Banking Sector Report

A Comprehensive Analysis

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Executive Summary

- ✓ We recommend a "**Buy**" on the banking sector, as we believe it offers investors attractive dividend prospects supported by strong fundamentals reflected in the H1 2025 performance. Notably, Equity Group and KCB Group present some of the most appealing entry opportunities for investors.
- ✓ **Improving Capital Strength:** Major banks maintain strong capital adequacy ratios, exceeding CBK's 14.5% minimum, providing a buffer against potential shocks.
- ✓ **Attractive Valuations and Dividend Yields:** Kenyan banks are currently trading at a P/TBV of 0.74x, below its historical average of 0.94x, offering compelling value. Dividend yields currently range from 6.6%-11.4% with consistent payouts.
- ✓ **New Business Lines:** Kenyan banks are diversifying their revenue sources to areas such as Investment banking and asset management. These lines of businesses have potential to diversify revenue sources to fee-income sources, and lifting ROE.
- ✓ **Credit Quality Risks:** The main near-term risks is high NPLs currently being witnessed in the industry. If the economy slows further, these could deteriorate. However, banks have raised provisions and lending standards to tackle the NPL problem.
- ✓ **Foreign Exchange Risks:** The stability of the shilling against the dollar continues to weigh on non-funded income growth, as foreign exchange trading margins remain compressed. We believe this trend will dampen overall profitability for the sector in the medium term.
- ✓ **Increased competition:** Banks are facing increased competition from fintech lenders and pan-African banks. However, Kenyan banks have strong brand loyalty and vast branch/agent networks, which continue to offer an edge. They are also investing in digital platforms to compete.

Summary Recommendation

Bank	Ticker	Expected Return	Recommendation
Stanchart	SCBK	(8.26%)	**Sell**
Equity	EQTY	29.38%	**Strong Buy**
KCB	KCB	25.93%	**Strong Buy**
Cooperative	COOP	8.33%	**Buy**
NCBA	NCBA	8.06%	**Buy**
Stanbic	SBIC	15.03%	**Strong Buy**
ABSA	ABSA	11.95	**Buy**
DTB	DTK	2.47%	**Hold**
I&M	IMH	3.55%	**Hold**

Rating Criteria

Expected Return	>=15%	Strong Buy
Expected Return	5-14%	Buy
Expected Return	0-4%	Hold
Expected Return	<0%	Sell

Global Banking Overview

Regulatory Overview

Key Players

Performance Overview

Global Banking | Regulatory Overview

Basel 3 Regulatory Framework

The Basel 3 Regulatory framework was developed by the Basel committee on banking supervision with the aim of strengthen international banking regulations, supervision and risk management to create a more robust and stable global financial system.

Basel 1

- Introduced in 1988, in response to the banking crisis witnessed in the 1970s and 1980s
- It aimed to promote a level playing field for international banks by standardizing capital requirements to prevent excessive risk taking

Basel 2

- Implemented in 2004, it introduced a three-tier structure, allowing banks to use internal models for risk assessments.

Basel 3

- Introduced in 2010, it retained the three-pillar approach but significantly strengthened requirements.
- It was introduced to build resilience, reduce procyclicality, and prevent future crises by focusing on higher-quality capital and liquidity buffers.

Common Equity Tier 1 Ratio

- Minimum 4.5% of RWA.
- CBK Mandated 10.5% of RWA.

Tier 1 Capital Ratio

- Minimum 6% of RWA.
- CBK mandated 10.5% of RWA.

Total Capital Ratio

- Minimum of 8% of RWA.
- CBK mandated 14.5% of RWA.

Global Banking | Key Players

The Global Banking Industry is dominated by large universal banks, managing over $200 trillion in assets worldwide, with Chinese state-owned giants leading in total assets due to domestic economic scale, while U.S banks excel in market capitalization, reflecting innovation and profitability.

TOP BANKS BY TOTAL ASSETS(Africa)

- **Standard bank group** - $184.6 billion. Operating in more than 20 African countries, with a deposit base of $112.2 billion.
- **National Bank of Egypt** - $167 billion in Assets. Egypt's largest bank, accounting for over 20% of the country's deposits.
- **FirstRand (South Africa**) - $143.5 billion. Parent company of First National Bank, with a customer deposit base of $121.9 billion.
- **Absa Bank (South Africa)** – Total assets of $116.8 billion, with a presence in Botswana, Ghana, Kenya, and Mauritius.

TOP BANKS BY MARKET CAP(Africa)

- **FirstRand(South Africa**) - $36 billion in market cap.
- **Standard Bank Group** - $30 billion dollars in market cap.
- **Capitec Bank(South Africa**) - $20 billion in market cap. Known for its strong customer base and focus on affordable banking
- **Absa Group(South Africa)** - $15 billion in market cap. Strong leadership presence and profitability, with a focus on financial inclusion.

TOP BANKS BY TOTAL ASSETS(Globally)

- **Industrial and Commercial Bank of China** - $6.3 trillion in total assets. Emphasizes corporate banking and international operations.
- **Agricultural Bank of China** - $5.6 trillion in total assets. Specializes in rural and agricultural finance.
- **China Construction Banks** - $5.4 trillion in total assets. Focusing on Infrastructure and housing finance.
- **Bank of China** - $4.5 trillion dollars in total assets. Renowned for foreign exchange and trade finance.

TOP BANKS BY MARKET CAP(Globally)

- **JPMorgan Chase** - $788 billion in market cap. Tops globally for innovation and M&A activity.
- **Bank of America** - $348 billion in market cap. Strong in consumer banking and wealth management.
- **ICBC** - $320 billion in Market Cap. Balances size with state-backed stability.
- **Wells Fargo** - $250 billion in market cap, emphasizing domestic resilience.

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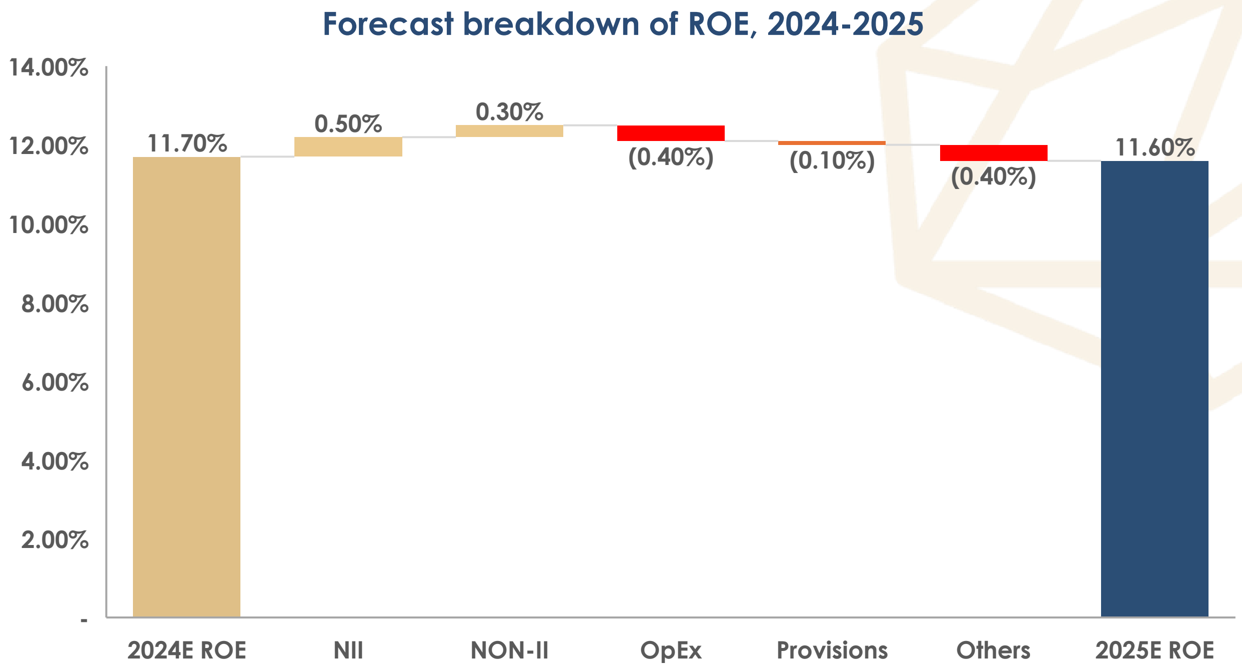
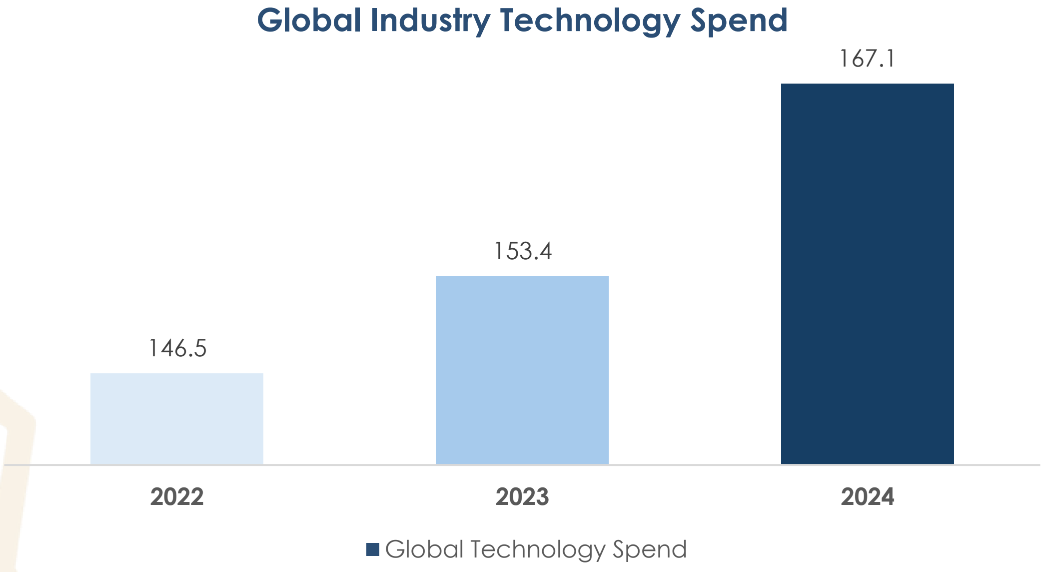
Global Banking | Performance Overview

The Global Banking Sector is currently valued at **$29.80T**, projected to grow at 7.35% CAGR to **$52.56T** by 2033. With **$400T** in assets, the sector earned $7T in revenue and $1.1T in net income in 2024, despite operating in a low-interest rate environment.

The sector ROE is forecasted at **11.7%,** and **6% loan growth in 2025**, compared to 2% in 2024.

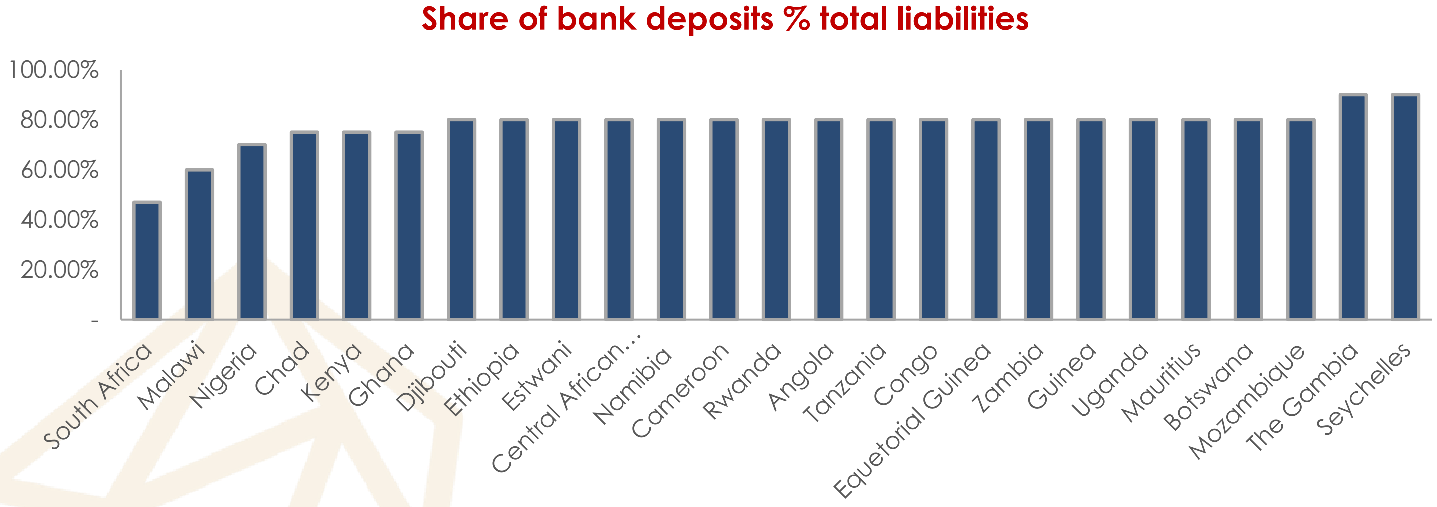




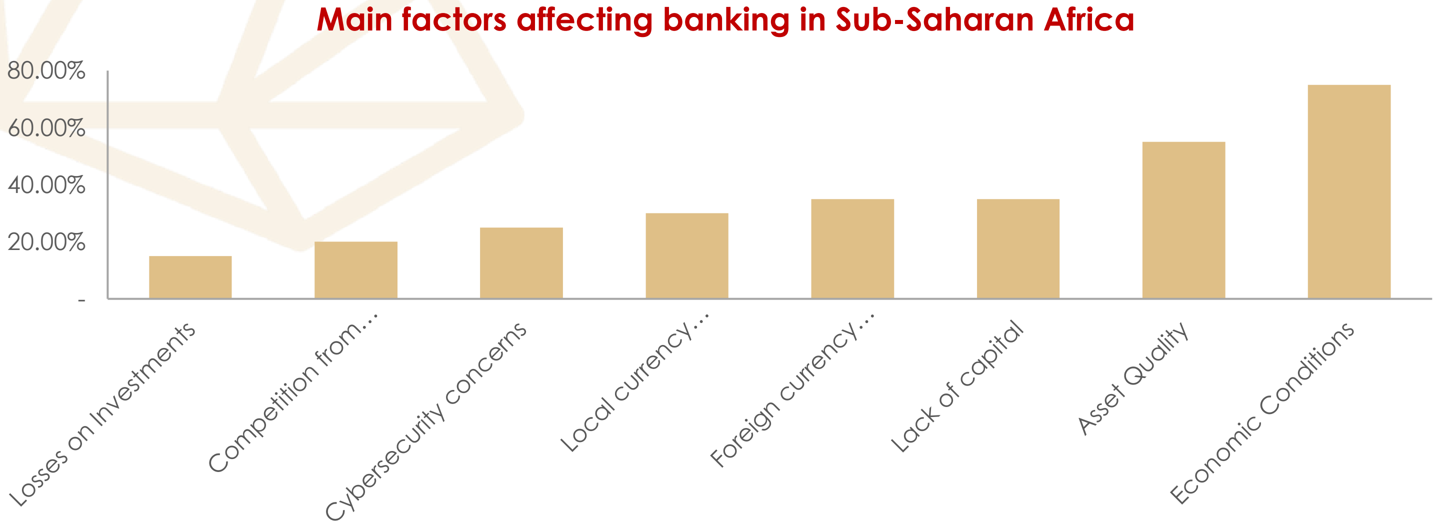
In 2025, global banks are expected to spend US$176b on IT, up from US$167b in 2024 and US$147b in 2022. However, only 39% of this is expected to be allocated to change-the-business initiatives such as customer service improvements and new product development.

African Banking | Performance Overview

- Banks in Sub-Saharan Africa manages substantial amounts of asset, $400B with the median share of deposits to total liabilities at 77%, representing a relatively stable and cheap source of funding for these banks.

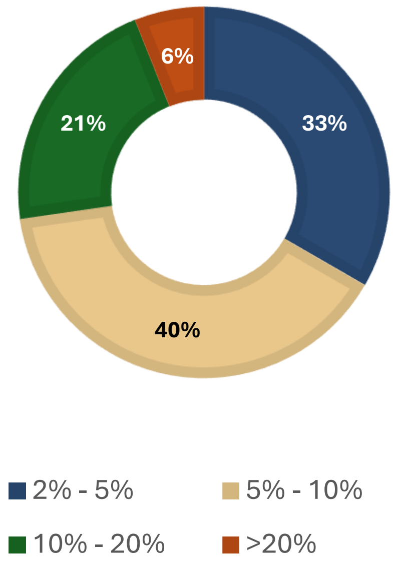


- Despite expecting record profits for the year, economic conditions in different countries still impact bank operations. With slow economic growth likely to be witnessed in the region, this could negatively affect the profit forecast.

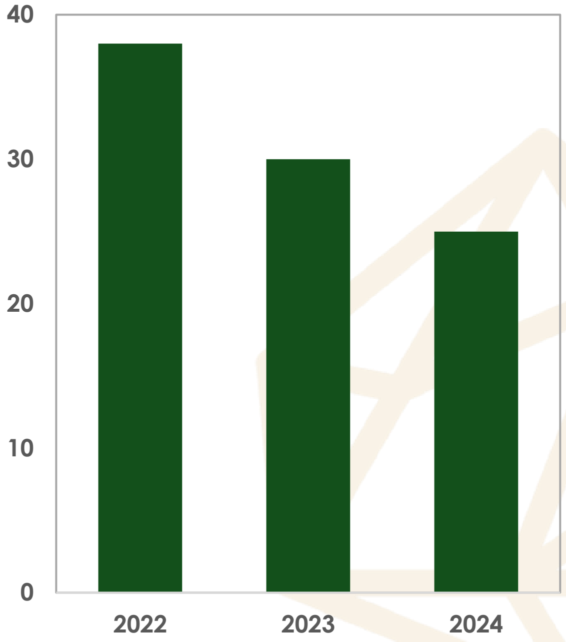


African Overview

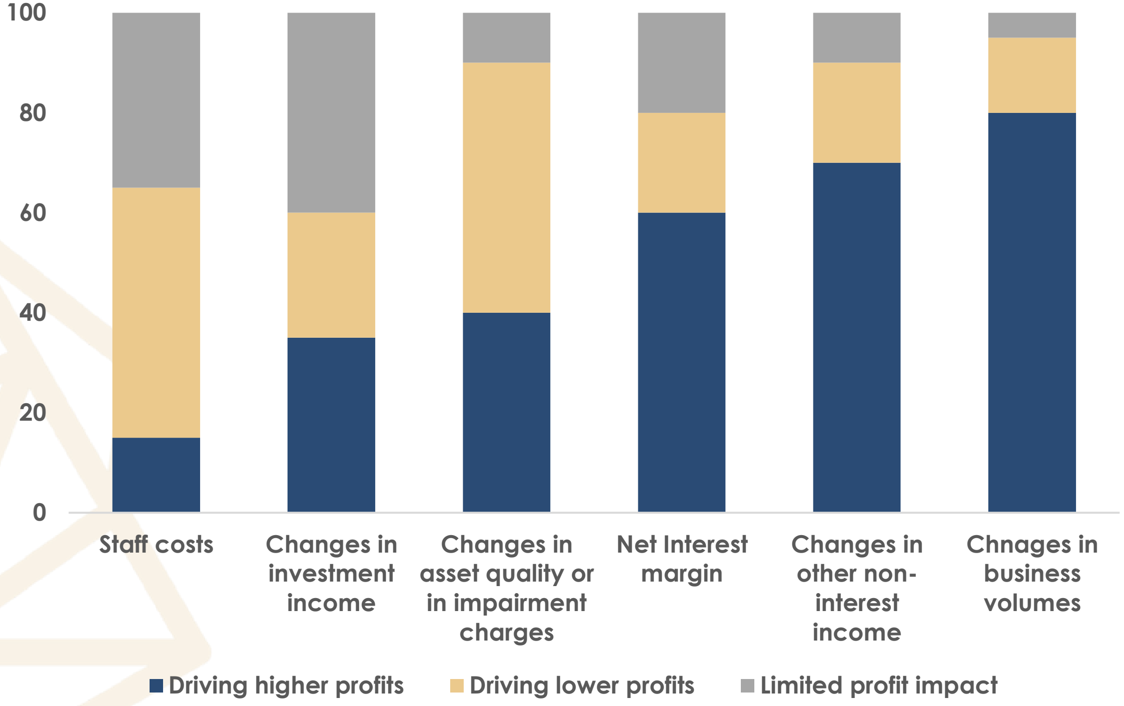
NON - PERFORMING LOANS FOR SMALL & MEDIUM FIRMS



Share of Banks with more than 10% of there loan book for SMEs categorized as Non-performing



Factors affecting banks in Sub-Saharan Africa



- Non-Performing loans are still high, reflecting deteriorating economic conditions in these countries, with banks expected to tighten lending, affecting mostly SMEs.

