Kenya Listed Commercial Banks Review

Cytonn Q3'2024 Banking Sector Report

"Banking Resilience Amid Macroeconomic Shifts"

Cytonn

13th December, 2024

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I. Introduction to Cytonn

Cytonn

About Us

Cytonn Investments is an alternative investment manager, with real estate development capability, and a primary focus on private equity and real estate investments in the high growth Kenyan Region. Cytonn has a unique strategy of coupling two compelling demand areas - the lack of high yielding investment products and the lack of institutional grade real estate. We provide high yielding investment instruments to attract funding from investors, and we deploy that funding to largely pre-sold investment grade real estate. With offices in Kenya and Washington, DC - USA, we are primarily focused on offering alternative investment solutions to global and local institutional investors, individual high net-worth investors, and diaspora investors interested in the East-African region. Real estate investments are made through our development affiliate, Cytonn Real Estate, where we currently have over Kshs. 82 billion (USD 820 mn) of projects under mandate across ten projects. In private equity, we invest in banking, education, and hospitality.

82	Over Kshs. 82 billion worth of projects under mandate	**3**	Three offices across 2 continents	**500**	Over 500 staff members, including Cytonn Distribution	**10**	10 investment ready projects in real estate

A unique franchise differentiated by:

Independence & Investor Focus

Focused on serving the interest of clients, which is best done on an independent platform to minimize conflicts of interest

Alternative Investments

Specialized focus on alternative assets - Real Estate, Private Equity, and Structured Solutions

Strong Alignment

Every staff member is an ownerin the firm. When clients do well, the firm does well; and when thefirm does well, staff do well

Committed Partners

Strong global and local partnerships in financing, land and Cytonn Real Estate, our development affiliate

Why We Exist

Africa presents an attractive investment opportunity for investors seeking attractive and long-term returns. Despite the alternative markets in Africa having high and stable returns, only a few institutional players serve the market. Cytonn is focused on delivering higher returns in the alternative markets, while providing the best client service and always protecting our clients' interests.

WE SERVE THREE MAIN CLIENT SEGMENTS:

- High Net-worth Individuals through Cytonn Private Wealth. This is done through our captive Distribution Network
- East Africans in the Diaspora through Cytonn Diaspora
- Global and Local Institutional Clients. These clients are served from our Investment & Fundraising Team

WE INVEST OUR CLIENT FUNDS IN:

- Real Estate, and Real Estate Related Businesses
- Private Equity
- Fixed Income Structured Solutions
- Equities Structured Solutions

We collect funds from our clients → **We invest them in high growth opportunities** → **We deliver the best possible returns**

Our Business Structure

Cytonn Investments Management Plc

- **Cytonn Capital Partners** (Private Markets)
  - Private Offers and Real Estate Investments
  - Cytonn Hospitality
  - Superior Homes Kenya
- **Cytonn Asset Managers** (Regulated by CMA & RBA)
  - Unit Trust Funds
  - Cytonn Africa Financial Fund
  - Cytonn Advisory
  - Pension Fund Management
- **Cytonn Real Estate**
  - Research and Deal Origination
  - Project Management
  - Quality Assurance/ Control
  - Cytonn Procurement - Cymatt
  - Cytonn Real Estate Legal
  - Cytonn Properties
  - Cytonn Centre for Affordable Housing
- **Other Strategic Initiatives**
  - Cytonn Distribution
  - East African Forum for Alternative Investments

II. Kenya Economic Review and Outlook

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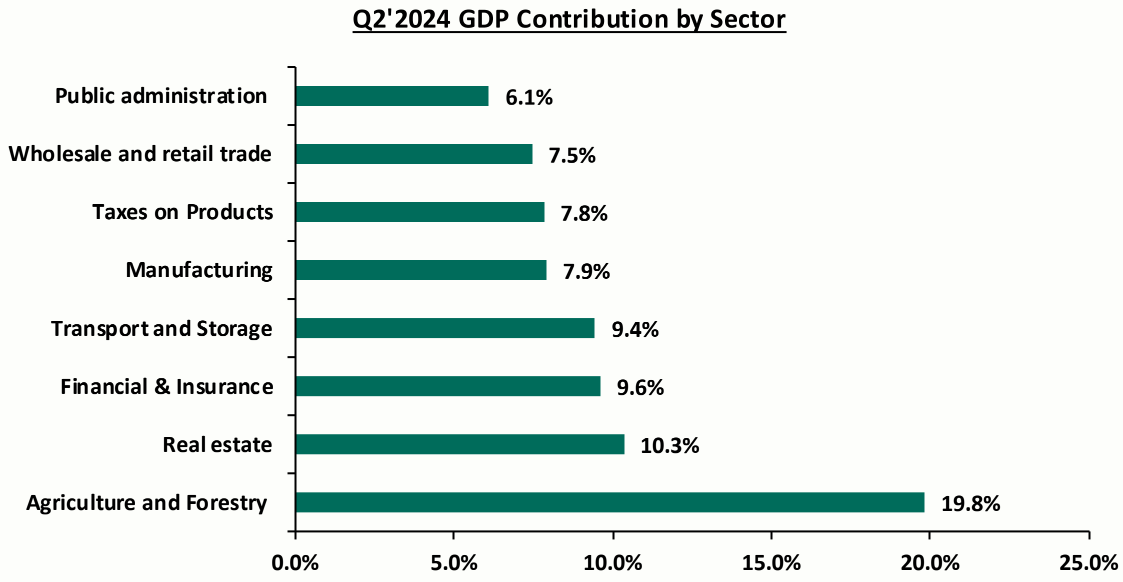
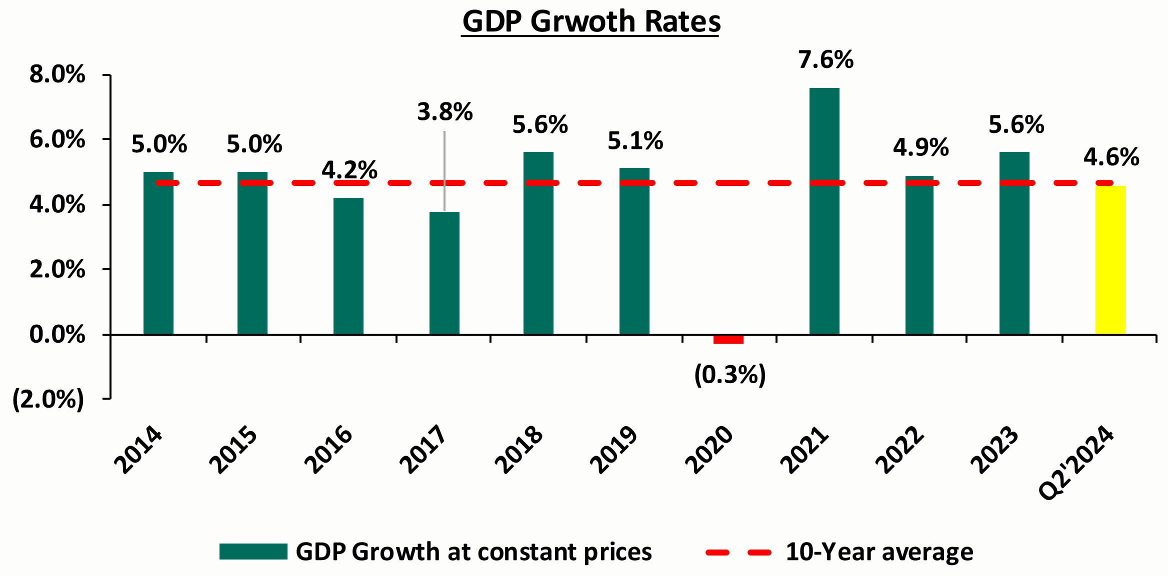
Economic Growth

The Kenyan economy grew by 4.6% in Q2’2024, slower than the 5.6% growth in Q2’2023





**Source: KNBS*

- The Kenyan economy recorded an average growth of 4.6% in the period between April to June 2024, slower than the growth rate of 5.6% recorded in Q2’2023.
- The main contributor to Kenyan GDP remains to be the Agriculture, fishing and forestry sector which grew by 4.8% in Q2’2024, lower than the 7.8% expansion recorded in Q2’2023
- Most sectors recorded declining growth rates compared to Q2’2023 with Accommodation and Food Services; Financial & Insurance; and Construction Sectors recording the highest declines of 16.2%, 8.1%, and 5.6% points, respectively

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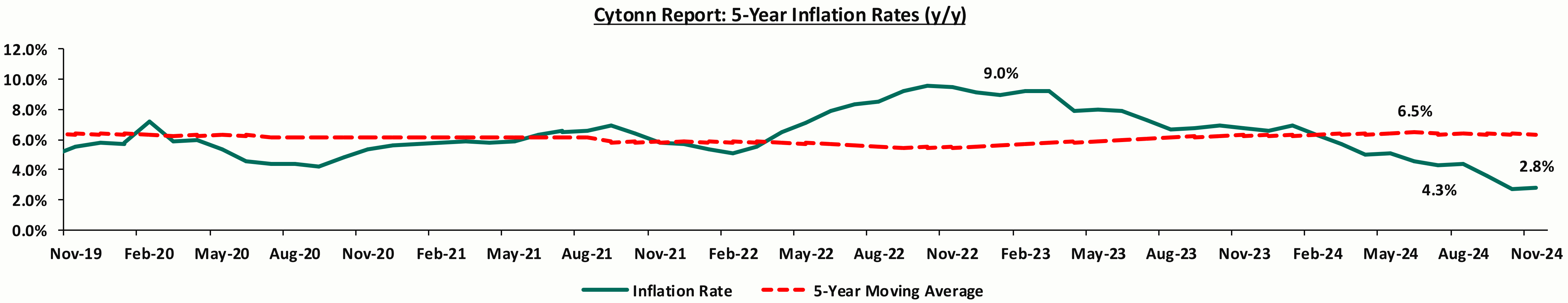
Inflation

The y/y inflation in November 2024 increased by 0.1% points to 2.8%, from the 2.7% recorded in October 2024



**Source: KNBS*

- The average inflation rate eased to 4.1% in Q3'2024, compared to 6.9% in Q3'2023. Notably, the y/y inflation in November 2024 eased by 0.1% points to 2.8%, from the 2.7% recorded in October 2024. This was according to our expectations and projection that it would come within a range of 2.8% to 3.2%.
- The headline inflation in November 2024 was majorly driven by increase in prices of commodities in the following categories; Food & Non-Alcoholic Beverages, Housing, Water, Electricity, Gas & other fuels by 4.5% and 0.1% respectively. However, the commodity prices in Transport sector declined by 1.1%. Notably, November's overall headline inflation increased slightly for the first time since August 2024, remaining within the CBK's preferred range of 2.5%-7.5% for the seventeenth consecutive month.

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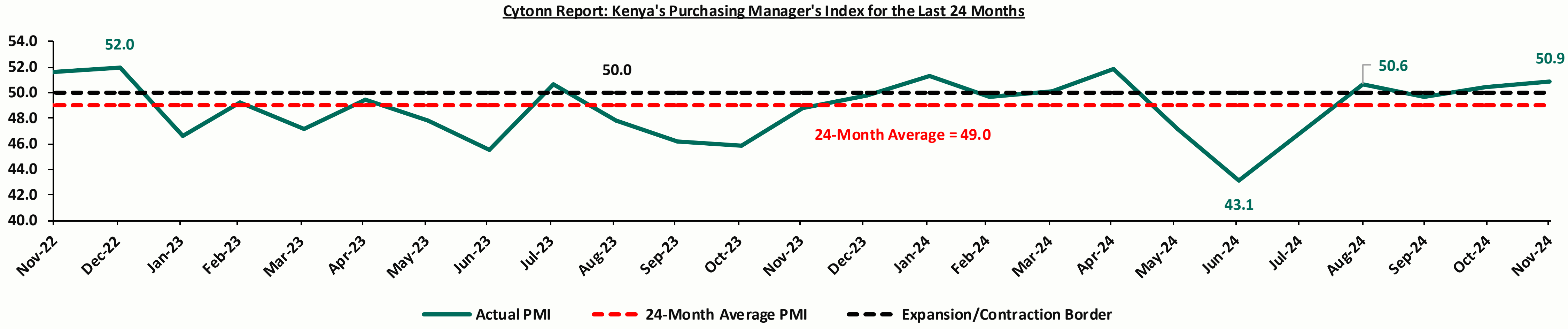
Stanbic PMI Index

The PMI averaged at 47.8 in Q3'2024, compared to 48.0 in Q3'2023



**Source: Market Economics, Stanbic PMI*

- The Stanbic Purchasing Managers Index (PMI) for November 2024 improved, coming in at 50.9, up from 50.4 in October 2024, signaling a modest improvement in operating conditions across Kenya. Key to note, a PMI reading of above 50 indicates improvements in the business environment, while a reading below 50 indicates a worsening outlook.
- This is majorly attributable to stable fuel prices and a decrease in borrowing costs, which resulted to the increase sales to its strongest performance in six months.
- Going forward, we project that the business environment will improve in the short to medium term on the back of reduced food and fuel prices, as well as the eased inflationary pressures with the current inflation standing at 2.8%.

