Kenya Listed Commercial Banks Review
Cytonn Q1'2021 Banking Sector Report

"Recovery of the Banking Sector Amid a Tough Operating Environment"

Cytonn

11th June, 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

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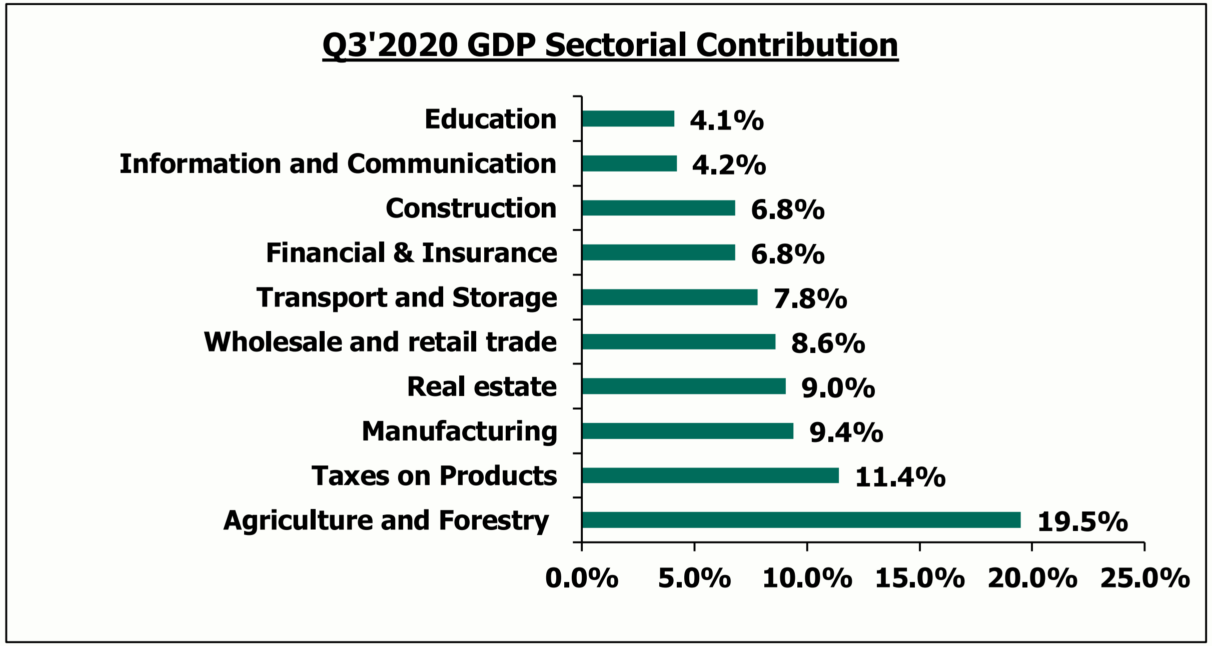
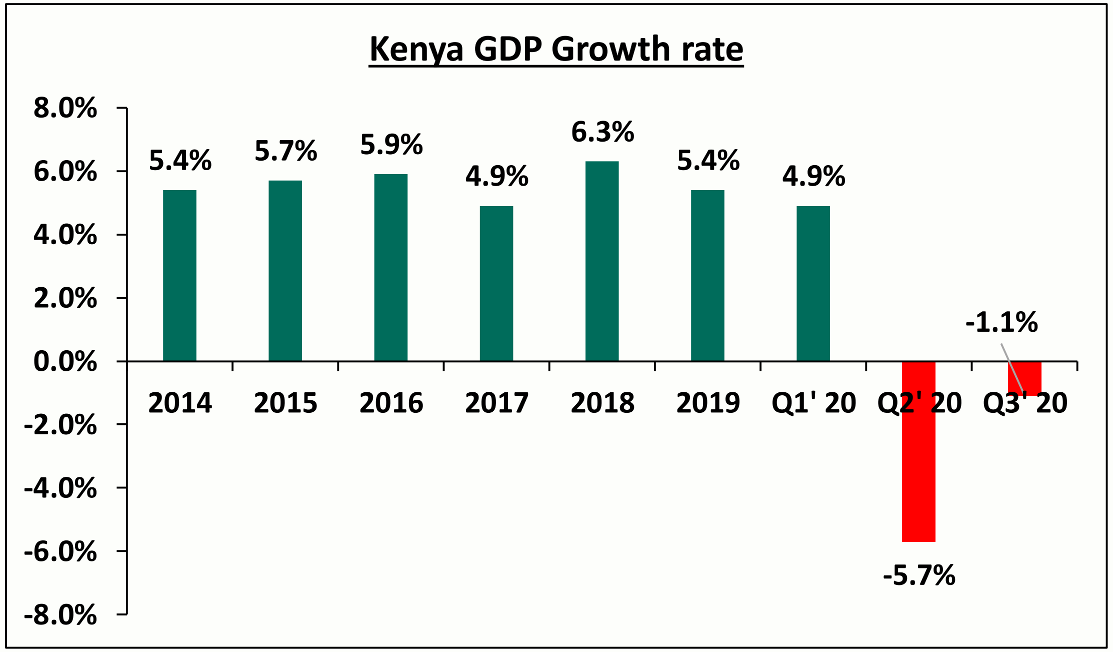
We expect gradual economic improvement in 2021





- According to Kenya National Bureau of Statistics (KNBS), the Kenyan economy recorded a 1.1% contraction in Q3’2020, down from a growth of 5.8% recorded in Q3’2019. This was the second consecutive contraction, following the 5.7% contraction recorded in Q2’2020
- 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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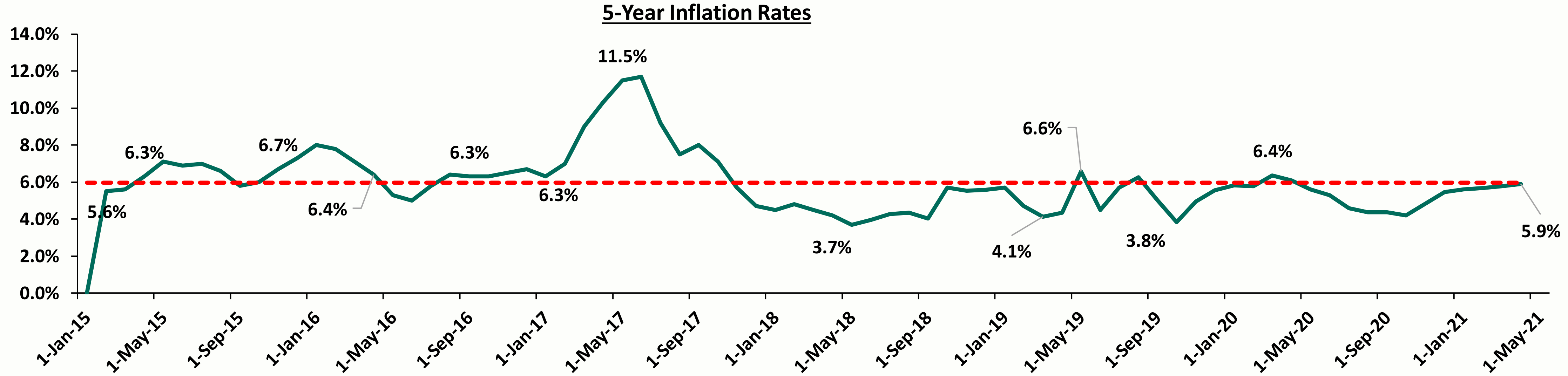
Inflation

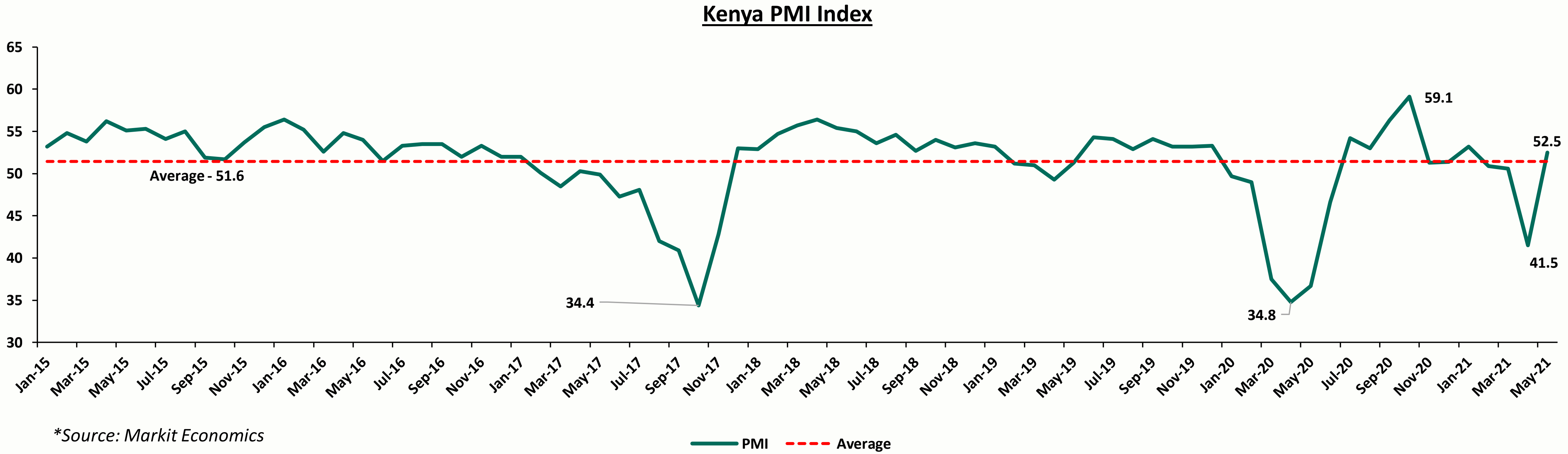
Inflation averaged has 5.3% in the first 5 months of 2021



**Source: KNBS*

- Inflation averaged 5.8% in the first five months of 2021, a 2.0% points decline from the 6.0% recorded over the similar period in 2020. Key to note, May 2021 inflation increased to 5.9% from the 5.8% recorded in April 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

Stanbic PMI Index



**Source: Markit Economics*

- In 2021, the economic prospects of the country improved, with the Stanbic PMI index averaging 49.7 in the first 5 months of 2021, an increase from the 41.5 recorded during the same period last year. In Q1’2021, the PMI Index declined, coming in at an average of 51.6, compared to 53.9 in Q4’2020
- 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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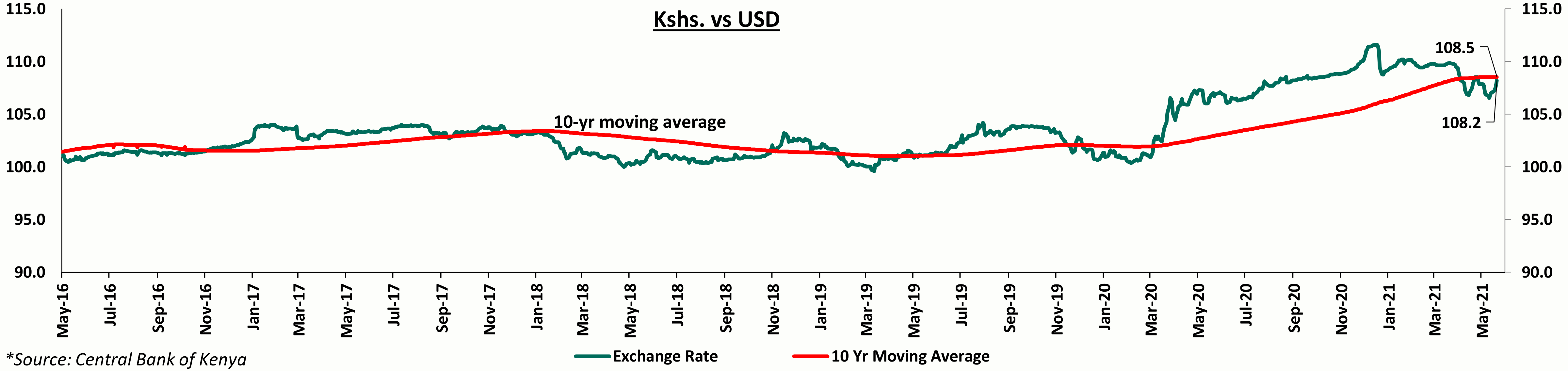
Currency

Year-to-date, the Kenyan shilling has appreciated by 1.5% against the US Dollar



**Source: Central Bank of Kenya*

- The Kenya Shilling has appreciated by 1.5% year to date, in comparison to the 7.7% depreciation in 2020. The gain is mainly supported by the improving diaspora remittances evidenced by a 43.8% y/y increase to USD 299.3 mn in April 2021, from USD 208.2 mn recorded over the same period in 2020
- In our view, the shilling will come under pressure due to continued uncertainty globally making people prefer holding dollars and other hard currencies

