Sub-Saharan Africa (SSA) Listed Financial Services Analysis

Cytonn H1'2017 Banking & Insurance Sector Report

November, 2017

Table of Contents

Cytonn INVESTMENTS

I. Overview of the Firm

What We Stand For

Our Mission

We deliver innovative & differentiated financial solutions that speak to our clients' needs

Our Vision

To be Africa's leading investment manager by consistently exceeding clients' expectations

Our Values

People
Passionate and self-driven people who thrive in a team context

Excellence
Delivering the best at all times

Client Focus
Putting clients' interest first at all times

Entrepreneurship
Using innovation and creativity to deliver differentiated financial solutions

Accountability
We take both corporate and personal responsibility for our actions

Integrity
Doing the right things

Strategy is straightforward – just pick a general direction and implement like hell

— Jack Welch

About Us

Cytonn Investments Management Plc is an alternative investment manager with presence in East Africa, Finland and the US. We provide investors with exposure to the high growth East Africa region. Our investors include global and local institutional investors, individual high net-worth investors and the diaspora. We also service retail investors through our Cytonn Co-operative

82 bn Over Kshs. 82 billion worth of projects under mandate

5 Five offices across 2 continents

250 Over 250 staff members

10 10 investment ready projects

A unique franchise differentiated by:

Independence & Investor Focus

Focused on serving the interest of clients, which is best done on an independent platform to minimize conflicts of interest

Alternative Investments

Specialized focus on alternative assets - Real Estate, Private Equity, and Structured Solutions

Strong Alignment

Every staff member is an owner in the firm. When clients do well, the firm does well; and when the firm does well, staff do well

Committed Partners

Strong global and local partnerships in financing, land and development affiliate

Why We Exist

Africa presents an attractive investment opportunity for investors seeking attractive and long-term returns. Despite the alternative markets in Africa having high and stable returns, only a few institutional players serve the market. Cytonn is focused on delivering higher returns in the alternative markets, while providing the best client service and always protecting our clients' interests.

WE SERVE FOUR MAIN CLIENTS SEGMENTS:

- Retail segment through Cytonn Co-operative membership
- High Net-worth Individuals through Cytonn Private Wealth
- East Africans in the Diaspora through Cytonn Diaspora
- Global and Local Institutional clients

WE INVEST OUR CLIENT FUNDS IN:

- Real Estate
- Private Equity
- Fixed Income Structured Solutions
- Equities Structured Solutions

We collect funds from our clients

We invest them in high growth opportunities

We deliver the best possible returns

Our Business

Where We Operate

Our Business Lines

Investments
Alternative investment manager focused on private equity and real estate

Real Estate
We develop institutional grade real estate projects for investors

Diaspora
We connect East Africans in the diaspora to attractive investment opportunities in the region

Technology
We deliver world-class financial technology solutions

Co-operative
Provides access to attractive alternative investment opportunities for members

Our Solutions

To unearth the attractive opportunity that exists in alternative markets in Africa, we offer differentiated investment solutions in four main areas:

HIGH YIELD SOLUTIONS

Our expertise in the alternative markets enables us to offer investors high yielding investments. Our robust credit analysis coupled with our quick dealing capabilities, our extensive research coverage and our innovative structuring helps to ensure consistent and above market returns to investors.

REAL ESTATE INVESTMENT SOLUTIONS

Our comprehensive real estate capabilities enable us to find, evaluate, structure and deliver world-class real estate investment products to our investors in the East African region. Our capabilities include fundraising, market research and acquisition, concept design, project management and agency and facility management.

PRIVATE REGULAR INVESTMENT SOLUTIONS

Attractive returns in the alternative segments have typically been accessible to institutional and high net-worth investors. Our regular investment solutions provide access to the alternative investments to members of the Cytonn Co-operative.

PRIVATE EQUITY

We seek to unearth value by identifying potential companies and growing them through capital provision, partnering with management to drive strategy and institutionalizing their processes. Our areas of focus are Financial Services, Education, Renewable Energy and Technology Sectors.

Cytonn INVESTMENTS

Our Products

We serve three main types of clients namely, high net-worth individuals, institutions and retail, each with diverse needs. Below are the suitability criteria for the various products.

	INSTITUTIONAL CLIENTS	HIGH NET WORTH INDIVIDUALS (HNWI)	RETAIL CLIENTS
Cash Management Solutions	●	●	
Regular Investment Plan • Education Investment Plan • Regular Investment Solution • Co-op Premier Investment Plan • Land Investment Plan	●	●	●
Real Estate Development • Real Estate Developments • Sharpland	●	●	●

Our People

> If you could get all the people in an organization rowing the same direction, you could dominate any industry, in any market, against any competition, at any time.
>
> **— Patrick Lencioni**

Board of Directors

To ensure that we remain focused on the clients' interests, we have put in place proper governance structures. We have a board of directors consisting of 11 members from diverse backgrounds, each bringing in unique skill-sets to the firm.

Board of Directors, continued …

Governance Committees

We have four main board committees to ensure all of Cytonn's functions are done in a fair and transparent manner:

Investments and Strategy Committee

The committee oversees and provides strategic investment direction, including the implementation and monitoring process. The members are:-

- James Maina (Chair)
- Antti-Jussi Ahveninen, MSc
- Madhav Bhalla, LLB
- Edwin H. Dande, MBA
- Elizabeth Nkukuu, CFA

Audit, Risk and Compliance Committee

The committee establishes and oversees risk and compliance, including the implementation and monitoring process. The members are:-

- Madhav Bhalla, LLB (Chair)
- Nasser Olwero, Mphil
- Madhav Bhandari, MBA
- Dr. Nancy Asiko Onyango, DBA
- Patricia N. Wanjama, CPS

Governance, Human Resources and Compensation Committee

The committee establishes, oversees and implements governance structure, human resource policies and firm wide compensations. The members are:-

- Antti-Jussi Ahveninen, MSc (Chair)
- Prof. Daniel Mugendi Njiru, PhD
- Michael Bristow, MSc (Chair)
- Rose Kimotho, M.B.S
- Edwin H. Dande, MBA

Technology and Innovation Committee

The committee establishes, oversees and implements technical expertise and innovative processes as a driver towards competitiveness. The members are:-

- Nasser Olwero, Mphil (Chair)
- Michael Bristow, MSc
- Rose Kimotho, M.B.S
- Patricia N. Wanjama, CPS

II. Executive Summary

Shortlisting Methodology

Selection of the Sub-Saharan countries to be focused on involved a rigorous process, informed by research and several shortlisting steps

- The following outlines our shortlisting criteria and how we arrived at the Sub-Saharan Africa (SSA) countries that we selected from the 47 SSA countries, ex-South Africa :

