Kenya Listed Commercial Banks Review
Cytonn Q1'2020 Banking Sector Report

"Deteriorating Asset Quality amid the COVID-19 Operating Environment"

Cytonn

14th June, 2020

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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	**7**	Seven offices across 2 continents	**500**	Over 500 staff members, including Cytonn Distribution	**10**	10 investment ready projects in real estate

A unique franchise differentiated by:

Independence & Investor Focus

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

Alternative Investments

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

Strong Alignment

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

Committed Partners

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

Why We Exist

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

WE SERVE THREE MAIN CLIENT SEGMENTS:

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

WE INVEST OUR CLIENT FUNDS IN:

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

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

Our Business Structure

Cytonn Investments Management Plc

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

II. Kenya Economic Review and Outlook

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Kenya Macro-Economic Review

Of the 7 indicators we track, 2 are positive, 1 is neutral and 4 are negative. We have switched our outlook on 2020 macroeconomic environment from positive to negative depending on how fast the Coronavirus is contained

Macro-Economic & Business Environment Outlook			
Macro-Economic Indicators	**YTD 2020 Experience and Outlook Going Forward**	**Outlook - Beginning of Year**	**Current Outlook**
Government Borrowing	• The budget deficit is projected Kshs 840.6 bn , 7,5% of GDP from 842.7%, 8.3% of GDP in the previous year. • Total domestic borrowing is projected to increase from 493.4 bn up from Kshs 404 bn in revised budget of 2019/2029. Foreign borrowing is at Kshs 347 bn from Kshs 333.5 bn in 2019/2020 • The government may also find it hard to access foreign debt due to uncertainty affecting the global markets and so we could see more domestic borrowing .	Negative	Negative
Inflation	• Inflation for the month of May came in at 5.5 %, bringing the m/m increase to 0.6%. Y/Y inflation increased mainly driven by an 10.6% increase in the food and non-alcoholic beverages index. • We expect inflation to remain stable despite supply side disruption due to COVID-19 as low demand for commodities compensates for the cost-push inflation, coupled with the low oil prices in the international markets. The recent reopening of majority of the global markets will also address supply chain issues causing import prices to stabilize.	Positive	Positive

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Kenya Macro-Economic Review

Of the 7 indicators we track, 2 are positive, 1 is neutral and 4 are negative. We have switched our outlook on 2020 macroeconomic environment from positive to negative depending on how fast the Coronavirus is contained

Macro-Economic & Business Environment Outlook			
Macro-Economic Indicators	**YTD 2020 Experience and Outlook Going Forward**	**Outlook - Beginning of Year**	**Current Outlook**
Exchange Rate	• The Kenya Shilling has depreciated by 5.1% YTD, in comparison to the 0.5% appreciation in 2019. The shilling may experience upward pressure due to an increase in dollar demand from merchandise importers as the easing of coronavirus restrictions jumpstarted economic activities thus boosting demand for hard currency. • The shilling is however expected to be supported by: i. High levels of forex reserves, currently at USD 9.2 mn (equivalent to 5.6-months of import cover), above the statutory requirement of maintaining at least 4.0-months of import cover, and the EAC region's convergence criteria of 4.5-months of import cover.	**Neutral**	**Negative**
GDP	• The key sectors of the economy affected by the Coronavirus pandemic include the Tourism, Agricultural, and Manufacturing sectors which were hit the hardest hit due to shutdowns in major markets and the disruption of the global supply chain. Combined, the 3 sectors account for 43.8% of Kenya's GDP in 2018. • Based on the impacts witnessed so far we lowered the GDP growth estimates to 1.4%- 1.8% for the year 2020 depending on the severity of the outbreak and economic implications for Kenya.	**Neutral**	**Negative**

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Kenya Macro-Economic Review

Of the 7 indicators we track, 2 are positive, 1 is neutral and 4 are negative. We have switched our outlook on 2020 macroeconomic environment from positive to negative depending on how fast the Coronavirus is contained

Macro-Economic & Business Environment Outlook			
Macro-Economic Indicators	**YTD 2020 Experience and Outlook Going Forward**	**Outlook - Beginning of Year**	**Current Outlook**
Interest Rates	• Interest rates on government securities have have remained stable as CBK rejects any expensive bids despite the government being behind in its borrowing • The MPC cut the CBR rate by 150 bps cumulatively to 7.0% in the 4 MPC meetings held so far in 2020 but we are yet to see significant decline in lending rates as the default risk increases. • As the business environment becomes more challenging, we expect a dip in tax revenues. This might require the deficit to be plugged in by debt, which might be hard and expensive in the current market conditions due to investors attaching a higher risk premium	**Neutral**	**Negative**
Investor Sentiment	• Eurobond yields have recently been on a declining trend over the past few weeks. This has mainly been driven by the market correction attributable to improved investor sentiments as the market reacted to the news by the World Bank that they had approved USD 1.0 bn funding to support the economy as well as the Rapid Credit Facility (RCF) which reaffirmed investors' confidence despite the recent downgrade by Moody's where Kenya's sovereign credit outlook was changed to negative from stable. • An improvement of investor sentiments has also been observed on Equities investments as YTD turnover increasing by 2.7% as compared to a similar period in Q1'2019.	**Positive**	**Neutral**
Security	• Security is expected to be upheld in 2020, given that the political climate in the country has eased.	**Positive**	**Positive**

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III. Banking Sector Overview

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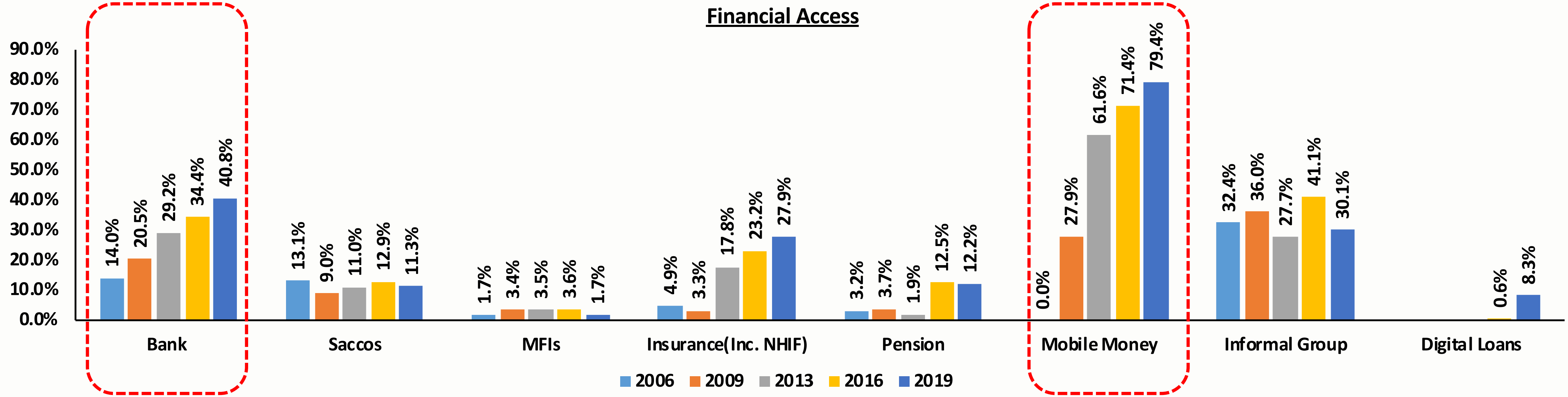
Kenyan Banking Sector Overview

Financial Inclusion in Kenya continues to rise, mainly driven by proliferation of mobile and digital channels

- In Kenya there are a total of 38 commercial banks, 1 mortgage finance company, 13 microfinance banks, 9 representative offices of foreign banks, 74 foreign exchange bureaus, 18 money remittance providers and 3 credit reference bureaus
- Financial inclusion in Kenya has continued to rise, with 82.9% of the adult population able to access formal financial services. This has largely been driven by digitization, with Mobile Financial Services (MFS), transfer and lending, rising to be the preferred method to access financial services in 2019, with 79.4% of the adult population using the channel



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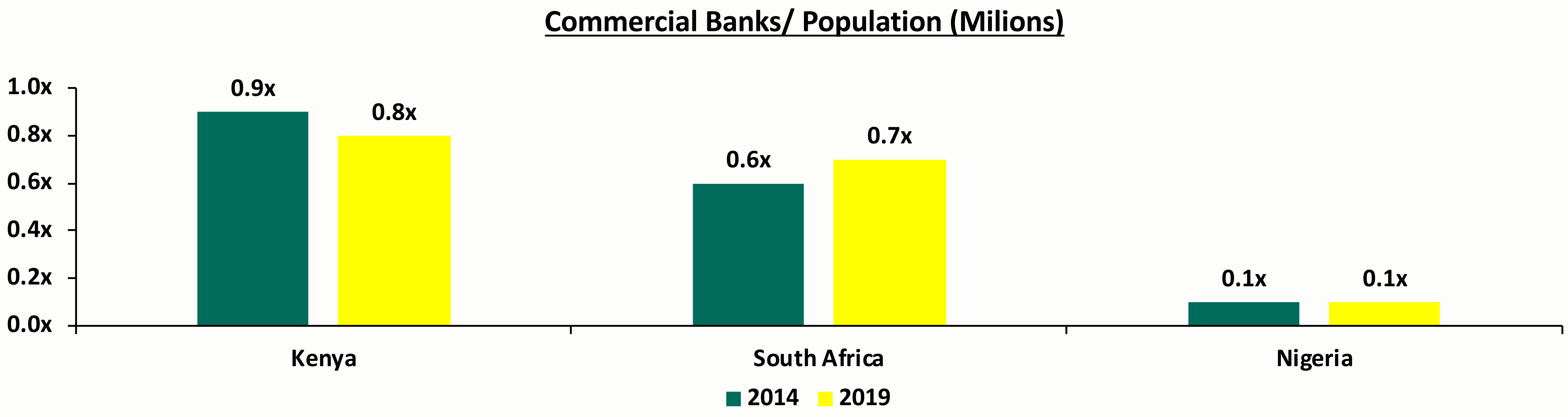
Source: Central Bank of Kenya, FinAccess report

Kenyan Banking Sector Overview

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



- Despite the number of commercial banks in Kenya reducing to 38, compared to 43 banks from 5-years ago. The ratio of the number of banks and Kenya's population of 47.6 million now stands at 0.8x, compared with a ratio of 0.9x, 5-years ago. The ratio is improving, however, Kenya still remains overbanked as the number of banks remains relatively high compared to the population.

Recent Developments in the Kenyan Banking Sector

1. Regulation:

i. **Guidance on Loan Restructuring-** The Central Bank of Kenya on March 27th, 2020 provided commercial banks and mortgage finance companies with guidelines on loan reclassification, and provisioning of extended and restructured loans as per the Banking Circular No 3 of 2020. Following this guideline, most commercial banks have moved to restructure loan repayments for their customers. The table below shows some of the major banks that have moved to restructure loans for their customers;

No.	Bank	Amount Restructured (Kshs bn)	% of restructured loans to total loans	y/y Change in Loan loss provision
1	Kenya Commercial Bank	120.2	21.7%	149.1%
2	Absa Bank Kenya	8.3	4.1%	75.2%
3	Standard Chartered Bank of Kenya	22.0	17.5%	3.1%
4	Diamond Trust Bank	40.7	18.3%	52.0%
5	Co-operative Bank of Kenya	15.3	5.5%	79.5%
6	Equity Group Holdings	92.0	24.3%	660.4%
	Total	**298.5**		

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Recent Developments in the Kenyan Banking Sector

Consolidation continues in the banking sector, with the most recent being that of Commercial International Bank and Mayfair Bank

2. Consolidation:

Kenya's banking sector has witnessed heightened M&A activity over the last 5 years. Consolidation activity remained one of the key highlights witnessed in FY'2019 as players in the sector are either acquired or merge, leading to formation of relatively larger, well capitalized and possibly more stable entities.

