Kenya's Listed Banks H1'2023 Report, & Cytonn Weekly #38/2023

Focus of the Week

Following the release of the H1'2023 results by Kenyan banks, the Cytonn Financial Services Research Team undertook an analysis on the financial performance of the listed banks and identified the key factors that shaped the performance of the sector. For the earnings notes of the various banks, click the links below:

i. Equity Group H1'2023 Earnings Note
ii. KCB Group H1'2023 Earnings Note
iii. Standard Chartered Bank Kenya H1'2023 Earnings Note
iv. ABSA Bank Kenya H1'2023 Earnings Note
v. NCBA Group H1'2023 Earnings Note
vi. Co-operative Bank H1'2023 Earnings Note
vii. Diamond Trust Bank Kenya (DTB-K) H1'2023 Earnings Note
viii. I&M Group Holdings H1'2023 Earnings Note
ix. Stanbic Holdings H1'2023 Earnings Note
x. HF Group H1'2023 Earnings Note

The core earnings per share (EPS) for the listed banks recorded a weighted growth of 14.3% in H1'2023, compared to a weighted growth of 34.0% recorded in H1'2022, an indication of sustained performance despite the tough operating environment occasioned by elevated inflationary pressures experienced during the period. The performance in H1'2023 was supported by a 27.9% growth in non-funded income coupled with a 21.0% growth in net interest income. The growth in NFI was largely driven by the increase in foreign exchange income recorded by the banks during the period as a result of increased dollar demand in the country. However, the listed banks' asset quality improved, with the weighted average Gross Non-Performing Loan ratio (NPL) decreasing by 0.3% points to 12.7%, from 13.0% recorded in H1'2022. The performance remained 3.0% points above the ten-year average of 9.8%.

The report is themed **"Sustained Profitability Despite Challenging Business Environment"** where we assess the key factors that influenced the performance of the banking sector in H1'2023, the key trends, the challenges banks faced, and areas that will be crucial for growth and stability of the banking sector going forward. As such, we shall address the following:

i. Key Themes that Shaped the Banking Sector Performance in H1'2023,
ii. Summary of the Performance of the Listed Banking Sector in H1'2023,
iii. The Focus Areas of the Banking Sector Players Going Forward, and,
iv. Brief Summary and Ranking of the Listed Banks based on the outcome of our analysis.

Section I: Key Themes That Shaped the Banking Sector Performance in H1'2023

Below, we highlight the key themes that shaped the banking sector in H1'2023 which include;

regulation, regional expansion through mergers and acquisitions, and asset quality:

1. **Regulation:**
   a. **Risk based Lending:** Since the repeal of the Interest Cap Law in 2019, the Central Bank of Kenya has been developing a risk-based lending model aimed at pricing loans. The model's primary purpose is to enable banks to lend based on the anticipated risks of each borrower. Furthermore, this represents a shift away from the negative listing of defaulters and toward a new credit score rating system that does not deny borrowers credit based on the quality of their credit bureau reference ratings. The approach targets riskier borrowers, with the majority operating in micro, small, and medium-sized businesses that have struggled to obtain conventional credit. Notably, as of May 2023, 33 of the banks in the country had their models approved by the CBK, with Equity Bank being the first commercial bank to implement risk-based lending. However, the approval process of the models has been gradual in a bid to avoid causing distress to customers through high interest rates. Further, the full deployment has been slowed due to a lack of data to analyse the client's risk profile, and,
   b. **Foreign Exchange Code:** The Central Bank of Kenya announced the issuanceof the Foreign Exchange Code (the FX Code) on 22 March 2023 to commercial banks, in a move to regulate wholesale transactions of the foreign exchange market in Kenya. The measure was in response to the wide variation of exchange rate spread in the market, as discussed in our currency review note. The FX Code aims to promote a robust and transparent foreign currency market through the following reporting guidelines;
      i. **Compliance with FX Code**- All market participants (commercial banks and foreign exchange brokers) will be 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. Further, all market participants will be required to submit to CBK a detailed compliance implementation plan that is approved by its Board by 30 June 2023, and each participant must be fully compliant with the aforementioned code by 31 December 2023,
      ii. **Reporting Mechanism**- All market participants will be required to submit a quarterly report to CBK, on the level of compliance to the FX Code within 14 days after the end of every 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 is majorly to identify practices that are geared towards market disruptions such as price quotations or manipulating price movements creating artificial delays, or false impression on market depth and liquidity by any market participants will result in heavy penalties. Additionally, market participants are not to engage in position or points parking (artificial transactions to conceal positions or transfer profits or losses).
2. **Regional Expansion through Mergers and Acquisitions**: Kenyan banks are continuously looking at having an extensive regional reach and in H1'2023, 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 30 January 2023, the Central Bank of Kenya (CBK) announcedthat 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. As such, MBL is now a fully owned subsidiary of CIB,
   b. On 31 January 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, and,