No	Criteria Used	Outcome
1	**Availability of a Stock Exchange**	• Eliminated all 13 that did not have a stock exchange, because we are planning on investing in listed equities • 33 countries made it to the next step
2	**Availability of data**	• We looked at all the stock exchanges, the year started and data available on the exchange to allow for proper analysis, • 21 countries made it to the next step
3	**Shortlisting by market cap**	• We eliminated two stock exchanges that had market cap below USD 2,000 as we felt market cap below this would be too small and hence illiquid, • 19 countries made it to the next step
4	**Language Barrier**	• The BRVM exchange of the West African Community was eliminated because the reports and publications available were all in French, hence presenting a language barrier for us • 11 countries made it to the next step
5	**Micro and Macro Ranking**	• Micro ranking that involved looking at stock market metrics such as market cap, turnover, number of listed entities, foreign investor participation and trading costs, and, • Macro ranking that involved macro-economic metrics such as GDP, interest rates, inflation, exchange rate, corporate earnings, foreign investor sentiment and security & political environment

- The final list by overall rank included: Mauritius, Tanzania, Kenya, Botswana, Ghana, Nigeria, Namibia, Zambia, Rwanda and Uganda. The list is subject to further truncation

Cytonn INVESTMENTS

Sub-Saharan Africa: Economic Review

Fundamental Macro-economic Drivers across SSA are trending positively

Driver	Kenya	Tanzania	Uganda	Rwanda	Nigeria	Ghana	Mauritius	Zambia	Namibia	Botswana
GDP Growth	Neutral	Positive	Neutral	Positive	Neutral	Positive	Positive	Neutral	Negative	Neutral
Interest Rates	Neutral	Neutral	Positive	Positive	Neutral	Positive	Positive	Positive	Negative	Neutral
Inflation	Neutral	Neutral	Positive	Neutral	Negative	Positive	Neutral	Positive	Neutral	Positive
Currency Stability	Neutral	Negative	Neutral	Neutral	Neutral	Neutral	Neutral	Positive	Positive	Neutral
Corporate Earnings	Neutral	Positive	Neutral	Neutral	Positive	Positive	Neutral	Neutral	Neutral	Neutral
Investor Sentiment	Neutral	Positive	Neutral	Positive	Positive	Neutral	Positive	Neutral	Neutral	Positive
Security	Neutral	Positive	Neutral	Neutral	Neutral	Positive	Positive	Positive	Positive	Positive

SSA Financial Services Sector Growth Drivers

Technology and innovation set to be key drivers of growth in the sector, in a region with a booming population

1) **Technology and Innovation**: The critical technological capabilities to drive growth encompass a portfolio of tools, systems and will focus on online and mobile platforms for (i) efficient loan disbursement in the case of banks, and (ii) underwriting policy quotations and renewals efficiently in the case of insurance companies

2) **Strong GDP Growth:** The region continues to experience positive economic growth with GDP projected to grow by 2.7% in 2017 up from 1.5% in 2016, supported by strong fundamentals. Productivity improvements in agriculture, expanding urban markets, shifts to higher-value exports, investments in giant infrastructure projects, and mobile technologies to boost trade and commerce are the key drivers set to drive economic growth and the financial services sector

3) **Financial Penetration**: Financial penetration remains low in Sub-Saharan Africa, with less than a quarter of the population having access to a formal bank account, hence limiting the degree to which private individuals can access financial services, while the average insurance penetration rate in Africa is very low, at 3.5%. Low inclusion presents ample runway for growth, given the backdrop of increased macroeconomic stability, positive consumer oriented reforms and financial sector deepening

4) **Population Growth**: In a region with one of the fastest population and economic growth rates, the rise in disposable income is a great driver for the sector. Demand for banking services and insurance products has grown over the past few years

III. Country and Regional review- Banking Sector Overview

Ranking Methodology and Valuation

We undertook this report to offer investors a comprehensive view of Sub-Saharan Africa listed Banks

- Select listed banks in the Sub-Saharan market were analysed by the Cytonn Investment Team
- The analysis was brought about by a need to be able to take a view on the banking sector to determine 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 H1'2017 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%)

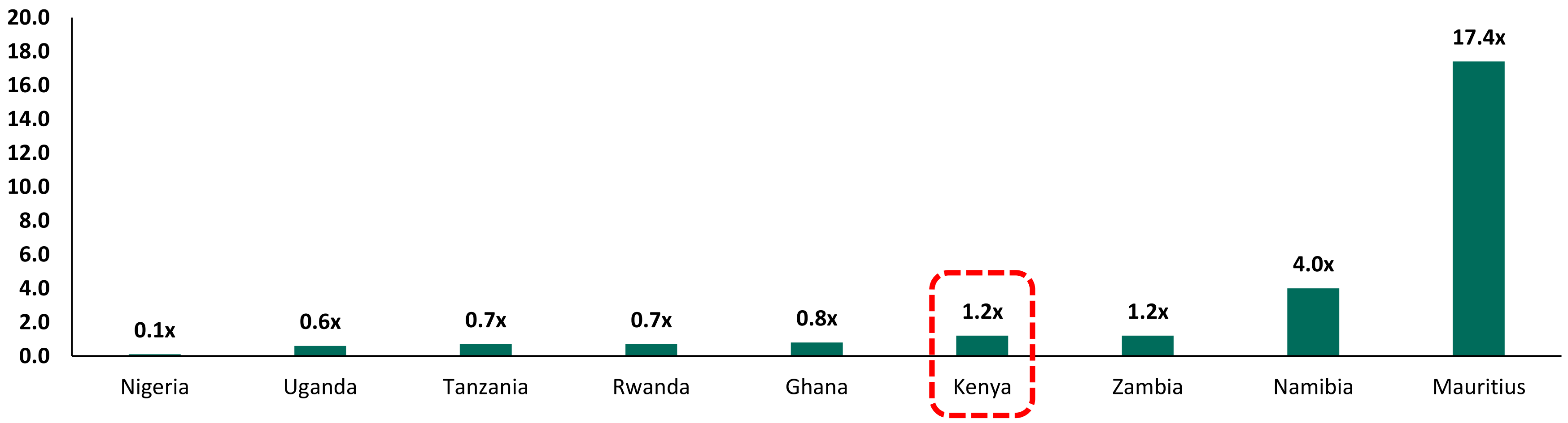
a. Kenya

Kenya Banking Sector Overview

Financial Inclusion in Kenya continues to rise, driven by mobile and digital channels

- In Kenya there are a total of 40 commercial banks, with Chase Bank and Imperial Bank under 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
- Financial inclusion in Kenya has continued to rise, with the percentage of the population living within 3 kilometers of a financial services access point rising to 77.0% in 2016 from 59.0% in 2013. This has been driven by digitization, with Mobile Financial Services (MFS) rising to be the preferred method to access financial services in 2016

Commercial Banks/Population



Kenya Banking Sector Overview

The sector has witnessed several acquisitions over the past 4 years, with the most recent being the acquisition of Habib Bank Ltd by Diamond Trust Bank early this year

- Kenya's banking environment is already going through consolidation as evidenced by heightened M&A activity over the last 4 years
- Below is a summary of key transactions done over the last few years and their transaction multiples