Below is a summary of key transactions done over the last five years and their transaction multiples

Recent Developments in the Kenyan Banking Sector

Consolidation continues in the banking sector, with the most recent being that of Commercial International Bank and Mayfair Bank

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs. Bns)	Transaction Stake	Transaction Value	P/Bv Multiple	Date
Commercial International Bank	Mayfair Bank Limited	1.0	51.0%	Undisclosed	N/A	May-20*
Co-operative Bank	Jamii Bora Bank	3.4	100.0%	Undisclosed	N/A	Mar-20*
Access Bank PLC (Nigeria)	Transnational Bank PLC	1.9	100.0%	Undisclosed	N/A	Jan-20**
Oiko Credit	Credit Bank	3.0	22.8%	1.0	1.5x	Aug-19
KCB Group	National Bank of Kenya	7.0	100.0%	6.6	0.9x	Sep-19
CBA Group	NIC Group	33.5	53%:47%	23.0	0.7x	Sep-19
CBA Group**	Jamii Bora Bank	3.4	100.0%	1.4	0.4x	Jan-19
AfricInvest Azure	Prime Bank	21.2	24.2%	5.1	1.0x	Jan-19
KCB Group	Imperial Bank	3.2	Undisclosed	Undisclosed	N/A	Dec-18
SBM Bank Kenya	Chase Bank Ltd	Unknown	75.0%	Undisclosed	N/A	Aug-18
DTBK	Habib Bank Kenya	2.4	100.0%	1.8	0.8x	Mar-17
SBM Holdings	Fidelity Commercial Bank	1.8	100.0%	2.8	1.6x	Nov-16
M Bank	Oriental Commercial Bank	1.8	51.0%	1.3	1.4x	Jun-16
I&M Holdings	Giro Commercial Bank	3.0	100.0%	5.0	1.7x	Jun-16
Mwalimu SACCO	Equatorial Commercial Bank	1.2	75.0%	2.6	2.3x	Mar-15
Centum	K-Rep Bank	2.1	66.0%	2.5	1.8x	Jul-14
GT Bank	Fina Bank Group	3.9	70.0%	8.6	3.2x	Nov-13
Average			**75.7%**		**1.4x**	

***Announcement date**

**** Deals that were dropped**

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Recent Developments in the Kenyan Banking Sector

Asset Quality deteriorates and banks conserved liquidity by canceling proposed dividend payment

3. **Asset Quality:** Asset quality deteriorated in Q1'2020 with the gross NPL ratio increasing by 0.9% points to 11.3% from 10.4% in Q1'2019. This was high compared to a 5-year average of 8.5%. As reported by most of the banks, the deterioration in asset quality was attributable to increased provisioning across the industry to proactively manage risks given the tough economic conditions. In accordance with IFRS 9, banks are expected to provide both for the incurred and expected credit losses. Consequently, this saw the NPL coverage increase to 57.4% in Q1'2020 from 54.5% in Q1'2019 as banks bank adopted a cautious stance on the back of the expected impact of the COVID-19 pandemic. We expect higher provisional requirements to subdue profitability during the year across the banking sector on account of the slow business environment, given the bleak economic outlook, and,

4. **Capital Conservation:** During Q1'2020, some listed companies including listed banks announced they were suspending cash dividends in a bid to conserve capital amid the current tough operating conditions emanating from the effects of the Coronavirus pandemic. A similar trend has been mirrored globally by both financial and non-financial businesses frantically seeking ways to save money with several regulators around the world encouraging companies to cease the discretionary payments of dividends to shareholders amid the COVID-19 pandemic in order to boost capital. For instance, in the United Kingdom (UK), the seven largest banks sought to cancel dividend pay-outs despite having solid capital bases, due to fears of an economic recession. Equity Group Holdings withdrew their recommendation to pay a first and final dividend of Kshs 2.5 per share for FY'2019, NCBA Group announced it would withhold the final dividend payment of Kshs 1.5 per share, while Standard Chartered Bank announced the postponement of the proposed final dividend payments of Kshs 15.0 per share for FY'2019.

Banking Sector Growth Drivers

Despite increased liquidity due to reduced CRR ratio Interest income to remain low as banks get cautious in there lending

1. **Reduction of the Cash Reserve Ratio (CRR): -** During the quarter, the Monetary Policy Committee (MPC) during their 29th April 2020 meeting lowered the Cash Reserve Ratio (CRR), which is a fraction of total customer deposits that the commercial banks have to hold with the central bank, by 100 bps to 4.25% from 5.25% to provide additional liquidity, approximated at Kshs. 35.0 bn, to commercial banks for onward lending to distressed borrowers. The reduction of the Cash Reserve Ratio has encouraged most listed banks to provide credit facilities to distressed borrowers during the Coronavirus pandemic period in the form of credit facilities,

2. **Depressed Interest Income-** With the large amount of restructuring and reclassification of loans witnessed in Q1'2020, we expect risks to crystallize in the next quarter. Due to loan restructuring and relaxed rules on some interest payment, the bank's interest income may be negatively affected. Banks are also not lending aggressively with the credit risk being relatively elevated with many sectors having been affected by the pandemic. We foresee a slower growth in loans in the next quarter and thereafter if the pandemic is to persist further with banks turning to less risky investments such as government securities which rose by 14.9 % faster than the 14.1% rise in loans in Q1'2020,

Banking Sector Growth Drivers

Bank earnings to be affected by increased provisioning but growth to be supported by cost rationalization

3. **Increased Provisioning-** The Coronavirus pandemic has affected many businesses globally due to disruption in the supply chain and reduced demand due to constrained cash flows. As a result, a majority of businesses need to source for extra cash flow from financial institutions to stay afloat. The demand for funds is quite high as businesses demand working capital to operate in the tough operating environment as a result of the pandemic. The risk of loan default during this period is also quite high and banks have to increase provisioning following the guidelines in IFRS 19.

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

Banking Sector Growth Drivers

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

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

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

Regulation and Revenue Diversification to Drive Growth

Focus Area	Summary	Effect on Banking Sector
Regulation	• **Reduction of the Cash Reserve Ratio (CRR:** The MPC lowered the Cash Reserve Ratio (CRR), which is a fraction of total customer deposits that the commercial banks have to hold with the central bank, by 100 bps to 4.25% from 5.25%	• Approximately Kshs. 35.0 bn was released by the lowering of the CRR to commercial banks for onward lending to distressed borrowers.
Diversification	• **Revenue Diversification:** Banks continued their focus on diversifying their revenue sources, targeting transactional fee income, as well as increased income from non-banking subsidiaries	• Consistent relatively strong profitability growth, which has alleviated the effects of a relatively slow funded income growth

Asset Quality Remains a Major Concern in the Banking Sector

Focus Area	Summary	Effect on Banking Sector
Consolidation	• **Increase in Mergers & Acquisitions:** With increased competition amongst players in the banking sector, coupled with tough operating environment, has led to several consolidation activity has happened.	• Consolidation in the sector have resulted in (i) aiding in successful remediation of collapsed banks, (ii) leaving fewer but well capitalized players able to catalyze economic growth, thus creating a more stable banking sector
Asset Quality	• **High Non-Performing Loans:** the Gross NPL ratio stood at 11.3%, from 10.4% recorded in Q1'2019 and much higher than the 5-year average of 8.3%. This raises concerns around asset quality in the sector	• The tough economic conditions have increased the cash constraint on businesses as well as households. Most businesses are struggling to keep afloat due to subdued revenues and they may not be able to meet their repayment requirements further elevating credit risks.

Deteriorating asset quality remains a concern. As reported by most of the banks, the deterioration in asset quality was attributable to increased provisioning across the industry to proactively manage risks given the tough economic conditions.

IV. Listed Banking Sector Metrics

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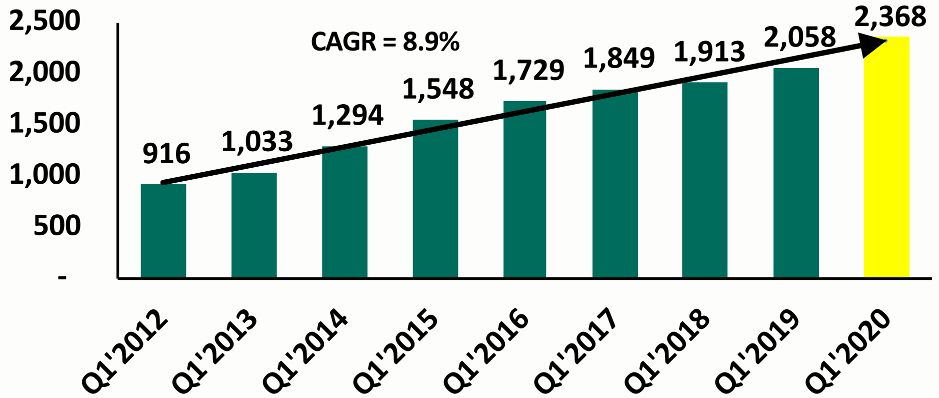
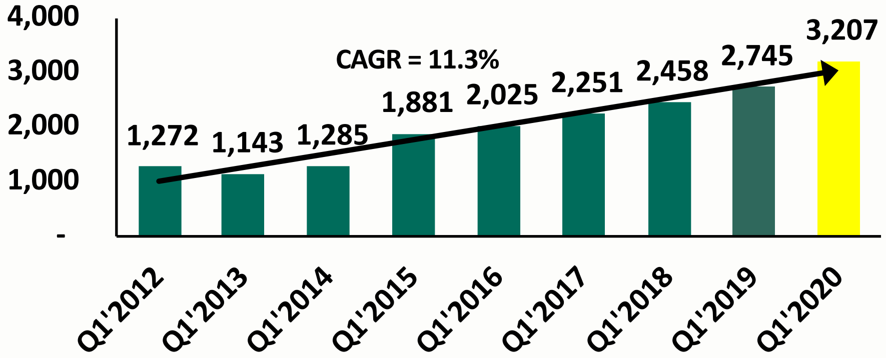
Listed Banking Sector Metrics

Q/Q deposit witnessed a faster 2.7% decline than the 0.9% decline in loans in Q1'2020

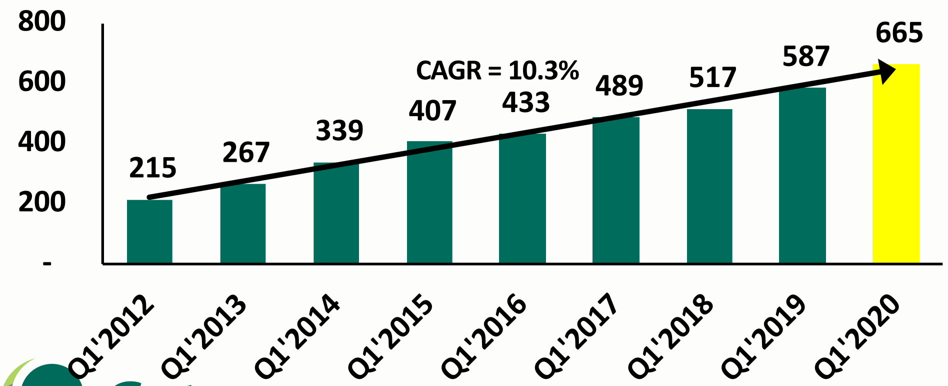
Loans and Advances (Kshs Bn)



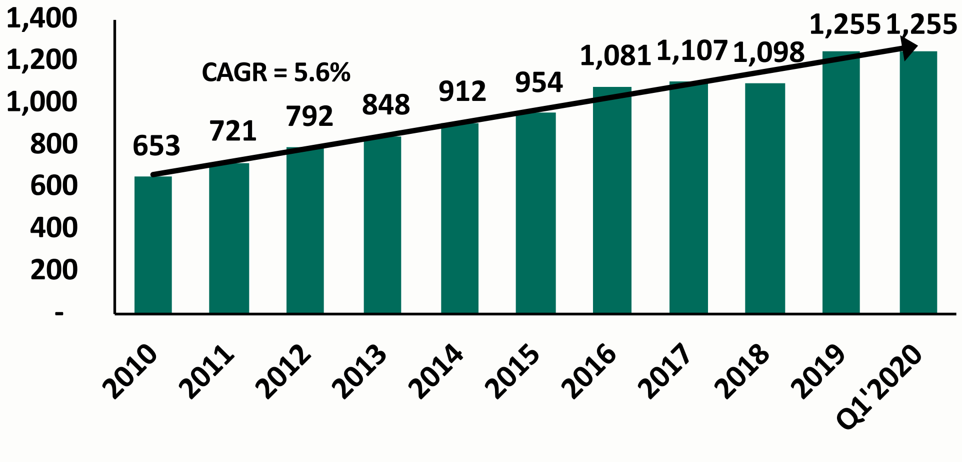
Deposits (Kshs Bn)



