Kenya Listed Commercial Banks Analysis

Cytonn H1'2016 Banking Sector Report

"Transition continues, to a more regulated, yet innovative environment"

4th September, 2016

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I: Overview of the Firm

160 Members, 1 Agenda – The Client

Cytonn INVESTMENTS

Introduction - Layout of the Business

Cytonn Investments runs its business across Africa, North America and Europe

Investments	Real Estate	Diaspora	Technology	Cooperative
Alternative investment manager, focused on private equity and real estate	Development arm focused on developing institutional grade real estate projects for investment	Our platform to connect East Africans in the diaspora to attractive investment opportunities in the region	Our technology affiliate, focused on delivering world-class web & platforms to automate all business lines	Investment society providing retail investors access to attractive alternative investment opportunities

Cytonn INVESTMENTS

Introduction to Cytonn Investments

Cytonn Investments is an independent investments management company

- Our mission is that ***"we work to deliver innovative & differentiated financial solutions that speak to our clients needs***"

- Cytonn Investments is differentiated in several respects:

1. **Independence & Investor Focus:** Cytonn is solely focused on serving the interest of clients, which is best done on an independent investment management platform to minimize conflicts of interest

2. **Alternative Investments:** Specialized focus on alternative assets - real estate, private equity, and structured products

3. **Partnerships with Global Institutional Investors:** Such as Taaleri of Finland

4. **Strong Alignment:** Every staff member participates in ownership. When clients do well, the firm does well; and when the firm does well, staff do well

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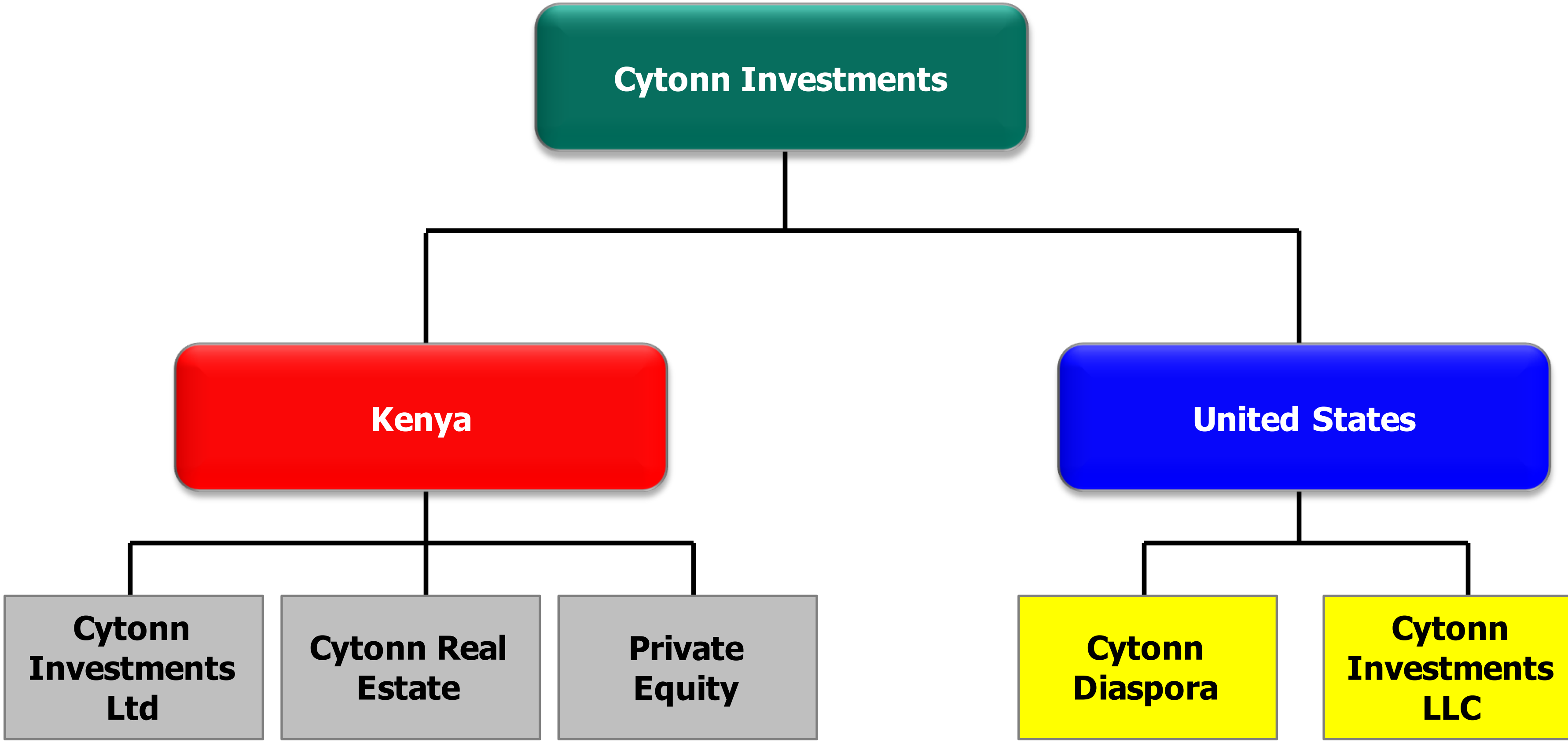
Cytonn's Corporate Structure – Kshs 74 bn Under Mandate



Cytonn Investments Ltd
- Independent investment management company, serving HNW & institutional clients

Cytonn Real Estate
- Development affiliate providing investment grade real estate development solutions

Private Equity
- Financial Services
- Education
- Technology

Cytonn Diaspora
- Diaspora platform connecting investors in the diaspora with opportunities in the East African Region

Cytonn Investments LLC
- US advisory and investment management company

Board of Directors

The board is comprised of 10 members from diverse backgrounds, each bringing in unique skill-sets

Prof. Daniel Mugendi,
Chairman

Antti – Jussi Ahveninen,
Non-executive Director

Madhav Bhalla,
Non-executive Director

James Maina,
Non-executive Director

Nasser Olwero,
Non-executive Director

Rose Kimotho, M.B.S
Non-executive Director

Mike Bristow,
Non-executive Director

Edwin H. Dande,
Managing Partner & CEO

Elizabeth N. Nkukuu,
Partner & CIO

Patricia N. Wanjama,
Partner & Head of Legal

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The Management Team

The team brings in diverse global and local experience in investments, real estate, finance and brand

Edwin H. Dande,
Managing Partner & CEO

Elizabeth N. Nkukuu,
Partner & CIO

Patricia N. Wanjama,
Partner & Head of Legal

Josephat Gichimu,
Finance Manager

Maurice Oduor,
Investment Manager

Johnson Denge,
Real Estate Services Manager

Frank Ndubi,
Quality Assurance Manager

Shiv Arora,
Head of Private Equity
Real Estate

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The Management Team

The team brings in diverse global and local experience in investments, real estate, finance and brand

Robert M Mwebi,
Project Manager

Martin Gitonga
Project Manager

Peter Karenju,
Project Manager

Nyambura Kiarie,
Real Estate Agency Manager

Gaurang Chavda,
Head of Private Wealth
Management

Winfred Ndung'u,
Brand & Business
Admin Manager

Beverlyn Naliaka,
PR & Communication

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Cytonn Investment Solutions

We offer differentiated investment solutions in four main areas

High Yield Solutions

- The Team's expertise and market knowledge enable us to offer investors higher yields than the market average
- Regular credit analysis, quick dealing capability and the large banking spread in the market allow the team to capitalize on investment opportunities

Real Estate Investment Solutions

- Our unique strategic partnerships with Cytonn Real Estate, our development affiliate, enables us to find, evaluate, structure and deliver world class real estate investment products for investors
- Our platform connects global capital seeking attractive return with institutional grade development opportunities in the East African region

Private Regular Investment Solutions

- We understand that investors have varying financial goals. Our highly customized and simple to understand investment products will enable you to achieve your investment objective
- We offer solutions to both local investors, and those in the diaspora interested in the investment opportunities back in Kenya and the region

Private Equity

- Cytonn seeks to unearth value by identifying potential companies and growing them through capital provision and partnering with their management to drive strategy
- We primarily invest in the Financial Services, Education and Technology sectors

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Cytonn Real Estate's Unrivalled & Unique Capabilities

Cytonn has all the necessary capabilities to deliver the very best real estate investment product

Fundraising

- The global market exposure combined with local experience networks have it easier to raise funds
- Our investors comprise of global and local institutions, local high-net-worth investors and Kenyans in the diaspora
- An experienced and passionate team to collect and manage funds, bringing about diverse investment portfolios with good returns

Market Research & Site Acquisition

- Research team is an essential part of any investment, helping identify the highest and best use and concept for the different land deals received and taken up by the company
- Cytonn has one of the best research teams in the region who carry out intensive market research for internal use and uses the data to release the data for guidance of external customers as well
- Our Site Acquisition team uses the market research to find the best sites for development given the opportunity in the economy

Concept Design

- Cytonn has unique concept designs that arise from partnerships with global institutions in countries like Dubai giving superior quality products to the market
- The internal concept team in collaboration with the project management function work tirelessly to deliver the products of the firm

Project Management

- The project management function is a vital part of real estate whose role is to ensure projects are delivered in the best quality, within scope and the most efficient resource use
- Cytonn boasts of a large PM team with diverse experience in the various aspects of project management to deliver world class real estate products

Sales and Marketing

- The marketing and brand team have enabled the brand reach great heights and visibility locally and globally by employing their experience, passion and innovation
- The firm has one of the best distribution teams that ensure our products reach far and wide. Their experience is backed by success stories of making sales of up to 45% even before start of construction developments

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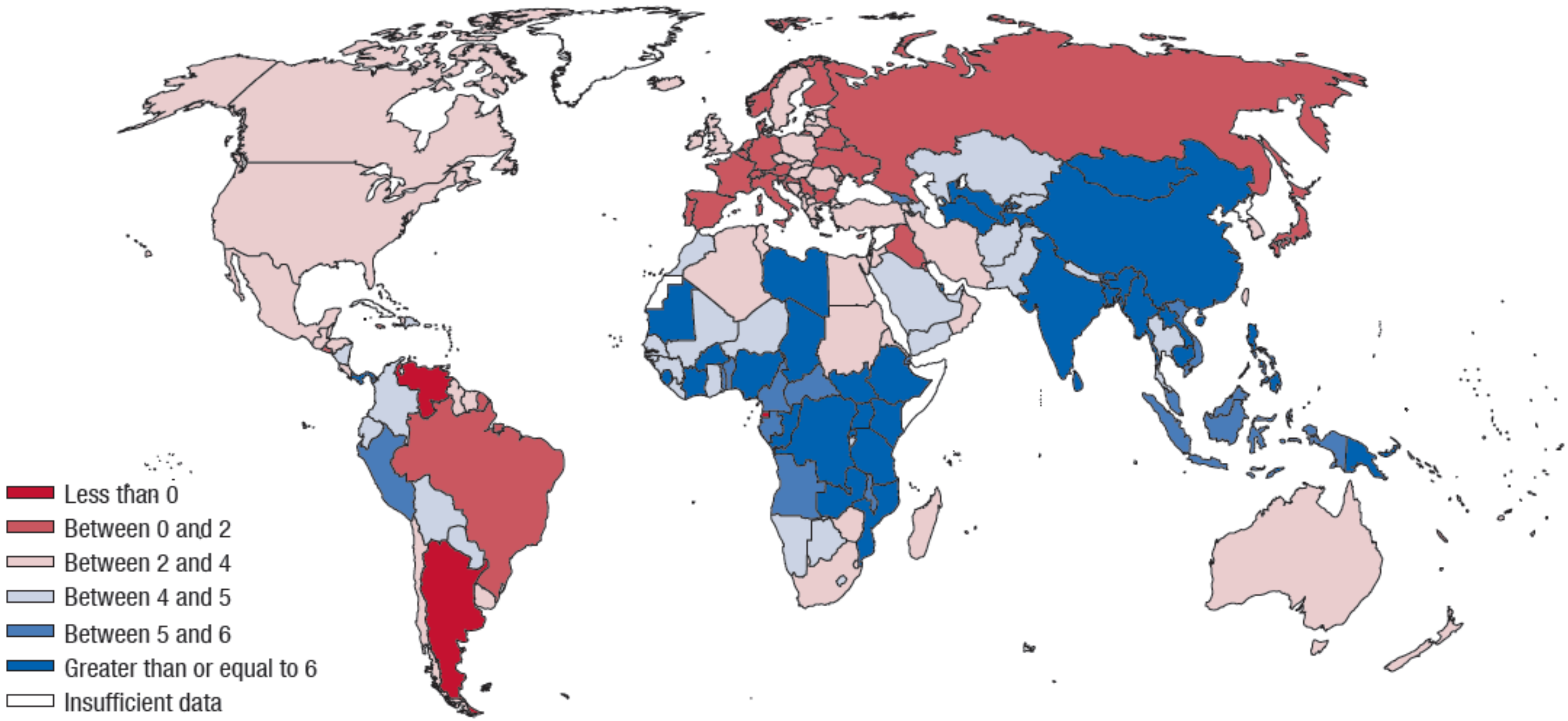
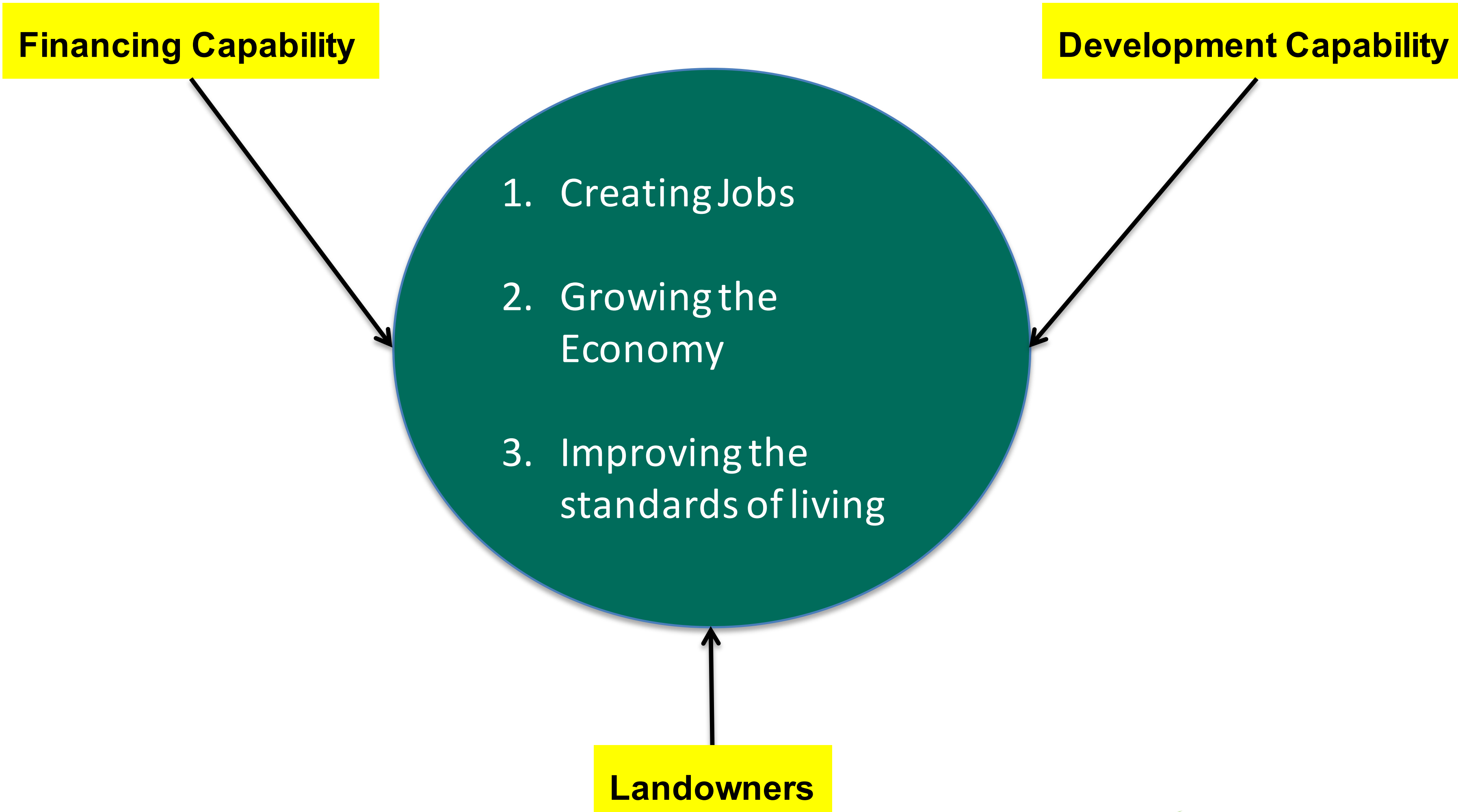
Global view of economic growth determines regions of focus

