Kenya Listed Commercial Banks Review
Cytonn Q3'2021 Banking Sector Report

"Banking Sector Recovers due to Improved Asset and Management Quality"

Cytonn

10th December, 2021

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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

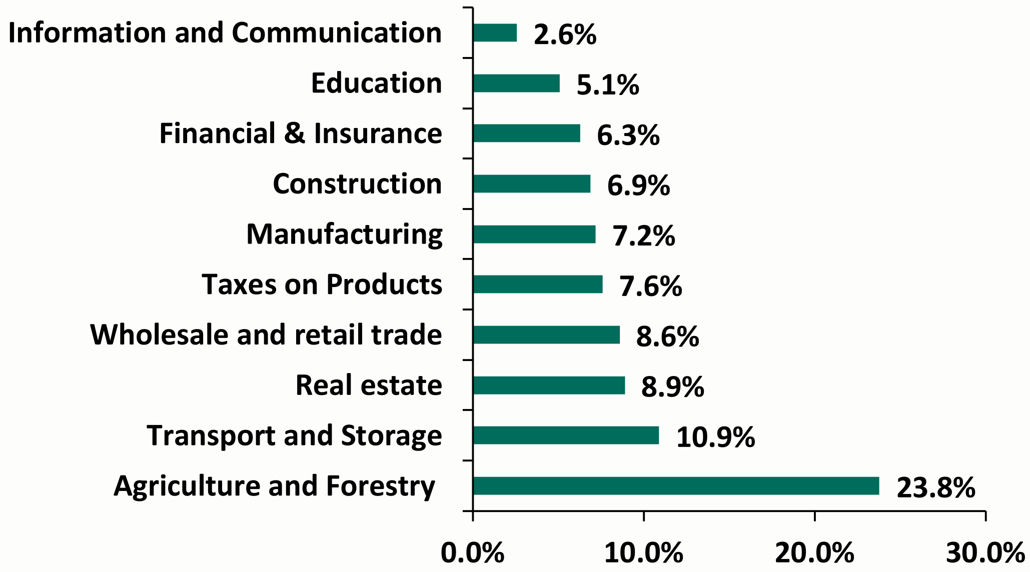
Cytonn Investments Management Plc

- **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

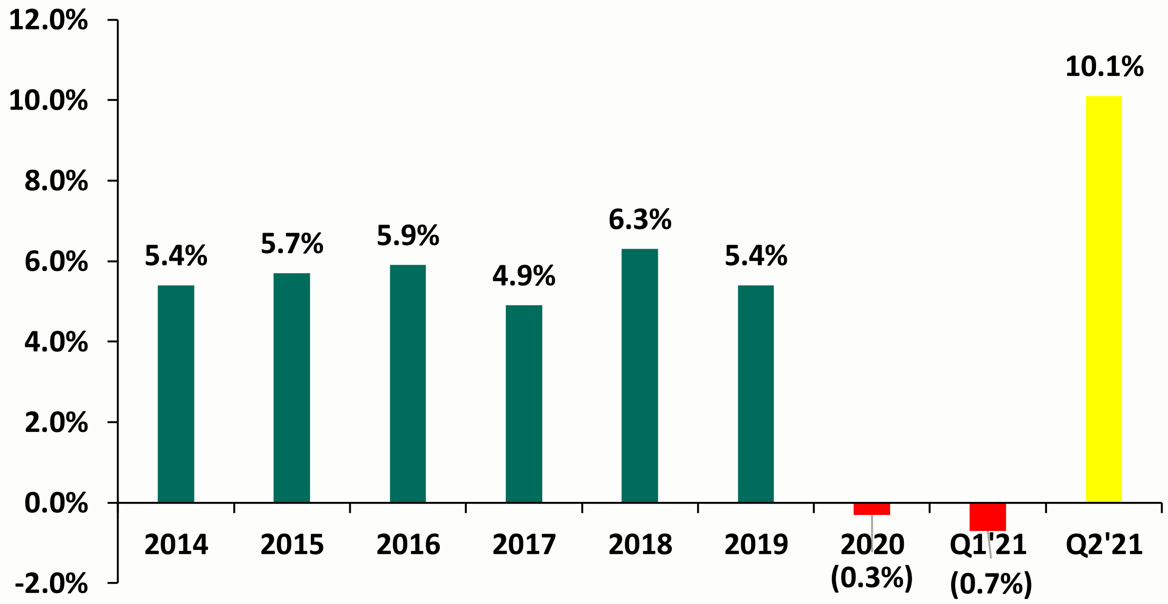
II. Kenya Economic Review and Outlook

We expect gradual economic improvement in 2021

Q2'2021 GDP Sectorial Contribution



Kenya GDP Growth Rate



**Source: KNBS*

- According to Kenya National Bureau of Statistics (KNBS), the Kenyan economy recorded a growth of 10.1% in Q2'2021, up from a contraction of 5.7% recorded in Q2'2020 and the 0.7% contraction in Q1'2021
- We expect the growth rate to be sustained in the coming quarters following the relaxation of COVID-19 restrictions, and recovery in key sectors like education, transportation and storage, and information and communication

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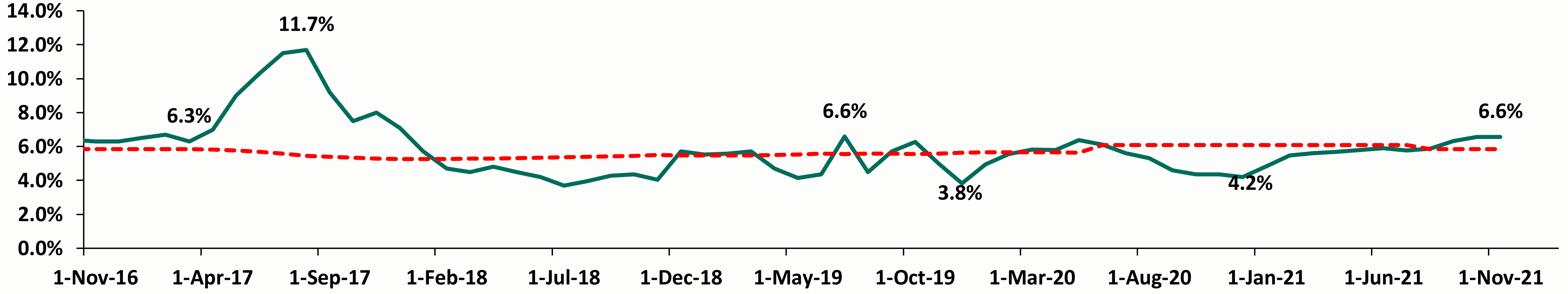
Inflation

Inflation averaged 6.1% in the first 11 months of 2021

5-Year Inflation Rates



**Source: KNBS*

- Inflation averaged 6.1% in the first eleven months of 2021, a 0.9% points increase from the 5.2% recorded over the similar period in 2020. Key to note, inflation in November 2021 declined for the second consecutive month to 5.8%, from the 6.5% recorded in October partly attributable to the 0.2% decline in the transport index
- We expect inflation to remain within the government target range of 2.5% - 7.5%. However, inflation pressures remain elevated in the short term as global fuel prices continue to rise due to supply bottlenecks. The emergence of the new Omicron COVID-19 variant is also a concern since it could lead to adoption of new containment measures in various countries further disrupting the supply chains and consequently increase the fuel price

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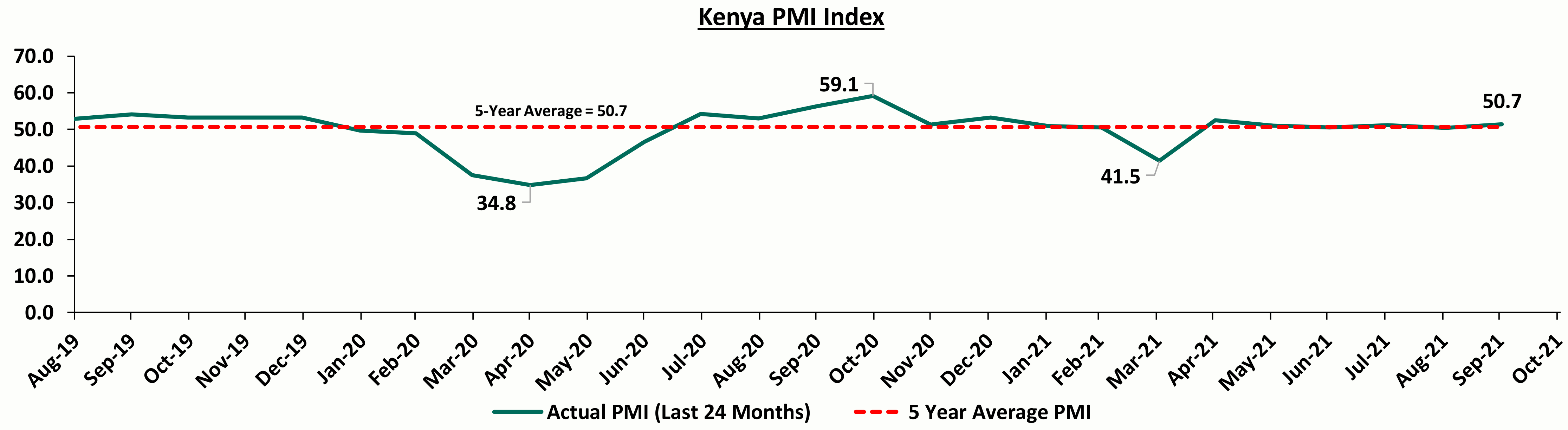
Stanbic PMI Index

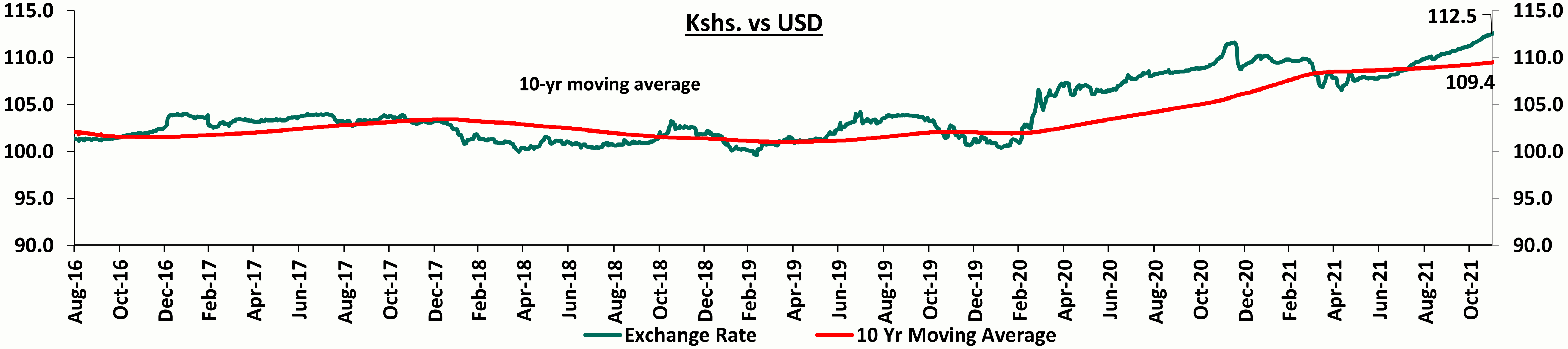


**Source: Markit Economics*

- In 2021, the economic prospects of the country improved, with the Stanbic PMI index averaging 50.3 in the first 10 months of 2021, an increase from the 47.7 recorded during the same period last year. In Q3'2021, the PMI Index deteriorated, coming in at an average of 50.7, compared to 54.5 in Q3'2020
- We maintain a cautious outlook in the short-term owing to the increasing cost pressures, high cost of living and concerns of an uptick in COVID-19 infections from the new Omicron variant

Currency

Year-to-date, the Kenyan shilling has depreciated by 3.4% against the US Dollar



**Source: Central Bank of Kenya*

- The Kenya Shilling has depreciated by 3.4% year to date, in comparison to the 7.7% depreciation in 2020 mostly attributable to increased dollar demand from general importers
- In our view, the shilling will come under pressure due to continued uncertainty globally making people prefer holding dollars and other hard currencies. The local currency is however expected to be supported by the Forex reserves, currently at USD 8.7 bn (equivalent to 5.3-months of import cover), which is above the statutory requirement of maintaining at least 4.0-months of import cover