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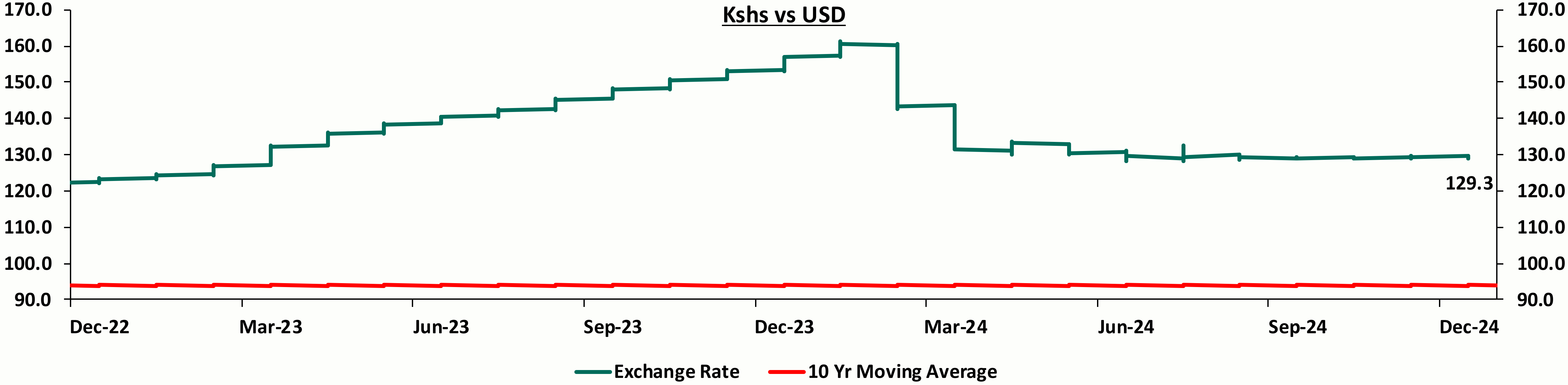
Currency

The Kenyan shilling has appreciated by 17.6% year to date to Kshs 129.3 as of 13th December 2024, from Kshs 157.0 recorded at the beginning of the year



**Source: Central Bank of Kenya*

- On a year to date basis, the shilling has appreciated by 17.6% against the US Dollar, a sharp contrast to the 26.8% depreciation recorded in 2023. We note that the shilling has being supported by 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 depreciation.
- However, we expect the shilling to remain under pressure in 2024 as a result of an ever-present current account deficit and the need for government debt servicing which continues to put pressure on the forex reserves given that 67.2% of Kenya's external debt was US Dollar denominated as of June 2024.

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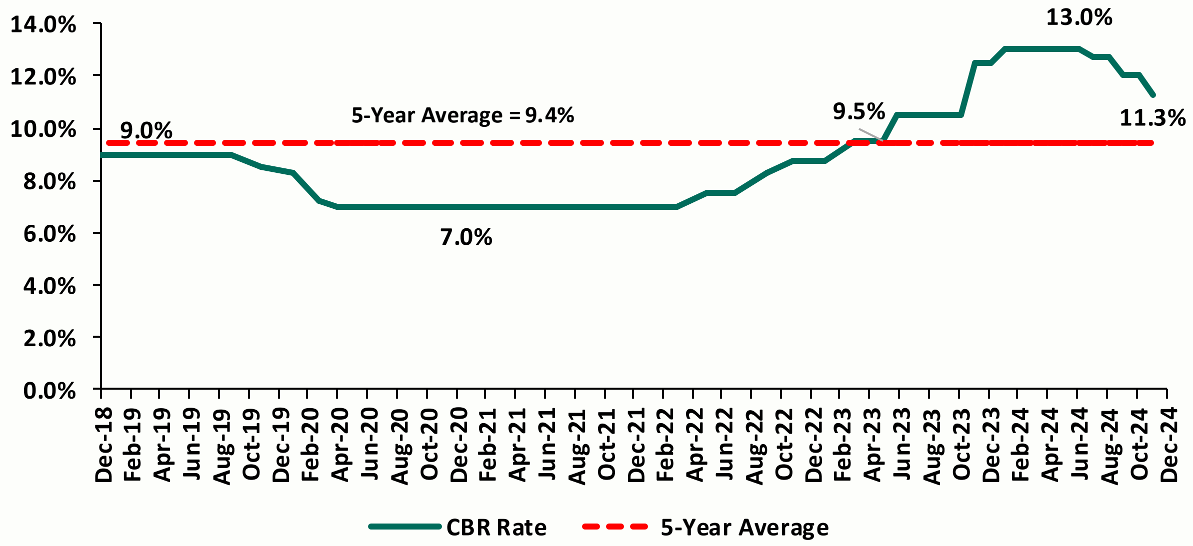
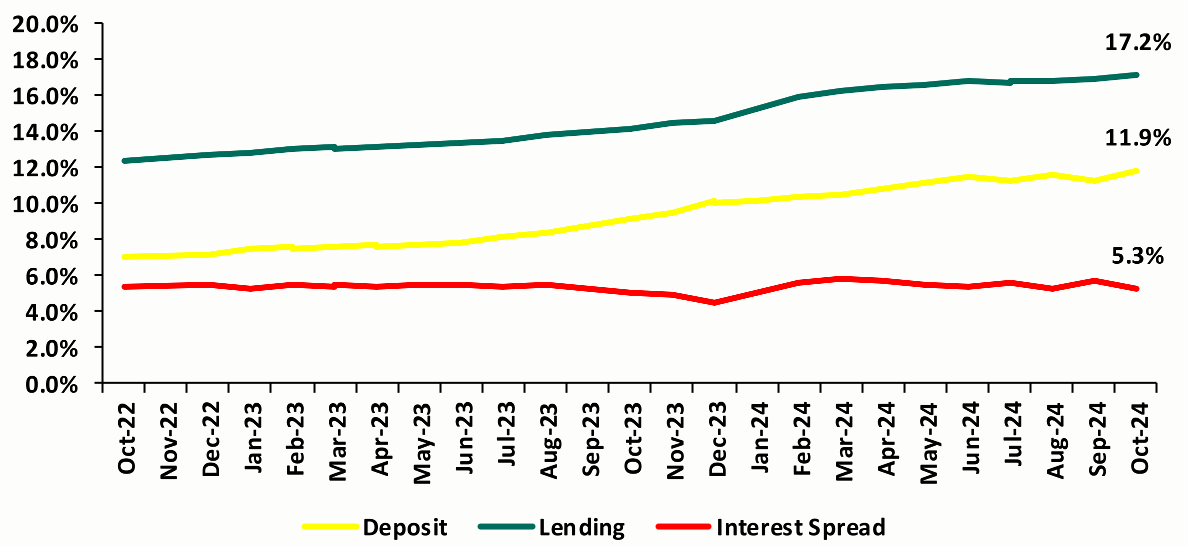
Interest Rates and Monetary Policy

Central Bank Rate (CBR)



Weighted Average Interest Rates



**Source: CBK*

- The Monetary Policy Committee (MPC) has met six times during 2024, to review the outcome of its previous policy decisions. The MPC decided to ease the CBR rate by 75 bps points to 11.25% from 12.0% in December, after decreasing it by 75 bps to 12.00% from 12.75% in October 2024.
- The decision was on the back of a stable exchange rate, anchored inflationary pressures, some major economies starting to cut on their interest rates and the need to support the economy by adopting a more accommodative interest rate policy.
- The committee noted that there was scope for gradual easing of the monetary policy stance, while ensuring a stable exchange rate.

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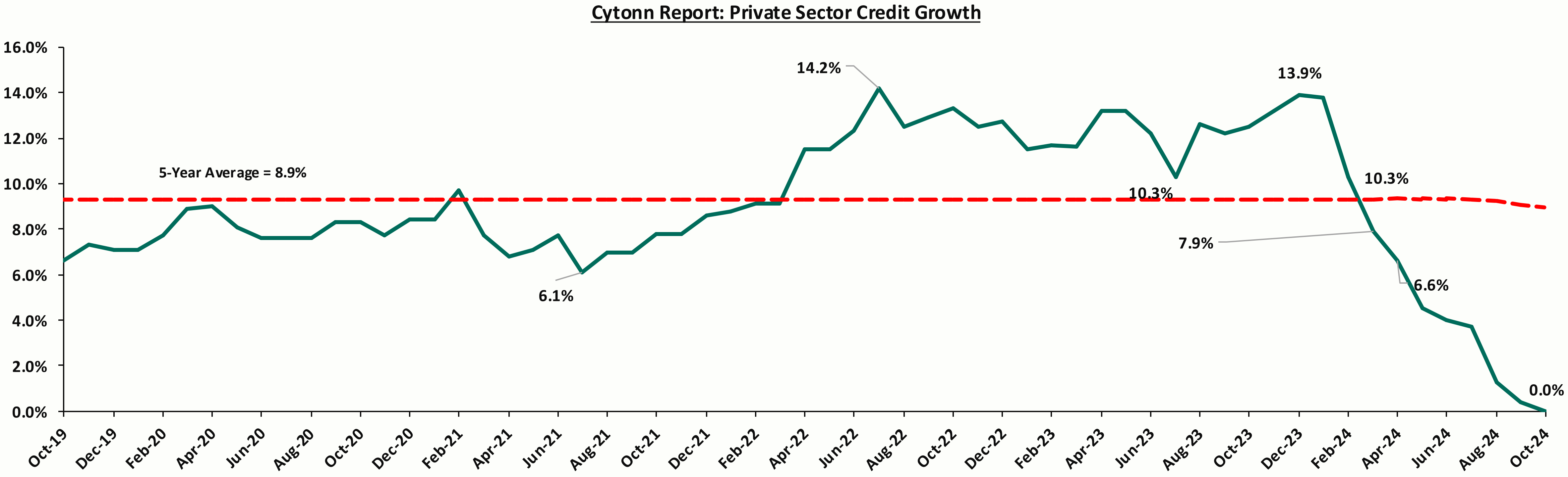
Private Sector Credit growth



**Source: KNBS*

- Growth in private sector credit decreased to 0.0% in October 2024 from 0.4% in September 2024, partly attributable to the strengthening of the Kenyan Shilling against the dollar. Strong credit growth was observed in sectors such as; agriculture, manufacturing, transport and communication, trade and consumer durables of 31.0%, 23.0%, 16.4%, 12.1% and 9.2% respectively. Additionally, the number of loan applications and approvals remained strong, reflecting resilience in economic activities.

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III. Banking Sector Overview

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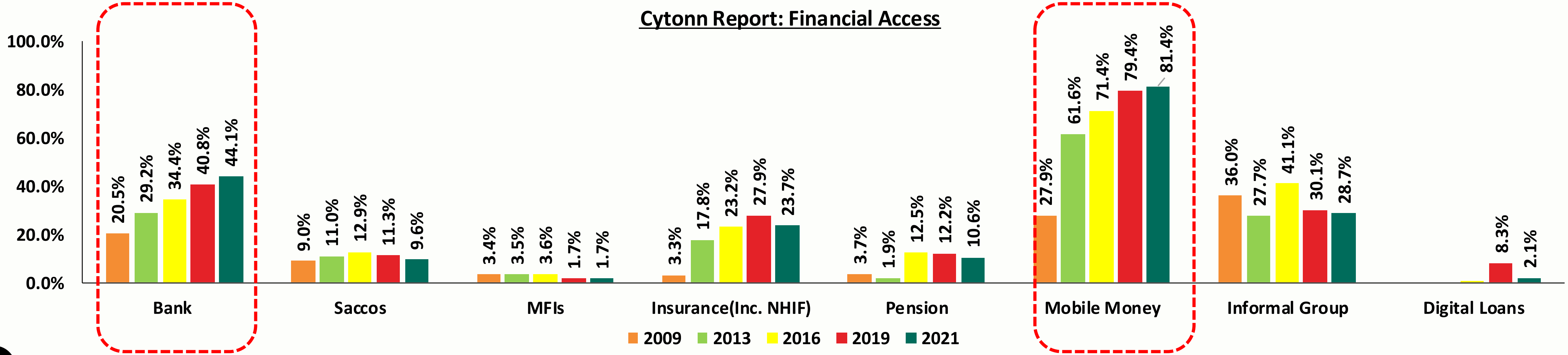
Kenyan Banking Sector Overview

Financial Inclusion in Kenya continues to rise, having expanded to 83.7% in 2021, from 82.9% in 2019

- In Kenya there are a total of 37 commercial banks, 1 mortgage finance company, 14 microfinance banks, 10 representative offices of foreign banks, 72 foreign exchange bureaus, 19 money remittance providers and 3 credit reference bureaus
- Financial inclusion in Kenya has continued to rise, with 83.7% of the adult population able to access formal financial services. This has largely been driven by digitization, with Mobile Financial Services (MFS), transfer and lending, rising to be the preferred method to access financial services. According to the [2021 FinAccess Household Report], the banking services including mobile banking stood at 44.1% as of 2021 from 40.8% in 2019 attributable to the increased usage of mobile banking accounts; whose proportion rose to 34.4% in 2021 from 25.3% in 2019



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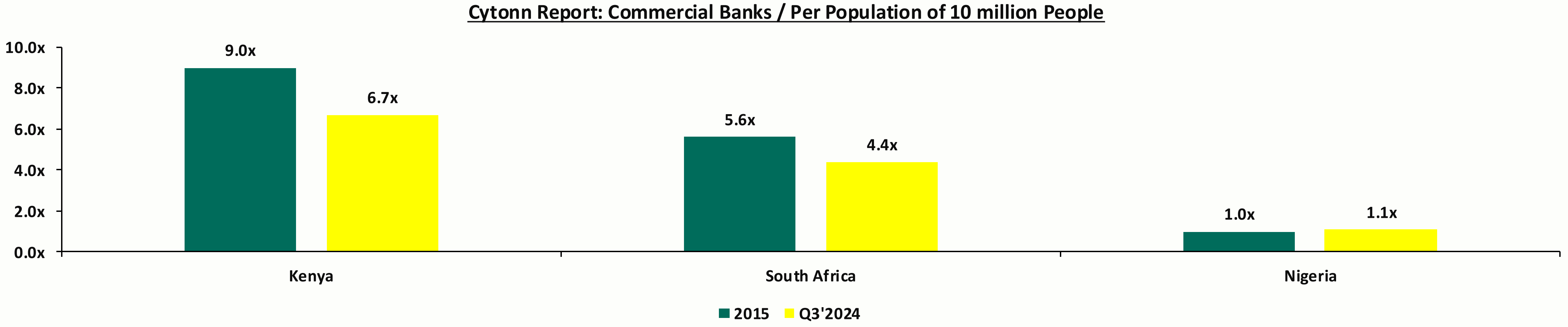
Source: Central Bank of Kenya, FinAccess report

Kenyan Banking Sector Overview

Kenya still remains overbanked as the number of banks remains relatively high compared to the population



*Source: World Bank, Central Bank of Kenya, South Africa Reserve Bank, Central Bank of Nigeria; * Data as of March 2024*

- The number of commercial banks in Kenya currently stands at 38 (including 1 mortgage finance company), the 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

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Recent Developments in the Kenyan Banking Sector

1. Regulation:

- **Risk-based Lending:** Following the scrapping of the Interest Cap Law in 2019, the Central Bank of Kenya (CBK) intervened administratively, stopping banks from reprising their loans and requiring them to submit new risk-based lending formulas for approval. The main aim of the risk-based lending model is to assist banks in making lending decisions based on the predicted risks associated with each loan applicant. This signifies a move from the traditional practice of blacklisting defaulters to a new credit scoring system that doesn't reject loan applicants solely based on their credit bureau scores. This method primarily focuses on borrowers who pose higher risks, most of whom are involved in micro, small, and medium-sized enterprises that have had difficulties securing 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. Adoption of risk based credit models has seen a decrease in lending to the private sector, with the growth in credit to the private sector coming in at 0.0% in October 2024, 8.9% points below the five-year average rate of 8.9%. Consequently, the banking sector has increased its appetite for government securities

- **Changes to Interbank Foreign Exchange Market:** In August 2023, the CBK issued a circular detailing several modifications to the interbank foreign exchange market operations. These changes included the removal of the tenor limit for swaps between residents, a rule that also applies to residents of the East African Community.

