Kenya Listed Banks Q3'2021 Report, & Cytonn Weekly #49/2021

Focus of the Week

Following the release of the Q3'2021 results by Kenyan listed banks, the Cytonn Financial Services Research Team undertook an analysis on the financial performance of the listed banks and identified the key factors that shaped the performance of the sector.

The Asset Quality for the listed banks improved in Q3'2021, with the gross NPL ratio declining by 0.4% points to 12.0%, from 12.4% in Q3'2020. We however note that despite this marginal improvement in the asset quality, the NPL ratio remains higher than the 10-year average of 8.1%. The listed banks' management quality also improved, with the Cost of Income ratio improving by 12.0% points to 58.1%, from 70.1% recorded in Q3'2020, as banks continued to reduce their provisioning levels following the improved business environment during the period.

Consequently, Core Earnings per Share (EPS) recorded a weighted growth of 102.0% in Q3'2021, from a weighted decline of 32.4% recorded in Q3'2020. The performance is however skewed by the strong performance from ABSA, NCBA Group and KCB Group, which recorded core EPS growths of 328.3%, 159.0% and 131.4%, respectively.

The report is themed **"Banking Sector Recovers due to Improved Asset and Management Quality"** where we assess the key factors that influenced the performance of the banking sector in Q3'2021, the key trends, the challenges banks faced, and areas that will be crucial for growth and stability of the banking sector going forward. As such, we shall address the following:

i. Key Themes That Shaped the Banking Sector Performance in Q3'2021,
ii. Summary of The Performance of the Listed Banking Sector in Q3'2021,
iii. The Focus Areas of the Banking Sector Players Going Forward, and,
iv. Brief Summary and Ranking of the Listed Banks based on the Outcome of Our Analysis.

Section I: Key Themes That Shaped the Banking Sector Performance in Q3'2021

Below, we highlight the key themes that shaped the banking sector in Q3'2021 which include; regulations, regional expansion through mergers and acquisitions, asset quality and capital raising for onward lending:

1. **Regulation:**

    a. **Decrease in Capital Adequacy risk weighting for all residential mortgages:** The Central Bank of Kenya (CBK) published the Banking Circular No 2 of 2021, indicating that they had reduced the capital adequacy risk weighting for all residential mortgages to 35.0% from 50.0%, effective 1st July 2021. The move by CBK to reduce the capital adequacy risk weighting aims at creating an enabling environment for the banking sector to be able to lend more to the domestic residential mortgage market through availing long-term and secured funds to primary mortgage lenders. However, banks have recently been seen taking precautionary measures such as conducting frequent evaluations and demanding additional security from borrowers using real estate as collateral during the loan repayment period in the event that the value of the existing collateral drops to a level below that of the loan. Additionally, banks are anticipated to only accept collateral whose value is seven times bigger than the value of the loan being applied for.

Other regulations/ guidelines issued after Q3'2021 include;

i. **Integration of Climate-Related Risk Management:** The Central Bank of Kenya (CBK) released Guidance on Climate-Related Risk Management, highlighting that all banks and mortgage finance companies ought to integrate the risks and opportunities arising from climate change in their risk management, strategy and governance structure. Opportunities expected to arise from climate change include financing activities such as the transition to renewable energy, appropriate housing, resilient infrastructure and innovative agricultural practices. On the other hand, banks are expected to build their capacity going forward to identify and mitigate the risks arising from climate change, and,
ii. **Suspension of the Listing of Borrower's Negative Credit Information**: The Central Bank of Kenya (CBK) announced a 12 months suspension of listing of negative credit information for borrowers with loans below Kshs 5.0 mn, whose loans were performing previously, but have become non-performing from 1st October, 2021. The move by the CBK is an intervention measure aiming to cushion Micro Small and Medium Enterprises from adverse effects of the COVID-19 pandemic. We expect banks to be more cautious towards lending to MSMEs due to lack of adequate credit risk information on potential loan borrowers.