Shareholders Equity (Kshs Bn)



Bank Branches



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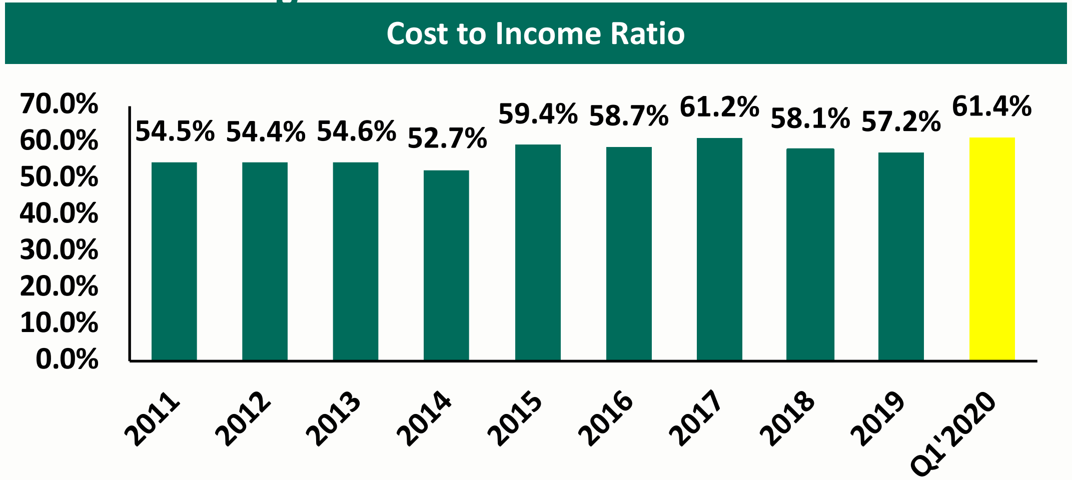
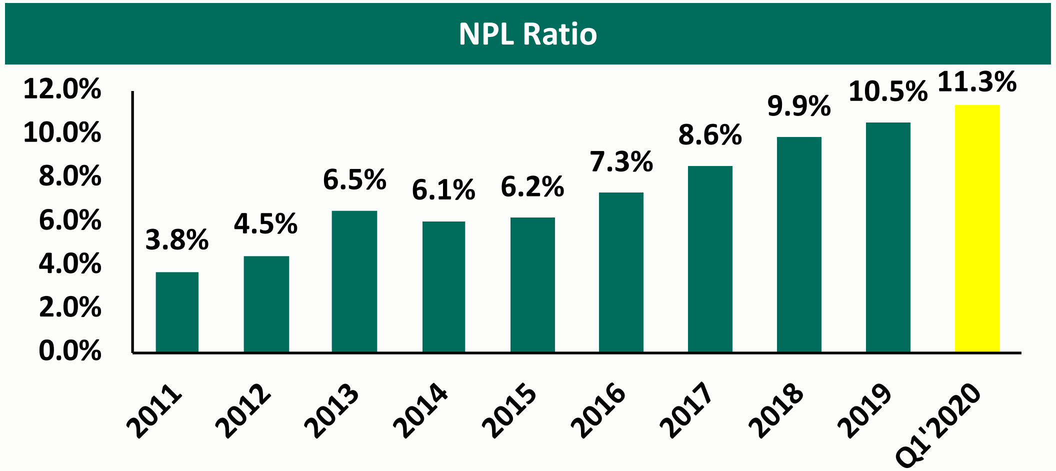
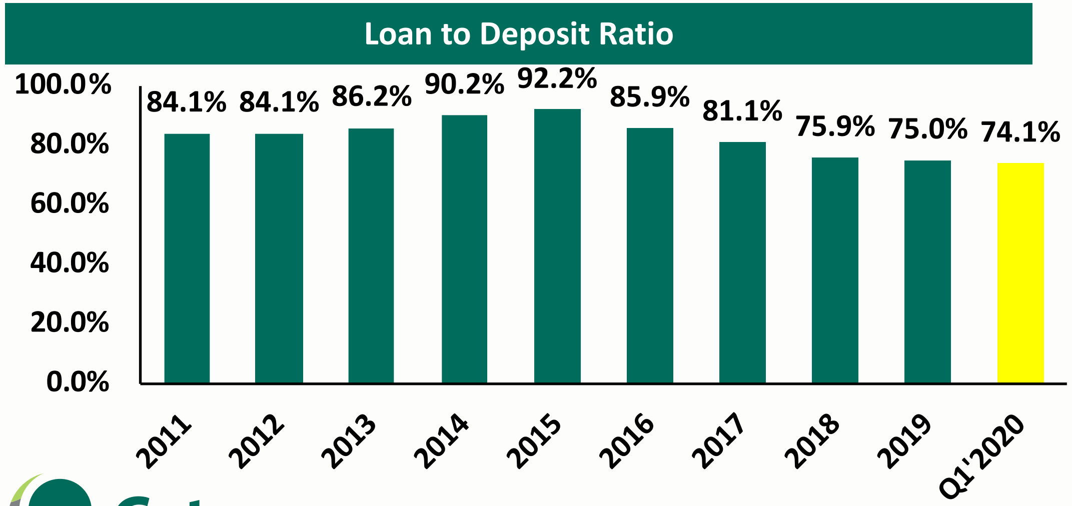
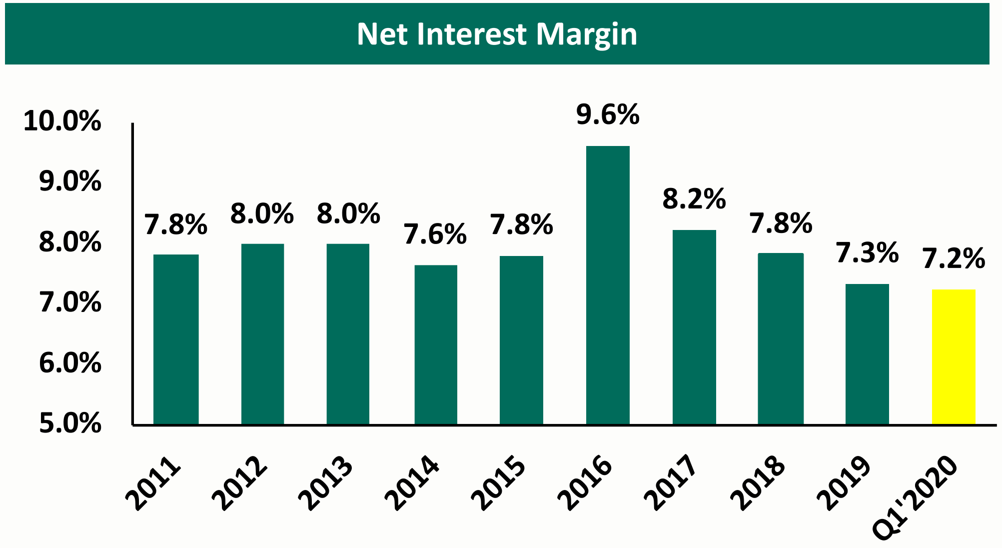
Listed Banking Sector Metrics

Banks profitability impacted due to an increase in the cost to income ratio, a rise in the NPL ratios amidst a lowered interest margin









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Listed Banking Earnings and Growth Metrics

Kenya's listed banking sector Q1'2020 core EPS declined by a 7.3% compared to growth of 12.2% in Q1'2019

Bank	Core EPS Growth	Net Interest Margin	NFI to Total Operating Income	Deposit Growth	Growth In Govt Securities	Loan Growth	LDR	Cost to Income	Return on Average Equity
I&M Holdings	(29.7%)	5.8%	38.8%	8.8%	(2.6%)	8.3%	76.0%	52.9%	17.5%
Absa Bank	17.0%	7.4%	34.5%	6.6%	7.2%	12.4%	85.0%	60.1%	17.0%
Equity Bank	(14.1%)	8.2%	41.9%	16.5%	14.2%	24.1%	75.9%	64.7%	20.7%
Coop Bank	(0.3%)	8.2%	39.9%	6.9%	11.5%	9.8%	81.3%	58.1%	18.5%
KCB Group	8.4%	8.1%	34.4%	34.1%	52.0%	19.3%	74.8%	61.1%	20.0%
SCBK	(16.6%)	7.2%	32.1%	4.6%	(13.7%)	6.8%	51.5%	58.1%	15.8%
Stanbic Bank	(33.5%)	5.5%	43.2%	6.4%	(19.9%)	11.8%	79.8%	59.0%	14.1%
DTBK	3.7%	5.7%	25.4%	(0.9%)	1.9%	6.7%	73.8%	52.9%	12.6%
NCBA Group	(26.8%)	3.3%	49.7%	9.9%	21.1%	2.2%	63.0%	76.1%	10.7%
HF Group	N/A	4.5%	30.4%	11.8%	39.3%	(8.5%)	101.1%*	99.2%	0.5%
Q1'2020 Weighted Average **	**(7.3%)**	**7.2%**	**38.2%**	**14.4%**	**14.9%**	**14.3%**	**74.2%**	**61.4%**	**17.8%**
Q1'2019 Weighted Average	**12.2%**	**8.1%**	**37.1%**	**9.4%**	**25.0%**	**6.1%**	**76.8%**	**53.5%**	**18.4%**

**Loans to Loanable funds used owing to nature of the business*
***The weighted average is based on market capitalization as at 02nd June 2020*

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Takeout from Key Operating Metrics

Listed banks recorded a 7.4% decrease in core operating earnings, the depressed earnings recorded in the listed banking sector is partly attributed to the tough operating environment

1. The above ten listed Kenyan banks recorded a 7.4% average decline in core Earnings per Share (EPS), compared to the 12.2% recorded in Q1’2019 for all listed banks. The Return on Average Equity (RoAE) consequently declined to 17.2%, from 19.2% recorded in Q1’2019
2. The banks recorded stronger deposit growth, which came in at 14.3%, faster than the 11.0% growth recorded in the sector in Q1’2019. Despite the stronger deposit growth, Interest expenses on the other hand rose by 11.4%, faster than 2.5%, recorded in Q1’2019. The cost of funds, however, declined coming in at a weighted average of 3.1% in Q1’2020 down from 3.5% in Q1’2019 owing to the faster 12.2% growth average interest-bearing liabilities indicating that the listed banks were able to mobilize cheaper deposits,
3. Average loan growth came in at 14.1%, which was faster than the 7.7% recorded in Q1’2019, with the growth in loans being accelerated following the repeal of interest rate cap in November 2019, coupled with increased demand in funding, as businesses demand working capital to operate in the tough operating environment as a result of the pandemic. Government securities, on the other hand, recorded a growth of 14.9% y/y, which was faster compared to the loans, albeit slower than the 16.1% growth recorded in Q1’2019. This highlights banks’ continued preference towards investing in government securities, which offer better risk-adjusted returns,

