Kenya's Listed Banks Q3'2024 Report, & Cytonn Weekly #50/2024

Executive Summary:

Fixed Income: During the week, T-bills were undersubscribed for the first time in eleven weeks, with the overall undersubscription rate coming in at 69.2%, a reversal from the oversubscription rate of 176.3% recorded the previous week Investors' preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 5.8 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 146.2%, significantly lower than the oversubscription rate of 473.2% recorded the previous week. The subscription rates for the 182-day and 364-day papers decreased to 30.8% and 76.7% respectively from to 67.6% and 166.2% recorded the previous week. The government accepted a total of Kshs 16.6 bn worth of bids out of Kshs 16.6 bn bids received, translating to an acceptance rate of 99.9%. The yields on the government papers were on a downward trajectory, with the yields on the 364-day, 182-day and 91-day papers decreasing by 21.0 bps, 54.7 bps and 42.5 bps to 11.8%, 10.0% and 10.0% respectively from 12.0%, 10.5% and 10.5% respectively recorded the previous week;

Also, during the week, the Central Bank of Kenya (CBK) released the auction results for the re-opened bond FXD1/2024/010 with a tenor to maturity of 9.3 years, and a fixed coupon rate of 16.0%. The bond was oversubscribed with the overall subscription rate coming in at 268.1%, receiving bids worth Kshs 53.6 bn against the offered Kshs 20.0 bn. The government accepted bids worth Kshs 43.4 bn, translating to an acceptance rate of 81.0%. The weighted average yield for the accepted bids for the FXD1/2024/010 came in at 14.7% which was below our expectation of within a bidding range of 14.95%-15.35%. Notably, the 14.7% yield on the FXD1/2024/010 was lower than the 15.9% rate recorded on the last sale in November 2024. With the Inflation rate at 2.8% as of November 2024, the real return of the FXD1/2024/010 is 11.9%;

During the week, The Energy and Petroleum Regulatory Authority (EPRA) released their monthly statement on the maximum retail fuel prices in Kenya, effective from 15th December 2024 to 14th January 2025. Notably, the maximum allowed price for Super Petrol, Diesel and Kerosene decreased by Kshs 4.4, Kshs 3.0 and Kshs 3.0 respectively. Consequently, Super Petrol, Diesel and Kerosene will now retail at Kshs 176.3, Kshs 165.1 and Kshs 148.4 per litre respectively, from Kshs 180.7, Kshs. 168.1 and Kshs 151.4 per litre respectively;

Equities: During the week, the equities market was on an upward trajectory, with NSE 10 gaining the most by 3.9%, while NASI, NSE 25 and NSE 20 gained by 3.4%, 3.4% and 2.7% respectively, taking the YTD performance to gains of 37.4%, 35.9%, 29.5% and 24.6% for NSE 10, NSE 25, NASI and NSE 20 respectively. The equities market performance was mainly driven by gains recorded by large-cap stocks such as Equity Group, EABL and Safaricom of 5.7%, 4.7%, and 4.6% respectively. The gains were however weighed down by loses recorded by large-cap stocks such as Bamburi and DTB-K of 13.9%, and 3.7% respectively;

Real Estate: On the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 25.4 and Kshs 22.2 per unit, respectively, as per the last updated data on 31st October 2024. The performance represented a 27.0% and 11.0% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 inception price. Additionally, ILAM Fahari I-REIT traded at Kshs 11.0 per share as of 31st October 2024, representing a 45.0% loss from the Kshs 20.0 inception price;

Focus of the Week: Following the release of the Q3'2024 results by Kenyan listed 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;

Investment Updates:

- Weekly Rates:
    - Cytonn Money Market Fund closed the week at a yield of 17.22% p.a. To invest, dial *809# or download the Cytonn App from Google Play store here or from the Appstore here;

- We continue to offer Wealth Management Training every Monday, from 10:00 am to 12:00 pm. The training aims to grow financial literacy among the general public. To register for any of our Wealth Management Trainings, click here;
- If interested in our Private Wealth Management Training for your employees or investment group, please get in touch with us through wmt@cytonn.com;
- Cytonn Insurance Agency acts as an intermediary for those looking to secure their assets and loved ones' future through insurance namely; Motor, Medical, Life, Property, WIBA, Credit and Fire and Burglary insurance covers. For assistance, get in touch with us through insuranceagency@cytonn.com;
- Cytonn Asset Managers Limited (CAML) continues to offer pension products to meet the needs of both individual clients who want to save for their retirement during their working years and Institutional clients that want to contribute on behalf of their employees to help them build their retirement pot. To more about our pension schemes, kindly get in touch with us through pensions@cytonn.com;

Hospitality Updates:

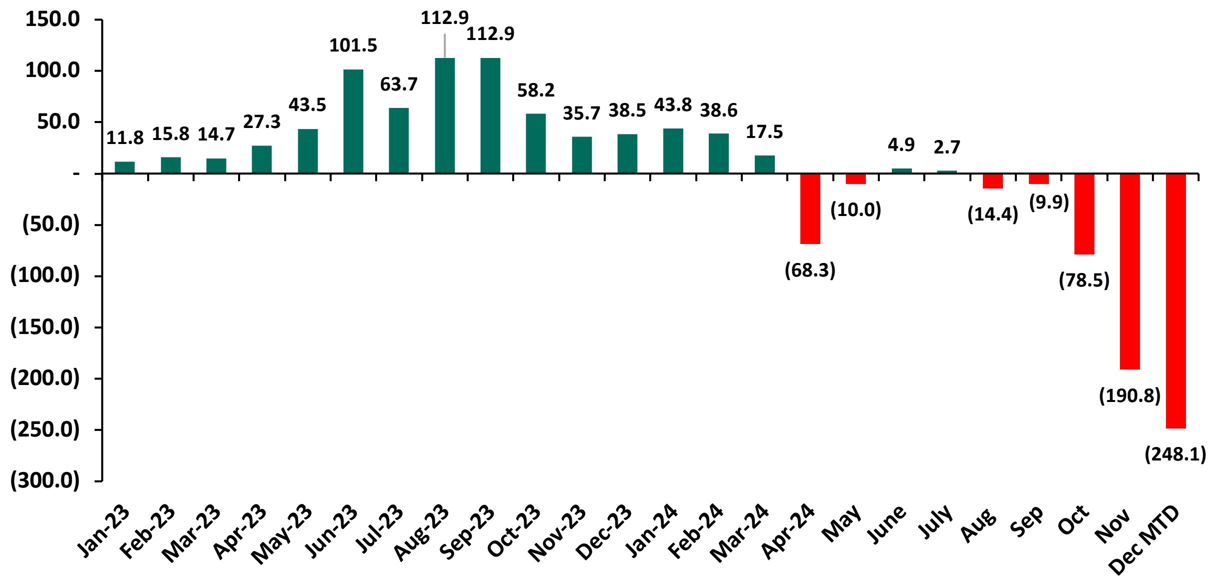
- We currently have promotions for Staycations. Visit cysuites.com/offers for details or email us at sales@cysuites.com;

Fixed Income

Money Markets, T-Bills Primary Auction:

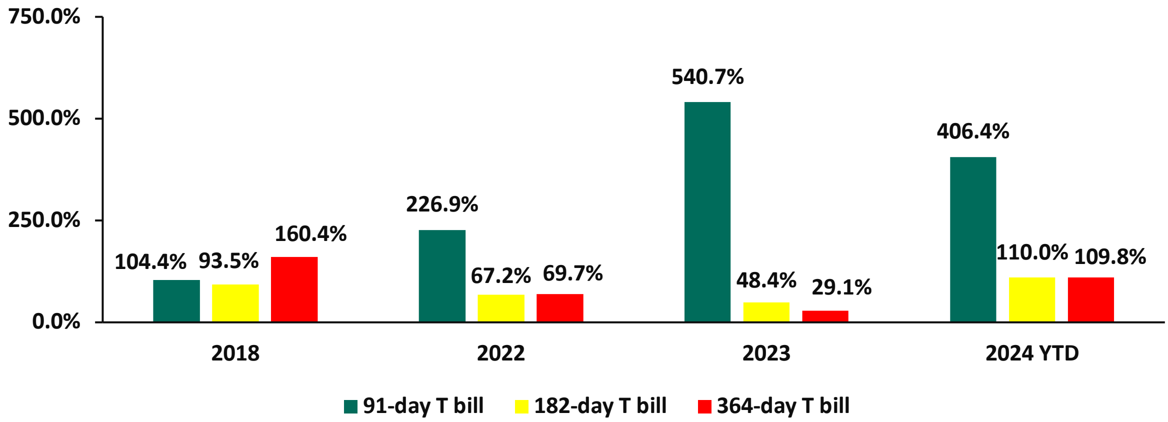
During the week, T-bills were undersubscribed for the first time in eleven weeks, with the overall undersubscription rate coming in at 69.2%, a reversal from the oversubscription rate of 176.3% recorded the previous week Investors' preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 5.8 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 146.2%, significantly lower than the oversubscription rate of 473.2% recorded the previous week. The subscription rates for the 182-day and 364-day papers decreased to 30.8% and 76.7% respectively from to 67.6% and 166.2% recorded the previous week. The government accepted a total of Kshs 16.6 bn worth of bids out of Kshs 16.6 bn bids received, translating to an acceptance rate of 99.9%. The yields on the government papers were on a downward trajectory, with the yields on the 364-day, 182-day and 91-day papers decreasing by 21.0 bps, 54.7 bps and 42.5 bps to 11.8%, 10.0% and 10.0% respectively from 12.0%, 10.5% and 10.5% respectively recorded the previous week. The table below shows the yield growth for the 91-day paper over the period;

Cytonn Report: 91-Day T-Bill Yield growth (bps)



The chart below compares the overall average T-bill subscription rates obtained in 2018, 2022, 2023, and 2024 Year-to-date (YTD):