Recent Developments in the Kenyan Banking Sector

1. Regulation Continuation:

- For swaps that involve non-residents, a minimum tenor of 6 months was established. The regulator also permitted the use of Electronic Brokerage Systems and lowered the minimum trade amount in the interbank market from USD 500,000 to USD 250,000. These modifications have improved swap transactions, allowing banks to more effectively manage their exchange rate and interest rate risks, and to assume speculative positions,
- **Foreign Exchange Code:** On March 22, 2023, the CBK introduced the Foreign Exchange Code (FX Code) to commercial banks. This was an effort to regulate the wholesale transactions in Kenya's foreign exchange market. The decision was triggered by the significant fluctuations in the exchange rate spread in the market, as highlighted in our currency review note. Following the scrapping of the Interest Cap Law in 2019, the Central Bank of Kenya (CBK) intervened administratively, stopping banks from reprising their loans and requiring them to submit new risk-based lending formulas for approval. The FX Code is designed to foster a strong and transparent foreign currency market by implementing certain reporting guidelines;

i. **Compliance with FX Code:** All market participants (commercial banks and foreign exchange brokers) were required to conduct a self-assessment and submit to the CBK a report on an institution's level of compliance with the FX Code by 30 April 2023, and submit a detailed compliance implementation plan that is approved by its Board by 30 June 2023.

Recent Developments in the Kenyan Banking Sector

1. Regulation Continuation:

- Each participant was required to be fully compliant with the aforementioned code by December 31, 2023.

ii. **Reporting Mechanism:** All market participants will be required to submit a quarterly report to CBK, detailing their adherence to the FX Code within 14 days following the conclusion of each calendar quarter,

iii. **In the event of non-compliance**, CBK may take appropriate enforcement and other administrative action including monetary penalties as provided for under the Banking Act against any market participant, and,

iv. **Prohibitive Practices:** The FX Code aims to prevent market participants from engaging in disruptive practices such as quoting prices or moving prices in ways that create artificial delays, or misrepresent the market's depth and liquidity. Such practices will incur severe sanctions. Moreover, market participants should not engage in position or points parking, which are fake transactions to hide positions or shift profits or losses.

Recent Developments in the Kenyan Banking Sector.....

2. Regional Expansion through Mergers and Acquisitions:

Kenyan banks are continuously looking at having an extensive regional reach and in first nine months leading to the end of Q3'2024, there was one acquisition agreement announcement between Access Bank plc and KCB Group as follows:

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. 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

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

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Recent Developments in the Kenyan Banking Sector…..

2. Regional Expansion through Mergers and Acquisitions:

c) On March 17, 2023, the Central Bank of Kenya (CBK) announced that Premier Bank Limited Somalia (PBLS) had completed 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 bn 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,

Recent Developments in the Kenyan Banking Sector…..

e) On September 27, 2023, the NCBA Group declared its plan to purchase a 100% share in AIG Insurance. AIG Insurance is a well-established company in Kenya, having been in operation for over 50 years, providing general insurance services to corporations, SMEs, and individuals. Currently, the NCBA Group holds a minority stake in AIG Insurance and intends to negotiate with AIG Inc, the majority stakeholder, to acquire the remaining shares. This acquisition is part of NCBA Group's strategy to broaden its bancassurance operations, transforming it into a universal bank that caters to all the financial needs of its customers. The acquisition is contingent upon the necessary due diligence, approval from the boards of NCBA, AIG Kenya, AIG Group, and the relevant banking, insurance, and other regulatory authorities.

f) 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.

Recent Developments in the Kenyan Banking Sector….

The average acquisition valuations for banks remained unchanged at 1.3x in Q3'2024, similar to what was recorded in Q3'2023

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 4 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 2 other companies	Sidian Bank	5.0	38.91%	2.0	1.0x	Oct-23
Equity Group	Cogebanque PLC ltd	5.7	91.90%	6.7	1.3x	Jun-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%	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	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	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	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	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%**		**1.3 X**	
2013 to 2018 Avg.			**73.5%**		**1.7 x**	
2019 to 2024 Avg.			**73.2%**		**1.0 x**	

*** Announcement Date**
**** Deals that were dropped**

Recent Developments in the Kenyan Banking Sector….

3. 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 and increased borrowing costs, which elevated credit risk and defaults. This was reflected in 2.8% points increase in Absa Group's NPL ratio to 12.6%, from 9.8% in Q3'2023, and 2.0% points rise in KCB Group's NPL ratio to 18.1%, up from 16.1% in Q3'2023.
- 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.

Banking Sector Growth Drivers

- **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. Furthermore, the continued approval of banks' risk-based lending models will enable banks to effectively price their risk, expand loan books, and consequently increase their interest income,

- **Revenue Diversification:** In Q3'2024, non-funded income (NFI) recorded a 14.6% 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, 0.8% 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, and,

- **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.

IV. Listed Banking Sector Metrics

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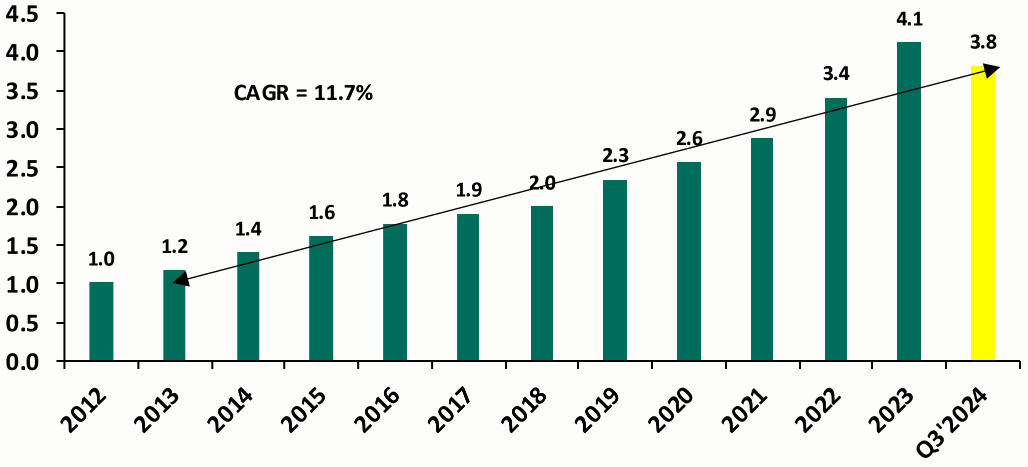
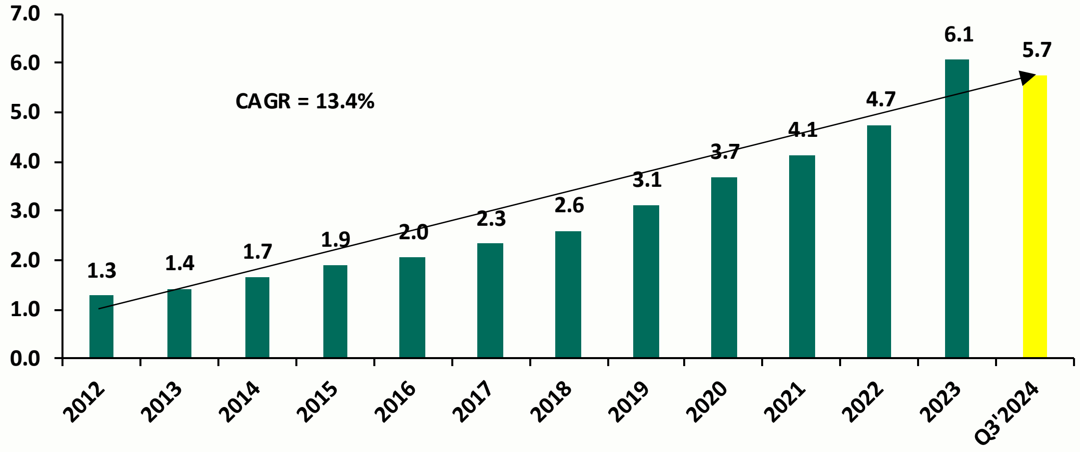
Listed Banking Sector Metrics

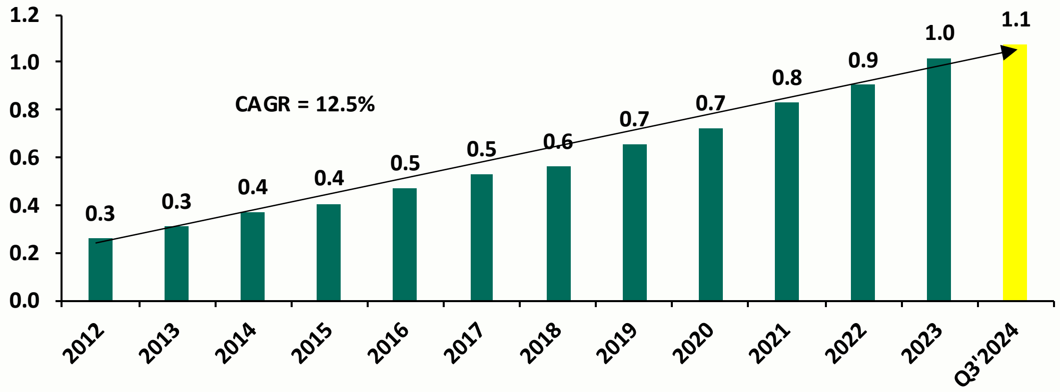
Loans and Advances (Kshs tn)



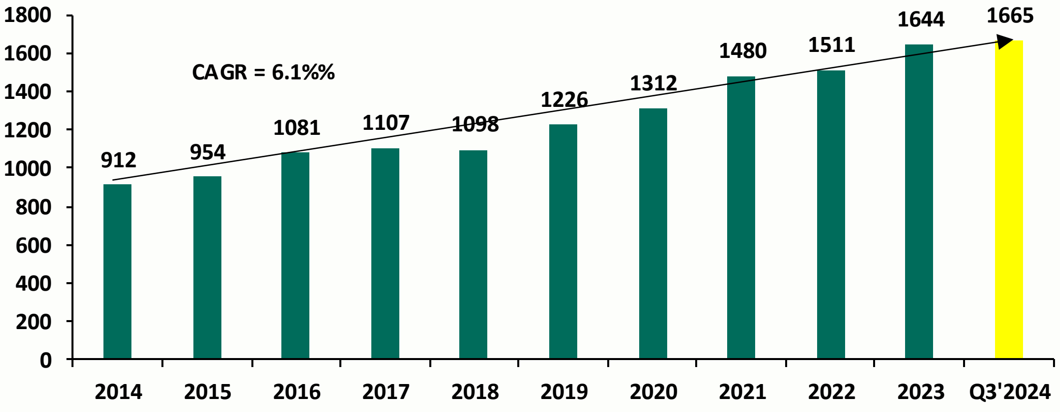
Deposits (Kshs tn)



Shareholders Equity (Kshs tn)



Bank Branches



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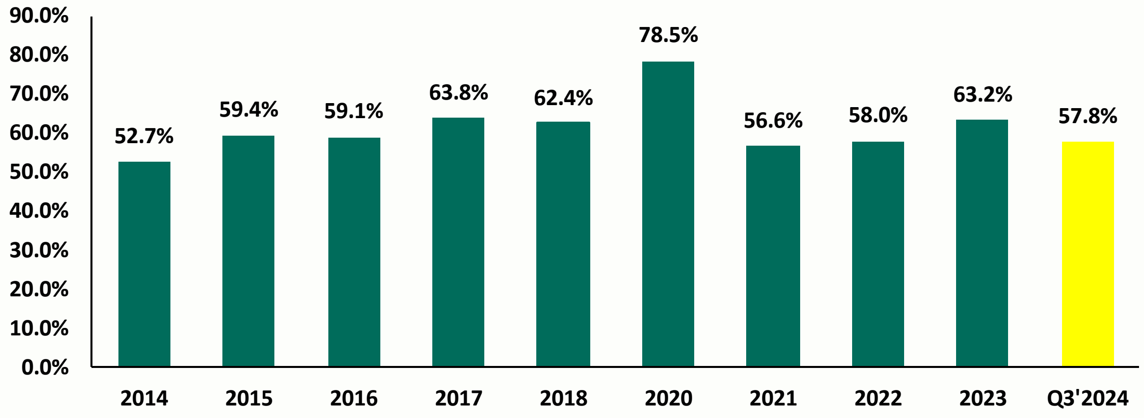
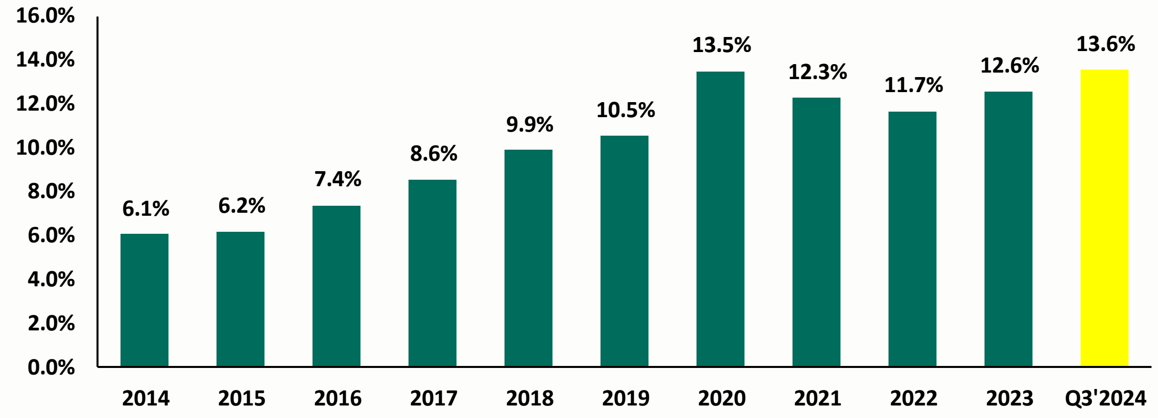
Listed Banking Sector Metrics

