Kenya Listed Commercial Banks Review

Cytonn Q3’2023 Banking Sector Report

“Sustained Profitability Despite Challenging Business Environment”

Cytonn

22nd December, 2023

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I. Introduction to Cytonn

About Us

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

82 Over Kshs. 82 billion worth of projects under mandate

3 Three offices across 2 continents

500 Over 500 staff members, including Cytonn Distribution

10 10 investment ready projects in real estate

A unique franchise differentiated by:

Independence & Investor Focus

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

Alternative Investments

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

Strong Alignment

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

Committed Partners

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

Why We Exist

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

WE SERVE THREE MAIN CLIENT SEGMENTS:

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

WE INVEST OUR CLIENT FUNDS IN:

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

We collect funds from our clients → **We invest them in high growth opportunities** → **We deliver the best possible returns**

Our Business Structure

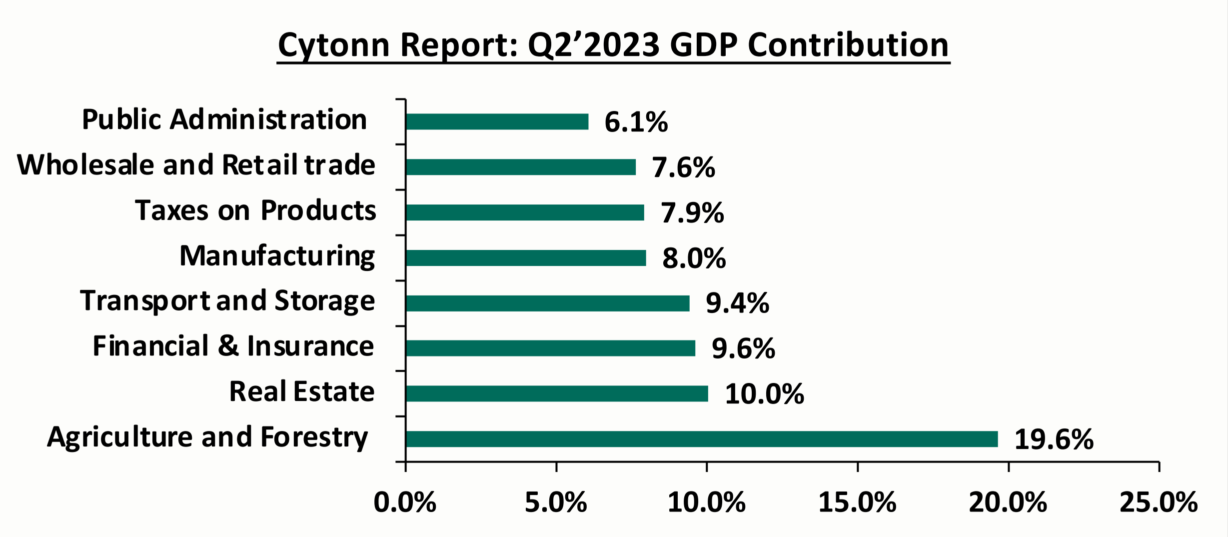
Cytonn Investments Management Plc

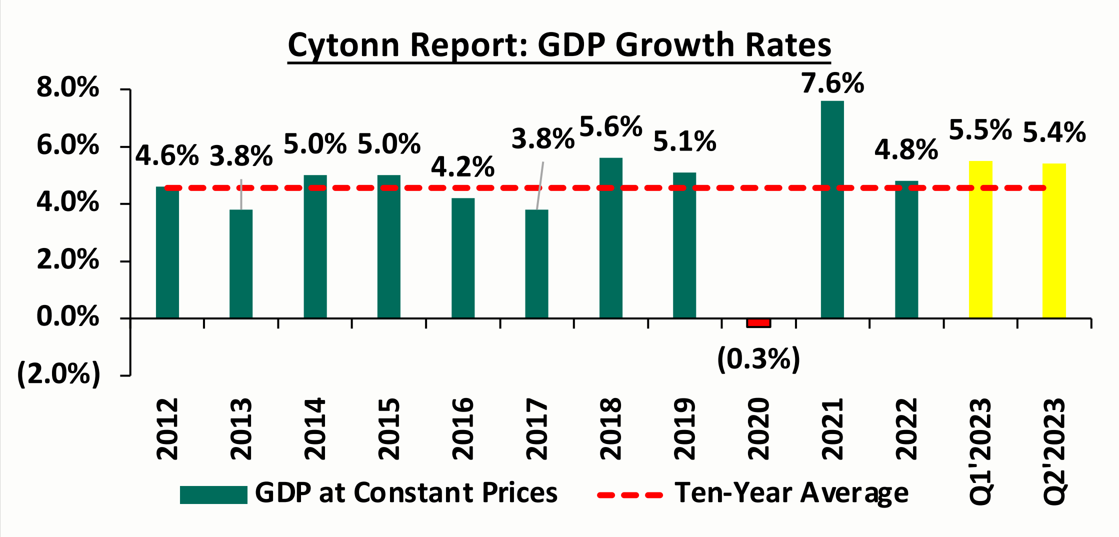
- **Cytonn Capital Partners** (Private Markets)
  - Private Offers and Real Estate Investments
  - Cytonn Hospitality
  - Superior Homes Kenya
- **Cytonn Asset Managers** (Regulated by CMA & RBA)
  - Unit Trust Funds
  - Cytonn Africa Financial Fund
  - Cytonn Advisory
  - Pension Fund Management
- **Cytonn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

II. Kenya Economic Review and Outlook

Economic Growth

The Kenyan economy expanded by 5.4% in Q2'2023, faster than the 5.2% growth in Q2'2022





Source: KNBS

- The Kenyan economy recorded a 5.4% growth in Q2'2023, faster than the 5.2% growth recorded in Q2'2022. The growth was mainly supported by a rebound in Agricultural activities, which grew by 7.7% in Q2'2023 compared to a contraction of 2.4% in Q2'2022. All sectors in Q2'2023 recorded positive growth, with varying magnitudes
- In terms of sectoral contribution to GDP, the biggest gainer was the Financial and Insurance sector, increasing by 0.7% points to 9.6% in Q2'2023 from 8.9% in Q2'2022, while the Manufacturing sector was the biggest loser, declining by 0.3% points to 8.0% in Q2'2023, from 8.3% in Q2'2022

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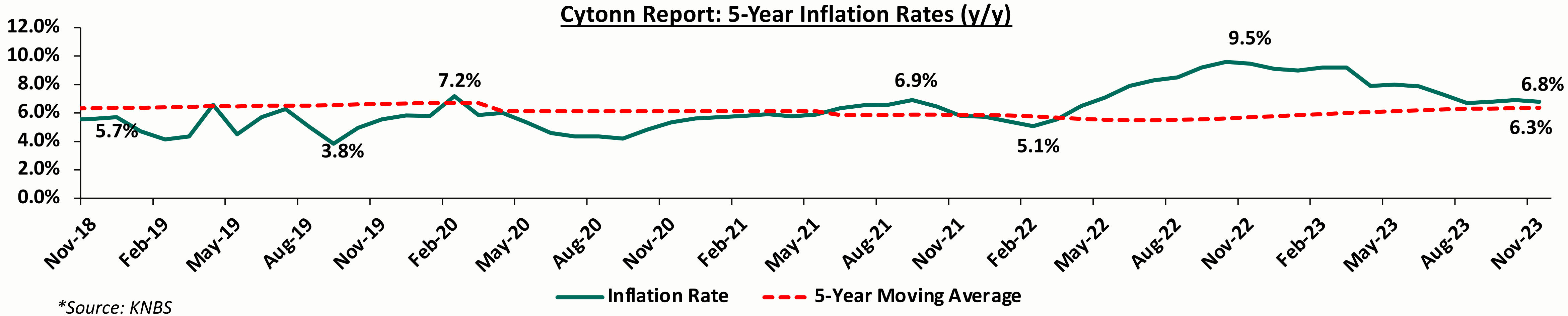
Inflation

Inflation averaged at 8.0% in first nine months leading to Sep 2023, compared to 7.1% recorded over a similar period in 2022

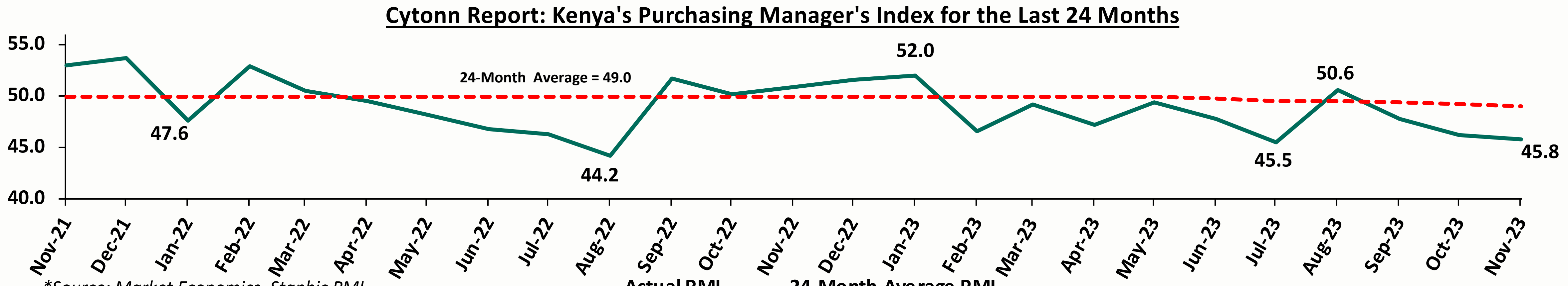


**Source: KNBS*

- The year-on-year inflation rate in the month of November 2023 eased to 6.8%, from the 6.9% inflation rate recorded in the month of October 2023, marking the fifth consecutive month that the inflation has remained within the CBK target range of 2.5%-7.5%
- The headline inflation in November 2023 was majorly driven by increase in prices of commodities in the following categories, food and non-alcoholic beverages; housing, water, electricity, gas and other fuels; and transport of 7.6%, 8.5%, and 13.6%, respectively
- Despite the easing of year-on-year inflation, the risk of an elevation of inflation above the CBK target range remains high following the effectuation of the Finance Act 2023, which provisions a double increase in VAT on petroleum products to 16.0% from 8.0%. With fuel being a major input in most businesses, the cost of production is expected to remain elevated

Stanbic PMI Index

The PMI averaged at 48.5 in Q3’2023, compared to 48.6 in Q3’2022



**Source: Market Economics, Stanbic PMI*

- The Stanbic Purchasing Managers Index (PMI) for the month of November 2023 came in at 45.8, down from 46.2 in October 2023 signaling a stronger downturn of the business environment for the third consecutive month. On a y/y basis, the index recorded a 10.0% deterioration from the 50.9 recorded in November 2022. The strong downturn of the general business environment is mainly attributable to the elevated inflationary pressure experienced in the country, resulting in reduced demand leading to a decline in new businesses. The agricultural sector, the manufacturing, wholesale and retail sectors’ output and new orders declined at a faster rate compared to October, as firms adjusted to reduced demand by cutting their workforce, resulting to the highest rate of workforce cut, with higher rates only registered during the first COVID-19 lockdown
- Key to note, a PMI reading of above 50 indicates improvements in the business environment, while a reading below 50 indicates a worsening outlook. Going forward we project the business environment in Kenya will improve in the short term, primarily due to the eased political environment as well as increased food supply which saw the August inflation ease to 6.7%, from 7.3% recorded in the month of July

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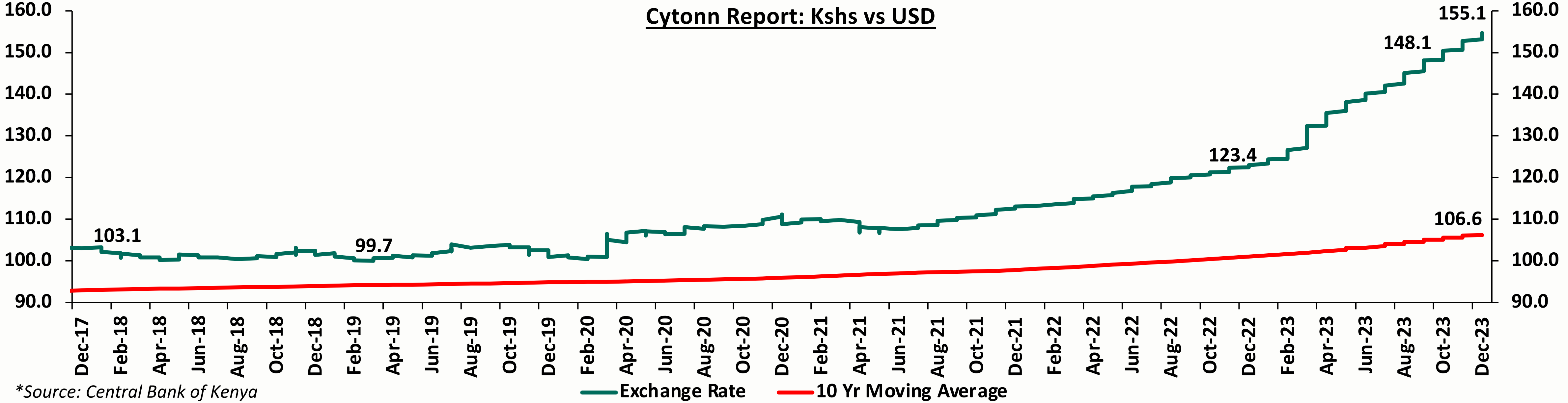
Currency

As of 22nd December 2023 the Kenyan shilling had depreciated by 25.7% on Year-To-Date basis against the US Dollar



**Source: Central Bank of Kenya*

- As of 22nd December 2023 the shilling had depreciated by 25.7% on year-to-date basis against the dollar, adding to the 9.0% depreciation recorded in 2022, partly attributable to the persistent dollar demand from importers, especially in the oil and energy sectors
- The local currency is however expected to be supported by the diaspora remittances which stood at USD 3,462.4 mn in 2023 as of October 2023, 4.1% higher than the USD 3,325.1 mn recorded over the same period in 2022