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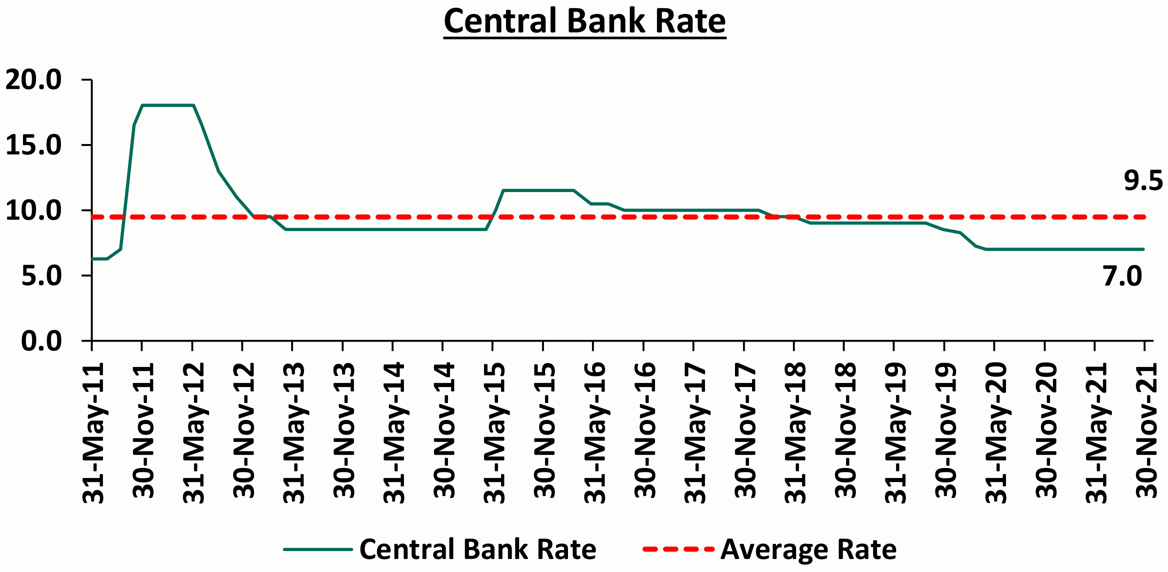
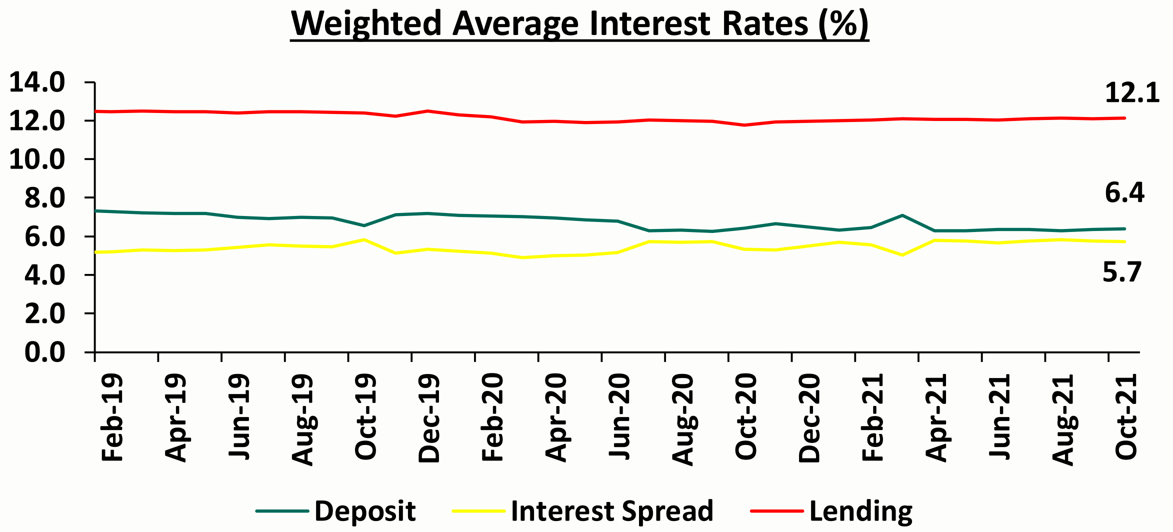
Interest Rates and Monetary Policy





- Since the start of the year, the Monetary Policy Committee has met six times and held the Central Bank Rate stable at 7.0% in all instances and the Cash Reserve ratio also remained unchanged at 4.25%
- The MPC concluded that the current accommodative monetary policies together with the package of policy measures implemented over the last year have protected the economy from substantial decline and supported vulnerable citizens. As a result of the adoption of the accommodative policy in 2020, commercial banks' lending rates declined to 12.1% in October 2021 from 12.3% seen in January 2020

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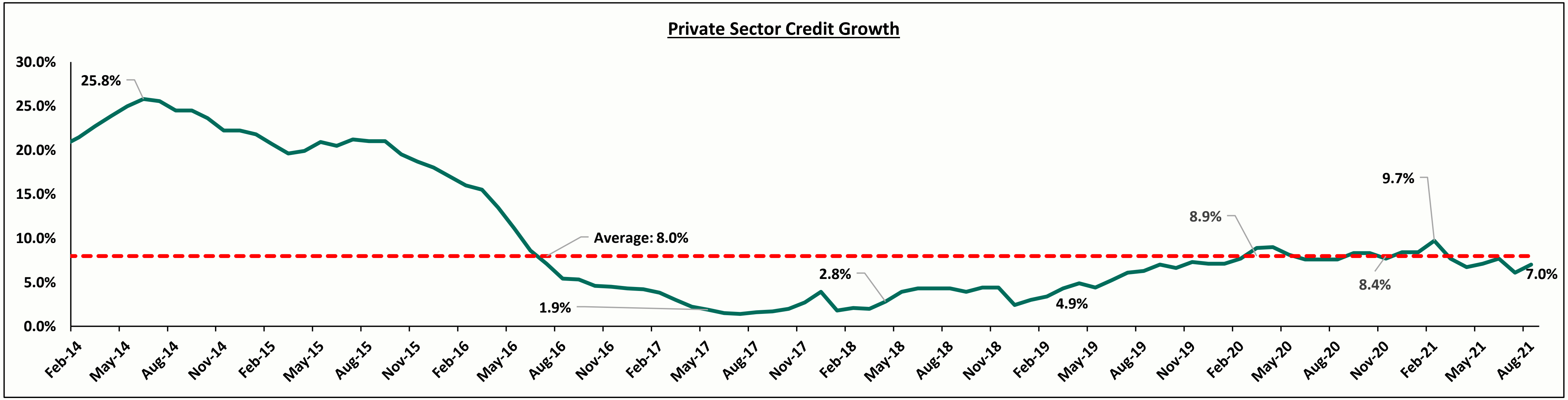
Private Sector Credit growth



**Source:* KNBS

- Growth in the private sector credit increased to 7.8% in October 2021, from 7.0% in August, indicating that demand has improved as a result of increased economic activities coupled with the operationalization of the Credit Guarantee Scheme
- We however expect to see increased caution on lending especially to businesses that rely on imports hence inhibiting private credit sector growth due to the high risk of credit default, with the possibility of heightened Non Performing Loans due to the emergence of new COVID-19 variant coupled with the current rising political temperatures preceding the elections in August 2022

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III. Banking Sector Overview

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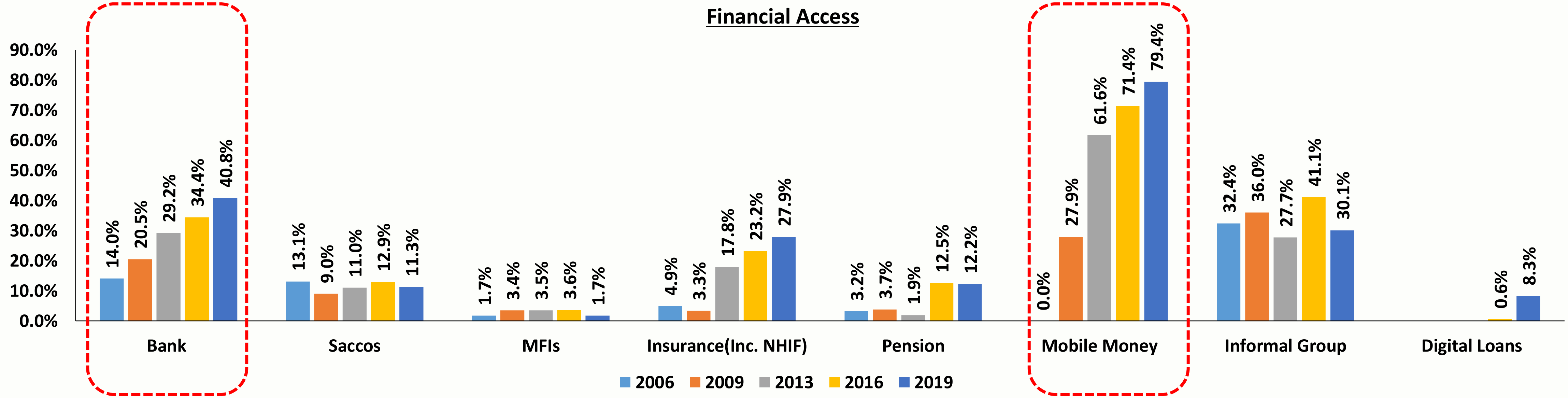
Kenyan Banking Sector Overview

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. According to Central Bank Annual Report 2019/2020, 67.0% of banking transactions were conducted on mobile phones after the onset of the pandemic, compared to 55.0% of transactions before the pandemic



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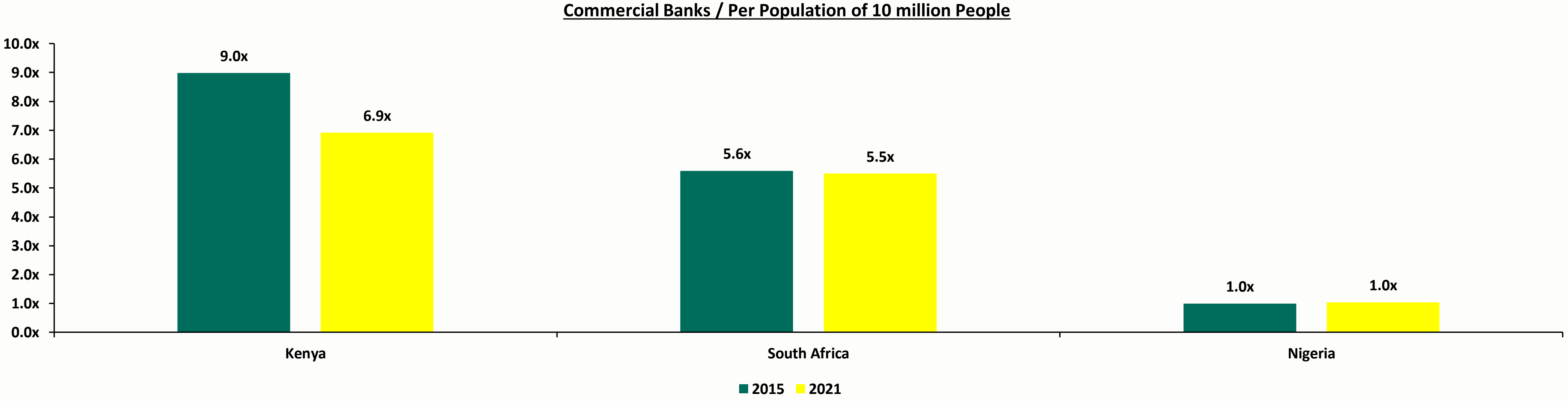
Source: Central Bank of Kenya, FinAccess report

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 6-years ago. The ratio of the number of banks per 10 million population in Kenya now stands at 6.9x, which is a reduction from 9.0x 6-years ago, demonstrating continued consolidation of the banking sector. However, despite the ratio improving, Kenya still remains overbanked as the number of banks remains relatively high compared to the population

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Recent Developments in the Kenyan Banking Sector

1. Regulation:

a. Decrease in Capital Adequacy risk weighting for all residential mortgages: The Central Bank of Kenya (CBK) published the Banking Circular No 2 of 2021, indicating that they had reduced the capital adequacy risk weighting for all residential mortgages to 35.0% from 50.0%, effective 1st July 2021. The move by CBK to reduce the capital adequacy risk weighting aims at creating an enabling environment for the banking sector to be able to lend more to the domestic residential mortgage market through availing long-term and secured funds to primary mortgage lenders. However, banks have recently been seen taking precautionary measures such as conducting frequent evaluations and demanding additional security from borrowers using real estate as collateral during the loan repayment period in the event that the value of the existing collateral drops to a level below that of the loan. Additionally, banks are anticipated to only accept collateral whose value is seven times bigger than the value of the loan being applied for.

Recent Developments in the Kenyan Banking Sector

Other regulations/ guidelines issued after Q3'2021 include;

- **Integration of Climate-Related Risk Management:** The Central Bank of Kenya (CBK) released Guidance on Climate-Related Risk Management, highlighting that all banks and mortgage finance companies ought to integrate the risks and opportunities arising from climate change in their risk management, strategy and governance structure. Opportunities expected to arise from climate change include financing activities such as, the transition to renewable energy, appropriate housing, resilient infrastructure and innovative agricultural practices. On the other hand, banks are expected to build their capacity going forward to identify and mitigate the risks arising from climate change, and,
- **Suspension of the Listing of Borrower's Negative Credit Information**: The Central Bank of Kenya (CBK) announced a 12 months suspension of listing of negative credit information for borrowers with loans below Kshs 5.0 mn, whose loans were performing previously, but have become non-performing from 1st October, 2021. The move by the CBK is an intervention measure aiming to cushion Micro Small and Medium Enterprises from adverse effects of the COVID-19 pandemic. We expect banks to be more cautious towards lending to MSMEs due to lack of adequate credit risk information on potential loan borrowers.

