Standard Investment Bank

Regulated by the Capital Markets Authority

26TH JUNE 2025

EQUITY RESEARCH

KENYA BANKING SECTOR 1Q25 PERFORMANCE – LISTED BANKS

Banks struggle to protect profitability in 2025 as FX and interest incomes fall

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Review of banking sector multiples: Low valuation, long-term potential

Bank 1Q25	Mkt Cap $ mn	EPS 1Q24	EPS 1Q25	FY24 EPS	FY25 EPS (estimated from annu-alized 1Q25 numbers**)	ROaE 1Q24	ROaE 1Q25	Trailing P/E	Tangible P/B	Price	FY24 payout ratio	Dividend Yield	Total DPS FY24	YTD %
Absa	783.6	1.09	1.14	3.84	4.00	33.0%	27.7%	4.85	1.1	18.65	45.5%	9.4%	1.75	3.3%
Co-op Bank	755.7	1.12	1.18	4.34	4.57	21.9%	18.4%	3.84	0.6	16.65	34.6%	9.0%	1.50	1.2%
DTB	160.1	9.38	10.21	27.33	29.77	12.5%	12.0%	2.71	0.2	74.00	25.6%	9.5%	7.00	7.2%
Equity Bank	1,347.3	4.08	3.92	12.33	11.86	28.2%	23.1%	3.74	0.7	46.15	34.5%	9.2%	4.25	-4.5%
I&M Holdings	461.7	2.01	2.37	9.30	10.99	15.2%	16.2%	3.69	0.7	34.30	32.3%	8.7%	3.00	-5.4%
KCB	1,083.7	5.00	5.01	18.70	18.74	27.9%	22.5%	2.33	0.5	43.60	16.0%	6.9%	3.00	4.8%
NCBA	713.7	3.22	3.33	13.27	13.72	21.7%	19.4%	4.22	0.8	56.00	41.4%	9.8%	5.50	16.2%
Stanbic	490.0	10.11	8.43	35.43	28.79	26.6%	19.9%	4.64	0.9	160.25	60.1%	12.9%	20.74	16.8%
StanChart	827.17	14.86	12.86	53.09	45.92	34.70%	26.28%	5.33	1.9	283.00	84.8%	15.9%	45.00	1.2%
Industry								**4.3**	**0.8**					

Data as at 20th June 2025
*** We are currently updating our models and will provide fair value estimates in due course*
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 (shareholders' 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 Recommendation

Absa	• While Absa's Cost-to-Income deteriorated to 35.0% from 33.9% in 1Q24, this remains best in class compared to its peers. • We note the normalisation of the Group's earnings against a higher base in 2024, as interest rates declined and currency volatility eases. Nonetheless, we see NIMs being propped up by lower interest expenses on lower rates as the CBK focuses on encouraging lending to the private sector, which may compensate for the slowdown in interest income. • We believe that the lender's continued product diversification (e.g. increased focus on wide-ranging financial instruments, e.g. currency swaps, the targeted launch of MSCI-linked ETF in 2Q25). • Growth in NPLs remains a concern; however, its Gross NPL ratio remains below the industry average. • We opine the lender will focus more on short-term working capital lending, secured loans, and target payrolls that pass through the bank as it leverages increased collections and recoveries/tighter credit risk management to manage asset quality.	**BUY** Full Report here
Co-op Bank	• We anticipate that declining interest rates will ease interest expense on liabilities and pressure on asset quality, providing headroom for the unwinding of loan loss provisions. • The lender posted commendable interest income growth on better yields on interest-earning assets. • Furthermore, the Group's management expects the cost of funds to trend lower (<5.0% in FY25), thereby reducing elevated interest expenses as the Group sheds expensive deposits. • From our vantage point, the lender may position itself to tap into the potential direct integration of Sacco into the National Payment System, banking on its innate expertise in Sacco's operations. As such, management does not envisage significant disruption should the reforms come into place. • The South Sudanese government and key oil firms announced the resumption of oil production and export, which may act as a tailwind to its South Sudan subsidiary's revenues. • Strong capital and liquidity base to offer headroom to lend, coupled with a sustainable revenue growth trajectory, captive ecosystems, and stable dividend policy; Co-op recently appeared on the Financial Times list of Africa's fastest growing firms.	**BUY** Full Report here
Diamond Trust Bank	• We see the lender's growth initiatives, diversified revenue lines (custody business, agency banking), ecosystem focus and target sectors (education, agriculture, public sector, technology), strategic tech & industry partnerships, digital transformation, coupled with regional subsidiaries as tailwinds to the Group's long-term outlook. • We laud the lender's asset quality improvement, with management forecasting NPL improvement in the year, underpinned by recoveries of existing impaired assets. • The bank's costs are poised to remain elevated as it continues to expand, and are likely to yield long-term efficiency and customer base growth. • Deeply discounted P/B ratio, consistent revenue & dividend growth, and expansion efforts provide much-needed confidence in the stock as a long-term play.	**BUY** Full Report here

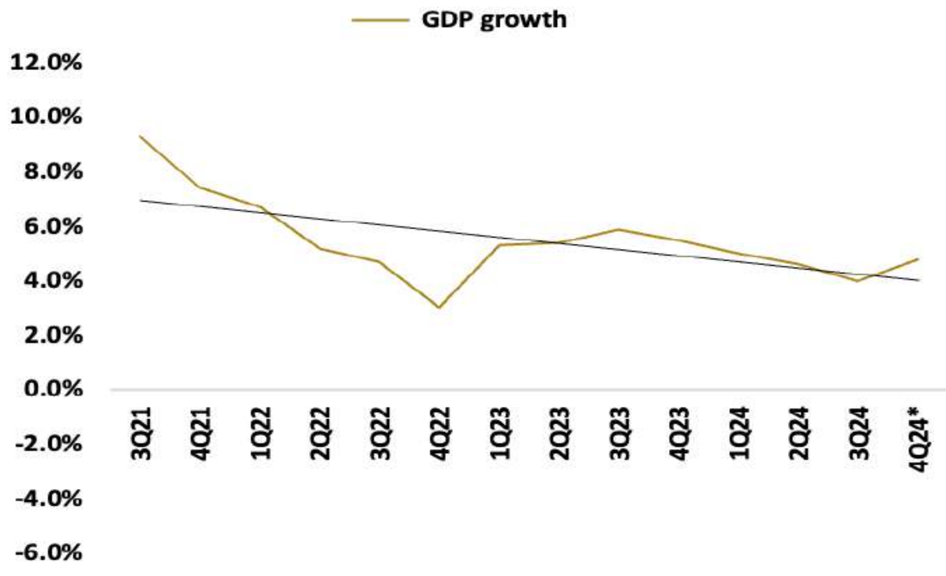
Stock Recommendation

Equity Group	• We anticipate continued improvement in EBKL's performance, propelled by declining interest expenses, a growing loan book and diversification of revenue lines driving NFI. • Notwithstanding the currency impact on regional currencies, the lender's regional play largely continued to bear fruit, with strong performance recorded by Rwanda, Uganda and Tanzania on a constant currency basis. • Despite the marked slowdown driven by instability, management remains optimistic about Equity BCDC, with ongoing security talks as well as the potential resumption of cobalt exports. • With the lender having activated its general insurance offering in 2025 in Kenya (the Group is in the process of acquiring a health insurance subsidiary license), we see diversification of revenue streams as a tailwind as the Group leverages its wide branch network to cross-sell its bundled solutions. • While asset quality remains a concern, the possible reduction in outstanding NPLs through the potential resolution of pending bills, court litigation, and recoveries is poised to buoy interest income as suspended interest (printed at KES 29.1bn in 1Q25) is released.	**BUY** Full Report here
I&M Group	• The Group reported a commendable performance in 1Q25, considering the tepid industry conditions. • The subscription transaction is projected to pump in additional capital (c. KES 4.2bn), which is anticipated to support the lender's strategic initiatives going forward, including looking at opportunities in contiguous countries based on business flows. • We continue to see growth in the Group's Corporate and Institutional Banking segment, buoyed by cross-border business, target sector focus (Oil and Gas, China desk, Leasing, Public Sector), and ecosystem play. • We expect the Personal and Business Banking segment to grow on the back of enhanced propositions: unsecured digital lending, stock financing, digital self-onboarding, etc. • We opine I&M's target segments will support NFI performance on the back of growing customer numbers, supported by the latest announcement regarding implementation of revised service tariffs effective May 2025 (bank-to-mobile money transfers remain free).	**BUY** Full Report here
KCB Group	• While KCB Group delivered a flat performance in EPS in 1Q25, we find it commendable coming from a high base in 2024. • Group's NIM to continue benefiting in the short term from lower interest expenses as the year progresses. • Non-performing loans remain a concern, having hit a record high of KES 233.3bn. The anticipated issuance of the Kenya Roads Bond may help reduce its NPL stock. Additionally, the sale of NBK could partially alleviate concerns about asset quality. • Completion of NBK KCB deal points to potential special/interim dividend, depending on capital levels. • Sustained revenue performance backed by strategic partnerships, digital & payments initiatives, revenue diversification, and regional play, coupled with management's target of subsidiary dividend payments to the Group as regional business picks up (bulk of the Group dividend currently comes from KCB Kenya).	**BUY** Full Report here

Stock Recommendation

NCBA	• The Group posted muted performance in 1Q25, on the back of tighter FX margins, coupled with lower interest income. • While Central Bank Rate cuts should cut interest costs, lending rates are also likely to fall, with overall margins determined by a balancing act. • We expect operating costs to remain elevated in the medium term, given the ongoing digital and physical expansion initiatives, though management notes that the Group is at the inflection of efficiency as of FY24, having reached the peak of its investment cycle (target of CIR of 45%). We note the potential overhang of the High Court's recent decision to nullify the KES 384.5m tax waiver granted during the 2019 NIC-CBA merger. • Overall, we like the take-off of NCBA IG insurance, the Group's growing digital loan book, regional play, product & channel diversification and a robust wealth management business, which should help secure solid profitability in the long term.	**BUY** Full Report here
Stanbic Bank	• Tight income performance coming off a high-interest rate environment, with lower CBR rates and stable currency movements. • Growth opportunities for the lender in the medium term from strategic partnerships, regional trade business prospects through borderless banking, focus on affluent banking, lending in target sectors (oil and gas, infrastructure, agriculture, etc), resumption of oil exports in South Sudan and digital innovation to drive returns. • The asset management product offering is progressing well, hitting an AUM of KES 2.5bn as of December 2024 – three months after launch. • Despite the current headwinds, we foresee continued improvement in interest expenses in the near term in line with CBR rate cuts and easing T-bill rates, which in turn are expected to stimulate credit demand, improve asset quality and lower the cost of funds.	**BUY** Full Report here
StanChart	• Continued normalisation of revenue earnings in FY25, as signalled by recent MPC rate cuts and consequent easing in the lender's internal base lending rate, as well as currency stability. • Nonetheless, we view the lender's cross-border capabilities, diversified investment options, access to capital pools, the drive to provide end-to-end self-service digital options and its global network presence as key tailwinds to the Group's revenue performance. • The low-cost deposit base and risk-based pricing may help StanChart maintain its net interest margins as the operating environment shifts. • Litigation relating to a longstanding pension issue remains a key overhang, especially given the ruling by the Court of Appeal. Though the case is now at the Supreme Court, contingent liabilities remain a concern due to the potential impact of ongoing court cases in the event of an adverse ruling. • Attractive dividend policy (c. 80% payout), given management's commitment to grow shareholder return, provided that it meets its capital adequacy requirements. • Improving asset quality to provide opportunities for further reduction in provisions.	**BUY** Full Report here

Key indicators suggest a gradual improvement in business environment



Source: CBK data, Chart: SIB

Real GDP growth (y/y, percent)

	Weight (2016Q1 -2024Q4	2021 Act.	2022 Act.	2023 Act.	2024 Act.	2025 Q1 Proj.	2025 Q2 Proj.	2025 Annual Proj.	2026 Annual Proj.
1. Agriculture	18.5	-0.4	-1.5	6.6	4.6	4.6	4.8	4.8	4.9
2. Non-Agriculture (o/w)	81.5	9.5	6.3	5.5	4.7	5.1	5.2	5.3	5.5
2.1 Industry	17.7	7.5	3.9	2.0	0.8	2.8	2.8	3.0	3.7
Mining & Quarrying	1.0	18.0	9.3	-6.5	-9.2	-0.4	-2.5	-1.0	-1.2
Manufacturing	8.7	7.3	2.6	2.2	2.8	2.9	2.7	2.9	3.3
Electricity & water supply	2.5	5.6	5.5	3.2	1.9	2.2	2.6	2.5	4.2
Construction	5.5	6.7	4.1	3.0	-0.7	3.5	4.1	4.0	4.9
2.2 Services	55.2	9.8	7.0	7.0	6.0	6.4	6.0	6.0	6.2
Wholesale & Retail Trade	8.3	8.0	3.5	3.3	3.8	4.2	4.4	4.6	5.4
Accommodation & food services	1.0	52.6	26.8	33.6	25.7	16.0	15.8	16.1	14.1
Transport & Storage	9.9	7.4	5.8	5.5	4.4	5.1	5.6	5.4	5.7
Information & Communication	3.0	6.1	9.0	10.3	7.0	7.1	7.5	7.5	7.8
Financial & Insurance	8.4	11.5	12.0	10.1	7.6	5.5	5.8	5.9	6.2
Public administration	5.8	6.0	5.1	5.0	8.2	4.9	5.2	5.0	4.8
Professional, Admin & Support Services	2.8	7.1	9.5	9.9	6.2	7.1	7.8	7.3	7.5
Real estate	9.9	6.7	4.5	7.3	5.3	6.6	6.1	6.3	6.4
Education	4.7	22.8	5.2	2.9	3.9	4.8	5.2	5.3	5.4
Health	2.2	8.9	3.4	4.5	6.3	5.3	4.8	4.8	4.8
Other services	2.2	12.5	6.5	4.3	4.7	3.5	3.7	3.7	4.0
FISIM	-3.1	5.3	0.2	2.7	9.0	3.3	2.5	2.4	4.5
2.3 Taxes on products	8.6	11.9	6.7	3.2	4.4	4.3	4.4	4.5	4.6
Real GDP Growth	100.0	7.6	4.9	5.7	4.7	5.0	5.2	5.2	5.4

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

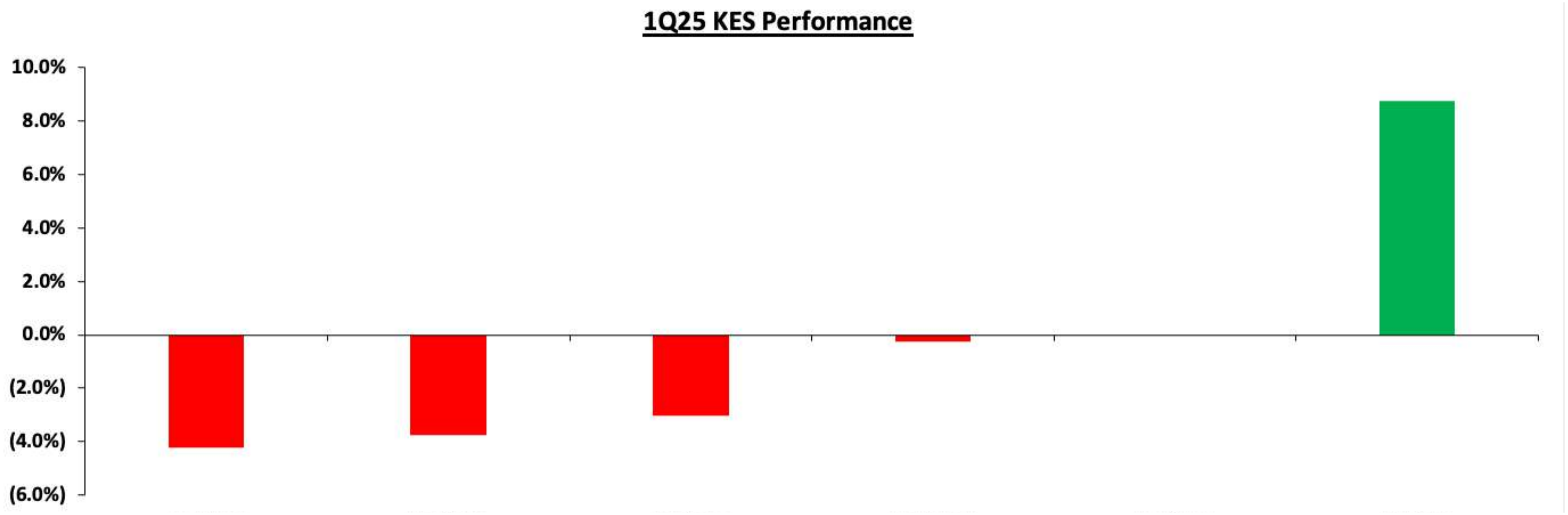
Review

- The performance of the Kenyan economy slowed down in 2024, with GDP growing by 4.7% compared to 5.7% in 2023, pointing to a deceleration in growth in most sectors of the economy (esp. the construction and mining & quarrying sectors).
- The economic slowdown stemmed from multiple challenges, including floods, high interest rates, and subdued business sentiment following protests and reduced development spending.
- Despite resilient agriculture, strong remittance inflows, and a rebound in services, growth was further dampened by weak industrial activity, sluggish private consumption, and policy uncertainty that constrained investment and formal employment growth.