Banks’ asset quality deteriorated in Q3’2024, with the NPL ratio increasing to 13.6% from 13.1% in Q3’2023

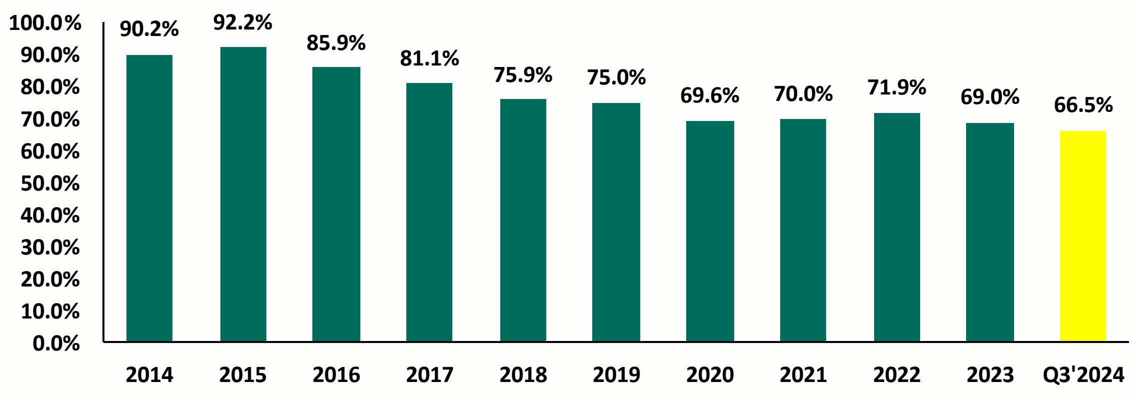
Cost to Income Ratio



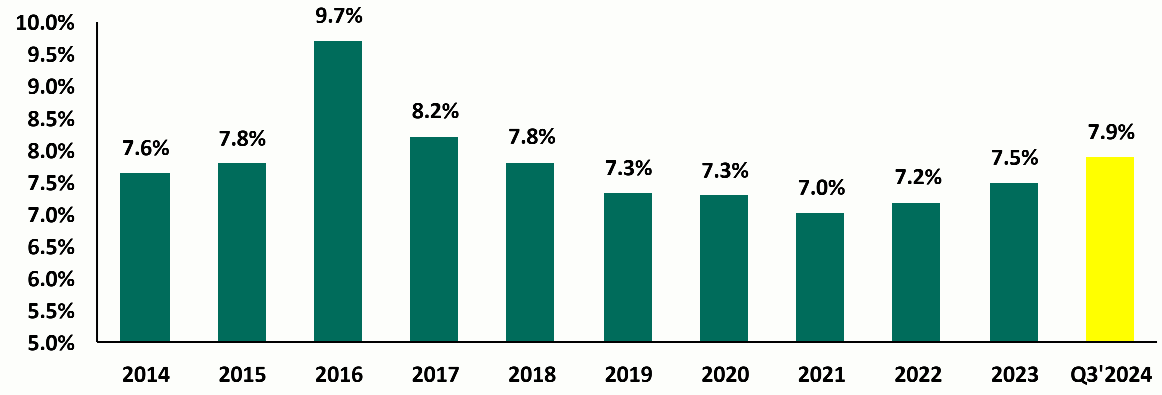
NPL Ratio



Loan to Deposit Ratio



Net Interest Margin



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Listed Banking Earnings and Growth Metrics

Kenya's listed banks weighted average core EPS grew by 24.6% in Q3'2024, compared to 11.2% in Q3'2023

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	Cost of Funds	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 13/09/2024															
**Market cap weighted as at 21/09/2023															

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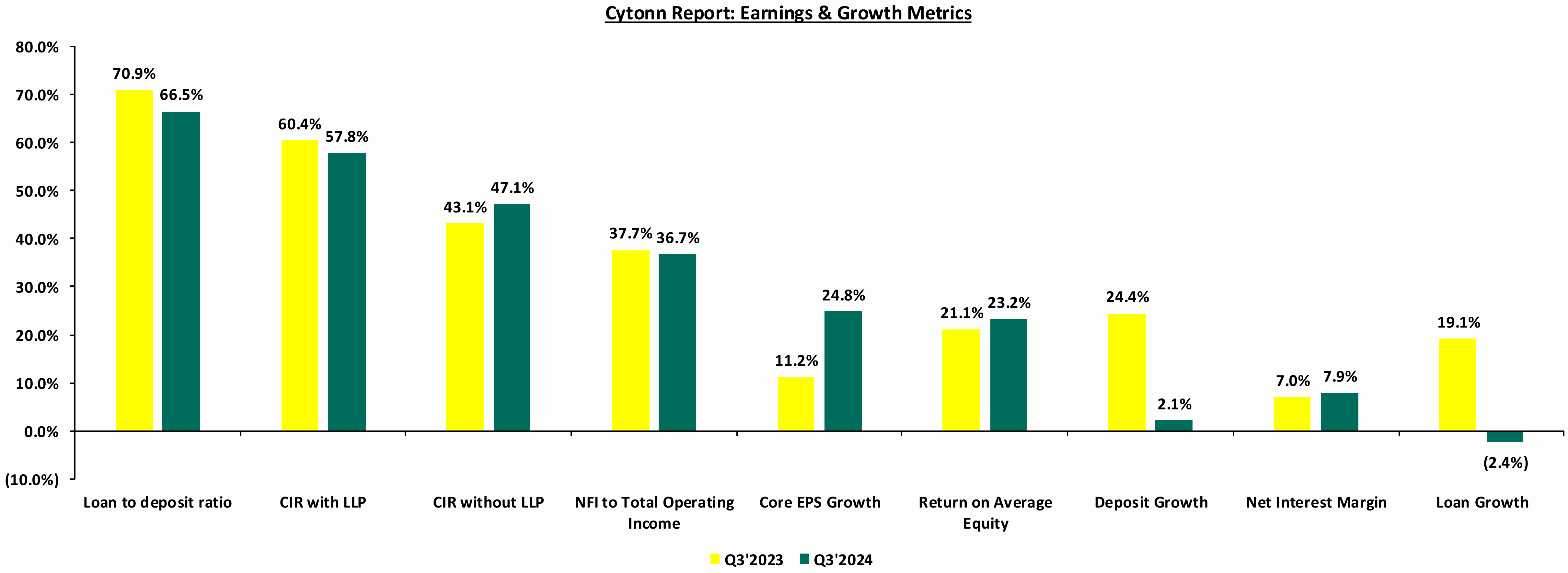
Takeout from Key Operating Metrics

The listed banks recorded a 23.5% weighted average growth on RoaE, 2.4% points higher than 21.1% in Q3'2023

- Listed banks recorded a 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 an 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,
- Investments in government securities 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 8 of the 10 listed banks recording an increase in government securities investments.,
- 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,
- The listed banks recorded a 23.5% weighted average growth on return on average equity (RoaE), 2.4% points higher than the 21.1% growth registered in Q3'2023

Listed Banks Earnings and Growth Metrics Cont…

The banking sector has witnessed decreased customer loans registering a decline rate of 2.4% in Q3'2024, 21.5% points lower than the 19.1% growth in Q3'2023



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Listed Banks Operating Metrics

Asset quality for the listed banks deteriorated during the period, with the market-weighted average NPL ratio increasing by 0.5% points to 13.6% from a 13.1% in Q3'2023

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
Stanbic Holdings	10.4%	9.0%	1.4%	76.5%	66.3%	10.2%
I&M Group	11.8%	11.8%	(0.0%)	61.3%	51.8%	9.5%
Equity Group	14.4%	13.6%	0.7%	56.8%	53.4%	3.4%
Standard Chartered Bank	7.5%	14.4%	(6.9%)	85.3%	83.0%	2.3%
NCBA	12.5%	12.9%	(0.4%)	59.7%	57.7%	2.0%
KCB Group	18.1%	16.1%	2.0%	63.8%	62.1%	1.7%
HF Group	24.1%	22.8%	1.3%	74.4%	74.0%	0.5%
Co-operative Bank of Kenya	16.5%	14.9%	1.7%	60.5%	62.1%	(1.6%)
Absa Bank Kenya	12.6%	9.8%	2.8%	65.3%	67.4%	(2.1%)
Diamond Trust Bank	13.5%	12.6%	0.9%	39.1%	48.7%	(9.5%)
Mkt Weighted Average*	**13.6%**	**13.1%**	**0.4%**	**64.5%**	**62.0%**	**2.5%**
*Market cap weighted as at 13/12/2024						
**Market cap weighted as at 22/12/2023						

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Listed Banks Trading Metrics

The listed banking sector has continued to trade at cheaper prices compared to historical averages, currently trading at an average P/TBV of 0.9x and average P/E of 4.4x

Bank	No. of shares (bn)	Market Cap (Kshs bn)	P/E	Price*	P/TBV
Standard Chartered Bank	0.4	96.2	7.0x	254.5	1.7x
Absa Bank Kenya	5.4	83.6	5.1x	15.4	1.2x
Stanbic Holdings	0.4	53.0	4.4x	134.0	0.9x
Equity Group	3.8	181.1	4.1x	48.0	0.9x
HF Group	0.4	1.6	4.1x	4.1	0.2x
I&M Group	1.7	65.3	4.0x	39.5	0.7x
Co-operative Bank of Kenya	5.0	72.3	3.7x	14.6	0.8x
NCBA Group	1.6	73.5	3.4x	44.6	0.8x
KCB Group	3.2	126.9	3.4x	39.5	0.6x
Diamond Trust Bank Kenya	0.3	16.2	2.1x	58.0	0.2x
Weighted Average Q3'2024			**4.3x**		**0.9x**

*Prices as at 13th December 2024

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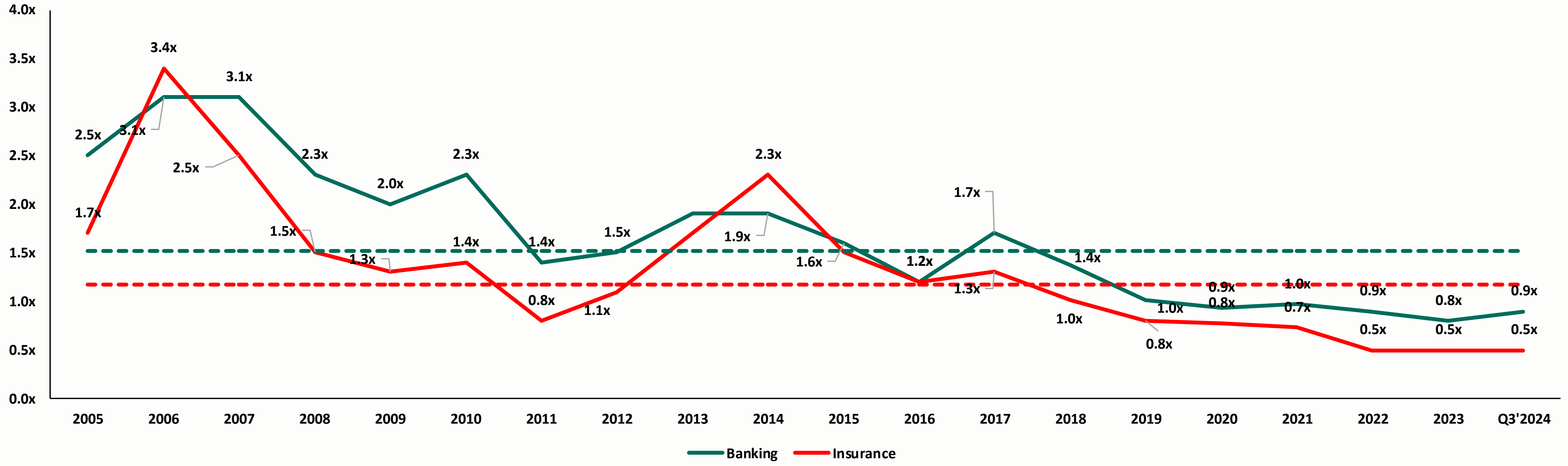
Listed Banks & Insurance Trading Metrics

Listed banks are trading at an average P/B of 0.9x, higher than the insurance sector, which is priced at 0.5x. Both sectors are trading below their 18-year averages of 1.6x and 1.2x, respectively

18 year Price to Book Value: Banking and Insurance



On a price to book valuation, listed banks are currently priced at a P/BV of 0.9x, higher than listed insurance companies at 0.5x, with both lower than their historical averages of 1.6x for the banking sector and 1.2x for the insurance sector

