Kenya Listed Commercial Banks Review
Cytonn H1'2021 Banking Sector Report

"Reduced Provisioning levels Spur Earnings Growth"

Cytonn

10th September, 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**

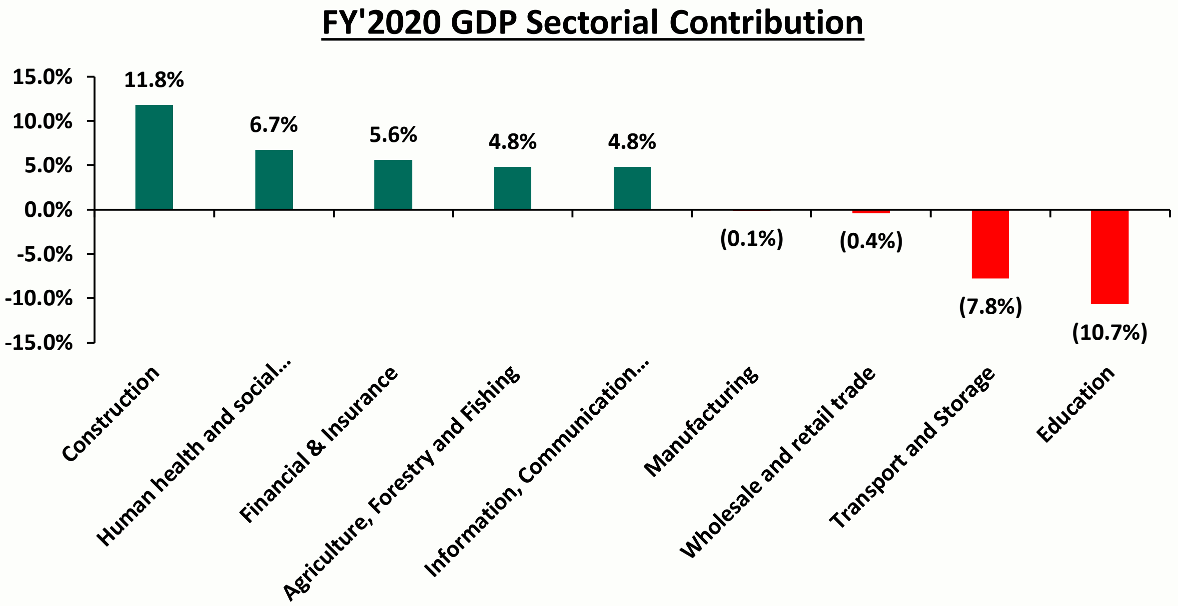
Our Business Structure

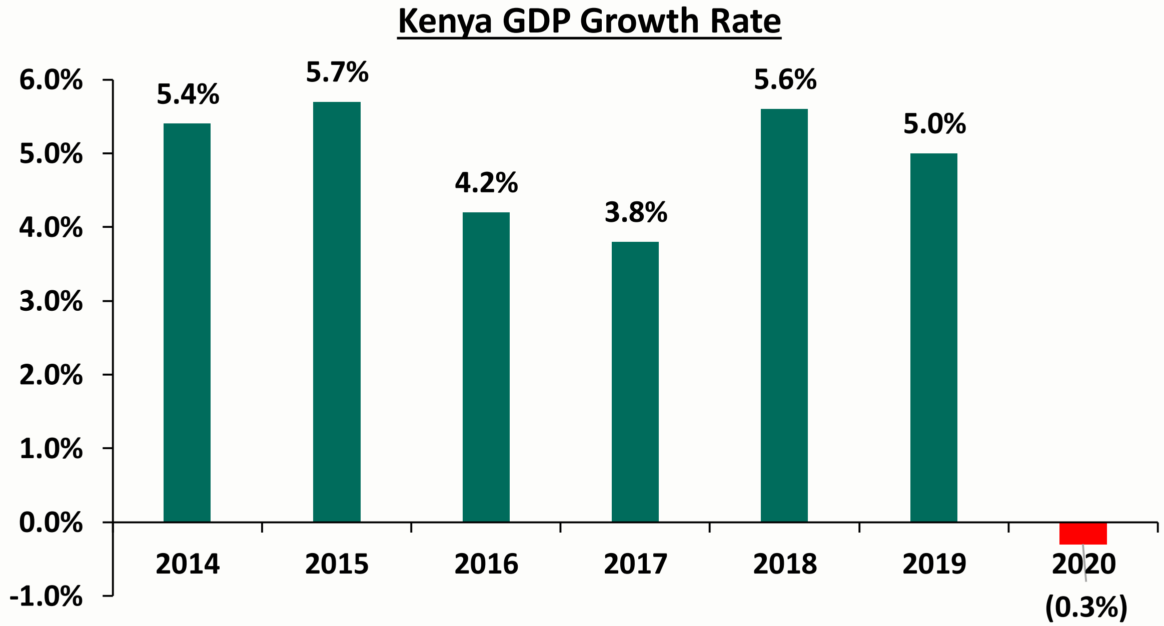
Cytonn Investments Management Plc

- **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





- According to Kenya National Bureau of Statistics (KNBS), the Kenyan economy recorded a 0.3% contraction in FY’2020, down from the revised growth of 5.0% recorded in FY’2019. This was the first contraction in 29 years, following the 0.3% contraction recorded in FY’1992
- We expect the economy to gradually improve in 2021 supported by the recovery of sectors such as tourism, hospitality and trade etc. which were worst hit by the pandemic

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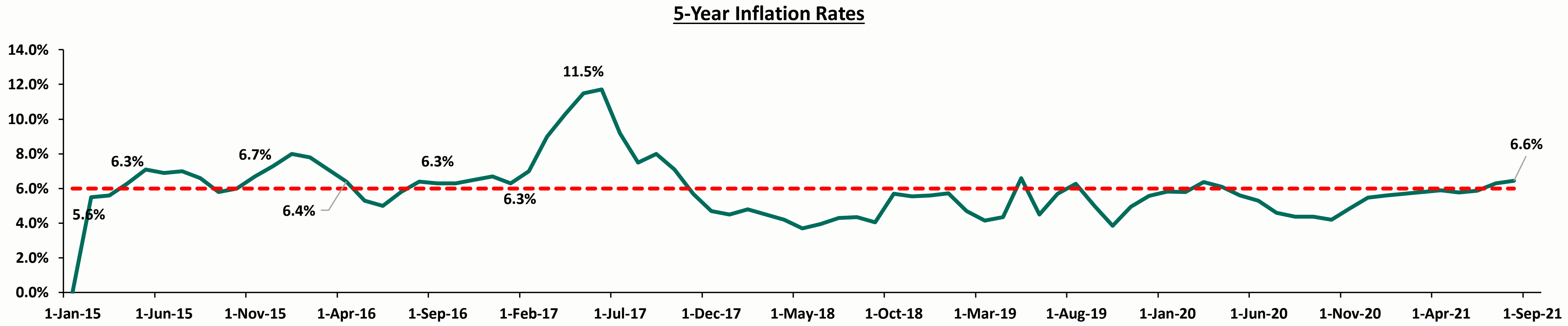
Inflation

Inflation averaged 6.0% in the first 8 months of 2021



**Source: KNBS*

- Inflation averaged 6.0% in the first eight months of 2021, a 0.7% points increase from the 5.3% recorded over the similar period in 2020. Key to note, August 2021 inflation increased to 6.6%, from the 6.4% recorded in July 2021 attributable to rising food prices. The rise in inflation rate earlier in the year was attributed to the rising fuel prices
- We expect inflation to be higher than 5.2%, which was the average in 2020, but remain within the government target range of 2.5% - 7.5%, mainly due to the rising global fuel prices and the new taxes introduced at the start of the year that will be transmitted to the final consumers

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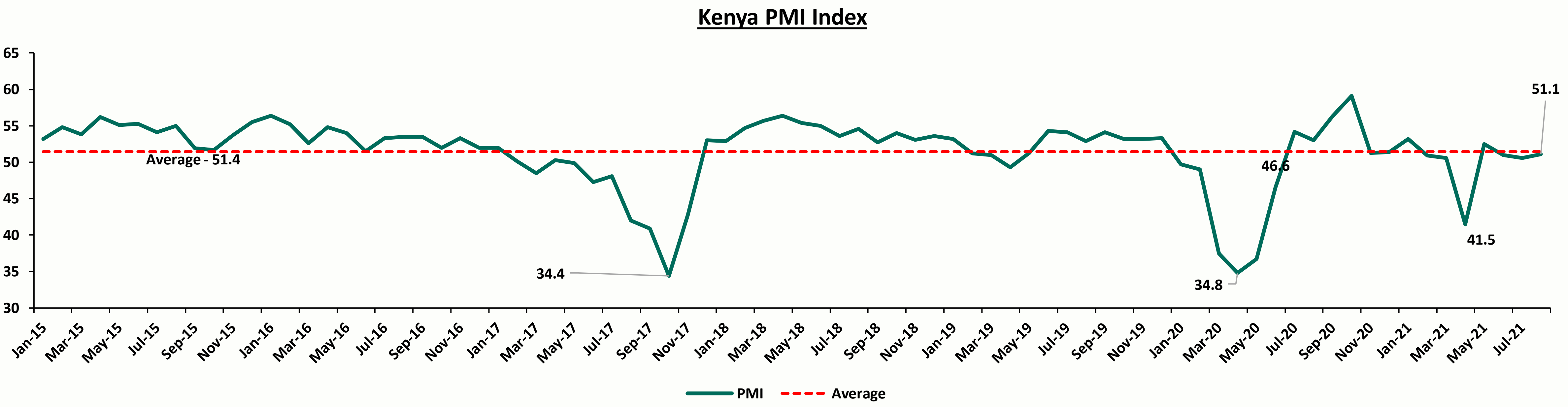
Stanbic PMI Index



**Source: Markit Economics*

- In 2021, the economic prospects of the country improved, with the Stanbic PMI index averaging 50.2 in the first 8 months of 2021, an increase from the 45.2 recorded during the same period last year. In H1'2021, the PMI Index improved, coming in at an average of 50.0, compared to 42.4 in H1'2020
- Key to note, a PMI reading of above 50 indicates improvements in the business environment, while a reading below 50 indicates a worsening outlook

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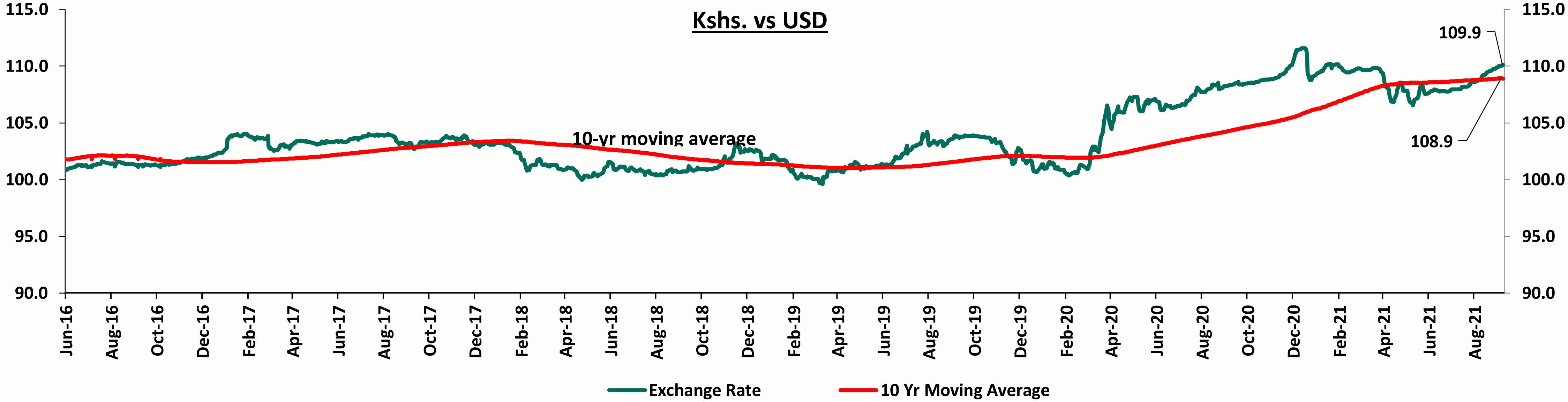
Currency