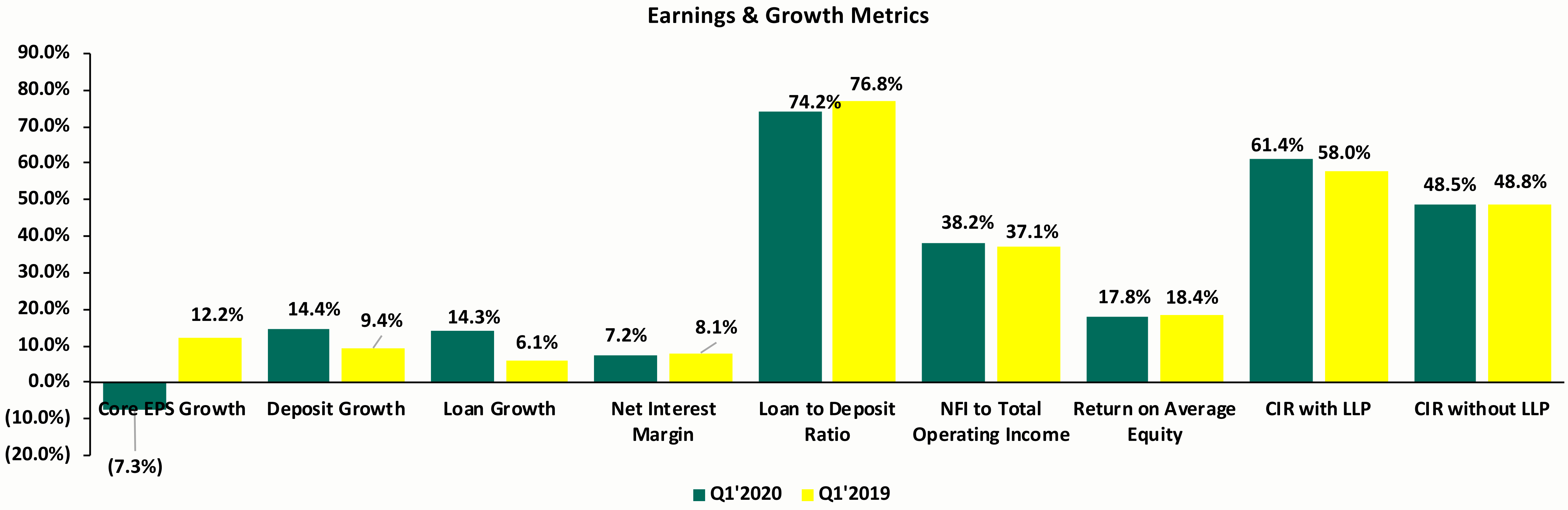
Takeout from Key Operating Metrics

Listed banks continued to record an increase in Non Funded Income coming in at 15.9% for Q1’2020

4. Interest income rose by 8.2%, compared to a growth of 3.6% recorded in Q1’2019. The faster growth in interest income may be attributable to the 14.1% growth in loans and increased allocation to government securities. The net interest income increased by 7.4% slower than the 10.7% rise in average interest-earning assets. Consequently, the Net Interest Margin (NIM) declined to 7.2%, compared to the 8.0% recorded in Q1’2019 for the whole listed banking sector, and,
5. Non-Funded Income grew by 15.9% y/y, faster than 10.7% recorded in Q1’2019. The growth in NFI was supported by the 24.5% average increase in total fee and commission income, which was faster than the 11.2% growth recorded in Q1’2019.

Listed Banks Earnings and Growth Metrics Cont...

Q1 2020 was a more difficult year for the banking sector with the EPS registering a 7.3% decline



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Listed Banks Operating Metrics

Banks diversification of revenue paying as the non funded income contribution to revenue continues to grow

Bank	Deposit/Branch (bn)	Gross NPL Ratio	NPL Coverage	Tangible Common Ratio	Non Funded Income/Revenue
NCBA Group	4.8	14.5%	54.5%	12.3%	49.7%
Stanbic Bank	7.8	12.1%	59.3%	13.0%	43.2%
HF Group	1.8	27.3%	52.2%	16.8%	30.4%
Equity Bank	1.7	11.2%	45.8%	15.7%	41.9%
Coop Bank	2.1	10.8%	54.8%	16.9%	39.9%
I&M Holdings	3.6	11.3%	58.8%	16.3%	38.8%
KCB Group	2.2	11.1%	61.3%	13.7%	34.4%
SCBK	6.8	14.2%	78.1%	15.1%	32.1%
Absa Bank	2.8	8.1%	64.5%	11.0%	34.5%
DTBK	2.0	8.0%	42.4%	15.6%	25.4%
Weighted Average Q1'2020*	**3.2**	**11.3%**	**57.4%**	**14.5%**	**38.2%**
Weighted Average Q1'2019	**3.1**	**10.4%**	**54.5%**	**15.1%**	**36.0%**

**Market cap weighted average as at 09 th April 2020*

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Listed Banks Trading Metrics

The listed banking sector has continued to trade at cheaper prices compared to historical averages, as it is currently trading at an average P/TBV of 1.0x and average P/E of 5.5x

Bank	No. of shares (bn)	Market Cap (bn)	P/E	Price*	P/TBV
HF Group	0.4	1.5	2.4x	3.9	0.2x
NCBA Group	1.5	40.3	4.2x	26.9	0.7x
DTBK	0.3	19.9	2.7x	71.3	0.3x
Coop Bank	5.9	72.5	5.1x	12.4	0.9x
I&M Holdings	0.8	38.0	4.0x	46.0	0.7x
KCB Group	3.2	113.6	4.4x	35.4	0.9x
Stanbic Bank	0.4	33.2	6.1x	84.0	0.8x
Absa Bank	5.4	58.7	7.8x	10.8	1.4x
SCBK	0.3	57.3	7.3x	166.8	1.2x
Equity Bank	3.8	132.3	6.1x	35.1	1.2x
Weighted Average Q1'2020*			**5.5x**		**1.0x**
Weighted Average Q1'2019**			**6.2x**		**1.2x**

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

**Prices as at 02nd June 2020*

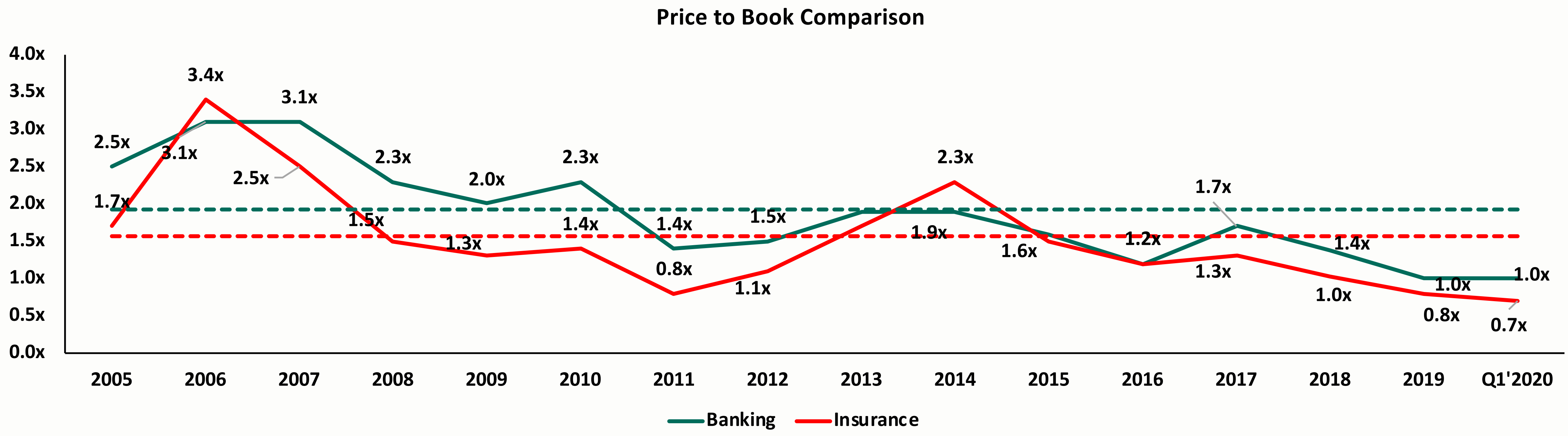
*** Prices as at 31st May 2019*

Cytonn

Listed Banks & Insurance Trading Metrics

Listed banks trade at an average P/B of 1.0x, higher than the insurance sector, which is priced at 0.7x. Both sectors are trading below their 14-year averages of 1.9x and 1.6x, respectively

15 year Price to Book Value: Banking and Insurance



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

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V. Banks Valuation Reports

Cytonn

Ranking by Franchise Value

Co-operative Bank emerged top in the franchise ranking due to high efficiency levels as evidenced by a low Cost to Income ratio which came in at 58.1% vs an industry average of 61.4%

Rank	Bank	LDR	CIR	ROACE	NIM	PEG ratio	PTBV	Deposits/ Branch	Gross NPL Ratio	NPL Coverage	Tangible Common Ratio	Non Interest Income/ Revenue	Camel Rating	Total
1	Coop Bank	2	3	3	2	7	7	7	3	6	1	4	4	49
2	I&M Holdings	4	1	4	6	4	4	4	6	5	3	5	5	51
3	KCB Group	6	7	2	3	2	6	6	4	3	7	7	3	56
4	Equity Bank	5	8	1	1	3	9	10	5	9	4	3	2	60
5	Absa Bank	1	6	5	4	10	10	5	2	2	10	6	1	62
6	Stanbic Bank	3	5	7	8	8	5	1	7	4	8	2	7	65
7	DTBK	7	2	8	7	1	2	8	1	10	5	10	6	67
8	SCBK	10	4	6	5	9	8	2	8	1	6	8	8	75
9	NCBA Group	9	9	9	10	5	3	3	9	7	9	1	9	83
10	HF Group	8	10	10	9	6	1	9	10	8	2	9	10	92

Cytonn

Valuation Summary of Listed Banks

Diamond Trust Bank presents the highest upside with an expected total return of 149.3%

(all values in Kshs)

Bank	Current Price	Target Price	Upside/(Downside)	Dividend Yield	Total Potential Return
DTBK	71.25	175.0	145.6%	3.6%	149.3%
I&M Holdings	46	76.3	65.8%	5.5%	71.3%
KCB Group	35.35	56.2	59.0%	9.9%	68.9%
Coop Bank	12.35	18.0	45.7%	8.1%	53.8%
Equity Bank	35.05	50.7	44.5%	0.0%	44.5%
Stanbic Holdings	84	111.2	32.3%	8.4%	40.7%
NCBA Group Plc	26.9	37.5	39.3%	0.0%	39.3%
Absa Bank	10.8	13.2	21.8%	10.2%	32.0%
SCBK	166.75	202.7	21.6%	9.0%	30.6%
HF Group	3.92	4.0	2.1%	0.0%	2.1%

Cytonn

Cytonn Banking Report - Comprehensive Ranking

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

(all values in Kshs unless stated otherwise)

Bank	Franchise Value Score	Intrinsic Value Score	Weighted Score	Q1'2020 Rank
I&M Holdings	51	2	21.6	1
Co-operative Bank of Kenya Ltd	49	4	22.0	2
KCB Group Plc	56	3	24.2	3
Equity Group Holdings Ltd	60	5	27.0	4
DTBK	67	1	27.4	5
ABSA	62	8	29.6	6
Stanbic Bank/Holdings	65	6	29.6	7
SCBK	75	9	35.4	8
NCBA Group Plc	83	7	37.4	9
HF Group Plc	92	10	42.8	10

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VI. Appendix

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A. Tier I Banks

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I. Equity Group Holdings

Cytonn

Equity Group Summary of Performance – Q1’2020

- Profit before tax declined by 20.7% to Kshs 7.0 bn, down from Kshs 8.8 bn in Q1’2019. Profit after tax recorded a 14.1% decline to Kshs 5.3 bn, from Kshs 6.2 bn, with the effective tax rate declining to 24.0% from 29.9% in Q1’2019,
- Total operating income rose by 12.7% to Kshs 19.9 bn, from Kshs 17.6 bn in Q1’2019. This was driven by a 15.8% rise in Non-Funded Income (NFI) to Kshs 8.3 bn, from Kshs 7.2 bn in Q1’2019, coupled with a 10.6% increase in Net Interest Income (NII) to Kshs 11.5 bn, from Kshs 10.4 bn in Q1’2019,
- Total operating expenses rose by 46.4% to Kshs 12.9 bn, from Kshs 8.8 bn in Q1’2019, largely driven by a 660.4% increase in Loan Loss Provisions (LLP) to Kshs 3.1 bn, from Kshs 0.4 bn in Q1’2019. The increased provisions is attributed to the bank adopting a cautious stance on the back of the expected impact of the COVID-19 pandemic,
- The balance sheet recorded an expansion as total assets increased by 14.4% to Kshs 693.2 bn, from Kshs 605.7 bn in Q1’2019,
- The bank’s asset quality deteriorated, with the NPL ratio deteriorating to 11.2% in Q1’2020 from 9.2% in Q1’2019. The main sectors that contributed to the deterioration in asset quality were large enterprises and SMEs sectors contributing 13.2% and 12.5%, respectively, to total NPLs. Key to note, South Sudan and Tanzania subsidiaries recorded high NPL ratios at 40.8% and 40.5%, respectively.
- Going forward, we expect the bank’s growth to be driven by:

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

Financial Statements Extracts

Equity Group's PAT is expected to grow at a 5-year CAGR of 16.0%

Income Statement	2018	2019	2020f	2021f
Net Interest Income	41.4	45.0	53.8	61.4
Non Funded Income	25.9	30.8	33.9	39.2
Total Operating Income	67.3	75.8	87.7	100.5
Loan Loss Provision	(3.7)	(5.3)	(8.9)	(7.8)
Other Operating Expenses	(35.1)	(39.0)	(43.1)	(48.8)
Total Operating Expenses	**(38.8)**	**(44.3)**	**(52.0)**	**(56.6)**
Profit Before Tax	28.5	31.5	35.7	44.0
% PAT Change YoY	**4.8%**	**13.8%**	**10.8%**	**23.1%**
EPS	5.3	6.0	6.6	8.2
DPS	2.0	-	2.5	2.5
Cost to Income	57.7%	58.5%	59.3%	56.3%
NIM	**8.5%**	**8.4%**	**8.6%**	**8.8%**
ROaE	21.2%	22.0%	18.4%	18.0%
ROaA	3.6%	3.6%	3.4%	3.7%
Balance Sheet	**2018**	**2019**	**2020f**	**2021f**
Net Loans and Advances	297.2	366.4	410.4	454.2
Government Securities	130.4	138.6	168.1	183.1
Other Assets	145.7	168.7	201.4	228.8
Total Assets	**573.4**	**673.7**	**779.9**	**866.1**
Customer Deposits	422.8	482.8	540.8	605.7
Other Liabilities	55.7	79.2	77.6	77.6
Total Liabilities	**478.4**	**561.9**	**618.3**	**683.3**
Shareholders Equity	**94.1**	**110.7**	**160.5**	**181.8**
Number of Shares	**3.8**	**3.8**	**3.8**	**3.8**
Book value Per share	24.9	29.3	42.5	48.2
% Change in BPS YoY	**1.0%**	**17.7%**	**44.9%**	**13.3%**

Valuation Summary

Equity Group is undervalued with a total potential return of 44.5%

Cost of Equity Assumptions:	13-June-20
Risk free rate *	12.3%
Beta	1.3
Country Risk Premium	6.0%
Cost of Equity	20.8%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	18.3%
Return on Average Equity 2024	19.9%
Terminal Price to Book value per share	1.5x
Shareholder Equity (Kshs)- FY24e	276.7
Terminal Value (Kshs) - (Year 2024)	436.2

Valuation Summary:	Implied Price	Weighting	Weighted Value
Intergrated DDM	63.6	40.0%	25.5
Residual Income	47.2	35.0%	16.5
PBV Multiple	27.2	20.0%	5.4
PE Multiple	64.9	5.0%	3.2
Fair Value			**50.7**
Current Price			**35.1**
Upside/(Downside)			44.5%
Dividend Yield			0.0%
Total Potential Return			**44.5%**

Cytonn

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

II. KCB Group

Cytonn

KCB Group Summary of Performance – Q1’2020

- Profit before tax increased by 5.0% to Kshs 8.9 bn, up from Kshs 8.5 bn in Q1’2019. Profit after tax grew by 8.4% to Kshs 6.3 bn in Q1’2020, from Kshs 5.8 bn in Q1’2019 with the effective tax rate declining to 29.9% from 32.0% in Q1’2019,
- Total operating income rose by 22.4% to Kshs 23.0 bn, from Kshs 18.8 bn in Q1’2019. This was driven by a 30.5% rise in Non-Funded Income (NFI) to Kshs 7.9 bn, from Kshs 6.0 bn in Q1’2019, coupled with an 18.5% rise in Net Interest Income (NII) to Kshs 15.1 bn, from Kshs 12.7 bn in Q1’2019,
- Total operating expenses grew by 36.7% to Kshs 14.0 bn, from Kshs 10.3 bn, largely driven by 25.5% rise in staff costs to Kshs 5.8 bn in Q1’2020, from Kshs 4.6 bn in Q1’2019, coupled with a 149.1% rise in Loan Loss Provisions (LLP) to Kshs 2.9 bn in Q1’2020, from Kshs 1.2 bn in Q1’2019,
- The balance sheet recorded an expansion as total assets grew by 30.5% to Kshs 947.1 bn, from Kshs 725.7 bn in Q1’2019,
- Following the acquisition of National Bank of Kenya, the group’s asset quality remains under threat as seen in the increase of the groups Non-Performing Loans (NPL) ratio to 11.0% from 8.0% in Q1’2019. The significant rise is attributable to KCB’s acquisition of National Banks’ non-performing loans portfolio of Kshs 25.1 bn.
- Going forward, we expect the bank’s growth to be driven by:

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

Financial Statements Extracts

KCB Group's PAT is expected to grow at a 5-year CAGR of 12.0%

Income Statement	2018	2019	2020F	2021F
Net Interest Income	48.8	56.1	73.7	83.4
Non Funded Income	23.0	28.2	27.2	33.5
Total Operating Income	**71.8**	**84.3**	**101.0**	**116.9**
Loan Loss Provision	2.9	8.9	16.1	11.5
Other Operating Expenses	35.0	38.5	33.7	47.0
Total Operating Expenses	**37.9**	**47.4**	**49.8**	**58.4**
Profit Before Tax	33.9	36.9	51.2	58.5
% PAT Change YoY	**21.8%**	**4.9%**	**42.4%**	**14.2%**
EPS	7.9	7.8	11.1	12.7
DPS	3.0	3.5	3.5	3.5
Cost to Income	52.8%	56.2%	49.3%	50.0%
NIM	**8.2%**	**8.2%**	**8.9%**	**9.0%**
ROE	21.9%	20.7%	25.2%	24.2%
ROA	3.5%	3.1%	3.7%	3.8%
Balance Sheet	**2018**	**2019f**	**2020f**	**2021f**
Net Loans and Advances	455.9	535.4	616.6	658.5
Government Securities	120.1	169.2	223.8	232.7
Other Assets	138.4	194.0	193.9	206.2
Total Assets	**714.3**	**898.6**	**1034.3**	**1097.4**
Customer Deposits	537.5	686.6	797.4	829.3
Other Liabilities	63.2	82.2	83.1	84.6
Total Liabilities	**600.7**	**768.8**	**880.4**	**913.8**
Shareholders Equity	**113.7**	**129.7**	**154.3**	**184.0**
Number of Shares	**3.0**	**3.2**	**3.2**	**3.2**
Book value Per share	37.6	40.4	48.0	57.3
% Change in BPS YoY	**7.3%**	**7.5%**	**18.9%**	**19.2%**

Valuation Summary

KCB Group is undervalued with a total potential return of 68.9%

Cost of Equity Assumptions:	11-June-20
Risk free rate *	12.3%
Beta	1.6
Country Risk Premium	6.0%
Cost of Equity	22.0%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	18.3%
Return on Average Equity 2024	19.3%
Terminal Price to Book value per share	1.1x
Shareholder Equity (Kshs) - FY24e	302.8
Terminal Value (Kshs) - (Year 2024)	342.6

Valuation Summary	Implied Price	Weighting	Weighted Value
Residual Income	49.9	35%	17.4
PBV Multiple	41.4	20%	8.3
PE Multiple	46.7	5%	2.3
DDM Integrated	70.3	40%	27.2
Target Price			**56.2**
Current Price			**35.4**
Upside/(Downside)			59.0%
Dividend Yield			9.9%
Total Return			**68.9%**

Cytonn

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

III. Co-operative Bank

Cytonn

Co-operative Bank Summary of Performance – Q1’2020

- Profit before tax increased by 3.7% to 3.7 bn from Kshs 3.6 bn in Q1’2019. Profit after tax declined marginally by 0.3% to Kshs 3.59 bn Q1’2020, from Kshs 3.60 bn in Q1’2019 with the effective tax rate increasing to 29.9% from 29.6% in Q1’2019,
- Total operating income increased by 12.5% to Kshs 12.5 bn in Q1’2019, from Kshs 11.1 in Q1’2019. This was due to a 19.0% increase in Non-Interest Income to Kshs 5.0 bn from Kshs 4.2 bn in Q1’2019, coupled with an 8.5% growth in Net Interest Income (NII) to Kshs 7.5 bn from Kshs 6.9 bn in Q1’2019,
- Total operating expenses rose by 20.6% to Kshs 7.3 bn in Q1’2020, from Kshs 6.0 bn in Q1’2019, largely driven by the 79.5% rise in Loan Loss Provisions (LLP) to Kshs 0.9 bn from Kshs 0.5 bn in Q1’2019, coupled Co-op Bank of Kenya- Q1’2020 22nd May, 2020 with a 25.0% rise in staff costs to Kshs 3.5 bn in Q1’2020 from Kshs 2.8 bn in Q1’2019,
- The balance sheet recorded an expansion as total assets grew by 10.5% to Kshs 470.4 bn, from Kshs 425.7 bn in Q1’2019,
- The bank’s asset quality improved, with the NPL ratio reducing to 10.8% in Q1’2020, from 11.1% in Q1’2019 owing to faster growth in gross loans by 9.9% outpacing the 7.1% growth in gross non-performing loans, which is attributable to the implementation of credit management strategies implemented since the beginning of the year.
- Going forward, we expect the bank’s growth to be driven by:

i. **Business Model Restructuring,** the banks’ has continued implementation of “Soaring Eagle” transformation initiatives is expected to drive growth and increase efficiency. The initiatives are set on the following eight key pillars; branch transformation, MSME transformation, sales force effectiveness, shared services and digitization, NPL management and credit processes, cost management, data analytics, and staff productivity. We expect the initiatives to culminate into improved revenue levels.

Financial Statements Extracts

Co-operative Bank's PAT is expected to grow at a 5-year CAGR of 9.7%

Income Statement	2018	2019	2020f	2021f
Net Interest Income	30.8	31.3	32.9	37.3
Non Funded Income	12.9	17.2	15.2	18.8
Total Operating Income	**43.7**	**48.5**	**48.1**	**56.1**
Loan Loss Provision	(1.8)	(2.5)	(4.2)	(4.5)
Other Operating Expenses	(23.9)	(25.3)	(25.0)	(27.8)
Total Operating Expenses	**(25.7)**	**(27.8)**	**(29.2)**	**(32.3)**
Profit Before Tax	18.2	20.7	18.9	23.9
% PAT Change YoY	**11.6%**	**12.4%**	**(7.5%)**	**26.3%**
EPS	1.9	2.1	1.9	2.9
DPS	1.0	1.0	1.0	1.0
Cost to Income	58.8%	57.4%	60.7%	57.5%
NIM	**9.1%**	**8.5%**	**8.0%**	**8.8%**
ROE	18.3%	19.2%	15.7%	17.6%
ROA	3.2%	3.3%	2.8%	3.2%
Balance Sheet	**2018**	**2019**	**2020f**	**2021f**
Net Loans and Advances	245.4	266.7	289.6	307.3
Government Securities	80.3	117.8	117.4	122.9
Other Assets	87.7	72.5	93.4	99.5
Total Assets	413.4	457.0	500.4	529.7
Customer Deposits	306.1	332.8	362.6	380.7
Other Liabilities	36.1	43.3	46.9	47.2
Total Liabilities	342.2	376.2	409.5	427.9
Shareholders Equity	69.9	79.3	89.4	100.2
Number of Shares	6.9	6.9	6.9	5.9
Book value Per share	10.2	11.6	13.0	17.1
% Change in BPS YoY	**(14.2%)**	**13.6%**	**12.7%**	**31.3%**