- Sub-Saharan banks are expected to record higher profits compared to the previous year, driven by increased volume and other non-interest income. Expectations from NII has declined, reflecting lower interest rates being witnessed in the region.

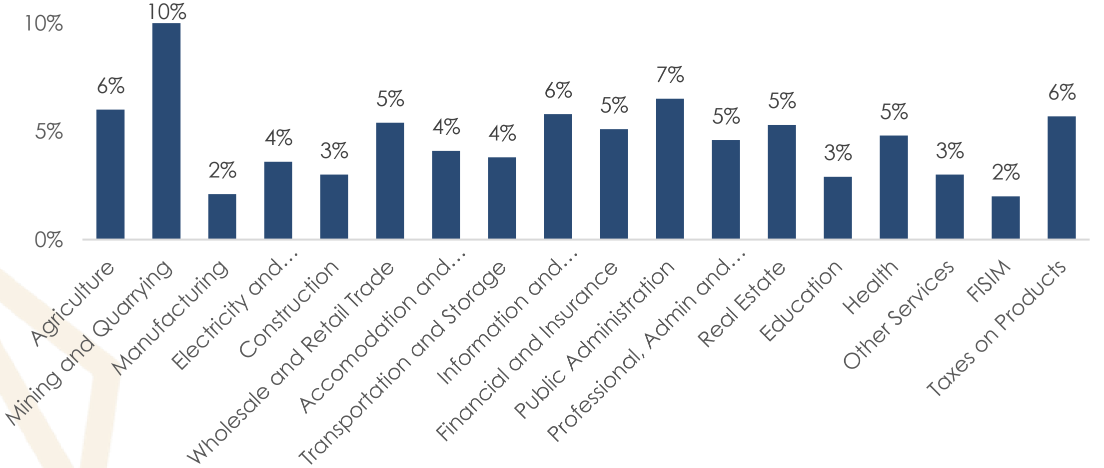
Kenyan Banking Sector Overview

Economic Review | GDP Growth

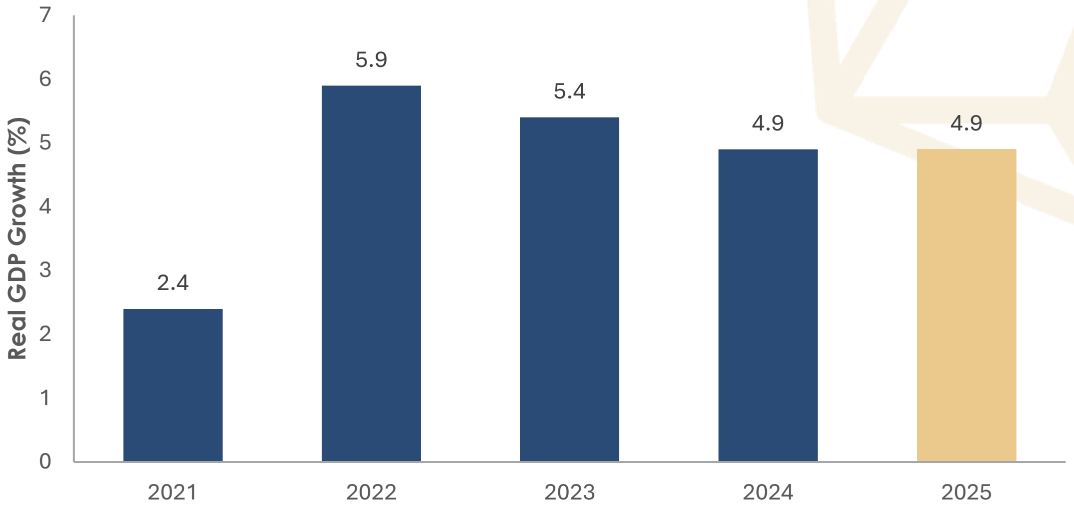
Real GDP Growth

- The Economy grew 4.9% in the first quarter of 2025, with all sectors of the economy recording positive growth.
- Agriculture, Forestry, and Fishing activities grew by 6% compared to 5.6% growth in Q1 2024, mainly driven by favorable weather conditions witnessed in the country.
- The gross value added for accommodation and food service activities decelerated to 4.1 % in the quarter, compared to 38.1% growth in the corresponding quarter of 2024.
- Given the low-interest-rate environment, and improving economic activity as measured by the PMI, we expect GDP to continue at its current level, with manufacturing, Agriculture and Real Estate expected to outperform, and we expect banks to increase lending to these sectors.
- The actual value of buildings approved by Nairobi county increased 34.8% to Ksh.13.7Bn in June 2025, from Ksh.10.2Bn in January 2025, and we expect this trend to continue in the second half of the year as the government pursues its affordable housing agenda.

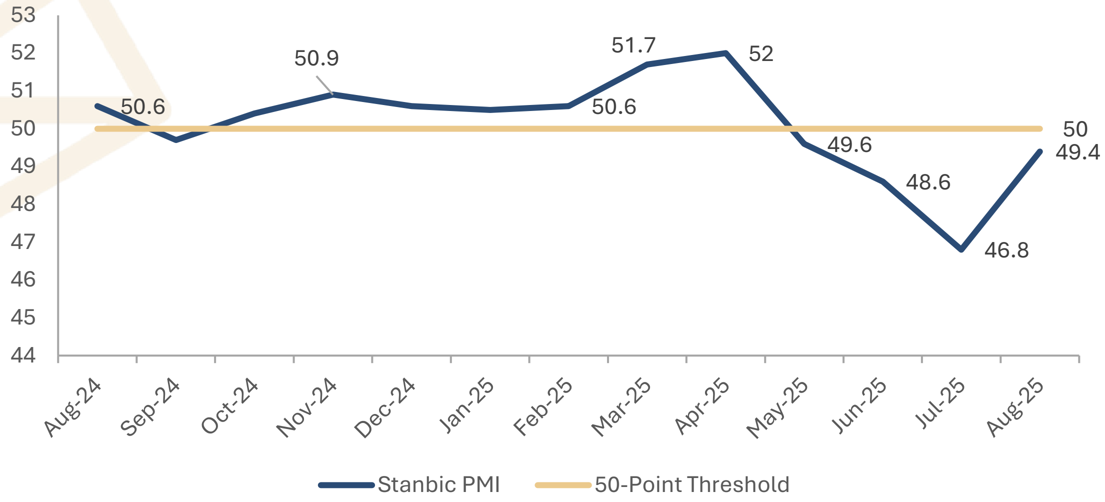
Sector GDP Growth



Historical GDP



Historical PMI



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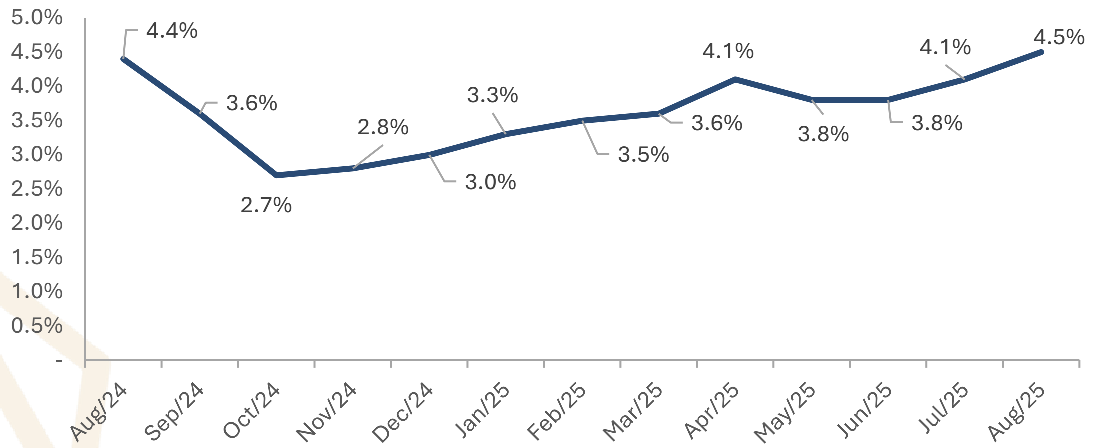
Economic Review | Inflation

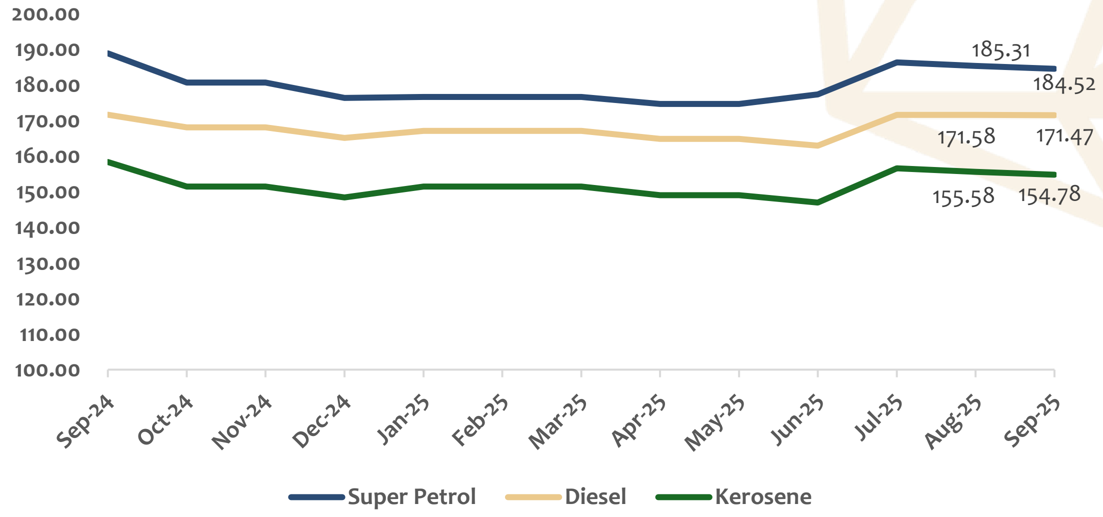
Inflation Overview

- Inflation has been rising in previous months, increasing from 3.8% reported in June 2025 to 4.5% as of August 2025.
- This increase can be attributed to a 0.6% increase in food and non-alcoholic beverages, a 0.5% increase in transport prices and a 0.2% increase in education services, and Personal care, social protection and miscellaneous goods and services.
- Fuel prices dropped by Ksh.1 in August from the previous month. We're forecasting a reversal in this trend, given that futures prices has increased from the following month.
- We're forecasting inflation to continue rising driven by price increases in food and non-alcoholic beverage segments, which are likely to be affected by the market factoring in the low interest rates in the economy.

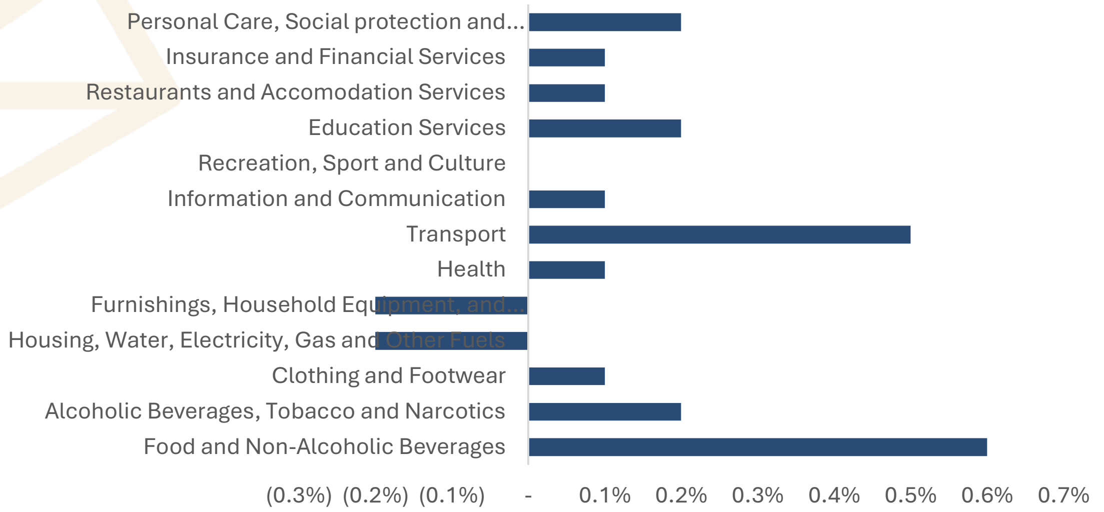
Inflation Trends



12-Month Fuel Price Trend



Inflation Components



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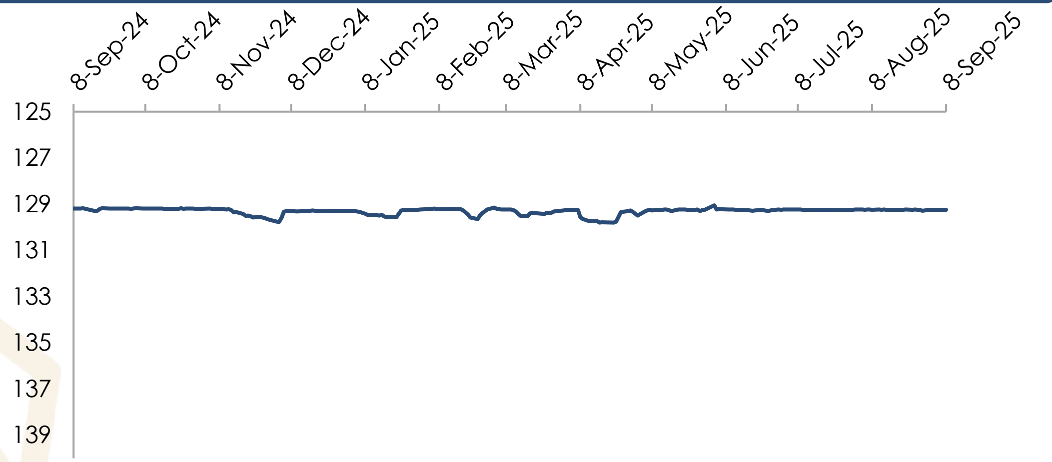
Economic Review | FX Market

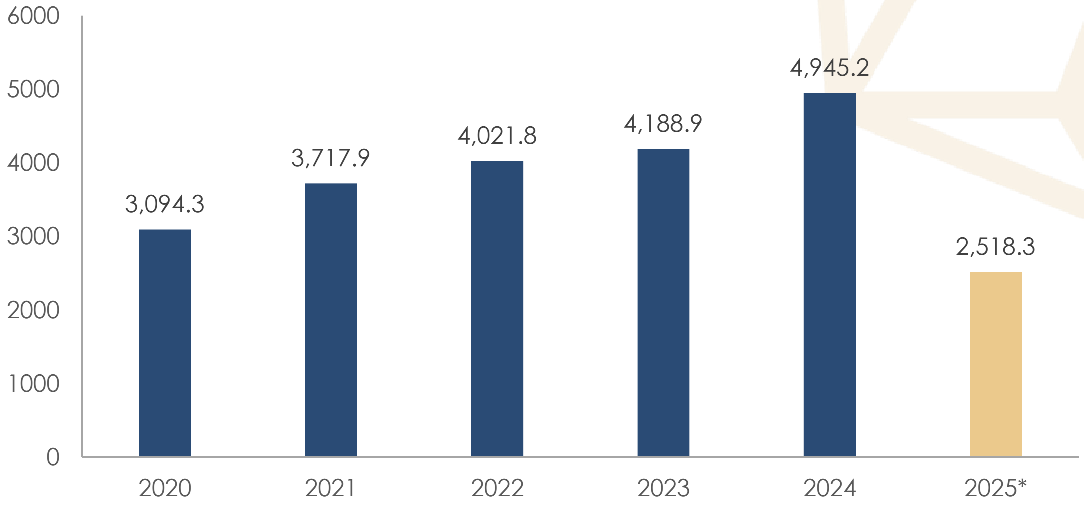
Foreign Exchange Market Overview

- The foreign exchange market has remained relatively stable for most parts of the year, with the KES/USD experiencing minimal change.
- The rate has maintained at the 129.24 level, but we expect this trend to reverse in the medium to long term.
- Given increasing inflation rate pressures and lower interest rates being currently witnessed in the market, we are forecasting the exchange rate to depreciate to Ksh.130.51 according to PPP and Ksh.134.20 according to the IRP by the end of the year.
- However, given foreign remittances are expected to be resilient, and the country expecting to maintain the CA deficit at 1.5% of GDP and a surplus of USD 673 Mn, we expect the FX rate to remain relatively stable in the short term.
- This will likely to continue straining FX income for banks, which have already experienced reduced margins, unless banks increase their FX trading volume to offset effects from shilling appreciation.