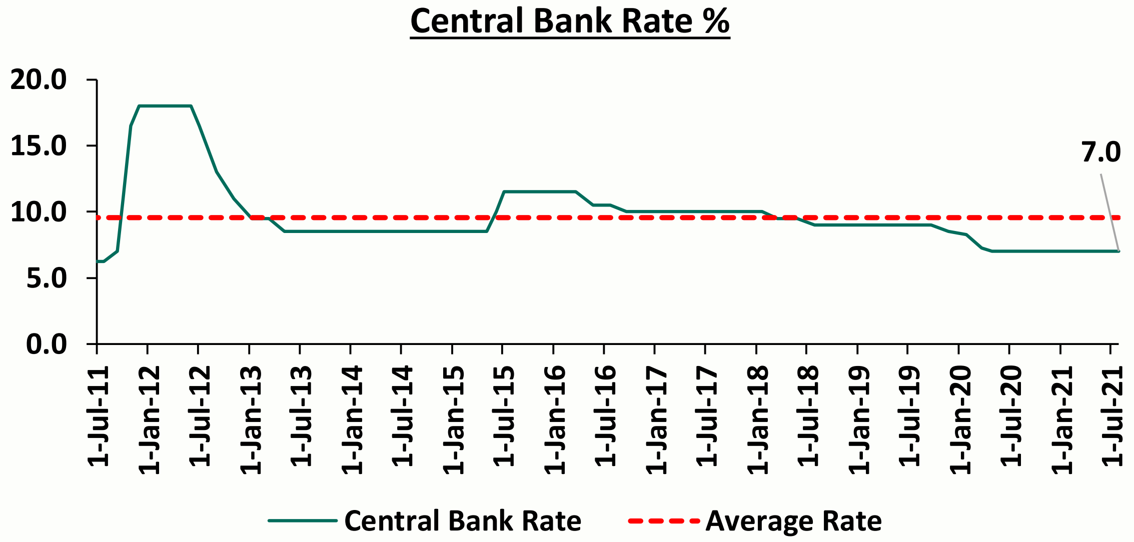
Year-to-date, the Kenyan shilling has depreciated by 0.6% against the US Dollar

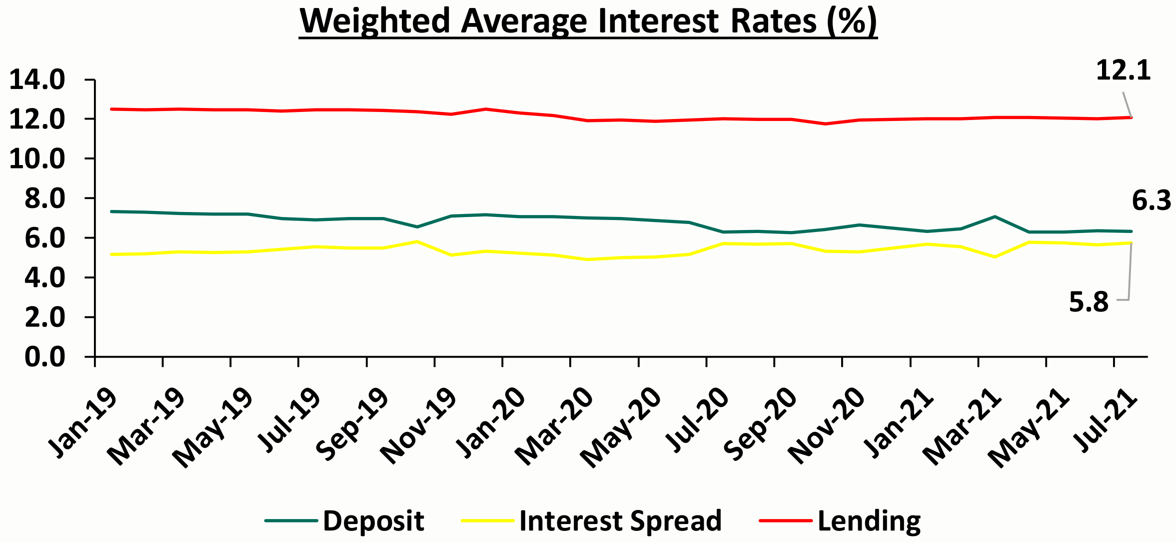


**Source: Central Bank of Kenya*

- The Kenya Shilling has depreciated by 0.6% year to date, in comparison to the 7.7% depreciation in 2020. The decline is mainly mostly attributable to increased dollar demand from general importers outweighing the supply of dollars from importers
- In our view, the shilling will come under pressure due to continued uncertainty globally making people prefer holding dollars and other hard currencies

Interest Rates and Monetary Policy





- Since the start of the year, the Monetary Policy Committee has met four 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 July 2021 from 12.3% seen in January 2020

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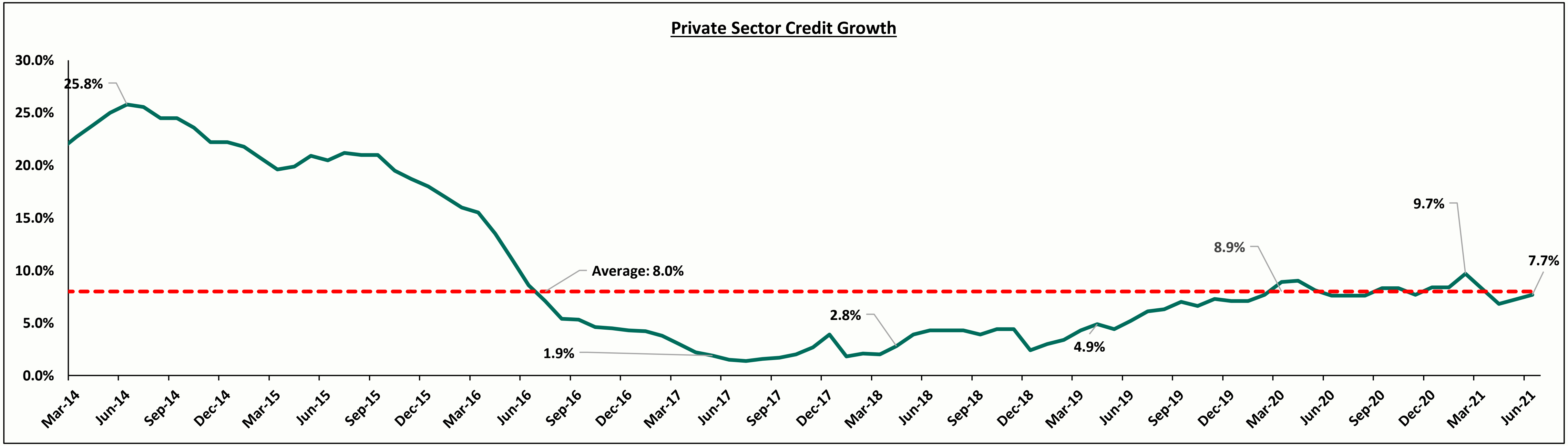
Private Sector Credit growth



**Source: KNBS*

- Growth in private sector credit increased to 7.7% in June 2021, from 6.8% in April, indicating that demand has improved as a result of increased economic activities coupled with the operationalization of the Credit Guarantee Scheme
- We 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 continuing pandemic and the new restriction measures put in place

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III. Banking Sector Overview

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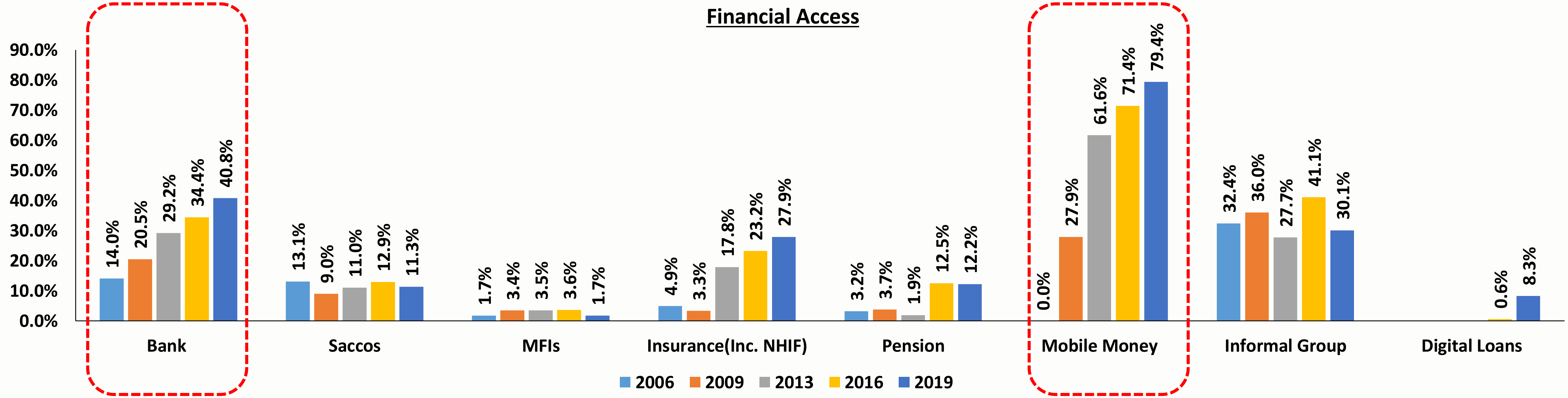
Kenyan Banking Sector Overview

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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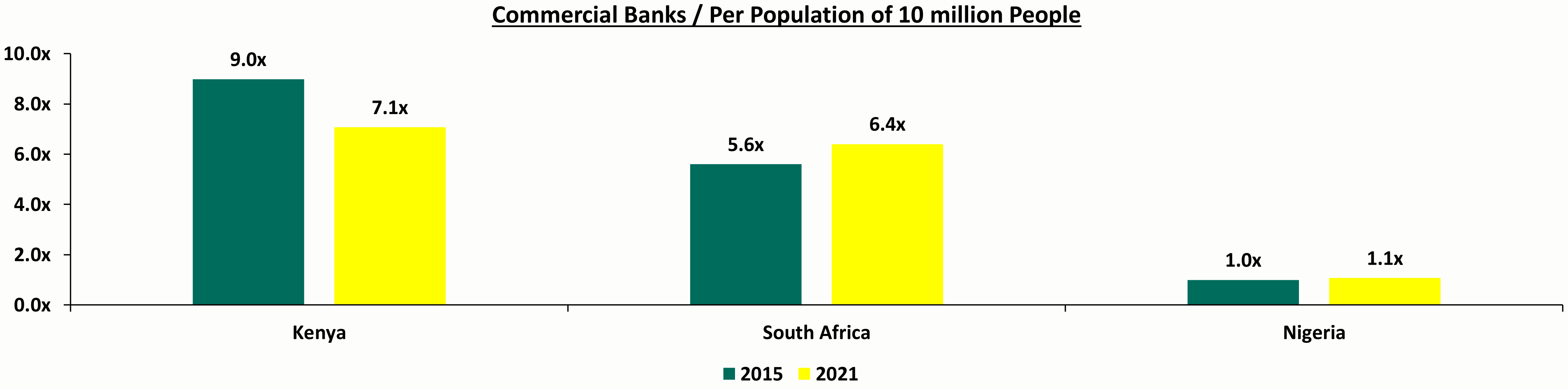
Source: Central Bank of Kenya, FinAccess report

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 7.1x, 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

Recent Developments in the Kenyan Banking Sector

1. Regulation:

a. Closure of Loan restructuring Window: The loan restructuring window as per the Banking Circular No 3 of 2020 by the Central Bank of Kenya provided to commercial banks and mortgage finance companies on loan restructuring came to an end on March 2nd 2021, having seen a total of loans worth Kshs 1.7 tn restructured, representing 57.0% of the banking sector's loan book. With this expiry, the banks are now back to normal loan risk management. However, despite the expiry of the loan restructuring window, some banks still supported their borrowers during the period with Equity Group, KCB Group and ABSA Bank Kenya restructuring loans amounting to approximately Kshs 339.1 bn as at H1'2021;

No.	Bank	Cumulative Amount Restructured* (Kshs bn)	% of Restructured loans to Gross loans	Performing Restructured Loans (Kshs bn)	% of Performing Restructured loans	H1'2021 y/y Change in Loan loss provision
1	Equity Group Holdings	171.0	31.0%	103.0	60.2%	(63.7%)
2	KCB Group	106.1	15.9%	95.8	90.3%	(40.3%)
3	ABSA Bank Kenya	62.0	26.7%	55.5	89.5%	(63.9%)
	Total	**339.1**		**254.3**	**75.0%**	

*Cumulative amount of loans restructured since the loan restructuring window opened in March 2020

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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 H1'2021:

a. On 3rd May 2021, I&M Group announced that it completed the 90.0% acquisition of Orient Bank Limited Uganda (OBL) share capital, after receiving all the required regulatory approvals. As highlighted in our Cytonn Weekly #50/2020, I&M Group was set to pay Kshs 3.6 bn for the deal. However, the final cost is expected to be higher after the base price was adjusted to take into account multiple factors such as appreciation of the Ugandan shilling against the US dollar, integration support, the short-term financial performance of the subsidiary and the sale of its property. I&M Group will take over 14 branches from OBL, taking its total branches to 89, from 66 branches as at the end of 2020. For more information, please see Cytonn Weekly #18/2021, and,

b. On 16th May 2021, Equity Group disclosed that it had acquired an additional 7.7% stake valued at Kshs 996.0 mn in Equity bank Congo (EBC) from the German Sovereign Wealth Fund (KfW). The acquisition raised the total ownership in EBC to 94.3%, indicating that they value the company at Kshs 14.2 bn. This follows the acquisition of 66.5% stake in Banque Commerciale Du Congo (BCDC) by Equity Group at a cost of Kshs 10.2 bn in August 2020. For more information, please see Cytonn Weekly#20/2021

Recent Developments in the Kenyan Banking Sector

Other mergers and acquisitions activities announced after H1'2021 include;

i. 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 and a 100.0% stake in Africa Banking Corporation Tanzania Limited (BancABC), subject to shareholder approval and regulatory approval in the respective countries. 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. Regulatory approval is however still pending with respect to the KCB's acquisition of BancABC from Atlas Mara. 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 BanABC's acquisition, KCB will pay to the seller a cash consideration to be determined based on a price to book value ratio using a multiple of 0.4x of the net asset value of BancABC at completion. For more information on the acquisition, see our Cytonn Weekly #19/2021.

