

Below is a summary of Standard Chartered Bank Ltd Q1'2025 performance:

Balance Sheet Items	Q1'2024	Q1'2025	y/y change
Net loans	153.6	137.9	(10.2%)
Government Securities	69.0	100.8	46.2%
<b>Total Assets</b>	<b>391.3</b>	<b>382.3</b>	<b>(2.3%)</b>
Customer Deposits	306.0	285.2	(6.8%)
Deposits per Branch	8.5	8.9	4.9%
<b>Total Liabilities</b>	<b>323.4</b>	<b>306.2</b>	<b>(5.3%)</b>
<b>Shareholder's Funds</b>	<b>68.0</b>	<b>76.1</b>	<b>12.0%</b>

Balance Sheet Ratios	Q1'2024	Q1'2025	% points change
Loan to deposit ratio	50.2%	48.3%	(1.9%)
Government securities to deposit ratio	22.5%	35.3%	12.8%
Return on Average Equity	24.0%	26.8%	2.8%
Return on Average Assets	4.0%	5.0%	1.0%

Income Statement	Q1'2024	Q1'2025	y/y change
Net Interest Income	8.3	8.2	(0.8%)
Net non-Interest Income	4.8	3.4	(29.3%)
<b>Total Operating income</b>	<b>13.1</b>	<b>11.6</b>	<b>(11.2%)</b>
Loan Loss provision	0.5	0.4	(24.7%)
<b>Total Operating expenses</b>	<b>5.4</b>	<b>5.0</b>	<b>(8.7%)</b>
Profit before tax	7.6	6.6	(13.0%)
<b>Profit after tax</b>	<b>5.6</b>	<b>4.9</b>	<b>(13.5%)</b>
<b>Core EPS (Kshs)</b>	<b>14.9</b>	<b>12.9</b>	<b>(13.5%)</b>

Income Statement Ratios	Q1'2024	Q1'2025	% points change
Yield from interest-earning assets	9.6%	9.3%	(0.3%)
Cost of funding	1.2%	1.0%	(0.2%)
Net Interest Spread	8.5%	8.4%	(0.1%)
Net Interest Margin	8.6%	8.5%	(0.1%)
Cost of Risk	4.2%	3.6%	(0.6%)
Net Interest Income as % of operating income	63.3%	70.8%	7.4%
Non-Funded Income as a % of operating income	36.7%	29.2%	(7.4%)
Cost to Income Ratio	41.6%	42.7%	1.2%
Cost to Income Ratio without LLP	37.4%	39.2%	1.8%

Capital Adequacy Ratios	Q1'2024	Q1'2025	% points change
Core Capital/Total Liabilities	17.6%	19.8%	2.2%
Minimum Statutory ratio	8.0%	8.0%	
<b>Excess</b>	<b>9.6%</b>	<b>11.8%</b>	<b>2.2%</b>
Core Capital/Total Risk Weighted Assets	18.4%	20.6%	2.2%
Minimum Statutory ratio	10.5%	10.5%	
<b>Excess</b>	<b>7.9%</b>	<b>10.1%</b>	<b>2.2%</b>
Total Capital/Total Risk Weighted Assets	18.5%	20.6%	2.2%
Minimum Statutory ratio	14.5%	14.5%	
<b>Excess</b>	<b>4.0%</b>	<b>6.1%</b>	<b>2.2%</b>
Liquidity Ratio	66.9%	73.6%	6.7%
Minimum Statutory ratio	20.0%	20.0%	
<b>Excess</b>	<b>46.9%</b>	<b>53.6%</b>	<b>6.7%</b>