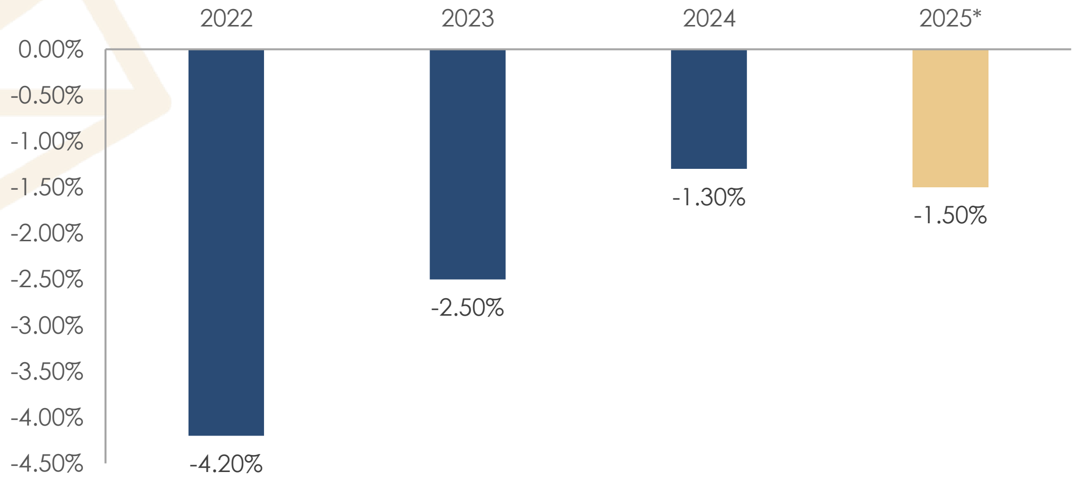
Ksh/USD Trend



Foreign Remittances (Bn)



Current Account

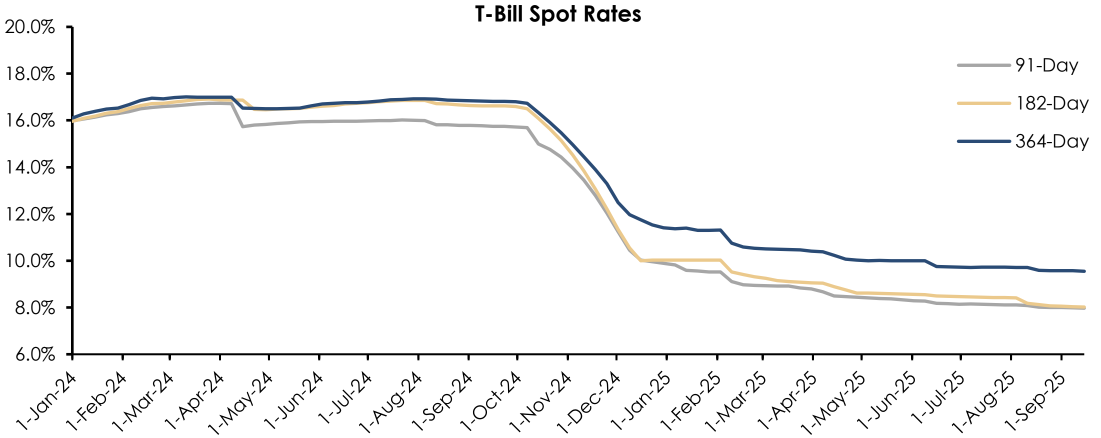


Economic Review | Interest Rates

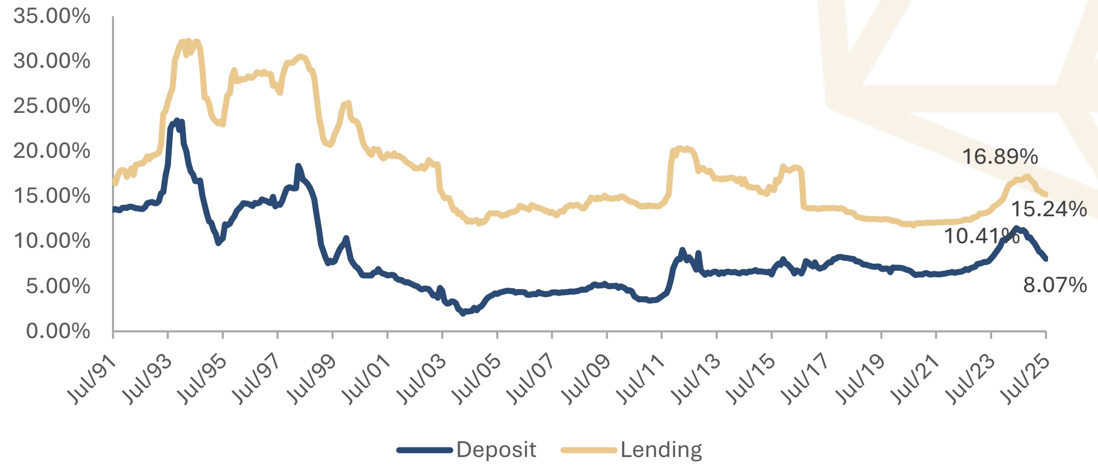
Interest Rates Market Overview

- The CBK has adopted an aggressive stance on interest rates, cutting from 9.75% to 9.5% in August 2025, in a bid to stimulate the economy and encourage private sector lending.
- The CBK has also adopted a new risk-based lending method, where credit will be based on interbank lending rate (KESONIA) + Risk Premium to reflect the borrower's credit risk.
- These moves threaten to lower bank margins on loans, and we are forecasting banks to shift their focus to lending to high-risk areas such as SMEs to boost their Interest Income.

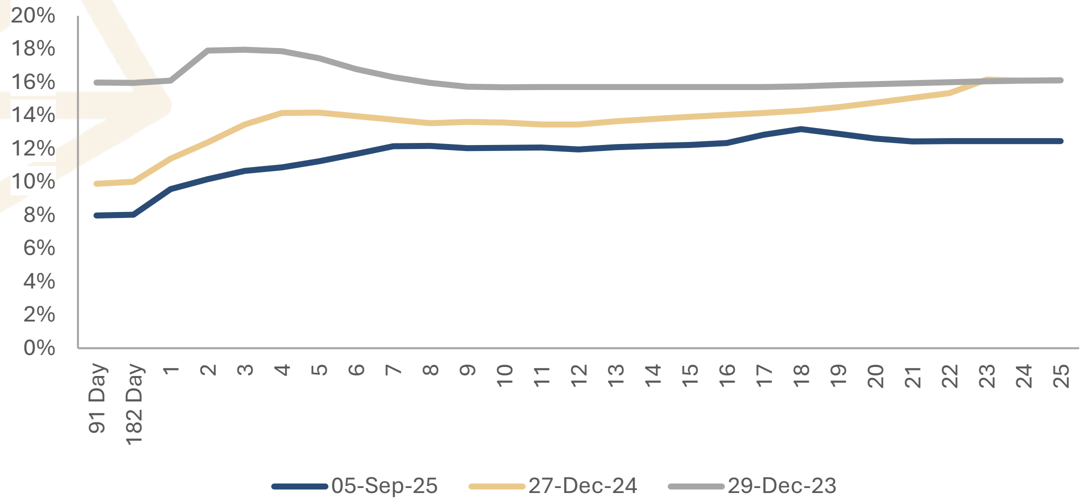
Interest Rates Trend



Deposits and Lending Rates



Yield Curve



Recent Developments in the Sector

- **Risk-Based Lending** – This aligns lending rates with individual borrower risks. The total rate is calculated as the Kenya Shilling Overnight Interbank Average (KESONIA) plus a risk-based premium.
- **High Capital Requirements** – The CBK has adopted a phased approach, raising the minimum core capital requirement to Ksh.10bn by 2029.
- **Lifting of Moratorium of new licenses** – Intended to open the market to new players who are well capitalized and can strengthen the Kenyan financial landscape.

Regulation

- There has been a significant increase in the **adoption of mobile and online banking platforms** as customers now prefer to perform banking transactions from the comfort of their homes, leading to a decline in the use of physical branches. For instance, most of the listed banks disclosed that **the majority of transactions were conducted through alternative channels**, with Equity Group and KCB Group reporting that 85.9% and 99.0% of their transactions, respectively, were done through **non-branch channels.**

Digitization

- On April 14, 2025, the CBK announced acquisition of **100% shareholding of NBK by Access Bank** Plc from KCB.
- **Sidian Bank Plc sold a combined stake of 16.6%** stake to pioneer General Insurance, Pioneer Life Investment Limited, Wizro Enterprises Limited, Afrah Limited and Telesec Limited.
- On May 22, 2023, CBK announced a 20% acquisition of Credit Bank Plc by Shorecap LLP.

Expansion through M&A

Recent Developments| Capital Requirements

- The Central Bank of Kenya has adopted a phased approach in order to comply with the Basel 3 Regulatory frameworks, and to strengthen the financial sector's stability and resilience, requiring banks to increase their core capital base to Ksh.10 Bn by 2029.
- This move will likely cause consolidation in the industry, with strong banks acquiring weaker banks, and smaller banks merging together to meet the minimum capital requirements, thereby enhancing loss-absorption capacity, promoting accountability and prudence, and fostering a consolidated efficient sector.
- Failure to meet these requirements, non-compliant banks could see their licenses revoked, or be downgraded to micro-finance status, which require far lower capital. (ksh.20 Mn for community operations, and ksh.60 Mn for nationwide operations).

2025

- By December 31, 2025, banks are required to raise the core capital from ksh.1 Bn to Ksh.3 Bn.

2026

- By December 31, 2026, banks are required to raise an additional Ksh.2 Bn in core capital, raising the amount to Ksh.5 bn

2027

- By December 31, 2027, banks are required to raise an additional Ksh.1 Bn in core capital, raising the amount to Ksh.6 bn

2028

- By December 31, 2028, banks are required to raise an additional Ksh.2 Bn in core capital, raising the amount to Ksh.8 bn

2029

- By December 31, 2029, banks are required to raise an additional Ksh.2 Bn in core capital, raising the amount to Ksh.10 bn

Banking Sector Key Players in Kenya

The Kenyan banking sector is dominated by a few large banks, with the top 5 banks controlling a combined 53.9% of the market share, with KCB Bank dominating at 16.6% market share. In terms of market capitalization on the NSE, Equity Group Holdings ranks first at Ksh.202.8 Bn, ahead of KCB Group at Ksh.171.1 Bn.

TOP BANKS BY TOTAL ASSETS (Kenya)

- **KCB Bank Kenya Limited:** Managing Ksh.1.28T in Net assets, with a market share of 16.6%.
- **Equity Bank Kenya Ltd:** Managing Ksh.1.03T in Net assets, and a market share of 12.8%.
- **Co-operative Bank of Kenya Ltd:** Managing Ksh.687.8 Bn in Net assets, controlling a market share of 9.6%.
- **NCBA Bank Kenya Plc:** Managing Ksh.588.7 Bn in Net assets and a market share of 8.3%.
- **Absa Bank Kenya Plc:** Managing Ksh.506.1 Bn in Net assets and a market share of 6.6%.
- **Stanbic Bank Kenya Ltd:** Managing Ksh.445.2 Bn in Net assets, with a market share of 5.7%.

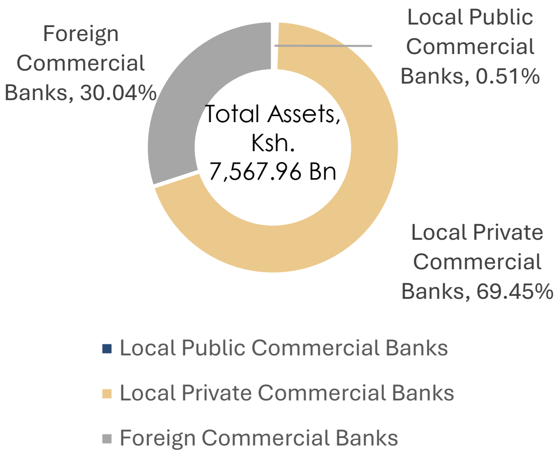
TOP BANKS BY MARKET CAP (Kenya)

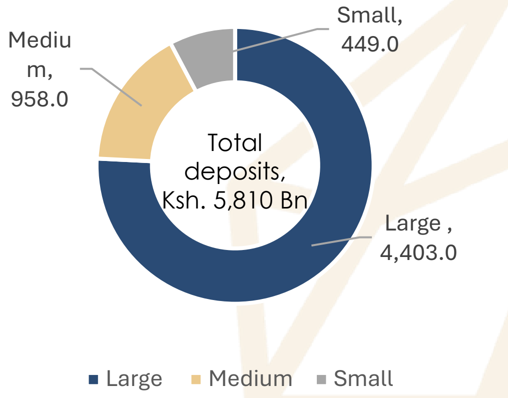
- **Equity Group Holdings:** Largest bank by market capitalization, with Ksh.202.8 Bn in market cap.
- **KCB Group:** Second largest bank, with a market capitalization of Ksh.171.1 Bn.
- **Absa Bank Kenya:** Third largest bank, with total market capitalization of Ksh.123.6 Bn.
- **NCBA Group:** Ksh.117 Bn in market capitalization.
- **Co-operative Bank of Kenya:** Ksh.116.2 Bn in market capitalization.
- **Standard Chartered Bank of Kenya:** Ksh.107.8 Bn in market capitalization.
- **I&M Group:** Ksh.71.5 Bn in market capitalization.

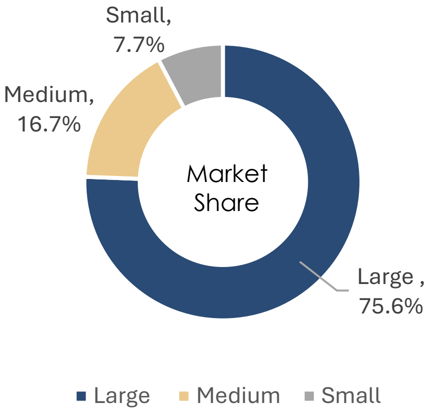
Structure of the Banking Sector

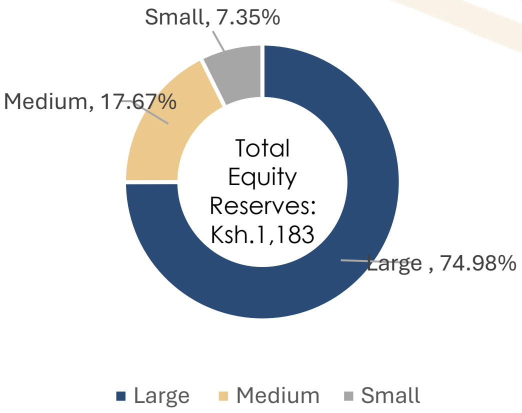
Overview

The banking sector remained stable and resilient in the first quarter of 2025. Total assets increased by 0.4 percent to Ksh.7,673.6 billion in March 2025, from Ksh.7,645.8 billion in December 2024. The deposit base decreased by 0.2 percent to Ksh.5,730.9 billion in the first quarter of 2025, from Ksh.5,739.6 billion in the fourth quarter of 2024





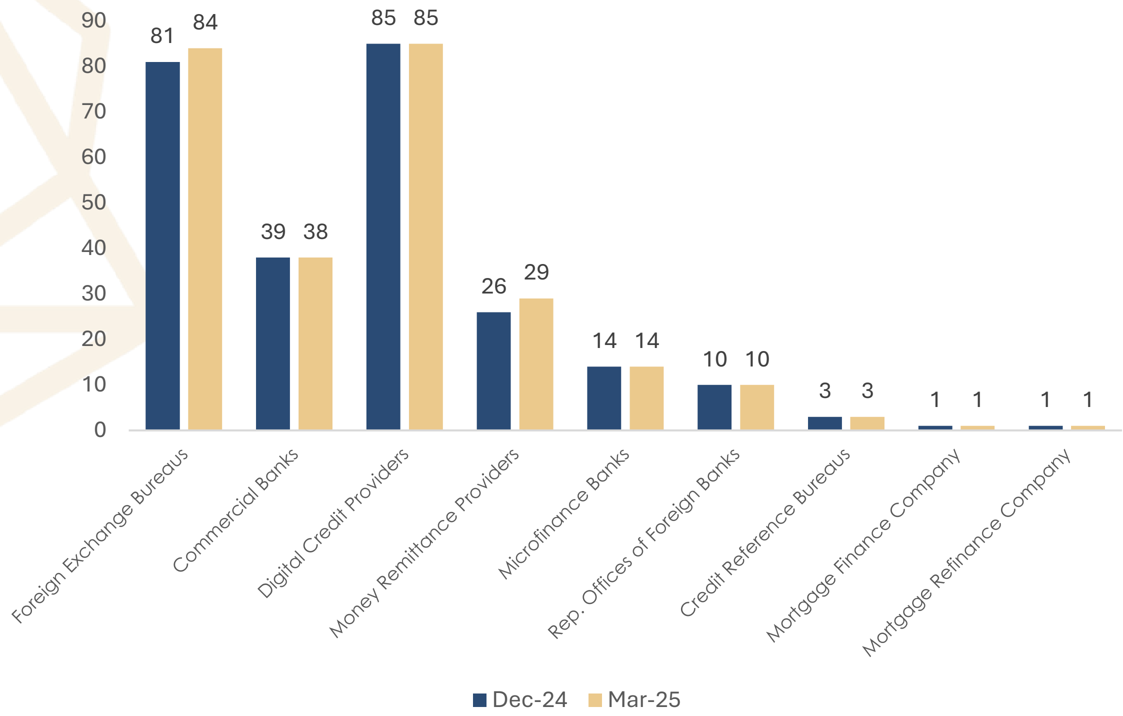




Structure of the Banking Sector

The Kenyan banking sector comprised 38 Commercial Banks, 1 Mortgage Finance Company, 1 Mortgage Refinance Company, 14 Microfinance Banks, 10 Representative Offices of Foreign Banks, 81 Foreign Exchange Bureaus, 24 Money Remittance Providers, 3 Credit Reference Bureaus, and 85 Digital Credit Providers as of March 2025.

Composition of Different Players in the Sector

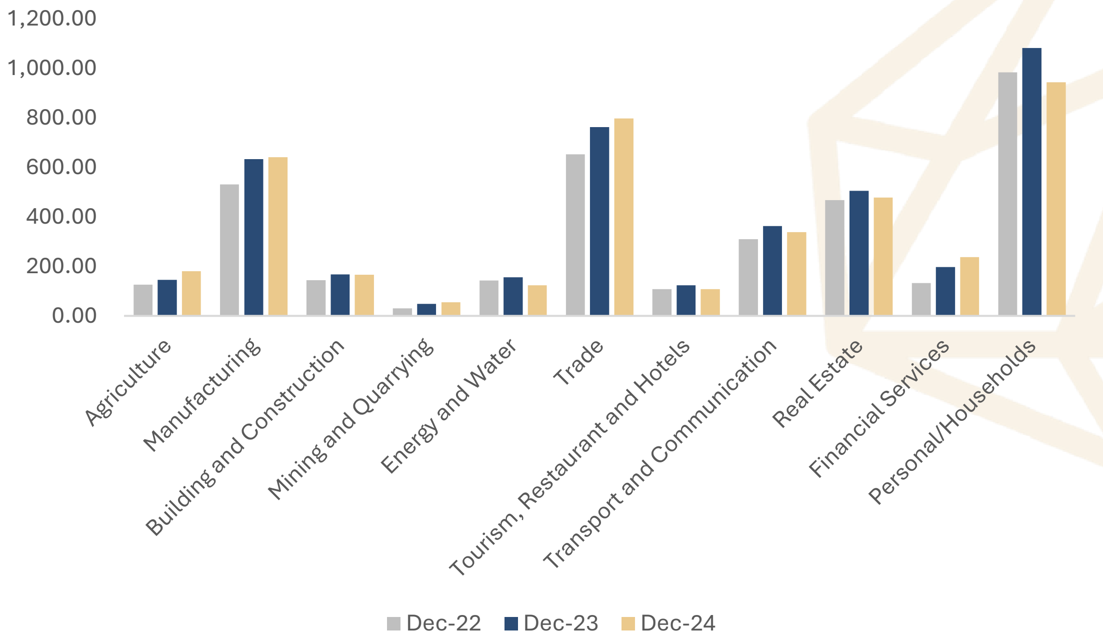


Balance Sheet Structure

Loans and Advances

- The banking sector loan book increased by 0.6 percent, to Ksh.4,123.4 billion in the first quarter of 2025, from Ksh.4,099.3 billion in the fourth quarter of 2024. The increase in gross loans and advances was largely witnessed in the Personal and Household, Trade, and Building and Construction sectors.