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Recent Developments in the Kenyan Banking Sector

2. Regional Expansion through Mergers and Acquisitions:

The Kenyan banks are looking at having an extensive regional reach and to this end, the following were the major M&A's activities announced in Q3'2021:

a. On 25th August 2021, KCB Group announced that it had completed the 62.1% acquisition of Banque Populaire du Rwanda Plc (BPR), after receiving all the required regulatory approvals. KCB Group and Atlas Mara Limited had signed a definitive agreement in November 2020 for KCB's acquisition of a 62.1% stake in BPR subject to shareholder and regulatory approval. In May 2021, KCB Group disclosed that it made an offer to the remaining BPR shareholders to raise its acquisition stake in the bank to 100.0% from 62.1% and received shareholders' approval for the acquisitions, with only regulatory approval pending for the finalization of the transactions. As highlighted in our Cytonn Weekly #29/2021 and Cytonn Weekly #19/2021, KCB Group agreed to purchase 62.1% stake in BPR from Atlas Mara Limited using a Price to Book Value (P/Bv) of 1.1x. According to the latest BPR financials released as of June 2021, the bank had a book value of Rwf 52.9 bn (Kshs 5.8 bn), and thus at the trading multiple of 1.1x, we expect KCB Group to have spent an estimated Kshs 6.3 bn to acquire BPR Rwanda. For more information on the acquisition, see our Cytonn Weekly #19/2021

Recent Developments in the Kenyan Banking Sector

Other mergers and acquisitions activities announced after Q3'2021 include;

- On 8th November 2021, I&M Group PLC announced the rebranding of Uganda's Orient Bank Limited (OBL) to I&M Bank (Uganda) Limited following the launch of the bank's operations in Uganda. The rebrand comes six months after I&M Holding PLC announced the completion of the 90.0% acquisition of Orient Bank Limited Uganda (OBL) on 30th April 2021 and after receiving all the required regulatory approvals, and,
- On 2nd December 2021, KCB announced the termination of their initial plans to acquire a 100.0% stake in African Banking Corporation Limited (ABC Tanzania) following the failure to receive certain regulatory approvals. In November 2020, KCB Group and Atlas Mara Limited came to an agreement for KCB to acquire a 62.1% stake in Banque Populaire Du Rwanda (BPR) and a 100.0% stake in Africa Banking Corporation Tanzania Limited (BancABC), subject to shareholder and regulatory approval in the respective countries. The transaction would have seen KCB spend collectively USD 56.9 mn (Kshs 6.4 bn) in the acquisition of Banque Populaire du Rwanda Plc (BPR) Rwanda and African Banking Corporation (ABC) Tanzania

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Recent Developments in the Kenyan Banking Sector

Consolidation continues in the banking sector, with the most recent being that KCB's acquisition of BPR

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs bn)	Transaction Stake	Transaction Value (Kshs bn)	P/Bv Multiple	Date
I&M Holdings PLC	Orient Bank Limited Uganda	3.3	90.0%	3.6	1.1x	April-21
KCB Group	Banque Populaire du Rwanda	5.3	100.0%	5.6	1.1x	August 2021
KCB Group**	ABC Tanzania	Unknown	100%	0.8	0.4x	Nov-20*
Co-operative Bank	Jamii Bora Bank	3.4	90.0%	1	0.3x	Aug-20
Commercial International Bank	Mayfair Bank Limited	1	51.0%	Undisclosed	N/D	May-20*
Access Bank PLC (Nigeria)	Transnational Bank PLC.	1.9	100.0%	1.4	0.7x	Feb-20*
Equity Group **	Banque Commerciale Du Congo	8.9	66.5%	10.3	1.2x	Nov-19*
KCB Group	National Bank of Kenya	7	100.0%	6.6	0.9x	Sep-19
CBA Group	NIC Group	33.5	53%:47%	23	0.7x	Sep-19
Oiko Credit	Credit Bank	3	22.8%	1	1.5x	Aug-19
CBA Group**	Jamii Bora Bank	3.4	100.0%	1.4	0.4x	Jan-19
AfricInvest Azure	Prime Bank	21.2	24.2%	5.1	1.0x	Jan-18
KCB Group	Imperial Bank	Unknown	Undisclosed	Undisclosed	N/A	Dec-18
SBM Bank Kenya	Chase Bank Ltd	Unknown	75.0%	Undisclosed	N/A	Aug-18
DTBK	Habib Bank Kenya	2.4	100.0%	1.8	0.8x	Mar-17
SBM Holdings	Fidelity Commercial Bank	1.8	100.0%	2.8	1.6x	Nov-16
M Bank	Oriental Commercial Bank	1.8	51.0%	1.3	1.4x	Jun-16
I&M Holdings	Giro Commercial Bank	3	100.0%	5	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			**76.7%**		**1.3x**	

*** Announcement Date**

**** Deals that were dropped**

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Recent Developments in the Kenyan Banking Sector

- **Asset Quality Deterioration:** Asset quality for listed banks improved in Q3'2021, albeit marginally, with the Gross NPL ratio declining by 0.4% points to 12.0%, from 12.4% in Q3'2020. The improvement in asset quality is attributable to the declining credit risk on the back of the improving operating environment. The NPL coverage rose to 65.1% in Q3'2021, from 59.2% recorded in Q3'2020, in accordance with IFRS 9, where banks are expected to provide both for the incurred and expected credit losses. According to the September 2021 MPC Press Release, the NPL ratio for the entire banking sector stood at 13.9% as at August 2021, an improvement from the 14.0% in June 2021, signifying an improvement in asset quality for the sector in Q3'2021

Recent Developments in the Kenyan Banking Sector

4. **Capital Raising:** In Q3'2021, listed banks' continued borrowing from international institutions to not only strengthen their capital position but to also boost their lending ability to the perceived riskier Micro, Small and Medium Sized Enterprises (MSMEs) segment. The capital raising however slowed down in Q3'2021 after significant activity in Q2'2021. In October 2021, Proparco, a private sector financing arm of Agence Française de Dévelopement Group (AFD Group), granted Equity Bank two guarantee facilities totalling Kshs 5.0 bn (Euro 39.0 mn) for onward lending to MSMEs and a Kshs 70.0 mn (Euro 550,000) technical assistance grant to support Equity Group Foundation's health projects. The table below highlights the disclosed loan facilities that banks have secured for capital injection and lending to the MSMEs so far in 2021:

Bank	Amount Borrowed For Onward Lending (Kshs bn)	Purpose
Equity Bank	67.9*	MSME lending
KCB Bank	16.4	MSME lending
Cooperative Bank	17.3***	MSME lending and Tier II Capital**
I&M Bank	5.4	MSME lending and Tier II Capital**
Total	**107.0**	

*Includes a Kshs 2.6 bn grant offered by European Investment Bank (EIB)
**Tier II Capital refers to a bank's supplementary capital which includes senior debt (debt that a company must repay first before going out of business) with a tenure of not less than five years
***Includes a Kshs 6.3 bn loan from European Investment Bank (EIB) for onward lending to MSMEs

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Banking Sector Growth Drivers

i. **Growth in Interest income:** Going forward, we expect interest income growth to remain a key driver in the industry, evidenced by the 15.9% growth recorded in Q3'2021 which outpaced the 10.8% growth recorded in Q3'2020. The disclosure by banks that most customers that had restructured their loans are now servicing them as normal means that banks are now earning interest on loans restructured at the height of the pandemic,

ii. **Revenue Diversification:** In Q3'2021, Non-Funded Income recorded a 14.3% weighted average growth, a significant increase from the 2.1% growth recorded in Q3'2020, attributable to the expiry of the waiver on fees and commissions on loans and advances issued by the CBK in March 2020. However, the banking sector's Non-Funded Income to Operating Income declined, coming in at 35.2% in Q3'2021, compared to 35.9% in Q3'2020. With Non-Funded Income performance improving, there exists an opportunity for the sector to further increase NFI contribution to revenue going forward. The expiry of the waiver on bank charges on 2nd March 2021 is also expected to continue spurring NFI growth in the medium-long term due to the increased adoption of digital channels, which present an avenue for an increase in fees on transactions,

Banking Sector Growth Drivers

iii. **Provisioning:** Loan Loss Provisions recorded a weighted average decline of 32.4% in Q3’2021, compared to a growth of 322.3% in Q3’2020 and a decline of 24.8% in H1’2021. However, given that the success of COVID-19 inoculations is reliant on donations from foreign countries and uncertainties caused by emergence of new COVID-19 variants, we believe that a cautious approach is still required to manage credit risk in the banking sector,

iv. **Cost Rationalization:** Majority of the banks have continued pursuing their cost rationalization strategy by riding on the digital revolution wave to improve their operational efficiency and enhance reliability of outside the branch transactions. Increased adoption of alternative channels of transactions such as mobile, internet, and agency banking has led to increased transactions carried out via alternative channels, reducing branch transactions to handling high-value transactions and other services such as advisory. This has led to banks such as KCB, Equity and ABSA recording 98.0%, 96.1% and 87.0%, respectively, of their transactions outside the branch as at Q3’2021,

Banking Sector Growth Drivers

Regional Expansion and further consolidation to lead banks' growth in the future

v. **Expansion and Further Consolidation:** With consolidation remaining a key theme going forward, the current environment could provide opportunities for bigger banks with an adequate capital base to expand and take advantage of the low valuations in the market and further consolidate/ buy out smaller and weaker banks. Consolidation will be key for most of the smaller banks that are still struggling during the recovery period, and would also benefit larger banks with the opportunity to expand their operations locally and regionally and drive growth in future. Additional, we believe that Kenyan banks will continue diversifying into other African countries as they look to reduce their reliance in the Kenyan Market, and,

vi. **Integration of Climate-Related Risk Management:** Following the release of Guidance on Climate-Related Risk Management by the Central Bank of Kenya (CBK), we expect to see banks channel their long term financing into environmental-friendly assets that are more sustainable and have lower risk of damage loss as a result of climate change. Additionally, banks will focus on lending to companies whose activities do not pose an environmental risk and will ultimately lead to improvement of collateral quality consequently reducing their exposure to unexpected loss and obsolesce. This will lead to reduced non-performing loans and provisioning in the sector.

IV. Listed Banking Sector Metrics

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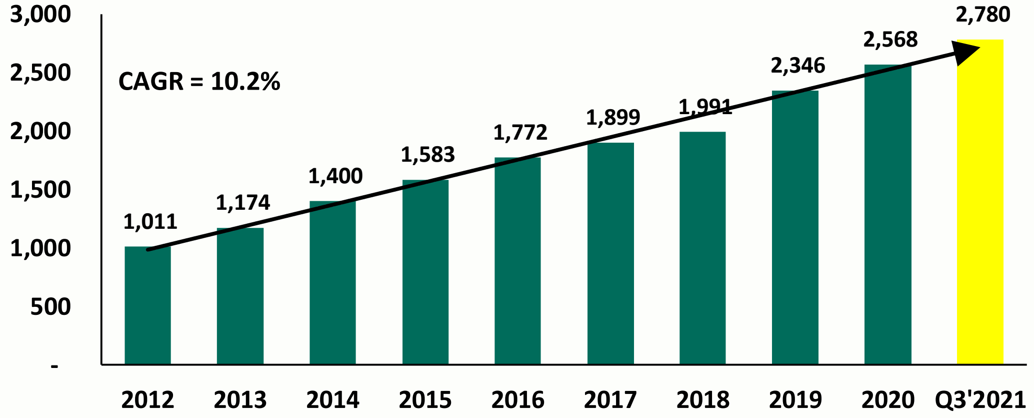
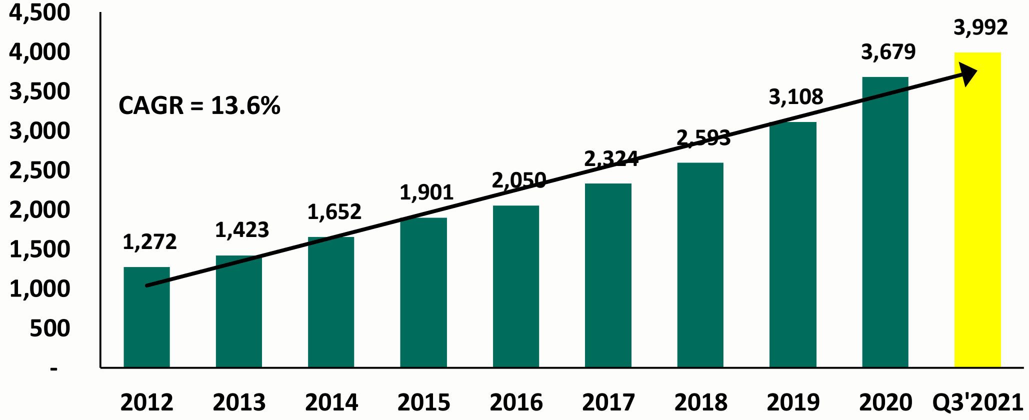
Listed Banking Sector Metrics

Deposits grew at a faster rate of 14.3% in Q3'2021, as compared to the 12.4% growth in loans

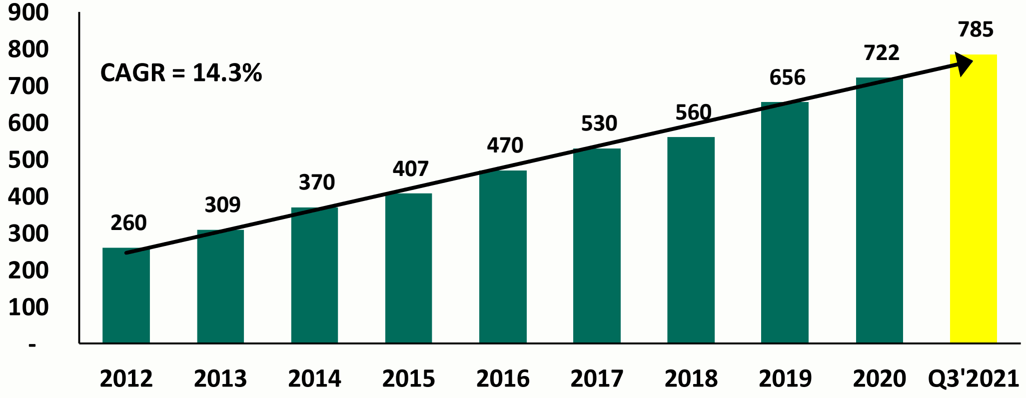
Loans and Advances (Kshs Bn)



