

EQUITY RESEARCH

3Q24 KENYAN BANKING SECTOR UPDATE

Dilemma for banks as MPC cuts rates: Interest expenses dent profitability growth

Melodie Gatuguta
mgatuguta@sib.co.ke

Eric Musau
emusau@sib.co.ke

SIB Products & Services

Research &
Sustainable
Finance

SIB undertakes rigorous due diligence in order to provide insight and clarity of investment opportunities to investors. This comprises insights and advisory around sustainable and responsible products

Corporate
Finance

Our team works with Kenya's largest public and private institutions to inform their strategic growth, structure their balance sheets, raise capital & restructure their enterprises

Fixed Income

SIB Fixed Income trade in fixed income products for local and foreign institutional investors. We focus mainly in government bonds, Eurobonds, corporate bonds and treasury bills

Equities

SIB Equities arm trades in companies stocks and derivatives on the NSE. SIB was the first institution to execute the first derivatives futures trades in the market- July 2019

Global Markets

Global Markets offers exposure to global financial instruments such as the world's major currencies, precious metals, commodities, global stock indices and selected single stocks from around the world. This is done through various funds domiciled within this unit.

SIB Najah

SIB Najah, Islamic Investment Banking, specializes in providing Shariah-compliant investment solutions to the market, encompassing Investment Banking, Investment Management, Securities Trading, and Corporate Finance services.

Review of banking sector multiples: The sector is still undervalued

Bank	ROE		ROE growth y/y	EPS (KES)		EPS growth y/y	FY23 EPS	Estimated FY24 EPS**	Dividend yield	Payout ratio FY23	Div per share - FY23 (KES)	Interim Div 2024 (KES)	Trailing P/E	P/B	YTD price change	Share price (KES)
	3Q23	3Q24		3Q23	3Q24											
ABSA	25.5%	26.8%	1.4%	2.27	2.71	19.8%	3.01	3.62	10.1%	51.4%	1.55	0.20	5.1	1.2	34.5%	15.40
Co-op Bank	22.7%	20.9%	-1.9%	3.14	3.27	4.4%	3.95	4.36	10.3%	38.0%	1.50	N/A	3.7	0.8	28.1%	14.60
DTB	10.0%	10.2%	0.2%	21.46	23.27	8.5%	24.60	31.03	10.3%	24.4%	6.00	N/A	2.4	0.2	28.7%	58.00
Equity Group	24.6%	23.5%	-1.0%	9.17	10.41	13.6%	11.12	13.88	8.3%	36.0%	4.00	N/A	4.3	0.8	42.6%	48.00
I&M Group	12.4%	13.3%	0.9%	4.70	5.54	18.1%	7.63	9.10	8.0%	33.4%	2.55	1.30	4.2	0.6	82.3%	31.90
KCB Group	19.0%	24.9%	5.8%	9.31	13.85	48.7%	11.26	18.47	n/a	nil	nil	1.50	3.4	0.5	80.4%	39.50
NCBA	22.8%	20.5%	-2.4%	8.89	9.16	3.1%	13.02	13.42	10.7%	54.4%	4.75	2.25	3.4	0.8	14.5%	44.60
Stanbic Bank	22.9%	22.6%	-0.4%	23.48	25.66	9.3%	30.15	34.21	11.5%	50.9%	15.35	1.84	4.4	0.8	23.2%	134.00
StanChart	22.4%	33.00%	10.6%	25.77	41.94	62.7%	36.62	55.92	11.4%	79.2%	29.00	8.00	7.0	1.6	57.1%	254.50
Banking sector average (Listed)													4.4	0.7		

Data as at 13th December 2024

Source: NSE, Company filings, SIB Estimates, Bloomberg

Definitions:

ROE: Measures how efficiently a company is generating income from the equity investments of its shareholders; >10% is considered healthy; the higher the better;

EPS: Measure of a company's profitability that indicates how much profit each outstanding share of common stock has earned; the higher the better.

Dividend yield: Represents the dividend amount a company pays annually compared to its share price.

Payout ratio: Calculated by dividing the total dividends by the total net income of a company.

P/E: The price an investor is willing to pay for each shilling of a company's earnings – If below average, considered undervalued.

P/B: Calculated by dividing a company's market price by its book value of equity (shareholder's equity per share). A ratio below one indicates that a company is undervalued, while a ratio above one indicates that the company's stock is trading at a premium.

Stock Recommendations

Absa	<ul style="list-style-type: none"> • We note the slowdown in earnings growth in the year, largely due to rising provisions and growing interest expenses. • Overall, we see the lender's growth in customer base, subsidiaries' value proposition, increase in service touchpoints, product diversification, and strategic partnerships as revenue drivers in the long term. • Despite a slight uptick q/q, Absa's CTI ratio remains below the 40% mark, thereby providing it with headroom to continue its digital investment initiatives, further supported by its robust capital levels. • Tech adoption and automation are expected to smoothen costs in the long run while increasing efficiency. • Decline in asset quality is a concern though it is still below the industry average. • With the rise in NPLs, we opine the lender will focus more on short-term working capital lending, secured loans (affordable housing, asset finance) and target payrolls that pass through the bank. • Intention to go big on retail segment to boost growth though may see cost of risk rise. 	<p>BUY</p> <p>Full Report here</p>
Co-op Bank	<ul style="list-style-type: none"> • The lender's strong franchise base, diversified revenue streams, focus on digitization and value proposition for its core customers, SACCOs, are expected to drive the Group's revenue in the long term. • The addition of the counter to the MSCI Frontier Markets index is anticipated to prop up valuation from a price perspective given anticipated foreign investor visibility. • Strong capital and liquidity base to offer headroom to lend. • Strategic partnerships with access to funding for onward lending to MSMEs. • Cautious repricing of loan portfolio to help balance NPL management and revenue generation. • Continued rise in FX income on attractive spreads. • NPL however ticked upwards in the period, leading to a rise in loan loss provisioning. 	<p>BUY</p> <p>Full Report here</p>
Diamond Trust Bank	<ul style="list-style-type: none"> • The lender's growth initiatives, recent corporate reorganization, diversified revenue lines (custody business, agency banking), ecosystem focus, strategic partnerships and regional reach as tailwinds to the Group's long-term outlook. • Notably, interest expense may continue to weigh on the Group's topline in the near term. The lender plans to grow its customer base to 10m in East Africa by 2026 –an ambitious feat. • Group costs are poised to remain elevated as it continues to expand, enhance digital capabilities and recruit more staff to deliver its business growth strategy. • Potential increase in loan provisions in 4Q24 as asset quality deteriorates. • Trading at a significant discount to its book value; entry point for investors with a long-term play. • DTB's addition to the MSCI Frontier Markets Small Cap index is anticipated to prop up valuation from a price discovery perspective given added investor visibility. 	<p>BUY</p> <p>Full Report here</p>

Stock Recommendations

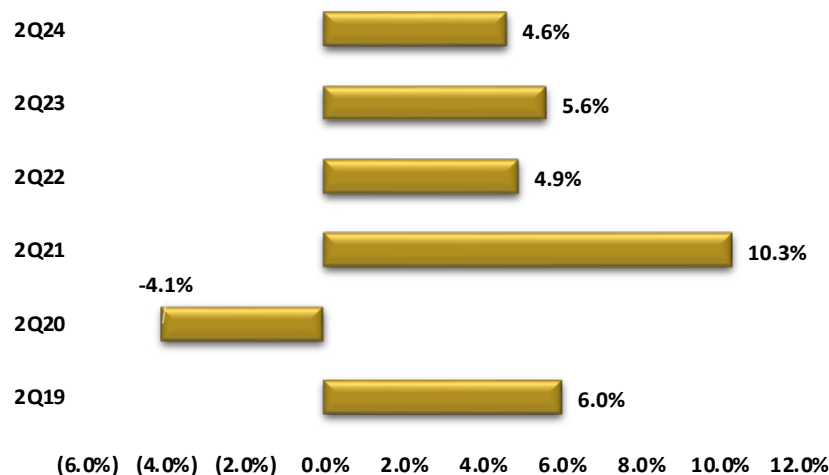
Equity Group	<ul style="list-style-type: none"> Equity Bank Kenya's performance remains tepid. Receipt of principal approval for its health insurance offering and approval for its general insurance offering provides an opportunity to grow NFI. The group is looking at refreshing its investment bank's strategy and developing enhanced products in 2025 as it looks to potentially tap into the asset management space. Decline in loan yields may cause some pressure on margins however it may help stem NPLs and stimulate credit demand. Restructuring of the Group balance sheet from repayment of borrowings to contain interest costs. Loan loss provisions are however robust and provide a potential write-back opportunity once NPLs decline. 	<p>BUY</p> <p>Full Report here</p>
I&M Group	<ul style="list-style-type: none"> Continued growth in Personal and Business Banking business on the back of enhanced propositions; unsecured digital lending, stock financing, digital self-onboarding etc. Proposed foray into agency banking, entry into oil & gas, leasing and public sectors, ecosystems play, the launch of a China desk and expansion of its wealth management & advisory portfolio are forecasted to act as tailwinds to boost transactions as well as non-funded income. Continued implementation of the risk-based model should help the lender grow its net interest income as customer numbers increase. The recently proposed subscription offer to issue 86.5m new shares to East Africa Growth Holding at KES 48.42 is anticipated to pump in additional capital (approx. KES 4.2bn) to further support the lender's iMara 3.0 growth strategy. 	<p>BUY</p> <p>Full Report here</p>
KCB Group	<ul style="list-style-type: none"> KCB Group is on track for strong performance in EPS in FY24, given the lender's sustained revenue growth (has already surpassed its FY23 earnings by KES 14.6bn in 3Q24). Deepening digital capabilities to support growth in NFI and operational efficiencies. Growing subsidiary contribution to PAT & assets and the continued recovery of KCB Kenya. NPLs will remain elevated in the near term given macro conditions in Kenya. However, the slowdown in Gross NPL increase from the preceding quarter could point to a peak in NPLs. Potential writebacks on potential asset recovery mechanisms as well as the reduction in interest rates as signaled by MPC rate cuts (both locally and internationally). Sale of NBK (which is awaiting regulatory approval from the CBK), capital buffers as well as the stellar performance recorded in the preceding quarters, are anticipated to provide management with an incentive to pay an attractive final dividend in FY24. 	<p>BUY</p> <p>Full Report here</p>

Stock Recommendations

NCBA	<ul style="list-style-type: none"> • The lender's results point to a moderated growth for the remainder of the year. • Product and channel diversification, as well as regional markets, should secure solid profitability in the long term (subsidiaries contributed 13% of group PBT in 3Q24). • Costs are however expected to remain elevated in the short term given the ongoing digital and physical expansion initiatives. • The acquisition of AIG insurance, digital offering, and robust wealth management business to drive NFI. • Cost of funds may squeeze interest margins on higher interest expense on deposits. 	<p>BUY</p> <p>Full Report here</p>
Stanbic Bank	<ul style="list-style-type: none"> • Coming from a high base in 2023, we do not see a significant shift in revenue performance in FY24. • Growth in its Asset Management and Insurance Business to grow non-interest revenue as the bank positions itself to tap into its Personal & Private Banking segment. • Growth opportunities exist in the medium term from regional trade business prospects through borderless banking, growing lending in target sectors (oil and gas, infrastructure, agriculture etc), and digital innovation to drive operational and cost excellence. • Recent CBR rate cuts to help address customer deposit expenses. • FX trading income is anticipated to remain muted in the year. 	<p>BUY</p> <p>Full Report here</p>
StanChart	<ul style="list-style-type: none"> • Robust interest margins on higher interest income, with a high CASA rate (97% as of FY23) anticipated to help manage the cost of funds. • Digitization of services will see higher onboarding of both retail and business clients and increased uptake of loans and diversified wealth management solutions and drive NFI. • Attractive dividend policy (c. 80% payout) – interim dividend up 33.3%y/y to KES 8.00. • Asset management growth is steady, with SC Shilingi up to KES 10.0bn as of July 2024, and the lender's key Affluent segment's AUM hitting KES 185.5bn as of FY23. • Cost efficiencies to support the lender's bottom line. • Improving asset quality to provide opportunities for reduction in provisions in 4Q24. 	<p>BUY</p> <p>Full Report here</p>

Macroeconomic Context – Moderating economic growth underscores the need to cut rates

2Q24 Growth Rates



Real GDP growth (y/y, percent)													
	Weight (2016-2023)	2019 Act.	2020 Act.	2021 Act.	2022 Act.	2023 Act.	2024					2025 Proj.	
							Q1 Act.	Q2 Act.	Q3 Est.	Q4 Proj.	Annual Proj.		
1. Agriculture	18.6	2.7	4.6	-0.4	-1.5	6.5	6.1	4.8	5.3	5.2	5.3	5.6	
2. Non-Agriculture (a/w)	81.4	5.7	-1.4	9.5	6.3	5.4	4.7	4.5	5.2	5.5	5.0	5.7	
2.1 Industry	17.7	4.0	3.3	7.5	3.9	1.9	0.1	0.6	2.0	1.9	1.1	3.5	
Mining & Quarrying	1.0	4.3	5.5	18.0	9.3	-6.5	-14.8	-2.7	-5.8	-7.6	-7.7	-3.0	
Manufacturing	8.7	2.6	-0.3	7.3	2.6	2.0	1.2	3.2	3.1	3.2	2.7	3.1	
Electricity & water supply	2.5	1.7	0.6	5.6	5.5	2.8	2.4	1.0	3.1	2.5	2.3	3.8	
Construction	5.5	7.2	10.1	6.7	4.1	3.0	0.1	-2.9	1.5	1.3	0.1	4.0	
2.2 Services	55.0	6.5	-1.8	9.8	7.0	7.0	6.2	5.5	6.3	6.8	6.2	6.9	
Wholesale & Retail Trade	8.3	5.3	-0.4	8.0	3.5	2.7	4.9	4.4	5.0	5.6	5.0	6.4	
Accommodation & food services	1.0	14.3	-47.7	52.6	26.8	33.6	28.0	26.6	25.0	26.7	26.6	18.0	
Transport & Storage	9.8	6.3	-8.0	7.4	5.8	6.2	3.9	3.6	5.1	5.7	4.6	5.6	
Information & Communication	3.0	7.0	6.0	6.1	9.0	9.3	7.8	7.2	7.9	8.0	7.7	8.6	
Financial & Insurance	8.3	8.1	5.9	11.5	12.0	10.1	7.0	5.1	5.8	6.1	6.0	6.4	
Public administration	5.8	8.4	7.0	6.0	5.1	4.6	5.8	5.1	5.9	5.3	5.5	4.0	
Professional, Admin & Support Services	2.8	6.8	-13.7	7.1	9.5	9.5	9.9	6.8	7.2	7.5	7.8	9.0	
Real estate	9.9	6.7	4.1	6.7	4.5	7.3	6.6	6.0	6.9	7.0	6.6	6.4	
Education	4.7	5.7	-9.2	22.8	5.2	3.1	4.0	3.1	4.5	5.0	4.2	5.7	
Health	2.2	5.5	5.6	8.9	3.4	4.9	5.5	5.5	5.1	5.0	5.3	5.3	
Other services	2.2	4.3	-14.6	12.5	6.5	4.1	2.3	2.0	4.5	4.9	3.5	3.7	
FISIM	-3.1	9.5	-1.8	5.3	0.2	2.7	5.8	0.9	3.1	2.9	3.2	2.7	
2.3 Taxes on products	8.6	3.9	-8.0	11.9	4.7	2.2	4.4	5.7	4.1	4.5	4.7	2.9	
Real GDP Growth	100.0	5.1	-0.3	7.6	4.9	5.6	5.0	4.6	5.2	5.5	5.1	5.5	