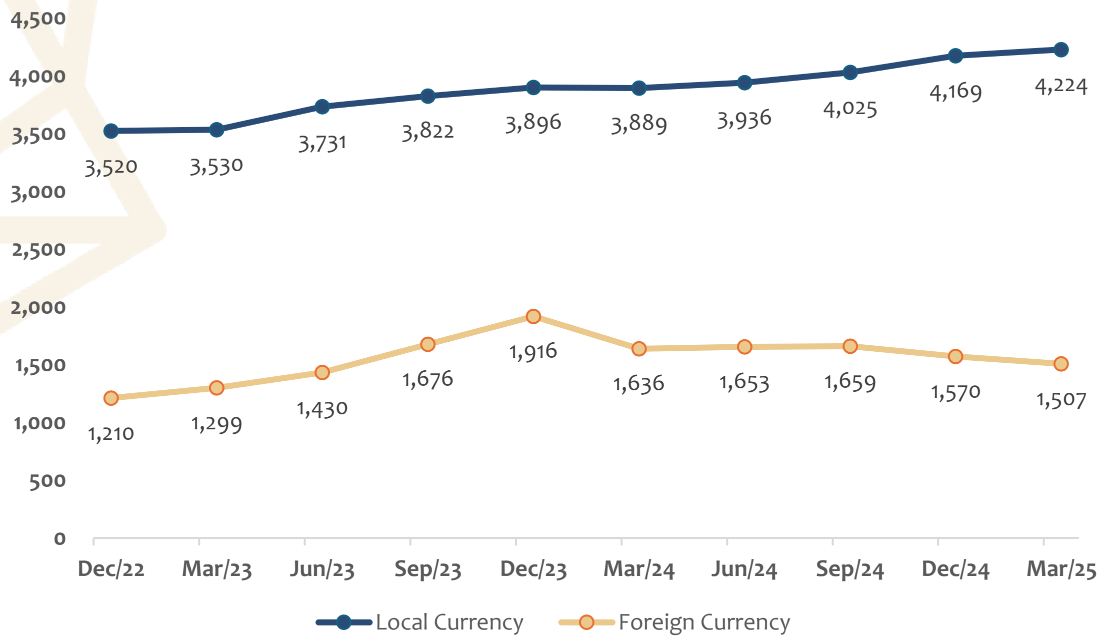
Sector Loans and Advances to Customers



Deposit Liabilities

- Customer deposits remain the main source of funding to the banks, accounting for 74.7 percent of the banking sector total liabilities and shareholders' funds as at the end of the first quarter of 2025. The customer deposit base decreased by Ksh.8.7 billion (0.2 percent) to Ksh.5,730.9 billion in the first quarter of 2025, from Ksh.5,739.6 billion in the fourth quarter of 2024. Local currency deposits increased by Ksh.54.3 billion (1.3 percent) to Ksh.4,223.6 billion in the first quarter of 2025, from Ksh.4,169.2 billion in the fourth quarter of 2024. Foreign currency deposits decreased by Ksh.63.0 billion (4.0 percent) to Ksh.1,507.3 billion in the first quarter of 2025, from Ksh.1,570.4 billion in the fourth quarter of 2024.

Customer Deposits



Asset Quality

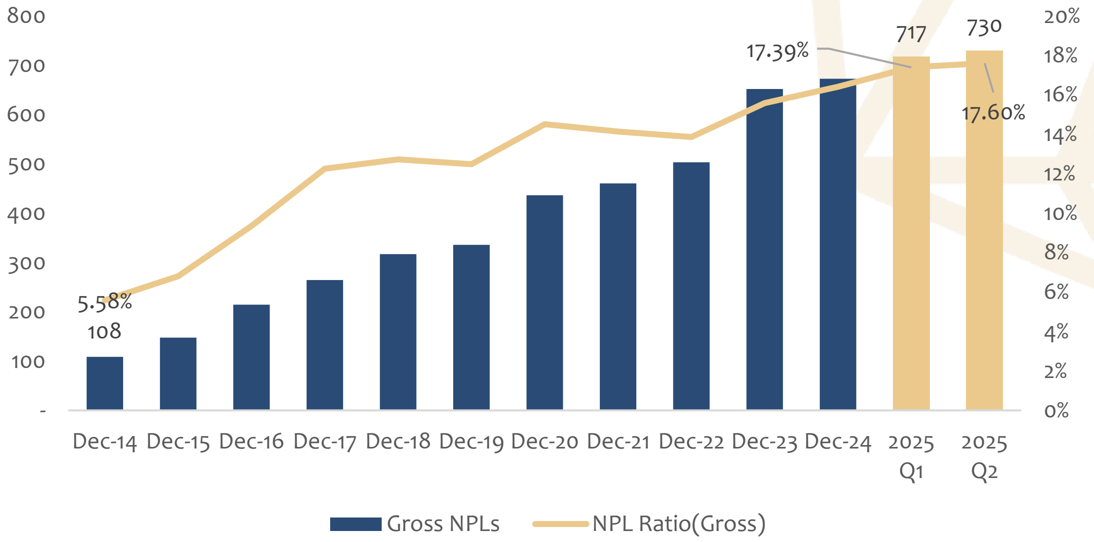
Gross Non-Performing Loans

- The Gross Non-Performing Loans (NPLs) increased by 1.8 percent from Ksh.717 billion in the first quarter of 2025, to Ksh.730 billion at the end of the second quarter of 2025. The gross NPLs to gross loans ratio increased to 17.6 percent in the second quarter of 2025, from 17.4 percent in the first quarter of 2025. This can be attributed to underperformance of some sectors such as Mining and construction,
- All sectors registered increases in NPLs by Ksh.46.2 billion as a result of a challenging operating environment. Energy and Water sector registered a decrease in NPLs of Ksh.1.9 billion mainly due to repayments.

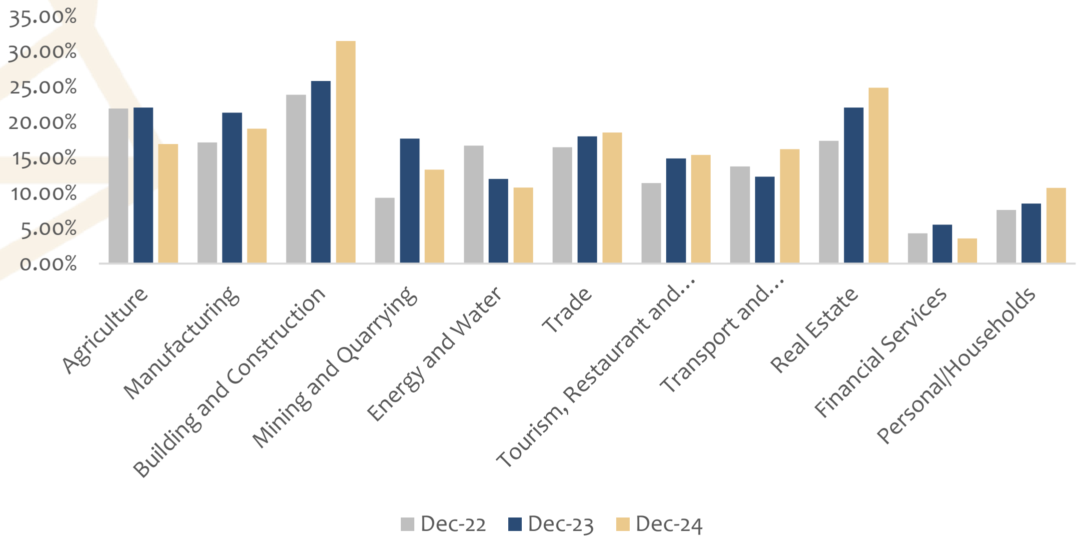
Strategies to reduce NPLs

- ✓ **Enhance Credit risk assessment and Monitoring –** Banks are planning to lower NPLs by strengthening their lending processes upfront. By implementing robust internal risk rating systems, banks will identify low-rated loans early and place them on a watchlist for reduced exposure or stricter monitoring.
- ✓ **Enhance Recovery and Collection Efforts –** Banks are adopting aggressive debt collection policies and proactive recovery mechanisms in high-risk sectors such as manufacturing.
- ✓ **Diversifying Loan Portfolios and Promote Inclusive Lending –** Banks are constantly spreading risks by diversifying across industries and borrower types, reducing exposure to volatile sectors.
- ✓ **Adopting Cautious Lending and Capital Strengthening –** They are maintaining a cautious lending stance to prioritize asset quality over aggressive growth.

Gross NPL & NPL Ratio Trend



Sector NPL Ratio Trend



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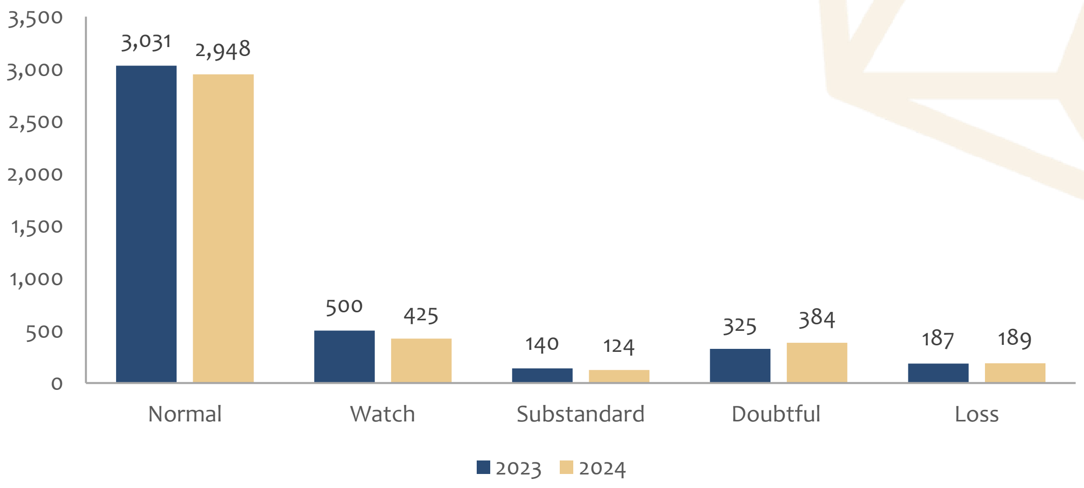
Asset Quality

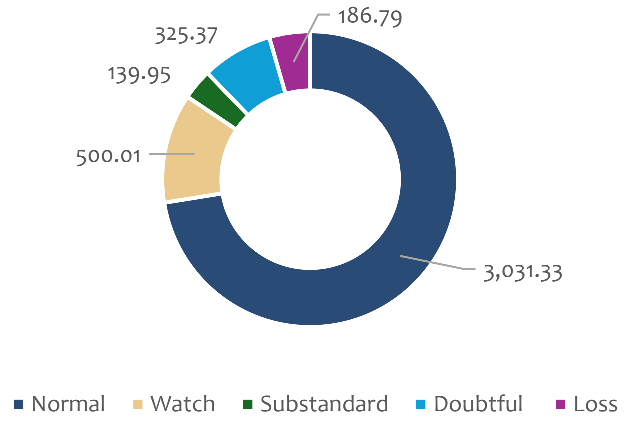
Risk Classification of Loans

- CBK's prudential guidelines on risk classification of assets requires commercial banks to classify loans and advances extended to their customers based on performance.
- The performance criteria is based on the repayment capability of the borrowers. The loans are classified as either normal, watch, substandard, doubtful or loss.
- **Normal:** Loans performing in accordance with the contractual terms and are up to date on repayments and are expected to continue in this condition.
- **Watch:** Loans which are generally past due by between 30 days and 90 days.
- **Substandard:** Loans which are generally past due for more than 90 days, but less than 180 days.
- **Doubtful:** Loans which are generally past due for more than 180 days, but less than 360 days.
- **Loss:** Loans which are past due for 360 days or more.

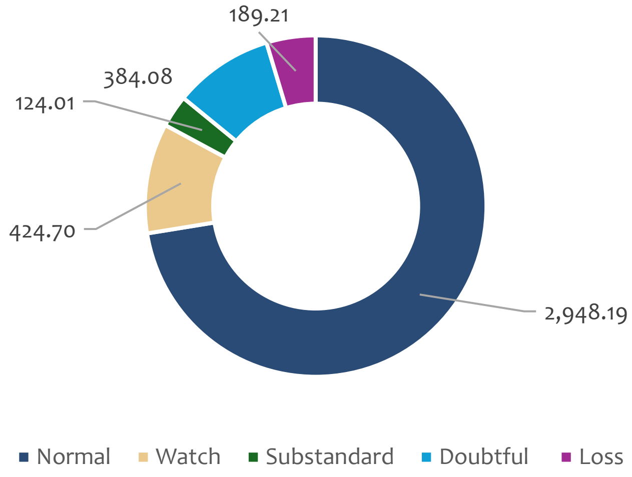
Loan Classification Trends (Bn)



Risk Classification, 31/12/2023



Risk Classification, 31/12/2024



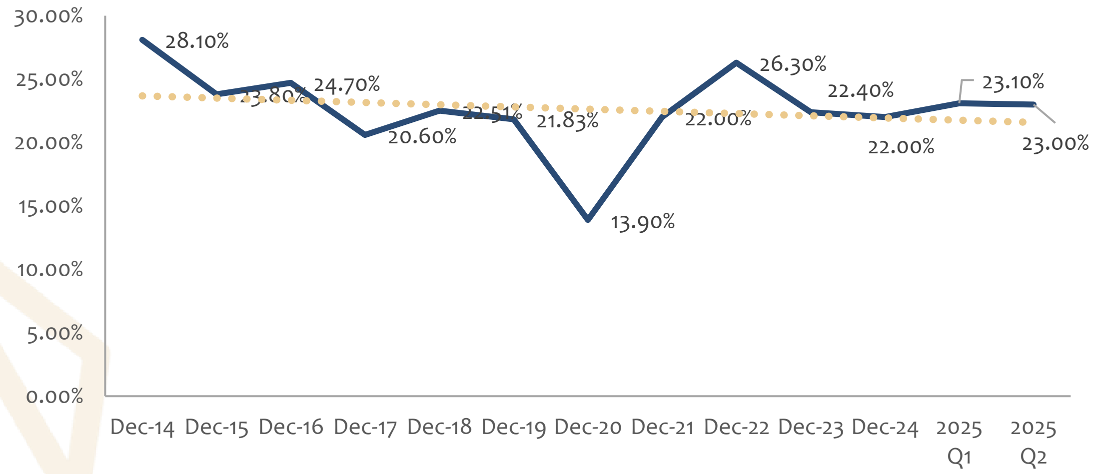
ROCK ADVISORS

Return Performance

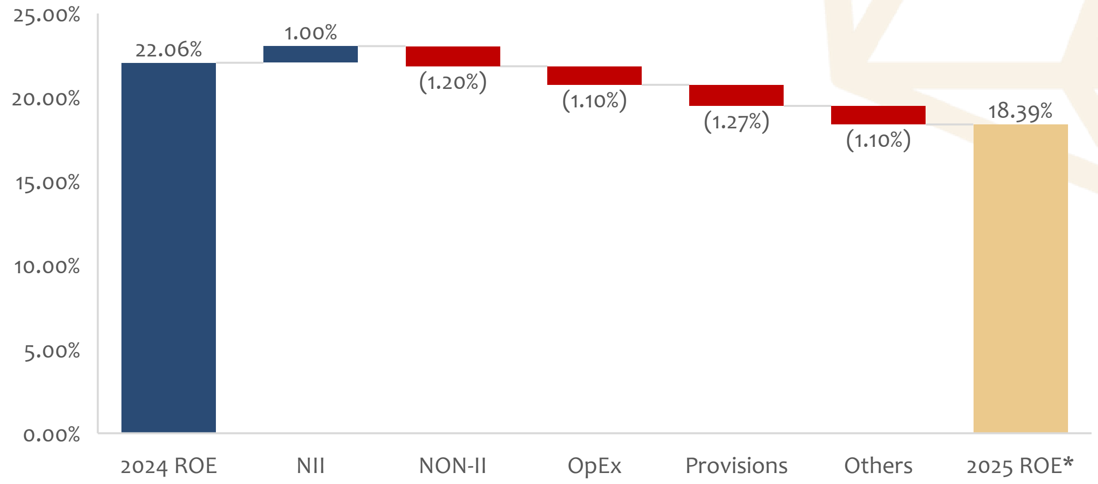
Performance Overview

- The Kenyan banking sector has witnessed a strong recovery following the lows of 2020, with ROE increasing from 13.9% to 23% as of Q2 2025.
- This increase in performance has been supported by high lending rates witnessed during the period, increasing from 12.12% in 2021 to 15.24 % in 2025, while charging low interest rates on deposits of only 2.51% in 2021 and 3.31% in 2025.
- The sector has experienced low return on assets, from a low of 1.7% witnessed in 2020 as a result of high NPLs and Loan loss provisions during the year, to witnessing a recovery of 3.1% as a result of proactive risk management and interest rates adjustments.
- We are forecasting ROE to decline to 18.39% in 2025 compared to 22% in 2024. This will be driven by declining NII from rate cuts, reduced margins from currency appreciation and stability, high provisions from elevated NPLs, and Increased OpEx from investment in technology and digital transformation.

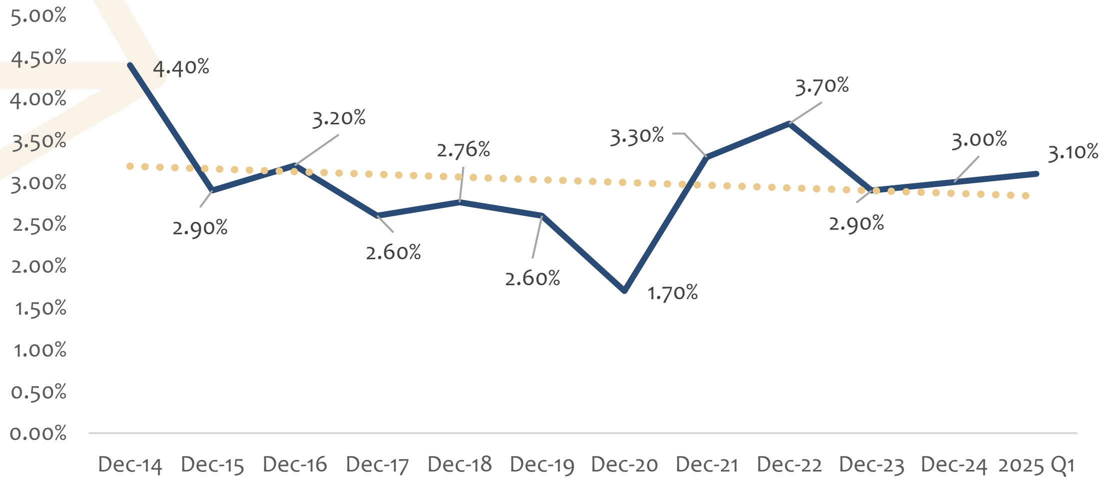
Historical ROE



Forecasts ROE Breakdown

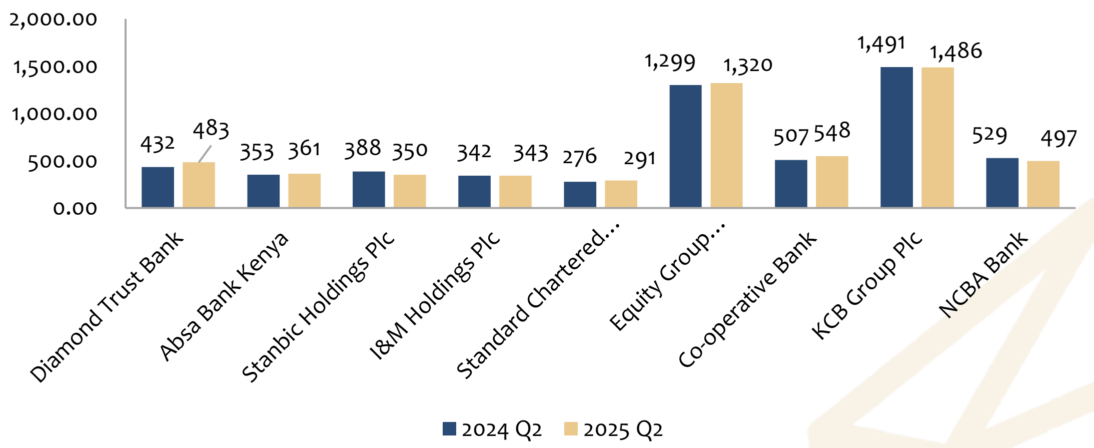


Historical ROA



Sector Metrics | H1 2025 Analysis

Customer Deposits Trend



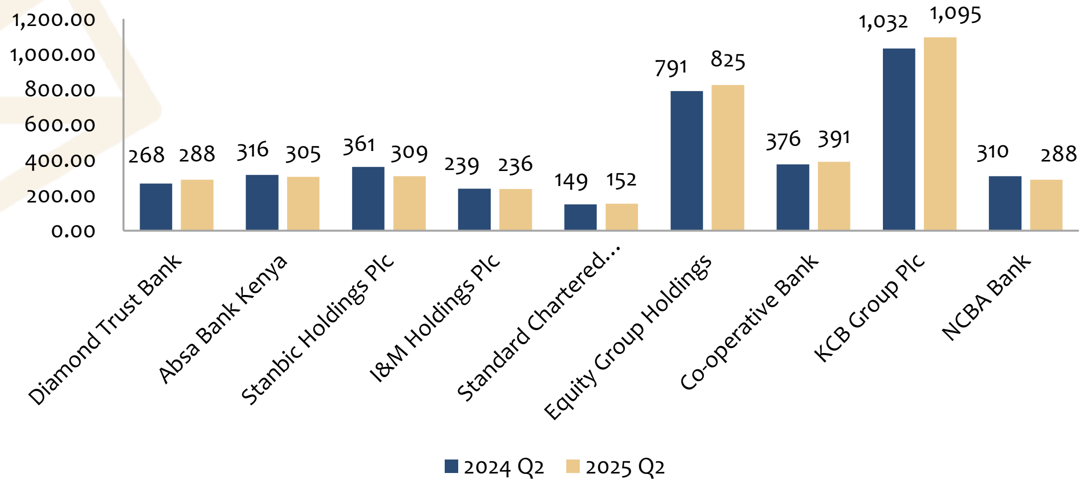
Customer Deposits Analysis

- Customer deposit growth in H1'25 remained relatively subdued, with only six of the nine banks under coverage recording modest gains. Cooperative Bank and DTB posted the strongest growth, at 7.9% and 11.9% respectively, supported by ongoing expansion initiatives that have broadened their customer bases and created greater headroom for credit growth. Conversely, Stanbic and NCBA saw declines of 9.6% and 6.0% in customer deposits, which we attribute to a strategic rebalancing of their funding mix—reducing reliance on costly term deposits while shifting focus toward current and savings account (CASA) deposits to lower funding costs.
- Looking ahead, we expect deposit growth to remain muted in FY'25, as banks continue to prioritize cost optimization while customers redirect funds into higher-yielding opportunities amid declining deposit rates.