Outlook:

- The projected growth rate of the economy in 2025 has been revised downwards to 5.2% from 5.4%, on account of higher trade tariffs, slower than expected global growth and in turn weaker demand, persistent geopolitical conflicts and their potential impact on supply chains (CBK estimates).
- The World Bank holds a more conservative outlook, with FY25 GDP projected at 4.5%, largely due to tighter global financial conditions, mounting fiscal pressure, and sluggish private sector activity.
- According to CBK, leading indicators of economic activity point to improved performance in the first quarter of 2025. The resilience of key service sectors and agriculture, expected recovery in growth of credit to the private sector, improved exports, stable exchange rates, contained inflation, and improved FX reserves are expected to support economic activity in 2025.

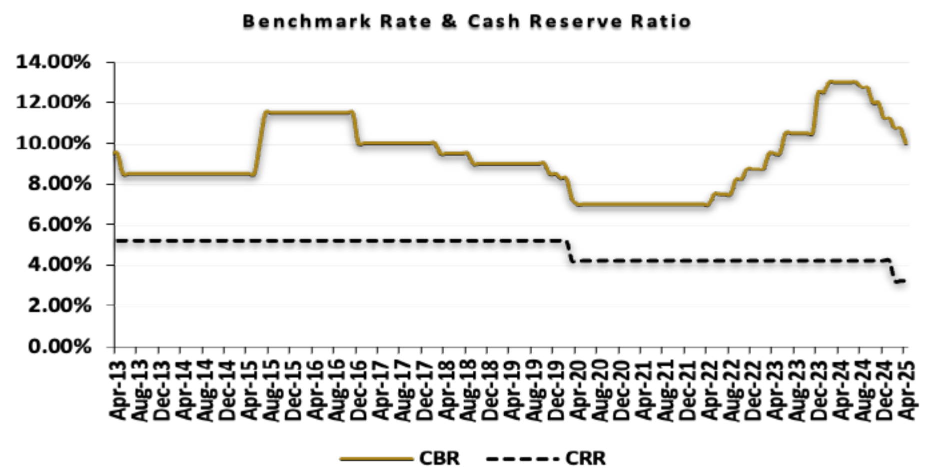
Local unit remains steady against most currencies

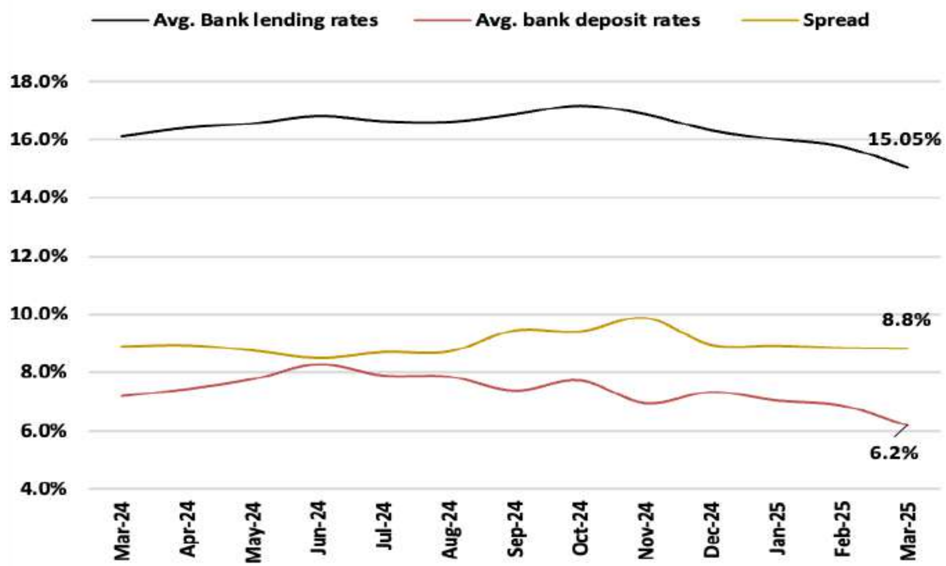


- In 1Q25, the shilling exhibited relative stability against most of the currencies we track, with only minor fluctuations. The most notable movement occurred with the TZS, which appreciated earlier in the year due to dollar inflows, but this gain was soon reversed, with KES regaining strength. Specifically, the shilling closed the quarter on a mixed note, depreciating against the JPY, EUR, GBP, and UGX. However, it remained steady against the US dollar and appreciated against the TZS.
- A significant change implemented by the CBK, which we believe plays a crucial role in maintaining the stability of the shilling, was the shift in the reporting system from indicative rates to weighted average rates of registered spot trades in the interbank foreign exchange market. This adjustment means that large trades now have a greater influence on the rate, and as is well known, banks tend to offer more favorable rates for larger transactions.

Source: SIB Fixed Income and Economic Report 1Q25 Performance Review

CBK makes bold rate cuts to spur private sector activity

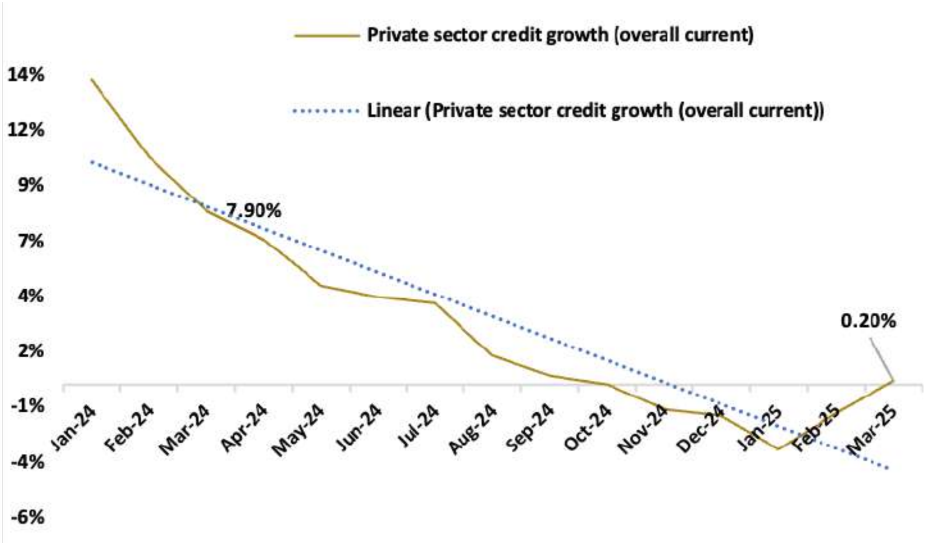


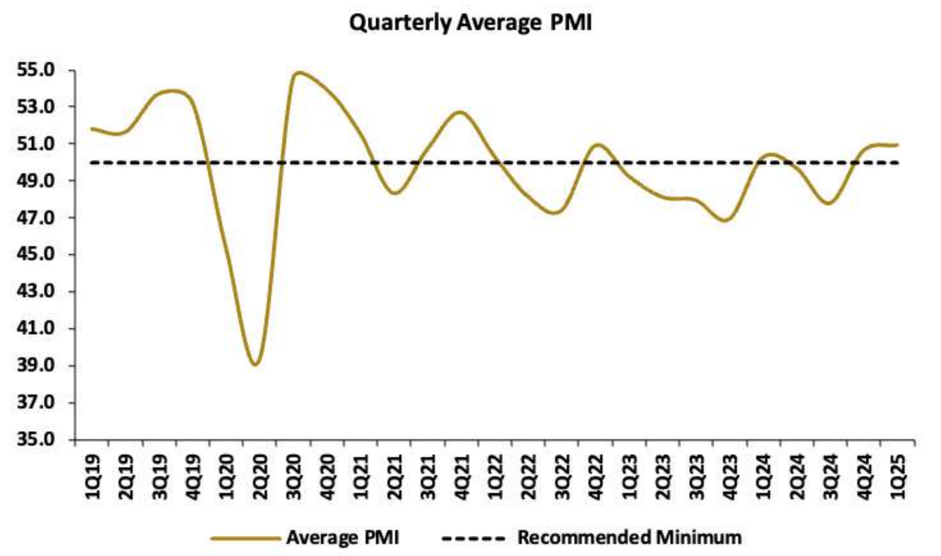


Source: SIB Fixed Income and Economic Report 1Q25 Performance Review

- In 1Q25, the Central Bank's Monetary Policy Committee (MPC) met once, kicking off the year with a 50bps reduction in the Central Bank Rate (CBR), lowering it from 11.25% to 10.75%.
- The committee also reduced the Cash Reserve Ratio (CRR) to 3.25%, down from 4.25%, a level maintained since March 2020. In a subsequent development, the CBK further lowered the CBR by 75 bps during their second meeting in April, bringing it to 10.0%.
- Inflation closed the quarter at 3.6%, with an average of 3.5%, remaining below the CBK's mid-point target. Markedly, the NPL ratio increased to 17.2% as of February 2025 (worsened to 17.6% as of April 2025).
- Commercial banks' lending rates began to decline gradually (average of 15.6% in 1Q25 vs. 15.7% in 1Q24), partly reflecting the reduction in short-term rates and the lower cost of funds.
- Furthermore, savings and term deposit interest rates softened by c. 30bps y/y to an average of 6.7% in 1Q25 vs 7.0% in 1Q24.
- The government's cost of borrowing continued to fall in the quarter (yields on government securities exhibited a downward trend since October 2024, which we believe is largely influenced by lower benchmark rates and flexibility in bid management).
- By the end of 1Q25, the yield curve had declined by 438.35bps y/y and 133.48bps q/q.

Private sector demand gradually picks up despite a lethargic start to the year



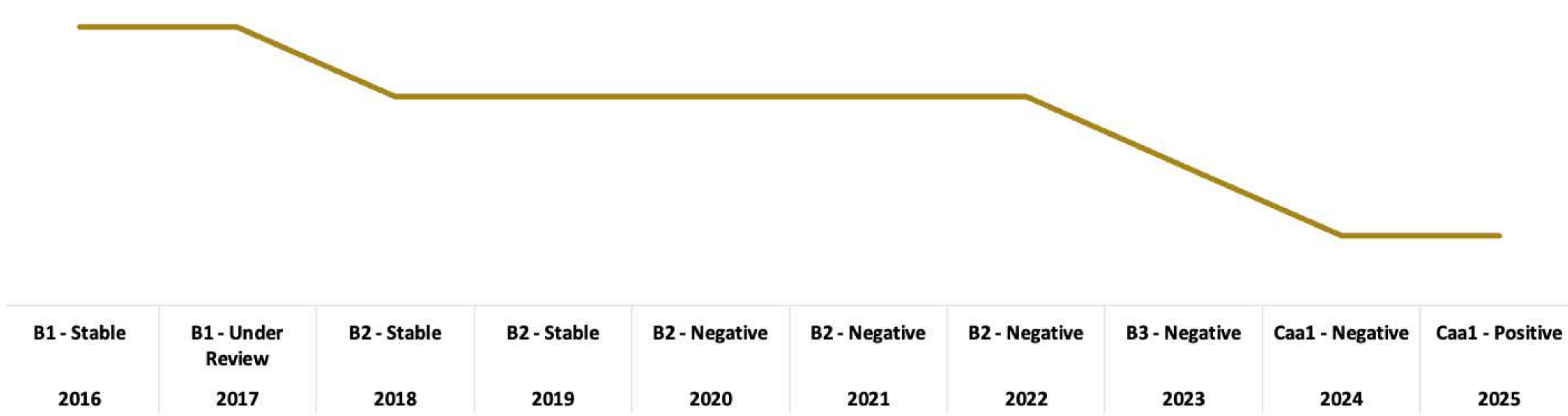


Source: SIB Fixed Income and Economic Report 1Q25 Performance Review

- Private sector credit growth stood at a modest 0.2% in March 2025, with an average contraction of 1.3% in the quarter.
- Drilling down to a sectoral view, manufacturing and construction bore the brunt of reduced credit as lenders mitigate credit risk, with the manufacturing sector experiencing the largest contraction.
- Regarding private sector credit, the impact of a stronger shilling cannot be overlooked. With the stability of the Kenyan shilling, credit growth is now anticipated to be more organic.
- However, caution is warranted, as several headwinds may impede faster credit expansion. These include government borrowing crowding out the private sector, unresolved pending bills, narrower margins, and more cautious lending behaviour by banks.
- Private sector business conditions began the year on a relatively positive note, with the Purchasing Managers' Index (PMI) averaging 50.9 in 1Q25—slightly above the 50.6 and 50.3 recorded in 4Q24 and 1Q24, respectively.
- Despite the major challenges of input costs, we expect some improvement due to a combination of factors, including lower cost of credit.