2. **Regional Expansion through Mergers and Acquisitions**: Kenyan banks are looking at having an extensive regional reach and to this end, the following were the major M&A's activities announced in Q3'2021:

a. On 25th August 2021, KCB Group announced that it had completed the 62.1% acquisition of Banque Populaire du Rwanda Plc (BPR), after receiving all the required regulatory approvals. KCB Group and Atlas Mara Limited had signed a definitive agreement in November 2020 for KCB's acquisition of a 62.1% stake in BPR subject to shareholder and regulatory approval. In May 2021, KCB Group disclosed that it made an offer to the remaining BPR shareholders to raise its acquisition stake in the bank to 100.0% from 62.1% and received shareholders' approval for the acquisitions, with only regulatory approval pending for the finalization of the transactions. As highlighted in our Cytonn Weekly #29/2021 and Cytonn Weekly #19/2021, KCB Group agreed to purchase 62.1% stake in BPR from Atlas Mara Limited using a Price to Book Value (P/Bv) of 1.1x. According to the latest BPR financials released as of June 2021, the bank had a book value of Rwf 52.9 bn (Kshs 5.8 bn), and thus at the trading multiple of 1.1x, we expect KCB Group to have spent an estimated Kshs 6.3 bn to acquire BPR Rwanda. For more information on the acquisition, see our Cytonn Weekly #19/2021.

Other mergers and acquisitions activities announced after Q3'2021 include;

i. On 8th November 2021, I&M Group PLC announced the rebranding of Uganda's Orient Bank Limited (OBL) to I&M Bank (Uganda) Limited following the launch of the bank's operations in Uganda. The rebrand comes six months after I&M Holding PLC announced the completion of the 90.0% acquisition of Orient Bank Limited Uganda (OBL) on 30th April 2021 and after receiving all the required regulatory approvals. As highlighted in our Cytonn Weekly #18/2021, I&M Holdings was to take over 14 branches from Orient Bank Limited Uganda (OBL), taking its total branches to 80, from 66 branches as at the end of 2020. For more information, see our Cytonn Weekly #45/2021, and,
ii. On 2nd December 2021, KCB announced the termination of their initial plans to acquire a

100.0% stake in African Banking Corporation Limited (ABC Tanzania) following the failure to receive certain regulatory approvals. In November 2020, KCB Group and Atlas Mara Limited came to an agreement for KCB to acquire a 62.1% stake in Banque Populaire Du Rwanda (BPR) and a 100.0% stake in Africa Banking Corporation Tanzania Limited (BancABC), subject to shareholder and regulatory approval in the respective countries. The transaction would have seen KCB spend collectively USD 56.9 mn (Kshs 6.4 bn) in the acquisition of Banque Populaire du Rwanda Plc (BPR) Rwanda and African Banking Corporation (ABC) Tanzania. However, despite the cancellation of the acquisition plans, KCB has assured its shareholders that it will continue pursuing attractive regional expansion opportunities to enhance their regional participation and accelerate growth. For more information on, see our Cytonn Monthly – November.

We expect to see continued consolidation by the Kenyan banking sector as the weaker banks are merged with the big banks to form a stronger banking system. The COVID-19 pandemic exposed the weak banks in the industry which might need to be acquired by larger banks in order to boost their capital adequacy and liquidity ratios to the required minimum statutory levels. We also expect to see Kenyan banks continue to diversify into other African regions as they look to reduce their reliance on the Kenyan Market.

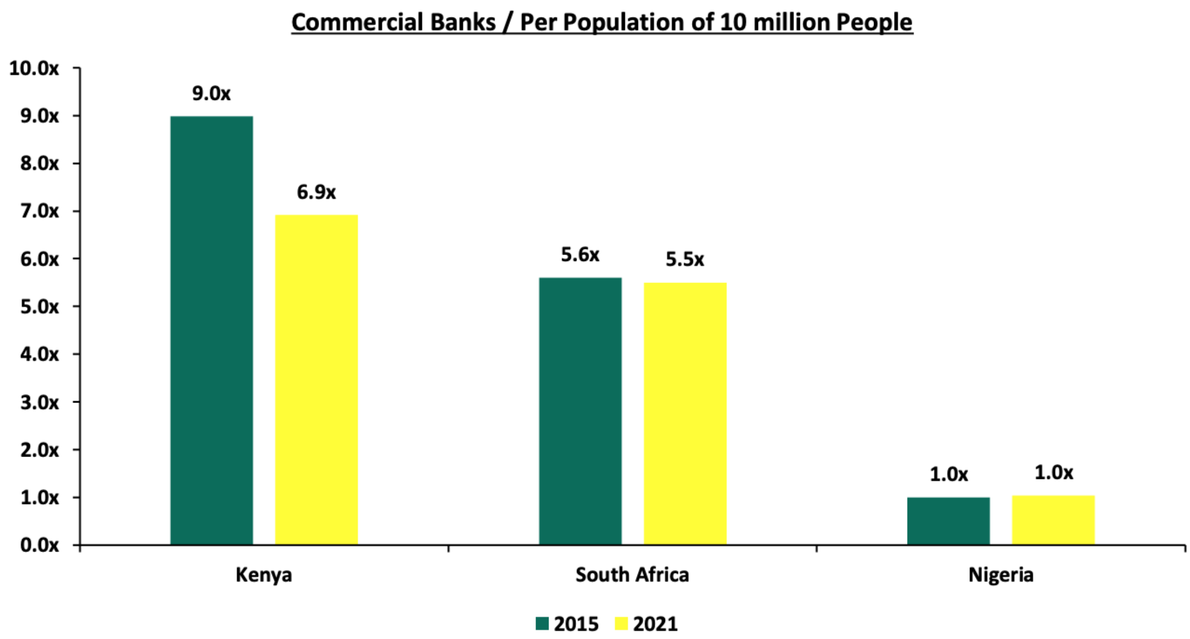
Below is a summary of the deals in the last 7 years that have either happened, been announced or expected to be concluded:

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs bn)	Transaction Stake	Transaction Value (Kshs bn)	P/Bv Multiple	Date
I&M Holdings PLC	Orient Bank Limited Uganda	3.3	90.0%	3.6	1.1x	April-21
KCB Group	Banque Populaire du Rwanda	5.3	100.0%	5.6	1.1x	August 2021
KCB Group**	ABC Tanzania	Unknown	100%	0.8	0.4x	Nov-20*
Co-operative Bank	Jamii Bora Bank	3.4	90.0%	1	0.3x	Aug-20
Commercial International Bank	Mayfair Bank Limited	1	51.0%	Undisclosed	N/D	May-20*
Access Bank PLC (Nigeria)	Transnational Bank PLC.	1.9	100.0%	1.4	0.7x	Feb-20*
Equity Group **	Banque Commerciale Du Congo	8.9	66.5%	10.3	1.2x	Nov-19*
KCB Group	National Bank of Kenya	7	100.0%	6.6	0.9x	Sep-19
CBA Group	NIC Group	33.5	53%:47%	23	0.7x	Sep-19
Oiko Credit	Credit Bank	3	22.8%	1	1.5x	Aug-19
CBA Group**	Jamii Bora Bank	3.4	100.0%	1.4	0.4x	Jan-19
AfricInvest Azure	Prime Bank	21.2	24.2%	5.1	1.0x	Jan-18

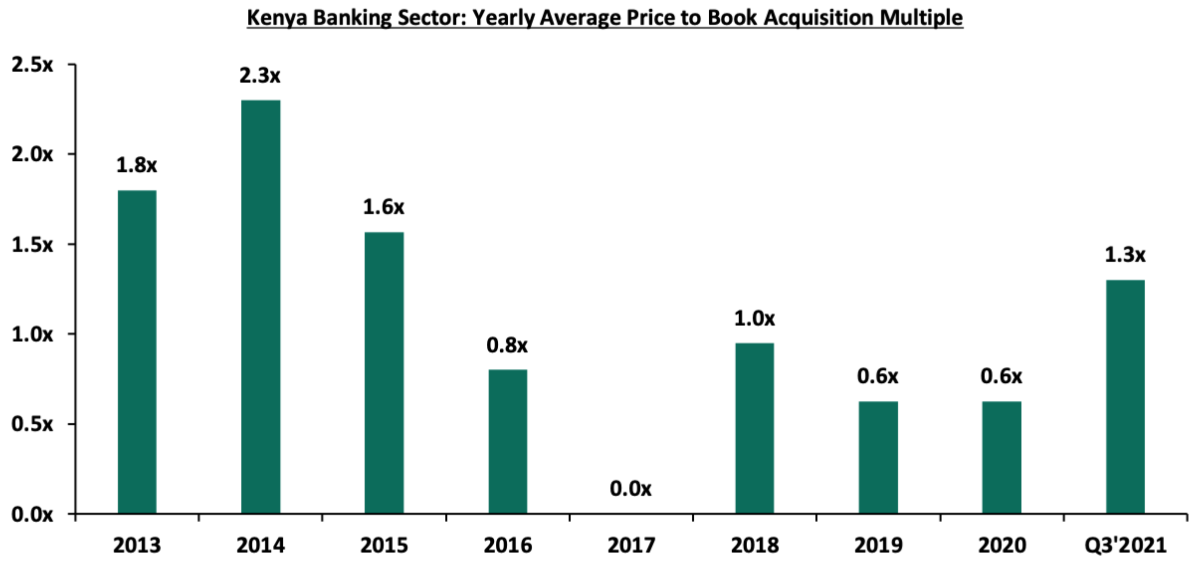
Acquirer	Bank Acquired	Book Value at Acquisition (Kshs bn)	Transaction Stake	Transaction Value (Kshs bn)	P/Bv Multiple	Date
KCB Group	Imperial Bank	Unknown	Undisclosed	Undisclosed	N/A	Dec-18
SBM Bank Kenya	Chase Bank Ltd	Unknown	75.0%	Undisclosed	N/A	Aug-18
DTBK	Habib Bank Kenya	2.4	100.0%	1.8	0.8x	Mar-17
SBM Holdings	Fidelity Commercial Bank	1.8	100.0%	2.8	1.6x	Nov-16
M Bank	Oriental Commercial Bank	1.8	51.0%	1.3	1.4x	Jun-16
I&M Holdings	Giro Commercial Bank	3	100.0%	5	1.7x	Jun-16
Mwalimu SACCO	Equatorial Commercial Bank	1.2	75.0%	2.6	2.3x	Mar-15
Centum	K-Rep Bank	2.1	66.0%	2.5	1.8x	Jul-14
GT Bank	Fina Bank Group	3.9	70.0%	8.6	3.2x	Nov-13
Average			**76.7%**		**1.3x**	