c. On 17 March 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 22 May 2023, the Central Bank of Kenya (CBK) announced the acquisition of 20.0% stake of Credit Bank Plc by Shorecap III, LP, a Private Equity fund registered under the laws of Mauritius, with Equator Capital Partners LLC as the managers of the fund. The value of the deal was not disclosed by the CBK, however, Shorecap III, LP will take over 7,289,928 ordinary shares which constitute of 20.0% of the ordinary shares of the Bank. The acquisition came after Oikocredit acquired 22.8% stake of the lender in August 2019, after paying a cash consideration of Kshs 1.0 bn, with the transaction trading at price to book (P/B) multiple of 1.5x. For more information, please see our Cytonn Weekly #21/2023, and,
e. On 14 June 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. Additionally, EGH intends to make an offer to the remaining shareholders to acquire all the shares in Cogebanque in a move that will make EGH take over 100.0% of the issued shares of Cogebanque.

Below is a summary of the deals in the last 10 years that have either happened, been announced or expected to be concluded:

Cytonn Report: Banking sector Deals and Acquisitions

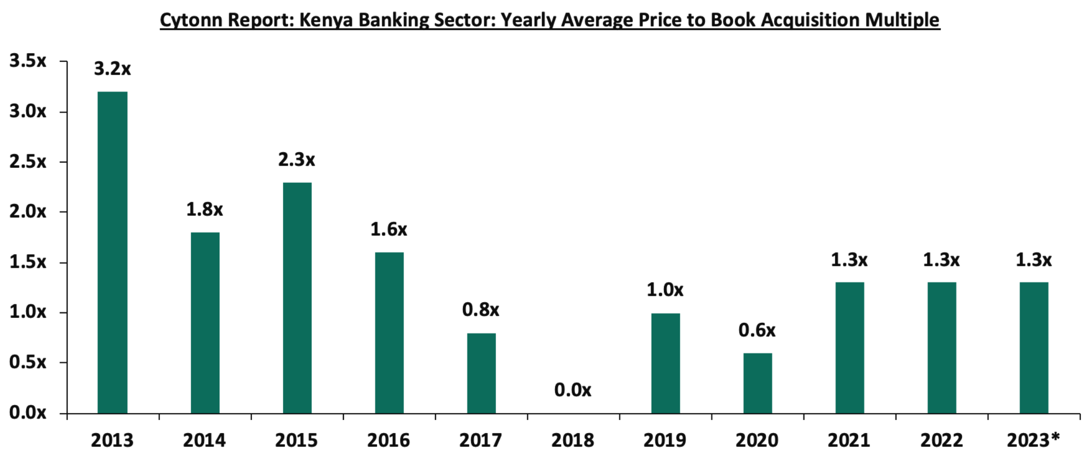
Acquirer	Bank Acquired	Book Value at Acquisition (Kshs bn)	Transaction Stake	Transaction Value (Kshs bn)	P/Bv Multiple	Date
Equity Group	Cogebanque PLC ltd	5.7	91.90%	6.7	1.3x	Jun-23
Shorecap III	Credit Bank Plc	3	20.00%	Undisclosed	N/A	Jun-23
Premier Bank Limited	First Community Bank	2.8	62.50%	Undisclosed	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*