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs bns)	Transaction Stake	Transaction Value (Kshs bns)	P/Bv Multiple	Date
Diamond Trust Bank Kenya	Habib Bank Limited Kenya	2.38	100.0%	1.82	**0.8x**	Mar-17
SBM Holdings	Fidelity Commercial Bank	1.75	100.0%	2.75	**1.6x**	Nov-16
M Bank	Oriental Commercial Bank	1.80	51.0%	1.30	**1.4x**	Jun-16
I&M Holdings	Giro Commercial Bank	2.95	100.0%	5.00	**1.7x**	Jun-16
Mwalimu SACCO	Equatorial Commercial Bank	1.15	75.0%	2.60	**2.3x**	Mar-15
Centum	K-Rep Bank	2.08	66.0%	2.50	**1.8x**	Jul-14
GT Bank	Fina Bank Group	3.86	70.0%	8.60	**3.2x**	Nov-13
Average			**80.3%**		**1.8x**	

- For local bank acquisitions, the average price-to-book multiple is at 1.8x, with an average acquisition stake of 80.3%.
- It is notable that acquisitions are also happening at much cheaper valuations, with earlier bank acquisition announcements, such as Fina, K-Rep and Equatorial Commercial Bank having been at 3.2x, 1.8x and 2.3x P/B, respectively, while recent acquisitions are happening at between 0.8x to 1.7x P/B, and hence it is a great time to be an acquirer

Cytonn INVESTMENTS

Listed Banking Sector Multiples

Kenya's banking sector is trading at an average PTBV of 1.4x and a PE of 8.1x

Banking	Mkt Cap(bn)	Price as at 10/11/2017	P/E	P/TBV	Dividend Yield
National Bank	3.7	10.9	**9.4x**	**0.4x**	0.0%
HF Group	4.4	12.4	**9.7x**	**0.4x**	3.0%
NIC bank	24.3	38.0	**6.0x**	**0.8x**	3.3%
Stanbic Holdings	31.6	80.0	**7.6x**	**1.0x**	5.2%
Diamond Trust Bank	50.3	189.0	**6.7x**	**1.1x**	1.3%
KCB Group	125.7	40.5	**6.2x**	**1.3x**	4.9%
I&M Holdings	49.6	120.0	**7.6x**	**1.3x**	2.5%
Barclays	54.3	10.0	**7.9x**	**1.4x**	9.8%
Co-operative bank	95.3	16.3	**8.2x**	**1.4x**	5.7%
Equity Holdings	150.9	40.0	**9.4x**	**1.8x**	4.8%
Stanchart	78.0	227.0	**10.8x**	**1.9x**	4.5%
Average			**8.1x**	**1.4x**	**4.1%**

Source: NSE, Cytonn Banking Sector Report

Cytonn INVESTMENTS

Rankings by Franchise Value

Co-operative Bank emerged top in the franchise value rankings, with NBK coming last

Key Ranking Metrics

Rank	Bank	LDR *	CIR **	ROACE ***	NIM ****	PEG ratio	P/TBV	Deposit per Branch	Gross NPL Ratio	NPL Coverage	Tangible Common Ratio	Non Interest Income to Revenue	Camel Rating	Corporate Governance Score	Total Score	H1'17 Rank
1	Co-op	4	2	3	3	2	9	6	2	8	2	3	1	4	**49**	**1**
2	KCB	1	4	1	4	1	6	7	7	3	5	4	9	1	**53**	**2**
3	DTBK	8	5	4	8	2	5	5	1	1	10	11	2	2	**64**	**3**
4	Equity	9	3	2	2	4	11	10	6	5	4	2	3	6	**67**	**4**
5	I&M	6	1	5	6	7	7	3	4	10	1	8	8	6	**72**	**5**
6	NIC	3	6	8	7	5	3	4	8	6	3	9	4	9	**75**	**6**
7	Barclays	2	8	6	1	9	8	8	5	4	6	7	6	8	**78**	**7**
8	SCBK	11	7	7	5	9	10	2	9	2	7	5	7	3	**84**	**8**
9	Stanbic	7	9	9	11	8	4	1	3	7	9	1	5	11	**85**	**9**
10	HF Group	5	10	10	10	5	2	9	10	9	8	10	10	10	**108**	**10**
11	NBK	10	11	11	9	11	1	11	11	11	11	6	11	5	**119**	**11**

- 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
- Coop Bank ranked 1st position on the back of a low cost to income ratio of 55.3% compared to an industry average of 66.0% as well as a low non-performing loans ratio at 4.7%, compared to an industry average of 11.5%
- Equity Group remains attractive due to impressive NIM at 9.7%, above industry average of 8.6%, and a Return on average Equity of 19.7%, above the industry average of 18.1%, with the bank adequately diversified with Non-Funded income at 42.0%, higher than the industry average of 31.3%
- NBK ranked 11th on the Tangible Common Equity Ratio, coming in at 8.6% compared to an industry average of 14.4%, which might suggest the bank should look to capitalize in the near future

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

Source: Cytonn Research

Rankings by Intrinsic Value

NIC Bank has the highest upside with a total potential return of 59.7%

Company	Price as at 10/11/17	Target Price	Upside	Dividend Yield	Total Potential Return
NIC	38.0	58.2	56.4%	3.3%	**59.7%**
KCB Group	40.5	57.1	45.9%	4.9%	**50.9%**
Barclays	10.0	12.5	35.0%	10.0%	**44.9%**
I&M Holdings	120.0	149.6	27.2%	2.5%	**29.7%**
DTBK	189.0	234.1	25.2%	1.3%	**26.5%**
HF Group	12.4	14.2	16.3%	1.8%	**18.1%**
Co-op Bank	16.3	17.5	13.4%	5.7%	**19.1%**
Equity Group	40.0	40.5	6.3%	5.0%	**11.3%**
Stanbic Holdings	80.0	79.1	4.0%	5.2%	**9.2%**
Standard Chartered	227.0	199.8	(7.4%)	4.5%	**(2.9%)**
NBK	10.9	5.2	(52.5%)	0.0%	**(52.5%)**

Prices as at 10th November 2017

- The Intrinsic Valuation is computed through a combination of valuation techniques, with a weighting of 75% on Discounted Cash flow Methods and 25.0% on Relative Valuation
- NIC Bank & KCB Group have the highest upsides at 59.7% and 50.9%, respectively
- National Bank of Kenya registered the highest downside of 52.5%

Cytonn INVESTMENTS

Composite Bank Ranking

Overall, KCB Group ranked highest in Kenya Composite Ranking

CYTONN'S H1'2017 BANKING REPORT RANKINGS				
Bank	**Franchise Value Total Score**	**Total Return Score**	**Weighted Score**	**H1'2017 Rank**
KCB Group	**53.0**	**2**	**23.6**	**1**
Co-operative Bank	**49.0**	**7**	**25.4**	**2**
Diamond Trust Bank	**64.0**	**5**	**28.6**	**3**
I&M Holdings	**72.0**	**4**	**30.0**	**4**
NIC Bank	**75.0**	**1**	**31.0**	**5**
Equity Group	**67.0**	**8**	**33.2**	**6**
Barclays Bank	**78.0**	**3**	**33.4**	**7**
SCBK	**84.0**	**10**	**36.0**	**8**
Stanbic Holdings	**85.0**	**9**	**36.6**	**9**
HF Group	**108.0**	**6**	**51.2**	**10**
NBK	**119.0**	**11**	**53.4**	**11**