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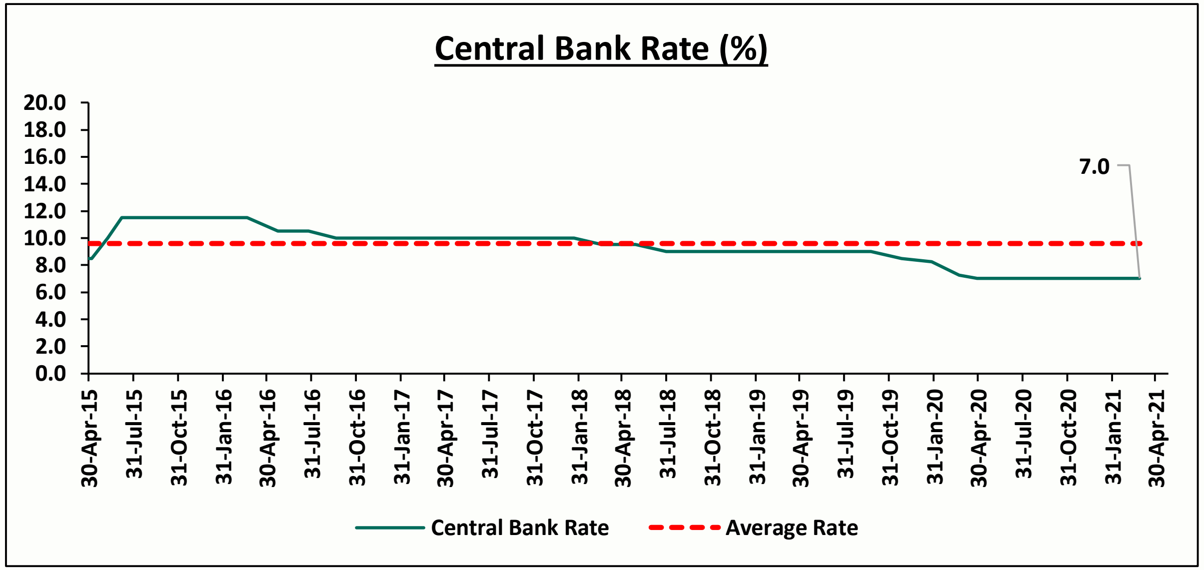
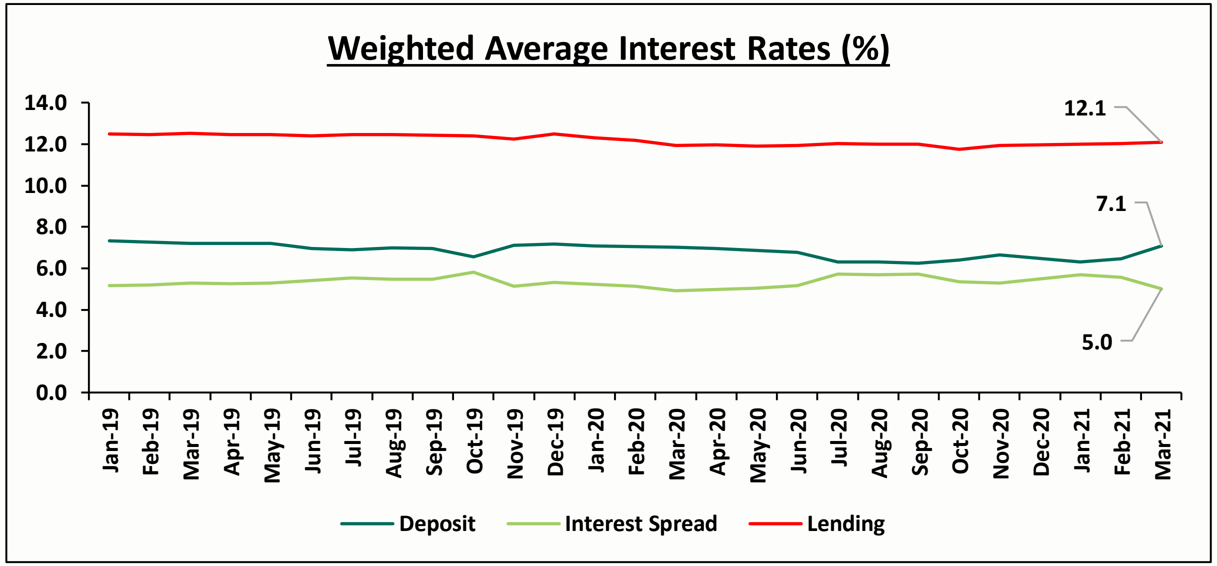
Interest Rates and Monetary Policy





- Since the start of the year, the Monetary Policy Committee has met thrice 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 11.9% in December 2020 from 12.0% seen in September 2020

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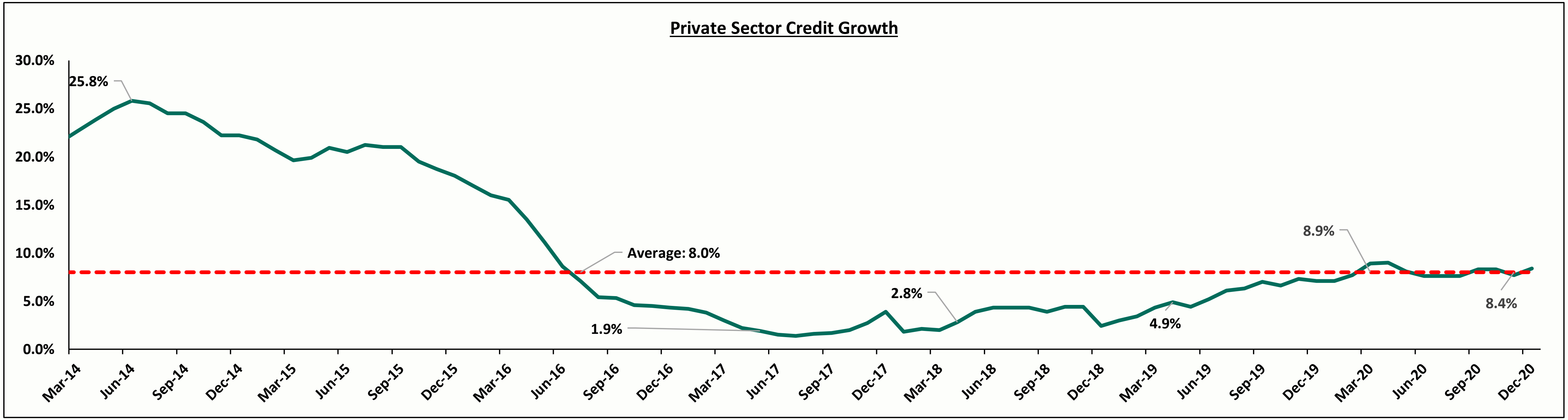
Private Sector Credit growth



**Source: KNBS*

- In the 12 months to December 2020, growth in private sector credit stood at 8.4%, supported by recovery in demand with the improved economic activity following the easing of COVID-19 containment measures, and the accommodative monetary policy
- 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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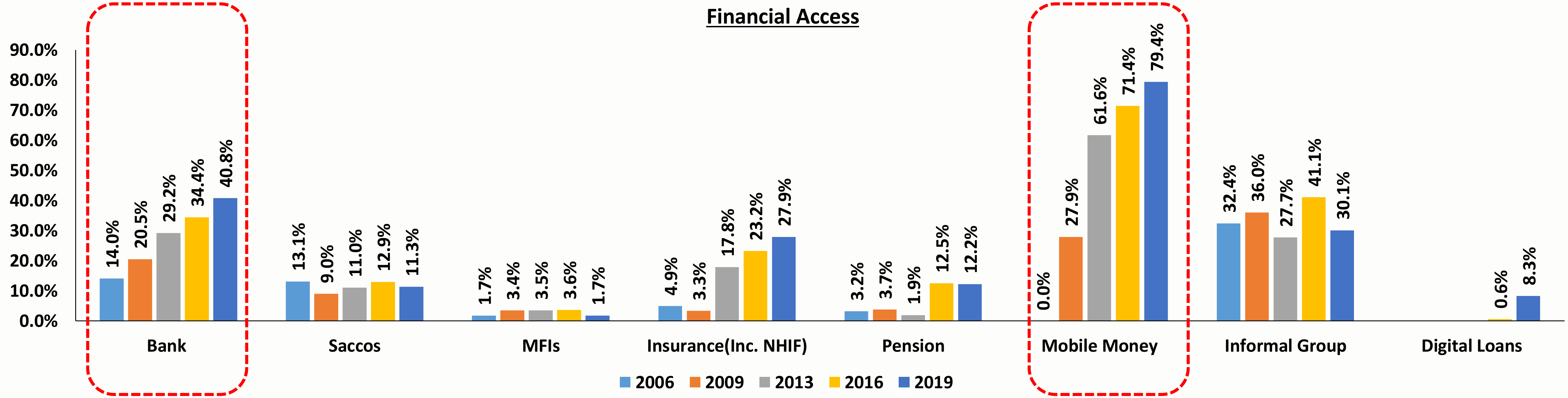
Kenyan Banking Sector Overview

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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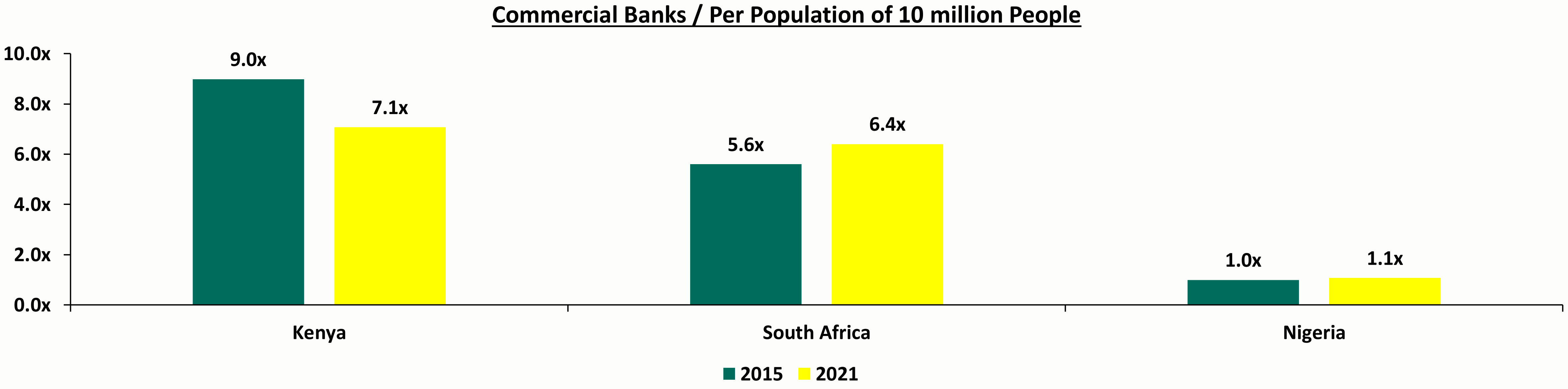
Source: Central Bank of Kenya, FinAccess report

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

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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, 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. Equity Group, KCB Group, Diamond Trust Bank and Cooperative Bank disclosed the cumulative amount of loans they have restructured as at Q1'2021;

No.	Bank	Amount Restructured (Kshs bn)	% of restructured loans to total loans	Q1'2021 y/y Change in Loan loss provision
1	Equity Group Holdings	171.0	31.0%	(59.3%)
2	Kenya Commercial Bank	102.5	18.8%	(1.3%)
3	Diamond Trust Bank	72.0	33.0%	67.7%
4	Co-operative Bank of Kenya	49.0	14.3%	153.5%
	Total	**394.5**	**24.3%**	**40.2%**

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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 in announced in May 2021:

i. 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 are currently valuing the company at Kshs 14.2 bn. This follows the recent 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,

Recent Developments in the Kenyan Banking Sector

ii. KCB Group disclosed that it had made an offer to the Banque Populaire du Rwanda Plc (BPR) shareholders to raise its acquisition stake in the bank from 62.1% to 100.0%. The 62.1% BPR acquisition would see KCB pay a cash consideration based on the net asset value of the BPR at completion of the transaction using a price to book multiple of 1.1x. According to the latest BPR financials, the bank had a book value of Rwf 47.3 bn (Kshs 5.1 bn), and thus at the trading multiple of 1.1x, we expect KCB Group to pay Kshs 5.6 bn. Collectively, KCB will spend a total of USD 56.9 mn (Kshs 6.1 bn) in the acquisition of Banque Populaire du Rwanda Plc (BPR) Rwanda and African Banking Corporation (ABC) Tanzania, and,

iii. I&M Holdings PLC announced that it completed the 90.0% acquisition of Orient Bank Limited Uganda (OBL) share capital, after receiving all the required regulatory approvals. I&M Holdings was set to pay Kshs 3.6 bn for the deal. Additionally, I&M Holdings will take over 14 branches from OBL, taking its total branches to 80, from 66 branches as at the end of 2020