Net Loans & Advances Analysis

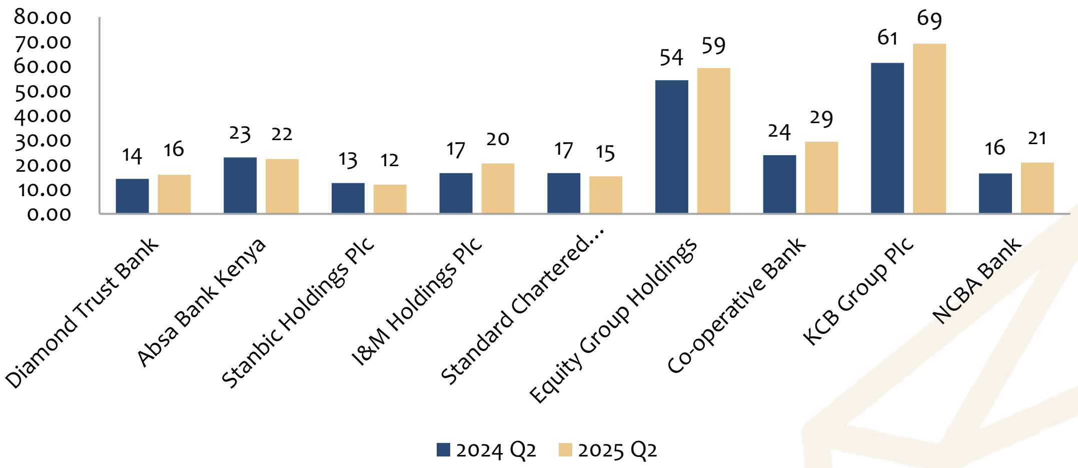
- ❖ Customer Lending activity in H1'25 registered modest growth, with seven of the nine banks under coverage recording loan book expansions. DTB and KCB posted the strongest growth at 7.7% and 6.1% respectively, supported by rising credit demand amid a declining interest rate environment that improved credit affordability. In contrast, Stanbic and NCBA saw contractions of 14.6% and 6.0% in their loan books, reflecting a more conservative lending stance aimed at preserving asset quality, given elevated default risks as client balance sheets are yet to fully recover from a challenging macroeconomic backdrop.
- ❖ Looking ahead, we expect loan book growth to gain momentum- though slightly- in the second half of the year, supported by the rollout of the new risk-based pricing model, which should enhance the transmission of monetary policy adjustments to lending rates and further lower borrowing costs. Nonetheless, banks are likely to maintain a cautious lending posture in the near term as credit risks remain elevated—a trend that may only ease as government clearance of pending bills accelerates and improves private sector liquidity.

Net Loans & Advances Trend(Bn)



Sector Metrics | H1 2025 Analysis

Net-Interest Income Trend



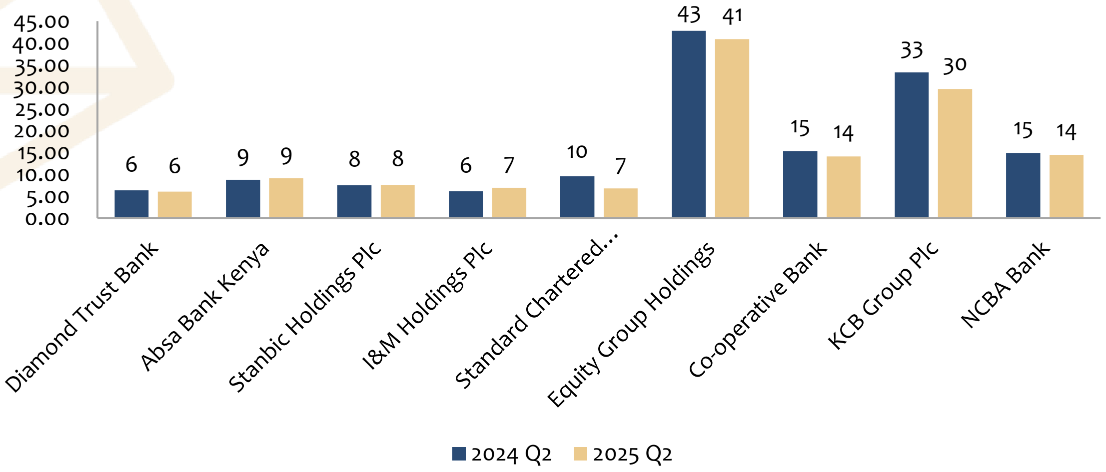
Net-Interest Income Analysis

- Net interest income (NII) posted mixed performance in H1'25, with six of the nine banks under coverage recording y/y growth. NCBA and I&M registered the strongest gains at 26.7% and 23.7% respectively. NCBA's growth was driven by an improved funding structure, with CASA deposits rising to 54% of total deposits compared to 46% in term deposits, helping lower funding costs and expand margins. I&M's performance was supported by a 24.3% y/y increase in government securities holdings, which, together with declining funding costs amid the easing interest rate environment, boosted interest income and margins. In contrast, Standard Chartered and Stanbic reported the largest declines in NII at 7.4% and 5.8% respectively. Standard Chartered's performance was weighed down by margin compression, as yields on interest-earning assets declined faster than its cost of funding under the accommodative policy environment. Stanbic's contraction was mainly attributable to a shrinking loan book, which reduced interest income from loans and advances.
- Looking ahead, we expect NII growth to face downward pressure as the effects of monetary easing continue to drive lower yields on government securities and lending rates. However, banks are actively mitigating this impact by rebalancing their funding mix toward CASA deposits to reduce funding costs—a strategy we expect to remain a key focus going forward.

Non-Funded Income Analysis

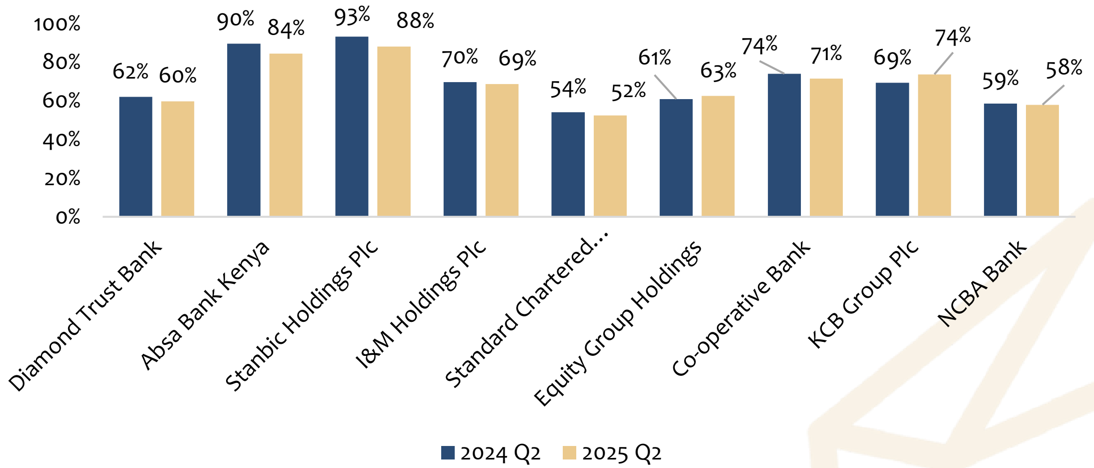
- Non-funded income (NFI) recorded subdued performance in H1'25, with six of the nine covered banks posting y/y declines. Standard Chartered and KCB saw the steepest drops at 29.0% and 11.3% respectively, largely due to lower foreign exchange trading income as the relative stability of the Kenya shilling against the U.S. dollar compressed trading margins, following the volatility-driven gains of 2023.
- On the other hand, I&M and Absa bucked the trend, reporting NFI growth of 12.9% and 3.6% respectively. I&M's performance was supported by expansion initiatives that lifted fees and commissions, alongside strong contributions from trade finance and bancassurance, which helped offset weaker FX trading income. Absa's growth was driven by its digital lending platform, Timiza, which delivered a 22% y/y increase in revenues and expanded its market share to 10.4% as of March.
- Looking ahead, we expect FX income to remain under pressure in the near term, weighing on overall NFI. However, with lending recovery projected to gather pace, fee and commission income should strengthen, supported by continued investment in new business lines—setting the stage for a recovery in NFI by FY'26.

Non-funded Income



Sector Metrics | H1 2025 Analysis

LDR Trend



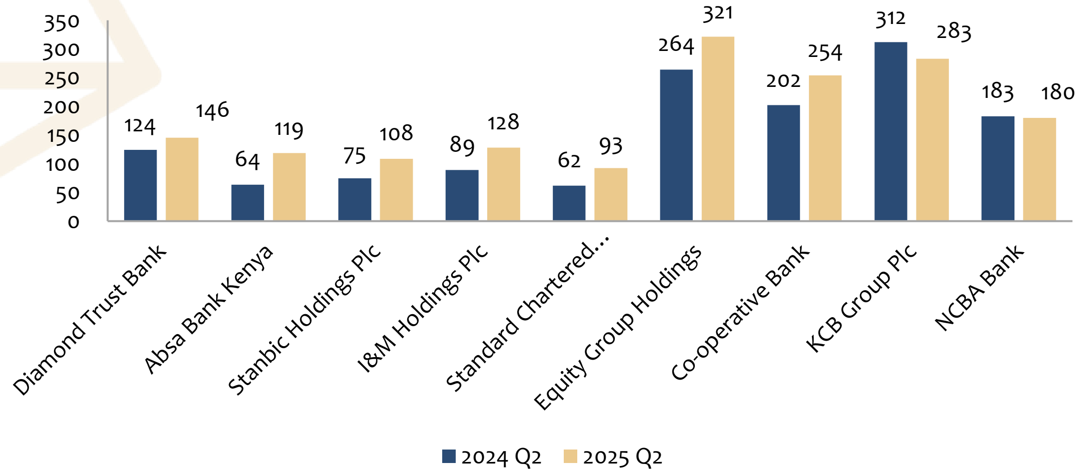
LDR Analysis

- Customer Industry loan-to-deposit ratios (LDRs) declined in H1'25, with seven of the nine banks under coverage recording contractions. Absa and Stanbic registered the sharpest drops at 5.1%, reflecting loan book contractions as the banks reallocated deposits toward lower-risk government securities rather than high-risk private sector lending, which continues to be weighed down by elevated NPLs. KCB and Equity Group were the only banks to post an increase in its LDR, supported by growth in lending targeted at youth and SME financing, affordable housing, and trade finance.
- Looking ahead, we expect a gradual shift in deposit utilization back toward lending, as some banks pursue credit growth to capture higher returns relative to government securities, which remain pressured by the easing monetary policy environment. However, overall growth is likely to remain subdued in the near term given persistently high NPLs. In the medium term, government efforts to clear pending bills should help ease asset quality pressures, creating room for higher loan growth and a recovery in industry LDRs.

Investment in Gov't Securities Analysis

- Holdings of government securities rose sharply in H1'25, with seven of the nine banks under coverage increasing their allocations. Absa and Standard Chartered recorded the largest upticks, at 86.2% and 49.1% respectively, as both banks sought the relative safety and attractive returns of government securities amid elevated credit risks, with the industry NPL ratio hovering around 17.6%. Conversely, KCB and NCBA reduced their government securities holdings by 9.3% and 1.3% respectively, with KCB in particular reallocating capital toward loan book growth—a strategy we believe offers superior returns compared to government securities, whose yields have been trending lower under the easing monetary policy environment.
- Looking ahead, we expect banks' exposure to government securities to remain elevated in the near term as they prioritize asset quality in the face of high credit default risks. However, over the medium to long term, we anticipate a gradual reallocation toward lending as easing credit costs support credit demand recovery and banks pursue higher-yielding opportunities in private sector lending relative to the declining returns on government securities.

Investment in Gov't Securities Trend



Bank Valuations

Sector Valuation Metric

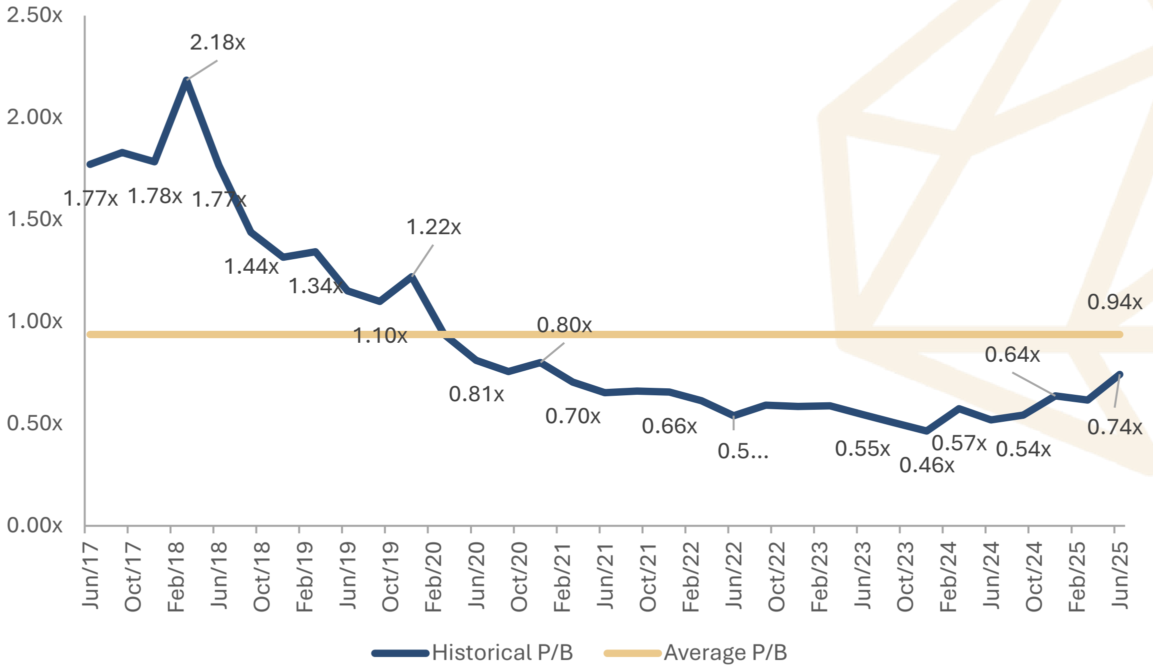
Valuations

- StanChart Bank
- Equity Bank
- KCB Bank
- Coop Bank
- ABSA Bank
- NCBA Bank
- Stanbic Bank
- DTB Bank
- I&M Bank

Sector Valuation Metric

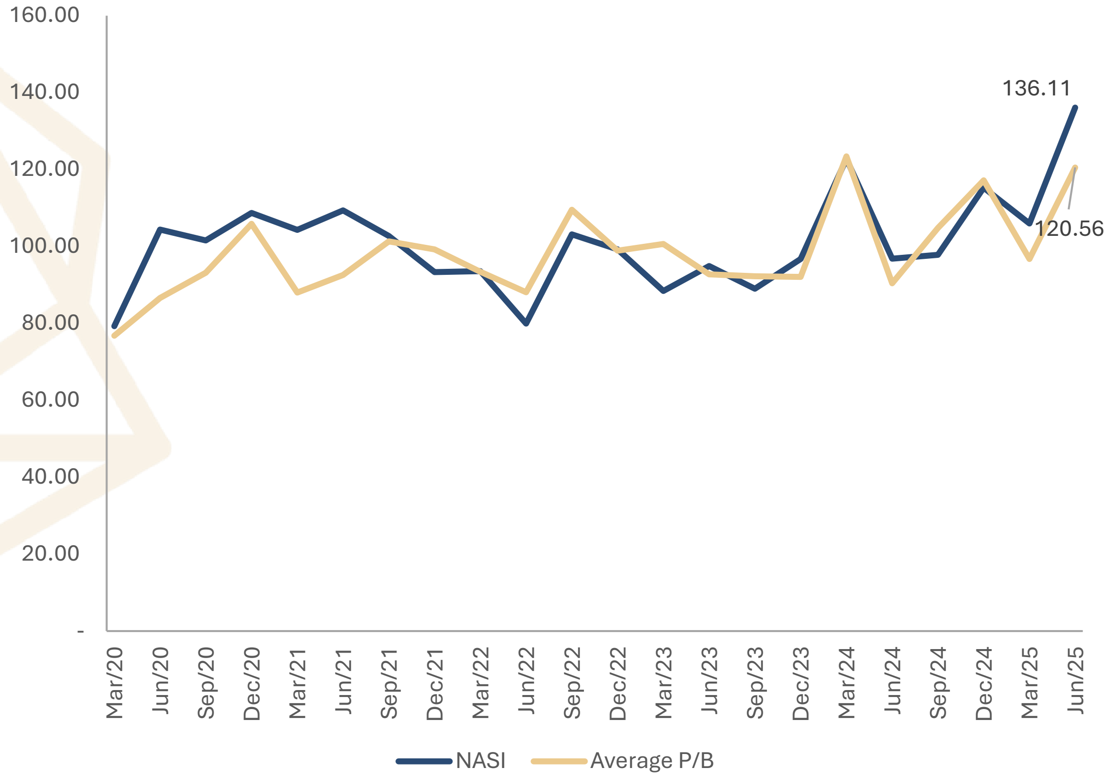
Historical P/TBVPS Multiple

On a price to book valuation, listed banks are currently priced at a P/TBVPS of 0.74x, lower than their historical average of 0.94x, indicating potential undervaluation in the sector.



