NatBank
Trustee and Investment Services LTD

National Bank
A Subsidiary of KCB Group PLC

Annual Market Review - 2021

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Message from the Principal Officer's Desk

Happy New Year to you all.

At the outset, I wish to pass my appreciation for your unwavering business support during the year 2021 albeit the rather challenging environment characterized by disruptions relating to the COVID-19 pandemic. The above notwithstanding, the firm maintained its positive momentum delivering positive performance best manifested by the accelerated growth in funds/assets under management. As at end of 2021, ''NTISL'' or ''Natbank'' as it is popularly known had slightly over Kshs 2.9 billion in funds under management mobilized through our investment services and registered products serving over 400 clients and slightly over Kshs 27 billion of funds under our corporate trustee services business. The bulk of these funds are invested in the stock market, money markets and government securities such as treasury bonds.

At NTISL, we take pride in our client centric investment approach that is tailored on achieving client's needs and objectives and by offering competitive returns through prudent and structured risk management processes.

Looking into 2022, our primary objective will be realigning ourselves towards offering an unparalleled investment proposition to all our clients underpinned by superior customer experience. We intend to dedicate our resources to enriching our range of investment products to make them attractive and accessible to both existing and potential investors. Of priority, we intend to launch the Natbank Unit Trust products consisting of an equity fund, balanced fund, fixed income fund and money market fund to both internal clients and the larger public in order to attract new customers to the brand.

To support our growth strategy, we have assembled a team of talented personnel who will be available to provide the relevant professional advice when called upon. The rollout of our improved ICT platform will significantly serve to enhance our service delivery and customer experience in line with the Group's digital leader and digital to the core agenda.

We therefore look forward to partnering with all staff and clients in your pursuit to achieve your financial and investment objectives. For any inquiries on our offerings do not hesitate to contact any of our representatives on email: NTISLstaff@nationalbank.co.ke or telephone: +254 (20) 282800 or our website: https://www.nationalbank.co.ke/home-ntisl

Once again, I take this opportunity to thank you for your business partnership and wish you all a prosperous 2022.

