Kenya Listed Commercial Banks Review

Cytonn Q1’2023 Banking Sector Report

“Sustained Profitability Despite Challenging Business Environment”

Cytonn

18th June, 2023

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I. Introduction to Cytonn

About Us

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

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

A unique franchise differentiated by:

Independence & Investor Focus

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

Alternative Investments

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

Strong Alignment

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

Committed Partners

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

Why We Exist

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

WE SERVE THREE MAIN CLIENT SEGMENTS:

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

WE INVEST OUR CLIENT FUNDS IN:

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

We collect funds from our clients

We invest them in high growth opportunities

We deliver the best possible returns

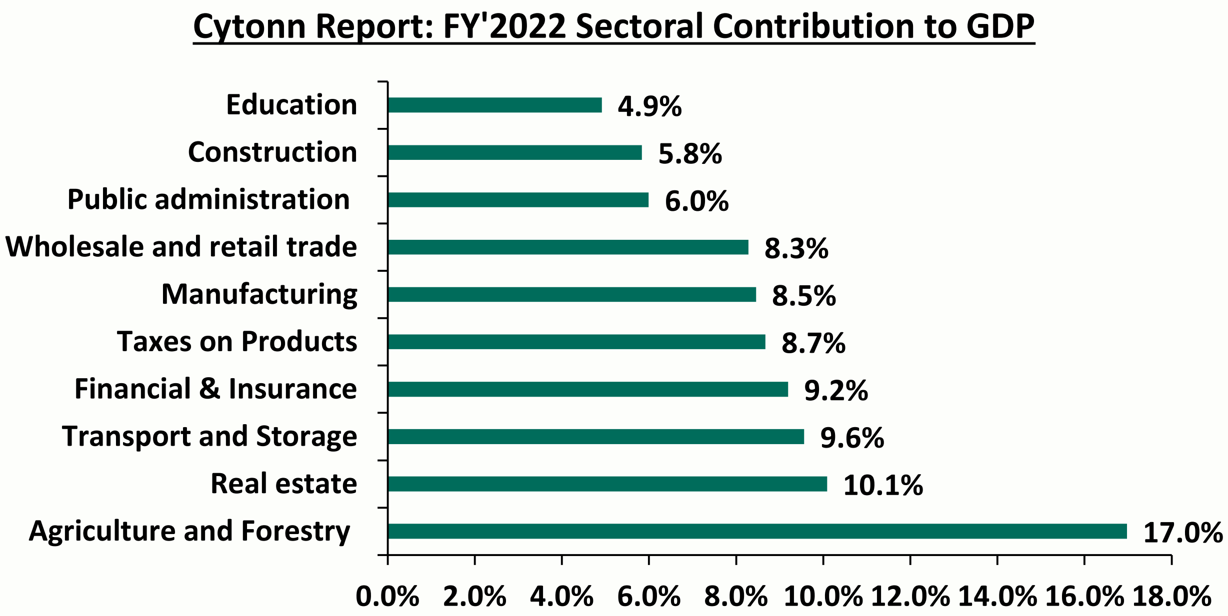
Our Business Structure

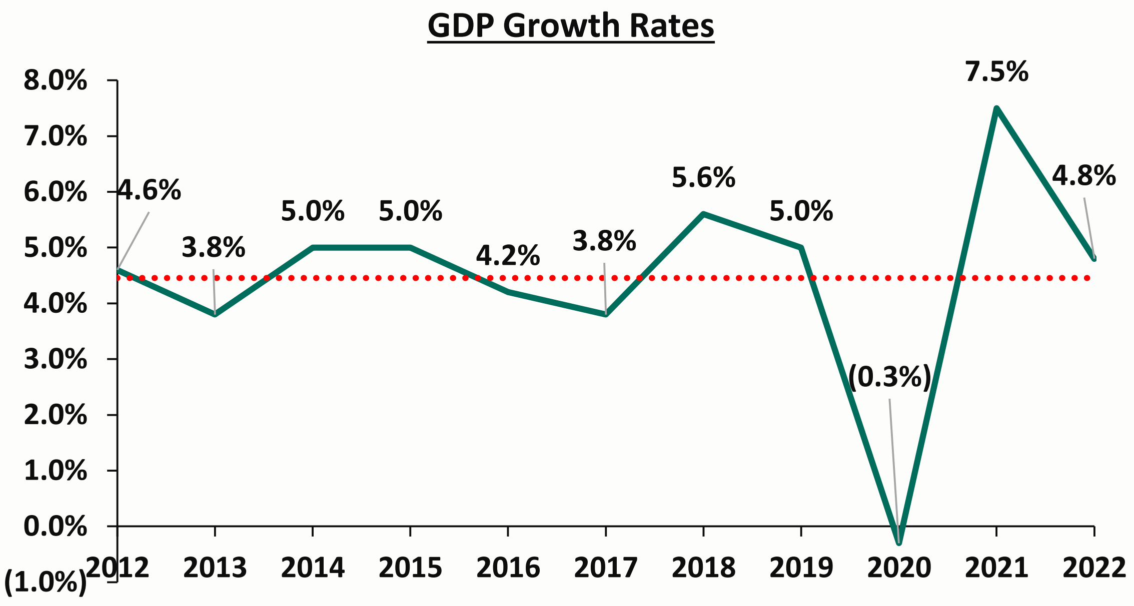
Cytonn Investments Management Plc

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

II. Kenya Economic Review and Outlook

The Kenyan economy expanded by 4.8% in FY’2022





**Source: KNBS*

- The Kenyan Economy grew at a slower rate of 4.8% in 2022, compared to an expansion of 7.5% recorded in FY’2021. The growth was mainly driven by the resumption of most economic activities following the decline in election jitters, coupled with receding impacts of COVID-19 pandemic as well as continued recovery of most sectors of the economy
- Agriculture and Forestry remained the largest sectoral contributor to GDP at 17.0% in FY’2022, despite declining by 5.6% points from 22.6% sectoral contribution recorded in FY’2021

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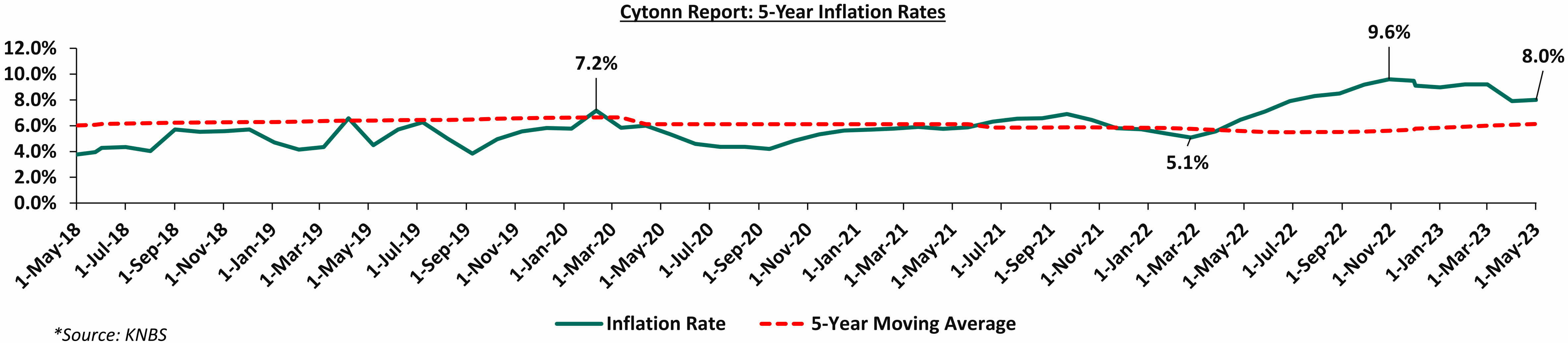
Inflation

Inflation averaged at 9.1% in Q1'2023, compared to 5.3% in Q1'2022



**Source: KNBS*

- The y/y inflation in May 2023 increased marginally by 0.1% points to 8.0%, from the 7.9% recorded in April 2023. The headline inflation in May 2023 was majorly driven by increase in prices of commodities in the following categories, food and non-alcoholic beverages (10.2%); housing, water, electricity, gas and other fuels (9.7%); and transport (10.1%)
- Going forward, we expect inflationary pressures to persist in the short term, however to ease in the medium term to CBK's target range of 2.5% to 7.5% aided by easing in global commodity prices and easing of domestic food prices on account of favorable weather conditions. We also expect the measures taken by the government to subsidize major inputs of agricultural production such as fertilizers to lower the cost of farm inputs and support the easing of inflation in the long term

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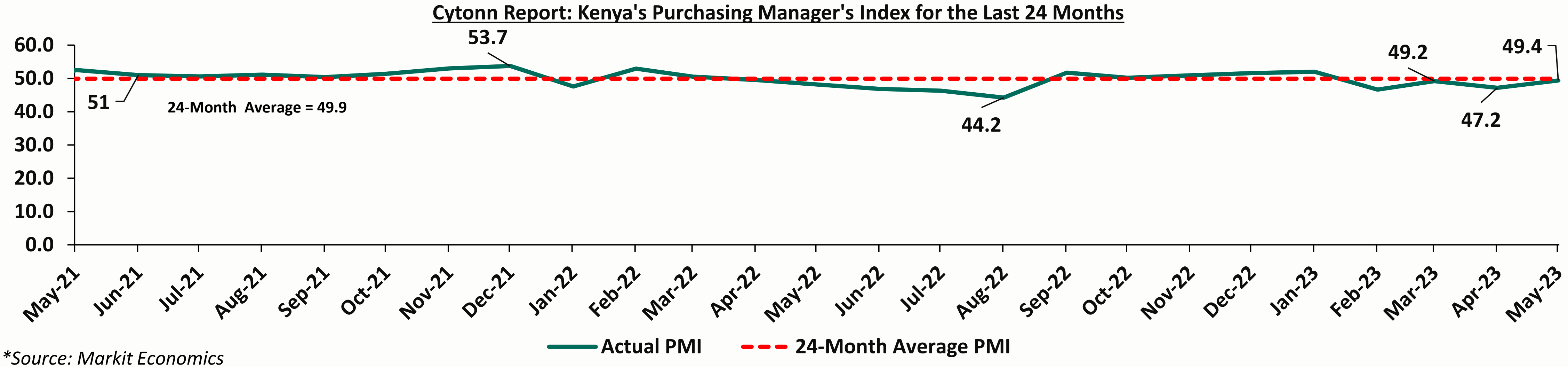
Stanbic PMI Index

The PMI averaged at 49.3 in Q1’2023, compared to 50.3 in Q1’2022



**Source: Markit Economics*

- The Stanbic Purchasing Managers Index (PMI) for the month of May 2023 came in at 49.4, up from 47.2 in April 2023, signaling the slowest deterioration of the business environment in the fourth consecutive month. The sustained deterioration of the general business environment is mainly attributable to the elevated inflationary pressure experienced in the country, which has remained above the Central Bank of Kenya (CBK) target range of 2.5%–7.5% in the past twelve months, with the inflation rate in May 2023 increasing to 8.0%, from 7.9% recorded in April 2023
- 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 expect the general business environment will remain subdued in the short to medium term on the back of reduced consumer purchasing power owing to elevated inflationary pressures and the sustained depreciation of the Kenya shilling

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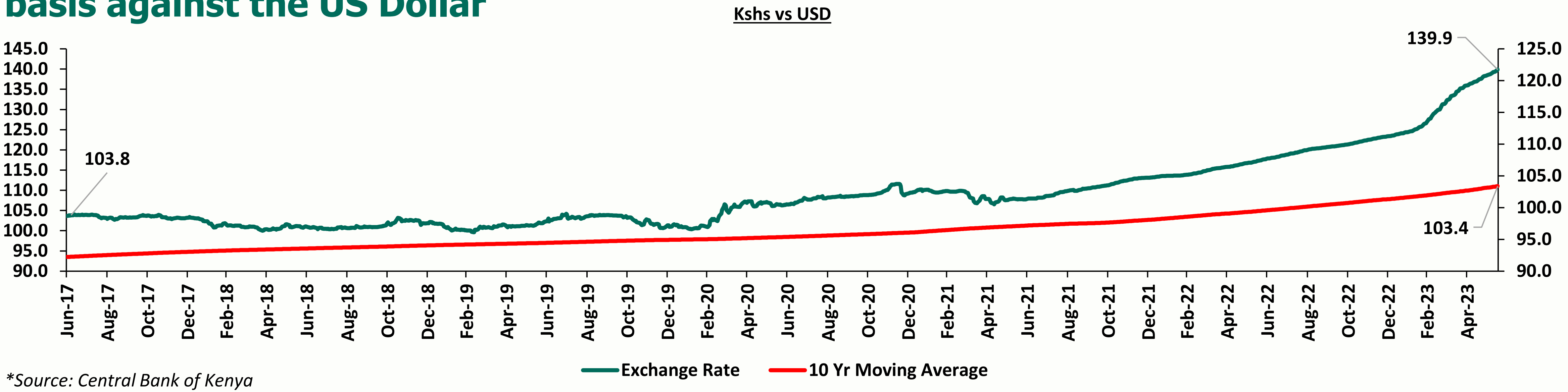
Currency

As of 16th June 2023 the Kenyan shilling had depreciated by 13.3% on Year-To-Date basis against the US Dollar



**Source: Central Bank of Kenya*

- As of 16th June 2023 the shilling has depreciated by 13.3% on year-to-date basis against the dollar, adding to the 9.0% depreciation recorded in 2022, partly attributable to the persistent dollar demand from importers, especially in the oil and energy sectors
- The local currency is however expected to be supported by the strong diaspora remittances which stood at USD 1,688.0 mn in 2023 as of May 2023, albeit 1.8% lower than the USD 1,718.6 mn recorded over the same period in 2022 and the sufficient Forex reserves, currently at (USD 7.5 bn (equivalent to 4.1-months of import cover), which is above the statutory requirement of maintaining at least 4.0-months of import cover