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
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**	
Average: 2013 to 2018			**73.5%**		**1.7x**	
Average: 2019 to 2023			**75.8%**		**0.9x**	

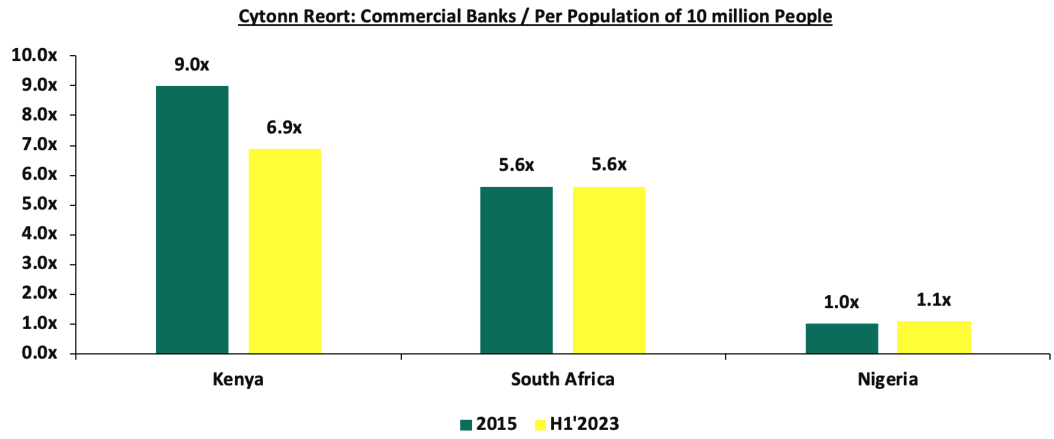
*** Announcement Date**
**** Deals that were dropped**

So far in 2023, the average acquisition valuations for banks have remained unchanged at 1.3x, similar to what was recorded in 2022. As such, the valuations still remain low compared to historical prices paid, as highlighted in the chart below;



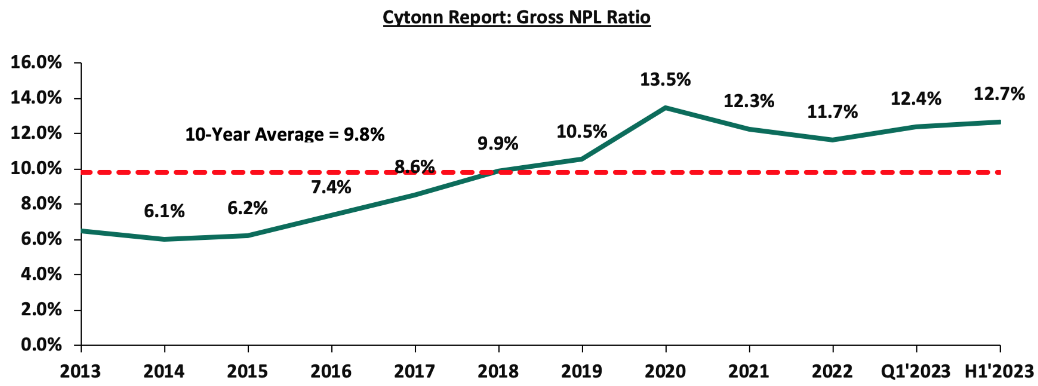
**Data as of June 2023*

As at the end of H1'2023, the number of commercial banks in Kenya stood at 38, same as in H1'2022 but lower than 43 licensed banks in FY'2015. The ratio of the number of banks per 10 million populations in Kenya now stands at 6.9x, 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. To bring the ratio to 5.5x, we ought to reduce the number of banks from the current 38 banks to about 30 banks. For more on this see our topical.