Kenya earns first positive outlook from Moody's since 2007 in 1Q25

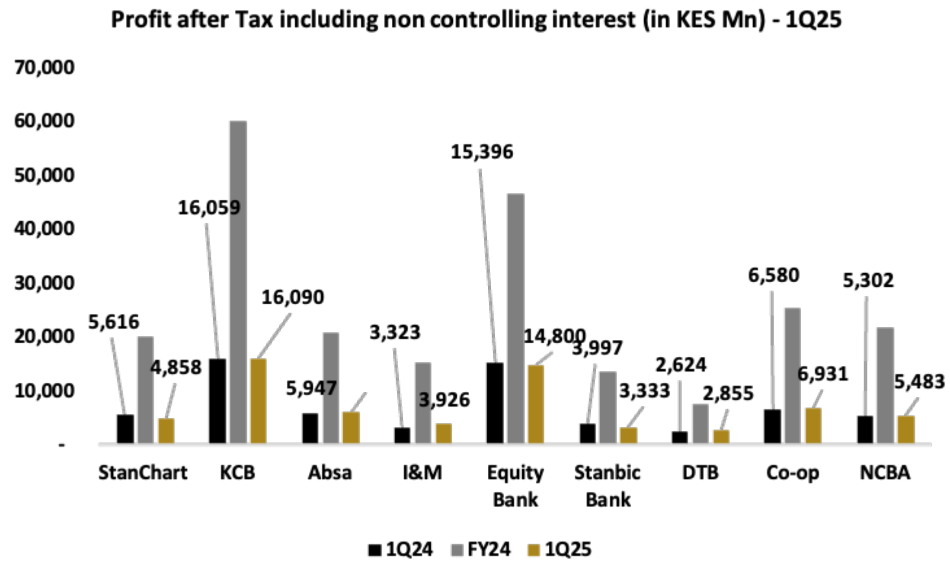
Moody's Long Issuer Default Rating

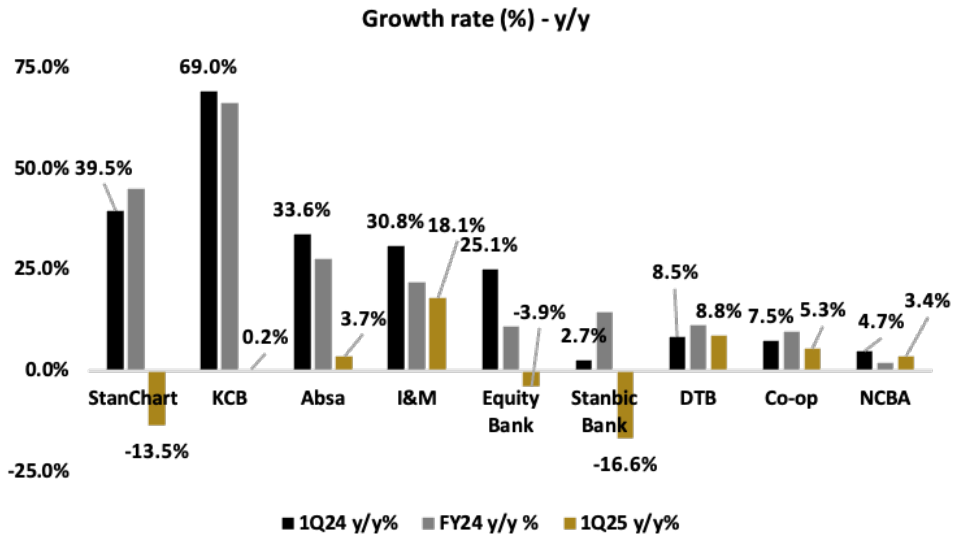


- In 1Q25, Moody's revised the country's outlook to positive while maintaining the long-term rating at Caa1. In contrast, Fitch Ratings retained both the B- rating and a stable outlook. The key highlight was Moody's shift from a negative to a positive outlook, which stood in contrast to the other major rating agencies, all of which revised their outlooks to stable.
- However, the prevailing market conditions at the time—particularly about borrowing costs—may have contributed to their more cautious stance.
- Notably, the positive outlook from Moody's marked the first time since 2007 that the agency assigned a positive outlook to Kenya. This shift suggests either a recovery from a historically low or unfavourable position, or signals that structural monetary and fiscal adjustments are either anticipated or already underway.
- Looking ahead, a potential upgrade largely hinges on fiscal performance as the country approaches the peak of the budget process and the availability of external funding.

Source: SIB Fixed Income and Economic Report 1Q25 Performance Review

Flat overall performance as credit demand stutters





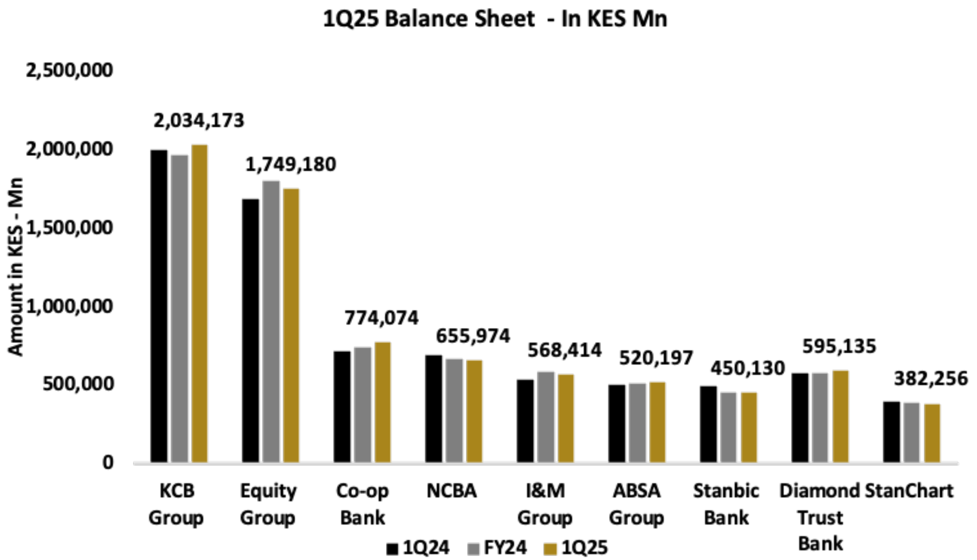
Overall

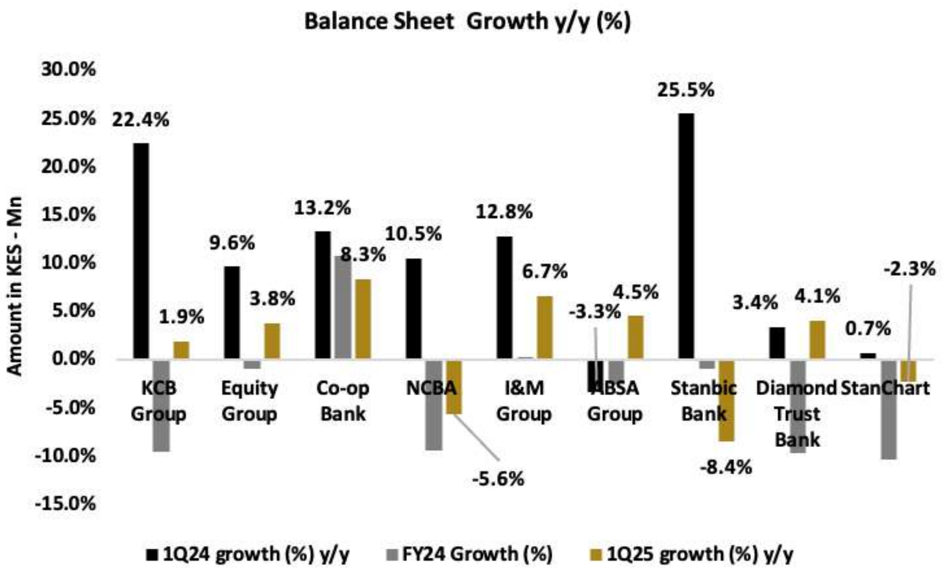
- Industry PBT at KES 73.5bn in 1Q25 (unchanged from 1Q24), largely attributable to a comparatively lower decrease in income compared decrease in expenses.
- Coverage PAT hit KES 64.4bn (-0.6%y/y); however, total interest expenses tapered at a much faster pace (-14.1% y/y) compared to the slowdown in total interest income (-0.9%y/y), supporting the topline.
- Significant decline in FX income (-41.0%y/y to KES 13.0bn) exerted downward pressure on non-funded income as the local unit remains stable.
- A notable 20.3%y/y slash in total loan loss provisions to KES 17.9bn helped to buffer coverage bottom line as lenders priced in potential improvement in asset quality in the coming quarters.

Lender specific

- I&M Group reported an impressive PAT growth (+18.1%y/y), buttressed by lower interest expenses (-15.1%y/y), with non interest revenues up 13.1%y/y despite muted FX performance (-1.5%y/y).
- DTB, Co-op, Absa, and NCBA recorded single-digit growth of 8.8%, 5.3%, 3.7% and 3.4% respectively.
- KCB Group's performance was relatively flat in 1Q25 (+0.2%y/y) – commendable given that the lender was coming from a high base - largely driven by a 2.2%y/y increase in interest income and a 34.7%y/y decline in Group FX income.
- Though Equity Group posted a 3.9%y/y dip in earnings, Equity Bank Kenya staged a comeback in 1Q25, with net income surging to KES 8.5bn (+54.9%y/y).
- Notably, StanChart (-13.5%y/y) and Stanbic Bank (-16.6%y/y) printed double-digit declines in earnings, with both bearing the brunt of the FX trading income slowdown.

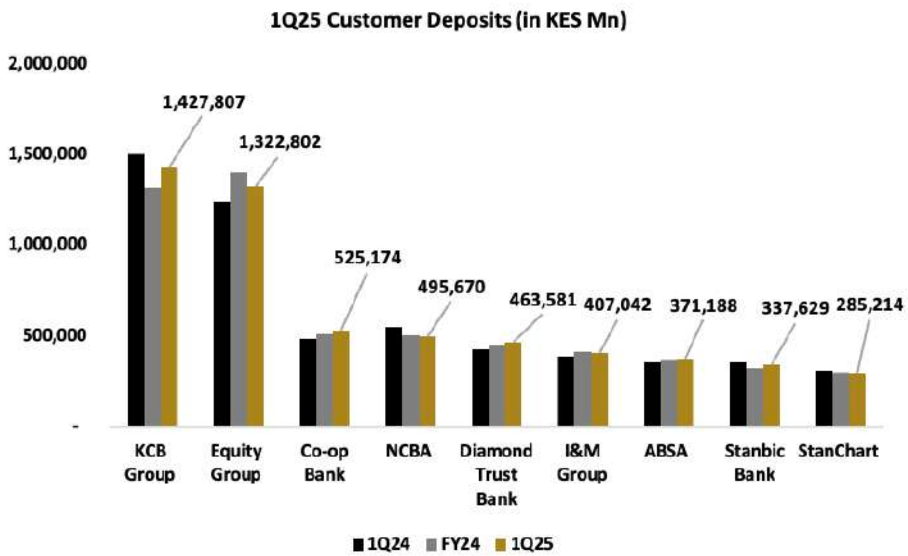
Balance sheet performance partly impacted by FX translation

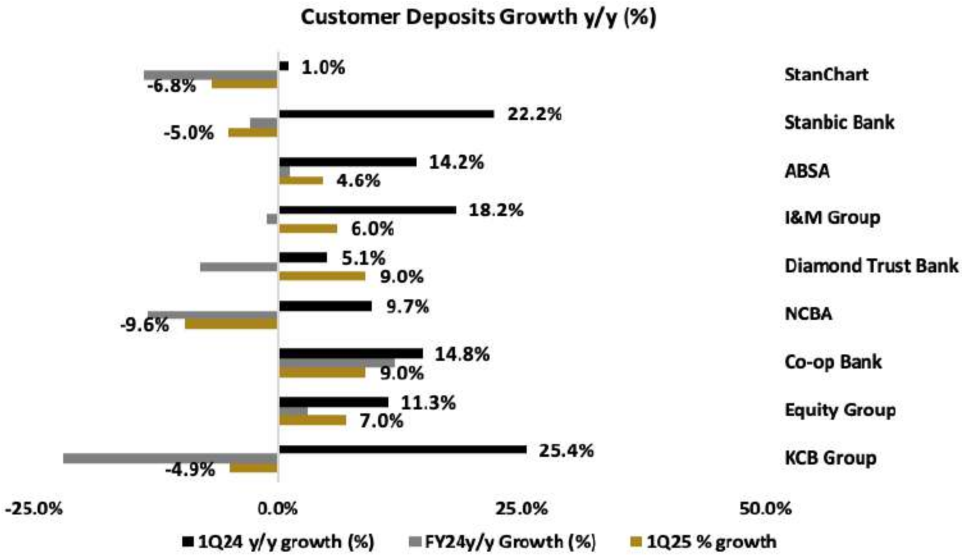




- Balance sheet growth performance (+2.0%y/y to a total of KES 7.7tn) was partly driven by growth in customer deposits, with some banks increasing their exposure to Kenyan government securities (StanChart, Absa, I&M, Stanbic, etc.).
- Lenders with larger FCY deposit bases faced a currency appreciation impact (NCBA, StanChart and Stanbic).
- Total loans (-0.8%y/y) grew at a slower pace compared to total deposits (+0.8%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, selective lending and translation effects on loan books in subsidiaries outside Kenya.
- KCB Group's balance sheet performance was partly impacted by the lender ceding 30% of its G-2-G market share in 2024. Furthermore, gross loans grew an impressive c.8.9%y/y based on restated 1Q24 numbers that reclassify NBK's assets and liabilities (+0.1%y/y to KES 1,018.6bn using reported numbers).
- Most banks increased their investment in government securities, parking their liquidity awaiting improvement in lending conditions, coupled with attractive yields on offer. KCB Group, on the other hand, reduced its investment in Kenyan government securities (-17.5%y/y).
- Notably, mark-to-market gains rose in 1Q25, with only 1 bank reporting mark-to-market losses (Stanbic at KES 56m). In particular, total mark-to-market gains in our coverage jumped to KES 28.0bn in 1Q25 from 13.2bn in 1Q24 as bond prices improved.