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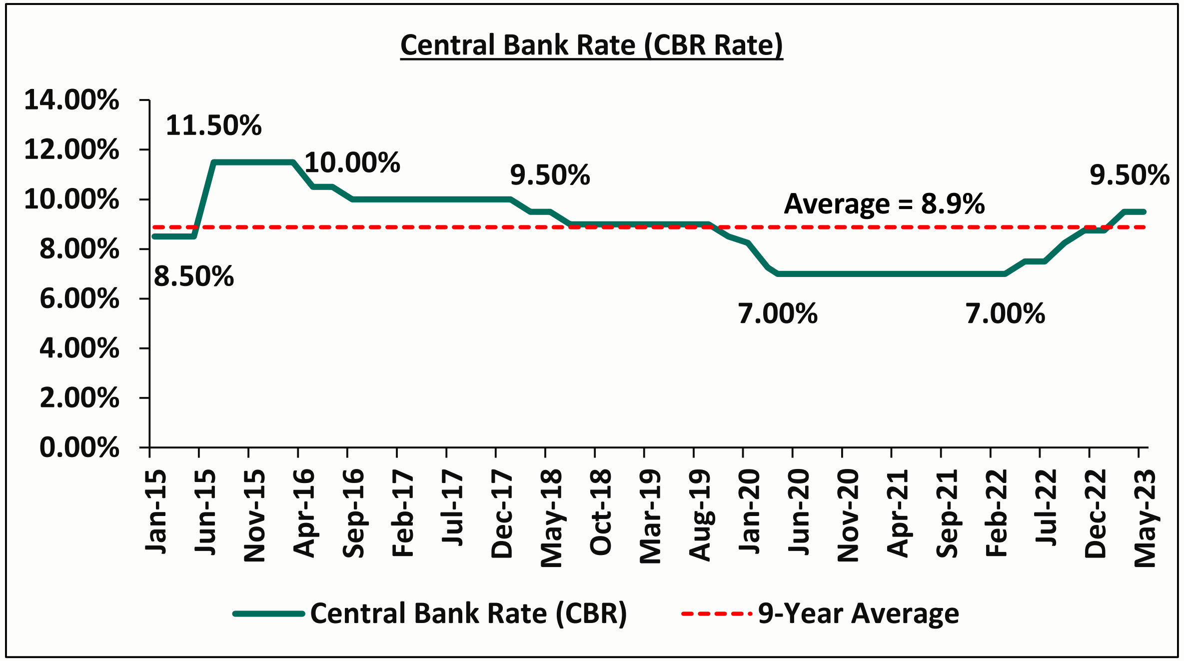
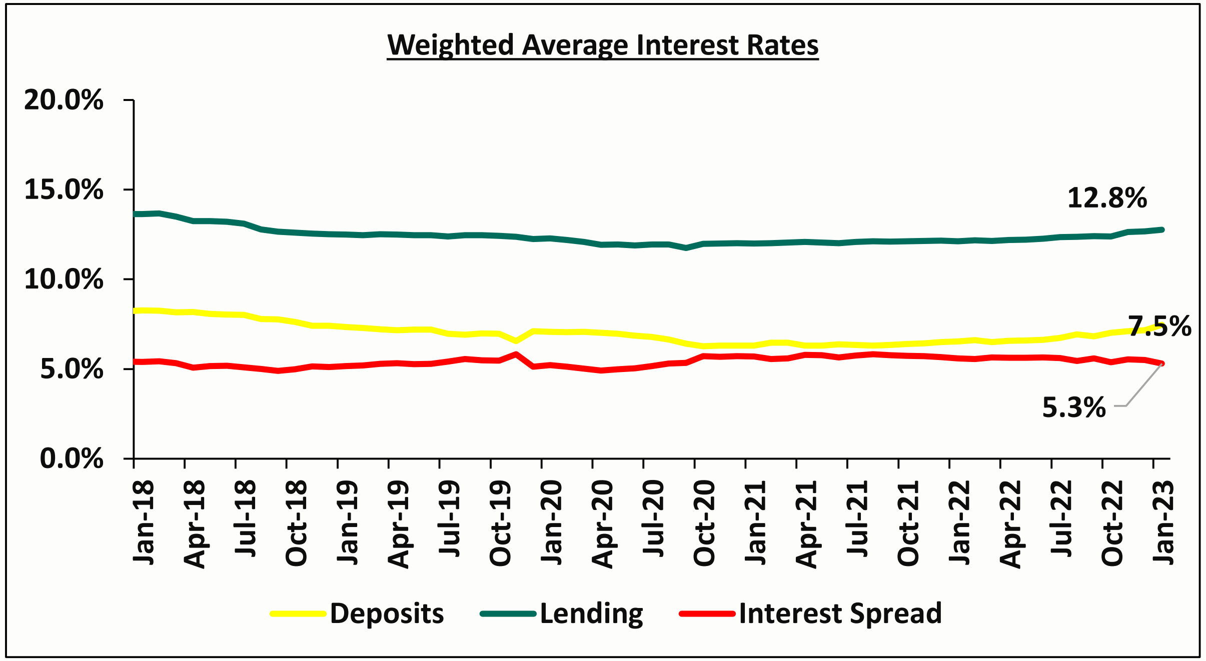
Interest Rates and Monetary Policy





**Source: CBK*

- In the last sitting in May 2023, the Monetary Policy Committee noted that the impact of its move to tighten the monetary policy in March 2023 to anchor inflationary pressures was still in effect to the economy and therefore it concluded that the current stance on monetary policy was appropriate and decided to retain the Central Bank Rate at 9.50%. The Cash Reserve ratio is currently set at 5.25%
- The Committee noted the the recent measures by the government to allow limited duty-free imports on certain food items, such as sugar are expected to moderate prices and consequently ease domestic inflationary pressures. The committee will meet again in July 2023, but will closely monitor the impact of the policy measures as well as development in domestic and global economy and take additional measures as necessary

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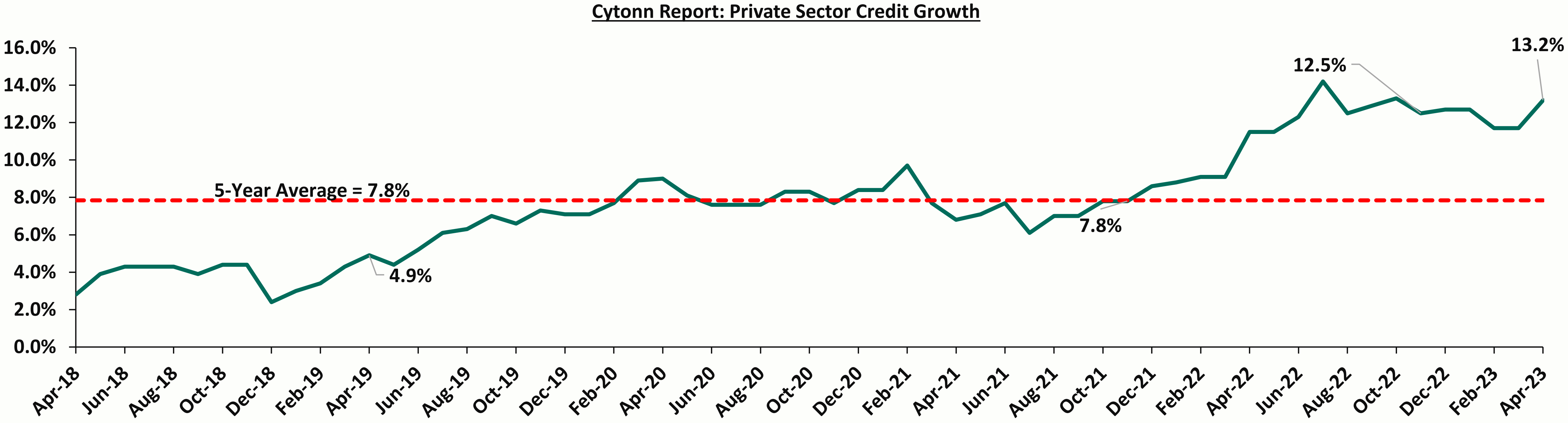
Private Sector Credit growth



**Source: KNBS*

- Growth in the private sector credit increased to 13.2% in April 2023 compared to 11.7% in February 2023, attributed to strong credit growth in sectors such as; manufacturing, transport and communication, and trade of 21.7%, 18.0% and 13.7%, respectively. Additionally, the number of loans approval increased, reflecting improved demand with increased economic activities
- We expect to see continued caution on lending as credit risk remains elevated amidst uncertainties in the business environment brought about by increased inflationary pressures

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III. Banking Sector Overview

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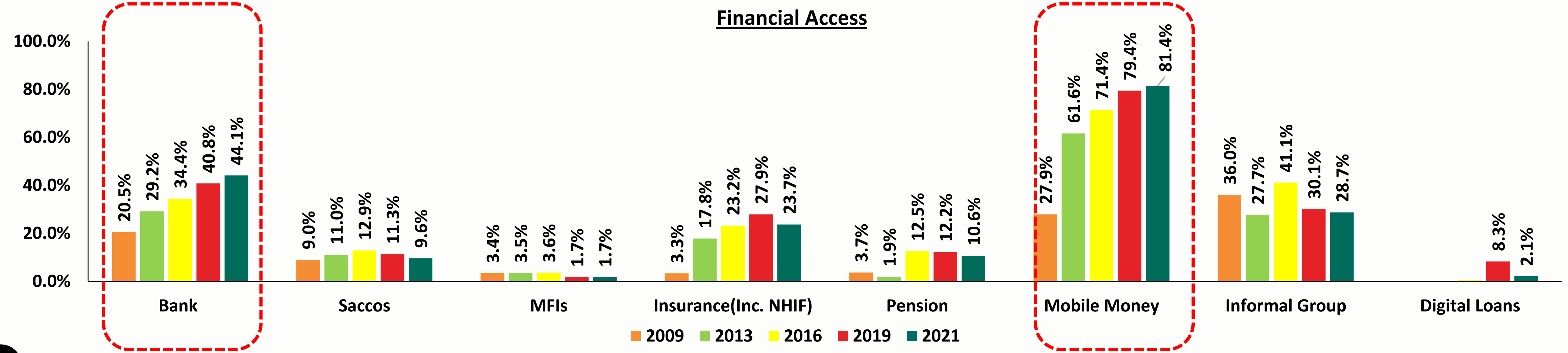
Kenyan Banking Sector Overview

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

- In Kenya there are a total of 37 commercial banks, 1 mortgage finance company, 14 microfinance banks, 10 representative offices of foreign banks, 72 foreign exchange bureaus, 19 money remittance providers and 3 credit reference bureaus
- Financial inclusion in Kenya has continued to rise, with 83.7% of the adult population able to access formal financial services. This has largely been driven by digitization, with Mobile Financial Services (MFS), transfer and lending, rising to be the preferred method to access financial services. According to the 2021 FinAccess Household Report, the banking services including mobile banking stood at 44.1% as of 2021 from 40.8% in 2019 attributable to the increased usage of mobile banking accounts; whose proportion rose to 34.4% in 2021 from 25.3% in 2019



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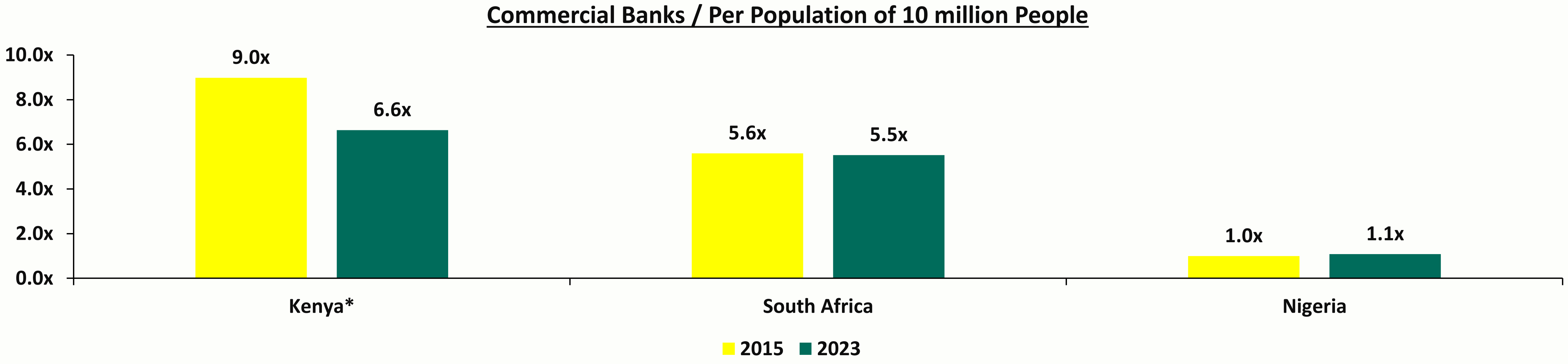
Source: Central Bank of Kenya, FinAccess report

Kenyan Banking Sector Overview

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



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

- The number of commercial banks in Kenya currently stands at 38, compared to 43 banks in FY'2015
- The ratio of the number of banks per 10 million populations in Kenya now stands at 6.6x, which is a reduction from 9.0x in FY'2015 demonstrating continued consolidation in the banking sector. However, despite the ratio improving, Kenya still remains overbanked as the number of banks remains relatively high compared to the African major economies

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Recent Developments in the Kenyan Banking Sector

1. Regulation:

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

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

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Recent Developments in the Kenyan Banking Sector

1. Regulation Continuation:

- The FX Code aims to promote a robust and transparent foreign currency market through the following reporting guidelines,

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

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

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

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

Recent Developments in the Kenyan Banking Sector…..