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V. Banks Valuation Reports

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Ranking by Franchise Value

Standard Chartered Bank emerged top in the franchise ranking having had the lowest cost to income ratio of 42.5% against a weighted market average of 57.8% for the listed banks

Bank	LDR	CIR	ROACE	NIM	PEG ratio	PTBV	Deposits/ Branch	Gross NPL Ratio	NPL Coverage	Tangible Common Ratio	Non Interest Income/ Revenue	Camel Rating	Total	Rank
SCBK	10	1	1	2	9	10	1	1	1	2	4	1	43	**1**
Stanbic Bank	6	2	6	7	7	7	2	2	2	7	5	2	55	**2**
Absa Bank	2	3	2	1	8	9	5	5	4	3	10	3	55	**2**
Coop Bank	3	4	7	4	4	5	9	8	7	1	3	7	62	**4**
I&M Holdings	4	7	8	3	6	4	4	3	6	4	9	4	62	**4**
NCBA Group	9	6	4	8	5	6	3	4	8	6	1	6	66	**6**
KCB Group	5	5	5	6	1	3	7	9	5	10	6	9	71	**7**
Equity Bank	8	8	3	5	3	8	6	7	9	9	2	5	73	**8**
DTBK	7	9	9	9	2	2	8	6	10	8	8	8	86	**9**
HF Group	1	10	10	10	10	1	10	10	3	5	7	10	87	**10**

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Valuation Summary of Listed Banks

Coop Bank presents the highest return with a total potential return of 39.0%

(all values in Kshs)

Bank	Current Price	Target Price	Upside/(Downside)	DPS	Dividend Yield	Total Potential Return	Q3'2024 Ranking
Coop Bank	14.6	18.8	28.8%	1.50	10.3%	39.0%	1
Absa Bank	15.4	19.1	23.9%	1.55	10.1%	34.0%	2
Equity Bank	48.0	60.2	25.4%	4.00	8.3%	33.8%	3
DTBK	58.0	71.1	22.6%	6.00	10.3%	32.9%	4
NCBA Group	44.6	53.2	19.3%	4.75	10.7%	29.9%	5
KCB Group	39.5	50.3	27.3%	0.00	0.0%	27.3%	6
SCBK	254.5	291.2	14.4%	29.00	11.4%	25.8%	7
Stanbic Bank	134.0	145.3	8.4%	15.35	11.5%	19.9%	8
I&M Holdings	31.9	35.0	9.7%	2.55	8.0%	17.7%	9
HF Group	4.1	4.7	14.2%	0.00	0.0%	14.2%	10

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Cytonn Banking Report - Comprehensive Ranking

ABSA Bank Kenya emerged top of the ranking in terms of comprehensive ranking

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**

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VI. Appendix

A. Tier I Banks

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I. Equity Group Holdings

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Equity Group Summary of Performance – Q3'2024

- Profit before tax increased by 11.1% to Kshs 51.0 bn from Kshs 45.9 bn in Q3’2023, with effective tax rate declining to 19.8% in Q3’2024 from 21.1% in Q3’2023. As such, profit after tax increased by 13.1% to Kshs 40.9 bn in Q3’2024, from Kshs 36.2 bn in Q3’2023
- Total operating income increased by 8.7% to Kshs 141.7 bn, from Kshs 130.4 bn in Q3'2023, mainly driven by a 11.0% growth in Net Interest Income to Kshs 80.6 bn, from Kshs 72.6 bn in Q3'2023, coupled with a 5.8% growth in Non funded Income (NFI) to Kshs 61.2 bn, from Kshs 57.8 bn in Q3'2023,
- Total operating expenses increased by 7.4% to Kshs 90.7 bn from Kshs 84.5 bn in Q3’2023, driven by a 3.8% increase in staff costs to Kshs 24.0 bn from Kshs 23.1 bn recorded in Q3’2023, coupled with a 27.4% increase in other operating expenses to Kshs 54.1 bn from Kshs 42.4 bn in Q3’2023
- The balance sheet recorded an expansion as total assets increased marginally by 0.7% to Kshs 1,703.1 bn, from Kshs 1,691.2 bn in Q3’2023,
- Gross Non-Performing Loans (NPLs) increased by 0.7% to Kshs 125.3 bn in Q3’2024 from Kshs 124.5 bn in Q3’2023, while Gross Loans decreased by 4.5% to Kshs 871.3 bn from Kshs 912.4 bn in Q3’2023. Consequently, the asset quality deteriorated with the NPL ratio rising to 14.4% in Q3’2024 from 13.6% in Q3’2023:

I. **Geographical Diversification –** The bank has been aggressively expanding into other regions, namely DRC, Rwanda, Tanzania, Uganda and Ethiopia. Notably, in Q3'2024, Profit After Tax (PBT) of the Equity Group Holdings’ subsidiaries amounted to Kshs. 18.4 bn, representing 47.0% of the Group’s overall profit

Financial Statements Extracts

Equity Group's PAT is expected to grow at a 5-year CAGR of 27.8%

Income Statement	2021	2022	2023	2024f
Net Interest Income	68.8	86.0	104.2	172.1
Non Funded Income	44.6	59.9	78.31	118.3
Total Operating Income	113.4	145.9	182.5	290.4
Loan Loss Provision	(5.1)	(15.4)	(35.3)	(21.7)
Other Operating Expenses	(55.7)	(70.7)	(95.4)	(150.6)
Total Operating Expenses	**(61.5)**	**(86.1)**	**(130.6)**	**(172.3)**
Profit Before Tax	51.9	59.8	51.9	118.1
Profit After tax	40.1	46.1	43.7	82.6
% PAT Change YoY	**99.4%**	**15.1%**	**(5.1%)**	**88.9%**
EPS	10.6	12.2	11.6	21.9
DPS	3.0	4.0	4.0	5.0
Cost to Income	54.2%	59.0%	71.6%	59.3%
NIM	**6.8%**	**7.2%**	**7.4%**	**17.6%**
ROaE	26.6%	26.7%	22.8%	28.0%
ROaA	3.5%	3.4%	2.7%	3.0%
Balance Sheet	**2021**	**2022**	**2023**	**2024f**
Net Loans and Advances	587.8	706.6	887.4	1921.1
Government Securities	228.5	219.2	246.7	328.7
Other Assets	488.7	521.2	687.4	1377.3
Total Assets	**1304.9**	**1447.0**	**1821.4**	**3627.1**
Customer Deposits	959.0	1052.2	1358.2	2952.3
Other Liabilities	169.7	212.6	241.1	281.2
Total Liabilities	**1128.7**	**1264.8**	**1603.3**	**3233.5**
Shareholders Equity	**169.2**	**176.2**	**207.8**	**383.3**
Number of Shares	**3.8**	**3.8**	**3.8**	**3.8**
Book value Per share	44.8	46.7	55.1	101.57
% Change in BPS YoY	**28.0%**	**4.2%**	**17.9%**	**84.5%**

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Valuation Summary

Equity Group is undervalued with a total potential return of 33.8%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	80.4	40.0%	32.2
Residual Income	43.5	30.0%	13.1
PBV Multiple	45.8	15.0%	6.9
PE Multiple	54.1	15.0%	8.1
Fair Value			**60.2**
Current Price			**48.0**
Upside/(Downside)			25.4%
Dividend Yield			8.3%
Total Potential Return			**33.8%**

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II. KCB Group

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KCB Group Summary of Performance – Q3'2024

- Profit before tax increased by 41.5% to Kshs 57.4 bn, from Kshs 40.6 bn recorded in Q3’2023, with effective tax rate decreasing to 20.3% in Q3’2024 from 24.3% in Q3’2023, leading to an 49.0% increase in profit after tax to Kshs 45.8 bn in Q3’2024, from Kshs 30.7 bn in Q3’2023.
- Total operating income increased by 29.5% to Kshs 48.5 bn, from Kshs 36.9 bn in Q1’2023, mainly driven by a 34.8% growth in Net Interest Income (NII) to Kshs 61.3 bn, from Kshs 45.5 bn in Q3'2023, coupled with the 20.8% increase in Non Interest Income (NFI) to Kshs 33.3 bn from Kshs 27.6 bn in Q3'2023,
- Total operating expenses increased by 21.9% to Kshs 142.9 bn from Kshs 117.3 bn in Q3'2023, driven by a 12.2% increase in loan loss provisions to Kshs 17.8 bn from Kshs 15.8 bn recorded in Q3'2023,,
- The bank’s Asset Quality deteriorated, with Gross NPL ratio increasing to 18.1% in Q3’2024, from 16.1% in Q3’2023, attributable to a 15.1% increase in Gross non-performing loans to Kshs 215.3 bn, from Kshs 187.0 bn in Q3’2023, compared to the 2.3% increase in gross loans to Kshs 1,190.5 bn, from Kshs 1,164.0 bn recorded in Q3’2023,
- Going forward, we expect the bank’s growth to be driven by:

i. **Continued Digitization -** The Group has continued to maximize on digital trasformation. As of FY’2023, 99.0% of the transactions by number were done through the non-branch channels. Notably, the Group witnessed 77.0% growth in the value of mobile loans disbursed mainly driven by Fuliza, introduction of term loans on KCB Mobi and new mobile lending products for small businesses.

Financial Statements Extracts

KCB Group's PAT is expected to grow at a 5-year CAGR of 21.2%

Income Statement	2021	2022	2023	2024f
Net Interest Income	77.7	86.7	107.3	123.9
Non Funded Income	30.9	43.3	57.9	72.1
Total Operating Income	**108.6**	**129.9**	**165.2**	**196.0**
Loan Loss Provision	13.0	13.2	(33.6)	43.5
Other Operating Expenses	47.8	59.4	150.4	86.3
Total Operating Expenses	**60.8**	**72.6**	**116.8**	**129.7**
Profit Before Tax	47.8	57.3	48.5	66.3
% PAT Change YoY	**74.3%**	**19.5%**	**(8.3%)**	**23.9%**
EPS	10.6	12.7	11.7	14.4
DPS	3.0	2.0	0.0	2.5
Cost to Income (with LLP)	56.0%	55.9%	70.7%	66.2%
NIM	**8.4%**	**7.5%**	**4.3%**	**5.7%**
ROE	21.8%	22.0%	17.5%	17.2%
ROA	3.2%	3.0%	2.0%	1.9%
Balance Sheet	**2021**	**2022**	**2023**	**2024f**
Net Loans and Advances	675.5	863.3	1095.9	1436.4
Government Securities	270.8	278.0	397.2	522.4
Other Assets	193.4	412.7	677.7	738.4
Total Assets	**1139.7**	**1554.0**	**2170.9**	**2697.1**
Customer Deposits	837.1	1135.4	1690.9	2121.1
Other Liabilities	129.0	212.3	243.6	258.6
Total Liabilities	**966.2**	**1347.8**	**1934.5**	**2379.7**
Shareholders Equity	**171.7**	**200.2**	**228.3**	**310.4**
Number of Shares	**3.2**	**3.2**	**3.2**	**3.2**
Book value Per share	53.4	62.3	71.1	96.6
% Change in BPS YoY	**20.6%**	**16.6%**	**14.0%**	**35.9%**

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Valuation Summary

KCB Group is undervalued with a total potential return of 27.3%

Valuation Summary	Implied Price	Weighting	Weighted Value
Residual Income	28.3	35%	9.9
PBV Multiple	58.2	15%	8.7
PE Multiple	45.9	10%	4.6
DDM	67.8	40%	27.1
Target Price			**50.3**
Current Price			**39.5**
Upside/(Downside)			27.3%
Dividend Yield			0.0%
Total Return			**27.3%**

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III. Co-operative Bank

Cooperative Bank Summary of Performance – Q3'2024

- Profit before tax increased by 8.5% to Kshs 26.8 bn, from Kshs 24.7 bn recorded in Q3’2023, with effective tax rate increasing to 29.5% in Q3’2024 from 28.5% in Q3’2023, leading to a 4.4% increase in profit after tax to Kshs 3.3 bn in Q3’2024, from Kshs 3.1 bn in Q3’2023.
- Core earnings per share grew by 4.4% to Kshs 3.3, from Kshs 3.1 in Q3’2023, driven by the 10.8% increase in total operating income to Kshs 59.2 bn, from Kshs 53.4 bn in Q3’2023. However, the performance was weighed down by an 12.7% increase in total operating expenses to Kshs 32.7 bn from Kshs 29.0 bn in Q3’2023,
- The 10.8% increase in total operating income was mainly driven by an 12.3% increase in Net Interest Income (NII) to Kshs 36.9 bn from Kshs 32.8 bn in Q3’2023, coupled with the 8.2% growth in Net Non Interest Income (NFI) to Kshs 22.3 bn, from Kshs 20.6 bn in Q3’2023,
- The bank’s Asset Quality deteriorated, with Gross NPL ratio increasing to 16.5% in Q3’2024, from 14.9% in Q3’2023, attributable to a 13.1% increase in Gross non-performing loans to Kshs 70.0 bn, from Kshs 61.9 bn in Q3’2023, compared to the 1.7% increase in gross loans to Kshs 423.7 bn, from Kshs 416.6 bn recorded in Q3’2023,

Going forward, we expect the bank’s growth to be driven by:

- **Strong Customer Base –** Cooperative Bank still retains a loyal yet diverse customer base that includes cooperatives, SMEs, retail customers, and government institutions. We anticipate that the bank will keep leveraging on this base to improve its loan book which this year expanded by 0.9% to Kshs 381.3 bn from Kshs 378.1 bn in FY’2022.