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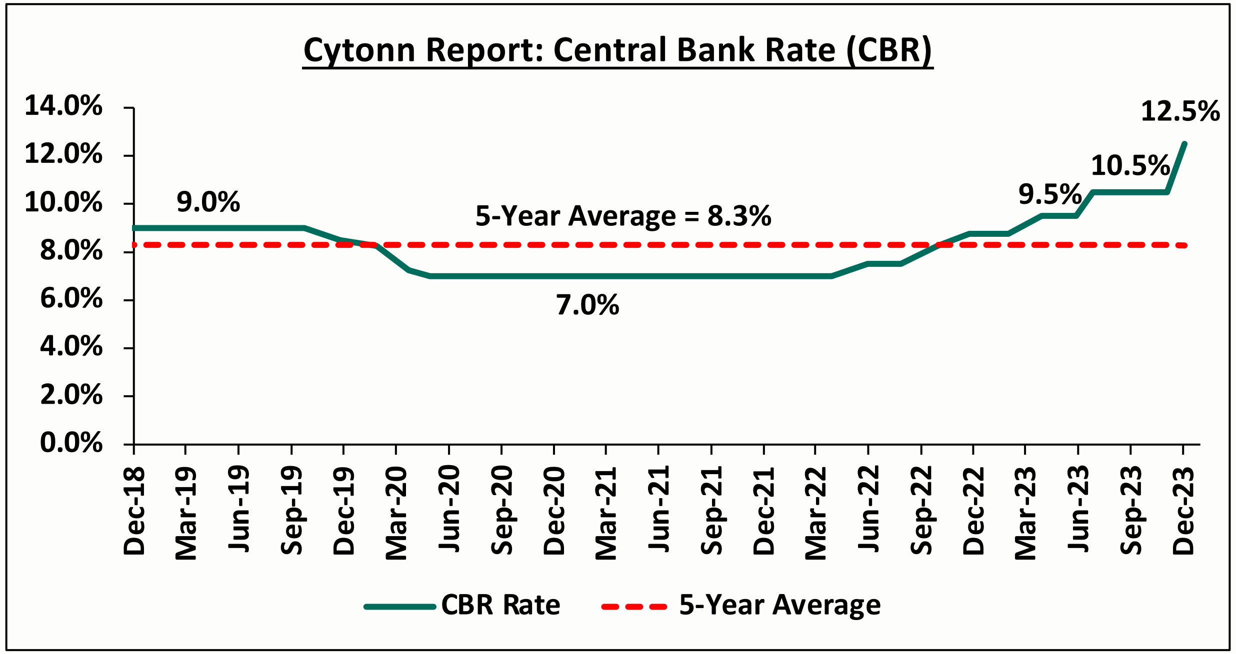
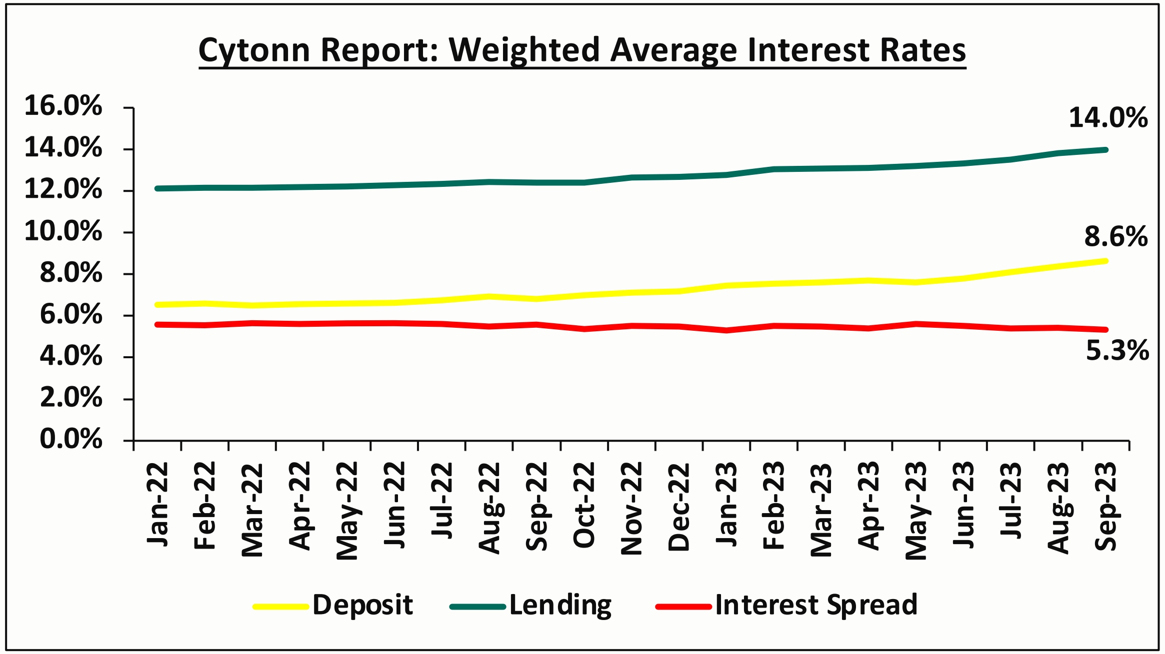
Interest Rates and Monetary Policy





**Source: CBK*

- In the last sitting in December 2023, the Monetary Policy Committee raised the CBR rate by 2.0% points to 12.5%, from 10.5% initially set in June 2023, on the backdrop of continued global uncertainties, volatility in global oil prices, a weak global growth outlook as well geopolitical tensions. The increment was made to tame the local currency depreciation, which the Committee noted had a significant contribution to the country's inflation, contributing 3.0% of the 6.8% inflation rate recorded in November 2023, as well as the high cost of debt service.
- Additionally, the committee noted that inflation was already within the target range and was expected to decline further as food inflation is expected to come down.

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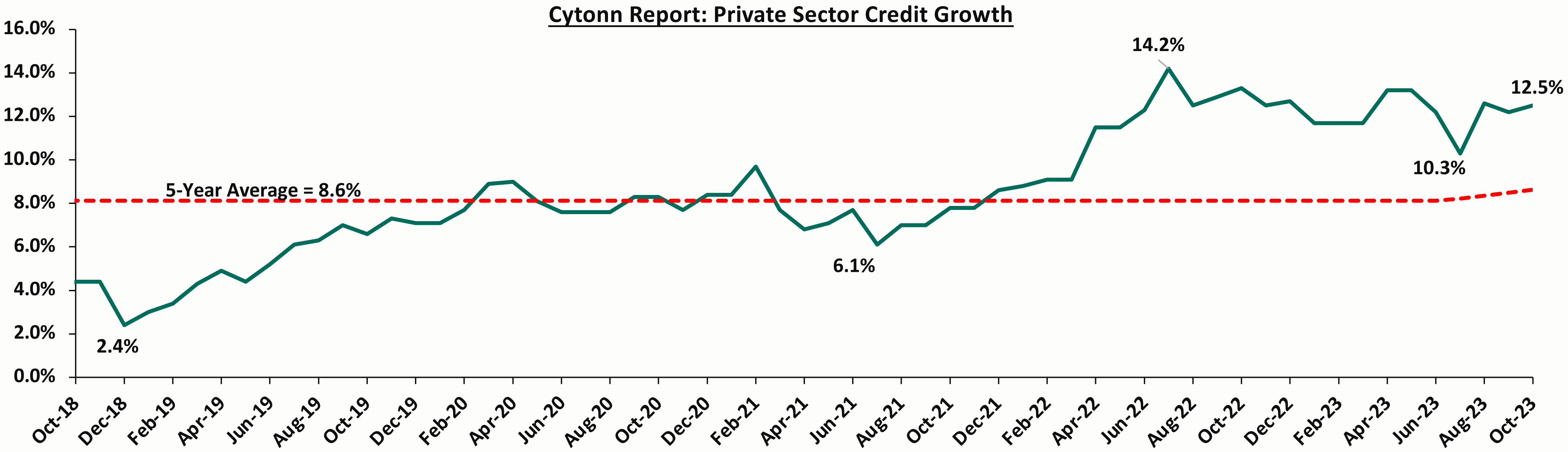
Private Sector Credit growth



**Source: KNBS*

- Growth in private sector credit increased to 12.5% in October 2023 from 12.2% in September 2023. Strong credit growth was observed in sectors such as; manufacturing, transport and communication, consumer durables, and trade of 18.4%, 16.2%, 10.8% and 9.9% respectively. Additionally, the number of loan applications and approvals remained strong, reflecting resilience in economic activities.

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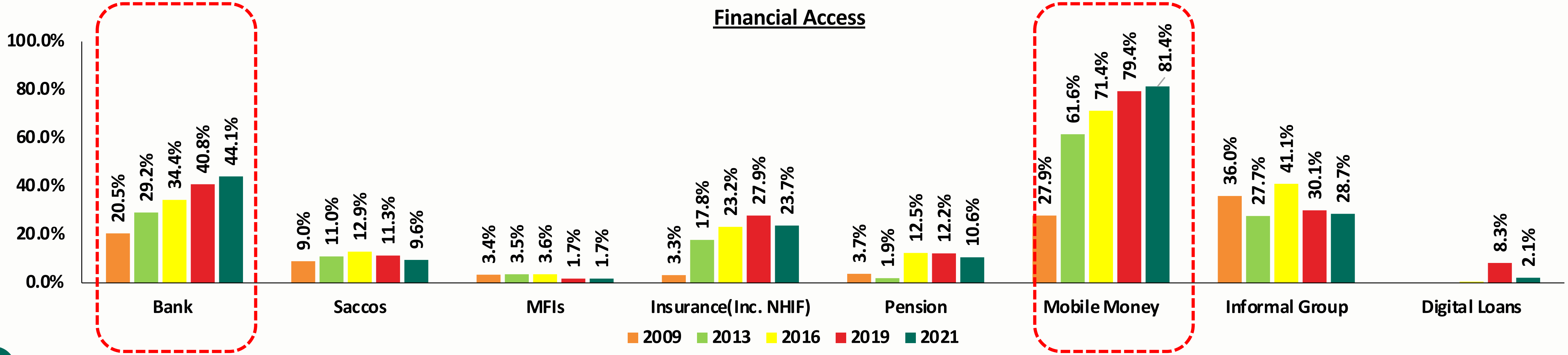
III. Banking Sector Overview

Kenyan Banking Sector Overview

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

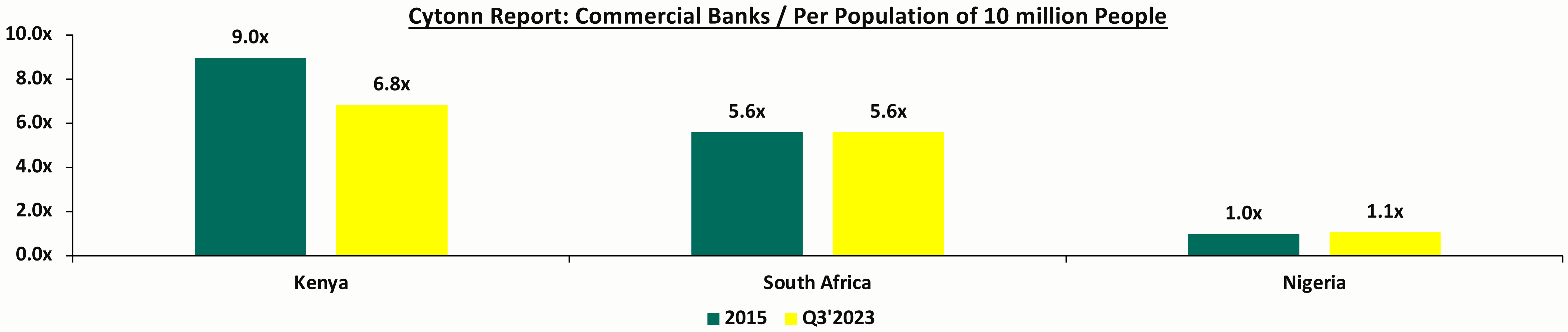
- In Kenya there are a total of 37 commercial banks, 1 mortgage finance company, 14 microfinance banks, 10 representative offices of foreign banks, 72 foreign exchange bureaus, 19 money remittance providers and 3 credit reference bureaus
- Financial inclusion in Kenya has continued to rise, with 83.7%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



Source: Central Bank of Kenya, FinAccess report

Kenyan Banking Sector Overview

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



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

- The number of commercial banks in Kenya currently stands at 38 (including 1 mortgage finance company), compared to 43 banks in FY’2015
- The ratio of the number of banks per 10 million population in Kenya now stands at 6.8x, which is a reduction from 9.0x in FY’2015 demonstrating continued consolidation in the banking sector. However, despite the ratio improving, Kenya still remains overbanked as the number of banks remains relatively high compared to the African major economies

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Recent Developments in the Kenyan Banking Sector

1. Regulation:

- **Risk-based Lending:** Following the scrapping of the Interest Cap Law in 2019, the Central Bank of Kenya (CBK) intervened administratively, stopping banks from reprising their loans and requiring them to submit new risk-based lending formulas for approval. The main aim of the risk-based lending model is to assist banks in making lending decisions based on the predicted risks associated with each loan applicant. This signifies a move from the traditional practice of blacklisting defaulters to a new credit scoring system that doesn’t reject loan applicants solely based on their credit bureau scores. This method primarily focuses on borrowers who pose higher risks, most of whom are involved in micro, small, and medium-sized enterprises that have had difficulties securing traditional credit. Notably, as of May 2023, 33 out of the 39 banks in the country had their models approved by the CBK, with Equity Bank being the first commercial bank to implement risk-based lending. Adoption of risk based credit models has seen an increase in lending to the private sector, with the growth in credit to the private sector coming in at 12.2% in September 2023, 3.4% points above the five-year average rate of 8.8%. Consequently, the banking sector has reduced its appetite for government securities
- **Changes to Interbank Foreign Exchange Market:** In August 2023, the CBK issued a circular detailing several modifications to the interbank foreign exchange market operations. These changes included the removal of the tenor limit for swaps between residents, a rule that also applies to residents of the East African Community.