2. Regional Expansion through Mergers and Acquisitions:

Kenyan banks are continuously looking at having an extensive regional reach and in Q1'2023, 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 30 January 2023, the Central Bank of Kenya (CBK) announced that Commercial International Bank (Egypt) S.A.E (CIB) had completed acquisition of additional 49.0% shareholding of Mayfair CIB Bank Limited (MBL) at Kshs 5.0 bn following the earlier acquisition of 51.0% stake in MBL announced in April 2020. As such, MBL is now a fully owned subsidiary of CIB,

b) On 31 January 2023, Equity Group Holdings PLc, through Equity Bank Kenya Limited (EBKL) announced that it had completed the acquisition of certain assets and liabilities of the troubled local Bank, Spire Bank Limited after obtaining all the required regulatory approvals. The completion of the acquisition followed the Assets and Liabilities Purchase Agreement, which was announced in September 2022, as highlighted in our Cytonn Weekly #37/2022. As such, Equity Bank Kenya Limited took over Spire Banks's 12 branches as well as all existing depositors in Spire Bank, other than remaining deposits from its largest shareholder, Mwalimu Sacco. For more information, please see our Unit Trust Funds (UTFs) Performance, Q3'2022, &Cytonn Monthly-January 2023, and,

Recent Developments in the Kenyan Banking Sector…..

2. Regional Expansion through Mergers and Acquisitions:

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

Recent Developments in the Kenyan Banking Sector…..

2. Regional Expansion through Mergers and Acquisitions:

The following are Mergers and Acquisitions that happened after Q1'2023:

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

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

Recent Developments in the Kenyan Banking Sector….

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

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

*** Announcement Date**

**** Deals that were dropped**

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Recent Developments in the Kenyan Banking Sector….

3. Asset Quality:

- Asset quality for listed banks deteriorated marginally in Q1'2023, with the weighted average Gross Non-Performing Loan ratio (NPL) increasing by 0.1% points to 12.6%, from 12.5% recorded in Q1'2022. The performance remained 3.0% points above the ten-year average of 9.6%. The slight deterioration in asset quality in Q1'2023 was mainly driven by 1.8% points increase in ABSA Bank's NPL ratio to 9.4%, from 7.6% in Q1'2022, coupled with 1.0% points increase in Equity Group NPL ratio to 10.0% from 9.0% in Q1'2022. The deterioration in ABSA Bank asset quality was mainly attributable to a 59.8% increase in gross non-performing loans to Kshs 31.1 bn in Q1'2023, from Kshs 19.5 bn in Q1'2022 which outpaced the 28.1% increase in gross loans to Kshs 329.9 bn from 257.5 bn in Q1'2022. However, the deterioration in listed banks asset quality was mitigated by an improvement in NCBA Group's Asset quality, with their NPL ratio declining by 3.5% points to 12.8%, from 16.3% in Q1'2022, mainly attributable to 11.9% decrease in Gross non-performing loans to Kshs 39.7 bn, from Kshs 45.1 bn in Q1'2022, coupled with a 12.0% increase in gross loans to Kshs 309.7 bn from Kshs 276.7 bn in Q1'2022. A total of 4 out of the ten listed Kenyan banks recorded improvement in asset quality, despite the deteriorated general business environment which was evidenced by the average Purchasing Managers Index coming at 49.3 in Q1'2023, lower than the average of 50.3 recorded in the same period in 2022. Additionally, according to the May 2023 MPC Press Release, the NPL ratio for the entire banking sector stood at 14.6% in April 2023, 0.5% points increase from 14.1% recorded in April 2022, an indication of further deterioration in the sector's asset quality

Banking Sector Growth Drivers

- **Revenue Diversification:** In Q1'2023, non-funded income (NFI) recorded a 48.1% weighted average growth compared to a 21.4% weighted growth in Q1'2023, with many banks diversifying their revenue sources. Consequentially, the weighted average contribution of NFI to total operating income came in at 41.3% in Q1'2023, 5.4% points higher than the 35.9% weighted average growth contribution recorded in Q1'2022. As such, there exists an opportunity for the sector to further increase NFI contributions to revenue given the continuous adoption of digitization. Additionally, the reinstatement of charges for transactions between bank accounts and mobile money wallets is also expected to continue spurring NFI growth due to the increased adoption of digital channels

- **Growth in Interest income:** Going forward, we expect interest income growth to remain a key driver in the banking industry, as evidenced by the weighted average growth of 26.2% in Q1'2023, compared to 17.8% recorded in Q1'2022. Additionally, the continued approval of banks risk-based lending models will enable banks to effectively price their risk, expand loan books, and consequently increase their interest income

Banking Sector Growth Drivers….

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

IV. Listed Banking Sector Metrics

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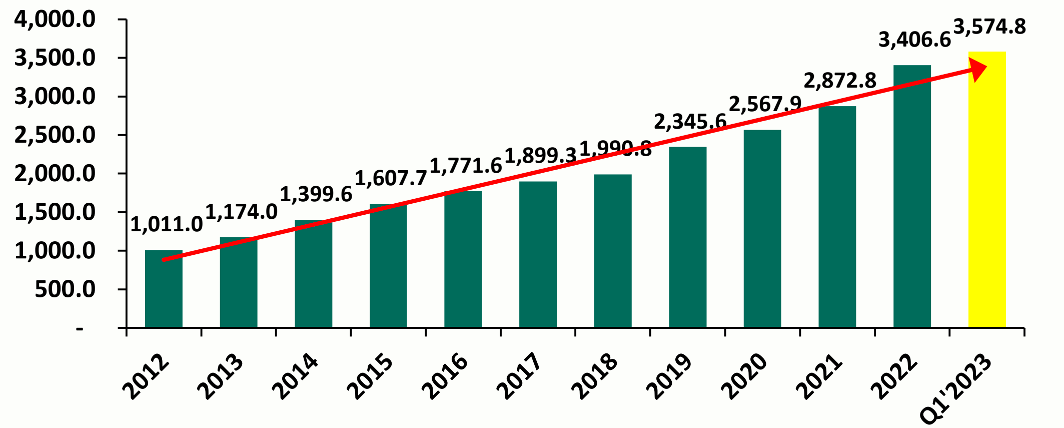
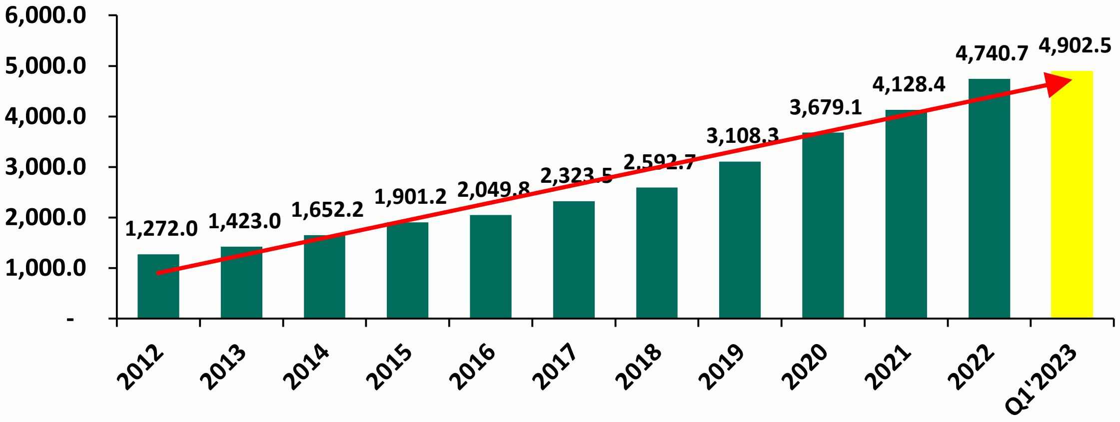
Listed Banking Sector Metrics

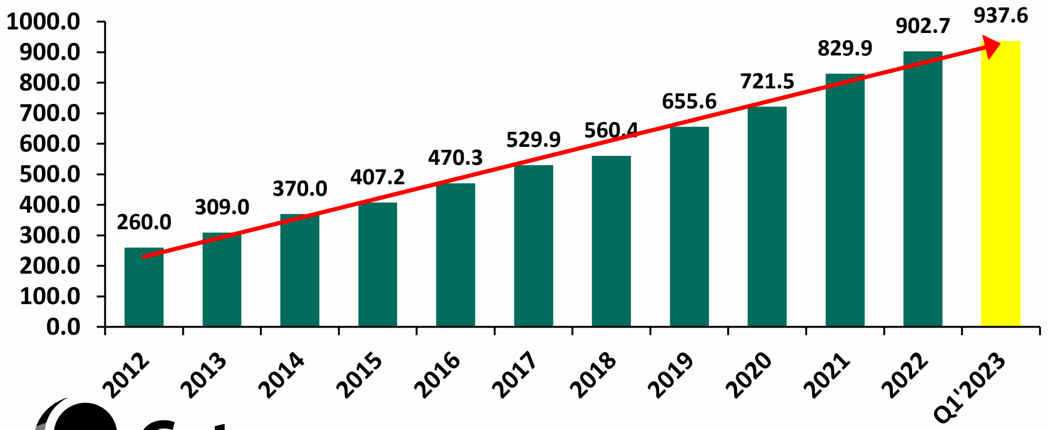
Loans and Advances (Kshs Bn)



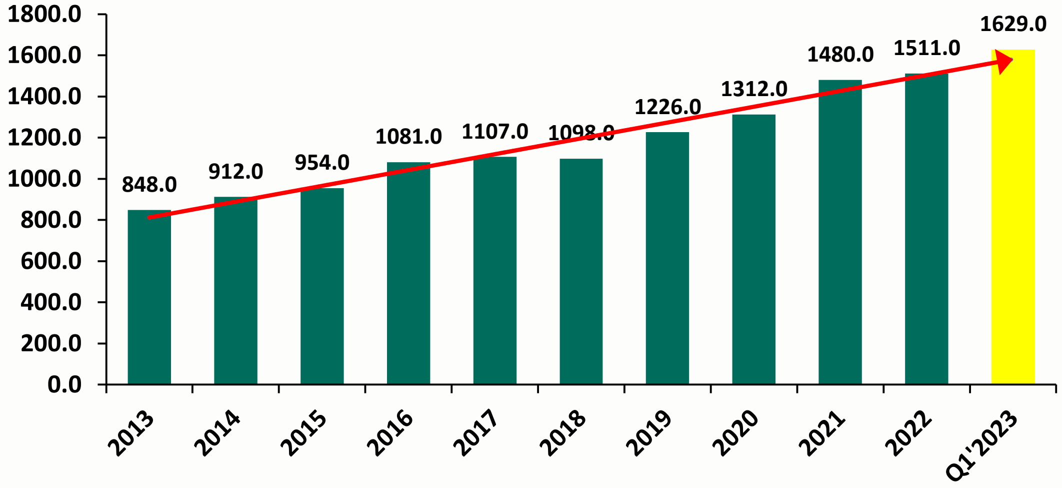
Deposits (Kshs Bn)



Shareholders Equity (Kshs Bn)



Bank Branches



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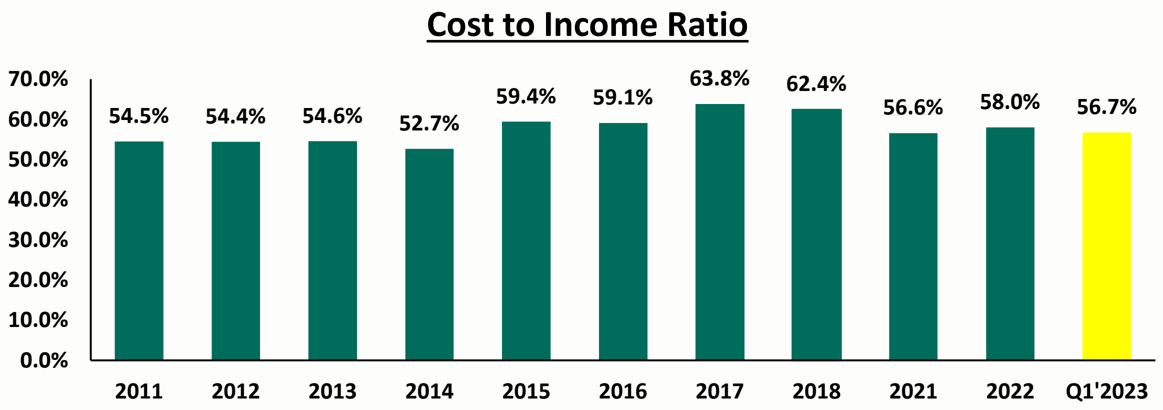
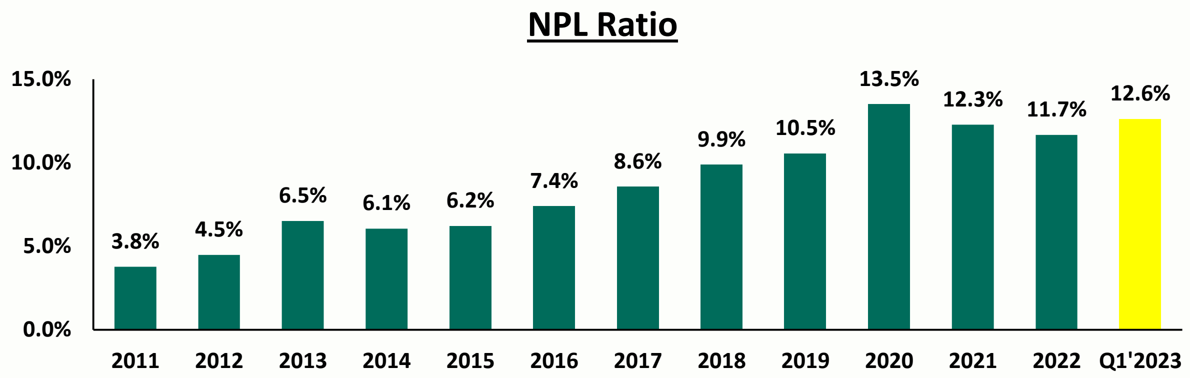
Listed Banking Sector Metrics