- **Diversified products –** The bank has in recent days launched a number of products and continues to simultaneously offer differentiated products for diaspora bankers, micro and small enterprises, home and vehicle insurance, bancassurance and the Sacco Mco-op cash. This diversification is expected to continue improving the Non-funded Income of the bank which came in at 22.3 bn, an 8.2% increase from Kshs 20.6 bn in Q3’2024,

Financial Statements Extracts

Cooperative Bank's PAT is expected to grow at a 5-year CAGR of 5.3%

Income Statement	2018	2019	2020	2021	2022	2023	2024F
Interest Income	43.0	43.6	39.6	55.6	61.7	69.1	79.0
Interest Expense	(12.2)	(12.3)	(10.9)	(14.6)	(16.2)	(23.8)	(25.4)
Net Interest Income	30.8	31.3	28.7	41.0	45.5	45.2	53.6
Non Funded Income	12.9	17.2	15.7	19.4	25.7	26.5	29.5
Total Operating Income	**43.7**	**48.5**	**44.4**	**60.4**	**71.3**	**71.7**	**83.1**
Loan Loss Provision	(1.8)	(2.5)	(6.0)	(7.9)	(8.7)	(6.0)	(4.5)
Other Operating Expenses	(23.9)	(25.3)	(21.9)	(30.2)	(33.6)	(33.7)	(38.5)
Total Operating Expenses	**(25.7)**	**(27.8)**	**(28.0)**	**(38.1)**	**(42.2)**	**(39.7)**	**(43.0)**
Profit Before Tax	18.2	20.7	16.5	22.6	29.4	32.4	40.5
Profit After tax	12.7	14.3	11.6	16.5	22.0	23.2	28.8
% PAT Change YoY	**11.6%**	**12.4%**	**-18.8%**	**42.3%**	**33.2%**	**5.2%**	**24.1%**
EPS	1.9	2.1	1.7	2.8	3.8	4.0	4.9
DPS	1.0	1.0	0.0	1.0	1.5	1.5	2.0
Cost to Income	58.8%	57.4%	63.0%	63.0%	59.3%	55.3%	51.7%
ROE	18.3%	19.2%	14.2%	17.3%	21.2%	21.0%	23.3%
ROA	3.2%	3.3%	2.3%	3.0%	3.7%	3.6%	4.0%
Balance Sheet							
Net Loans and Advances	245.4	266.7	306.3	310.2	339.4	374.2	421.6
Government Securities	80.3	117.8	193.3	184.1	173.3	189.0	209.7
Other Assets	87.7	72.5	93.3	85.5	94.5	107.9	121.3
Total Assets	413.4	457.0	592.9	579.8	607.2	671.1	752.6
Customer Deposits	306.1	332.8	420.4	407.7	423.8	451.6	508.8
Other Liabilities	36.1	43.3	77.1	71.3	75.4	105.8	110.4
Total Liabilities	342.2	376.2	497.5	479.0	499.3	557.5	619.2
Shareholders Equity	69.9	79.3	95.0	100.2	107.7	113.6	133.3
Number of Shares	6.9	6.9	6.9	5.9	5.9	5.9	5.9
Book value Per share	10.2	11.6	13.8	17.1	18.4	19.4	22.7
% Change in BPS YoY	**-14.2%**	**13.6%**	**19.8%**	**23.4%**	**7.4%**	**5.5%**	**17.4%**

Cytonn

Valuation Summary

Co-operative Bank is undervalued with a total potential return of 39.0%

	Implied Price	Weighting	Weighted Value
Common Ratio	24.6	40%	9.8
Residual income	15.4	30%	4.6
PBV Multiple	15.6	20%	3.1
PE Multiple	10.8	10%	1.1
Target Price			**18.7**
Current Price			**14.5**
Upside/(Downside)			28.8%
Dividend Yield			10.3%
Total Return			**39.0%**

Cytonn

IV. NCBA Bank

NCBA Bank Summary of Performance – Q3'2024

- Profit before tax decreased by 0.9% to Kshs 18.4 bn in Q3’2024, from Kshs 18.6 bn in Q3’2023, with effective tax rate decreasing to 18.0% in Q3’2024, from 21.1% in Q3’2023, leading to a 3.1% increase in profit after tax to Kshs 15.1 bn in Q3’2024, from Kshs 14.6 bn in Q3’2023.
- Total operating income increased by 0.6% to Kshs 47.0 bn, from Kshs 46.7 bn in Q3’2023, driven by a 5.2% increase in Non Interest Income (NFI) to Kshs 21.8 bn from Kshs 20.7 bn in Q3’2023, which outpaced the 3.1% decline in Net Interest Income (NII) to Kshs 25.1 bn, from Kshs 26.0 bn in Q3’2023,
- Total operating expenses increased by 1.6% to Kshs 28.6 bn from Kshs 28.1 bn in Q3’2023, driven by 9.6% increase in staff costs to Kshs 10.1 bn from Kshs 9.3 bn recorded in Q3’2023, coupled with a 12.1% increase in other operating expenses to Kshs 14.3 bn, from Kshs 12.8 bn recorded in Q3’2023, which outpaced the 32.8% decrease in loan loss provisions to Kshs 4.1 bn, from Kshs 6.1 bn recorded in Q3’2023
- The balance sheet remained stable, as total assets remained unchanged at Kshs 678.8 bn, same to what was recorded in Q3’2023
- The bank’s Asset Quality improved, with Gross NPL ratio decreasing to 12.5% in Q3’2024, from 12.9% in Q3’2023, attributable to the 4.3% decrease in Gross non-performing loans to Kshs 41.1 bn, from Kshs 43.0 bn in Q3’2023, compared to the slower 1.6% decrease in gross loans to Kshs 328.0 bn, from Kshs 333.5 bn recorded in Q3’2023,
- Going forward, we expect the bank’s growth to be driven by:

i. **Digital transformation**. The lender has capitalized on digital innovation for service delivery over the past years to improve its operational efficiency, which has been a key factor in its financial performance. In March 2024, the lender disclosed that they had disbursed a total of Kshs 930.0 bn via digital banking avenues, including Fuliza, Mshwari and Loop, remaining a market leader in digital lending.

ii. **Revenue diversification**. The lender has also capitalized on revenue diversification and increasing the bottom line contribution of all the business lines. Notably, subsidiary contribution to group’s profitability has increased over the period, standing at Kshs 4.0 bn in FY’2023. Further, the 100.0% acquisition of AIG Kenya Insurance is set to increase the non-funded revenue base more.

iii. .

Cytonn

Financial Statements Extracts

NCBA Group's PAT is expected to grow at a 5-year CAGR of 19.0%

Income Statement	2021	2022	2023	2024e
Net Interest Income	27.0	30.7	34.6	41.3
Non Funded Income	22.1	30.3	29.1	35.4
Total Operating Income	**49.2**	**60.9**	**63.7**	**76.6**
Loan Loss Provision	(12.7)	(13.1)	(9.2)	(10.8)
Other Operating Expenses	(20.7)	(24.9)	(29.1)	(35.0)
Total Operating Expenses	**(33.4)**	**(37.9)**	**(38.2)**	**(45.8)**
Profit Before Tax	15.0	22.5	25.5	30.8
Profit After Tax	10.2	13.8	21.5	24.5
% PAT Change YoY	**70.6%**	**34.8%**	**55.7%**	**14.3%**
EPS	6.2	8.4	13.0	14.9
DPS	3.0	4.3	4.8	4.8
Cost to Income (with LLP)	68.1%	62.2%	60.0%	59.8%
NIM	**5.7%**	**5.9%**	**5.9%**	**5.9%**
ROE	13.6%	17.2%	24.0%	23.4%
ROA	1.8%	2.3%	3.2%	3.1%
Balance Sheet	**2021e**	**2022f**	**2023F**	**2024F**
Net Loans and Advances	244.0	278.9	337.0	398.8
Government Securities	196.1	205.4	203.4	255.9
Other Assets	151.0	135.4	194.2	217.4
Total Assets	591.1	619.7	734.6	872.0
Customer Deposits	469.9	502.7	579.4	667.8
Other Liabilities	43.2	34.6	58.6	58.7
Total Liabilities	513.1	537.2	638.0	726.6
Shareholders Equity	77.9	82.4	96.7	113.4
Number of Shares	1.6	1.6	1.6	1.6
Book value Per share	47.3	50.0	58.7	68.8
% Change in BPS YoY	**7.6%**	**5.9%**	**17.3%**	**17.3%**

Cytonn

Valuation Summary

NCBA Group is undervalued with a total potential return of 29.9%

	Implied Price	Weighting	Weighted Value
DDM Integrated	109.2	40%	43.7
Residual Valuation	39.2	35%	13.7
PBV Multiple	47.6	20%	9.5
PE Multiple	55.8	5%	2.8
Target Price			**53.2**
Current Price			**44.6**
Upside/(Downside)			19.3%
Dividend Yield			10.7%
Total Potential Return			**29.9%**

Cytonn

V. Standard Chartered Bank Kenya

SCBK's Summary of Performance – Q3'2024

- Core earnings per share increased by 62.7% to Kshs 41.9, from Kshs 25.8 in Q3'2023, mainly driven by the 32.7% increase in total operating income to Kshs 39.1 bn, from Kshs 29.4 bn in Q3'2023 which outpaced the 5.4% increase in total operating expenses to Kshs 16.6 bn, from Kshs 15.8 bn in Q3'2023,
- The 32.7% growth in total operating income was mainly driven by a 17.0% growth in Net Interest Income to Kshs 24.8 bn, from Kshs 21.2 bn in Q3'2023, coupled with a 73.5% growth in Non funded Income (NFI) to Kshs 14.2 bn, from Kshs 8.2 bn in Q3'2023,
- Total operating expenses increased by 5.4% to Kshs 16.6 bn from Kshs 15.8 bn in Q3'2023, driven by the 11.1% increase in staff costs to Kshs 4.7 bn from Kshs 4.1 bn in Q3'2023, coupled with a 4.3% increase in other operating expenses to Kshs 6.9 bn from Kshs 6.2 bn in Q3'2023
- The balance sheet recorded an expansion as total assets grew marginally by 0.3% to Kshs 370.9 bn, from Kshs 369.7 bn in Q3'2023,
- The bank's Asset Quality improved, with Gross NPL ratio decreasing to 7.5% in Q3'2024, from 14.4% in Q3'2023, attributable to the 48.4% decrease in gross non-performing loans to Kshs 12.1 bn, from Kshs 23.6 bn in Q3'2023, relative to the slower 0.9% decrease in gross loans to Kshs 161.6 bn, from Kshs 163.1 bn recorded in Q3'2023,
- Going forward, we expect the bank's growth to be driven by:

i. **Digital transformation -**The lender has leveraged digital innovation to enhance service delivery, enabling customers to invest in various funds such as offshore mutual funds, government securities, and local money market funds, as well as to access digital loans. This digital shift has significantly contributed to the lender's financial performance. The convenience and speed offered by digital banking services have made it easier for customers to manage their finances and access financial products, leading to higher customer satisfaction and loyalty. Consequently, the lender's adoption of digital solutions has positioned it as a competitive player in the financial market, driving growth and expanding its market share**.**

Financial Statements Extracts

SCBK's PAT is expected to grow at a 5-year CAGR of 26.3%

Income Statement	2019	2020	2021	2022	2023	2024f
Net Interest Income	19.5	19.1	18.8	22.2	29.3	33.9
Non Funded Income	9.2	8.3	10.4	11.8	12.4	20.0
Total Operating Income	**28.7**	**27.4**	**29.2**	**34.0**	**41.7**	**53.8**
Loan Loss Provision	0.6	3.9	2.1	1.3	3.4	1.9
Other Operating Expenses	16.0	16.1	14.5	15.5	18.7	22.9
Total Operating Expenses	**16.5**	**20.0**	**16.6**	**16.9**	**22.1**	**24.8**
Profit Before Tax	12.2	7.4	12.6	17.1	19.7	29.0
Profit After tax	8.2	5.4	9.0	12.1	13.8	20.4
% PAT Change YoY	**1.7%**	**-33.9%**	**66.2%**	**33.3%**	**14.7%**	**47.4%**
EPS	21.9	14.4	24.0	32.0	36.7	54.1
DPS	20.0	10.5	14.0	22.0	29.0	30.0
Cost to Income	57.6%	73.0%	56.8%	49.7%	52.9%	46.1%
NIM	**7.4%**	**6.8%**	**6.4%**	**7.0%**	**8.3%**	**7.8%**
ROaE	17.5%	11.0%	17.4%	22.1%	23.5%	26.3%
ROaA	2.8%	1.7%	2.7%	3.4%	3.4%	4.1%

Balance Sheet	2019	2020	2021	2022	2023	2024f
Net Loans and Advances	128.7	121.5	126.0	139.4	163.2	211.4
Government Securities	99.6	99.8	95.6	105.7	69.6	114.9
Other assets	73.8	104.3	113.3	136.2	196.2	247.4
Total Assets	**302.1**	**325.6**	**334.9**	**381.3**	**429.0**	**573.7**
Customer Deposits	228.4	256.5	265.5	278.9	342.9	436.8
Other Liabilities	25.9	18.2	16.2	46.2	24.6	43.6
Total Liabilities	**254.4**	**274.7**	**281.7**	**325.1**	**367.4**	**480.4**
Shareholders Equity	**47.8**	**50.9**	**53.2**	**56.1**	**61.5**	**93.3**
Number of shares	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Book value Per share	126.7	135.0	141.2	148.9	163.2	247.5
% Change in BPS YoY	**2.4%**	**6.6%**	**4.6%**	**5.5%**	**9.6%**	**51.6%**

Cytonn

Valuation Summary

SCBK is undervalued with a total potential return of 25.8%

Valuation Summary	Implied Price	Weighting	Weighted Value
DDM Integrated	502.8	40%	201.1
Residual Income	258.1	10%	25.8
PBV Multiple	134.1	20%	26.8
PE Multiple	125.3	30%	37.6
Target Price			**291.3**
Current Price			**254.5**
Upside/(Downside)			14.4%
Dividend Yield			11.4%
Total Return			**25.8%**