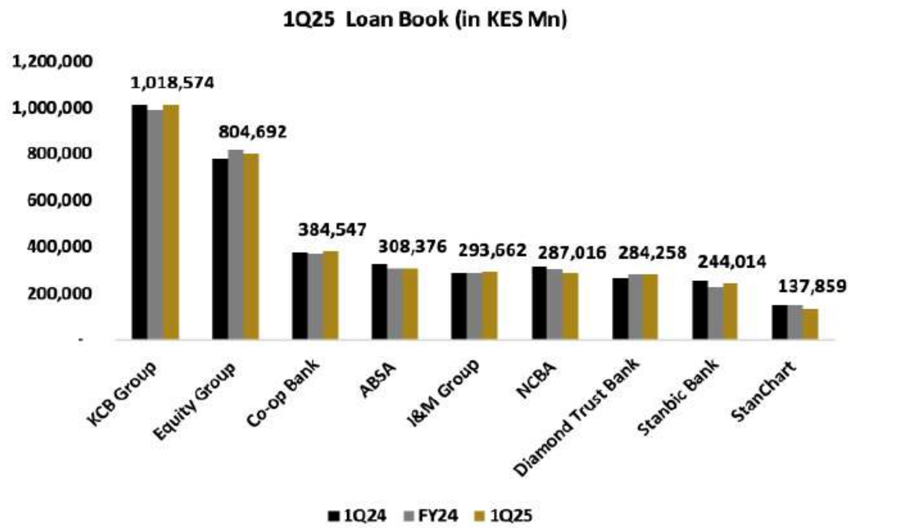
Customer deposits remain relatively flat as lenders optimize their cost structure

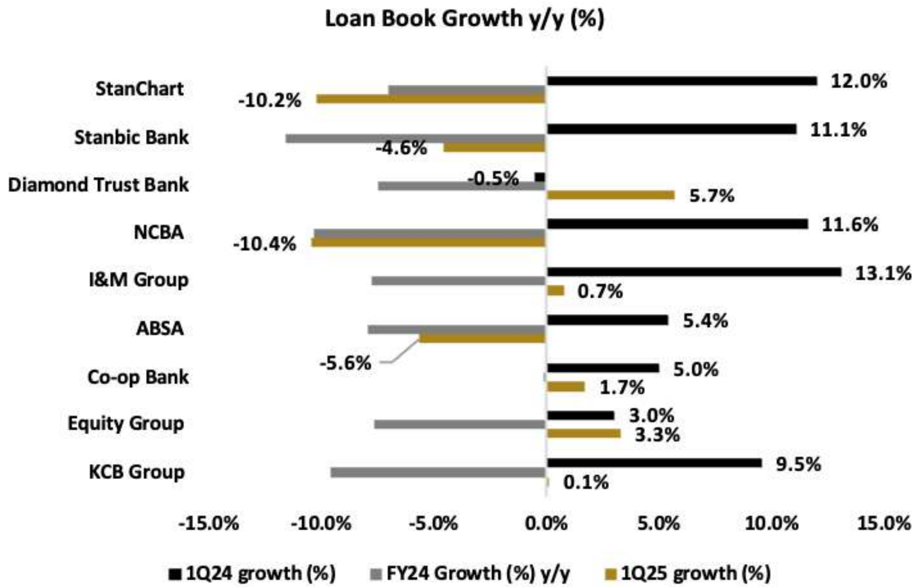




- Total deposits grew by a marginal 0.8%y/y to KES 5,636.1bn, with 4 out of the 9 lenders in our coverage experiencing a contraction on their deposit books.
- DTB and Co-op Bank recorded the strongest growth in customer deposits in 1Q25 (+9.0%y/y), likely buoyed by the lender's expansion initiatives targeting a broader customer base as well as a rise in institutional banking and government banking deposits, respectively.
- Equity Group, I&M and Absa printed a 7.0%y/y, 6.0%y/y and 4.6%y/y increase in customer deposits in the period as they mobilised liabilities further supported by mobile and online banking services. In particular, Equity Group's deposit base jumped by 13.0%y/y on a constant currency basis.
- Conversely, NCBA Group, StanChart, Stanbic Bank and KCB Group experienced contractions in their deposit books of 9.6%y/y, 6.8%y/y, 5.0%y/y and 4.9%y/y, respectively. We opine this is partly due to the FX translation impact due to FCY-denominated deposits.
- In KCB Group's case, its deposits grew 2.0%y/y on a constant currency basis, excluding the impact of NBK reclassification.
- Some banks noted that they ceded expensive deposits as rates declined in the period to take advantage of higher margins in LCY-denominated deposits, with total interest expenses on customer deposits easing to KES 57.2bn from 62.7bn in 1Q24.

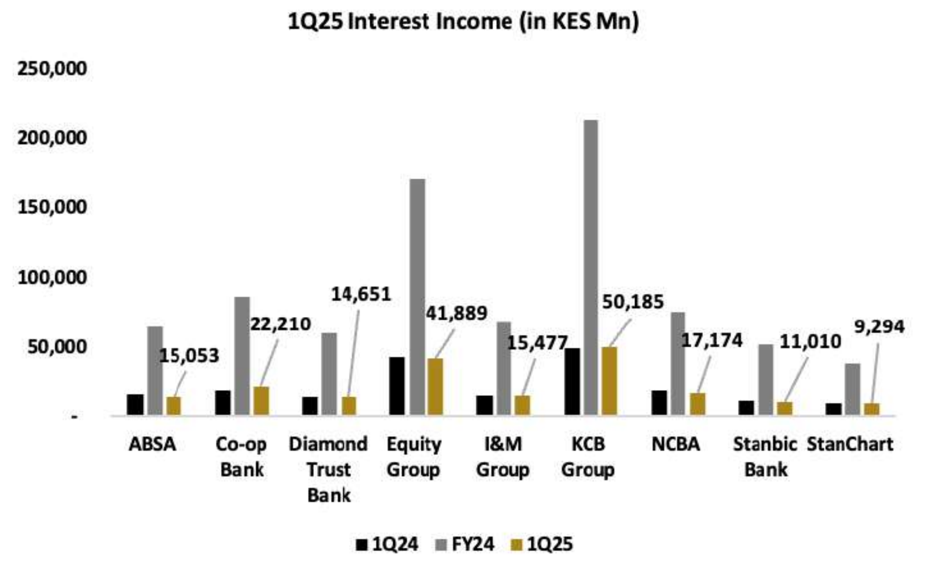
Loan book growth falters on cautious lending and subdued demand

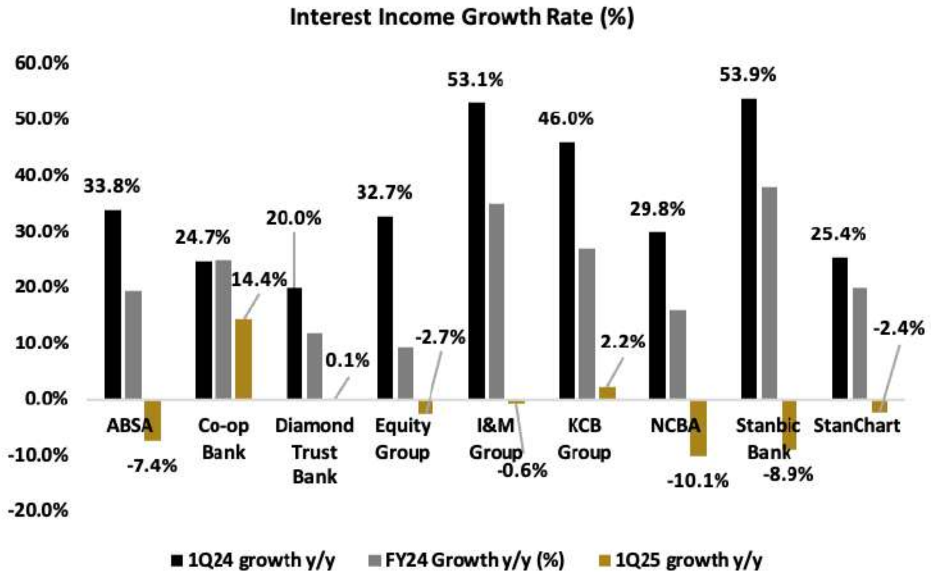




- Total lending contracted by 0.8% y/y to KES 3,763.0bn (a stark contrast to the growth witnessed in 1Q24; average rise of 7.8%y/y across our coverage) as the credit to the private sector cooled against a backdrop of elevated borrowing costs. Notably, the 1Q25 CBK Credit Officer Survey pointed to perceived increased credit demand in the Trade sector, mainly attributed to higher working capital requirements.
- DTB recorded the quickest loan growth rate in our coverage in 1Q25, up 5.7% y/y, with management noting it leveraged on LCY lending, thereby enhancing balance sheet and earnings stability.
- Equity Group recorded the second highest jump at 3.3%y/y, reflective of relatively muted private sector credit demand, selective lending approach, as well as FX currency impact. On a constant currency basis, Group lending grew by 7.0%y/y, with DRC, Rwanda and TZ books up 11.0%y/y, 36.0%y/y and 20.0%y/y, respectively.
- Co-op Bank and I&M Group followed suit, with their loan books growing marginally at 1.7%y/y and 0.7%y/y, respectively.
- KCB Group's loan book remained muted (+0.1%y/y); however, gross loans grew c.8.9%y/y based on restated numbers that reclassify NBK's assets and liabilities. Furthermore, management pointed to disbursements in priority segments in Kenya, Tanzania, Uganda and Burundi as key drivers to loan book growth.
- NCBA, StanChart, Absa and Stanbic, on the other hand, posted a 10.4%y/y, 10.2%y/y, 5.6%y/y and 4.6%y/y dip, respectively, which is likely linked to the appreciation impact of KES against the major currencies on their FCY loan book.

Interest income softens as asset yields price in CBR rate cuts

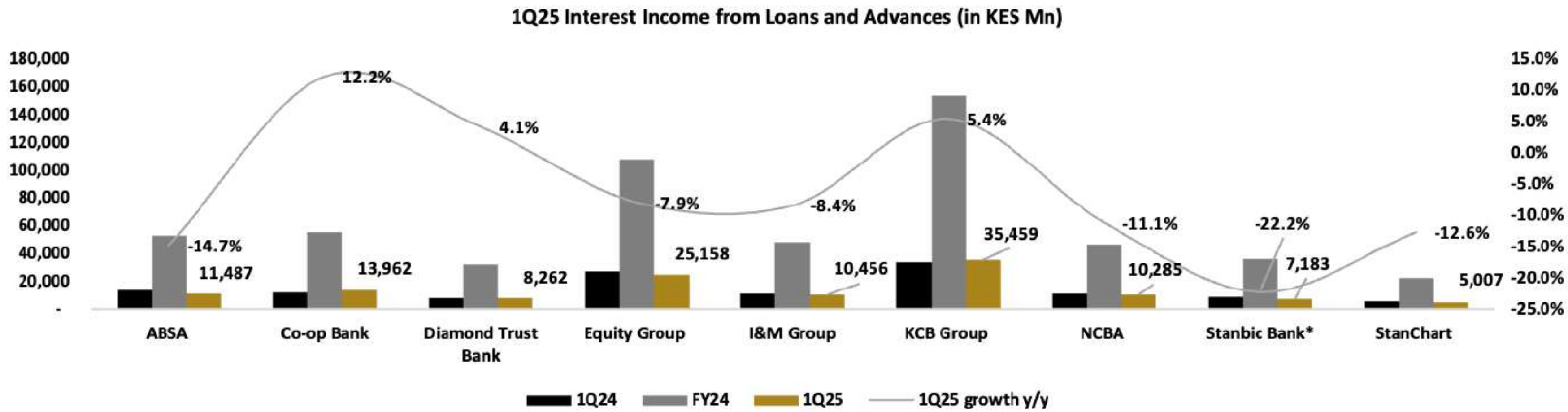




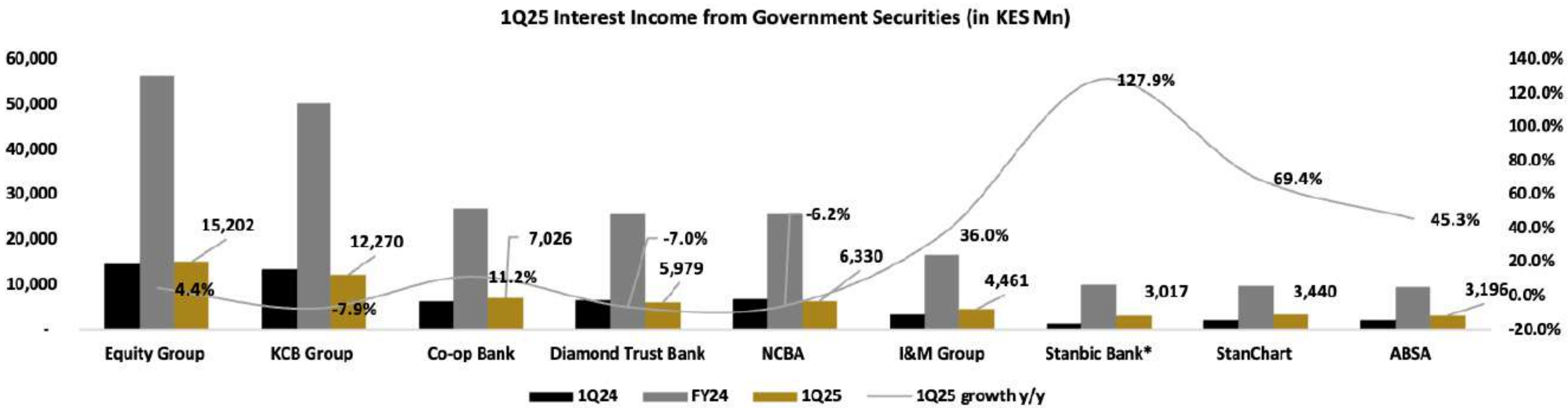
- Total interest income eased marginally (-0.9%y/y to KES 196.9bn) despite the continued implementation of risk-based pricing models. We opine this is linked to the repricing of loans as banks priced in CBR changes during the period, as well as muted credit demand. Co-op Bank was an outlier, with interest income up 14.4%y/y, likely driven by higher loan yields (14.7% vs 13.2% in 1Q24).
- Additionally, banks leveraged on interest income from government securities (esp. Stanbic Bank at +127.9%y/y to KES 3.0bn).
- In terms of quantum, KCB Group emerged as the leader, with the highest interest income at KES 50.2bn (+2.2%y/y) as its net interest margin improved in the quarter.
- Overall Interest income from placements in the interbank market shrank by 12.2%y/y to KES 8.5bn, with 5 out of 9 banks on our coverage reporting double-digit declines.

weighted average interest rate on loans (estimated)	FY22	FY23	1Q24	FY24	1Q25	BPS change Y/Y
ABSA	11.9%	14.3%	16.3%	16.6%	14.9%	-140.0
Co-op Bank	12.4%	12.6%	13.2%	14.9%	14.7%	150.0
Diamond Trust Bank	8.9%	10.2%	11.0%	10.9%	11.6%	60.0
Equity Group	12.1%	12.8%	13.1%	12.6%	12.4%	-70.0
I&M Group	11.7%	13.3%	15.1%	16.1%	14.4%	-70.0
KCB Group	10.9%	12.4%	12.7%	14.7%	14.1%	140.0
NCBA	10.3%	11.8%	14.1%	14.6%	14.0%	-10.0
Stanbic Bank	9.2%	11.9%	14.3%	14.6%	12.1%	-219.1
StanChart	9.6%	12.0%	14.5%	14.5%	13.8%	-63.0

Interest income softens as asset yields price in CBR rate cuts cont.

