Below is a summary of Standard Chartered Bank of Kenya Plc FY'2021 performance;

Balance Sheet Items (Kshs bn)	FY'2020	FY'2021	y/y change
Net loans	121.5	126.0	3.7%
Total Assets	**325.6**	**334.9**	**2.8%**
Customer Deposits	256.5	265.5	3.5%
Total Liabilities	274.7	281.7	2.5%
Shareholder's Funds	**50.9**	**53.2**	**4.6%**

Balance sheet ratios	FY'2020	FY'2021	y/y change
Loan to Deposit Ratio	47.4%	47.5%	0.1%
Return on average equity	11.0%	17.4%	6.3%
Return on average assets	1.7%	2.7%	1.0%

Income Statement (Kshs bn)	FY'2020	FY'2021	y/y change
Net Interest Income	19.1	18.8	(1.6%)
Net non-Interest Income	8.3	10.4	24.9%
Total Operating income	**27.4**	**29.2**	**6.4%**
Loan Loss provision	3.9	2.1	(46.4%)
Total Operating expenses	20.0	16.6	(17.2%)
Profit before tax	7.4	12.6	70.3%
Profit after tax	**5.4**	**9.0**	**66.2%**
Core EPS	**14.4**	**24.0**	**66.2%**

Income Statement Ratios	FY'2020	FY'2021	y/y change
Yield from interest-earning assets	8.5%	7.6%	(0.9%)
Cost of funding	1.9%	1.3%	(0.6%)
Net Interest Spread	6.6%	6.2%	(0.4%)
Net Interest Margin	6.8%	6.4%	(0.4%)
Cost of Risk	14.2%	7.1%	(7.1%)
Net Interest Income as % of operating income	69.8%	64.5%	(5.3%)
Non-Funded Income as a % of operating income	30.2%	35.5%	5.3%
Cost to Income Ratio	73.0%	56.8%	(16.2%)

Capital Adequacy Ratios	FY'2020	FY'2021
Core Capital/Total Liabilities	15.3%	15.4%
Minimum Statutory ratio	8.0%	8.0%
Excess	**7.3%**	**7.4%**
Core Capital/Total Risk Weighted Assets	15.9%	15.5%
Minimum Statutory ratio	10.5%	10.5%
Excess	**5.4%**	**5.0%**
Total Capital/Total Risk Weighted Assets	18.5%	17.8%
Minimum Statutory ratio	14.5%	14.5%
Excess	**4.0%**	**3.3%**
Liquidity Ratio	71.5%	70.7%
Minimum Statutory ratio	20.0%	20.0%
Excess	**51.5%**	**50.7%**
Adjusted Core Capital/Total Liabilities	15.3%	15.4%
Adjusted Core Capital/Total RWA	15.9%	15.6%
Adjusted Total Capital/Total RWA	18.5%	17.8%

Key highlights FY'2021

- Standard Chartered announced the launch of a new mortgage offering that would allow access to mortgage for borrowers at a rate of 11.9% p.a. between July 2021 and October 2021. Key to note, the interest rate offered under the facility would be 1.1% points under the market average of 13.0% p.a. Additionally, the bank announced that it would waiver legal and valuation fees for mortgage borrowers seeking to transfer their mortgage facilities to the bank from other lenders.