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

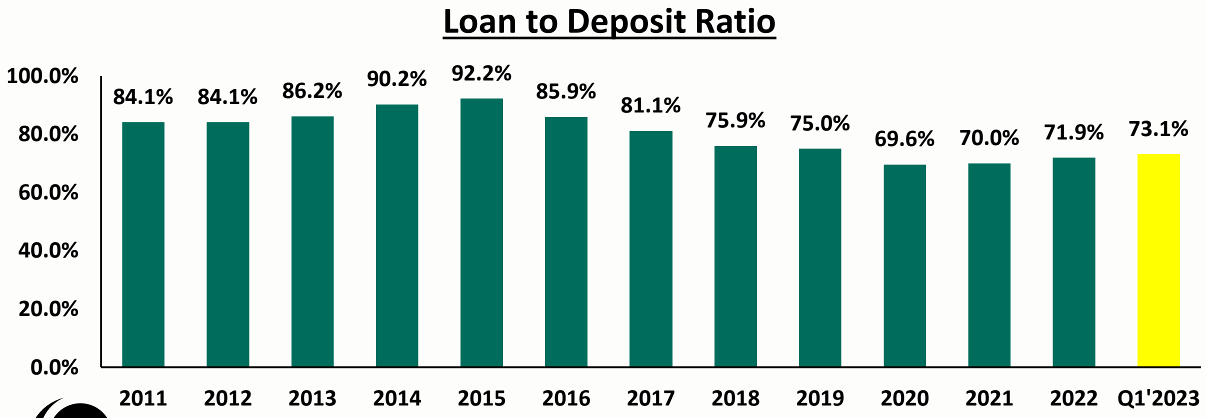
Cost to Income Ratio



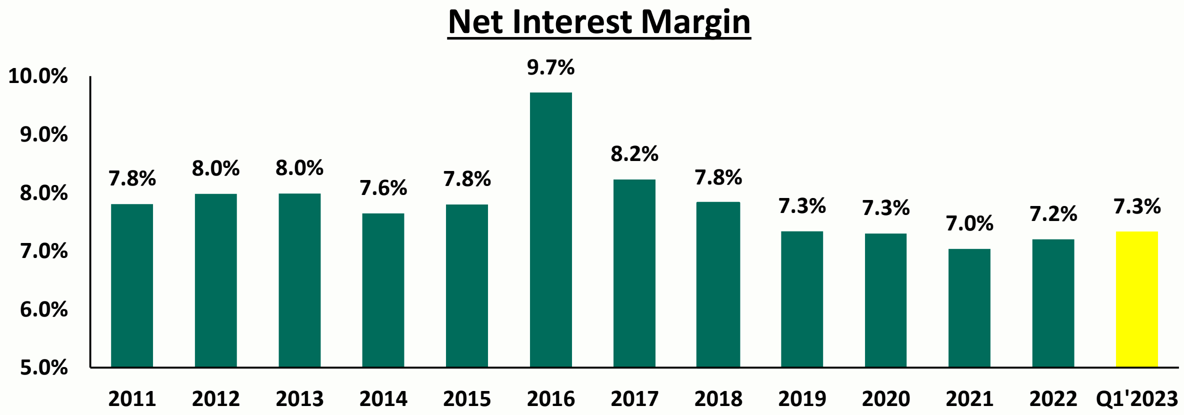
NPL Ratio



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 25.0% in Q1'2023, compared to 37.9% in Q1'2022

Bank	Core EPS Growth	Interest Income Growth	Interest Expense Growth	Net Interest Income Growth	Net Interest Margin	Non-Funded Income Growth	NFI to Total Operating Income	Growth in Total Fees & Commissions	Deposit Growth	Growth in Government Securities	Loan to Deposit Ratio	Loan Growth	Return on Average Equity
HF Group	143.5%	15.1%	9.1%	21.0%	5.0%	8.7%	30.4%	(29.7%)	7.4%	31.4%	89.7%	6.2%	3.8%
Stanbic Bank	84.3%	49.1%	59.7%	44.7%	7.2%	89.3%	51.4%	17.7%	23.8%	9.7%	79.1%	11.5%	20.7%
Absa Bank	50.7%	38.3%	46.8%	36.0%	8.3%	49.3%	32.5%	29.7%	15.3%	(1.8%)	99.7%	27.7%	25.5%
NCBA Group	48.5%	21.0%	25.2%	18.0%	6.0%	18.5%	46.2%	9.1%	7.3%	6.4%	57.5%	17.7%	18.4%
SCBK	45.7%	34.1%	(5.4%)	40.1%	7.3%	55.5%	35.9%	13.3%	14.2%	(6.2%)	45.3%	7.0%	23.0%
DTBK	11.3%	32.1%	49.2%	20.7%	5.4%	59.1%	29.6%	26.5%	17.9%	3.1%	66.8%	20.3%	9.1%
Equity Bank	7.9%	21.6%	46.9%	12.1%	7.4%	54.3%	45.9%	39.2%	23.3%	(7.7%)	68.1%	21.3%	26.8%
Coop Bank	4.7%	11.2%	32.2%	3.9%	8.5%	10.8%	39.7%	9.7%	2.2%	(2.3%)	85.8%	11.0%	20.7%
KCB Group	(1.0%)	26.2%	67.7%	11.8%	7.3%	59.2%	40.1%	65.5%	41.5%	4.8%	77.6%	31.9%	20.9%
I&M Holdings	(2.0%)	18.3%	20.2%	17.0%	6.3%	58.8%	36.4%	16.6%	4.9%	(13.3%)	79.4%	18.0%	14.4%
Q1'23 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%**
Q1'22 Mkt Weighted Average**	**37.9%**	**17.8%**	**17.1%**	**17.7%**	**7.3%**	**21.4%**	**35.9%**	**21.7%**	**9.5%**	**17.6%**	**73.9%**	**17.2%**	**21.9%**

*Market cap weighted as at 15/06/2023

**Market cap weighted as at 17/06/2022

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Takeout from Key Operating Metrics

The listed banks recorded a 22.1% weighted average growth on RoaE, 0.2% higher than the 21.9% Q1’2022

- Listed banks recorded a 25.0% growth in core Earnings per Share (EPS) in Q1’2023, compared to the weighted average growth of 37.9% in Q1’2022, an indication of sustained performance despite the tough operating environment experienced in Q1’2023 on the back of elevated inflationary pressures. The performance during the period was mainly supported by a 48.1% weighted average growth in non-funded income, coupled with a 20.1% weighted average growth in net interest income,
- The listed banks continued to implement their revenue diversification strategies, as evidenced by non-funded income weighted average growth of 48.1% in Q1’2023 compared to a weighted average growth of 21.4% in Q1’2022. The performance was largely supported by the increase in foreign exchange income recorded by the banks during the period as a result of increased dollar demand in the country,
- Listed banks investments in government securities slowed down in Q1’2023, having recorded a market weighted average decline of 1.2% compared to a 17.6% growth recorded in Q1’2022. The slowed growth of investment in Kenya government securities is partly attributable to the increased perceived risk of default by the government, mainly on the back of high debt sustainability concerns given the current high public debt stock as well as the upcoming Eurobond maturity in June 2024,
- The listed banks recorded a 22.1% weighted average growth on return on average equity (RoaE), 0.2% higher than the 21.9% growth recorded in Q1’2022. Additionally, the entire banking sector’s Return On Equity (ROE) recorded 1.9% points increase to 27.0% in Q1’2023, from 25.1% recorded in Q1’2022

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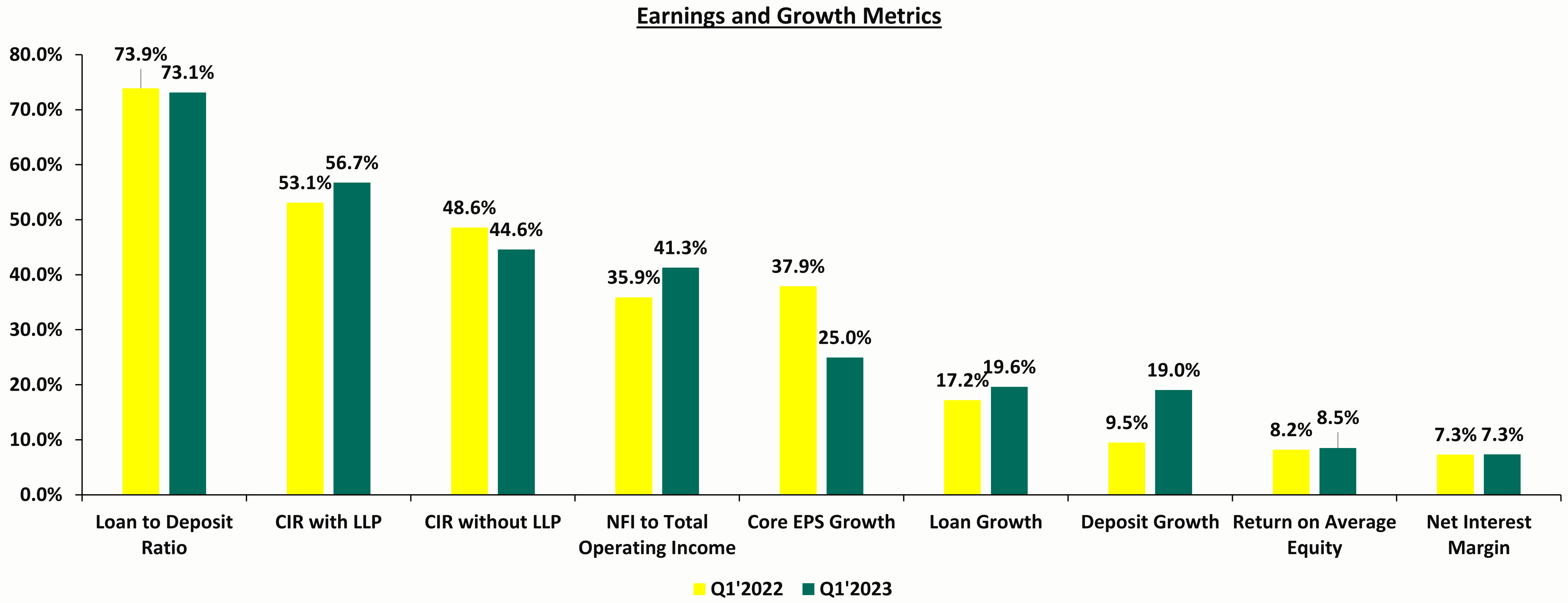
Listed Banks Earnings and Growth Metrics Cont…

Revenue diversification has been witnessed in the banking sector as evidenced by the increase in the NFI contribution to Total Operating Income to 41.3% in Q1’2023, 5.4% points higher than 35.9% in Q1’2023



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Listed Banks Operating Metrics

Asset quality for the listed banks deteriorated marginally during the period, with the market-weighted average NPL ratio increasing by 0.1% points to 12.6%, from 12.5% in Q1’2022

	Q1'2023 NPL Ratio*	Q1'2022 NPL Ratio**	% point change in NPL Ratio	Q1'2023 NPL Coverage*	Q1'2022 NPL Coverage**	% point change in NPL Coverage
ABSA Bank Kenya	9.4%	7.6%	1.8%	63.9%	76.2%	(12.3%)
Equity Group	10.0%	9.0%	1.0%	62.0%	66.0%	(4.0%)
I&M Holdings	10.6%	10.0%	0.6%	65.8%	72.1%	(6.3%)
Stanbic Bank	11.7%	11.1%	0.6%	66.7%	59.1%	7.6%
Diamond Trust Bank	12.3%	12.6%	(0.3%)	45.9%	42.2%	3.7%
NCBA Group	12.8%	16.3%	(3.5%)	56.8%	72.6%	(15.8%)
Co-operative Bank of Kenya	14.1%	13.9%	0.2%	62.2%	65.3%	(3.1%)
Standard Chartered Bank Kenya	14.4%	15.4%	(1.0%)	86.8%	81.8%	5.0%
KCB	17.1%	16.9%	0.2%	57.3%	52.7%	4.6%
HF Group	19.9%	20.5%	(0.6%)	81.4%	76.1%	5.3%
Mkt Weighted Average	**12.6%**	**12.5%**	**0.1%**	**63.7%**	**65.1%**	**(1.4%)**

*Market cap weighted as at 15/06/2023

**Market cap weighted as at 17/06/2021

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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 0.7x and average P/E of 3.6x