Valuation Summary

Co-operative Bank is undervalued with a total potential return of 53.8%

Cost of Equity Assumptions:	11-June-20
Risk free rate *	12.3%
Beta	0.9
Country Risk Premium	6.0%
Cost of Equity	17.7%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	18.3%
Return on Average Equity 2024	16.6%
Terminal Price to Book value per share	1.1x
Shareholder Equity (Kshs) - FY24e	145.3
Terminal Value (Kshs)- (Year 2024)	166.1

Valuation Summary	Implied Price	Weighting	Weighted Value
Residual Income	23.2	40%	9.3
PBV Multiple	15.3	35%	5.3
PE Multiple	13.4	20%	2.7
DDM Integrated	13.8	45%	0.7
Target Price			**18.0**
Current Price			**12.4**
Upside/(Downside)			45.7%
Dividend Yield			8.1%
Total Return			**53.8%**

Cytonn

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

IV. NCBA Bank

Cytonn

NCBA Bank Summary of Performance – Q1'2020

- Profit before tax declined by 26.5% to Kshs 2.4 bn from Kshs 3.3 bn in Q1'2019. Profit after tax declined by 26.8% to Kshs 1.6 bn in Q1'2020 from Kshs 2.2 bn in Q1'2019, with part of the variance being attributed to an exceptional item of Kshs 195.6 mn. The effective tax rate increased to 32.5% from 32.3% recorded in Q1'2019,
- Total operating income increased by 23.6% to Kshs 10.9 bn in Q1'2020 from Kshs 8.8 bn in Q1'2019. This was due to a 49.7% increase in Non-Funded Income (NFI) to Kshs 5.4 bn in Q1'2020 from Kshs 3.6 bn recorded the previous year, coupled with a 5.5% increase in Net Interest Income (NII) to Kshs 5.5 bn from the Kshs 5.2 bn recorded in Q1'2019,
- Total operating expenses increased by 49.8% to Kshs 8.3 bn from Kshs 5.6 bn in Q1'2019, largely driven by a 404.3% increase in loan loss provision to Kshs 3.8 bn in Q1'2020 from Kshs 0.7 bn in Q1'2019, coupled with a 4.3% increase in other operating expenses to Kshs 2.9 bn in Q1'2020 from Kshs 2.7 bn in Q1'2019,
- The balance sheet recorded an expansion with a total assets growth of 9.2% to Kshs 509.6 bn from Kshs 466.8 bn in Q1'2019,
- The bank's asset quality deteriorated, with NPL ratio deteriorating to 14.5% in Q1'2020 from 11.4% in Q1'2019. The deteriorating NPL ratio is attributable to the faster 31.8% growth in gross non-performing loans, which outpaced the 3.6% growth in gross loans (after adding back interest suspense.
- Going forward, we expect the bank's growth to be driven by:

i. The Bank is expected to continue increasing its synergy by capitalizing on the strengths of the previous entities. This can be seen through the use of their LOOP digital platform, which has allowed the bank to diversify its revenue streams.

Financial Statements Extracts

NCBA Group's PAT is expected to grow at a 5-year CAGR of 8.2%

Income Statement	2018	2019	2020f	2021f
Net Interest Income	20.3	13.3	17.0	23.1
Non Funded Income	16.1	20.3	18.6	19.4
Total Operating Income	**36.4**	**33.7**	**35.6**	**42.6**
Loan Loss Provision	(6.1)	(6.3)	(10.4)	(11.3)
Other Operating Expenses	(18.1)	(14.1)	(15.0)	(18.5)
Total Operating Expenses	**(24.1)**	**(20.4)**	**(25.4)**	**(29.9)**
Profit Before Tax	12.3	11.3	10.2	12.7
% PAT Change YoY	**9.3%**	**(12.4%)**	**(9.4%)**	**24.9%**
EPS	12.7	11.1	4.7	5.9
DPS	0.0	0.3	0.4	0.3
Cost to Income	66.3%	60.5%	71.4%	70.2%
NIM	**5.2%**	**3.3%**	**3.2%**	**5.0%**
ROE	13.7%	11.8%	10.0%	11.3%
ROA	2.0%	1.7%	1.4%	1.6%
Balance Sheet	**2018**	**2019**	**2020f**	**2021f**
Net Loans and Advances	239.6	249.4	271.7	295.1
Government Securities	129.7	145.0	142.0	152.0
Other Assets	84.3	100.5	127.8	130.7
Total Assets	453.6	494.8	541.5	577.7
Customer Deposits	341.0	378.2	411.6	440.5
Other Liabilities	46.2	49.3	54.2	55.4
Total Liabilities	387.2	427.6	465.9	495.8
Shareholders Equity	66.0	67.0	75.4	81.7
Number of Shares	0.7	0.7	1.5	1.5
Book value Per share	93.8	95.2	50.4	54.5
% Change in BPS YoY	**2.5%**	**1.5%**	**(47.1%)**	**8.3%**

Cytonn

Valuation Summary

NCBA Group is undervalued with a total potential return of 39.3%

Cost of Equity Assumptions:	11-June-20
Risk free rate *	12.3%
Beta	0.9
Country Risk Premium	6.0%
Cost of Equity	17.7%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	18.3%
Return on Average Equity 2024	11.5%
Terminal Price to Book value per share	0.9x
Shareholder Equity (Kshs)- FY24e	105.4
Terminal Value (Kshs)- (Year 2024)	99.6

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM Integrated	44.7	40.0%	17.9
Residual Valuation	32.5	35.0%	11.2
PBV Multiple	40.5	20.0%	8.1
PE Multiple	6.1	5.0%	0.3
Target Price			**37.5**
Current Price			**26.9**
Upside/(Downside)			39.3%
Dividend Yield			0.0%
Total Potential Return			**39.3%**

Cytonn

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

V. Standard Chartered Bank Kenya

Cytonn

SCBK's Summary of Performance – Q1'2020

- Profit before tax declined by 17.8% to Kshs 2.9 bn, from Kshs 3.5 bn in Q1'2019. Profit after tax also declined by 16.6% to Kshs 2.0 bn in Q1'2020, from Kshs 2.4 bn in Q1'2019 with the effective tax rate declining to 31.0% from 32.0% in Q1'2019,
- Total operating income declined by 5.6% to Kshs 7.0 bn, from Kshs 7.4 bn in Q1'2019. This was driven by a 6.5% decline in Non-Funded Income (NFI) to Kshs 2.2 bn, from Kshs 2.4 bn in Q1'2019, coupled with a 5.1% decline in Net Interest Income (NII) to Kshs 4.7 bn, from Kshs 5.0 bn in Q1'2019,
- Total operating expenses grew by 5.7% to Kshs 4.0 bn, from Kshs 3.8 bn, largely driven by 116.8% rise in amortization charges to Kshs 170.0 mn in Q1'2020, from Kshs 78.4 mn in Q1'2019, coupled with a 3.1% rise in Loan Loss Provisions (LLP) to Kshs 0.43 bn in Q1'2020, from Kshs 0.42 bn in Q1'2019,
- The balance sheet recorded an expansion as total assets grew by 3.4% to Kshs 311.5 bn, from Kshs 301.4 bn in Q1'2019,
- The bank's asset quality improved owing to the 14.2% decline in the NPL ratio in Q1'2020 from 15.9% recorded in Q1'2019. The improvement of the NPL ratio is attributable to the 5.6% decline in Gross Non-Performing Loans to Kshs 20.0 bn from Kshs 21.2 bn recorded in Q1'2019. The improvement was mainly attributable to the faster growth in gross loans which outpaced the growth in non-performing loans.
- Going forward, we expect the bank's growth to be driven by:

i. Continued focus on promoting the usage of the bank's alternative channels is likely to continue boosting the company's Non-Funded Income (NFI) as well as aiding in improving operational efficiency levels, which deteriorated in Q1'2020 as evidenced by the worsening of the cost to income ratio to 58.1% from 51.9% in Q1'2019. Revenue expansion coupled with cost containment will be key in boosting the bank's bottom line.

Cytonn

Financial Statements Extracts

SCBK's PAT is expected to grow at a 5-year CAGR of 7.1%

Income Statement	2018	2019	2020f	2021f
Net Interest Income	19.4	19.5	20.6	22.9
Non Funded Income	9.2	9.2	9.3	10.0
Total Operating Income	**28.6**	**28.7**	**29.9**	**32.9**
Loan Loss Provision	1.9	0.6	1.1	2.9
Other Operating Expenses	14.8	16.0	15.3	15.4
Total Operating Expenses	**16.8**	**16.5**	**16.3**	**18.4**
Profit Before Tax	11.8	12.2	13.5	14.5
% PAT Change YoY	**17.1%**	**1.7%**	**15.0%**	**7.4%**
EPS	23.6	24.0	27.6	29.6
DPS	19.0	20.0	20.0	21.0
Cost to Income	58.6%	57.6%	54.7%	55.8%
NIM	**7.5%**	**7.4%**	**7.3%**	**7.5%**
ROaE	17.5%	17.5%	17.0%	15.7%
ROaA	2.8%	2.8%	2.9%	2.9%
Balance Sheet	**2018**	**2019**	**2020f**	**2021f**
Net Loans and Advances	118.7	128.7	135.3	142.8
Government Securities	98.7	99.6	117.1	121.2
Other assets	68.0	73.8	96.9	97.6
Total Assets	**285.4**	**302.1**	**349.3**	**361.6**
Customer Deposits	224.3	228.4	260.2	269.3
Other Liabilities	14.5	25.9	25.6	25.8
Total Liabilities	**238.8**	**254.4**	**285.8**	**295.1**
Shareholders Equity	**46.6**	**47.8**	**63.5**	**66.5**
Number of shares	**0.3**	**0.3**	**0.3**	**0.3**
Book value Per share	135.8	139.0	184.9	193.5
% Change in BPS YoY	**2.1%**	**2.4%**	**33.0%**	**4.7%**

Cytonn

Valuation Summary

SCBK is undervalued with a total potential return of 30.6%

Cost of Equity Assumptions:	11-June-20
Risk free rate *	12.3%
Beta	0.8
Country Risk Premium	6.0%
Cost of Equity	17.0%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	18.3%
Return on Average Equity 2024	15.1%
Terminal Price to Book value per share	1.5x
Shareholder Equity (Kshs) - FY24e	78.7
Terminal Value (Kshs)- (Year 2024)	124.9

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM Integrated	255.0	40%	102.0
Residual Income	196.6	35%	68.8
PBV Multiple	129.6	20%	25.9
PE Multiple	120.3	5%	6.0
Target Price			**202.7**
Current Price			**166.8**
Upside/(Downside)			21.6%
Dividend Yield			9.0%
Total Return			**30.6%**

Cytonn

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

VI. Diamond Trust Bank Kenya

Cytonn

DTBK’s Summary of Performance – Q1’2020

- Profit before tax rose by 0.5% to Kshs 3.0 bn, from Kshs 2.9 bn in Q1’2019. Profit after tax grew by 3.7% to Kshs 2.04 bn in Q1’2020, from Kshs 1.97 bn in Q1’2019, with the effective tax rate declining to 30.9% from 33.0% in Q1’2019,
- Total operating income increased by 3.0% to Kshs 6.3 bn from Kshs 6.1 bn in Q1’2019. This was due to a 3.4% increase in Non-Funded Income (NFI) to Kshs 1.6 bn, from Kshs 1.5 bn in Q1’2019, coupled with a, 2.9% increase in Net Interest Income (NII) to Kshs 4.7 bn, from Kshs 4.5 bn in Q1’2019,
- Total operating expenses increased by 5.2% to Kshs 3.3 bn from Kshs 3.2 bn in Q1’2019, largely driven by the 52.0% increase in Loan Loss Provisions (LLP) to Kshs 0.4 bn from Kshs 0.3 bn in Q1’2019, staff costs, which rose by 10.4% to Kshs 1.20 bn from Kshs 1.08 bn in Q1’2019. Other operating expenses however declined by 4.9% to Kshs 1.7 bn from Kshs 1.8 bn in Q1’2019,
- Total operating expenses increased by 5.2% to Kshs 3.3 bn from Kshs 3.2 bn in Q1’2019, largely driven by the 52.0% increase in Loan Loss Provisions (LLP) to Kshs 0.4 bn from Kshs 0.3 bn in Q1’2019, staff costs, which rose by 10.4% to Kshs 1.20 bn from Kshs 1.08 bn in Q1’2019,
- he bank’s asset quality deteriorated, with the NPL ratio increasing to 8.0% from 7.3% in Q1’2019 owing to slower growth in gross loans by 6.4% outpacing the 15.7% growth in gross non-performing loans. The decline in asset quality is attributable to a 15.7% increase in the gross NPLs to Kshs 16.6 bn in Q1’2020 from Kshs 14.4 bn in Q1’2019.
- Going forward, we expect the bank’s growth to be driven by:

i. **Geographical diversification**: The bank’s forays into other markets such as Tanzania, Uganda, and Burundi, may aid the bank’s growth, given the lack of loan pricing controls in those markets. Continued focus on those markets would aid in alleviating the compressed interest income regime in the Kenyan market.