There is demand from global capital (light colors) looking for attractive returns (dark colors)



Cytonn's strategy brings three key pillars together



Deal pipeline overview – 85% to low and mid-income housing

Kshs 74 Billion Deal Pipeline

Low to mid-income Housing
85%

- Masterplanned Development
- Comprehensive Development
- Low to mid-income Modular Housing

Prime Residential and Mixed-use
15%

- High Density Integrated Mixed-use
- Gated Communities

Summary of Projects – Kshs 74 bn Deal Pipeline Details

- **Set 1:** Projects are in the market, construction phase and being sold
- **Set 2:** Projects are in design stage
- **Set 3:** Projects are in acquisition stage

	Projects	Concept	Project Size (Kshs mn)
	SET 1		
1	Athi Sharpland	Site & Service Scheme	644.7
2	Amara Ridge	Gated community	1,000.0
3	Taraji	Integrated lifestyle development	2,508.0
4	The Alma	Integrated lifestyle development	3,826.6
5	Situ Village	Gated masterplanned community	5,500.0
	Sub - Total		**13,479.3**
	SET 2		
6	The Annex	Integrated lifestyle development	522.9
7	Project Kitale	Masterplanned development	700.0
8	Rongai Sharpland II	Site & Service Scheme	937.4
9	Project Westlands	Serviced apartment concept	1,000.7
10	Project Ridgeways	High density mixed-use development	9,317.0
11	NewTown by Cytonn Real Estate	Low to mid income masterplanned city	22,500.0
	Sub - Total		**34,978.0**
	SET 3		
12	Project Mombasa	High density mixed-use development	3,750.0
13	Project Hurlingham	Mixed Used Office complex	7,000.0
14	Project Upper Hill	Mixed used office complex	15,000.0
	Sub - Total		**25,750.0**
	GRAND TOTAL		**74,207.3**

II. Kenya Economic Review and Outlook

Kenya Summary Economic Outlook

Our outlook for the year remains positive with key indicators pointing to a strong closing performance

Macro-Economic Indicators	2015 Experience	2016 Experience	Going Forward	Current Outlook	Outlook as at the beginning of the Year
GDP	Kenya's GDP for the full year 2015 came in at 5.6%	5.9% growth in Q1'2016. IMF, WB and Treasury expect GDP to come in at c 6.0%	We expect GDP growth for 2016 to come in at 5.8% driven by government spending on infrastructure and the recovery of the tourism sector	**Positive**	**Positive**
Interest Rates	The CBR increased 300 bps to 11.5% in August 2015 with the 91-day starting the year at a rate of 11.7%	The CBK reduced the CBR by 100 bps to 10.5% and the 91-day T-Bill hit a low of 7.1% before bottoming out and starting on an upward trend.	Interest rates expected to start on a downward trend, at least for the short term following the signing of the Banking (Amendment) Act, 2015, as banks will prefer loaning to the government	**Positive**	**Negative**
Inflation	December inflation at 8.0% (highest for year)	Inflation declined from the high of 8.0% in December through January to August at 6.3%	We expect Inflation rate to remain below the CBK's upper limit of 7.5%	**Neutral**	**Neutral**
Exchange Rate	The shilling depreciated 13.0% against the dollar from 90.7 in Jan to 102.3 in Dec 2015 The foreign reserves improved to 4.5months by Dec 2015	The shilling has appreciated 0.9% against the dollar YTD. Forex reserves hit a high of 5.2 months import cover during H1'2016	The shilling to remain stable in the short to medium term supported by (i) foreign exchange reserves equivalent to 5.1 months of import cover, and (ii) increased dollar inflows from tourism and remittances. We are however likely to see upward pressure in the short term driven by volatility in the stock market	**Neutral**	**Negative**

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Kenya Summary Economic Outlook

Key indicators point to a sustained strong economic performance in 2016

Macro-Economic Indicators	2015 Experience	2016 Experience	Going Forward	Current Outlook	Outlook as at the beginning of the Year
Corporate Earnings	The year experienced weak earnings from the banking sector with a growth of 9.3% in Q3'2015 17 listed and 1 unlisted company issued profit warnings as a result of tough operating environment and high interest	Several companies have released positive H1'2016 results, mainly banking sector with weighted average growth in core EPS of 15.8%, above expectation of 12.5%	We expect corporate earnings to be better than 2015, exhibiting growth in profits owing to better macroeconomic conditions. We expect corporate earnings to come in at c12.5%	**Positive**	**Neutral**
Foreign Investor Sentiments	Increased flows out of Kenya owing to the US interest rate hike compared to inflows into equity markets as a result of volatility in interest rates	Investor sentiment has been high with foreign investors being net buyers throughout the year with inflows of USD 54.0 mn	With banking stocks declining whilst holding a large percentage of the market cap, and foreign investor participation, we are likely to see decreased activity as uncertainty looms	**Neutral**	**Neutral**
Security	Improvement witnessed in levels of security with tourism levels increasing in the month of December compared to the previous year and reduced terrorist attacks	Kenya has received an upgrade in credit rating by Moody's as a positive indicator that the environment is safe to carry out business operations	Insecurity remains a concern informed by the few isolated pockets of attacks in the country. However, we appreciate the Government's initiatives to improve security	**Neutral**	**Positive**

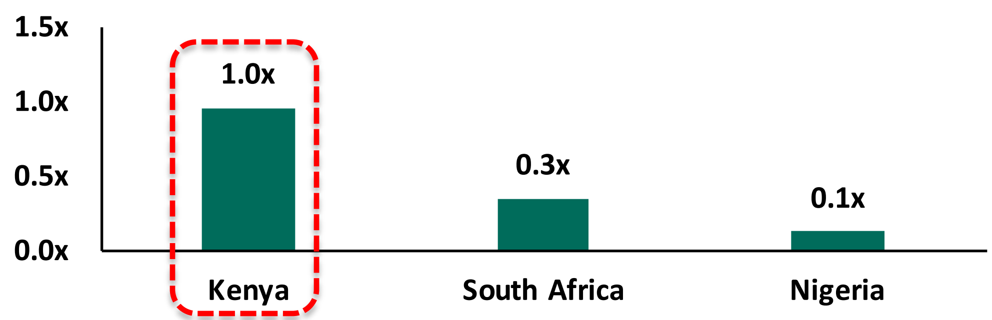
III. Kenya Banking Sector Overview

Kenya's Banking Sector Overview

Kenya is over-banked, with 42 commercial banks (2 in receivership) serving a population of 44 mn people

- In Kenya there are a total of 42 commercial banks with two banks; Chase bank and Imperial bank in receivership, 1 mortgage finance company, 12 microfinance banks, 8 representative offices of foreign banks, 86 foreign exchange bureaus, 14 money remittance providers and 3 credit reference bureaus
- All banks are regulated by the Central Bank of Kenya. The Capital Markets Authority has additional oversight over the listed banks. All banks are required to adhere to certain prudential regulations such as minimum liquidity ratios and cash reserve ratios with the Central Bank
- We maintain our view that Kenya is over-banked with a relatively high ratio of banks to total population, with 42 commercial banks serving of 44 mn people, compared to Nigeria's 22 for 180 mn and South Africa's 19 for 55 mn
- This overbanked environment has already begun leading to consolidation in the sector, and heightened M&A activity. Tanzanian Bank, Bank M acquiring 51.0% of Oriental Commercial Bank, GT Bank acquiring Fina-Bank, Mwalimu Holdings acquiring Equatorial and I&M Bank acquiring Giro Bank over the last 2 years

Commercial Banks / Population (Millions)



Transition continues, to a more regulated, yet innovative environment

Transition Area	Summary	Effect on Banking Sector
Increased Regulation	• **Interest Rate Cap:** The Banking Act (Amendment) Bill, 2015 has been enacted into Law setting caps on lending and deposit rates across the industry • **Amendment of the Kenya Deposit Insurance Corporation Act (KDIC):** Treasury's wishes to amend the Kenya Deposit Insurance Corporation Act, to be involved before a bank is placed under receivership was approved by parliament • **Provisioning:** Banking industry has recorded an increased level of loan loss provisioning, with an average growth of 122.4% in H1'2016	• Banks have been obligated to comply with the new regulation. However, we have seen banks focusing on repricing loans with no mention of deposits. We are likely to see compressed NIMs going forward • Higher capital levels will create a stable banking system, forcing further consolidation going forward. Introduction of Internal Capital Adequacy Assessment Process (ICAAP) will also provide framework for capital assessment based on risk appetite for banks • The increased level of provisioning will improve the level of asset quality across the sector , creating a safer and attractive banking industry, providing more confidence to both the clients and investors
Sector Realignment	• **Strategic Initiatives** - Banks have continued to diversify their businesses into non-bank services; I&M Holdings has acquired Burbidge Capital, as it seeks to grow its business into transaction advisory. KCB Group has opened KCB Capital to tap into the same space • **Innovative Banking** – In order to continue recording strong revenue growth, banks will have to innovate with possibilities of focus on transaction based banking, which could be targeted towards meeting specific customer needs and hence protecting their NIMs	• We are likely to see on-stop shops financial services institutions with diverse product offering • We are also likely to see enhanced consolidation, where smaller, high-risk banks will be priced out of the deposit mobilization space, with larger banks likely to acquire the smaller ones • Banks will have to come up with innovative products, with possibilities of focus on transaction based banking, which could be targeted towards specific niches and clients

The sector is undergoing transition. However, key issues such introduction of ICAAP framework, increased focus on sufficient provisioning, and increased level of "controlled" regulation (Prudential Guidelines and Interest Rate Cap) will transition the industry into consolidation and innovations. Those that remain will be stronger banks in a more efficient and stable banking sector.

