Market Summary

In today's trading session, the Financial Services sector stocks lost 0.5% on a weighted average basis, with the sector's capitalization coming in at Kshs 799.4 bn from Kshs 803.3 bn recorded yesterday. This performance was driven by losses in select large cap banking stocks such as Co-operative Bank and KCB Group, which lost 2.4% and 1.1%, respectively.

Below is a summary of top gainers and losers for the day.

Top Gainers		Top Losers	
Jubilee Insurance	**4.9%**	Co-operative Bank	**(2.4%)**
Liberty Holdings	**4.5%**	Diamond Trust Bank	**(1.6%)**
National Bank	**2.9%**	KCB Group	**(1.1%)**

Earnings Highlights

Barclays Bank Kenya and NIC Group released Q3'2017 results, with both banks posting declines in core Earnings per Share (EPS).

Barclays Bank Kenya recorded a 12.0% y/y decline in core EPS to Kshs 1.0 from Kshs 1.1 in line with our expectations of a 9.4% decline, attributed to a 7.5% drop in total operating revenue which outpaced the 5.3% decline in total expenses. The drop in total operating revenue is attributable to a 14.8% decline in Non-Funded Income (NFI) to Kshs 6.5 bn from Kshs 7.6 bn in Q3'2016, and a 4.2% decline in Net Interest Income (NII) to Kshs 16.1 bn from Kshs 16.9 bn, highlighting the impact of interest rate caps. The decline in operating expenses is attributable to a 34.4% drop in in loan loss provisions to Kshs 3.1 bn from Kshs 2.3 bn in Q3'2016 despite a 9.8% growth in staff costs to Kshs 8.1 bn from Kshs 7.4 bn in Q3'2016. The growth in staff costs was driven by the voluntary employee buyout programme that the bank rolled out and saw 145 employees leave the firm as at October this year. Despite the decreased profitability, going forward we expect BBK's growth to be propelled by their investments in innovation, technology, introduction of new products, and diversification of their revenue streams by increasing their non-funded interest to a target of 40.0% of the total operating income, currently standing at 28.6%.

NIC Group PLC recorded a 2.5% y/y decline in core EPS to Kshs 3.3 from Kshs 3.4, which was better than our expectations of an 8.7% decline, driven by an 18.8% decline in total operating income, despite a 24.8% decrease in operating expenses, this attributable to the one-off deferred tax of Kshs 0.8 bn recorded in Q3'2017. The decrease in operating expenses was driven by a 34.6% decrease in Loan Loss Provisions (LLP) to Kshs 2.1 bn from Kshs 3.2 bn and a 15.0% decline in staff costs to Kshs 1.9 bn from Kshs 2.3 bn in Q3'2016. In Q3'2017, we have seen the cost to income and gross NPL ratios improving to 57.4% and 11.8% from 62.0% and 12.5% in Q3'2016, respectively. Going forward, we expect NIC to reap the benefits expected from the newly concluded restructuring, which include improved capital use, strategic and risk management, and subsidiary governance. This is expected to result in further gradual improvement of efficiency and asset quality, observed through improving cost to income and gross NPL ratios, respectively.

Monetary Policy

The Central Bank of Kenya (CBK) Monetary Policy Committee (MPC) met today, to review the prevailing macroeconomic conditions and give the direction of the Central Bank Rate (CBR). The MPC maintained the CBR at 10.0%, which was in line with our expectations as per our MPC Note. The Committee noted that the decision was on the back of a relatively stable macro-economic environment, with inflation declining to 5.7% in October, from 7.1% in September and the forex reserves remaining high at USD 7.1 bn (4.7 months of import cover). The committee also noted that private sector credit growth rose to 2.0% in October, from 1.7% in September, with credit to the domestic trade, manufacturing and real estate sectors growing by 12.6%, 10.2% and 10.0%, respectively.