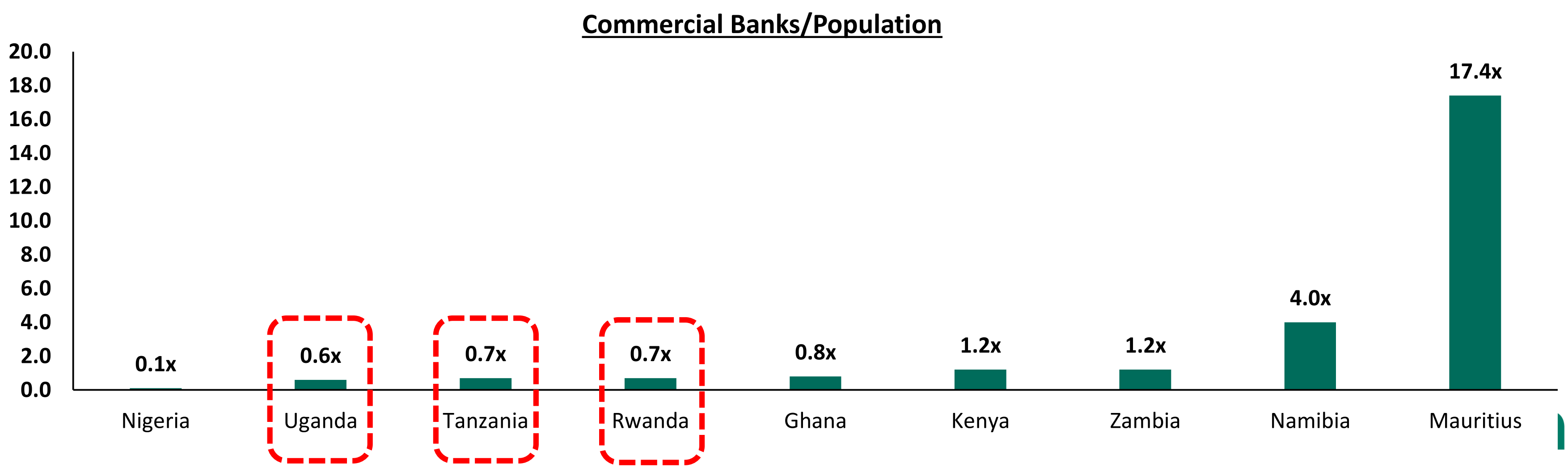
- In our ranking, franchise value was assigned a weighting of 40.0% while the intrinsic value was assigned 60.0% weight
- KCB Group and Coop Bank came in at the top two positions

b. Other East African Countries (Tanzania, Uganda, Rwanda)

Overview of the East African Banking Sector

In most countries in East Africa, the markets are dominated by few key players

- The East African Region (Kenya, Uganda, Tanzania and Rwanda) is made up of 149 banks, with 25 of them listed in Security Exchanges of their respective countries
- In most of the East African countries, the markets are dominated by few key players, with the average market share by assets of the 4 largest banks being 21.3%
- The average commercial banks/population ratio for the East Africa region is 0.7x, showing that most countries are overbanked
- This situation is likely to lead to consolidation in the banking sector in the region. Some of the effects of consolidation will include increased mergers, acquisitions and buyouts of banks smaller banks by bigger, which are well capitalized banks



INVESTMENTS

Listed Banking Sector Multiples

East Africa banking sector is currently trading at an average PTBV of 1.5x and a PE of 8.2x

Select E.A. Listed Banking Sector Multiples							
Bank	**Country**	**Share Price as at 10.11.2017**	**No. Of Shares (bn)**	**Market Cap**	**PTBV**	**P/E**	**Dividend Yield**
CRDB	Tanzania	160.0	2.6	417.9	0.6x	7.9x	5.2%
Bank of Baroda	Uganda	110.0	2.5	275.0	1.0x	5.6x	2.9%
DFCU	Uganda	690.0	0.5	343.1	0.9x	2.5x	7.8%
BoK	Rwanda	279.0	0.7	195.3	1.7x	9.3x	4.4%
NMB Bank	Tanzania	2,750.0	0.5	1,375.0	1.7x	9.4x	3.9%
Stanbic Bank	Uganda	27.3	51.2	1,397.5	1.8x	7.8x	4.3%
Average					**1.5x**	**8.2x**	**4.4%**

Rankings by Franchise Value

DFCU emerged top in the franchise value rankings, with CRDB coming in last

Key Banking Metrics										
Bank	**Country**	**Loans/ Deposits ratio**	**Cost to Income Ratio**	**ROACE**	**NIM**	**PEG ratio**	**Deposits per branch (bn)**	**Non Interest Income/Revenue**	**Total**	**Rank**
DFCU	Uganda	3	1	1		1	2		8.0	**1**
SBU	Uganda	4	2	2	2	5	1	1	17.0	**2**
NMB Bank	Tanzania	2	4	4	1	3	3	4	21.0	**3**
BoK	Rwanda	5	3	3	3	2	5	3	24.0	**4**
CRDB	Tanzania	1	5	5	4	4	4	2	25.0	**5**

- 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
- DFCU ranked 1st position on the back of low Cost to Income ratio at 40.5%, and a high return on equity of 45.2%

Source: Cytonn Research

Cytonn INVESTMENTS

Rankings by Intrinsic Value

DFCU and CRDB have the highest upside of 102.9% and 34.6%, respectively

Banks	Country	Current Price	Valuation	Upside/Downside	Dividend Yield	Total Return	Ranking
DFCU	Uganda	690	1347.8	95.3%	7.6%	**102.9%**	**1**
CRDB	Tanzania	160	206.3	28.9%	5.7%	**34.6%**	**2**
Bank of Baroda	Uganda	110	138.5	25.9%	2.3%	**28.2%**	**3**
Stanbic Bank Uganda	Uganda	27.3	32.2	17.9%	4.2%	**22.2%**	**4**
Bank of Kigali	Rwanda	285	303.2	6.4%	5.1%	**11.5%**	**5**
NMB Bank	Tanzania	2750	2528.8	(8.0%)	3.9%	**(4.1%)**	**6**

- DFCU and CRDB have the highest upside at 102.9% and 34.6%, respectively
- National Microfinance Bank Tanzania (NMB) registered a downside of 4.1%

Composite Bank Ranking

DFCU ranked 1st in the overall ranking, with Bank of Baroda last

Bank	Country	Franchise Value Total Score	Total Return Score	Weighted Score	H1’17 Rank
DFCU	Uganda	21.0	1	9.0	**1**
Stanbic Bank Uganda	Uganda	32.0	4	15.2	**2**
CRDB	Tanzania	36.0	2	15.6	**3**
NMB Bank	Tanzania	36.0	6	18.0	**4**
BoK	Rwanda	39.0	5	18.6	**5**
Bank of Baroda(Uganda)	Uganda	46.0	3	20.2	**6**