### Income Statement

- Core earnings per share decreased by 13.5% to Kshs 12.9, from Kshs 14.9 in Q1'2024, mainly driven by the 11.2% decrease in total operating income to Kshs 11.6 bn, from Kshs 13.1 bn in Q1'2024 which outpaced the 8.7% decrease in total operating expenses to Kshs 5.0 bn, from Kshs 5.4 bn in Q1'2024,
- The 11.2% decline in total operating income was mainly driven by a 29.3% decrease in Non Interest Income to Kshs 3.4 bn, from Kshs 4.8 bn in Q1'2024, coupled with a 0.8% decrease in Net Interest Income (NII) to Kshs 8.2 bn, from Kshs 8.3 bn in Q1'2024,
- Interest income declined by 2.4% to Kshs 9.3 bn from Kshs 9.5 bn in Q1'2024, mainly driven by a 51.9% decline in interest income from deposits and placements to Kshs 0.8 bn, from Kshs 1.8 bn in Q1'2024 coupled with a 12.6% decrease in interest income from loans and advances to Kshs 5.0 bn from Kshs 5.7 bn in Q1'2024. The decline in interest income was however supported by a 69.4% increase in interest income from holdings in government securities to Kshs 3.4 bn, from Kshs 2.0 bn in Q1'2024. Similarly, the Yield on Interest-Earning Assets (YIEA) decreased by 0.3% points to 9.3% from 9.6% recorded in Q1'2024, mainly attributable to the faster 6.3% decline in trailing interest income to Kshs 32.1 bn, from Kshs 34.3 bn in Q1'2024 compared to the 3.0% decrease in average interest earning assets to Kshs 344.5 bn, from Kshs 355.3 bn in Q1'2024,
- Interest expenses fell by 13.1% to Kshs 1.1 bn, from Kshs 1.2 bn in Q1'2024, driven by 6.0% decrease in interest expense from customer deposits to Kshs 1.0 bn, from Kshs 1.1 bn in Q1'2024, coupled with a 21.0% decrease in interest expense from placements to Kshs 0.05 bn in Q1'2025, from Kshs 0.06 bn recorded in Q1'2024. Consequently, Cost of funds (COF) decreased by 0.2% points to 1.0%, from 1.2% recorded in Q1'2024, owing to a faster 19.9% decrease in Trailing interest expense to Kshs 2.9 bn, from Kshs 3.6 bn in Q1'2024, compared to the 2.8% decrease in average interest bearing liabilities to Kshs 296.3 bn from Kshs 304.8 bn in Q1'2024. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 0.1% points to 8.5% from 8.6% in Q1'2024, attributable to the 4.7% decline in trailing net interest income to Kshs 29.3 bn, from Kshs 30.7 bn recorded in Q1'2024, which outpaced the 3.0% decrease in average interest earning assets to Kshs 344.5 bn, from Kshs 355.3 bn in Q1'2024,
- Non-Funded Income (NFI) decreased by 29.3% to Kshs 3.4 bn from Kshs 4.8 bn in Q1'2024, mainly driven by a 59.1% decrease in the foreign exchange trading income to Kshs 1.0 bn from Kshs 2.5 bn in Q1'2024, highlighting the bank's declined foreign exchange margins. The decline in NFI was further weighed down by the 3.2% decrease in the income from other fees and commissions to 1.6 bn from 1.7 bn in Q1'2024, coupled with 0.7% decrease in the income from fees and commissions to remain relatively unchanged from 0.1 bn in Q1'2024. The revenue mix shifted to 71:29 from 63:37 in Q1'2024 for the funded to Non-funded income owing to the 29.3% decrease in Non Funded Income faster than the 0.8% decrease in the Funded Income,
- Total operating expenses decreased by 8.7% to Kshs 5.0 bn from Kshs 5.4 bn in Q1'2024, driven by the 24.7% decrease in loan loss provisions to Kshs 0.4 bn from Kshs 0.5 bn in Q1'2024, coupled with a 7.6% decrease in staff costs to Kshs 2.2 bn from Kshs 2.4 bn in Q1'2024. The decrease in provisioning comes as a result of the 26.1% decrease in gross non-performing loans to Kshs 12.2 bn, from Kshs 16.5 bn in Q1'2024,
- Cost to Income Ratio (CIR) increased by 1.2% points to 42.7% from 41.6% in Q1'2024, owing to the 11.2% decrease in total operating income, which outpaced the 8.7% decrease in total operating expenses. Similarly, CIR without LLP increased by 1.8% points to 39.2% from 37.4% recorded in Q1'2024, and,
- Profit before tax decreased by 13.0% to Kshs 6.6 bn from Kshs 7.6 bn in Q1'2024, with effective tax rate increasing to 26.8% in Q1'2025 from 26.5% in Q1'2024. As such, profit after tax decreased by 13.5% to Kshs 4.9 bn, from Kshs 5.6 bn in Q1'2024.