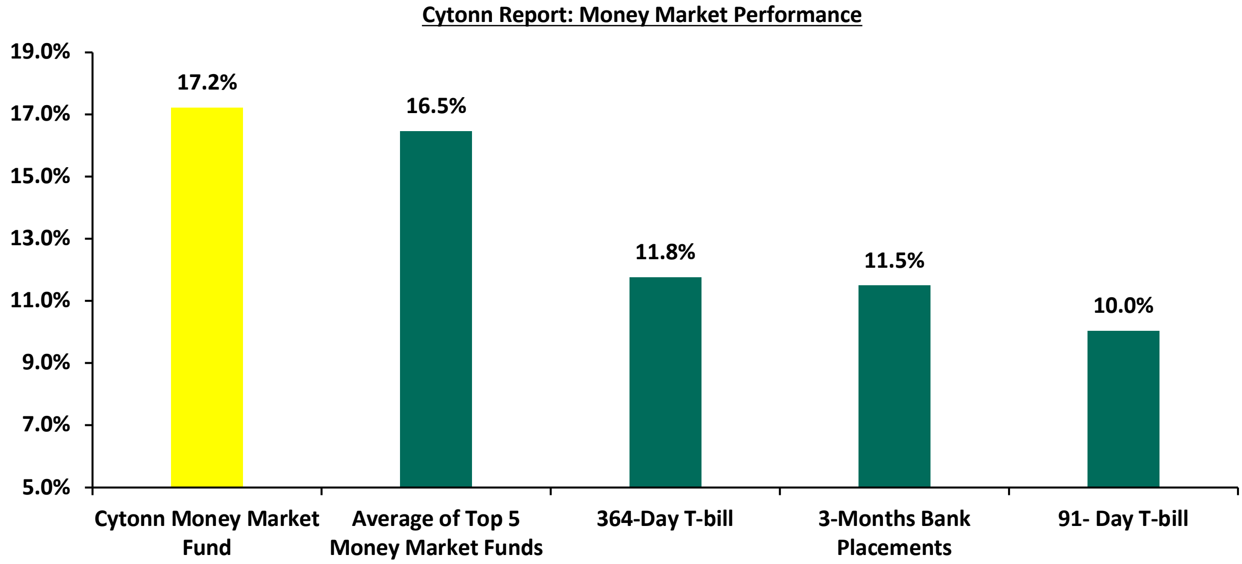
Cytonn Report: T-Bills Subscription Rates



Also, during the week, the Central Bank of Kenya (CBK) released the auction results for the re-opened bond FXD1/2024/010 with a tenor to maturity of 9.3 years, and a fixed coupon rate of 16.0%. The bond was oversubscribed with the overall subscription rate coming in at 268.1%, receiving bids worth Kshs 53.6 bn against the offered Kshs 20.0 bn. The government accepted bids worth Kshs 43.4 bn, translating to an acceptance rate of 81.0%. The weighted average yield for the accepted bids for the FXD1/2024/010 came in at 14.7% which was below our expectation of within a bidding range of 14.95%-15.35%. Notably, the 14.7% yield on the FXD1/2024/010 was lower than the 15.9% rate recorded on the last sale in November 2024. With the Inflation rate at 2.8% as of November 2024, the real return of the FXD1/2024/010 is 11.9%.

Money Market Performance:

In the money markets, 3-month bank placements ended the week at 11.5% (based on what we have been offered by various banks), and yields on the government papers were on a downward trajectory, with the yields on the 364-day and 91-day papers decreasing by 21.0 bps and 42.5 bps to 11.8% and 10.0% respectively, from 12.0% and 10.5% respectively recorded the previous week.The yield on the Cytonn Money Market Fund decreased by 75.0 bps to close the week at 17.2% from 18.0% recorded the previous week, while the average yields on the Top 5 Money Market Funds decreased by 30.8 bps to close the week at 16.5%, from 16.8% recorded the previous week.



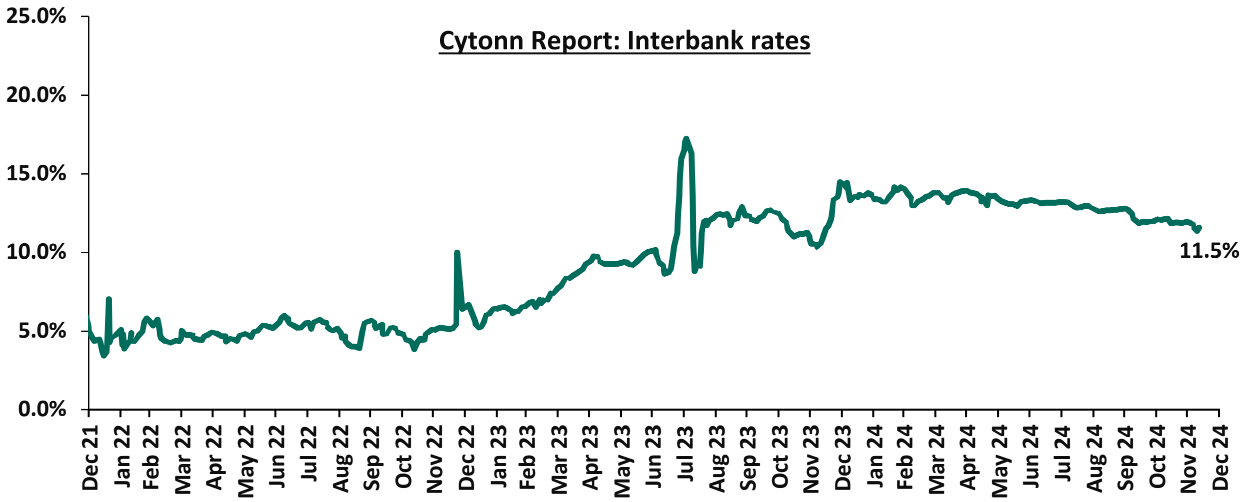
The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 13th November 2024:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 13th December 2024		
Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund *(Dial *809# or download the Cytonn app)*	17.2%
2	Lofty-Corban Money Market Fund	16.6%
3	Etica Money Market Fund	16.3%
4	Gulfcap Money Market Fund	16.3%
5	Kuza Money Market fund	16.0%
6	Arvocap Money Market Fund	15.9%
7	Ndovu Money Market Fund	15.5%
8	Mali Money Market Fund	15.2%
9	Jubilee Money Market Fund	14.9%
10	KCB Money Market Fund	14.6%
11	Orient Kasha Money Market Fund	14.6%
12	Nabo Africa Money Market Fund	14.2%
13	Madison Money Market Fund	14.2%
14	Sanlam Money Market Fund	14.1%
15	Enwealth Money Market Fund	13.9%
16	Dry Associates Money Market Fund	13.9%
17	Faulu Money Market Fund	13.8%
18	Apollo Money Market Fund	13.6%
19	Genghis Money Market Fund	13.5%
20	Old Mutual Money Market Fund	13.4%
21	Co-op Money Market Fund	13.3%
22	British-American Money Market Fund	13.3%
23	GenAfrica Money Market Fund	13.2%
24	ICEA Lion Money Market Fund	13.2%
25	Absa Shilling Money Market Fund	13.0%
26	CIC Money Market Fund	12.7%
27	Mayfair Money Market Fund	12.7%
28	AA Kenya Shillings Fund	12.4%
29	Stanbic Money Market Fund	12.1%
30	Ziidi Money Market Fund	11.9%
31	Equity Money Market Fund	11.0%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets marginally eased, with the average interbank rate decreasing by 35.2 bps, to 11.5% from the 11.8% recorded the previous week, partly attributable to government payments that offset tax remittances. The average interbank volumes traded increased by 25.9% to Kshs 54.4 bn from Kshs 43.2 bn recorded the previous week. The chart below shows the interbank rates in the market over the years:



Kenya Eurobonds:

During the week, the yields on Kenya's Eurobonds recorded a mixed performance, with the yield on the 7-year Eurobond issued in 2024 decreasing the most by 9.4 bps to 9.4% from 9.5% recorded the previous week, while the yield on 7-year Eurobond issued in 2019 increased slightly, remaining relatively unchanged from 7.7% recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 12th December 2024;

Cytonn Report: Kenya Eurobonds Performance						
	2018		2019		2021	2024
Tenor	10-year issue	30-year issue	7-year issue	12-year issue	13-year issue	7-year issue
Amount Issued (USD)	1.0 bn	1.0 bn	0.9 bn	1.2 bn	1.0 bn	1.5 bn
Years to Maturity	3.2	23.2	2.4	7.4	9.5	6.2
Yields at Issue	7.3%	8.3%	7.0%	7.9%	6.2%	10.4%
01-Jan-24	9.8%	10.2%	10.1%	9.9%	9.5%	
02-Dec-24	8.6%	8.6%	7.9%	9.7%	10.1%	9.8%
05-Dec-24	8.4%	9.9%	7.7%	9.5%	9.5%	9.5%
06-Dec-24	8.3%	9.8%	7.6%	9.3%	9.3%	9.3%
09-Dec-24	8.2%	9.8%	7.5%	9.3%	9.2%	9.2%
10-Dec-24	8.3%	9.8%	7.5%	9.3%	9.3%	9.3%
11-Dec-24	8.3%	9.8%	7.6%	9.3%	9.3%	9.3%
12-Dec-24	8.4%	9.8%	7.7%	9.4%	9.4%	9.4%
Weekly Change	**(0.0%)**	**(0.1%)**	**0.0%**	**(0.1%)**	**(0.1%)**	**(0.1%)**
MTD Change	**(0.3%)**	**1.2%**	**(0.3%)**	**(0.3%)**	**(0.7%)**	**(0.4%)**
YTD Change	**(1.4%)**	**(0.3%)**	**(2.4%)**	**(0.5%)**	**(0.1%)**	**-**

Source: Central Bank of Kenya (CBK) and National Treasury

Kenya Shilling:

During the week, the Kenya Shilling appreciated against the US Dollar by 0.06 bps, to close the week at Kshs 129.3, relatively unchanged from the previous week. On a year-to-date basis, the shilling has appreciated by 17.6% against the dollar, a contrast to the 26.8% depreciation recorded in 2023.