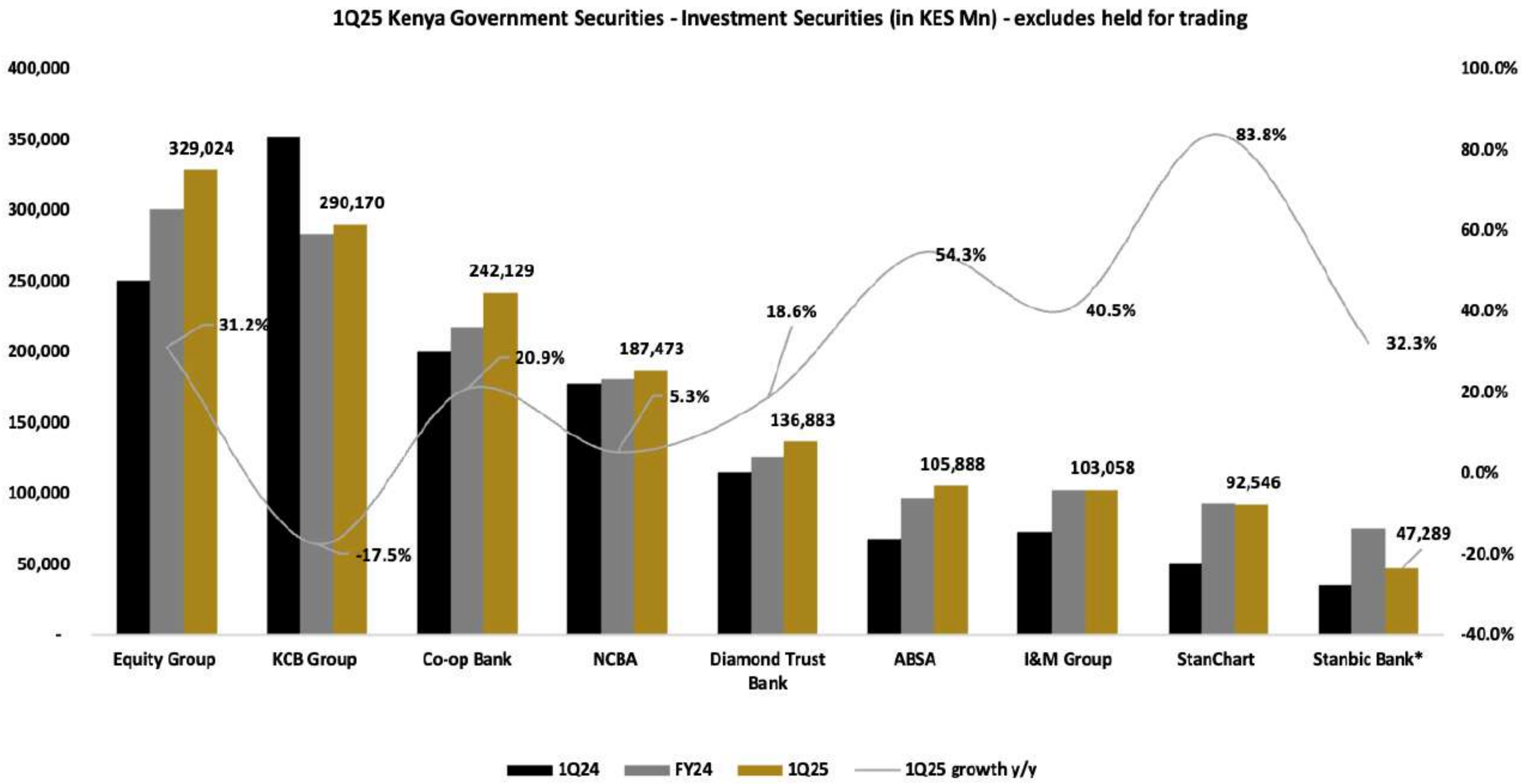


* Overall decline in interest income in loans and advances to KES 127.3bn, following CBR rate cut adjustments. Co-op Bank, however, recorded an impressive growth, with interest income from loans and advances up 12.2%y/y.



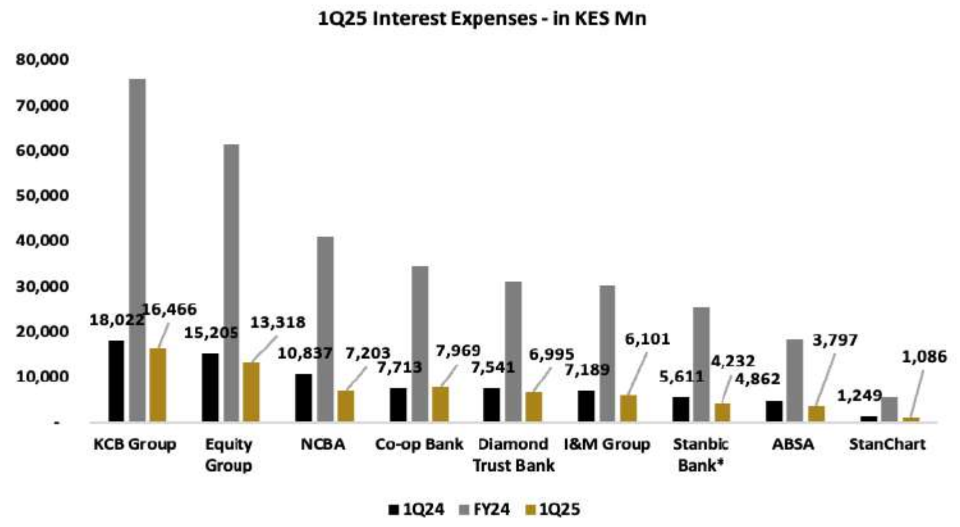
* Stanbic Bank posted the quickest jump in interest income from government securities (+127.9y/y) following a surge in government paper investments. Conversely, KCB Group, DTB and Absa reported a contraction in interest income from government paper (-7.9%y/y, -7.0%y/y and -6.2%y/y, respectively).

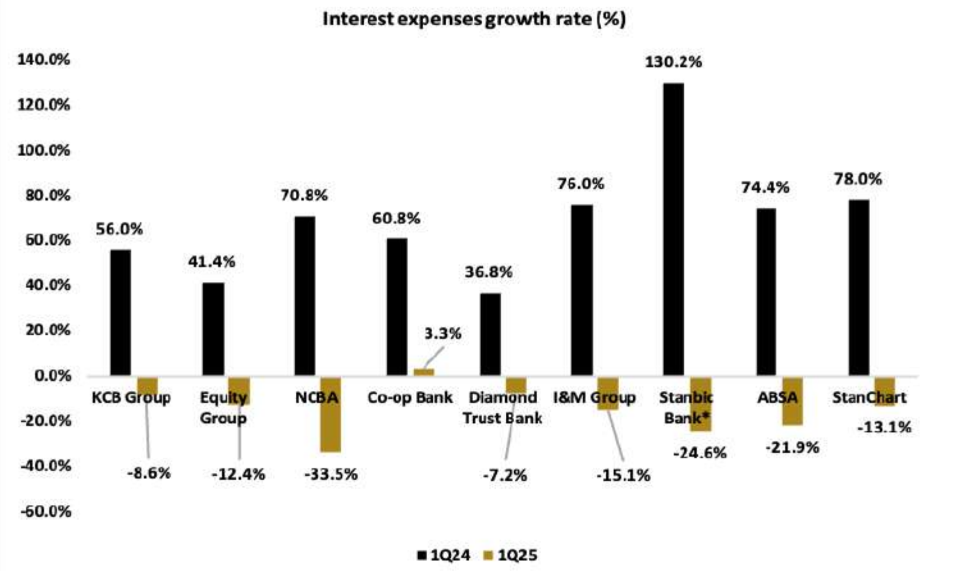
Lenders park their liquidity in government paper as NPLs remain sticky



- StanChart posted the quickest jump in investment in Kenyan government securities, excluding held for trading (+83.8%y/y), while KCB Group diversified away from sovereign papers in the period (-17.5%y/y).
- Additionally, Absa, I&M Group, Stanbic, Equity Group, Co-op Bank, DTB and NCBA pumped up their investment in Kenyan government paper by 54.3%y/y, 40.5%y/y, 32.3%y/y, 31.2%y/y, 20.9%y/y, 18.6%y/y and 5.3%, respectively.

Interest expenses turn the corner as short-term rates dip



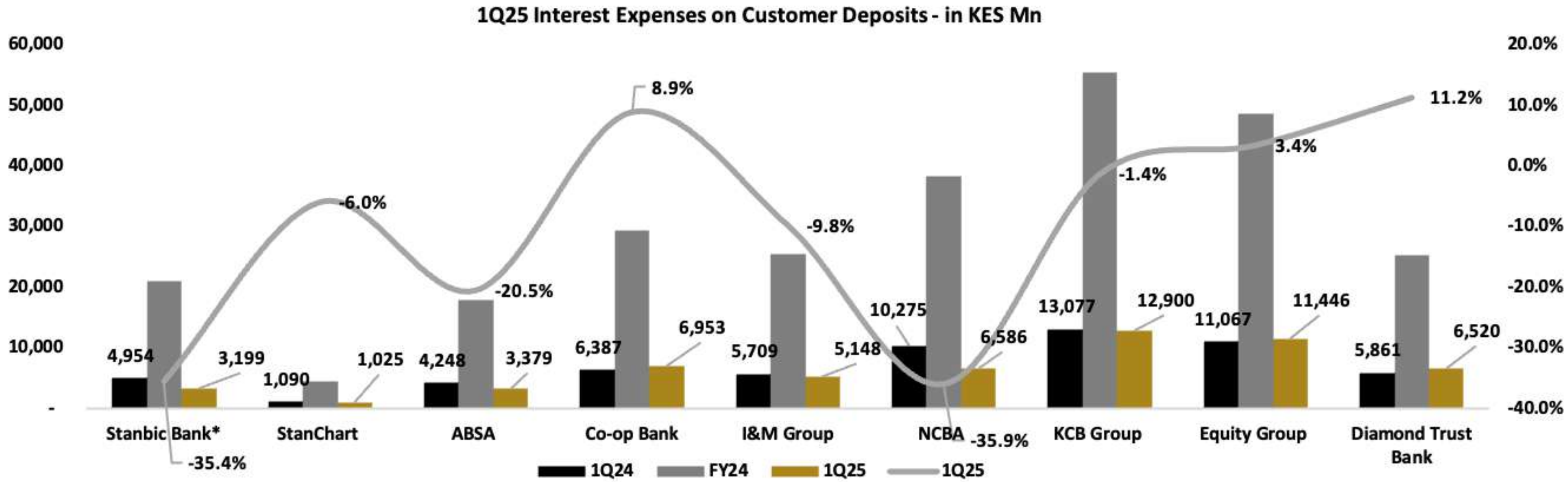


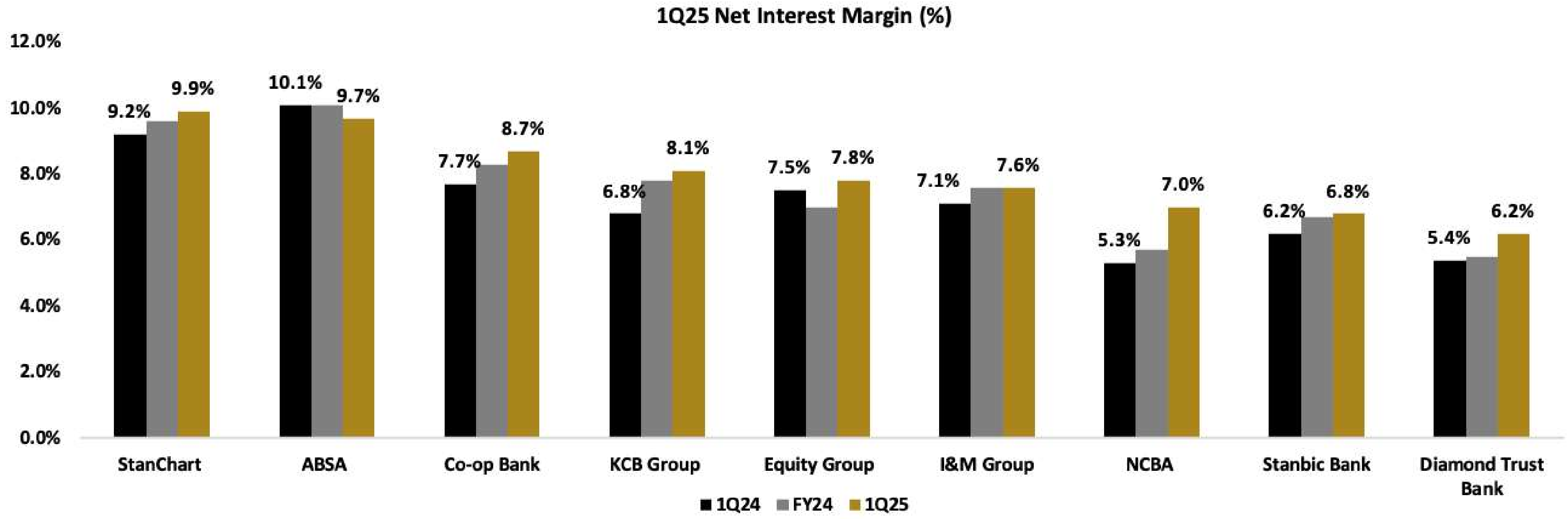
- Lenders breathed a sigh of relief as interest expenses began their descent in 1Q25, with overall interest expenses down 14.1%y/y to KES 67.2bn (compared to an average rise of 69.4%y/y in 1Q24) across our coverage.
- NCBA reported the steepest decline in interest expenses (-33.5% y/y) in our coverage, partly linked to a 35.9%y/y dip in interest on customer deposits. Notably, the bank's Current Account and Savings (CASA) Account ratio improved to 53% in 1Q25 from 50.0% in 1Q24, with the lenders' deposits reducing in the period (-9.6%y/y).
- On the contrary, Co-operative Bank printed a 3.3%y/y increase in interest expenses, which we attribute to its 8.9%y/y jump in interest expenses on customer deposits.
- KCB Group announced the highest interest expense quantum (KES 16.5bn). It, however, recorded a contraction in 1Q25 (-8.6%y/y), partly due to contained interest expenses on customer deposits (-1.4%y/y) as deposit interest rates eased.
- Total interest from other expenses (borrowings) and total interest expenses from deposits and placements tapered by 20.7%y/y and 55.4%y/y to KES 4.1bn and KES 2.5bn, respectively, in the period.
- Funding costs are anticipated to decline as the market continues to bake in the recent local and international monetary policy rate cuts.

Cost of funds decline helps drive NIM accretion

weighted average interest rate on customer deposits (estimated)	FY22	FY23	1Q24	FY24	1Q25	bps change y/y
ABSA	2.4%	3.6%	4.7%	4.9%	3.7%	(108)
Co-op Bank	3.5%	4.2%	5.5%	6.1%	5.4%	(10)
Diamond Trust Bank	4.1%	4.8%	5.1%	5.4%	5.7%	60
Equity Group	2.2%	2.8%	3.4%	3.5%	3.4%	-
I&M Group	3.8%	4.8%	5.7%	6.1%	5.0%	(67)
KCB Group	2.6%	3.0%	3.3%	3.6%	3.7%	40
NCBA	4.3%	5.3%	7.3%	7.1%	5.3%	(200)
Stanbic Bank	2.3%	3.2%	5.8%	6.4%	3.9%	(190)
Stanchart	1.0%	0.8%	1.3%	1.4%	1.4%	10

- Interest expenses improvement was mainly driven by easing short-term interest rates on lower CBR rates, coupled with robust reserves by the Central Bank, thereby softening borrowing pressure by the Government. In addition, lenders were intent on achieving a more optimal & better-priced funding mix.
- DTB reported the highest increase in interest expenses on deposits (+11.2% y/y), partly attributable to higher deposits (+9.0%y/y). Additionally, the bank offered the highest deposit rate among its peers (c.5.7% in 1Q25).
- StanChart remains the industry leader concerning cost of deposits, offering the lowest average rate in our coverage (c.1.4%).