Recent Developments in the Kenyan Banking Sector

Consolidation continues in the banking sector, with the most recent being that I&M's acquisition of Orient Bank

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, and, ABC Tanzania	4.5 (Banque Populaire du Rwanda, only. ABC Tanzania financials unknown)	100.0%	6.1	N/D	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

3. **Asset Quality Deterioration:** Asset quality for listed banks deteriorated in Q1'2021, with the Gross NPL ratio rising by 2.1% points to 13.5% from 11.4% in Q1'2020. Key to note, the listed banks' NPL ratio of 13.5% is the highest it has ever been and is higher than the 5-year average of 10.0%. 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 62.0% in Q1'2021, from 57.4% recorded in Q1'2020, 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 Q1'2021, which came in at 11.0% compared to a growth of 14.1% in Q1'2020. According to the May 2021 MPC Press Release, the NPL ratio for the entire banking sector stood at 14.2% as at April 2021, a deterioration from 14.1% in December 2020. High levels of NPLs were witnessed in sectors such as Trade, Personal and Household and Manufacturing sectors which registered q/q increases of 38.5%, 16.7% and 9.6% in their NPL levels respectively

Recent Developments in the Kenyan Banking Sector

4. **Capital Raising:** In Q1'2021, 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 Small and Medium Sized Enterprises (SMEs) segment in order to support the small businesses in the tough operating environment occasioned by the COVID-19 pandemic. Some of the loans taken up for onward lending to SMEs include:
    a. In January 2021, Cooperative Bank announced it had received a USD 75.0 mn (Kshs 8.3 bn) loan from the International Finance Corporation (IFC) to facilitate lending to SMEs and businesses undertaking climate-friendly projects. The loan, which has a 7-year repayment period will also help match the bank's assets-liabilities match, with long term loans being financed by long term debt. Cooperative Bank also received a USD 15.0 mn (Kshs 1.6 bn) loan from Swedfund in February 2021 to enhance the bank's ability to lend to SMEs and increase their access to funding particularly in the midst of a pandemic,
    b. In January 2021, Equity Bank obtained a USD 50.0 mn (Kshs 5.9 bn) loan from Dutch Development Bank (FMO) to enable the bank to lend to perceived riskier small enterprises who have been hard hit by the pandemic. Additionally, Equity received a € 120.0 mn (Kshs 15.8 bn) facility from the European Union and the European Investment Bank (EIB) in March 2021 to support access to finance SMEs in sectors such as the agricultural sector and help entrepreneurs and small businesses withstand the economic challenges and uncertainties caused by COVID-19,

Recent Developments in the Kenyan 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

The table below highlights the disclosed loan facilities that banks have secured for capital injection and lending to the MSMEs in Q1’2021:

Bank	Amount Borrowed For Onward Lending (Kshs bns)	Purpose
Equity Bank	21.7	MSME lending
KCB Bank	16.4	MSME lending
Cooperative Bank	9.9	*MSME lending and Tier II Capital
I&M Bank	5.4	*MSME lending and Tier II Capital
Total	**53.4**	

*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

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Banking Sector Growth Drivers

i. **Growth in Interest Income:** With interest income growth at 14.7% as at Q1'2021 outpacing the 8.2% growth recorded in Q1'2020, interest income growth will remain a key industry driver going forward. The continued allocation to government securities which are witnessing slight increases in yields will also lead to an increase in the overall interest income. The pace of distribution of vaccines will be key for the recovery of the economy since a faster vaccination program will prevent further lockdowns and containment measures going forward. The expiry of the restructuring and moratorium window given to borrowers will also enable banks to further increase interest income growth which will lead to increased profitability. Key to note, some banks are still supporting borrowers in Q1'2021, which could slow down the recovery of interest income,

ii. **Revenue Diversification**: In Q1'2021, Non-Funded Income recorded a 2.9% weighted average growth, compared to a growth of 15.9% in Q1'2020, attributable to 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 however improved, coming in at 35.3% in Q1'2021, compared to 22.7% of Operating Income in Q1'2020. With the expiry of the waiver on bank charges on 2nd March 2021, we expect NFI growth to recover in the medium-long term due to the increased adoption of digital channels. According to the 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,

Banking Sector Growth Drivers

iii. **Provisioning:** Loan Loss Provisions recorded a growth of 5.5% in Q1’2021 compared to a growth of 233.2% in FY’2020, signifying improving business conditions and reduction of credit risk. However, given that the duration of the pandemic remains unknown, coupled with the emergence of new variants of COVID-19 in the country, we believe that the normalization of the sector’s provisioning levels to pre-pandemic levels will take longer than expected. The proactive stance taken by the banks in monitoring their loan books will however continue to support the sector’s growth,

iv. **Cost Rationalization:** Given the low revenues and increased automation, banks are expected to continue pursuing their cost rationalization strategies. A majority of banks have been riding on the digital revolution wave to improve their operational efficiency. Increased adoption of alternative channels of transactions such as mobile, internet, and agency banking, has led to increased transactions carried out via alternative channels and out of bank branches, which have been reduced to handling high-value transactions and other services such as advisory. ABSA Bank, for example, succeeded in moving 87.0% of transactions outside the branch as at FY’2020. 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 their operational efficiency, 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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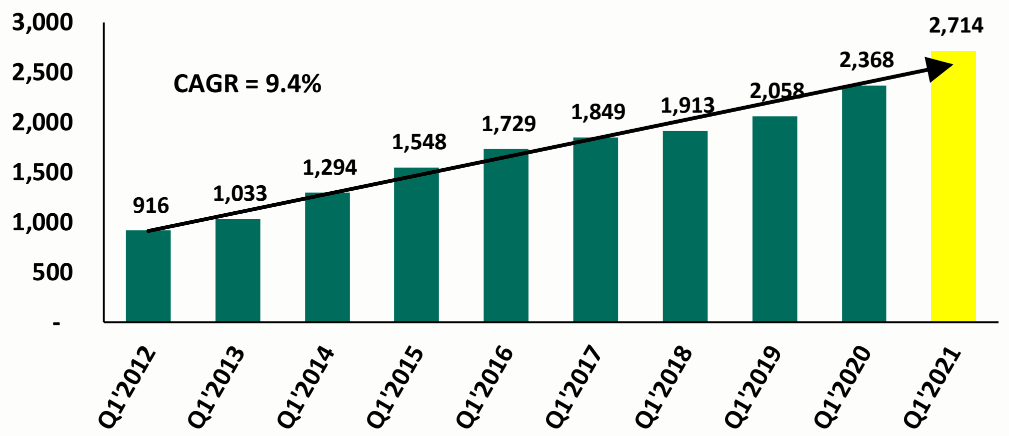
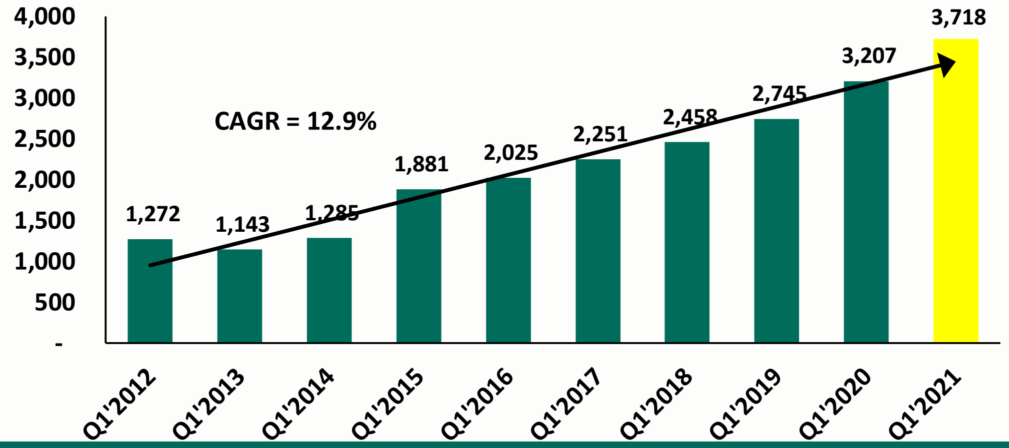
Listed Banking Sector Metrics

Q1’2021 deposits witnessed a faster 21.8% growth as compared to the 11.0% growth in loans

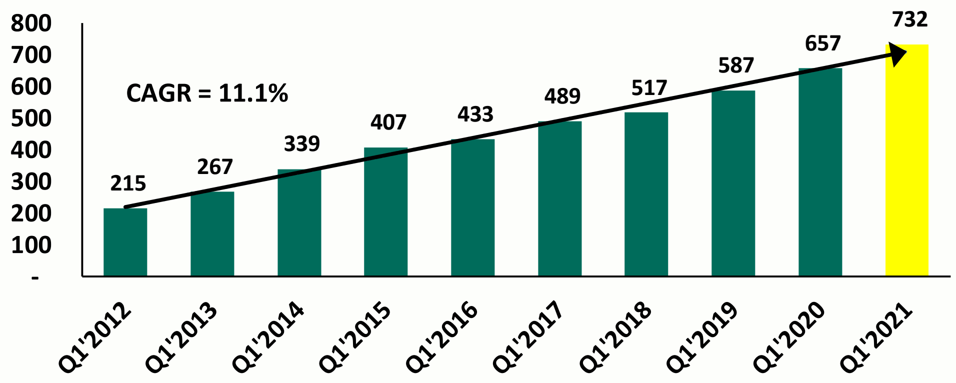
Loans and Advances (Kshs Bn)



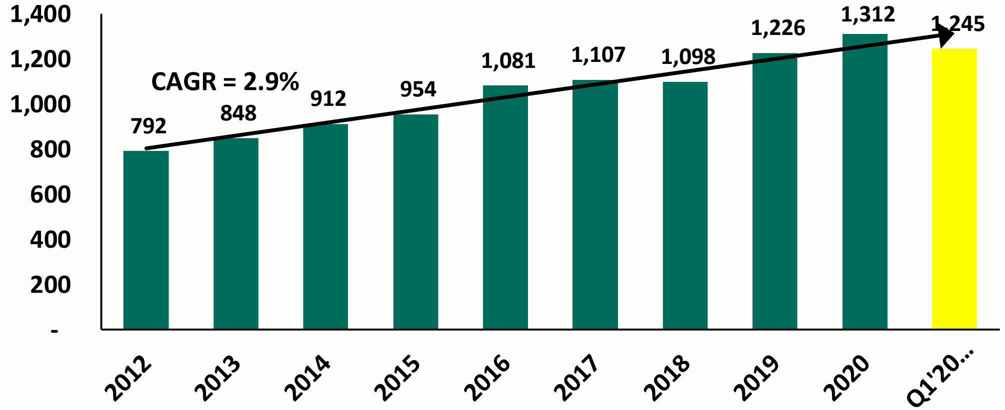
Deposits (Kshs Bn)



Shareholders Equity (Kshs Bn)



Bank Branches



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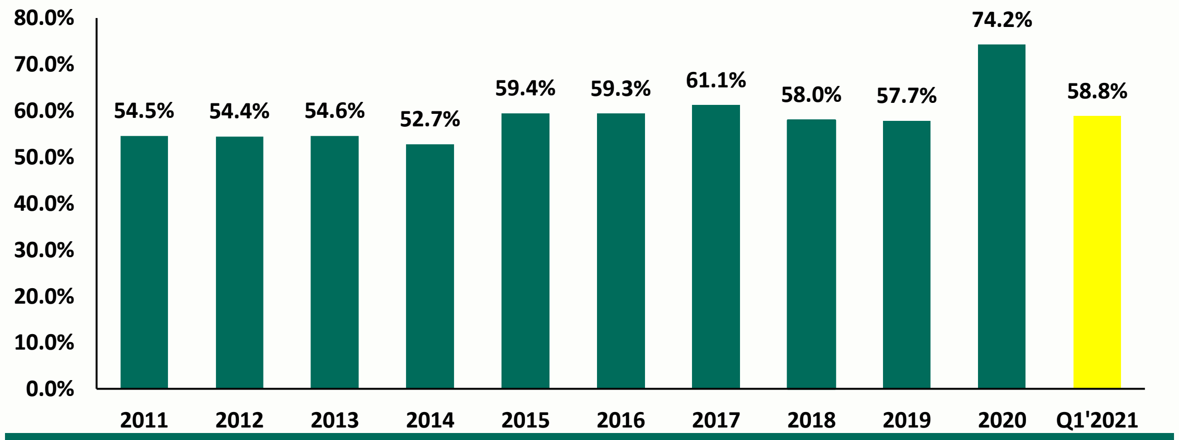
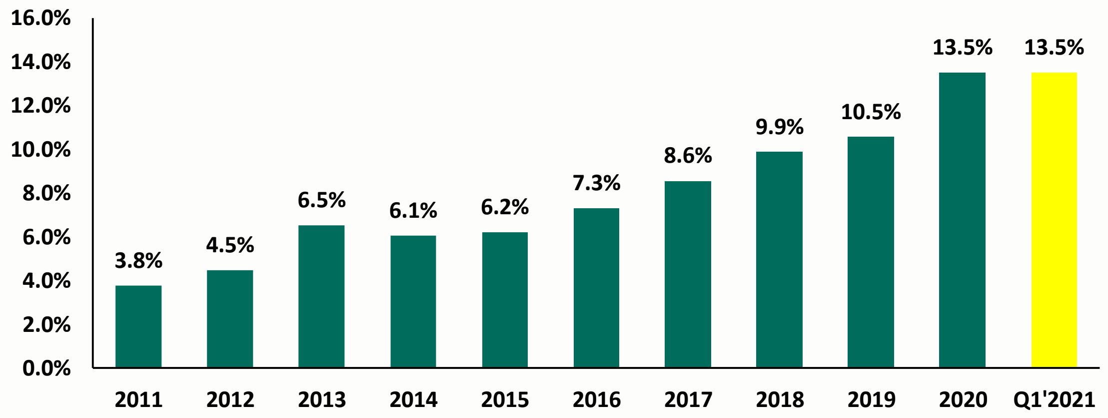
Listed Banking Sector Metrics