Growth in the Banking Sector

Listed bank's H1'2016 EPS grew by 15.8% y/y on the back of an improved macroeconomic environment, but of note was that loan growth outpaced deposit growth

- Banking sector in Kenya experienced growth in H1'2016 in assets, deposits, profitability and products offering, leveraging on diversification to alternative channels, supported by favourable macroeconomic environment
- The listed banking sector's aggregate gross loans and advances grew by 6.6% to Kshs. 1.7 trillion in June 2016 from Kshs. 1.6 trillion in June 2015 while deposits grew by 7.6% to Kshs. 2.1 trillion in June 2016 from Kshs. 2.0 trillion in June 2015
- Total assets grew by 6.3% in June 2016 to Kshs 2.9 trillion, from Kshs 2.7 trillion in June 2015
- Since 2010 the aggregate of listed banks profit after tax has grown at a CAGR of 11.1%
- Since 2010, deposits have grown at a CAGR of 15.2%, with loans and advances having outpaced deposit growth at a CAGR of 17.9%
- Growth has mainly been underpinned by:
  - **Banks responding to the needs of the Kenyan market for convenience and efficiency through alternative banking channels such as mobile, internet and agency banking**
  - **Branch network expansion strategy both in Kenya and in the East African community region**

Banking Sector Growth Drivers

Alternative channels, cost containment and expansion support banks' growth and diversification

1) **Technology to enhance cost containment initiatives**: Banks have embraced integration with mobile application platforms and internet banking, and this has led to lots of efficiency in distribution, leading to increased uptake of banking services, particularly in the mass market

2) **Adoption of Agency Banking:** The agency banking model has reduction of the operating expenses and improve efficiency and will be a key driver for diversification. This also ensures a much wider reach

3) **Growth of the retail segment and the middle class** : As the middle-class grows rapidly in Kenya, faster than majority of the countries in the region, there is an inherent increase in consumption expenditure and an increase in the percentage of the population which will require banking services

4) **Expansion both regionally and domestically**: With increased financial inclusion in Kenya at 75%, banks looking to expand in the less penetrated markets of Tanzania, Uganda, Rwanda, South Sudan and DR Congo are opening up new channels of revenue in countries with relatively attractive spreads compared to Kenya. However risks present themselves as witnessed with the recent political instability in S. Sudan. Most banks bottom lines have not benefited much by the regional expansions

5) **Regulatory Environment:** The CBK has tightened its regulations on banks with emphasis on transparency on lending rates, governance and capitalization. Banks are expected to remain stable and position themselves for stable growth

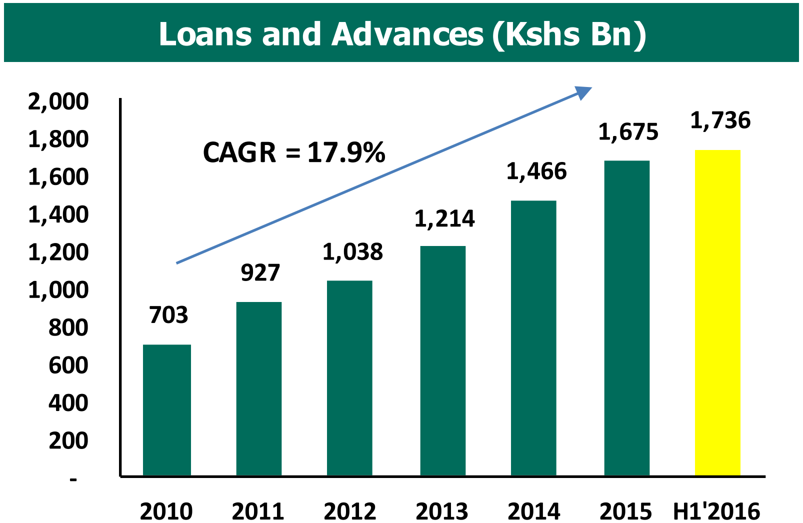
Recent Developments in the Banking Sector

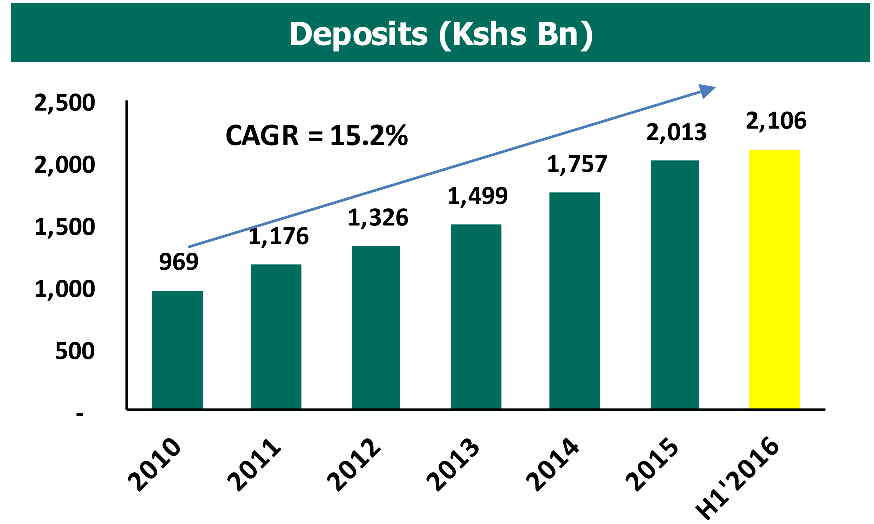
The Banking Act (Amendment) Bill, 2015 was signed into law setting new stage for pricing of loans & deposits

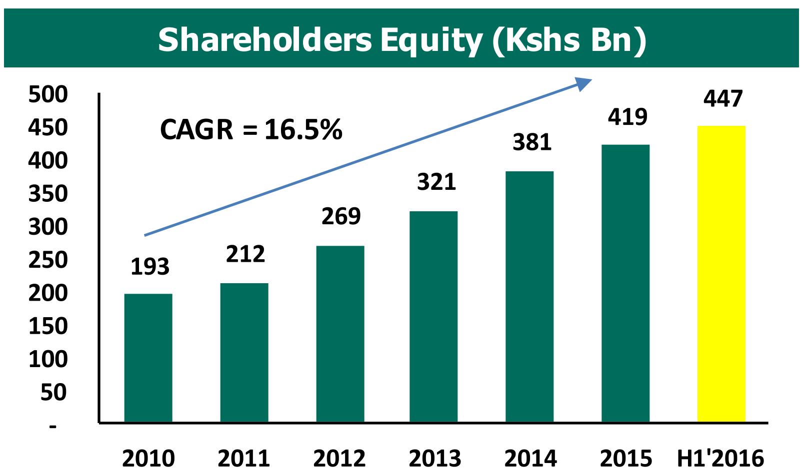
1. **Continued increase in Loan Loss Provisions:** With increased supervision of banks following the closure of Imperial Bank, Dubai Bank and Chase Bank, we have seen a jump in loss provisions with the most notable being the increase in the non-listed banks' loan loss provisions by 392.9% in H1'2016 and that of listed banks by 122.4% noting the increment in the level of credit risk across the whole sector
2. **Signing of The Banking Act (Amendment) Bill, 2015:** The Bill to amend the Banking Act, 2015 by placing restrictions on the rate which banks offer on loans and deposits was signed by the President. This amendment will put a cap on lending rates at 4.0% above the base lending rate and a floor on the deposit rates at 70.0% of the base lending rate. The enactment of this amendment will see banks make changes to their products, clientele focus, interest rates and expenses
3. **Amendment of The Kenya Deposit Insurance Corporation Act:** The Parliament has passed a bill that requires Treasury to be consulted by CBK before a bank is placed under receivership,
4. **Internal Capital Adequacy Assessment Process (ICAAP)** - The Central Bank of Kenya (CBK) has developed draft guidelines on ICAAP that seeks to enable banks and mortgage finance institutions in determining the level of capital adequate to cover for their respective risks. Under the guideline all banks and mortgage finance institutions are required to formulate their own ICAAP that ensures that overall internal capital levels are adequate and consistent with their strategies, business plans, risk profiles and operating environments

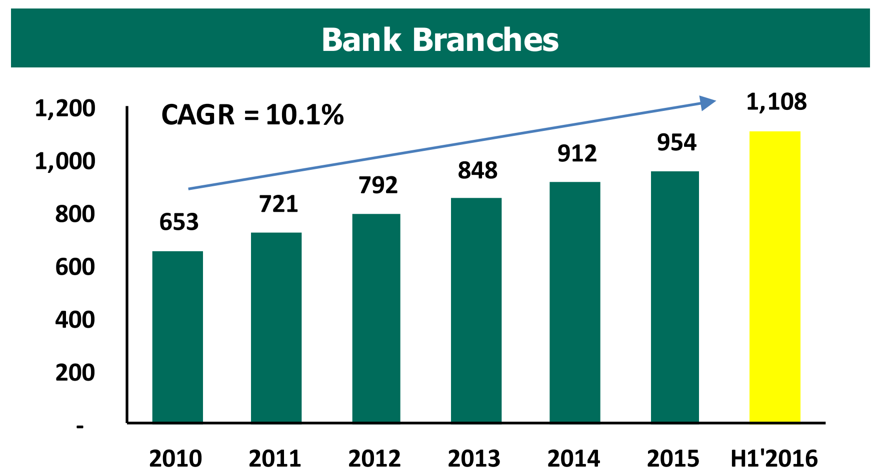
Listed Banking Sector Metrics

Deposits and loan growth remain strong, however the growth is slowing down and is currently at a lower level than historical 5-year average at 7.6% and 6.6%, respectively ,in H1'2016









Source: Central Bank of Kenya

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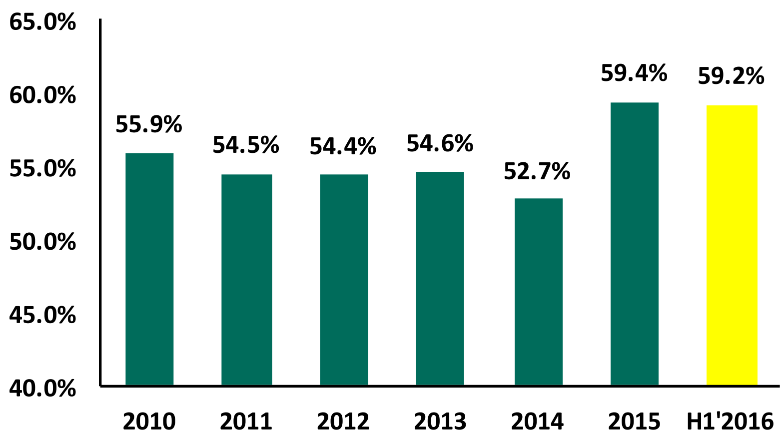
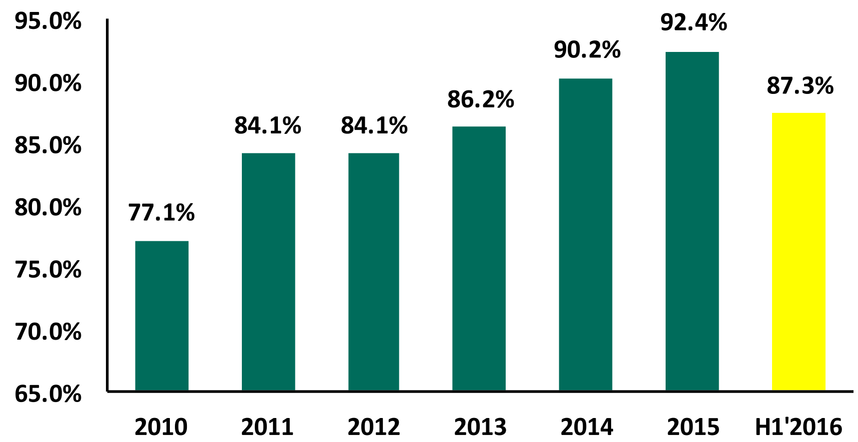
Listed Banking Sector Metrics, continued…

Following a tough year in 2015, 2016 shows signs of recovery despite higher NPLs

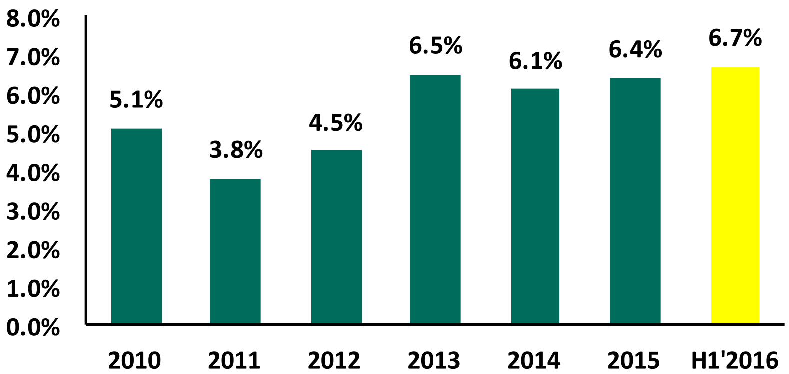
Cost to Income (%)



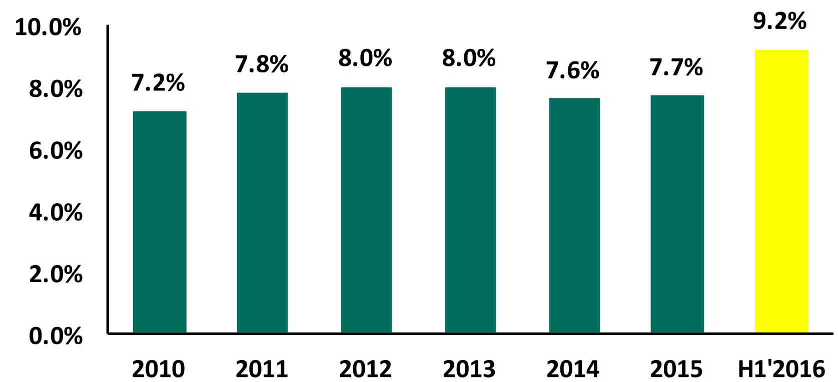
Loan to Deposits (%)



NPLs to Total Loans (%)



Net Interest Margin (%)



Source: Central Bank of Kenya

Listed Banking Sector Metrics, continued…

Kenya's banking sector H1'16 core EPS growth was 15.8%, faster than the 4.7% growth in H1'15