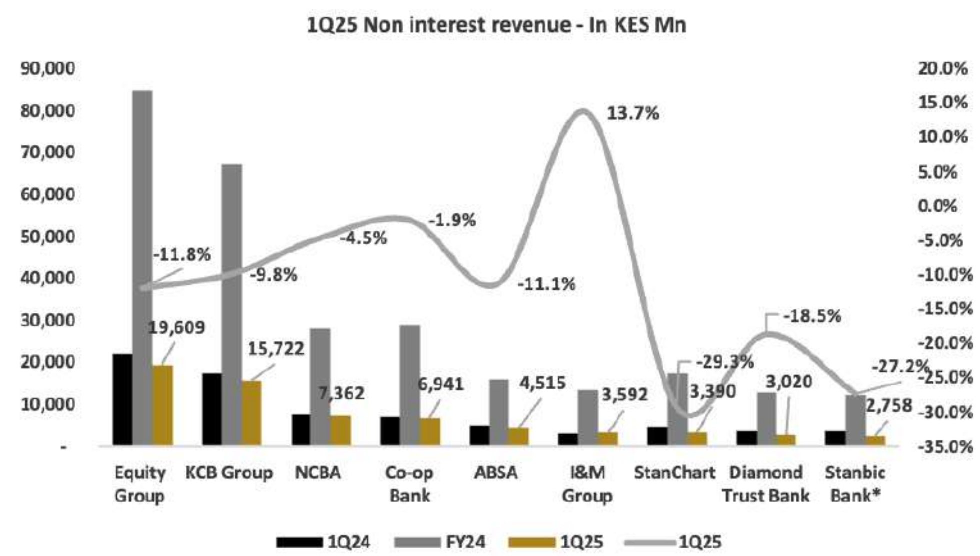


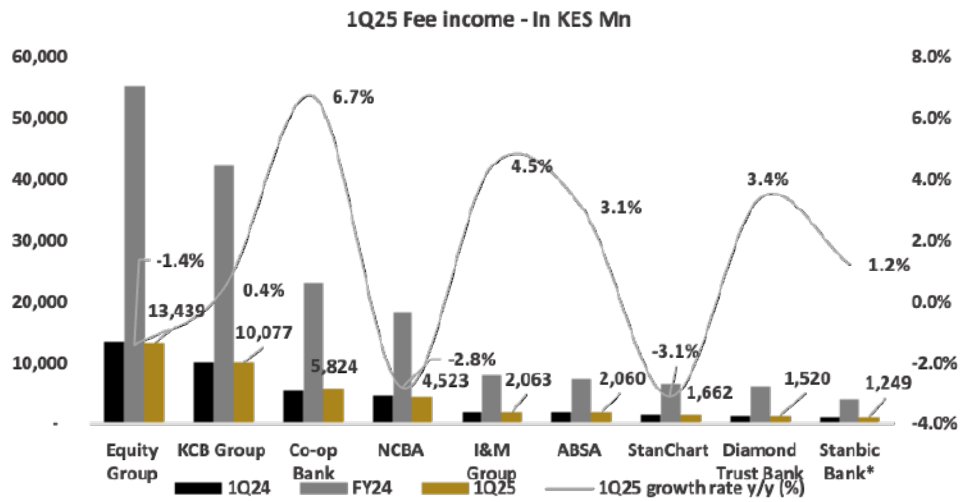


- According to our estimates, only 1 out of the 9 lenders in our coverage recorded a contraction in net interest margin (i.e Absa). It, however, remains the lender with the highest interest margin at 9.9% as of 1Q25.
- Despite lower loan interest income, the notable interest expense decline uplifted margins in the period.
- Fastest NIM expansion by NCBA, followed by KCB Group, Co-op, DTB, StanChart, Stanbic, I&M Group and Equity Group.

Bank	FY22	FY23	1Q24	FY24	1Q25	bps y/y
StanChart	7.0%	8.3%	9.2%	9.6%	9.9%	70
ABSA	7.9%	9.0%	10.1%	10.1%	9.7%	-40
Co-op Bank	8.8%	8.1%	7.7%	8.3%	8.7%	100
KCB Group	7.5%	6.6%	6.8%	7.8%	8.1%	130
Equity Group	7.2%	7.4%	7.5%	7.0%	7.8%	30
I&M Group	6.3%	6.6%	7.1%	7.6%	7.6%	50
NCBA	5.9%	5.9%	5.3%	5.7%	7.0%	170
Stanbic Bank	5.8%	6.8%	6.2%	6.7%	6.8%	60
Diamond Trust Bank	5.3%	5.5%	5.4%	5.5%	6.2%	80
Average	**6.9%**	**7.1%**	**7.3%**	**7.6%**	**8.0%**	

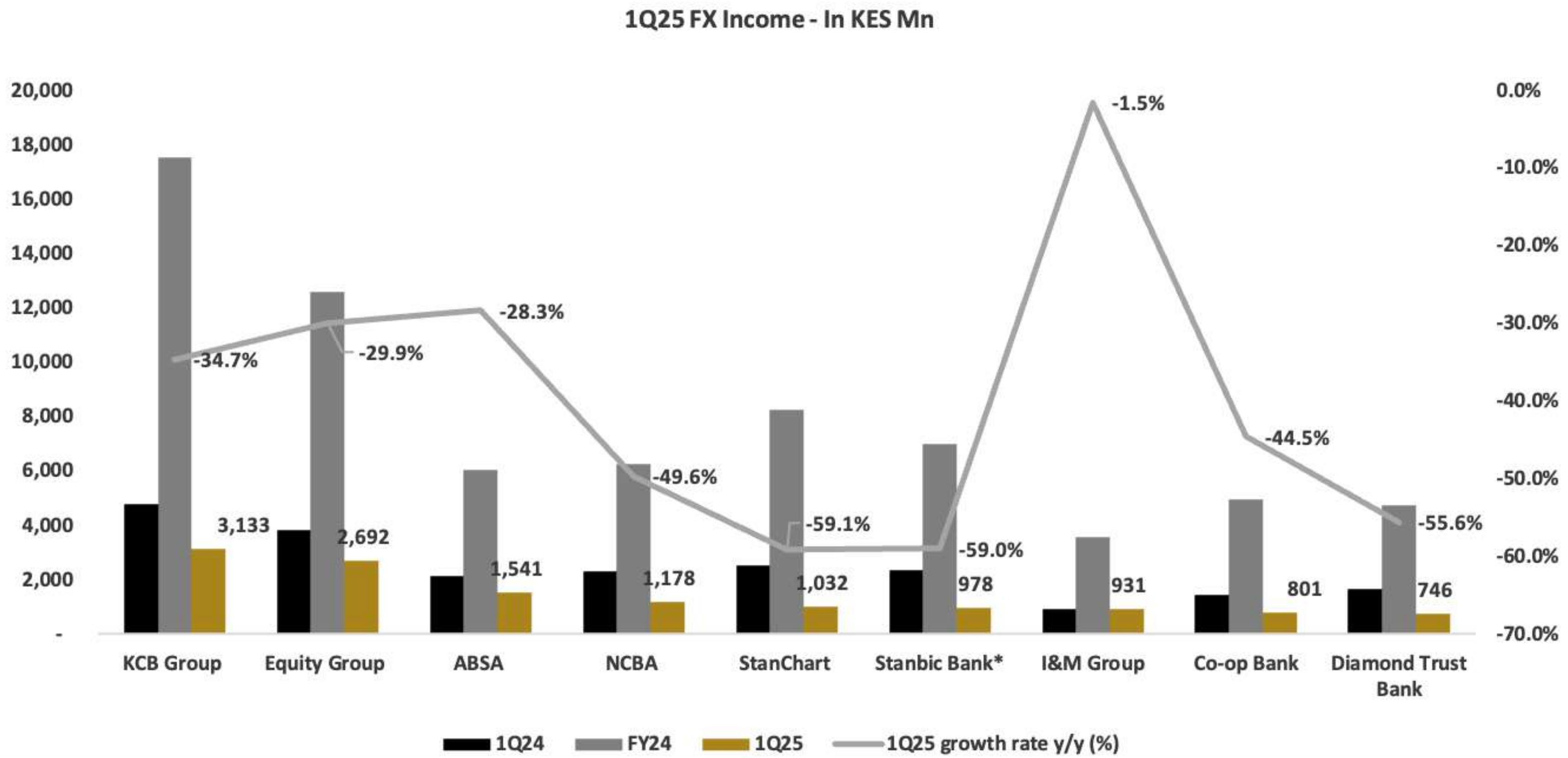
Non-funded income slips on FX margin compression





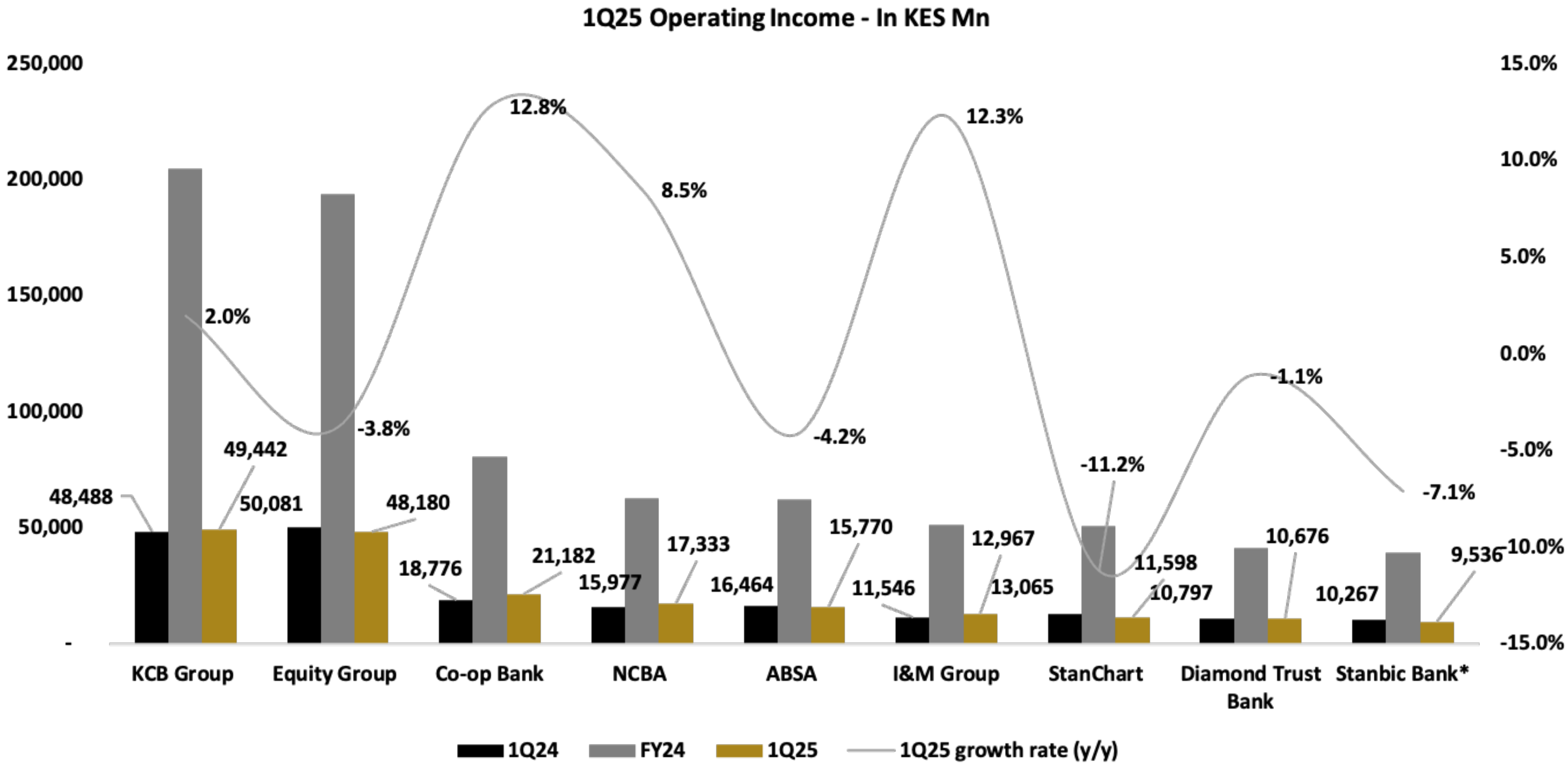
- Overall, total non-funded income declined to KES 66.9bn (-10.8%y/y) in our coverage as FX trading income nosedived 41.0%y/y to a total of KES 13.0bn.
- In addition, overall fee income remained flat (+0.6%y/y to KES 42.4bn) across our coverage, compared to a relatively stronger performance in 1Q24 (average growth of 12.2%y/y across the 9 banks).
- Resultantly, the decline in non-funded income (NFI), the weighted average contribution of NFI to total operating income came in at 32.3% in 1Q25, vs. 36.9% in 1Q24.
- Significant decline in NFI by Stanbic Bank (-27.2% y/y coming from a high base due to a one-off transaction in 2024) and StanChart (-29.3%y/y), mainly driven by the drop in foreign exchange income, with I&M Group emerging as the only exception as it posted a 13.7%y/y jump in NFI.
- I&M's jump in NFI can be attributed to other income swelling by 150.7%y/y to KES 597.1m, likely driven by income from diverse revenue streams (i.e. bancassurance, advisory services, wealth management services, etc.). Total fees and commissions income rose 4.5%y/y, partly linked to increased short-term lending, customer acquisition initiatives (+30.0%y/y to >727.0k customers as of FY24), improved transactional banking capabilities and wallet share optimisation.

Local unit stability weighs on FX trading income



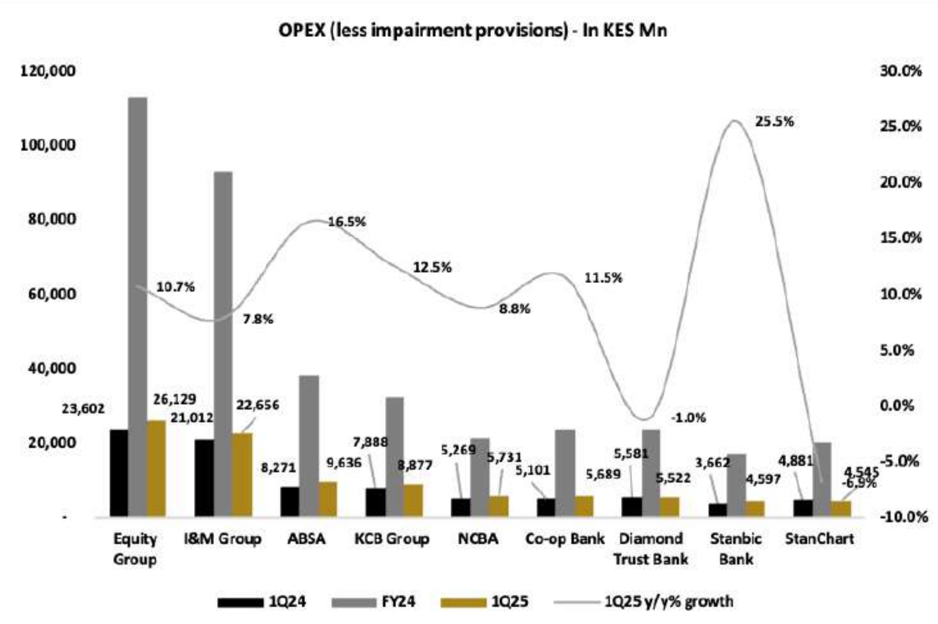
- Total FX income contracted by 41.0%y/y to KES 13.0bn in our coverage, with all banks reporting a decline in FX trading income in the period attributable to lower margins due to currency stability in 1Q25, coupled with CBK interventions in the interbank market. Notably, the market experienced high volatility due to jitters surrounding the Eurobond payment expected in the same period last year.
- I&M Group recorded the slowest decline (-1.5%y/y), likely due to higher trading volumes as its customer base grows. On the other hand, StanChart and Stanbic recorded the strongest decline in the quarter (59.1%y/y and 59.0%y/y, respectively) with Stanbic's management noting a large one-off transaction last year..

Operating income slackens in 1Q25, as interest expenses decline faster than interest income



- Total operating income in our coverage was relatively flat at KES 196.7bn (+0.6%y/y).
- Highest jump in operating profit by Co-op Bank, followed by I&M Group, NCBA and KCB Group on improved net interest margins as interest expense pressure eased. Cheaper liabilities coupled with steady interest income from government securities drove operating income performance, as total non-funded income grew at a slower pace than interest income (average of -11.2% y/y vs -1.7%y/y).