Source: Kenya National Bureau of Statistics and Central Bank of Kenya

Source: CBK MPC December presentation

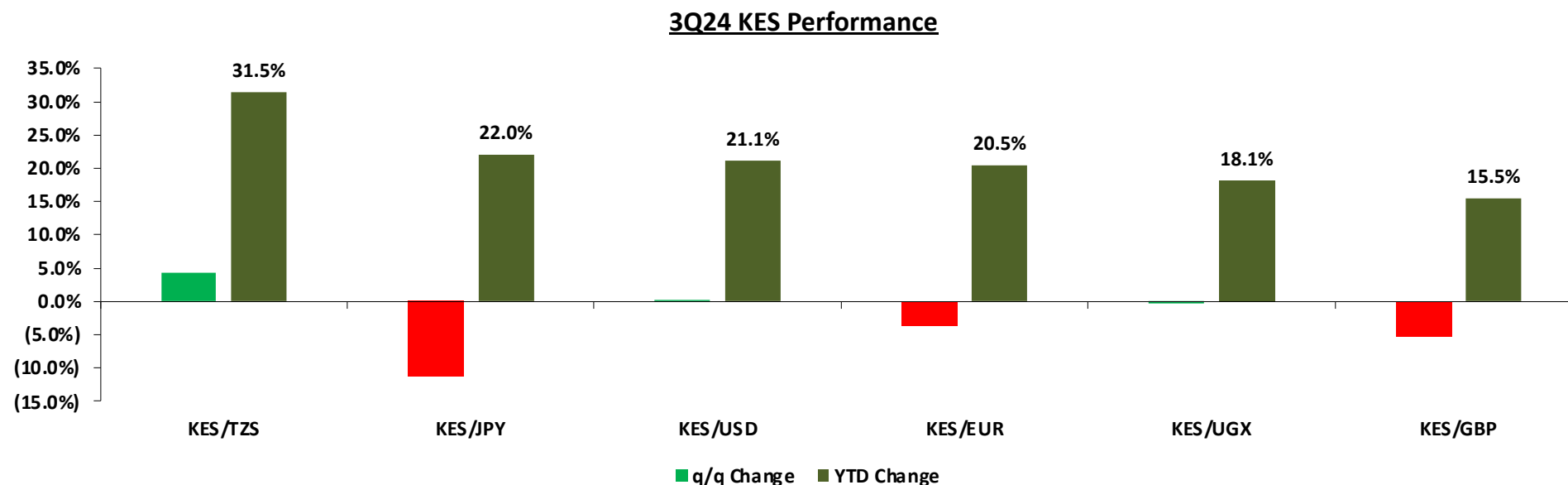
Review

- The Kenyan economy grew by 4.6% in 2Q24, the slowest 2Q24 growth since 2020. The growth, albeit slower than the corresponding quarter of 2023, was to a considerable extent supported by;
 - A resilient services sector which expanded by a weighted rate of 3.2% compared to 3.9% and 3.6% in 2Q23 and 1Q24, respectively. The growth was supported by growth in the real estate as well as the financial services and insurance sectors,
 - A 0.9% growth in the primary sector with the agricultural sector growing by 4.8% in 2Q24, lower than the 6.1% and 7.8% in 1Q24 and 3Q23, respectively.
- The CBK estimates that 3Q24 GDP is expected to slow down to 5.2%, down from 5.6% in 3Q23 (source: Dec 24 MPC briefing) – with FY24 forecast lowered to 5.1 from 5.4%.
- The World Bank holds a more conservative outlook, with FY24 GDP projected at 4.7% due to after effects of flooding earlier in the year, subdued business sentiment following the Gen-Z protests, a tighter monetary policy, and ongoing fiscal consolidation.

Outlook:

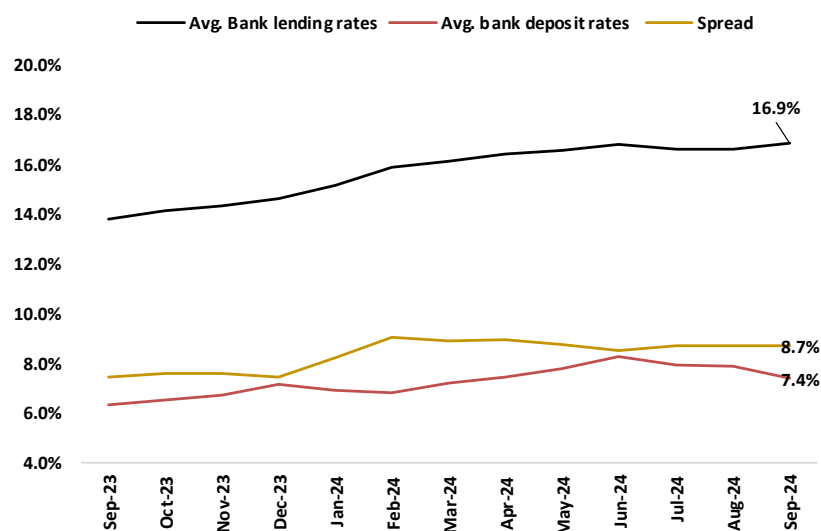
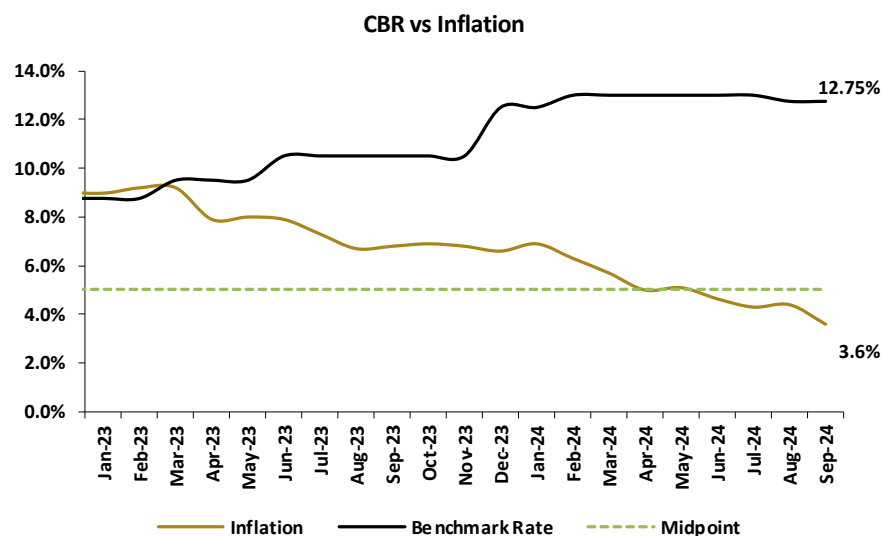
- Slower growth anticipated in 2024 as foreshown by slowdown in 1Q24 and 2Q24, especially in the construction and manufacturing sectors. The resilience of key service sectors, robust performance in agriculture, trade initiatives and improved exports are expected to continue supporting growth.
- Business environment to remain stable though risks remain (supply chain disruptions due to geopolitical tensions, high cost of living straining customer wallets, proposed tax measures, pending government bills – c. KES 670.0bn).

Macroeconomic Context – Local unit advances against major currencies YTD



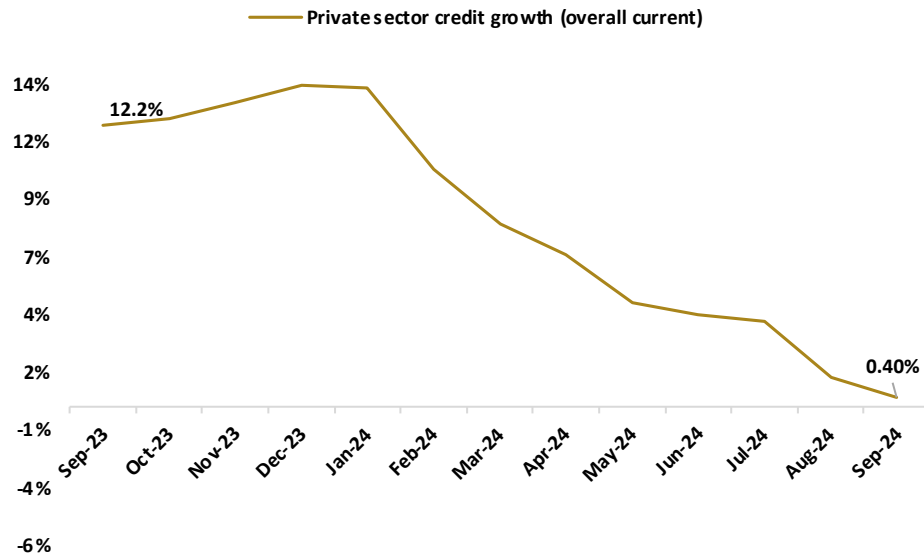
- In 3Q24, the Kenyan shilling recorded a 0.3% q/q and 21.1% y/y gain against the dollar. The currency largely remained stable in the last two months of the quarter supported by:
 - » Lower dollar demand,
 - » Forex reserves build-up by the Central Bank of Kenya (CBK), and
 - » Dollar inflows as advanced economies cut their benchmark rates.
- As at the end of 2Q24, the shilling had appreciated against all major relevant currencies y/y. It however depreciated against the Japanese Yen, Euro and Pound on a q/q basis.
- Access to foreign financing is anticipated to help improve foreign currency availability and FX buffers. FX reserves hit KES 9.0bn as at the end of November 2024, bolstered by the completion of the 7th and 8th review which allowed for immediate disbursement of USD 606.15m inclusive of USD 120.33m from the RSF as well as dollar repurchase activities by CBK.

Macroeconomic Context – Rate cutting cycle starts in 3Q24 as inflation cools

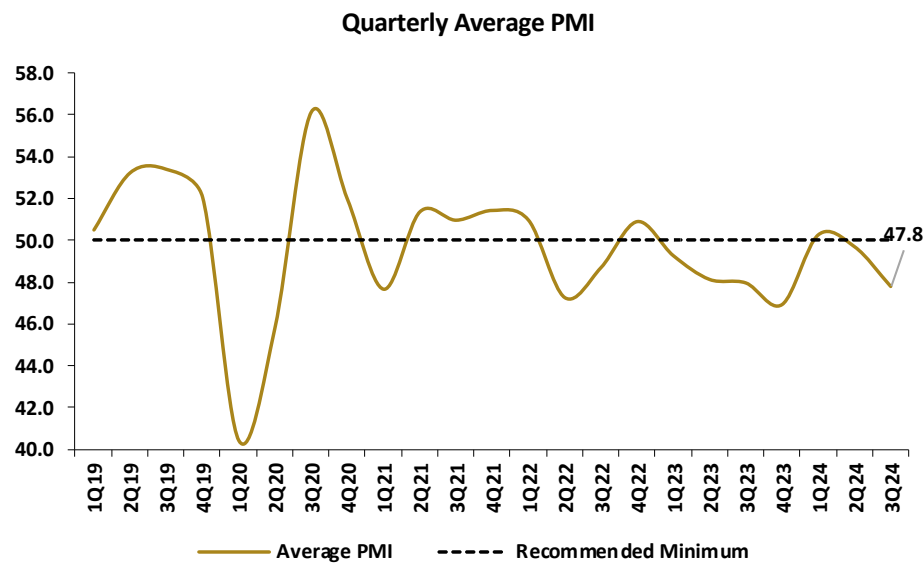


- The Monetary Policy Committee cut the Central Bank Rate (CBR) by 25bps to 12.75% in August 2024 on the success of earlier measures in keeping inflation below the 5% midpoint, stabilizing the exchange rate, and anchoring price expectations.
- 3Q24 marked the start of the rate-cut season, signalling a likely boost to economic growth as more stimulus measures are expected to follow.
- The average y/y inflation for 3Q24 stood at 4.1%, 390bps lower than the 8.0% average rates recorded in 3Q23 on a sharp deceleration in both food and fuel prices, with fuel inflation hitting its lowest point in over five years during the quarter.
- Lending rates rose in 3Q24 partly driven by the continued implementation of risk-based pricing and loan book repricing.
- Savings and term deposit interest rates by 160% y/y to an average of 7.7% in 3Q24 as customer demanded higher returns for their deposits. Notably, rates appear to be softening q/q (down 11bps q/q to an average of 7.85% in 2Q24).
- The latest 75bps CBR rate cut by CBK in December 2024 to 11.25% points to lower borrowing costs as the government aims to jumpstart the sluggish economy and stimulate private-sector lending.