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

The number of commercial banks in Kenya currently stands at 38, compared to 43 banks 6-years ago. The ratio of the number of banks per 10 million population in Kenya now stands at 6.9x, which is a reduction from 9.0x 6-years ago, demonstrating continued consolidation of the banking sector. However, despite the ratio improving, Kenya still remains overbanked as the number of banks remains relatively high compared to the population. For more on this see our topical.

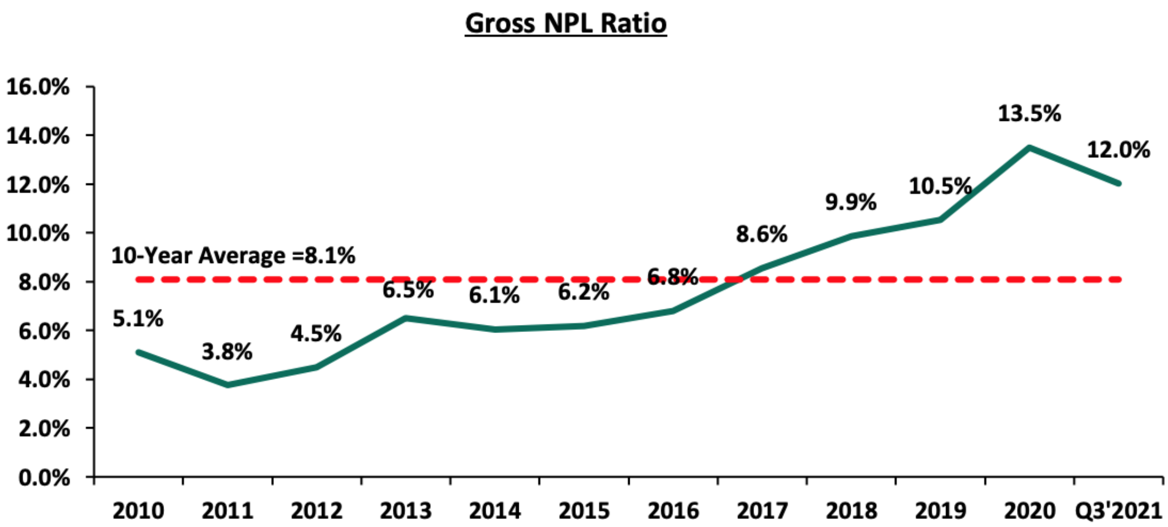


The acquisition valuations for banks has been recovering, with the valuations increasing from the average of 0.6x in 2020 to 1.3x so far in 2021. This however still remains low compared to historical prices paid as highlighted in the chart below;



3. **Asset Quality:** Asset quality for listed banks improved in Q3'2021, albeit marginally, with the Gross NPL ratio declining by 0.4% points to 12.0%, from 12.4% in Q3'2020. The improvement in asset quality is attributable to the declining credit risk on the back of the improving operating environment. The NPL coverage rose to 65.1% in Q3'2021, from 59.2% recorded in Q3'2020, in accordance with IFRS 9, where banks are expected to provide both for the incurred and expected credit losses. According to the September 2021 MPC Press Release, the NPL ratio for the entire banking sector stood at 13.9% as at August 2021, an improvement from the 14.0% in June 2021, signifying an improvement in asset quality for the sector in Q3'2021.