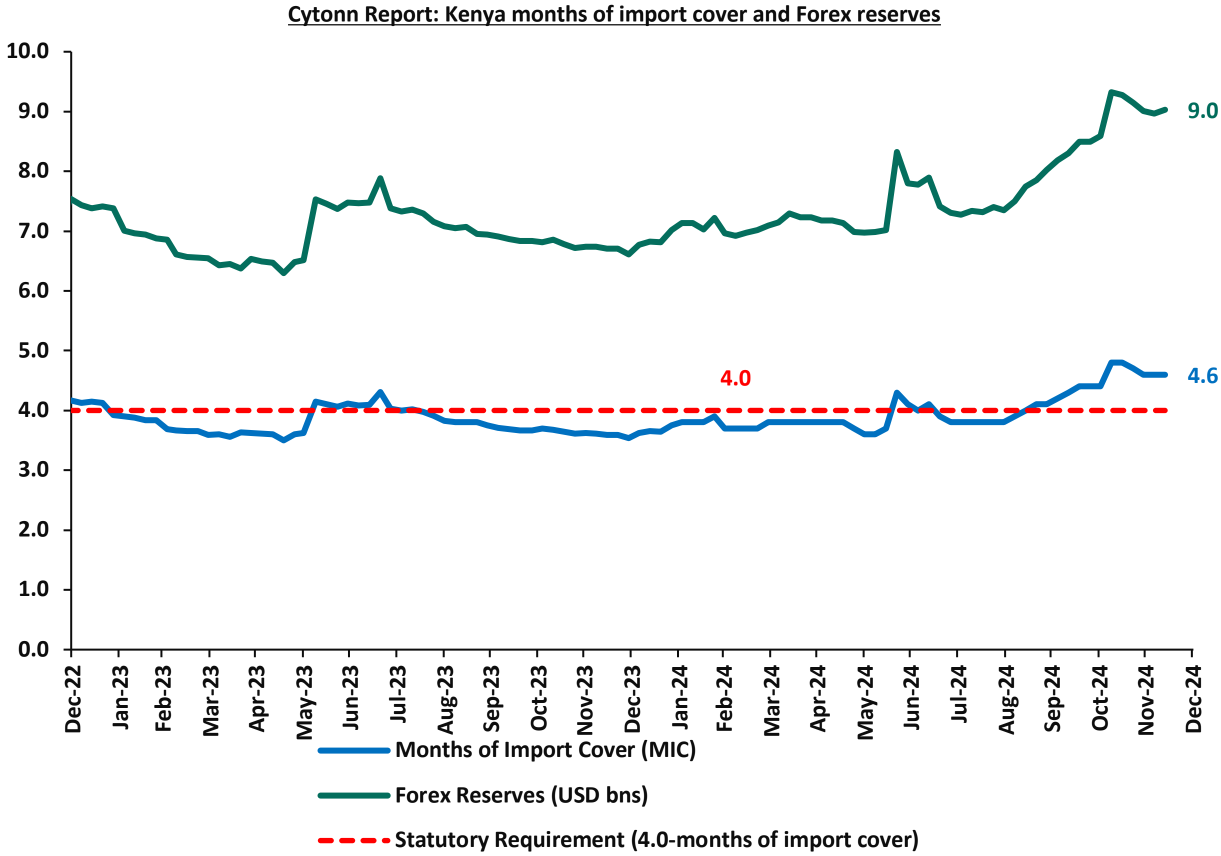
We expect the shilling to be supported by:

i. Diaspora remittances standing at a cumulative USD 4,804.1 mn in the 12 months to October 2024, 15.3% higher than the USD 4,165.1 mn recorded over the same period in 2023, which has continued to cushion the shilling against further depreciation. In the October 2024 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 56.7% in the period, and,
ii. The tourism inflow receipts which came in at USD 352.5 bn in 2023, a 31.5% increase from USD 268.1 bn inflow receipts recorded in 2022, and owing to tourist arrivals that improved by 14.9% in the 12 months to October 2024, compared to a similar period in 2023.
iii. Improved forex reserves currently at USD 9.0 bn (equivalent to 4.6-months of import cover), which is above the statutory requirement of maintaining at least 4.0-months of import cover and the EAC region's convergence criteria of 4.5-months of import cover.

The shilling is however expected to remain under pressure in 2024 as a result of:

i. An ever-present current account deficit which came at 3.8% of GDP in Q2'2024 from 3.7% recorded in Q2'2023, and,
ii. The need for government debt servicing, continues to put pressure on forex reserves given that 67.2% of Kenya's external debt is US Dollar-denominated as of June 2024.

Key to note, Kenya's forex reserves increased marginally by 0.7% during the week, remaining relatively unchanged from the USD 9.0 bn recorded in the previous week, equivalent to 4.6 months of import cover, and above to the statutory requirement of maintaining at least 4.0-months of import cover. The recent increase in forex reserves is primarily attributed to the disbursement from the International Monetary Fund (IMF). On October 30, 2024, the IMF approved a combined disbursement of around USD 606.1 mn following the successful completion of Kenya's seventh and eighth reviews under the Extended Fund Facility (EFF), Extended Credit Facility (ECF), and Resilience and Sustainability Facility (RSF) arrangements. The chart below summarizes the evolution of Kenya's months of import cover over the years:



Weekly Highlights

I. **Fuel Prices effective 15th December 2024 to 14th January 2025**

During the week, The Energy and Petroleum Regulatory Authority (EPRA) released their monthly statement on the maximum retail fuel prices in Kenya, effective from 15th December 2024 to 14th January 2025. Notably, the maximum allowed price for Super Petrol, Diesel and Kerosene decreased by Kshs 4.4, Kshs 3.0 and Kshs 3.0 respectively. Consequently, Super Petrol, Diesel and Kerosene will now retail at Kshs 176.3, Kshs 165.1 and Kshs 148.4 per litre respectively, from Kshs 180.7, Kshs. 168.1 and Kshs 151.4 per litre respectively; the decreases translate to 2.4%, 1.8% and 2.0% respectively.

Other key take-outs from the performance include;

i. The average landing costs per cubic meter for Diesel and Kerosene increased by 5.8% and 1.9% each respectively to USD 643.7 and USD 660.3 respectively in November 2024, from USD 608.6 and USD 648.2 respectively, recorded in October 2024, while the average landing costs per cubic meter for Super Petrol decreased by 4.5% to USD 612.5 in November 2024 from USD 641.1 recorded in October 2024,
ii. The Kenyan shilling depreciated against the US Dollar by 0.3% to Kshs. 129.9 in November 2024, compared to the mean monthly exchange rate of Kshs 129.5 recorded in October 2024.

We note that fuel prices in the country have decreased in recent months largely due to the government's efforts to stabilize pump prices through the petroleum pump price stabilization mechanism which expended Kshs 9.9 bn in the FY'2023/24 to cushion the increases applied to the petroleum pump prices, coupled with the appreciation of the Kenyan Shilling against the dollar and other major currencies, as well as a decrease in international fuel prices. We expect that fuel prices will drop in the coming months as a result of the government's efforts to mitigate the cost of petroleum through the pump price stabilization mechanism and strengthening of the Kenyan Shilling against the United States Dollar, having gained by 17.6% against the dollar on a year-to-date basis. As such, we expect the business environment in the country to improve as fuel is a major input cost, as well as continued stability in inflationary pressures, with the inflation rate expected to remain within the CBK's preferred target range of 2.5%-7.5%.

Rates in the Fixed Income market have been on a downward trend given the continued low demand for cash by the government and the improved liquidity in the money market. The government is 201.5% ahead of its prorated net domestic borrowing target of Kshs 188.5 bn, and 39.2% ahead of the total FY'2024/25 net domestic borrowing target of Kshs 408.4 bn, having a net borrowing position of Kshs 568.3 bn. However, we expect a continued downward readjustment of the yield curve in the short and medium term, with the government looking to increase its external borrowing to maintain the fiscal surplus, hence alleviating pressure in the domestic market. As such, we expect the yield curve to normalize in the medium-term and hence investors are expected to shift towards the long-term papers to lock in the high returns.

Equities

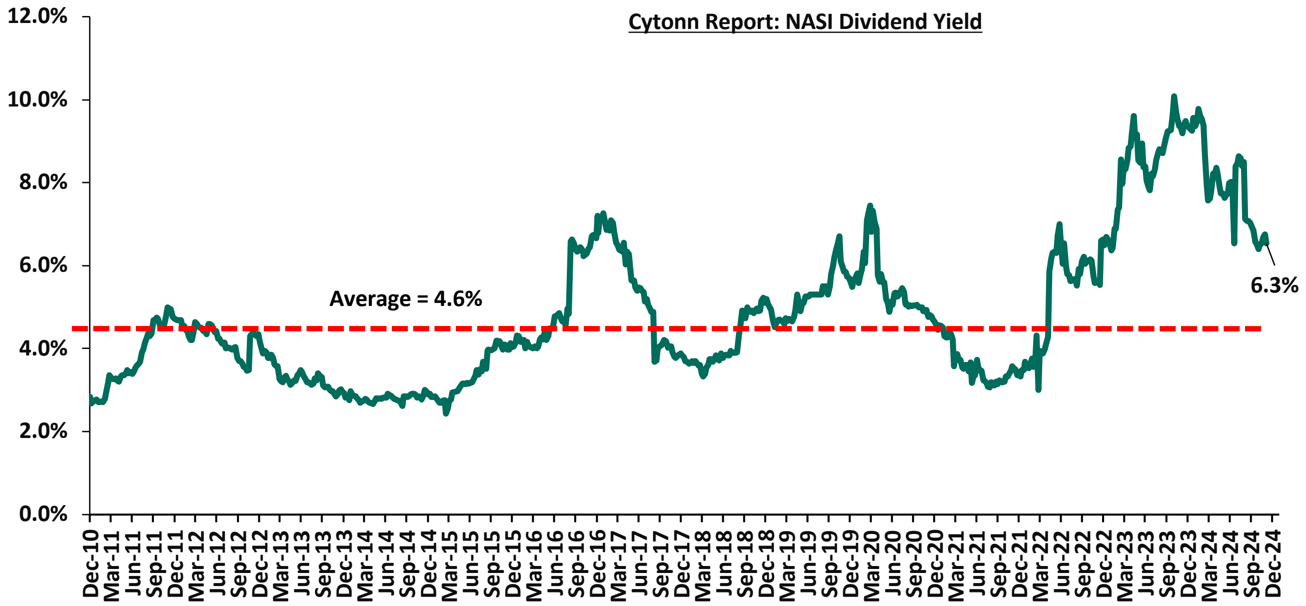
Market Performance:

During the week, the equities market was on an upward trajectory, with NSE 10 gaining the most by 3.9%, while NASI, NSE 25 and NSE 20 gained by 3.4%, 3.4% and 2.7% respectively, taking the YTD performance to gains of 37.4%, 35.9%, 29.5% and 24.6% for NSE 10, NSE 25, NASI and NSE 20 respectively. The equities market performance was mainly driven by gains recorded by large-cap stocks such as Equity Group, EABL and Safaricom of 5.7%, 4.7%, and 4.6% respectively. The gains were however weighed down by loses recorded by large-cap stocks such as Bamburi and DTB-K of 13.9%, and 3.7% respectively.

During the week, equities turnover increased marginally by 1.4% to USD 15.0 mn from USD 14.8 mn recorded the previous week, taking the YTD turnover to USD 598.5 mn. Foreign investors became net buyers for the first time in ten weeks, with a net buying position of USD 1.7 mn, from a net selling position of USD 7.9 mn recorded the previous week, taking the YTD net selling position to USD 13.7 mn.

The market is currently trading at a price-to-earnings ratio (P/E) of 5.1x, 56.1% below the historical average of 11.7x, and a dividend yield of 6.3%, 1.7% points above the historical average of 4.6%. Key to note, NASI's PEG ratio currently stands at 0.6x, an indication that the market is undervalued relative to its future growth. A PEG ratio greater than 1.0x indicates the market may be overvalued while a PEG ratio less than 1.0x indicates that the market is undervalued.

The charts below indicate the historical P/E and dividend yields of the market;


Cytonn Report: NASI Dividend Yield
Average = 4.6%
6.3%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
Dec-10
Mar-11
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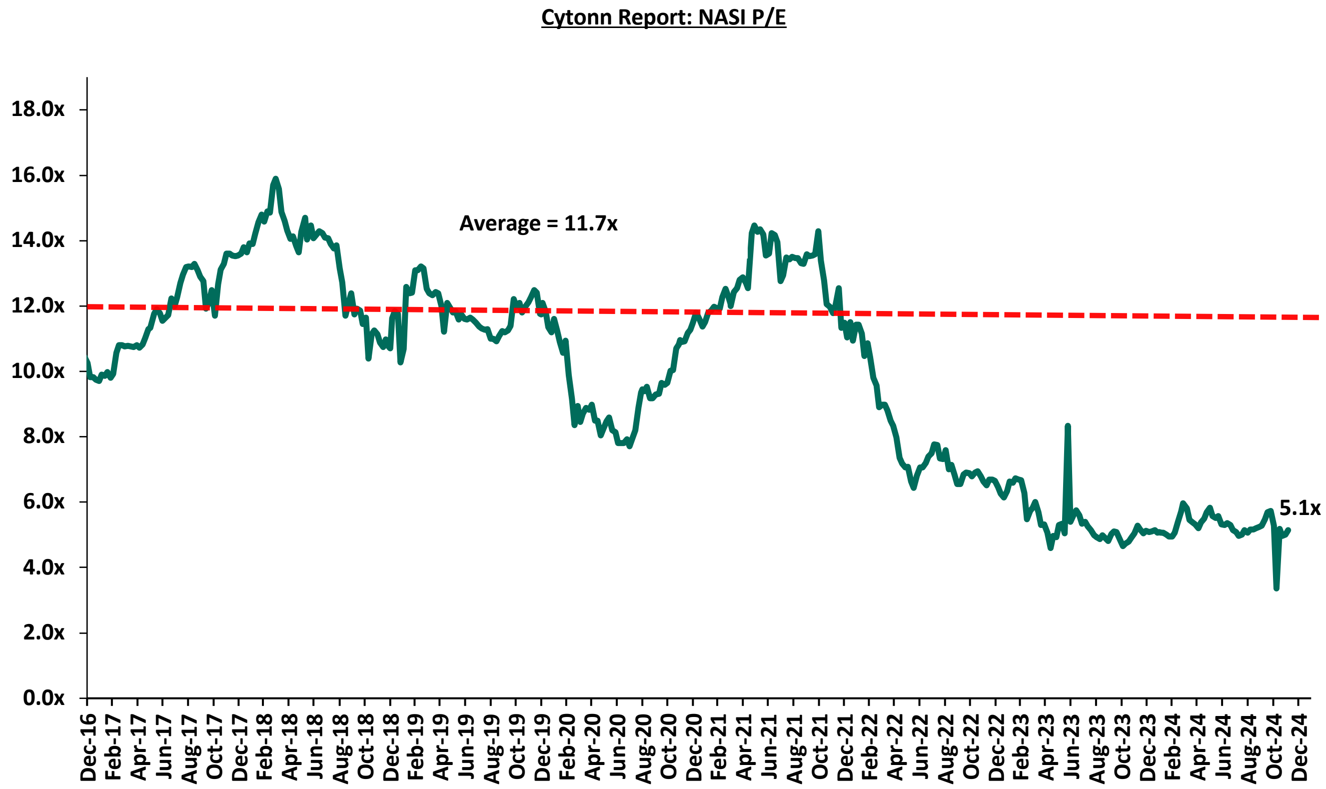
Cytonn Report: NASI P/E
Average = 11.7x
5.1x
18.0x
16.0x
14.0x
12.0x
10.0x
8.0x
6.0x
4.0x
2.0x
0.0x
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Universe of Coverage:

Cytonn Report: Equities Universe of Coverage										
Company	Price as at 06/12/2024	Price as at 13/12/2024	w/w change	YTD Change	Year Open 2024	Target Price*	Dividend Yield***	Upside/ Downside**	P/TBv Multiple	Average
Jubilee Holdings	172.5	172.0	(0.3%)	(7.0%)	185.0	260.7	8.3%	59.9%	0.3x	Buy
CIC Group	2.0	2.1	1.0%	(10.0%)	2.3	2.8	6.3%	42.2%	0.7x	Buy
Co-op Bank	14.2	14.6	2.8%	28.6%	11.4	18.8	10.3%	39.0%	0.7x	Buy
ABSA Bank	15.1	15.4	2.0%	33.3%	11.6	19.1	10.1%	34.1%	1.2x	Buy
Equity Group	45.4	48.0	5.7%	40.4%	34.2	60.2	8.3%	33.8%	0.9x	Buy
NCBA	44.6	44.6	0.0%	14.8%	38.9	53.2	10.7%	29.9%	0.8x	Buy
Britam	6.0	5.8	(3.3%)	12.5%	5.1	7.5	0.0%	29.8%	0.8x	Buy
KCB Group	38.0	39.5	4.1%	80.0%	22.0	50.3	0.0%	27.3%	0.6x	Buy
Standard Chartered Bank	250.3	254.5	1.7%	58.8%	160.3	291.2	11.4%	25.8%	1.7x	Buy
Diamond Trust Bank	60.3	58.0	(3.7%)	29.6%	44.8	65.2	8.6%	21.0%	0.2x	Buy
Stanbic Holdings	130.0	134.0	3.1%	26.4%	106.0	145.3	11.5%	19.9%	0.9x	Accumulate
I&M Group	30.8	31.9	3.7%	82.8%	17.5	32.3	8.0%	9.2%	0.7x	Hold

***Target Price as per Cytonn Analyst estimates**
****Upside/ (Downside) is adjusted for Dividend Yield**
*****Dividend Yield is calculated using FY'2023 Dividends**

We are "Neutral" on the Equities markets in the short term due to the current tough operating environment and huge foreign investor outflows, and, "Bullish" in the long term due to current cheap valuations and expected global and local economic recovery. With the market currently being undervalued for its future growth (PEG Ratio at 0.6x), we believe that investors should reposition towards value stocks with strong earnings growth and that are trading at discounts to their intrinsic value. We expect the current foreign investors' sell-offs to continue weighing down the equities outlook in the short term.

Real Estate

I. Real Estate Investments Trusts (REITs)

On the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 25.4 and Kshs 22.2 per unit, respectively, as per the last updated data on 31st October 2024. The performance represented a 27.0% and 11.0% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at Kshs 12.3 mn and Kshs 31.6 mn shares, respectively, with a turnover of Kshs 311.5 mn and Kshs 702.7 mn, respectively, since inception in February 2021. Additionally, ILAM Fahari I-REIT traded at Kshs 11.0 per share as of 31st October 2024, representing a 45.0% loss from the Kshs 20.0 inception price. The volume traded to date came in at 138,600 shares for the I-REIT, with a turnover of Kshs 1.5 mn since inception in November 2015.