Banks' asset quality and profitability were negatively impacted by the tough COVID-19 Operating Environment

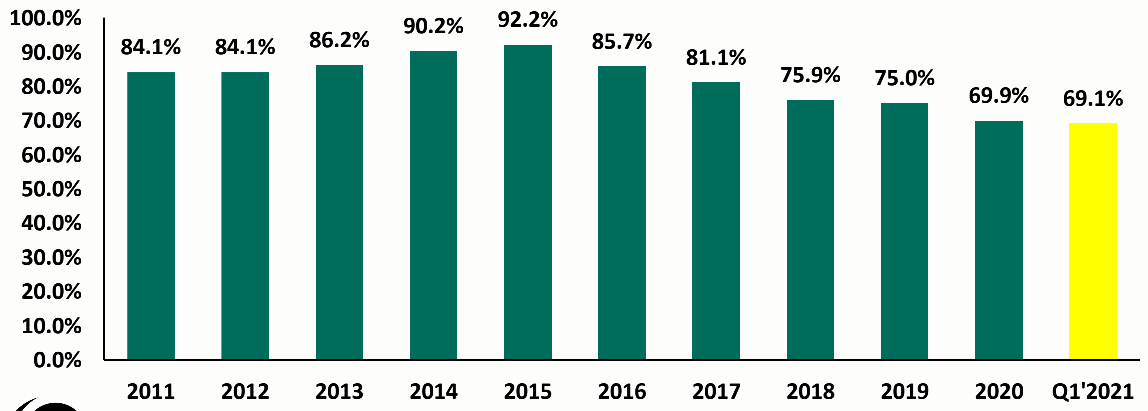
Cost to Income Ratio



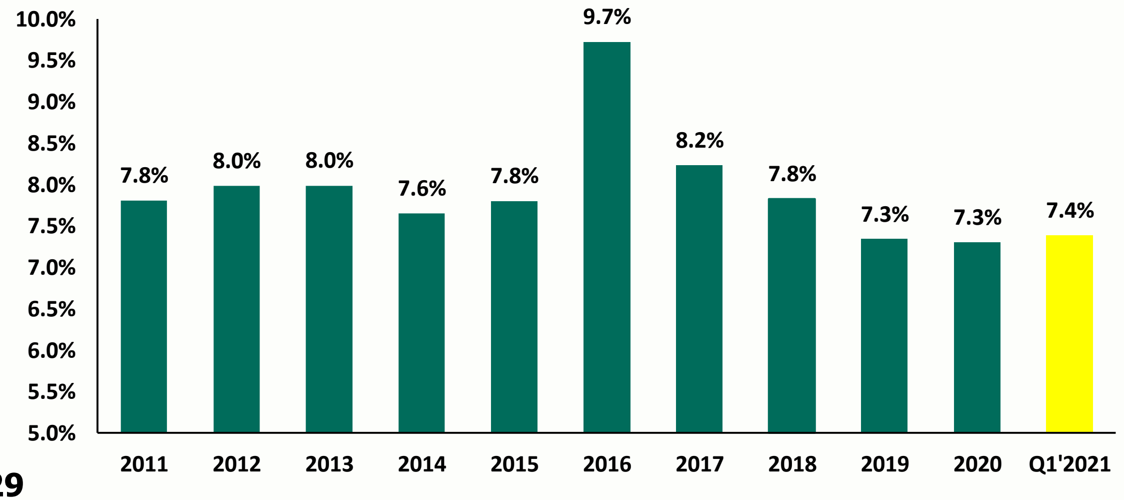
NPL Ratio



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 28.4% in Q1'2021, compared to a decline of 7.3% in Q1'2020

Bank	Core EPS Growth	Interest Income Growth	Interest Expense Growth	Net Interest Income Growth	Net Interest Margin	Non-Funded Income Growth	NFI to Total Operating Income	Growth in Total Fees & Commissions	Deposit Growth	Growth in Government Securities	Loan to Deposit Ratio	Loan Growth	Return on Average Equity
NCBA	73.8%	8.1%	(5.7%)	19.9%	5.9%	(3.3%)	44.3%	(8.1%)	11.2%	15.1%	56.0%	(1.1%)	8.1%
Equity	63.8%	31.9%	42.4%	28.4%	7.6%	30.7%	42.3%	21.5%	58.2%	16.1%	61.7%	28.6%	18.9%
ABSA	23.7%	(0.3%)	17.6%	5.9%	7.0%	(3.9%)	32.0%	7.4%	7.7%	1.1%	84.9%	7.5%	13.6%
Stanbic	23.1%	0.5%	(7.3%)	5.0%	6.1%	19.3%	46.7%	(8.5%)	10.6%	42.3%	69.5%	(2.4%)	13.2%
SCBK	18.9%	(9.0%)	(30.2%)	(2.8%)	6.7%	11.1%	35.1%	11.7%	8.9%	7.8%	44.4%	(6.1%)	11.3%
I&M	13.5%	10.2%	(5.2%)	23.4%	5.4%	(17.7%)	29.7%	(5.3%)	9.3%	89.5%	73.4%	5.6%	13.3%
KCB	1.8%	8.7%	1.8%	11.1%	8.4%	(20.0%)	27.4%	(26.5%)	1.2%	4.7%	79.7%	7.8%	13.9%
DTB-K	0.5%	4.8%	2.9%	6.2%	5.3%	(1.9%)	23.9%	(20.5%)	10.6%	7.9%	68.2%	2.3%	5.7%
COOP	(3.7%)	27.6%	19.8%	30.7%	8.6%	(9.2%)	32.0%	(15.7%)	16.0%	43.4%	75.7%	8.0%	12.3%
HF	N/A	(18.7%)	(19.0%)	(18.3%)	4.1%	(46.7%)	22.0%	(36.2%)	(2.1%)	13.4%	96.2%	(6.9%)	(20.4%)
Q1'21 Mkt Weighted Average*	**28.4%**	**14.7%**	**12.7%**	**17.5%**	**7.4%**	**2.9%**	**35.3%**	**(2.4%)**	**21.8%**	**20.3%**	**69.2%**	**11.0%**	**13.8%**
Q1'20 Mkt Weighted Average**	**(7.3%)**	**8.2%**	**11.4%**	**7.4%**	**7.2%**	**15.9%**	**22.7%**	**24.5%**	**14.3%**	**14.9%**	**74.1%**	**14.1%**	**17.2%**

*Market cap weighted as at 08/06/2021

**Market cap weighted as at 02/06/2020

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Takeout from Key Operating Metrics

Listed banks recorded a 28.4% increase in core Earnings Per Share (EPS) in Q1’2021

1. In Q1’2021, core Earnings Per Share (EPS) recorded a weighted 28.4% increase, compared to a weighted decline of 7.3% in Q1’2020,
2. The sector recorded a weighted average deposit growth of 21.8%, faster than the 14.3% growth recorded in Q1’2020,
3. Interest income rose by 14.7%, compared to a growth of 8.2% recorded in Q1’2020. The Yield on Interest Earning Assets (YIEA) increased to 10.2% from the 9.8% recorded in Q1’2020, an indication of the increased allocation to higher-yielding government securities by the sector. The Net Interest Margin (NIM) increased to 7.4% in Q1’2021 from 7.2% recorded in Q1’2020 for the whole listed banking sector,
4. Interest expense, on the other hand, grew faster by 12.7%, compared to 11.4% in Q1’2020. Cost of funds, however, declined, coming in at a weighted average of 2.5% in Q1’2021, from 3.0% in Q1’2020, owing to the faster growth in average interest-bearing liabilities, an indication that the listed banks were able to mobilize cheaper deposits,

Takeout from Key Operating Metrics

Listed banks recorded a 2.9% y/y Non Funded Income growth, slower than 15.9% growth recorded in Q1'2020

5. Average loan growth came in at 11.0%, slower than the 14.1% recorded in Q1'2020. The loan growth was also slower than the 20.3% growth in government securities, an indication of the banks' preference of investing in Government securities as opposed to lending due to the elevated credit risk occasioned by the pandemic, and,
6. Non-Funded Income grew by 2.9% y/y, slower than 15.9% growth recorded in Q1'2020. The performance in NFI was on the back of declined growth in fees and commission of (2.4%), compared to the 24.5% growth recorded in Q1'2020. The poor performance of the growth in fees and commission can be attributed to the waiver on fees on mobile transactions below Kshs 1,000 and the free bank-mobile money transfer, which expired on 2nd March 2021. Banks with a large customer base who rely heavily on mobile money transactions are likely to take the biggest hit.

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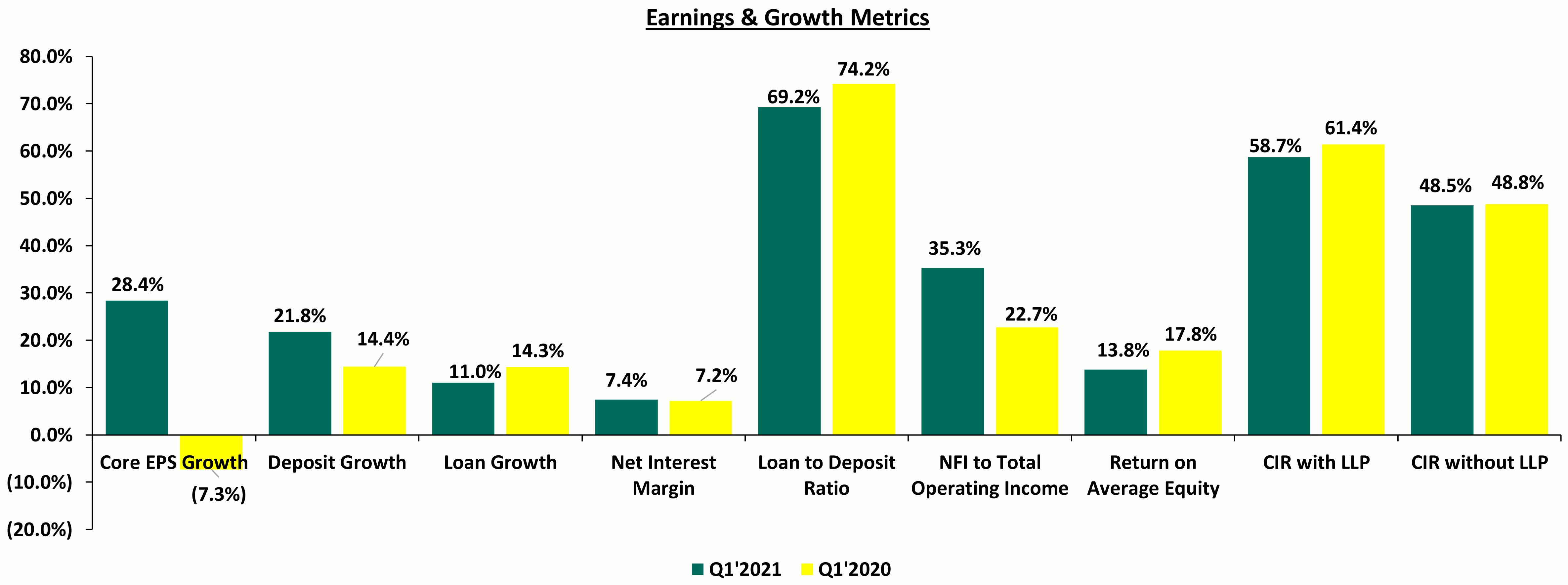
Listed Banks Earnings and Growth Metrics Cont…