Yours sincerely,

Victor D. Odendo

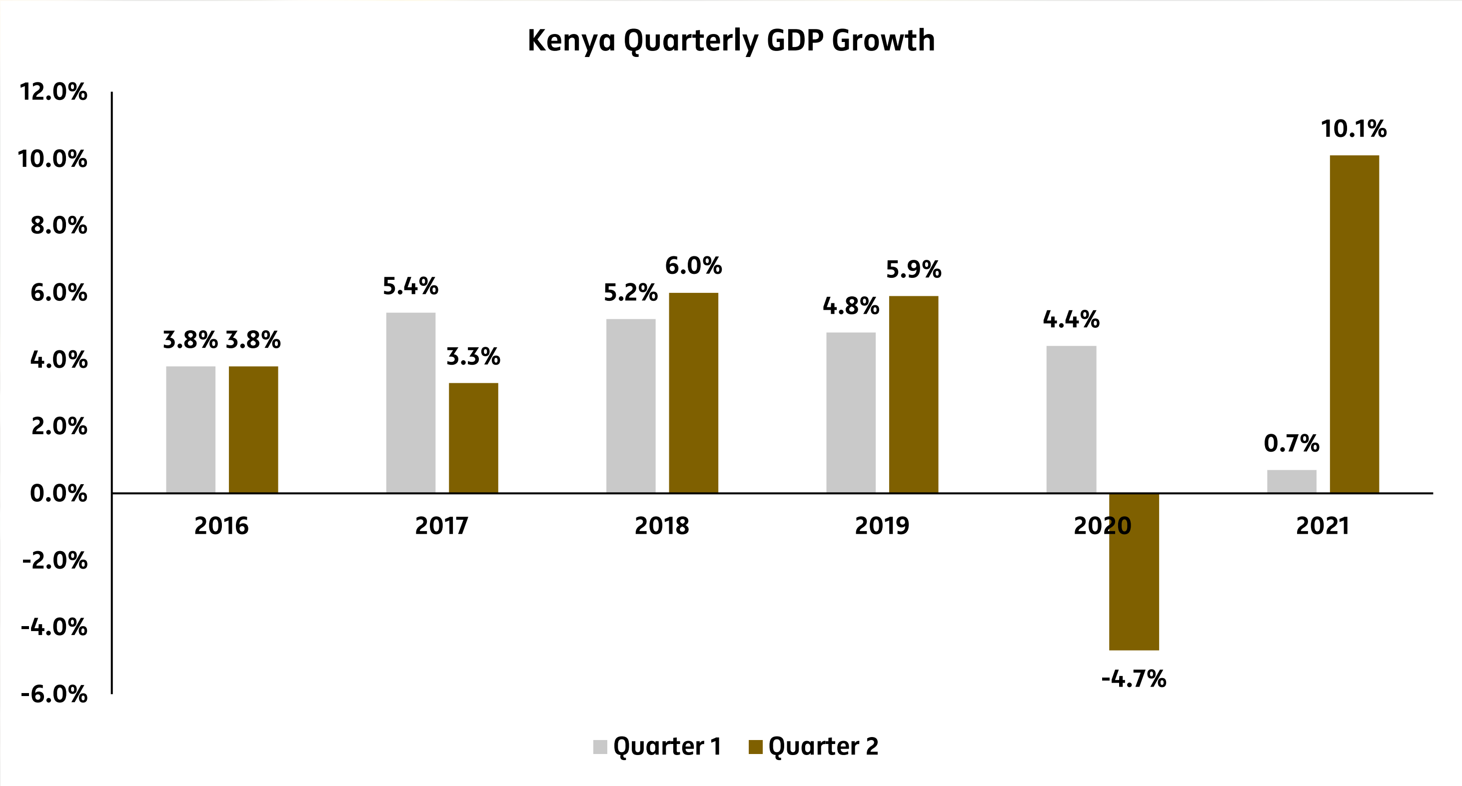
Principal Officer

Natbank Trustees and Investment Services Limited

MACROECONOMIC HIGHLIGHTS

ECONOMIC GROWTH:

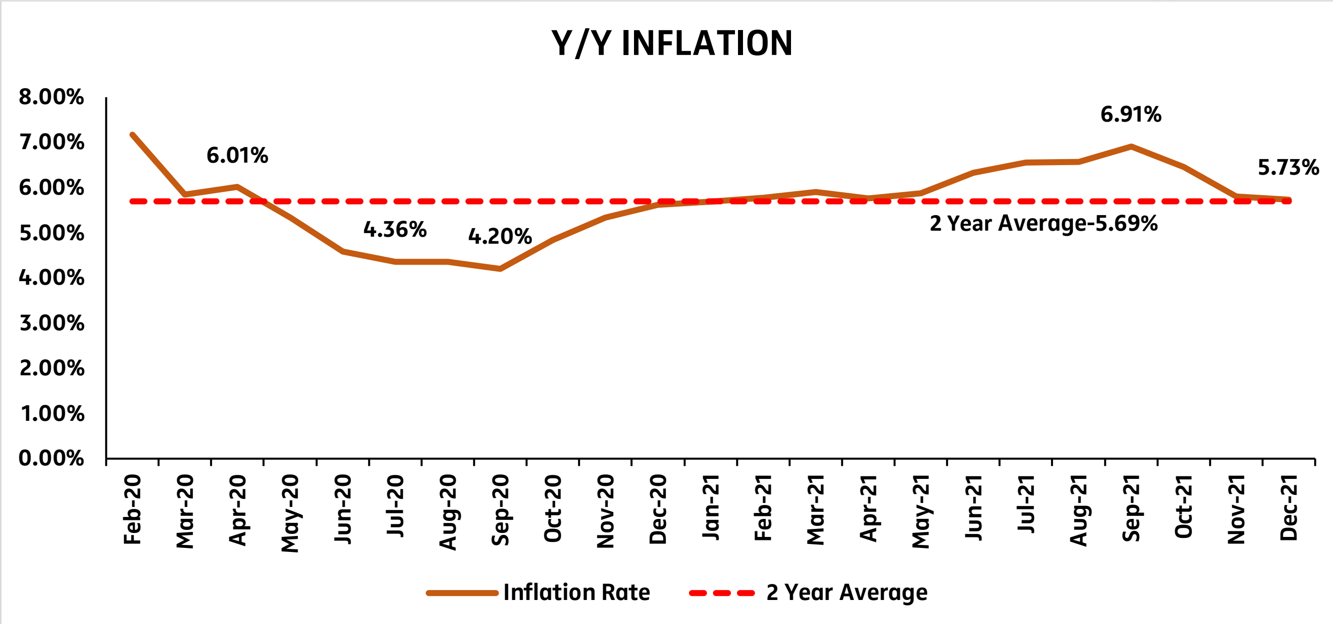
According to the Kenya National Bureau of Statistics, Kenya's economy recorded an average y-0-y growth of 5.4% growth in the first half of 2021, (10.1% y-o-y growth recorded in Q2'2021 and 0.7% y-o-y growth recorded in Q1'2021). This was in contrast to a 0.3% y-o-y average contraction recorded in H1'2020. The growth was largely driven by growth in the manufacturing and accommodation & food services sectors which recorded growths of 9.6% and 9.1%, respectively, in Q2'2021, compared to the contraction of 4.7% and 56.8%, recorded in Q2'2020. The growth in these sectors was mainly driven by easing of COVID-19 travel restrictions and lift of the dawn to dusk curfew that was put in place since March 2020. There was however a slowdown in performance of agriculture, forestry and fishing activities in the first and second quarters of 2021. The sector is estimated to have contracted by 0.9% in Q2'2021 compared to a growth of 4.9% in the corresponding quarter of 2020.



Economic Growth Outlook: *The government's efforts to accelerate its vaccination program and the relaxation of lockdown measures compared to the preceding year is expected to further boost private sector performance providing support to the economy. Given the low base in 2020, it is expected that the economy will post a significant rebound in 2021 with GDP growth estimated at 5.60%. As for 2022, we maintain cautious optimism that growth will be sustained at similar levels taking into consideration the still prevailing COVID-19 pandemic and the forthcoming general elections in August 2022.*

INFLATION:

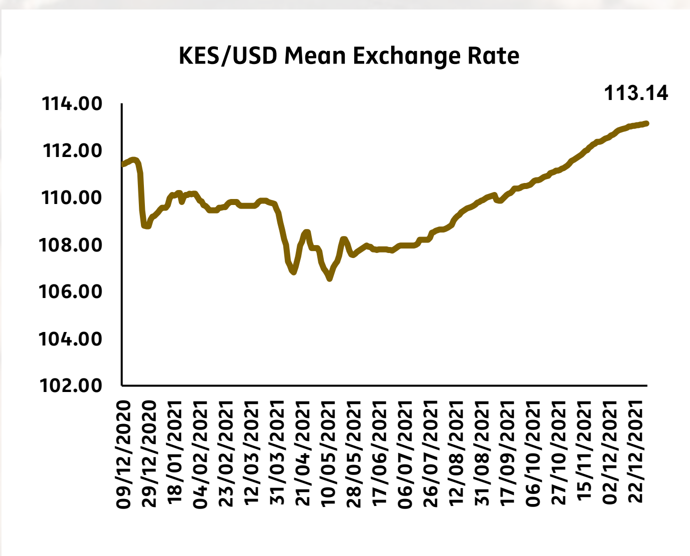
The monthly average inflation rate came in at 6.1% within the government's set range of 2.5% - 7.5%. The relatively high inflation can be attributed to the high fuel prices experienced during the year, coupled with food supply constraints following erratic weather conditions experienced in the second half of the year which led to food commodity prices spiking.