Recent Developments in the Kenyan Banking Sector

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

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs bn)	Transaction Stake	Transaction Value (Kshs bn)	P/Bv Multiple	Date
I&M Group	Orient Bank Limited Uganda	3.3	90.0%	3.6	1.1x	April-21
KCB Group	Banque Populaire du Rwanda, and, ABC Tanzania	4.5 (Banque Populaire du Rwanda, only. ABC Tanzania financials unknown)	100.0%	6.1	N/D	Acquisition of BPR Rwanda – August 2021, 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 Group	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**

Recent Developments in the Kenyan Banking Sector

3. **Asset Quality Deterioration:** Asset quality for listed banks deteriorated in H1'2021, with the Gross NPL ratio rising by 1.1% points to 12.7% from 11.6% in H1'2020. The deterioration in asset quality was due to the coronavirus-induced downturn in the economy, which led to an uptick in the non-performing loans. The NPL coverage rose to 64.0% in H1'2021, from 57.8% recorded in H1'2020, in accordance with IFRS 9, where banks are expected to provide both for the incurred and expected credit losses. The significantly higher provisional requirement levels coupled with the increased credit risk led to slower loan growth in H1'2021, which came in at 11.7% compared to a growth of 14.5% in H1'2020. According to the July 2021 MPC Press Release, the NPL ratio for the entire banking sector stood at 14.0% as at June 2021, an improvement from 14.2% in April 2021, signifying an improvement in asset quality for the sector in Q2'2021

Recent Developments in the Kenyan Banking Sector

4. **Capital Raising:** In H1'2021, listed banks' turned to borrowing from international institutions to not only strengthen their capital position but also boost their ability to lend to the perceived riskier Micro Small and Medium Sized Enterprises (MSMEs) segment in order to support the small businesses in the tough operating environment occasioned by the COVID-19 pandemic. The capital raising however slowed down in Q2'2021 after significant activity in Q1'2021. Some of the loans taken up for onward lending to MSMEs include:
    a. Co-operative Bank of Kenya revealed it had taken Kshs 11.0 bn in international funding to support MSMEs in 2021,
    b. Equity Group disclosed loan facilities amounting to Kshs 62.9 bn for onward lending in H1'2021, the highest in the banking sector,
    c. KCB Bank received a USD 150.0 mn (Kshs 16.4 bn) loan from the IFC, The SANAD Fund for MSMEs (SANAD), the Belgium Investment Company for Developing Countries (BIO) and Symbiotics in March 2021 to help the bank increase lending for climate-friendly projects and smaller businesses especially those owned by women, and,
    d. I&M Bank received a USD 50.0 mn (Kshs 5.4 bn) from IFC in May 2021 to expand lending to SMEs. The loan, with a five year grace period and maturity of 7 years will also serve as an additional capital buffer for the bank

Recent Developments in the Kenyan Banking Sector

The table below highlights the disclosed loan facilities that banks have secured for capital injection and lending to the MSMEs in H1'2021:

Bank	Amount Borrowed For Onward Lending (Kshs bns)	Purpose
Equity Bank	62.9*	MSME lending
KCB Bank	16.4	MSME lending
Cooperative Bank	11.0	**MSME lending and Tier II Capital
I&M Bank	5.4	**MSME lending and Tier II Capital
Total	**95.7**	

Includes the Kshs 2.6 bn grant offered by 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*

Banking Sector Growth Drivers

i. **Growth in Interest income:** With interest income growth at 15.0% in H1’2021 outpacing the 10.4% growth recorded in H1’2020, we believe that interest income growth will remain a key industry driver going forward. 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, which coupled with increased lending is expected to lead to an increase in the overall interest income. Key to note, some banks are still supporting borrowers after the expiry of the loan restructuring window and this could slow down the recovery of interest income in the medium term,

ii. **Revenue Diversification:** In H1’2021, Non-Funded Income recorded a 19.2% weighted average growth, a significant turnaround from the 1.1% decline recorded in H1’2020, attributable to the expiry of the waiver on fees and commissions on loans and advances issued by the CBK on March 2020. The banking sector’s Non-Funded Income to Operating Income also improved, coming in at 35.6% in H1’2021, compared to 35.2% in H1’2020. 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 spur 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. 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. The increase in mobile-banking transactions therefore provides an opportunity for banks to increase their Non-Funded income going forward,

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Banking Sector Growth Drivers

iii. **Provisioning:** Loan Loss Provisions recorded a decline of 24.8% in H1’2021, compared to a growth of 233.2% in FY’2020 and a growth of 5.5% in Q1’2021, signifying an improvement in business conditions and a reduction of credit risk. However, given that the success of COVID-19 inoculations is reliant on donations from foreign countries, we believe that a cautious approach is still required to manage risk in the banking sector,

iv. **Cost Rationalization:** Majority of the banks have been 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. With the COVID-19 pandemic necessitating contactless transactions, banks reduced front-office operations, thereby cutting the number of staff required and by extension, reducing operating expenses and hence, improving operational efficiency. 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 H1’2021, and,

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 to further consolidate and buy out smaller banks. Consolidation will be key for most of the smaller banks that suffered losses during the pandemic, and would also benefit larger banks with the opportunity to improve their asset base. We believe that consolidation could also increase post-COVID as tier one banks resume their expansion strategies both locally and regionally as the economy improves

IV. Listed Banking Sector Metrics

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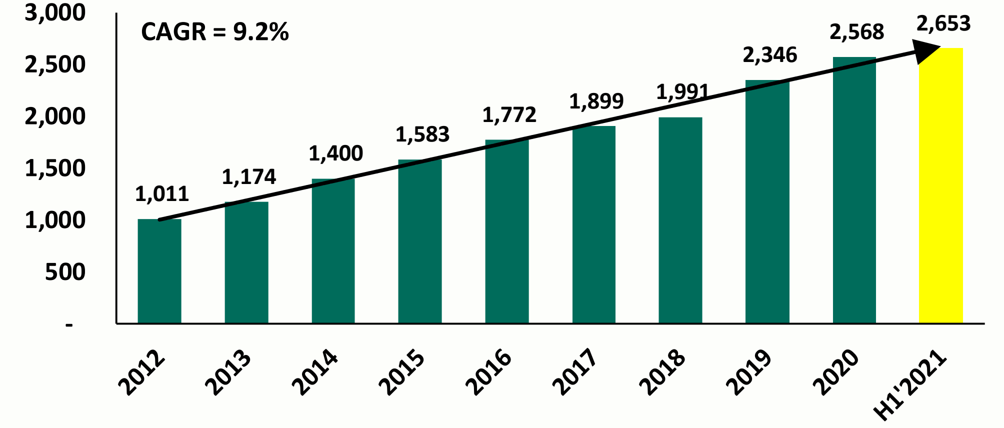
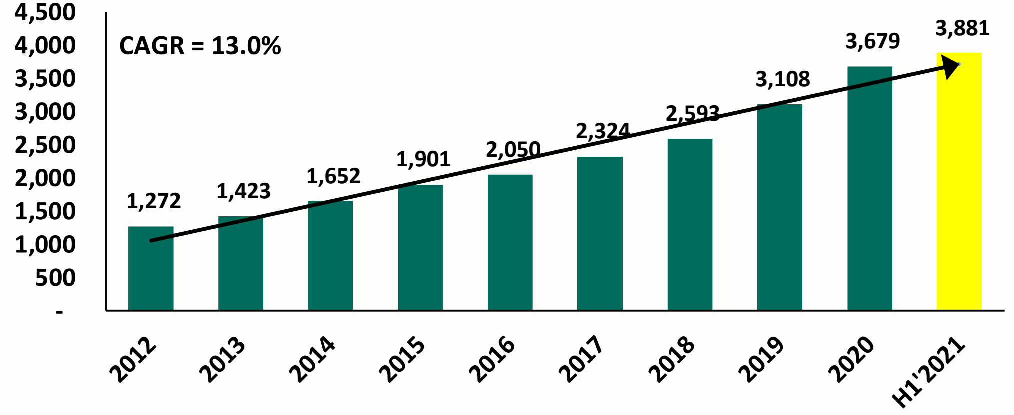
Listed Banking Sector Metrics

H1’2021 deposits witnessed a faster 18.4% growth as compared to the 11.7% growth in loans

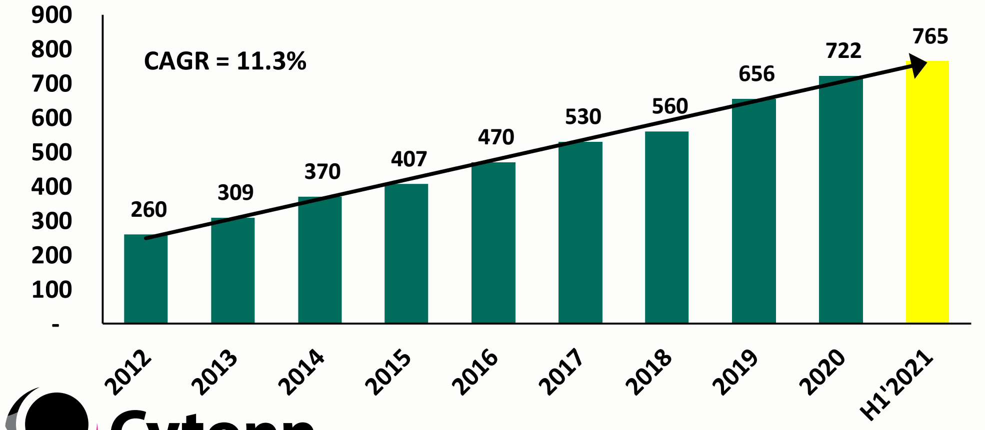
Loans and Advances (Kshs Bn)



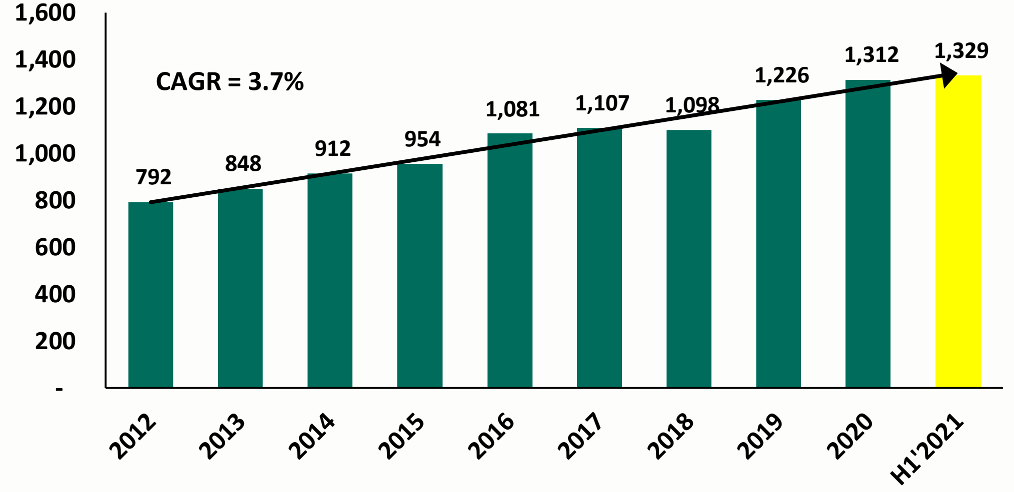
Deposits (Kshs Bn)



Shareholders Equity (Kshs Bn)