P/TBVPS Movement in line with the Market

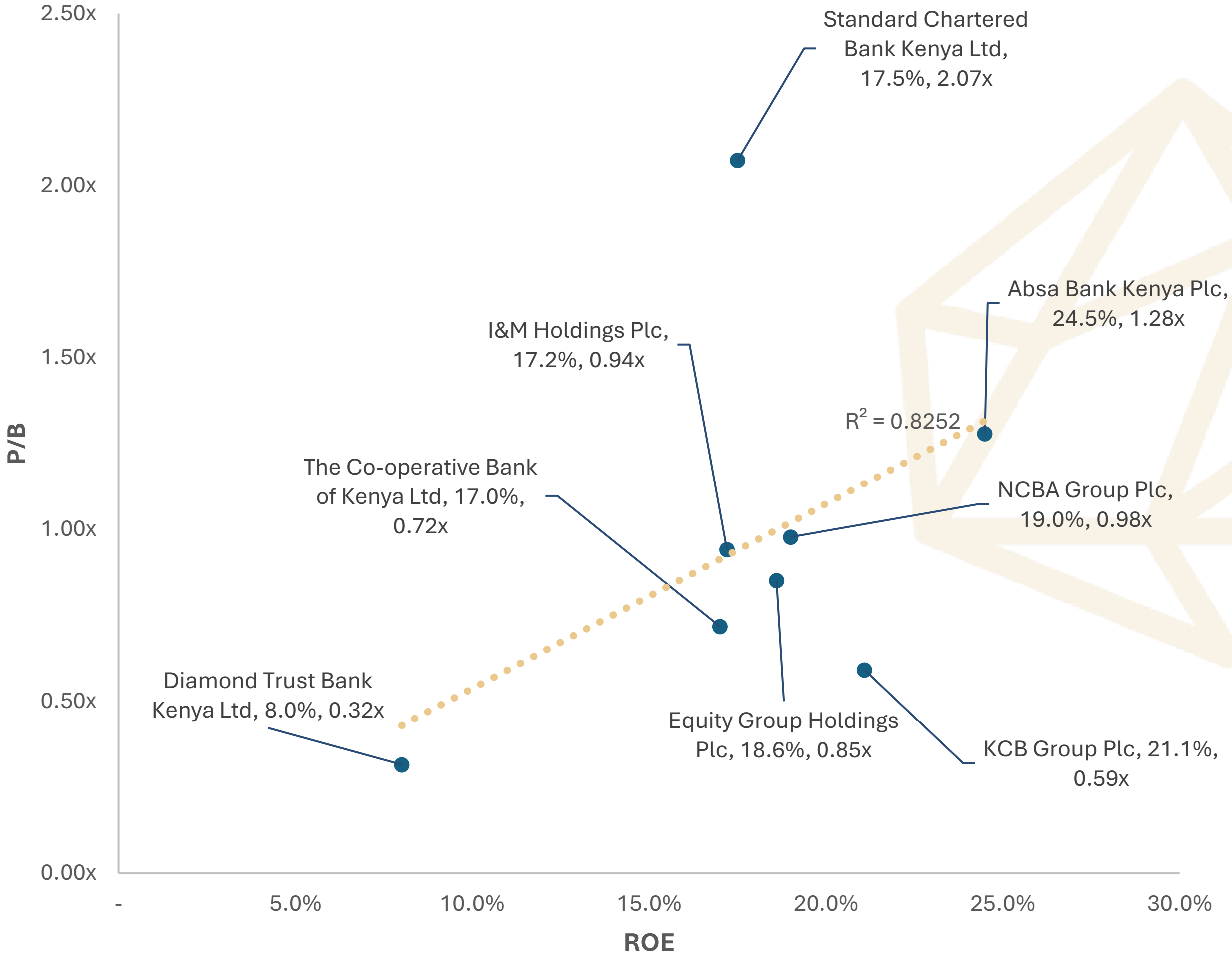
This signals that changes in the banking sectors P/TBVPS are aligning with broader market trends/valuation, suggesting the banking sector isn't significantly diverging from the general market direction.



Sector Valuation Metric

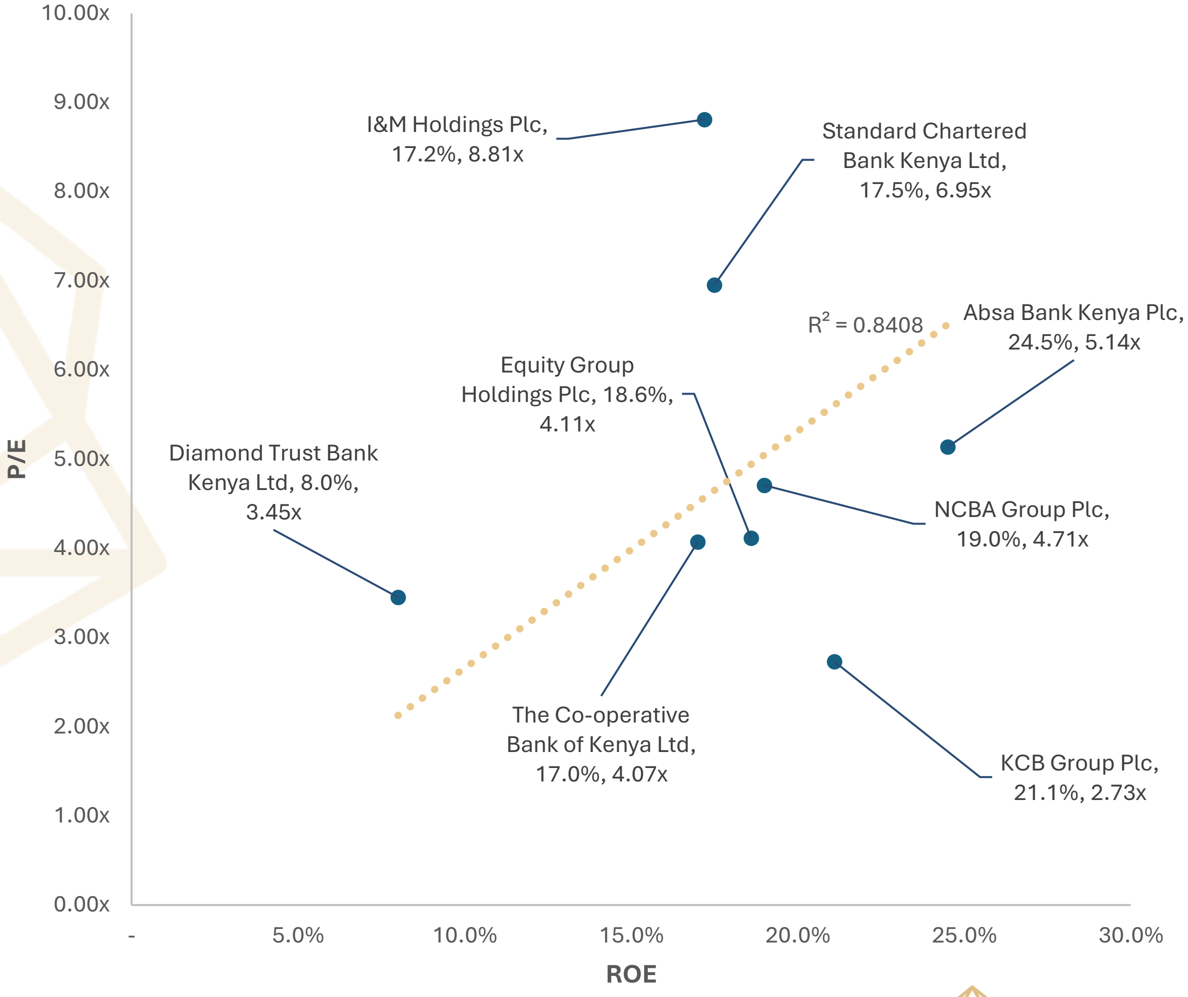
P/TBVPS Vs ROE

- ABSA, KCB, NCBA, Equity and Co-op plot below the trendline, indicating market prices undervalue their book assets relative to profitability. DTB's low ROE reflect higher provisions, but its cheap valuation could appeal if asset quality improves.



P/E Vs ROE

KCB, Co-op, Equity, ABSA, and NCBA plot below the trendline, indicating undervaluation, and potential earnings strength not fully priced in.



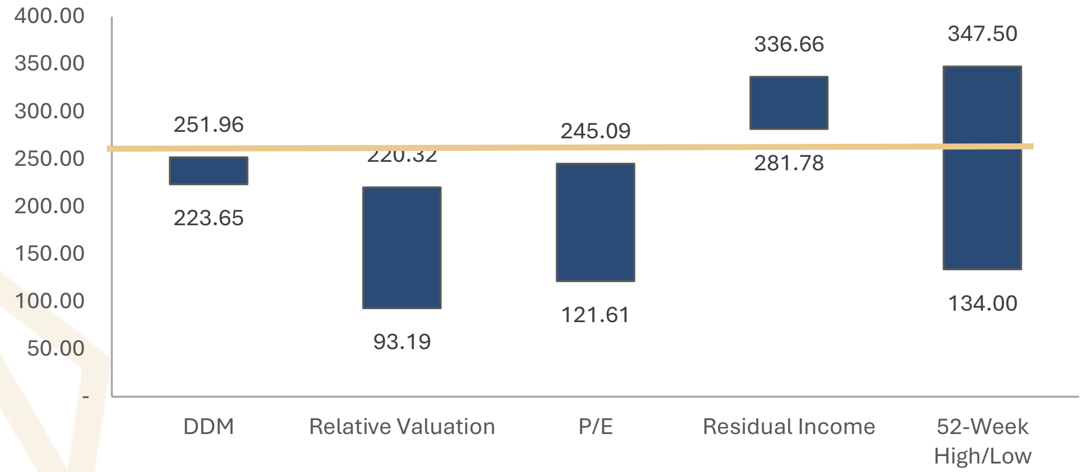
ROCK ADVISORS

Valuation | StanChart Bank

Valuation Summary

- We recommend a "**Sell**" with a target price of KES 252.82, implying an 18.51% downside. Despite having historically attractive dividend yields, recent litigation liabilities are likely to limit this in the short term , as we expect a dividend yield of 10.2% leading to an expected total return of -8.26%.
- **FY'25 Earnings momentum under pressures:** Standard Chartered's H1'25 earnings came under significant pressure as the easing monetary policy environment squeezed net interest margins, with lower yields on government securities and reduced lending rates. Earnings were further dragged by a decline in foreign exchange trading income, as margin compression followed a period of exchange rate stability. As a result, H1'25 earnings fell 21.3% y/y, a contraction we expect to persist through year-end. Profitability will be further impacted by the recent KES 7bn pension litigation charge following the Supreme Court's dismissal of the bank's appeal. Having already issued a profit warning, we expect the bank to either cut or suspend its full-year dividend, which is likely to weigh on investor sentiment and valuation.
- **Key risks**: A key risk to our outlook is the assumption of a partial dividend payout, supported by the bank's adequate capitalization. However, should the dividend be fully withdrawn, the counter could face additional downside pressure, weighing further on its valuation.

Football Field Chart

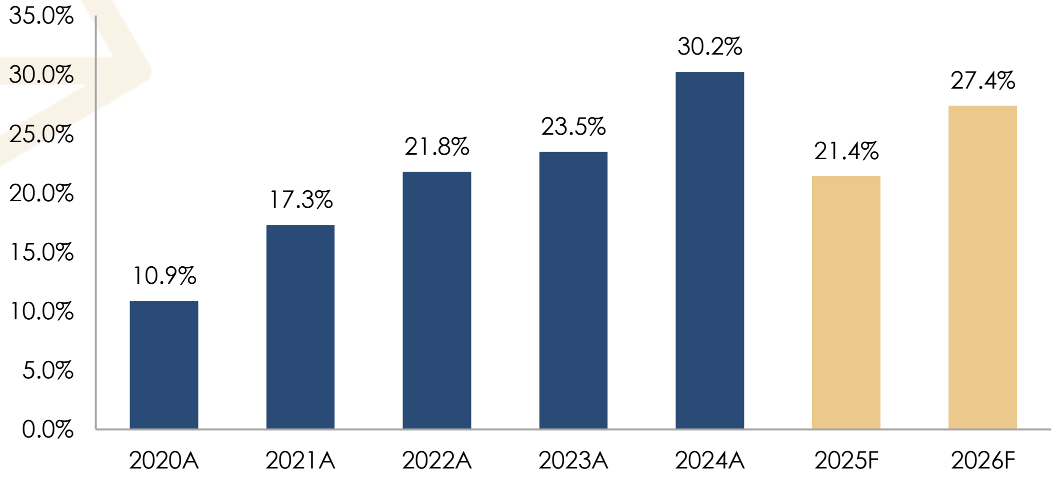


Valuation Summary

	Low(Bar)	Low(Chart)	High(Bar)	High(Chart)	Target	Weight
DDM	223.65	223.65	251.96	251.96	237.80	0.4
Relative Valuation	93.19	93.19	220.32	220.32	156.75	0.1
P/E	121.61	121.61	245.09	245.09	183.35	0.1
Residual Income	281.78	281.78	336.66	336.66	309.22	0.4
52-Week High/Low	134.00	134.00	347.50	347.50		

Target Price	**252.82**
Current Price	**310.25**
Upside/(Downside)	**(18.51%)**
Dividend Yield	**10.25%**
Expected Return	**(8.26%)**

ROE Trend



Valuation | Equity Bank

Valuation Summary

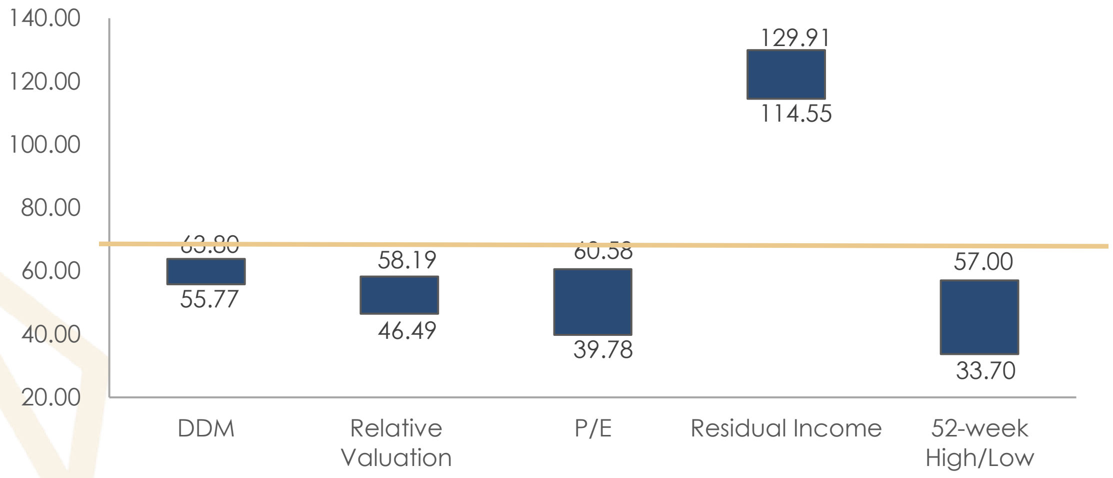
- Recommendation: **BUY**
- Based on our valuation, Equity Bank appears undervalued with a target price of **KES 68.86** versus a current trading price of **KES 57.00**, implying about **20.81% upside**, with an expected return of **29.38%**
- **Equity Banks strategic focus** with emphasis on MSMEs, Agriculture, trade, manufacturing, and the Africa Recovery & Resilience Plan (ARRP) is helping guide where loan growth and investment are being channeled.
- Profitability in the short run is expected to be steady but not explosive as credit costs remain high but dividends should remain stable given steady earnings. Equity's strong core capital base and a strong outlook on their subsidiary's earnings provide a strong basis for the projected upside on their stock price.
- **Key risks** that could compress the upside include NPLs performance, interest income shift and asset quality. Not forgetting regulatory risks, CBK's push for the adoption of the new risk-based credit pricing model by banks to regulate compliance with interest rate pricing
- Given the valuation gap, and assuming the bank navigates asset quality well, the potential upside of 20.81% appears justified.

Valuation Summary

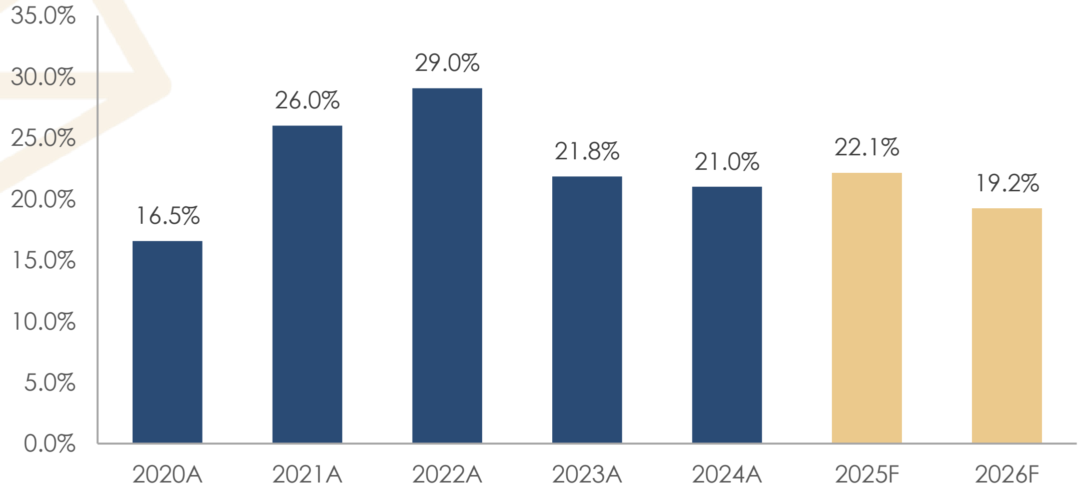
	Low(Bar)	Low(Chart)	High(Bar)	High (Chart)	Target	Weight
DDM	55.77	55.77	63.80	63.80	59.78	40.0%
Relative Valuation	46.49	46.49	58.19	58.19	52.34	20.0%
P/E	39.78	39.78	60.58	60.58	50.18	20.0%
Residual Income	114.55	114.55	129.91	129.91	122.23	20.0%
52-week High/Low	33.70	33.70	57.00	57.00		

Target Price	**68.86**
Current Price	**57.00**
Upside/(Downside)	**20.81%**
Dividend Yield	**8.6%**
Expected Return	**29.38%**

Football Field Chart



ROE Trend



ROCK ADVISORS

Valuation | KCB Bank

Valuation Summary

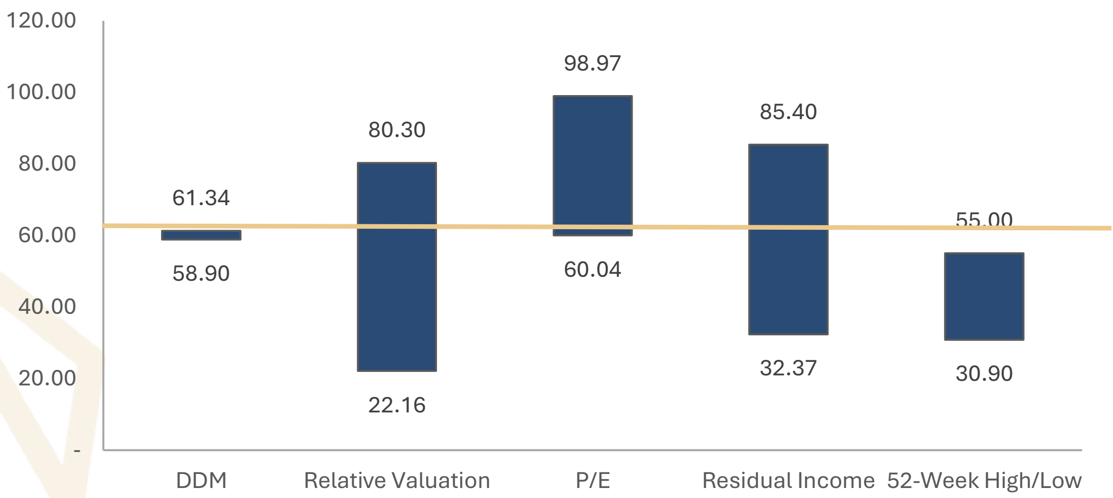
- KCB Stock appears to be trading below its intrinsic value despite solid fundamentals.
- We are recommending a **"Buy"**, with a target price of Ksh.61.97, representing a 18.61% upside from the current price of Ksh.52.25, and an expected return of 25.93%.
- **Market Overlooking Strong profitability and Growth Metrics:** KCB reported an increase in PAT to Ksh.32.3 bn in H1 2025, driven by growth in earning assets and stable total assets of approximately Ksh.2T. However, the market is not fully reflecting this resilience amid broader economic pressures in the region.
- **Investor Caution:** Investors are very cautions about the stock, due to the high NPLs being reported in the banking industry. However, this may be an over-reaction since the bank has implemented aggressive strategies to recover loans and limit growth in NPLs.
- **Growth Opportunities from Expansion:** Plans to enter markets like Ethiopia could drive future value, offsetting challenges like declining interest income from rate cuts and boosts long term value.
- **Risks to Monitor:** Undervaluation could persist or worsen if NPL issues linger, and economic headwinds intensify. However, KCB's high ROE and leader in Interest income positions it for resilience. Overall, the outlook leans positive for 2025-2026, with potential for shareholder returns through dividends and capital gains if the market catches up to fundamentals.