The banking sector displayed resilience as evidenced by the increase in the core-earnings per share by 28.4%, as compared to a decline of 7.3% in Q1’2020



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Listed Banks Operating Metrics

The sectors asset quality continues to deteriorate as evidenced by the high NPL ratio of 13.5%, from 11.4% recorded in Q1’2020

Bank	Deposit/Branch (bn)	Gross NPL Ratio	NPL Coverage	Tangible Common Ratio	Non Funded Income/Revenue
Absa Bank	3.1	7.5%	73.4%	12.6%	32.3%
DTBK	2.3	10.6%	46.5%	15.2%	23.9%
I&M Holdings	4.0	11.9%	61.1%	16.7%	29.7%
Equity Bank	2.4	12.1%	55.5%	11.8%	42.3%
NCBA Group	6.2	14.7%	65.0%	12.8%	44.3%
KCB Group	2.1	14.9%	61.6%	14.6%	27.4%
Stanbic Bank	9.1	15.1%	63.9%	13.5%	46.3%
Coop Bank	2.2	15.8%	58.4%	15.9%	31.5%
SCBK	7.4	16.4%	81.1%	14.7%	35.1%
HF Group	1.7	24.7%	64.7%	14.3%	22.2%
Weighted Average Q1'2021*	**3.4**	**13.5%**	**62.0%**	**13.8%**	**35.4%**
Weighted Average Q1'2020**	**3.2**	**11.4%**	**57.4%**	**15.1%**	**38.2%**

*Market cap weighted average as at 8th June 2021
**Market cap weighted average as at 2nd June 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 7.2x

Bank	No. of shares (bn)	Market Cap (bn)	P/E	Price*	P/TBV
Equity Bank	3.8	165.9	7.1x	44.0	1.3x
KCB Group	3.2	136.6	6.9x	42.5	1.0x
Coop Bank	5.9	72.2	6.8x	12.3	0.8x
Absa Bank	5.4	54.0	11.7x	9.9	1.1x
SCBK	0.3	44.7	7.7x	130.0	0.9x
NCBA Group	1.6	42.8	7.4x	26.0	0.6x
I&M Holdings	1.7	35.6	4.3x	21.5	0.6x
Stanbic Bank	0.4	32.4	6.2x	82.0	0.8x
DTBK	0.3	16.5	4.7x	59.0	0.3x
HF Group	0.4	1.5	1.0x	3.8	0.2x
Weighted Average Q1'2021*			**7.2x**		**1.0x**
Weighted Average Q1'2020**			**5.5x**		**1.0x**

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

**Prices as at 8th June 2021*

***Prices as at 2nd June 2020*

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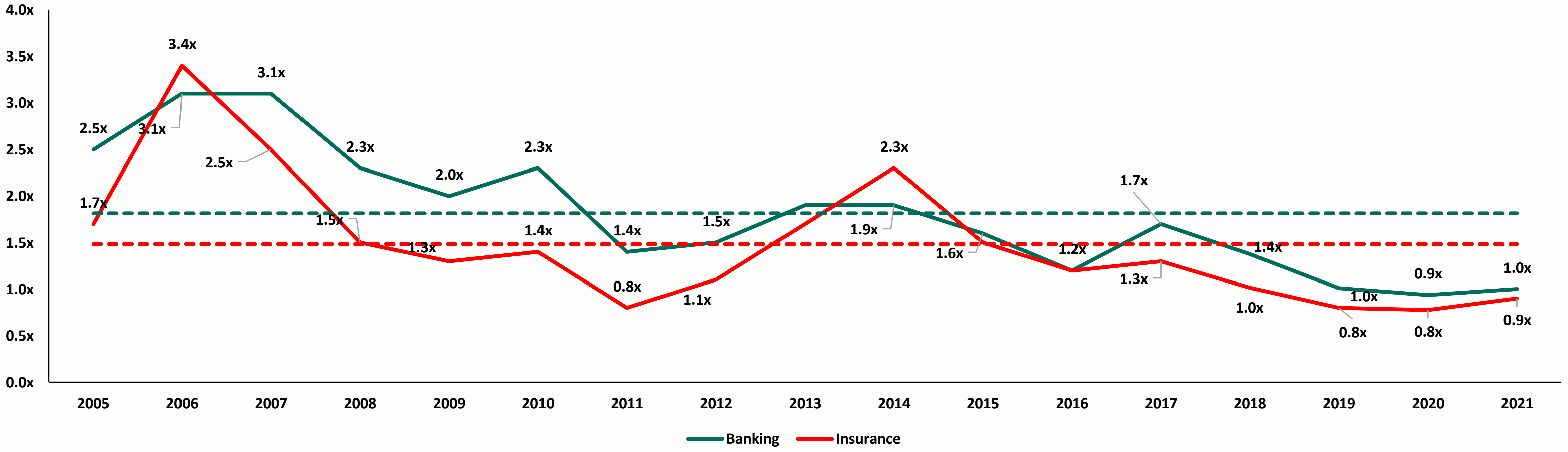
Listed Banks & Insurance Trading Metrics

Listed banks trade at an average P/B of 1.0x, higher than the insurance sector, which is priced at 0.9x. 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

Price to Book Comparison



On a price to book valuation, listed banks are currently priced at a PBV of 1.0x, higher than listed insurance companies at 0.9x, 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

I&M Holdings emerged top in the franchise ranking due to having the highest Tangible Common Ratio which came in at 16.7% vs an industry average of 13.8x

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	I&M Holdings	5	5	3	8	2	3	4	3	7	1	7	5	53
2	KCB Group	2	6	2	2	3	8	9	6	6	5	8	3	60
3	Absa Bank	1	7	7	4	10	9	5	1	2	9	5	1	61
4	Stanbic Bank	6	4	4	6	8	5	1	7	5	7	1	8	62
5	SCBK	10	1	6	5	7	7	2	9	1	4	4	7	63
6	Equity Bank	8	3	1	3	4	10	6	4	9	10	3	4	65
7	Coop Bank	3	8	5	1	5	6	8	8	8	2	6	6	66
8	DTBK	7	2	9	9	6	2	7	2	10	3	9	2	68
9	NCBA Group	9	9	8	7	9	4	3	5	3	8	2	9	76
10	HF Group	4	10	10	10	1	1	10	10	4	6	10	10	86

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Valuation Summary of Listed Banks

I&M Holdings presents the highest upside with a total potential return of 50.7%

(all values in Kshs)

Bank	Current Price	Target Price	Upside/(Downside)	DPS	Dividend Yield	Total Potential Return	Q1'2021 Ranking
I&M Holdings	21.5	29.8	38.6%	2.6	12.1%	50.7%	1
Equity Bank	44	51.2	16.5%	3.5	8.0%	24.5%	2
KCB Group	42.5	48.6	14.4%	3.5	8.2%	22.6%	3
NCBA Group Plc	26	29.5	13.5%	2.0	7.7%	21.2%	4
DTBK	59	70.0	18.6%	1.0	1.7%	20.3%	5
Coop Bank	12.3	13.8	12.0%	1.0	8.1%	20.2%	6
Stanbic Holdings	82	90.5	10.4%	7.5	9.1%	19.5%	7
Absa Bank	9.9	10.7	7.6%	1.1	11.1%	18.7%	8
SCBK	130	134.5	3.5%	12.0	9.2%	12.7%	9
HF Group	3.8	3.2	(15.6%)	0.0	0.0%	(15.6%)	10

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	FY'2020	Q1'2021
I&M Holdings	1	1	1.0	1	**1**
KCB Group Plc	2	3	2.6	3	**2**
Equity Group	6	2	3.6	2	**3**
Stanbic Bank/Holdings	4	7	5.8	6	**4**
ABSA	3	8	6.0	4	**5**
NCBA Group Plc	9	4	6.0	9	**5**
DTBK	8	5	6.2	5	**7**
Co-operative Bank of Kenya	7	6	6.4	7	**8**
SCBK	5	9	7.4	8	**9**
HF Group Plc	10	10	10.0	10	**10**

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VI. Appendix

A. Tier I Banks

I. Equity Group Holdings

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Equity Group Summary of Performance – Q1’2021

- Profit before tax increased by 67.1% to Kshs 11.7 bn, from Kshs 7.0 bn in Q1’2020. Profit after tax increased by 63.8% to Kshs 8.7 bn in Q1’2021, from Kshs 5.3 bn recorded in Q1’2020 with the effective tax rate increasing to 25.5% from 24.0% in Q1’2020,
- Total operating income rose by 29.3% to Kshs 25.7 bn, from Kshs 19.9 bn recorded in Q1’2020. This was driven by a 30.7% increase in Non-Funded Income (NFI) to Kshs 10.9 bn, from Kshs 8.3 bn in Q1’2020, coupled with a 28.4% increase in Net Interest Income (NII) to Kshs 14.8 bn, from Kshs 11.5 bn in Q1’2020,
- Total operating expenses grew by 8.7% to Kshs 14.0 bn in Q1’2021, from Kshs 12.9 bn recorded in Q1’2020, mainly driven by the 24.5% increase in Staff Costs to Kshs 4.0 bn, from Kshs 3.2 bn coupled with a 33.5% increase in Other operating expenses to Kshs 8.7 bn from Kshs 6.5 bn. On the other hand, Loans Loss Provision declined by 59.3% to Kshs 1.3 bn, from Kshs 3.1 bn recorded in Q1’2020,
- The balance sheet recorded an expansion as Total Assets increased by 53.9% to Kshs 1,066.4 bn, from Kshs 693.2 bn recorded in Q1’2020, and,
- The bank’s asset quality deteriorated, as evidenced by the 1.0% points rise in the NPL ratio to 12.1% in Q1’2021, from 11.2% in Q1’2020. The main sectors that contributed to the deterioration in asset quality were SMEs and micro enterprises sectors, which contributed the largest portion of the Non-Performing loans with NPL Ratios of 15.5% and 10.1%, respectively
- Going forward, we expect the bank’s growth to be driven by:

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

Financial Statements Extracts

Equity Group's PAT is expected to grow at a 5-year CAGR of 18.9%

Income Statement	2018	2019	2020	2021f
Net Interest Income	41.4	45.0	55.1	66.8
Non Funded Income	25.9	30.8	38.5	40.8
Total Operating Income	67.3	75.8	**93.7**	**107.6**
Loan Loss Provision	(3.7)	(5.3)	(26.6)	(14.1)
Other Operating Expenses	(35.1)	(39.0)	(46.0)	(52.6)
Total Operating Expenses	**(38.8)**	**(44.3)**	**(72.7)**	**(66.7)**
Profit Before Tax	28.5	31.5	22.2	40.9
% PAT Change YoY	**4.8%**	**13.8%**	**(10.9%)**	**42.4%**
EPS	5.3	6.0	5.3	7.6
DPS	2.0	-	-	1.0
Cost to Income	57.7%	58.5%	77.6%	62.0%
NIM	**8.5%**	**8.4%**	**7.6%**	**6.9%**
ROaE	21.2%	22.0%	16.5%	17.4%
ROaA	3.6%	3.6%	2.4%	2.6%
Balance Sheet	**2018**	**2019**	**2020**	**2021f**
Net Loans and Advances	297.2	366.4	477.8	605.7
Government Securities	130.4	138.6	175.7	227.2
Other Assets	145.7	168.7	361.5	358.9
Total Assets	**573.4**	**673.7**	**1,015.1**	**1,191.9**
Customer Deposits	422.8	482.8	740.8	852.3
Other Liabilities	55.7	79.2	135.7	137.0
Total Liabilities	**478.4**	**561.9**	**876.5**	**989.3**
Shareholders Equity	**94.1**	**110.7**	**132.2**	**196.0**
Number of Shares	**3.8**	**3.8**	**3.8**	**3.8**
Book value Per share	24.9	29.3	35.0	51.9
% Change in BPS YoY	**1.0%**	**17.7%**	**19.5%**	**48.3%**

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Valuation Summary

Equity Group is undervalued with a total potential return of 24.5%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	61.9	40.0%	24.8
Residual Income	49.7	35.0%	17.4
PBV Multiple	32.2	20.0%	6.4
PE Multiple	52.6	5.0%	2.6
Target Price			**51.23**
Current Price			**43.95**
Upside/(Downside)			16.5%
Dividend Yield			8.0%
Total Potential Return			**24.5%**

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II. KCB Group

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KCB Group Summary of Performance – Q1’2021