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Recent Developments in the Kenyan Banking Sector

1. Regulation Continuation:

- For swaps that involve non-residents, a minimum tenor of 6 months was established. The regulator also permitted the use of Electronic Brokerage Systems and lowered the minimum trade amount in the interbank market from USD 500,000 to USD 250,000. These modifications have improved swap transactions, allowing banks to more effectively manage their exchange rate and interest rate risks, and to assume speculative positions,

- **Foreign Exchange Code:** On March 22, 2023, the CBK introduced the Foreign Exchange Code (FX Code) to commercial banks. This was an effort to regulate the wholesale transactions in Kenya's foreign exchange market. The decision was triggered by the significant fluctuations in the exchange rate spread in the market, as highlighted in our currency review note. Following the scrapping of the Interest Cap Law in 2019, the Central Bank of Kenya (CBK) intervened administratively, stopping banks from reprising their loans and requiring them to submit new risk-based lending formulas for approval. The FX Code is designed to foster a strong and transparent foreign currency market by implementing certain reporting guidelines;

i. **Compliance with FX Code:** All market participants (commercial banks and foreign exchange brokers) were required to conduct a self-assessment and submit to the CBK a report on an institution's level of compliance with the FX Code by 30 April 2023, and submit a detailed compliance implementation plan that is approved by its Board by 30 June 2023.

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Recent Developments in the Kenyan Banking Sector

1. Regulation Continuation:

- Each participant is required to be fully compliant with the aforementioned code by December 31, 2023.

ii. **Reporting Mechanism:** All market participants will be required to submit a quarterly report to CBK, detailing their adherence to the FX Code within 14 days following the conclusion of each calendar quarter,

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

iv. **Prohibitive Practices:** The FX Code aims to prevent market participants from engaging in disruptive practices such as quoting prices or moving prices in ways that create artificial delays, or misrepresent the market's depth and liquidity. Such practices will incur severe sanctions. Moreover, market participants should not engage in position or points parking, which are fake transactions to hide positions or shift profits or losses.

Recent Developments in the Kenyan Banking Sector…..

2. Regional Expansion through Mergers and Acquisitions:

Kenyan banks are continuously looking at having an extensive regional reach and in first nine months leading to the end of Q3’2023, there were three completed acquisition done by Commercial International Bank (Egypt) S.A.E (CIB), Equity Group Holdings Plc and Premier Bank Limited Somalia as follows:

a) On January 30, 2023, the Central Bank of Kenya (CBK) announced that Commercial International Bank (Egypt) S.A.E (CIB) had completed acquisition of additional 49.0% shareholding of Mayfair CIB Bank Limited (MBL) at Kshs 5.0 bn following the earlier acquisition of 51.0% stake in MBL announced in April 2020. Consequently, MBL is now a fully owned subsidiary of CIB,

b) On January 30, 2023, Equity Group Holdings Plc., through Equity Bank Kenya Limited (EBKL) announced that it had completed the acquisition of certain assets and liabilities of the local Bank, Spire Bank Limited after obtaining all the required regulatory approvals. The completion of the acquisition followed the Assets and Liabilities Purchase Agreement, which was announced in September 2022, as highlighted in our Cytonn Weekly #37/2022. As such, Equity Bank Kenya Limited took over Spire Banks’s 12 branches as well as all existing depositors in Spire Bank, other than remaining deposits from its largest shareholder, Mwalimu Sacco. For more information, please see our Cytonn Monthly-January 2023,

Recent Developments in the Kenyan Banking Sector…..

2. Regional Expansion through Mergers and Acquisitions:

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

d) On May 22, 2023, the Central Bank of Kenya (CBK) announced that Shorecap III, LP, a Private Equity fund governed by the laws of Mauritius, had acquired a 20.0% stake in Credit Bank Plc. The fund is managed by Equator Capital Partners LLC and the acquisition took effective from June 15, 2023. While the CBK did not reveal the value of the deal, Shorecap III, LP will assume control of 7,289,928 ordinary shares, which make up 20.0% of the Bank's ordinary shares. This follows the acquisition of a 22.8% stake in the lender by Oikocredit in August 2019, for a cash consideration of Kshs 1.0 bn, with the transaction trading at a price to book (P/B) multiple of 1.5x. For additional details, refer to our Cytonn Weekly #21/2023,

Recent Developments in the Kenyan Banking Sector…..

e) On June 14, 2023 Equity Group Holdings Plc (EGH) announced that it had entered into a binding agreement with Government of Rwanda, Rwanda Social Security Board and other investors of Compagnie Generale De Banque (Cogebanque) Plc Limited to acquire a 91.9% stake in the Rwanda based lender. Upon the completion of the acquisition, EGH plans to eventually merge the business of the Cogebanque with its Rwandan Subsidiary, Equity Bank Rwanda Plc. Notably, EGH signed a share purchase agreement with the Sellers on July 28, 2023, committing to buy 183,854 shares at a rate of 297,406 Rwandan Francs per share upon completion on December 1, 2023, giving EGH ownership of 99.1% of the issued share capital. Concurrently, EGH proposed to purchase all outstanding shares from the other shareholders of Cogebanque, aiming to own up to 100% of Cogebanque's issued shares.

f) On September 27, 2023, the NCBA Group declared its plan to purchase a 100% share in AIG Insurance. AIG Insurance is a well-established company in Kenya, having been in operation for over 50 years, providing general insurance services to corporations, SMEs, and individuals. Currently, the NCBA Group holds a minority stake in AIG Insurance and intends to negotiate with AIG Inc, the majority stakeholder, to acquire the remaining shares. This acquisition is part of NCBA Group's strategy to broaden its bancassurance operations, transforming it into a universal bank that caters to all the financial needs of its customers. The acquisition is contingent upon the necessary due diligence, approval from the boards of NCBA, AIG Kenya, AIG Group, and the relevant banking, insurance, and other regulatory authorities.

Recent Developments in the Kenyan Banking Sector….

Consolidation continues in the banking sector, with Equity Group completing its acquisition of Cogebanque PLC

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

*** Announcement Date**
**** Deals that were dropped**

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Recent Developments in the Kenyan Banking Sector….

3. Asset Quality:

- Asset quality for listed banks improved in Q3'2023, with the weighted average Gross Non-Performing Loan ratio (NPL) decreasing by 0.8% points to 13.1%, from 13.9% recorded in Q3'2022. However, the performance remained 3.0% points above the ten-year average of 10.1%. The deterioration in asset quality in Q3'2023 was mainly driven by 4.1% points increase in Equity Group NPL ratio to 13.6%, from 9.5% in Q3'2022

- The deterioration The deterioration in Equity Group asset quality was mainly attributable to 83.5% increase in Gross non-performing loans to Kshs 124.5 bn in Q3'2023 from Kshs 67.9 bn in Q3'2022, which outpaced the 27.3% increase in gross loans to Kshs 912.4 bn from Kshs 716.6 bn recorded in Q3'2022. However, the deterioration in listed banks asset quality was mitigated by an improvement in KCB Group's Asset quality, with Gross NPL ratio decreasing to 16.1% in Q3'2023 from 17.8% in Q3'2022, attributable to 39.0% increase in Gross loans to Kshs 1,164.0 bn, from Kshs 837.7 bn in Q3'2022, which outpaced the 25.3% increase in gross non-performing loans to Kshs 187.0 bn, from Kshs 149.3 bn recorded in Q3'2022. A total of 5 out of the ten listed Kenyan banks recorded improvement in asset quality, despite the deteriorated general business environment which was evidenced by the average Purchasing Managers Index (PMI) of 48.0 in Q3'2023 which was below the 50.0 points no change threshold. Going forward, we expect credit risk to remain elevated in the short to medium term mainly on the back of tough operating environment occasioned by elevated inflationary pressures as well as sustained depreciation of the Kenya shilling.

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Banking Sector Growth Drivers

- **Growth in Interest Income:** Going forward, we expect interest income growth to remain a key driver in the banking industry, evidenced by the significant 29.7% growth recorded in Q3'2023, higher than the 16.4% growth recorded in Q3'2022. Additionally, the government securities continue to witness increases in yields, as such we believe the continued allocation to government securities will lead to an increase in overall interest income. Further, the continued approval of banks risk-based lending models will enable banks to effectively price their risk, expand loan books, and consequently increase their interest income

- **Revenue Diversification:** In Q3'2023, non-funded income (NFI) recorded a 17.0% weighted average growth, slower than the 30.1% weighted growth in Q3'2022 with 8 out of the 10 listed Banks recording an increase in their non-funded income. Despite the slower growth in NFI, the weighted average contribution of NFI to total operating income came in at 37.7% in Q3'2023, 0.4% points lower than the 38.1% weighted average growth contribution recorded in Q3'2022. As such, there exists an opportunity for the sector to further increase NFI contributions to revenue given the continuous adoption of digitization

- **Regional Expansion and Further Consolidation:** Consolidation remains a key theme going forward with the current environment offering opportunities for larger banks with a sufficient capital base to expand and take advantage of the market's low valuations, as well as further consolidate out smaller and weaker banks. Majority of the bigger banks have continued to cushion over unsystematic risks specific to the local market by expanding their operations into other African nations. Banks such as KCB and Equity Group have been leveraging on expansion and consolidation which has contributed to their increased asset base as well as earnings growth.

IV. Listed Banking Sector Metrics

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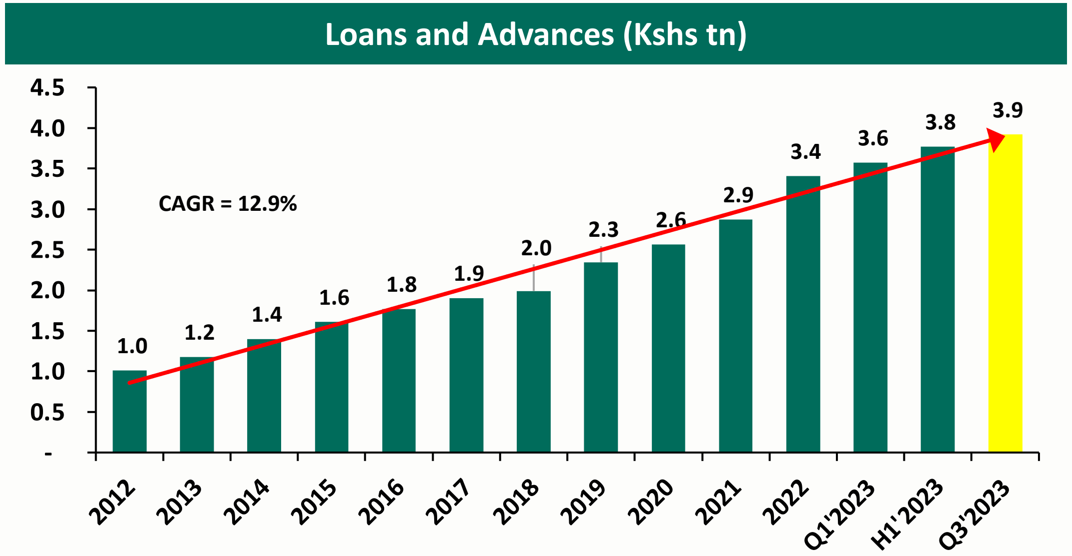
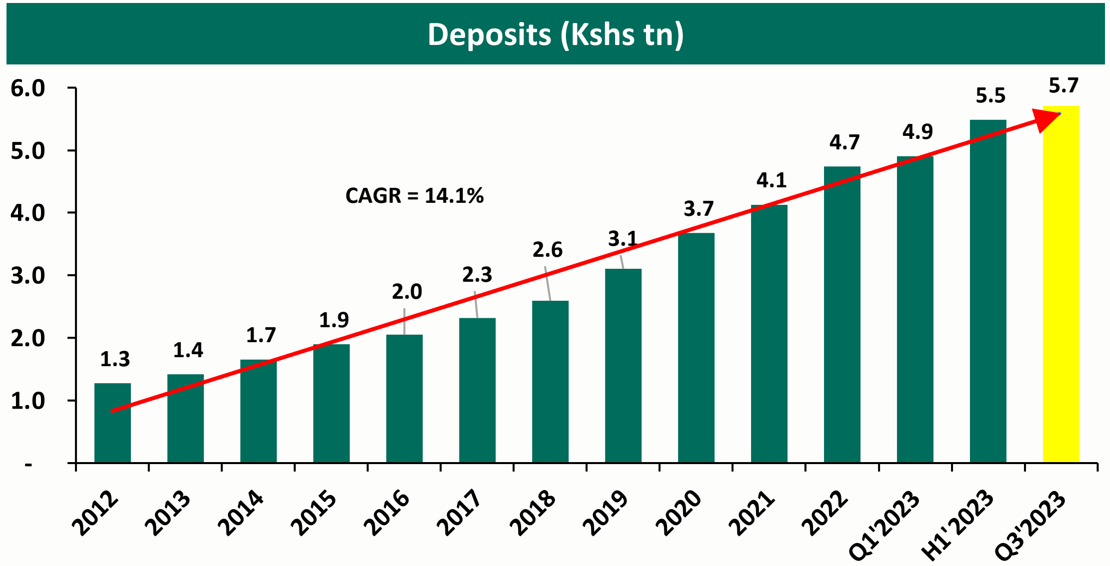
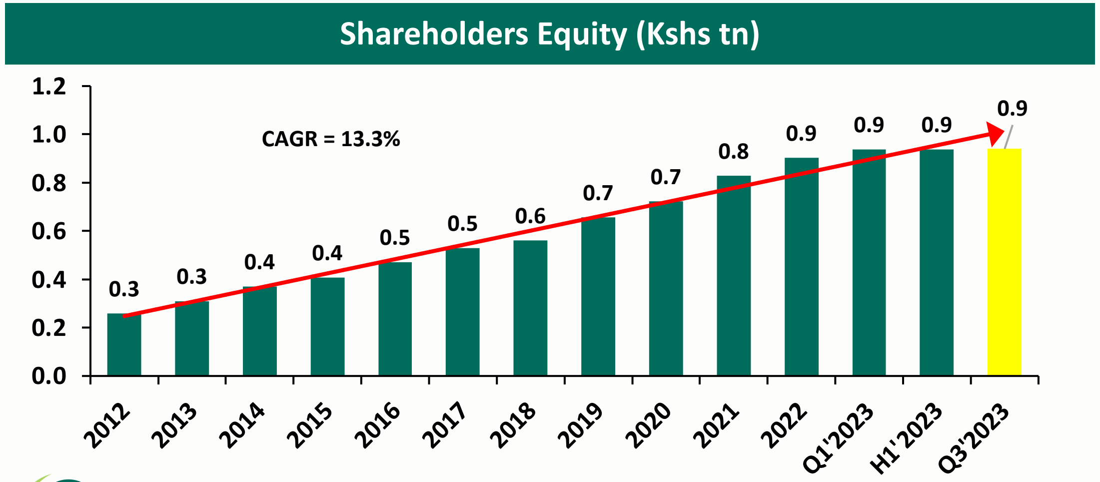
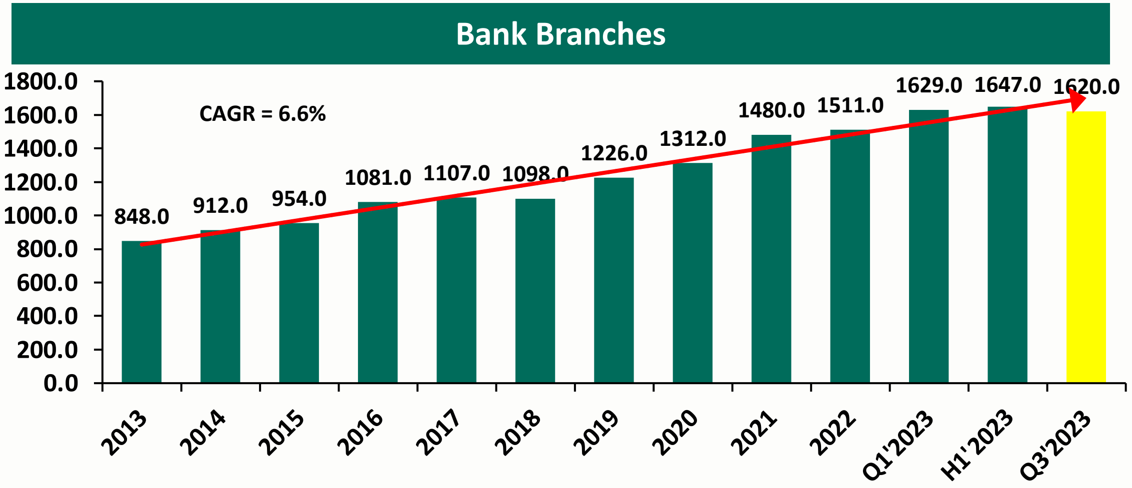
Listed Banking Sector Metrics