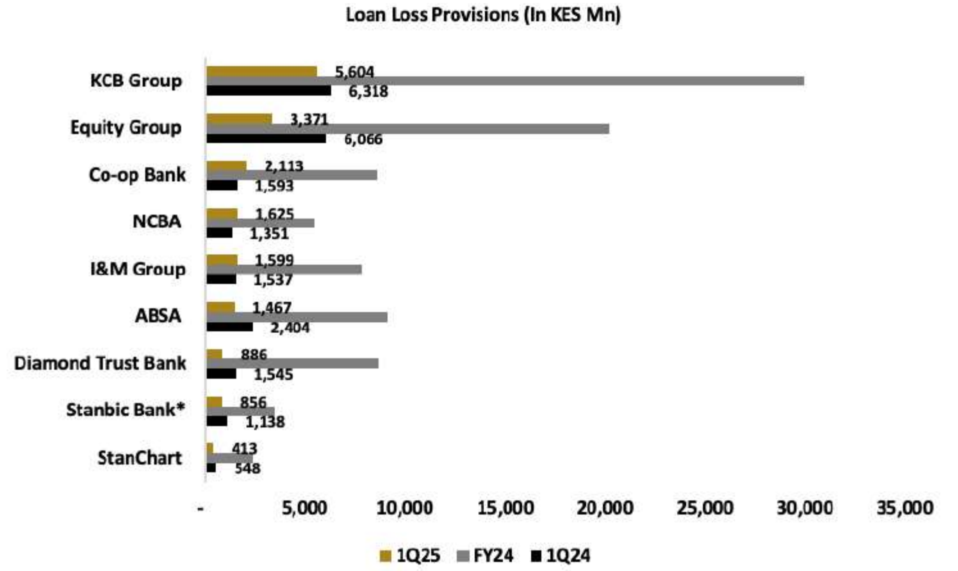
Operational efficiency weakens on sluggish income performance

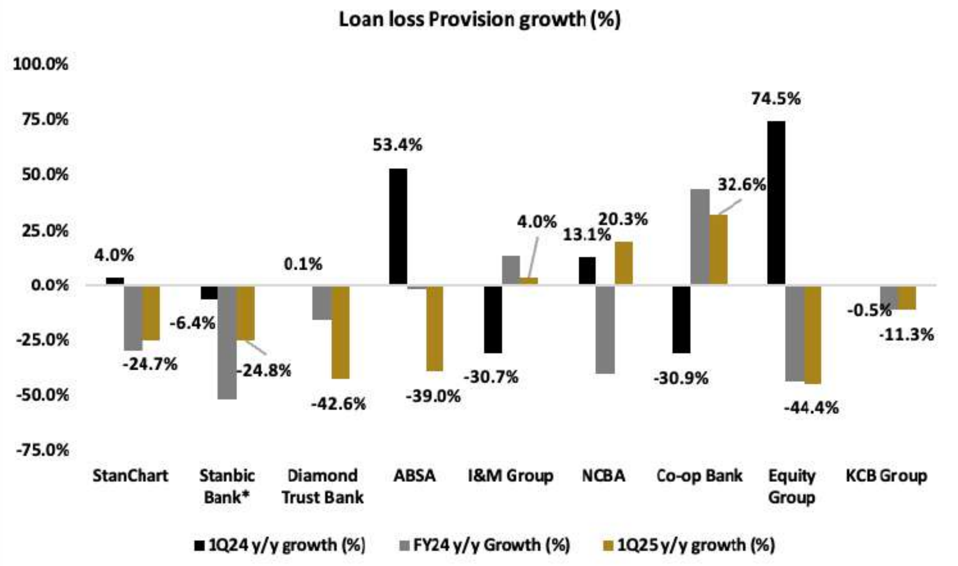


- Despite overall operating expenses remaining largely steady (+9.5%y/y to KES 93.4bn; average increase on 9.5%y/y in 1Q25 vs 9.1% in 1Q24 across our coverage), the average cost-to-income ratio deteriorated to 46.3% in 1Q25 from 42.8% in 1Q24, partly due to sluggish income performance in the period.
- Absa emerged as the most efficient bank in our coverage (CTI of c.35.0%), buoyed by a single-digit rise in OPEX costs (excluding provisions) at -1.0%y/y and increased focus on tech adoption.
- StanChart's cost-to-income ratio hit 39.2% in 1Q25 following a 11.2%y/y decrease in operating income. It, however, remains one of the most efficient lenders in our coverage, with operating expenses inching lower by 6.9%y/y.
- I&M Group was the only lender in our coverage that reported an improvement in its cost-to-income ratio (at 43.5% in 1Q25 vs 442.2% in 1Q24), on higher income despite recording a 11.5%y/y jump in operating expenses (less provisions).
- Stanbic reported the fastest rise in CTI (48.2% vs 35.7% in 1Q24), mainly driven by lower income, as well as higher operating expenses (+25.5%y/y) in the period.

Cost to Income Ratio (CTI) - estimated	FY22	FY23	1Q24	FY24	1Q25	bps y/y
Equity Group	48.4%	51.9%	47.1%	58.2%	54.2%	710
Diamond Trust Bank	46.8%	51.7%	48.8%	51.8%	53.7%	490
NCBA	40.8%	45.7%	50.6%	51.3%	51.2%	60
Stanbic Bank	46.6%	42.4%	35.7%	43.4%	48.2%	1,250
KCB Group	45.7%	50.3%	43.3%	45.4%	45.8%	250
Co-op Bank	47.1%	47.0%	44.1%	47.2%	45.5%	140
I&M Group	45.1%	47.6%	44.2%	45.9%	43.9%	(30)
StanChart	45.8%	44.8%	37.4%	39.6%	39.2%	180
ABSA	40.6%	39.7%	33.9%	37.7%	35.0%	110
Average	**45.2%**	**46.8%**	**42.8%**	**46.7%**	**46.3%**	

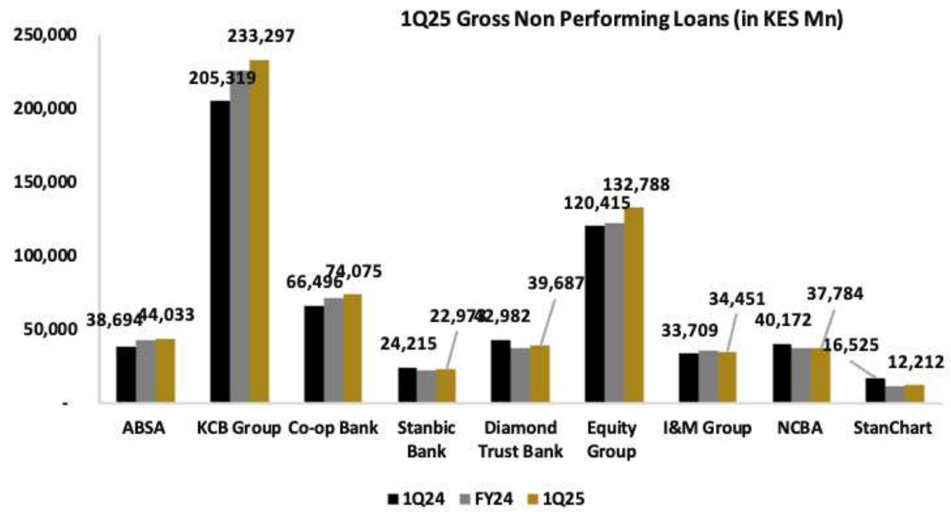
Dip in provisioning amid mixed asset quality performance

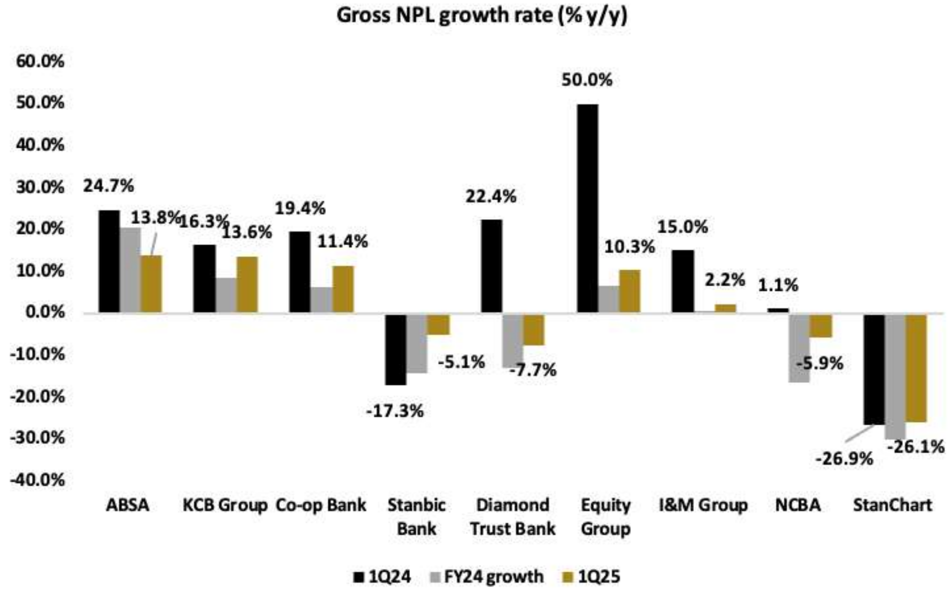




- Total loan loss provisions fell off by 20.3%y/y to KES 17.9bn in 1Q25, with an average decline of 14.4%y/y across our coverage compared to an average increase of 8.5%y/y in 1Q24.
- Co-operative Bank (+32.6%y/y) and NCBA (+20.3%y/y) reported amongst the highest increases in provisioning as they adopted a cautious stance. I&M, on the other hand, increased its provisions by 4.0%y/y in line with a muted 2.2%y/y increase in Gross NPLs.
- Though Absa recorded the fastest jump in NPLs (+13.8%y/y), the lender reduced provisioning by 39.0% y/y, which could point to possible recoveries, write-offs, and/or increased provisioning in the next quarters.
- Conversely, Equity Group, DTB, Stanbic, StanChart and KCB Group lowered their provisioning levels by 44.4%y/y, 42.6%y/y, 24.8%y/y and 11.3%y/y, respectively, likely signalling management confidence in improving 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 suspended interest expense (and thereby reduced pressure on the bottom line) should overall industry asset quality begin to improve.

Industry NPLs persist despite selective lending





- Total Gross NPLs hit KES 631.3bn for our coverage (+7.3%y/y), with 5 out of the 9 banks reporting an increase in non-performing loans as the sector grapples with elevated borrowing costs and reduced disposable income.
- Additionally, the average Gross NPL ratio inched upwards to c.13.2% across our coverage, up from an average of c.12.8% in 1Q24, pointing to continued pressure on asset quality.
- 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 a high of 17.6% in April 2025 (down from 17.2% in Feb 2025).
- Absa experienced the sharpest rise in Gross NPLs (+13.8%y/y), followed by KCB Group (+13.6%y/y), Co-op Bank (+11.4%y/y) and Equity (+10.3%y/y), and I&M Group (+2.2%y/y).
- Decline in Gross NPLs by StanChart (-26.1%y/y), DTB (-7.7%y/y), NCBA (-5.9%y/y) and Stanbic (-5.1%y/y) in the quarter provides an opportunity for some lenders to reduce loan loss provisioning in the coming quarters as NPLs continue to decline in the year cetaris paribus.

Bank	Gross NPL ratio (estimated)		
	1Q24	FY24	1Q25
KCB Group	17.9%	19.8%	19.9%
Co-op Bank	15.9%	17.0%	17.1%
Equity Group	14.2%	13.6%	15.0%
Diamond Trust Bank	14.9%	12.6%	13.2%
ABSA	11.1%	12.6%	13.1%
NCBA Group	11.7%	11.5%	12.2%
I&M Group	10.8%	11.5%	10.9%
Stanbic Bank	8.9%	9.1%	8.7%
StanChart	9.9%	7.4%	8.3%
Average	**12.8%**	**12.8%**	**13.2%**

Adequate capital buffers despite continued capital-intensive investments

Bank	FY23		1Q24		FY24		1Q25			
	Core Capital - In Mn	Total Capital - In Mn	Core Capital - In Mn	Total Capital - In Mn	Core Capital - In Mn	Total Capital - In Mn	Core Capital - In Mn	Total Capital - In Mn	Core capital y/y	Total capital y/y
ABSA	60,169	79,898	63,394	79,918	72,331	87,910	75,273	88,687	18.7%	11.0%
Co-op Bank	106,748	132,188	110,986	131,928	122,826	141,974	126,251	144,852	13.8%	9.8%
DTB - K*	51,405	53,464	51,032	53,229	49,050	54,073	50,973	55,892	-0.1%	5.0%
Equity Group	219,928	278,556	211,477	256,509	251,503	276,704	240,783	266,104	13.9%	3.7%
I&M Group	80,140	104,232	76,546	93,668	85,479	102,507	85,571	98,995	11.8%	5.7%
KCB Group	209,384	257,786	239,569	273,037	267,988	307,978	281,374	331,794	17.5%	21.5%
NCBA Group	94,204	94,520	94,756	95,028	102,870	103,111	104,802	105,101	10.6%	10.6%
Stanbic Bank	50,110	64,201	52,673	64,508	55,138	67,989	57,587	72,809	9.3%	12.9%
StanChart	51,218	51,400	53,872	54,054	54,089	54,269	56,324	56,504	4.6%	4.5%
Equity Bank	126,923.08	167,795.99	129,530.06	161,371.08	132,336.45	149,222.16	135,257.43	152,909.98	4.4%	-5.2%
KCB Bank	114,331.55	153,587.95	131,678.62	162,658.95	144,770.04	176,842.51	154,609.57	199,651.22	17.4%	22.7%

Total capital/risk weighted capital ratio (capital adequacy ratio)					
	FY23	1Q24	FY24	1Q25	bps change y/y
ABSA	18.1%	17.9%	20.7%	20.4%	250
Co-op Bank	22.5%	21.6%	21.2%	22.8%	120
DTB	17.0%	18.2%	17.3%	17.0%	(120)
Equity Group	18.1%	19.3%	19.0%	18.3%	(100)
I&M Group	18.9%	17.9%	20.2%	18.8%	95
KCB Group	17.4%	20.0%	19.4%	19.7%	(30)
NCBA	18.0%	18.6%	21.2%	21.6%	305
Stanbic Bank	16.6%	16.2%	18.4%	18.6%	240
StanChart	17.8%	18.5%	19.6%	20.6%	218
Average	**18.3%**	**18.7%**	**19.7%**	**19.8%**	

- All banks in our coverage recorded an increase in their total capital, with the overall total capital coming in at 1,220.7bn (+10.8%y/y), , highlighting sturdy capital buffers.
- KCB Kenya's total capital improved to KES 199.7bn (+22.7%y/y) in 1Q25, supported by recovery in income performance in 2024 as well as the withholding of dividend payments in FY23.
- Equity Bank Kenya printed a 5.2% dip in total capital in 1Q25, largely driven by a contraction in supplementary capital (-44.6% 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.