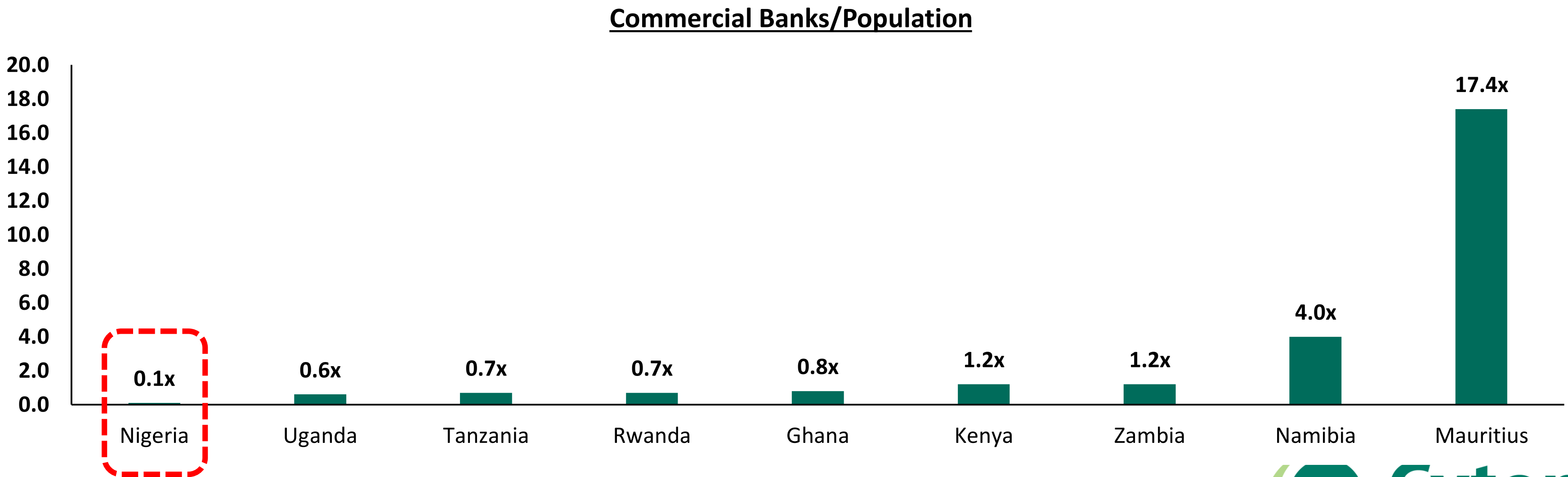
- In our ranking, franchise value was assigned a weighting of 40% while the intrinsic value was assigned 60% weight
- DFCU ranked 1st, while Bank of Baroda ranked last

c. Nigeria

Nigeria's Banking Sector Overview

The Nigerian banking sector has 24 commercial banks serving 187.6 mn people, thus the population to commercial banks ratio is at 7.8x

- Nigeria has 24 commercial banks, 4 merchant banks and 3 foreign bank representatives –(following the consolidation of its 89 banks) versus a population of 187.6 mn people, bringing the population to commercial banks ratio to 7.8x, meaning that 1 bank serves approximately 7.8 mn people, compared to Kenya which is overbanked with 1.0x ratio - 43 commercial banks serving 44.0 mn people, and Ghana with 37 commercial banks serving 28.2 mn people
- Nigeria is therefore considered underbanked, with approximately 55.0% of the population banked, meaning that there is still opportunity for expansion of commercial banks in Nigeria



Nigeria's Banking Sector Overview continued…

All commercial banks are regulated by the Central Bank of Nigeria and there are 8 Domestic Systemically Important Banks

- All banks are regulated by the Central Bank of Nigeria (CBN) and are required to adhere to certain prudential regulations as specified in the Prudential Guidelines by the CBN

- DSIB regulatory and supervisory framework was done in 2014 by CBN and the Nigeria Deposit Insurance Corporation (NDIC) and came into effect in 2015 as part of reform efforts to foster financial stability following the global financial crisis that started in 2007 which brought about the need to strengthen regulation of Systematically Important Financial Institutions (SIFIs)

- Currently, Nigeria has 8 DSIBs whose assets are 70% of the total industry assets, and are:
    1. FBN Holdings,
    2. GTBank,
    3. Zenith Bank Plc,
    4. UBA Plc,
    5. Access Bank,
    6. Skye Bank Plc,
    7. Ecobank Nigeria and
    8. Diamond Bank Plc

Banking Sector Multiples

Our Nigeria universe of coverage is trading at an average P/TB of 1.2x and an average P/E of 5.8x

Bank	Share Price	No. of shares	Market cap	P/TBv	P/E
FBN Holdings	7.2	35.9	259.5	**0.3x**	20.7x
Union Bank Plc Nigeria	6.2	16.9	104.2	**0.4x**	7.2x
Access Bank	9.9	28.9	286.7	**0.6x**	3.6x
UBA Bank	9.7	36.3	351.9	**0.7x**	3.9x
Ecobank Transnational Plc	17.0	18.3	311.9	**0.8x**	4.4x
Zenith Bank Plc	25.0	31.4	784.9	**1.0x**	4.3x
GT Bank	43.0	29.4	1,265.5	**2.2x**	8.0x
Stanbic IBTC Holdings	42.5	10.0	425.0	**2.5x**	9.3x
Average	**21.9**	**24.5**	**504.3**	**1.2x**	**5.8x**

Source: Cytonn Banking Sector Report

Cytonn INVESTMENTS

Rankings by Franchise Value

GT Bank emerged top in the franchise value rankings, with Ecobank Transnational coming last

Rank	Bank	LDR*	CIR**	ROACE ***	NIM** **	PEG ratio	P/TBV	Deposit/ Branch	NPLs/ Loans	NPL Coverage	Tangible Common Ratio	Non Interest Income/ Revenue	Total Score
1	GT Bank	2	1	2	1	5	7	1	2	1	2	7	**31**
2	Access Bank	1	5	5	8	3	3	4	1	3	5	1	**39**
2	Zenith Bank Plc	3	3	3	7	1	6	2	4	5	3	4	**41**
4	UBA Bank	6	4	4	5	2	4	3	3	4	4	5	**44**
5	Stanbic IBTC Holdings	8	2	1	2	4	8	5	5	6	6	2	**49**
6	Union Bank Plc Nigeria	7	6	6	4	8	2	8	6	2	1	6	**56**
7	FBN Holdings	5	7	7	3	7	1	6	8	8	7	8	**67**
8	Ecobank Transnational Plc	4	8	8	6	6	5	7	7	7	8	3	**69**

- The bank ranking assigns a value of 1 for the best performing bank, and a value of 8 for the worst
- The metrics highlighted a bank's profitability, efficiency, growth, asset quality, liquidity, revenue diversification, capitalization and soundness
- GT Bank emerged 1st position on the back of robust coverage of its non performing loans, a high Net Interest Margin at 12.2%, a high return on equity of 28.2% and high efficiency with a cost to income ratio of 42.8%