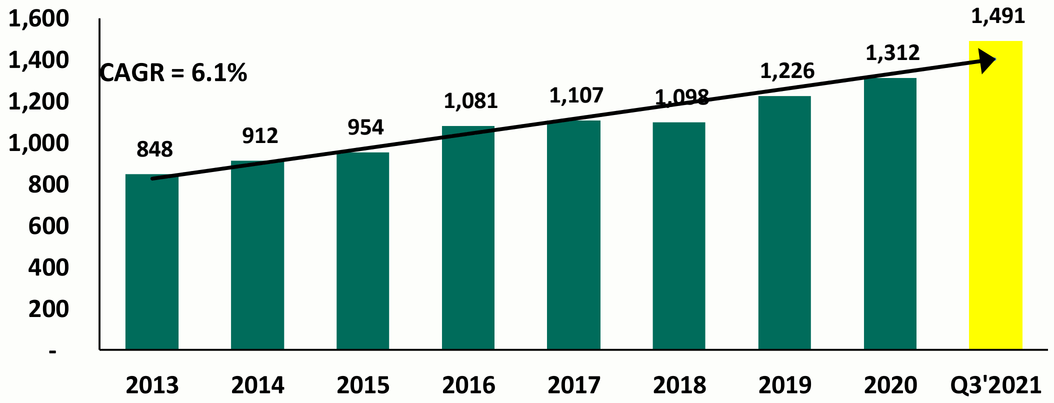
Deposits (Kshs Bn)



Shareholders Equity (Kshs Bn)



Bank Branches



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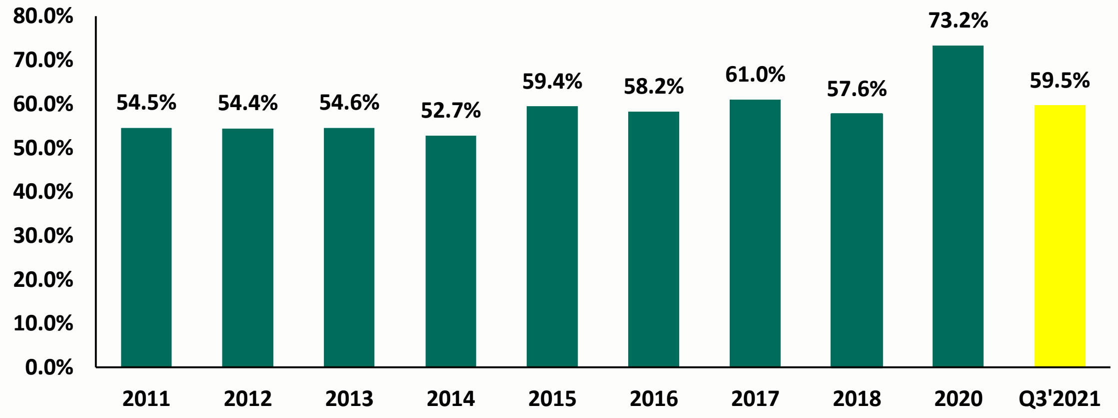
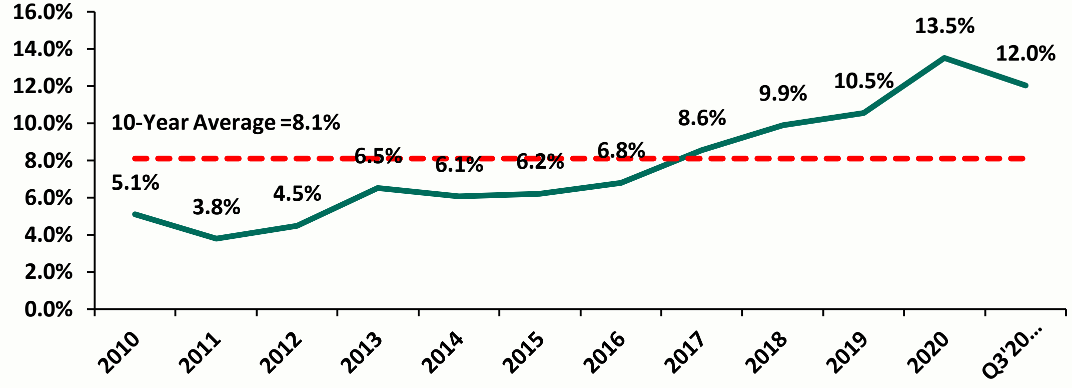
Listed Banking Sector Metrics

Banks' asset quality and profitability are gradually improving due to a more conducive Operating Environment

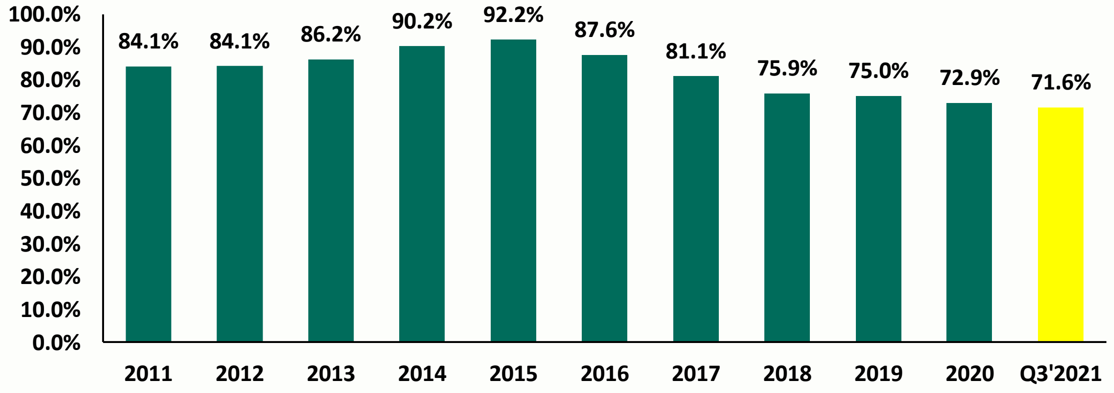
Cost to Income Ratio



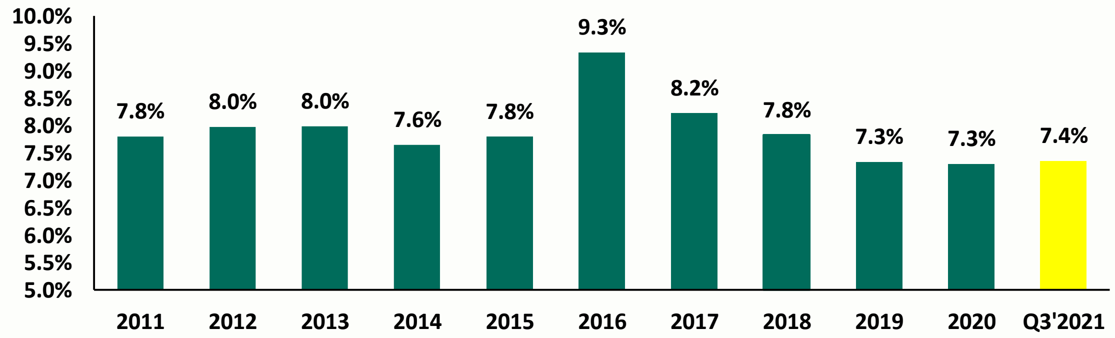
NPL Ratio



Loan to Deposit Ratio



Net Interest Margin



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Listed Banking Earnings and Growth Metrics

Kenya's listed banking sector core EPS rose by 102.0% in Q3'2021, compared to a decline of 32.4% in Q3'2020

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
Absa Bank	328.3%	7.0%	32.0%	9.0%	(5.6%)	9.5%	85.2%	56.6%	21.1%
NCBA Group	159.0%	6.2%	44.3%	11.2%	14.1%	(4.6%)	53.2%	68.0%	11.8%
KCB Group	131.4%	8.4%	29.4%	11.2%	6.9%	12.9%	75.9%	55.2%	22.7%
Equity Bank	78.6%	7.0%	39.7%	26.6%	25.8%	23.2%	63.9%	54.5%	22.2%
Stanbic Bank	43.2%	6.2%	42.6%	(5.8%)	(17.4%)	11.2%	83.0%	59.8%	15.8%
SCBK	33.7%	6.7%	33.9%	6.4%	(6.8%)	0.1%	51.0%	60.1%	14.5%
I&M Holdings	25.0%	6.0%	30.7%	14.2%	28.6%	11.8%	71.9%	62.1%	14.3%
DTBK	20.1%	5.4%	24.5%	12.3%	(2.7%)	(0.0%)	63.5%	62.0%	6.8%
Coop Bank	18.0%	8.5%	35.4%	12.0%	35.9%	7.8%	72.9%	63.0%	14.2%
HF Group	(22.0%)	3.9%	24.7%	(1.3%)	(9.5%)	(7.9%)	92.2%	128.6%	(19.0%)
Q3'2021 Weighted Average	**102.0%**	**7.3%**	**35.2%**	**14.3%**	**11.7%**	**12.4%**	**69.7%**	**58.1%**	**18.8%**
Q3'2020 Weighted Average	**(32.4%)**	**7.0%**	**35.9%**	**23.1%**	**47.4%**	**15.0%**	**70.6%**	**70.1%**	**13.0%**

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Takeout from Key Operating Metrics

Listed banks recorded a 102.0% increase in core Earnings Per Share (EPS) in Q3’2021

1. For the third quarter of 2021, core Earnings per Share (EPS) recorded a weighted average growth of 102.0%, compared to a weighted average decline of 32.4% in Q3’2020 for the listed banking sector. The performance is however largely skewed by the strong performance from ABSA, NCBA and KCB Group of 328.3%, 159.0% and 131.4%, respectively,
2. The Banks have recorded a weighted average deposit growth of 12.4%, a decline from the 23.1% recorded in Q3’2020,
3. Interest income grew by 15.9%, compared to a growth of 10.8% recorded in Q3’2020. Notably, the weighted average Yield on Interest Earning Assets (YIEA) for the listed banks increased to 9.8%, from the 9.5% recorded in Q3’2020, an indication of the increased allocation to higher-yielding government securities by the sector during the period. Consequently, the Net Interest Margin (NIM) now stands at 7.3%, a 0.3% points increase from the 7.0% recorded in Q3’2020 for the listed banking sector,

Takeout from Key Operating Metrics

Listed banks recorded a 14.7% y/y Non Funded Income growth, compared to the 2.1% increase recorded in Q3'2020

4. Interest expense grew at a faster pace, by 14.9%, compared to the 8.2% growth in Q3'2020 while cost of funds declined, coming in at a weighted average of 2.7% in Q3'2021, from 2.9% in Q3'2020, owing to the faster growth in average interest-bearing liabilities, an indication that the listed banks were able to mobilize cheaper deposits,
5. Average loan growth came in at 12.7%, lower than the 15.0% growth recorded in Q3'2020. Notably, the loan growth outpaced the 12.1% growth in government securities, an indication that the banks' have increased their lending to private sectors due to decrease in credit risk on the back of economic recovery, and,
6. Non-Funded Income grew by 14.7%, compared to the 2.1% increase recorded in Q3'2020. This can be attributable to the faster growth in the fees and commission which grew by 14.3% compared to a decline of 7.9% in Q3'2020, and points to the diversification of income in the banking sector

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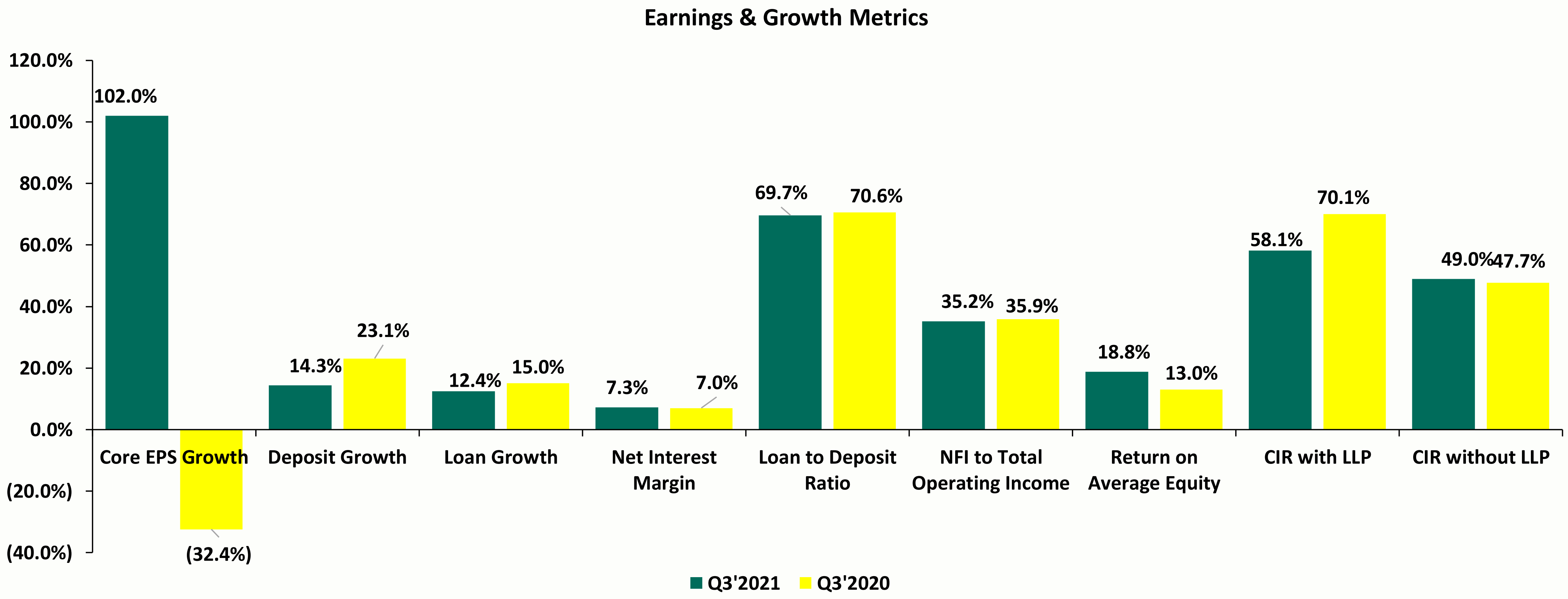
Listed Banks Earnings and Growth Metrics Cont…