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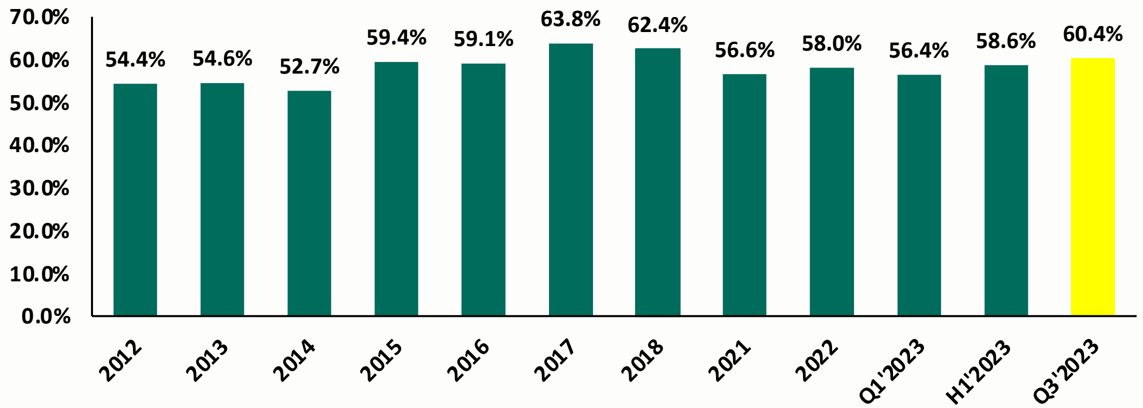
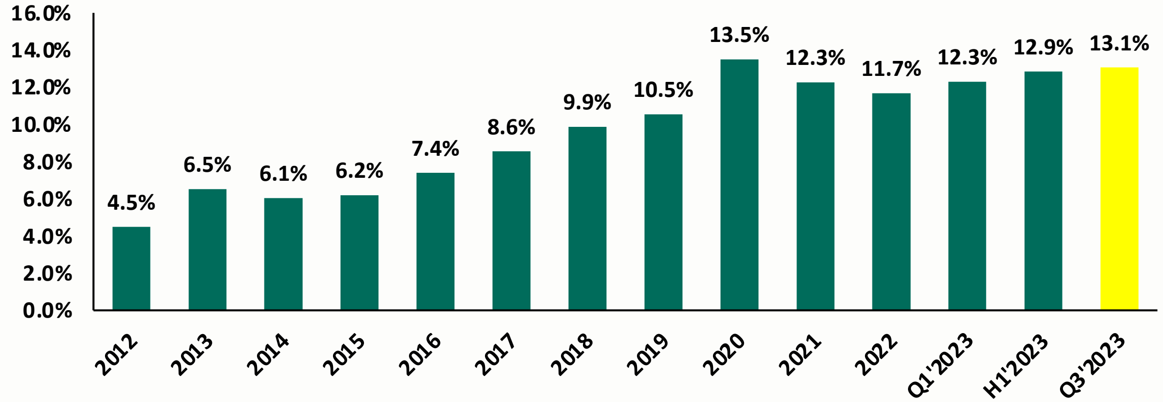
Listed Banking Sector Metrics

Banks’ asset quality deteriorated in Q3’2023, with the NPL ratio increasing to increasing to 13.1% from 12.7% in Q3’2023

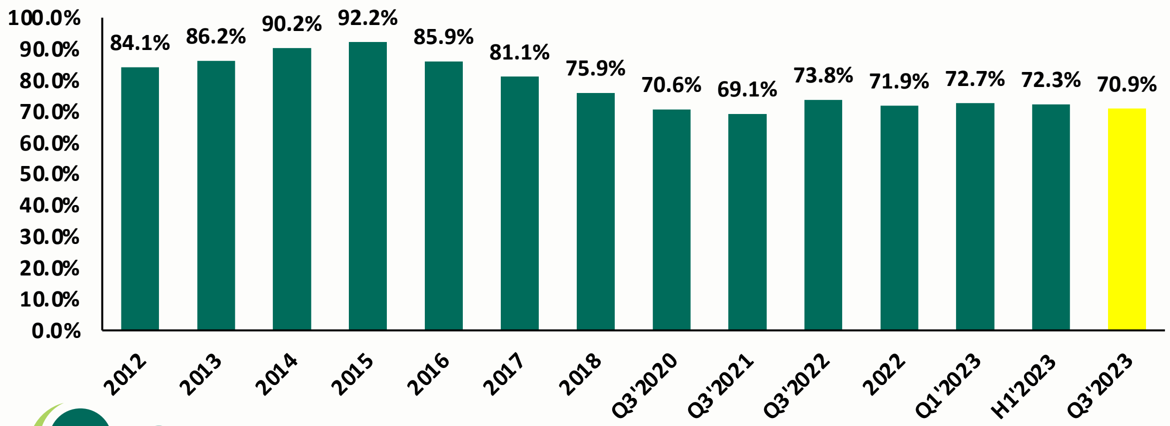
Cost to Income Ratio



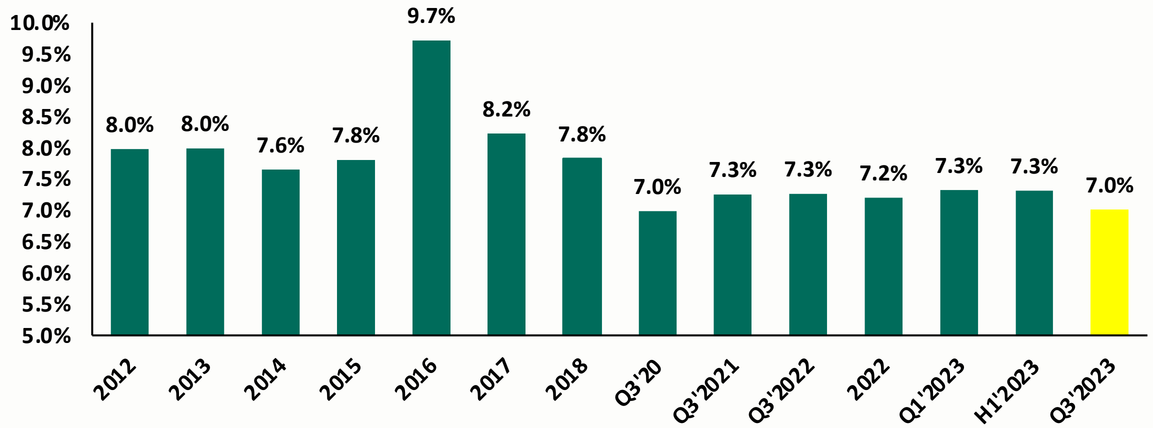
NPL Ratio



Loan to Deposit Ratio



Net Interest Margin



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Listed Banking Earnings and Growth Metrics

Kenya's listed banks weighted average core EPS grew by 11.2% in Q3'2023, compared to 36.3% in Q3'2022

Bank	Core EPS Growth	Interest Income Growth	Interest Expense Growth	Net Interest Income Growth	Net Interest Margin	Non-Funded Income Growth	NFI to Total Operating Income	Growth in Total Fees & Commissions	Deposit Growth	Growth in Government Securities	Loan to Deposit Ratio	Loan Growth	Return on Average Equity
Equity Group	5.3%	32.0%	58.4%	21.3%	5.6%	36.9%	44.3%	36.6%	19.9%	4.1%	70.0%	25.5%	21.8%
NCBA Group	14.4%	21.1%	35.3%	11.7%	6.0%	(8.0%)	44.4%	11.9%	18.6%	(2.9%)	56.3%	16.0%	18.4%
KCB Group	0.4%	36.4%	77.9%	21.6%	6.8%	38.7%	36.1%	65.7%	79.6%	37.5%	63.3%	38.1%	20.2%
SCBK	11.8%	28.5%	(10.0%)	34.5%	8.5%	(6.6%)	27.9%	19.0%	4.5%	(50.3%)	48.0%	5.5%	22.7%
Absa Bank	14.9%	33.5%	62.2%	26.0%	8.8%	6.4%	27.0%	21.2%	26.1%	(15.7%)	93.4%	14.3%	25.8%
Coop Bank	7.6%	12.9%	41.3%	2.5%	8.4%	2.1%	38.5%	7.8%	0.2%	1.5%	87.3%	12.8%	22.3%
Stanbic Holdings	32.7%	48.2%	63.2%	42.4%	7.8%	23.0%	41.0%	22.7%	14.3%	(41.3%)	82.1%	5.9%	21.4%
I&M Holdings	14.3%	27.5%	41.5%	18.4%	6.2%	21.2%	35.9%	16.9%	30.6%	14.6%	71.4%	24.3%	15.9%
DTBK	5.2%	33.0%	51.5%	19.6%	5.4%	33.9%	31.4%	25.2%	27.3%	(4.5%)	63.2%	18.7%	10.0%
HF Group	283.9%	20.3%	19.1%	21.4%	5.4%	20.6%	32.2%	38.5%	12.9%	10.9%	87.8%	9.3%	5.3%
Q3'23 Mkt Weighted Average*	**11.2%**	**29.7%**	**47.9%**	**21.3%**	**7.0%**	**17.0%**	**37.7%**	**27.7%**	**24.4%**	**(4.3%)**	**70.6%**	**19.1%**	**21.1%**
Q3'22 Mkt Weighted Average**	**36.3%**	**16.4%**	**19.7%**	**17.6%**	**7.3%**	**30.1%**	**38.1%**	**16.3%**	**9.8%**	**6.5%**	**73.7%**	**17.1%**	**24.2%**

*Market cap weighted as at 22/12/2023

**Market cap weighted as at 09/09/2022

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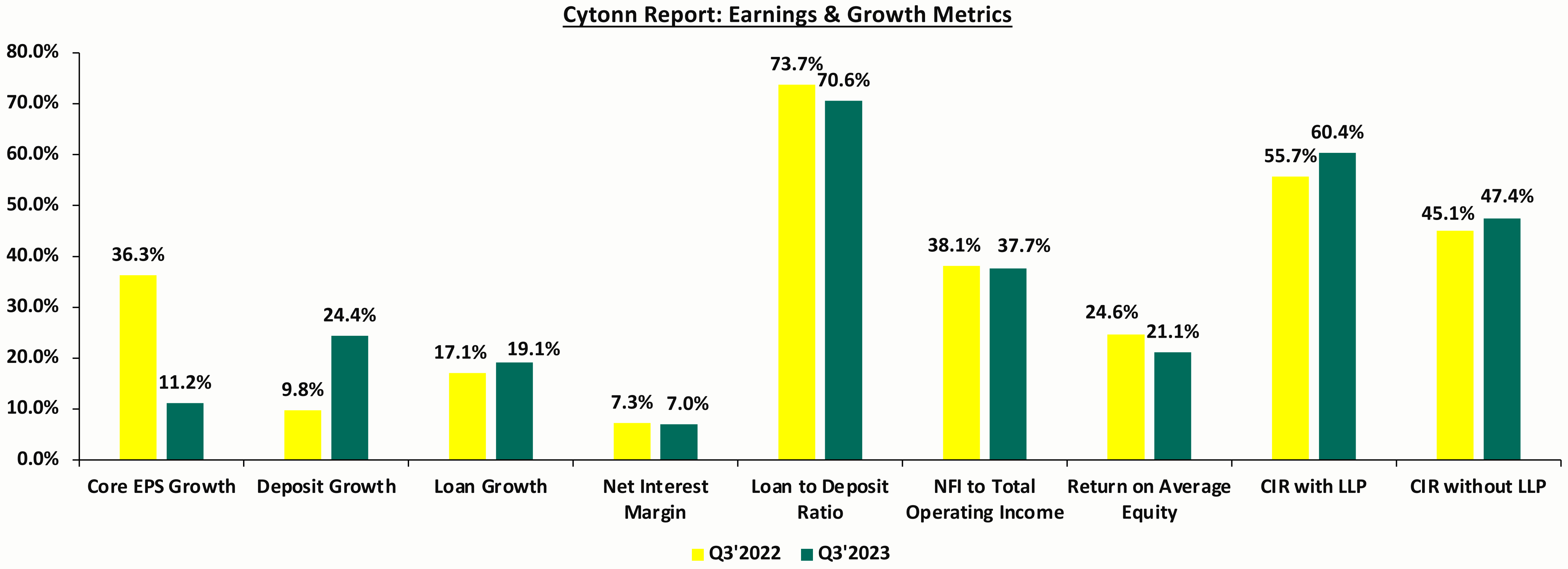
Takeout from Key Operating Metrics

The listed banks recorded a 21.1% weighted average growth on RoaE, 3.1% lower than 24.2% in Q3’2022

- Listed banks recorded an 11.2% growth in core Earnings per Share (EPS) in Q3’2023, compared to the weighted average growth of 36.4% in Q3’2022, an indication of sustained performance despite the tough operating. The performance was mainly supported by a 21.3% weighted average growth in net interest income, coupled with a 17.0% weighted average growth in non funded income,
- Investments in government securities by listed banks reduced significantly in Q3’2023, having recorded a market weighted average decline of 4.3%, a reversal from the 6.5% growth recorded in Q3’2022. The trend is attributable to the increased sustainability concerns given the current high public debt stock as well as the impending Eurobond maturity in June 2024,
- The listed banks’ Net loans and advances to customers recorded a weighted average growth of 19.1% in Q3’2023, an increment from the 17.1% growth recorded in Q3’2022, an indication of increased lending despite the elevated credit risk following the continued implementation of risk-based lending by the banks,
- Interest income recorded a weighted average growth of 29.7% in Q3’2023, compared to 16.4% in Q3’2022. Similarly, interest expenses recorded an average growth of 47.9% in Q3’2023 compared to a growth of 19.7% in Q3’2022. Consequently, net interest income registered an average growth of 21.3% in Q3’2022, an increment from the 17.6% growth recorded over a similar period in 2022,
- The listed banks recorded a 21.1% weighted average growth on return on average equity (RoaE), 3.1% points lower than the 24.2% growth registered in Q3’2022. Additionally, the entire banking sector’s Return On Equity (ROE) stood at 25.4%, a 1.8% points decrease from the 27.2% recorded in Q3’2022.