Bank	No. of shares (bn)	Market Cap (Kshs bn)	P/E	Price*	P/TBV
Diamond Trust Bank	0.3	12.8	**1.9x**	45.8	**0.2x**
KCB Group	3.2	94.6	**2.3x**	29.5	**0.5x**
I&M Group	1.7	28.0	**2.4x**	17.0	**0.4x**
Equity Holdings	3.8	140.2	**3.0x**	37.2	**0.7x**
Co-operative bank	5.0	60.4	**3.3x**	12.2	**0.8x**
ABSA Bank Kenya	5.4	62.7	**4.3x**	11.6	**0.9x**
NCBA bank	1.6	64.7	**4.7x**	39.3	**0.8x**
Stanbic Holdings	0.4	44.0	**4.9x**	111.3	**0.7x**
Stanchart	0.4	60.7	**5.1x**	160.8	**1.0x**
HF Group	0.4	1.9	**5.4x**	5.0	**0.2x**
Weighted Average Q1'2023			**3.6x**		**0.7x**

*Prices as at 15th June 2023

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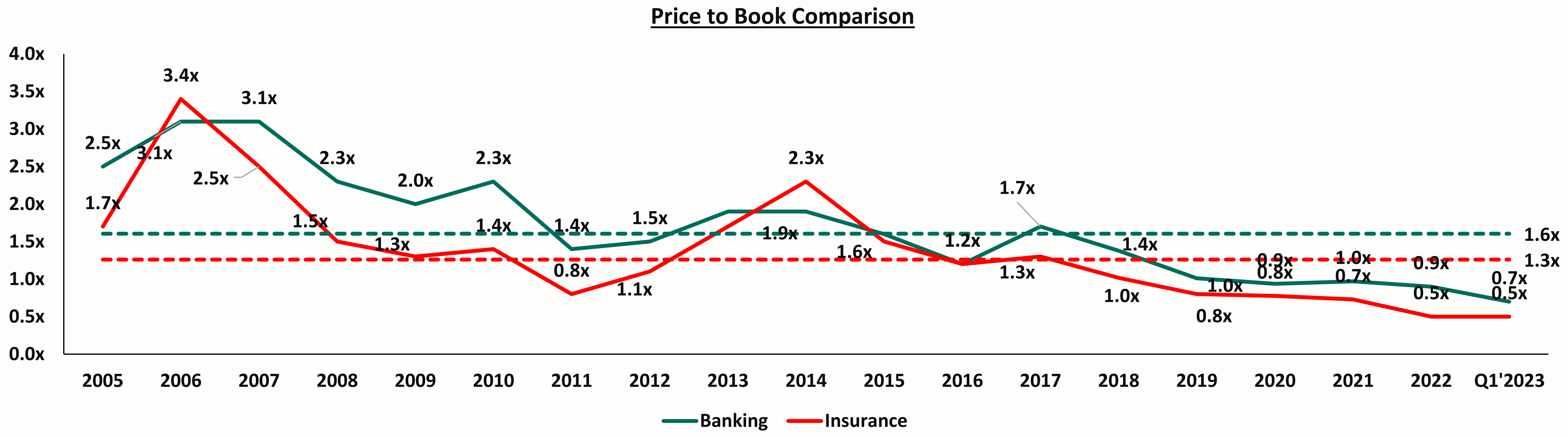
Listed Banks & Insurance Trading Metrics

Listed banks are trading at an average P/B of 0.7x, higher than the insurance sector, which is priced at 0.5x. Both sectors are trading below their 15-year averages of 1.6x and 1.3x, respectively

15 year Price to Book Value: Banking and Insurance



On a price to book valuation, listed banks are currently priced at a P/BV of 0.7x, higher than listed insurance companies at 0.5x, with both lower than their historical averages of 1.6x for the banking sector and 1.3x for the insurance sector

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V. Banks Valuation Reports

Ranking by Franchise Value

Stanbic Bank emerged top in the franchise ranking having had the highest Return on Average Capital Employed (ROACE) of 10.5% against a market average of 8.5%

Cytonn Report: Franchise Value Rank														
Bank	Loan to Deposit Ratio	Cost to Income Ratio (With LLP)	Return On Average Capital Employed	Net Interest Margin	PEG ratio	PTBV	Deposits / Branch	Gross NPL Ratio	NPL Coverage	Tangible Common Ratio	Non Interest Income/ Revenue	Camel Rating	Total	Rank
Stanbic Bank	4	2	1	6	8	6	1	8	3	5	1	5	50	1
Coop Bank	1	4	6	1	4	5	8	7	6	1	5	3	51	2
Absa Bank	6	3	2	2	6	9	5	1	5	7	8	1	55	3
I&M Holdings	3	9	9	7	3	3	4	3	4	2	6	4	57	4
Equity Bank	7	5	4	3	2	8	6	2	7	10	3	2	59	5
SCBK	10	1	3	5	7	10	2	8	1	3	7	6	63	6
KCB Group	5	8	7	4	1	4	9	9	8	9	4	8	76	7
NCBA Group	9	6	5	8	9	7	3	6	9	6	2	7	77	8
DTBK	8	7	8	9	5	1	7	5	10	8	10	8	86	9
HF Group	2	10	10	10	10	2	10	10	2	4	9	10	89	10

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Valuation Summary of Listed Banks

Equity Group presents the highest return with a total potential return of 48.7%

(all values in Kshs)

Bank	Current Price	Target Price	Upside/(Downside)	DPS	Dividend Yield	Total Potential Return	Q1’2023 Ranking
Equity Bank	37.1	51.2	37.9%	**4.0**	10.8%	48.7%	**1**
KCB Group	29.5	41.3	39.9%	**2.0**	6.8%	46.7%	**2**
Absa Bank	11.7	14.7	25.4%	**1.4**	11.5%	37.0%	**3**
NCBA Group Plc	39.5	48.9	23.8%	**4.3**	10.8%	34.6%	**4**
Coop Bank	12.3	15.0	22.0%	**1.5**	12.2%	34.2%	**5**
DTBK	45.7	54.7	19.8%	**5.0**	11.0%	30.7%	**6**
SCBK	159.3	183.9	15.5%	**22.0**	13.8%	29.3%	**7**
I&M Holdings	16.9	19.5	15.5%	**2.3**	13.4%	28.8%	**8**
Stanbic Holdings	110.3	127.9	16.0%	**12.6**	11.4%	27.4%	**9**
HF Group	4.9	5.8	17.6%	**0.0**	0.0%	17.6%	**10**

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Cytonn Banking Report - Comprehensive Ranking

Equity Group Kenya emerged top of the ranking in terms of comprehensive ranking

(all values in Kshs unless stated otherwise)

Bank	Franchise Value Rank	Intrinsic Value Rank	Weighted Rank	FY'2021	FY'2022
Equity Group Holdings Ltd	5	1	2.6	1	1
ABSA Bank	3	3	3.0	5	2
Co-operative Bank of Kenya Ltd	2	5	3.8	4	3
KCB Group Plc	7	2	4.0	2	4
NCBA Group Plc	8	4	5.6	6	5
Stanbic Bank/Holdings	1	9	5.8	8	6
I&M Holdings	4	8	6.4	3	7
SCBK	6	7	6.6	7	8
DTBK	9	6	7.2	9	9
HF Group Plc	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 –Q1'2023

- Profit before tax increased by 10.5% to Kshs 16.9 bn, from Kshs 15.3 bn in Q1'2022, with effective tax rate increasing to 24.2% in Q1'2023, from 22.4% in Q1'2022. Similarly, the profit after tax increased by 7.9% to Kshs 12.8 bn in Q1'2023, from Kshs 11.9 bn in Q1'2022
- Total Operating Income rose by 28.2% to Kshs 40.1 bn, from Kshs 31.3 bn in Q1'2022 12.1% increase in Net Interest Income to Kshs 21.7 bn, from Kshs 19.4 bn in Q1'2022, coupled with a 54.3% growth in Non-Funded Income to Kshs 18.4 bn, from Kshs 11.9 bn in Q1'2022
- The balance sheet recorded an expansion as total assets grew by 21.1% to Kshs 1,537.7 bn, from Kshs 1,269.5 bn in Q1'2022
- The Group's Gross Non-Performing Loans (NPLs) increased by 35.1% to Kshs 80.3 bn, from Kshs 59.4 bn in Q1'2022, while Gross loans increased by 21.6to Kshs 806.1 bn, from Kshs 662.8 bn recorded in Q1'2022, leading to an deterioration in the NPL ratio to 10.0%, from 9.0% recorded in Q1'2023
- Going forward, we expect the bank's growth to be driven by:

I. **Innovation and digitization continue to enhance high value transaction** - Innovation and digitization continue to enhance high value transaction which has seen 99.0% of all transactions of the bank being done on alternative channels, with mobile and internet transactions taking up 79.2% of all transactions, and agency banking contributing 6.2% of all transactions. Additionally, value of transactions has continued to increase with digital banking, branches and diaspora remittances contributing 48.0%, 26.6% and 4.9%, respectively

II. **Continued expansion** through acquisition of other banks in Kenya as well as in the region, with Equity Bank Kenya announcing plans to acquire 91.9% stake of Compagnie Générale de Banque (Cogebanque) Plc in Rwanda and the completion of acquisition Spire Bank Limited in February 2023

Financial Statements Extracts

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

Income Statement	2020	2021	2022e	2023f
Net Interest Income	55.1	68.8	86.0	101.3
Non Funded Income	38.5	44.6	59.9	63.2
Total Operating Income	93.7	113.4	145.9	164.5
Loan Loss Provision	(26.6)	(5.8)	(15.4)	(18.1)
Other Operating Expenses	(46.0)	(55.7)	(70.7)	(78.0)
Total Operating Expenses	**(72.7)**	**(61.5)**	**(86.1)**	**(96.1)**
Profit Before Tax	22.2	51.9	59.8	68.4
Profit After tax	20.1	40.1	46.1	47.9
% PAT Change YoY	**-10.9%**	**99.4%**	**15.1%**	**3.9%**
EPS	5.3	10.6	12.2	12.7
DPS	-	3.0	4.0	4.0
Cost to Income	77.6%	54.2%	59.0%	58.4%
NIM	**7.6%**	**6.8%**	**7.2%**	**7.6%**
ROaE	16.5%	26.6%	26.7%	21.2%
ROaA	2.4%	3.5%	3.4%	3.1%
Balance Sheet	**2020**	**2021e**	**2022e**	**2023f**
Net Loans and Advances	477.8	587.8	706.6	789.4
Government Securities	175.7	228.5	219.2	273.4
Other Assets	361.5	488.7	521.2	612.9
Total Assets	**1015.1**	**1304.9**	**1447.0**	**1675.8**
Customer Deposits	740.8	959.0	1052.2	1154.4
Other Liabilities	135.7	169.7	212.6	238.8
Total Liabilities	**876.5**	**1128.7**	**1264.8**	**1393.2**
Shareholders Equity	**132.2**	**169.2**	**176.2**	**275.7**
Number of Shares	**3.8**	**3.8**	**3.8**	**3.8**
Book value Per share	35.0	44.8	46.7	73.0
% Change in BPS YoY	**19.4%**	**28.0%**	**4.2%**	**56.5%**

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Valuation Summary

Equity Group is undervalued with a total potential return of 48.7%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	65.8	40.0%	26.3
Residual Income	35.4	30.0%	10.6
PBV Multiple	48.0	15.0%	7.2
PE Multiple	47.0	15.0%	7.0
Fair Value			**51.2**
Current Price			**37.1**
Upside/(Downside)			38.0%
Dividend Yield			10.8%
Total Potential Return			**48.7%**

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II. KCB Group

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KCB Group Summary of Performance – Q1’2023

- Profit before tax decreased by 1.3% to Kshs 13.9 bn, from Kshs 14.0 bn in Q1’2022, with the effective tax rate decreasing slightly to 29.6%, from 29.8% in Q1’2022. The performance was driven by the 53.3% growth in total operating expense to Kshs 23.0 bn, from Kshs 15.0 bn in Q1’2022, which outpaced the 26.9% growth in total operating Income to Kshs 36.9 bn, from Kshs 29.0 bn in Q1’2022. Similarly, Profit after tax decreased by 0.1% to Kshs 9.8 bn in Q1’2023, from Kshs 9.9 bn in Q1’2022
- Total operating income increased by 26.9% to Kshs 36.9 bn, from Kshs 29.0 bn in Q1’2022, driven by an 11.8% increase in Net Interest Income (NII) to Kshs 22.1 bn, from Kshs 19.7 bn in Q1’2022, coupled with a 59.2% increase in Non-Funded Income (NFI) to Kshs 14.8 bn, from Kshs 9.3 bn in Q1’2022
- Total operating expenses increased by 53.3% to Kshs 23.0 bn, from Kshs 15.0 bn in Q1’2022, largely driven by a 53.4% increase in other operating expenses to Kshs 9.5 bn, from Kshs 6.2 bn in Q1’2022 coupled with a 39.3% increase in staff costs to Kshs 9.4 bn from Kshs 6.7 bn in Q1’2022. Loan Loss Provisions (LLP) also increased significantly by 98.4% to Kshs 4.1 bn, from Kshs 2.1bn in Q1’2022
- The group’s Asset Quality deteriorated, with the NPL ratio slightly increasing to 17.1% in Q1’2023, from 16.9% in Q1’2022, attributable to the faster 34.8% growth in Non-Performing loans, which outpaced the 33.2% growth in gross loans
- Going forward, we expect the bank’s growth to be driven by:

i. **Geographical Diversification** as evidenced by the completion of the 85.0% acquisition of Trust Merchant Bank (TMB) in DRC in 2022. The acquisition has boosted KCB’s regional presence and participation, as well as accelerated its growth as evidenced by customer deposits hitting a Kshs 1.2 tn mark with 16.0% of the total customer deposit from TMB and a 39.7% growth of assets to Kshs 1.6 tn. The Group is also planning on expanding into the Ethiopian market, further expanding its presence in the region and consequently drive growth in the near future