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

3. **Asset Quality:** Asset quality for listed banks improved in H1'2023, with the weighted average Gross Non-Performing Loan ratio (NPL) decreasing by 0.3% points to 12.7%, from 13.0% recorded in H1'2022. The performance remained 3.0% points above the ten-year average of 9.8%. The deterioration in asset quality in H1'2023 was mainly driven by 3.4% points increase in I&M Bank NPL ratio to 12.7%, from 9.3% in H1'2022. The chart below highlights the asset quality trend for the listed banks:



The deterioration in I&M Bank asset quality was mainly attributable to 57.5% increase in Gross non-performing loans to Kshs 36.6 bn in H1'2023 from Kshs 23.3 bn in H1'2022, which outpaced the 15.6% increase in gross loans to Kshs 288.0 bn from Kshs 249.1 bn recorded in H1'2022. 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 17.2% in H1'2023 from 21.4% in H1'2022, attributable to 30.6% increase in Gross loans to Kshs 1057.9 bn, from Kshs 809.8 bn in H1'2022, which outpaced the 4.9% increase in gross non-performing loans to Kshs 182.0 bn, from Kshs 173.4 bn recorded in H1'2022. 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 coming at 48.7 in H1'2023, lower than the average of 49.3 recorded in the same period in 2022. 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.

The table below highlights the asset quality for the listed banking sector:

Cytonn Report: Listed Banks Asset Quality

	H1'2023 NPL Ratio*	H1'2022 NPL Ratio**	% point change in NPL Ratio	H1'2023 NPL Coverage*	H1'2022 NPL Coverage**	% point change in NPL Coverage
Stanbic Bank	8.1%	9.4%	(1.3%)	57.4%	56.0%	1.4%
ABSA Bank Kenya	9.5%	7.1%	2.4%	69.4%	78.5%	(9.1%)
Equity Group	11.2%	8.8%	2.4%	54.5%	64.1%	(9.6%)
Diamond Trust Bank	12.3%	12.8%	(0.5%)	46.4%	44.2%	2.2%
I&M Holdings	12.7%	9.3%	3.4%	49.8%	77.5%	(27.7%)
NCBA Group	13.4%	13.6%	(0.2%)	57.8%	62.0%	(4.2%)
Standard Chartered Bank Kenya	14.4%	15.4%	(1.0%)	84.8%	83.9%	0.9%
Co-operative Bank of Kenya	14.6%	14.1%	0.5%	60.7%	65.8%	(5.1%)
KCB	17.2%	21.4%	(4.2%)	51.1%	45.8%	5.3%
HF Group	23.1%	20.1%	3.0%	72.0%	77.6%	(5.6%)
Mkt Weighted Average	**12.7%**	**13.0%**	**(0.3%)**	**60.0%**	**62.3%**	**(2.3%)**

***Market cap weighted as at 22/09/2023**

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

Key take-outs from the table include;

i. Asset quality for the listed banks improved during the H1’2023, with market weighted average NPL decreasing by 0.3% points to 12.7% from a 13.0% in H1’2022. The improvement in asset quality was mainly driven by improvement in KCB bank, Stanbic bank, Stanchart Bank, DTB-K and NCBA Group asset quality with their NPL ratio decreasing by 4.2%, 1.3%, 1.0%, 0.5% and 0.2% respectively,
ii. I&M Holdings had the highest NPL ratio jump by 3.4% points to 12.7% from 9.3% points in H1’2022, attributable to 57.5% increase in Gross non-performing loans to Kshs 36.6 bn in H1’2023 from Kshs 23.3 bn in H1’2022, which outpaced the 15.6% increase in gross loans to Kshs 288.0 bn from Kshs 249.1 bn recorded in H1’2022, and,
iii. Market weighted average NPL Coverage for the listed banks decreased by 2.3% points to 60.0% in H1’2023, from 62.3% recorded in H1’2022, majorly on the back of decreased NPL coverage recorded by I&M Holdings, Equity Group, ABSA Bank, HF Group and Co-operative Bank of Kenya by 27.7%, 9.6%, 9.1%, 5.6% and 5.1% respectively in H1’2022. However, KCB Group, Diamond Trust Bank and Stanbic bank NPL coverage increased by 5.3% points, 2.2% points and 1.4% points to 51.1%, 46.4% and 57.4% respectively in H1’2023.

