sheet recorded an expansion as total assets increased by 12.5% to Kshs 533.0 bn, from Kshs 473.5 bn in Q1'2023
- Gross Non-Performing Loans (NPLs) increased by 15.0% to Kshs 33.7 bn in Q1'2024 from Kshs 29.3 bn in Q1'2023, while Gross Loans increased by 12.3% to Kshs 311.1 bn from Kshs 277.0 bn in Q1'2023. Consequently, the asset quality deteriorated with the NPL ratio rising marginally to 10.8% in Q1'2024 from 10.6% in Q1'2023
- Going forward, we expect the bank's growth to be driven by:

i. **Scaling New Business -** The bank has devised plans to accelerate growth in priority segments by building relevance in customer segments, i.e retail and Small and Medium Enterprises (SMEs), and developing leadership in commercial and corporate segments.

Financial Statements Extracts

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

Income Statement	2021	2022	2023	2024f
Net Interest Income	20.9	22.9	28.6	38.1
Non- Funded Income	8.7	12.7	14.1	16.2
Total Operating Income	**29.6**	**35.7**	**42.7**	**54.3**
Loan Loss Provision	(4.2)	(5.2)	(6.9)	(8.3)
Other Operating Expenses	(13.5)	(16.1)	(20.3)	(22.5)
Total Operating Expenses	**(17.7)**	**(21.3)**	**(27.2)**	**(30.7)**
Profit Before Tax	12.4	15.0	16.7	24.8
% PAT Change YoY	**2.5%**	**11.6%**	**15.2%**	**29.9%**
EPS	4.9	7.0	8.1	10.5
DPS	1.5	2.3	2.6	3.0
Cost to Income (with LLP)	59.9%	59.8%	63.7%	56.6%
NIM	**6.3%**	**6.3%**	**7.4%**	**7.6%**
ROaE	12.2%	14.4%	15.0%	17.3%
ROaA	2.1%	2.6%	2.6%	2.8%
Balance Sheet	**2021**	**2022**	**2023**	**2024f**
Government securities	125.5	113.1	78.1	153.2
Net Loans and Advances	210.6	238.6	311.3	350.1
Other Assets	79.0	84.9	190.3	191.9
Total Assets	**415.2**	**436.6**	**579.7**	**695.2**
Customer Deposits	296.7	312.3	416.7	473.1
Other Liabilities	44.4	42.6	67.3	93.6
Total Liabilities	**341.1**	**355.0**	**484.0**	**566.7**
Shareholders Equity	69.6	76.5	88.2	120.9
Number of Shares	1.7	1.7	1.7	1.7
Book Value Per Share	42.1	46.3	53.3	73.12
% BVPS Change YoY	**(45.8%)**	**9.9%**	**15.2%**	**37.1%**

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Valuation Summary

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

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	36.0	40.0%	14.4
Residual income	9.3	35.0%	3.3
PBV Multiple	33.3	15.0%	5.0
PE Multiple	28.3	10.0%	2.8
Target Price			**25.5**
Current Price			**20.6**
Upside/(Downside)			24.1%
Dividend yield			12.4%
Total return			**36.5%**

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B. Tier II Bank

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I. HF Group

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HF Group Summary of Performance – Q1’2024

- Profit before tax increased by 76.2% to Kshs 0.2 bn from Kshs 0.1 bn in Q1’2023, with effective tax rate decreasing to 5.2% from 7.5% in Q1’2023. As such, profit after tax increased by 80.4% to Kshs 0.2 bn in Q1’2024, from Kshs 0.1 bn in Q1’2023.
- Total operating income increased by 17.7% to Kshs 1.1 bn, from Kshs 0.9 bn in Q1’2023, mainly driven by a 7.6% growth in Net Interest Income to Kshs 0.7 bn, from Kshs 0.6 bn in Q1’2023, coupled with a 40.7% growth in Non funded Income (NFI) to Kshs 0.4 bn, from Kshs 0.3 bn in Q1’2023,
- Total operating expenses increased by 11.2% to Kshs 0.9 bn from Kshs 0.8 bn in Q1’2023, attributable to the 22.2% increase in staff costs to Kshs 0.44 bn, from Kshs 0.36 bn in Q1’2023, coupled with a 7.2% increase in loan loss provisions to Kshs 0.109 bn from Kshs 0.101 bn recorded in Q1’2023,
- Gross Non-Performing Loans (NPLs) increased by 27.6% to Kshs 11.2 bn in Q1’2024 from Kshs 8.8 bn in Q1’2023, while Gross Loans increased by 5.3% to Kshs 46.5 bn from Kshs 44.1 bn in Q1’2023. Consequently, the asset quality deteriorated with the NPL ratio rising to 24.1% in Q1’2024 from 19.9% in Q1’2023.
- We commend HF Group’s turnaround performance, recording an increase in profit after tax of 80.4% to Kshs 0.2 bn in Q1’2024, from Kshs 0.1 bn in Q1’2023. Despite the five consecutive quarters of profitability witnessed by the Group so far, HF Group faces a major downside with its capital adequacy ratios remaining below the minimum statutory requirements set for banks. The group will have to review its business model or merge with a bank with stronger capital ratios so as to overcome its undercapitalization.