Listed Banks Earnings and Growth Metrics Cont…

The banking sector has witnessed increased customer deposits registering a growth rate of 24.4% in Q3’2023, 14.6% points higher than the 9.8% growth in Q3’2022



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Listed Banks Operating Metrics

Asset quality for the listed banks deteriorated during the period, with the market-weighted average NPL ratio increasing by 0.9% points to 13.1%, from 12.2% in Q3’2022

	Q3'2023 NPL Ratio*	Q3'2022 NPL Ratio**	% point change in NPL Ratio	Q3'2023 NPL Coverage*	Q3'2022 NPL Coverage**	% point change in NPL Coverage
Equity Group	13.6%	9.5%	4.2%	53.4%	63.0%	(9.6%)
NCBA Group	12.0%	12.6%	(0.6%)	56.8%	65.3%	(8.5%)
KCB Group	16.1%	17.8%	(1.8%)	62.1%	52.8%	9.3%
SCBK	14.4%	15.4%	(1.0%)	84.8%	83.9%	0.9%
Absa Bank	9.8%	6.6%	3.2%	67.4%	80.0%	(12.5%)
Coop Bank	14.9%	14.0%	0.9%	62.1%	69.3%	(7.2%)
Stanbic Holdings	9.0%	10.1%	(1.1%)	66.3%	63.4%	3.0%
I&M Holdings	11.8%	9.5%	2.3%	51.8%	75.4%	(23.6%)
DTBK	12.6%	12.7%	(0.1%)	48.7%	45.2%	3.4%
HF Group	22.8%	20.3%	2.5%	74.0%	77.2%	(3.2%)
Mkt Weighted Average*	**13.1%**	**12.2%**	**0.9%**	**62.0%**	**67.8%**	**(5.8%)**

*Market cap weighted as at 22/12/2023

**Market cap weighted as at 02/12/2022

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Listed Banks Trading Metrics

The listed banking sector has continued to trade at cheaper prices compared to historical averages, currently trading at an average P/TBV of 0.7x and average P/E of 3.1x

Bank	No. of shares (bn)	Market Cap (Kshs bn)	P/E	Price*	P/TBV
Absa Bank	5.4	60.8	3.8x	11.20	0.9x
NCBA Group	1.6	65.9	4.2x	40.00	0.8x
Equity Bank	3.8	128.3	2.7x	34.00	0.8x
KCB Group	3.2	70.2	1.7x	21.85	0.3x
SCBK	0.4	60.6	4.6x	160.25	1.1x
Coop Bank	5.9	64.8	2.8x	11.05	0.6x
Stanbic Bank	0.4	41.6	3.7x	105.25	0.8x
DTBK	0.3	13.0	1.8x	46.50	0.2x
I&M Holdings	1.7	28.9	2.3x	17.50	0.4x
HF Group	0.4	1.3	3.0x	3.48	0.2x
Weighted Average Q3'2023			**3.1x**		**0.7x**

*Prices as at 22nd December 2023

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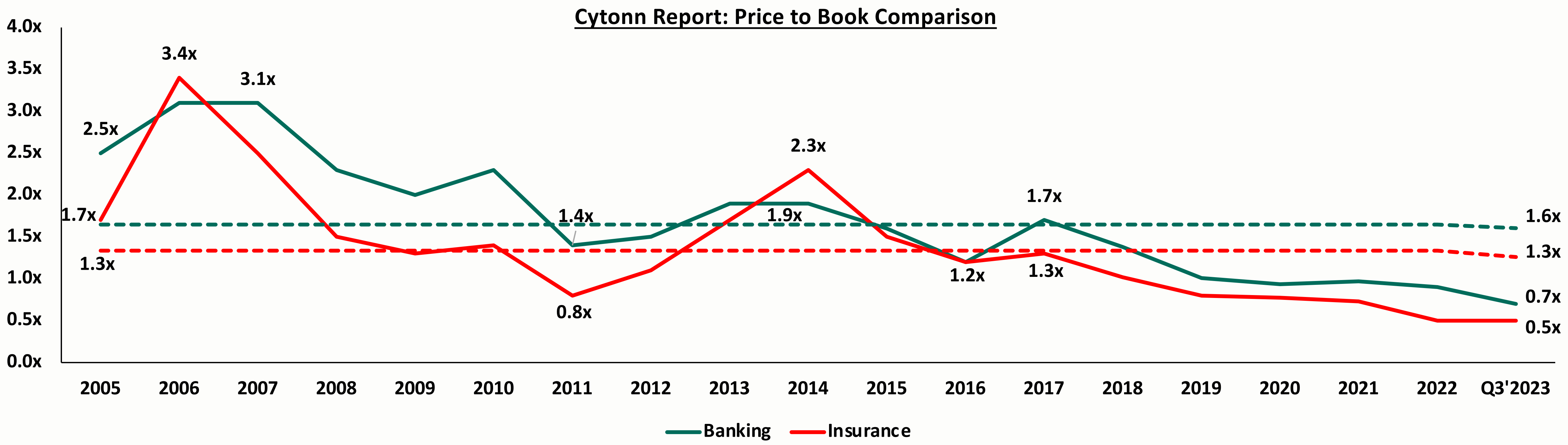
Listed Banks & Insurance Trading Metrics

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

15 year Price to Book Value: Banking and Insurance



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

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V. Banks Valuation Reports

Ranking by Franchise Value

Coop Bank emerged top in the franchise ranking having had the highest tangible common ratio (CIR) of 15.6% against a market average of 12.3%

Cytonn Report: Franchise Value Rank														
Bank	Loan to Deposit Ratio	Cost to Income Ratio (With LLP)	Return On Average Capital Employed	Net Interest Margin	PEG ratio	PTBV	Deposits / Branch	Gross NPL Ratio	NPL Coverage	Tangible Common Ratio	Non Interest Income/ Revenue	Camel Rating	Total	Rank
Coop Bank	1	2	3	3	3	5	9	8	5	1	4	2	**46**	**1**
Stanbic Bank	3	4	5	4	8	6	2	1	4	5	3	6	**51**	**2**
Absa Bank	4	3	1	1	7	9	5	2	3	6	10	1	**52**	**3**
SCBK	10	1	2	2	6	10	1	7	1	2	9	4	**55**	**4**
I&M Holdings	5	6	8	6	4	4	4	3	9	4	6	5	**64**	**5**
Equity Group	6	7	4	8	2	7	7	6	8	9	2	3	**69**	**6**
NCBA Group	9	5	7	7	9	8	3	4	7	7	1	7	**74**	**7**
KCB Group	7	8	6	5	1	3	8	9	6	10	5	9	**77**	**8**
HF Group	2	10	10	10	10	1	10	10	2	3	7	10	**85**	**9**
DTBK	8	9	9	9	5	2	6	5	10	8	8	7	**86**	**10**

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Valuation Summary of Listed Banks

KCB Group presents the highest return with a total potential return of 52.0%

(all values in Kshs)

Bank	Market Price	Fair Value	Upside/(Downside)	DPS	Dividend Yield	Total Potential Return	Q3'2023 Ranking
KCB Group	21.9	31.2	42.8%	2.00	9.2%	**52.0%**	**1**
Absa Bank	11.2	14.6	30.5%	1.35	12.1%	**42.5%**	**2**
I&M Holdings	17.5	22.1	26.5%	2.25	12.9%	**39.3%**	**3**
Coop Bank	11.1	13.8	25.3%	1.50	12.9%	**38.2%**	**4**
Stanbic Bank	105.3	132.8	26.2%	12.60	12.0%	**38.2%**	**5**
Equity Bank	34.0	42.8	25.9%	4.00	11.8%	**37.7%**	**6**
DTBK	46.5	58.5	25.8%	5.00	25.8%	**36.6%**	**7**
NCBA Group	40.0	48.3	20.7%	4.25	10.6%	**31.3%**	**8**
SCBK	160.3	185.5	15.7%	22.00	13.7%	**29.5%**	**9**
HF Group	3.5	3.9	11.3%	0.00	0.0%	**11.3%**	**10**

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Cytonn Banking Report - Comprehensive Ranking

ABSA Bank Kenya emerged top of the ranking in terms of comprehensive ranking

(all values in Kshs unless stated otherwise)

Bank	Franchise Value Rank	Intrinsic Value Rank	Weighted Rank Score	Q3’2022 Rank	Q3'2023 Rank
Absa Bank	3	2	2.4	3	**1**
Coop Bank	1	4	2.8	3	**2**
I&M Holdings	5	3	3.8	5	**3**
KCB Group	8	1	3.8	1	**5**
Stanbic Bank	2	5	3.8	9	**3**
Equity Bank	6	6	6.0	2	**6**
SCBK	4	9	7.0	7	**7**
NCBA Group	7	8	7.6	6	**8**
DTBK	10	7	8.2	8	**9**
HF Group	9	10	9.6	10	**10**

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VI. Appendix

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A. Tier I Banks

I. Equity Group Holdings

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Equity Group Summary of Performance –Q3'2023

- Profit before tax increased by 3.6% to Kshs 45.9 bn from Kshs 44.3 bn in Q3'2022, with effective tax rate declining to 21.1% in Q3'2023 from 22.4% in Q3'2022. As such, profit after tax increased by 5.3% to Kshs 36.2 bn in Q3'2023, from Kshs 34.4 bn in Q3'2022.
- Total Operating Income rose by 27.8% to Kshs 130.4 bn, from Kshs 102.1 bn in Q3'2022 mainly driven by a 21.3% growth in Net Interest Income to Kshs 72.6 bn, from Kshs 59.8 bn in Q3'2022, coupled with a 36.9% growth in Non funded Income (NFI) to Kshs 57.8 bn, from Kshs 42.2 bn in Q3'2022,
- The balance sheet recorded an expansion as total assets increased by 24.0% to Kshs 1691.2 bn, from Kshs 1363.7 bn in Q3'2022.
- Gross Non-Performing Loans (NPLs) increased by 83.5% to Kshs 124.5 bn in Q3'2023 from Kshs 67.9 bn in Q3'2022, while Gross Loans increased by 27.3% to Kshs 912.4 bn from Kshs 716.6 bn in Q3'2022. Consequently, the asset quality deteriorated with the NPL ratio rising to 13.6% in Q3'2023 from 9.5% in Q3'2022
- 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 DRC, Rwanda, Tanzania, Uganda and Ethiopia. On 14 June 2023, the bank announced that it had entered into a binding agreement with the Government of Rwanda, Rwanda Social Security Board and other investors of Compagnie Generale De Banque (Cogebanque) Plc Limited to acquire a 91.9% stake in the Rwanda based lender. Upon the completion of the acquisition, EGH plans to eventually merge the business of the Cogebanque with its Rwandan Subsidiary, Equity Bank Rwanda Plc. Notably, in Q3'2023, Equity CDC – a subsidiary in Congo recorded the highest growth in profit after tax by 142.0% to Kshs 11.4 bn from Kshs 4.7 bn recorded in Q3'2022

Financial Statements Extracts

Equity Group's PAT is expected to grow at a 5-year CAGR of 13.1%

Income Statement	2020	2021	2022	2023f
Net Interest Income	55.1	68.8	86.0	124.9
Non Funded Income	38.5	44.6	59.9	63.2
Total Operating Income	93.7	113.4	145.9	188.1
Loan Loss Provision	(26.6)	(5.8)	(15.4)	(19.9)
Other Operating Expenses	(46.0)	(55.7)	(70.7)	(90.2)
Total Operating Expenses	**(72.7)**	**(61.5)**	**(86.1)**	**(110.1)**
Profit Before Tax	22.2	51.9	59.8	78.0
Profit After tax	20.1	40.1	46.1	54.6
% PAT Change YoY	**(10.9%)**	**99.4%**	**15.1%**	**18.4%**
EPS	5.3	10.6	12.2	14.5
DPS	-	3.0	4.0	5.0
Cost to Income	77.6%	54.2%	59.0%	58.6%
NIM	**7.6%**	**6.8%**	**7.2%**	**8.6%**
ROaE	16.5%	26.6%	26.7%	27.6%
ROaA	2.4%	3.5%	3.4%	3.3%
Balance Sheet	**2020**	**2021**	**2022**	**2023f**
Net Loans and Advances	477.8	587.8	706.6	943.5
Government Securities	175.7	228.5	219.2	318.0
Other Assets	361.5	488.7	521.2	589.9
Total Assets	**1015.1**	**1304.9**	**1447.0**	**1851.4**
Customer Deposits	740.8	959.0	1052.2	1325.1
Other Liabilities	135.7	169.7	212.6	297.5
Total Liabilities	**876.5**	**1128.7**	**1264.8**	**1622.5**
Shareholders Equity	**132.2**	**169.2**	**176.2**	**219.6**
Number of Shares	**3.8**	**3.8**	**3.8**	**3.8**
Book value Per share	35.0	44.8	46.7	58.2
% Change in BPS YoY	**19.4%**	**28.0%**	**4.2%**	**24.7%**