- **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

Union Bank Nigeria has the highest upside with a potential return of 54.1%

Bank	Current Price	Target Price	Upside	Dividend Yield	Total Potential Return	H1'2017 Ranking
Union Bank Plc Nigeria	6.2	9.5	54.1%	0.0%	**54.1%**	**1**
Zenith Bank Plc	25.0	30.5	21.9%	8.8%	**30.7%**	**2**
Access Bank	9.9	10.0	1.2%	6.6%	**7.7%**	**3**
UBA Bank	9.7	8.3	(13.9%)	7.5%	**(6.5%)**	**4**
GT Bank	43.0	36.2	(15.9%)	5.3%	**(10.6%)**	**5**
Stanbic IBTC Holdings	42.5	31.1	(26.7%)	3.5%	**(23.2%)**	**6**
FBN Holdings	7.2	4.8	(34.0%)	2.8%	**(31.2%)**	**7**
Ecobank Transnational Plc	17.0	8.4	(50.6%)	6.4%	**(44.1%)**	**8**

- Union Bank and Zenith Bank have the highest upsides at 54.1% and 30.7%, respectively
- Ecobank Transnational Plc registered the highest downside of 44.1%

Composite Bank Ranking

Overall GT Bank ranked highest, while Ecobank Transnational ranked last

Cytonn's H1'2017 Banking Report Rankings				
Bank	**Franchise Value Total Score**	**Total Return Score**	**Weighted Score**	**H1'2017 Ranking**
GT Bank	**31.0**	**5.0**	**15.4**	**1**
Access Bank	**39.0**	**3.0**	**17.4**	**2**
Zenith Bank Plc	**41.0**	**2.0**	**17.6**	**3**
UBA Bank	**44.0**	**4.0**	**20.0**	**4**
Union Bank Plc Nigeria	**56.0**	**1.0**	**23.0**	**5**
Stanbic IBTC Holdings	**49.0**	**6.0**	**23.2**	**6**
FBN Holdings	**67.0**	**7.0**	**31.0**	**7**
Ecobank Transnational Plc	**69.0**	**8.0**	**32.4**	**8**

- In our ranking, franchise value was assigned a weighting of 40% while the intrinsic value was assigned 60% weight
- GT Bank emerged first while Ecobank Transnational emerged the last in ranking

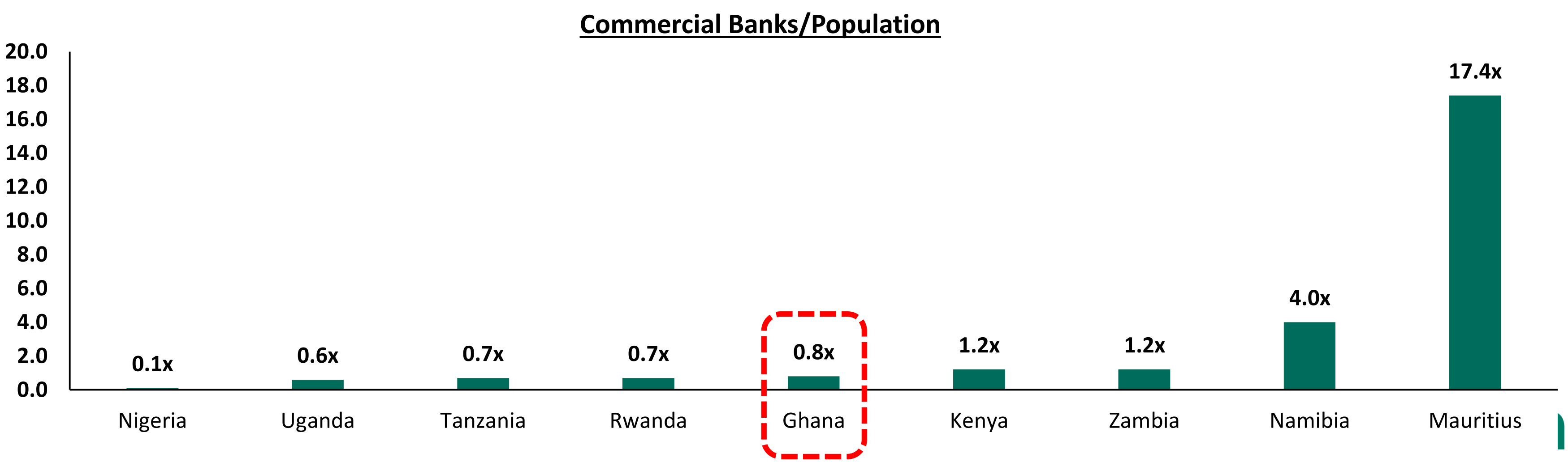
Cytonn INVESTMENTS

d. Ghana

Ghana Banking Sector Overview

Financial Inclusion in Ghana continues to rise, driven by the introduction of mobile money solutions

- In Ghana there are a total of 35 licensed commercial banks, coupled with 140 rural and community banks
- In addition, there are 37 savings and loans companies, 4 representative offices of foreign banks, 24 finance houses, 2 remittance companies, 3 credit reference bureaus, 392 active forex bureaus and 1 mortgage finance company
- Despite calls to the Bank of Ghana (BoG) to introduce measures that will reduce the number of banks in the country, there are a considerable number of the population still unbanked, hindering Ghana's ability to achieve financial inclusion. Financial inclusion in Ghana, however, has continued to rise, with the percentage of the banked population rising to 40.0%% in 2017 from 30.0% in 2015. This has been driven by introduction of mobile money solutions



INVESTMENTS

Ghana Banking Sector Overview

Basel II implementation is underway and the framework for DSIBs has already been laid out

Implementation of Basel II and IFRS 9

- Basel II compliance is underway (50.0% done) with help from the IMF and is expected to be complete by 1st July 2018
- IFRS 9 is expected to be implemented on 1st January 2018 but banks are yet to carry out a gap analysis with the guidance of the Bank of Ghana and international audit firms and hence this date may be delayed

Domestic Systematically Important Banks (DSIBs)

- DSIB implementation is underway with methodology for classification having been developed, 5 banks having fit the role but something that is reviewed regularly and is subject to change, and a mechanism for monitoring them with more stringent requirements being developed
- These banks are:
  - ✓ Ecobank
  - ✓ Barclays
  - ✓ SCB
  - ✓ GCB
  - ✓ Unibank

Ghana Banking Sector Overview

Treasury single accounts are set to be implemented gradually while the Bank of Ghana has tightened regulation and introduced consumer protection regulations

Treasury Single Accounts

- Treasury Single Accounts (TSA) are also set to be fully implemented requiring about 40.0% of the current government deposits which constitute government assembly accounts to be remitted to the BoG
- Implementation of TSA is expected to be gradual but eventually the aim is to have all government deposits with the BoG

Consumer Protection & Tighter Regulation

- The Bank of Ghana has put in place regulations in a bid to protect the integrity of the financial services market as well as ensure the stability of the financial system, such as the review of the minimum capital requirements, with the minimum capital requirement increased to GH Cedi 400 mn from the GH Cedi 120 mn, previously
- The Bank of Ghana (BoG) begun the implementation of the Ghana Depository Protection Act, 2016 (Act 931) in the second quarter of 2017
- The Act, which was passed by Parliament in 2016, is expected to protect depositors from unforeseen circumstances that may result in loss of funds
- The new Banking Act 2016 has strengthened areas of supervision with no waivers permitted for banks that fall below minimum statutory capital requirements
- There are also provisions for the base rate model used by banks for loan pricing to be improved upon