REITs offer various benefits, such as tax exemptions, diversified portfolios, and stable long-term profits. However, the ongoing decline in the performance of Kenyan REITs and the restructuring of their business portfolios are hindering significant previous investments. Additional general challenges include:

i. Insufficient understanding of the investment instrument among investors leading to a slower uptake of REIT products,

ii. Lengthy approval processes for REIT creation,

iii. High minimum capital requirements of Kshs 100.0 mn for REIT trustees compared to Kshs 10.0 mn for pension funds Trustees, essentially limiting the licensed REIT Trustee to banks only

iv. The rigidity of choice between either a D-REIT or and I-REIT forces managers to form two REITs, rather than having one Hybrid REIT that can allocate between development and income earning properties

v. Limiting the type of legal entity that can form a REIT to only a trust company, as opposed to allowing other entities such as partnerships, and companies,

vi. We need to give time before REITS are required to list – they would be allowed to stay private for a few years before the requirement to list given that not all companies maybe comfortable with listing on day one, and,

vii. Minimum subscription amounts or offer parcels set at Kshs 0.1 mn for D-REITs and Kshs 5.0 mn for restricted I-REITs. The significant capital requirements still make REITs relatively inaccessible to smaller retail investors compared to other investment vehicles like unit trusts or government bonds, all of which continue to limit the performance of Kenyan REITs.

We expect Kenya's Real Estate sector to remain on a growth trend, supported by: i) demand for housing sustained by positive demographics, such as urbanization and population growth rates of 3.7% p.a and 2.0% p.a, respectively, against the global average of 1.7% p.a and 0.9% p.a, respectively, as at 2023, ii) activities by the government under the Affordable Housing Agenda (AHP) which has boosted land prices within the NMA area, iii) heightened activities by private players in the residential sector. However, challenges such as rising construction costs, strain on infrastructure development (including drainage systems), high capital requirements for REITs, and existing oversupply in select Real Estate sectors will continue to hinder the sector's optimal performance by limiting developments and investments.

Focus of the Week: Kenya Listed Banks Q3'2024 Report

Following the release of the Q3'2024 results by Kenyan listed 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 Q3'2024 Earnings Note
ii. KCB Group Q3'2024 Earnings Note
iii. Standard Chartered Bank Kenya Q3'2024 Earnings Note
iv. ABSA Bank Kenya Q3'2024 Earnings Note
v. NCBA Group Q3'2024 Earnings Note
vi. Co-operative Bank Q3'2024 Earnings Note
vii. Stanbic Holdings Q3'2024 Earnings Note
viii. I&M Group Holdings Q3'2024 Earnings Note
ix. Diamond Trust Bank Kenya Q3'2024 Earnings Note
x. HF Group Q3'2024 Earnings Note

The core earnings per share (EPS) for the listed banks recorded a weighted growth of 24.6% in Q3'2024, compared to a weighted growth of 11.2% recorded in Q3'2023, an indication of sustained performance supported by improved operating environment experienced in Q3'2024 on the back of easing inflationary pressures and a strengthening Shilling. Notably, the inflation rate in Q3'2024 averaged 4.1%, 2.8% points lower than the 6.9% average in Q3'2023, with the Kenyan Shilling having appreciated by 17.6% against the USD in Q3'2024. The performance in Q3'2024 was supported by a 14.7% growth in net interest income coupled with a 14.5% growth in non-funded income. Additionally, the asset quality of listed banks deteriorated, with the weighted average Gross Non-Performing Loan ratio (NPL) increasing by 0.5% points to 13.6%, from 13.1% recorded in Q3'2023. The performance remained 2.2% points above the ten-year average of 11.4%.

The report is themed **"Banking Resilience Amid Macroeconomic Shifts**" where we assess the key factors that influenced the performance of the banking sector in Q3'2024, 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 Q3'2024,
ii. Summary of the Performance of the Listed Banking Sector in Q3'2024,
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 Q3'2024

In this section, we will highlight the main factors influencing the banking sector in Q3'2024. These include regulation, digitization, interest rates, regional expansion through mergers and acquisitions, and asset quality:

1. **Regulation:**
    a) **Risk-based Lending:** Over the years, the government has used various policy tools to curb the increasing interest rates and promote access to credit by the private sector. As such, after the repeal of the Interest Cap Law in 2019, the Central Bank of Kenya (CBK) intervened administratively by halting banks from repricing their loans. Instead, banks were required to develop and submit new risk-based lending formulas for approval. The model's primary purpose is to instil fairness and transparency in the credit pricing decisions as it allows Banks to price based on a customer's risk profile. This represents a shift from the traditional practice of rejecting loan applicants solely based on their credit scores. The new credit scoring system primarily targets borrowers with higher risks, many of whom are micro, small, and medium-sized enterprises facing challenges in accessing traditional credit. As of September 2024, all 38 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 inadequate data to analyse the client's risk profile,
2. **Digitization:** In Q3'2024, digitization continued to be a transformative force in the banking sector, significantly improving how banks operate and deliver services. There has been a significant increase in the adoption of mobile and online banking platforms as customers now prefer to perform banking transactions from the comfort of their homes, leading to a decline in the use of physical branches. For instance, most of the listed banks disclosed that the majority of transactions were conducted through alternative channels, with Equity Group and KCB Group reporting that 85.9% and 99.0% of their transactions, respectively, were done through non-branch channels in Q3'2024,

3. **Interest Rates:** Interest rates remained high in Q3'2024 compared to the same period in 2023. Notably, the yields on Kenyan government securities were on an upward trajectory in Q3'2024, with the yield on the 91-day paper averaging 15.9% during the quarter, 2.6% points higher than the average of 13.3% in Q3'2023. The elevated rates led to a significant increase in the listed bank's interest income, rising by a weighted average of 25.4% in Q3'2024, from a weighted average growth of 29.7% in Q3'2023. Additionally, interest expense increased by a weighted average of 52.6% in Q3'2024, up from 47.9% in Q3'2023,

4. **Regional Expansion through Mergers and Acquisitions**: Kenyan banks are increasingly expanding their regional footprint, with subsidiaries contributing significantly to overall profitability. For instance, Equity Group reported that, regional subsidiaries contributed 51.0% of the Group's Profit Before Tax

(PBT) in Q3'2024, up from 50.0% in the same period last year, demonstrating the growing importance of these subsidiaries to the group's earnings. Additionally, KCB Group's subsidiaries contributed 36.6% of the group's PBT in Q3'2024. In 2024, there was one acquisition agreement announcement between Access Bank plc and KCB Group:

a) On March 20, 2024 Access Bank Plc announced that it had entered into a share purchase agreement with KCB Group Plc that would allow Access Bank Plc to acquire 100% shareholding in National Bank of Kenya Limited (NBK) from KCB. Access Bank Plc is a wholly owned subsidiary of Access Holdings Plc listed on the Nigerian Exchange as Access Corporation. Notably, KCB Bank had acquired the National Bank of Kenya back in 2019 in a rescue deal that was supervised by the Central Bank of Kenya. The announcement follows the release of the FY'2023 results for the KCB group, which revealed a decline in earnings with its Core earnings per share (EPS) declining by 8.3% to Kshs 11.7, from Kshs 12.7 in FY'2022. The transaction represents an important milestone for Access Bank as it moves closer to the achievement of its five-year strategic plan through increased scale in the Kenyan market. In the signed deal, Access Bank will pay multiples of 1.3x the book value of NBK, which stood at Kshs 10.6 bn as of end December 2023. This values the deal at about Kshs 13.3 bn with the actual figure to be announced when the transaction is completed. For more information, please see our Cytonn Weekly #12/2024,

b) In April 2024, Sidian Bank disclosed that the founders of the bank and other nine individual shareholders relinquished a combined stake of 728,525 shares representing 16.6% stake to Pioneer General Insurance Limited, pioneer Life Investments Limited, Wizro Enterprises Limited, Afrah Limited, and Telesec Africa Limited. The transaction amounted to Kshs 0.8 bn translating to a price to book multiple (p/bv) of 1.0x. This follows an earlier transaction executed on October 2023 when Pioneer General Insurance, Wizpro Enterprise and Afram Limited bought 38.9% stake in the lender following a shareholders' resolution passed on 20th September 2023 approving the sale.

The following are Mergers and Acquisitions that were completed in 2023:

a) On January 30, 2023, the Central Bank of Kenya (CBK) announced that Commercial International Bank (Egypt) S.A.E (CIB) had completed the acquisition of an 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. Consequently, MBL is now a fully owned subsidiary of CIB,

b) On January 30, 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 Bank'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,

c) On March 17, 2023, the Central Bank of Kenya (CBK) announced that Premier Bank Limited Somalia (PBLS) had completed the 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 May 22, 2023, the Central Bank of Kenya (CBK) announced that Shorecap III, LP, a Private Equity fund governed by the laws of Mauritius, had acquired a 20.0% stake in Credit Bank Plc. The fund is managed by Equator Capital Partners LLC, and the acquisition took effect from June 15, 2023. While the CBK initially did not reveal the value of the deal, it has since been disclosed that Shorecap III, LP paid Ksh 0.7 billion for the 20.0% stake, valuing the bank at Ksh 3.64 bn. Shorecap III, LP assumed control of 7,289,928 ordinary shares, which make up 20.0% of the Bank's ordinary shares. The funds helped lift Credit Bank from a regulatory capital breach. For additional details, refer to our Cytonn Weekly #21/2023,

e) On December 1, 2023 Equity Group Holdings Plc (EGH) announced that it had successfully completed the acquisition of its Rwandan Subsidiary, Compagnie Générale de Banque (Cogebanque) Plc, marking a significant milestone in its regional expansion strategy. Equity Group now holds 198,250 shares representing 99.1% of the issued share capital of COGEBANQUE, following receipt of all regulatory and corporate approvals, officially making COGEBANQUE its subsidiary. EGH made the announcement it had entered into a binding agreement with the 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 on June 14, 2023. Notably, EGH signed a share purchase agreement with the Sellers on July 28, 2023, committing to buy 183,854 shares at a rate of 297,406 Rwandan Francs per share upon completion on December 1, 2023, giving EGH ownership of 99.1% of the issued share capital. Concurrently, EGH proposed to purchase all outstanding shares from the other shareholders of Cogebanque, aiming to own up to 100% of Cogebanque's issued shares,