The banking sector displayed recovery as evidenced by the increase in the core-earnings per share by 102.0%, as compared to a decline of 32.4% in Q3'2020



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Listed Banks Operating Metrics

The sectors asset quality improved during the period, as evidenced by the 0.4% points decline in the NPL ratio to 12.0%, from 12.4% recorded in Q3'2020

Bank	Deposit/Branch (bn)	Gross NPL Ratio	NPL Coverage	Tangible Common Ratio	Non Funded Income/Revenue
NCBA Group	4.6	17.0%	70.2%	12.3%	44.3%
Stanbic Bank	8.5	11.5%	54.9%	14.9%	42.6%
Equity Bank	2.6	9.5%	60.6%	12.5%	39.7%
Coop Bank	2.4	14.6%	65.5%	15.0%	35.4%
DTBK	2.5	23.0%	40.0%	15.4%	24.5%
Absa Bank	3.2	8.1%	74.5%	13.2%	32.0%
I&M Holdings	3.2	10.2%	70.6%	15.8%	30.7%
KCB Group	1.7	13.7%	63.4%	14.1%	29.4%
HF Group	1.7	23.0%	60.0%	13.0%	24.7%
SCBK	7.2	15.3%	82.8%	15.0%	33.9%
Weighted Average Q3'2021*	**3.3**	**12.0%**	**65.1%**	**13.8%**	**35.2%**
Weighted Average Q3'2020	**3.4**	**12.4%**	**59.2%**	**13.7%**	**35.9%**

*Market cap weighted average as at 10th December 2021
**Market cap weighted average as at 1st December 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 0.9x and average P/E of 5.1x

Bank	No. of shares (bn)	Market Cap (bn)	P/E	Price*	P/TBV
Equity Bank	3.8	179.2	5.6x	47.5	1.2x
KCB Group	3.2	139.0	4.1x	43.3	0.9x
Coop Bank	5.9	71.6	5.7x	12.2	0.8x
Absa Bank	5.4	60.0	5.7x	11.1	1.1x
SCBK	0.4	47.9	6.4x	127.0	1.0x
NCBA Group	1.5	36.0	4.2x	24.1	0.5x
I&M Holdings	1.7	34.6	3.8x	21.0	0.6x
Stanbic Bank	0.4	36.5	5.4x	92.3	0.8x
DTBK	0.3	15.7	3.6x	56.0	0.2x
HF Group	0.4	1.5	15.8x	4.0	0.2x
Weighted Average Q3'2021*			**5.1x**		**0.9x**
Weighted Average Q3'2020**			**7.4x**		**0.9x**

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

**Prices as at 10th December 2021*

***Prices as at 1st December 2020*

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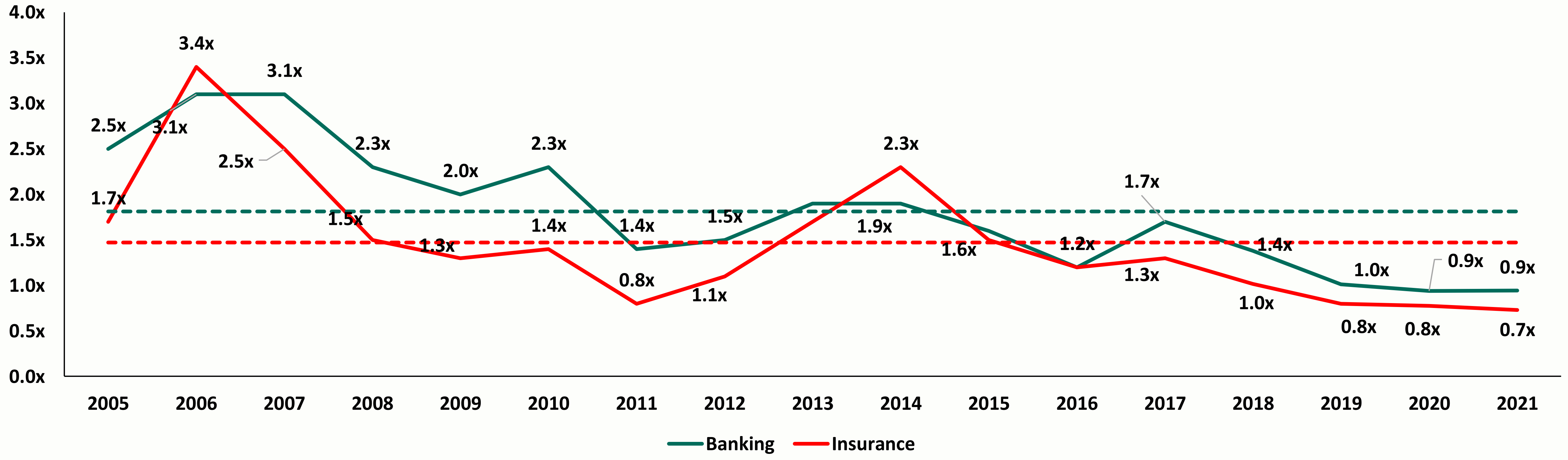
Listed Banks & Insurance Trading Metrics

Listed banks are trading at an average P/B of 0.9x, higher than the insurance sector, which is priced at 0.7x. Both sectors are trading below their 14-year averages of 1.8x and 1.5x, 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 0.9x, higher than listed insurance companies at 0.7x, with both lower than their historical averages of 1.8x for the banking sector and 1.5x for the insurance sector

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V. Banks Valuation Reports

Ranking by Franchise Value

ABSA Bank emerged top in the franchise ranking due to having the lowest NPL Ratio which came in at 8.1% vs an industry average of 12.0%

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	ABSA	1	3	3	3	8	9	5	1	2	7	6	1	49
2	KCB	4	2	1	2	1	7	9	6	6	6	8	3	55
3	Equity	7	1	2	4	2	10	6	2	7	9	3	2	55
4	I&M	6	7	6	8	3	4	4	3	3	1	7	4	56
5	Stanbic	2	4	4	6	9	6	1	4	9	5	2	7	59
6	COOP	5	8	7	1	4	5	8	7	5	3	4	5	62
7	SCBK	10	5	5	5	6	8	2	8	1	4	5	6	65
8	NCBA	9	9	8	7	7	3	3	9	4	10	1	7	77
9	DTBK	8	6	9	9	5	2	7	5	10	2	10	9	82
10	HF Group	3	10	10	10	10	1	10	10	8	8	9	10	99

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Valuation Summary of Listed Banks

I&M Group presents the highest upside with a total potential return of 27.4%

(all values in Kshs)

Bank	Current Price	Target Price	Upside/(Downside)	Dividend Yield	Total Potential Return
I&M Holdings	21.0	24.4	16.5%	11.0%	27.4%
KCB Group	43.3	51.4	18.7%	4.6%	23.4%
Absa Bank	11.1	11.9	7.7%	9.0%	16.7%
SCBK	127.0	137.7	8.4%	8.3%	16.7%
NCBA Group Plc	24.1	26.4	9.8%	6.2%	16.0%
Coop Bank	12.2	13.1	7.4%	8.2%	15.6%
Equity Bank	47.5	52.5	10.6%	4.2%	14.8%
DTBK	56.0	61.8	10.4%	1.8%	12.1%
Stanbic Holdings	92.3	94.7	2.7%	5.9%	8.5%
HF Group	4.0	3.0	(24.4%)	0.0%	(24.4%)

Cytonn Banking Report - Comprehensive Ranking

KCB 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	H1'2021	Q3'2021
KCB Group Plc	2	2	2.0	3	**1**
ABSA	1	3	2.2	2	**2**
I&M Holdings	4	1	2.2	1	**3**
Equity Group Holdings Ltd	2	7	5.0	4	**4**
SCBK	7	4	5.2	6	**5**
Co-operative Bank of Kenya Ltd	6	6	6.0	8	**6**
NCBA Group Plc	8	5	6.2	5	**7**
Stanbic Bank/Holdings	5	9	7.4	7	**8**
DTBK	9	8	8.4	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 – Q3’2021

- Profit before tax increased by 85.3% to Kshs 36.6 bn, from Kshs 19.8 bn in Q3’2020. Profit after tax increased by 78.6% to Kshs 26.9 bn in Q3’2021, from Kshs 15.0 bn recorded in Q3’2020 with the effective tax rate increasing to 26.6% from 23.9% in Q3’2020,
- Total operating income rose by 25.5% to Kshs 80.5 bn, from Kshs 64.1 bn recorded in Q3’2020 driven by a 28.8% increase in Non-Funded Income (NFI) to Kshs 32.0 bn, from Kshs 24.8 bn in Q3’2020, coupled with a 23.3% increase in Net Interest Income (NII) to Kshs 48.5 bn, from Kshs 39.3 bn in Q3’2020,
- Total operating expenses declined by 3.2% to Kshs 43.8 bn in Q3’2021, from Kshs 45.3 bn recorded in Q3’2020, mainly due to a 65.2% decline in Loans Loss Provision to Kshs 5.1 bn in Q3’2021, from Kshs 14.8 bn recorded in Q3’2020,
- The balance sheet recorded an expansion as Total Assets increased by 26.8% to Kshs 1.2 tn in Q3’2021, from Kshs 0.9 tn recorded in Q3’2020, and,
- The bank’s asset quality improved, with the NPL ratio declining to 9.5% in Q3’2021, from 10.8% recorded in Q3’2020. The main sectors that contributed to the Non-Performing Loans were MSMEs and Agriculture, which contributed 30.8% and 6.5%, 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,, and,

ii. The bank’s operating model of enhancing balance sheet agility is likely to place the bank in a prime position to take advantage of any opportunities that may arise, such as attractive inorganic growth via acquisitions or fast lending with the repeal of the interest rate cap law

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Financial Statements Extracts

Equity Group's PAT is expected to grow at a 5-year CAGR of 25.7%

Income Statement	2018	2019	2020	2021e	2022f
Net Interest Income	41.4	45.0	55.1	72.8	88.9
Non Funded Income	25.9	30.8	38.5	41.3	45.3
Total Operating Income	67.3	75.8	**93.7**	114.1	134.2
Loan Loss Provision	(3.7)	(5.3)	(26.6)	(7.1)	(11.3)
Other Operating Expenses	(35.1)	(39.0)	(46.0)	(54.2)	(63.7)
Total Operating Expenses	**(38.8)**	**(44.3)**	**(72.7)**	**(61.3)**	**(75.0)**
Profit Before Tax	28.5	31.5	22.2	72.8	88.9
% PAT Change YoY	**4.8%**	**13.8%**	**(10.9%)**	**84.0%**	**12.1%**
EPS	5.3	6.0	5.3	9.8	11.0
DPS	2.0	-	-	2.0	2.0
Cost to Income (with LLP)	57.7%	58.5%	77.6%	53.7%	55.9%
NIM	**8.5%**	**8.4%**	**7.6%**	**7.4%**	**7.7%**
ROaE	21.2%	22.0%	16.5%	23.3%	20.5%
ROaA	3.6%	3.6%	2.4%	3.3%	3.2%
Balance Sheet	**2018**	**2019**	**2020**	**2021e**	**2022e**
Net Loans and Advances	297.2	366.4	477.8	586.8	643.8
Government Securities	130.4	138.6	175.7	238.9	266.8
Other Assets	145.7	168.7	361.5	412.0	453.1
Total Assets	**573.4**	**673.7**	**1,015.1**	**1237.7**	**1363.7**
Customer Deposits	422.8	482.8	740.8	896.3	985.9
Other Liabilities	55.7	79.2	135.7	148.7	151.1
Total Liabilities	**478.4**	**561.9**	**876.5**	**1045.0**	**1137.0**
Shareholders Equity	**94.1**	**110.7**	**132.2**	**185.8**	**219.7**
Number of Shares	**3.8**	**3.8**	**3.8**	**3.8**	**3.8**
Book value Per share	24.9	29.3	35.0	49.2	58.2
% Change in BPS YoY	**1.0%**	**17.7%**	**19.5%**	**40.5%**	**18.3%**

Valuation Summary

Equity Group is undervalued with a total potential return of 14.8%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	62.3	40.0%	24.9
Residual Income	49.8	35.0%	17.4
PBV Multiple	39.3	20.0%	7.9
PE Multiple	46.4	5.0%	2.3
Target Price			**52.5**
Current Price			**47.5**
Upside/(Downside)			10.6%
Dividend Yield			4.2%
Total Potential Return			**14.8%**

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II. KCB Group

KCB Group Summary of Performance – Q3’2021

- Profit before tax increased by 108.9% to Kshs 35.8 bn from Kshs 17.1 bn in Q3’2020 due to the 15.6% growth in total operating income to Kshs 79.9 bn, from Kshs 69.1 bn in Q3’2020, and a 15.2% decline in total operating expenses to Kshs 44.1 bn, from Kshs 52.0 bn in Q3’2020. Profit after tax increased by 131.4% to Kshs 25.2 bn in Q3’2021, from Kshs 10.9 bn in Q3’2020, with the effective tax declining to 29.6%, from 36.5% in Q3’2020,
- Total operating income decreased by 15.2% to Kshs 44.1 bn, from Kshs 52.0 bn in Q3’2020, largely driven by a 53.4% decline in Loan Loss Provisions (LLP) to Kshs 9.3 bn, from Kshs 20.0 bn in Q3’2020
- Total operating expenses decreased by 15.2% to Kshs 44.1 bn, from Kshs 52.0 bn in Q3’2020, largely driven by a 53.4% decline in Loan Loss Provisions (LLP) to Kshs 9.3 bn, from Kshs 20.0 bn in Q3’2020,
- The group’s asset quality improved with the NPL ratio declining to 13.7% in Q3’2021, from 15.3% in Q3’2020. The rise in non-performing loans was mainly attributable to the poor performance from the corporate segment, mortgage segment, MSME segment, and Check-Off loans which recorded NPL ratios of 17.9%, 10.7%, 9.1% and 2.8%, respectively,
- Going forward, we expect the bank’s growth to be driven by:

i. **Geographical Diversification** – The bank has been aggressively expanding into other regions, such as Rwanda. On this front, the bank is set to acquire 100.0% of the share capital of Banque De Populaire du Rwanda (BPR) in Rwanda. This will see the bank expand its operations in the Rwandan Market thus enhancing the diversification of its revenue sources. The bank is also planning on expanding into the Ethiopian market, further expanding its presence in the region