The chart below highlights the asset quality trend:



The table below highlights the asset quality for the listed banking sector:

	Q3'2020 NPL Ratio**	Q3'2021 NPL Ratio*	Q3'2020 NPL Coverage**	Q3'2021 NPL Coverage*	% point change in NPL Ratio	% point change in NPL Coverage
ABSA Bank Kenya	7.6%	8.1%	64.9%	74.5%	0.5%	9.6%
Equity Group	10.8%	9.5%	52.0%	60.6%	(1.3%)	8.6%
I&M Holdings	11.2%	10.2%	66.8%	70.6%	(1.0%)	3.8%

	Q3'2020 NPL Ratio**	Q3'2021 NPL Ratio*	Q3'2020 NPL Coverage**	Q3'2021 NPL Coverage*	% point change in NPL Ratio	% point change in NPL Coverage
Stanbic Bank	12.3%	11.5%	61.8%	54.9%	(0.8%)	(6.9%)
Diamond Trust Bank	8.7%	11.9%	62.5%	40.0%	3.2%	(22.5%)
KCB	15.3%	13.7%	58.5%	63.4%	(1.6%)	4.9%
Co-operative Bank of Kenya	13.2%	14.6%	50.1%	65.5%	1.4%	15.4%
Standard Chartered Bank Kenya	14.8%	15.3%	78.2%	82.8%	0.5%	4.6%
NCBA Group	14.1%	17.0%	58.3%	70.2%	2.9%	11.9%
HF Group	25.4%	22.0%	58.2%	68.9%	(3.4%)	10.7%
Mkt Weighted Average	**12.4%**	**12.0%**	**58.5%**	**65.1%**	**(0.4%)**	**6.6%**

***Market cap weighted as at 10/12/2021**

****Market cap weighted as at 01/12/2020**

Key take-outs from the table include;

i. Asset quality for the listed banks improved during the period, with the weighted average NPL ratio declining by 0.4% points to a market cap weighted average of 12.0%, from an average of 12.4% for the listed banking sector in Q3'2020. Key to note, the listed banks' NPL ratio of 12.0% is a decline from the 12.7% recorded in Q2'2021, signifying improving asset quality in Q3'2021, but still remains higher than the 10-year average of 8.1%,
ii. NPL Coverage for the listed banks increased to a market cap weighted average of 65.1% in Q3'2021, from 58.5% recorded in Q3'2020, as the banks increased their provisioning levels due to the difficult economic conditions caused by the pandemic. Banks are expected to continue over-provisioning in 2021, albeit at a slower pace than in 2020,
iii. Housing Finance (HF) Group recorded the highest improvement in its asset quality, with its NPL ratio declining by 3.4% points to 22.0%, from 25.4% in Q3'2020. On the other hand, Diamond Trust Bank (DTB) recorded the highest increase in its NPL ratio, which increased by 3.2% points to 11.9%, from 8.7% recorded in Q3'2020, and,
iv. Notably, Diamond Trust Bank Kenya (DTB-K) reduced their NPL coverage to 40.0%, from 62.5% despite the NPL ratio rising to 11.9%, from 8.7% in Q3'2020. Had DTB-K maintained their NPL coverage at the 62.5% recorded in Q3'2020, the bank would have had an additional provisioning of Kshs 5.8 bn, which would have reduced the earnings per share from the reported Kshs 18.6 to Kshs 12.8.

4. **Capital Raising**: In Q3'2021, listed banks' continued borrowing from international institutions to not only strengthen their capital position but to also boost their lending ability to the perceived riskier Micro, Small and Medium Sized Enterprises (MSMEs) segment. The capital raising however slowed down in Q3'2021 after significant activity in H1'2021. In October 2021, Proparco, a private sector financing arm of Agence Française de Dévelopement Group (AFD Group), granted Equity Bank two guarantee facilities totalling Kshs 5.0 bn (€ 39.0 mn) for onward lending to MSMEs and a Kshs 70.0 mn (€ 550,000) technical assistance grant to support Equity Group Foundation's health projects. Additionally, in November 2021, the Co-operative Bank of Kenya

received Kshs 6.3 bn (USD 56.1 mn) from the European Investment Bank for lending to MSME firms with up to 250 workers. The table below highlights the disclosed loan facilities that banks have secured for capital injection and lending to the MSMEs so far in 2021:

Bank	Amount Borrowed For Onward Lending (Kshs bn)	Purpose
Equity Bank	67.9*	MSME lending
KCB Bank	16.4	MSME lending
Cooperative Bank	17.3***	MSME lending and Tier II Capital**
I&M Bank	5.4	MSME lending and Tier II Capital**
Total	**107.0**	