Section II: Summary of the Performance of the Listed Banking Sector in H1’2023

The table below highlights the performance of the banking sector, showing the performance using several metrics, and the key take-outs of the performance;

Cytonn Report: Listed Banks Performance in H1’2023

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
HF Group	264.8%	18.5%	13.0%	24.2%	5.2%	10.1%	30.1%	51.1%	4.0%	6.3%	93.5%	9.1%	4.7%
Stanbic Bank	47.0%	46.3%	51.5%	44.4%	7.1%	29.7%	42.5%	22.5%	10.5%	10.1%	98.6%	15.3%	18.5%
ABSA Bank	32.0%	36.9%	50.3%	33.2%	9.0%	25.7%	29.7%	21.1%	18.1%	(3.9%)	95.6%	21.6%	27.7%

Cytonn Report: Listed Banks Performance in H1'2023

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
SCBK	27.7%	33.4%	0.9%	38.3%	8.0%	26.8%	33.7%	11.7%	(1.1%)	(31.7%)	51.3%	13.2%	23.9%
NCBA Group	20.3%	21.7%	29.7%	16.3%	6.0%	(2.6%)	44.5%	10.0%	10.3%	(0.5%)	56.6%	16.7%	18.2%
DTBK	10.6%	32.4%	53.7%	17.8%	5.3%	42.2%	29.7%	36.7%	20.6%	4.2%	67.3%	20.4%	10.2%
Equity Group	7.8%	27.0%	54.3%	16.5%	7.2%	41.2%	44.0%	38.3%	21.0%	17.6%	69.5%	25.6%	29.1%
Co-op Bank	5.9%	12.0%	38.9%	2.3%	8.2%	4.0%	39.1%	8.4%	22.7%	2.9%	78.8%	10.7%	22.2%
I&M Holdings	2.2%	22.1%	31.2%	16.1%	6.2%	36.7%	36.1%	12.1%	13.9%	(7.6%)	75.6%	16.7%	15.0%
KCB	(18.3%)	28.6%	76.6%	12.1%	6.7%	43.4%	37.7%	56.1%	61.9%	30.1%	65.6%	32.1%	19.1%
H1'23 Mkt Weighted Average*	**14.3%**	**28.2%**	**44.8%**	**21.0%**	**7.3%**	**27.9%**	**38.9%**	**26.6%**	**21.3%**	**5.3%**	**72.3%**	**20.5%**	**22.9%**
H1'22 Mkt Weighted Average**	**34.0%**	**18.0%**	**18.6%**	**17.7%**	**7.3%**	**24.4%**	**37.1%**	**17.9%**	**11.3%**	**11.6%**	**72.7%**	**17.7%**	**21.9%**

***Market cap weighted as at 22/09/2023**

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

Key takeaways from the table include:

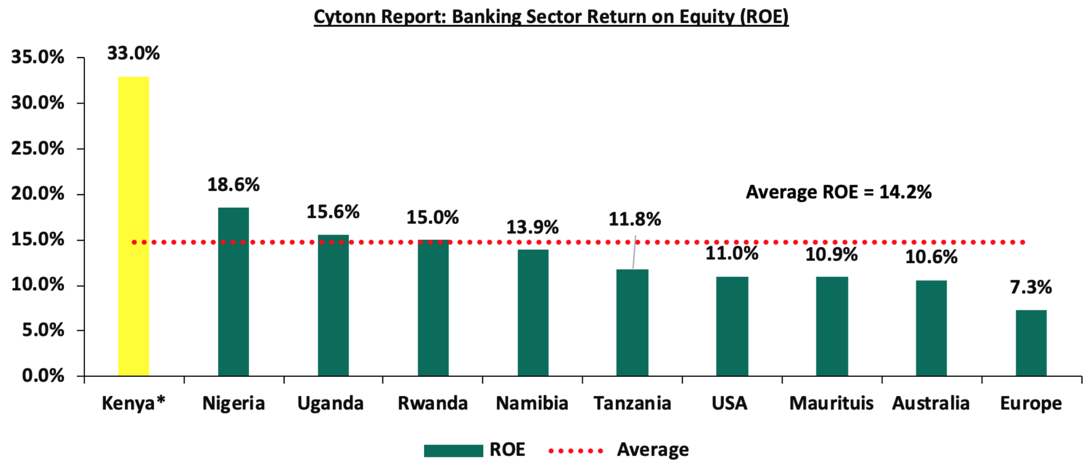
i. Listed banks recorded a 14.3% growth in core Earnings per Share (EPS) in H1'2023, compared to the weighted average growth of 34.0% in H1'2022, an indication of sustained performance despite the tough operating environment experienced in H1'2023 on the back of elevated inflationary pressures. The performance during the period was mainly supported by a 27.9% weighted average growth in non-funded income, coupled with a 21.0% weighted average growth in net interest income,