Financial Statements Extracts

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

Income Statement	2020	2021	2022	2023f
Net Interest Income	67.9	77.7	86.7	103.2
Non Funded Income	28.5	30.9	43.3	59.1
Total Operating Income	**96.4**	**108.6**	**129.9**	**162.3**
Loan Loss Provision	27.5	13.0	13.2	16.9
Other Operating Expenses	43.2	47.8	59.4	80.2
Total Operating Expenses	**70.7**	**60.8**	**72.6**	**97.1**
Profit Before Tax	25.7	47.8	57.3	65.2
% PAT Change YoY	**(22.1%)**	**74.3%**	**19.5%**	**11.8%**
EPS	6.1	10.6	12.7	14.2
DPS	1.0	3.0	2.0	2.0
Cost to Income (with LLP)	73.3%	56.0%	55.9%	59.8%
NIM	**8.5%**	**8.4%**	**7.5%**	**7.3%**
ROE	14.4%	21.8%	22.0%	18.1%
ROA	2.1%	3.2%	3.0%	2.7%
Balance Sheet	**2020**	**2021**	**2022**	**2023f**
Net Loans and Advances	595.3	675.5	863.3	1021.5
Government Securities	208.8	270.8	278.0	327.9
Other Assets	183.8	193.4	412.7	435.9
Total Assets	**987.8**	**1139.7**	**1554.0**	**1785.3**
Customer Deposits	767.2	837.1	1135.4	1249.0
Other Liabilities	78.2	129.0	212.3	226.8
Total Liabilities	**845.4**	**966.2**	**1347.8**	**1475.7**
Shareholders Equity	**142.4**	**171.7**	**200.2**	**302.8**
Number of Shares	**3.2**	**3.2**	**3.2**	**3.2**
Book value Per share	44.3	53.4	62.3	94.2
% Change in BPS YoY	**9.8%**	**20.6%**	**16.6%**	**51.3%**

Valuation Summary

KCB Group is undervalued with a total potential return of 46.7%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	27.9	40%	11.2
Residual Income	56.5	10%	5.7
PBV Multiple	47.6	10%	4.8
PE Multiple	49.2	40%	19.7
Target Price			**41.3**
Current Price			**29.5**
Upside/(Downside)			39.9%
Dividend Yield			6.8%
Total Return			**46.7%**

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III. Co-operative Bank

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Co-operative Bank Summary of Performance – Q1'2023

- The bank registered a 4.7% increase in profit after tax to Kshs 6.1 bn in Q1'2023, from Kshs 5.8 bn in Q1'2022, driven by a a 6.5% increase in total operating income to Kshs 17.9 bn in Q1'2023, from Kshs 16.8 bn in Q1'2022. However, the performance was weighed down by the 8.8% increase in the total operating expenses to Kshs 9.8 bn in Q1'2022, from Kshs 9.0 bn in Q1'2022
- Total operating income rose by 6.5% to Kshs 17.9 bn in Q1'2023, from Kshs 16.8 bn in Q1'2022 mainly driven by a 10.8% increase in Non-Funded Income (NFI) to Kshs 7.1 bn, from Kshs 6.4 bn in Q1'2022, coupled with a 3.9% growth in Net Interest Income (NII) to Kshs 10.8 bn, from Kshs 10.4 bn in Q1'2022
- Total operating expenses increased by 8.8% to Kshs 9.8 bn in Q1'2023, from Kshs 9.0 bn in Q1'2022, largely driven by an 12.8% increase in staff cost to Kshs 4.0 bn, from Kshs 3.5 bn in Q1'2022 coupled with an 8.9% increase in other operating costs to Kshs 4.3 bn, from Kshs 4.0 bn in Q1'2022
- The balance sheet recorded an expansion as total assets grew by 5.7% to Kshs 631.1 bn in Q1'2023, from Kshs 597.0 bn in Q1'2022,
- The group's asset quality deteriorated with the NPL ratio increasing to 14.1% in Q1'2023, from 13.9% in Q1'2022, owing to the 12.6% growth in gross non-performing % to Kshs 55.7 bn in Q1'2023, from Kshs 49.5 bn in Q1'2022, which outpaced the 10.6% increase in gross loans. The deterioration in asset quality is partly attributable attributable to the tough economic environment occasioned the elevated inflationary pressures
- Going forward, we expect the bank's growth to be driven by:

i. **Focus on diversification:** The bank's continued concentration on channel diversification will likely see it continue generating more profit, as they will continue to record increased usage and traffic. The Group's platforms such as MCo-op Cash is offering convenience by offering variety of mobile banking services such as money transfer and payment services. As of FY'2022, 92.0% of the transactions were done on the alternative channels such as mobile and internet while only 8.0% were via branch

Cytonn

Financial Statements Extracts

Co-operative Bank's PAT is expected to grow at a 5-year CAGR of 5.5%

Income Statement	2020	2021	2022	2023f
Net Interest Income	28.7	41.0	45.5	56.5
Non Funded Income	15.7	19.4	25.7	25.9
Total Operating Income	**44.4**	**60.4**	**71.3**	**82.4**
Loan Loss Provision	(6.0)	(7.9)	(8.7)	(10.5)
Other Operating Expenses	(21.9)	(30.2)	(33.6)	(37.8)
Total Operating Expenses	**(28.0)**	**(38.1)**	**(42.2)**	**(48.3)**
Profit Before Tax	16.5	22.6	29.4	34.2
% PAT Change YoY	**(18.8%)**	**42.3%**	**33.2%**	**8.6%**
EPS	1.7	2.4	3.2	3.5
DPS	0.0	1.0	1.5	1.5
Cost to Income (with LLP)	63.0%	63.0%	59.3%	58.6%
NIM	**8.5%**	**8.5%**	**8.9%**	**8.5%**
ROE	14.2%	17.3%	21.2%	18.2%
ROA	2.3%	3.0%	3.7%	3.6%
Balance Sheet	**2020**	**2021**	**2022**	**2023**
Net Loans and Advances	306.3	310.2	339.4	389.6
Government Securities	193.3	184.1	173.3	210.9
Other Assets	93.3	85.5	94.5	103.8
Total Assets	592.9	579.8	607.2	704.4
Customer Deposits	420.4	407.7	423.8	449.3
Other Liabilities	77.1	71.3	75.4	99.8
Total Liabilities	497.5	479.0	499.3	549.1
Shareholders Equity	95.0	100.2	107.7	155.0
Number of Shares	6.9	6.9	6.9	6.9
Book value Per share	13.8	14.6	15.7	22.6
% Change in BPS YoY	**19.8%**	**5.5%**	**7.4%**	**43.9%**

Valuation Summary

Co-operative Bank is undervalued with a total potential return of 38.6%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	19.2	40%	7.7
Residual income	12.7	30%	3.8
PBV Multiple	15.0	20%	3.0
PE Multiple	9.6	10%	1.0
Target Price			**15.5**
Current Price			**12.3**
Upside/(Downside)			26.4%
Dividend Yield			12.2%
Total Return			**38.6%**

Cytonn

IV. NCBA Bank

Cytonn

NCBA Bank Summary of Performance – Q1'2023

- Profit before tax increased by 31.9% to Kshs 6.4 bn in Q1'2023, from Kshs 4.8 bn in Q1'2022. Similarly, the Group recorded a an 48.5% increase in profit after tax to Kshs 5.1 bn in Q1'2023, from Kshs 3.4 bn in Q1'2022, with effective tax rate decreasing to 20.0% in Q1'2023, from 29.6% in Q1'2022
- Total operating income increased by 18.2% Kshs 15.5 bn, from Kshs 13.1 bn in Q1'2022 , driven by a 18.0% growth in Net Interest Income to Kshs 8.4 bn, from Kshs 7.1 bn in Q1'2022, coupled with an 18.5% increase in Non-Funded Income to Kshs 7.2 bn, from Kshs 6.1 bn in Q1'2022
- Total operating expenses increased by 12.8% to Kshs 9.2 bn, from Kshs 8.1 bn in Q1'2022, driven by 35.2% increase in staff costs to Kshs 2.9 bn, from Kshs 2.2 bn recorded in Q1'2022, and coupled with a 24.7% increase in other expenses to Kshs 4.3 bn from Kshs 3.4 bn in Q1'2022
- The balance sheet recorded an expansion as total assets growing by 7.1% to Kshs 628.8 bn, from Kshs 587.4 bn in Q1'2022
- The group's Asset Quality improved, with Gross NPL ratio decreasing to 12.8% in Q1'2023, from 16.3% in Q1'2022, attributable to 11.9% decrease in Gross non-performing loans to Kshs 39.7 bn, from Kshs 45.1 bn in Q1'2022, coupled with 12.0% increase in gross loans to Kshs 309.7 bn, from Kshs 276.7 bn recorded in Q1'2022
- Going forward, we expect the bank's growth to be driven by:

i. **Diversification through Digitization:** The bank has continued to leverage on mobile based lending through its digital lending platform Mshwari and Fuliza. The bank digital loan disbursement increased by 145.0 bn to a cumulative of Kshs 729.0 bn in FY'2022, from a cumulative of Kshs 584.0 bn in FY'2021. The bank also continues to partner with other telecommunication companies in other markets in order to offer mobile based credit facilities across different markets. As such, we expect this to drive the banks revenue growth, as well as aid in its expansion regionally. During the release of its previous year financial results, the lender disclosed plans to expand into eight African markets using the mobile and digital banking platforms. We therefore expect that the move will have be a key driver to its interest income

Cytonn

Financial Statements Extracts

NCBA Group's PAT is expected to grow at a 5-year CAGR of 10.5%

Income Statement	2020	2021	2022	2023f
Net Interest Income	25.5	27.0	30.7	33.4
Non Funded Income	20.9	22.1	30.3	26.5
Total Operating Income	**46.4**	**49.2**	**60.9**	**59.9**
Loan Loss Provision	(20.4)	(12.7)	(13.1)	(13.6)
Other Operating Expenses	(19.6)	(20.8)	(24.9)	(27.7)
Total Operating Expenses	**(40.0)**	**(33.4)**	**(37.9)**	**(41.3)**
Profit Before Tax	5.0	15.0	22.5	18.6
Profit After Tax	4.6	10.2	13.8	14.8
% PAT Change YoY	**(41.7%)**	**123.7%**	**34.8%**	**7.1%**
EPS	2.8	6.2	8.4	9.0
DPS	2.3	3.0	0.5	0.5
Cost to Income (with LLP)	86.2%	68.1%	62.2%	68.9%
NIM	**5.8%**	**5.9%**	**5.9%**	**5.9%**
ROE	6.6%	13.6%	17.2%	14.7%
ROA	0.9%	1.8%	2.3%	2.2%
Balance Sheet	**2020**	**2021**	**2022**	**2023f**
Net Loans and Advances	248.5	244.0	278.9	297.1
Government Securities	163.5	196.1	205.4	235.4
Other Assets	116.0	151.0	135.4	164.4
Total Assets	528.0	591.1	619.7	696.9
Customer Deposits	421.5	469.9	502.7	537.7
Other Liabilities	33.9	43.2	34.6	41.5
Total Liabilities	455.4	513.1	537.2	579.2
Shareholders Equity	72.4	77.9	82.4	117.7
Number of Shares	1.5	1.5	1.6	1.6
Book value Per share	43.9	47.3	50.0	71.5
% Change in BPS YoY	**(1.8%)**	**7.6%**	**5.9%**	**42.8%**

Cytonn

Valuation Summary

NCBA Group is undervalued with a total potential return of 34.6%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM Integrated	62.0	40%	24.8
Residual Valuation	44.3	40%	17.7
PBV Multiple	33.5	15%	5.0
PE Multiple	25.9	5%	1.3
Target Price			**48.8**
Current Price			**39.5**
Upside/(Downside)			23.8%
Dividend Yield			10.8%
Total Potential Return			**34.6%**

Cytonn

V. Standard Chartered Bank Kenya

SCBK's Summary of Performance –Q1'2023

- Profit before tax increased by 43.6% to Kshs 5.6 bn in Q1'2023, from Kshs 3.9 bn in Q1'2022, with the effective tax rate declining to 28.6%, from 29.6% in Q1'2022. Similarly, Profit after tax increased by 45.7% to Kshs 4.0 bn in Q1'2023, up from Kshs 2.8 bn in Q1'2022
- Total operating income increased by 45.2% to Kshs 10.8 bn, from Kshs 7.4 bn in Q1'2022, driven by 55.5% increase in Non-Funded Income (NFI) to Kshs 3.9 bn, from Kshs 2.5 bn in Q1'2022, coupled with a 40.1% increase in Net Interest Income (NII) to Kshs 6.9 bn, from Kshs 4.9 bn in Q1'2022
- Total operating expenses increased by 47.2% to Kshs 5.1 bn, from Kshs 3.5 bn in Q1'2022, largely driven by a 40.8% increase in other operating expenses (OPEX) to Kshs 2.4 bn, from Kshs 1.7 bn in Q1'2022 in addition to a 13.9% increase in staff costs expense to Kshs 1.9 bn, from Kshs 1.7 bn in Q1'2022
- The balance sheet recorded an expansion as total assets grew by 14.0% to Kshs 388.6 bn, from Kshs 340.9 bn in Q1'2022
- Gross non-performing loans increased slightly by 0.1% points to remain relatively unchanged at Kshs 22.6 bn, similar to what was recorded in Q1'2022, while gross loans increased by 6.9% to Kshs 156.7 bn from Kshs 146.6 bn in Q1'2022. Consequently, the group's Asset Quality improved, with the NPL ratio declining to 14.4% in Q1'2023, from 15.4% in Q1'2022, attributable to the 6.9% growth in gross loans, coupled with the relatively unchanged Non-Performing loans
- Going forward, we expect the bank's growth to be driven by:

i. **Revenue Diversification –** We expect the bank to continue to grow its revenue through the non-funded income as evidenced by the 55.5% growth of non-funded income to Kshs 3.9 bn, from 2.5 bn in Q1'2022, on the back of a notable increase in foreign exchange income to Kshs 2.2 bn, from Kshs 1.0 bn in Q1'2022, coupled with the expected continuous growth in Wealth Management Assets under Management (AUM) and SC Shillingi fund penetration into the money market