Cytonn INVESTMENTS

Banking Sector Multiples

Our Ghana universe of coverage is trading at an average P/TB of 1.6x and an average P/E of 10.6x

Bank	Share Price	Market cap (bn)	P/TB	P/E	Dividend Yield
Access Bank	3.4	0.4	0.9x	9.6x	0.0%
Societe Generale	0.8	0.3	0.9x	3.6x	2.1%
CAL Bank Ghana	1.1	0.6	1.0x	28.9x	8.5%
GCB	4.2	1.1	1.1x	4.7x	7.2%
Ecobank Ghana	7.5	2.2	2.6x	8.5x	11.0%
SCB Ghana	21.5	2.5	3.1x	10.2x	2.8%
Average			**1.6x**	**10.9x**	**5.3%**

Source: Cytonn Banking Sector Report

Cytonn INVESTMENTS

Rankings by Franchise Value

SCB Ghana emerged top in the franchise value rankings, with Access Bank Ghana coming last

Rank	Bank	LDR*	CIR**	ROACE***	NIM****	PEG ratio	P/TBV	Deposit/ Branch	NPLs/ Loans	Tangible Common Ratio	Non Interest Income/ Revenue	Total Score
1	SCB Ghana	5	1	1	2	4	6	1	6	1	3	**30**
2	CAL Bank Ghana	1	2	6	6	1	3	2	2	4	4	**31**
2	Societe Generale	2	3	3	4	5	1	4	4	5	1	**32**
4	Ecobank Ghana	4	4	2	3	6	5	3	1	6	2	**36**
5	GCB	6	5	4	1	3	4	6	3	2	6	**40**
6	Access Bank Ghana	3	6	5	5	2	2	5	5	3	5	**41**

- The bank ranking assigns a value of 1 for the best performing bank, and a value of 6 for the worst
- The metrics highlighted a bank's profitability, efficiency, growth, asset quality, liquidity, revenue diversification, capitalization and soundness
- SCB Bank emerged 1st position on the back of a high Net Interest Margin at 17.8%, a high return on equity of 33.5% and high efficiency with a cost to income ratio of 30.7%

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

Source: Cytonn Research

Rankings by Intrinsic Value

GCB Bank has the highest upside with a potential return of 81.8%

Bank	Current Price	Target Price	Upside	Dividend Yield	Total Potential Return	H1'2017 Ranking
GCB	4.2	7.4	74.5%	7.2%	81.8%	**1**
Ecobank Ghana	7.5	10.7	42.2%	11.0%	53.2%	**2**
Access Bank	3.4	4.8	42.5%	0.0%	42.5%	**3**
Societe Generale	0.8	1.0	39.3%	2.1%	41.4%	**4**
CAL Bank	1.1	1.2	13.6%	8.5%	22.1%	**5**
SCB Ghana	21.5	21.3	(0.7%)	2.8%	2.1%	**6**

- GCB Bank and Ecobank Ghana have the highest upsides at 81.8% and 53.2%, respectively
- SCB Ghana has the lowest upside of 2.1%

Composite Bank Ranking

Overall Societe Generale ranked highest, while Access Bank Ghana ranked last

Cytonn's H1'2017 Banking Report Rankings				
Bank	**Franchise Value Total Score**	**Total Return Score**	**Weighted Score**	**H1'2017 Ranking**
Societe Generale	**32.0**	**4.0**	**15.2**	**1**
CAL Bank Ghana	**31.0**	**5.0**	**15.4**	**2**
SCB Ghana	**30.0**	**6.0**	**15.6**	**3**
Ecobank Ghana	**36.0**	**2.0**	**15.6**	**3**
GCB	**40.0**	**1.0**	**16.6**	**5**
Access Bank Ghana	**41.0**	**3.0**	**18.2**	**6**

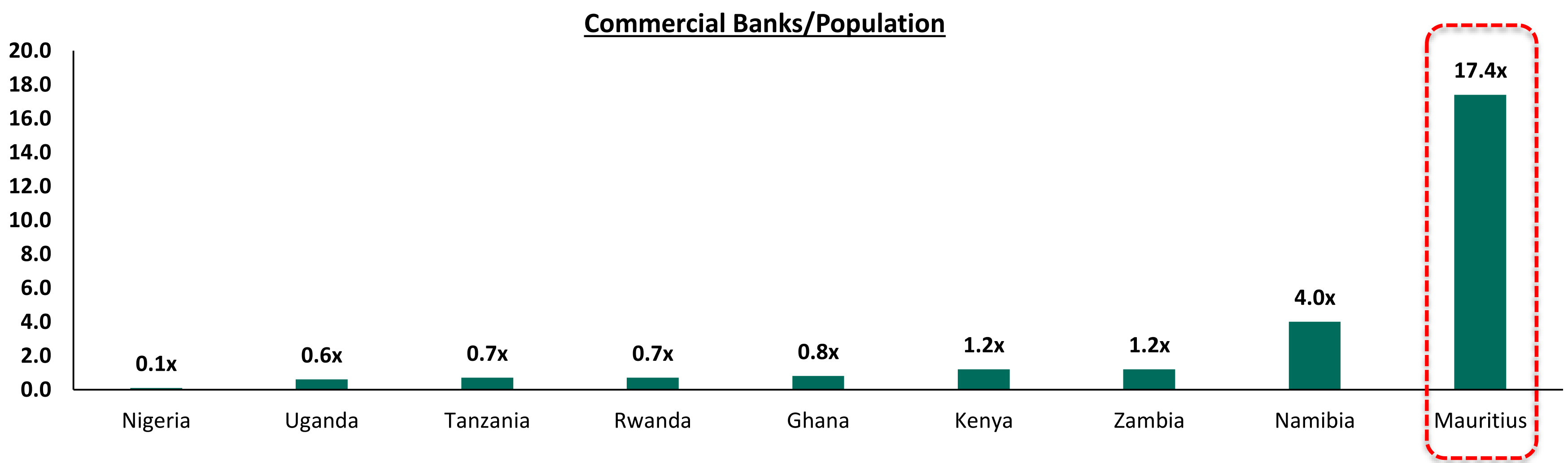
- In our ranking, franchise value was assigned a weighting of 40% while the intrinsic value was assigned 60% weight
- Societe Generale emerged first while Access Bank Ghana emerged the last in ranking

e. Other Sub-Saharan Africa Countries (Mauritius, Zambia, Namibia)

Banking Sector Overview - Mauritius

With 22 registered banks, Mauritius has 1 bank serving roughly 4.5% of the population