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Financial Statements Extracts

KCB Group's PAT is expected to grow at a 5-year CAGR of 26.4%

Income Statement	2019	2020	2021e	2022f
Net Interest Income	56.1	67.9	79.9	94.6
Non Funded Income	28.2	28.5	31.9	36.1
Total Operating Income	**84.3**	**96.4**	**111.8**	**130.7**
Loan Loss Provision	8.9	27.5	10.4	22.1
Other Operating Expenses	38.5	43.2	47.5	54.3
Total Operating Expenses	**47.4**	**70.7**	**57.9**	**76.5**
Profit Before Tax	36.9	25.7	53.9	54.2
% PAT Change YoY	**4.9%**	**(22.1%)**	**92.5%**	**0.6%**
EPS	7.8	6.1	11.7	11.8
DPS	3.5	1.0	2.0	3.5
Cost to Income (with LLP)	56.2%	73.3%	51.8%	58.5%
NIM	8.2%	8.5%	8.5%	13.4%
ROE	20.7%	14.4%	23.2%	26.1%
ROA	3.1%	2.1%	3.4%	4.1%
Balance Sheet	**2019**	**2020**	**2021e**	**2022f**
Net Loans and Advances	539.7	595.3	694.5	781.3
Government Securities	164.9	208.8	268.5	294.7
Other Assets	194.0	183.8	237.3	246.8
Total Assets	**898.6**	**987.8**	**1200.3**	**1322.8**
Customer Deposits	686.6	767.2	918.4	1011.4
Other Liabilities	82.2	78.2	98.0	100.9
Total Liabilities	**768.8**	**845.4**	**1016.5**	**1112.2**
Shareholders Equity	**129.7**	**142.4**	**182.5**	**209.2**
Number of Shares	**3.2**	**3.2**	**3.2**	**3.2**
Book value Per share	40.4	44.3	56.8	65.1
% Change in BPS YoY	**7.5%**	**9.8%**	**28.1%**	**14.6%**

Valuation Summary

KCB Group is undervalued with a total potential return of 23.4%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	38.4	35.0%	13.5
Residual Income	52.8	20.0%	10.6
PBV Multiple	64.0	5.0%	3.2
PE Multiple	60.4	40.0%	24.1
Target Price			**51.4**
Current Price			**43.3**
Upside/(Downside)			18.7%
Dividend Yield			4.6%
Total Return			**23.4%**

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III. Co-operative Bank

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Co-operative Bank Summary of Performance – Q3’2021

- The bank registered a 18.0% increase in profit after tax to Kshs 11.6 bn in Q3’2021, from Kshs 9.9 bn in Q3’2020. Profit before tax and exceptional items rose by 19.2% to Kshs 16.5 bn, from Kshs 13.8 bn in Q3’2020, with the effective tax rate increasing to 29.5% in Q3’2021, from 24.8% seen in Q3’2020
- Total operating income rose by 19.2% to Kshs 44.4 bn in Q3’2021, from Kshs 37.2 bn in Q3’2020 mainly due to an 21.3% increase in Net Interest Income (NII) to Kshs 28.7 bn, from Kshs 23.6 bn in Q3’2020, coupled with the growth of 15.6% in Non-Funded Income (NFI) to Kshs 15.7 bn, from Kshs 13.6 bn in Q3’2020
- Total operating expenses rose by 19.2% to Kshs 28.0 bn in Q3’2021, from Kshs 23.5 bn in Q3’2020, largely driven by the 50.3% rise in Loan Loss Provisions (LLP) to Kshs 6.0 bn, from Kshs 4.0 bn in Q3’2020
- The balance sheet recorded an expansion as total assets grew by 16.0% to Kshs 592.9 bn in Q3’2021, from Kshs 510.9 bn in Q3’2020,
- The bank’s asset quality improved, with the NPL ratio increasing to 14.6% in Q3’2021, from 13.2% in Q3’2020. The increase in the NPL ratio can also be attributed to Non-performing loans of Kshs 6.4 bn and an NPL ratio of 73.9% from Kingdom Bank where Cooperative Bank owns 90.0% stake
- Going forward, we expect the bank’s growth to be driven by:
- **Focus on diversification:** The bank’s continued focus on channel diversification will likely continue to help the bank in generating profitability, as they continue to record increased usage and traffic. The focus on branch transformation and innovation centered on alternative channels will continue to drive NFI growth as well as transform braches to handle advisory, wealth management and advisory services

Financial Statements Extracts

Co-operative Bank's PAT is expected to grow at a 5-year CAGR of 3.1%

Income Statement	2018	2019	2020	2021e	2022f
Net Interest Income	30.8	31.3	36.3	43.6	44.1
Non Funded Income	12.9	17.2	17.5	17.1	17.6
Total Operating Income	**43.7**	**48.5**	**53.8**	**60.6**	**61.6**
Loan Loss Provision	(1.8)	(2.5)	(8.1)	(10.3)	(9.2)
Other Operating Expenses	(23.9)	(25.3)	(31.3)	(30.4)	(31.4)
Total Operating Expenses	**(25.7)**	**(27.8)**	**(39.4)**	**(40.7)**	**(40.6)**
Profit Before Tax	18.2	20.7	14.3	20.0	21.0
% PAT Change YoY	**11.6%**	**12.4%**	**-24.4%**	**20.4%**	**5.2%**
EPS	1.9	2.1	1.6	2.0	2.1
DPS	1.0	1.0	1.0	1.0	1.5
Cost to Income (with LLP)	58.8%	57.4%	73.2%	67.1%	65.9%
NIM	**9.1%**	**8.5%**	**8.5%**	**8.3%**	**8.1%**
ROE	**18.3%**	**19.2%**	**12.5%**	15.2%	15.3%
ROA	**3.2%**	**3.3%**	**2.1%**	2.5%	2.4%
Balance Sheet	**2018**	**2019**	**2020**	**2021f**	**2022f**
Net Loans and Advances	245.4	266.7	286.6	310.5	320.0
Government Securities	80.3	117.8	161.9	201.0	209.6
Other Assets	87.7	72.5	88.4	89.5	102.7
Total Assets	413.4	457.0	536.9	600.9	632.3
Customer Deposits	306.1	332.8	378.6	431.2	457.1
Other Liabilities	36.1	43.3	66.3	76.6	76.2
Total Liabilities	342.2	376.2	444.9	507.8	533.3
Shareholders Equity	69.9	79.3	90.7	93.3	99.2
Number of Shares	5.87	5.87	5.87	6.9	6.9
Book value Per share	11.9	13.5	15.5	13.6	14.4
% Change in BPS YoY	**0.43%**	**13.6%**	**14.4%**	**(1.9%)**	**6.3%**

Valuation Summary

Co-operative Bank is undervalued with a total potential return of 15.6%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	13.8	40.0%	5.5
Residual income	11.4	35.0%	4.0
PBV Multiple	14.9	20.0%	3.0
PE Multiple	11.7	5.0%	0.6
Target Price			**13.1**
Current Price			**12.2**
Upside/(Downside)			7.4%
Dividend Yield			8.2%
Total Return			**15.6%**

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IV. NCBA Bank

NCBA Bank Summary of Performance – Q3'2021

- Profit before tax rose by 192.0% to Kshs 11.1 bn, from Kshs 3.8 bn in Q3'2020. Profit after tax also increased by 159.0% to Kshs 6.5 bn from Kshs 2.5 bn in Q3'2020 with the effective tax rate increasing to 41.0% from 33.5% recorded in Q3'2020
- Total operating income rose by 9.3 to Kshs 34.2 bn, from Kshs 31.3 bn in Q3'2020 mainly driven by a 15.4% growth in interest income from government securities to Kshs 14.7 bn, from Kshs 12.8 bn in Q3'2020, coupled with a 6.5% rise in interest income from loans and advances to Kshs 19.1 bn, from Kshs 17.9 bn in Q3'2020
- Total operating expenses declined by 13.8% to Kshs 24.7 bn, from Kshs 28.6 bn in Q3'2020, largely driven by the 31.3% decrease in loan loss provision to Kshs 9.2 bn, from Kshs 13.4 bn in Q3'2020. The decline in the provisioning levels by the lender can be partly attributable to improved business environment as the economy gradually rebounds. However, the decline in total operating expenses was weighed down by a 10.8% increase in staff costs to Kshs 5.9 bn, from Kshs 5.3 bn recorded in Q3'2020 as the bank rehired some of their staff who were laid off in 2020 to fill in the reopened branches
- The balance sheet recorded an expansion with total assets growing by 8.4% to Kshs 562.6 bn, from Kshs 519.2 bn in Q3'2020
- The group's asset quality deteriorated, with the NPL ratio increasing to 17.0% in Q3'2021, from 14.1% in Q3'2020. This is the highest it has been in over a decade owing to the faster 19.7% increase in NPLs that outpaced the 0.6% decrease in gross loans
- Going forward, we expect the bank's growth to be driven by:

i. The bank intends to leverage on risk diversification, economies of scale, diversified earnings, and access to cheaper funding to continue building a strong and resilient business that is delivering on its strategic objectives. Further, the bank is expected to perform better as the economy gradually recovers and the results of the group's focus on strategic initiatives centered on customer experience

Financial Statements Extracts

NCBA Group's PAT is expected to grow at a 5-year CAGR of 23.6%

Income Statement	2018	2019	2020	2021e	2022f
Net Interest Income	20.3	13.3	25.5	29.7	31.7
Non Funded Income	16.1	20.3	20.9	20.3	23.7
Total Operating Income	**36.4**	**33.7**	**46.4**	**49.9**	**55.4**
Loan Loss Provision	(6.1)	(6.3)	(20.4)	(14.8)	(16.5)
Other Operating Expenses	(18.1)	(14.1)	(19.6)	(20.8)	(23.0)
Total Operating Expenses	**(24.1)**	**(20.4)**	**(40.0)**	**(35.6)**	**(39.5)**
Profit Before Tax	12.3	11.3	5.0	12.9	14.5
Profit After Tax	8.9	7.8	4.6	8.2	9.1
% PAT Change YoY	**9.3%**	**(12.4%)**	**(41.7%)**	**78.6%**	**11.8%**
EPS	12.7	11.1	2.8	5.0	5.5
DPS	0.0	0.3	2.3	1.5	0.3
Cost to Income (with LLP)	66.3%	60.5%	86.2%	71.3%	71.2%
NIM	**5.2%**	**3.3%**	**5.8%**	6.4%	6.3%
ROE	13.7%	11.8%	6.6%	10.7%	11.0%
ROA	2.0%	1.7%	0.9	1.5%	1.5%
Balance Sheet	**2018**	**2019**	**2020**	**2021e**	**2022f**
Net Loans and Advances	239.6	249.4	248.5	245.3	266.9
Government Securities	129.7	145.0	163.5	188.6	203.7
Other Assets	84.3	100.5	116.0	139.1	145.4
Total Assets	453.6	494.8	528.0	573.0	616.0
Customer Deposits	341.0	378.2	421.5	455.2	491.6
Other Liabilities	46.2	49.3	33.9	37.9	38.3
Total Liabilities	387.2	427.6	455.4	493.2	529.9
Shareholders Equity	66.0	67.0	72.4	79.7	85.9
Number of Shares	0.7	0.7	1.5	1.6	1.6
Book value Per share	93.8	95.2	45.7	48.4	52.2
% Change in BPS YoY	**2.5%**	**1.5%**	**(52.0%)**	**10.1%**	**7.8%**

Cytonn

Valuation Summary

NCBA Group is undervalued with a total potential return of 16.0%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM Integrated	27.6	40%	11.0
Residual Valuation	24.5	35%	8.6
PBV Multiple	28.3	20%	5.7
PE Multiple	22.8	5%	1.1
Target Price			**26.4**
Current Price			**24.1**
Upside/(Downside)			9.8%
Dividend Yield			6.8%
Total Potential Return			**16.0%**

Cytonn

V. Standard Chartered Bank Kenya

SCBK's Summary of Performance – Q3'2021

- Profit before tax increased by 35.5% to Kshs 8.9 bn, from Kshs 6.6 bn in Q3'2020. Profit after tax increased by 46.7% to Kshs 6.4 bn in Q3'2021, from Kshs 4.3 bn recorded in Q3'2020, with the effective tax rate decreasing to 28.6% from 34.0% in Q3'2020,
- Total operating income rose by 7.8% to Kshs 22.3 bn, from Kshs 20.7 bn recorded in Q3'2020 driven by a 19.1% increase in Non-Funded Income (NFI) to Kshs 7.6 bn, from Kshs 6.3 bn in Q3'2020, coupled with a 2.8% gain in Net Interest Income (NII) to Kshs 14.7 bn, from Kshs 14.3 bn in Q3'2020
- Total operating expenses declined by 5.1% to Kshs 13.4 bn in Q3'2021, from Kshs 14.1 bn in Q3'2020, mainly attributable to a 10.2% decline in Staff Costs to Kshs 4.9 bn, from Kshs 5.4 bn recorded in Q3'2020. Additionally, Loan Loss Provisions (LLPs) declined by 1.6% to Kshs 2.68 bn in Q3'2021, from Kshs 2.73 bn in Q3'2020 partly attributable to the improved business environment
- Cost to Income Ratio (CIR) improved to 60.1%, from 68.2% in Q3'2020, owing to the 7.8% growth in total operating income compared to the 5.1% decline in total operating expenses. Without LLP, cost to income ratio improved as well to 48.0%, from 55.0% in Q3'2020, an indication of improved efficiency levels
- The balance sheet recorded an expansion as total assets grew by 5.2% to Kshs 330.7 bn in Q3'2021, from Kshs 314.4 bn in Q3'2020
- The bank's asset quality deteriorated owing to the faster 4.8% growth in Gross Non-Performing Loans (NPLs), compared to the relatively slower 1.3% increase in gross loans. The NPL ratio rose to 15.3%, from 14.8% recorded in Q3'2020
- 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 which is likely to continue boosting the company's Non-Funded Income (NFI). Revenue expansion coupled with cost containment will be key in boosting the bank's bottom line