Bank Branches



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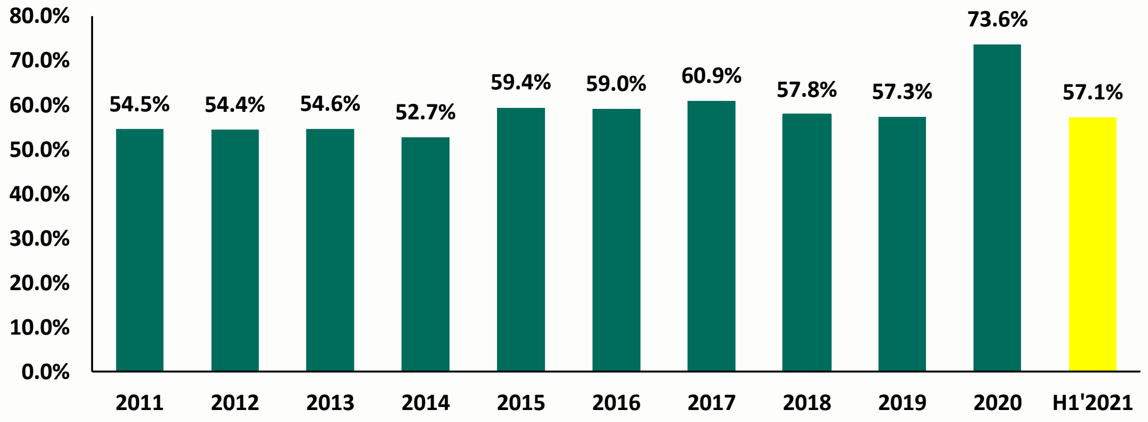
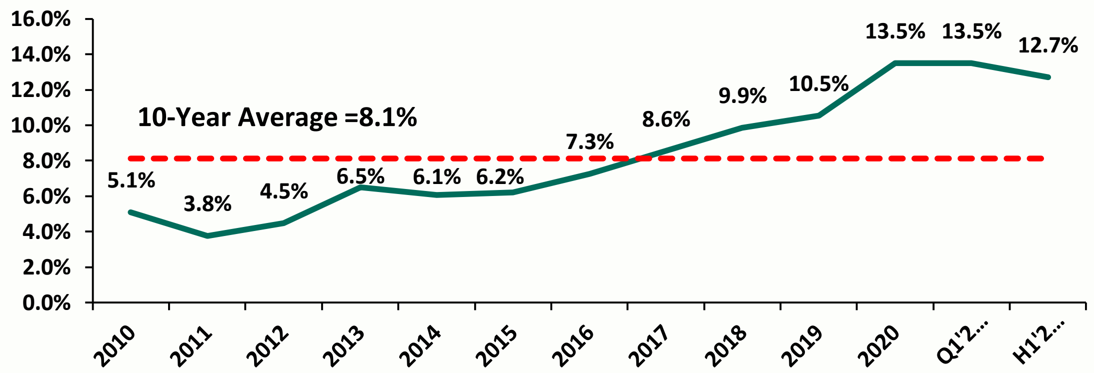
Listed Banking Sector Metrics

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

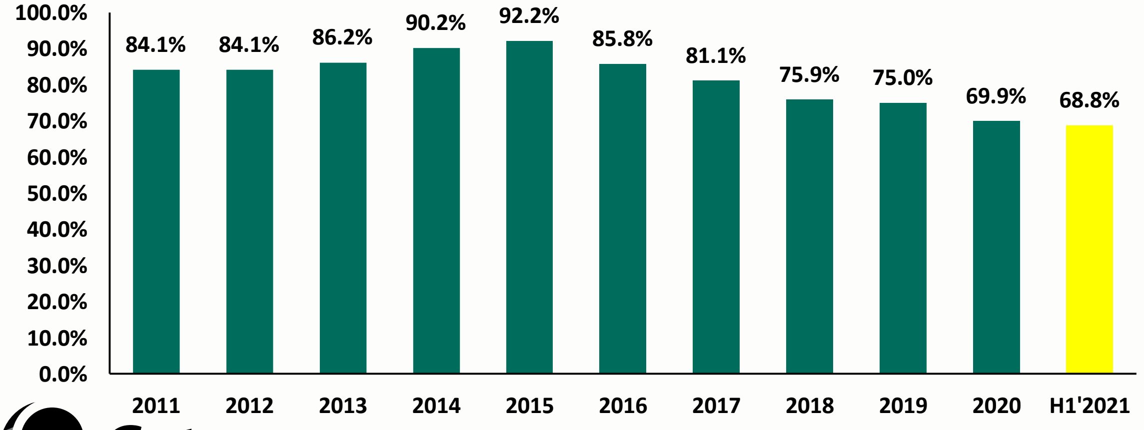
Cost to Income Ratio



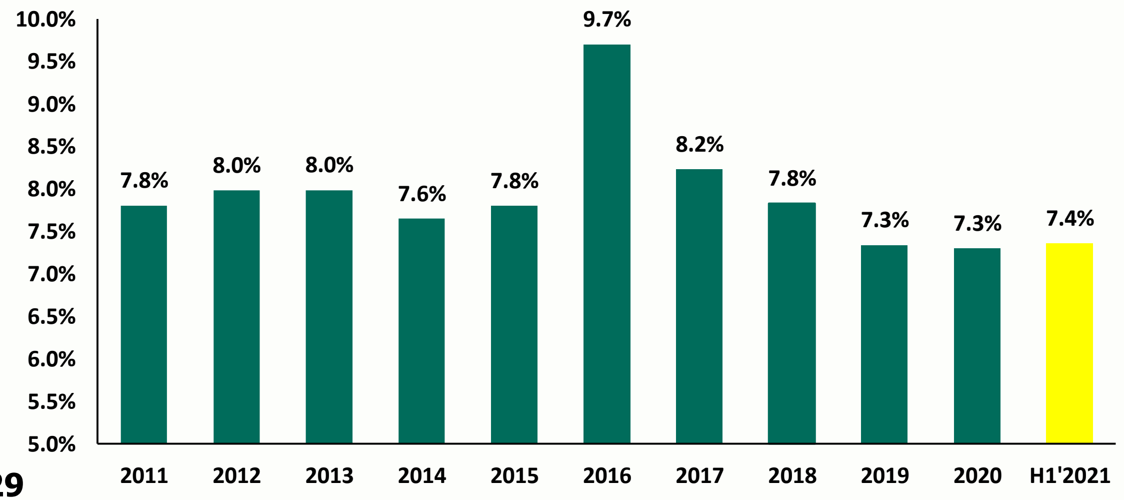
NPL Ratio



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 136.0% in H1'2021, compared to a decline of 33.6% in H1'2020

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
I&M Group	32.2%	5.7%	30.8%	9.6%	43.3%	10.8%	73.9%	56.3%	14.5%
Absa Bank	846.0%	7.0%	32.8%	6.1%	(9.4%)	8.4%	82.9%	55.5%	19.3%
Equity Bank	97.7%	7.6%	40.0%	50.7%	11.8%	28.9%	61.6%	54.1%	21.4%
Coop Bank	2.3%	8.6%	35.4%	6.0%	48.7%	10.7%	73.9%	64.1%	12.7%
KCB Group	101.9%	8.7%	28.9%	3.7%	2.2%	8.4%	77.2%	57.2%	19.2%
SCBK	37.5%	6.4%	35.4%	8.5%	(3.2%)	(3.0%)	46.8%	51.8%	13.7%
Stanbic Bank	37.2%	4.4%	44.3%	(9.4%)	(2.7%)	(11.7%)	79.9%	48.9%	11.9%
DTBK	20.1%	5.2%	25.3%	11.9%	19.7%	1.4%	65.1%	62.9%	6.4%
NCBA Group	76.9%	6.1%	44.4%	12.0%	12.9%	(3.5%)	54.8%	67.7%	9.1%
HF Group	(17.4%)	4.2%	26.1%	(3.5%)	1.9%	(7.5%)	93.3%	125.5%	(21.2%)
H1'2021 Weighted Average	**136.0%**	**7.4%**	**35.6%**	**18.4%**	**12.4%**	**11.7%**	**68.8%**	**57.1%**	**16.9%**
H1'2020 Weighted Average	**(33.6%)**	**7.0%**	**35.2%**	**18.5%**	**25.9%**	**14.5%**	**71.5%**	**67.3%**	**15.4%**

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Takeout from Key Operating Metrics

Listed banks recorded a 136.0% increase in core Earnings Per Share (EPS) in H1'2021

1. For the first half of 2021, core Earnings per Share (EPS) recorded a weighted average growth of 136.0%, compared to a weighted average decline of 33.6% in H1'2020 for the listed banking sector. The performance is however largely skewed by the strong performance from ABSA, KCB and Equity Group of 846.0%, 101.9% and 97.7%, respectively,
2. The Banks have recorded a weighted average deposit growth of 18.4%, a decline from the 18.5% recorded in H1'2020,
3. Interest income grew by 15.0%, compared to a growth of 10.4% recorded in H1'2020. Notably, the weighted average Yield on Interest Earning Assets (YIEA) for the listed banks increased to 9.9%, from the 9.7% recorded in H1'2020 for the listed banking sector, 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 7.4%, a 0.4% points increase from the 7.0% recorded in H1'2020 for the listed banking sector,

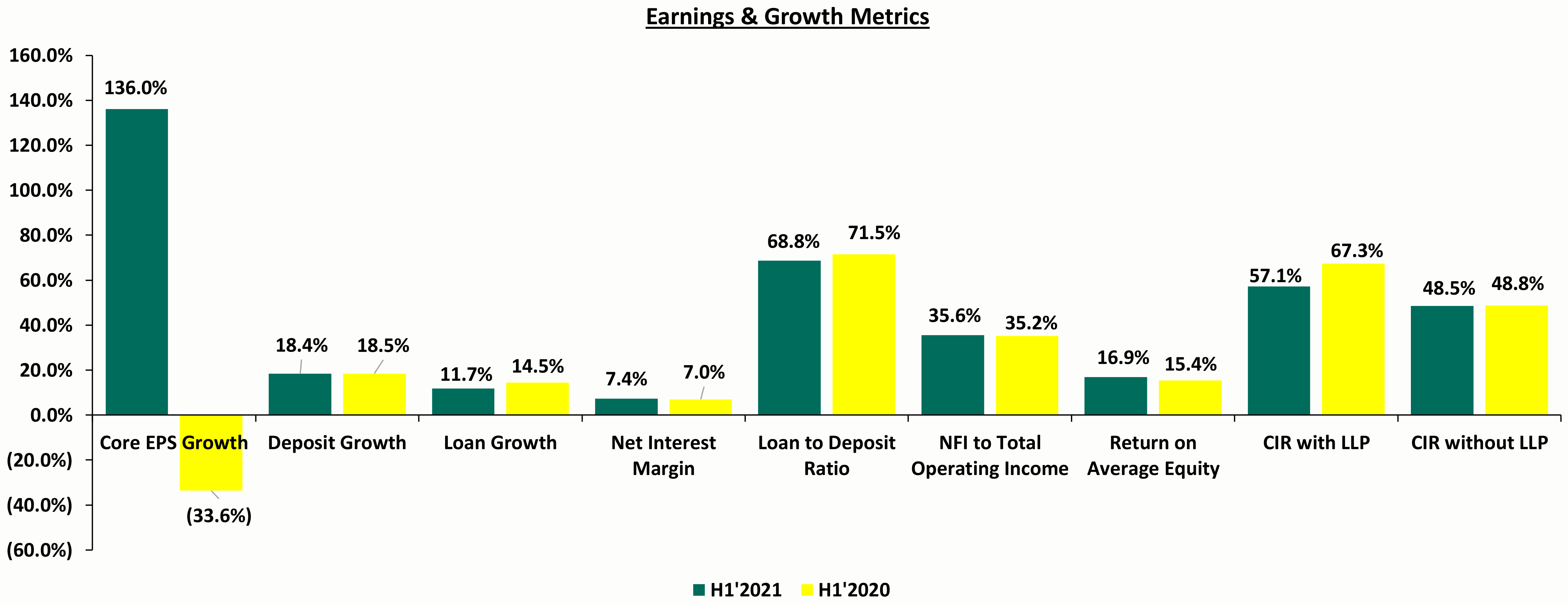
Takeout from Key Operating Metrics

Listed banks recorded a 19.2% y/y Non Funded Income growth, compared to the 1.1% decline recorded in H1’2020

4. Interest expense grew at a faster pace, by 10.8%, compared to the 10.0% growth in H1’2020 while cost of funds declined, coming in at a weighted average of 2.5% in H1’2021, from 2.9% in H1’2020, 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 11.7%, lower than the 14.5% growth recorded in H1’2020. The loan growth was also outpaced by the 12.4% growth in government securities, an indication that the banks’ are still taking a cautious approach when it comes to lending, and,
6. Non-Funded Income grew by 19.2%, compared to the 1.1% decline recorded in H1’2020. This can be attributable to the faster growth in the fees and commission which grew by 16.5% compared to a decline of 3.4% in H1’2020, and points to the diversification of income in the banking sector

Listed Banks Earnings and Growth Metrics Cont...