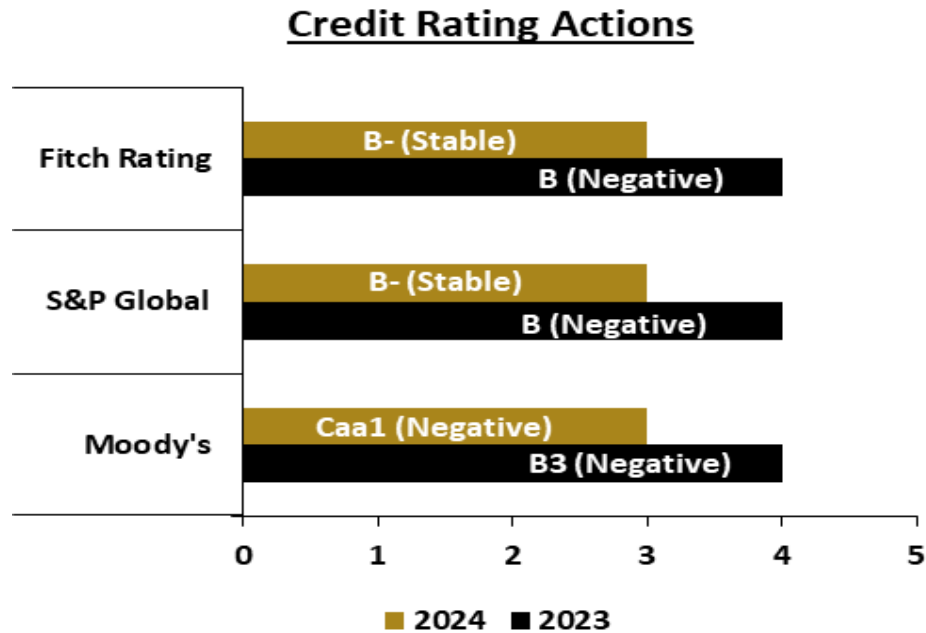
Macroeconomic Context – Private sector credit nosedives in 3Q24, as demand remain weak



- Overall private sector credit growth plummeted in 3Q24, partly attributed to exchange rate valuation effects on FCY loans following the appreciation of the shilling as well as high borrowing rates.
- CBK numbers show that overall credit growth hit 0.4% in September 2024 compared to 12.2% in the prior period. (edged even lower to remain unchanged in Oct 2024).
- Drilling down to a sectoral view, manufacturing and construction bore the brunt of reduced credit as lenders mitigate credit risk, with manufacturing experiencing the largest contraction (down 14.3% in September 2024 from a growth of 22.0% in September 2023) while building and construction contracted 16.7% from a growth of 7.9% in September 2023.
- In 3Q24, the private sector business environment remained in the contraction zone (average of 47.8), with the greatest contraction recorded in July due to the aftermath of the Gen-Z-led demonstrations.
- Generally, there was lower demand for goods and services amid the economic uncertainties and persistently higher costs of doing business, even as inflationary pressures eased.



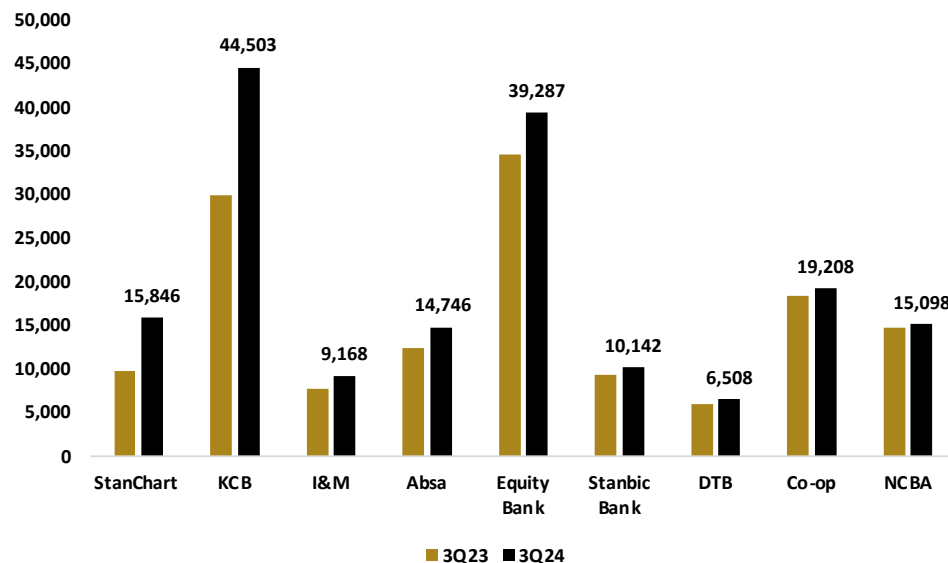
Macroeconomic Context – Kenya’s sovereign credit downgraded in 3Q24 following Finance Bill withdrawal however sentiment improves after political settlement



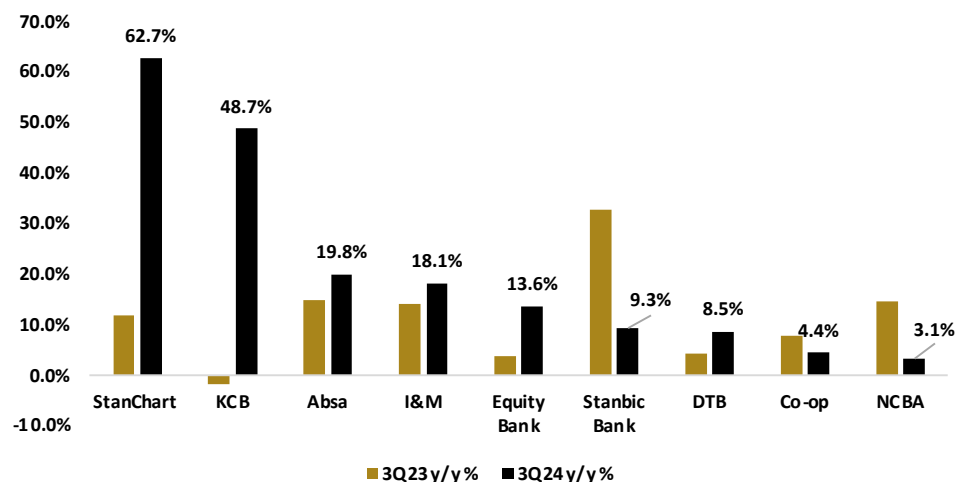
- In 3Q24, major rating agencies downgraded Kenya’s sovereign credit rating further into junk territory, driven by heightened fiscal uncertainty following the withdrawal of the Finance Bill 2024.
- Notably, Fitch and S&P Global revised the country’s outlook to stable from negative, while Moody’s kept the rating under review.
- The upward revision (from negative to stable) reflects robust support from official creditors, which is expected to ease short-term external liquidity pressures, though Kenya’s funding needs remain substantial and are projected to increase.
- As a result of Kenya’s downgrade, Fitch Ratings downgraded KCB Bank Kenya Limited, NCBA Bank Kenya Plc and I&M Bank Ltd as well as their bank holding companies to ‘B-’ from ‘B’ in August 2024, likely linked to their high sovereign exposure relative to capital and the concentration of their activities in Kenya.
- In addition, Moody’s downgraded the rating of KCB Bank Kenya, Equity Bank Kenya and Co-operative Bank of Kenya - Caa1 rating from B3 with a negative outlook - given their high sovereign exposure, mainly in the form of government debt securities.

3Q24 Performance Overview – Mixed earnings performance as interest expenses persist

PAT including non controlling interest (in KES.Mn) - 3Q24



PAT Growth y/y (%) - 3Q24



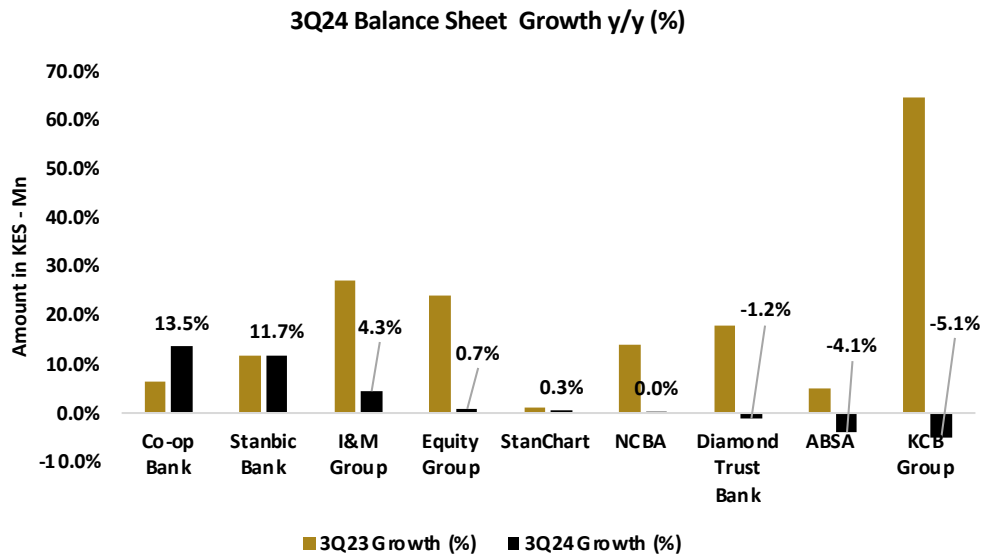
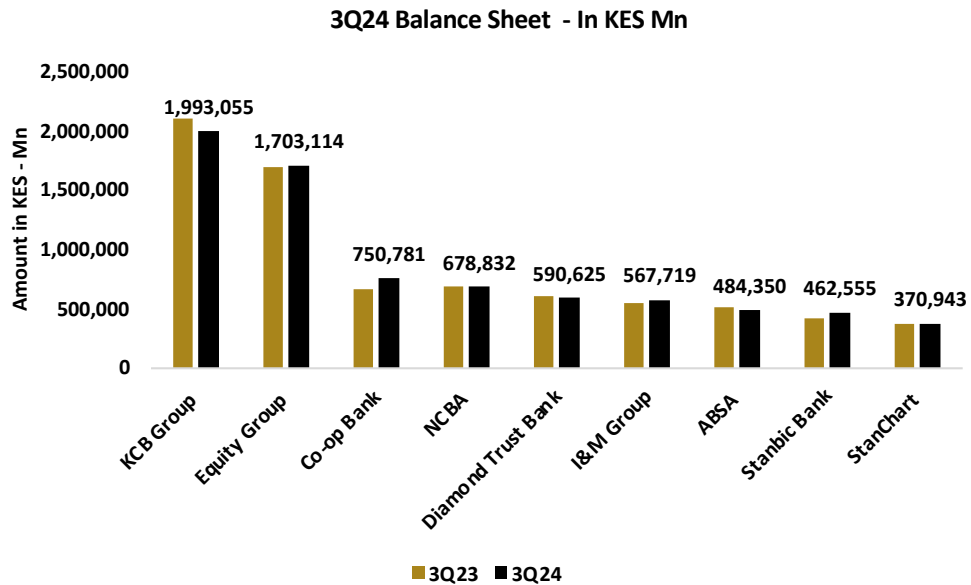
Overall

- Continued momentum in interest income as banks reprice loans and implement risk-based pricing; higher yield in interest-bearing assets.
- Interest expense growth surges faster than interest income, compressing the topline.
- Decline in FX income for some banks, exerting downward pressure on non-funded income.
- FX impact weighs on balance sheet performance on the back of a stronger local unit.

Lender specific

- StanChart posted an impressive PAT growth (+62.7%/y/y), fueled by growth in interest income (+24.0%/y/y) and non-funded income (+73.5%/y/y), coupled with cost efficiencies.
- KCB Group (+48.7%/y/y), I&M Group (+18.1%/y/y), Absa (+19.8%/y/y) and Equity Group (+13.6%/y/y) posted double-digit growth on strong interest income from higher-yielding assets.
- Equity Group's bottom line was markedly supported by lower loan provisions. Equity Kenya's performance is still lagging; operating income is down 3.7%/y/y, with the PBT supported by a 64.6%/y/y cut in provisions.
- Stanbic Bank (+9.3%/y/y), DTB (+8.5%/y/y) and Co-op Bank (+4.4%/y/y) faced pressure on their interest margins as interest expenses rose in the period.
- NCBA posted subdued growth (+3.1%/y/y in 3Q24) mainly on lower non-funded income, and faster growth in interest expense on expensive deposits. However, the lender managed to contain its costs, and its asset quality improved.