H1'2016 Listed Banking Sector Metrics								
Bank	**Core EPS Growth**	**Deposit Growth**	**Loan Growth**	**Net Interest Margin**	**NPL Ratio**	**Cost to Income***	**ROaE**	**ROaA**
Stanchart	**34.8%**	16.9%	(7.3%)	9.5%	12.8%	39.0%	18.4%	3.2%
HF Group	**26.3%**	6.2%	7.0%	6.7%	9.8%	52.3%	12.6%	1.9%
I&M Bank	**22.6%**	13.1%	7.6%	7.2%	4.9%	34.2%	25.3%	3.9%
CFC Bank	**22.2%**	(2.7%)	0.3%	5.5%	3.2%	60.0%	11.7%	2.3%
Co-op Bank	**18.7%**	12.0%	8.0%	9.1%	4.5%	45.3%	24.7%	3.7%
Equity Group	**18.0%**	6.5%	13.6%	10.8%	4.7%	50.0%	26.9%	4.5%
KCB Group	**13.6%**	(2.2%)	8.4%	8.7%	9.0%	47.9%	24.7%	3.7%
DTB Bank	**11.3%**	24.7%	10.2%	9.1%	4.0%	38.3%	20.7%	2.6%
NIC Bank	**2.9%**	6.5%	3.6%	7.4%	10.6%	35.3%	17.8%	2.8%
Barclays Bank	**(10.2%)**	11.9%	14.8%	10.7%	5.6%	51.8%	21.1%	3.2%
National Bank	**(70.0%)**	(1.6%)	(9.3%)	7.2%	11.3%	64.6%	(20.9%)	(2.1%)
H1'2016 Weighted Average	**15.8%**	**8.9%**	**7.3%**	**9.2%**	**6.7%**	**45.7%**	**20.6%**	**3.1%**
H1'2015 Weighted Average	**4.7%**	**25.1%**	**19.8%**	**8.7%**	**3.6%**	**48.0%**	**23.8%**	**3.4%**

Average is Market cap weighted

****Without Loan Loss Charge***

Source: Cytonn Research

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Banking Sector Multiples

Kenya's banking sector is trading at an average PBV of 0.9x and a PE of 5.2x

Bank	Share Price *	No. of Shares Issued (bns)	Market Cap (bns)	PBV	P/E
Equity Group Holdings	27.0	3.8	101.9	**1.4x**	**5.4x**
Standard Chartered Bank Kenya	190.0	0.3	58.7	**1.3x**	**7.6x**
Barclays Bank of Kenya	9.7	5.4	52.7	**1.3x**	**6.6x**
I&M Holdings	90.0	0.4	35.3	**1.2x**	**4.5x**
Diamond Trust Bank Kenya	141.0	0.3	37.6	**1.0x**	**5.4x**
Co-operative Bank of Kenya	11.8	4.9	57.7	**1.0x**	**4.5x**
KCB Group	26.5	3.0	80.2	**0.9x**	**3.8x**
CFC Stanbic Holdings	77.5	0.4	30.6	**0.8x**	**5.7x**
NIC Bank	28.5	0.6	18.2	**0.6x**	**3.6x**
Housing Finance Group	15.4	0.3	5.4	**0.5x**	**4.1x**
National Bank of Kenya	7.0	0.3	2.2	**0.2x**	**6.3x**
Average				**0.9x**	**5.2x**
Median				**1.0x**	**5.4x**

For P/E calculation for NBK we used normalized earnings over a period of 5 years

**** - Price as at 1/9/2016***

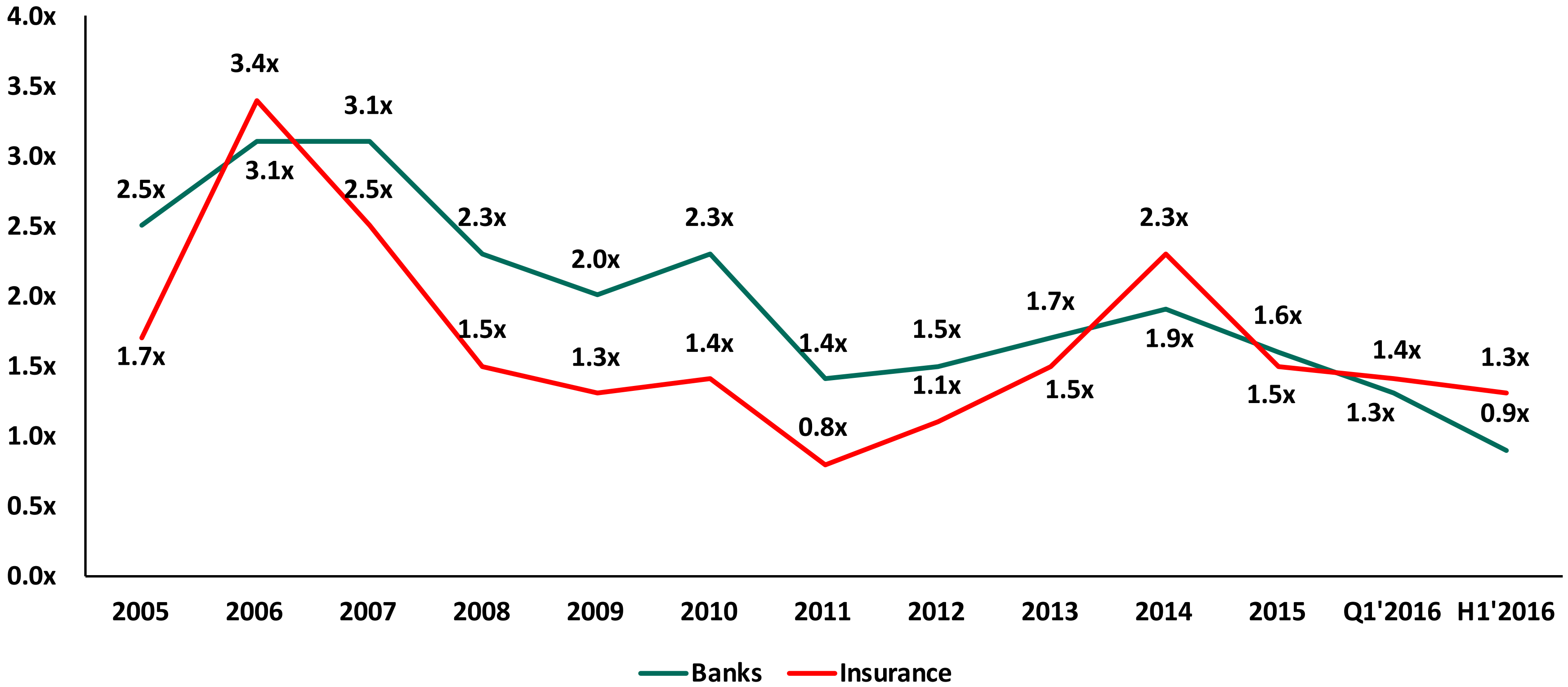
The Banking sector has become cheaper on a PBV basis having dropped to 0.9x from 1.3x in Q1'2016

Source: NSE, Cytonn Banking Sector Report

Banking Sector Multiples

Listed Insurance companies are a expensive compared to listed Banks based on P/B valuation

10 year Price to book value: Banking and Insurance



On a price to book valuation, listed insurance companies are currently expensive than those in the listed banking sector

Source – Cytonn Research

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Summary of the H1'2016 Earnings

The banking sector remains attractive on a valuation basis

1. Core earnings for 2016 is likely to be higher than 2015 since as at H1'2016, the earnings growth was at 15.8% compared to the 4.7% recorded in H1'2015. Though there could be some negative effects as result of the interest rate cap but this is not expected to significantly affect banks' earnings
2. Deposits grew faster than loans at 7.6% and 6.6%, respectively, but lower than the 5-year averages of 15.2% and 17.9%, respectively
3. The levels of NPLs remains a concern within the banking sector with loan loss provisions growing at 392.9% and 122.4% for the non-listed and listed banks, respectively. We expect the level of provisioning to stabilize going forward
4. Growth for most banks with regional subsidiaries was driven mainly by the Kenyan business as their regional operations underperformed
5. With a sector valuation of 0.9x price to book and 5.6x price to earnings from 1.6x and 7.9x at the beginning of the year, respectively, we think that the sector has become fairly attractive for a long-term investor

Cytonn INVESTMENTS

III. Cytonn's Banking Sector Report

Executive Summary

Cytonn has undertaken this report to offer our investors a comprehensive view of the listed banks

- All listed banks in the Kenyan market were analysed by the Cytonn Investment Team
- The analysis was brought about by a need to be able to recommend to our investors which banks are the most stable from a franchise value and from a future growth opportunity perspective
- The analysis covers the health and future expected performance of the financial institution, by highlighting their performance using metrics to measure profitability, efficiency, growth, asset quality, liquidity, revenue diversification, capitalization and intrinsic valuation
- The analysis was undertaken using H1'2016 results (franchise value) and analyst's projections of future performance of the banks (future growth opportunities)
- For banks which are part of a group structure, the financials of the group were utilised to take into consideration the listed counter which an investor will purchase
- The overall ranking was based on a weighted average ranking of Franchise value (accounting for 40%) and Intrinsic value (accounting for 60%)
- The top rankings were dominated by Tier 1 banks which performed well in terms of both Franchise and Intrinsic valuation

Banking Sector Report Results

National Bank Ranked lowest in both franchise and intrinsic score

- Equity Group emerged top supported by a strong franchise score and total return score

- Barclays Bank fell three positions to position 7, affected by a drop in intrinsic value ranking. This was due to a low expected future growth rate of 2.8% given high competition in the banking sector with its peers being more competitive and innovative in their distribution channels and product offering

- NIC bank declined 1 spot to position 9, affected by a poor franchise score. This was due to its low Net Interest Margin of 7.1% against and industry average of 8.4% and a high loan to deposit ratio of 103.0% against an industry average of 87.3%

- National Bank was ranked the lowest overall, ranking lowest in both franchise and intrinsic score. NBK has the highest cost to Income ratio at 64.6% against the industry average of 47.1%. Key to note is that NBK has the largest NPLs to loans at 42.1% against the industry average of 10.6%, with one of lowest NPL coverages at 18.1% against the industry average of 35.4%

Source: Cytonn Research

Cytonn INVESTMENTS

Rankings by Franchise Value

Equity Group emerged top in the franchise value rankings, with National Bank coming last

Rank	Bank	LDR *	CIR **	ROACE ***	NIM ****	PEG ratio	P/TBV	Deposits /Branch	NPLs/ Loans	NPL Coverage	Tangible Common Ratio	Non Interest Income/ Revenue	Cytonn Camel Rating	Cytonn Corporate Governance Score	Total
1	Equity	1	7	2	1	6	10	10	3	2	2	2	1	5	**52**
2	KCB Group	4	6	4	5	1	4	8	7	4	3	4	8	1	**59**
3	Co-operative	5	5	5	4	2	4	7	2	5	4	3	7	7	**60**
4	I&M	6	1	3	9	3	7	3	4	8	5	8	6	6	**69**
5	DTBK	3	2	9	6	7	8	6	1	1	10	10	4	4	**71**
6	Stanchart	9	3	8	3	8	11	2	10	6	1	7	2	2	**72**
7	Barclays	2	9	6	2	10	9	9	6	3	7	6	3	3	**75**
8	CfC Stanbic	7	8	1	11	9	6	1	5	9	9	1	5	11	**83**
9	NIC Bank	10	4	7	10	5	3	4	9	7	6	4	9	9	**87**
10	HF Group	11	10	10	7	4	1	5	8	10	8	11	10	10	**105**
11	NBK	8	11	11	8	11	2	11	11	11	11	9	11	8	**123**

- **The bank ranking assigns a value of 1 for the best performing bank, and a value of 11 for the worst**
- **The metrics highlighted a bank's profitability, efficiency, growth, asset quality, liquidity, revenue diversification, capitalization and soundness**
- **DTBK improved from position 9 to position 5 on the back of a strong loan book and coverage policy with the NPL ratio at 4.1% against an industry average of 10.6% and an NPL coverage of 53.9% against an industry average of 35.4%**

- **LDR- Loan to Deposit Ratio*
- ***CIR- Cost to Income Ratio*
- ****ROACE - Return on Average Common Equity*
- *****NIM - Net Interest Margin*

Source: Cytonn Research

Cytonn INVESTMENTS

Rankings by Intrinsic Value

KCB Group hold the highest upside with a potential return of 67.9%

Banks	Current Price	Target Price (Valuation)	Upside	Dividend Yield FY16e	Total Potential Return
KCB Group	26.5	42.5	**60.4%**	7.5%	**67.9%**
HF Group	15.4	19.8	**28.6%**	9.2%	**37.8%**
Co-operative	11.8	15.2	**28.9%**	6.8%	**35.7%**
Equity Group	27.0	34.2	**26.7%**	7.7%	**34.4%**
DTBK	141.0	173.2	**22.8%**	1.8%	**24.6%**
I&M Holdings	90.0	101.1	**12.3%**	3.9%	**16.2%**
NIC Bank	28.5	30.8	**8.1%**	3.5%	**11.6%**
CfC Stanbic Bank	77.5	75.5	**(2.6%)**	7.9%	**5.3%**
Barclays Bank	9.7	9.2	**(5.1%)**	9.7%	**4.6%**
Standard Chartered	190.0	169.9	**(10.6%)**	6.6%	**(4.0%)**
National Bank	7.0	2.7	**(60.9%)**	0.0%	**(60.9%)**

- KCB Group and HF Group have the highest upsides at 67.9% and 37.8%, respectively
- National Bank registered the highest downside of 60.9%

