HOUSING FINANCE| EQUITIES RESEARCH REPORT

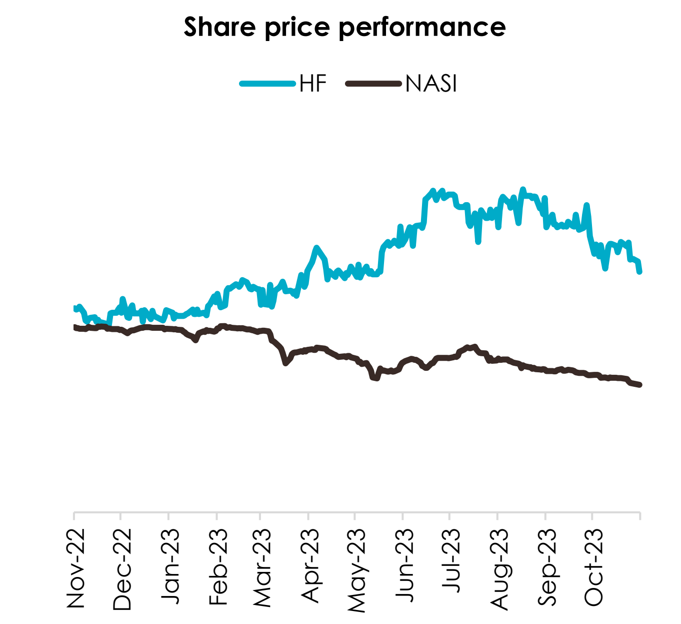
We initiate coverage with a **BUY** recommendation on the counter based on a target price of **KES 5.05**, reflecting an upside of 32.9% from the volume weighted average price of **KES 3.80.**

Our recommendation is based on the resilience of the group's earnings even in the midst of the adverse macroeconomic environment. The bank posted commendable results for the FY22 as well as the half year ended June 2023. We expect HF Group to deliver profitability in FY2023 based on its focus on revenue diversification and digital transformation.

We draw our conclusion from the turnaround strategy implemented, cost management initiatives, and its impact on earnings and profitability in 2022 which is expected to continue into the subsequent years.

In a period where the all share index (NASI) has shed 30.5% on a year-to-date basis, HF Group has recorded a growth of 20.6% in its share price. This demonstrates the resilience of the counter in a period deeply impacted by macroeconomic headwinds.

Share Data	HF Group Plc
Ticker	HFCL KN
RECOMMENDATION	BUY
Current Price (KES)	3.80
Target Price (KES)	5.05
Upside	32.9%
52WK High (KES)	5.20
52WK Low (KES)	2.80
No. of shares issued (Mn)	384.61
Market Cap (KES Bn)	1.46
Free Float	40.0%
EPS (HY'23)	KES 0.95
P/E	*4.0x*
P/B	*0.2x*
Current Price = VWAP as at 31st October 2023	



Source: NSE, NCBA IB Research

INVESTMENT CASE

Profitability Turning the Page: In 2022, HF posted a full year profit of KES 265Mn, from a loss of KES 668Mn in 2021, reflecting the first profit in five years. In HY23, the company posted a profit of KES 181.98Mn

Current price offers an attractive entry point: Current multiples offer attractive entry points for investors. On a trailing basis, Housing Finance is trading at a P/E multiple of 4x against a peer average of 4.7x, a P/B multiple of 0.2x against a peer average of 0.6x.

INVESTMENT RISK

Tough macro-economic operating environment:
The weakness in macroeconomic indicators in the country poses a threat. The exposure to economic risks is expected to transfer to corporate earnings and financial performance.

Kenya Banking Sector Overview

The Banking industry in Kenya is a highly competitive scene characterized by a high number of financial providers. There are 39 commercial banks and 14 deposit taking micro-finance institutions as at December 31, 2022.

The sector is essentially dominated by the larger tier 1 commercial banks. However, we have witnessed smaller banks record tremendous growth in recent years.

More than 10 Kenyan banks—including Equity Bank, Kenya Commercial Bank, NCBA Bank, and Stanbic bank have subsidiaries operating in the East Africa Community which comprises, Kenya, Uganda, Tanzania, Rwanda, Burundi, South Sudan and the DRC.

The table below shows the top banking firms in regard to market share:

No.	Bank	Total Net assets (% of market)
Large Peer Group >5%		
1	KCB Bank Kenya Ltd	14.74%
2	Equity Bank Kenya Ltd	13.57%
3	NCBA Bank Kenya PLC	9.40%
4	Co-operative Bank of Kenya Ltd	8.53%
5	Absa Bank Kenya PLC	7.24%
6	Stanbic Bank Kenya Ltd	5.92%
7	Standard Chartered Bank (K) Ltd	5.79%
8	Diamond Trust Bank Kenya Limited	5.45%
9	I&M Bank Limited	4.79%
Medium Peer group (1-5%)		
	8 members	15.93%
Small Peer group < 1%		
1	Housing Finance	0.84%
2	Other 21 members	7.79%
Total		**100.0%**

Source: CBK Bank supervision report 2022, NCBA IB Research

Key Development in the Kenyan Banking Industry

1. Regulatory environment

The industry will have to brace itself for climate-related financial risk assessment and management as well as environmental, social and governance appraisals by the Central Bank of Kenya, which issued guidance notes on the issue in 2021. This is in line with reporting and disclosures by banks, as part of global sustainable and responsible business practices.

Financial institutions have had to evolve to counter the dynamic nature of money laundering and which this explains why a risk-based approach cannot be over emphasized. Today, Anti Money Laundering (AML) and Countering the Financing of Terrorism (CFT) is a key concern across the sector.

All institutions are required to develop an (Internal Capital Adequacy Assessment Process (ICAAP) policy that ensures that overall internal capital levels are adequate and consistent with their strategies, business plans, risk profiles and operating environments on a going concern basis. CBK will review and evaluate the soundness of institutions' ICAAP as part of its risk based supervisory process through the Supervisory Review and Evaluation Process.

2. Regional Expansion and consolidation through Mergers and Acquisitions.

Kenyan banks are continuously looking at having an extensive regional reach. 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.

3. Revenue Diversification

Revenue streams such as corporate banking, business banking and digital lending are delivering double-digit growth. Banks are investing heavily into new revenue streams including asset management, advisory, custody business and Bancassurance to further scale themselves to fully fledged financial services groups.

4. Digitization

Banks are optimizing on their digital capabilities such as mobile banking, digital-only banking, among other digital strides which will allow for the diversification of their revenue streams. There is a shift from branch-heavy interactions and product-centric organizations to more seamless digital consumer experiences. Traditional banks are exploring technological solutions to keep up with the neo-bank model.

5. Cyber risk and financial crime

The digitization of banking comes with risks associated with cyber-crime. Regulators are now tightening compliance to address the rise of more complex and sophisticated financial crimes. Banks are having to embrace advanced technologies such as analytics and artificial intelligence to address this threat.

HOUSING FINANCE: COMPANY OVERVIEW

HF Group Plc, previously known as Housing Finance, commenced operations in 1965, and has transitioned from being a mortgage financier to a provider of integrated financial solutions with interests in Corporate, Business and Personal banking, Treasury, Trade Finance, and Bancassurance.

The Group has four operational subsidiaries:

- **HFC Limited** - licensed to carry out the business of mortgage finance as well as banking services under the Banking Act.
- **HF Development and Investment Limited** - (formerly known as Kenya Building Society Limited) undertakes property development and investment.
- **HF Bancassurance Intermediary Limited** - provides bancassurance solutions.
- **HF Foundation Limited** - The Group's social investment arm.

HF Group got listed on the Nairobi Securities Exchange (NSE) in 1992 and trades under the ticker HFCK.

Market Performance	YTD	H/H	Q/Q	M/M
HF Group	20.6%	59.4%	(13.2%)	(12.8%)
NASI	(30.5%)	(16%)	(11%)	(7%)

Shareholding Summary:

Major shareholders	No. of shares held	Percentage
Britam Holdings Plc	74,666,146	19.41%
Equity Nominees Limited A/C 00104	48,828,477	12.70%
Britam Life Assurance Company (Kenya) Ltd	61,488,083	15.99%
Permanent Secretary Treasury	9,265,135	2.41%
Kerai, Ramila Harji Mavji & Harji Mavji	7,202,000	1.87%
Musangi Andrew Mukite	6,400,000	1.66%
Mwangi Peter Kingori	6,094,289	1.58%
Bid Management Consultancy Limited	5,298,500	1.38%
Kibuwa Enterprises Limited	5,012,575	1.30%
Others	160,358,963	41.70%
Total	**384,614,168**	**100.00%**