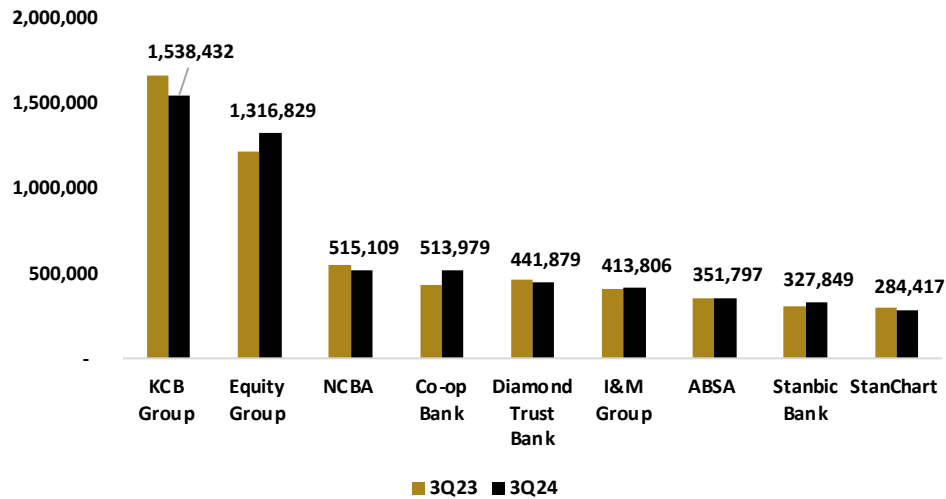
3Q24 Performance - Balance sheet performance driven by FX impact, investment in government securities



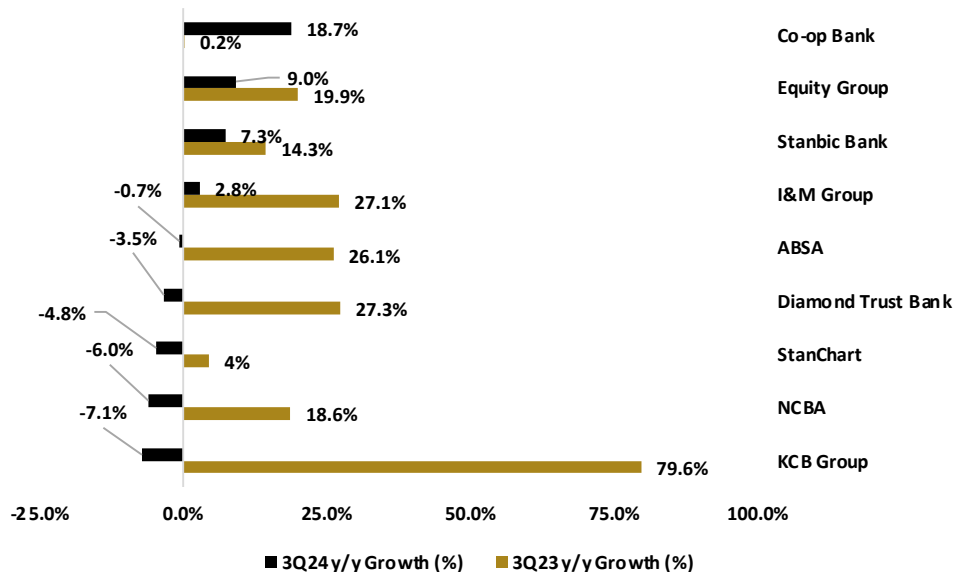
- Balance sheet growth performance was partly driven by growth in customer deposits, with some banks increasing their exposure to government securities (Stanbic Bank, Co-op Bank, StanChart, I&M Group, Equity Group). Lenders with larger FCY deposit bases faced a currency appreciation impact.
- Total loans (-2.9%y/y) grew at a slower pace compared to total deposits (+1.7%y/y), with the slower loan growth being attributed to shorter-term lending (working capital funding), currency appreciation impact on FCY loans, weak credit demand due to high loan rates, selective lending and translation effects on loan books in subsidiaries outside Kenya.
- Some banks increased their investment in government securities as a risk mitigation measure, coupled with attractive yields on offer. Others however reduced their exposure to government securities in the quarter to mitigate duration risk (KCB, Absa, NCBA).
- Notably, mark-to-market losses reduced in 3Q24, with only 2 banks reporting mark-to-market losses (NCBA at KES 205m and DTB at KES 1.2bn). In particular, total mark-to-market gains in our coverage jumped to KES 13.2bn in 3Q24 from a loss of KES 54.1bn in the preceding period.

3Q24 Performance - Customer deposits muted as interest expenses bite

3Q24 Customer Deposits (in KES Mn)

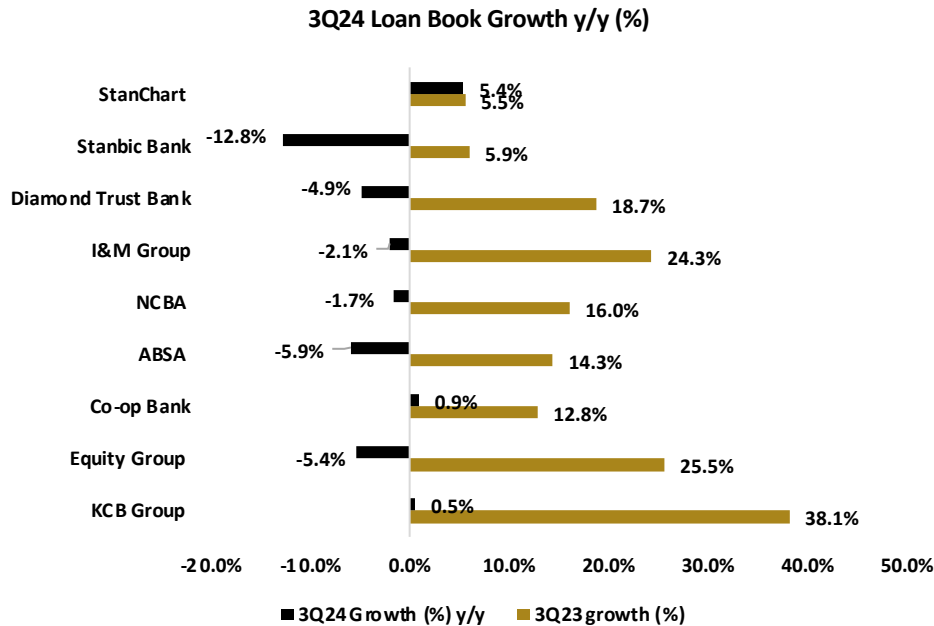
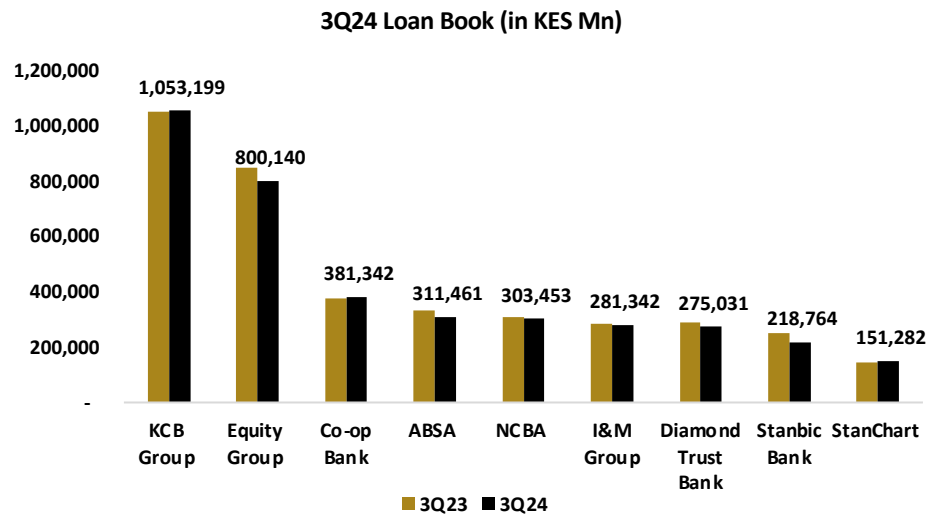


3Q24 Customer Deposits Growth y/y (%)



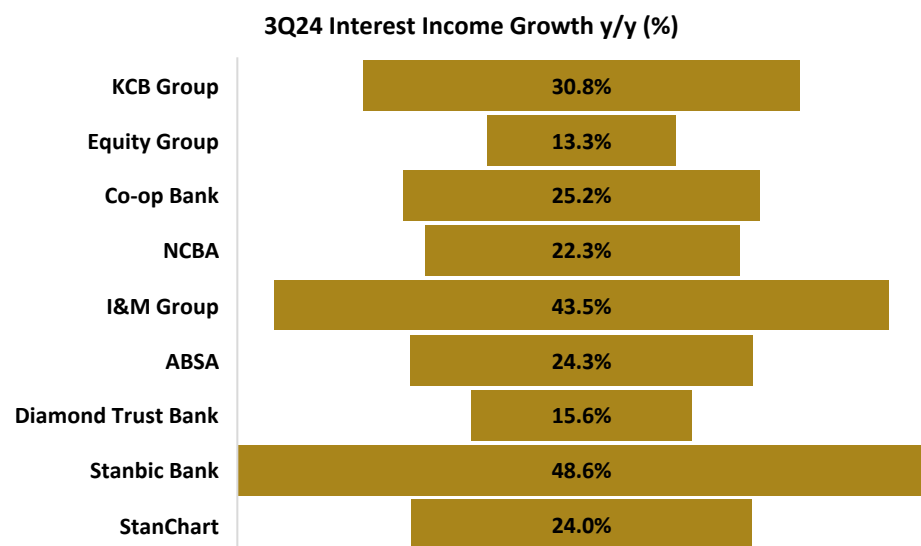
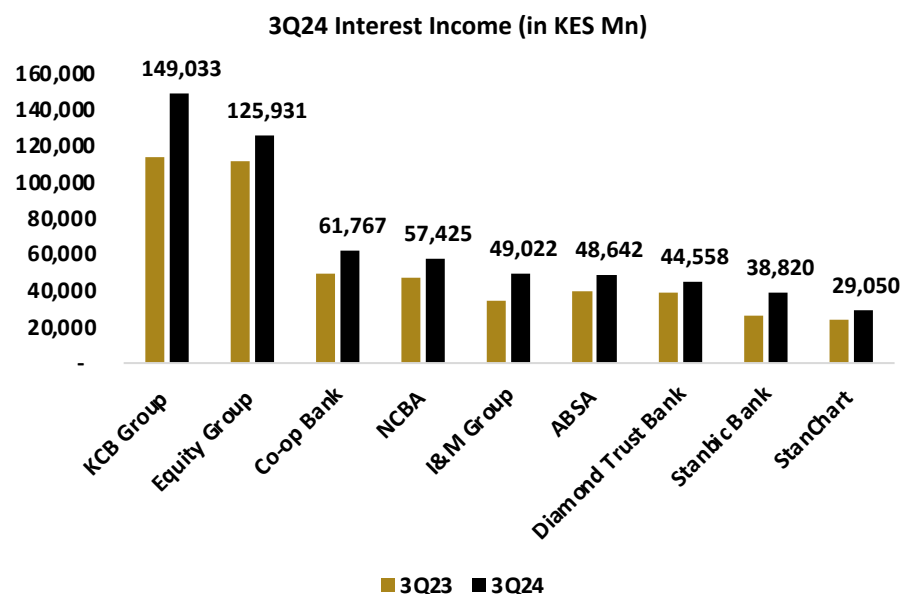
- Total deposits grew by a marginal 1.7%/y/y to KES 5,704.1bn, with 5 out of the 9 lenders in our coverage experiencing a contraction on their deposit books.
- Co-operative bank recorded the strongest growth in customer deposits in 3Q24 (+18.7%/y/y), buoyed by a rise in institutional banking and government banking deposits.
- Equity Group, I&M and Stanbic Bank printed a 9.0%/y/y, 2.8% y/y and 7.3%/y/y increase in customer deposits in the period as they mobilized liabilities further supported by mobile and online banking services.
- Conversely, Absa (-0.7%/y.y), DTB (-3.5%/y/y), StanChart (-4.8%/y/y), NCBA (-6.0%/y/y), and KCB Group (-7.1%/y/y) experienced a reduction in their deposits, partly due to currency impact on their FCY deposits.
- In particular, KCB Group management pointed out that KCB Kenya ceded part of its market share in the G-2-G oil deal, thereby shedding some of its deposits.

3Q24 Performance - Loan book growth simmers down as credit demand dips



- Total lending in our coverage contracted by 2.9% y/y to KES 3,766.0bn, (a stark contrast to the growth witnessed in 3Q23) as the credit to the private sector cooled against a backdrop of tough macroeconomic conditions.
- StanChart recorded the quickest loan growth rate in our coverage, up 5.4%/y/y on the back of a significant decline in gross non-performing loans.
- Stanbic Bank, on the other hand, posted a 12.8%/y/y dip in its loan book, which is linked likely to the appreciation impact of KES against the major currencies on its FCY loan book.
- Co-operative Bank recorded the second-fastest jump, up 0.9%/y/y in 3Q23 to KES 381.3bn while KCB Group posted a 0.5% y/y increase. Key to note is that KCB Group's loan book grew by 13.0%/y/y on a constant currency basis, highlighting the impact of a stronger shilling.
- DTB, I&M, NCBA, Absa and Equity Group's loan books contracted in the period, partly due to slowing credit demand due to high interest rates, selective lending to manage asset quality, shift to investment in government securities and foreign currency impact.

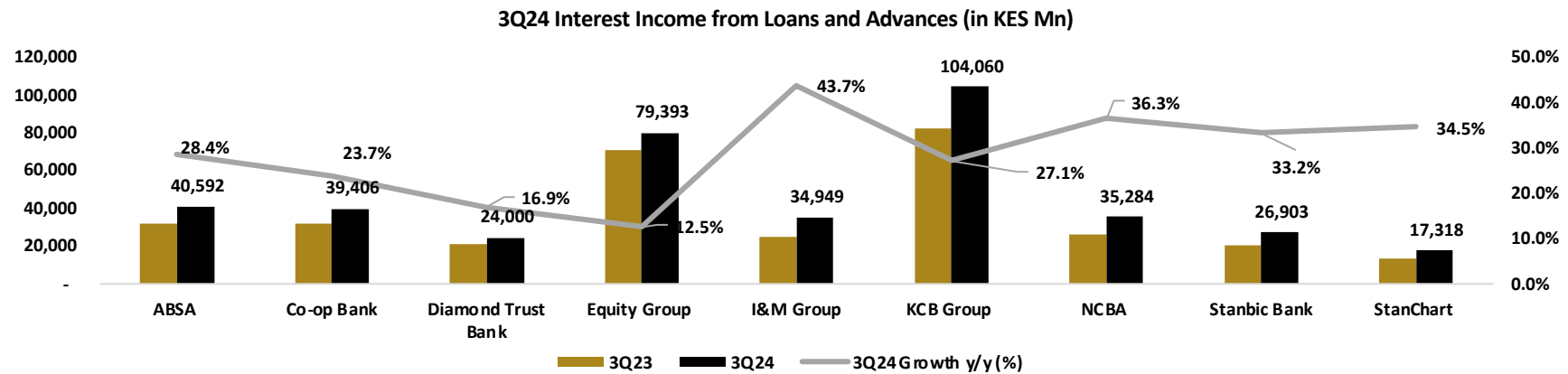
3Q24 Performance - Interest income surges on higher loan yields