- Profit before tax increased by 2.2% to Kshs 9.1 bn from Kshs 8.9 bn in Q1’2020 due to the 0.8% decrease in total operating expenses to Kshs 13.9 bn, from Kshs 14.0 bn in Q1’2020. Profit after tax increased by 1.8% to Kshs 6.4 bn in Q1’2021, from Kshs 6.3 bn in Q1’2020, with the effective tax rate increasing to 30.1%, from 29.8% in Q1’2020,
- Total operating income increased by 0.4% to Kshs 23.04 bn, from Kshs 22.95 bn in Q1’2020 driven by an 11.1% increase in Net Interest Income (NII) to Kshs 16.7 bn, from Kshs 15.1 bn in Q1’2020. The growth was however weighed down by a 20.0% decline in Non-Funded Income (NFI) to Kshs 6.3 bn, from Kshs 7.9 bn in Q1’2020,
- Total operating expenses decreased by 0.8% to Kshs 13.9 bn, from Kshs 14.0 bn in Q1’2020, largely driven by a 1.3% decline in Loan Loss Provisions (LLP) to Kshs 2.86 bn, from Kshs 2.90 bn in Q1’2020. Staff costs increased by 4.2% to Kshs 6.1 bn from Kshs 5.8 bn in Q1’2020,
- The bank’s asset quality deteriorated, with the NPL ratio rising to 14.9% in Q1’2021, from 11.1% in Q1’2020, attributable to the faster 48.1% growth in Non-Performing Loans, which outpaced the 7.8% growth in loans. 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 19.3%, 13.6%, 9.6% 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

Financial Statements Extracts

KCB Group's PAT is expected to grow at a 5-year CAGR of 26.3%

Income Statement	2019	2020	2021e	2022f
Net Interest Income	56.1	67.9	80.5	101.4
Non Funded Income	28.2	28.5	36.2	43.0
Total Operating Income	**84.3**	**96.4**	**116.7**	**144.4**
Loan Loss Provision	8.9	27.5	21.0	24.3
Other Operating Expenses	38.5	43.2	51.9	61.6
Total Operating Expenses	**47.4**	**70.7**	**72.8**	**85.9**
Profit Before Tax	36.9	25.7	43.9	58.6
% PAT Change YoY	**4.9%**	**(22.1%)**	**56.6%**	**33.5%**
EPS	7.8	6.1	9.6	12.8
DPS	3.5	1.0	3.5	3.5
Cost to Income	56.2%	73.3%	62.4%	59.5%
NIM	**8.2%**	**8.5%**	**8.1%**	**12.5%**
ROE	20.7%	14.4%	18.0%	25.4%
ROA	3.1%	2.1%	2.7%	3.9%
Balance Sheet	**2019**	**2020**	**2021e**	**2022f**
Net Loans and Advances	539.7	595.3	802.9	935.3
Government Securities	164.9	208.8	274.4	313.9
Other Assets	194.0	183.8	207.2	217.2
Total Assets	**898.6**	**987.8**	**1284.5**	**1466.4**
Customer Deposits	686.6	767.2	997.4	1147.0
Other Liabilities	82.2	78.2	88.9	91.5
Total Liabilities	**768.8**	**845.4**	**1086.3**	**1238.5**
Shareholders Equity	**129.7**	**142.4**	**198.2**	**227.9**
Number of Shares	**3.2**	**3.2**	**3.2**	**3.2**
Book value Per share	40.4	44.3	61.9	71.2
% Change in BPS YoY	**7.5%**	**9.8%**	**39.8%**	**15.1%**

Valuation Summary

KCB Group is undervalued with a total potential return of 22.6%

Valuation Summary	Implied Price	Weighting	Weighted Value
Residual Income	37.7	35%	13.2
PBV Multiple	46.9	20%	9.4
PE Multiple	52.0	5%	2.6
DDM	58.5	40%	23.4
Target Price			**48.6**
Current Price			**42.5**
Upside/(Downside)			14.4%
Dividend Yield			8.2%
Total Return			**22.6%**

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III. Co-operative Bank

Co-operative Bank Summary of Performance – Q1'2021

- The bank registered a 3.7% decline in profit after tax to Kshs 3.5 bn in Q1'2021, from Kshs 3.6 bn in Q1'2020. Profit before tax and exceptional items declined by 2.6% to Kshs 5.0 bn, from Kshs 5.1 bn in Q1'2020, with the effective tax rate increasing to 30.7% in Q1'2021, from 29.9% seen in Q1'2020,
- Total operating income rose by 14.8% to Kshs 14.4 bn in Q1'2021, from Kshs 12.5 bn in Q1'2020 mainly due to a 30.7% increase in Net Interest Income (NII) to Kshs 9.8 bn, from Kshs 7.5 bn in Q1'2020. The growth in total operating income was weighed down by a 9.2% decline in Non-Funded Income (NFI) to Kshs 4.5 bn, from Kshs 5.0 bn in Q1'2020,
- Total operating expenses rose by 27.4% to Kshs 9.3 bn in Q1'2021, from Kshs 7.3 bn in Q1'2020, largely driven by the 153.5% rise in Loan Loss Provisions (LLP) to Kshs 2.3 bn, from Kshs 0.9 bn in Q1'2020. The increased provisioning levels by the lender is mainly as a result of the elevated levels of risk currently in the market. Notably Staff costs decreased by 7.8% to Kshs 3.2 bn, from the Kshs 3.5 bn recorded in Q1'2020,
- The balance sheet recorded an expansion as total assets grew by 17.5% to Kshs 552.9 bn in Q1'2021, from Kshs 470.4 bn in Q1'2020,
- The bank's asset quality deteriorated, with the NPL ratio deteriorating to 15.8% in Q1'2021, from 10.8% in Q1'2020 owing to slower growth in gross loans by 4.8% compared to the 63.3% growth in gross non-performing loans, and partly stems from NPLs of Kshs 7.3 bn from Kingdom Bank which was recently acquired by Co-operative Bank. 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.

Financial Statements Extracts

Co-operative Bank's PAT is expected to grow at a 5-year CAGR of 14.8%

Income Statement	2018	2019	2020	2021f
Net Interest Income	30.8	31.3	36.3	43.1
Non Funded Income	12.9	17.2	17.5	16.1
Total Operating Income	**43.7**	**48.5**	**53.8**	**59.2**
Loan Loss Provision	(1.8)	(2.5)	(8.1)	(9.4)
Other Operating Expenses	(23.9)	(25.3)	(31.3)	(30.0)
Total Operating Expenses	**(25.7)**	**(27.8)**	**(39.4)**	**(39.4)**
Profit Before Tax	18.2	20.7	14.3	19.6
% PAT Change YoY	**11.6%**	**12.4%**	**-24.4%**	**27.1%**
EPS	1.9	2.1	1.6	2.0
DPS	1.0	1.0	1.0	1.0
Cost to Income	58.8%	57.4%	73.2%	66.6%
NIM	**9.1%**	**8.5%**	**8.5%**	**8.3%**
ROE	**18.3%**	**19.2%**	**12.5%**	**14.6%**
ROA	**3.2%**	**3.3%**	**2.1%**	**2.4%**
Balance Sheet	**2018**	**2019**	**2020**	**2021f**
Net Loans and Advances	245.4	266.7	286.6	318.7
Government Securities	80.3	117.8	161.9	188.2
Other Assets	87.7	72.5	88.4	86.7
Total Assets	413.4	457.0	536.9	593.7
Customer Deposits	306.1	332.8	378.6	430.7
Other Liabilities	36.1	43.3	66.3	64.6
Total Liabilities	342.2	376.2	444.9	495.3
Shareholders Equity	69.9	79.3	90.7	97.5
Number of Shares	5.87	5.87	5.87	5.87
Book value Per share	11.9	13.5	15.5	16.6
% Change in BPS YoY	**0.43%**	**13.6%**	**14.4%**	**7.5%**

Valuation Summary

Co-operative Bank is undervalued with a total potential return of 20.2%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	13.89	40.0%	5.56
Residual income	12.19	35.0%	4.27
PBV Multiple	15.99	20.0%	3.20
PE Multiple	15.17	5.0%	0.76
Target Price			**13.8**
Current Price			**12.3**
Upside/(Downside)			13.4%
Dividend Yield			8.1%
Total Return			**20.2%**

Cytonn

IV. NCBA Bank

Cytonn

NCBA Bank Summary of Performance – Q1’2021

- Profit before tax rose by 60.2% to Kshs 3.9 bn, from Kshs 2.4 bn in Q1’2020. Profit after tax also increased by 73.8% to Kshs 2.8 bn from Kshs 1.6 bn in Q1’2020 with the effective tax rate decreasing to 26.8% from 32.5% recorded in Q1’2020,
- Total operating income rose by 8.3% to Kshs 11.8 bn in Q1’2021, from Kshs 10.9 bn in Q1’2020. This was due to a 19.9% increase in Net Interest Income (NII) to Kshs 6.6 bn, from Kshs 5.5 bn recorded in Q1’2020. This was however weighed down by a 3.3% decline in Non-Funded Income (NFI) to Kshs 5.2 bn, from the Kshs 5.4 bn recorded in Q1’2020,
- Total operating expenses declined by 6.5% to Kshs 7.8 bn, from Kshs 8.3 bn in Q1’2020, largely driven by the 30.1% decrease in loan loss provision to Kshs 2.6 bn, from Kshs 3.8 bn in Q1’2020. However, the decline in interest expenses was weighed down by a 16.8% increase in staff costs to Kshs 2.0 bn, from Kshs 1.7 bn recorded in Q1’2020 and a 10.9% decline in other expenses to Kshs 3.2 bn from Kshs 2.9 bn,
- The balance sheet recorded an expansion with total assets growing by 6.4% to Kshs 542.1 bn, from Kshs 509.6 bn in Q1’2020,
- The group’s asset quality deteriorated on the back of the increased NPL ratio to 14.7%, from 14.5% in Q1’2020, attributable to the faster 1.9% increase in NPLs that outpaced the 0.7% increase in gross loans which came in at Kshs 261.8 bn in Q1’2021, from the Kshs 259.6 bn in Q1’2020

Going forward, we expect the bank’s growth to be driven by:

1. The Bank is projected to maintain its synergy as it remains cautious and vigilant, as it continues focusing on priorities, re-evaluating and re-aligning operations to reflect the economic climate. The bank is also focusing on product diversification to cater for its clients during this difficult circumstances. This follows after NCBA Bank Kenya PLC launched a logbook loan product that will enable Kenyans access up to 50.0% financing against an owned vehicle.

Financial Statements Extracts

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

Income Statement	2018	2019	2020	2021f
Net Interest Income	20.3	13.3	25.5	28.3
Non Funded Income	16.1	20.3	20.9	21.4
Total Operating Income	**36.4**	**33.7**	**46.4**	**49.7**
Loan Loss Provision	(6.1)	(6.3)	(20.4)	(21.8)
Other Operating Expenses	(18.1)	(14.1)	(19.6)	(20.9)
Total Operating Expenses	**(24.1)**	**(20.4)**	**(40.0)**	**(42.7)**
Profit Before Tax	12.3	11.3	5.0	5.6
Profit After Tax	8.9	7.8	4.6	3.9
% PAT Change YoY	**9.3%**	**(12.4%)**	**(56.0%)**	**(14.3%)**
EPS	12.7	11.1	2.8	2.4
DPS	0.0	0.3	2.3	0.8
Cost to Income	66.3%	60.5%	86.2%	85.9%
NIM	**5.2%**	**3.3%**	**5.8%**	**6.0%**
ROE	13.7%	11.8%	6.6%	5.0%
ROA	2.0%	1.7%	0.9	0.7%
Balance Sheet	**2018**	**2019**	**2020**	**2021e**
Net Loans and Advances	239.6	249.4	248.5	264.9
Government Securities	129.7	145.0	163.5	182.5
Other Assets	84.3	100.5	116.0	126.2
Total Assets	453.6	494.8	528.0	573.6
Customer Deposits	341.0	378.2	421.5	455.2
Other Liabilities	46.2	49.3	33.9	34.4
Total Liabilities	387.2	427.6	455.4	489.6
Shareholders Equity	66.0	67.0	72.4	83.8
Number of Shares	0.7	0.7	1.5	1.6
Book value Per share	93.8	95.2	45.7	50.9
% Change in BPS YoY	**2.5%**	**1.5%**	**(52.0%)**	**15.8%**

Cytonn

Valuation Summary

NCBA Group is undervalued with a total potential return of 21.2%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM Integrated	28.9	40%	11.6
Residual Valuation	22.9	35%	8.0
PBV Multiple	42.3	20%	8.5
PE Multiple	28.8	5%	1.4
Target Price			**29.5**
Current Price			**26.0**
Upside/(Downside)			13.5%
Dividend Yield			7.7%
Total Potential Return			**21.2%**