Source: Company financials, NCBA IB Research

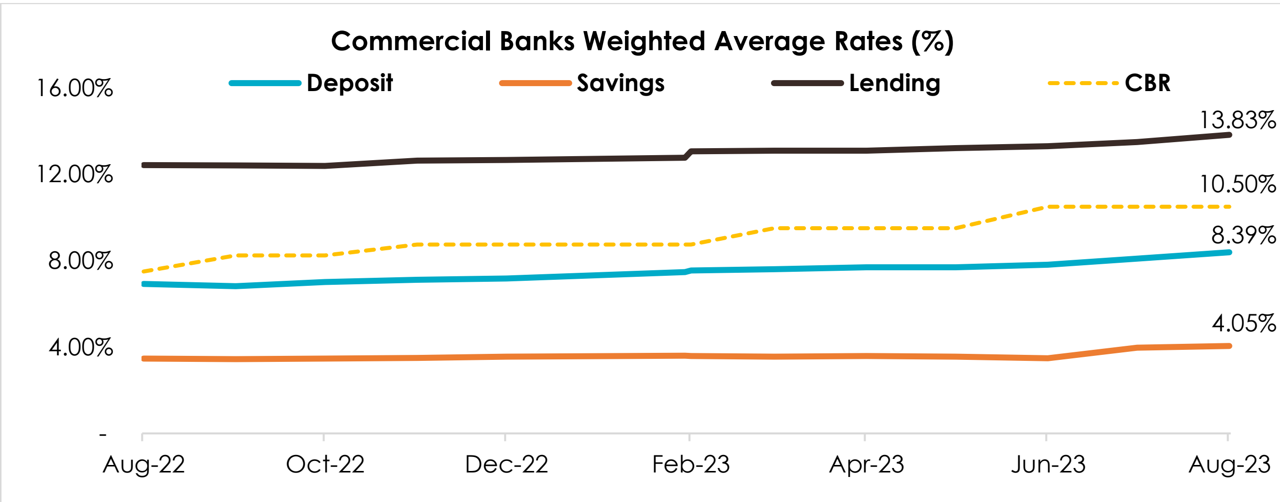
KEY INVESTMENT THEMES

Interest income supported by the rise in lending rates

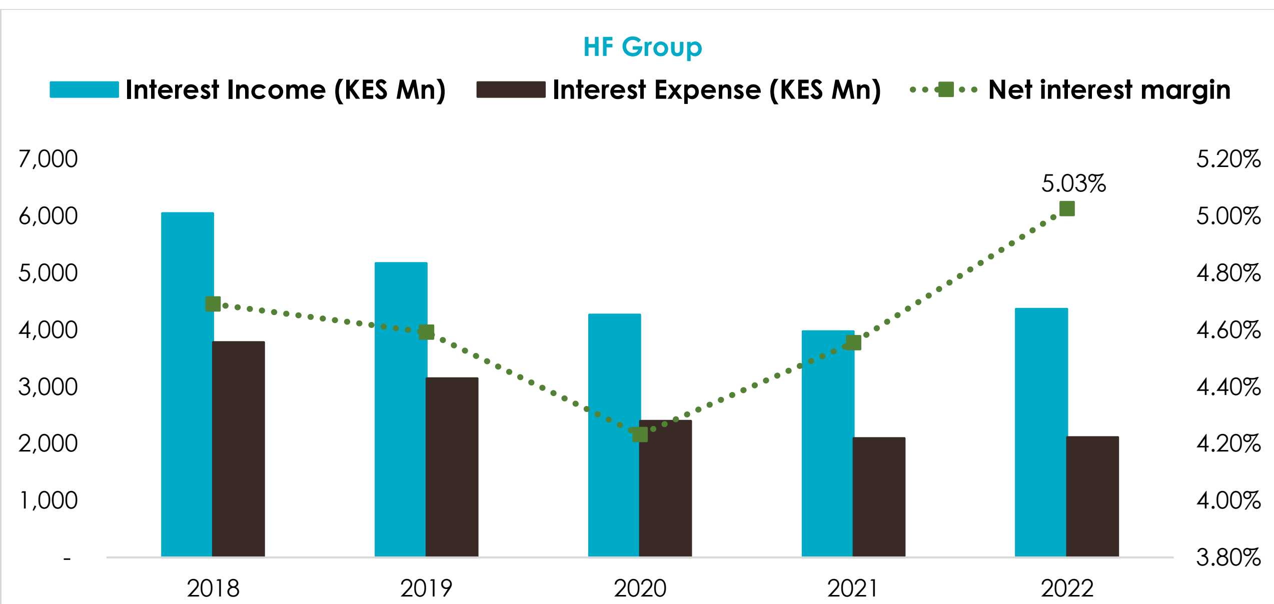
Increase in lending rates by commercial banks following the tightening by major central banks globally has led to increased cost of financing and difficulty in the access of credit.

Locally, the Monetary Policy Committee (MPC) hiked the CBR rate to 10.50% in its June meeting and has maintained the rate at that level in the following meetings citing the necessity to reign in the raging inflationary pressures in light of geopolitical risks and their potential impact on the domestic economy.

Following the CBR hike, commercial banks have increased their base lending rates to an average of 13.83% as at August 2023.



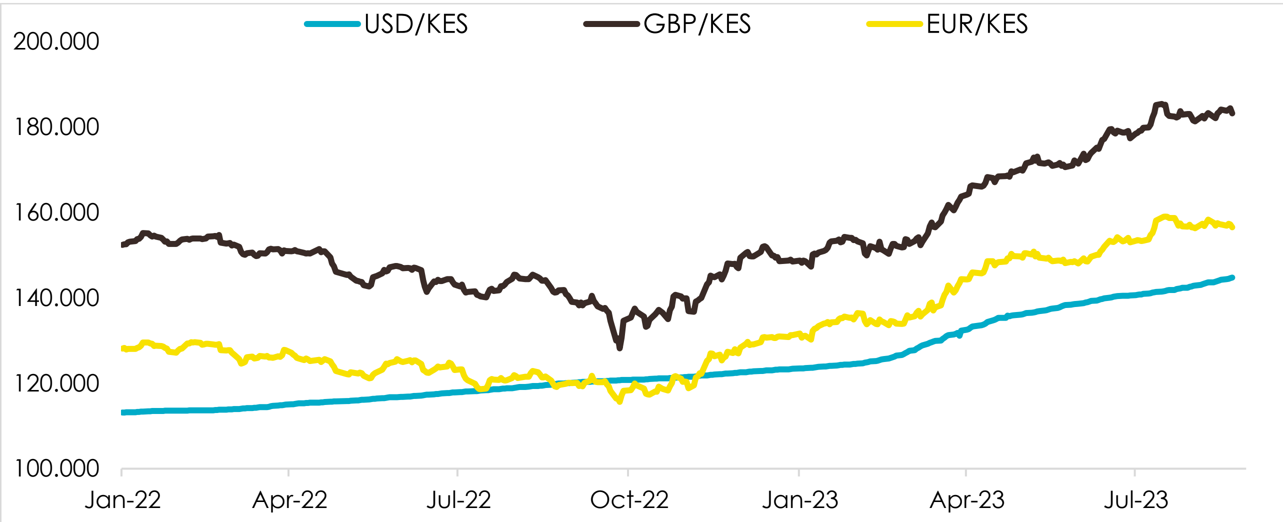
Source: CBK, NCBA IB Research



Source: Company financials, NCBA IB Research

Foreign exchange woes led to a jump in forex income
The US dollar has continued to strengthen against majority of the local regional currencies. The KES has depreciated by approximately 22% year to date and continues on its downward trajectory.

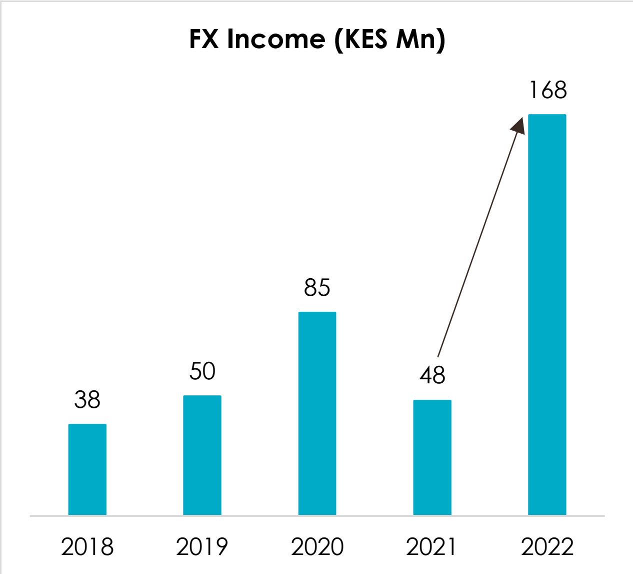
Dollar supply-demand imbalances in the economy are prevalent and sourcing for dollars to make settlements continues to be challenging. This will continue to impact output volumes. We believe the forex volatility will persist and continue impact lenders and the economy.