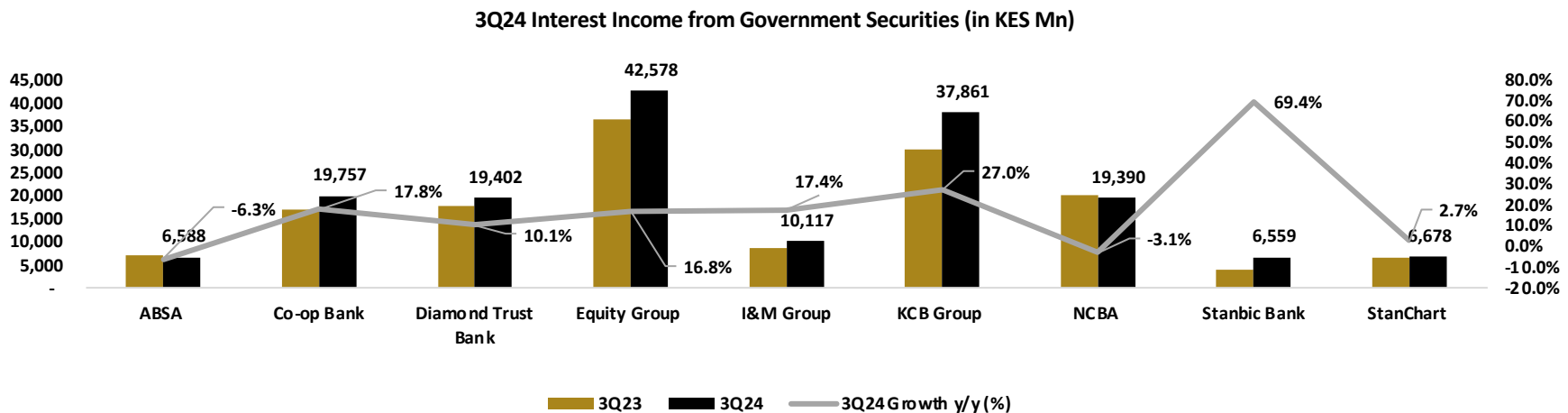
- Strong double-digit growth in interest income on the back of continued implementation of risk-based pricing models, as well as repricing of loans as banks priced in CBR changes during the period. Stanbic had the quickest jump at +48.6%/y/y on higher yields.
- Additionally, banks leveraged the high yields on offer to maximise interest income on govt papers (esp. Stanbic Bank). KCB Group emerged as the leader, with the highest interest income at KES 149.0bn (+30.8%/y/y) despite muted loan book growth (+0.5%/y/y).
- Interest income from placements in the interbank market also improved in the period, with lenders such as KCB Group posting a 2.2x jump to KES 7.0bn, Co-op Bank that increased +2.6xy/y to KES 2.6bn, etc.

weighted average interest rate on loans (estimate)	3Q23	FY23	3Q24	Bps y/y
ABSA	13.7%	14.3%	16.7%	301
Co-op Bank	11.8%	12.6%	13.9%	207
Diamond Trust Bank	10.1%	10.2%	11.0%	88
Equity Group	12.1%	12.7%	12.5%	42
I&M Group	12.3%	13.3%	15.7%	430
KCB Group	11.4%	12.6%	12.9%	117
NCBA	11.7%	11.8%	14.7%	363
Stanbic Bank	11.1%	11.9%	15.0%	391
StanChart	12.1%	12.0%	14.7%	256

3Q24 Performance - Interest income surges on higher loan yields cont.

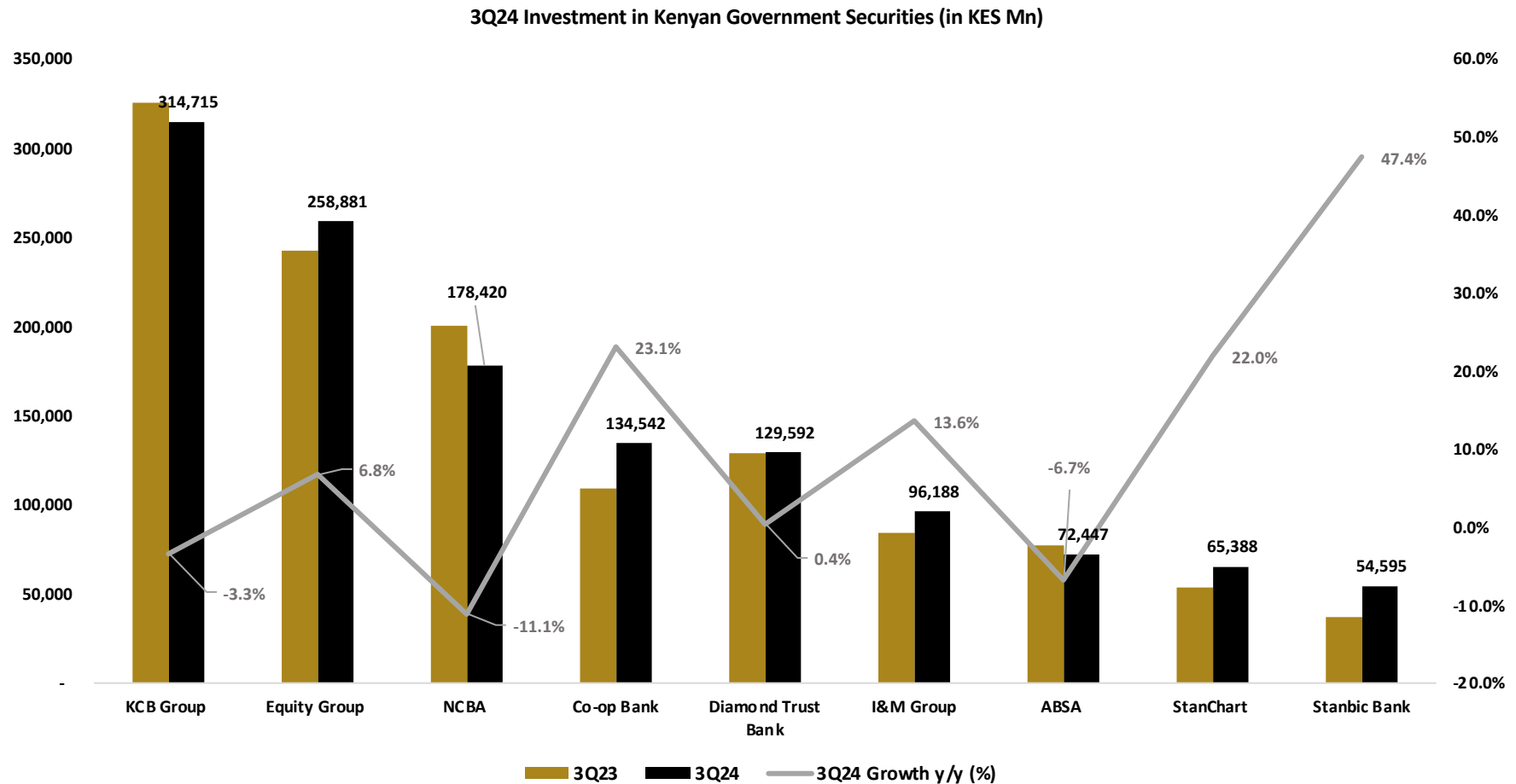


* Strong increase in interest income from loans and advances on the back of continued implementation of risk-based pricing models, as well as loan repricing following the rise in CBR rate during the period (10.5% as of Sept 23 vs 12.75% as of Sept 24).



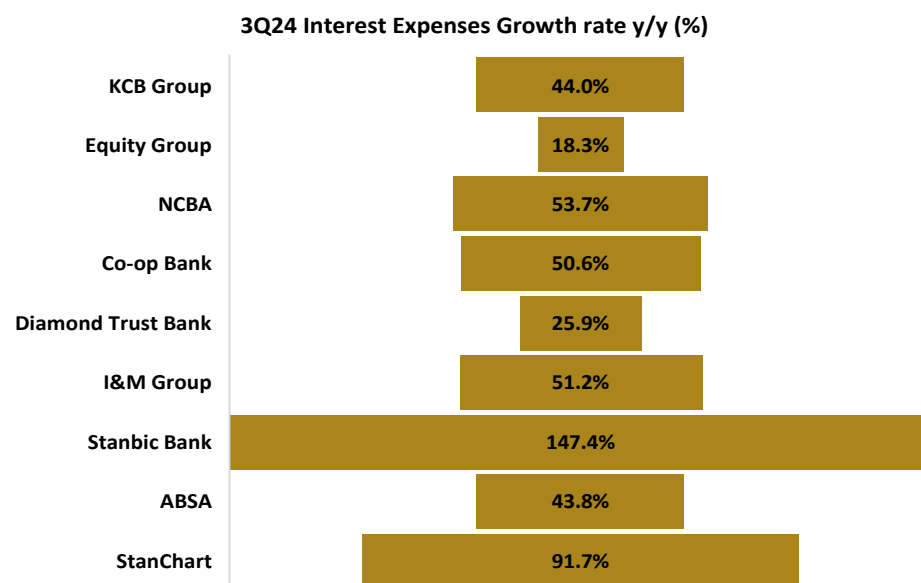
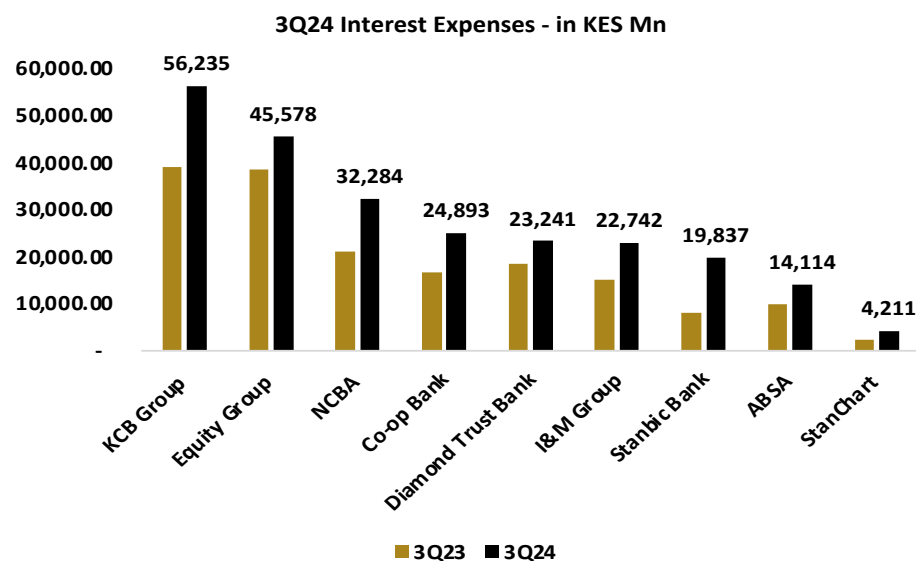
* Stanbic Bank posted the quickest jump in interest income from government securities (+69.4%/y/y) following a surge in government paper investments. Conversely, NCBA and Absa reported a contraction in interest income from government paper (-3.1%/y/y and -6.3%/y/y respectively) as they reduced their holdings.

3Q24 Performance - Lenders park part of their funds in government securities on the back of attractive rates



- Stanbic Bank posted the quickest jump in investment in government securities (+47.4%y/y) while KCB Group, ABSA and NCBA diversified away from sovereign papers in the period (-3.3%y/y, -6.7%y/y and -11.1%y/y, respectively).
- International lenders, save for Absa, appear to have reverted to investing in government paper as credit demand remained subdued (StanChart at +22.0%y/y, Stanbic at +47.4%y/y).

3Q24 Performance - Interest expenses sustain their upward trends despite a 75bps cut in the CBR rate in August 2024



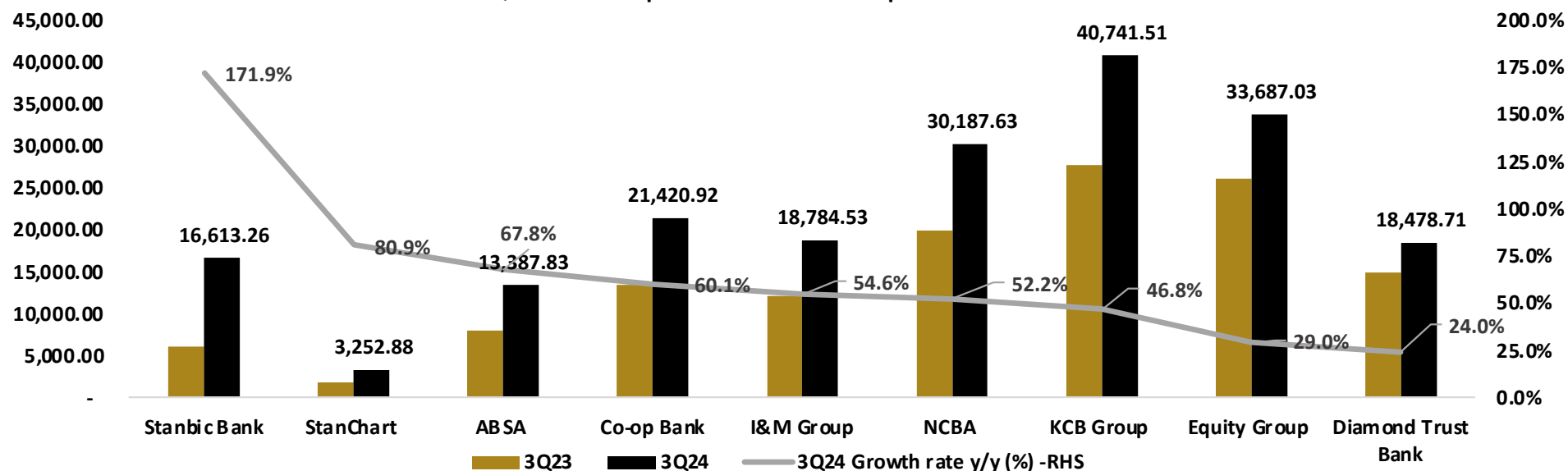
- Interest expenses were driven mainly by surging interest on customer deposits, which was in line with increased competition in an elevated interest rate environment as the sovereign offered attractive yields on government papers.
- Stanbic reported the highest increase in interest expenses (+147.4% y/y) in our coverage. Notably, the bank's Current Account and Savings (CASA) Account ratio declined from 86% in FY22 to 76% in FY23.
- Equity Group reported the lowest upsurge in the period (+18.3%y/y). The bank opted to restructure the Group's balance sheet by retiring some long-term loans (borrowings declined by 38.3%y/y) to manage its interest expenses after its effective rate of returns on loans rose from 3.5% to 12.0%.
- KCB Group had the highest interest expense quantum (KES 56.2bn). It however recorded a lower rise compared to 3Q23 (+77.9% vs 44.0% in 3Q24), partly due to a slower rise in borrowing expenses (+38.3% vs 1.9x in 3Q23).
- Funding costs are anticipated to decline as the markets bake in the recent local and international monetary policy rate cuts.