Composite Bank Ranking

Overall Equity Group ranked highest supported by a high franchise score

CYTONN'S H1'2016 BANKING REPORT RANKINGS					
Banks	**Franchise Value Total Score**	**Total Return Score**	**Weighted H1'2016 Score**	**H1'2016 rank**	**Q1'2016 rank**
Equity	52.0	4.0	23.2	1	2
KCB Group	59.0	1.0	24.2	2	1
Co-operative Bank	60.0	3.0	25.8	3	3
I&M	69.0	6.0	31.2	4	5
Diamond Trust Bank	71.0	5.0	31.4	5	6
Standard Chartered	72.0	10.0	34.8	6	7
Barclays	75.0	9.0	35.4	7	4
CfC Stanbic	83.0	8.0	38.0	8	9
NIC	87.0	7.0	39.0	9	8
Housing Finance	105.0	2.0	43.2	10	10
NBK	123.0	11.0	55.8	11	11

- In our ranking franchise value was assigned a weighting of 40% while the intrinsic value was assigned 60% weight
- Equity Group emerged top on the back of a strong franchise and return score

Appendix

A. Metrics Used

Banking Sector Report – Metrics Used

Cytonn has undertaken analysis of the listed banks in Kenya using 13 key metrics

1. **Net Interest Margin -** A bank's net interest margin (NIM), is the difference between the interest paid on deposits and the interest earned on loans, relative to the amount of interest-earning assets with higher net interest margins translating into higher profits

Output:

Majority of Bank's funding is towards the issuing of loans rather than the purchase of government securities. Equity had the highest NIM at 10.8%, with the lowest for CfC Stanbic at 6.2%

2. Return on Average Common Equity - A bank's return on average common equity (ROACE), is the amount of profit the bank earns as a percentage of average common shareholders' equity. It's a profitability measure that shows how much a company generates with the money shareholders have invested

Output:

Banks with higher ROACEs are better at utilizing capital to generate profits. CfC Stanbic has the highest ROACE at 29.7%, which was much above the industry average of the listed banks of 16.3%, while National Bank had the lowest at (38.8%) following the bank registering a loss in the half year results

Cytonn INVESTMENTS

Banking Sector Report – Metrics Used, continued…

Cytonn has undertaken analysis of the listed banks in Kenya using 13 key metrics

3. Price/Earnings to Growth Ratio - The price/earnings to growth (PEG) ratio is the stock's market price to earnings ratio divided by its growth in earnings for a specified period of time. The PEG ratio is used to determine the value of a stock while taking into account its growth rate, with lower PEG ratios showing the stock is undervalued given the growth in its earnings

Output:

To obtain this ratio, we estimated each bank's 5-year growth rate based on analysis of (i) bank's fundamentals, (ii) projections using each bank's models and (iii) management's input on a bank's strategy going forward. KCB Group had the lowest PEG ratio at 0.3x, while Barclays was the most overvalued at 2.1x

4. Deposits per Branch - A bank's deposits per branch shows the amount of deposits a bank collects from each of its branches, hence a measure of efficiency. Banks with higher deposits per branch are preferred, as it shows for each unit cost of capital expenditure required to open new branches and their subsequent operating costs, a bank receives more in deposits.

Output:

CFC Stanbic and Standard Chartered have the highest deposits per branch at Kshs. 4.8 bn each, while National bank and Equity Group have the lowest deposits per branch at Kshs. 1.2 bn and Kshs. 1.3 bn, respectively. This is due to the large corporate book of CfC Stanbic and Standard Chartered that enables them mobilise deposits with fewer branches

Banking Sector Report – Metrics Used, continued…

Cytonn has undertaken analysis of the listed banks in Kenya using 13 key metrics

5. Loans to Deposits Ratio - A bank's loans to deposit ratio (LDR) is a measure of liquidity as it shows how much of a bank's loans are being funded by its deposits. Low LDR ratios indicate that the bank may not be earning a lot of interest. Very high LDR's indicate that the bank might not have enough liquidity to cover any unforeseen funding requirements, and ratios above 1 show that the bank supplemented their loan issues with outside borrowing

Output:

Our analysis showed us that in Kenya, the loan to deposit ratio has been steadily increasing, showing increased uptake of loans and more aggressive use of deposits by banks. Taking a preferred LDR of 85%, we found that Equity Group was closest to the target at 84.3%, while Housing Finance was the farthest at 134.5%

6. Cost to Income Ratio - The cost to income ratio is a measure of a bank's efficiency, showing its costs in relation to its income. A lower ratio is preferred, as it indicates a bank is more profitable. An increase in the ratio often highlights potential problems as it shows a bank's costs rose faster than its income; while a fall in the ratio could be brought by management's cost cutting measures

Output:

We see many Kenyan banks making an effort to be more efficient. Many Kenyan banks have opted to restructure in a bid to bring down costs and subsequently this ratio. I&M maintained the lowest cost to income ratio of 35.0%, while National Bank of Kenya had the highest ratio at 64.6%

Banking Sector Report – Metrics Used, continued…

Cytonn has undertaken analysis of the listed banks in Kenya using 13 key metrics

7. Price to Tangible Book Value - This is a valuation ratio that expresses the bank's market price to its tangible book value. It shows the price an investor would pay for a unit amount in the event of a liquidation. A ratio of less than one indicates that the bank's assets are undervalued in the market while a ratio greater than one signifies overvaluation

Output:

We find Housing Finance as the most undervalued bank as per this metric at 0.5x, while Equity bank is still the most overvalued at 1.6x

8. Tangible Common Equity Ratio - This is the ratio of a bank's common equity less intangible assets to its tangible assets. It is a common indicator of a bank's risk and capitalization and measures how much losses a bank can take before shareholder's equity is wiped out, hence solvency

Output:

Standard Chartered is the most solvent with a tangible common ratio of 16.2%, while National Bank was the least solvent at 3.7%

9. Non-Performing Loans to Total Loans Ratio - This is a measure of the percentage of a bank's issued loans that are non-performing that is, in default, or close to being in default

Output:

DTBK had the highest quality loan book with a non-performing loans to total loans ratio of 4.1%, while National Bank had the highest non-performing loans at 42.1%

Banking Sector Report – Metrics Used, continued…

Cytonn has undertaken analysis of the listed banks in Kenya using 13 key metrics

10. Non-Performing Loans Coverage - This is a credit quality metric that measures the credit risks for banks. It shows the extent to which the NPLs are covered by provisions hence the degree of stability of the bank's lending base, with higher ratios preferred

Output:

DTBK has the highest provisions to non-performing loans at 53.9%, while Housing Finance Group has the lowest at 18.1%

11. Non-Interest Income to Revenue - The non interest income is the income earned from sources other than loans and investments. The non-interest income to revenue therefore shows the extent of diversification of a bank's operations. High levels are preferred, not exceeding the point where the bank loses focus of its primary business

Output:

We see that Kenyan banks' non-interest income is set to benefit from new initiatives such as banc-assurance and mobile banking. CfC Stanbic has the highest non-interest income as a percentage of revenue at 41.4%, while Housing Finance has the lowest at 16.7%

12. Camel Rating - This is a ranking system that assesses the overall condition of a bank, that is, Capital Adequacy, Asset Quality, Management Quality, Earnings Quality and Liquidity. We also incorporated a governance score in the ranking

Banking Sector Report – Metrics Used, continued…

Cytonn has undertaken analysis of the listed banks in Kenya using 13 key metrics

13. Corporate Governance Score – Given the recent developments in the banking sector, which include Dubai Bank, Imperial Bank and National Bank, we developed a 13th metric to measure corporate governance This is a ranking system where we analyse 25 metrics to rank listed companies on their corporate governance. Main areas of analysis are in the board composition, audit functions, CEO tenor and evaluation, remuneration and transparency

Output:

The score assumes a diffusion index with 50% as the base. Anything below 50% should be flagged as having serious corporate governance issues while anything above is skewed towards proper governance. However the variance from 100% gives the risk associated with corporate governance

B. Tier I Banks

Tier 1 Banks Value Drivers and Cons

Bank	Value Drivers	Cons
Equity Group	• Equity Bank is currently the largest insurance intermediary and Equity Investment Bank is the 2nd largest Stockbroker in the country with a market share of 16% • Equitel is the fastest growing MVNO	• Cost control: Equity bank has a big challenge to maintain their cost as they are investing highly in IT • Expansion Setbacks: Equity bank has encountered some setback in their regional expansion where they have not been as profitable as in others
KCB Group	• KCB Mpesa, is expected to be a key growth driver in terms of deposits and loans • Alternative channels including mobile banking and agency banking	• Exposure to different political, economic and regulatory environments especially the impact of South Sudan operation • The bank seems to be struggling in utilising its asset base compared to its peers in generation of returns
Co-op Bank	• It has a large Sacco banking base, and the opportunity to grow upon the model in its regional expansion strategy • Co-operative bank is a financial one-stop shop owing to its full range of financial services	• The bank is slow in embracing technology compared to its peers in deposit mobilisation • The bank might be losing out in first mover advantage in their expansion strategy
Standard Chartered	• Custody business will continue providing the bank with a niche when it comes to wholesale banking • Strong in SME banking business	• Recently high NPLs have affected the revenues for Standard Chartered Bank. • Limited to the Kenya as the parent company prefers to operate independently in other markets
Barclays Bank	• Barclays has historically enjoyed cheaper funding from its parent company and has not had borrowings historically, this however might have to change going forward if Barclays Plc exits Africa • The bank has one of highest net interest margin of 10.7% as at H1'2016	• Stiff competition in the retail and SME banking market • The bank will continue lagging its peers in the capture of the retail market • Challenges in deposit mobilization compared to its peers
DTB Bank	• Strong backing from financing partners, i.e. Aga Khan Fund for Economic Development and Habib bank	• Traditional SME market now being targeted by tier I banks hence market share under threat • Exposure to different political, economic and regulatory environments

I. Equity Group Holdings

Financial Statements Extracts

Equity Group's PAT is expected to grow at a 5-year CAGR of 11.8%

Income Statement	2014	2015	2016e	2017f	2018f	2019f	2020f	5-Year CAGR
Net Interest Income	29.2	34.1	38.7	35.8	39.3	41.7	46.8	6.5%
Non Funded Income	18.5	21.9	24.5	29.3	34.8	42.0	51.0	18.4%
Loan Loss Provision	1.6	2.4	2.9	2.9	3.2	3.6	4.3	12.1%
Other Operating Expenses	24.8	29.7	32.1	32.7	37.7	42.8	50.4	11.2%
Total Operating Expenses	**26.3**	**32.1**	**35.0**	**35.7**	**40.9**	**46.4**	**54.7**	**11.2%**
Profit Before Tax	22.4	24.0	28.2	29.4	33.2	37.2	43.2	12.5%
Profit After tax	17.2	17.3	19.7	20.6	23.2	26.1	30.2	11.8%
% PAT Change YoY	**29.2%**	**1.0%**	**13.9%**	**4.3%**	**12.8%**	**12.3%**	**16.0%**	
EPS	4.5	4.6	5.2	5.5	6.2	6.9	8.0	11.8%
DPS	1.8	2.0	2.1	2.2	2.5	2.8	3.2	9.9%
Cost to Income	52.0%	52.9%	50.9%	50.3%	50.9%	51.1%	51.5%	
NIM	**11.0%**	**10.6%**	**10.5%**	**8.9%**	**8.5%**	**8.1%**	**8.0%**	
ROaE	29.7%	25.5%	27.5%	26.6%	25.7%	24.8%	24.8%	
ROaA	5.5%	4.5%	4.4%	4.1%	4.1%	4.1%	4.2%	

Balance Sheet	2014	2015	2016e	2017f	2018f	2019f	2020f	5-YearCAGR
Net Loans and Advances	214.2	269.9	303.3	342.1	376.4	425.7	482.1	12.3%
Government Securities	48.4	42.8	58.3	65.8	74.3	84.0	95.1	17.3%
Other Assets	82.0	115.4	106.4	122.2	150.0	171.5	196.3	11.2%
Total Assets	**344.6**	**428.1**	**468.1**	**530.1**	**600.8**	**681.3**	**773.5**	**12.6%**
Customer Deposits	245.4	302.2	345.2	394.6	451.0	515.5	589.3	14.3%
Other Liabilities	35.4	53.8	51.7	52.0	52.3	52.7	53.1	(0.3%)
Total Liabilities	**280.8**	**355.9**	**396.9**	**446.6**	**503.4**	**568.2**	**642.3**	**12.5%**
Shareholders Equity	63.8	72.1	71.1	83.5	97.4	113.0	131.2	12.7%
Book value Per share	16.9	19.1	18.8	22.1	25.8	30.0	34.8	12.7%
% Change in BPS YoY	**23.7%**	**13.1%**	**(1.4%)**	**17.4%**	**16.7%**	**16.1%**	**16.0%**	

Cytonn INVESTMENTS

Valuation Summary

Equity Group is undervalued with a total potential return of 34.5%

Cost of Equity Assumptions:	1/Sept/2016
Risk free rate *	13.0%
Beta	0.8
Country Risk Premium	6.7%
Extra Risk Premium	0.3%
Cost of Equity	18.4%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	19.7%
Return on Average Equity	24.8%
Terminal PBV	1.3x
Shareholder Equity – FY20e	131.2
Terminal Value-(Year 2020)	176.3

Valuation Summary:	Implied Price	Weighting	Weighted Value
Intrinsic Valuation	36.7	80%	29.4
PBV Multiple	22.8	15%	3.4
PE Multiple	28.2	5%	1.4
Fair Value			**34.2**
Current Price			**27.0**
Upside/(Downside)			26.7%
Dividend Yield			7.7%
Total Potential Return			**34.5%**