Financial Statements Extracts

SCBK's PAT is expected to grow at a 5-year CAGR of 18.1%

Income Statement	2018	2019	2020	2021e	2022f
Net Interest Income	19.4	19.5	19.1	20.7	22.1
Non Funded Income	9.2	9.2	8.3	8.9	9.5
Total Operating Income	**28.6**	**28.7**	**27.4**	**29.6**	**31.6**
Loan Loss Provision	(1.9)	(0.6)	(3.9)	2.0	1.6
Other Operating Expenses	(14.8)	(16.0)	(16.1)	15.0	15.9
Total Operating Expenses	**(16.8)**	**(16.5**	**(20.0)**	**17.1**	**17.5**
Profit Before Tax	11.8	12.2	7.4	12.5	14.1
% PAT Change YoY	**17.1%**	**1.7%**	**(33.9%)**	**61.2%**	**12.6%**
EPS	23.6	24.0	14.4	23.3	26.2
DPS	19.0	20.0	10.5	10.5	20.0
Cost to Income (with LLP)	58.6%	57.6%	73.0%	57.6%	55.3%
NIM	**7.5%**	**7.4%**	**6.8%**	**7.0%**	**7.0%**
ROaE	17.5%	17.5%	11.0%	16.3%	17.0%
ROaA	2.8%	2.8%	1.7%	2.6%	2.8%
Balance Sheet	**2018**	**2019**	**2020**	**2021e**	**2022f**
Net Loans and Advances	118.7	128.7	121.5	133.7	151.2
Government Securities	98.7	99.6	99.8	93.3	97.9
Other assets	68.0	73.8	104.3	112.6	123.5
Total Assets	**285.4**	**302.1**	**325.6**	**339.7**	**372.5**
Customer Deposits	224.3	228.4	256.5	263.5	293.1
Other Liabilities	14.5	25.9	18.2	19.6	19.9
Total Liabilities	**238.8**	**254.4**	**274.7**	**283.1**	**313.0**
Shareholders Equity	**46.6**	**47.8**	**50.9**	**56.6**	**59.5**
Number of shares	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**
Book value Per share	116.5	119.5	127.3	150.0	157.9
% Change in BPS YoY	**2.1%**	**2.6%**	**6.5%**	**11.1%**	**5.2%**

Cytonn

Valuation Summary

SCBK is undervalued with a total potential return of 16.7%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	159.3	40.0%	63.7
Residual Income	124.8	35.0%	43.7
PBV Multiple	125.3	20.0%	25.1
PE Multiple	104.6	5.0%	5.2
Target Price			**137.7**
Current Price			**127.0**
Upside/(Downside)			8.4%
Dividend Yield			8.3%
Total Return			**16.7%**

Cytonn

VI. Diamond Trust Bank Kenya

Cytonn

DTBK's Summary of Performance – Q3'2021

- Profit before tax increased by 12.6% to Kshs 7.4 bn, from Kshs 6.6 bn in Q3'2020. Profit after tax increased by 20.1% to Kshs 5.2 bn in Q3'2021, from Kshs 4.3 bn recorded in Q3'2020, with the effective tax rate declining to 30.1%, from 34.5% in Q3'2020
- Total operating income increased by 3.0% to Kshs 19.5 bn, from Kshs 18.9 bn in Q3'2020 mainly driven by a 5.9% increase in the Net Interest Income (NII) to Kshs 14.7 bn, from Kshs 13.9 bn in Q3'2020. The increase in total operating income was however weighed down by a 4.9% decrease in Non-Funded Income (NFI) to Kshs 4.8 bn, from Kshs 5.0 bn in Q3'2020,
- Total operating expenses declined by 2.0% to Kshs 12.1 bn, from Kshs 12.4 bn in Q3'2020, driven by the 8.5% decrease in other operating expenses to Kshs 5.4 bn from Kshs 5.9 bn. The decline was weighed down by a 6.0% increase in Loan Loss Provisions (LLP) to Kshs 3.1 bn, from Kshs 2.9 bn in Q3'2020. Similarly, Staff costs increased by 2.2% to Kshs 3.7 bn, from Kshs 3.6 bn in Q3'2020,
- The balance sheet recorded an expansion as Total Assets increased by 10.3% to Kshs 434.4 bn, from Kshs 394.0 bn recorded in Q3'2020
- The bank's asset quality deteriorated, with the NPL ratio increasing to 11.9%, from 8.7% recorded in Q3'2020, driven by the 36.0% growth in gross NPLs coupled with the 0.8% decline in gross loans,
- Going forward, we expect the bank's growth to be driven by:

i. Minimized Costs – DTB Continues to focus on fee income driven by digital products and services offerings through strategic partnerships that lead to the bank's expansion. The banks is also keen on procuring cheaper funds in order to lower their interest expenses. We expect the bank to keep up the cautious lending to minimize further erosion of the asset quality and to guard their profitability

Financial Statements Extracts

DTBK's PAT is expected to grow at a 5-year CAGR of 29.0%

Income Statement	2019	2020	2021f	2021f
Net Interest Income	18.7	18.1	19.0	23.0
Non Funded Income	5.8	6.1	6.0	6.5
Total Operating Income	**24.5**	**24.2**	**25.0**	**29.5**
Loan Loss Provision	1.3	7.3	6.8	7.4
Other Operating Expenses	11.9	12.3	12.3	13.8
Total Operating Expenses	**13.2**	**19.7**	**19.2**	**21.2**
Profit Before Tax	11.3	4.7	5.9	8.3
% PAT Change YoY	**2.6%**	**-51.5%**	**24.7%**	**39.1%**
EPS	26.0	12.6	15.7	21.9
DPS	2.7	0.0	1.0	2.7
Cost to Income (With LLP)	54.0%	81.3%	76.6%	71.8%
NIM	**5.6%**	5.8%	6.6%	**5.7%**
ROE	12.9%	5.8%	6.6%	8.3%
ROA	1.9%	0.9%	1.0%	1.3%
Balance Sheet	**2019**	**2020**	**2021e**	**2021e**
Net Loans and Advances	199.1	208.6	214.	244.6
Government Securities	130.3	148.4	163.4	125.7
Other Assets	56.8	68.1	70.6	132.6
Total Assets	**386.2**	**425.1**	**448.8**	**502.9**
Customer Deposits	280.2	298.2	322.0	367.4
Other Liabilities	41.5	58.5	43.8	52.4
Total Liabilities	**321.7**	**356.7**	**370.0**	**419.8**
Shareholders Equity	58.9	62.0	72.0	76.1
Number of Shares	0.3	0.3	0.3	0.3
Book value Per share	210.5	221.6	237.9	272.3
% Change in BPS YoY	**9.7%**	**5.3%**	**7.4%**	**7.2%**

Cytonn

Valuation Summary

DTBK is undervalued with a total potential return of 12.1%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	69.7	40.0%	27.9
Residual Income	52.6	35.0%	18.4
PBV Multiple	56.0	20.0%	11.2
PE Multiple	85.8	5.0%	4.3
Target Price			**61.8**
Current Price			**56.0**
Upside/(Downside)			10.4%
Dividend yield			1.8%
Total return			**12.1%**

Cytonn

VII. Absa Bank Kenya

Cytonn

Absa Bank’s Summary of Performance – Q3’2021

- Profit before tax increased by 122.4% to Kshs 11.9 bn, from Kshs 5.3 bn in Q3’2020. Profit after tax and exceptional items increased by 328.3% to Kshs 8.2 bn in Q3’2021, from Kshs 1.9 bn in Q3’2020, with the effective tax rate increasing by 3.1% points to 30.6%, from 27.5% in Q3’2020,
- Total operating income rose by 7.5% to Kshs 27.3 bn, from Kshs 25.4 bn recorded in Q3’2020 driven by a 8.6% increase in Net Interest Income (NII) to Kshs 18.6 bn, from Kshs 17.1 bn in Q3’2020, coupled with a 5.2% gain in NFI to Kshs 8.7 bn, from Kshs 8.3 bn in Q3’2020,
- Total operating expenses declined by 23.0% to Kshs 15.4 bn in Q3’2021, from Kshs 20.1 bn in Q3’2020, mainly attributable to an 8.6% decline in Staff Costs to Kshs 6.8 bn in Q3’2021, from Kshs 7.5 bn recorded in Q3’2020. Additionally, Loan Loss Provisions (LLPs) declined by 55.2% to Kshs 3.4 bn in Q3’2021, from Kshs 7.6 bn recorded in Q3’2020 partly attributable to the improved business environment,
- Cost to Income Ratio (CIR) improved to 56.6%, from 79.0% in Q3’2020, owing to the 7.5% growth in total operating income coupled with the 23.0% decline in total operating expenses. Without LLP, the cost to income ratio improved as well to 44.1%, from 49.1% in Q3’2020, an indication of improved efficiency levels,
- The bank’s asset quality deteriorated, with the NPL ratio rising by 8.1%, from 7.6% recorded in Q3’2020, owing to the faster 17.1% growth in Gross Non-Performing Loans (NPLs), compared to the relatively slower 10.7% increase in gross loans,
- 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 87.0% of all transactions happening outside the branch as at FY’2020, as well as the “Timiza” which is a digital banking App, that is 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.

Cytonn

Financial Statements Extracts

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

Income Statement	2019	2020	2021e	2022f
Net Interest Income	23.2	23.4	24.8	24.5
Non Funded Income	10.6	11.1	12.1	12.8
Total Operating Income	**33.8**	**34.5**	**36.9**	**37.3**
Loan Loss Provision	(4.2)	(9.0)	(4.0)	(4.3)
Other Operating Expenses	(17.3)	(16.7)	(16.0)	(15.5)
Total Operating Expenses	**(21.5)**	**(25.7)**	**(20.0)**	**(19.8)**
Profit Before Tax	10.8	8.9	16.9	17.5
% PAT Change YoY	**0.5%**	**(44.2%)**	**181.8%**	**3.9%**
EPS	1.4	0.7	2.2	2.2
DPS	1.1	0.0	1.0	1.1
Cost to Income (with LLP)	63.6%	74.4%	54.2%	53.0%
Cost to Income (without LLP)	51.2%	48.2%		
NIM	**7.7%**	**7.1%**	**7.0%**	**6.4%**
ROaE	16.7%	*9.1%	22.8%	20.6%
ROaA	2.1%	1.1%	2.9%	2.8%
Balance Sheet	**2019**	**2020**	**2021e**	**2022f**
Net Loans and Advances	194.9	208.9	252.2	272.6
Government Securities	123.0	126.1	140.0	150.7
Other Assets	56.1	44.5	53.6	51.8
Total Assets	**374.0**	**379.4**	**445.7**	**445.7**
Customer Deposits	237.7	253.6	283.6	306.3
Other Liabilities	91.1	79.3	82.7	83.3
Total Liabilities	**328.8**	**332.9**	**366.3**	**389.6**
Shareholders Equity	**45.2**	**46.5**	**56.6**	**63.7**
Number of shares	**5.4**	**5.4**	**5.4**	**5.4**
Book value Per share	8.3	8.6	10.4	11.7
% Change in BPS YoY	**2.2%**	**2.9%**	**21.8%**	**37.0%**

*Excluding exceptional costs associated with the change of brand, ABSA's FY'2020 ROaE came in at 13.5%

Valuation Summary

Absa Bank is undervalued with a total potential return of 13.3%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	13.6	40%	5.4
Residual Income	11.1	35%	3.9
PBV Multiple	8.1	20%	1.6
PE Multiple	9.8	5%	1.0
Target Price			**11.9**
Current Price			**11.1**
Upside/(Downside)			7.7%
Dividend Yield			9.0%
Total Return			**16.7%**

Cytonn

VIII. Stanbic Holdings

Stanbic Holdings’ Summary of Performance – Q3’2021

- Profit after tax increased by 43.2% to Kshs 5.1 bn in Q3’2021, from Kshs 3.6 bn in Q3’2020. The performance was driven by an 8.6% increase in total operating income to Kshs 17.5 bn in Q3’2021, from Kshs 16.1 bn in Q3’2020, coupled with a 2.1% decrease in total operating expenses to Kshs 10.5 bn, from Kshs 10.7 bn in Q3’2020,
- Total operating income increased by 8.6% to Kshs 17.5 bn in Q3’2021, from Kshs 16.1 bn in Q3’2020, mainly driven by a 12.2% increase in Net Interest Income(NII) to Kshs 10.0 bn in Q3’2021, from Kshs 8.9 bn in Q3'2020, coupled with a 4.2% increase in Non Funded Income(NFI) to Kshs 7.5 bn, from Kshs 7.2 bn in Q3’2020,
- Total operating expenses declined by 2.1% to Kshs 10.5 bn in Q3’2021, from Kshs 10.7 bn in Q3’2020, largely driven by a 48.4% decrease in Loans Loss Provisions(LLP’s) to Kshs 1.5 bn, from Kshs 2.9 bn in Q3’2020. Notably, staff costs increased by 12.5% Kshs 4.5 bn, from Kshs 4.0 bn in Q3’2020,
- The balance sheet recorded a contraction as total assets declined by 7.2 % to Kshs 295.0 bn, from Kshs 317.8 bn in Q3’2020, largely driven by a 17.4% decline in investment securities to Kshs 45.7 bn, from Kshs 55.3 bn in Q3’2020. The decline was however mitigated by an 11.2% growth in net loans to Kshs 176.6 bn, from Kshs 158.9 bn in Q3’2020,
- The bank’s asset quality improved, with the NPL ratio reducing to 11.5% in Q3’2021, from 12.3% in Q3’2020, attributable to the faster 9.7% increase in Gross Loans, compared to the 2.5% increase in Gross Non- Performing Loans(NPL’S),
- The bank recorded a relatively stronger performance in both funded and non-funded segments where Net Interest Income grew by 12.2% while Non-Funded Income grew by 4.2%