3Q24 Performance - Cost of funds swell on increased competition to retain funds in a high interest rate environment

weighted average interest rate on customer deposits	3Q23	FY23	3Q24	Bps
ABSA	3.2%	3.6%	5.0%	176
Co-op Bank	4.2%	4.2%	5.9%	175
Diamond Trust Bank	4.7%	4.8%	5.3%	61
Equity Group	3.1%	2.8%	3.4%	28
I&M Group	4.5%	4.8%	6.0%	150
KCB Group	2.7%	3.0%	3.4%	71
NCBA	4.9%	5.3%	7.4%	243
Stanbic Bank	2.8%	3.2%	6.7%	395
StanChart	0.8%	0.8%	1.4%	58

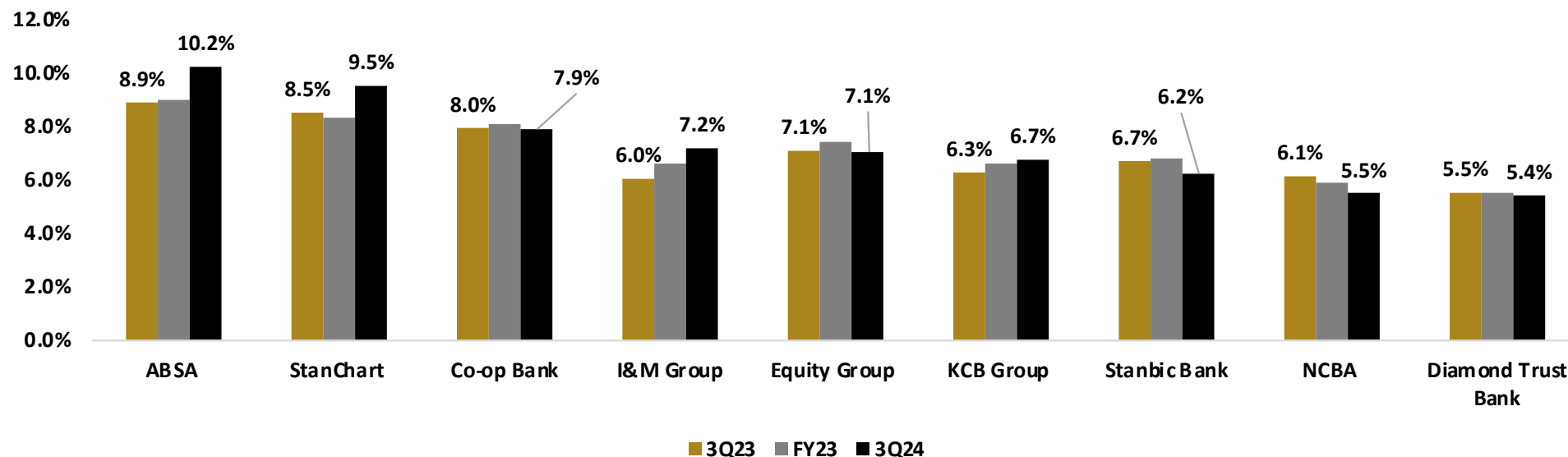
- Interest expenses were mainly driven by double-digit growth in interest on customer deposits, in line with the high interest rate environment as banks offered higher rates to retain deposits.
- Stanbic reported the highest increase in interest expenses (+171.9% y/y), partly attributable to expensive deposits (deposits up +7.3%y/y). NCBA however offered the highest weighted average rate on deposits in the period (c.7.4%).
- Despite an 80.9%y/y jump in customer deposit expenses, StanChart still offers the lowest average rate in our coverage (c.1.4%).

3Q24 Interest Expenses on Customer Deposits - in KES Mn



3Q24 Performance – Net interest margins face pressure notwithstanding the rise in loan yields

3Q24 Net Interest Margin (%)

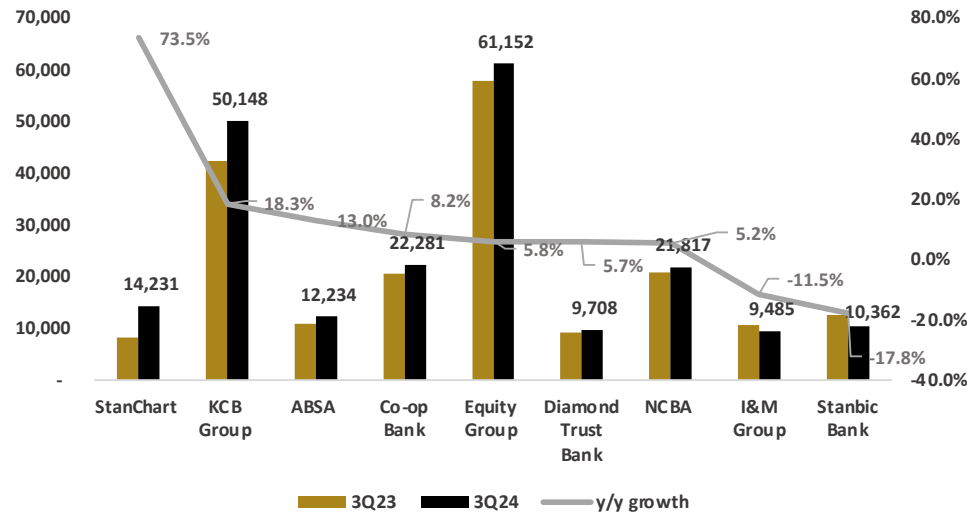


- Only 3 out of the 9 lenders in our coverage recorded a >100bps rise y/y in their net interest margin expansions.
- Despite higher loan interest income, though interest expense growth squeezed margins in the period.
- Fastest NIM expansion by ABSA, followed by I&M Group, StanChart and KCB Group.
- Largest decline by NCBA as interest expenses swelled (-66bps y/y).

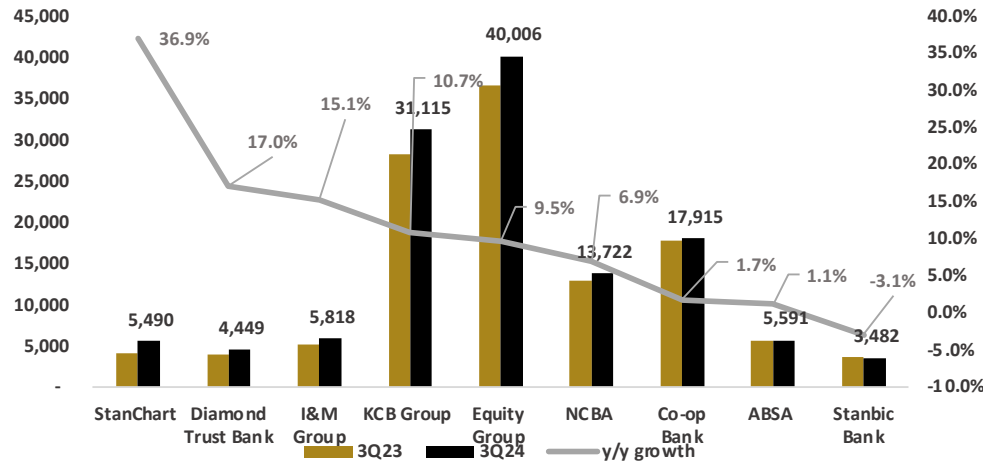
Bank	3Q23	FY23	3Q24	bps y/y
ABSA	8.9%	9.0%	10.2%	135
I&M Group	6.0%	6.6%	7.2%	113
StanChart	8.5%	8.3%	9.5%	99
KCB Group	6.3%	6.6%	6.7%	46
Equity Group	7.1%	7.4%	7.1%	-3
Co-op Bank	8.0%	8.1%	7.9%	-7
Diamond Trust Bank	5.5%	5.5%	5.4%	-10
Stanbic Bank	6.7%	6.8%	6.2%	-48
NCBA	6.1%	5.9%	5.5%	-66

3Q24 Performance – Mixed performance on non-funded income as FX income wanes

3Q24 Non interest revenue - In KES Mn

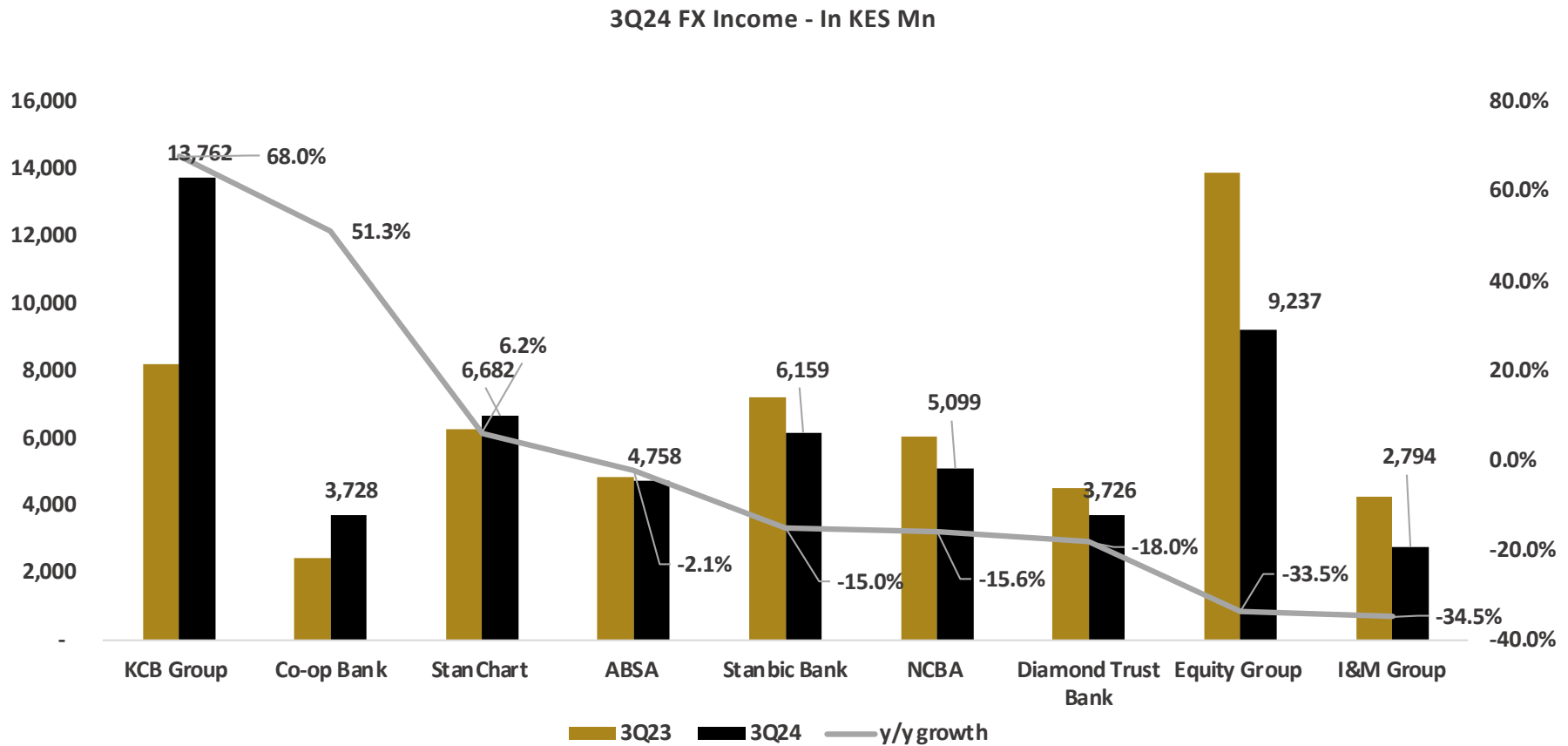


3Q24 Fee income - In KES Mn



- Strong NFI performance by select banks:
 - StanChart exhibited impressive growth on its other fees and commissions income line,
 - KCB Group posts double-digit growth in NFI from growing trade finance, digital propositions and strong forex performance largely driven by KCB Kenya
 - Absa performance mainly on the back of an increase in other income.
- Significant decline in NFI by Stanbic Bank (-17.8% y/y) and I&M Group (mainly driven by the drop in foreign exchange income, with Co-op's strong FX income performance weighed down by muted growth on fee income (+1.7%y/y).
- I&M Group, Co-operative Bank, StanChart and KCB Kenya, recorded a decline in fees and commission from loans likely attributable to subdued credit demand, exemptions for certain borrower profiles and the baking in of commissions on loans and advances in interest earned from loans and advances.