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Valuation Summary

Equity Group is undervalued with a total potential return of 37.7%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	54.7	40.0%	21.9
Residual Income	31.1	30.0%	9.3
PBV Multiple	35.0	15.0%	5.3
PE Multiple	42.3	15.0%	6.3
Fair Value			**42.8**
Current Price			**34.0**
Upside/(Downside)			25.9%
Dividend Yield			11.8%
Total Potential Return			**37.7%**

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II. KCB Group

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KCB Group Summary of Performance – Q3’2023

- Profit before tax decreased by 6.3% to Kshs 40.6 bn from Kshs 43.3 bn in Q3’2022, with effective tax rate decreasing to 24.3% in Q3’2023 from 29.3% in Q3’2022. The performance was driven by the 57.0% growth in total operating expenses to Kshs 76.7 bn, from Kshs 48.8 bn in Q3’2022, which outpaced the 27.3% growth in total operating income to Kshs 117.3 bn, from Kshs 92.1 bn in Q3’2022. Consequently, profit after tax increased marginally by 0.4% to Kshs 30.7 bn, from Kshs 30.6 bn in Q3’2022
- Total operating income increased by 27.3% to Kshs 117.3 bn, from Kshs 92.1 bn in Q3’2022, driven by a 21.6% growth in Net Interest Income to Kshs 74.9 bn, from Kshs 61.6 bn in Q3’2022, coupled with a 38.7% growth in Non funded Income (NFI) to Kshs 42.4 bn, from Kshs 30.6 bn in Q3’2022
- Total operating expenses increased by 57.0% to Kshs 76.7 bn, from Kshs 48.8 bn in Q3’2022, largely driven by the 118.1% increase in loan loss provisions to Kshs 15.8 bn from Kshs 7.3 bn recorded in Q3’2022, coupled with a 25.3% increase in staff costs to Kshs 26.7 bn from Kshs 21.3 bn in Q3’2022
- The group’s Asset Quality improved, with Gross NPL ratio decreasing to 16.1% in Q3’2023 from 17.8% in Q3’2022, attributable to 39.0% increase in Gross loans to Kshs 1,164.0 bn, from Kshs 837.7 bn in Q3’2022, which outpaced the 25.3% increase in gross non-performing loans to Kshs 187.0 bn, from Kshs 149.3 bn recorded in Q3’2022
- Going forward, we expect the bank’s growth to be driven by:

i. **Diversification through Digitization -** The Group has continued to maximize on digital transformation. As of FY’2022, 99.0% of the transactions were done through the non-branch channels. The growth is also to be supported by the continued growth in mobile lending such as Fuliza and KCB Mpesa. The digital channel transactions has led to increase in NFI by 38.7% in Q3’2023 to Kshs 42.4 bn, from Kshs 30.6 bn in Q3’2022, mainly on the back of increased mobile and internet banking.

Financial Statements Extracts

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

Income Statement	2020	2021	2022	2023f
Net Interest Income	67.9	77.7	86.7	107.3
Non Funded Income	28.5	30.9	43.3	59.8
Total Operating Income	**96.4**	**108.6**	**129.9**	**167.1**
Loan Loss Provision	27.5	13.0	13.2	22.3
Other Operating Expenses	43.2	47.8	59.4	81.6
Total Operating Expenses	**70.7**	**60.8**	**72.6**	**103.9**
Profit Before Tax	25.7	47.8	57.3	63.2
% PAT Change YoY	**(22.1%)**	**74.3%**	**19.5%**	**8.4%**
EPS	6.1	10.6	12.7	13.8
DPS	1.0	3.0	2.0	2.0
Cost to Income (with LLP)	73.3%	56.0%	55.9%	62.2%
NIM	**8.5%**	**8.4%**	**7.5%**	**6.3%**
ROE	14.4%	21.8%	22.0%	19.4%
ROA	2.1%	3.2%	3.0%	2.3%
Balance Sheet	**2020**	**2021**	**2022**	**2023f**
Net Loans and Advances	595.3	675.5	863.3	1185.2
Government Securities	208.8	270.8	278.0	417.8
Other Assets	183.8	193.4	412.7	755.2
Total Assets	**987.8**	**1139.7**	**1554.0**	**2358.2**
Customer Deposits	767.2	837.1	1135.4	1873.4
Other Liabilities	78.2	129.0	212.3	220.8
Total Liabilities	**845.4**	**966.2**	**1347.8**	**2094.3**
Shareholders Equity	**142.4**	**171.7**	**200.2**	**256.7**
Number of Shares	**3.2**	**3.2**	**3.2**	**3.2**
Book value Per share	44.3	53.4	62.3	79.9
% Change in BPS YoY	**9.8%**	**20.6%**	**16.6%**	**28.2%**

Valuation Summary

KCB Group is undervalued with a total potential return of 52.0%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	11.1	35%	3.9
Residual Income	51.1	15%	7.7
PBV Multiple	38.3	10%	3.8
PE Multiple	39.6	40%	15.8
Target Price			**31.2**
Current Price			**21.9**
Upside/(Downside)			42.8%
Dividend Yield			9.2%
Total Return			**52.0%**

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III. Co-operative Bank

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Co-operative Bank Summary of Performance – Q3’2023

- The bank registered a 7.6% increase in profit after tax to Kshs 18.4 bn in Q3’2023, from Kshs 17.1 bn in Q3’2022, driven by a 2.3% increase in total operating income to Kshs 53.4 bn in Q3’2023, from Kshs 52.2 bn in Q3’2022. The performance was supported by the 2.1% decrease in the total operating expenses to Kshs 29.0 bn in Q3’2022, from Kshs 29.6 bn in Q3’2022
- Total operating income rose by 2.3% to Kshs 53.4 bn in Q2’2023, from Kshs 52.2 bn in Q3’2022 mainly driven by a 2.5% increase in Net Interest Income (NII) to Kshs 32.8 bn, from Kshs 32.0 bn in Q3’2022, coupled with a 2.1% growth in Non-Funded Income (NFI) to Kshs 20.6 bn, from Kshs 20.2 bn in Q3’2022
- Total operating expenses decreased by 2.1% to Kshs 29.0 bn in Q3’2023, from Kshs 29.6 bn in Q3’2022, largely driven by a 26.5% decrease in loan loss provision to Kshs 4.2 bn, from Kshs 5.7 bn in Q3’2022 which outpaced the 12.4% increase in staff costs to Kshs 12.2bn, from Kshs 10.8 bn in Q3’2023
- The balance sheet recorded an expansion as total assets grew by 6.3% to Kshs 661.3 bn in Q3’2023, from Kshs 622.1 bn in Q3’2022
- The group’s asset quality deteriorated with the NPL ratio increasing to 14.9% in Q3’2023, from 14.0% in Q3’2022, owing to the 19.5% growth in gross non-performing loans to Kshs 61.9 bn in Q3’2023, from Kshs 51.8 bn in Q3’2022, which outpaced the 12.3% increase in gross loans. The deterioration in asset quality is partly attributable to the tough economic environment that occasioned the elevated inflationary pressures
- Going forward, we expect the bank’s growth to be driven by:

i. **Digital expansion**. The lender’s continued diversification through its digital platforms like Mco-op Cash is set to continue increasing usage owing to the convenience in payment services as well as money transfer. As of Q3’2023, only 9.0% of all transactions happened at the branch while the rest were all digital transactions. Furthermore, the lender successfully transitioned to the Omnichannel that is meant to integrate accessibility and user experience

Financial Statements Extracts

Co-operative Bank's PAT is expected to grow at a 5-year CAGR of 4.8%

Income Statement	2020	2021	2022	2023f
Net Interest Income	28.7	41.0	45.5	47.6
Non Funded Income	15.7	19.4	25.7	25.8
Total Operating Income	**44.4**	**60.4**	**71.3**	**73.5**
Loan Loss Provision	(6.0)	(7.9)	(8.7)	(7.3)
Other Operating Expenses	(21.9)	(30.2)	(33.6)	(33.8)
Total Operating Expenses	**(28.0)**	**(38.1)**	**(42.2)**	**(41.1)**
Profit Before Tax	16.5	22.6	29.4	32.7
% PAT Change YoY	**(18.8%)**	**42.3%**	**33.2%**	**3.8%**
EPS	1.7	2.4	3.2	3.9
DPS	0.0	1.0	1.5	1.5
Cost to Income (with LLP)	63.0%	63.0%	59.3%	55.9%
NIM	**8.5%**	**8.5%**	**8.9%**	**8.6%**
ROE	14.2%	17.3%	21.2%	19.9%
ROA	2.3%	3.0%	3.7%	3.5%
Balance Sheet	**2020**	**2021**	**2022**	**2023**
Net Loans and Advances	306.3	310.2	339.4	387.7
Government Securities	193.3	184.1	173.3	180.6
Other Assets	93.3	85.5	94.5	123.9
Total Assets	**592.9**	**579.8**	**607.2**	**692.2**
Customer Deposits	420.4	407.7	423.8	443.9
Other Liabilities	77.1	71.3	75.4	126.1
Total Liabilities	497.5	479.0	499.3	570.0
Shareholders Equity	95.0	100.2	107.7	122.2
Number of Shares	6.9	5.9	5.9	5.9
Book value Per share	13.8	17.1	18.4	20.8
% Change in BPS YoY	**19.8%**	**23.4%**	**7.4%**	**13.4%**

Cytonn

Valuation Summary

Co-operative Bank is undervalued with a total potential return of 38.2%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM	16.0	40%	6.4
Residual income	11.8	30%	3.5
PBV Multiple	13.0	20%	2.6
PE Multiple	13.1	10%	1.3
Target Price			**13.9**
Current Price			**11.1**
Upside/(Downside)			25.3%
Dividend Yield			12.9%
Total Return			**38.2%**

Cytonn

IV. NCBA Bank

NCBA Bank Summary of Performance – Q3’2023

- Profit before tax increased by 2.1% to Kshs 18.6 bn from Kshs 18.2 bn in Q3’2022, with effective tax rate decreasing to 21.1% in Q3’2023 from 29.6% in Q3’2022, resulting in a 14.4% increase in profit after tax to Kshs 8.9 bn in Q3’2023, from Kshs 7.8 bn in Q3’2022
- Total operating income increased by 2.0% to Kshs 46.7 bn, from Kshs 45.8 bn in Q3’2022, driven by the 11.7% growth in Net Interest Income to Kshs 26.0 bn from Kshs 23.2 bn in Q3’2022, which outweighed the 8.0% decrease in Non Funded Income to Kshs 20.7 bn, from Kshs 22.5 bn in Q3’2022
- Total operating expenses increased by 4.7% to Kshs 28.1 bn from Kshs 26.9 bn in Q3’2022, driven by 31.1% increase in staff costs to Kshs 9.3 bn from Kshs 7.1 bn recorded in Q3’2022, which offset the 27.1% decrease in loan loss provision cost to Kshs 6.1 bn from Kshs 8.3 bn in Q3’2022
- The balance sheet recorded an expansion as total assets growing by 14.0% to Kshs 678.8 bn, from Kshs 595.4 bn in Q3’2022
- The group’s Asset Quality improved, with Gross NPL ratio decreasing to 12.0% in Q3’2023 from 12.6% in Q3’2022, attributable to the 14.3% increase in gross loans to Kshs 331.3 bn, from Kshs 289.9 bn recorded in Q3’2022, which outpaced the 9.2% increase in Gross non-performing loans to Kshs 39.7 bn, from Kshs 36.4 bn in Q3’2022
- Going forward, we expect the bank’s growth to be driven by:

i. **Diversification through Digitization:** The bank has continued to leverage on mobile based lending through its digital lending platform Mshwari and Fuliza. The bank digital loan disbursement increased by 145.0 bn to a cumulative of Kshs 729.0 bn in FY’2022, from a cumulative of Kshs 584.0 bn in FY’2021. In addition, NCBA continues to advance its digital transformation through the enhanced one plus mobile platforms with the lender reporting Kshs 695.0 bn in digital lending during the quarter

ii. **Branch Expansion-** The bank The lender has continued to grow its foothold on the Kenyan market through addition of new branches in the country, with the latest additions being the Muranga, Kenol, Chwele, Migori, Kahawa Sukari, Eastleigh, Wote, and Ruaka taking the total number of branches to 105. This expansion has enabled the bank to bring services closer to its clients while also tapping into new regions.