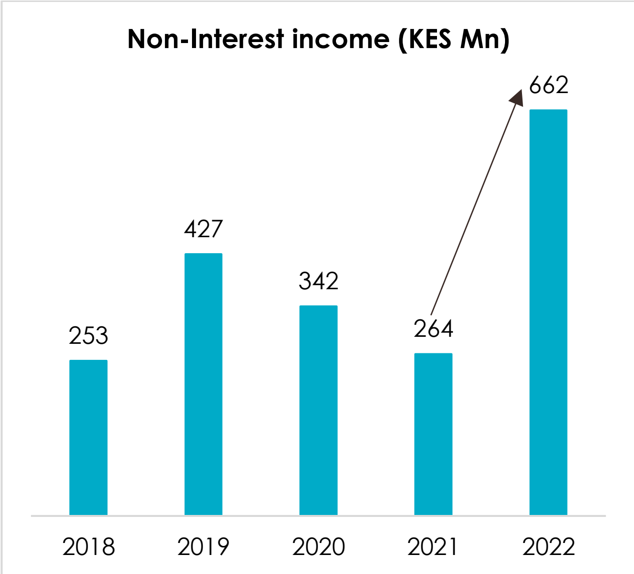


Source: CBK, NCBA IB Research

All banks benefited from the KES depreciation against the USD and HF was no exception. As the US dollar appreciated, the demand for the greenback led to wider spreads in the exchange rate.

This led to growth in FX income from KES 48Mn to KES 138Mn and consequently, an increase in Non-interest income to KES 662Mn. Going forward, we expect both line items to record growth in FY2023.



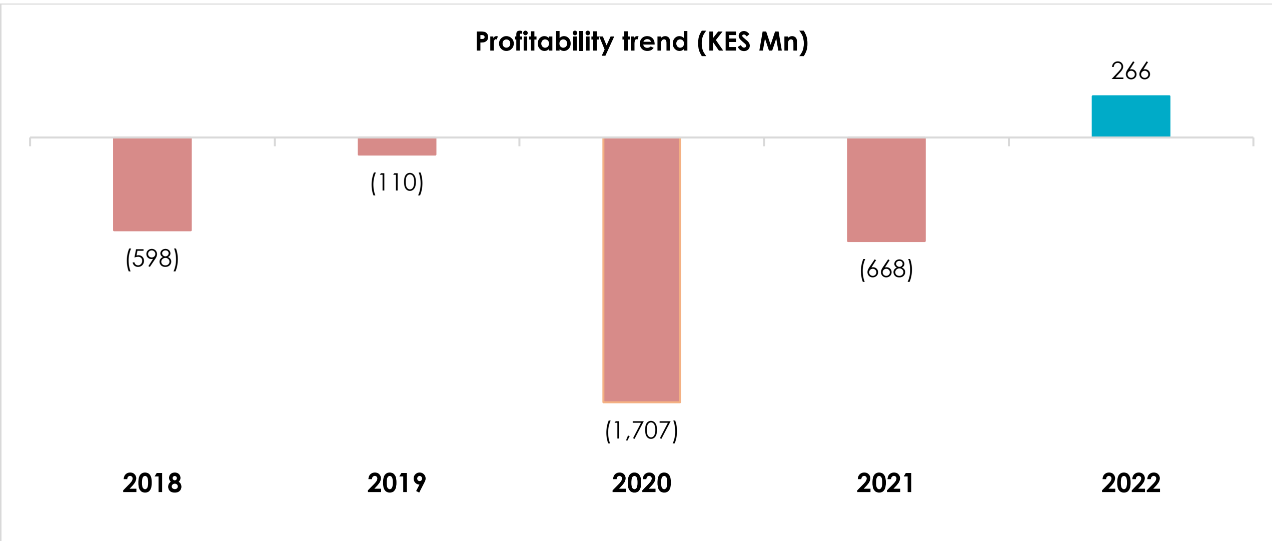


Source: Company financials, NCBA IB Research

Profitability Turning the Page

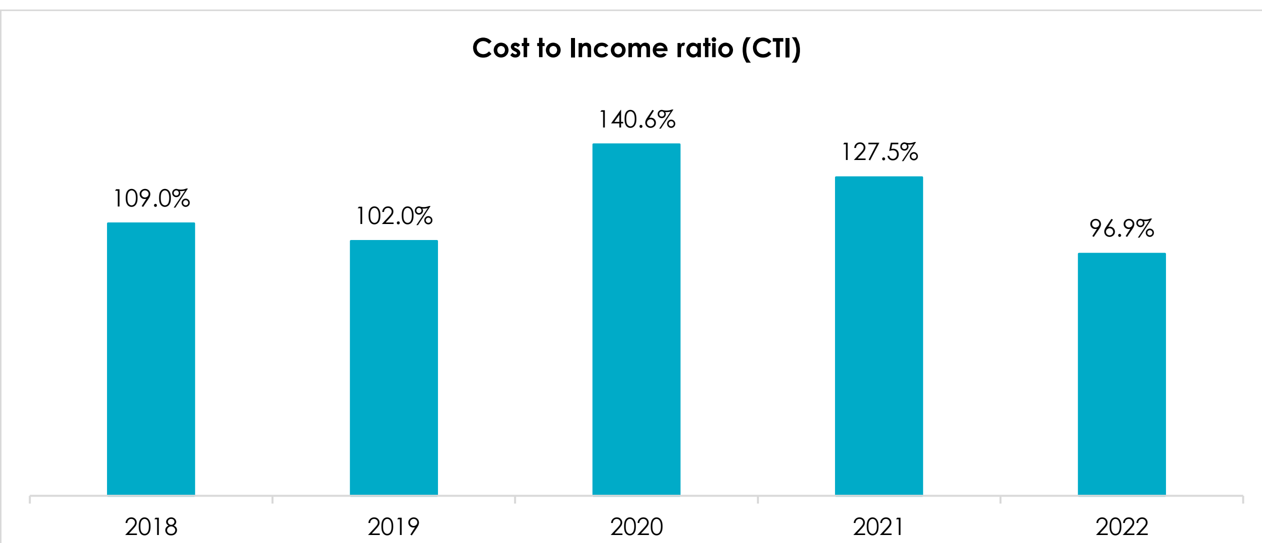
In 2022, the Group posted a full year net profit of KES 265Mn, from a loss of KES 668Mn in 2021, reflecting the first profit in five years. This is attributable to strong growth in both Net Interest Income and Non-interest Income.

Non-interest Income grew faster than Net Interest Income, mainly driven by a surge in FX Income as the bank continues to experience a windfall following the weakening of Kenya Shilling against US dollar amid high demand for the currency. Net Fees and Commission income also rose by 134.74% on account of increased loans and advances to customers.



Source: Company financials, NCBA IB Research

From a cost perspective, the Group has recorded a significant decline in the CTI ratio. The decreasing trend in the CTI ratio from FY2020 to FY2022 is generally positive which indicates that the bank's efforts to reduce its operating costs is successful. This has led to improved profitability.



Source: Company financials, NCBA IB Research

Growth in the Loan Book

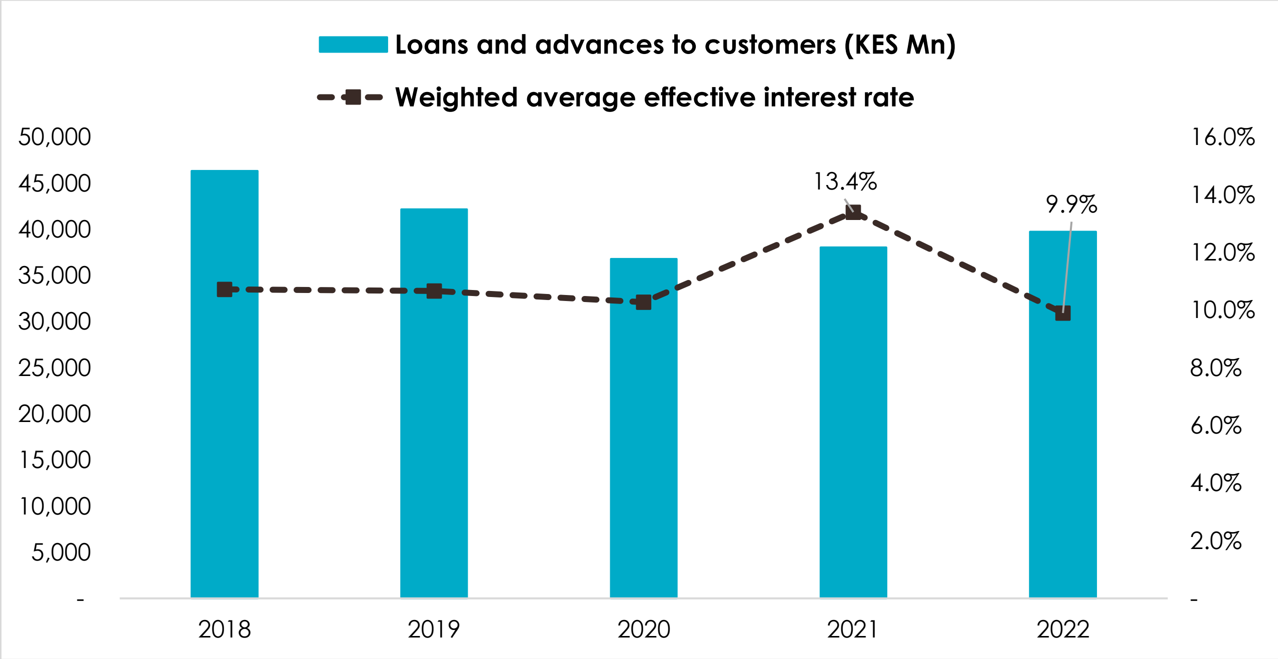
The lender's loan book had experienced significant decline over recent years.