Cytonn

Financial Statements Extracts

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

Income Statement	2018	2019	2020f	2021f
Net Interest Income	20.0	18.7	21.6	22.2
Non Funded Income	5.4	5.8	5.8	6.0
Total Operating Income	**25.5**	**24.5**	**27.4**	**28.2**
Loan Loss Provision	3.0	1.3	2.8	2.1
Other Operating Expenses	11.5	11.9	11.7	12.6
Total Operating Expenses	**14.5**	**13.2**	**14.4**	**14.7**
Profit Before Tax	11.0	11.3	13.0	13.5
% PAT Change YoY	**2.3%**	**2.6%**	**24.9%**	**1.4%**
EPS	25.3	26.0	32.5	32.9
DPS	2.6	2.7	2.7	2.7
Cost to Income	56.9%	54.0%	52.7%	52.0%
NIM	**6.2%**	**5.6%**	**6.4%**	**6.4%**
ROE	13.9%	12.9%	13.0%	10.9%
ROA	1.9%	1.9%	2.3%	2.2%
Balance Sheet	**2018f**	**2019f**	**2020f**	**2021f**
Net Loans and Advances	193.1	199.1	203.3	209.4
Government Securities	115.0	130.3	111.3	114.6
Other Assets	69.6	56.8	90.6	89.6
Total Assets	**377.7**	**386.2**	**405.2**	**413.6**
Customer Deposits	282.9	280.2	274.7	283.0
Other Liabilities	35.9	41.5	43.9	36.1
Total Liabilities	**318.8**	**321.7**	**318.6**	**319.0**
Shareholders Equity	53.7	58.9	80.7	88.6
Number of Shares	0.3	0.3	0.3	0.3
Book value Per share	191.9	210.5	288.6	317.0
% Change in BPS YoY	**10.9%**	**9.7%**	**37.1%**	**9.9%**

Cytonn

Valuation Summary

DTBK is undervalued with a total potential return of 149.4%

Cost of Equity Assumptions:	13-June-20
Risk free rate *	12.2%
Beta	1.0
Country Risk Premium	6.0%
Cost of Equity	18.2%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	18.2%
Return on Average Equity 2024	9.9%
Terminal Price to Book value per share	0.6x
Shareholder Equity (Kshs)- FY24e	116.9
Terminal Value (Kshs)- (Year 2024)	78.7

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	230.3	40.0%	92.1
Residual Income	75.8	35.0%	26.5
PBV Multiple	241.5	20.0%	48.3
PE Multiple	161.4	5.0%	8.1
Target Price			175.0
Current Price			71.3
Upside/(Downside)			145.6%
Dividend yield			3.8%
Total return			149.4%

Cytonn

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

VII. Absa Bank Kenya

Absa Bank's Summary of Performance – Q1'2020

- Profit before tax rose by 13.3% to Kshs 3.4 bn, from Kshs 3.0 bn in Q1'2019. Profit after tax before exceptional items grew by 17.0% to Kshs 2.5 bn in Q1'2020, from Kshs 2.1 bn in Q1'2019, while profit after tax and exceptional items, which relates to one-off separation cost of Kshs 0.6 bn, grew by 3.0% to Kshs 1.96 bn in Q1'2020, from Kshs 1.9 bn in Q1'2019, with the effective tax rate increasing to 32.0% from 31.8% in Q1'2019,
- Total operating income rose by 8.1% to Kshs 8.6 bn, from Kshs 8.0 bn in Q1'2019. This was due to a 15.8% rise in Non-Funded Income (NFI) to Kshs 3.0 bn, from Kshs 2.6 bn in Q1'2019, coupled with a 4.5% rise in Net Interest Income (NII) to Kshs 5.6 bn, from Kshs 5.4 bn in Q1'2019,
- Total operating expenses rose by 5.0% to Kshs 5.2 bn, from Kshs 4.9 bn in Q1'2019, largely driven by a 75.2% increase in Loan Loss Provisions (LLP) to Kshs 1.1 bn in Q1'2020, from Kshs 0.6 bn in Q1'2019, coupled with a 6.6% increase in staff costs to Kshs 2.5 bn in Q1'2020, from Kshs 2.3 bn in Q1'2019,
- The balance sheet recorded an expansion as total assets increased by 10.4% to Kshs 381.5 bn, from Kshs 345.4 bn in Q1'2019.
- The bank's asset quality was maintained at the same level, with the NPL ratio remaining at 8.10%. The bank embraced prudent risk assessment with secured lending targeted on key sectors, as well as focus on big ticket recoveries, which has seen the bank maintain its NPL ratio, which in comparison to the other banks has performed well. The bank continued to demonstrate prudence, as the coverage remained relatively high, at 64.5%, despite being lower than the 67.8% recorded in Q1'2019,
- Going forward, we expect the bank's growth to be driven by:

i. **Increased Channel diversification**, which is likely to help the bank to continue improving its operational efficiency. The benefits of this are already being felt with "Timiza" already recording accelerated growth, and consequently higher Non-Interest Revenue. This coupled with the expansion of its agent-banking network and product offerings such as bancassurance and fixed income trading will see the bank expand its top-line revenue, going forward.

Financial Statements Extracts

Absa Bank's PAT is expected to grow at a 5-year CAGR of 8.0%

Income Statement	2018	2019	2020f	2021f
Net Interest Income	22.0	23.2	27.8	31.3
Non Funded Income	9.7	10.6	11.0	12.5
Total Operating Income	**31.7**	**33.8**	**38.8**	**43.7**
Loan Loss Provision	(3.9)	(4.2)	(5.7)	(6.2)
Other Operating Expenses	(17.2)	(17.3)	(19.2)	(20.8)
Total Operating Expenses	**(21.0)**	**(21.5)**	**(24.9)**	**(27.0)**
Profit Before Tax	10.6	10.8	13.9	16.7
% PAT Change YoY	**7.1%**	**0.5%**	**30.4%**	**20.5%**
EPS	1.4	1.4	1.8	2.2
DPS	1.1	1.1	1.1	1.1
Cost to Income	66.4%	63.6%	64.2%	61.8%
NIM	**8.6%**	**7.7%**	**8.3%**	**8.6%**
ROaE	16.8%	16.7%	18.9%	19.4%
ROaA	2.7%	2.1%	2.5%	2.8%
Balance Sheet	**2018**	**2019**	**2020f**	**2021f**
Net Loans and Advances	177.4	194.9	211.1	225.9
Government Securities	92.9	123.0	134.1	144.8
Other Assets	54.5	56.1	62.6	60.8
Total Assets	**324.8**	**374.0**	**407.9**	**431.6**
Customer Deposits	207.4	237.7	248.4	265.8
Other Liabilities	73.2	91.1	101.8	102.4
Total Liabilities	**280.6**	**328.8**	**350.2**	**368.2**
Shareholders Equity	**44.2**	**45.2**	**57.6**	**63.4**
Number of shares	**5.4**	**5.4**	**5.4**	**5.4**
Book value Per share	8.1	8.3	10.6	11.7
% Change in BPS YoY	**0.2%**	**2.2%**	**27.6%**	**10.0%**

Cytonn

Valuation Summary

Absa Bank is undervalued with a total potential return of 32.0%

Cost of Equity Assumptions:	13-June-20
Risk free rate *	12.3%
Beta	1.1
Country Risk Premium	6.0%
Cost of Equity	18.6%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	18.3%
Return on Average Equity 2024	19.5%
Terminal Price to Book value per share	1.3x
Shareholder Equity (Kshs)- FY24e	90.5
Terminal Value (Kshs)- (Year 2024)	122.2

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	15.6	40%	6.3
Residual Income	13.5	35%	4.7
PBV Multiple	7.1	20%	1.4
PE Multiple	15.2	5%	0.8
Target Price			**13.2**
Current Price			**10.8**
Upside/(Downside)			21.8%
Dividend Yield			10.2%
Total Return			**32.0%**

Cytonn

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

VIII. Stanbic Holdings

Cytonn

Stanbic Holdings’ Summary of Performance – Q1’2020

- Profit before tax declined by 32.4% to Kshs 2.1 bn from Kshs 3.1 bn in Q1’2019, while profit after tax (PAT) decreased by 33.5% to Kshs 1.5 bn from Kshs 2.3 bn in Q1’2019, owing to an increase in the effective tax rate to 28.1% from 27.0% in Q1’2019,
- Total operating income decreased by 19.9% to Kshs 5.4 bn, from Kshs 6.7 bn in Q1’2019, driven by a 29.2% decrease in Non-Funded Income to Kshs 2.3 bn in Q1’2020, from Kshs 3.3 bn in Q1'2019, coupled with an 11.0% decrease in Net Interest Income (NII) to Kshs 3.0 bn, from Kshs 3.4 bn in Q1’2019,
- Total operating expenses decreased by 8.8% to Kshs 3.2 bn in Q1’2020 from Kshs 3.5 bn in Q1’2019, largely driven by a 15.3% decrease in staff costs to Kshs 1.2 bn from Kshs 1.4 in Q1’2020. The loan loss provision decreased by 2.3% to Kshs 0.62 bn from Kshs 0.63 bn in Q1’2019
- The balance sheet recorded an expansion as total assets increased by 8.7% to Kshs 309.7 bn from Kshs 284.9 bn in Q1’2019. This growth was largely driven by an 11.8% increase in the loan book to Kshs 161.8 bn from Kshs 144.7 bn,
- The bank’s asset quality deteriorated with the NPL ratio increasing to 12.1% in Q1’2020 from 11.1% in Q1’2019. The deteriorating NPL ratio is attributable to a 25.8% to Kshs 21.1 bn from Kshs 16.8 bn in Q1’2019,
- Going forward, we expect the bank’s growth to be driven by:

i. **Efficient operating model-** The bank’s increased focus on cost containment is likely to boost the bank’s growth prospects, as it looks to drive its strategy of increased deposit mobilization capacity and lending. This will likely ring in additional interest income, thereby improving the top line revenue. Furthermore, the banks well diversified revenue structure will likely buffer the bottom in the event of a significant decline in one of the revenue streams

Cytonn

Financial Statements Extracts

Stanbic Holdings' PAT is expected to grow at a 5-year CAGR of 10.0%

Income Statement	2018	2019	2020f	2021f
Net Interest Income	12.1	13.3	15.4	16.0
Non Funded Income	10.0	11.4	10.0	12.7
Loan Loss Provision	(1.7)	(2.6)	(3.1)	(3.2)
Total Operating Expenses	**(11.1)**	**(13.9)**	**(15.8)**	**(17.8)**
Profit Before Tax	8.9	7.7	9.6	10.9
Profit After tax	6.3	6.4	7.2	7.6
% PAT Change YoY	**45.7%**	**1.6%**	**13.2%**	**5.6%**
EPS	15.9	16.1	18.3	19.3
DPS	5.8	7.1	6.8	6.3
Cost to Income	42.3%	45.6%	50.0%	51.0%
NIM	**5.0%**	**5.2%**	**5.5%**	**5.2%**
ROaE	14.3%	13.6%	13.5%	12.7%
ROaA	2.3%	2.1%	2.2%	2.2%
Balance Sheet	**2018**	**2019**	**2020f**	**2021f**
Net Loans and Advances	175.0	191.2	208.3	216.3
Other Assets	115.6	112.4	130.5	137.7
Total Assets	**290.6**	**303.6**	**338.8**	**354.0**
Customer Deposits	219.5	224.7	251.3	261.3
Borrowings	7.1	9.1	9.1	9.1
Other Liabilities	19.4	20.8	20.8	20.8
Total Liabilities	**245.9**	**254.6**	**281.2**	**291.2**
Shareholders Equity	44.6	49.0	57.7	62.8
No of Ordinary Shares				
Book value Per share	112.9	124.0	145.9	158.9
% Change in BVPS	**3.9%**	**9.9%**	**17.6%**	**8.9%**

