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FOR IMMEDIATE RELEASE

"EQUITY GROUP MAINTAINS TOP POSITION AS MOST ATTRACTIVE BANK IN KENYA PER CYTONN INVESTMENTS REPORT"

NAIROBI, KENYA, December 05, 2016

Cytonn Investments has today released their Q3'2016 Banking Sector Report, which for the second report in a row ranks Equity Group as the most attractive bank, supported by a strong franchise and intrinsic value score. The franchise score measures the broad and comprehensive business strength of the company and the intrinsic score measures the return potential. National Bank ranked lowest, ranking lowest in both franchise and intrinsic value score.

"The report themed '*Transition continues to a more stable sector, in an era of increased regulation*' analysed all listed banks in the Kenyan market so as to take a view on the banking sector to determine which banks are the most attractive from a franchise value and future growth opportunity perspective," said Elizabeth Nkukuu, CFA, Cytonn's Chief Investment Officer. "As the banking sector continues to undergo transition, such as consolidation through acquisitions, increased regulation and need for an improvement in asset quality, we believe that the industry will become more stable where only the banks with a strong competitive advantage, either in capitalisation, deposit gathering or niche shall remain, with the remaining banks forced to either merger or be acquired," added Elizabeth

All but three banks maintained their positions from the H1'2016 Banking Report, with KCB Group coming in second position, Co-operative Bank third, I&M Holdings in fourth position, while Diamond Trust Bank was fifth. Barclays Bank rose one position to sixth position, on the back of its industry high Net Interest Margin of 10.9%. Stanbic Holdings rose one position to seventh position supported by a high intrinsic value score, high revenue diversification and the highest deposit mobilization per branch of Kshs 5.2 billion.

Standard Chartered Bank fell two positions to position 8, affected by a low franchise value score, being weighed down by high levels of Non-Performing Loans (NPLs), with its NPLs to total loans ratio of 12.2%, versus an industry average of 33.9%, reflecting a deterioration in quality of the bank's loan book which brings to question their risk assessment framework.

With GDP growth prospects for 2016 at 6.0%, Kenya's listed banks recorded improved Earning Per Share (EPS) growth of 15.1% in Q3'2016 compared to 9.7% growth in Q3'2015. This was on the back of an improved macro-economic environment, and the ability of listed banks to maintain their margins despite rates declining to below historical average levels as evidenced by the 91-day T-bill rates declining to 8.4% compared to its 5-year average of 10.4%. With the banking sector contributing 10.1% of GDP, a strong growth exhibited by the sector is beneficial to drive economic growth.

"The growth in Kenya's banking sector can be attributed to the sector's ability to develop products that respond to the needs of Kenyans, such as convenience and efficiency through alternative banking channels including mobile and agency banking, that also increase non-funded income for banks. In addition, increased financial inclusion and rapid growth of Kenya's middle class have led to increased demand for financial intermediary services such as banking," said Maurice Oduor, Investment Manager. "However, as a result of the interest rate cap enacted towards the end of the third quarter of 2016, we are likely to witness contraction of the private sector credit growth as banks opt to lend to the government, which is considered risk free. Subprime borrowers will likely have to go to non-bank financial institutions since they cannot fit within the new loan pricing framework of 4% above the Central Bank Rate (CBR). In addition, we have seen a disconnect between what Central Bank if forcing banks to do, by loaning at 14.0%, and the high yield they are accepting for treasury instruments" added Maurice.

As the sector continues to be in transition, key issues such as increased loan loss provisioning and the regulated loan and deposit pricing framework will transition the industry into an environment where only the innovative banks with diversified revenue streams will survive, with the remaining banks forced to either merger or be acquired. This will transition the industry into one with fewer, but stable banks, leading to a more efficient and stable banking sector.

The report is available online: (link here)

Table: Cytonn's Q3'2016 Banking Report Rankings

CYTONN'S Q3'2016 BANKING REPORT RANKINGS					
Bank	Franchise Value Total Score	Total Return Score	Weighted Q3'2016 Score	Q3'2016 rank	H1'2016 rank
1. Equity Group	**53.0**	**4.0**	**23.6**	**1**	**1**
2. KCB Group	**60.0**	**1.0**	**24.6**	**2**	**2**
3. Co-operative Bank	**59.0**	**7.0**	**27.8**	**3**	**3**
4. I&M Holdings	**67.0**	**6.0**	**30.4**	**4**	**4**
5. Diamond Trust Bank	**64.0**	**9.0**	**31.0**	**5**	**5**
6. Barclays Bank	**71.0**	**8.0**	**33.2**	**6**	**7**
7. Stanbic Holdings	**87.0**	**2.0**	**36.0**	**7**	**8**
8. Standard Chartered Bank	**76.0**	**10.0**	**36.4**	**8**	**6**
9. NIC Bank	**90.0**	**3.0**	**37.8**	**9**	**9**
10. HF Group	**107.0**	**5.0**	**45.8**	**10**	**10**
11. National Bank	**124.0**	**11.0**	**56.2**	**11**	**11**

Notes to the Editor:

Cytonn Investments is an independent investment management firm, with offices in Nairobi - Kenya and D.C. Metro - U.S. We are primarily focused on offering alternative investment solutions to individual high net-worth investors, global and institutional investors and Kenyans in the diaspora interested in the high-growth East-African region. We currently have over Kshs. 74 billion of investments and projects under mandate, mainly in real estate.

Cytonn Real Estate is Cytonn's development affiliate, which is focused on developing institutional grade real estate targeted at specific institutional, high net-worth and Diaspora investors. Collective, Cytonn Investments and Cytonn Real Estate manage over Kshs. 74 billion of real estate projects.

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