The banking sector displayed resilience as evidenced by the increase in the core-earnings per share by 136.0%, as compared to a decline of 33.6% in H1'2020



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Listed Banks Operating Metrics

The sectors asset quality continues to deteriorate as evidenced by the high NPL ratio of 12.7%, from 11.6% recorded in H1'2020

Bank	Deposit/Branch (bn)	Gross NPL Ratio	NPL Coverage	Tangible Common Ratio	Non Funded Income/Revenue
Absa Bank	3.1	7.9%	70.9%	13.0%	32.8%
DTBK	2.3	10.4%	41.8%	15.1%	25.3%
Equity Bank	2.4	11.4%	63.2%	12.5%	40.0%
I&M Group	3.1	10.4%	67.2%	15.9%	30.8%
Stanbic Bank	10.4	22.6%	51.2%	13.8%	44.3%
NCBA Group	6.2	16.7%	68.0%	12.7%	44.4%
KCB Group	2.2	14.4%	61.6%	14.5%	28.9%
SCBK	7.7	15.1%	80.1%	14.0%	35.4%
Coop Bank	2.3	15.2%	63.5%	15.2%	35.4%
HF Group	1.7	22.6%	65.1%	14.5%	26.1%
Weighted Average H1'2021*	**3.5**	**12.7%**	**64.0%**	**13.8%**	**35.6%**
Weighted Average H1'2020**	**3.5**	**11.6%**	**57.8%**	**14.2%**	**35.2%**

*Market cap weighted average as at 9th September 2021
**Market cap weighted average as at 8th September 2020

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Listed Banks Trading Metrics

The listed banking sector is currently trading at an average P/TBV of 1.0x and average P/E of 6.1x

Bank	No. of shares (bn)	Market Cap (bn)	P/E	Price*	P/TBV
HF Group	0.4	1.4	24.6x	3.7	0.2x
NCBA Group	1.6	45.6	6.9x	27.7	0.7x
DTBK	0.3	18.0	4.4x	64.3	0.3x
Coop Bank	5.9	78.3	7.1x	13.4	0.9x
I&M Group	1.7	37.2	4.1x	22.5	0.6x
KCB Group	3.2	148.8	5.4x	46.3	1.0x
Stanbic Bank	0.4	35.8	5.8x	90.5	0.8x
Absa Bank	5.4	55.9	6.1x	10.3	1.1x
SCBK	0.3	46.4	6.5x	135.0	1.0x
Equity Bank	3.8	188.1	6.5x	49.9	1.4x
Weighted Average H1'2021*			**6.1x**		**1.0x**
Weighted Average H1'2020**			**6.2x**		**1.0x**

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

**Prices as at 9th September 2021*

***Prices as at 8th September 2020*

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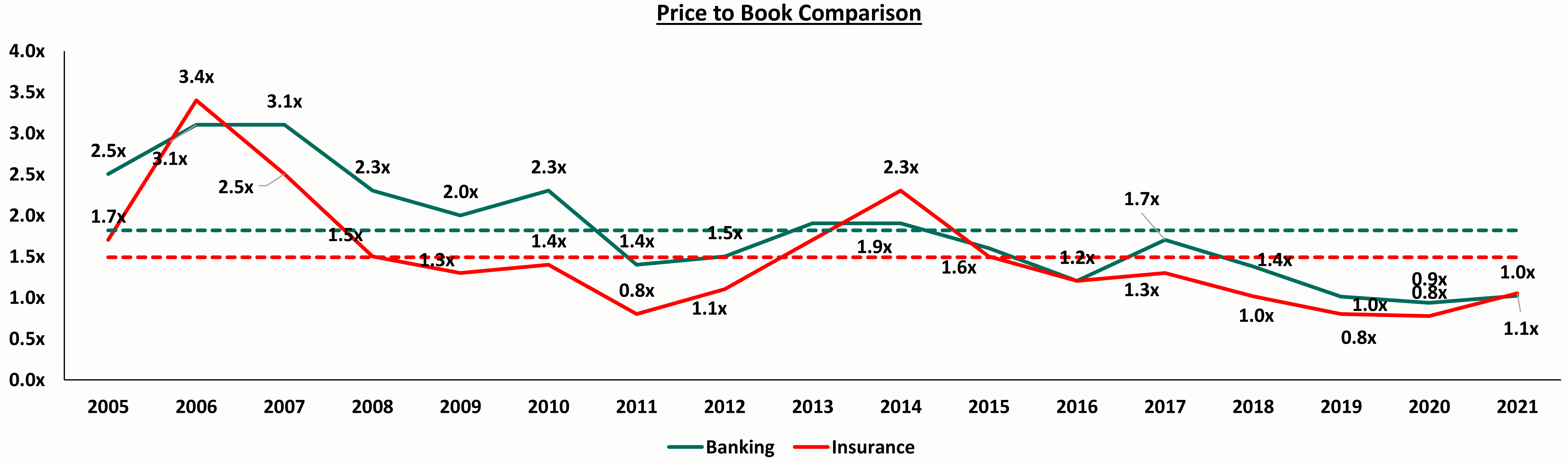
Listed Banks & Insurance Trading Metrics

Listed banks trade at an average P/B of 1.0x, lower than the insurance sector, which is priced at 1.1x. 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 PBV of 1.0x, lower than listed insurance companies at 1.1x, 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 7.9% vs an industry average of 12.7%

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	4	2	4	8	9	5	1	2	8	6	1	51
2	I&M	6	5	4	7	3	3	4	4	4	1	7	4	52
3	KCB	3	6	3	1	1	8	9	6	8	4	8	2	59
4	Stanbic	2	1	7	9	7	5	1	2	9	7	2	8	60
5	Equity	8	3	1	3	2	10	6	5	7	10	3	3	61
6	SCBK	10	2	5	5	5	7	2	7	1	6	4	9	63
7	Coop	5	8	6	2	4	6	8	8	6	2	5	5	65
8	NCBA	9	9	8	6	9	4	3	9	3	9	1	7	77
9	DTBK	7	7	9	8	6	2	7	3	10	3	10	6	78
10	HF Group	4	10	10	10	10	1	10	10	5	5	9	10	94

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Valuation Summary of Listed Banks

I&M Group presents the highest upside with a total potential return of 48.0%

(all values in Kshs)

Bank	Current Price	Target Price	Upside/(Downside)	Dividend Yield	Total Potential Return
I&M Group	22.5	32.0	42.2%	5.8%	48.0%
Absa Bank	10.3	13.8	34.0%	9.7%	43.7%
KCB Group	46.3	53.4	15.3%	4.3%	19.7%
NCBA Group Plc	27.7	31.0	12.1%	6.3%	18.4%
Equity Bank	49.9	57.5	15.4%	2.0%	17.4%
SCBK	135.0	145.4	7.7%	8.9%	16.6%
Coop Bank	13.4	14.1	5.3%	7.5%	12.8%
Stanbic Holdings	90.5	96.6	6.7%	5.5%	12.3%
DTBK	64.3	67.3	4.7%	4.2%	8.9%
HF Group	3.7	3.1	(16.9%)	0.0%	(16.9%)

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Cytonn Banking Report - Comprehensive Ranking

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

(all values in Kshs unless stated otherwise)

Bank	Franchise Value Rank	Intrinsic Value Rank	Weighted Rank	Q1'2021	H1'2021
I&M Group	2	1	1.4	1	**1**
ABSA Bank	1	2	1.6	5	**2**
KCB Group Plc	3	3	3.0	2	**3**
Equity Group Holdings Ltd	5	5	5.0	3	**4**
NCBA Group Plc	8	4	5.6	5	**5**
SCBK	6	6	6.0	9	**6**
Stanbic Bank/Holdings	4	8	6.4	4	**7**
Co-operative Bank	7	7	7.0	8	**8**
DTBK	9	9	9.0	7	**9**
HF Group Plc	10	10	10.0	10	**10**

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VI. Appendix

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A. Tier I Banks

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I. Equity Group Holdings

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Equity Group Summary of Performance – H1’2021

- Profit before tax increased by 99.0% to Kshs 23.8 bn, from Kshs 12.0 bn in H1’2020. Profit after tax increased by 97.7% to Kshs 17.9 bn in H1’2021, from Kshs 9.1 bn recorded in H1’2020 with the effective tax rate increasing to 24.7% from 24.2% in H1’2020,
- Total operating income rose by 33.0% to Kshs 51.9 bn, from Kshs 39.0 bn recorded in H1’2020. This was driven by a 44.2% increase in Non-Funded Income (NFI) to Kshs 20.8 bn, from Kshs 14.4 bn in H1’2020, coupled with a 26.5% increase in Net Interest Income (NII) to Kshs 31.2 bn, from Kshs 24.6 bn in H1’2020,
- Total operating expenses grew by 3.8% to Kshs 28.1 bn in H1’2021, from Kshs 27.1 bn recorded in H1’2020, mainly driven by Staff Costs, which increased by 26.8% to Kshs 8.5 bn in H1’2021 from Kshs 6.7 bn recorded in H1’2020,
- The balance sheet recorded an expansion as Total Assets increased by 50.0% to Kshs 1.1 tn in H1’2021, from Kshs 0.7 tn recorded in H1’2020, and,
- The bank’s asset quality deteriorated, as evidenced by the 0.4% points rise in the NPL ratio to 11.4% in H1’2021, from 11.0% in H1’2020. Micro enterprises sectors and SMEs contributed the largest portion of the Non-Performing loans with NPL Ratios of 17.4% and 14.9%, 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

Cytonn

Financial Statements Extracts

Equity Group's PAT is expected to grow at a 5-year CAGR of 26.5%

Income Statement	2018	2019	2020	2021f	2022f
Net Interest Income	41.4	45.0	55.1	73.3	91.0
Non Funded Income	25.9	30.8	38.5	42.9	47.3
Total Operating Income	67.3	75.8	**93.7**	**116.2**	**138.3**
Loan Loss Provision	(3.7)	(5.3)	(26.6)	(10.3)	(11.1)
Other Operating Expenses	(35.1)	(39.0)	(46.0)	(57.6)	(68.8)
Total Operating Expenses	**(38.8)**	**(44.3)**	**(72.7)**	**(68.0)**	**(79.9)**
Profit Before Tax	28.5	31.5	22.2	48.2	58.4
% PAT Change YoY	**4.8%**	**13.8%**	**(10.9%)**	**67.8%**	**21.3%**
EPS	5.3	6.0	5.3	8.9	10.8
DPS	2.0	-	-	1.0	2.0
Cost to Income (with LLP)	57.7%	58.5%	77.6%	58.5%	57.7%
Cost to Income (without LLP)	52.2%	51.5%	49.2%	49.6%	49.7%
NIM	**8.5%**	**8.4%**	**7.6%**	**7.6%**	**8.1%**
ROaE	21.2%	22.0%	16.5%	20.1%	18.2%
ROaA	3.6%	3.6%	2.4%	2.8%	3.0%
Balance Sheet	**2018**	**2019**	**2020**	2021f	2022f
Net Loans and Advances	297.2	366.4	477.8	516.9	588.3
Government Securities	130.4	138.6	175.7	227.8	244.3
Other Assets	145.7	168.7	361.5	444.6	463.2
Total Assets	**573.4**	**673.7**	**1,015.1**	**1,228.4**	**1,351.0**
Customer Deposits	422.8	482.8	740.8	871.3	958.4
Other Liabilities	55.7	79.2	135.7	147.2	149.2
Total Liabilities	**478.4**	**561.9**	**876.5**	**1,018.4**	**1,107.6**
Shareholders Equity	**94.1**	**110.7**	**132.2**	203.1	236.5
Number of Shares	**3.8**	**3.8**	**3.8**	**3.8**	**3.8**
Book value Per share	24.9	29.3	35.0	53.8	62.4
% Change in BPS YoY	**1.0%**	**17.7%**	**19.5%**	**53.7%**	**15.9%**

Cytonn

Valuation Summary

Equity Group is undervalued with a total potential return of 19.0%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	70.2	40.0%	28.1
Residual Income	55.6	35.0%	19.4
PBV Multiple	37.5	20.0%	7.5
PE Multiple	50.0	5.0%	2.5
Target Price			**57.5**
Current Price			**49.2**
Upside/(Downside)			17.0%
Dividend Yield			2.0%
Total Potential Return			**19.0%**