Cytonn

V. Standard Chartered Bank Kenya

Cytonn

SCBK's Summary of Performance – Q1'2021

- Profit before tax increased by 16.6% to Kshs 3.4 bn, from Kshs 2.9 bn in Q1'2020. Profit after tax increased by 18.9% to Kshs 2.4 bn in Q1'2021, from Kshs 2.0 bn recorded in Q1'2020 with the effective tax rate decreasing to 29.6% from 31.0% in Q1'2020,
- Total operating income rose by 1.7% to Kshs 7.1 bn, from Kshs 7.0 bn recorded in Q1'2020. This was driven by an 11.1% increase in Non-Funded Income (NFI) to Kshs 2.5 bn, from Kshs 2.2 bn in Q1'2020, which was weighed down by a 2.8% decline in Net Interest Income (NII) to Kshs 4.6 bn, from Kshs 4.7 bn in Q1'2020,
- Total operating expenses declined by 9.0% to Kshs 3.7 bn in Q1'2021, from Kshs 4.0 bn in Q1'2020, mainly attributable to a 5.3% decline in Staff costs to Kshs 1.6 bn in Q1'2021, from Kshs 1.7 bn in Q1'2020. Additionally, Loans Loss Provisions (LLPs) declined by 3.5% to Kshs 0.41 bn, from Kshs 0.43 bn recorded in Q1'2020 partly attributable to the improved business environment,
- The balance sheet recorded an expansion as total assets grew by 8.9% to Kshs 339.3 bn, from Kshs 311.5 bn in Q1'2020, and,
- The bank's asset quality deteriorated owing to the increase in NPL ratio to 16.4% in Q1'2021, from 14.2% recorded in Q1'2020 and at the highest level since FY'2007.
- Going forward, we expect the bank's growth to be driven by:

i. Continued focus on promoting the usage of the bank's alternative channels is likely to continue boosting the company's Non-Funded Income (NFI). Revenue expansion coupled with cost containment will be key in boosting the bank's bottom line, and,

ii. We also expect the bank's conservatism in lending to continue as the credit risk in Kenya remains high as evidenced by the deterioration in the Kenyan banking sector to 14.6% in Q1'2021 from 12.5% in Q1'2020, according to the Commercial Banks' Credit Survey Report. SCBK's loan book decreased by 6.1% to Kshs 117.9 bn, from Kshs 125.5 bn recorded in Q1'2020.

Financial Statements Extracts

SCBK's PAT is expected to grow at a 5-year CAGR of 20.2%

Income Statement	2018	2019	2020	2021f
Net Interest Income	19.4	19.5	19.1	19.5
Non Funded Income	9.2	9.2	8.3	9.8
Total Operating Income	**28.6**	**28.7**	**27.4**	**29.3**
Loan Loss Provision	(1.9)	(0.6)	(3.9)	(1.9)
Other Operating Expenses	(14.8)	(16.0)	(16.1)	(16.3)
Total Operating Expenses	**(16.8)**	**(16.5**	**(20.0)**	**(18.2)**
Profit Before Tax	11.8	12.2	7.4	11.1
% PAT Change YoY	**17.1%**	**1.7%**	**(33.9%)**	**43.6%**
EPS	23.6	24.0	14.4	20.7
DPS	19.0	20.0	10.5	12.0
Cost to Income	58.6%	57.6%	73.0%	62.1%
NIM	**7.5%**	**7.4%**	**6.8%**	**6.3%**
ROaE	17.5%	17.5%	11.0%	13.5%
ROaA	2.8%	2.8%	1.7%	2.3%

Balance Sheet	2018	2019	2020	2021f
Net Loans and Advances	118.7	128.7	121.5	129.7
Government Securities	98.7	99.6	99.8	119.1
Other assets	68.0	73.8	104.3	119.8
Total Assets	**285.4**	**302.1**	**325.6**	**368.5**
Customer Deposits	224.3	228.4	256.5	281.9
Other Liabilities	14.5	25.9	18.2	21.6
Total Liabilities	**238.8**	**254.4**	**274.7**	**303.5**
Shareholders Equity	**46.6**	**47.8**	**50.9**	**65.0**
Number of shares	**0.4**	**0.4**	**0.4**	**0.4**
Book value Per share	328.2	336.1	358.1	457.4
% Change in BPS YoY	**2.1%**	**2.4%**	**6.5%**	**27.7%**

Cytonn

Valuation Summary

SCBK is undervalued with a total potential return of 12.7%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	154.22	40.0%	61.69
Residual Income	111.04	35.0%	38.86
PBV Multiple	138.40	20.0%	27.68
PE Multiple	125.12	5.0%	6.26
Target Price			**134.5**
Current Price			**130.0**
Upside/(Downside)			3.4%
Dividend Yield			9.2%
Total Return			**12.7%**

Cytonn

VI. Diamond Trust Bank Kenya

Cytonn

DTBK's Summary of Performance – Q1'2021

- Profit before tax increased by 1.3% to Kshs 2.99 bn, from Kshs 2.95 bn in Q1'2020. Profit after tax increased marginally by 0.5% to Kshs 2.1 bn in Q1'2021, from Kshs 2.0 bn recorded in Q1'2020, with the effective tax rate increasing to 31.4%, from 30.9% in Q1'2020,
- Total operating income increased by 4.1% to Kshs 6.5 bn, from Kshs 6.3 bn in Q1'2020 mainly driven by a 6.2% increase in the Net Interest Income (NII) to Kshs 5.0 bn, from Kshs 4.7 bn in Q1'2020. This was however weighed down by a 1.9% decline in Non-Funded Income (NFI) to Kshs 1.56 bn, from Kshs 1.59 bn in Q1'2020,
- Total operating expenses rose by 6.1% to Kshs 3.5 bn, from Kshs 3.1 bn in Q1'2020, largely driven by the 67.7% increase in Loan Loss Provisions (LLP) to Kshs 0.7 bn, from Kshs 0.4 bn in Q1'2020 on the back of the subdued operating environment seen during the year. Staff costs increased by 2.0% to Kshs 1.22 bn from Kshs 1.20 bn in Q1'2020,
- The balance sheet recorded an expansion as Total Assets increased by 8.4% to Kshs 417.3 bn, from Kshs 385.0 bn recorded in Q1'2020,
- The bank's asset quality deteriorated, with the NPL ratio increasing to 10.6% in Q1'2021, from 8.0% in Q1'2020, due to the faster 38.1% growth in gross NPLs, which outpaced the 3.9% growth in gross loans,
- Going forward, we expect the bank's growth to be driven by:

1. **Digital platform** - The bank intends to capitalize on its digital platform to support its business model which will enhance convenience for customers and increase income from digital products as well as service offering, and,
2. **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

Cytonn

Financial Statements Extracts

DTBK's PAT is expected to grow at a 5-year CAGR of 12.9%

Income Statement	2018	2019	2020	2021f
Net Interest Income	20.0	18.7	31.09	19.5
Non Funded Income	5.4	5.8	6.12	6.2
Total Operating Income	**25.5**	**24.5**	**24.20**	**25.6**
Loan Loss Provision	3.0	1.3	7.32	7.7
Other Operating Expenses	11.5	11.9	12.34	11.8
Total Operating Expenses	**14.5**	**13.2**	**24.20**	**19.5**
Profit Before Tax	11.0	11.3	4.7	6.2
% PAT Change YoY	**2.3%**	**2.6%**	**(58.6%)**	**23.7%**
EPS	25.3	26.0	12.6	15.6
DPS	2.6	2.7	0.0	1.0
Cost to Income	56.9%	54.0%	81.3%	76.2%
NIM	**6.2%**	**5.6%**	**5.0%**	**5.1%**
ROE	13.9%	12.9%	5.8%	6.6%
ROA	1.9%	1.9%	0.9%	1.0%
Balance Sheet	**2018**	**2019**	**2020**	**2021e**
Net Loans and Advances	193.1	199.1	208.6	221.0
Government Securities	115.0	130.3	148.4	139.0
Other Assets	69.6	56.8	68.1	90.1
Total Assets	**377.7**	**386.2**	**425.1**	**450.1**
Customer Deposits	282.9	280.2	298.2	319.0
Other Liabilities	35.9	41.5	58.5	56.0
Total Liabilities	**318.8**	**321.7**	**356.7**	**375.0**
Shareholders Equity	53.7	58.9	62.0	71.0
Number of Shares	0.3	0.3	0.3	0.3
Book value Per share	191.9	210.5	221.6	253.9
% Change in BPS YoY	**10.9%**	**9.7%**	**5.3%**	**14.5%**

Valuation Summary

DTBK is undervalued with a total potential return of 20.3%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	48.2	40.0%	19.3
Residual Income	60.1	35.0%	21.0
PBV Multiple	126.1	20.0%	25.2
PE Multiple	90.1	5.0%	4.5
Target Price			**70.0**
Current Price			**59.0**
Upside/(Downside)			18.6%
Dividend yield			1.7%
Total return			**20.3%**

Cytonn

VII. Absa Bank Kenya

Absa Bank’s Summary of Performance – Q1’2021

- Profit after tax and exceptional items increased by 23.7% to Kshs 2.4 bn in Q1’202021, from Kshs 2.0 bn in Q1’2020, with the effective tax rate increasing by 2.1% points to 29.0%, from 26.9% in Q1’2020
- Total operating income rose by 2.5% to Kshs 8.8 bn, from Kshs 8.6 bn in Q1’2020 supported by the 5.9% increase in Net Interest Income (NII) to Kshs 6.0 bn, from Kshs 5.6 bn in Q1’2020. The growth was however weighed down by a 3.9% decline in the Non-Funded Income (NFI) to Kshs 2.9 bn, from Kshs 3.0 bn in Q1’2020
- Total operating expenses rose by 4.6% to Kshs 5.4 bn, from Kshs 5.2 bn in Q1’2020, largely driven by a 24.9% increase in Loan Loss Provisions (LLP) to Kshs 1.4 bn in Q1’2021, from Kshs 1.1 bn in Q1’2020. The increased provisions is attributed to the bank adopting a cautious stance on the back of the expectations of increase in defaults due to the subdued operating environment,
- Cost to Income Ratio (CIR) with LLP deteriorated to 61.3%, from 60.1% in Q1’2020, owing to the faster 4.6% rise in total operating expenses to Kshs 5.4 bn, from Kshs 5.2 bn in Q1’2020, which outpaced the 2.5% growth in total operating income to Kshs 8.8 bn, from Kshs 8.6 bn in Q1’2020. However, without LLP, the cost to income ratio improved to 45.5%, from 47.1% in Q1’2020, an indication of improved efficiency
- 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 to 7.5% in Q1’2021, from 8.1% in Q1’2020, owing to the faster 7.8% growth in gross loans (after adding back interest suspense)
- 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.

Financial Statements Extracts

Absa Bank's PAT is expected to grow at a 5-year CAGR of 25.8%

Income Statement	2018	2019	2020	2021f
Net Interest Income	22.0	23.2	23.4	23.4
Non Funded Income	9.7	10.6	11.1	12.6
Total Operating Income	**31.7**	**33.8**	**34.5**	**36.0**
Loan Loss Provision	(3.9)	(4.2)	(9.0)	(6.7)
Other Operating Expenses	17.2)	(17.3)	(16.7)	(16.4)
Total Operating Expenses	**(21.0)**	**(21.5)**	**(25.7)**	**(23.1)**
Profit Before Tax	10.6	10.8	8.9	12.9
% PAT Change YoY	**7.1%**	**0.5%**	**(44.2%)**	**104.4**
EPS	1.4	1.4	0.7	1.6
DPS	1.1	1.1	0.0	1.1
Cost to Income	66.4%	63.6%	74.4%	64.1%
NIM	**8.6%**	**7.7%**	**7.1%**	
ROaE	16.8%	16.7%	*9.1%	16.7%
ROaA	2.7%	2.1%	1.1%	2.1%
Balance Sheet	**2018**	**2019**	**2020**	**2021f**
Net Loans and Advances	177.4	194.9	208.9	235.0
Government Securities	92.9	123.0	126.1	139.8
Other Assets	54.5	56.1	44.5	39.4
Total Assets	**324.8**	**374.0**	**379.4**	**414.2**
Customer Deposits	207.4	237.7	253.6	279.6
Other Liabilities	73.2	91.1	79.3	78.9
Total Liabilities	**280.6**	**328.8**	**332.9**	**358.5**
Shareholders Equity	**44.2**	**45.2**	**46.5**	**55.7**
Number of shares	**5.4**	**5.4**	**5.4**	**5.4**
Book value Per share	8.1	8.3	8.6	10.3
% Change in BPS YoY	**0.2%**	**2.2%**	**3.6%**	**19.9%**

Cytonn

*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 18.7%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	12.7	40%	5.1
Residual Income	10.5	35%	3.7
PBV Multiple	7.9	20%	1.6
PE Multiple	6.2	5%	0.3
Target Price			10.7
Current Price			9.9
Upside/(Downside)			7.2%
Dividend Yield			11.1%
Total Return			**18.7%**