Financial Statements Extracts

Stanbic Holdings' PAT is expected to grow at a 5-year CAGR of 20.1%

Income Statement	2019	2020	2021e	2022f
Net Interest Income	13.3	12.8	14.2	16.9
Non Funded Income	11.4	10.4	10.7	11.6
Loan Loss Provision	(3.2)	(4.9)	(3.4)	(3.3)
Total Operating Expenses	**(13.9)**	**(12.1)**	**(13.3)**	**(15.3)**
Profit Before Tax	7.7	6.2	11.5	13.3
% PAT Change YoY	**1.6%**	**(18.6%)**	**55.6%**	**15.1%**
EPS	16.1	13.1	20.4	23.5
DPS	7.1	3.8	5.4	5.8
Cost to Income	56.2%	52.2%	53.5%	53.1%
NIM	**5.2%**	**4.7%**	**5.2%**	**5.1%**
ROaE	13.6%	10.3%	14.5%	15.4%
ROaA	2.1%	1.6%	2.4%	2.8%
Balance Sheet	**2019**	**2020e**	**2021f**	**2022f**
Net Loans and Advances	191.2	196.3	200.3	209.9
Other Assets	112.4	132.3	131.8	136.2
Total Assets	**303.6**	**328.6**	**332.0**	**346.1**
Customer Deposits	224.7	260.0	255.9	263.0
Borrowings	9.1	5.5	5.4	5.4
Other Liabilities	20.8	11.4	10.6	10.6
Total Liabilities	**254.6**	**276.9**	**272.0**	**279.0**
Shareholders Equity	49.0	51.7	51.7	60.1
No of Ordinary Shares	0.4	0.4	0.4	0.4
Book value Per share	124.0	130.9	130.9	152.0
% Change in BVPS	**9.9%**	**5.5%**	**5.5%**	**16.1%**

Cytonn

Valuation Summary

Stanbic Holdings is fairly valued with a total potential return of 8.5%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	127.9	40.0%	51.2
Residual Income	69.3	35.0%	24.2
PBV Multiple	77.1	20.0%	15.4
PE Multiple	78.3	5.0%	3.9
Target Price			**94.7**
Current Price			**92.3**
Upside/(Downside)			2.7%
Dividend Yield			5.9%
Total return			**8.5%**

Cytonn

IX. I&M Group

I&M Group Summary of Performance – Q3'2021

- Profit before tax increased by 24.6% to Kshs 8.1 bn, from Kshs 6.5 bn in Q3'2020. Profit after tax rose by 25.1% to Kshs 5.7 bn, from Kshs 4.6 bn in Q3'2020, with the effective tax rate decreasing to 29.1%, from 29.4% in Q3'2020,
- Total operating income increased by 20.0% to Kshs 20.2 bn, from Kshs 16.8 bn in Q3'2020, driven by a 34.5% increase in Net Interest Income (NII) to Kshs 14.0 bn, from Kshs 10.4 bn in Q3'2020. The increase in NII was however weighed down by a 3.5% decline in Non-Funded Income (NFI) to Kshs 6.2 bn, from Kshs 6.4 bn in Q3'2020,
- Total operating expenses rose by 28.7% to Kshs 12.5 bn from Kshs 9.7 bn in Q3'2020, driven by a 31.4% increase in Loan Loss Provisions (LLP) to Kshs 2.8 bn, from Kshs 2.1 bn in Q3'2020 coupled with a 22.9% increase in staff costs to Kshs 4.3 bn, from Kshs 3.5 bn in Q3'2020. The increase in the group's LLP is on account of the lender catering for the Manufacturing, Trade, Real Estate and Personal/Household sectors which remain adversely impacted by the COVID-19 pandemic and jointly constitute 79.0% of the group's loan portfolio
- The balance sheet recorded an expansion as total assets grew by 15.8% to Kshs 399.1 bn, from Kshs 344.7 bn in Q3'2020, and,
- The bank's asset quality improved, with the NPL ratio declining to 10.2%, from 11.2% recorded in Q3'2020,
- Going forward, we expect the bank's growth to be driven by:

i. **Revenue Diversification** – The bank launched its Wealth Management and Advisory Business, which will be provided through I&M Capital, a subsidiary of I&M Group targeting high net worth and premium customers. The move to offer wealth management and advisory services, is expected to boost the bank's Non-Funded Income revenue through fees and commissions charged and reduce I&M's reliance on funded income

Financial Statements Extracts

I&M Group's PAT is expected to grow at a 5-year CAGR of 8.9%

Income Statement	2019	2020	2021e	2022f
Net Interest Income	15.5	15.6	19.9	22.5
Non- Funded Income	8.3	8.6	9.4	10.3
Total Operating Income	**23.8**	**24.2**	**29.3**	**32.8**
Loan Loss Provision	0.6	2.5	(3.4)	(2.7)
Other Operating Expenses	9.5	10.1	(12.4)	(13.9)
Total Operating Expenses	**(10.1)**	**(12.6)**	**(15.7)**	**(16.6)**
Profit Before Tax	14.6	11.0	14.0	16.7
% PAT Change YoY	**26.6%**	**(21.9%)**	**16.4%**	**19.6%**
EPS	13.0	10.2	5.7	6.9
DPS	2.6	2.3	2.3	2.6
Cost to Income (with LLP)	42.4%	52.0%	53.7%	50.4%
NIM	**5.9%**	**5.4%**	**5.7%**	**6.1%**
ROaE	19.5%	13.2%	14.2%	15.4%
ROaA	3.4%	2.3%	2.4%	2.7%
Balance Sheet	**2019**	**2020**	**2021e**	**2022f**
Government securities	53.9	101.7	117.8	127.1
Net Loans and Advances	175.3	187.4	232.3	259.1
Other Assets	86.0	69.0	83.0	86.8
Total Assets	**315.3**	**358.1**	**433.0**	**473.0**
Customer Deposits	229.7	262.7	316.9	345.4
Other Liabilities	24.7	27.4	37.0	37.9
Total Liabilities	**254.4**	**290.0**	**353.8**	**383.3**
Shareholders Equity	57.7	64.2	75.0	85.5
Number of Shares	0.8	0.8	1.7	1.7
Book Value Per Share	69.8	77.6	45.3	51.7
% BVPS Change YoY	**(39.7%)**	**11.2%**	**(41.6%)**	**14.1%**

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Valuation Summary

I&M Group is undervalued with a total potential return of 27.4%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	25.3	40.0%	10.1
Residual income	22.1	35.0%	7.7
PBV Multiple	25.9	20.0%	5.2
PE Multiple	26.6	5.0%	1.3
Target Price			**24.4**
Current Price			**21.0**
Upside/(Downside)			16.5%
Dividend yield			11.0%
Total return			**27.4%**

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B. Tier II Bank

I. HF Group

HF Group Summary of Performance – Q3'2021

- HF Group recorded a loss per share of Kshs 1.5 in Q3'2021, lower than the loss per share of Kshs 1.9 recorded in Q3'2020, in-line with our expectations of a Kshs 1.5 loss per share. The performance of the group can be attributed to a 9.4% decline in total operating income to Kshs 1.8 bn, from Kshs 2.0 bn in Q3'2020, coupled with a 12.5% decline in total operating expenses to Kshs 2.4 bn, from Kshs 2.7 bn in Q3'2020
- Total Operating Income declined by 9.4% to Kshs 1.8 bn, from Kshs 2.0 bn in Q3'2020, attributable to the 14.8% dip in Net Interest Income (NII) to Kshs 1.4 bn, from Kshs 1.6 bn recorded in Q3'2020. The decline was however mitigated by a 12.2% increase in Non-Funded Income (NFI) to Kshs 0.5 bn, from Kshs 0.4 bn recorded in Q3'2020
- Total Operating Expenses decreased by 12.5% to Kshs 2.4 bn, from Kshs 2.7 bn seen in Q3'2020. This is mainly attributable to a 61.5% decrease in Loan Loss Provisions to Kshs 0.2 bn, from Kshs 0.4 bn recorded in Q3'2020. The decline in operating expenses was however weighed down by an 1.8% increase in staff costs to Kshs 0.9 bn, from Kshs 0.8 bn recorded in Q3'2020
- The company's balance sheet recorded a contraction as total assets declined by 5.3% to Kshs 52.2 bn, from Kshs 55.1 bn in Q3'2020
- The bank's asset quality improved with the NPL ratio declining by 3.4% points to 22.0%, from the 25.4% recorded in Q3'2020, following the faster 20.0% decline in NPLs that outpaced the 7.5% decline in gross loans
- Going forward, we expect the bank's growth to be driven by:

i. We maintain our view that HF Group as a conventional bank has a long way to go, even with the injection of tier II capital of Kshs 1.0 bn by the majority shareholder Britam Holdings in H1'2021. 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, to capitalize on HF's strength in mortgages and real estate development

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Financial Statements Extracts

HF's PAT is expected to grow at a 5-year CAGR of (10.7%)

Income Statement	2018	2019	2020	2021f
Net Interest Income	2.3	2.0	1.9	1.9
Non- Funded Income	1.3	1.4	0.5	0.6
Total Operating Income	**3.6**	**3.4**	**2.4**	**2.5**
Loan Loss Provision	(0.4)	(0.4)	(0.4)	(0.2)
Other Operating Expenses	(3.9)	(3.2)	(3.6)	(3.0)
Total Operating Expenses	**(4.2)**	**(3.5)**	**(4.1)**	**(3.2)**
Profit Before Tax	(0.6)	(0.1)	(1.7)	(0.7)
% PAT Change YoY	**(573.9%)**	**(81.6%)**	**1443.7%**	**(55.1%)**
EPS	(1.6)	(0.3)	(4.4)	(2.0)
DPS	0.0	0.0	0.0	0.0
Cost to Income	118.2%	104.2%	153.1%	128.8%
NIM	**4.4%**	**4.3%**	**4.2%**	4.4%
ROaE	(5.5%)	(1.1%)	(18.1%)	(9.9%)
ROaA	(0.9%)	(0.2%)	(3.0%)	(1.4%)
Balance Sheet	**2018**	**2019**	**2020**	**2021e**
Net Loans and Advances	43.4	38.6	37.0	36.2
Government securities	3.2	4.6	7.1	5.8
Other Assets	13.9	13.3	11.3	12.0
Total Assets	**60.5**	**56.5**	**55.4**	**54.0**
Customer Deposits	34.7	37.4	39.9	39.3
Other Liabilities	15.5	8.8	6.9	7.9
Total Liabilities	**50.2**	**46.2**	**46.9**	**47.1**
Shareholders Equity	10.4	10.2	8.6	6.9
Number of Shares	0.4	0.4	0.4	0.4
Book Value Per Share	27.0	26.6	21.5	17.9
% BVPS Change YoY	**(17.0%)**	**(1.5%)**	**(19.2%)**	**(55.1%)**

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Valuation Summary

Housing Finance is overvalued with a total potential return of (24.4%)

Valuation Summary	Implied Price	Weighting	Weighted Value
Residual Income	2.3	60.0%	1.4
PTBV Multiple	4.2	35.0%	1.5
PE Multiple	2.4	5.0%	0.1
Fair Value			**3.0**
Current Price			**4.0**
Upside/(Downside)			(24.4%)
Dividend Yield			0.0%
Total return			***(24.4%)***

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Feedback Summary

During the preparation of this Q3'2021 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
Diamond Trust Bank	Yes	Yes
KCB Group	Yes	Yes
I&M Group	Yes	Responsive
Co-operative Bank of Kenya	Yes	Responsive
Standard Chartered Bank Kenya	Yes	Unresponsive
NCBA Group	Yes	Unresponsive
Housing Finance Group	Yes	Unresponsive
Stanbic Holdings	Yes	Unresponsive
Equity Group Holdings	Yes	Unresponsive
Absa Bank Kenya	Yes	Unresponsive

Licensed Financial Institutions

I. Banks and Mortgage Finance Institutions

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Licensed Banks in Kenya

#	Bank	#	Bank
1	ABSA Bank Kenya	20	Gulf African Bank Limited
2	Access Bank Kenya	21	Habib Bank A.G Zurich
3	African Banking Corporation Limited	22	I&M Bank Limited
4	Bank of Africa Kenya Limited	23	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	Spire Bank Ltd
16	Family Bank Limited	35	Stanbic Bank Kenya Limited
17	First Community Bank Limited	36	Standard Chartered Bank Kenya Limited
18	Guaranty Trust Bank (K) Ltd	37	UBA Kenya Bank Limited
19	Guardian Bank Limited	38	Victoria Commercial Bank Limited

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

Source : CBK

Thank You!

For More Information

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For more information or any further clarification required, kindly contact the research team at investment@cytonn.com

Q&A / AOB