Cytonn

II. KCB Group

KCB Group Summary of Performance – H1’2021

- Profit before tax increased by 70.9% to Kshs 21.9 bn from Kshs 12.8 bn in H1’2020 due to the 9.0% decrease in total operating expenses to Kshs 29.3 bn, from Kshs 32.2 bn in H1’2020. Profit after tax increased by 101.9% to Kshs 15.3 bn in H1’2021, from Kshs 7.6 bn in H1’2020, with the effective tax declining to 30.2%, from 40.9% in H1’2020,
- Total operating income increased by 13.7% to Kshs 51.2 bn, from Kshs 45.0 bn in H1’2020 driven by an 17.2% increase in Net Interest Income (NII) to Kshs 36.4 bn, from Kshs 31.1 bn in H1’2020, coupled with a 5.9% increase in Non-Funded Income (NFI) to Kshs 14.8 bn, from Kshs 14.0 bn in H1’2020,
- Total operating expenses decreased by 9.0% to Kshs 29.3 bn, from Kshs 32.2 bn in H1’2020, largely driven by a 40.3% decline in Loan Loss Provisions (LLP) to Kshs 6.6 bn, from Kshs 11.0 bn in H1’2020. Staff costs increased by 21.4% to Kshs 12.3 bn from Kshs 10.1 bn in H1’2020,
- The group’s asset quality deteriorated, with the NPL ratio rising to 14.4% in H1’2021, from 13.8% in H1’2020. The rise in non-performing loans was mainly attributable to the poor performance from the Corporate segment, MSME segment, mortgage segment and Check-Off loans recording NPL ratios of 17.9%, 11.8%, 10.5% 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, namely Tanzania and 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 and African Banking Corporation Ltd Tanzania (ABC Tanzania). This will see the bank expand its operations in the Tanzanian and 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

Cytonn

Financial Statements Extracts

KCB Group’s PAT is expected to grow at a 5-year CAGR of 22.5%

Income Statement	2019	2020	2021e	2022f
Net Interest Income	56.1	67.9	79.2	91.5
Non Funded Income	28.2	28.5	33.8	37.7
Total Operating Income	**84.3**	**96.4**	**113.0**	**129.2**
Loan Loss Provision	8.9	27.5	22.9	22.7
Other Operating Expenses	38.5	43.2	50.9	57.7
Total Operating Expenses	**47.4**	**70.7**	**73.9**	**80.4**
Profit Before Tax	36.9	25.7	39.1	48.8
% PAT Change YoY	**4.9%**	**(22.1%)**	**39.6%**	**24.7%**
EPS	7.8	6.1	8.5	10.6
DPS	3.5	1.0	2.0	3.5
Cost to Income (with LLP)	56.2%	73.3%	65.4%	62.2%
Cost to Income (without LLP)	45.7%	44.8%	45.1%	44.7%
NIM	**8.2%**	**8.5%**	**8.5%**	**13.3%**
ROE	20.7%	14.4%	16.8%	24.2%
ROA	3.1%	2.1%	2.5%	3.8%
Balance Sheet	**2019**	**2020**	**2021e**	**2022f**
Net Loans and Advances	539.7	595.3	714.4	798.1
Government Securities	164.9	208.8	250.0	274.1
Other Assets	194.0	183.8	229.6	239.2
Total Assets	**898.6**	**987.8**	**1197.4**	**1311.5**
Customer Deposits	686.6	767.2	920.7	1012.7
Other Liabilities	82.2	78.2	93.8	96.3
Total Liabilities	**768.8**	**845.4**	**1014.4**	**1109.1**
Shareholders Equity	**129.7**	**142.4**	**184.4**	**207.3**
Number of Shares	**3.2**	**3.2**	**3.2**	**3.2**
Book value Per share	40.4	44.3	57.4	64.5
% Change in BPS YoY	**7.5%**	**9.8%**	**29.5%**	**12.4%**

Valuation Summary

KCB Group is undervalued with a total potential return of 23.1%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	59.3	40%	23.7
Residual Income	47.6	35%	16.6
PBV Multiple	51.0	20%	10.2
PE Multiple	57.4	5%	2.9
Target Price			**53.4**
Current Price			**46.3**
Upside/(Downside)			15.3%
Dividend Yield			7.6%
Total Return			**23.1%**

Cytonn

III. Co-operative Bank

Co-operative Bank Summary of Performance – H1’2021

- The bank registered a 2.3% increase in profit after tax to Kshs 7.4 bn in H1’2021, from Kshs 7.2 bn in H1’2020. Profit before tax and exceptional items rose by 8.4% to Kshs 10.5 bn, from Kshs 9.7 bn in H1’2020, with the effective tax rate increasing to 30.0% in H1’2021, from 25.0% seen in H1’2020,
- Total operating income rose by 20.4% to Kshs 29.2 bn in H1’2021, from Kshs 24.2 bn in H1’2020 mainly due to an 18.3% increase in Net Interest Income (NII) to Kshs 18.8 bn, from Kshs 15.9 bn in H1’2020, coupled with the growth of 24.3% in Non-Funded Income (NFI) to Kshs 10.3 bn, from Kshs 8.3 bn in H1’2020,
- Total operating expenses rose by 28.3% to Kshs 18.7 bn in H1’2021, from Kshs 14.6 bn in H1’2020, largely driven by the 123.0% rise in Loan Loss Provisions (LLP) to Kshs 4.2 bn, from Kshs 1.9 bn in H1’2020,
- The balance sheet recorded an expansion as total assets grew by 11.5% to Kshs 573.0 bn in H1’2021, from Kshs 513.9 bn in H1’2020,
- The bank’s asset quality deteriorated, with the NPL ratio deteriorating to 15.2% in H1’2021, from 11.8% in H1’2020
- Going forward, we expect the bank’s growth to be driven by:

I. Lending to SMEs: Putting into consideration the current state of affairs in the banking sector, it is evident that the risk factor when lending to businesses has increased significantly. It is, however, key to note that loan restructurings and increasing their loan book exposure to MSMEs will help support the bank during this period of uncertainty, and,

II. 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.

Cytonn

Financial Statements Extracts

Co-operative Bank's PAT is expected to grow at a 5-year CAGR of 12.5%

Income Statement	2018	2019	2020	2021f	2022f
Net Interest Income	30.8	31.3	36.3	40.3	41.9
Non Funded Income	12.9	17.2	17.5	15.5	16.3
Total Operating Income	**43.7**	**48.5**	**53.8**	**55.8**	**58.2**
Loan Loss Provision	(1.8)	(2.5)	(8.1)	(9.0)	(6.2)
Other Operating Expenses	(23.9)	(25.3)	(31.3)	(29.9)	(31.7)
Total Operating Expenses	**(25.7)**	**(27.8)**	**(39.4)**	**(38.8)**	**(37.9)**
Profit Before Tax	18.2	20.7	14.3	17.0	20.3
% PAT Change YoY	**11.6%**	**12.4%**	**-24.4%**	**10.3%**	**19.3%**
EPS	1.9	2.1	1.6	1.7	2.1
DPS	1.0	1.0	1.0	1.0	1.5
Cost to Income (with LLP)	58.8%	57.4%	73.2%	69.6%	65.2%
Cost to Income (without LLP)	54.6%	52.1%	58.1%	53.5%	54.4%
NIM	**9.1%**	**8.5%**	**8.5%**	**8.1%**	**8.0%**
ROE	**18.3%**	**19.2%**	**12.5%**	13.2%	15.3%
ROA	**3.2%**	**3.3%**	**2.1%**	2.1%	2.3%
Balance Sheet	**2018**	**2019**	**2020**	**2021f**	**2022f**
Net Loans and Advances	245.4	266.7	286.6	292.9	331.7
Government Securities	80.3	117.8	161.9	187.3	198.7
Other Assets	87.7	72.5	88.4	114.6	112.5
Total Assets	413.4	457.0	536.9	594.8	642.9
Customer Deposits	306.1	332.8	378.6	430.7	473.8
Other Liabilities	36.1	43.3	66.3	73.6	73.1
Total Liabilities	342.2	376.2	444.9	504.3	546.9
Shareholders Equity	69.9	79.3	90.7	90.6	96.0
Number of Shares	5.87	5.87	5.87	5.87	5.87
Book value Per share	11.9	13.5	15.5	15.4	16.4
% Change in BPS YoY	**0.43%**	**13.6%**	**14.4%**	**(0.2%)**	**2.4%**

Valuation Summary

Co-operative Bank is undervalued with a total potential return of 11.2%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	14.3	40%	5.7
Residual income	12.7	35%	4.5
PBV Multiple	16.5	20%	3.3
PE Multiple	11.8	5%	0.6
Target Price			**14.1**
Current Price			**13.6**
Upside/(Downside)			3.8%
Dividend Yield			7.4%
Total Return			**11.2%**

Cytonn

IV. NCBA Bank

NCBA Bank Summary of Performance – H1'2021

- Profit before tax rose by 89.8% to Kshs 7.4 bn, from Kshs 3.9 bn in H1'2020. Profit after tax also increased by 76.9% to Kshs 4.7 bn from Kshs 2.6 bn in H1'2020 with the effective tax rate increasing to 37.2% from 32.6% recorded in H1'2020,
- Total operating income rose by 13.4% to Kshs 24.3 bn in H1'2021, from Kshs 21.3 bn in H1'2020 driven by a 19.7% increase in Net Interest Income (NII) to Kshs 13.4 bn, from Kshs 11.2 bn recorded in H1'2020, coupled with a 6.2% increase in Non-Funded Income (NFI) to Kshs 10.7 bn, from the Kshs 10.1 bn recorded in H1'2020,
- Total operating expenses declined by 3.9% to Kshs 16.3 bn, from Kshs 17.0 bn in H1'2020, largely driven by the 22.4% decrease in loan loss provision to Kshs 5.9 bn, from Kshs 7.6 bn in H1'2020. The decline in the provisioning levels by the lender can be partly attributable to improved business environment. However, the decline in total operating expenses was weighed down by a 10.7% increase in staff costs to Kshs 3.9 bn, from Kshs 3.5 bn recorded in H1'2020,
- The balance sheet recorded an expansion with total assets growing by 5.6% to Kshs 542.6 bn, from Kshs 514.0 bn in H1'2020,
- The group's asset quality deteriorated, with the NPL ratio increasing to 16.7%, from 14.5% in H1'2020. This is the highest it has been in over a decade owing to the faster 16.5% increase in NPLs that outpaced the 1.2% increase in gross loans,
- Going forward, we expect the bank's growth to be driven by:

i. The bank is focusing on solidifying its strength in asset finance and growing its property finance business through partnerships. The bank is also expected to perform better as the economy gradually recovers and as the outcomes of the group's focus on strategic initiatives anchored on customer experience continue to unveil. Additionally, the bank has embarked on a bold branch expansion and digital transformation in order to deliver better customer propositions and to structurally improve efficiency and agility.

Financial Statements Extracts

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

Income Statement	2018	2019	2020	2021f
Net Interest Income	20.3	13.3	25.5	29.9
Non Funded Income	16.1	20.3	20.9	22.3
Total Operating Income	**36.4**	**33.7**	**46.4**	**52.1**
Loan Loss Provision	(6.1)	(6.3)	(20.4)	(19.9)
Other Operating Expenses	(18.1)	(14.1)	(19.6)	(22.3)
Total Operating Expenses	**(24.1)**	**(20.4)**	**(40.0)**	**(42.2)**
Profit Before Tax	12.3	11.3	5.0	8.5
Profit After Tax	8.9	7.8	4.6	5.8
% PAT Change YoY	**9.3%**	**(12.4%)**	**(41.7%)**	**27.7%**
EPS	12.7	11.1	2.8	3.5
DPS	0.0	0.3	2.3	1.8
Cost to Income (with LLP)	66.3%	60.5%	86.2%	80.9%
Cost to Income (without LLP)	49.7%	41.9%	42.2%	42.7%
NIM	**5.2%**	**3.3%**	**5.8%**	**6.3%**
ROE	13.7%	11.8%	6.6%	7.7%
ROA	2.0%	1.7%	0.9	1.1%
Balance Sheet	**2018**	**2019**	**2020**	**2021e**
Net Loans and Advances	239.6	249.4	248.5	249.8
Government Securities	129.7	145.0	163.5	200.3
Other Assets	84.3	100.5	116.0	115.9
Total Assets	453.6	494.8	528.0	566.0
Customer Deposits	341.0	378.2	421.5	455.2
Other Liabilities	46.2	49.3	33.9	30.0
Total Liabilities	387.2	427.6	455.4	485.2
Shareholders Equity	66.0	67.0	72.4	79.3
Number of Shares	0.7	0.7	1.5	1.6
Book value Per share	93.8	95.2	45.7	45.7
% Change in BPS YoY	**2.5%**	**1.5%**	**(52.0%)**	**0.0%**

Cytonn

Valuation Summary

NCBA Group is undervalued with a total potential return of 18.3%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM Integrated	30.2	40%	12.5
Residual Valuation	25.3	35%	9.2
PBV Multiple	39.7	20%	7.9
PE Multiple	27.1	5%	1.4
Target Price			**31.0**
Current Price			**27.1**
Upside/(Downside)			11.8%
Dividend Yield			6.5%
Total Potential Return			**18.3%**