Cytonn

VI. Diamond Trust Bank Kenya

Cytonn

DTB K Holdings Summary of Performance –Q3'2024

- Profit before tax increased by 12.3% to Kshs 9.8 bn, from Kshs 8.7 bn recorded in Q3'2023, with effective tax rate decreasing to 24.1% in Q3'2024 from 24.3% in Q3'2023, leading to an 12.6% increase in profit after tax Kshs 7.4 bn, from Kshs 6.6 bn recorded in Q3'2023.
- Core earnings per share grew by 12.6% to Kshs 26.6, from Kshs 23.6 in Q3'2023, driven by the 5.9% increase in total operating income to Kshs 31.0 bn, from Kshs 29.3 bn in Q3'2023 which outpaced the 1.9% increase in total operating expenses to Kshs 21.1 bn from Kshs 20.7 bn in Q3'2023,
- The 5.9% increase in total operating income was mainly driven by a 6.1% growth in Net Interest Income (NII) to Kshs 21.3 bn, from Kshs 20.3 bn in Q3'2023, coupled with the 5.7% increase in Non Funded Income (NFI) to Kshs 9.7 bn from Kshs 9.2 bn in Q3'2023,
- Total operating expenses increased by 1.9% to Kshs 21.1 bn from Kshs 20.7 bn in Q3'2023, driven by an 10.9% increase in staff costs to Kshs 6.9 bn from Kshs 6.3 bn recorded in Q3'2023, coupled with a 5.4% increase in other operating expenses to Kshs 8.9 bn, from Kshs 8.4 bn recorded in Q3'2023.
- The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 13.5% in Q3'2024, from 12.6% in Q3'2023, attributable to a 1.1% increase in Gross non-performing loans to Kshs 39.1 bn, from Kshs 38.7 bn in Q3'2023, compared to the 5.7% decline in gross loans to Kshs 290.3 bn, from Kshs 308.0 bn recorded in Q3'2023,

Going forward, we expect the bank's growth to be driven by:

- **Revenue Diversification.** The lender has a great opportunity to explore the growth of its non-funded income streams, which grew by 5.7% to Kshs 9.7 bn, from Kshs 9.2 bn in Q3'2023. They have, over the years, launched a number of products and continue to simultaneously offer differentiated products for diaspora bankers, micro and small enterprises, home and vehicle insurance, bancassurance, and the DTB Weza platform which makes overdrafts much more accessible,
- **Digital Transformation**: The bank has devised digital transformation initiatives, including the development of a digital credit platform to streamline and enhance consumer lending processes. Additionally, the launch of a comprehensive digital banking platform with advanced mobile and online banking capabilities would improve customer convenience, attract tech-savvy clients, and boost customer retention.

Financial Statements Extracts

DTB K Holdings PAT is expected to grow at a 5-year CAGR of 30.3%

Income Statement	2017	2018f	2019	2020	2021	2022	2023	2024f
Net Interest Income	19.7	20.0	18.7	18.1	20.0	22.9	27.6	28.6
Non Funded Income	5.3	5.4	5.8	6.1	6.3	9.1	12.2	14.1
Total Operating Income	**25.0**	**25.5**	**24.5**	**24.2**	**26.3**	**31.9**	**39.7**	**42.8**
Loan Loss Provision	4.3	3.0	1.3	7.3	7.6	7.1	10.3	11.5
Other Operating Expenses	10.6	11.5	11.9	12.3	12.3	14.9	20.5	21.1
Total Operating Expenses	**14.9**	**14.5**	**13.2**	**19.7**	**19.9**	**22.1**	**30.9**	**32.6**
Profit Before Tax	10.1	11.0	11.3	4.7	6.6	9.5	9.0	10.3
Profit After tax	6.9	7.1	7.3	3.5	4.4	6.8	7.8	12.7
% PAT Change YoY	**-10.3%**	**2.3%**	**2.6%**	**-51.5%**	**25.1%**	**53.9%**	**14.7%**	**62.7%**
EPS	24.8	25.3	26.0	12.6	15.8	24.3	27.9	45.4
DPS	2.6	2.6	2.7	0.0	3.0	5.0	6.0	5.5
Cost to Income	59.6%	56.9%	54.0%	81.3%	75.6%	69.1%	77.7%	76.3%
NIM	**6.5%**	**6.2%**	**5.6%**	**5.0%**	**5.1%**	**5.3%**	**5.5%**	**4.7%**
ROE	14.4%	13.9%	12.9%	5.8%	6.8%	10.0%	10.8%	14.8%
ROA	2.0%	1.9%	1.9%	0.9%	1.0%	1.4%	1.3%	1.9%
Balance Sheet	**2017**	**2018**	**2019**	**2020**	**2021e**	**2022f**	**2023f**	**2024f**
Net Loans and Advances	196.0	193.1	199.1	208.6	220.4	253.7	308.5	355.4
Government Securities	112.5	115.0	119.3	111.1	83.3	73.5	58.5	96.6
Other Assets	54.7	69.6	67.8	105.3	153.1	199.8	268.0	268.0
Total Assets	**363.3**	**377.7**	**386.2**	**425.1**	**456.8**	**527.0**	**635.0**	**720.0**
Customer Deposits	266.2	282.9	280.2	298.2	331.5	387.6	486.1	540.1
Other Liabilities	43.4	35.9	41.5	58.6	50.8	61.8	62.6	71.8
Total Liabilities	**309.7**	**318.8**	**321.7**	**356.7**	**382.3**	**449.3**	**548.7**	**611.8**
Shareholders Equity	48.4	53.7	58.9	62.0	67.3	69.0	74.9	96.7
Number of Shares	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Book value Per share	173.0	191.9	210.5	221.6	240.7	246.6	267.8	345.7
% Change in BPS YoY	**17.9%**	**10.9%**	**9.7%**	**5.3%**	**8.6%**	**2.5%**	**8.6%**	**29.1%**

Cytonn

Valuation Summary

DTB-K Holdings is undervalued with a total potential return of 32.9%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	74.9	40.0%	29.9
Residual Income	68.0	40.0%	27.2
PBV Multiple	60.4	10.0%	6.0
PE Multiple	79.1	10.0%	7.9
Target Price			**71.1**
Current Price			**58.0**
Upside/(Downside)			22.6%
Dividend yield			10.3%
Total return			**32.9%**

Cytonn

VII. ABSA Bank Kenya

ABSA Bank’s Summary of Performance – Q3'2024

- Core earnings per share increased by 19.8% to Kshs 2.7, from Kshs 2.3 in Q3’2023, mainly driven by the 16.5% increase in total operating income to Kshs 46.8 bn, from Kshs 40.2 bn in Q3’2023 which outpaced the 15.2% increase in total operating expenses to Kshs 25.7 bn, from Kshs 22.3 bn in Q3’2023,
- The 16.5% growth in total operating income was mainly driven by a 17.7% growth in Net Interest Income to Kshs 34.5 bn, from Kshs 29.3 bn in Q3’2023, coupled with a 13.0% growth in Non funded Income (NFI) to Kshs 12.2 bn, from Kshs 10.8 bn in Q3’2023,
- Total operating expenses increased by 15.2% to Kshs 25.7 bn from Kshs 22.3 bn in Q3’2023, driven by a 18.7% increase in loan loss provisions to Kshs 8.0 bn from Kshs 6.8 bn in Q3’2023 as well as the 13.8% increase in staff costs to Kshs 9.8 bn from Kshs 8.6 bn in Q3’2023 coupled with the 13.6% increase in other operating expenses to Kshs 7.9 bn from Kshs 6.9 bn in Q3’2023,
- The balance sheet recorded a contraction as total assets declined by 4.1% to Kshs 484.4 bn, from Kshs 504.9 bn in Q3’2023,
- The bank’s Asset Quality deteriorated, with Gross NPL ratio increasing to 12.6% in Q3’2024, from 9.8% in Q3’2023, attributable to the 23.5% increase in gross non-performing loans to Kshs 42.7 bn, from Kshs 34.5 bn in Q3’2023, relative to the 4.2% decrease in gross loans to Kshs 339.3 bn, from Kshs 354.2 bn recorded in Q3’2023,
- Going forward, the factors that would drive the bank’s growth would be:

i. Continued Digitization -The bank has continued to leverage digital transformation as a strategy to enhance financial services and customer experience. This expansion in digital distribution has led to an increase in digital loan disbursements and growth in consumer business through the Timiza digital platform, significantly contributing to its financial performance. Additionally, the lender's subsidiary divisions, particularly asset management and insurance, not only diversifys the bank's revenue streams but also provide additional value-added services to customers, enhancing overall client retention and satisfaction.

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Financial Statements Extracts

Absa Bank's PAT is expected to grow at a 5-year CAGR of 19.2%

Income Statement	2019	2020	2021	2022	2023	2024f
Net Interest Income	23.2	23.4	25.3	32.3	40.0	46.9
Non Funded Income	10.6	11.1	11.7	13.7	14.5	18.9
Total Operating Income	**33.8**	**34.5**	**36.9**	**46.0**	**54.6**	**65.8**
Loan Loss Provision	(4.2)	(9.0)	(4.7)	(6.5)	(9.2)	(10.1)
Other Operating Expenses	(17.3)	(16.6)	(16.7)	(18.7)	(21.6)	(25.0)
Total Operating Expenses	**(21.5)**	**(25.7)**	**(21.4)**	**(25.1)**	**(30.9)**	**(35.1)**
Profit Before Tax	10.8	5.6	15.5	20.8	23.7	30.6
Profit After tax	**7.5**	**4.2**	**10.9**	**14.6**	**16.4**	**21.5**
% PAT Change YoY	**0.5%**	**-44.2%**	**161.2%**	**34.2%**	**12.2%**	**31.2%**
EPS	1.4	0.8	2.0	2.7	3.0	4.0
DPS	1.1	0.0	1.1	1.4	1.6	1.8
Cost to Income	63.6%	74.4%	57.9%	54.7%	56.6%	53.4%
NIM	**7.7%**	**7.1%**	**7.1%**	**8.2%**	**9.4%**	**10.1%**
ROaE	16.7%	9.1%	21.1%	24.3%	24.6%	26.2%
ROaA	2.1%	1.1%	2.7%	3.2%	3.3%	4.0%
Balance Sheet	**2019**	**2020**	**2021**	**2022**	**2023**	**2024f**
Net Loans and Advances	194.9	208.9	234.2	283.6	335.7	371.8
Government Securities	123.0	126.1	132.6	133.5	95.2	110.6
Other Assets	56.1	44.5	61.9	60.2	88.9	79.6
Total Assets	**374.0**	**379.4**	**428.7**	**477.2**	**519.8**	**562.1**
Customer Deposits	237.7	253.6	268.7	303.8	362.7	410.0
Other Liabilities	91.1	79.3	103.5	109.9	87.9	57.5
Total Liabilities	**328.8**	**332.9**	**372.2**	**413.6**	**450.6**	**467.5**
Shareholders Equity	**45.2**	**46.5**	**56.4**	**63.6**	**69.2**	**94.5**
Number of shares	**5.4**	**5.4**	**5.4**	**5.4**	**5.4**	**5.4**
Book value Per share	8.3	8.6	10.4	11.7	12.7	17.4
% Change in BPS YoY	**2.2%**	**2.9%**	**21.4%**	**36.8%**	**22.6%**	**36.6%**

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Valuation Summary

Absa Bank is undervalued with a total potential return of 34.0%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM	23.8	40%	9.5
Residual Income	20.8	35%	7.3
PBV Multiple	9.1	20%	1.8
PE Multiple	9.4	5%	0.5
Target Price			**19.1**
Current Price			**15.4**
Upside/(Downside)			23.9%
Dividend Yield			10.1%
Total Return			**34.0%**

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VIII. Stanbic Holdings

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Stanbic Holdings’ Summary of Performance – Q3'2024

- Profit before tax increased by 8.4% to Kshs 14.1 bn from Kshs 13.0 bn in Q3’2023, with effective tax rate decreasing to 27.9% in Q3’2024 from 28.4% in Q3’2023, leading to a 9.3% increase in profit after tax to Kshs 10.1 bn in Q3’2024, from Kshs 9.3 bn in Q3’2023.
- Total operating income decreased by 4.5% to Kshs 29.3 bn from Kshs 30.7 bn in Q3’2023, driven by a 17.8% decrease in Non Interest Income (NFI) to Kshs 10.4 bn from Kshs 12.6 bn in Q3’2023, which outpaced the 4.8% growth in Net Interest Income (NII) to Kshs 19.0 bn, from Kshs 18.1 bn in Q3’2023,
- Total operating expenses decreased by 13.9% to Kshs 15.3 bn from Kshs 17.8 bn in Q3’2023, driven by 40.2% decrease in loan loss provisions to Kshs 2.7 bn from Kshs 4.5 bn recorded in Q3’2023, coupled with a 12.5% decrease in other operating costs to Kshs 6.4 bn from Kshs 7.3 bn in Q3’2023, which outpaced the 4.1% increase in staff costs to Kshs 6.2 bn, from Kshs 6.0 bn in Q3’2023
- The balance sheet recorded an expansion as total assets grew by 11.7% to Kshs 462.6bn, from Kshs 414.3 bn in Q3’2023
- The bank’s Asset Quality deteriorated, with Gross NPL ratio increasing to 10.4% in Q3’2024 from 9.0% in Q3’2023, attributable to the 3.2% increase in Gross non-performing loans to Kshs 24.8 bn, from Kshs 24.0 bn in Q3’2023, compared to the 10.9% decrease in gross loans to Kshs 237.7 bn, from Kshs 266.9 bn recorded in Q3’2023,
- Going forward, the factors that would drive the bank’s growth would be:

i. **Digital transformation.** The lender has capitalized on digital innovation for service delivery over the past two years to improve its operational efficiency, which has been a key factor in its financial performance. In June 2023, the lender disclosed that 98.0% of accounts were opened digitally. In 2022 the bank introduced borderless banking, allowing its customers across East Africa to conduct transaction smoothly and in real time

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Financial Statements Extracts