** Five years average yields on a 10 year Treasury bond*

II. KCB Group

Financial Statements Extracts

KCB Group has a high return on equity of 25.0%

Income Statement	2014	2015e	2016f	2017f	2018f	2019f	2020F	5-YearCAGR
Net Interest Income	35.9	39.2	44.2	52.5	60.0	67.9	77.1	**14.5%**
Non Funded Income	22.0	23.4	24.2	27.1	30.2	33.8	37.6	**10.0%**
Loan Loss Provision	5.1	4.7	5.4	4.4	5.3	5.8	6.5	**6.6%**
Other Operating Expenses	29.1	31.4	31.6	40.6	46.3	51.8	57.9	**13.0%**
Total Operating Expenses	**34.2**	**36.1**	**37.0**	**45.0**	**51.6**	**57.6**	**64.4**	**12.3%**
Profit Before Tax	23.8	26.5	31.4	34.6	38.7	44.1	50.3	**13.7%**
Profit After tax	16.8	19.6	22.0	24.2	27.1	30.9	35.2	**12.4%**
% PAT Change YoY	**17.5%**	**16.5%**	**11.9%**	**10.4%**	**11.7%**	**13.9%**	**14.2%**	
EPS	5.4	6.3	7.1	7.8	8.7	9.9	11.3	**12.4%**
DPS	2.0	2.0	2.3	2.5	2.8	3.2	3.6	**12.7%**
Cost to Income	59.0%	57.6%	54.2%	56.5%	57.1%	56.7%	56.1%	
NIM	**8.6%**	**7.9%**	**8.0%**	**8.4%**	**8.5%**	**8.5%**	**8.5%**	
ROE	24.2%	25.0%	24.9%	23.4%	22.4%	21.9%	21.6%	
ROA	3.8%	3.7%	3.7%	3.7%	3.7%	3.7%	3.8%	

Balance Sheet	2014	2015e	2016f	2017f	2018f	2019f	2020f	5-YearCAGR
Net Loans and Advances	283.7	346.0	379.4	416.9	461.9	512.1	567.9	10.4%
Government Securities	61.1	57.8	68.7	91.4	109.1	129.8	154.1	21.7%
Other Assets	145.5	154.3	168.4	184.3	210.1	239.8	273.7	12.1%
Total Assets	**490.3**	**558.1**	**616.5**	**692.6**	**781.1**	**881.8**	**995.8**	**12.3%**
Customer Deposits	377.3	424.4	472.4	533.8	603.2	681.6	770.2	12.7%
Other Liabilities	37.4	52.4	48.7	46.9	47.6	48.9	50.3	(0.8%)
Total Liabilities	414.7	476.8	521.1	580.7	650.8	730.5	820.6	11.5%
Shareholders Equity	75.6	81.3	95.4	111.9	130.3	151.3	175.2	16.6%
Book value Per share	24.4	26.2	30.7	36.0	42.0	48.7	56.4	16.6%
% Change in BPS YoY	**19.4%**	**7.4%**	**17.4%**	**17.3%**	**16.5%**	**16.1%**	**15.8%**	

Cytonn INVESTMENTS

Valuation Summary

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Cost of Equity Assumptions:	1/Sept/2016
Risk free rate *	13.0%
Beta	0.8
Country Risk Premium	6.7%
Extra Risk Premium	1.5%
Cost of Equity	19.4%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	21.2%
Return on Average Equity	21.6%
Terminal PBV	1.0x
Shareholder Equity – FY20e	175.2
Terminal Value-(Year 2020)	179.2

Valuation Summary:	Implied Price	Weighting	Weighted Value
Intrinsic Valuation	43.3	80%	34.6
PBV Multiple	38.3	15%	5.8
PE Multiple	42.9	5%	2.1
Fair Value			**42.5**
Current Price			**26.5**
Upside/(Downside)			60.4%
Dividend Yield			7.5%
Total Potential Return			**67.9%**

** Five years average yields on a 10 year Treasury bond*

III. Co-operative Bank

Financial Statement Extracts

Co-operative Bank is expected to grow at a 5-year CAGR of 11.1%

Income Statement	2014	2015e	2016f	2017f	2018f	2019f	2020f	5-year CAGR
Net Interest Income	21.3	23.2	25.2	26.4	30.9	34.8	39.5	**11.3%**
Non Funded Income	10.8	13.2	15.3	16.3	17.7	19.2	21.1	**9.9%**
Loan Loss Provision	1.2	2.0	2.5	2.5	2.9	3.1	3.4	**11.2%**
Other Operating Expenses	18.9	19.4	19.5	20.4	23.1	25.8	28.9	**8.3%**
Total Operating Expenses	**20.1**	**21.4**	**22.0**	**22.9**	**26.0**	**28.9**	**32.3**	8.6%
Profit Before Tax	10.9	15.4	18.4	19.7	22.6	25.2	28.3	**13.0%**
Profit After Tax	8.0	11.7	12.9	13.8	15.8	17.6	19.8	**11.1%**
% PAT Change YoY	**(12.0%)**	**46.0%**	**10.3%**	**6.7%**	**14.9%**	**11.3%**	**12.6%**	
EPS	1.6	2.4	2.6	2.8	3.2	3.6	4.1	**11.1%**
DPS	0.5	0.0	0.7	0.8	0.9	1.0	1.1	**11.3%**
Cost to Income	63%	58.8%	54.4%	53.8%	53.4%	53.4%	53.3%	
NIM	**9.1%**	**8.3%**	**8.7%**	**8.3%**	**8.9%**	**9.1%**	**9.2%**	
ROE	20.0%	25.0%	23.5%	21.3%	21.0%	20.1%	19.6%	
ROA	3.1%	3.7%	3.5%	3.3%	3.3%	3.4%	3.4%	

Balance Sheet	2014	2015e	2016f	2017f	2018f	2019f	2020f	5-year CAGR
Net Loans and Advances	179.5	208.6	240.4	264.4	282.9	311.2	342.5	**10.4%**
Government Securities	24.6	36.2	26.0	43.5	52.5	63.1	75.6	**15.9%**
Other Assets	81.3	97.8	128.8	142.5	160.4	181.0	204.3	**15.9%**
Total Assets	**285.4**	**342.5**	**395.1**	**450.3**	**495.7**	**555.4**	**622.3**	**12.7%**
Customer Deposits	217.7	265.4	303.9	340.3	381.2	426.9	478.1	**12.5%**
Other Liabilities	24.3	27.3	32.0	40.8	34.0	35.2	36.6	**6.1%**
Total Liabilities	**242.0**	**292.7**	**335.9**	**381.2**	**415.2**	**462.1**	**514.8**	**12.0%**
Shareholders Equity	43.3	50.2	59.8	69.7	81.2	93.8	108.1	**16.6%**
Book value Per share	8.9	10.3	12.2	14.3	16.6	19.2	22.1	**16.6%**
% Change in BPS YoY	**17.8%**	**15.9%**	**19.2%**	**16.6%**	**16.4%**	**15.6%**	**15.2%**	

Valuation Summary

Co-operative Bank is undervalued with a total potential return of 34.7%

Cost of Equity Assumptions:	1/Sept/2016
Risk free rate*	13.0%
Beta	1.0
Country Risk Premium	6.7%
Extra Risk Premium	0.3%
Cost of Equity	20.1%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	20.0%
Return on Average Equity	19.6%
Terminal Price to Book Value	1.0x
Shareholder Equity – FY20e	108.1
Terminal Value-(Year 2020)	106.0

Valuation Summary:	Implied Price	Weighting	Weighted Value
Intrinsic Valuation	15.3	80%	12.3
PBV Multiple	14.0	15%	2.1
PE Multiple	14.5	5%	0.7
Fair Value			**15.1**
Current Price			**11.8**
Upside/(Downside)			27.9%
Dividend Yield			6.8%
Total Upside/(Downside)			**34.7%**

** Five years average yields on a 10 year Treasury bond*

Cytonn INVESTMENTS

IV. Standard Chartered Bank

Financial Statement Extracts

Standard Chartered PAT is expected to grow at a 5 year CAGR of 12.6%

Income Statement	2014	2015e	2016e	2017f	2018f	2019f	2020f	5-year CAGR
Net Interest Income	17.9	18.1	17.7	17.7	19.6	21.9	24.5	**5.4%**
Non Funded Income	8.2	7.2	8.0	8.9	9.7	10.9	12.2	**6.8%**
Loan Loss Provision	1.3	4.9	4.8	5.1	5.5	6.1	6.8	**31.7%**
Other Operating Expenses	10.4	11.3	9.6	9.9	10.7	12.0	13.4	**4.3%**
Total Operating Expenses	**11.7**	**16.2**	**14.4**	**14.9**	**16.2**	**18.1**	**20.2**	**9.5%**
Profit Before Tax	14.3	9.2	11.3	11.7	13.2	14.7	16.4	**12.6%**
Profit After tax	10.4	6.3	7.9	8.2	9.2	10.3	11.5	**12.6%**
% PAT Change YoY	**12.5%**	**(39.2%)**	**24.5%**	**3.4%**	**12.8%**	**11.7%**	**11.8%**	
EPS	30.4	18.5	23.0	23.8	26.8	29.9	33.5	**12.6%**
DPS	11.5	12.5	14.9	15.5	17.4	19.5	21.8	**11.2%**
Cost to Income	45.0%	63.9%	56.1%	56.2%	55.2%	55.2%	55.2%	
NIM	**9.6%**	**9.6%**	**9.7%**	**8.5%**	**8.6%**	**8.7%**	**8.9%**	
ROaE	27.2%	15.5%	19.2%	19.2%	20.2%	21.0%	21.8%	
ROaA	4.7%	2.8%	3.2%	3.1%	3.1%	3.2%	3.2%	

Balance Sheet	2014	2015e	2016e	2017f	2018f	2019f	2020f	5-year CAGR
Net Loans and Advances	122.7	115.1	125.0	128.9	144.1	161.0	179.9	7.9%
Government Securities	58.8	73.6	66.1	84.6	94.6	105.7	118.1	15.0%
Other assets	41.0	45.2	63.2	66.1	70.0	74.3	79.2	14.1%
Total Assets	**222.5**	**234.0**	**254.3**	**279.7**	**308.6**	**341.0**	**377.2**	**11.1%**
Customer Deposits	154.1	172.0	192.3	214.8	240.1	268.3	299.8	14.2%
Other Liabilities	27.8	20.7	20.9	20.8	21.4	21.9	22.6	(4.1%)
Total Liabilities	**181.8**	**192.7**	**213.2**	**235.7**	**261.4**	**290.2**	**322.4**	**12.1%**
Shareholders Equity	40.7	41.3	41.1	44.0	47.2	50.8	54.8	6.2%
Book value Per share	118.4	120.1	119.7	128.0	137.4	147.9	159.6	6.2%
% Change in BPS YoY	**12.3%**	**1.5%**	**(0.3%)**	**7.0%**	**7.3%**	**7.6%**	**7.9%**	

Source – Company Financials

Cytonn INVESTMENTS

Valuation Summary

Standard Chartered Bank is overvalued with a total potential return of (4.0%)

Cost of Equity Assumptions:	**1/Sept/2016**
Risk free rate *	13.0%
Adjusted Beta	0.8
Country Risk Premium	6.7%
Extra Risk Premium	0.0%
Cost of Equity	18.4%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	19.7%
Return on Average Equity	21.8%
Terminal Price to Book Value	1.1x
Shareholder Equity – FY20e	54.8
Terminal Value-(Year 2020)	62.5

Valuation Summary:	Implied Price	Weighting	Weighted Value
Intrinsic Valuation	174.7	80.0%	139.7
PBV Multiple	158.1	15.0%	23.7
PE Multiple	128.2	5.0%	6.4
Fair Value			**169.9**
Current Price			**190.0**
Upside/(Downside)			(10.6%)
Dividend Yield			6.6%
Total Potential Return			**(4.0%)**

** Five years average yields on a 10 year Treasury bond*

V. Barclays Bank

Financial Statement Extracts

Barclays Bank has a high return on equity of 21.6%

Income Statement	2014	2015e	2016e	2017f	2018f	2019f	2020f	5-year CAGR
Net Interest Income	19.6	20.4	20.5	18.8	20.6	22.6	24.2	**3.4%**
Non Funded Income	8.7	9.1	8.6	10.2	10.1	10.9	11.7	**5.3%**
Loan Loss Provision	(1.4)	(1.8)	(2.1)	(2.0)	(2.7)	(2.9)	(3.2)	**12.6%**
Other Operating Expenses	(14.5)	(15.6)	(14.8)	(14.6)	(15.6)	(17.5)	(19.0)	**4.0%**
Total Operating Expenses	**(15.9)**	**(17.4)**	**(16.9)**	**(16.6)**	**(18.3)**	**(20.4)**	**(22.2)**	**5.0%**
Profit Before Tax	12.3	12.1	12.1	12.4	12.4	13.1	13.8	**2.6%**
Profit After tax	8.4	8.4	8.5	8.7	8.6	9.2	9.6	**2.8%**
% PAT Change YoY	**10.7%**	**(0.4%)**	**1.0%**	**1.9%**	**(0.1%)**	**5.9%**	**5.2%**	
EPS	1.6	1.5	1.6	1.6	1.6	1.7	1.8	**2.8%**
DPS	0.0	0.2	0.9	1.0	1.0	1.0	1.1	**2.8%**
Cost to Income	56.4%	59.0%	58.2%	57.3%	59.7%	60.9%	61.7%	
NIM	**11.2%**	**10.4%**	**10.0%**	**8.4%**	**8.4%**	**8.4%**	**8.2%**	
ROaE	23.9%	21.6%	21.6%	22.2%	21.0%	20.6%	20.2%	
ROaA	3.9%	3.6%	3.5%	3.3%	3.3%	3.2%	3.2%	