Cytonn

V. Standard Chartered Bank Kenya

Cytonn

SCBK's Summary of Performance – H1'2021

- Profit before tax increased by 33.1% to Kshs 6.8 bn, from Kshs 5.1 bn in H1'2020. Profit after tax increased by 50.9% to Kshs 4.9 bn in H1'2021, from Kshs 3.2 bn recorded in H1'2020, with the effective tax rate decreasing to 28.2% from 36.7% in H1'2020,
- Total operating income rose by 2.3% to Kshs 14.1 bn, from Kshs 13.8 bn recorded in H1'2020. This was driven by an 13.5% increase in Non-Funded Income (NFI) to Kshs 5.0 bn, from Kshs 4.4 bn in H1'2020. The increase was however weighed down by a 3.0% decline in Net Interest Income (NII) to Kshs 9.1 bn, from Kshs 9.4 bn in H1'2020,
- Total operating expenses declined by 15.8% to Kshs 7.3 bn in H1'2021, from Kshs 8.7 bn in H1'2020, mainly attributable to a 60.7% decline in Loss Provisions (LLPs) to Kshs 0.6 bn, from Kshs 1.6 bn recorded in H1'2020 partly attributable to the improved business environment, coupled with a 3.8% decline in Staff costs to Kshs 3.2 bn in H1'2021, from Kshs 3.3 bn in H1'2020,
- The balance sheet recorded an expansion as total assets grew by 5.6% to Kshs 345.6 bn, from Kshs 327.2 bn in H1'2020,
- The bank's asset quality deteriorated owing to the increase in NPL ratio to 15.1% in H1'2021, from 13.9% recorded in H1'2020. The NPL ratio also declined q/q by 1.3% points, to 15.1% from 16.4% recorded in Q1'2021. The NPL ratio deterioration is attributable to the 6.9% growth in Gross Non-Performing Loans (NPLs), coupled with a 1.7% decline in gross loans. The gross loans level has increased by 9.0% from Q1'2021 to H1'2021, which was the first q/q growth since H1'2020 and points to the improved business environment and reducing credit risk
- 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 19.0%

Income Statement	2018	2019	2020	2021f	2022f
Net Interest Income	19.4	19.5	19.1	21.3	23.4
Non Funded Income	9.2	9.2	8.3	9.9	11.5
Total Operating Income	**28.6**	**28.7**	**27.4**	**31.2**	**34.9**
Loan Loss Provision	(1.9)	(0.6)	(3.9)	(1.3)	(0.9)
Other Operating Expenses	(14.8)	(16.0)	(16.1)	(16.9)	(17.8)
Total Operating Expenses	**(16.8)**	**(16.5**	**(20.0)**	**(18.2)**	**(18.7)**
Profit Before Tax	11.8	12.2	7.4	**13.0**	**14.3**
% PAT Change YoY	**17.1%**	**1.7%**	**(33.9%)**	**71.7%**	**9.7%**
EPS	23.6	24.0	14.4	24.8	27.2
DPS	19.0	20.0	10.5	12.0	20.0
Cost to Income (with LLP)	58.6%	57.6%	73.0%	57.6%	55.3%
Cost to Income (without LLP)	51.8%	55.6%	58.8%	54.2%	53.9%
NIM	**7.5%**	**7.4%**	**6.8%**	**7.0%**	**6.8%**
ROaE	17.5%	17.5%	11.0%	17.2%	17.3%
ROaA	2.8%	2.8%	1.7%	2.8%	2.8%

Balance Sheet	2018	2019	2020	2021f	2022f
Net Loans and Advances	118.7	128.7	121.5	137.7	150.8
Government Securities	98.7	99.6	99.8	100.6	105.4
Other assets	68.0	73.8	104.3	127.4	144.5
Total Assets	**285.4**	**302.1**	**325.6**	**377.3**	**400.8**
Customer Deposits	224.3	228.4	256.5	286.6	318.7
Other Liabilities	14.5	25.9	18.2	15.9	16.0
Total Liabilities	**238.8**	**254.4**	**274.7**	**302.5**	**334.6**
Shareholders Equity	**46.6**	**47.8**	**50.9**	63.5	66.9
Number of shares	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**
Book value Per share	116.5	119.5	127.3	158.8	167.3
% Change in BPS YoY	**2.1%**	**2.6%**	**6.5%**	**24.8%**	**5.4%**

Valuation Summary

SCBK is undervalued with a total potential return of 16.2%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	169.0	40.0%	67.6
Residual Income	126.1	35.0%	44.1
PBV Multiple	138.7	20.0%	27.7
PE Multiple	118.7	5.0%	5.9
Target Price			**145.4**
Current Price			**135.5**
Upside/(Downside)			7.3%
Dividend Yield			8.9%
Total Return			**16.2%**

Cytonn

VI. Diamond Trust Bank Kenya

Cytonn

DTBK's Summary of Performance – H1'2021

- Profit before tax increased by 8.8% to Kshs 4.9 bn, from Kshs 4.5 bn in H1'2020. Profit after tax increased by 20.1% to Kshs 3.2 bn in H1'2021, from Kshs 2.6 bn recorded in H1'2020, with the effective tax rate declining to 35.4%, from 41.5% in H1'2020.
- Total operating income increased by 5.6% to Kshs 13.1 bn, from Kshs 12.4 bn in H1'2020 mainly driven by a 5.7% increase in the Net Interest Income (NII) to Kshs 9.8 bn, from Kshs 9.3 bn in H1'2020, coupled with a 5.5% increase in Non-Funded Income (NFI) to Kshs 3.3 bn, from Kshs 3.2 bn in H1'2020,
- Total operating income increased by 5.6% to Kshs 13.1 bn, from Kshs 12.4 bn in H1'2020 mainly driven by a 5.7% increase in the Net Interest Income (NII) to Kshs 9.8 bn, from Kshs 9.3 bn in H1'2020, coupled with a 5.5% increase in Non-Funded Income (NFI) to Kshs 3.3 bn, from Kshs 3.2 bn in H1'2020,
- The balance sheet recorded an expansion as Total Assets increased by 10.6% to Kshs 429.6 bn, from Kshs 388.3 bn recorded in H1'2020,
- The bank's asset quality deteriorated, with the NPL ratio increasing to 10.4% in H1'2021, from 8.3% in H1'2020, due to the faster 26.6% growth in gross NPLs which outpaced the 1.4% growth in gross loans,
- Going forward, we expect the bank's growth to be driven by:

i. Minimized Costs – DTB-K plans on minimizing the cost of funding in the coming years and tightly controlling overheads with a gradual decline in cost to income ratio through several ways including closing branches that are close to each other. Currently, the bank has merged four branches and is set to merge two more by 30th October 2021.

Cytonn

Financial Statements Extracts

DTBK's PAT is expected to grow at a 5-year CAGR of 26.5%

Income Statement	2018	2019	2020	2021f
Net Interest Income	20.0	18.7	31.1	20.9
Non Funded Income	5.4	5.8	6.1	6.6
Total Operating Income	**25.5**	**24.5**	**24.2**	**27.5**
Loan Loss Provision	3.0	1.3	7.3	8.0
Other Operating Expenses	11.5	11.9	12.3	12.2
Total Operating Expenses	**14.5**	**13.2**	**24.2**	**20.2**
Profit Before Tax	11.0	11.3	4.7	7.4
% PAT Change YoY	**2.3%**	**2.6%**	**(58.6%)**	**58.4%**
EPS	25.3	26.0	12.6	17.6
DPS	2.6	2.7	0.0	2.7
Cost to Income (With LLP)	56.9%	54.0%	81.3%	73.6%
Cost to Income (Without LLP)	45.2%	48.6%	51.0%	44.3%
NIM	**6.2%**	**5.6%**	**5.0%**	**5.4%**
ROE	13.9%	12.9%	5.8%	7.3%
ROA	1.9%	1.9%	0.9%	1.1%
Balance Sheet	**2018**	**2019**	**2020**	**2021e**
Net Loans and Advances	193.1	199.1	208.6	214.
Government Securities	115.0	130.3	148.4	163.4
Other Assets	69.6	56.8	68.1	70.6
Total Assets	**377.7**	**386.2**	**425.1**	**448.8**
Customer Deposits	282.9	280.2	298.2	322.0
Other Liabilities	35.9	41.5	58.5	43.8
Total Liabilities	**318.8**	**321.7**	**356.7**	**370.0**
Shareholders Equity	53.7	58.9	62.0	72.0
Number of Shares	0.3	0.3	0.3	0.3
Book value Per share	191.9	210.5	221.6	237.9
% Change in BPS YoY	**10.9%**	**9.7%**	**5.3%**	**7.4%**

Valuation Summary

DTBK is fairly valued with a total potential return of 7.6%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	41.1	40.0%	16.4
Residual Income	51.7	35.0%	18.1
PBV Multiple	139.7	20.0%	27.9
PE Multiple	96.2	5.0%	4.8
Target Price			**67.3**
Current Price			**65.0**
Upside/(Downside)			3.5%
Dividend yield			4.2%
Total return			**7.6%**

Cytonn

VII. Absa Bank Kenya

Absa Bank's Summary of Performance – H1'2021

- Profit after tax and exceptional items increased by 143.8% to Kshs 7.9 bn in H1'2021, from Kshs 3.3 bn in H1'2020, with the effective tax rate increasing by 0.9% points to 29.9%, from 30.8% in H1'2020
- Total operating income rose by 6.1% to Kshs 17.8 bn, from Kshs 16.8 bn in H1'2020 supported by a matching increase of 6.1% in Net Interest Income (NII) and Non-Funded Income (NFI) to Kshs 12.0 bn and Kshs 5.8 bn, from Kshs 11.3 bn and Kshs 5.5 bn, respectively, in H1'2020
- Total operating expenses declined by 27.0% to Kshs 9.9 bn, from Kshs 13.6 bn in H1'2020, largely driven by a 63.9% decline in Loan Loss Provisions (LLP) to Kshs 1.9 bn in H1'2021, from Kshs 5.4 bn in H1'2020. However, the LLP increased 39.3% q/q from Kshs 1.3 bn in Q1'2021. The decline in operating expenses was also supported by a 12.0% decline in staff costs to Kshs 4.4 bn in H1'2021, from Kshs 5.0 bn in H1'2020,
- Cost to Income Ratio (CIR) improved to 55.5%, from 80.6% in H1'2020, owing to 27.0% decline in total operating expenses to Kshs 9.9 bn, from Kshs 13.6 bn in H1'2020 coupled with the 6.1% growth in total operating income to Kshs 17.8 bn, from Kshs 16.8 bn in H1'2020. Similarly, without LLP, the cost to income ratio improved to 44.6%, from 48.6% in H1'2020, an indication of improved efficiency, and,The balance sheet recorded an expansion as total assets rose by 0.7% to Kshs 384.1 bn, from Kshs 381.5 bn in Q1'2020
- The bank's asset quality improved, with the NPL ratio declining marginally to 7.9% in H1'2021, from 8.0% in H1'2020, owing to the faster 9.0% growth in gross loans (after adding back interest suspense), which outpaced the 7.8% growth in gross NPLs
- 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 H1'2021, as well as "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.

Financial Statements Extracts

Absa Bank's PAT is expected to grow at a 5-year CAGR of 32.8%

Income Statement	2019	2020	2021e	2022f
Net Interest Income	23.2	23.4	24.7	27.2
Non Funded Income	10.6	11.1	11.7	12.5
Total Operating Income	**33.8**	**34.5**	**36.4**	**39.7**
Loan Loss Provision	(4.2)	(9.0)	(2.0)	(2.2)
Other Operating Expenses	(17.3)	(16.7)	(17.6)	(18.1)
Total Operating Expenses	**(21.5)**	**(25.7)**	**(19.6)**	**(20.3)**
Profit Before Tax	10.8	8.9	16.8	19.4
% PAT Change YoY	**0.5%**	**(44.2%)**	**182.4%**	**15.7%**
EPS	1.4	0.7	2.2	2.5
DPS	1.1	0.0	1.0	1.2
Cost to Income (with LLP)	63.6%	74.4%	53.9%	51.1%
Cost to Income (without LLP)	51.2%	48.2%	48.3%	45.6%
NIM	**7.7%**	**7.1%**	**7.0%**	**7.1%**
ROaE	16.7%	*9.1%	22.8%	22.6%
ROaA	2.1%	1.1%	2.9%	3.1%
Balance Sheet	**2019**	**2020**	**2021e**	**2022f**
Net Loans and Advances	194.9	208.9	234.5	254.7
Government Securities	123.0	126.1	127.6	134.8
Other Assets	56.1	44.5	60.9	63.8
Total Assets	**374.0**	**379.4**	**423.0**	**453.3**
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 42.5%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	16.3	40%	6.5
Residual Income	14.4	35%	5.0
PBV Multiple	8.8	20%	1.8
PE Multiple	10.4	5%	0.5
Target Price			**13.8**
Current Price			**10.4**
Upside/(Downside)			32.9%
Dividend Yield			9.6%
Total Return			**42.5%**