Valuation Summary

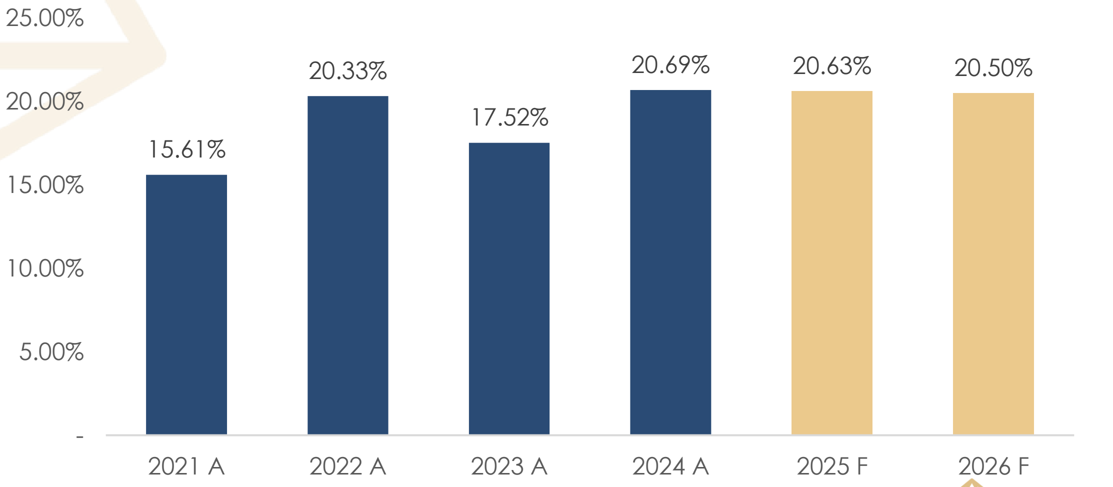
	Low(Bar)	Low(Chart)	High(Bar)	High(Chart)	Target	Weight
DDM	58.90	58.90	61.34	61.34	60.12	0.4
Relative Valuation	22.16	22.16	80.30	80.30	51.23	0.2
P/E	60.04	60.04	98.97	98.97	79.50	0.2
Residual Income	32.37	32.37	85.40	85.40	58.89	0.2
52-Week High/Low	30.90	30.90	55.00	55.00		

Target Price	**61.97**
Current Price	**52.25**
Dividend Yield	**7.33%**
Upside/(Downside)	**18.61%**
Expected Return	**25.93%**

Football Field Chart



ROE Trend



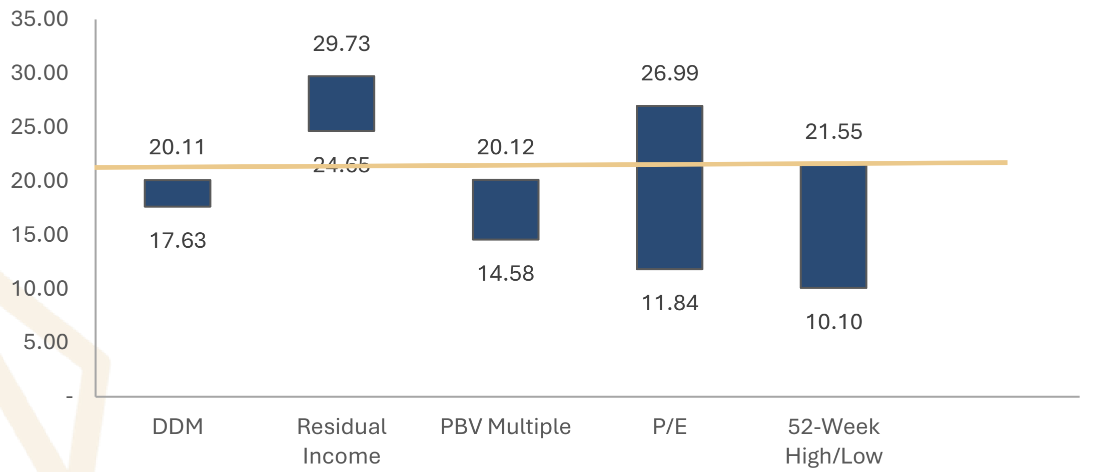
ROCK ADVISORS

Valuation | Coop Bank

Valuation Summary

- We recommend a "**Buy**" with a target price of KES 21.22, implying a 0.15% downside. However, the attractive dividend yield of 8.5% brings the expected total return to 8.33%.
- **Strong earnings performance to be expected in FY25:** Cooperative Bank has continued to post strong net earnings growth in FY25, with H1'25 results showing an 8.4% y/y increase, driven by higher net interest income. This was supported by robust loan book expansion and rising interest income from increased holdings of government securities. At the same time, lower deposit mobilization costs have contributed to an improvement in net interest margins. Looking ahead, we expect this positive trajectory to sustain earnings momentum into the full-year results, which should maintain investor confidence in the counter.
- **Key risks**: Key risks to our outlook stem from mounting asset quality pressures, with gross non-performing loans rising 9.7% y/y to KES 76.29bn — largely a byproduct of loan book expansion. The uptick in NPLs has prompted higher loan loss provisions, weighing on realizable net earnings. We expect these pressures to persist in the short term, given the challenging macroeconomic environment and delayed settlement of government pending bills.

Football Field Chart

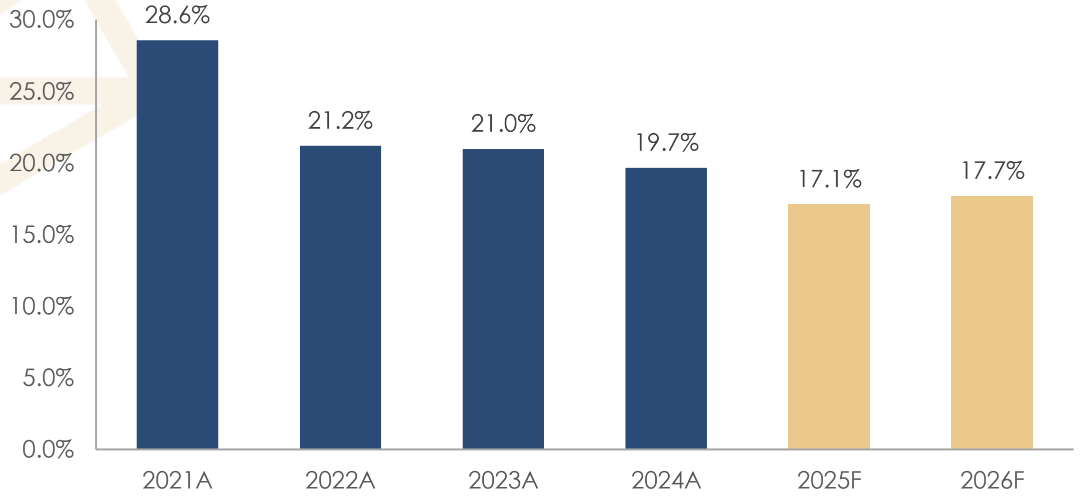


Valuation Summary

	Low(Bar)	Low(Chart)	High(Bar)	High(Chart)	Target	Weight
DDM	17.63	17.63	20.11	20.11	18.87	0.4
Residual Income	24.65	24.65	29.73	29.73	27.19	0.3
PBV Multiple	14.58	14.58	20.12	20.12	17.35	0.15
P/E	11.84	11.84	26.99	26.99	19.41	0.15
52-Week High/Low	10.10	10.10	21.55	21.55		

Target Price	**21.22**
Current Price	**21.25**
Upside/(Downside)	**(0.15%)**
Dividend Yield	**8.5%**
Expected Return	**8.33%**

ROE Trend



ROCK ADVISORS

Valuation | ABSA Bank

Valuation Summary

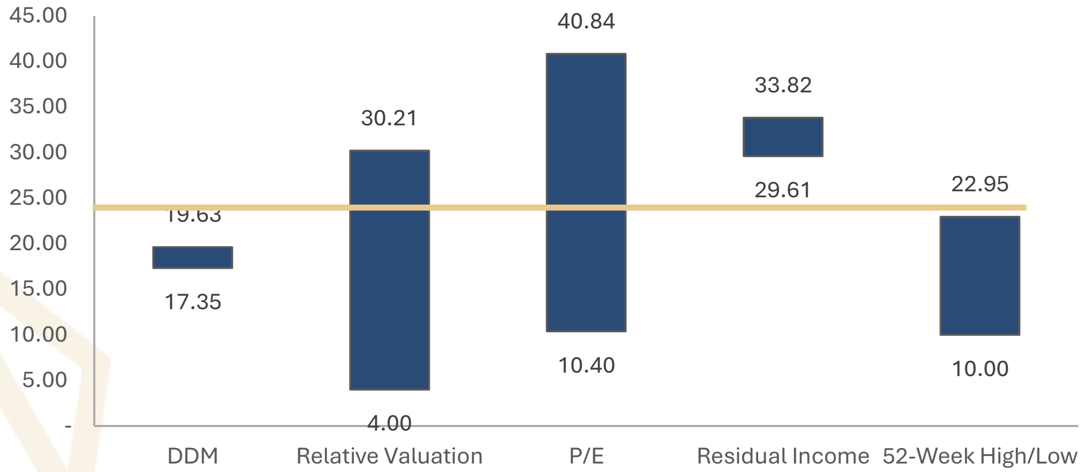
- We recommend a "**Buy**" with a target price of KES 23.32, implying a 2.95% upside. However, the attractive dividend yield of 9% brings the expected total return to 11.95%.
- **Earnings momentum in FY25 to be sustained by declining provisions and growing non funded income:** Despite a 14.5% y/y decline in interest income from loans and advances—reflecting the bank's more cautious lending strategy and a contracting loan book—diversification into new business lines has supported earnings. Strong growth in non-funded income was driven by a doubling of revenues in the wealth management subsidiary, alongside improved profitability in bancassurance and brokerage businesses. Additionally, higher utilization of the Timiza digital lending platform boosted NFI, with revenues up 22% in H1'25, resulting in overall non-funded income growth of 3.3% y/y. However, the key earnings driver in H1'25 was a 37.9% y/y drop in loan loss provisions, which lifted net earnings by 9.1% y/y. This trend is expected to support full-year FY25 income growth.
- **Key risks**: Interest income growth is expected to remain subdued in the near term, as the bank continues to limit credit expansion amid elevated default risks in a challenging macroeconomic environment. Rising NPLs also pose a risk to the outlook, with gross NPLs up 12.3% y/y to KES 44.2bn in H1'25. This could constrain the pace of decline in loan loss provisioning and, in turn, weigh on earnings performance.

Valuation Summary

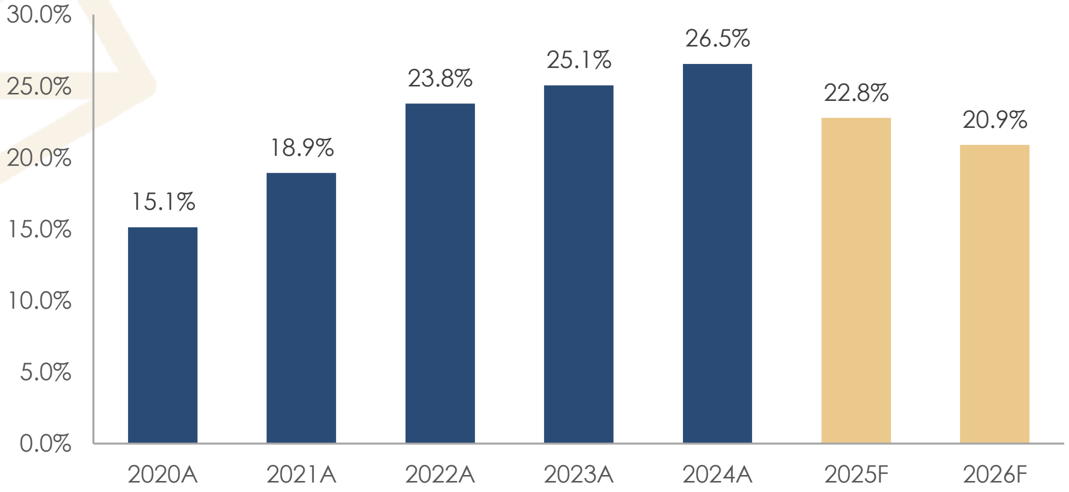
	Low(Bar)	Low(Chart)	High(Bar)	High(Chart)	Target	Weight
DDM	17.35	17.35	19.63	19.63	18.49	0.4
Relative Valuation	4.00	4.00	30.21	30.21	17.11	0.15
P/E	10.40	10.40	40.84	40.84	25.62	0.15
Residual Income	29.61	29.61	33.82	33.82	31.71	0.3
52-Week High/Low	10.00	10.00	22.95	22.95		

Target Price	**23.32**
Current Price	**22.65**
Upside/(Downside)	**2.95%**
Dividend Yield	**9.00%**
Total Return	**11.95%**

Football Field Chart



ROE Trend

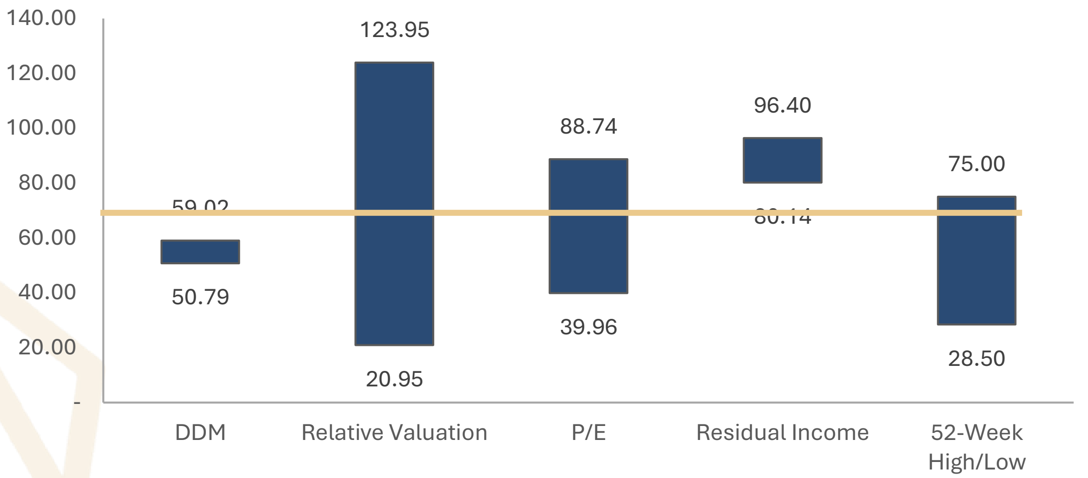


Valuation | NCBA Bank

Valuation Summary

- We recommend a "**Buy**" with a target price of KES 68.96, implying a 0.77%% downside. However, the attractive dividend yield of 8.83% brings the expected total return to 8.06%.
- **Strong earnings momentum expected in FY'25:** Through the strategic reorientation of its funding mix, NCBA has lowered its cost of funding, expanded net interest margins and supported a 12.6% y/y growth in H1'25 net earnings. We expect this momentum to carry into the full-year results, sustaining investor interest. Additional support is expected from non-banking subsidiaries, with NCBA Insurance posting a 68.0% y/y increase in profit before tax, boosting non-funded income. However, declining foreign exchange trading income may limit further upside.
- **Key risks**: A key risk to our outlook is sustained pressure on interest income, as the easing monetary policy environment drives lower yields on government securities, while prudent lending strategies keep loan book growth muted. Together, these factors are likely to weigh on profitability in the medium term.