FY20 saw the largest drop of 12.7% primarily driven by adverse macro-economic conditions and reduced credit supply in the real estate sector, which contributed to slow uptake of houses ready for sale thus affecting the niche segment of the lender adversely. This led to a drop in interest income by 17.4% to KES 4.3Bn which was to a large extent responsible for the KES 1.7Bn loss recorded in the year.

In FY21, the loan book saw a slight improvement of 3.4% to KES 38Bn driven by recovery of various sectors of the economy. The effective interest rate recorded was the highest in five years, which may have contributed to the low uptake in loans by the customers. High-interest rates deter borrowers and impact the bank's loan origination.

However, in the previous year (FY22), loans and advances to customers grew by 4.4% to KES 39.7Bn. This growth can be attributed to three key factors;

- **Low-interest rates:** The effective interest rate on HF group loans has remained low with the rate at 9.9% for FY2022. This was lowest interest rate recorded in the industry, which in turn incentivized borrowers and increased loan applications.

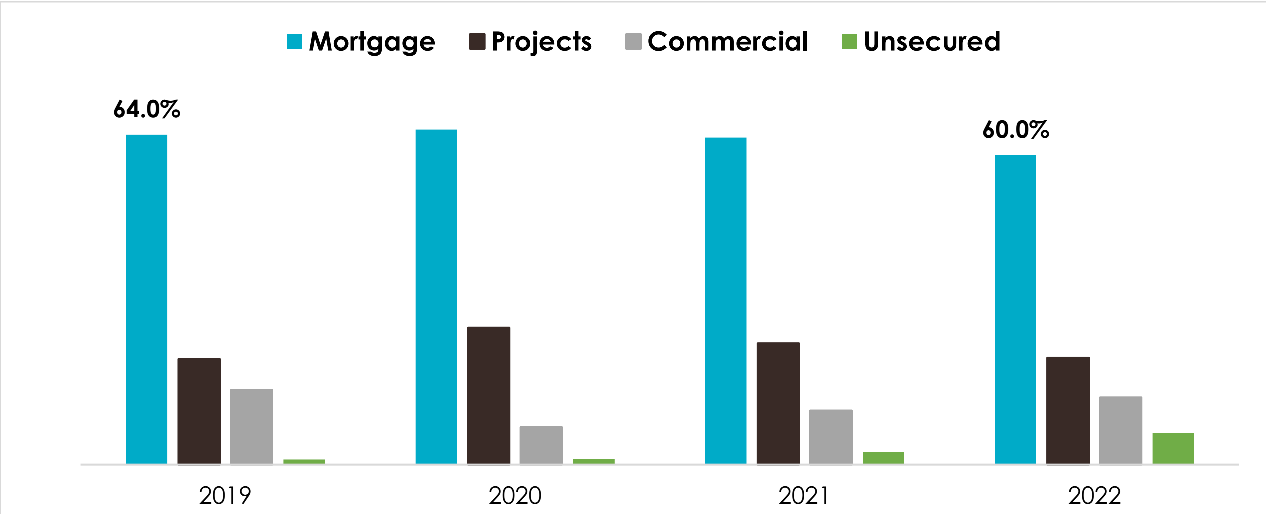


Source: Company financials, NCBA IB Research

- **Digital Transformation:** Investment in digitization with the *HF Whizz App* has streamlined the access to instant loans which has scaled uptake of the unsecured lending product.

  In the previous year, unsecured loans grew by 160% year-on-year. This digital approach likely attracted more customers and contributed to loan growth, driven by increased loan applications underpinned by the ease of access.

- **Product diversification in the Loan book:** We observe a gradual improvement in the loan products with a decline in mortgages which are currently contributing 60% to the loan portfolio. Diversification reduces risk concentration and improves the bank's ability to adapt to changing market conditions.

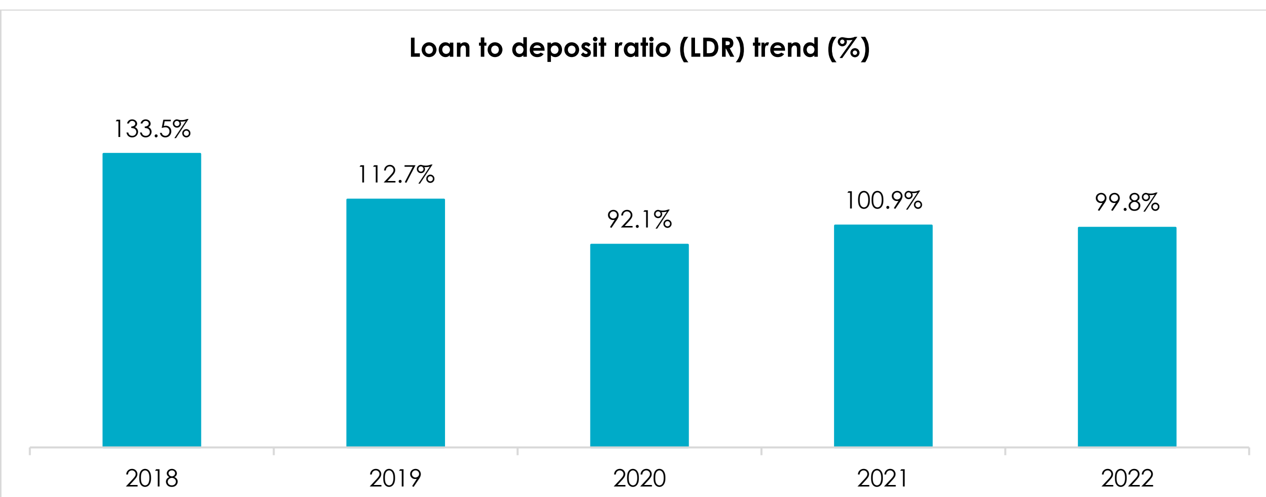


Source: Company financials, NCBA IB Research

Loan to Deposit ratio

The Loan to Deposit ratio (LDR) is a critical metric for assessing a bank's financial health and risk exposure. It is used to assess the proportion of a bank's loans that are funded by its deposits. A high ratio may be indicative of a liquidity risk if the bank has not augmented funding from other sources, such as loans/borrowings.

FY20 recorded the lowest LDR driven by the faster growth in deposits and a decline in loans and advances. This was in line with the adverse macroeconomic conditions mentioned earlier. In FY21 and FY22, approximately 100% of the Bank's deposits were deployed to fund the loan book.



Source: Company financials, NCBA IB Research

Growth in customer deposits

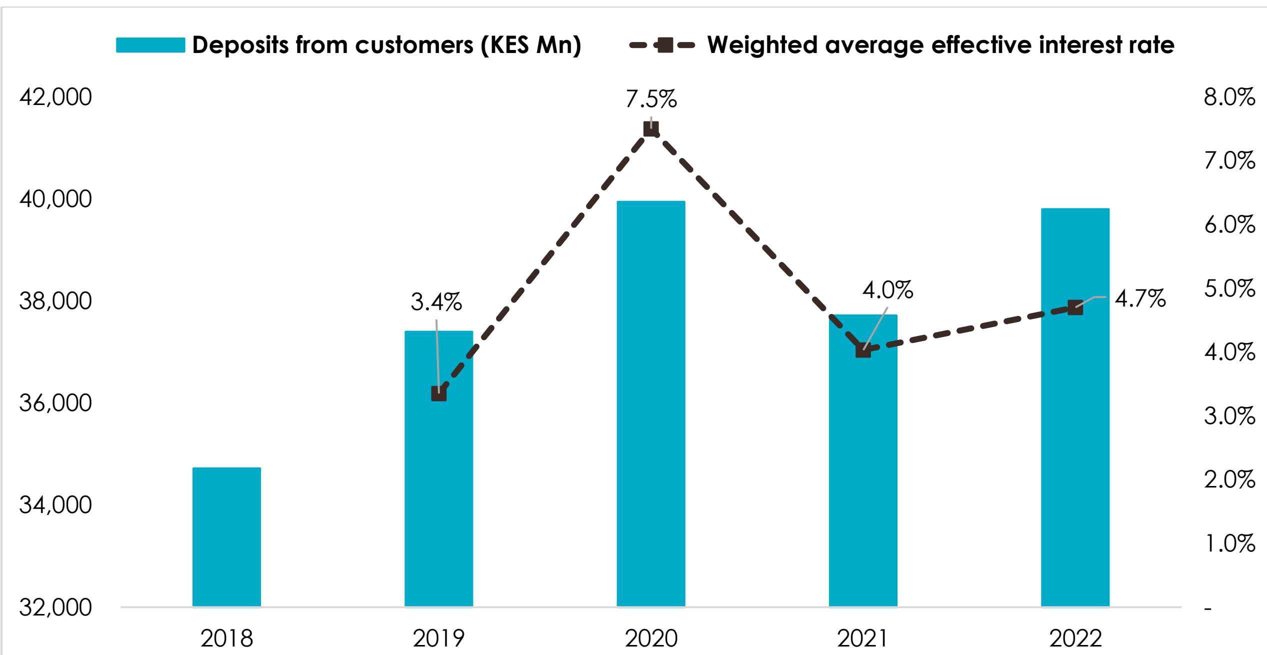
The deposit trends at HF Group have experienced significant fluctuations.