Cytonn

Financial Statements Extracts

SCBK's PAT is expected to grow at a 5-year CAGR of 11.4%

Income Statement	2020	2021	2022	2023f
Net Interest Income	19.1	18.8	22.2	26.1
Non Funded Income	8.3	10.4	11.8	13.4
Total Operating Income	**27.4**	**29.2**	**34.0**	**39.4**
Loan Loss Provision	3.9	2.1	1.3	2.2
Other Operating Expenses	16.1	14.5	15.5	17.9
Total Operating Expenses	**20.0**	**16.6**	**16.9**	**20.1**
Profit Before Tax	5.4	9.0	12.1	19.3
% PAT Change YoY	**(33.9%)**	**66.2%**	**33.3%**	**12.3%**
EPS	14.4	24.0	32.0	35.9
DPS	10.5	14.0	16.0	16.0
Cost to Income (with LLP)	73.0%	56.8%	49.7%	50.9%
NIM	**6.8%**	**6.4%**	**7.0%**	**7.0%**
ROaE	11.0%	17.4%	22.1%	19.6%
ROaA	1.7%	2.7%	3.4%	3.3%
Balance Sheet	**2020**	**2021**	**2022e**	**2023f**
Net Loans and Advances	121.5	126.0	139.4	152.4
Government Securities	99.8	95.6	105.7	107.6
Other assets	104.3	113.3	136.2	183.0
Total Assets	**325.6**	**334.9**	**381.3**	**443.0**
Customer Deposits	256.5	265.5	278.9	335.7
Other Liabilities	18.2	16.2	46.2	25.3
Total Liabilities	**274.7**	**281.7**	**325.1**	**361.1**
Shareholders Equity	**50.9**	**53.2**	**56.1**	**81.9**
Number of shares	**0.3**	**0.3**	**0.3**	**0.3**
Book value Per share	135.0	141.2	148.9	217.2
% Change in BPS YoY	**6.6%**	**4.6%**	**5.5%**	**45.9%**

Cytonn

Valuation Summary

SCBK is undervalued with a total potential return of 29.3%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM Integrated	255.1	40%	102.0
Residual Income	151.4	30%	45.4
PBV Multiple	124.8	15%	18.7
PE Multiple	118.0	15%	17.7
Target Price			**183.9**
Current Price			**159.3**
Upside/(Downside)			15.5%
Dividend Yield			13.8%
Total Return			**29.3%**

Cytonn

VI. Diamond Trust Bank Kenya

DTBK's Summary of Performance – Q1'2023

- Profit before tax rose by 8.0% to Kshs 3.6 bn in Q1'2023, from Kshs 3.4 bn in Q1'2022. Similarly, the bank recorded a 11.3% increase in profit after tax to Kshs 2.6 bn in Q1'2023, from Kshs 2.4 bn in Q1'2022, with the effective tax rate declining to 27.4% in Q1'2023, from 29.6% in Q1'2022
- Total operating income rose by 30.0% to Kshs 9.5 bn in Q1'2023, from Kshs 8.5 bn in Q1'2022 mainly attributable to a 20.7% increase in Net Interest Income (NII) to Kshs 6.7 bn, from Kshs 5.5 bn in Q1'2022 coupled with a 59.1% growth in Non-Funded Income (NFI) to Kshs 2.8 bn, from Kshs 1.8 bn in Q1'2022
- Total operating expenses increased by 50.4% to Kshs 5.9 bn in Q1'2023, from Kshs 3.9 bn in Q1'2022, largely driven by a 40.1% increase in staff costs to Kshs 2.0 bn, from Kshs 1.4 bn in Q1'2022, coupled with a 134.7% increase in Loan Loss Provisions (LLP) to Kshs 1.4 bn, from Kshs 0.6 bn in Q1'2022
- The balance sheet recorded an expansion as total assets grew by 17.4% to Kshs 553.3 bn in Q1'2023, from Kshs 471.3 bn in Q1'2022
- The asset quality improved with the NPL ratio declining to 12.3% in Q1'2023, from 12.6% in Q1'2022, owing to the 20.6% growth in gross loans, which outpaced the 17.1% increase in Gross non-performing loans to Kshs 35.1 bn in Q1'2023, from Kshs 30.0 bn in Q1'2022
- Going forward, we expect the bank's growth to be driven by:

i. **Digitization:** The bank has already invested Kshs 2.4 bn between 2018 to 2021 on digital transformation and is expected to further spend Kshs 3.5 bn between 2022-2024 on the same. As of September 2022, 86.0% of all the Group's transactions were done outside branches with 79.0% on mobile banking platforms. The continued leverage on technology is expected to improve customer experience by expediting service delivery

ii. **Opening of new branches -** The bank is expected to improve its network by opening 35-40 new branches within Kenya by end of 2023 as it seeks to increase its footprint and access to many customers within the country. . In the long term, the expansion strategy is expected to increase its market, thus increasing its profitability

Cytonn

Financial Statements Extracts

DTBK's PAT is expected to grow at a 5-year CAGR of 5.6%

Income Statement	2020	2021	2022	2023f
Net Interest Income	18.1	20.0	22.9	23.7
Non Funded Income	6.1	6.3	9.1	9.6
Total Operating Income	**24.2**	**26.3**	**31.9**	**33.3**
Loan Loss Provision	7.3	7.6	7.1	7.1
Other Operating Expenses	12.3	12.3	14.9	16.2
Total Operating Expenses	**19.7**	**19.9**	**22.1**	**23.4**
Profit Before Tax	4.7	6.6	9.5	7.1
% PAT Change YoY	**(51.5%)**	**25.1%**	**53.9%**	**4.6%**
EPS	12.6	15.8	24.3	25.4
DPS	0.0	3.0	5.0	5.0
Cost to Income (With LLP)	81.3%	75.6%	69.1%	70.1%
NIM	**5.0%**	**5.1%**	**5.3%**	**4.8%**
ROE	5.8%	6.8%	10.0%	9.0%
ROA	0.9%	1.0%	1.4%	1.3%
Balance Sheet	**2020**	**2021**	**2022**	**2023f**
Net Loans and Advances	208.6	220.4	253.7	296.0
Government Securities	111.1	83.3	73.5	77.7
Other Assets	105.3	153.1	199.8	235.9
Total Assets	**425.1**	**456.8**	**527.0**	**609.5**
Customer Deposits	298.2	331.5	387.6	442.2
Other Liabilities	58.6	50.8	61.8	68.9
Total Liabilities	**356.7**	**382.3**	**449.3**	**511.1**
Shareholders Equity	62.0	67.3	69.0	88.8
Number of Shares	0.3	0.3	0.3	0.3
Book value Per share	221.6	240.7	246.6	317.7
% Change in BPS YoY	**5.3%**	**8.6%**	**2.5%**	**28.8%**

Valuation Summary

DTBK is undervalued with a total potential return of 30.7%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	65.3	40.0%	26.1
Residual Income	34.9	40.0%	14.0
PBV Multiple	65.9	10.0%	6.6
PE Multiple	80.2	10.0%	8.0
Target Price			**54.7**
Current Price			**45.7**
Upside/(Downside)			19.8%
Dividend yield			11.0%
Total return			**30.7%**

Cytonn

VII. ABSA Bank Kenya

Cytonn

ABSA Bank’s Summary of Performance – Q1’2023

- Profit before tax increased by 49.4% to Kshs 6.4 bn in Q1’2023, from Kshs 4.3 bn in Q1’2022. Similarly, profit after tax increased by 50.7% to Kshs 4.5 bn in Q1’2023, from Kshs 3.0 bn in Q1’2022 with the effective tax rate declining to 30.7%, from 31.3% in Q1’2022
- Total operating income rose by 40.0% to Kshs 13.9 bn, from Kshs 9.9 bn recorded in Q1’2022 driven by a 36.0% increase in Net Interest Income (NII) to Kshs 9.4 bn, from Kshs 6.9 bn in Q1’2022, coupled with a 49.3% gain in Non-Funded Income (NFI) to Kshs 4.5 bn, from Kshs 3.0 bn in Q1’2022
- Total operating expenses increased by 32.8% to Kshs 7.4 bn in Q1’2023, from Kshs 5.6 bn in Q1’2022, mainly attributable to a 103.3% increase in Loan Loss Provisions (LLPs) to Kshs 2.4 bn, from Kshs 1.2 bn in Q1’2022, coupled with an 18.8% increase in staff costs to Kshs 2.7 bn from Kshs 2.3 bn in Q1’2022
- The balance sheet recorded an expansion as total assets grew by 17.4% to Kshs 514.6 bn in Q1’2023, from Kshs 438.5 bn in Q1’2022
- The asset quality deteriorated with the NPL ratio increasing to 9.4%, from 7.6% recorded in Q1’2022, owing to the faster 59.8% growth in Gross Non-Performing Loans (NPLs), which outpaced the 28.1% increase in Gross Loans
- Going forward, we expect the bank’s growth to be driven by:

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

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

Cytonn

Financial Statements Extracts

Absa Bank's PAT is expected to grow at a 5-year CAGR of 17.9%

Income Statement	2020	2021	2022	2023f
Net Interest Income	23.4	25.3	32.3	36.9
Non Funded Income	11.1	11.7	13.7	17.1
Total Operating Income	**34.5**	**36.9**	**46.0**	**54.0**
Loan Loss Provision	(9.0)	(4.7)	(6.5)	(8.8)
Other Operating Expenses	(16.6)	(16.7)	(18.7)	(22.0)
Total Operating Expenses	**(25.7)**	**(21.4)**	**(25.1)**	**(30.8)**
Profit Before Tax	5.6	15.5	20.8	23.2
% PAT Change YoY	**(44.2%)**	**161.2%**	**34.2%**	**11.5%**
EPS	0.8	2.0	2.7	3.0
DPS	0.0	1.1	1.2	1.4
Cost to Income (with LLP)	74.4%	57.9%	54.7%	57.0%
Cost to Income (without LLP)	48.2%	45.1%	40.6%	36.3%
NIM	**7.1%**	**7.1%**	**8.2%**	**7.6%**
ROaE	9.1%	21.1%	24.3%	20.5%
ROaA	1.1%	2.7%	3.2%	3.0%
Balance Sheet	**2020**	**2021**	**2022**	**2023f**
Net Loans and Advances	208.9	234.2	283.6	376.5
Government Securities	126.1	132.6	133.5	163.7
Other Assets	44.5	61.9	60.2	78.8
Total Assets	**379.4**	**428.7**	**477.2**	**618.9**
Customer Deposits	253.6	268.7	303.8	385.2
Other Liabilities	79.3	103.5	109.9	138.5
Total Liabilities	**332.9**	**372.2**	**413.6**	**523.7**
Shareholders Equity	**46.5**	**56.4**	**63.6**	**95.2**
Number of shares	**5.4**	**5.4**	**5.4**	**5.4**
Book value Per share	8.6	10.4	11.7	17.5
% Change in BPS YoY	**2.9%**	**21.4%**	**36.8%**	**68.7%**

Valuation Summary

Absa Bank is undervalued with a total potential return of 36.0%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	17.8	40%	7.1
Residual Income	14.9	35%	5.2
PBV Multiple	9.6	20%	1.9
PE Multiple	8.3	5%	0.4
Target Price			**14.7**
Current Price			**11.8**
Upside/(Downside)			24.6%
Dividend Yield			11.5%
Total Return			**36.0%**

Cytonn

VIII. Stanbic Holdings

Cytonn

Stanbic Holdings’ Summary of Performance – Q1’2023

- Profit before tax increased by 87.8% to Kshs 5.5 bn in Q1’2023, from Kshs 2.9 bn in Q1’2022, with effective tax rate decreasing to 29.2% in Q1’2023, from 33.9% in Q1’2022. Similarly, the Profit after tax increased by 84.3% tax to Kshs 3.9 bn in Q1’2023, from Kshs 2.1 bn in Q1’2022
- Total operating income increased by 64.7% to Kshs 11.2 bn, from Kshs 6.8 bn in Q1’2022, driven by a a 89.3% increase in Non-Funded Income to Kshs 5.7 bn, from Kshs 3.0 bn in Q1’2022, coupled with a 44.7% growth in Net Interest Income (NII) to Kshs 5.4 bn, from Kshs 3.7 bn in Q1’2022
- Total operating expenses increased by 47.0% to Kshs 5.7 bn, from Kshs 3.8 bn in Q1’2022, driven by 132.9% increase in loan loss provisions to Kshs 1.1 bn, from Kshs 0.5 bn recorded in Q1’2022, and coupled with a 75.7% increase in other expenses to Kshs 2.4 bn from Kshs 1.4 bn in Q1’2022
- The balance sheet recorded an expansion as total assets grew by 18.3% to Kshs 391.6 bn, from Kshs 331.0 bn in Q1’2022
- The bank’s Asset Quality deteriorated, with Gross NPL ratio increasing to 11.7% in Q1’2023, from 11.1% in Q1’2022, attributable to 19.3% increase in Gross non-performing loans to Kshs 29.3 bn, from Kshs 24.6 bn in Q1’2022, which outpaced the 13.0% increase in gross loans to Kshs 249.8 bn, from Kshs 221.0 bn recorded in Q1’2022
- Going forward, the factors that would drive the bank’s growth would be:

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

Financial Statements Extracts

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

Income Statement	2020	2021	2022	2023f
Net Interest Income	12.8	14.4	**18.9**	**18.8**
Non Funded Income	10.4	10.6	**13.1**	**13.1**
Total Operating Income	**23.2**	**25.0**	**32.1**	**31.9**
Loan Loss Provision	(4.9)	(2.5)	(4.9)	(4.2)
Total Operating Expenses	**(12.1)**	**(12.7)**	**(19.9)**	**(16.6)**
Profit Before Tax	6.2	9.8	12.2	15.31
% PAT Change YoY	**(18.6%)**	**38.8%**	**25.7%**	**15.3%**
EPS	13.1	18.2	22.9	26.42
DPS	3.8	9.0	12.6	15.0
Cost to Income (with LLP)	52.2%	61.0%	62.1	38.9%
NIM	**4.7%**	**5.0%**	**5.9%**	**5.1%**
ROaE	10.3%	13.3%	15.3%	15.4%
ROaA	1.6%	2.2%	2.5%	2.4%
Balance Sheet	**2020**	**2021**	**2022**	**2023f**
Net Loans and Advances	196.3	229.3	266.8	301.6
Other Assets	132.3	99.6	133.0	180.9
Total Assets	**328.6**	**328.9**	**399.8**	**482.5**
Customer Deposits	260.0	254.6	304.3	363.8
Borrowings	5.5	5.7	10.1	10.1
Other Liabilities	11.4	12.1	23.2	23.2
Total Liabilities	**276.9**	**272.4**	**337.6**	**408.27**
Shareholders Equity	51.7	56.5	62.2	74.21
No of Ordinary Shares	0.4	0.4	0.4	0.4
Book value Per share	130.9	142.8	157.3	215.8
% Change in BVPS	**5.5%**	**9.1%**	**2.0%**	**37.2%**

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Valuation Summary

Stanbic Holdings is undervalued with a total potential return of 27.4%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	184.8	35%	64.7
Residual Income	103.4	35%	36.2
PBV Multiple	87.2	20%	17.4
PE Multiple	95.4	10%	9.5
Target Price			**127.9**
Current Price			**110.3**
Upside/(Downside)			16.0%
Dividend Yield			11.4%
Total return			**27.4%**

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IX. I&M Group

I&M Group Summary of Performance – Q1'2023

- Profit before tax rose by 2.1% to Kshs 3.75 bn in Q1'2023 from Kshs 3.67 bn in Q1'2022, with the effective tax rate increasing to 29.1% in Q1'2023 from 26.2% seen in Q1'2022. As such, the bank recorded a 2.0% decline in profit after tax to Kshs 2.66 bn in Q1'2023 from Kshs 2.71 bn in Q1'2022
- Total operating income rose by 29.4% to Kshs 9.6 bn in Q1'2023, from Kshs 7.4 bn in Q1'2022 mainly driven by a 17.0% increase in Net-Interest Income (NII) to Kshs 6.1 bn in Q1'2023, from Kshs 5.2 bn recorded in Q1'2022, coupled with a 58.8% increase in Non-Funded Income (NFI) to Kshs 3.5 bn from Kshs 2.2 bn recorded in Q1'2023
- Total operating expenses increased by 56.7% Kshs 6.0 bn in Q1'2023 from Kshs 3.9 bn in Q1'2022, largely driven by a 18.8% increase in staff costs to Kshs 1.6 bn from Kshs 1.3 bn in Q1'2022, coupled with a 37.8% increase in other expenses to Kshs 2.8 bn from Kshs 2.0 bn in Q1'2022
- The balance sheet recorded an expansion as total assets grew by 9.7% to Kshs 472.6 bn in Q1'2023, from Kshs 430.8 bn in Q1'2022
- The group's asset quality deteriorated with the NPL ratio rising to 10.6% in Q1'2023 from 10.0% in Q1'2022, by 24.0% to Kshs 29.3 bn in Q1'2023 from Kshs 23.6 bn in Q1'2022, while Gross Loans increased by 17.6% to Kshs 277.0 bn from Kshs 235.4 bn in Q1'2022
- Going forward, we expect the bank's growth to be driven by:

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

Financial Statements Extracts

I&M Group's PAT is expected to grow at a 5-year CAGR of 3.9%

Income Statement	2020	2021	2022	2023f
Net Interest Income	15.6	20.9	22.9	28.0
Non- Funded Income	8.6	8.7	12.7	16.9
Total Operating Income	**24.2**	**29.6**	**35.7**	**44.9**
Loan Loss Provision	2.5	(4.2)	(5.2)	(6.8)
Other Operating Expenses	10.1	(13.5)	(16.1)	(19.8)
Total Operating Expenses	**(12.6)**	**(17.7)**	**(21.3)**	**(26.6)**
Profit Before Tax	11.0	12.4	15.0	16.3
% PAT Change YoY	**(21.9%)**	**2.5%**	**11.6**	**9.8%**
EPS	10.2	4.9	7.0	7.7
DPS	2.3	1.5	2.3	2.5
Cost to Income (with LLP)	52.0%	59.9%	59.8%	61.0%
NIM	**5.4%**	**6.3%**	**6.3%**	**7.1%**
ROaE	13.2%	12.2%	14.4%	14.3%
ROaA	2.3%	2.1%	2.6%	2.7%
Balance Sheet	**2020**	**2021**	**2022**	**2023F**
Government securities	101.7	125.5	113.1	127.3
Net Loans and Advances	187.4	210.6	238.6	263.4
Other Assets	69.0	79.0	84.9	116.7
Total Assets	**358.1**	**415.2**	**436.6**	**507.7**
Customer Deposits	262.7	296.7	312.3	344.6
Other Liabilities	27.4	44.4	42.6	42.6
Total Liabilities	**290.0**	**341.1**	**355.0**	**399.9**
Shareholders Equity	64.2	69.6	76.5	102.0
Number of Shares	0.8	1.7	1.7	1.7
Book Value Per Share	77.6	42.1	46.3	61.7
% BVPS Change YoY	**11.2%**	**(45.8%)**	**9.9%**	**32.3%**

Valuation Summary

I&M Group is undervalued with a total potential return of 37.4%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	29.1	40.0%	11.6
Residual income	9.0	40.0%	3.6
PBV Multiple	28.9	10.0%	2.9
PE Multiple	27.8	10.0%	2.8
Target Price			**20.9**
Current Price			**16.9**
Upside/(Downside)			24.1%
Dividend yield			13.4%
Total return			**37.4%**

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B. Tier II Bank

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I. HF Group

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HF Group Summary of Performance – Q1’2023

- Profit before tax increased by 130.5% to Kshs 90.0 mn, from Kshs 39.1 mn in Q1’2022, with the effective tax rate, declining to 7.5%, from 12.4% in Q1’2022. Similarly, Profit after tax improved by 143.5% to Kshs 83.3 mn, from Kshs 34.2 mn in Q1’2022
- Total operating income increased by 17.0% to Kshs 0.9 bn, from Kshs 0.8 bn in Q1’2022, driven by 21.0% increase in Net Interest Income (NII) to Kshs 0.6 bn, from Kshs 0.5 bn in Q1’2022, coupled with a 8.7% increase in Non-Funded Income (NFI) to Kshs 0.27 bn, from Kshs 0.25 bn in Q1’2022
- Total operating expenses increased by 10.9% to Kshs 0.8 bn, from Kshs 0.7 bn in Q1’2022, driven by the 80.4% increase in Loan Loss Provision (LLP) to Kshs 101.7 mn, from Kshs 56.4 mn in Q1’2022, coupled with a 15.9% increase in staff cost to Kshs 0.4 bn, from Kshs 0.3 bn in Q1’2022
- The balance sheet recorded an expansion as total assets grew by 8.6% to Kshs 59.0 bn, from Kshs 54.3 bn in Q1’2022
- The Group’s Gross Non-Performing Loans increased by 4.1% to Kshs 8.8 bn, from Kshs 8.4 bn in Q1’2022, while gross loans increased by 7.0% to Kshs 44.1 bn from Kshs 41.2 bn in Q1’2022. Consequently, the group’s Asset Quality improved, with the NPL ratio declining by 0.6% points to 19.9% in Q1’2023, from 20.5% in Q1’2022
- We commend HF Group’s performance , recording an increase in profit after tax of Kshs 143.5% to to Kshs 90.0 mn, from Kshs 39.1 mn in Q1’2022. Going forward, we maintain our view that HF Group as a conventional bank has a long way to go, despite five consecutive quarters of profitability, HF Group remains undercapitalized with a core capital ratios being below the statutory requirement. They will either have to diversify their client portfolio to include other sectors of the economy and adjust their business model, or couple up with a strong bank with a sizeable asset base, and a strong deposit gathering capability, to capitalize on HF’s strength in real estate and mortgage.

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Financial Statements Extracts

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

Income Statement	2020	2021	2022	2023F
Net Interest Income	1.9	1.8	2.2	2.6
Non- Funded Income	0.5	0.5	0.9	1.0
Total Operating Income	2.4	2.4	3.0	3.6
Loan Loss Provision	0.5	0.5	0.9	1.0
Other Operating Expenses	**2.4**	**2.4**	**3.0**	**3.6**
Total Operating Expenses	(4.1)	(3.3)	(0.2)	(0.2)
Profit Before Tax	(1.8)	(0.1)	0.2	0.4
% PAT Change YoY	**1443.7%**	**-59.8%**	**-138.9%**	**52.1%**
EPS	(4.4)	(1.8)	0.7	0.9
DPS	0.0	0.0	0.0	0.0
Cost to Income	170.1%	140.1%	93.5%	91.6%
NIM	4.2%	4.2%	5.0%	4.7%
ROaE	(18.1%)	(8.1%)	3.1%	5.6%
ROaA	(3.0%)	(1.3%)	0.5%	0.8%
Balance Sheet	**2020**	**2021**	**2022e**	**2023F**
Net Loans and Advances	37.0	34.7	36.3	45.0
Government securities	7.1	6.6	8.5	10.8
Other Assets	11.3	12.0	12.2	13.7
Total Assets	**55.4**	**53.2**	**57.0**	**69.5**
Customer Deposits	39.9	37.7	39.8	51.1
Other Liabilities	6.9	7.2	8.4	9.1
Total Liabilities	**46.9**	**44.9**	**48.2**	**60.2**
Shareholders Equity	8.6	8.3	8.8	9.2
Number of Shares	0.4	0.4	0.4	0.4
Book Value Per Share	22.3	21.5	22.8	23.9
% BVPS Change YoY	**-16.2%**	**-3.3%**	**6.0%**	**4.6%**

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Valuation Summary

Housing Finance is undervalued with a total potential return of 17.6%

Valuation Summary:	Implied Price	Weighting	Weighted Value
Residual Income	6.9	60%	4.1
PTBV Multiple	4.3	35%	1.5
PE Multiple	3.1	5%	0.2
Fair Value			**5.81**
Current Price			**4.9**
Upside/(Downside)			17.6%
Dividend Yield			0.0%
Total return			***17.6%***

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Feedback Summary

During the preparation of this Q1'2023 Banking Sector Report, we shared with the subject companies the operating metrics that were used in the Report for their confirmation and verification

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

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

Licensed Financial Institutions

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I. Banks and Mortgage Finance Institutions

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Licensed Banks in Kenya

#	Bank	#	Bank
1	ABSA Bank Kenya	20	Gulf African Bank Limited
2	Access Bank Kenya	21	Habib Bank A.G Zurich
3	African Banking Corporation Limited	22	I&M Bank Limited
4	Bank of Africa Kenya Limited	23	Kingdom Bank Kenya Limited
5	Bank of Baroda (Kenya) Limited	24	KCB Bank Kenya Limited
6	Bank of India	25	Mayfair CIB Bank Limited
7	Citibank N.A Kenya	26	Middle East Bank (K) Limited
8	Consolidated Bank of Kenya Limited	27	M-Oriental Bank Limited
9	Co-operative Bank of Kenya Limited	28	National Bank of Kenya Limited
10	Credit Bank Limited	29	NCBA Bank Kenya PLC
11	Development Bank of Kenya Limited	30	Paramount Bank Limited
12	Diamond Trust Bank Kenya Limited	31	Prime Bank Limited
13	DIB Bank Kenya Limited	32	SBM Bank Kenya Limited
14	Ecobank Kenya Limited	33	Sidian Bank Limited
15	Equity Bank Kenya Limited	34	Stanbic Bank Kenya Limited
16	Family Bank Limited	35	Standard Chartered Bank Kenya Limited
17	First Community Bank Limited	36	UBA Kenya Bank Limited
18	Guaranty Trust Bank (K) Ltd	37	Victoria Commercial Bank Limited
19	Guardian Bank Limited		

Licensed Banks in Kenya

Licensed Mortgage Finance Institution

1. HFC Limited

Authorized Non-operating Bank Holding Companies

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

II. Micro-Finance Institutions

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Licensed Microfinance Banks in Kenya

#	Microfinance Bank	#	Microfinance Bank
1	Caritas Microfinance Bank Limited	8	Lolc Microfinance Bank Limited
2	Branch Microfinance Bank Limited	9	SMEP Microfinance Bank Limited
3	Choice Microfinance Bank Limited	10	Sumac Microfinance Bank Limited
4	Daraja Microfinance Bank Limited	11	U & I Microfinance Bank Limited
5	Faulu Microfinance Bank Limited	12	Salaam Microfinance Bank Ltd
6	Kenya Women Microfinance Bank Limited	13	Maisha Microfinance Bank Limited
7	Rafiki Microfinance Bank Limited	14	Muungano Microfinance Bank PLC

Source : CBK

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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