### Balance Sheet

- The balance sheet recorded a contraction as total assets declined by 2.3% to Kshs 382.3 bn, from Kshs 391.3 bn in Q1'2024, driven by a 10.2% decrease in net loans and advances to Kshs 137.9 bn from Kshs 153.6 bn in Q1'2024, but was supported by a 46.2% increase in investments in government securities to Kshs 100.8 bn, from Kshs 69.0 bn in Q1'2024,
- Total liabilities declined by 5.3% to Kshs 306.2 bn from Kshs 323.4 bn in Q1'2024. This decline was driven by a 6.8% decrease in customer deposits to Kshs 285.2 bn, from Kshs 306.0 bn in Q1'2024,
- The loan to deposits ratio decreased to 48.3%, from 50.2% in Q1'2024 attributable to the faster 10.2% decline in net loans as compared to the 6.8% decline in customer deposits,
- The bank's Asset Quality improved, with Gross NPL ratio decreasing to 8.3% in Q1'2025, from 9.9% in Q1'2024, attributable to the 26.1% decrease in gross non-performing loans to Kshs 12.2 bn, from Kshs 16.5 bn in Q1'2024, relative to the slower 11.9% decrease in gross loans to Kshs 147.5 bn, from Kshs 167.4 bn recorded in Q1'2024,
- General Provisions (LLP) decreased by 31.1% to Kshs 5.4 bn in Q1'2025 from Kshs 7.8 bn in Q1'2024. The NPL coverage decreased to 78.7% in Q1'2025, from 83.7% in Q1'2024, attributable to the faster 31.1% decline in general provisions to Kshs 5.4 bn, from Kshs 7.8 bn in Q1'2024, compared to the 26.1% decrease in gross non-performing loans to Kshs 12.2 bn from Kshs 16.5 bn recorded in Q1'2024,
- Shareholders' funds increased by 12.0% to Kshs 76.1 bn in Q1'2025, from Kshs 68.0 bn in Q1'2024, supported by a 4.5% increase in retained earnings to Kshs 48.5 bn, from Kshs 46.4 bn in Q1'2024,
- Standard Chartered Bank Kenya Ltd remained capitalized with a core capital to risk-weighted assets ratio of 20.6%, 10.1% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 20.6% exceeding the statutory requirement of 14.5% by 6.1% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 5.0%, and a Return on Average Equity (ROaE) of 26.8%.

#### **Key Take-Outs:**

1. **Declined earnings growth** - Core earnings per share decreased by 13.5% to Kshs 12.9, from Kshs 14.9 in Q1'2024, mainly driven by the 11.2% decrease in total operating income to Kshs 11.6 bn, from Kshs 13.1 bn in Q1'2024 which outpaced the 8.7% decrease in total operating expenses to Kshs 5.0 bn, from Kshs 5.4 bn in Q1'2024,
2. **Improved asset quality** – The bank's Asset Quality improved, with Gross NPL ratio decreasing to 8.3% in Q1'2025, from 9.9% in Q1'2024, attributable to the 26.1% decrease in gross non-performing loans to Kshs 12.2 bn, from Kshs 16.5 bn in Q1'2024, relative to the slower 11.9% decrease in gross loans to Kshs 147.5 bn, from Kshs 167.4 bn recorded in Q1'2024, and,
3. **Decreased Lending** – The bank's loan book decreased by 10.2% to Kshs 137.9 bn from Kshs 153.6 bn in Q1'2024,.

Going forward, the factors that would drive the bank's growth would be:

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

#### **Valuation Summary**

- We are of the view that Standard Chartered Bank is a "Buy" with a target price of Kshs 328.6 representing an upside of 22.0%, from the current price of Kshs 269.3 as of 23<sup>rd</sup> May 2025,
- Standard Chartered Bank Kenya is currently trading at a P/TBV of 1.6x and a P/E of 7.4x vs an industry average of 0.9x and 3.3x respectively.