In FY20, Deposits grew by 6.8% to KES 39.9Bn as a result of aggressive retail deposit mobilization. The lender saw a 5.6% decline in deposits to KES 37.7Bn in FY 21as a result of the pandemic induced slowdown in real estate sector, and its impact on the lender's books.

The drop in deposits was also credited to the Group's efforts to offload expensive fixed deposits, leading to a decline in the effective interest rate from 7.5% in FY20 to 4.0% in FY21. This led to a decline in interest expense by 12.7% to KES 2.1Bn.

In the FY22, the lender saw an uptick of 5.5% to KES 39.8Bn in deposits characterized by the steep rise in interest rates. Consequently, the effective interest rate rose to 4.7% form 4.0% recorded in the previous year.

Going forward, we expect to see an increase in deposits driven by higher interest rates.

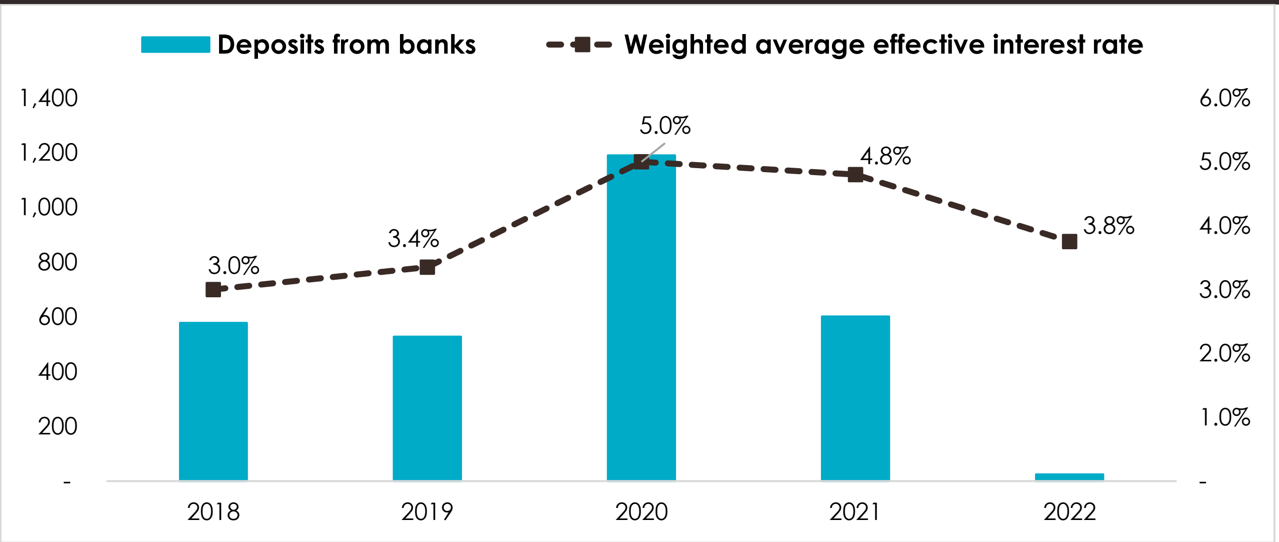


Source: Company financials, NCBA IB Research

Deposits from banks
Deposits from banks have generally been on a downward trend fluctuating over the years as shown in the graph below.

This trend can be attributable to Asset-Liability Management, macro-economic conditions, specific financial and strategic decisions by HF management.

Management was however not available to give a comment on the Financial and Strategic decisions driving the observed performance.



Source: Company financials, NCBA IB Research

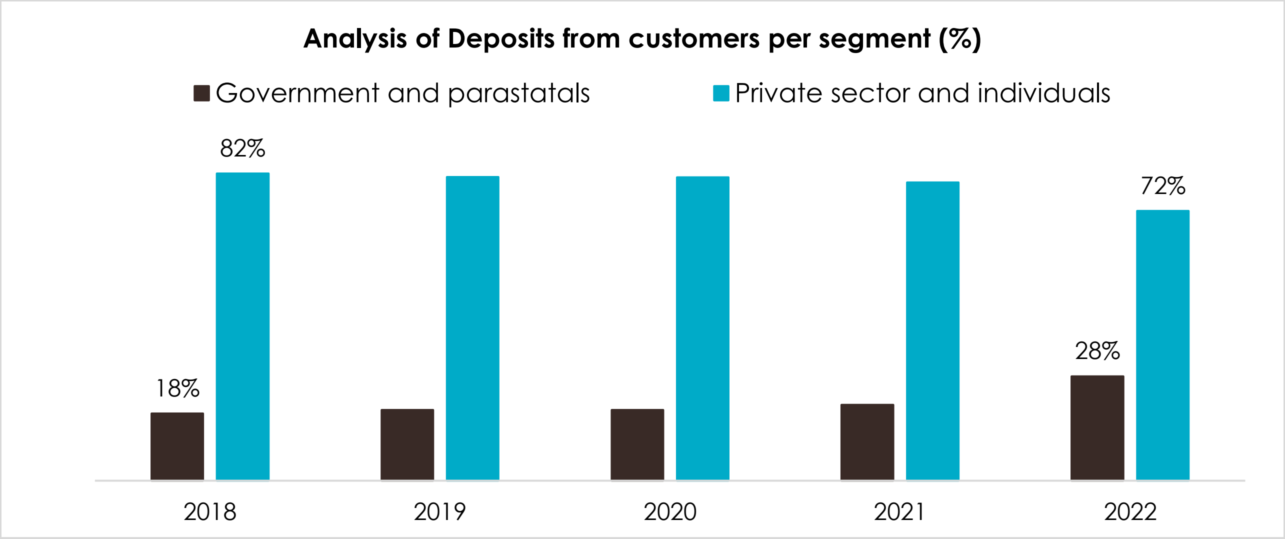
Notably, there was a significant increase in deposits from banks in 2020, and the interest rate on these deposits also peaked in 2020 but decreased in 2021 and 2022. The substantial increase in 2020 suggests the bank took expensive deposits based on its liquidity needs and market conditions.

Customer deposits' composition

A deep dive into the composition of deposits from different customer segments over the past five years reveals the bank's customer base and potential risks.

As shown below, deposits from government and parastatals have been growing from 18% recorded in FY2018 to 28% in FY2022. The increase in deposits from government and parastatals suggests a growing reliance on this customer segment. The lender has attracted more government-related deposits in the latest year.

Conversely, deposits from the private sector and individuals have been on a gradual decline since FY2018, dropping from 82% to 72% in FY2022. This indicates a shift in the bank's customer base.



Source: Company financials, NCBA IB Research

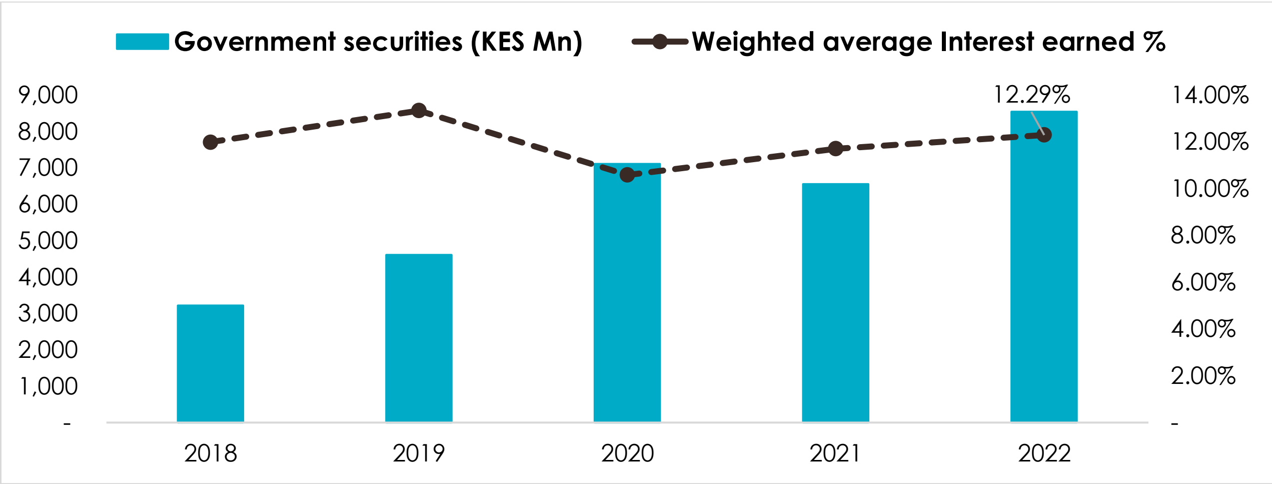
Investment in government securities

The bank has consistently held a significant amount of government securities over the years, growing from KES 3.2Bn in FY 2018 to KES 8.5Bn in FY2022. This indicates a preference for these low-risk investments.