Stanbic Holdings' PAT is expected to grow at a 5-year CAGR of 16.6%

Income Statement	2021	2022	2023	2024f
Net Interest Income	12.8	14.4	**18.9**	**21.4**
Non Funded Income	10.4	10.6	**13.1**	**14.2**
Total Operating Income	**23.2**	**25.0**	**32.1**	**35.6**
Loan Loss Provision	(4.9)	(2.5)	(4.9)	(7.4)
Total Operating Expenses	**(12.1)**	**(12.7)**	**(19.9)**	**(20.5)**
Profit Before Tax	6.2	9.8	12.2	15.1
% PAT Change YoY	**(18.6%)**	**38.8%**	**25.7%**	**19.3%**
EPS	13.1	18.2	22.9	27.4
DPS	3.8	9.0	12.6	12.6
				57.6
Cost to Income (with LLP)	52.2%	61.0%	62.1	57.6%
NIM	**4.7%**	**5.0%**	**5.7%**	**5.9%**
ROaE	10.3%	13.3%	15.3%	17.2%
ROaA	1.6%	2.2%	2.5%	2.5%
Balance Sheet	**2021**	**2022**	**2023**	**2024f**
Net Loans and Advances	196.3	229.3	266.8	283.0
Other Assets	132.3	99.6	133.0	169.9
Total Assets	**328.6**	**328.9**	**399.8**	**452.6**
Customer Deposits	260.0	254.6	304.3	336.3
Borrowings	5.5	5.7	10.1	14.8
Other Liabilities	11.4	12.1	23.2	40.1
Total Liabilities	**276.9**	**272.4**	**337.6**	**391.2**
Shareholders Equity	51.7	56.5	62.2	61.5
No of Ordinary Shares	0.4	0.4	0.4	0.4
Book value Per share	130.9	142.8	157.3	170.1
% Change in BVPS	**5.5%**	**9.1%**	**2.0%**	**8.1%**

Valuation Summary

Stanbic Holdings is undervalued with a total potential return of 19.9%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	186.3	35%	65.5
Residual Income	125.4	35%	43.9
PBV Multiple	97.2	20%	19.4
PE Multiple	114.7	10%	11.5
Target Price			**145.3**
Current Price			**134.0**
Upside/(Downside)			8.4%
Dividend Yield			11.5%
Total return			**19.9%**

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IX. I&M Group

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I&M Group Summary of Performance – Q3'2024

- Profit before tax increased by 24.1% to Kshs 14.1 bn from Kshs 11.4 bn in Q3'2023, with effective tax rate increasing to 29.4% in Q3'2024 from 27.9% in Q3'2023. As such, profit after tax increased by 21.3% to Kshs 9.9 bn in Q3'2024, from Kshs 8.2 bn in Q3'2023
- The 19.8% growth in total operating income was mainly driven by an 37.4% growth in Net Interest Income to Kshs 26.3 bn, from Kshs 19.1 bn in Q3'2023, but was weighed down by an 11.5% decline in Non funded Income (NFI) to Kshs 9.5 bn, from Kshs 10.7 bn in Q3'2023
- Total operating expenses increased by 16.5% to Kshs 22.4 bn from Kshs 19.2 bn in Q3'2023, driven by a 18.9% increase in loan loss provisions to Kshs 5.5 bn from Kshs 4.6 bn recorded in Q3'2023, coupled with a 14.9% increase in staff costs to Kshs 6.4 bn from Kshs 5.6 bn in Q3'2023
- The balance sheet recorded an expansion as total assets increased by 4.3% to Kshs 567.7 bn, from Kshs 544.1 bn in Q3'2023
- Gross Non-Performing Loans (NPLs) decreased by 1.3% to Kshs 35.7 bn in Q3'2024 from Kshs 36.1 bn in Q3'2023, while Gross Loans decreased by 0.9% to Kshs 303.2 bn from Kshs 306.1 bn in Q3'2023. Consequently, the asset quality remained constant with the NPL ratio remaining relatively unchanged at 11.8% recorded in Q3'2023
- Going forward, we expect the bank's growth to be driven by:

i. **Scaling New Business -** The bank has devised plans to accelerate growth in priority segments by building relevance in customer segments, i.e retail and Small and Medium Enterprises (SMEs), and developing leadership in commercial and corporate segments.

Financial Statements Extracts

I&M Group's PAT is expected to grow at a 5-year CAGR of 10.8%

Income Statement	2021	2022	2023	2024f
Net Interest Income	20.9	22.9	28.6	38.1
Non- Funded Income	8.7	12.7	14.1	16.2
Total Operating Income	**29.6**	**35.7**	**42.7**	**54.3**
Loan Loss Provision	(4.2)	(5.2)	(6.9)	(8.3)
Other Operating Expenses	(13.5)	(16.1)	(20.3)	(22.5)
Total Operating Expenses	**(17.7)**	**(21.3)**	**(27.2)**	**(30.7)**
Profit Before Tax	12.4	15.0	16.7	24.8
% PAT Change YoY	**2.5%**	**11.6%**	**15.2%**	**29.9%**
EPS	4.9	7.0	8.1	10.5
DPS	1.5	2.3	2.6	3.0
Cost to Income (with LLP)	59.9%	59.8%	63.7%	56.6%
NIM	**6.3%**	**6.3%**	**7.4%**	**7.6%**
ROaE	12.2%	14.4%	15.0%	17.3%
ROaA	2.1%	2.6%	2.6%	2.8%
Balance Sheet	**2021**	**2022**	**2023**	**2024f**
Government securities	125.5	113.1	78.1	153.2
Net Loans and Advances	210.6	238.6	311.3	350.1
Other Assets	79.0	84.9	190.3	191.9
Total Assets	**415.2**	**436.6**	**579.7**	**695.2**
Customer Deposits	296.7	312.3	416.7	473.1
Other Liabilities	44.4	42.6	67.3	93.6
Total Liabilities	**341.1**	**355.0**	**484.0**	**566.7**
Shareholders Equity	69.6	76.5	88.2	120.9
Number of Shares	1.7	1.7	1.7	1.7
Book Value Per Share	42.1	46.3	53.3	73.12
% BVPS Change YoY	**(45.8%)**	**9.9%**	**15.2%**	**37.1%**

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Valuation Summary

I&M Group is undervalued with a total potential return of 17.7%

Valuation Summary:	Implied Price	Weighting	Weighted Value
DDM Integrated	50.0	40.0%	20.0
Residual income	17.3	40.0%	6.9
PBV Multiple	43.1	10.0%	4.3
PE Multiple	37.7	10.0%	3.8
Target Price			**35.0**
Current Price			**31.9**
Upside/(Downside)			9.7%
Dividend yield			8.0%
Total return			**17.7%**

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B. Tier II Bank

I. HF Group

HF Group Summary of Performance – Q3'2024

- Profit before tax increased by 18.9% to Kshs 0.31 bn from Kshs 0.26 bn in Q3'2023 with effective tax rate decreasing significantly to (54.8%) in Q3'2024, from 10.1% in Q3'2023, leading to a 104.6% increase in profit after tax to Kshs 1.3 bn in Q3'2024, from Kshs 0.6 bn in Q3'2023.
- Total operating income increased by 5.3% to Kshs 3.0 bn, from Kshs 2.8 bn in Q3'2023, mainly driven by a 2.6% growth in Net Interest Income to Kshs 1.96 bn, from Kshs 1.91 bn in Q3'2023, coupled with a 10.9% growth in Non Funded Income (NFI) to Kshs 1.0 bn, from Kshs 0.9 bn in Q3'2023,
- Total operating expenses increased by 3.9% to Kshs 2.7 bn from Kshs 2.6 bn in Q3'2023, driven by 16.8% increase in staff costs to Kshs 1.4 bn from Kshs 1.2 bn recorded in Q3'2023, coupled with an 5.0% increase in loan loss provisions to Kshs 0.25 bn from Kshs 0.24 bn in Q3'2023,
- Gross Non-Performing Loans (NPLs) increased by 8.5% to Kshs 11.5 bn in Q3'2024 from Kshs 10.6 bn in Q3'2023, while Gross Loans increased by 1.4% to Kshs 46.9 bn from Kshs 46.3 bn in Q3'2023. Consequently, the asset quality deteriorated with the NPL ratio rising to 24.4% in Q3'2024 from 22.8% in Q3'2023,
- We commend HF Group's turnaround performance, recording an increase in profit after tax of 104.6% to Kshs 1.3 bn in Q3'2024, from Kshs 0.6 bn in Q3'2023. Despite this, HF Group faces a major downside with its capital adequacy ratios remaining below the minimum statutory requirements set for banks. The group will have to review its business model or merge with a bank with stronger capital ratios so as to overcome its undercapitalization.

Financial Statements Extracts

HF's PAT is expected to grow at a 5-year CAGR of 15.0%

Income Statement	2021	2022	2023	2024F
Net Interest Income	1.8	2.2	2.5	3.8
Non- Funded Income	0.5	0.9	1.2	1.7
Total Operating Income	2.4	3.0	**3.8**	**5.5**
Loan Loss Provision	(0.3)	(0.2)	(0.3)	(0.3)
Other Operating Expenses	**(3.0)**	**(2.6)**	(3.2)	(4.2)
Total Operating Expenses	(3.3)	(2.8)	**(3.5)**	3.8
Profit Before Tax	(1.0)	0.2	0.3	1.0
% PAT Change YoY	**(59.8%)**	**(138.9%)**	**46.2%**	**101.3%**
EPS	(1.8)	0.7	1.0	2.0
DPS	0.0	0.0	0.0	0.0
Cost to Income	140.1%	93.5%	92.0%	82.4%
NIM	**4.2%**	**5.0%**	**5.4%**	7.3%
ROaE	(8.1%)	3.1%	4.4%	8.3%
ROaA	(1.3%)	0.5%	0.7%	1.2%
Balance Sheet	**2021**	**2022**	**2023**	**2024F**
Net Loans and Advances	34.7	36.3	38.8	43.8
Government securities	6.6	8.5	9.7	10.9
Other Assets	12.0	12.2	13.1	13.8
Total Assets	**53.2**	**57.0**	**61.6**	**68.5**
Customer Deposits	37.7	39.8	43.8	49.5
Other Liabilities	7.2	8.4	8.8	9.1
Total Liabilities	**44.9**	**48.2**	**52.7**	**58.6**
Shareholders Equity	8.3	8.8	8.9	9.9
Number of Shares	0.4	0.4	0.4	0.4
Book Value Per Share	21.5	22.8	23.0	25.7
% BVPS Change YoY	**(3.3%)**	**6.0%**	**1.1%**	**11.6%**

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Valuation Summary

Housing Finance is undervalued with a total potential return of 14.2%

Valuation Summary:	Implied Price	Weighting	Weighted Value
Residual Income	5.0	60%	3.0
PTBV Multiple	4.3	35%	1.5
PE Multiple	3.1	5%	0.2
Fair Value			**4.7**
Current Price			**4.1**
Upside/(Downside)			14.2%
Dividend Yield			0.0%
Total return			***14.2%***

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Feedback Summary

During the preparation of this Q3'2024 Banking Sector Report, we shared with the subject companies the operating metrics that were used in the Report for their confirmation and verification

- Below is a summary of the banks we were able to acquire feedback from and those that went unresponsive:

Bank	Operating Metrics Shared	Sent Feedback
Co-operative Bank of Kenya	Yes	Unresponsive
Standard Chartered Bank Kenya	Yes	Yes
I&M Group	Yes	Yes
Stanbic Holdings	Yes	Unresponsive
Diamond Trust Bank	Yes	Yes
KCB Group	Yes	Yes
NCBA Group	Yes	Yes
Housing Finance Group	Yes	Unresponsive
Equity Group Holdings	Yes	Unresponsive
Absa Bank Kenya	Yes	Yes

Licensed Financial Institutions

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I. Banks and Mortgage Finance Institutions

Licensed Banks in Kenya

#	Bank	#	Bank
1	ABSA Bank Kenya	20	Gulf African Bank Limited
2	Access Bank Kenya	21	Habib Bank A.G Zurich
3	African Banking Corporation Limited	22	I&M Bank Limited
4	Bank of Africa Kenya Limited	23	Kingdom Bank Kenya Limited
5	Bank of Baroda (Kenya) Limited	24	KCB Bank Kenya Limited
6	Bank of India	25	Mayfair CIB Bank Limited
7	Citibank N.A Kenya	26	Middle East Bank (K) Limited
8	Consolidated Bank of Kenya Limited	27	M-Oriental Bank Limited
9	Co-operative Bank of Kenya Limited	28	National Bank of Kenya Limited
10	Credit Bank Limited	29	NCBA Bank Kenya PLC
11	Development Bank of Kenya Limited	30	Paramount Bank Limited
12	Diamond Trust Bank Kenya Limited	31	HF Group Limited
13	DIB Bank Kenya Limited	32	Prime Bank Limited
14	Ecobank Kenya Limited	33	SBM Bank Kenya Limited
15	Equity Bank Kenya Limited	34	Sidian Bank Limited
16	Family Bank Limited	35	Stanbic Bank Kenya Limited
17	First Community Bank Limited	36	Standard Chartered Bank Kenya Limited
18	Guaranty Trust Bank (K) Ltd	37	UBA Kenya Bank Limited
19	Guardian Bank Limited	38	Victoria Commercial Bank Limited

Licensed Banks in Kenya

Licensed Mortgage Finance Institution

1. HFC Limited

Authorized Non-operating Bank Holding Companies

1. Bakki Holdco Limited
2. Equity Group Holdings Limited
3. HF Group Limited
4. I&M Group
5. KCB Group
6. M Holdings Limited
7. NCBA Group
8. Stanbic Group Holdings

II. Micro-Finance Institutions

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Licensed Microfinance Banks in Kenya

#	Microfinance Bank	#	Microfinance Bank
1	Caritas Microfinance Bank Limited	8	Lolc Microfinance Bank Limited
2	Branch Microfinance Bank Limited	9	SMEP Microfinance Bank Limited
3	Choice Microfinance Bank Limited	10	Sumac Microfinance Bank Limited
4	Daraja Microfinance Bank Limited	11	U & I Microfinance Bank Limited
5	Faulu Microfinance Bank Limited	12	Salaam Microfinance Bank Ltd
6	Kenya Women Microfinance Bank Limited	13	Maisha Microfinance Bank Limited
7	Rafiki Microfinance Bank Limited	14	Muungano Microfinance Bank PLC

Source : CBK

Thank You!

For More Information

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