Balance Sheet	2014	2015e	2016e	2017f	2018f	2019f	2020f	5-year CAGR
Net Loans and Advances	125.4	145.4	150.5	161.1	174.9	189.9	208.9	7.5%
Government Securities	57.2	48.1	51.3	57.5	65.5	74.5	81.9	11.3%
Other Assets	43.3	47.4	59.2	64.7	66.9	69.2	71.6	8.6%
Total Assets	**225.8**	**240.9**	**261.0**	**283.2**	**307.3**	**333.7**	**362.5**	8.5%
Customer Deposits	164.8	165.1	186.6	205.2	225.7	248.3	273.1	10.6%
Other Liabilities	22.9	36.1	36.1	36.2	36.3	36.4	36.5	0.2%
Total Liabilities	**187.7**	**201.2**	**222.6**	**241.4**	**262.0**	**284.7**	**309.6**	9.0%
Shareholders Equity	38.2	39.7	38.4	41.9	45.3	49.0	52.8	5.9%
Book value Per share	7.0	7.3	7.1	7.7	8.3	9.0	9.7	5.9%
% Change in BPS YoY	**18.0%**	**4.0%**	**(3.3%)**	**9.0%**	**8.3%**	**8.1%**	**7.9%**	

Source – Company Financials

Cytonn INVESTMENTS

Valuation Summary

Barclays currently is undervalued with a total potential return of 4.6%

Cost of Equity Assumptions:	**1/Sept/2016**
Risk free rate *	13.0%
Beta	0.8
Country Risk Premium	6.7%
Extra Risk Premium	0.5%
Cost of Equity	19.0%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	20.2%
Return on Average Equity	20.2%
Terminal PBV	1.0x
Shareholder Equity – FY20e	52.8
Terminal Value-(Year 2020)	52.9

Valuation Summary:	Implied Price	Weighting	Weighted Value
Intrinsic Valuation	9.5	80%	7.6
PBV Multiple	8.3	15%	1.3
PE Multiple	8.1	5%	0.4
Fair Value			**9.2**
Current Price			**9.7**
Upside/(Downside)			(5.0%)
Dividend Yield			9.7%
Total Potential Return			**4.6%**

** Five years average yields on a 10 year Treasury bond*

VI. Diamond Trust Bank

Financial Statement Extracts

DTB has an estimated 5-year PAT CAGR of 12.7%

Income Statement	2014	2015e	2016e	2017f	2018f	2019f	2020f	5-year CAGR
Net Interest Income	12.8	15.2	19.4	22.3	25.7	29.2	32.2	16.2%
Non Funded Income	3.8	4.7	4.6	4.9	6.5	7.5	8.8	13.1%
Loan Loss Provision	(0.9)	(2.2)	(2.6)	(2.5)	(2.9)	(3.7)	(3.6)	10.4%
Other Operating Expenses	(7.2)	(8.2)	(10.4)	(12.2)	(15.2)	(17.2)	(20.2)	19.9%
Total Operating Expenses	**(8.1)**	**(10.3)**	**(13.0)**	**(14.7)**	**(18.1)**	**(20.9)**	**(23.8)**	**18.1%**
Profit Before Tax	8.5	9.6	11.0	12.6	14.1	15.8	17.1	12.4%
Profit After tax	5.7	6.6	7.7	8.8	9.8	11.0	12.0	12.7%
% PAT Change YoY	**9.1%**	**15.7%**	**16.7%**	**14.2%**	**11.9%**	**12.1%**	**8.7%**	
EPS	21.4	24.8	28.9	33.0	37.0	41.4	45.0	12.7%
DPS	2.4	2.5	2.9	3.3	3.7	4.1	4.5	12.7%
Cost to Income	43.4%	41.0%	43.2%	44.8%	47.4%	46.8%	49.4%	
NIM	**6.9%**	**6.5%**	**7.2%**	**7.3%**	**7.2%**	**7.0%**	**6.6%**	
ROaE	22.8%	20.9%	19.5%	20.0%	20.1%	20.1%	14.8%	
ROaA	3.0%	2.7%	2.8%	2.9%	2.9%	2.8%	2.2%	

Balance Sheet	2014	2015e	2016e	2017f	2018f	2019f	2020f	5-year CAGR
Net Loans and Advances	137.7	177.5	195.1	219.9	256.3	299.2	349.8	14.5%
Government Securities	35.1	47.1	61.0	70.7	82.4	96.2	112.4	19.0%
Other Assets	38.8	47.0	72.7	89.3	102.1	116.6	132.8	23.1%
Total Assets	**211.5**	**271.6**	**328.8**	**379.9**	**440.7**	**511.9**	**595.0**	17.0%
Customer Deposits	161.0	194.1	238.3	281.2	331.8	391.5	461.9	18.9%
Other Liabilities	18.3	39.3	37.1	37.4	38.7	40.3	42.1	1.4%
Total Liabilities	**179.3**	**233.3**	**275.4**	**318.6**	**370.5**	**431.8**	**504.1**	16.7%
Shareholders Equity	29.0	34.1	48.9	56.8	65.7	75.6	86.4	20.4%
Book value Per share	108.8	128.2	183.5	213.3	246.5	283.8	324.3	20.4%
% Change in BPS YoY	**37.9%**	**17.9%**	**43.2%**	**16.2%**	**15.6%**	**15.1%**	**14.3%**	

Source – Company Financials

Cytonn INVESTMENTS

Valuation Summary

DTB's stock is undervalued with a total potential return of 24.6%

Cost of Equity Assumptions:	1/Sept/2016
Risk free rate	13.0%
Beta	0.7
Mature Market Risk Premium	6.7%
Extra Risk Premium	0.0%
Cost of Equity	17.4%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	19.7%
Return on Average Equity	14.8%
Terminal Price to Book value per share	0.8x
Shareholder Equity - FY20e	90.7
Terminal Value – (Year 2020)	75.6

Valuation Summary:	Implied Price	Weighting	Weighted Value
Intrinsic Valuation	181.5	80.0%	145.2
PBV Multiple	129.9	15.0%	19.5
PE Multiple	169.5	5.0%	8.5

Fair Value	**173.2**
Current Price	**141.0**
Upside / (Downside)	22.8%
Dividend Yield	1.8%
Total Potential Return	**24.6%**

** Five years average yields on a 10 year Treasury bond*

Cytonn INVESTMENTS

C. Tier II Banks

Tier 2 banks value drivers and cons

Bank	Value Drivers	Cons
National Bank	• Introduction of Islamic Banking that capitalized on the unbanked Islam community contributing to deposit growth • The introduction of bancassurance and custodial services has seen the bank diversify its revenue	• High cost of funds. Despite NBK serving retail customers, it has maintained high cost of funds averaging 5.3% thus leading to lower NIMs of 7.0% • Despite being associated with the Government, the bank is slow in county expansion
NIC Bank	• Increased investment in digital platforms, NIC Now and Internet banking by 29% and 41%, respectively • NIC bank has maintained its pole positioning in asset financing and curved a niche in the market	• Traditional SME market now being targeted by Tier 1 banks, hence it's market share is under threat • Exposure to different political, economic and regulatory environments, especially in Kenya with the upcoming elections might slow down business
CfC Stanbic	• The Corporate and Investment banking is a key driver for revenue as it contribute to 64% of the banks total income • Their mobile banking platform is set to reduce costs associated with branch transactions	• Political Instability in the countries they operate. The recent instability in S.Sudan proved to be a challenge as it affected their overall income • Their expansion strategy is limited by the presence of Standard Bank in the region
I&M Bank	• They have consistently been among the most efficient banks in Kenya from a survey released by Think Business Banking Awards • They have also fully embraced internet bank in Kenya to further help drive their efficiency	• They have not been able to aggressively market themselves as a local household bank as Equity, Co-op and KCB • They face stiff competition for clients from larger existing tier 1 bank in the SME and Retail sectors
HF Group	• Vibrant real estate market in Kenya with an annual housing supply which does not satisfy demand • The bank is the market leader in provision of mortgage financing	• Lack of a vibrant mortgage market in Kenya • Competition from larger banks with Mortgage facilities poses a risk for growth • Asset liability mismatch which forces the bank to resort to expensive financing

I. National Bank of Kenya

Financial Statements Extracts

National Bank is expected to grow at a 5-year CAGR of 4.1%

Income Statement	2014	2015	2016e	2017f	2018f	2019f	2020f	5-year CAGR
Net Interest Income	6.8	6.4	4.0	4.3	5.0	5.7	6.5	0.2%
Non Funded Income	3.1	3.2	3.5	4.1	4.6	4.9	5.1	10.2%
Loan Loss Provision	0.5	3.7	1.5	1.8	1.9	2.1	2.3	(9.0%)
Other Expenses	7.0	7.5	5.4	5.9	6.5	7.1	7.7	0.6%
Total Operating Expenses	**7.5**	**11.2**	**6.9**	**7.7**	**8.5**	**9.2**	**10.0**	(2.2%)
Profit Before Tax	1.3	(1.6)	0.7	0.7	1.1	1.3	1.6	3.3%
Profit After tax	**0.9**	**(1.2)**	**0.5**	**0.5**	**0.8**	**0.9**	**1.1**	4.1%
% PAT Change YoY	**(21.8%)**	**(232.5%)**	**(140.7%)**	**5.2%**	**59.8%**	**18.3%**	**18.2%**	
EPS	2.8	(3.7)	1.5	1.6	2.6	3.0	3.6	4.1%
DPS	-	-	-	-	-	-	-	-
Cost to Income	70.2%	78.2%	71.8%	70.1%	68.2%	67.3%	66.4%	
NIM	**7.8%**	**6.5%**	**3.8%**	**3.9%**	**4.3%**	**4.7%**	**4.7%**	
ROaE	7.2%	(9.9%)	4.2%	4.2%	6.4%	7.0%	7.7%	
ROaA	0.8%	(0.9%)	0.4%	0.3%	0.5%	0.5%	0.6%	

Balance Sheet	2014	2015	2016e	2017f	2018f	2019f	2020f	5-year CAGR
Net Loans and Advances	65.6	67.8	77.9	87.0	95.7	105.3	115.8	**11.3%**
Government Securities	30.3	27.3	30.4	33.5	36.8	40.5	44.5	**10.3%**
Other Assets	27.2	30.3	28.5	29.0	31.2	33.6	36.3	**3.7%**
Total Assets	123.1	125.4	136.8	149.5	163.7	179.4	196.7	**9.4%**
Customer Deposits	104.7	110.6	121.7	133.9	147.2	162.0	178.2	**10.0%**
Other Liabilities	6.1	3.8	3.6	3.6	3.6	3.6	3.6	**(0.6%)**
Total Liabilities	110.9	114.4	125.3	137.5	150.9	165.6	181.8	**9.7%**
Shareholders Equity	12.2	11.1	11.5	12.0	12.8	13.7	14.8	**6.1%**
Book value Per share	39.7	35.9	37.4	39.0	41.6	44.6	48.2	**6.1%**
% Change in BVPS	**2.8%**	**(9.6%)**	**4.3%**	**4.3%**	**6.6%**	**7.3%**	**8.0%**	

Source – Company Financials

Cytonn INVESTMENTS

Valuation Summary

National Bank is overvalued with a total potential return of (60.8%)

Cost of Equity Assumptions:	1/Sept/2016
Risk free rate *	13.0%
Beta	0.9
Country Risk Premium	6.7%
Extra Risk Premium	4.0%
Cost of Equity	22.6%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	23.7%
Return on Average Equity	7.7%
Terminal Price to Book value per share	0.1x
Preference Shares	5.7

Valuation Summary:	Implied Price	Weighting	Weighted Value
Intrinsic Valuation	0.4	80.0%	0.3
PBV Multiple	14.4	15.0%	2.2
PE Multiple**	5.0	5.0%	0.2
Fair Value			**2.7**
Current Price			**7.0**
Upside/(Downside)			(60.8%)
Dividend Yield			0.0%
Total Potential Return			**(60.8%)**

**-Five years average yields on a 10 year Treasury bond*
***- PE is calculated using Normalised Earnings*

Cytonn INVESTMENTS

II. NIC Bank

Financial Statements Extracts

NIC bank has an average return on equity of 18.4%

Income Statement	2014	2015e	2016e	2017f	2018f	2019f	2020f	5-year CAGR
Net Interest Income	8.0	9.7	11.2	11.3	12.3	13.3	15.2	9.3%
Non Funded Income	3.6	4.0	4.8	5.4	5.9	6.5	7.1	12.1%
Loan Loss Provision	0.3	1.7	2.7	2.7	3.1	3.5	3.9	18.5%
Total Operating Expenses	**5.3**	**7.4**	**9.0**	**9.5**	**10.6**	**11.7**	**13.1**	**12.2%**
Profit Before Tax	6.2	6.4	7.0	7.2	7.5	8.0	9.2	7.6%
Profit After tax	4.1	4.5	4.9	5.1	5.3	5.6	6.5	7.6%
% PAT Change YoY	**27.1%**	**(61.7%)**	**9.3%**	**3.5%**	**3.7%**	**7.1%**	**14.8%**	
EPS	6.4	7.0	7.6	7.9	8.2	8.8	10.1	7.6%
DPS	1.0	1.0	1.1	1.2	1.2	1.3	1.5	8.6%
Cost to Income	46.2%	53.6%	56.3%	56.7%	58.6%	59.3%	58.7%	
NIM	**6.8%**	**6.9%**	**6.8%**	**6.2%**	**6.0%**	**5.9%**	**6.0%**	
ROE	20.6%	18.4%	17.6%	15.9%	14.5%	13.8%	14.1%	
ROA	3.1%	2.9%	2.7%	2.5%	2.4%	2.3%	2.5%	