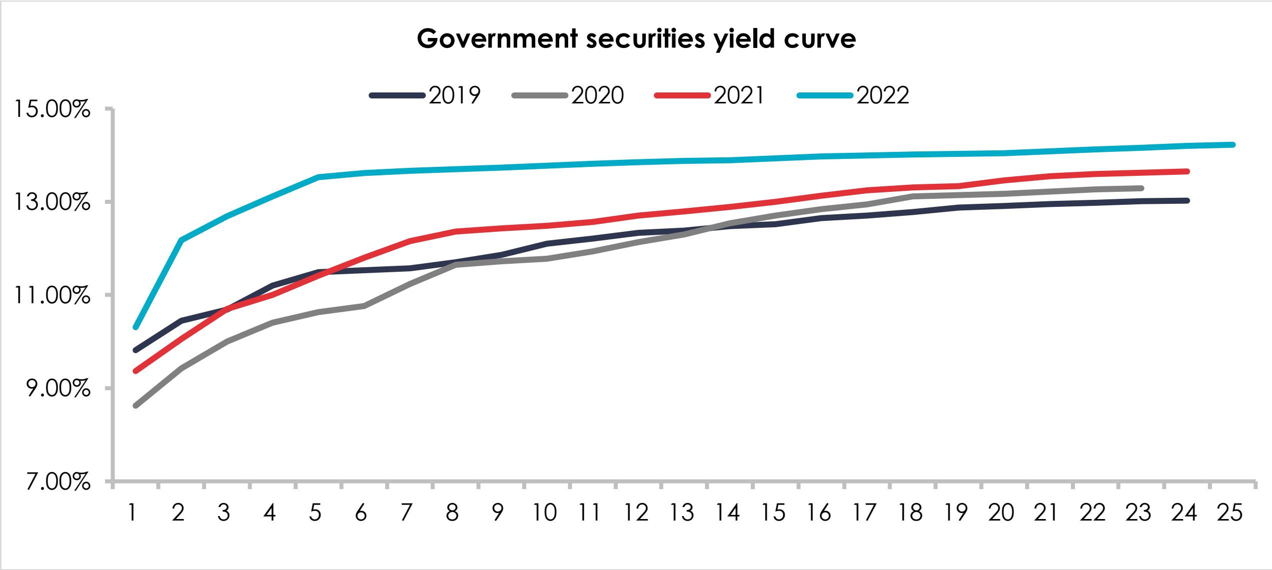
Government securities recorded a significant jump in FY22. The 30.4% year-on-year increase is attributable to the increase in the sovereign's domestic interest rates. Interest rates rose significantly across the yield curve leading to increased attractiveness of the asset class.

The weighted average interest earned from these investments has shown fluctuations, but it has generally remained in the double-digit range which suggests a good balance between risk and return in the bank's investment portfolio.

The increase in government securities holdings in 2022, combined with rising interest rates also contributed to improved returns as witnessed by the return to profitability in that year. On the other hand, this presents a risk of mark to market (MTM) losses. The bank recorded KES 40.37Mn in fair value losses in 2022.



Source: Company financials, NCBA IB Research



INVESTMENT RISKS

Distressed capital position

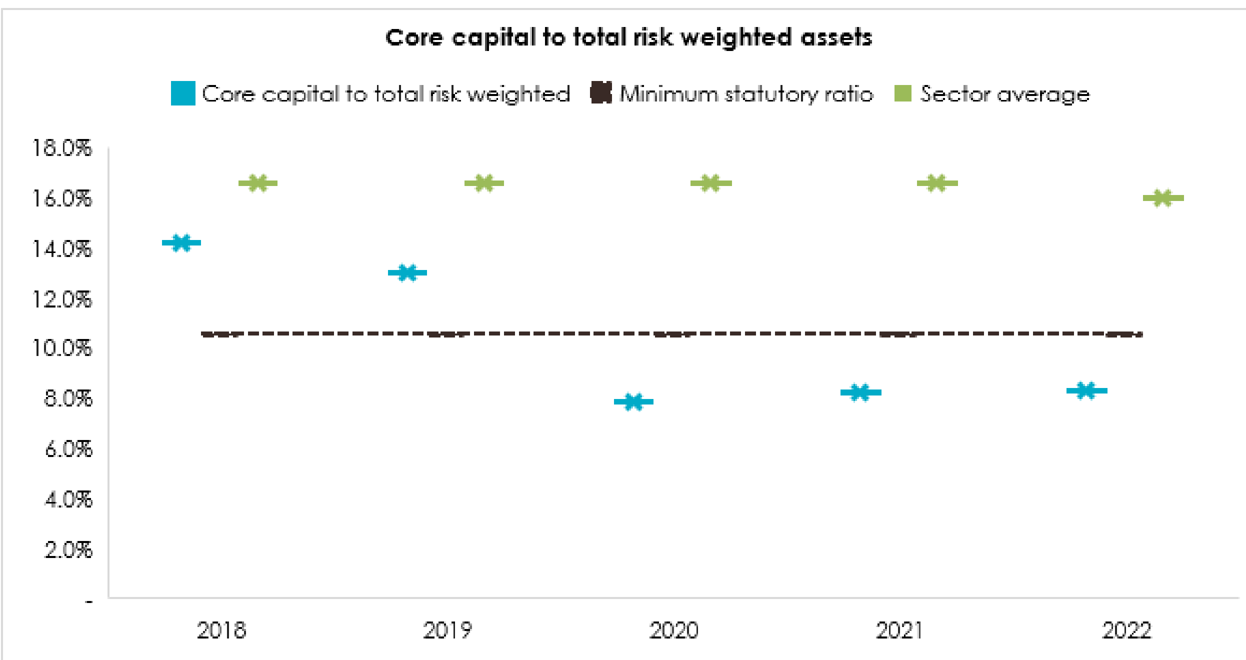
The CBK Prudential and Risk Management Guidelines, which came into force in 2013, requires banks to adhere to the prescribed capital adequacy ratios. The current minimum regulatory capital adequacy ratios for Core Capital and Total Capital to Total Risk Weighted Assets are 10.5%, and 14.5% respectively.

HF Group continues to be in breach of the minimum regulatory capital ratios. The core capital to total risk weighted assets ratio at 31 December 2022 was 8.30%. Therefore the Banking subsidiary was not able to achieve the minimum ratio of 10.50% stipulated by the CBK.

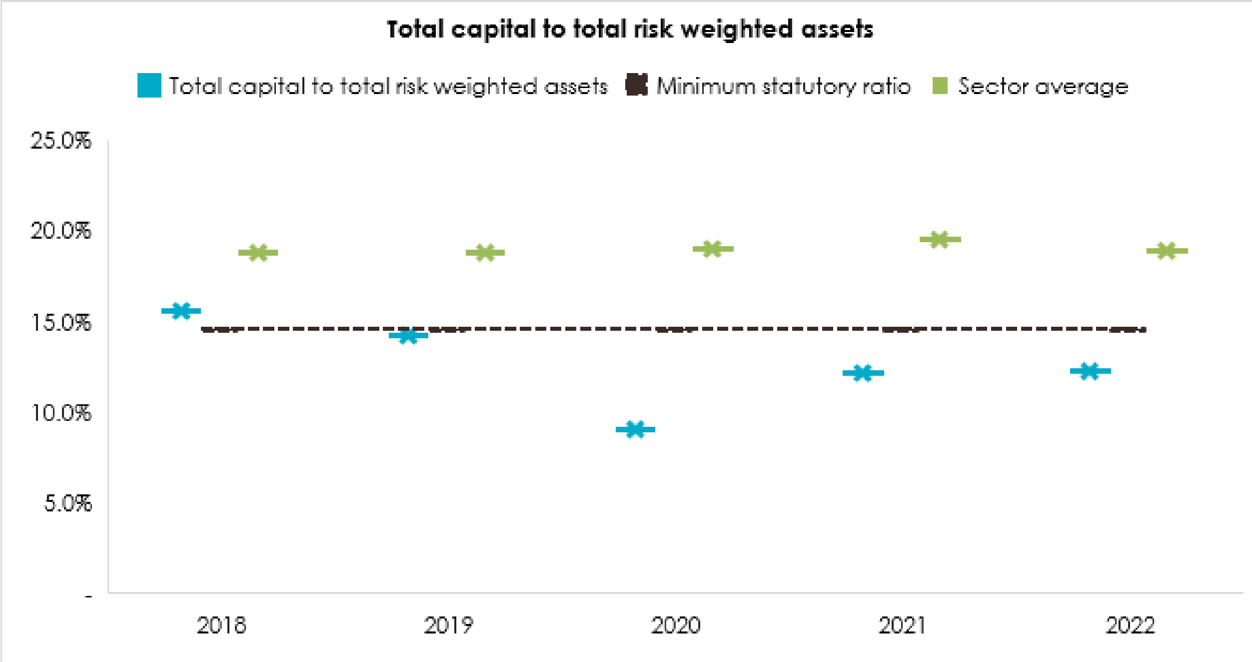
This shows that the bank's core capital, which is typically the most stable and essential component of a bank's capital, is insufficient to cover its risk-weighted assets.

Total capital includes both core capital and supplementary capital. The total capital to total risk weighted assets was 12.20% which is below the minimum statutory ratio of 14.50%.