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**
Pioneer General Insurance and four other companies	Sidian Bank	5.0	16.57%	0.8	1.0x	Apr-24
Access Bank PLC (Nigeria)*	National Bank of Kenya	10.6	100.00%	13.3	1.3x	Mar-24*
Pioneer General Insurance and two other companies	Sidian Bank	5.0	38.91%	2.0	1.0x	Oct-23
Equity Group	Cogebanque PLC ltd	5.7	91.13%	6.7	1.3x	Dec-23
Shorecap III	Credit Bank Plc	3.6	20.00%	0.7	1.0x	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	100.00%	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	1.0	51.00%	Undisclosed	N/A	May-20*
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	7.0	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	3.0	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	3.0	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			**73.3%**		**1.3x**	
Average: 2013 to 2018			**73.5%**		**1.7x**	
Average: 2019 to 2024			**73.2%**		**1.0x**	
*** Announcement Date**						
**** Deals that were dropped**						

In 2024 year to date, the average acquisition valuations for banks have remained unchanged at 1.3x, similar to what was recorded in 2023. As such, the valuations still remain low compared to historical prices paid, as highlighted in the chart below;

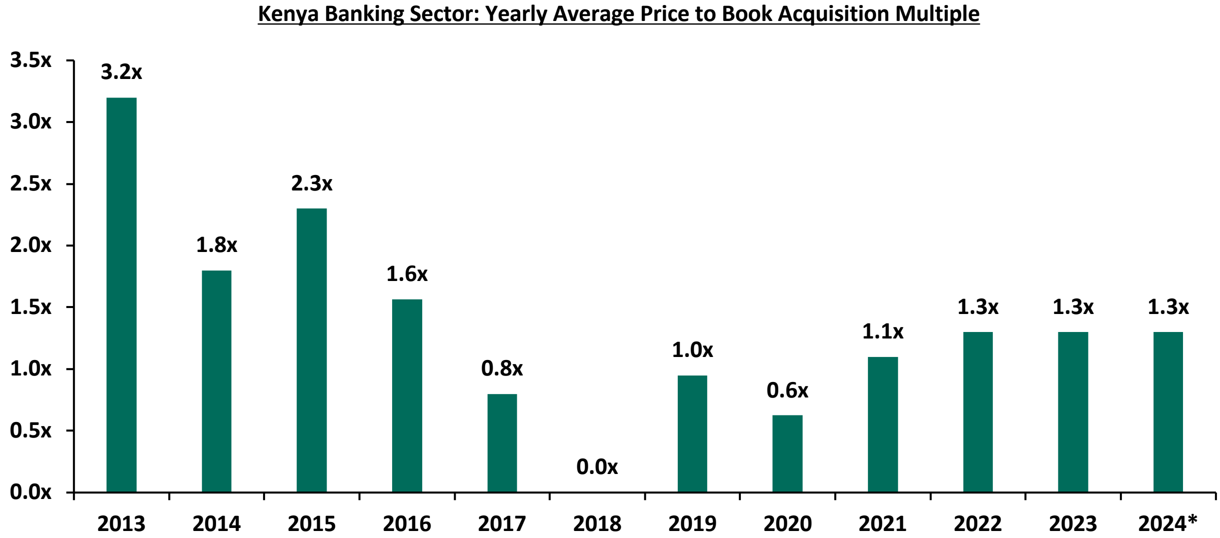
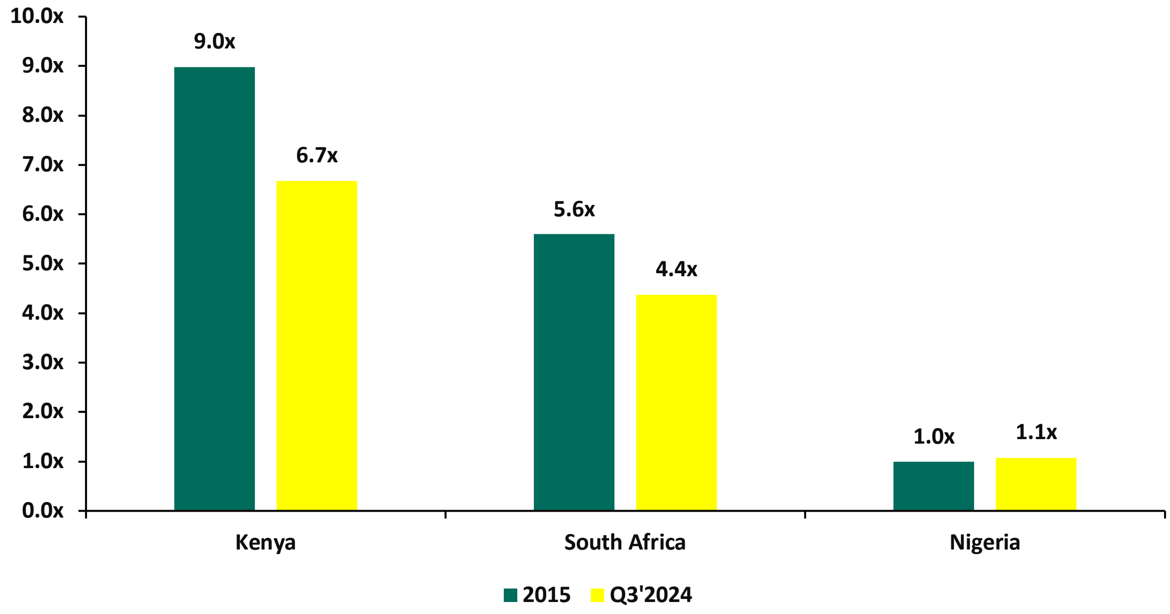


**Figure as of end Q3'2024*

As at the end of Q3'2024, the number of commercial banks in Kenya stood at 38, same as in Q3'2023, but lower than the 43 licensed banks in FY'2015. The ratio of the number of banks per 10 million population in Kenya now stands at 6.7x, 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. This ongoing trend is expected to accelerate following the recent Treasury proposal to review the minimum core capital requirement for commercial banks to Kshs 10.0 bn up from the current Kshs 1.0 bn. The new capital requirement is likely to trigger further mergers and acquisitions (M&As), especially for smaller lenders that may struggle to meet the threshold, potentially reducing the number of banks even further. The chart below shows the commercial bank ratio per 10 million people across select African nations in comparison to Kenya;

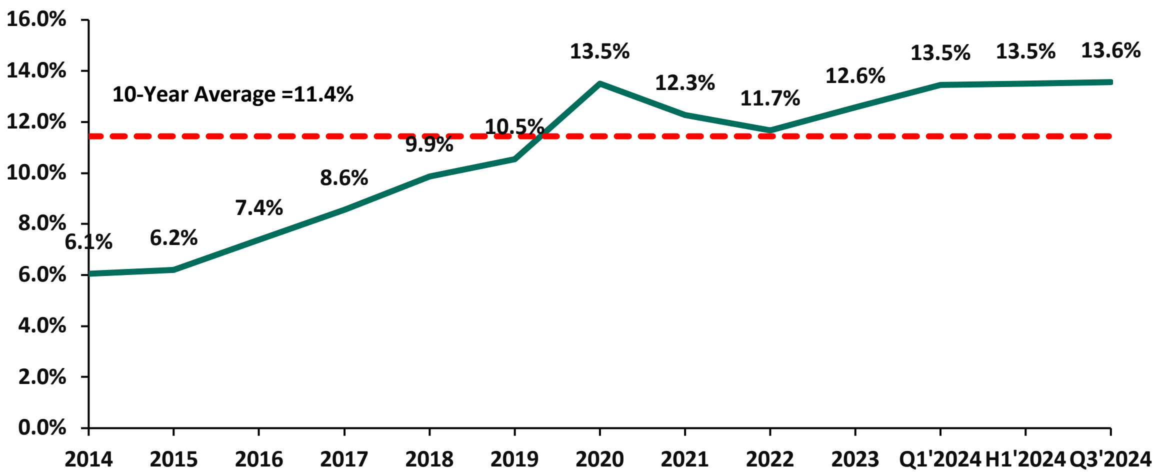
Cytonn Report: Commercial Banks / Per Population of 10 million People



Source: World Bank, Central Bank of Kenya, South Africa Reserve Bank, Central Bank of Nigeria

5. **Asset Quality:** Asset quality for listed banks deteriorated in Q3'2024, with the weighted average Gross Non-Performing Loan ratio (NPL) increasing by 0.5% points to 13.6%, from 13.1% recorded in Q3'2023. The performance remained 2.2% points above the ten-year average of 11.4%. Notably, 7 out of the 10 listed banks recorded an increase in the NPL ratio, mainly driven by tough business conditions, increased borrowing costs, and a decline in lending due to elevated credit risk. This was evidenced by the Q3'2024 Purchasing Managers Index (PMI) averaging 47.8, below the 48.0 average in Q3'2023, signalling a worsening economic environment. Consequently, Absa Group's NPL ratio rose by 2.8% points to 12.6%, from 9.8% in Q3'2023, while KCB Group's NPL ratio increased by 2.0% points to 18.1%, from 16.1% in Q3'2023. Absa Group's asset quality worsened due to a 23.5% rise in Gross Non-Performing Loans to Kshs 42.7 bn in Q3'2024 from Kshs 34.5 bn in Q3'2023, outpacing a 4.2% decline in gross loans to Kshs 339.3 bn from Kshs 354.2 bn in Q3'2023. The chart below highlights the asset quality trend for the listed banks:

Gross NPL Ratio



However, the deterioration in listed banks' asset quality was mitigated by an improvement in Standard Chartered Bank's asset quality, with the Gross NPL ratio decreasing by 6.9% points to 7.5% in Q3'2024 from

14.4% in Q3'2023. This was attributable to the 48.4% decrease in gross non-performing loans to Kshs 12.1 bn from Kshs 23.6 bn in Q3'2023, compared to the 0.9% decrease in gross loans to Kshs 161.6 bn from Kshs 163.1 bn in Q3'2023. A total of seven out of the ten listed Kenyan banks recorded a deterioration in asset quality, driven by the worsening economic environment, as evidenced by the Q3'2024 Purchasing Managers Index (PMI) averaging 47.8, below the 48.0 average in Q3'2023. Additionally, the Central Bank of Kenya lowered the Central Bank Rate (CBR) by 75 basis points to 11.25% from 12.00%, signalling a gradual easing of monetary policy. This reduction in CBR is expected to support credit growth and ease financial pressures on borrowers. Hence, going forward, we expect credit risk to decline gradually but remain at relatively elevated levels compared to previous years, owing to the improved business environment, eased inflationary pressures, and the appreciation of the Kenya shilling.