***Includes a Kshs 2.6 bn grant offered by European Investment Bank (EIB)**
****Tier II Capital refers to a bank's supplementary capital which includes senior debt (debt that a company must repay first before going out of business) with a tenure of not less than five years**
*****Includes a Kshs 6.3 bn loan from European Investment Bank (EIB) for onward lending to MSMEs**

Section II: Summary of the Performance of the Listed Banking Sector in Q3'2021:

The table below highlights the performance of the banking sector, showing the performance using several metrics, and the key take-outs of the performance;

Bank	Core EPS Growth	Interest Income Growth	Interest Expense Growth	Net Interest Income Growth	Net Interest Margin	Non-Funded Income Growth	NFI to Total Operating Income	Growth in Total Fees & Commissions	Deposit Growth	Growth in Government Securities	Loan to Deposit Ratio	Loan Growth	Return on Average Equity
ABSA	328.3%	1.3%	(19.1%)	8.6%	7.0%	5.2%	32.0%	11.9%	9.0%	(5.6%)	85.2%	9.5%	21.1%
NCBA	159.0%	16.2%	10.8%	17.9%	8.4%	10.3%	29.4%	1.2%	11.2%	6.9%	75.9%	12.9%	22.7%
KCB	131.4%	28.7%	45.0%	23.3%	7.0%	28.8%	39.7%	34.2%	26.6%	25.8%	63.9%	23.2%	22.2%
Equity	78.6%	9.8%	(1.3%)	19.1%	6.2%	(0.2%)	44.3%	(4.3%)	11.2%	(14.1%)	53.2%	(4.6%)	11.8%
Stanbic	43.2%	(2.5%)	(23.3%)	2.8%	6.7%	19.1%	33.9%	17.9%	6.4%	(6.8%)	51.0%	0.1%	14.5%
SCBK	33.7%	0.5%	(7.3%)	12.2%	6.2%	4.2%	42.6%	(8.5%)	(5.8%)	(17.4%)	83.0%	11.2%	14.0%
I&M	25.1%	15.7%	(5.2%)	34.5%	6.0%	(3.5%)	30.7%	12.8%	14.2%	28.6%	71.9%	11.8%	14.3%
DTBK	20.1%	6.0%	6.2%	5.9%	5.4%	(4.9%)	24.5%	0.3%	12.3%	(2.7%)	63.5%	0.0%	6.8%
Co-op	18.0%	21.6%	22.4%	21.3%	8.5%	15.6%	35.4%	9.4%	12.0%	35.9%	72.9%	7.8%	14.2%
HF Group	(22.0%)	(18.4%)	(21.2%)	(14.8%)	3.9%	12.2%	24.7%	27.5%	(1.3%)	(9.5%)	92.2%	(7.9%)	(19.0%)
Q3'21 Mkt Weighted Average*	**102.0%**	**15.9%**	**14.9%**	**16.9%**	**7.3%**	**14.3%**	**35.2%**	**13.8%**	**14.3%**	**11.7%**	**69.7%**	**12.4%**	**18.7%**
Q3'20 Mkt Weighted Average**	**(32.4%)**	**10.8%**	**8.2%**	**11.7%**	**7.0%**	**2.1%**	**35.9%**	**(7.9%)**	**23.1%**	**47.4%**	**65.6%**	**15.0%**	**13.0%**

***Market cap weighted as at 10/12/2021**

****Market cap weighted as at 01/12/2020**

Key takeaways from the table above include:

i. For the third quarter of 2021, core Earnings per Share (EPS) recorded a weighted average growth of 102.0%, compared to a weighted average decline of 32.4% in Q3'2020 for the listed banking sector. The performance is however largely skewed by the strong performance from ABSA, NCBA and KCB Group of 328.3%, 159.0% and 131.4%, respectively,
ii. The Banks have recorded a weighted average deposit growth of 14.3%, a decline from the 23.1% recorded in Q3'2020,
iii. Interest expense grew at a faster pace, by 14.9%, compared to the 8.2% growth in Q3'2020 while cost of funds declined, coming in at a weighted average of 2.7% in Q3'2021, from 2.9% in