HF Group has been in breach of both core capital and total capital statutory requirements for the last three years as shown in the graphs below:



Source: Company financials, NCBA IB Research



Source: Company financials, NCBA IB Research

The fact that HF Group continues to be in breach of the minimum regulatory capital ratios is a matter of concern.

Breaching minimum regulatory capital ratios has serious implications for a bank. When capital ratios are consistently below the minimum, it raises concerns about the bank's financial health and its ability to withstand adverse economic conditions.

For its lenders, the bank has been in breach of its loan covenants and has had to obtain waivers.

For Investors, it limits the bank's ability to take on new business, expand its operations, and distribute dividends to shareholders.

To address this issue, HF Group sought to raise additional capital with the latest being an injection of KES 1Bn from Britam, its principal shareholder. . The structure of the capital injection was not disclosed to us. The Group has also engaged the regulator (CBK) on the regulatory breaches and the actions it is taking, such as NPL recovery efforts, to regularize the position.

Basel III adoption: The Central Bank of Kenya has not implemented several recommendations of the Basel III including contingency capital ratios, net stable funding ratio and guidelines on SIB (systematically important banks). The main change in relation to Basel III that was done in 2013 is the inclusion of a capital conservation buffer of 2.5 % which is included in the current minimum capital adequacy ratios.

The full implementation of the Basel III framework would lead to an increase in the minimum capital adequacy ratios, thus presenting a compliance challenge for HF.

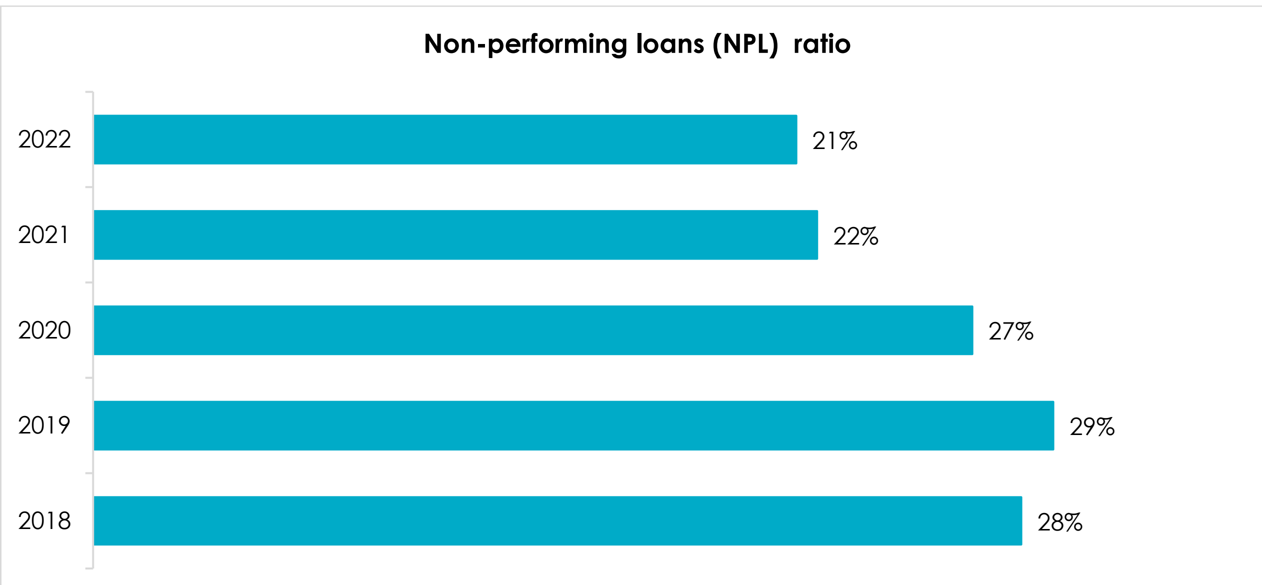
Worsening Asset quality

The Non-Performing Loans (NPL) ratio is a critical indicator of a bank's asset quality and its ability to manage credit risk. A declining NPL ratio generally indicates an improvement in a bank's loan portfolio.

HF group's non-performing loan book is predominantly occasioned by the slowdown in real estate over the years. The business environment has been challenging especially in 2020 mainly due to the unfavorable macroeconomic factors which led to the slow uptake of houses ready for sale.

In 2022, the lender's NPL ratio remained largely unchanged from 2021 at 21%, in light of increasing credit risk occasioned by the unfavorable macroeconomic environment.

The NPL ratio for HF Group has shown a significant reduction over the years, which is a positive trend. However, it's important to note that the NPL ratio for HF Group still remains higher than the banking industry average of 14%.



Source: Company financials, NCBA IB Research

A higher NPL ratio than the industry average can be a concern as it indicates that HF Group has a higher level of credit risk and potentially more challenging loan recovery issues.

High NPL ratios can also affect the bank's profitability, as it may need to allocate more resources for provisions and write-offs.

The Group continues to make significant progress in the recovery of non-performing loans and concerted efforts have been put on the NPL recovery efforts. The target is to resolve the entire legacy non-performing loans (KES 10Bn) over a 5-year period.

As the Bank continues to achieve progress in resolving non-performing loans (NPLs) and achieving revenue growth, we are optimistic that the business turnaround will be sustained.

Liquidity ratio and the threat of liquidity risk

Liquidity held by the bank depicts its ability to fund increase in assets and meet its obligations as they fall due. Liquidity risk is the risk that the bank will not be able to meet its financial obligations as they fall due. Liquidity is one of the important financial stability indicators.

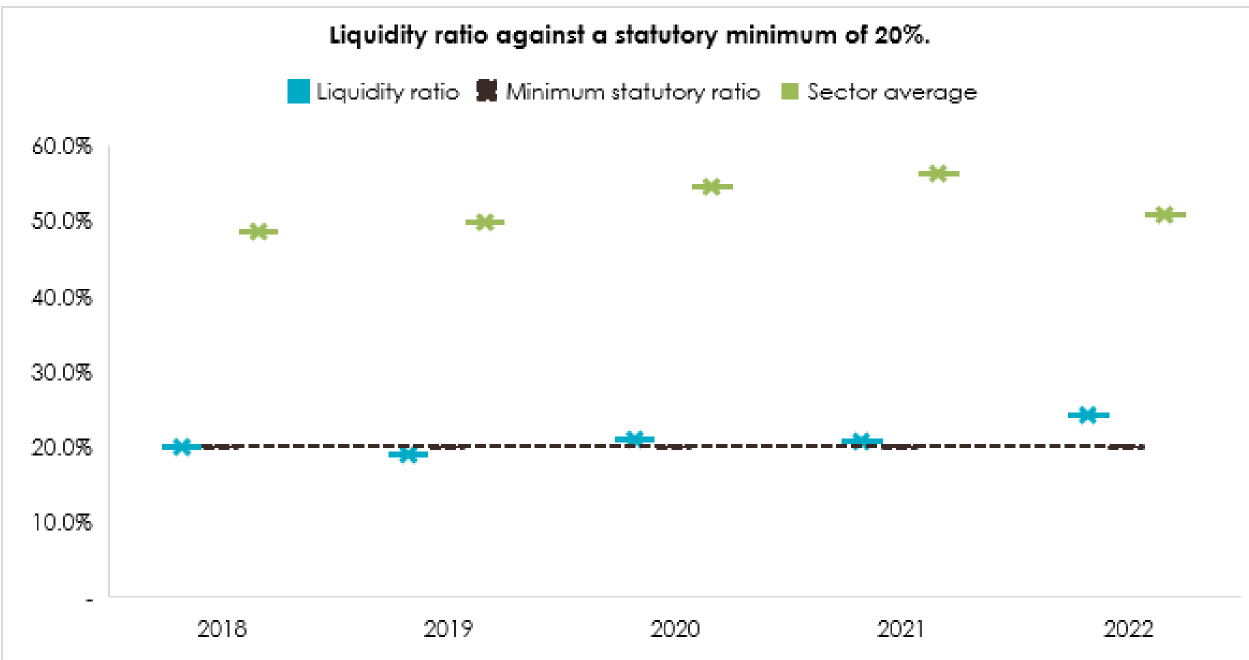
The measure used for managing liquidity risk is the ratio of net liquid assets to deposits from customers. The minimum statutory ratio set by the regulator is 20%.

Notably, HF Group's liquidity ratio, has generally remained close to or just slightly above the minimum statutory requirement over the years.

The liquidity ratio closed at 24.1% as at end of the year 2022 an improvement from 20.8% recorded in previous year. The increase in the liquidity ratio in 2022 was due to changes in the bank's deposit trends with an uptick in deposits from government and parastatals in the year as discussed earlier.

The bank’s liquidity ratio of 24.1% remains below the average liquidity ratio of 50.8% for the bank sector.

The graph below shows the liquidity ratios for the past five years:



Source: Company financials, NCBA IB Research

Going forward, ongoing monitoring and prudent liquidity management practices are essential to ensure that the bank maintains an appropriate liquidity position.

Management was however not available to give a comment on the Financial and Strategic decisions driving the observed performance, nor strategic interventions for the future.