Balance Sheet	2014	2015e	2016e	2017f	2018f	2019f	2020f	5-year CAGR
Net Loans and Advances	102.0	116.0	126.0	141.2	156.7	174.0	193.1	10.7%
Government Securities	19.2	7.5	8.1	9.0	10.0	11.1	12.3	10.5%
Other Assets	24.5	42.3	58.0	61.3	65.4	64.9	69.6	10.5%
Total Assets	**145.8**	**165.8**	**192.1**	**211.5**	**232.1**	**250.0**	**275.0**	**10.7%**
Customer Deposits	100.4	112.4	124.7	138.4	153.7	170.6	189.3	11.0%
Other Assets	22.0	27.1	37.3	38.6	39.5	35.7	36.5	6.1%
Total Liabilities	**122.4**	**139.4**	**162.0**	**177.1**	**193.2**	**206.3**	**225.8**	**10.1%**
Shareholders Equity	22.9	25.9	29.6	33.9	38.4	43.2	48.7	13.5%
Book value Per share	4.45	5.0	5.8	6.6	7.5	8.4	9.5	13.5%
% Change in BVPS	**33.0%**	**13.1%**	**14.6%**	**14.5%**	**13.2%**	**12.5%**	**12.7%**	

Cytonn INVESTMENTS

Valuation Summary

NIC bank is undervalued with a total potential return of 11.7%

Cost of Equity Assumptions:	1/Sept/2016
Risk free rate *	13.0%
Beta	1.0
Mature Market Risk Premium	6.7%
Extra Risk Premium	0.0%
Cost of Equity	19.9%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	19.7%
Return on Average Equity	14.1%
Terminal Price to Book value Per Share	0.6x
Shareholder Equity – FY'20e	46.7
Terminal Value-(Year 2020)	30.0

Valuation Summary:	Implied Price	Weighting	Weighted Value
Intrinsic Valuation	30.7	80%	24.6
PBV Multiple	29.4	15%	4.4
PE Multiple	37.3	5%	1.9
Fair Value			**30.8**
Current Price			**28.5**
Upside/(Downside)			8.2%
Dividend Yield			3.5%
Total Potential Return			**11.7%**

** Five years average yields on a 10 year Treasury bond*

Cytonn INVESTMENTS

III. CfC Stanbic Bank

Financial Statements Extracts

CfC Stanbic has a return on equity of 13.0%

Income Statement	2014	2015	2016e	2017f	2018f	2019f	2020f	5-year CAGR
Net Interest Income	8.5	9.3	10.4	11.3	12.2	13.1	14.1	**8.7%**
Non Funded Income	8.4	7.6	7.7	8.3	9.1	10.0	11.0	**7.5%**
Loan Loss Provision	(0.7)	(0.9)	(1.3)	(1.4)	(1.7)	(2.0)	(2.2)	**19.7%**
Total Operating Expenses	**(9.2)**	**(9.6)**	**(10.4)**	**(11.3)**	**(12.5)**	**(13.7)**	**(15.0)**	**9.4%**
Profit Before Tax	7.7	7.4	7.6	8.3	8.8	9.4	10.1	**6.5%**
Profit After tax	5.7	4.9	5.3	5.8	6.2	6.6	7.1	**7.5%**
% PAT Change YoY	**10.9%**	**(13.7%)**	**8.8%**	**9.2%**	**6.3%**	**6.4%**	**7.1%**	
EPS	14.4	12.4	13.5	14.7	15.7	16.7	17.8	
DPS	-	6.2	-	-	-	-	-	
Cost to Income	50.2%	51.2%	50.5%	50.5%	50.5%	50.5%	51.0%	
NIM	**5.4%**	**5.1%**	**5.4%**	**5.5%**	**5.5%**	**5.5%**	**5.5%**	
ROaE	16.4%	13.0%	13.5%	13.4%	12.5%	11.8%	11.3%	
ROaA	3.1%	2.5%	2.5%	2.5%	2.4%	2.3%	2.2%	

Balance Sheet	2014	2015e	2016e	2017f	2018f	2019f	2020f	5-year CAGR
Net Loans and Advances	101.2	128.2	134.6	147.6	161.8	177.5	194.7	**8.7%**
Government securities	4.8	7.8	12.1	13.2	14.5	15.9	17.5	**17.5%**
Other Assets	74.9	72.5	79.5	87.8	96.7	106.3	116.7	**10.0%**
Total Assets	**181.0**	**208.5**	**226.2**	**248.6**	**273.1**	**299.7**	**328.9**	**9.5%**
Customer Deposits	129.4	153.7	166.1	182.7	201.0	221.1	243.2	**9.6%**
Borrowings	6.5	6.5	6.5	6.5	6.5	6.5	6.5	**0.0%**
Other Liabilities	8.2	9.9	13.0	13.0	13.0	13.0	13.0	**5.6%**
Total Liabilities	**144.1**	**170.1**	**185.6**	**202.2**	**220.5**	**240.6**	**262.7**	**9.1%**
Shareholders Equity	36.9	38.4	40.5	46.4	52.6	59.2	66.2	**11.5%**
Book value Per share	93.3	97.0	102.6	117.3	133.0	149.6	167.5	**11.5%**
% Change in BVPS	**13.8%**	**4.0%**	**5.7%**	**14.4%**	**13.4%**	**12.5%**	**11.9%**	

Valuation Summary

CfC Stanbic is undervalued with a total potential return of 5.3%

Cost of Equity Assumptions:	1/Sept/2016
Default Spread Adjusted Risk free rate	13.0%
Beta	0.9
Mature Market Risk Premium	6.7%
Extra Risk Premium	0.0%
Cost of Equity	19.0%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	19.7%
Return on Average Equity	11.3%
Persistency Factor	0.5
Terminal Price to Book value per share	0.4x

Valuation Summary:	Implied Price	Weighting	Weighted Value
Intrinsic Valuation	79.8	80%	63.8
PBV Multiple	59.3	15%	8.9
PE Multiple	54.7	5%	2.7

Fair Value	**75.5**
Current Price	**77.5**
Upside/(Downside)	(2.6%)
Dividend yield	7.9%
Total Potential Return	**5.3%**

** Five years average yields on a 10 year Treasury bond*

Cytonn INVESTMENTS

IV. I&M Holdings

Financial Statements Extracts

I&M Holdings has a high return on equity at 24.8%

Income Statement	2014	2015e	2016e	2017f	2018f	2019f	2020f	5-year CAGR
Net Interest Income	10.4	12.6	15.2	17.1	18.7	21.0	23.7	**15.1%**
Non Funded Income	3.8	4.6	4.5	5.0	5.5	6.1	6.8	**9.7%**
Loan Loss Provision	0.9	1.0	1.4	1.4	1.5	1.7	1.9	**14.7%**
Other Operating Expenses	5.3	6.4	7.3	8.2	9.0	10.1	11.3	**13.6%**
Total Operating Expenses	**6.2**	**7.4**	**8.7**	**9.6**	**10.6**	**11.8**	**13.2**	**13.7%**
Profit Before Tax	8.2	10.2	11.4	12.8	14.0	15.7	17.5	**13.8%**
Profit After tax	5.7	7.1	8.0	9.0	9.8	11.0	12.3	**13.9%**
% PAT Change YoY	**15.3%**	**24.6%**	**11.3%**	**12.6%**	**9.3%**	**12.2%**	**11.9%**	
EPS	14.6	18.2	20.3	22.8	24.9	28.0	31.3	**13.9%**
DPS	2.6	3.5	3.6	4.1	4.5	5.0	5.6	**14.4%**
Cost to Income	37.4%	37.2%	37.2%	37.3%	37.3%	37.1%	37.2%	
NIM	**6.6%**	**7.2%**	**6.8%**	**6.7%**	**6.6%**	**6.6%**	**6.6%**	
ROaE	23.9%	24.8%	23.4%	22.3%	20.4%	19.5%	18.6%	
ROaA	3.6%	3.9%	3.6%	3.4%	3.3%	3.3%	3.3%	

Balance Sheet	2014	2015e	2016e	2017f	2018f	2019f	2020f	5-year CAGR
Government Securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**N/A**
Net Loans and Advances	112.5	127.8	148.5	162.2	178.2	200.5	225.6	**12.3%**
Other Assets	64.0	63.9	100.0	115.5	135.2	153.2	173.3	**19.1%**
Total Assets	**176.5**	**191.7**	**248.5**	**277.7**	**313.5**	**353.7**	**398.9**	**14.9%**
Customer Deposits	114.2	133.0	169.7	190.9	214.7	241.6	271.8	**16.2%**
Other Liabilities	34.2	25.0	40.0	40.6	44.5	48.9	53.8	**7.4%**
Total Liabilities	**148.4**	**158.0**	**209.6**	**231.5**	**259.2**	**290.4**	**325.5**	**14.4%**
Shareholders Equity	26.1	31.4	36.6	43.9	51.9	60.9	71.0	**18.5%**
Book value Per share	0.1	0.1	0.1	0.1	0.1	0.2	0.2	**18.5%**
% BVPS Change YoY	**18.9%**	**20.7%**	**16.2%**	**20.1%**	**18.3%**	**17.3%**	**16.5%**	

Cytonn INVESTMENTS

Valuation Summary

I&M is undervalued with a total potential return of 16.2%

Cost of Equity Assumptions:	1/Sept/2016
Risk free rate *	13.0%
Beta	0.9
Country Risk Premium	6.7%
Extra Risk Premium	0.2%
Cost of Equity	18.9%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	19.9%
Return on Average Equity	18.6%
Terminal PBV	0.9x
Shareholder Equity – FY20e	71.0
Terminal Value-(Year 2020)	64.9

Valuation Summary:	Implied Price	Weighting	Weighted Value
Intrinsic Valuation	110.9	80%	88.7
PBV Multiple	61.2	15%	9.2
PE Multiple	64.4	5%	3.2
Fair Value			**101.1**
Current Price			**90.0**
Upside/(Downside)			12.3%
Dividend Yield			3.9%
Total Potential Return			**16.2%**

** Five years average yields on a 10 year Treasury bond*

Cytonn INVESTMENTS

VI. HF Group

Financial Statement Extracts

HF Group's PAT is expected to grow at a 5-year CAGR of 9.7%

Income Statement	2014	2015e	2016e	2017f	2018f	2019f	2020f	5-year CAGR
Net Interest Income	3.0	3.6	3.8	4.7	5.4	6.1	6.8	**13.5%**
Non Funded Income	0.8	1.2	1.3	1.3	1.4	1.6	1.7	**8.1%**
Loan Loss Provision	(0.6)	(0.5)	(0.7)	(0.8)	(0.9)	(1.0)	(1.0)	**13.6%**
Other Operating Expenses	(1.9)	(2.6)	(2.6)	(3.1)	(3.7)	(4.3)	(5.0)	**13.7%**
Total Operating Expenses	**(2.5)**	**(3.1)**	**(3.3)**	**(3.9)**	**(4.5)**	**(5.2)**	**(5.9)**	**13.7%**
Profit Before Tax	1.4	1.8	1.8	2.1	2.4	2.6	2.7	**9.1%**
Profit After tax	1.0	1.2	1.3	1.5	1.7	1.8	1.9	**9.7%**
% PAT Change YoY	**-2.0%**	**22.7%**	**8.2%**	**15.6%**	**10.9%**	**7.7%**	**6.2%**	
EPS	2.8	3.4	3.7	4.3	4.8	5.1	5.4	**9.7%**
DPS	1.5	1.3	1.4	1.6	1.8	1.9	2.1	**9.7%**
Cost to Income	49.2%	54.5%	52.2%	52.6%	53.8%	55.4%	58.1%	
NIM	5.6%	6.0%	5.6%	6.1%	6.3%	6.4%	6.4%	
ROaE	15.7%	13.9%	11.1%	11.4%	11.7%	11.7%	11.6%	
ROaA	1.8%	1.8%	1.7%	1.8%	1.8%	1.8%	1.6%	

Balance Sheet	2014	2015e	2016e	2017f	2018f	2019f	2020f	5-year CAGR
Net Loans and Advances	45.2	53.0	57.0	62.7	68.9	75.7	82.9	**9.3%**
Government Securities	0.3	2.2	2.4	3.5	5.2	6.6	8.3	**31.0%**
Other Assets	15.5	16.5	19.9	19.8	22.0	26.0	31.2	**13.6%**
Total Assets	**61.0**	**71.7**	**79.2**	**86.0**	**96.1**	**108.3**	**122.3**	**11.3%**
Customer Deposits	36.1	41.7	43.8	50.2	57.5	65.8	75.3	**12.6%**
Other Liabilities	18.3	19.4	22.7	22.2	24.0	26.7	30.0	**9.2%**
Total Liabilities	**54.4**	**61.0**	**66.5**	**72.4**	**81.4**	**92.5**	**105.3**	**11.5%**
Shareholders Equity	6.6	10.6	12.7	13.7	14.7	15.8	17.0	**9.8%**
Book value Per share	18.8	30.4	36.5	39.1	42.1	45.3	48.6	**9.8%**
% Change in BPS YoY	**11.9%**	**62.0%**	**19.8%**	**7.3%**	**7.5%**	**7.6%**	**7.5%**	

Source – Company Financials

Cytonn INVESTMENTS

Valuation Summary

HF Group is undervalued with a total potential return of 37.6%

Cost of Equity Assumptions:	1/Sept/16
Risk free rate *	13.0%
Beta	1.2
Country Risk Premium	6.7%
Extra Risk Premium	0.0%
Cost of Equity	21.0%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	19.7%
Return on Average Equity	11.6%
Terminal PBV	0.4x
Shareholder Equity – FY20e	17.0
Terminal Value-(Year 2020)	7.6

Valuation Summary:	Implied Price	Weighting	Weighted Value
Intrinsic Valuation	18.4	80%	14.8
PBV Multiple	24.6	15%	3.7
PE Multiple	26.5	5%	1.3
Fair Value			**19.8**
Current Price			**15.4**
Upside/(Downside)			28.4%
Dividend Yield			9.2%
Total Potential Return			**37.6%**

** Five years average yields on a 10 year Treasury bond*

Cytonn INVESTMENTS

Q&A