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

Cytonn Report: Listed Banks Asset Quality						
	Q3'2024 NPL Ratio*	Q3'2023 NPL Ratio**	% point change in NPL Ratio	Q3'2024 NPL Coverage*	Q3'2023 NPL Coverage**	% point change in NPL Coverage
Absa Bank Kenya	12.6%	9.8%	**2.8%**	65.3%	67.4%	(2.1%)
KCB Group	18.1%	16.1%	**2.0%**	63.8%	62.1%	1.7%
Co-operative Bank of Kenya	16.5%	14.9%	**1.7%**	60.5%	62.1%	(1.6%)
Stanbic Holdings	10.4%	9.0%	**1.4%**	76.5%	66.3%	10.2%
HF Group	24.1%	22.8%	**1.3%**	74.4%	74.0%	0.5%
Diamond Trust Bank	13.5%	12.6%	**0.9%**	39.1%	48.7%	(9.5%)
Equity Group	14.4%	13.6%	**0.7%**	56.8%	53.4%	3.4%
I&M Group	11.8%	11.8%	**(0.0%)**	61.3%	51.8%	9.5%
NCBA	12.5%	12.9%	**(0.4%)**	59.7%	57.7%	2.0%
Standard Chartered Bank	7.5%	14.4%	**(6.9%)**	85.3%	83.0%	2.3%
Mkt Weighted Average*	**13.6%**	**13.1%**	**0.5%**	**64.5%**	**62.0%**	**2.5%**
*Market cap weighted as at 11/12/2024						
**Market cap weighted as at 21/09/2023						

Key take-outs from the table include;

i. Asset quality for the listed banks deteriorated in Q3'2024, with market weighted average NPL increasing by 0.5% points to 13.6% from a 13.1% in Q3'2023. The worsening of asset quality was mainly driven by a deterioration in Absa Group, KCB Group, Coop Bank, Stanbic Holdings, HF Group, Diamond Trust Bank Kenya and Equity Group's asset quality with their NPL ratio increasing by 2.8%, 2.0%, 1.7%, 1.4%, 1.3%, 0.9% and 0.7% points respectively,

ii. Absa Group and KCB Group had the highest NPL ratio jumps by 2.8% and 2.0% points respectively to 12.6% and 18.1%, from 9.8% and 16.1% respectively in Q3'2023. Absa Group's asset quality worsened due to a 23.5% rise in Gross non-performing loans to Kshs 42.7 bn in Q3'2024 from Kshs 34.5 bn in Q3'2023, outpacing a 4.2% decline in gross loans to Kshs 339.3 bn from Kshs 354.2 bn in Q3'2023. Similarly, KCB Group's asset quality worsened due to a 15.1% rise in Gross non-performing loans to Kshs 215.3 bn in Q3'2024 from Kshs 187.0 bn in Q3'2023, outpacing a 2.3% decline in gross loans to Kshs 1,190.5 bn from Kshs 1,164.0 bn in Q3'2023, and,

iii. Market weighted average NPL Coverage for the listed banks increased by 2.5% points to 64.5% in Q3'2024, from 62.0% recorded in Q3'2023, majorly on the back of increased NPL coverage recorded by Stanbic Holdings, I&M Group, Equity Group, Standard Chartered Bank, NCBA Bank, KCB Group and HF Group by 10.2%, 9.5%, 3.4%, 2.3%, 2.0%, 1.7% and 0.2% points respectively in Q3'2024. However, the NPL coverage ratios of Diamond Trust Bank, Absa Group and Co-op Bank decreased by 9.5%, 2.1% and 1.6% points respectively in Q3'2024.

Section II: Summary of the Performance of the Listed Banking Sector in Q3'2024:

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: Kenyan Listed Banks Performance Q3'2024															
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	COF	YIEA
HF Group	**104.6%**	23.0%	43.6%	2.6%	(0.3%)	10.9%	33.9%	24.0%	2.7%	45.5%	84.2%	(0.7%)	5.2%	6.8%	11.6%
Standard Chartered Bank	**62.7%**	24.0%	91.7%	17.0%	10.1%	73.5%	36.4%	30.4%	(4.8%)	22.4%	53.2%	5.4%	31.6%	1.7%	11.7%
KCB Group	**49.0%**	30.8%	44.0%	23.9%	7.0%	18.3%	35.1%	10.7%	(7.1%)	(2.1%)	67.8%	0.5%	22.4%	4.6%	11.3%
I&M Group	**21.3%**	43.5%	51.2%	37.4%	8.3%	(11.5%)	26.5%	15.1%	2.8%	13.6%	68.0%	(2.1%)	16.8%	6.6%	15.1%
Absa Bank Kenya	**19.8%**	24.3%	43.8%	17.7%	10.2%	13.0%	26.2%	1.1%	(0.7%)	(8.5%)	88.5%	(5.9%)	26.4%	4.6%	14.3%
Equity Group	**13.1%**	13.3%	17.7%	11.0%	7.7%	5.8%	43.1%	9.5%	9.0%	6.8%	60.8%	(5.4%)	23.7%	4.2%	11.7%
Diamond Trust Bank Kenya	**12.6%**	15.6%	25.9%	6.1%	5.3%	5.7%	31.3%	17.0%	(3.5%)	0.1%	62.2%	(4.9%)	11.8%	6.1%	10.9%
Stanbic Holdings	**9.3%**	48.6%	147.4%	4.8%	6.8%	(17.8%)	35.3%	(3.1%)	7.3%	82.7%	66.7%	(12.8%)	22.2%	6.7%	12.9%
Co-operative Bank of Kenya	**4.4%**	25.2%	50.6%	12.3%	8.0%	8.2%	37.7%	1.7%	18.7%	14.3%	74.2%	0.9%	20.0%	5.9%	13.3%
NCBA Group	**3.1%**	22.3%	53.7%	(3.1%)	5.8%	5.2%	46.5%	6.9%	(6.0%)	(11.1%)	58.9%	(1.7%)	23.3%	7.6%	13.0%
Q3'24 Mkt Weighted Average*	**24.6%**	**25.5%**	**52.9%**	**14.7%**	**7.9%**	**14.5%**	**36.9%**	**10.0%**	**2.3%**	**10.4%**	**66.3%**	**(2.3%)**	**23.5%**	**4.9%**	**12.5%**
Q3'23 Mkt Weighted Average**	**11.2%**	**29.7%**	**47.9%**	**21.3%**	**7.0%**	**17.0%**	**37.7%**	**27.7%**	**24.4%**	**(4.3%)**	**70.6%**	**19.1%**	**21.1%**	**3.7%**	**9.9%**
*Market cap weighted as at 13/12/2024															
**Market cap weighted as at 21/09/2023															

Key takeaways from the table include:

i. The listed banks recorded an 24.6% growth in core Earnings per Share (EPS) in Q3'2024, compared to the weighted average growth of 11.2% in Q3'2023, an indication of sustained performance supported by improved operating environment experienced in Q3'2024 on the back of easing inflationary pressures and a strengthening Shilling. The performance during the period was mainly supported by a 14.7% weighted average growth in net interest income, coupled with a 14.5% weighted average growth in non-funded income,

ii. Investments in government securities investments by listed banks increased in Q3'2024, having recorded a market-weighted average growth of 10.4%, from the 4.3% decline recorded in Q3'2023, with 7 of the 10 listed banks recording an increase in government securities investments,

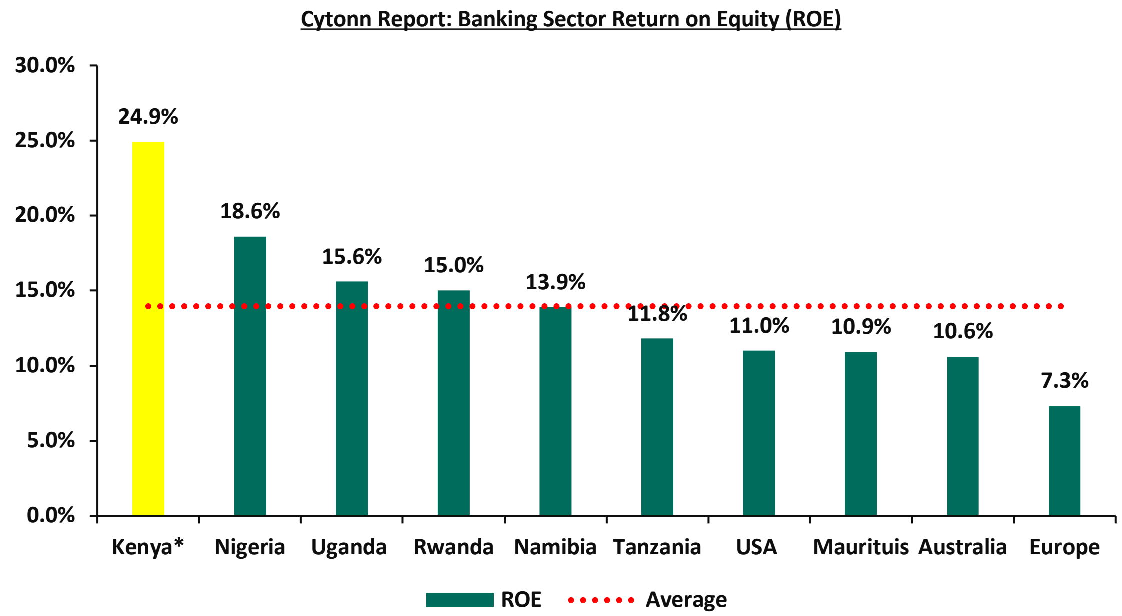
iii. The listed banks' Net loans and advances to customers recorded a weighted average decline of 2.3% in Q3'2024, a significant decline from the 19.1% growth recorded in Q3'2023, an indication of decreased lending attributable to the elevated credit risk following high default rates on the back of high borrowing costs,

iv. Interest income recorded a weighted average growth of 25.5% in Q3'2024, compared to 29.7% in Q3'2023. Similarly, interest expenses recorded a market-weighted average growth of 52.9% in Q3'2024 compared to a growth of 47.9% in Q3'2023. Consequently, net interest income recorded a weighted average growth of 14.7% in Q3'2024, albeit lower than the 21.3% growth recorded in Q3'2023,

v. Notably, non-funded income growth softened during the quarter, as evidenced by non-funded income weighted average growth of 14.5% in Q3'2024 compared to a weighted average growth of 17.0% in