Cytonn

Financial Statements Extracts

NCBA Group's PAT is expected to grow at a 5-year CAGR of 14.3%

Income Statement	2020	2021	2022	2023f
Net Interest Income	25.5	27.0	30.7	30.4
Non Funded Income	20.9	22.1	30.3	33.9
Total Operating Income	**46.4**	**49.2**	**60.9**	**64.3**
Loan Loss Provision	(20.4)	(12.7)	(13.1)	(11.5)
Other Operating Expenses	(19.6)	(20.8)	(24.9)	(30.3)
Total Operating Expenses	**(40.0)**	**(33.4)**	**(37.9)**	**(41.8)**
Profit Before Tax	5.0	15.0	22.5	22.5
Profit After Tax	4.6	10.2	13.8	17.7
% PAT Change YoY	**(41.7%)**	**123.7%**	**34.8%**	**28.6%**
EPS	2.8	6.2	8.4	10.8
DPS	2.3	3.0	0.5	0.5
Cost to Income (with LLP)	86.2%	68.1%	62.2%	65.1%
NIM	**5.8%**	**5.9%**	**5.9%**	**5.2%**
ROE	6.6%	13.6%	17.2%	19.7%
ROA	0.9%	1.8%	2.3%	2.6%
Balance Sheet	**2020**	**2021**	**2022**	**2023F**
Net Loans and Advances	248.5	244.0	278.9	330.2
Government Securities	163.5	196.1	205.4	214.8
Other Assets	116.0	151.0	135.4	181.2
Total Assets	528.0	591.1	619.7	726.2
Customer Deposits	421.5	469.9	502.7	586.4
Other Liabilities	33.9	43.2	34.6	42.7
Total Liabilities	455.4	513.1	537.2	629.0
Shareholders Equity	72.4	77.9	82.4	97.2
Number of Shares	1.5	1.5	1.6	1.6
Book value Per share	43.9	47.3	50.0	59.0
% Change in BPS YoY	**(1.8%)**	**7.6%**	**5.9%**	**17.9%**

Valuation Summary

NCBA Group is undervalued with a total potential return of 31.3%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM Integrated	66.6	40%	26.6
Residual Valuation	40.3	40%	16.1
PBV Multiple	29.1	10%	2.9
PE Multiple	26.1	10%	2.6
Target Price			**48.3**
Current Price			**40.0**
Upside/(Downside)			20.7%
Dividend Yield			10.6%
Total Potential Return			**31.3%**

Cytonn

V. Standard Chartered Bank Kenya

SCBK's Summary of Performance –Q3'2023

- Profit before tax increased by 11.3% to Kshs 13.7 bn from Kshs 12.3 bn in Q3'2022, with effective tax rate declining to 28.8% in Q3'2023 from 29.1% in Q3'2022. As such, profit after tax increased by 11.8% to Kshs 9.7 bn in Q3'2023, from Kshs 8.7 bn in Q3'2022
- Total operating income increased by 19.8% to Kshs 29.4 bn, from Kshs 24.6 bn in Q3'2022, mainly driven by a 34.5% growth in Net Interest Income to Kshs 21.2 bn, from Kshs 15.8 bn in Q3'2022. The growth was however weighed down by a 6.6% decline in Non funded Income (NFI) to Kshs 8.2 bn, from Kshs 8.8 bn in Q3'2022
- Total operating expenses increased by 28.4% to Kshs 15.8 bn from Kshs 12.3 bn in Q3'2022, driven by 193.4% increase in loan loss provisions to Kshs 1.8 bn from Kshs 0.6 bn recorded in Q3'2022, coupled with a 19.8% increase in staff costs to Kshs 6.2 bn from Kshs 5.2 bn in Q3'2022
- The balance sheet recorded a expansion as total assets increased marginally by 1.0% to Kshs 369.7 bn, from Kshs 366.1 bn in Q3'2022,
- The bank's Asset Quality improved, with the NPL ratio declining to 14.4% in Q3'2023, from 15.4% in Q3'2022, attributable to the 4.6% growth in gross loans to Kshs 163.1 bn, from Kshs 155.9 bn in Q3'2022, relative to the 2.0% decrease in gross non-performing loans to Kshs 23.6 bn, from Kshs 24.0 bn in Q3'2022
- Going forward, we expect the bank's growth to be driven by:

i. **Digitalization –** Standard Chartered Bank Kenya has strategically leveraged technology to enhance its digital footprint, successfully digitizing an impressive 97.0% of its banking processes as of the FY'2022. This move has resulted in a reduced reliance on traditional brick-and-mortar branches. Notably, the implementation of the SC Mobile App, the SC Shilling fund, and the improved delivery of products reflects the bank's commitment to digital diversification, ensuring a more streamlined and efficient experience for its clients.

Financial Statements Extracts

SCBK's PAT is expected to grow at a 5-year CAGR of 17.3%

Income Statement	2020	2021	2022	2023f
Net Interest Income	19.1	18.8	22.2	31.3
Non Funded Income	8.3	10.4	11.8	16.6
Total Operating Income	**27.4**	**29.2**	**34.0**	**47.9**
Loan Loss Provision	3.9	2.1	1.3	1.5
Other Operating Expenses	16.1	14.5	15.5	20.1
Total Operating Expenses	**20.0**	**16.6**	**16.9**	**21.6**
Profit Before Tax	5.4	9.0	12.1	17.5
% PAT Change YoY	**(33.9%)**	**66.2%**	**33.3%**	**45.0%**
EPS	14.4	24.0	32.0	46.4
DPS	10.5	14.0	16.0	19.0
Cost to Income (with LLP)	73.0%	56.8%	49.7%	45.1%
NIM	**6.8%**	**6.4%**	**7.0%**	**9.0%**
ROaE	11.0%	17.4%	22.1%	27.7%
ROaA	1.7%	2.7%	3.4%	4.4%
Balance Sheet	**2020**	**2021**	**2022**	**2023f**
Net Loans and Advances	121.5	126.0	139.4	165.7
Government Securities	99.8	95.6	105.7	60.4
Other assets	104.3	113.3	136.2	179.7
Total Assets	**325.6**	**334.9**	**381.3**	**405.9**
Customer Deposits	256.5	265.5	278.9	324.6
Other Liabilities	18.2	16.2	46.2	11.2
Total Liabilities	**274.7**	**281.7**	**325.1**	**335.8**
Shareholders Equity	**50.9**	**53.2**	**56.1**	**70.0**
Number of shares	**0.3**	**0.3**	**0.3**	**0.3**
Book value Per share	135.0	141.2	148.9	185.7
% Change in BPS YoY	**6.6%**	**4.6%**	**5.5%**	**24.7%**

Cytonn

Valuation Summary

SCBK is undervalued with a total potential return of 29.5%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM Integrated	277.1	40%	110.8
Residual Income	150.7	10%	15.1
PBV Multiple	113.7	20%	22.7
PE Multiple	122.8	30%	36.8
Target Price			**185.5**
Current Price			**160.3**
Upside/(Downside)			15.7%
Dividend Yield			13.7%
Total Return			**29.5%**

Cytonn

VI. Diamond Trust Bank Kenya

DTBK’s Summary of Performance – Q3’2023

- Profit before tax declined by 2.1% to Kshs 8.7 bn in Q3’2023, from Kshs 8.9 bn in Q3’2022. Notably, the bank recorded a 5.2% increase in profit after tax to Kshs 6.6 bn in Q3’2023, from Kshs 6.3 bn in Q3’2022, with the effective tax rate declining to 24.3% in Q3’2023, from 29.6% in Q3’2022
- Total operating income rose by 23.7% to Kshs 29.3 bn in Q3’2023, from Kshs 23.7 bn in Q3’2022 mainly attributable to a 33.9% increase in Non Funded Income (NFI) to Kshs 9.2 bn, from Kshs 6.9 bn in Q3’2022 coupled with a 19.6% growth in Net Interest Income (NII) to Kshs 20.1 bn, from Kshs 16.8 bn in Q3’2022
- Total operating expenses increased by 40.5% to Kshs 20.7 bn in Q3’2023, from Kshs 14.7 bn in Q3’2022, largely driven by a 50.1% increase in loan loss provision to Kshs 6.0 bn, from Kshs 4.0 bn in Q3’2022, coupled with a 43.0% increase in staff costs to Kshs 6.3 bn, from Kshs 4.4 bn in Q3’2022
- The balance sheet recorded an expansion as total assets grew by 17.8% to Kshs 598.0 bn in Q3’2023, from Kshs 507.5 bn in Q3’2022
- The asset quality marginally improved with the NPL ratio declining to 12.6% in Q3’2023, from 12.7% in Q3’2022, owing to the 19.1% growth in gross loans, which outpaced the 17.4% increase in Gross non-performing loans to Kshs 38.7 bn in Q3’2023, from Kshs 33.0 bn in Q3’2022
- Going forward, we expect the bank’s growth to be driven by:

i. **Opening of new branches -** The bank is expected to improve its network through the ongoing branch expansion, targeting to have opened 17 branches this year by the end of 2023, as it seeks to increase its footprint and access to many customers within the country. In the long term, the expansion strategy is expected to increase its market, thus increasing its profitability

Financial Statements Extracts

DTBK's PAT is expected to grow at a 5-year CAGR of 16.2%

Income Statement	2020	2021	2022	2023f
Net Interest Income	18.1	20.0	22.9	25.3
Non Funded Income	6.1	6.3	9.1	11.4
Total Operating Income	**24.2**	**26.3**	**31.9**	**36.7**
Loan Loss Provision	7.3	7.6	7.1	8.7
Other Operating Expenses	12.3	12.3	14.9	16.5
Total Operating Expenses	**19.7**	**19.9**	**22.1**	**25.1**
Profit Before Tax	4.7	6.6	9.5	11.7
% PAT Change YoY	**(51.5%)**	**25.1%**	**53.9%**	**20.3%**
EPS	12.6	15.8	24.3	29.3
DPS	0.0	3.0	5.0	6.0
Cost to Income (With LLP)	81.3%	75.6%	69.1%	68.5%
NIM	**5.0%**	**5.1%**	**5.3%**	**5.0%**
ROE	5.8%	6.8%	10.0%	11.1%
ROA	0.9%	1.0%	1.4%	1.4%
Balance Sheet	**2020**	**2021**	**2022**	**2023f**
Net Loans and Advances	208.6	220.4	253.7	321.7
Government Securities	111.1	124.3	133.2	134.3
Other Assets	105.3	153.1	199.8	184.8
Total Assets	**425.1**	**456.8**	**527.0**	**640.8**
Customer Deposits	298.2	331.5	387.6	493.2
Other Liabilities	58.6	50.8	61.8	59.2
Total Liabilities	**356.7**	**382.3**	**449.3**	**552.4**
Shareholders Equity	62.0	67.3	69.0	77.7
Number of Shares	0.3	0.3	0.3	0.3
Book value Per share	221.6	240.7	246.6	277.8
% Change in BPS YoY	**5.3%**	**8.6%**	**2.5%**	**12.6%**

Valuation Summary

DTBK is undervalued with a total potential return of 36.6%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	59.7	40.0%	23.9
Residual Income	53.0	40.0%	21.2
PBV Multiple	58.9	10.0%	5.9
PE Multiple	75.5	10.0%	7.6
Target Price			**58.5**
Current Price			**46.5**
Upside/(Downside)			25.8%
Dividend yield			10.8%
Total return			**36.6%**

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VII. ABSA Bank Kenya

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ABSA Bank’s Summary of Performance – Q3’2023

- Profit before tax increased by 17.8% to Kshs 17.8 bn from Kshs 15.1 bn in Q3’2022, with effective tax rate increasing to 31.0% in Q3’2023 from 29.2% in Q3’2022. Consequently, profit after tax increased by 14.9% to Kshs 12.3 bn, from Kshs 10.7 bn in Q3’2022
- Total operating income rose by 20.0% to Kshs 40.2 bn, from Kshs 33.4 bn recorded in Q3’2022 driven by the 26.0% growth in Net Interest Income to Kshs 29.3 bn, from Kshs 23.3 bn in Q3’2022, coupled with a 6.4% growth in Non funded Income (NFI) to Kshs 10.8 bn, from Kshs 10.2 bn in Q3’2022
- Total operating expenses increased by 21.9% to Kshs 22.3 bn from Kshs 18.3 bn in Q3’2022, mainly attributable to a 34.3% increase in loan loss provisions to Kshs 6.8 bn from Kshs 5.0 bn recorded in Q3’2022, coupled with a 16.1% increase in staff costs to Kshs 8.6 bn from Kshs 7.4 bn in Q3’2022
- The balance sheet recorded an expansion as total assets grew by 4.9% to Kshs 504.9 bn, from Kshs 481.3 bn in Q3’2022
- The asset quality deteriorated, with Gross NPL ratio increasing to 9.8% in Q3’2023 from 6.6% in Q3’2022, attributable to 72.4% increase in gross non-performing loans to Kshs 34.5 bn, from Kshs 20.0 bn in Q3’2022, which outpaced the 16.0% increase in gross loans to Kshs 354.2 bn, from Kshs 305.5 bn recorded in Q3’2022
- Going forward, we expect the bank’s growth to be driven by:

i. **Modernization of Financial Services –** The bank has continued to maximize on digital transformation and modernization of its financial services in a bid to broaden its customer base with new initiatives such as the diaspora banking proposition. The bank continues to support SMEs through its Wezesha Biashara proposition.

ii. **Diversification** – In an effort to expand its revenue sources and reduce its reliance on interest income, the bank has expanded into new business lines such as asset management, digital finance, stock brokerage and bancassurance. The revenue diversification has led to increase in NFI by 6.4% in Q3’2023 to Kshs 10.8 bn, from Kshs 10.2 bn in Q3’2022

Financial Statements Extracts

Absa Bank's PAT is expected to grow at a 5-year CAGR of 18.0%

Income Statement	2020	2021	2022	2023f
Net Interest Income	23.4	25.3	32.3	38.5
Non Funded Income	11.1	11.7	13.7	14.6
Total Operating Income	**34.5**	**36.9**	**46.0**	**53.1**
Loan Loss Provision	(9.0)	(4.7)	(6.5)	(8.1)
Other Operating Expenses	(16.6)	(16.7)	(18.7)	(21.3)
Total Operating Expenses	**(25.7)**	**(21.4)**	**(25.1)**	**(29.4)**
Profit Before Tax	5.6	15.5	20.8	23.7
% PAT Change YoY	**(44.2%)**	**161.2%**	**34.2%**	**12.0%**
EPS	0.8	2.0	2.7	3.0
DPS	0.0	1.1	1.2	1.0
Cost to Income (with LLP)	74.4%	57.9%	54.7%	55.4%
NIM	**7.1%**	**7.1%**	**8.2%**	**8.7%**
ROaE	9.1%	21.1%	24.3%	23.4%
ROaA	1.1%	2.7%	3.2%	3.2%

Balance Sheet	2020	2021	2022	2023f
Net Loans and Advances	208.9	234.2	283.6	331.8
Government Securities	126.1	132.6	133.5	129.2
Other Assets	44.5	61.9	60.2	71.7
Total Assets	**379.4**	**428.7**	**477.2**	**532.7**
Customer Deposits	253.6	268.7	303.8	370.3
Other Liabilities	79.3	103.5	109.9	86.1
Total Liabilities	**332.9**	**372.2**	**413.6**	**456.4**
Shareholders Equity	**46.5**	**56.4**	**63.6**	**76.2**
Number of shares	**5.4**	**5.4**	**5.4**	**5.4**
Book value Per share	8.6	10.4	11.7	14.0
% Change in BPS YoY	**2.9%**	**21.4%**	**36.8%**	**35.0%**