Inflation Outlook: *Inflation is expected to remain at the current levels in the short term on account of increased global fuel prices, higher food prices domestically due to depressed short rains, coupled with increased demand for both goods & services as activities elevate following the full re-opening of the economy.*

Currency Performance:

The Kenya Shilling depreciated by 3.6% against the US Dollar to close at Kshs 113.1 in 2021, compared to Kshs 109.2 at the end of 2020. The depreciation was largely driven by the strengthening of the dollar which saw it appreciate against majority of global currencies on increased demand. The increased demand was partly due to the resumption of trade, following the reopening of many economies, coupled with the rise in the US inflation in the US which revived bets of tighter monetary policy in the near term. The Kenyan shilling also depreciated by 2.46% against Pound Sterling but appreciated by 4.41% against the Euro.



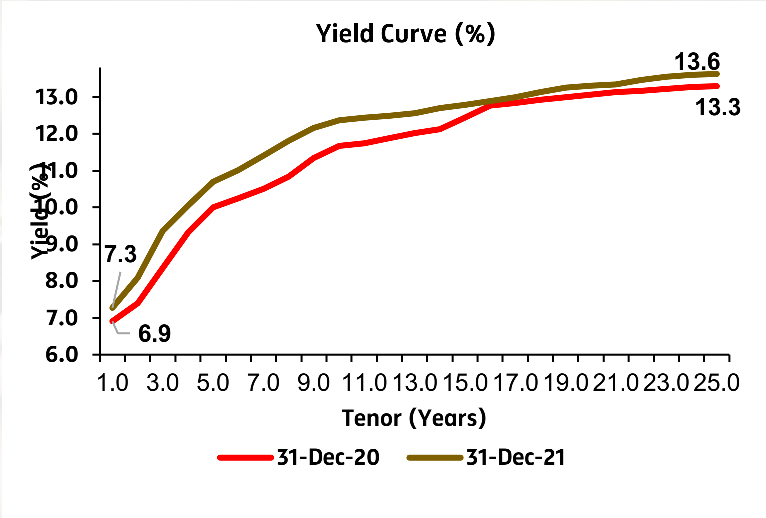
Performance Against Major Global Currencies			
Currencies	Dec 2020 (vs KES)	31 Dec 2021	YTD ∆
USD	109.17	113.14	(-3.64%)
EUR	133.90	127.99	4.41%
GBP	148.40	152.05	(2.46%)

Currency Outlook: *Kenya's current account has remained resilient notwithstanding the impact of COVID 19 shocks, with the deficit estimated at 5.4% of GDP in the 12 months to October and is projected at 5.2% of GDP in 2021. Export of goods continues to deliver strong performance, growing by 10.8% in the period January to October 2021 compared to a similar period in 2020. Receipts from tourism and transport services have also improved as international travel continues to recover. Remittances on the other hand have maintained robust growth at USD 337.4 mn in October 2021 and are 20.1% higher in the period January to October 2021 compared to a similar period in 2020. The above notwithstanding,* ***pressure on the currency is expected to sustain largely attributable to the strengthening of the US dollar, coupled with a high oil imports bill following the continued rise in global crude oil prices as supply remains constrained whilst demand is accelerating.***

FIXED INCOME HIGHLIGHTS

During the year, T-bills auction recorded an undersubscription, with the average subscription rate coming in at 94.1% compared to an average of 130.9% in 2020. The yields on the 91-day, 182-day and 364-day T-bills increased by 36.5 bps, 69.5 bps and 101.9 bps to close the year at 7.27%, 8.09% and 9.367%, respectively. Primary T-bond auctions on the other hand were oversubscribed, with the subscription rate averaging 147.6%, which was higher than the 130.6% average subscription rate recorded in 2020.