Q3’2023. The performance was largely attributable to the decrease in foreign exchange income recorded by the banks during the period as a result of decreased dollar demand in the country following the appreciation of the Shilling. Additionally, listed banks recorded a weighted average growth of 10.0% in total fees and commissions income in Q3’2024 compared to a weighted growth of 27.7% in Q3’2023, and,

vi. The listed banks recorded a 23.5% weighted average return on average equity (RoaE), 2.4% points above the 21.1% ROaE registered in Q3’2023. Additionally, the entire banking sector’s Return On Equity (ROE) stood at 24.9% as of September 2024, a 1.1% points decrease from the 26.0% recorded in June 2024. On a global level, the Kenyan banking sector continues to record high profitability compared to other economies in the world, as highlighted in the chart below:



Source: Cytonn research
** Figure as of September 2024*

Section III: The Focus Areas of the Banking Sector Players Going Forward:

The banking sector continues to remain resilient despite the tough operating environment as evidenced by the increase in their profitability, with the Core Earnings Per Share (EPS) growing by 24.6%, as banks continued to implement their revenue diversification strategies. Notably, 8 out of the 10 listed banks recorded a growth in their Non-funded income in Q3’2024. Additionally, we believe that the possibly improved business environment occasioned by ease in inflationary pressures, an ease in the monetary policy following a decrease in the CBR and a stronger Shilling, will see banks start to decrease their provisioning to cushion themselves from credit risk. To note, growth in general provisions for the listed banks recorded a reduced weighted average growth of 7.0% in Q3’2024, compared to a growth of 25.2% in Q3’2023. Based on the current operating environment, we believe the future performance of the banking sector will be shaped by the following key factors**:**

I. **Growth in Interest income:** Going forward, we expect interest income growth to remain a key driver in the banking industry, evidenced by the 25.4% growth recorded in Q3’2024, albeit lower than the 29.7% growth recorded in Q3’2023, partly on the back of continued high borrowing costs. However, the recent easing of monetary policy by the Central Bank of Kenya, which lowered the Central Bank Rate (CBR) by 75 basis points to 11.25% in December 2024, signals a gradual reduction in borrowing costs. This is likely to weigh down on interest income, which we however expect to be supported by an increase in credit uptake, expanding banks' loan books and consequently boosting interest income. Additionally, the continued use of banks' risk-based lending models will enable banks to effectively price their risk, further contributing to the growth of interest income.,

II. **Revenue Diversification:** In Q3'2024, non-funded income (NFI) recorded a 14.5% weighted average growth, slower than the 17.0% weighted growth in Q3'2023 with 8 out of the 10 listed Banks recording an increase in their non-funded income. As a result of the reduced growth in non-funded income, the weighted average contribution of NFI to total operating income came in at 36.9% in Q3'2024, 1.0% points lower than the 37.7% weighted average growth contribution recorded in Q3'2023. As such, there exists an opportunity for the sector to further increase NFI contributions to revenue given the continuous adoption of digitization,

III. **Growth in Loans and Advances:** While 3 of the listed banks, such as Standard Chartered and Co-op Bank, experienced positive loan growth of 5.4% and 0.9%, respectively, 7 out of the 10 listed banks recorded negative growth in loans and advances to customers. However, with the Central Bank of Kenya reducing the Central Bank Rate (CBR) by 75 basis points to 11.25% in December 2024, signalling a gradual easing of monetary policy, borrowing costs are expected to decline. This reduction is anticipated to support credit growth by encouraging increased borrowing by the private sector and easing financial pressures on borrowers. To drive further loan growth, banks must leverage opportunities such as risk-based lending models, improved customer segmentation, and expanding access to credit in underserved sectors, and,

IV. **Regional Expansion and Further Consolidation:** Consolidation remains a key theme going forward with the current environment offering opportunities for larger banks with a sufficient capital base to expand and take advantage of the market's low valuations, as well as further consolidate out smaller and weaker banks. Notably, the majority of the bigger banks have continued to cushion over 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 on expansion and consolidation, which has largely contributed to their increased asset base as well as earnings growth. Additionally, we expect the increased capital requirements imposed on banks to further accelerated consolidation, as only well-capitalized banks are able to meet these thresholds while pursuing expansion opportunities. As such, we expect to see a continued expansion trend aimed at revenue optimization.

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 Q3'2024								
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	88.5%	55.0%	26.4%	4.0	12.6%	65.3%	15.8%	26.2%
HF Group	84.9%	89.5%	7.0%	2.0	24.1%	74.4%	13.9%	33.9%
Coop Bank	74.2%	55.2%	20.0%	2.5	16.5%	60.5%	17.0%	37.7%
I&M Holdings	68.0%	62.5%	16.8%	4.3	11.8%	61.3%	14.3%	26.5%
KCB Group	67.8%	59.8%	22.4%	2.9	18.1%	63.8%	11.8%	35.1%
Stanbic Bank	66.7%	52.1%	22.2%	10.9	10.4%	76.5%	13.2%	35.3%
DTBK	62.2%	67.9%	11.8%	2.8	13.5%	39.1%	12.3%	31.3%
Equity Bank	60.8%	64.0%	24.2%	3.3	14.4%	56.8%	12.0%	43.1%
NCBA Group	58.9%	60.8%	23.3%	4.4	12.5%	59.7%	13.7%	46.5%
SCBK	53.2%	42.5%	31.6%	12.4	7.5%	85.3%	16.7%	36.4%
Weighted Average Q3'2024	**66.3%**	**57.6%**	**23.6%**	**5.0**	**13.6%**	**64.5%**	**13.9%**	**36.9%**
Market cap weighted as at 13/12/2024								

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 a bank's operating metrics, meant to assess efficiency, asset quality, diversification, and profitability, among other metrics. The overall Q3'2024 ranking is as shown in the table below:

Cytonn Report: Listed Banks Q3'2024 Rankings					
Bank	**Franchise Value Rank**	**Intrinsic Value Rank**	**Weighted Rank Score**	**Q3'2023 Rank**	**Q3'2024 Rank**
Absa Bank	2	2	2.0	1	1
Coop Bank	4	1	2.8	2	2
SCBK	1	7	3.4	7	3
Stanbic Bank	2	8	4.4	9	4
NCBA Group	6	5	5.6	4	5
Equity Bank	8	3	6.0	6	6
I&M Holdings	4	9	6.0	3	6
KCB Group	7	6	6.6	8	8
DTBK	9	4	7.0	5	9
HF Group	10	10	10.0	10	10

Major Take-outs from the Q3'2024 Ranking are:

1. ABSA Bank retained to position 1 in Q3'2024, similar to Q3'2023, mainly supported by strong franchise and intrinsic value score, attributable to improvement in the bank's management quality and earning quality, with the cost-to-income ratio with LLPs declining by 0.6% points to 55.0% in Q3'2024, from 55.6% in Q3'2023, and cost-to-income without LLPs declined by 0.9% points to 37.8% in Q3'2024, from 38.7% in Q3'2023. Notably, the bank's Net Interest Margin increased by 1.4% points to 10.2% in Q3'2024 from 8.8% in Q3'2023,

2. Standard Chartered Bank climbed up 4 places to rank at position 3 in Q3'2024, up from position 7 in Q3'2023 supported by significant improvement in franchise value score. Its performance was driven by 11.0% points decline in cost-to-income ratio with LLPs to 42.5% in Q3'2024, from 53.5% in Q3'2023, while cost-to-income ratio without LLPs declined by 9.9% points to 37.5% in Q3'2024, from 47.3% in Q3'2023. Notably, the bank's Net Interest Margin increased by 1.6% points to 10.1% in Q3'2024 from 8.5% in Q3'2023,

3. Stanbic Holdings also climbed up 5 places to rank at position 4 in Q3'2024, up from position 9 in Q3'2023 supported by significant improvement in franchise value score. Its performance was driven by a 0.8% points growth in return on average equity to 22.2% in Q3'2024 from 21.4% in Q3'2023. Additionally, the cost-to-income ratio with LLPs declined by 5.7% points to 52.1% in Q3'2024, from 57.8% in Q3'2023, while cost-to-income ratio without LLPs declined by 0.3% points to 42.9% in Q3'2024, from 43.2% in Q3'2023

4. I&M Group slid 3 places to rank at position 6 in Q3'2024, down from position 3 in Q3'2023, attributable a decline in franchise value score mainly on the back of a 11.5% decrease in net non-funded income to Kshs 9.5 bn from the Kshs 10.7 bn recorded in Q3'2023. The banks performance was however supported by 1.8% points decline in cost-to-income ratio with LLPs to 62.5% in Q3'2024, from 64.3% in Q3'2023 coupled with 1.7% points decrease in Cost of income without LLPs to 47.1% in Q3'2024 from the 48.8% recorded in Q3'2023.

For more information, see our **Cytonn Q3'2024 Listed Banking Sector Review** full report.

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