Valuation Summary

Absa Bank is undervalued with a total potential return of 42.5%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	16.6	40%	6.6
Residual Income	17.0	35%	5.9
PBV Multiple	9.6	20%	1.7
PE Multiple	8.3	5%	0.4
Target Price			**14.6**
Current Price			**11.2**
Upside/(Downside)			30.5%
Dividend Yield			12.1%
Total Return			**42.5%**

Cytonn

VIII. Stanbic Holdings

Stanbic Holdings' Summary of Performance – Q3'2023

- Profit before tax increased by 34.0% to Kshs 13.0 bn in Q3'2023, from Kshs 9.7 bn in Q3'2022, with effective tax rate increasing to 28.4% in Q3'2023, from 27.8% in Q3'2022. Similarly, the Profit after tax increased by 32.7% tax to Kshs 9.3 bn in Q3'2023, from Kshs 7.0 bn in Q3'2022
- Total operating income increased by 33.7% to Kshs 30.7 bn, from Kshs 23.0 bn in Q3'2022, driven by a 42.4% increase in Net Interest Income (NII) to Kshs 18.1 bn, from Kshs 12.7 bn in Q3'2022, coupled with a 23.0% growth in Non-Funded Income (NFI) to Kshs 12.6 bn, from Kshs 10.3 bn in Q3'2022
- Total operating expenses increased by 33.6% to Kshs 17.8 bn, from Kshs 13.3 bn in Q3'2022, driven by 56.8% increase in loan loss provisions to Kshs 4.5 bn, from Kshs 2.9 bn recorded in Q3'2022, coupled with a 16.2% increase in staff costs to Kshs 6.0 bn from Kshs 5.1 bn in Q3'2022
- The balance sheet recorded an expansion as total assets grew by 18.3% to Kshs 391.6 bn, from Kshs 331.0 bn in Q1'2022
- The bank's Asset Quality improved, with Gross NPL ratio declining to 9.0% in Q3'2023, from 10.1% in Q3'2022, attributable to 6.2% decrease in Gross non-performing loans to Kshs 24.1 bn, from Kshs 25.6 bn in Q3'2022, which outpaced the 5.4% increase in gross loans to Kshs 266.9 bn, from Kshs 253.2 bn recorded in Q3'2022,
- Going forward, the factors that would drive the bank's growth would be:

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

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Financial Statements Extracts

Stanbic Holdings’ PAT is expected to grow at a 5-year CAGR of 16.6%

Income Statement	2020	2021	2022	2023f
Net Interest Income	12.8	14.4	**18.9**	**21.4**
Non Funded Income	10.4	10.6	**13.1**	**14.2**
Total Operating Income	**23.2**	**25.0**	**32.1**	**35.6**
Loan Loss Provision	(4.9)	(2.5)	(4.9)	(7.4)
Total Operating Expenses	**(12.1)**	**(12.7)**	**(19.9)**	**(20.5)**
Profit Before Tax	6.2	9.8	12.2	15.1
% PAT Change YoY	**(18.6%)**	**38.8%**	**25.7%**	**19.3%**
EPS	13.1	18.2	22.9	27.4
DPS	3.8	9.0	12.6	12.6
Cost to Income (with LLP)	52.2%	61.0%	62.1	57.6 57.6%
NIM	**4.7%**	**5.0%**	**5.7%**	**5.9%**
ROaE	10.3%	13.3%	15.3%	17.2%
ROaA	1.6%	2.2%	2.5%	2.5%
Balance Sheet	**2020**	**2021**	**2022**	**2023f**
Net Loans and Advances	196.3	229.3	266.8	283.0
Other Assets	132.3	99.6	133.0	169.9
Total Assets	**328.6**	**328.9**	**399.8**	**452.6**
Customer Deposits	260.0	254.6	304.3	336.3
Borrowings	5.5	5.7	10.1	14.8
Other Liabilities	11.4	12.1	23.2	40.1
Total Liabilities	**276.9**	**272.4**	**337.6**	**391.2**
Shareholders Equity	51.7	56.5	62.2	61.5
No of Ordinary Shares	0.4	0.4	0.4	0.4
Book value Per share	130.9	142.8	157.3	170.1
% Change in BVPS	**5.5%**	**9.1%**	**2.0%**	**8.1%**

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Valuation Summary

Stanbic Holdings is undervalued with a total potential return of 38.2%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	180.7	35%	63.3
Residual Income	123.9	35%	43.4
PBV Multiple	83.8	20%	16.8
PE Multiple	94.8	10%	9.5
Target Price			**132.8**
Current Price			**105.3**
Upside/(Downside)			26.20%
Dividend Yield			12.0%
Total return			**38.2%**

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IX. I&M Group

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I&M Group Summary of Performance – Q3'2023

- Profit before tax increased by 9.0% to Kshs 11.4 bn from Kshs 10.4 bn in Q3'2022, with effective tax rate declining to 27.9% in Q3'2023 from 31.2% in Q3'2022. Consequently, profit after tax increased by 14.3% to Kshs 8.2 bn in Q3'2023, from Kshs 7.2 bn in Q3'2022
- Total operating income rose by 19.4% to Kshs 29.9 bn in Q3'2023 from Kshs 25.0 bn in Q3'2022 mainly driven by the 18.4% growth in Net Interest Income to Kshs 19.1 bn, from Kshs 16.2 bn in Q3'2022, coupled with a 21.2% growth in Non funded Income (NFI) to Kshs 10.7 bn, from Kshs 8.8 bn in Q3'2022
- Total operating expenses increased by 28.3% to Kshs 19.2 bn from Kshs 14.9 bn in Q3'2022, driven by a 28.3% increase in loan loss provisions to Kshs 4.6 bn from Kshs 3.6 bn recorded in Q3'2022, coupled with a 17.7% increase in staff costs to Kshs 5.6 bn from Kshs 4.8 bn in Q3'2022
- The balance sheet recorded an expansion as total assets increased by 26.9% to Kshs 544.1 bn, from Kshs 428.7 bn in Q3'2022
- The group's asset quality deteriorated with the NPL ratio rising to 11.8% in Q3'2023 from 9.5% in Q3'2022, mainly driven by the 52.5% increase in Non-performing loans to Kshs 36.1 bn in Q3'2023 from Kshs 23.7 bn in Q3'2022, which outpaced the 22.9% growth in Gross loans to Kshs 306.1 bn from Kshs 249.1 bn in Q3'2022
- Going forward, we expect the bank's growth to be driven by:

i. **Leveraging on Digital Technology**– The bank launched digital unsecured personal loans in Kenya in 2021 and since then, the bank has disbursed a cumulative total of Kshs 2.1 bn as at December 2022 from Kshs 0.1 bn as of December 2021. Additionally, the lender launched a workplace banking and currently has a total of 24 schemes with close to 200,000 customers. In addition, the group this year announced plans to roll out an end-to-end Trade Finance platform and a Bancassurance system.

Financial Statements Extracts

I&M Group's PAT is expected to grow at a 5-year CAGR of 12.3%

Income Statement	2020	2021	2022	2023f
Net Interest Income	15.6	20.9	22.9	28.1
Non- Funded Income	8.6	8.7	12.7	15.4
Total Operating Income	**24.2**	**29.6**	**35.7**	**43.5**
Loan Loss Provision	2.5	(4.2)	(5.2)	(6.5)
Other Operating Expenses	10.1	(13.5)	(16.1)	(19.5)
Total Operating Expenses	**(12.6)**	**(17.7)**	**(21.3)**	**(26.0)**
Profit Before Tax	11.0	12.4	15.0	18.0
% PAT Change YoY	**(21.9%)**	**2.5%**	**11.6%**	**8.5%**
EPS	10.2	4.9	7.0	7.6
DPS	2.3	1.5	2.3	3.5
Cost to Income (with LLP)	52.0%	59.9%	59.8%	59.7%
NIM	**5.4%**	**6.3%**	**6.3%**	**6.6%**
ROaE	13.2%	12.2%	14.4%	15.5%
ROaA	2.3%	2.1%	2.6%	2.5%
Balance Sheet	**2020**	**2021**	**2022**	**2023F**
Government securities	101.7	125.5	113.1	123.7
Net Loans and Advances	187.4	210.6	238.6	296.2
Other Assets	69.0	79.0	84.9	144.3
Total Assets	**358.1**	**415.2**	**436.6**	**564.1**
Customer Deposits	262.7	296.7	312.3	414.8
Other Liabilities	27.4	44.4	42.6	57.3
Total Liabilities	**290.0**	**341.1**	**355.0**	**472.1**
Shareholders Equity	64.2	69.6	76.5	85.9
Number of Shares	0.8	1.7	1.7	1.7
Book Value Per Share	77.6	42.1	46.3	51.9
% BVPS Change YoY	**11.2%**	**(45.8%)**	**9.9%**	**12.2%**

Valuation Summary

I&M Group is undervalued with a total potential return of 39.3%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	30.6	40.0%	12.2
Residual income	11.4	40.0%	4.6
PBV Multiple	28.6	10.0%	2.9
PE Multiple	24.6	10.0%	2.5
Target Price			**22.1**
Current Price			**17.5**
Upside/(Downside)			26.5%
Dividend yield			12.9%
Total return			**39.3%**

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B. Tier II Bank

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I. HF Group

HF Group Summary of Performance – Q3’2023

- Profit before tax increased by 256.2% to Kshs 0.3 bn from Kshs 0.1 bn in Q3’2022, with effective tax rate declining to 10.1% in Q3’2023 from 16.6% in Q3’2022. As such, profit after tax increased by 283.9% to Kshs 0.2 bn in Q3’2023, from Kshs 0.1 bn in Q3’2022
- Total operating income increased by 21.1% to Kshs 2.8 bn, from Kshs 2.3 bn in Q3’2022, mainly driven by a 21.4% growth in Net Interest Income to Kshs 1.9 bn, from Kshs 1.6 bn in Q3’2022, coupled with a 20.6% growth in Non funded Income (NFI) to Kshs 0.9 bn, from Kshs 0.8 bn in Q3’2022
- Total operating expenses increased by 13.6% to Kshs 2.6 bn from Kshs 2.2 bn in Q3’2022, driven by 60.2% increase in loan loss provisions to Kshs 0.2 bn from Kshs 0.1 bn recorded in Q3’2022, coupled with a 21.7% increase in staff costs to Kshs 1.2 bn from Kshs 1.0 bn in Q3’2022
- The balance sheet recorded an expansion as total assets increased by 10.1% to Kshs 60.7 bn, from Kshs 55.1 bn in Q3’2022
- Gross Non-Performing Loans (NPLs) increased by 24.9% to Kshs 10.6 bn in Q3’2023 from Kshs 8.5 bn in Q3’2022, while Gross Loans increased by 10.9% to Kshs 46.3 bn from Kshs 41.7 bn in Q3’2022. Consequently, the asset quality deteriorated with the NPL ratio rising to 22.8% in Q3’2023 from 20.3% in Q3’2022
- We commend HF Group’s turnaround performance, recording an increase in profit after tax of 283.9% to Kshs 0.2 bn in Q3’2023, from Kshs 0.1 bn in Q3’2022. Despite the three consecutive quarters of profitability witnessed by he Group so far, HF Group faces a major downside with its capital adequacy ratios remaining below the minimum statutory requirements set for banks. The group will have to review its business model or merge with a bank with stronger capital ratios so as to overcome its undercapitalization.

Financial Statements Extracts

HF's PAT is expected to grow at a 5-year CAGR of 19.1%

Income Statement	2020	2021	2022	2023F
Net Interest Income	1.9	1.8	2.2	2.8
Non- Funded Income	0.5	0.5	0.9	1.1
Total Operating Income	2.4	2.4	3.0	**3.9**
Loan Loss Provision	0.5	0.5	0.9	(0.2)
Other Operating Expenses	**2.4**	**2.4**	**3.0**	(3.1)
Total Operating Expenses	(4.1)	(3.3)	(2.8)	**(3.3)**
Profit Before Tax	(1.8)	(0.1)	0.2	0.6
% PAT Change YoY	**1443.7%**	**(59.8%)**	**(138.9%)**	**98.4%**
EPS	(4.4)	(1.8)	0.7	1.4
DPS	0.0	0.0	0.0	0.0
Cost to Income	170.1%	140.1%	93.5%	84.4%
NIM	**4.2%**	**4.2%**	**5.0%**	**5.8%**
ROaE	(18.1%)	(8.1%)	3.1%	5.5%
ROaA	(3.0%)	(1.3%)	0.5%	0.8%
Balance Sheet	**2020**	**2021**	**2022e**	**2023F**
Net Loans and Advances	37.0	34.7	36.3	40.0
Government securities	7.1	6.6	8.5	9.4
Other Assets	11.3	12.0	12.2	13.4
Total Assets	**55.4**	**53.2**	**57.0**	**62.8**
Customer Deposits	39.9	37.7	39.8	45.6
Other Liabilities	6.9	7.2	8.4	8.0
Total Liabilities	**46.9**	**44.9**	**48.2**	**53.6**
Shareholders Equity	8.6	8.3	8.8	9.3
Number of Shares	0.4	0.4	0.4	0.4
Book Value Per Share	22.3	21.5	22.8	24.2
% BVPS Change YoY	**(16.2%)**	**(3.3%)**	**6.0%**	**6.0%**

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Valuation Summary

Housing Finance is undervalued with a total potential return of 11.3%

Valuation Summary:	Implied Price	Weighting	Weighted Value
Residual Income	4.0	60%	2.4
PTBV Multiple	3.8	35%	1.3
PE Multiple	2.4	5%	0.1
Fair Value			**3.9**
Current Price			**3.5**
Upside/(Downside)			11.3%
Dividend Yield			0.0%
Total return			***11.3%***

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Feedback Summary

During the preparation of this Q3'2023 Banking Sector Report, we shared with the subject companies the operating metrics that were used in the Report for their confirmation and verification

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

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

Licensed Financial Institutions

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I. Banks and Mortgage Finance Institutions

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Licensed Banks in Kenya

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

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II. Micro-Finance Institutions

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Licensed Microfinance Banks in Kenya

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

Source : CBK

Thank You!

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