Cytonn

VIII. Stanbic Holdings

Stanbic Holdings' Summary of Performance – H1'2021

- Profit after tax increased by 37.2% to Kshs 3.5 bn in H1'2021, from Kshs 2.6 bn in H1'2020. The performance was driven by an 9.9% increase in total operating income to Kshs 12.4 bn in H1'2021, from Kshs 11.3 bn in H1'2020. The increase was however weighed down by the 17.6% increase in total operating expenses to Kshs 6.1 bn, from Kshs 5.2 bn in H1'2020,
- Total operating income increased by 9.9% to Kshs 12.4 bn in H1'2021, from Kshs 11.3 bn, mainly driven by a 10.5% increase in Non-Funded Income (NFI) to Kshs 5.5 bn in H1'2021, from Kshs 5.0 bn in H1'2020, coupled with a 9.5% increase in Net Interest Income (NII) to Kshs 6.9 bn, from Kshs 6.3 bn in H1'2020,
- Total operating expenses increased by 17.6% to Kshs 6.1 bn in H1'2021, from Kshs 5.2 bn in H1'2020, largely driven by a 7.0% increase in the staff costs to Kshs 2.9 bn, from Kshs 2.7 bn in H1'2020. Notably, Loan loss provisions decreased by 31.1% Kshs 1.2 bn, from Kshs 1.7 bn in H1'2020,
- The balance sheet recorded a contraction as total assets declined by 9.6% to Kshs 329.5 bn, from Kshs 364.5 bn in H1'2020, largely driven by a 9.4% decrease in customer deposits Kshs 260.0 bn in H1'2021, from Kshs 287.0 bn in H1'2020. Deposits per branch decreased by 9.4% to Kshs 10.4 bn, from Kshs 11.5 bn in H1'2020, as the number of branches remained unchanged at 25,
- The bank's asset quality deteriorated, with the NPL ratio increasing to 9.5% in H1'2021, from 8.5% in H1'2020, attributable to the slower 2.3% decline in Gross Non-Performing Loans(NPLs), compared to the 12.3% decline in Gross Loans,
- The bank recorded a relatively stronger performance in both funded and non-funded segments where Net Interest Income grew by 9.5% while Non-Funded Income grew by 10.5%, which can be attributed to the resumption of normalcy in most economies considering the pandemic

Financial Statements Extracts

Stanbic Holdings' PAT is expected to grow at a 5-year CAGR of 20.0%

Income Statement	2019	2020	2021e	2022f
Net Interest Income	13.3	12.8	14.4	14.2
Non Funded Income	11.4	10.4	10.3	11.9
Loan Loss Provision	(3.2)	(4.9)	(3.9)	(4.3)
Total Operating Expenses	**(13.9)**	**(12.1)**	**(13.8)**	**(14.8)**
Profit Before Tax	7.7	6.2	10.9	11.4
% PAT Change YoY	**1.6%**	**(18.6%)**	**46.9%**	**4.2%**
EPS	16.1	13.1	19.3	20.1
DPS	7.1	3.8	4.8	5.0
Cost to Income (Without LLP)	43.5%	31.2%	40.0%	40.0%
NIM	**5.2%**	**4.7%**	**4.9%**	**4.8%**
ROaE	13.6%	10.3%	14.0%	13.6%
ROaA	2.1%	1.6%	2.3%	2.3%
Balance Sheet	**2019**	**2020e**	**2021e**	**2022f**
Net Loans and Advances	191.2	196.3	214.2	219.1
Other Assets	112.4	132.3	127.9	142.7
Total Assets	**303.6**	**328.6**	**342.1**	**361.7**
Customer Deposits	224.7	260.0	273.0	286.6
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**	**289.0**	**302.7**
Shareholders Equity	49.0	51.7	53.1	59.1
No of Ordinary Shares	0.4	0.4	0.4	0.4
Book value Per share	124.0	130.9	132.8	147.8
% Change in BVPS	**9.9%**	**5.5%**	**1.5%**	**11.3%**

Cytonn

Valuation Summary

Stanbic Holdings is fairly valued with a total potential return of 11.8%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	119.7	40%	47.9
Residual Income	81.4	35%	28.5
PBV Multiple	81.6	20%	16.3
PE Multiple	78.9	5%	3.9
Target Price			**96.6**
Current Price			**94.0**
Upside/(Downside)			2.9%
Dividend Yield			9.0%
Total return			**11.8%**

Cytonn

IX. I&M Group

I&M Group Summary of Performance – H1’2021

- Profit before tax increased by 30.5% to Kshs 5.9 bn, from Kshs 4.5 bn in H1’2020. Profit after tax rose by 33.2% to Kshs 4.2 bn, from Kshs 3.2 bn in H1’2020, with the effective tax rate decreasing to 27.6%, from 29.1% in H1’2020,
- Total operating income increased by 15.1% to Kshs 12.8 bn, from Kshs 11.1 bn in H1’2020, driven by a 28.1% increase in Net Interest Income (NII) to Kshs 8.9 bn, from Kshs 6.9 bn in H1’2020. The increase in NII was however weighed down by a 6.4% decline in Non-Funded Income (NFI) to Kshs 3.9 bn, from Kshs 4.2 bn in H1’2020,
- Total operating expenses rose by 19.0% to Kshs 7.2 bn from Kshs 6.1 bn in H1’2020, largely driven by a 17.0% increase in staff costs to Kshs 2.7 bn, from Kshs 2.3 bn in H1’2020. Loan Loss Provisions (LLP) increased by 2.1% to Kshs 1.1 bn, from Kshs 1.0 bn, on account of the bank’s exposure to Real Estate and Personal/Household loans, which continue to be adversely affected by the poor operating environment brought about by COVID-19
- The balance sheet recorded an expansion as total assets grew by 12.3% to Kshs 382.6 bn, from Kshs 340.6 bn in H1’2020, and,
- The bank’s asset quality improved, with the NPL ratio declining to 10.4%, from 11.1% in H1’2020,
- 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 14.4%

Income Statement	2019	2020	2021e	2022f
Net Interest Income	15.5	15.6	22.2	25.8
Non- Funded Income	8.3	8.6	9.9	11.0
Total Operating Income	**23.8**	**24.2**	**32.1**	**36.8**
Loan Loss Provision	0.6	2.5	2.1	2.9
Other Operating Expenses	9.5	10.1	14.0	16.2
Total Operating Expenses	**(10.1)**	**(12.6)**	**(16.1)**	**(18.9))**
Profit Before Tax	14.6	11.0	16.2	18.8
% PAT Change YoY	**26.6%**	**(21.9%)**	**34.8%**	**15.7%**
EPS	13.0	10.2	6.7	7.8
DPS	2.6	2.3	1.3	1.5
Cost to Income (with LLP)	42.4%	52.0%	50.3%	50.9%
Cost to Income (without LLP)	39.8%	41.8%	43.7%	43.0%
NIM	**5.9%**	**5.4%**	**6.2%**	**6.7%**
ROaE	19.5%	13.2%	16.0%	15.6%
ROaA	3.4%	2.3%	2.8%	2.9%
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%**

Valuation Summary

I&M Group is undervalued with a total potential return of 45.1%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	35.0	40.0%	14.0
Residual income	32.2	35.0%	11.3
PBV Multiple	25.6	20.0%	5.1
PE Multiple	32.9	5.0%	1.6
Target Price			**32.0**
Current Price			**23.0**
Upside/(Downside)			39.3%
Dividend yield			5.9%
Total return			**45.1%**

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B. Tier II Bank

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I. HF Group

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HF Group Summary of Performance – H1'2021

- HF Group recorded a loss per share of Kshs 0.9 in H1'2021, higher than the loss per share of Kshs 0.8 recorded in H1'2020, which was not in-line with our expectations of a Kshs 0.4 loss per share
- Total Operating Income declined by 2.2% to Kshs 1.2 bn, from Kshs 1.3 bn in H1'2020, attributable to the 6.8% dip in Net Interest Income (NII) to Kshs 0.9 bn, from Kshs 1.0 bn recorded in H1'2020. The decline was however mitigated by a 13.8% increase in Non-Funded Income (NFI) to Kshs 325.1 mn, from Kshs 285.6 mn recorded in H1'2020,
- Total Operating Expenses decreased by 0.2% to Kshs 1.56 bn, from Kshs 1.57 bn seen in H1'2020. This is mainly attributable to a 78.2% decrease in Loan Loss Provisions to Kshs 58.2 mn, from Kshs 267.6 mn recorded in H1'2020. The decline in operating expenses was however weighed down by an 18.2% increase in staff costs to Kshs 547.2 mn, from Kshs 462.9 mn recorded in H1'2020,
- The company's balance sheet recorded a contraction as total assets declined by 6.2% to Kshs 53.0 bn, from Kshs 56.5 bn in H1'2020
- The bank experienced an improvement in asset quality as the NPL ratio improved by 4.1% points to 22.6%, from the 26.7% recorded in H1'2020, following the faster 21.3% decline in NPLs that outpaced the 7.3% decline in gross loans which came in at Kshs 41.4 bn in H1'2021, from Kshs 44.6 bn recorded in H1'2020,
- 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.

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	1.8
Non- Funded Income	1.3	1.4	0.5	0.5
Total Operating Income	**3.6**	**3.4**	**2.4**	**2.3**
Loan Loss Provision	(0.4)	(0.4)	(0.4)	(0.4)
Other Operating Expenses	(3.9)	(3.2)	(3.6)	(3.1)
Total Operating Expenses	**(4.2)**	**(3.5)**	**(4.1)**	**(3.5)**
Profit Before Tax	(0.6)	(0.1)	(1.7)	(1.2)
% PAT Change YoY	**(573.9%)**	**(81.6%)**	**1443.7%**	**(29.5%)**
EPS	(1.6)	(0.3)	(4.4)	(3.1)
DPS	0.0	0.0	0.0	0.0
Cost to Income	118.2%	104.2%	153.1%	135.4%
NIM	**4.4%**	**4.3%**	**4.2%**	**4.0%**
ROaE	(5.5%)	(1.1%)	(18.1%)	(15.4%)
ROaA	(0.9%)	(0.2%)	(3.0%)	(2.2%)
Balance Sheet	**2018**	**2019**	**2020**	**2021f**
Net Loans and Advances	43.4	38.6	37.0	35.8
Government securities	3.2	4.6	7.1	6.5
Other Assets	13.9	13.3	11.3	11.0
Total Assets	**60.5**	**56.5**	**55.4**	**53.3**
Customer Deposits	34.7	37.4	39.9	38.3
Other Liabilities	15.5	8.8	6.9	7.2
Total Liabilities	**50.2**	**46.2**	**46.9**	**45.5**
Shareholders Equity	10.4	10.2	8.6	7.0
Number of Shares	0.4	0.4	0.4	0.4
Book Value Per Share	27.0	26.6	21.5	18.2
% BVPS Change YoY	**(17.0%)**	**(1.5%)**	**(19.2%)**	**(18.1%)**

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Valuation Summary

Housing Finance is overvalued with a total potential return of (15.5%)

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM Integrated	1.1	40%	0.4
Residual Income	4.6	35%	1.6
PTBV Multiple	4.6	20%	0.9
PE Multiple	2.3	5%	0.1
Fair Value			**3.1**
Current Price			**3.6**
Upside/(Downside)			(15.5%)
Dividend Yield			0.0%
Total return			***(15.5%)***

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Feedback Summary

During the preparation of this H1'2021 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
Absa Bank Kenya	Yes	Yes
KCB Group	Yes	Yes
I&M Group	Yes	Yes
Co-operative Bank of Kenya	Yes	Unresponsive
Standard Chartered Bank Kenya	Yes	Unresponsive
NCBA Group	Yes	Unresponsive
Housing Finance Group	Yes	Unresponsive
Stanbic Holdings	Yes	Unresponsive
Equity Group Holdings	Yes	Unresponsive
Diamond Trust Bank	Yes	Unresponsive

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Licensed Financial Institutions

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I. Banks and Mortgage Finance Institutions

Licensed Banks in Kenya

#	Bank	#	Bank
1	ABSA Bank Kenya	20	Gulf African Bank Limited
2	Access Bank Kenya	21	Habib Bank A.G Zurich
3	African Banking Corporation Limited	22	I&M Bank Limited
4	Bank of Africa Kenya Limited	23	Kingdom Bank Kenya Limited
5	Bank of Baroda (Kenya) Limited	24	KCB Bank Kenya Limited
6	Bank of India	25	Mayfair CIB Bank Limited
7	Citibank N.A Kenya	26	Middle East Bank (K) Limited
8	Consolidated Bank of Kenya Limited	27	M-Oriental Bank Limited
9	Co-operative Bank of Kenya Limited	28	National Bank of Kenya Limited
10	Credit Bank Limited	29	NCBA Bank Kenya PLC
11	Development Bank of Kenya Limited	30	Paramount Bank Limited
12	Diamond Trust Bank Kenya Limited	31	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

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Q&A / AOB

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