HY 2023 Financial performance and Outlook

- **Earnings:** Operating income grew by 19.6% to KES 1.82Bn driven by 18.5% growth in interest income, to KES 2.46Bn driven by 28% increase in interest from government securities to KES 558.14Mn coupled with a 15.7% increase in interest from loans and advances to KES 1.89Bn. Non-interest income grew by 10.1% to KES 548.13Mn. This was largely attributable to fees and commission income that grew by 51.1% to KES 228.49Mn.

- **Loan book**: The bank's loans and advances to customers grew by 9.1% to KES 38.06Bn faster than the 4% growth in deposits to KES 40.68Bn. The loan to deposit ratio rose to 93.5% from 89.2% in previous financial period indicating that the bank leveraged more on deposits to fund its loans and advances to customers.

- **Customer deposits** increased by 4% to KES 40.68Bn supported by growth in the various business segments driven by the lender's deposits mobilization initiatives and supported by its internet and mobile banking channels.

- **Government securities** increased by 6.3% to KES 9.80Bn with an aim to leverage on the higher interest rates as observed with the 28% growth in interest income earned from investment in government securities.

- **Efficiency:** Cost to income ratio including provisions saw a drop to 89% from 96% recorded in 2022. Cost to income ratio excluding provisions saw a decline to 80% from 89%, driven by the cost optimization operating model adopted by the lender, which has notably reduced the lender's structural costs and supported reinvestments for growth.

- **Asset Quality:** Gross NPLs increased by 26.6% to KES 10.54Bn while loan loss provisions shot up substantially by 55.3% to KES 159Mn from KES 102Mn the previous year. This was largely attributable to NPLs in real estate sector, the lender's main business driver. The NPL ratio stands at 21.7% higher than the industry average of 13.90% – reflective of increased credit risk.

2023 Outlook

We expect Housing Finance to record steady growth boosted by:

1. **Revenue Diversification:** Revenue streams such as commercial banking and business banking which recorded a 3% increase in the previous year, should further scale the company towards a being a fully-fledged financial services group.

2. **Loans growth:** The lender's key focus on its established products, namely mortgages, will continue to record material year-on-year growth, especially with the implementation of the government affordable housing agenda.

3. **Digital transformation:** The Fintech/digital capabilities of the Group continued to be strengthened by the successful rollout of the *HF Whizz app* which allows customers to make bill payments as well as get instant loans anytime, anywhere. This will increase the bank's transactional volumes and income.

Valuation and Investment Recommendation

From our estimates and assumptions based on 5-year financial forecasts, we completed a comprehensive analysis to arrive at our fair value of the stock.

We arrived at a target price of **KES 5.05**, which implies a significant upside potential which reiterates our **BUY** recommendation. The target price implies an upside of 32.9% to the current trading price of KES 3.80 as of 31st October 2023.

We have used four valuation methodologies to arrive at our fair value estimate:

1. Residual Income
2. Price to Book Valuation
3. Price to earnings Valuation

Assumptions

- Risk free rate of 15% based on the 10-year Treasury bond yields.
- Tax rate of 30%
- Country risk premium of 9.9% based on NYU Stern Country Risk Premium – Kenya.
- Adjusted Beta of 0.58 on stock's relative volatility on the index.
- Long term growth rate of 5% based on average GDP forecast.

Valuation Methodology	Implied Price	Weighting	Weighted Value
Residual Income Approach	7.4	40%	2.97
P/B Approach	4.2	30%	1.26
P/E Approach	2.8	30%	0.83
Fair Value		**100%**	**5.05**
Current Price (at 31.10.2023)			**3.80**
Upside/(Downside)			32.9%

Investment recommendation:

Going forward the bank will leverage on digitization to scale up retail business. The lender will continue to focus on executing its strategy to build a consumer banking business that is digitally enabled to drive reach and invest in areas of competitive strength.

The stock presents an opportunity for long-term investors to earn **capital gains**. We expect HF Group to deliver profitability in 2023 based on its focus on revenue diversification, cost rationalization and digital transformation.

APPENDIX: Historical Financial Statements (KES Mn)

	2018	2019	2020	2021	2022
Interest Income					
Interest Income from Loans and Advances to Customers	5,662	4,729	3,669	3,238	3,325
Interest Income from deposits with banks	-	-	-	22	11
Interest Income from Financial assets at amortized cost	195	19	41	-	317
Interest Income from Financial assets at FVOCI	189	419	555	664	621
Other Interest Income	-	-	-	52	91
Total Interest Income	**6,046**	**5,167**	**4,266**	**3,975**	**4,364**
Interest Expense					
Interest Expense - Deposits due to banks	(127)	(99)	(154)	(1,520)	(77)
Interest Expense - Deposits from customers	(2,173)	(1,682)	(1,799)	(168)	(1,578)
Interest Expense - Repurchase agreement with CBK	-	-	-	-	(82)
Interest Expense - Borrowings	(1,480)	(1,304)	(379)	(336)	(349)
Interest Expense - Lease liabilities	-	(64)	(66)	(72)	(25)
Total Interest Expense	**(3,780)**	**(3,149)**	**(2,399)**	**(2,095)**	**(2,110)**
Net Interest Income	**2,266**	**2,018**	**1,866**	**1,880**	**2,254**
Allowance for expected losses	(448)	(299)	(405)	(281)	(194)
Net Interest Income after provision for credit losses	**1,818**	**1,719**	**1,461**	**1,599**	**2,060**
Non-Interest Income					
Net trading income	253	427	342	264	662
Other operating Income	1,066	926	170	222	294
Total Non-interest income	**1,319**	**1,353**	**512**	**486**	**955**
Net Operating Income	**3,137**	**3,072**	**1,974**	**2,085**	**3,015**
Operating Expenses					
Employee benefits	(1,227)	(1,078)	(1,227)	(1,183)	(1,330)
Depreciation and amortization	(381)	(458)	(500)	(445)	(364)
Other operating expenses	(2,172)	(1,674)	(2,022)	(1,423)	(1,130)
Total Operating Expenses	**(3,780)**	**(3,210)**	**(3,750)**	**(3,051)**	**(2,825)**
Profit before Income Tax	**(643)**	**(138)**	**(1,776)**	**(965)**	**190**
Income tax charge /credit	45	28	69	297	75
Profit for the year	**(598)**	**(110)**	**(1,707)**	**(668)**	**266**

Source: Company financials, NCBA IB Research

APPENDIX: Historical Financial Statements (KES Mn)

	2018	2019	2020	2021	2022
Fixed Assets					
Property and equipment	1,345	1,218	1,238	1,134	579
Intangible assets	1,008	864	703	520	333
Right-of-use asset	-	635	543	456	493
investment properties	734	1,257	1,660	1,699	1,849
Investment in property fund	-	788	324	380	380
Total Fixed assets	**3,087**	**4,762**	**4,468**	**4,189**	**3,634**
Government securities					
Government securities - Amortized Cost	516	629	1,942	1,825	3,779
Government securities - FVOCI	2,696	3,974	5,164	4,725	4,761
Total Government securities	**3,212**	**4,603**	**7,106**	**6,550**	**8,540**
Loans and Advances					
Gross Loans and advances to customers	46,351	42,159	36,797	38,049	39,731
Loan Loss Reserve	(3,165)	(3,607)	-	(3,357)	(3,432)
Net Loans and Advances to Customers	**43,186**	**38,552**	**36,797**	**34,693**	**36,299**
Loans and advances to banks	253	228	202	-	-
Net Loans Aggregate	**43,440**	**38,780**	**36,998**	**34,693**	**36,299**
Cash and balances with banks					
Cash and balances with banks	2,917	2,982	2,284	2,708	2,185
Placement with other banks	1,905	804	202	33	12
Cash and balances	**4,822**	**3,786**	**2,487**	**2,741**	**2,197**
Other Assets	6,028	4,524	4,723	4,992	6,281
Total Assets	**60,588**	**56,455**	**55,782**	**53,166**	**56,951**
Liabilities					
Deposits - Customers	34,721	37,400	39,944	37,715	39,797
Deposits - banks	578	528	1,190	602	24
Borrowings	10,417	5,804	3,628	4,298	4,318
other liabilities	4,552	2,531	2,121	2,320	4,087
Total liabilities	**50,268**	**46,263**	**46,883**	**44,935**	**48,226**
Total equity	10,320	10,191	8,899	8,231	8,725
Total liabilities and equity	**60,588**	**56,455**	**55,782**	**53,166**	**56,951**

Source: Company Financials, NCBA IB Research

About NCBA Investment Bank

NCBA Investment Bank is a subsidiary of NCBA Group. The services offered by the brokerage department include equities trading for listed securities, fixed income trading for both corporate and government bonds, Over the Counter (OTC) equity transactions as well as execution of equities transactions across the East African countries. Additionally, NCBA Investment Bank backs these activities with solid advice from the research team to enable investors meet their return objectives. NCBA Investment Bank deploys simple and convenient client driven technologies, robust risk management, highly competent and experienced staff and has the backing of robust research capabilities to differentiate itself from other players in the market.

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Certification

The following analyst(s) who prepared this research report: Victoria Mututu hereby certify that: (i) all of the views and opinions expressed in this research report accurately reflect the research analyst's(s') personal views about the subject investment(s) and companies (y) and (ii) no part of the analyst's(s') compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research report.

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