Income Statement

- Core earnings per share increased by 66.2% to Kshs 24.0, from Kshs 14.4 recorded in FY'2020, not line with our projections of a 61.2% increase to Kshs 23.3. The performance was driven by a 6.4% increase in total operating income to Kshs 29.2 bn, from Kshs 27.4 bn recorded in FY'2020, coupled with a 17.2% decline in total operating expenses to Kshs 16.6 bn, from Kshs 20.0 bn recorded in FY'2020. The variance in core earnings per share increase to Kshs 24.0 against our expectations of Kshs 23.3 was largely due to the 17.2% decline in the total operating expenses to Kshs 16.6 bn in FY'2021, from Kshs 20.0 bn in FY'2020, compared to our 14.8% projected decline,
- Total operating income rose by 6.4% to Kshs 29.2 bn, from Kshs 27.4 bn recorded in FY'2020 driven by a 24.9% growth in Non-Funded Income (NFI) to Kshs 10.4 bn, from Kshs 8.3 bn in FY'2020. However, Net Interest Income (NII) recorded a decline of 1.6% to Kshs 18.8 bn, from Kshs 19.1 bn in FY'2020,
- Interest income declined by 6.1% to Kshs 22.3 bn, from Kshs 23.7 bn in FY'2020, driven by a 4.2% decline in interest income from Loans & Advances to Kshs 11.8 bn, from Kshs 12.3 bn in FY'2020, coupled with a 4.3% decline in interest income from Government Securities to Kshs 9.2 bn in FY'2021, from Kshs 9.6 bn in FY'2020. Additionally, Interest income from placements in other banks declined by 9.1% to Kshs 1.4 bn, from 1.3 bn in FY'2020. Consequently, the Yield on Interest-Earning Assets (YIEA) declined to 7.6%, from 8.5% in FY'2020, attributable to a 6.1% decline in the trailing interest income, coupled with a 5.0% increase in the average interest earning assets. Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,
- Interest expense declined by 24.7% to Kshs 3.5 bn, from Kshs 4.6 bn in FY'2020, following a 26.0% decline in interest expense on customer deposits to Kshs 3.1 bn, from Kshs 4.2 bn in FY'2020 coupled with a 2.7% decline in other interest expenses from placements to Kshs 80.3 mn from Kshs 82.5 mn in FY'2020. The bank was able to mobilize cheaper deposits with the Cost of funds (CoF) declining by 0.6% points to 1.3%, from 1.9% in FY'2020, owing to the 24.7% decline in trailing interest expense and the 6.0% increase in the average interest-bearing liabilities. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) declined to 6.4%, from 6.8% in FY'2020 attributable to a 6.1% decline in the trailing Net Interest Income (NII) coupled with a 5.0% growth in average interest-earning assets,
- Non-Funded Income (NFI) increased by 24.9% to Kshs 10.4 bn, from Kshs 8.3 bn in FY'2020. The increase was mainly driven by a 44.6% rise in Foreign Exchange Trading income to Kshs 3.8 bn in FY'2021, from Kshs 2.6 bn in FY'2020, coupled with a 32.9% increase in Fees and Commission income to Kshs 361.8 mn, from Kshs 272.3 mn in FY'2020. The bank's total fees and commissions also increased by 19.9% to Kshs 5.4 bn, from Kshs 4.5 bn in FY'2020 attributable to the expiry of the waiver on mobile banking fees. As a result, the revenue mix shifted to 64:36 from 70:30 in FY'2020, funded to non-funded income, owing to the 24.9% increase in Non-Funded Income (NFI), compared to a 6.1% decline in Net Interest Income (NII),
- Total operating expenses declined by 17.2% to Kshs 16.6 bn in FY'2021, from Kshs 20.0 bn in FY'2020, mainly attributable to a 46.4% decline in Loan Loss Provisions (LLPs) to Kshs 2.1 bn in FY'2021, from Kshs 3.9 bn in FY'2020 partly attributable to the improved business environment. Additionally, Staff Costs declined to 18.3% to Kshs 6.3 bn, from Kshs 7.7 bn recorded in FY'2020,
- Cost to Income Ratio (CIR) improved to 56.8%, from 73.0% in FY'2020 owing to a 17.1% decline in total operating expenses coupled with a 6.4% growth in total operating income. Without LLP, Cost to Income ratio improved as well to 49.7%, from 58.8% in FY'2020, an indication of improved efficiency levels,