Q3’2020, owing to the faster growth in average interest-bearing liabilities, an indication that the listed banks were able to mobilize cheaper deposits,

iv. Average loan growth came in at 12.4%, lower than the 15.0% growth recorded in Q3’2020. Notably, the loan growth outpaced the 11.7% growth in government securities, an indication that the banks’ have increased their lending to private sectors due to decrease in credit risk on the back of economic recovery,
v. Interest income grew by 15.9%, compared to a growth of 10.8% recorded in Q3’2020. Notably, the weighted average Yield on Interest Earning Assets (YIEA) for the listed banks increased to 9.8%, from the 9.5% recorded in Q3’2020, an indication of the increased allocation to higher-yielding government securities by the sector during the period. Consequently, the Net Interest Margin (NIM) now stands at 7.3%, a 0.3% points increase from the 7.0% recorded in Q3’2020 for the listed banking sector, and,
vi. Non-Funded Income grew by 14.3%, compared to the 2.1% increase recorded in Q3’2020. This can be attributable to the faster growth in the fees and commission which grew by 13.8% compared to a decline of 7.9% in Q3’2020, and points to the diversification of income in the banking sector.

Section III: Outlook of the banking sector:

The banking sector recorded significant recovery in Q3’2021, as evidenced by the increase in their profitability, with the Core Earnings Per Share (EPS) growing by 102.0%. The increase in EPS is mainly attributable to the reduced provisioning levels by the sector, as the Loan Loss Provisions declined by 32.6% in Q3’2021, from the 322.3% growth recorded in Q3’2020. However, despite this decline, we believe that the uncertainty brought about by the pandemic and the emergence of new variants will see banks continue overprovisioning in the medium term, albeit lower than in 2020. Based on the current operating environment, we believe the future performance of the banking sector will be shaped by the following key factors**:**

I. **Growth in Interest income:** Going forward, we expect interest income growth to remain a key driver in the industry, evidenced by the 15.9% growth recorded in Q3’2021 which outpaced the 10.8% growth recorded in Q3’2020. The disclosure by banks that most customers that had restructured their loans are now servicing them as normal means that banks are now earning interest on loans restructured at the height of the pandemic,
II. **Revenue Diversification:** In Q3’2021, Non-Funded Income recorded a 14.3% weighted average growth, a significant increase from the 2.1% growth recorded in Q3’2020, attributable to the expiry of the waiver on fees and commissions on loans and advances issued by the CBK in March 2020. However, the banking sector’s Non-Funded Income to Operating Income declined, coming in at 35.2% in Q3’2021, compared to 35.9% in Q3’2020. There exists an opportunity for the sector to further increase NFI contribution to revenue going forward. The expiry of the waiver on bank charges on 2nd March 2021 is also expected to continue spurring NFI growth in the medium-long term due to the increased adoption of digital channels, which present an avenue for an increase in fees on transactions. According to Central Bank Annual Report 2019/2020, 67.0% of banking transactions were conducted on mobile phones after the onset of the pandemic, compared to 55.0% of transactions before the pandemic. The increase in mobile-banking transactions therefore provides an opportunity for banks to increase their Non-Funded income going forward,
III. **Provisioning:** Loan Loss Provisions recorded a weighted average decline of 32.4% in Q3’2021, compared to a growth of 322.3% in Q3’2020 and a decline of 24.8% in H1’2021. However, given that the success of COVID-19 inoculations is reliant on donations from foreign countries and uncertainties caused by emergence of new COVID-19 variants, we believe that a cautious approach is still required to manage credit risk in the banking sector,
IV. **Cost Rationalization**: Majority of the banks have continued pursuing their cost rationalization strategy by riding on the digital revolution wave to improve their operational efficiency and enhance reliability of outside the branch transactions. Increased adoption of alternative channels

of transactions such as mobile, internet, and agency banking has led to increased transactions carried out via alternative channels, reducing branch transactions to handling high-value transactions and other services such as advisory. This has led to banks such as KCB, Equity and ABSA recording 98.0%, 96.1% and 87.0%, respectively, of their transactions outside the branch as at Q3’2021,

V. **Expansion and Further Consolidation:** With consolidation remaining a key theme going forward, the current environment could provide opportunities for bigger banks with an adequate capital base to expand and take advantage of the low valuations in the market and further consolidate/ buy out smaller and weaker banks. Consolidation will be key for most of the smaller banks that are still struggling during the recovery period, and would also benefit larger banks with the opportunity to expand their operations locally and regionally and drive growth in future. Additional, we believe that Kenyan banks will continue diversifying into other African countries as they look to reduce their reliance in the Kenyan Market, and,

VI. **Integration of Climate-Related Risk Management:** Following the release of Guidance on Climate-Related Risk Management by the Central Bank of Kenya (CBK), we expect to see banks channel their long term financing into environmental-friendly assets that are more sustainable and have lower risk of damage loss as a result of climate change. Additionally, banks will focus on lending to companies whose activities do not pose an environmental risk and will ultimately lead to improvement of collateral quality consequently reducing their exposure to unexpected loss and obsolesce. This will lead to reduced non-performing loans and provisioning in the sector.