ii. Listed banks investments in government securities slowed down in H1'2023, having recorded a market weighted average growth of 5.3% compared to a 11.6% growth recorded in H1'2022. The slowed growth of investment in Kenya government securities is partly attributable to the increased perceived risk of default by the government, mainly on the back of high debt sustainability concerns given the current high public debt stock as well as the upcoming Eurobond maturity in June 2024,

iii. The listed banks Net loans and advances to customers recorded a weighted average growth of 20.5% in H1'2023 compared to 17.7% in H1'2023, an indication of increased lending despite the elevated credit risk,

iv. Interest income recorded a weighted average growth of 28.2% in H1'2023, compared to 18.0% in H1'2022. Similarly, interest expenses recorded a market weighted average growth of 44.8% in H1'2023 compared to a growth of 18.6% in H1'2022. As such, net interest income recorded a weighted average growth of 21.0% in H1'2022 compared to 17.7% in H1'2022,

v. The listed banks recorded a 22.9% weighted average growth on return on average equity (RoaE), 1.0% point higher than the 21.9% growth recorded in H1'2022. Additionally, the entire banking sector's Return On Equity (ROE) recorded 3.2% points increase to 33.0% in H1'2023, from 26.8% recorded in H1'2022. As such, the Kenyan banking sector continues to record high profitability compared to other economies in the world, as highlighted in the chart below



*Source: Online research, * Figure as of H1'2023*

Section III: Outlook of the banking sector

The banking sector continued to showcase sustained performance despite the tough operating environment occasioned by elevated inflationary pressures, as evidenced by the increase in their profitability, with the Core Earnings Per Share (EPS) growing by 14.3%, majorly supported by the Non-Funded income as banks continued to implement their revenue diversification strategies. However, in the short to medium term, we expect profitability to be weighed down by the expected increase in provisioning aimed at cushioning banks from the elevated credit risk arising from the deteriorated business environment. As such, we expect the future performance of the banking sector to be mainly supported by the following key factors**:**

I. **Regional Expansion and Further Consolidation:** Consolidation remains a key theme going forward, with the current environment offering opportunities for well-capitalized banks to expand and take advantage of the market's low valuations, as well as further consolidate out smaller and less-capitalized banks. Notably, the majority of the bigger banks have continued to cushion 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 expansion and consolidation, which has largely contributed to their increased asset base as well as earnings growth. As such, we expect to see a continued expansion trend aimed at revenue optimization,
II. **Revenue Diversification:** In H1'2023, non-funded income (NFI) recorded a 27.9% weighted average growth compared to a 24.4% weighted growth in H1'2022, with many banks diversifying their revenue sources. Consequentially, the weighted average contribution of NFI to total operating income came in at 38.9% in H1'2023, 1.8% points higher than the 37.1% weighted average growth contribution recorded in H1'2022. As such, there exists an opportunity for the sector to further increase NFI contributions to revenue given the continuous adoption of digitization, and,
III. **Growth in Interest income:** Going forward, we expect interest income growth to remain a key driver in the banking industry, as evidenced by the weighted average growth of 28.2% in H1'2023, compared to 18.0% recorded in H1'2022. Additionally, 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.