Cytonn

Valuation Summary

Stanbic Holdings is undervalued with a total potential return of 40.7%

Cost of Equity Assumptions:	13-June-20
Risk free rate *	12.3%
Beta	0.8
Country Risk Premium	6.0%
Cost of Equity	16.7%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	18.2%
Return on Average Equity 2024	13.1%
Terminal Price to Book value per share	0.9x
Shareholder Equity (Kshs) - FY24e	82.0
Terminal Value (Kshs) - (Year 2024)	75.7

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	142.0	40%	56.8
Residual income	101.2	35%	35.4
PBV Multiple	77.4	20%	15.5
PE Multiple	69.3	5%	3.5
Target Price			**111.2**
Current Price			**84 .0**
Upside/(Downside)			32.3%
Dividend Yield			8.4%
Total return			**40.7%**

Cytonn

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

IX. I&M Holdings

I&M Holdings' Summary of Performance – Q1'2020

- Profit before tax declined by 23.8% to Kshs 2.5 bn, down from Kshs 3.3 bn in Q1'2019. Profit after tax declined by 31.1% to Kshs 1.6 bn in Q1'2020 from Kshs 2.3 bn in Q1'2019, with the effective tax rate increasing to 33.1%, from 27.5% in Q1'2019,
- Total operating income rose by 5.7% to Kshs 5.7 bn, from Kshs 5.4 bn in Q1'2019. This was driven by a 7.4 % increase in Non-Funded Income (NFI) to Kshs 2.2 bn, from Kshs 2.1 bn in Q1'2019, coupled with a 4.6% increase in Net Interest Income (NII) to Kshs 3.5 bn, from Kshs 3.3 bn in Q1'2019,
- Total operating expenses rose by 24.5% to Kshs 3.0 bn from Kshs 2.4 bn in Q1'2019, largely driven by a 178.4% increase in Loan Loss Provisions (LLP) to Kshs 555.3 mn from Kshs 199.4 mn in Q1'2019, coupled with a 36.0% rise in Staff costs to Kshs 1.2 bn from Kshs 1.1 bn in Q1'2019,
- The balance sheet recorded an expansion as total assets grew by 12.1% to Kshs 182.9 bn, from Kshs 168.9 bn in Q1'2019. The loan book also expanded by 8.3% to Kshs 182.9 bn from Kshs 168.9 bn in Q1'2019,
- The bank's asset quality improved, with the NPL ratio improving to 11.3%, from 13.0% in Q1'2019. NPL coverage also improved to 58.8%, up from 57.4% in Q1'2019 as the 28.0% rise in general provisions to Kshs 9.0 bn, from Kshs 7.1 bn in Q1'2019, outpaced the 6.4% decline in gross NPL to Kshs 22.2 bn in Q1'2020 from Kshs 23.7 bn in Q1'2019 .
- Going forward, we expect the bank's growth to be driven by:

i. **Non-Funded Income Growth Initiatives –** I&M Holdings' NFI growth is improving as the bank focuses on digital innovation to augment transaction volumes and increase fee income. The bank needs to increase the capacity of its brokerage and advisory businesses to increase income contribution from investment and advisory services.

Cytonn

Financial Statements Extracts

I&M Holdings' PAT is expected to grow at a 5-year CAGR of 10.0%

Income Statement	2018	2019	2020f	2021f
Net Interest Income	15.6	15.5	18.0	21.8
Non- Funded Income	7.6	8.3	8.8	10.0
Total Operating Income	**23.2**	**23.8**	**26.8**	**31.8**
Loan Loss Provision	(3.8)	(0.6)	-1.9	-3.2
Other Operating Expenses	(8.5)	(9.5)	-10.3	-12.1
Total Operating Expenses	**(12.3)**	**(10.1)**	**-12.2**	**-15.2**
Profit Before Tax	11.5	14.6	15.4	17.4
% PAT Change YoY	**17.1%**	**26.6%**	**0.2%**	**13.1%**
EPS	20.6	13.0	13.1	14.8
DPS	3.9	2.6	2.6	3.0
Cost to Income	53.0%	42.4%	45.8%	47.9%
NIM	**6.7%**	**5.9%**	6.1%	7.1%
ROaE	17.2%	19.5%	16.1%	16.8%
ROaA	3.0%	3.4%	3.1%	3.4%
Balance Sheet	**2018**	**2019**	**2020F**	**2021F**
Government securities	52.2	53.9	60.7	62.5
Net Loans and Advances	166.7	175.3	192.3	203.2
Other Assets	69.6	86.0	98.3	108.3
Total Assets	**288.5**	**315.3**	**351.3**	**374.0**
Customer Deposits	213.1	229.7	253.0	260.6
Other Liabilities	24.5	24.7	27.0	32.4
Total Liabilities	**237.6**	**254.4**	**280.0**	**293.0**
Shareholders Equity	47.9	57.7	68.0	77.7
Number of Shares	0.4	0.8	0.8	0.8
Book Value Per Share	115.8	69.8	82.3	94.0
% BVPS Change YoY	**8.0%**	**(39.7%)**	**17.8%**	**14.3%**

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Valuation Summary

I&M Holdings is undervalued with a total potential return of 71.3%

Cost of Equity Assumptions:	11-June-20
Risk free rate *	12.2%
Beta	0.9
Country Risk Premium	6.0%
Cost of Equity	17.6%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	18.2%
Return on Average Equity 2024	11.9%
Terminal Price to Book value per share	0.9x
Shareholder Equity (Kshs)- FY24e	123.0
Terminal Value (Kshs) - (Year 2024)	111.0

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	97.8	40.0%	39.1
Residual income	68.9	40.0%	24.1
PBV Multiple	48.3	20.0%	9.7
PE Multiple	67.4	10.0%	3.4
Target Price			**76.3**
Current Price			**46.0**
Upside/(Downside)			65.8%
Dividend yield			5.5%
Total return			**71.3%**

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

B. Tier II Bank

I. HF Group

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HF Group Summary of Performance – FY'2019

- HF Group recorded a profit before tax of Kshs 7.0 mn an improvement from a loss before tax of Kshs 157.7 mn in Q1'2019. The Group's Loss after Tax improved to Kshs 0.6 mn in Q1'2020, from the Kshs 158.3 mn loss recorded in Q1'2019,
- Total Operating Income rose by 8.4% to Kshs 0.83 bn in Q1'2020 from Kshs 0.77 bn, this can be attributed to a 13.7% increase in Net Interest Income (NII) to Kshs 0.6 bn from Kshs 0.5 bn recorded in Q1'2019, outpacing a 2.0% decline in Non-funded Income (NFI) to Kshs 253.5 mn from Kshs 258.7 mn seen in Q1'2020,
- Total operating expenses declined by 10.8% to Kshs 0.8 bn from Kshs 0.9 bn seen in Q1'2019. This is attributable to a 23.4% decline in Loan Loss Provisions to Kshs 0.2 bn from Kshs 0.1 bn in Q1'2019, coupled with a 12.0% decline in Other Operating Expenses from Kshs 0.5 bn to Kshs 0.4 bn in Q1'2020. Staff Costs however increased by 0.5% to Kshs 256.4 mn from Kshs 255.0 mn in Q1'2019,
- The balance sheet recorded a contraction as total assets declined by 4.1% from Kshs 59.1 bn to Kshs 56.6 bn in Q1'2020,
- The bank experienced improvement in asset quality unlike most listed banks with Non-performing Loans (NPLs) declined by 5.8% to Kshs 12.2 bn from Kshs 13.0 bn recorded in Q1'2019. Consequently, the NPL ratio improved marginally to 27.3% from the 27.5% following the faster 5.8% decline in NPLs that outpaced the 5.0% decline in gross loans that came in at Kshs 44.8 bn in Q1'2020 from Kshs 47.1 bn recorded in Q1'2019.
- Going forward, we expect the bank's growth to be driven by:

i. Although HF Group has a long way to go as a conventional bank, it has recorded commendable performance with the bank beginning to show signs of profitability They will ultimately have to adjust their business model, or couple up with a strong bank with a sizeable asset base, and a strong deposit gathering capability, in an effort to capitalize on HF's strength in mortgages and real estate development.

Financial Statements Extracts

HF Group's PAT is expected to grow at a 5-year CAGR of 5.0%

Income Statement	2018	2019	2020f	2021f
Net Interest Income	2.3	2.0	1.7	2.3
Non Funded Income	1.3	1.4	1.6	1.8
Total Operating Income	**3.6**	**3.4**	**3.3**	**4.1**
Loan Loss Provision	(0.4)	(0.4)	(0.3)	(0.4)
Other Operating Expenses	(3.9)	(3.2)	(3.0)	(3.5)
Total Operating Expenses	**(4.2)**	**(3.5)**	**(3.4)**	**(3.9)**
Profit Before Tax	(0.6)	(0.1)	(0.1)	0.2
% PAT Change YoY	**(573.9%)**	**(81.6%)**	**(72.2%)**	**(656.0%)**
EPS	(1.6)	(0.3)	(0.1)	0.4
DPS	0.0	0.0	0.0	0.0
Cost to Income	118.2%	104.2%	101.2%	94.1%
ROE	(5.5%)	(1.1%)	(0.3%)	1.7%
ROA	(0.9%)	(0.2%)	(0.1%)	0.3%
Balance Sheet	**2018**	**2019**	**2020f**	**2021f**
Net Loans and Advances	43.4	38.6	39.4	44.6
Government Securities	3.2	4.6	4.6	4.7
Other Assets	13.9	13.3	14.1	11.9
Total Assets	**60.5**	**56.5**	**58.2**	**61.2**
Customer Deposits	34.7	37.4	40.0	42.8
Other Liabilities	15.5	8.8	8.3	8.3
Total Liabilities	**50.2**	**46.2**	**48.3**	**51.2**
Shareholders Equity	10.4	10.2	10.2	10.4
Number of Shares	0.4	0.4	0.4	0.4
Book value Per share	27.0	26.6	26.5	26.9
% Change in BPS YoY	**(17.0%)**	**(1.5%)**	**(0.3%)**	**1.7%**

Valuation Summary

HF Group is undervalued with a total potential return of 2.1%

Cost of Equity Assumptions:	11-June-20
Risk free rate *	12.3%
Beta	1.0
Country Risk Premium	6.0%
Cost of Equity	18.9%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	18.3%
Return on Average Equity 2024	3.5%
Terminal Price to Book value per share	0.1x
Shareholder Equity (Kshs)- FY24e	11.3
Terminal Value (Kshs) - (Year 2024)	1.7

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	3.7	40.0%	1.5
Residual Income	2.7	35.0%	0.9
PTBV Multiple	6.1	20.0%	1.2
PE Multiple	7.3	5.0%	0.4
Fair Value			**4.0**
Current Price			**3.9**
Upside/(Downside)			2.1%
Dividend Yield			0.0%
Total return			***2.1%***

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

Feedback Summary

During the preparation of this Q1'2020 Banking Sector Report, we shared with the subject companies the operating metrics that were used in the Report for their confirmation and verification

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

Bank	Operating Metrics Shared	Sent Feedback
Co-operative Bank of Kenya	Yes	Unresponsive
I&M Holdings	Yes	Yes
KCB Group	Yes	Unresponsive
Standard Chartered Bank Kenya	Yes	Unresponsive
NCBA Group	Yes	Yes
Diamond Trust Bank	Yes	Yes
Housing Finance Group	Yes	Unresponsive
Stanbic Holdings	Yes	Unresponsive
Equity Group Holdings	Yes	Unresponsive
Absa Bank Kenya	Yes	Unresponsive

Thank You!

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Q&A / AOB

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