Section IV: **Brief Summary and Ranking of the Listed Banks:**

As per our analysis on the banking sector from a franchise value and a future growth opportunity perspective, we carried out a comprehensive ranking of the listed banks. For the franchise value ranking, we included the earnings and growth metrics as well as the operating metrics shown in the table below in order to carry out a comprehensive review of the banks:

Bank	Loan to Deposit Ratio	Cost to Income (With LLP)	Return on Average Capital Employed	Deposits/ Branch (Kshs bn)	Gross NPL Ratio	NPL Coverage	Tangible Common Ratio	Non Funded Income/Revenue
KCB Group	75.9%	55.2%	22.7%	1.7	13.7%	63.4%	14.1%	29.4%
Equity Bank	63.9%	54.5%	22.2%	2.6	9.5%	60.6%	12.5%	39.7%
Absa Bank	85.2%	56.6%	21.1%	3.2	8.1%	74.5%	13.2%	32.0%
Stanbic Bank	83.0%	59.8%	15.8%	8.5	11.5%	54.9%	14.9%	42.6%
SCBK	51.0%	60.1%	14.5%	7.2	15.3%	82.8%	15.0%	33.9%
I&M Holdings	71.9%	62.1%	14.3%	3.2	10.2%	70.6%	15.8%	30.7%
Coop Bank	72.9%	63.0%	14.2%	2.4	14.6%	65.5%	15.0%	35.4%
NCBA Group	53.2%	68.0%	11.8%	4.6	17.0%	70.2%	12.3%	44.3%
DTBK	63.5%	62.0%	6.8%	2.5	11.9%	40.0%	15.4%	24.5%
HF Group	92.2%	128.6%	(19.0%)	1.7	22.0%	68.9%	14.4%	24.7%
Weighted Average Q3’2021	**69.7%**	**58.1%**	**18.8%**	**3.3**	**12.0%**	**65.1%**	**13.8%**	**35.5%**

The overall ranking was based on a weighted average ranking of Franchise value (accounting for 60.0%) and intrinsic value (accounting for 40.0%). The Intrinsic Valuation is computed through a combination of valuation techniques, with a weighting of 40.0% on Discounted Cash-flow Methods, 35.0% on Residual Income and 25.0% on Relative Valuation, while the Franchise ranking is based on banks operating metrics, meant to assess efficiency, asset quality, diversification, and profitability, among other metrics. The overall Q3’2021 ranking is as shown in the table below:

Bank	Franchise Value Rank	Intrinsic Value Rank	Weighted Rank	H1'2021	Q3’2021
KCB Group Plc	2	2	2.0	3	1
ABSA	1	3	2.2	2	2
I&M Holdings	4	1	2.2	1	3
Equity Group Holdings Ltd	2	7	5.0	4	4
SCBK	7	4	5.2	6	5
Co-operative Bank of Kenya Ltd	6	6	6.0	8	6
NCBA Group Plc	8	5	6.2	5	7
Stanbic Bank/Holdings	5	9	7.4	7	8
DTBK	9	8	8.4	9	9
HF Group Plc	10	10	10.0	10	10

Major Changes from the H1’2021 Ranking are:

1. KCB Group recorded an improvement in the overall ranking, coming in at position 1 from position 3 in H1’2021, attributable to a decline in the bank‘s Gross NPL ratio to 13.7%, from the 14.4% recorded in H1’2021, leading to an increase in the bank’s franchise value score, coupled with an improvement in the bank’s Cost to Income ratio, which recorded a 2.0% points decline to 55.2% from 57.2% recorded in H1’2021,
2. Co-operative Bank’s rank improved to position 6 from position 8 in H1’2021, attributable to an increase in the bank’s coverage ratio to 65.5%, higher than the 63.5% recorded in H1’2021. The bank’s Net Interest Margin ratio also increased to 8.5%, which was the highest in the listed banking sector,
3. I&M Holdings’ rank declined to position 3 after being ranked position 1 six times in a row, mainly due to a deterioration in the bank’s Cost to Income ratio to 62.1%, from 56.3% recorded in H1’2021, and,
4. NCBA Group’s rank declined to position 7 from position 5 in H1’2021, attributable to a deterioration in the bank‘s asset quality, as the Gross NPL ratio rose to 17.0%, from the 16.7% recorded in H1’2021.

For more information, see our Cytonn Q3’2021 Listed Banking Sector Review

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