Section IV: **Brief Summary and Ranking of the Listed Banks**

As per our analysis of the banking sector from a franchise value and a future growth opportunity perspective, we carried out a comprehensive ranking of the listed banks. For the franchise value ranking, we included the earnings and growth metrics as well as the operating metrics shown in the table below in order to carry out a comprehensive review of the banks:

Cytonn Report: Listed Banks Earnings, Growth and Operating Metrics

Bank	Loan to Deposit Ratio	Cost to Income (With LLP)	Return on Average Capital Employed	Deposits/ Branch (bn)	Gross NPL Ratio	NPL Coverage	Tangible Common Ratio	Non-Funded Income/Revenue
Absa Bank	95.6%	55.9%	27.7%	3.9	9.5%	69.4%	12.6%	29.7%
NCBA Group	56.6%	60.2%	18.2%	4.8	13.4%	57.8%	12.5%	46.0%
Equity Bank	69.5%	57.6%	29.1%	3.3	11.2%	54.5%	10.5%	44.0%
KCB Group	65.6%	69.3%	19.1%	2.4	17.2%	45.8%	10.4%	37.7%
SCBK	51.3%	53.8%	23.9%	8.9	14.4%	84.8%	14.7%	33.7%
Coop Bank	78.8%	54.1%	22.2%	2.4	14.6%	60.7%	15.5%	39.1%
Stanbic Bank	98.6%	53.5%	18.5%	9.5	11.3%	77.0%	14.4%	42.5%
DTBK	67.3%	68.1%	10.2%	3.1	12.3%	46.4%	12.4%	29.7%
I&M Holdings	75.6%	65.6%	15.0%	6.1	12.7%	49.8%	14.3%	36.1%
HF Group	93.5%	89.0%	4.7%	1.6	23.1%	72.0%	14.2%	30.4%
H1'2023 Weighted Average	**72.4%**	**58.8%**	**22.9%**	**4.6**	**12.9%**	**60.9%**	**12.6%**	**39.1%**

Market cap weighted as at 21/09/2023

The overall ranking was based on a weighted average ranking of Franchise value (accounting for 60.0%) and intrinsic value (accounting for 40.0%). The Intrinsic Valuation is computed through a combination of valuation techniques, with a weighting of 40.0% on Discounted Cash-flow Methods, 35.0% on Residual Income and 25.0% on Relative Valuation, while the Franchise ranking is based on banks operating metrics, meant to assess efficiency, asset quality, diversification, and profitability, among other metrics. The overall Q1’2023 ranking is as shown in the table below:

Cytonn Report: Listed Banks H1’2023 Rankings

Bank	Franchise Value Rank	Intrinsic Value Rank	Weighted Rank Score	H1’2022 Rank	H1’2023 Rank
Absa Bank	3	3	3.0	3	1
I&M Holdings	6	2	3.6	5	2
KCB Group	8	1	3.8	4	3
Coop Bank	2	6	4.4	2	4
Stanbic Bank	1	9	5.8	6	5
Equity Bank	4	7	5.8	1	6
NCBA Group	7	5	5.8	9	7
DTBK	9	4	6.0	8	8
SCBK	5	8	6.8	7	9
HF Group	10	10	10.0	10	10

Major Changes from the H1’2023 Ranking are:

1. ABSA Bank’s rank improved to position 1 in H1’2023 from position 3 in H1’2022, majorly due to strong franchise and intrinsic value score, attributable to improvement in the bank’s management quality, with the cost to income ratio with LLPs declining to 55.9% in H1’2023, from 56.4% in H1’2022. Similarly, the cost to income ratio without LLPs declined by 5.2% points to 37.0% in H1’2023, from 42.3% in H1'2022. Additionally, the bank’s Net Interest Margin increased by 1.4%

points to 9.0% in H1’2023 from 7.6% in H1’2022, and,

2. Equity Group’s rank declined to position 6 in H1’2023, from position 1 in H1’2022, mainly due to a deterioration in the group’s asset quality as the gross NPL ratio rose to 11.2%, from the 8.8% recorded in H1’2022. Additionally, there was a deterioration in operating efficiency, with the cost-to income ratio with LLPs increasing by 4.7% points to 57.6% from 52.9% recorded in H1’2022, while the cost-to ratio without LLPs also increased by 2.3% to 49.0% from 46.7% in H1’2022.

For more information, see our Cytonn H1’2023 Listed Banking Sector Review

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