The secondary bond market recorded increased activity with the turnover increasing by 50.2% to Kshs 919.1 bn, from Kshs 667.3 bn in 2020. The yield curve had an upward adjustment, partly attributable to debt pressure build up, coupled with increased inflation during the year which saw investors look to compensate for the inflation risk and sustain the real rate of return. This saw the FTSE NSE bond index shed 2.2% to close the year at 96.1, from 98.3 at the end of 2020. The chart below is the yield curve movement during the period.



Tenor	31-Dec-20	31-Dec -21	Variance YTD (% Points)
91-day	6.9%	7.3%	0.4%
1yr	8.3%	9.4%	1.0%
2Yr	9.3%	10.1%	0.7%
5Yr	10.5%	11.4%	0.9%
10Yr	11.9%	12.5%	0.6%
15Yr	12.8%	13.0%	0.2%
20Yr	13.2%	13.5%	0.3%
23Yr	13.3%	13.6%	0.3%
25Yr	-	13.7%	-

Fixed Income Outlook: *There has been a notable Improvement in revenue collections in the current financial year. Revenue collections overshot the government's prorated estimates in the first four months of the FY 2021/2022, by 1.1% to close at Kshs 591.9 bn. Despite this, rising expenditure pressures consistent with the government's efforts to stimulate growth, coupled with debt service requirements could sustain wide deficits and as such we expect Interest rates to continue picking up as debt pressure builds following increased fiscal needs in the medium-term. Based on the backdrop of the current fixed income market* *outlook we maintain our preference for medium term papers to mitigate the duration risk whilst maintaining adequate real return given the rising inflation.*

EQUITIES MARKET PERFORMANCE

During the year, the Kenyan equities market was on an upward trajectory, with NASI, NSE 25 and NSE 20 gaining by 9.5%, 9.8% and 1.6%, respectively. The NASI performance was mainly driven by gains in a number of large cap Banking counters such as Equity Group, ABSA and KCB which edged up by 45.5%, 24.5%, and 18.4%, respectively. Safaricom which accounted for 59.5% of Nairobi Stock Exchange (NSE's) market capitalization as at the end of the year also edged up 10.8% to close the year at Kshs 37.95.

Equity turnover during the year declined by 11.2% to USD 1.3 bn, from USD 1.4 bn in FY'2020. Foreign investors remained net sellers, with a net outflow of USD 91.9 mn, compared to net outflows of USD 280.9 mn recorded in FY'2020. The foreign-investor outflows during the year can be attributed mainly to profit taking activities as most large cap stocks recorded significant gains during the year, compared to 2020.

Indicator	4-Jan -2021	31-Dec -2021	% ∆ 2021
NASI	152.0	166.46	9.48%
NSE-20	1872.4	1,902.57	1.61%
NSE-25	3410.1	3,743.90	9.79%

Top Gainers		
Security	**31 Dec 2021**	**% ∆ 2021**
Equity Group Holdings Plc	52.75	45.52%
BK Group Plc	29.00	41.46%
Nairobi Business Ventures	6.06	30.32%
ABSA Bank Kenya Plc	11.85	24.47%
HF Group Ltd	3.90	24.20%

Top Losers		
Security	**31 Dec 2021**	**% ∆ 2021**
Standard Group Plc	13.55	(39.78%)
East African Portland Cement	6.66	(39.45%)
WPP ScanGroup Plc	4.14	(31.00%)
Eveready East Africa	0.98	(22.83%)
Diamond Trust Bank Kenya	59.50	(22.48%)

Equities Outlook: *We expect the broad-based declines in stock prices recorded in the tail end of the year linked to profit-taking to slow down in the short term, mainly supported by expectations of continued impressive financial performance by the Banking and Telecommunication counters, as well as investors taking positions for the dividend play. We are however cognizant of the risks in the medium term, as we approach the election year, which might have a negative impact on investor sentiments. Pockets of value however exist in several counters currently trading at discounts to their intrinsic value and median sector multiples despite exhibiting strong earnings growth. Given the underlying risks in 2022 we have a bias towards telecommunications and financial services counters which have continued to exhibit resilience during the COVID-19 pandemic.*