3Q24 Performance – Foreign exchange income ebbs on tighter margins

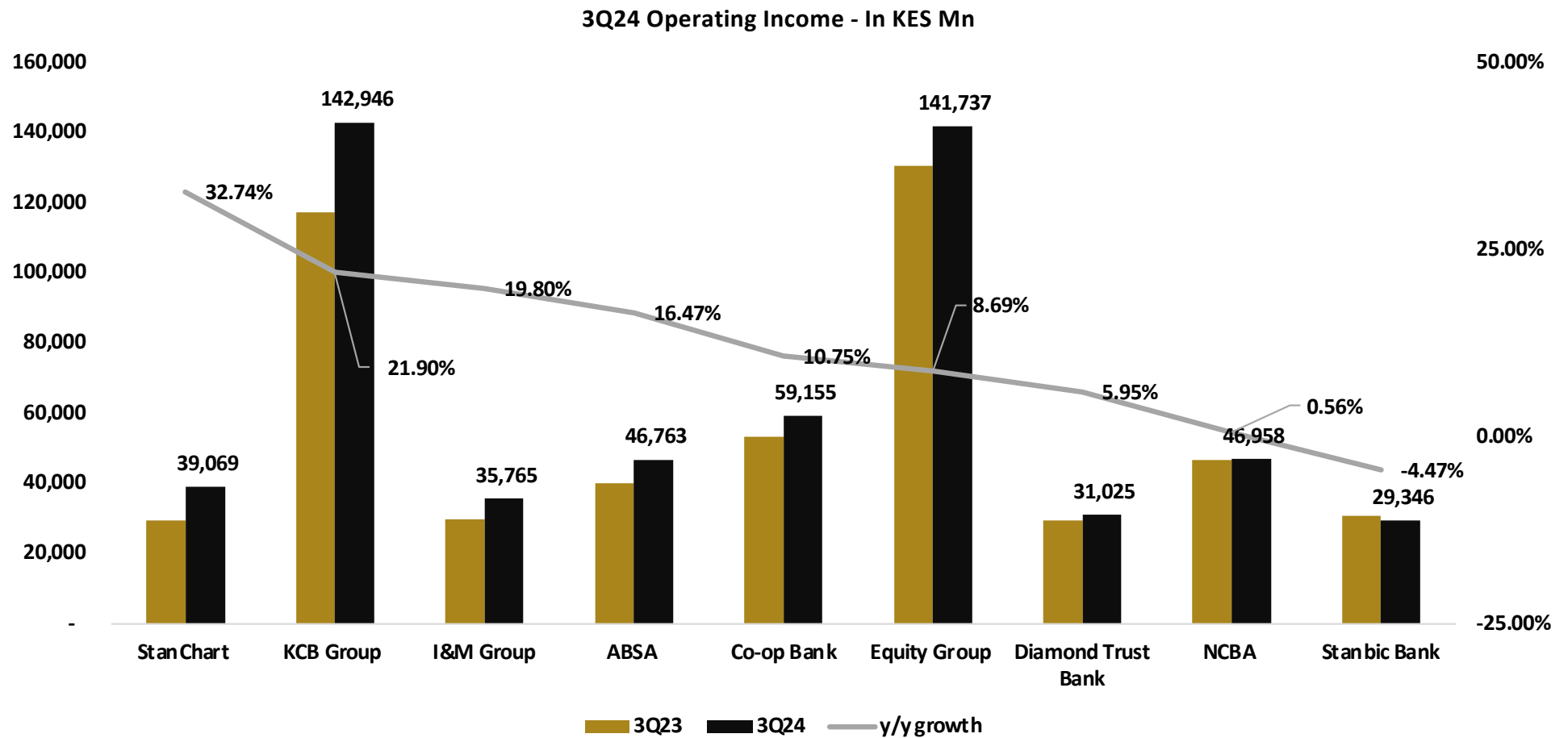


Total FX income contracted by 3.2%y/y to KES 56.0bn in our coverage, with outliers such as KCB Group, Co-op, and StanChart reporting growth in FX income which may be attributable to offering lower margins as well as higher transaction volumes.

With regards to KCB Group, management noted that the rise can be attributed to the utilization of its net open position, the upskilling/revamping of its trading desk and the use of specialized financial instruments such as swaps/forwards across the Group.

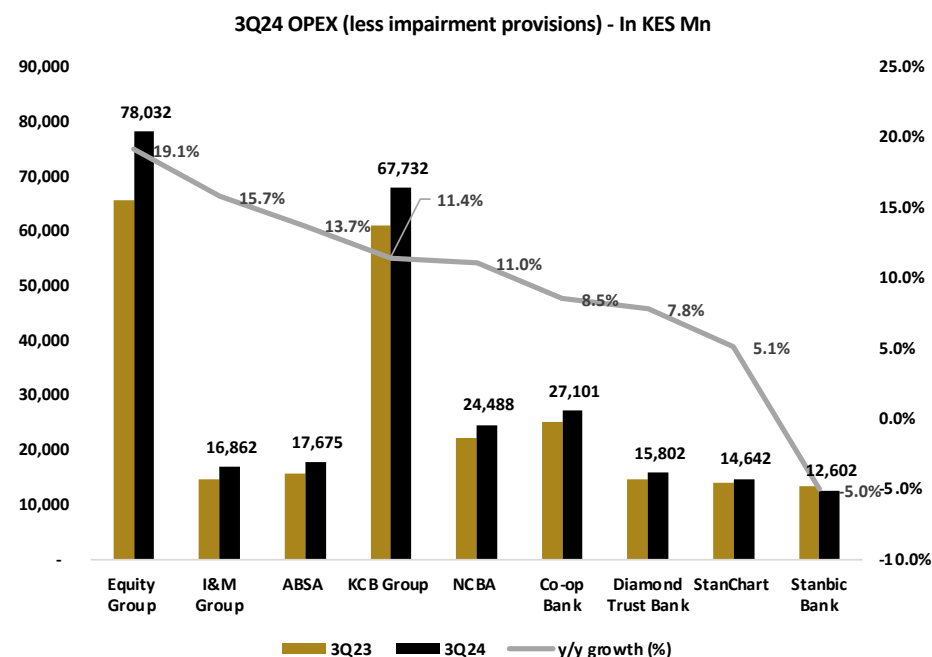
The rest of the banks in our coverage reported a contraction in FX trading income, partly attributable to tighter margins in the industry as well as CBK interventions in the interbank market introduced in 2023.

3Q24 Performance – Operating income supported by stronger interest income as non-funded income slows



- Highest jump in operating profit by StanChart, followed by KCB Group, I&M and Absa on account of strong net interest income. Rising yields on both loans and government securities drove operating income performance, as non-funded income grows at a slower pace than interest income (average of +9.5% y/y vs +12.5%y/y).

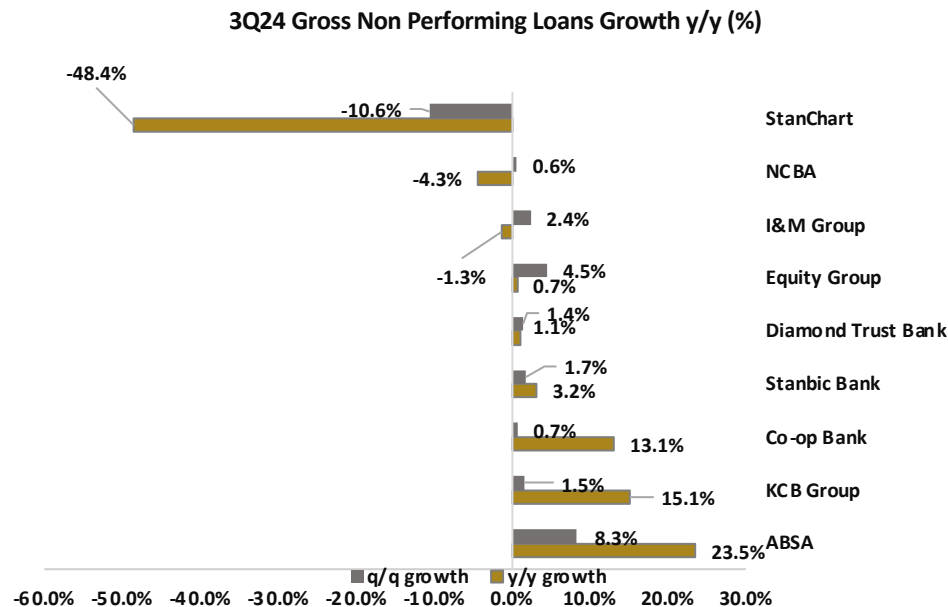
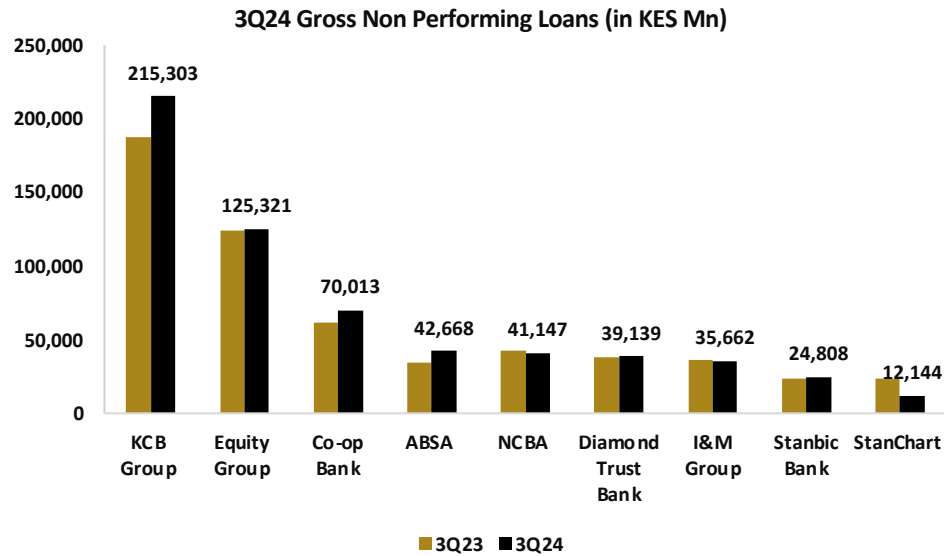
3Q24 Performance – Operating expenses climb on expansion initiatives, tech investments



- StanChart emerged as the most efficient bank in our coverage (CTI of c.37.5%) buoyed by a single-digit rise in OPEX costs (excluding provisions), stronger income growth and improved efficiencies on tech adoption.
- Absa's cost-to-income ratio hit 37.8% following a 13.7% y/y increase in operating expenses (less provisions). It however remains one of the most efficient lenders in our coverage.
- Stanbic Bank reported the sharpest decline (-5.0%y/y) in OPEX on the back of increased digitization of banking processes, and a decline in other operating expenses (possibly due to rationalization of spending as well as a decline in FCY-denominated expenses due to the appreciation of the shilling).
- Equity Group reported the fastest rise (+19.1%y/y) in OPEX, mainly driven by other operating expenses that pushed the Group's CTI lower to 55.1% (the highest in our coverage).
- KCB Group recorded a slower rise compared to 3Q23 (11.4% vs 46.3%) on customer acquisition activities and investment in tech.

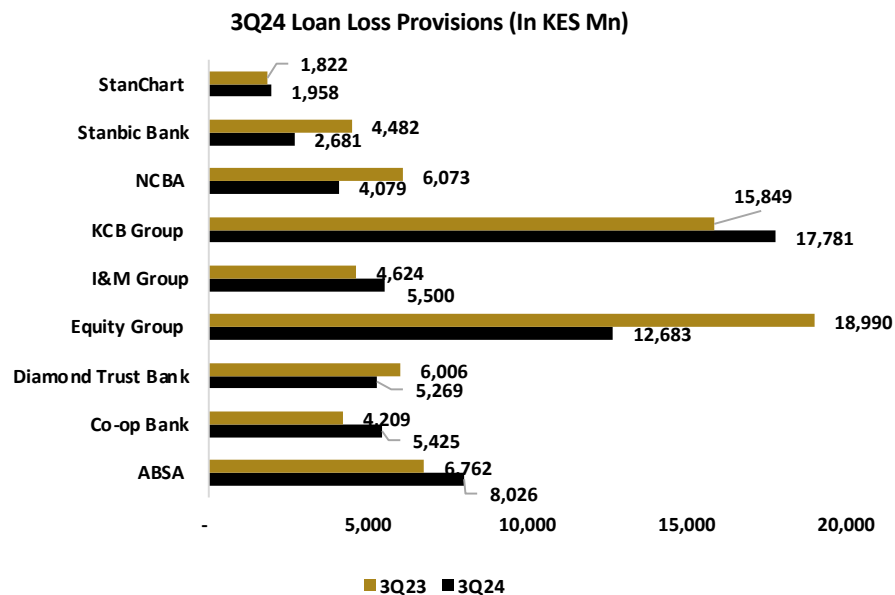
Cost to Income Ratio (CTI)	3Q23	FY23	3Q24	bps y/y
ABSA	38.7%	39.7%	37.8%	(93)
Co-op Bank	46.4%	47.0%	45.8%	(61)
Diamond Trust Bank	50.1%	51.7%	50.9%	86
Equity Group	50.2%	52.3%	55.1%	482
I&M Group	48.8%	47.6%	47.1%	(165)
KCB Group	51.9%	50.3%	47.4%	(448)
NCBA	47.2%	45.7%	52.1%	492
Stanbic Bank	43.2%	42.4%	42.9%	(25)
StanChart	47.3%	44.8%	37.5%	(982)
	47.1%	46.8%	46.3%	

3Q24 Performance – Industry NPLs persist in a tough macro-environment

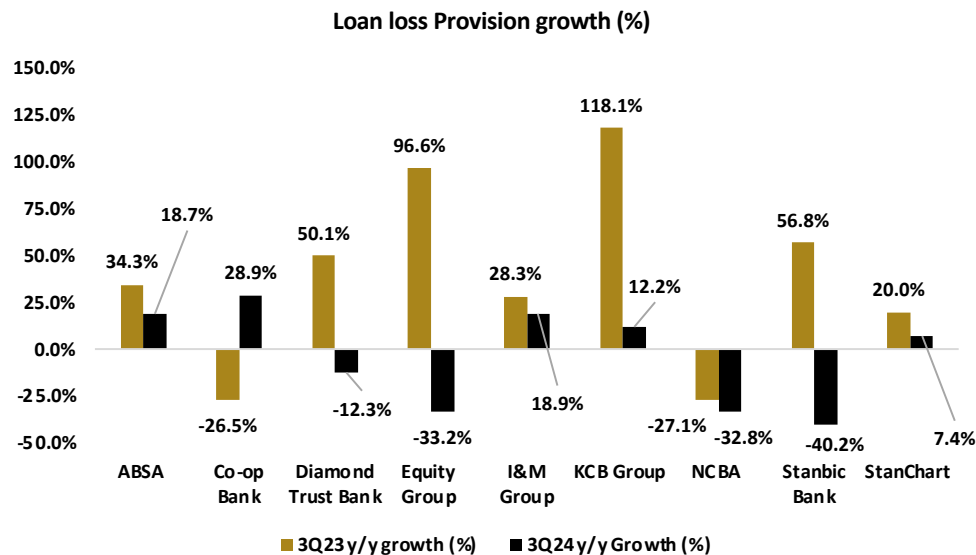


- All banks, save for StanChart, reported a slight q/q increase in NPLs, as the sector grapples with record non-performing loans on the back of a high-interest rate environment and reduced disposable income.
- Various lenders noted an uptick in NPLs in the manufacturing, real estate, trade, personal & household, agriculture and construction sectors in the period. The industry NPL ratio came in at 16.7% in August 2024 (down marginally to 16.5% in October 2024).
- Absa experienced the sharpest rise in Gross NPLs, followed by KCB Group and Co-op Bank (though there is a notable slowdown in uptick by KCB q/q possibly pointing to a peak in its NPLs).
- Stanbic, DTB and Equity Group experienced muted increases in their NPL books, likely linked to stricter credit management as well as the rehabilitation/ recovery efforts.
- Improved asset quality witnessed by StanChart, NCBA and I&M in the quarter provides an opportunity to reduce loan loss provisioning for these lenders in 4Q24 as NPLs continue to decline in the year ceteris paribus.
- The sector may see increased asset recovery /restructuring efforts as customers struggle to repay loans.