- Profit before tax increased by 70.3% to Kshs 12.6 bn, from Kshs 7.4 bn in FY'2020. Profit after tax increased by 66.2% to Kshs 9.0 bn in FY'2021, from Kshs 5.4 bn recorded in FY'2020 with the effective tax rate increasing to 28.2% from 26.4% in FY'2020, and,
- The Board of Directors recommended a final dividend per share of Kshs 14.0, subject to shareholder's approval, having paid an interim dividend of Kshs 5.0 per ordinary share, with the total dividend per share for FY'2021 amounting to Kshs 19.0 per share. At the current price of Kshs 139.8, this translates to a dividend yield of 13.6%.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 2.8% to Kshs 334.9 bn in FY'2021, from Kshs 325.6 bn in FY'2020. This growth was largely driven by a 5.9% increase in placements from banking institutions to Kshs 74.4 bn, from Kshs 70.3 bn in FY'2020, coupled with a 3.7% increase in the loan book to Kshs 126.0 bn, from Kshs 121.5 bn recorded in FY'2020. The performance was however weighed down by a 4.2% decline in investments in government and other securities to Kshs 95.6 bn, from Kshs 99.8 bn recorded in FY'2020,
- Total liabilities rose by 2.5% to Kshs 281.7 bn, from Kshs 274.7 bn in FY'2020 driven by a 3.5% increase in Customer deposits to Kshs 265.5 bn, from Kshs 256.5 bn in FY'2020. Deposits per branch rose by 41.1% to Kshs 12.1 bn, from Kshs 8.6 bn in FY'2020 with the number of branches reducing to 22 from 30. The reduced number of branches is attributable to cost cutting measures undertaken by Standard Chartered Bank. We note that the bank continued its focus on its digital banking channels, with 90.0% of transactions being online transactions.
- The faster 3.7% growth in net loans compared to the 3.5% increase in customer deposits led to a marginal increase in the loans to deposit ratio to 47.5%, from 47.4% recorded in FY'2020,
- Gross Non-Performing Loans (NPLs) increased by 4.2% to Kshs 23.3 bn in FY'2021, from Kshs 22.3 bn recorded in FY'2020. The increase in Non-Performing loans is partly attributable to increased defaults from the Commercial sector, which recorded slow recovery mainly due to COVID-19 containment measures that were in place for majority of FY'2021. The NPL ratio however declined marginally to 15.99%, from 16.01% recorded in FY'2020. The slight Asset Quality improvement is attributable to the faster 4.8% growth in Gross loans, as compared to the relatively slower 4.2% increase in Gross Non-Performing Loans (NPLs),
- General Loan Loss Provisions increased by 14.0% to Kshs 10.1 bn, from Kshs 8.9 bn in FY'2020. The NPL coverage thus increased to 84.4%, from 80.6% in FY'2020, as the provisions (after adding back interest suspense) increased by 9.2% in FY'2021, outpacing the 4.2% rise in the Gross Non-Performing Loans during the same period. The increase in the NPL Coverage to 84.4% in FY'2021, from 80.6% in FY'2020 suggests sufficient provisioning,
- Shareholders' funds increased by 4.6% to Kshs 53.2 bn, from Kshs 50.9 bn recorded in FY'2020. The increase can be attributed to the 4.5% increase in Retained earnings to Kshs 33.3 bn, from Kshs 31.9 bn in FY'2020,
- Standard Chartered is currently sufficiently capitalized with a core capital to risk-weighted assets ratio of 15.5%, 5.5% points above the statutory requirement. In addition, the total capital to risk-weighted assets ratio was 17.8%, exceeding the statutory requirement by 3.3% points. Adjusting for IFRS 9, the core capital to risk-weighted assets stood at 15.6% while total capital to risk-weighted assets came in at 17.8%, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.7%, and a Return on Average Equity (ROaE) of 17.4%.

Key Take-Outs:

1. **Asset Quality** – The bank's asset quality improved slightly with the NPL ratio declining marginally to 15.99% in FY'2021, from 16.01% recorded in FY'2020. The improvement in the asset quality is attributable to the 4.8% growth in Gross loans, which outpaced the 4.2% increase in Gross Non-

Performing Loans (NPLs). The increase in NPLs is mainly attributable increased defaults from the Commercial sector, which recorded slow recovery mainly due to COVID-19 containment measures that were in place for majority of FY'2021,

2. **Expansion of the loan book –** The bank's net loans and advances increased by 3.7% to Kshs 126.0 bn from Kshs 121.5 bn in FY'2020 as the bank resumed lending to customers as credit risk eased during the year following improvement of business environment in the country. Consequently, investment in government securities, which are perceived to be less riskier, declined by 4.2% to Kshs 95.6 bn, from Kshs 99.8 bn in FY'2020, and,
3. **Operating Efficiency** - There was an increase in the bank's operating efficiency as the Cost to Income ratio without LLP improved to 49.7%, from 58.8% in FY'2020. The improvement was largely attributable to the 18.3% decrease in Staff Costs by to Kshs 6.3 bn in FY'2021, from Kshs 7.7 bn recorded in FY'2020.

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

I. Continued focus on promoting the usage of the bank's alternative channels is likely to continue boosting the company's Non-Funded Income (NFI). Non-Funded Income (NFI) increased by 24.9% in FY'2020, boosted by the bank's revenue diversification, with lines such as Wealth Management which contributed 37.0% of the Bank's Non-Funded Income (NFI). Revenue expansion coupled with cost containment will be key in boosting the bank's bottom line.

Valuation Summary

- We are of the view that Standard Chartered is an "***Accumulate***" with a target price of Kshs 148.8 representing an upside of 19.7%, from the current price of Kshs 139.8 as of 18th March 2022, inclusive of a dividend yield of 13.6%,
- Standard Chartered Bank is currently trading at a P/TBV of 1.0x and a P/E of 5.8x vs an industry average of 1.2x and 5.8x, respectively.