Financial Statements Extracts

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

Income Statement	2021	2022	2023	2024F
Net Interest Income	1.8	2.2	2.5	3.8
Non- Funded Income	0.5	0.9	1.2	1.7
Total Operating Income	2.4	3.0	**3.8**	**5.5**
Loan Loss Provision	(0.3)	(0.2)	(0.3)	(0.3)
Other Operating Expenses	**(3.0)**	**(2.6)**	(3.2)	(4.2)
Total Operating Expenses	(3.3)	(2.8)	**(3.5)**	3.8
Profit Before Tax	(1.0)	0.2	0.3	1.0
% PAT Change YoY	**(59.8%)**	**(138.9%)**	**46.2%**	**101.3%**
EPS	(1.8)	0.7	1.0	2.0
DPS	0.0	0.0	0.0	0.0
Cost to Income	140.1%	93.5%	92.0%	82.4%
NIM	**4.2%**	**5.0%**	**5.4%**	7.3%
ROaE	(8.1%)	3.1%	4.4%	8.3%
ROaA	(1.3%)	0.5%	0.7%	1.2%
Balance Sheet	**2021**	**2022**	**2023**	**2024F**
Net Loans and Advances	34.7	36.3	38.8	43.8
Government securities	6.6	8.5	9.7	10.9
Other Assets	12.0	12.2	13.1	13.8
Total Assets	**53.2**	**57.0**	**61.6**	**68.5**
Customer Deposits	37.7	39.8	43.8	49.5
Other Liabilities	7.2	8.4	8.8	9.1
Total Liabilities	**44.9**	**48.2**	**52.7**	**58.6**
Shareholders Equity	8.3	8.8	8.9	9.9
Number of Shares	0.4	0.4	0.4	0.4
Book Value Per Share	21.5	22.8	23.0	25.7
% BVPS Change YoY	**(3.3%)**	**6.0%**	**1.1%**	**11.6%**

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Valuation Summary

Housing Finance is undervalued with a total potential return of 4.4%

Valuation Summary:	Implied Price	Weighting	Weighted Value
Residual Income	4.8	60%	2.9
PTBV Multiple	4.2	35%	1.5
PE Multiple	3.2	5%	0.2
Fair Value			**4.5**
Current Price			**4.3**
Upside/(Downside)			4.4%
Dividend Yield			0.0%
Total return			***4.4%***

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Feedback Summary

During the preparation of this Q1'2024 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	Unresponsive
Stanbic Holdings	Yes	Unresponsive
Diamond Trust Bank	Yes	Yes
KCB Group	Yes	Unresponsive
NCBA Group	Yes	Yes
Housing Finance Group	Yes	Unresponsive
Equity Group Holdings	Yes	Yes
Absa Bank Kenya	Yes	Yes

Licensed Financial Institutions

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I. Banks and Mortgage Finance Institutions

Licensed Banks in Kenya

#	Bank	#	Bank
1	ABSA Bank Kenya	20	Gulf African Bank Limited
2	Access Bank Kenya	21	Habib Bank A.G Zurich
3	African Banking Corporation Limited	22	I&M Bank Limited
4	Bank of Africa Kenya Limited	23	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	HF Group Limited
13	DIB Bank Kenya Limited	32	Prime Bank Limited
14	Ecobank Kenya Limited	33	SBM Bank Kenya Limited
15	Equity Bank Kenya Limited	34	Sidian Bank Limited
16	Family Bank Limited	35	Stanbic Bank Kenya Limited
17	First Community Bank Limited	36	Standard Chartered Bank Kenya Limited
18	Guaranty Trust Bank (K) Ltd	37	UBA Kenya Bank Limited
19	Guardian Bank Limited	38	Victoria Commercial Bank Limited

Licensed Banks in Kenya

Licensed Mortgage Finance Institution

1. HFC Limited

Authorized Non-operating Bank Holding Companies

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

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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

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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