3Q24 Performance – Noteworthy dip in loan provisioning on mixed asset quality performance



- Co-operative Bank (+28.9%/y/y) and I&M Group (+18.9%/y/y) reported the highest provisioning as they adopted a cautionary stance as industry NPLs surged.
- Though Absa recorded the fastest jump in NPLs (+23.5%/y/y) NPLs, the lender increased provisioning by 18.7% y/y - which could point to possible recoveries/increased provisioning in the next quarters.
- Markedly, StanChart increased its provisions by 7.4% despite an impressive 48.4%/y/y cut in gross NPLs in 3Q24.
- Conversely, Stanbic Bank, Equity Group, NCBA and DTB reduced their provisioning levels by 40.2%/y/y, 33.2%/y/y, 32.8%/y/y, and 12.3%, respectively likely due to single-digit upswings in NPL stock as well as potential signalling better asset quality as the effects of the CBR rate cuts trickle down to the economy.
- We see the potential for the writeback of loan loss provisions (and thereby reduced pressure on the bottom line) once asset quality begins to improve.



3Q24 Performance – Adequate capital buffers despite continued capital-intensive investments

Bank	3Q23		FY23		3Q24		Core capital y/y	Total Capital y/y
	Core Capital	Total Capital	Core Capital	Total Capital	Core Capital	Total Capital		
ABSA	58,004	76,623	60,169	79,898	66,523	82,716	14.7%	8.0%
Co-op Bank	103,268	127,887	106,748	132,188	117,215	136,780	13.5%	7.0%
DTB	55,242	57,120	51,405	53,464	50,689	55,859	-8.2%	-2.2%
Equity Group	213,739	270,405	219,928	278,556	222,159	254,656	3.9%	-5.8%
I&M Group	66,264	90,262	80,140	104,232	71,981	88,505	8.6%	-1.9%
KCB Group	215,246	264,470	209,384	257,786	226,475	265,150	5.2%	0.3%
NCBA Group	84,455	85,740	94,204	94,520	95,914	96,174	13.6%	12.2%
Stanbic Bank	48,548	62,065	50,110	64,201	54,114	65,862	11.5%	6.1%
StanChart	46,986	49,085	51,218	51,400	57,570	57,751	22.5%	17.7%
Equity Bank	126,742.63	167,006.34	126,923.08	167,795.99	132,014.10	155,981.23	4.2%	-6.6%
KCB Bank	101,231.92	140,004.28	114,331.55	153,587.95	123,454.23	155,834.47	22.0%	11.3%

Total capital/risk weighted capital ratio (capital adequacy ratio)				
	3Q23	FY23	3Q24	bps change y/y
ABSA	17.70%	18.10%	19.40%	170.00
Co-op Bank	22.10%	22.50%	21.60%	(50.00)
DTB	19.20%	17.00%	18.00%	(120.00)
Equity Group	19.20%	18.10%	18.30%	(90.00)
I&M Group	17.69%	18.90%	17.98%	29.00
KCB Group	17.80%	17.40%	19.30%	150.00
NCBA	17.23%	18.02%	19.65%	242.00
Stanbic Bank	16.90%	16.60%	17.80%	90.00
StanChart	17.82%	17.84%	21.00%	318.00

- KCB Kenya improved from 14.9% in 3Q23 to 16.7% in 3Q24; KCB withheld dividend payments in FY23 as well as lower statutory loan loss reserves (KES 14.6bn vs KES 25.2bn in 3Q23) which tends to be added back to Tier II capital.
- DTB recorded a slight decline in 3Q24 which could be attributed to increased investment in technology platforms and continued branch expansion.
- Equity Group printed a 5.8% dip in total capital in 3Q24, largely driven by a contraction in supplementary capital (-42.7% y/y). We opine this could be due to FX impact as most of the Group's long-term borrowings are FX denominated, coupled with the retirement of some expensive loans.

3Q24 Performance – Liquidity buffers rise on cautious lending, contained credit demand

Bank	3Q23	FY23	3Q24	bps change y/y
ABSA	29.80%	31.10%	38.10%	830.00
Co-op Bank	50.30%	52.00%	57.80%	750.00
Diamond Trust Bank	50.10%	48.60%	52.50%	240.00
Equity Group	49.70%	53.40%	55.00%	530.00
I&M Group	48.24%	44.70%	51.54%	330.00
KCB Group	50.30%	48.50%	47.20%	(310.00)
NCBA	52.49%	52.90%	53.65%	116.00
Stanbic Bank	40.50%	40.30%	50.50%	1,000.00
StanChart	66.70%	66.26%	65.41%	(129.00)
Average	48.68%	48.64%	52.41%	

- Overall rise in liquidity buffers as banks tightened their credit management to address weakening asset quality during the period, coupled with tapered credit demand.
- Stanbic Bank had the quickest jump in liquidity levels, as its loan-to-deposit ratio weakened following a significant 12.8%/y/y dip in its loan book.
- StanChart reported the highest liquidity ratio in the quarter despite a 129bps y/y drop to 65.41%.
- Absa had the lowest liquidity ratio in our coverage at 38.10% in 3Q24, however, it recorded the highest loan-to-deposit ratio at 88.5%. This could be attributed to the ease of capital access at the Group level thereby reducing reliance on deposits for lending.
- There was a notable increase in allocation to Group entities or banking institutions abroad as part of funding strategy by some banks (NCBA, StanChart).

Loan to Deposit ratio (LDR)

Bank	3Q23	3Q24
ABSA	93.4%	88.5%
Co-op Bank	87.3%	74.2%
Diamond Trust Bank	63.2%	62.2%
Equity Group	70.0%	60.8%
I&M Group	71.4%	68.0%
KCB Group	63.3%	68.5%
NCBA	56.3%	58.9%
Stanbic Bank	82.1%	66.7%
StanChart	48.0%	53.2%

4Q24 Sector Outlook

- Decline in government securities' yields to help address the crowding-out effect on the private sector.
- Loan yields to taper in phases as banks adjust borrowing costs in line with the recent CBR rate cuts (partly attributable to timing mismatch of locked-in high-cost deposits).
- Banks that did not reprice aggressively during the rate hike cycle are expected to be somewhat cushioned from continued rate cuts that will require a downward revision of internal base lending rates.
- Deposit costs are expected to come down as T-Bill rates ease gradually. Banks in our coverage recorded a slowdown in interest expense growth q/q (save for StanChart) – deposits rates are expected to be more responsive to the CBR rate cuts.
- Interest income (albeit at a slower growth rate on subdued credit demand) is expected to continue supporting net interest margins in 4Q24, with more focus on low-cost deposits to manage costs of funds.
- FX income margins to remain tight on improved currency availability, and interbank interventions by CBK.
- Intensified loan recovery efforts/restructuring as NPLs remain elevated in the near term (16.5% in October 2024). Loan loss provisions are expected to remain high in the near term (save for banks such as StanChart, which has improved asset quality).
- FX impact on bank balance sheets to continue to be felt as the local unit remains steady (has appreciated compared to 4Q23). Currency is anticipated to remain stable on the back of IMF funding, rising diaspora remittances and FX reserves.
- Potential completion of KCB Group's Access Bank deal, with only the Central Bank of Kenya's approval pending.
- Economic growth in FY24 is anticipated to cool down compared to FY23, especially in the construction and manufacturing sectors.
- Evolving risks including new technologies (such as AI), climate change and cyber could widen credit differentiation. Continued tech adoption to drive cost efficiencies, address cybersecurity threats and gain customer insights through data analytics to enhance product offerings.
- Banks to gradually emerge at the centre of financing the climate transition across various industries as green financing picks up.
- Increased attention on capital and liquidity adequacy buffers; increase in minimum capital requirements to KES 10.0bn over 5 years; Business Laws Amendment Bill 2024 passed into law in December 2024 (phased increase of minimum capital to KES 5.0bn by the end of 2026, KES 7.0bn by the end of 2027, KES 8.0bn by the end of 2028 and KES 10.0bn by the end of 2029) and proposed guidelines on liquidity coverage ratio (LCR), net stable funding ratio (NSFR) and leverage ratio (LR).

Disclosure and Disclaimer

Analyst Certification Disclosure: The research analyst or analysts responsible for the content of this research report certify that: (1) the views expressed and attributed to the research analyst or analysts in the research report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject matter as appropriate; and, (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report.

Global Disclaimer: Standard Investment Bank (SIB) and/or its affiliates makes no representation or warranty of any kind, express, implied or statutory regarding this document or any information contained or referred to in the document. The information in this document is provided for information purposes only. It does not constitute any offer, recommendation or solicitation to any person to enter into any transaction or adopt any hedging, trading or investment strategy, nor does it constitute any prediction of likely future movements in rates or prices, or represent that any such future movements will not exceed those shown in any illustration. The stated price of the securities mentioned herein, if any, is as of the date indicated and is not any representation that any transaction can be effected at this price. While reasonable care has been taken in preparing this document, no responsibility or liability is accepted for errors of fact or for any opinion expressed herein. The contents of this document may not be suitable for all investors as it has not been prepared with regard to the specific investment objectives or financial situation of any particular person. Any investments discussed may not be suitable for all investors. Users of this document should seek professional advice regarding the appropriateness of investing in any securities, financial instruments or investment strategies referred to in this document and should understand that statements regarding future prospects may not be realised. Opinions, forecasts, assumptions, estimates, derived valuations, projections and price target(s), if any, contained in this document are as of the date indicated and are subject to change at any time without prior notice. Our recommendations are under constant review. The value and income of any of the securities or financial instruments mentioned in this document can fall as well as rise and an investor may get back less than invested. Future returns are not guaranteed, and a loss of original capital may be incurred. Foreign-currency denominated securities and financial instruments are subject to fluctuation in exchange rates that could have a positive or adverse effect on the value, price or income of such securities and financial instruments. Past performance is not indicative of comparable future results and no representation or warranty is made regarding future performance. While we endeavour to update on a reasonable basis the information and opinions contained herein, there may be regulatory, compliance or other reasons that prevent us from doing so. Accordingly, information may be available to us which is not reflected in this material, and we may have acted upon or used the information prior to or immediately following its publication. SIB is not a legal or tax adviser, and is not purporting to provide legal or tax advice. Independent legal and/or tax advice should be sought for any queries relating to the legal or tax implications of any investment. SIB and/or its affiliates may have a position in any of the securities, instruments or currencies mentioned in this document. SIB has in place policies and procedures and physical information walls between its Research Department and differing business functions to help ensure confidential information, including 'inside' information is not disclosed unless in line with its policies and procedures and the rules of its regulators. Data, opinions and other information appearing herein may have been obtained from public sources. SIB makes no representation or warranty as to the accuracy or completeness of such information obtained from public sources. You are advised to make your own independent judgment (with the advice of your professional advisers as necessary) with respect to any matter contained herein and not rely on this document as the basis for making any trading, hedging or investment decision. SIB accepts no liability and will not be liable for any loss or damage arising directly or indirectly (including special, incidental, consequential, punitive or exemplary damages) from the use of this document, howsoever arising, and including any loss, damage or expense arising from, but not limited to, any defect, error, imperfection, fault, mistake or inaccuracy with this document, its contents or associated services, or due to any unavailability of the document or any part thereof or any contents or associated services. This material is for the use of intended recipients only and, in any jurisdiction in which distribution to private/retail customers would require registration or licensing of the distributor which the distributor does not currently have, this document is intended solely for distribution to professional and institutional investors.

CONTACTS

Research

Eric Musau
emusau@sib.co.ke

Stellah Swakei
sswakei@sib.co.ke

Wesley Manambo
wmanambo@sib.co.ke

Melodie Gatuguta
mgatuguta@sib.co.ke

Corporate Finance

Job Kihumba
jkihumba@sib.co.ke

Foreign Equity Sales

John Mucheru
jmucheru@sib.co.ke

Fixed Income Trading

Brian Mutunga
bmutunga@sib.co.ke

Barry Omotto
bomotto@sib.co.ke

Global Markets

Nahashon Mungai
nmungai@sib.co.ke

Nickay Wangunyu
nwangunyu@sib.co.ke

Victor Marangu
vmarangu@sib.co.ke

Equity Trading

Anthony Waweru
awaweru@sib.co.ke

Investment Solutions

Robin Mathenge
rmathenge@sib.co.ke

Executive Client Services

Client Services
clientservices@sib.co.ke

Private Client Services

Boniface Kiundi
bkiundi@sib.co.ke

Frankline Kirigia
fkirigia@sib.co.ke

Laban Githuki
lgithuki@sib.co.ke



Headquarters

JKUAT Towers (Formerly ICEA Building), 16th Floor,
Kenyatta Avenue, Nairobi, Kenya.

Telephone: +254 777 333 000, +254 20 227 7000, +254 20 227 7100

Email: clientservices@sib.co.ke