Football Field Chart

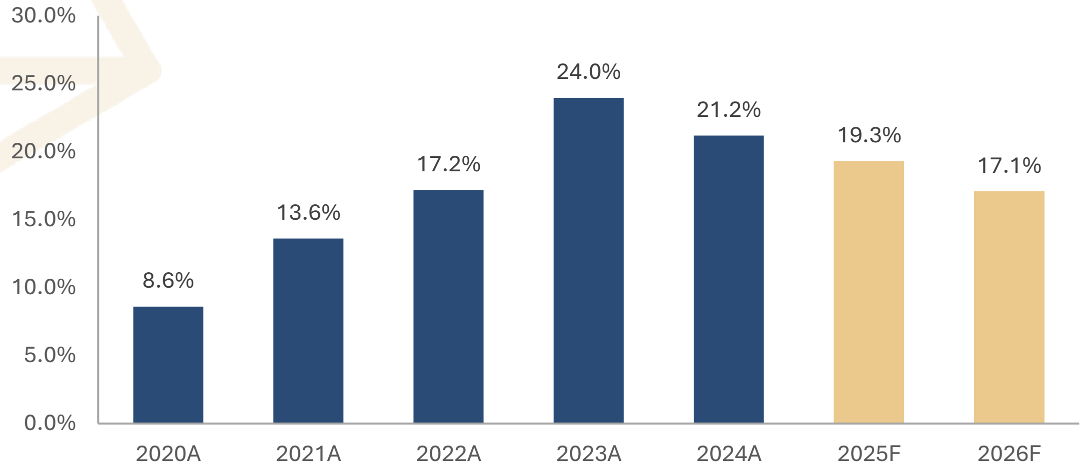


Valuation Summary

	Low(Bar)	Low(Chart)	High(Bar)	High(Chart)	Target	Weight
DDM	50.79	50.79	59.02	59.02	54.90	0.4
Relative Valuation	20.95	20.95	123.95	123.95	72.45	0.15
P/E	39.96	39.96	88.74	88.74	64.35	0.15
Residual Income	80.14	80.14	96.40	96.40	88.27	0.3
52-Week High/Low	28.50	28.50	75.00	75.00		

Target Price	**68.96**
Current Price	**69.50**
Upside/(Downside)	**(0.77%)**
Dividend Yield	**8.83%**
Expected Return	**8.06%**

ROE Trend



Valuation | Stanbic Bank

Valuation Summary

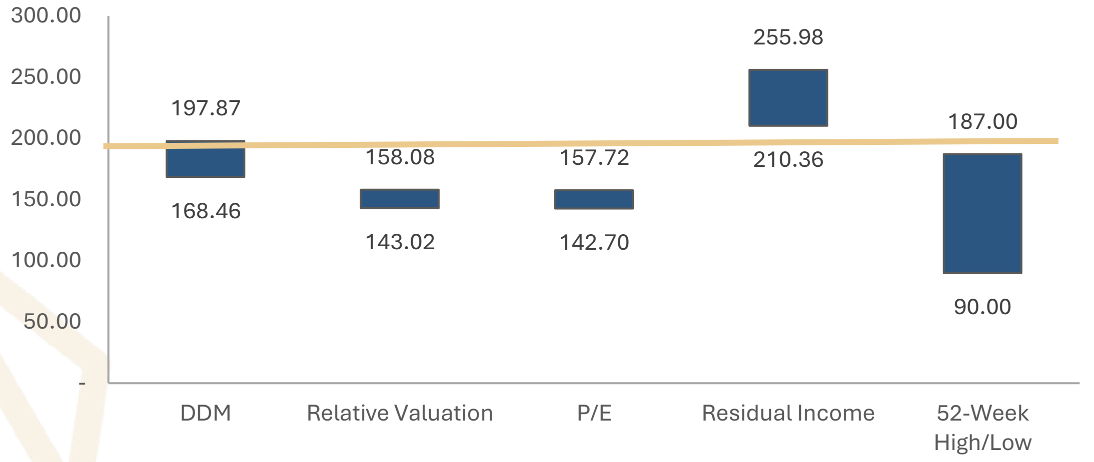
- We recommend a "**Strong Buy**" with a target price of KES 188.33, implying a 3.62% upside. However, the attractive dividend yield of 11.41% brings the expected total return to 15.03%.
- **Muted earnings momentum:** Stanbic is expected to face earnings pressures in FY'25, as heightened credit default risks have kept lending growth muted in H1'25, with the loan book contracting and net interest income coming under pressure, weighing on profitability. The easing monetary policy environment has also led to lower yields on government securities, with interest income from securities failing to fully offset the decline in loan interest income despite a 45.3% increase in holdings. With this trend likely to persist into H2, we expect full-year results to contract, putting pressure on the counter's price, with a recovery in credit uptake not anticipated before FY'26. Nevertheless, the bank's strong capital buffers—highlighted by an increase in interim dividends—are expected to help sustain investor interest in the near term.
- **Key risks**: A key risk to our outlook is the continued decline in interest income, driven by weak private sector credit uptake, which could further pressure the bank's earnings and deepen profitability contractions.

Valuation Summary

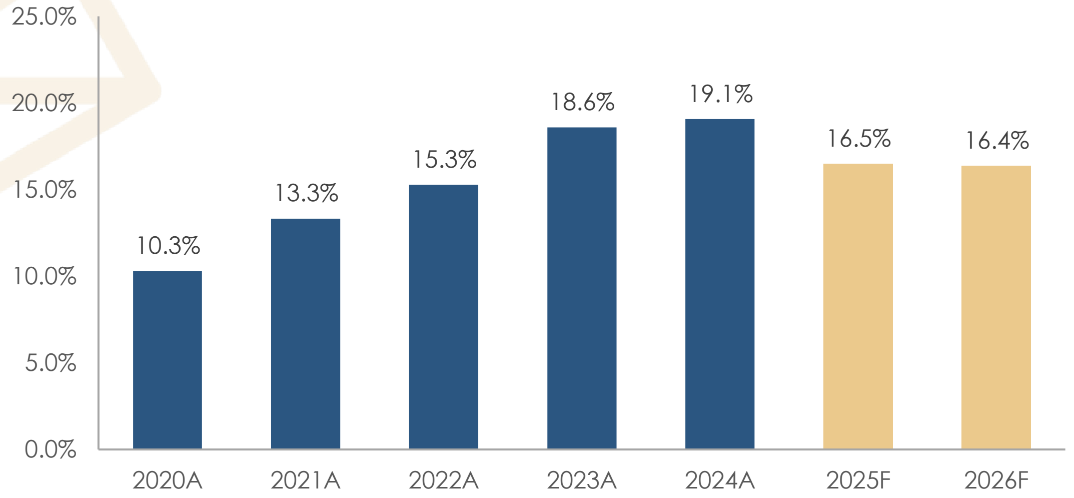
	Low(Bar)	Low(Chart)	High(Bar)	High(Chart)	Target	Weight
DDM	168.46	168.46	197.87	197.87	183.16	0.4
Relative Valuation	143.02	143.02	158.08	158.08	150.55	0.15
P/E	142.70	142.70	157.72	157.72	150.21	0.15
Residual Income	210.36	210.36	255.98	255.98	233.17	0.3
52-Week High/Low	90.00	90.00	187.00	187.00		

Target Price	**188.33**
Current Price	**181.75**
Upside/(Downside)	**3.62%**
Dividend Yield	**11.41%**
Expected Return	**15.03%**

Football Field Chart



ROE Trend

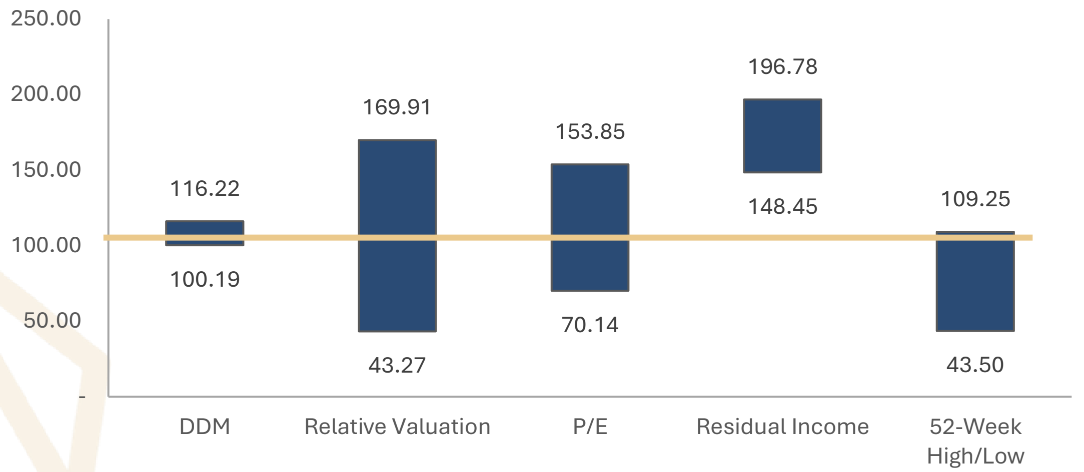


Valuation | DTB Bank

Valuation Summary

- We recommend a "**Hold**" with a target price of KES 101.62, implying a 4.13% downside. With a dividend yield at 6.6%, this brings the total expected return at 2.47%.
- **Sustained earnings momentum in FY'25:** DTB sustained earnings growth in FY'25, with H1'25 net earnings rising 10.5% y/y, supported by higher net interest income. Expansion initiatives and digital innovations have driven loan book growth, boosting interest income from loans and advances, while a declining cost of funding under the easing monetary policy environment has widened net interest margins. We expect this trend to persist into the full-year results, helping sustain the bank's valuation.
- **Key risks**: A key risk to our outlook is the bank's relatively low ROE—constrained by its large core capital base—which lags the industry average and dampens growth prospects. Coupled with low dividend yields, this is likely to keep the stock trading well below its BVPS, limiting potential upside. Additionally, the bank's loan book expansion poses a risk to asset quality in the challenging macroeconomic environment. Gross NPLs rose 5.2% y/y in H1'25, and if this trend persists, higher provisioning may be required, ultimately weighing on retained earnings.

Football Field Chart

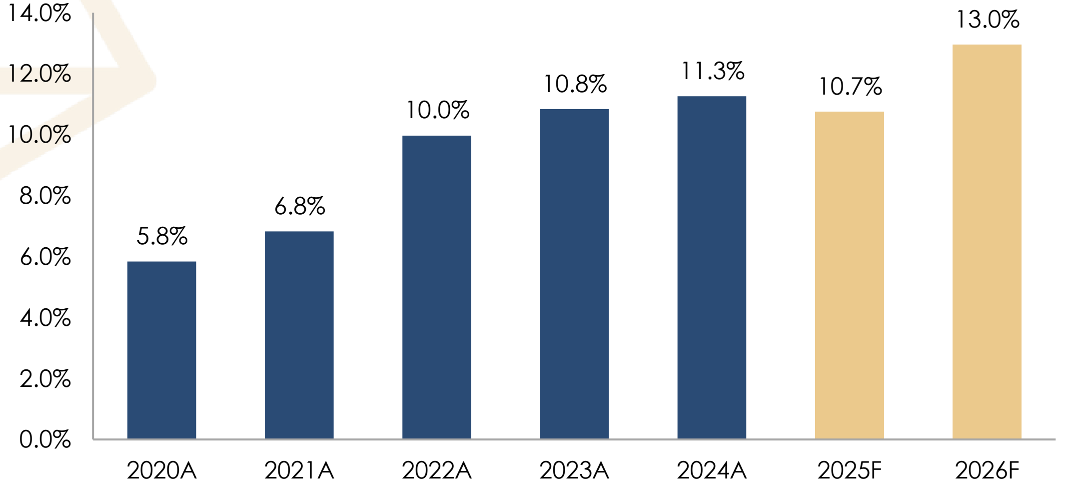


Valuation Summary

	Low(Bar)	Low(Chart)	High(Bar)	High(Chart)	Target	Weight
DDM	100.19	100.19	116.22	116.22	100.19	0.4
Relative Valuation	43.27	43.27	169.91	169.91	43.27	0.15
P/E	70.14	70.14	153.85	153.85	70.14	0.15
Residual Income	148.45	148.45	196.78	196.78	148.45	0.3
52-Week High/Low	43.50	43.50	109.25	109.25		

Target Price	**101.62**
Current Price	**106.00**
Premium/(Discount)	**(4.13%)**
Dividend Yield	**6.60%**
Expected Return	**2.47%**

ROE Trend



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Valuation | I&M Bank

Valuation Summary

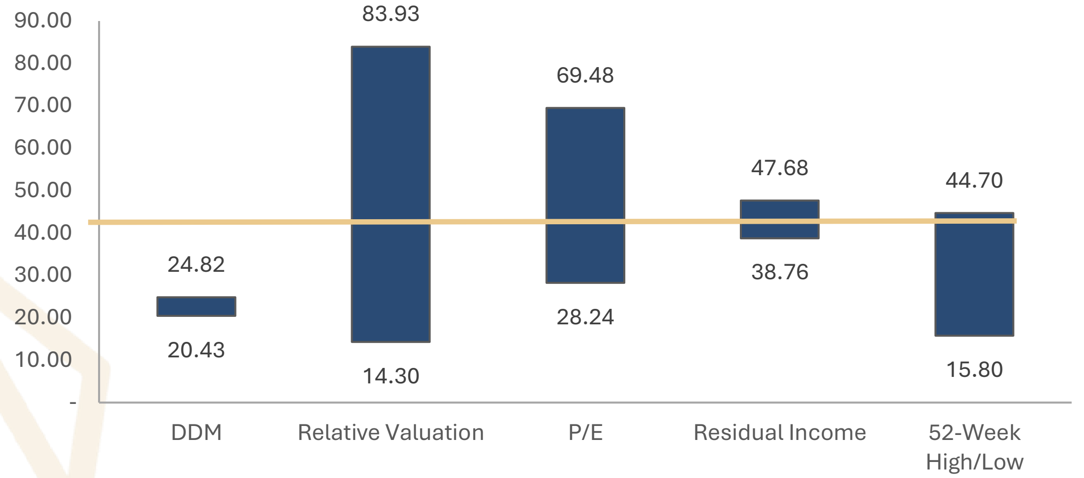
- I&M Group Plc appears to be fairly valued despite the recent strong financial performance.
- We are recommending a **"Hold"** position, with a target price of KES 42.56, representing a 3.27% downside from the current price of KES 44.00. With a dividend yield 6.82% this will bring the expected total return to 3.55%.
- Following a **strong H1 2025 performance**, the bank posted a 36.35% jump in profit after tax, primarily driven by higher non-interest income and lower interest expenses. This translated to a 37.92% increase in earnings per share (EPS) to KES 4.51, signaling a **solid profitability momentum** despite a 4% decline in retail accounts.
- Looking ahead, we anticipate **continued strong financial performance** supported by; **Increased digital transactions** boosting non-interest income further **and loan-book expansion**, aided by I&M's continued expansion initiatives.
- However, elevated sector-wide NPLs may prompt the bank to adopt a **cautious lending** approach, potentially moderating loan growth in the near term.
- By adopting a "Hold" stance investors may benefit from dividend payouts and potential upside from further earnings growth backed by strong fundamentals and continued earnings growth.

Valuation Summary

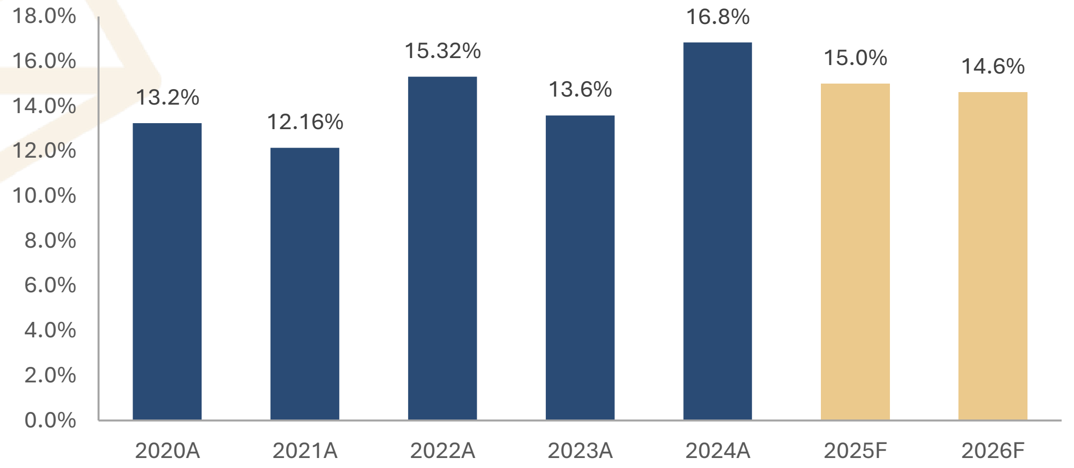
	Low(Bar)	Low(Chart)	High(Bar)	High(Chart)	Target	Weight
DDM	20.43	20.43	24.82	24.82	22.63	0.2
Relative Valuation	14.30	14.30	83.93	83.93	49.12	0.3
P/E	28.24	28.24	69.48	69.48	48.86	0.3
Residual Income	38.76	38.76	47.68	47.68	43.22	0.2
52-Week High/Low	15.80	15.80	44.70	44.70		

Target Price	**42.56**
Current Price	**44.00**
Dividend Yield	**6.82%**
Upside/(Downside)	**(3.27%)**
Expected Return	**3.55%**

Football Field Chart



ROE Trend



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Valuation Methodologies

Market Approach (Relative/Comparables)

This involves comparing the bank to similar peers using multiples like P/E, P/B, or P/TB. Adjustments are made for different in sizes, geography and risks, reflecting market sentiments.

Pros:

1. Relies on real market data and simple ratios, making it straightforward and less reliant on subjective forecasts.
2. Captures current market reactions and benchmarks, useful for M&A or quick assessments.
3. P/TB is particularly effective for banks, emphasizing tangible equity amid regulatory scrutiny.

Cons:

1. Hidden assumptions (e.g. growth or risks) can lead to inaccuracies if comparables aren't perfectly matched.
2. Time-consuming and data intensive, requiring extensive adjustments and expertise to find suitable peers.
3. Focuses on the present, potentially missing long-term trends or unique bank characteristics.

Income Approach (DDM, RI, FCFE)

This discounts expected future income, dividends, or excess returns to present value, using the cost of equity as the discount rate. Variants like DDM focus on dividends, RI on value above equity costs, and FCFE on equity cash flows, adapted for banks regulatory reinvestments.

Pros:

1. Flexible and forward-looking, incorporating future expectations and market performance.
2. Well-suited for banks with stable dividends(DDM) or irregular payouts(RI), analyzing true value creation.
3. Captures earnings potential in dynamic environments, especially with predictable growth.

Cons:

1. Highly sensitive to assumptions like growth rates, discount rates, or projections, leading to manipulative results.
2. Challenging in emerging markets or for banks due to regulatory constraints on cash flows and dividends.
3. Requires probabilistic estimates and expertise, with potential for bias in forecasts.

Banks In Kenya

Tier 1

KCB Group Plc
Equity Group Holdings Plc
Co-operative Bank of Kenya
NCBA Bank Kenya Plc
Absa Bank Kenya Plc
Stanbic Bank Kenya Ltd
I&M Bank Limited
Standard Chartered Bank Kenya Ltd
Diamond Trust Bank Kenya Limited

Tier 2

Prime Bank Ltd
Bank of Baroda (Kenya) Limited
Citibank N.A Kenya
Family Bank Ltd
National Bank of Kenya Ltd
Bank of India
Ecobank Kenya Ltd
SBM Bank Kenya Ltd
Housing Finance Company of Kenya Ltd (HFC Ltd

Tier 3

1. Victoria Commercial Bank Limited
2. Sidian Bank Ltd
3. Gulf African Bank Ltd
4. Bank of Africa Kenya Ltd
5. Guaranty Trust Bank (Kenya) Ltd
6. African Banking Corporation Ltd
7. Habib Bank A.G Zurich
8. DIB Bank Kenya Ltd
9. Kingdom Bank Limited
10. Premier Bank Kenya Ltd
11. Credit Bank Ltd
12. Guardian Bank Limited.
13. Development Bank of Kenya Ltd
14. Commercial International Bank (CIB) Kenya Ltd
15. Paramount Bank Ltd
16. M-Oriental Commercial Bank Ltd
17. Middle East Bank (K) Ltd
18. United Bank of Africa (UBA) Kenya Bank Ltd
19. Access Bank (Kenya) Plc
20. Consolidated Bank of Kenya Limited
21. Spire Bank Ltd

Tier 3

1. Paramount Bank – Ksh.2.74Bn
2. M-Oriental Commercial Bank – Ksh.2.5Bn
3. African Banking Corporation (ABC) Bank Kenya – Ksh.2.59Bn
4. Premier Bank – Ksh.2.34Bn
5. Commercial International Bank (CIB) Kenya – Ksh.1.91Bn
6. Middle East Bank Kenya – Ksh.2.14Bn
7. Development Bank of Kenya – Ksh.2.07Bn
8. United Bank for Africa (UBA) Kenya Bank – Ksh.1.49Bn
9. Credit Bank Plc – Ksh.1.28Bn
10. Access Bank Kenya – Ksh.-0.403Bn
11. Consolidated Bank of Kenya – Ksh.-0.701Bn

Sector Outlook

Banking Sector Outlook

Operational Risk is expected to remain elevated due to increasing cyber security risks.

Credit risk is expected to be elevated in the short to medium term. The gross NPLs to Gross Loans ratio increased from 16.4 percent in the fourth quarter of 2024, to 17.6 percent in the second quarter of 2025.

Interest rate risk is easing on the backdrop of stabilizing interest rates.

Liquidity risk is stable. The liquidity ratio increased to 58.4 percent in the first quarter of 2025, from 55.8 percent in the fourth quarter of 2024. These were above the statutory minimum of 20 percent.

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