Tier 3 banks race to attain KES 3.0 Bn minimum capital requirement by end of 2025

Bank – As of March 2025	Core Capital (KES.000)	Total Capital (KES.000)	Overall Risk Weighted Assets (KES.000)	Core Capi-tal/TRWA (%)	Total Capital/ TRWA (%)
1. KCB Bank Kenya Ltd	154,610	199,651	976,972	15.8%	20.4%
2. Equity Bank Kenya Ltd	135,257	152,910	844,186	16.0%	18.1%
3. Co-operative Bank of Kenya Ltd	117,740	136,363	620,549	19.0%	22.0%
4. NCBA Bank Kenya Plc	91,313	91,313	439,926	20.8%	20.8%
5. Absa Bank Kenya Plc	75,273	88,687	434,854	17.3%	20.4%
6. Stanbic Bank Kenya Ltd	57,587	72,809	390,760	14.7%	18.6%
7. Standard Chartered Bank	56,324	56,504	273,986	20.6%	20.6%
8. Diamond Trust Bank Kenya Ltd	50,943	55,892	329,734	15.4%	17.0%
9. I&M Bank Ltd	46,402	54,458	336,944	13.8%	16.2%
10. Bank of Baroda (Kenya) Limited	31,846	31,879	105,238	30.3%	30.3%
11. Prime Bank Ltd	29,019	30,490	95,193	30.5%	32.0%
12. Bank of India	28,385	28,642	32,399	87.6%	88.4%
13. Citibank N.A. Kenya	26,230	26,634	121,177	21.6%	22.0%
14. Family Bank Ltd	15,957	19,013	120,695	13.2%	15.8%

Banks with core capital below KES 3.0bn		
Bank	Core Capital (in KES Mn)-1Q25	Total Capital (in KES Mn)- 1Q25
ABC Bank	2,582.1	3,492.4
M-Oriental Bank Kenya	2,639.4	2,776.0
Paramount Bank Ltd	2,716.0	2,716.0
Development Bank of Kenya Ltd	2,077.5	2,352.8
Middle East Bank (K) Ltd	2,133.8	2,254.4
CIB	2,114.6	2,181.5
Credit Bank	1,350.8	1,615.3
UBA Kenya Bank Ltd	1,479.7	1,479.7
Consolidated Bank of Kenya Ltd	(737.5)	(737.5)
Bank	Core Capital (in KES Mn)-FY24	Total Capital (in KES Mn)- FY24
Premier Bank Kenya Ltd	2,507.5	2,797.6
Access Bank (Kenya) Plc	152	152

- The Central Bank of Kenya recently directed lenders to submit board-sanctioned capital raising plans showing a pathway to compliance with the KES 10.0bn core capital threshold by 2029, following amendments in the Business Laws (Amendment) Act, 2024.
- As of 1Q25, approximately 14 of the 38 banks in Kenya have core capital levels above KES 10.0bn.
- Approximately 11 banks (excluding Spire Bank) are yet to hit the KES 3.0bn core capital quantum, though they have till December 2025 to attain this amount.
- Access Bank may receive some reprieve once it acquires National Bank of Kenya, given its core capital levels hit KES 9.1bn in 1Q25.
- The sector may witness increased M&A, capital raising and privatisation activity (DBK and Consolidated Bank), esp. amongst tier 3 lenders.

Liquidity buffers swell on cautious lending, tepid credit demand

Liquidity

Bank	FY23	1Q24	FY24	1Q25	bps change y/y
StanChart	66.3%	66.9%	67.6%	73.6%	671
Co-op Bank	52.0%	51.2%	59.9%	61.3%	1,010
Equity Group	53.4%	52.1%	57.4%	58.5%	640
NCBA	52.9%	51.6%	54.1%	55.8%	417
Diamond Trust Bank	48.6%	50.5%	49.9%	54.6%	410
Stanbic Bank	40.3%	48.3%	50.5%	51.2%	290
I&M Group	44.7%	44.2%	51.6%	50.4%	620
KCB Group	48.5%	47.9%	47.6%	48.9%	100
ABSA	31.1%	33.5%	42.5%	46.9%	1,340
Average	**48.6%**	**49.6%**	**53.4%**	**55.7%**	

Loan to Deposit ratio (LDR)

Bank	FY23	1Q24	FY24	1Q25	bps change y/y
ABSA	92.5%	92.1%	84.2%	83.1%	(900)
Co-op Bank	82.9%	78.5%	73.8%	73.2%	(526)
Stanbic Bank	78.7%	72.0%	71.6%	72.3%	29
I&M Group	74.7%	75.9%	69.6%	72.1%	(379)
KCB Group	64.8%	67.8%	75.1%	71.3%	356
Diamond Trust Bank	63.5%	63.3%	63.8%	61.3%	(193)
Equity Group	65.3%	63.0%	58.5%	60.8%	(219)
NCBA	58.2%	58.5%	60.2%	57.9%	(57)
StanChart	47.6%	50.2%	51.3%	48.3%	(185)
Average	**69.8%**	**69.0%**	**67.6%**	**66.7%**	

- Overall rise in liquidity buffers as banks tightened their credit management to address weakening asset quality during the period, coupled with tepid credit demand. In particular, the average liquidity ratio stood at 55.7% in 1Q25 across our coverage, compared to 49.6% in 1Q24.
- Absa recorded the quickest jump in liquidity levels (despite being the lowest at 46.9%), as its loan-to-deposit ratio weakened to 83.1% in 1Q25, following a 5.6%y/y dip in its loan book as it opted to park part of its liquidity in the Kenyan government securities (+54.3%y/y). Additionally, Absa tends to have ease of capital access at the Group level, thereby reducing reliance on deposits for lending.
- StanChart reported the highest liquidity ratio in the quarter at 73.6%, up from 66.9% in 1Q24.
- Overall loan-to-deposit ratio in our coverage softened to 66.7% in 1Q25 from 69.0%, further cementing the view of reduced risk-taking, consistent with banks' prudent credit policies amid elevated NPLs.
- The heightened liquidity levels set the stage for potential credit expansion as economic conditions gradually improve.

Overview of coverage performance in 1Q25

Banks	1Q24 NIMs	1Q25 NIMs	1Q24 COR	1Q25 COR	1Q24 CTI	1Q25 CTI	1Q24 WAIR on loans	1Q25 WAIR on loans	1Q24 WAIR on deposits	1Q25 WAIR on deposits	1Q24 NFI/Total Income	1Q25 NFI/Total Income	1Q24 Total Assets (KES '000)	1Q25 Total Assets (KES '000)
Absa	10.1%	9.7%	2.9%	1.9%	33.9%	35.0%	16.3%	14.9%	4.7%	3.7%	30.8%	28.6%	497,676	520,197
Co-op	7.7%	8.7%	1.7%	2.2%	44.1%	45.5%	13.2%	14.7%	5.5%	5.4%	37.7%	32.8%	714,672	774,074
DTB	5.4%	6.2%	2.1%	1.2%	48.8%	53.7%	11.0%	11.6%	5.1%	5.7%	34.3%	28.3%	571,888	595,135
Equity Bank	7.5%	7.8%	2.9%	1.7%	47.1%	54.2%	13.1%	12.4%	3.4%	3.4%	44.4%	40.7%	1,685,877	1,749,180
I&M	7.1%	7.6%	2.0%	2.2%	44.2%	43.9%	15.1%	14.4%	5.7%	5.0%	27.4%	27.7%	532,963	568,414
KCB	6.8%	8.1%	2.4%	2.2%	43.3%	45.8%	12.7%	14.1%	3.3%	3.7%	35.9%	31.8%	1,996,196	2,034,173
NCBA	5.3%	7.0%	1.6%	2.2%	50.6%	51.2%	14.1%	14.0%	7.3%	5.3%	48.3%	42.5%	694,872	655,974
Stanbic	6.2%	6.8%	1.8%	1.4%	35.7	48.2%	14.3%	12.1%	5.8%	3.9%	36.9%	28.9%	491,504	450,130
StanChart	9.2%	9.9%	1.4%	1.1%	37.4%	39.2%	14.5%	13.8%	1.3%	1.4%	36.7%	29.2%	391,341	382,256
Average	**7.3%**	**8.0%**	**2.1%**	**1.8%**	**42.8%**	**46.3%**	**13.8%**	**13.6%**	**4.7%**	**4.2%**	**36.9%**	**32.3%**		

Salient sector developments

- Development and issuance of the Kenya Green Finance Taxonomy and the Climate Risk Disclosure Framework. Institutions are expected to apply the taxonomy in assessing the degree to which their business activities are aligned under the taxonomy's guiding principles.
- The Central Bank of Kenya authorized J.P. Morgan Chase Bank to establish a representative office in Kenya in October 2024.
- The Central Bank of Kenya announced that, with effect from July 1, 2025, it will lift the moratorium on licensing of new commercial banks, with new banks expected to demonstrate that they can meet the enhanced minimum capital requirements of KES 10.0bn. The moratorium has been in place since November 17, 2015.
- Proposed review of commercial bank license fees, with the draft Banking (Fees) Regulation, 2025 recommending the adoption of the gross annual revenue methodology at a rate of 1.0% prorated over a period of three years. During the first year of implementation, CBK proposes to apply a rate of 0.6%, second year, a rate of 0.8% and ultimately in the third year at a rate of 1.0%.
- Completion of the acquisition of 100.0% shareholding of National Bank of Kenya Limited (NBK) by Access Bank PLC from KCB Group. KCB received CBK's approval on April 4, 2025, under Section 13 (4) of the Banking Act, as well as approval by the Cabinet Secretary for the National Treasury and Economic Planning on April 10, 2025, under Section 9 of the Banking Act.
- Issuance of a consultative paper on the Review of the Risk-Based Credit Pricing Model, with the Central Bank proposing the use of the policy rate (Central Bank Rate) as the common reference rate for determining lending rates. Banks, on the other hand, are proposing the adoption of the interbank rate as the base reference rate.
- Development of a draft Banking (Penalties) Regulations, 2024, to provide a clear framework for assessing and levying monetary penalties to promote compliance with banking laws and enhance the integrity of the banking sector.
- Development of draft guidelines for the Internal Liquidity Coverage Adequacy Assessment (ILAAP) process by issuing draft Guidelines on Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and Leverage Ratio (LR) for the banking sector. The guidelines aim to strengthen the banking sector's liquidity and capital frameworks.
- The National Assembly Committee on Finance and National Planning rejected the proposal by the National Treasury that sought to grant the Kenya Revenue Authority (KRA) sweeping access to personal data, including trade secrets and confidential customer information.

Salient sector developments

- Ascension of the Anti-Money Laundering and Combating of Terrorism Financing Laws (Amendment) Bill, 2025, as the country raced to show alignment with Financial Action Task Force (FATF) standards. Kenya was added to the FATF grey list in 2024. In June 2025, Kenya was listed by the European Commission as a high-risk jurisdiction for money laundering and terrorism financing, joining a group of countries facing tighter scrutiny from European financial institutions.
- Extension of operating hours for the Kenya Electronic Payment and Settlement System (KEPSS), effective July 1, 2025. The KEPSS operating hours will be revised from the current 8:30 a.m. – 4:30 p.m. to the new schedule of 7:00 a.m. – 7:00 p.m. on all business days except for public holidays and weekends.
- The Competition Authority of Kenya approves the acquisition of Gulf African Bank (effective 16th May 2025) by Soren Investment Company Ltd.
- Credit Bank Management proposes listing of the bank's shares on the Unquoted Securities Platform (USP) of the Nairobi Securities Exchange (NSE) – awaiting approval by shareholders during its AGM on 7th July 2025.
- Family Bank announced in May 2025 its plans to list on the NSE in 2026, preferably through a listing by introduction if it secures institutional capital on favourable terms. If this capital is not secured, the management pointed to a formal IPO supported by anchor shareholders.

1H25 Sector Outlook

- Decline in government securities' yields to help rein in interest expenses as short-term interest rates continue trending lower (364-day T-bill rate fell below 10.0% in June 2025). Banks in our coverage recorded a marked slowdown in interest expense (save for Co-op Bank) – deposit rates are expected to be more responsive to the CBR rate cuts. Customer deposit books are expected to benefit/flow back to banks as interest rates on government securities decline.
- Loan yields are expected to continue their downward recalibration (in phases, partly attributable to the timing mismatch of locked-in high-cost deposits) as banks adjust borrowing costs in line with the recent CBR rate cuts.
- Gradual pick up in lending, with credit to key sectors of the economy, particularly manufacturing, trade and consumer durables, having been noted to improve in May 2025 by the CBK. Additionally, PSCG growth is expected to be further supported by the dissipation of exchange rate valuation effects on FX loans. The Building and Construction sector is predicted to record continued improvement following the resumption of road works after the government reportedly released funds to settle pending bills owed to contractors.
- Net interest margins are expected to experience a short-term reprieve as interest expenses decline at a faster rate than the slowdown in interest income as yields trend lower. Interest income could, however, benefit from higher volumes as private sector credit growth (PSCG) gradually picks up.
- FX trading income is expected to remain tepid in 2025 on account of reduced currency volatility and improved currency availability, with the steep declines expected to moderate. Notably, FX impact on bank balance sheets is anticipated to ease, given that the currency is anticipated to remain stable against regional currencies, further supported by robust foreign currency reserves.
- Banks to continue leveraging on non-banking subsidiaries (e.g. insurance, asset management, custody business, etc) and digitisation initiatives to grow non-funded income.
- Intensified loan recovery efforts/restructuring as NPLs remain elevated, especially prolonged by protracted court processes to recover collateral from corporate businesses.
- The government recently approved a KES 175bn roads bond to help clear outstanding payments to contractors. Loan loss provisions are expected to remain elevated; however, they may trend lower, should overall industry asset quality begin to improve. We see the potential for the writeback of loan loss provisions and suspended interest expense (and thereby reduced pressure on the bottom line).
- Muted PBT performance as banks operate from a higher base compared to 2024, as interest income flattens. Operating expenses (less provisions) are likely to increase for some lenders, possibly linked to branch expansion, digitisation and cybersecurity investments (especially due to rising sophisticated cyber risks and data privacy concerns), and increased statutory deductions.

1H25 Sector Outlook

- Expansion in cross-border payment options: KCB Group joined the Pan-African Payment and Settlement System (PAPSS) earlier in the year, enabling clients to send and receive money in local currency to partner banks across Africa almost instantly. Stanbic Bank is expected to integrate into China's cross-border interbank payment system (CIPS) by the end of 2025 as it positions itself in RMB trade facilitation.
- Continued lobbying efforts by Kenyan lenders to engage with the DRC's regulatory body concerning the country's local directive, which demands 45% local ownership by the end of 2026.
- Growing interest in entry into the Ethiopian market following the liberalisation of its banking sector in 2024. KCB Group has reportedly begun negotiations with the National Bank of Ethiopia to explore entry into the country's large and untapped financial market.
- Potential pick up in M&A, capital raising activities as Tier 3 banks race to hit the KES 3.0bn minimum capital requirement deadline. Banks with international/regional parent companies may receive capital through credit lines.
- Exploration of business opportunities in the Emirates: Equity Group shareholders have approved the establishment of a Representative Office for Equity Group Holdings Plc in the United Arab Emirates (UAE).
- Potential risks to the banking sector include:
    - » Escalating geopolitical tensions (esp. in the Middle East),
    - » Higher trade tariffs and commodity prices,
    - » Supply chain disruptions that may, in turn, drive up inflation,
    - » Lower than expected economic growth and constrained consumer wallets,
    - » Increasing pace and evolving complexity of regulatory risks and associated costs,
    - » Rising cybersecurity and fraud threats, as well as a shortage of critical cybersecurity staff/talent,
    - » Sticky NPLs, and
    - » Evolving climate-related risks that could impact lending practices, with increasingly demanding regulatory requirements.

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