Cytonn

VIII. Stanbic Holdings

Cytonn

Stanbic Holdings’ Summary of Performance – Q1’2021

- Profit after tax increased by 23.1% to Kshs 1.9 bn in Q1’2021, from Kshs 1.5 bn in Q1’2020. The performance was driven by an 11.2% increase in total operating income to Kshs 6.0 bn in Q1’2021, from Kshs 5.4 bn in Q1’2020. The increase was however weighed down by the 4.8% increase in total operating expenses to Kshs 3.4 bn, from Kshs 3.2 bn in Q1’2020,
- Total operating income increased by 11.2% to Kshs 6.0 bn in Q1’2021, from Kshs 5.4 bn, mainly driven by a 19.3% increase in Non-Funded Income (NFI) to Kshs 2.8 bn in Q1’2021, from Kshs 2.3 bn in Q1'2020, coupled with a 5.0% increase in Net Interest Income (NII) to Kshs 3.2 bn, from Kshs 3.1 bn in Q1’2020,
- Total operating expenses increased by 4.8% to Kshs 3.39 bn in Q1’2021, from Kshs 3.24 bn in Q1’2020, largely driven by a 6.2% increase in the staff costs to Kshs 2.8 bn, from Kshs 2.6 bn in Q1’2020. Notably, Loan loss provisions decreased by 1.2% Kshs 609.5 mn, from Kshs 617.0 mn in Q1’2020,
- The balance sheet recorded an expansion as total assets rose by 2.4% to Kshs 317.0 bn, from Kshs 309.7 bn in Q1’2020,
- The bank’s asset quality deteriorated, with the NPL ratio increasing to 15.1% in Q1’2021, from 12.1% in Q1’2020, attributable to the faster 25.5% growth in Gross Non-Performing Loans(NPLs), which outpaced the 0.3% increase in Gross Loans,
- Going forward, we expect the bank’s growth to be driven by:

i. The bank has put in place plans to promote digitization on the bank’s functions which we believe will improve efficiencies in the bank's activities in a cost-effective manner. They also intend to use the digital platforms to push their ecosystem and help increase adoption in their customer base,

Financial Statements Extracts

Stanbic Holdings' PAT is expected to grow at a 5-year CAGR of 26.5%

Income Statement	2019	2020	2021f	2022f
Net Interest Income	13.3	12.8	17.0	18.5
Non Funded Income	11.4	10.4	14.5	18.1
Loan Loss Provision	(3.2)	(4.9)	(5.1)	(5.7)
Total Operating Expenses	**(13.9)**	**(12.1)**	**(19.2)**	**(22.1)**
Profit Before Tax	7.7	6.2	12.3	14.4
% PAT Change YoY	**1.6%**	**(18.6%)**	**65.2%**	**17.8%**
EPS	16.1	13.1	21.7	25.6
DPS	7.1	3.8	5.0	7.1
Cost to Income	43.5%	31.2%	61.1%	60.5%
NIM	**5.2%**	**4.7%**	**5.1%**	**5.5%**
ROaE	13.6%	10.3%	16.1%	17.7%
ROaA	2.1%	1.6%	2.4%	2.5%
Balance Sheet	**2019**	**2020e**	**2021f**	**2022f**
Net Loans and Advances	191.2	196.3	244.0	272.2
Other Assets	112.4	132.3	152.9	164.5
Total Assets	**303.6**	**328.6**	**396.9**	**436.7**
Customer Deposits	224.7	260.0	325.0	357.5
Borrowings	9.1	5.5	5.5	5.5
Other Liabilities	20.8	11.4	11.4	11.4
Total Liabilities	**254.6**	**276.9**	**341.9**	**374.4**
Shareholders Equity	49.0	51.7	55.0	62.3
No of Ordinary Shares	0.4	0.4	0.4	0.4
Book value Per share	124.0	130.9	137.5	155.8
% Change in BVPS	**9.9%**	**5.5%**	**5.0%**	**13.3%**

Cytonn

Valuation Summary

Stanbic Holdings is undervalued with a total potential return of 19.5%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	108.6	40%	43.5
Residual Income	82.7	35%	28.9
PBV Multiple	72.9	20%	14.6
PE Multiple	71.2	5%	3.6
Target Price			**90.5**
Current Price			**82.0**
Upside/(Downside)			10.4%
Dividend Yield			9.1%
Total return			**19.5%**

Cytonn

IX. I&M Holdings

Cytonn

I&M Holdings' Summary of Performance – Q1'2021

- Profit before tax increased by 7.0% to Kshs 2.7 bn, from Kshs 2.5 bn in Q1'2020. Profit after tax rose by 13.5% to Kshs 1.9 bn, from Kshs 1.7 bn in Q1'2020, with the effective tax rate decreasing to 29.1%, from 33.1% in Q1'2020,
- Total operating income increased by 7.4% to Kshs 6.1 bn, from Kshs 5.7 bn in Q1'2020, driven by a 23.4% increase in Net Interest Income (NII) to Kshs 4.3 bn, from Kshs 3.5 bn in Q1'2020. The increase in NII was however weighed down by a 17.7% decline in Non-Funded Income (NFI) to Kshs 1.8 bn, from Kshs 2.2 bn in Q1'2020,
- Total operating expenses rose by 18.0% to Kshs 3.6 bn from Kshs 3.0 bn in Q1'2020, largely driven by a 36.7% increase in Loan Loss Provisions (LLP) to Kshs 0.8 bn, from Kshs 0.6 bn in Q1'2020, on account of the poor operating environment brought about by COVID-19 which has adversely affected individuals and businesses' ability to repay loans. Staff costs on the other hand, remained relatively unchanged at Kshs 1.2 bn during the period,
- The balance sheet recorded an expansion as total assets grew by 8.5% to Kshs 364.4 bn, from Kshs 336.0 bn in Q1'2020, and,
- The bank's asset quality deteriorated, with the NPL ratio increasing to 11.9% from 11.3% in Q1'2020, attributable to the faster 11.3% increase in Gross Non-Performing Loans, which outpaced the 6.3% growth in gross loans
- 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, Rwanda, and Uganda. On this front, the bank is set to acquire 90.0% of the share capital of Orient Bank Limited Uganda (OBL). This will see the bank expand its operations in the Ugandan Market thus reducing its reliance on the Kenyan Market. This is also expected to drive growth in the near future.

Financial Statements Extracts

I&M Holdings' PAT is expected to grow at a 5-year CAGR of 13.9%

Income Statement	2019	2020	2021e	2022f
Net Interest Income	15.5	15.6	17.1	20.1
Non- Funded Income	8.3	8.6	9.5	10.6
Total Operating Income	**23.8**	**24.2**	**26.6**	**30.7**
Loan Loss Provision	0.6	2.5	2.0	2.7
Other Operating Expenses	9.5	10.1	12.0	13.2
Total Operating Expenses	**(10.1)**	**(12.6)**	**(14.0)**	**(15.9)**
Profit Before Tax	14.6	11.0	12.7	14.9
% PAT Change YoY	**26.6%**	**(21.9%)**	**6.0%**	**16.9%**
EPS	13.0	10.2	5.3	6.3
DPS	2.6	2.3	2.6	2.6
Cost to Income	42.4%	52.0%	52.4%	51.7%
NIM	**5.9%**	**5.4%**	**5.2%**	**5.5%**
ROaE	19.5%	13.2%	13.5%	14.8%
ROaA	3.4%	2.3%	2.4%	2.5%
Balance Sheet	**2019**	**2020**	**2021e**	**2022f**
Government securities	53.9	101.7	110.0	123.8
Net Loans and Advances	175.3	187.4	211.2	242.9
Other Assets	86.0	69.0	67.4	64.8
Total Assets	**315.3**	**358.1**	**388.6**	**431.5**
Customer Deposits	229.7	262.7	288.9	325.1
Other Liabilities	24.7	27.4	29.0	29.6
Total Liabilities	**254.4**	**290.0**	**318.0**	**354.7**
Shareholders Equity	57.7	64.2	66.6	72.8
Number of Shares	0.8	0.8	1.7	1.7
Book Value Per Share	69.8	77.6	39.2	42.8
% BVPS Change YoY	**-39.7%**	**11.2%**	**(49.5%)**	**9.2%**

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Valuation Summary

I&M Holdings is undervalued with a total potential return of 50.7%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	30.5	40.0%	12.2
Residual income	31.9	35.0%	11.2
PBV Multiple	24.2	20.0%	4.8
PE Multiple	31.6	5.0%	1.6
Target Price			**29.8**
Current Price			**21.5**
Upside/(Downside)			38.6%
Dividend yield			12.1%
Total return			**50.7%**

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B. Tier II Bank

I. HF Group

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HF Group Summary of Performance – Q1’2021

- HF Group recorded a loss per share of Kshs 0.50 in Q1’2021, higher than the loss per share of Kshs 0.002 recorded in Q1’2020, which was not in-line with our expectations of a Kshs 0.42 loss per share
- Total Operating Income declined by 27.0% to Kshs 0.6 bn in Q1’2021, from Kshs 0.8 bn in Q1’2020, attributable to the 46.7% decline in Non-Funded Income (NFI) to Kshs 0.1 bn, from Kshs 0.3 bn recorded in Q1’2020, coupled with the 18.3% dip in Net Interest Income (NII) to Kshs 0.5 bn, from Kshs 0.6 bn recorded in Q1’2020
- Total Operating Expenses decreased by 4.8% to Kshs 0.79 bn, from Kshs 0.83 bn seen in Q1’2020. This is mainly attributable to a 45.8% decrease in Loan Loss Provisions to Kshs 0.07 bn, from Kshs 0.14 bn recorded in Q1’2020, coupled with a 3.8% increase in staff costs to Kshs 0.27 bn, from Kshs 0.26 bn recorded in Q1’2020
- The company’s balance sheet recorded a contraction as total assets declined by 4.7% to Kshs 53.9 bn, from Kshs 56.5 bn in Q1’2020
- The bank experienced an improvement in asset quality as the NPL ratio improved by 2.3% points to 24.7%, from the 27.3% recorded in Q1’2020, following the faster 14.0% decline in NPLs that outpaced the 4.9% decline in gross loans which came in at Kshs 42.6 bn in Q1’2021, from Kshs 44.8 bn recorded in Q1’2020
- 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 Q1’2021. 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 (19.7%)

Income Statement	2018	2019	2020	2021f
Net Interest Income	2.3	2.0	1.9	1.6
Non- Funded Income	1.3	1.4	0.5	0.6
Total Operating Income	**3.6**	**3.4**	**2.4**	**2.2**
Loan Loss Provision	(0.4)	(0.4)	(0.4)	(0.3)
Other Operating Expenses	(3.9)	(3.2)	(3.6)	(2.6)
Total Operating Expenses	**(4.2)**	**(3.5)**	**(4.1)**	**(2.9)**
Profit Before Tax	(0.6)	(0.1)	(1.7)	(0.7)
% PAT Change YoY	**(573.9%)**	**(81.6%)**	**1443.7%**	**(59.6%)**
EPS	(1.6)	(0.3)	(4.4)	(2.4)
DPS	0.0	0.0	0.0	0.0
Cost to Income	118.2%	104.2%	153.1%	118.8%
NIM	4.4%	4.3%	4.2%	3.6%
ROaE	(5.5%)	(1.1%)	(18.1%)	(8.7%)
ROaA	(0.9%)	(0.2%)	(3.0%)	(1.3%)
Balance Sheet	**2018**	**2019**	**2020**	**2021f**
Net Loans and Advances	43.4	38.6	37.0	35.4
Government securities	3.2	4.6	7.1	6.4
Other Assets	13.9	13.3	11.3	12.4
Total Assets	**60.5**	**56.5**	**55.4**	**54.2**
Customer Deposits	34.7	37.4	39.9	40.4
Other Liabilities	15.5	8.8	6.9	7.2
Total Liabilities	**50.2**	**46.2**	**46.9**	**47.6**
Shareholders Equity	10.4	10.2	8.6	6.6
Number of Shares	0.4	0.4	0.4	0.4
Book Value Per Share	27.0	26.6	21.5	16.5
% BVPS Change YoY	**(17.0%)**	**(1.5%)**	**(19.2%)**	**(23.3%)**

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Valuation Summary

Housing Finance is overvalued with a total potential return of (16.0%)

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM Integrated	2.8	40%	1.1
Residual Income	2.8	35%	1.0
PTBV Multiple	4.9	20%	1.0
PE Multiple	2.3	5%	0.1
Fair Value			**3.2**
Current Price			**3.8**
Upside/(Downside)			(16.0%)
Dividend Yield			0.0%
Total return			***(16.0%)***

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Feedback Summary

During the preparation of this Q1’2021 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
Diamond Trust Bank	Yes	Yes
KCB Group	Yes	Yes
I&M Holdings	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

Licensed Financial Institutions

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I. Banks and Mortgage Finance Institutions

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Licensed Banks in Kenya

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

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II. Micro-Finance Institutions

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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