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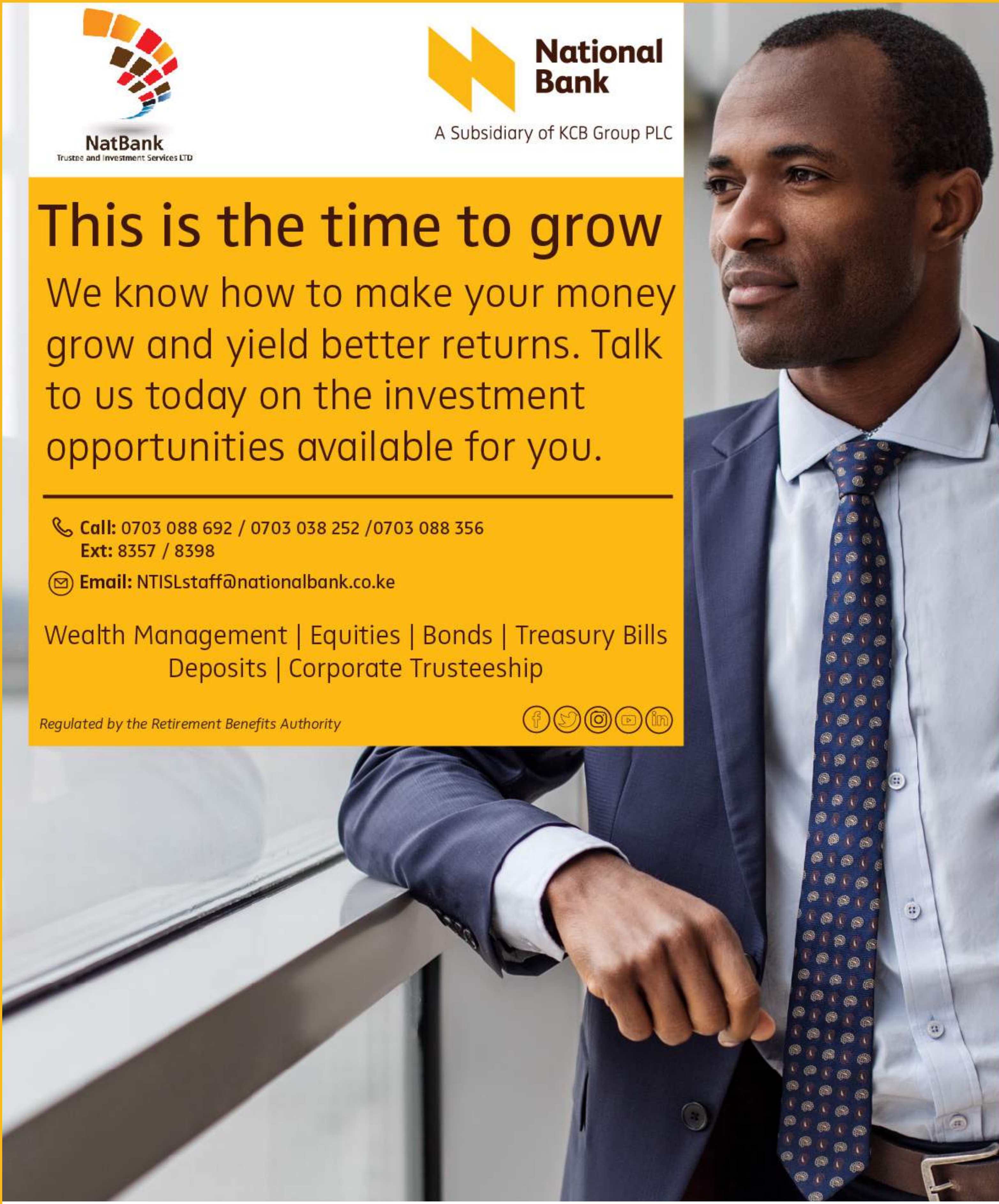

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