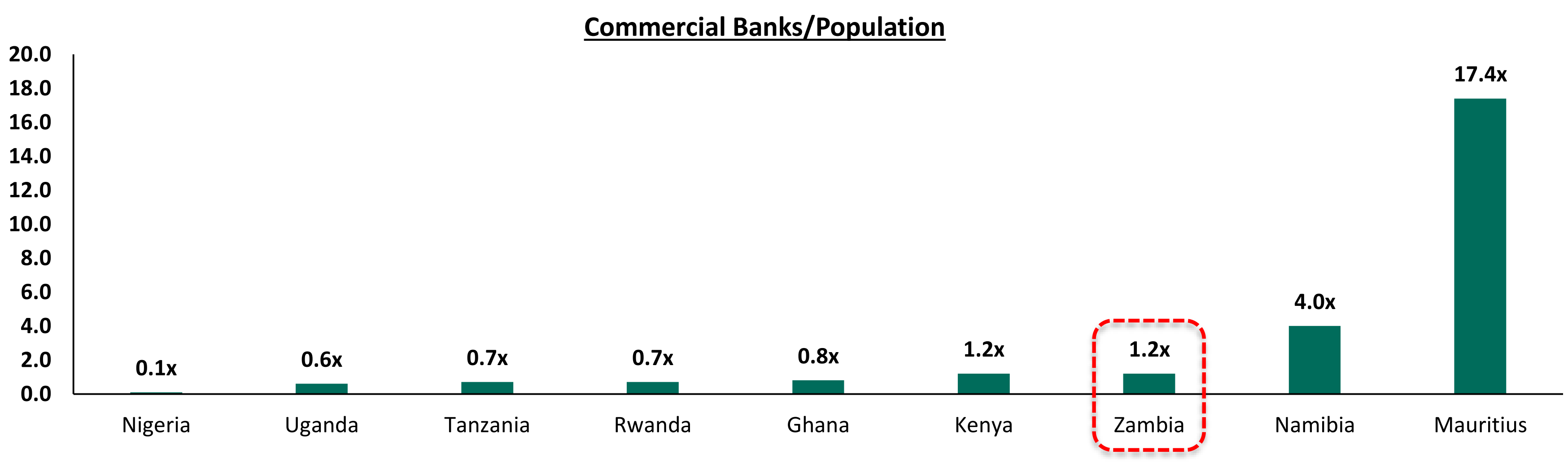
- Mauritius has 22 banks: 7 local, 10 foreign owned subsidiaries, 4 foreign branches and 1 joint venture
- With a population of 1.3m, it has 1 bank per 59,090 people which is 4.5% of the population, as compared to Kenya which has 1 bank per 1.0 million people with 42 banks serving 44m people, which is 2.4% of the population
- No restrictions on foreign ownership of banks present
- Of the 22 banks, only 2 are listed



Banking Sector Overview - Zambia

The Zambian banking sector has 19 commercial banks serving 15.5 mn people, thus the commercial banks to population ratio is at 1.2x

- Zambia has 19 banks versus a population of 15.5 mn people, bringing the commercial banks to population ratio to about 1.2x compared to Kenya which is at 1.0x with 42 commercial banks serving 44.0 mn people
- This means Zambia is adequately banked. Of the 19 banks, 8 are subsidiaries of foreign banks, 9 are local privately owned and 2 are partly owned by the government
- All the banks are regulated by the Bank of Zambia (BOZ)

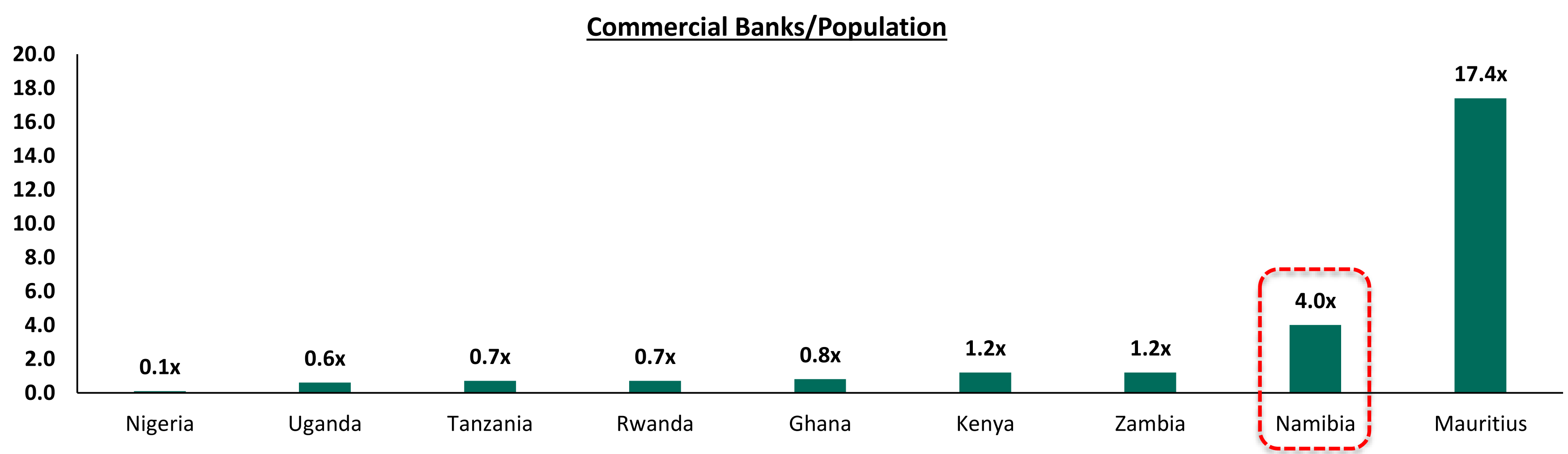


Source – Bank of Zambia Website

Banking Sector Overview - Namibia

The Namibian banking sector has 10 commercial banks serving 2.5 mn people, thus the commercial banks to population ratio is at 4.0x

- Namibia has 10 banks versus a population of 2.5 mn people, bringing the commercial banks to population ratio to about 4.0x compared to Kenya which is at 1.0x with 40 commercial banks serving 44.0 mn people. This means Namibia is over-banked
- All the banks are regulated by the Bank of Namibia (BON)



Source – Bank of Namibia Website

Banking Sector Multiples

Our Other SSA universe of coverage is trading at an average P/TB of 3.0x and an average P/E of 23.9x

Bank	Country	Share Price	Market cap (bn)	P/TB	P/E	Dividend Yield
SBM	Mauritius	7.5	22.9	1.1x	11.8x	4.2%
ZNCB	Zambia	1.0	1.4	1.0x	42.7x	1.8%
MCB	Mauritius	280.3	66.8	1.5x	9.7x	0.0%
SCB Zambia	Zambia	2.3	3.8	5.1x	9.4x	10.2%
FNB Namibia	Namibia	4,671.0	24.9	6.1x	41.5x	2.2%
Average				**3.0x**	**23.9x**	**3.7%**

Source: Cytonn Banking Sector Report

Rankings by Franchise Value

MCB emerged top in the franchise value rankings, with ZNCB coming last

Rank	Bank	Country	LDR*	CIR**	ROACE***	NIM****	PEG ratio	P/TBV	Deposit/ Branch	Tangible Common Ratio	Non Interest Income/ Revenue	Total Score
1	MCB	Mauritius	3	2	2	5	2	3	1	2	2	**22**
2	SBM	Mauritius	2	4	4	3	3	1	2	3	4	**26**
3	SCB Zambia	Zambia	5	1	1	1	4	4	3	5	3	**27**
4	FNB Namibia	Namibia	1	3	3	4	5	5	4	4	1	**30**
4	ZNCB	Zambia	4	5	5	2	1	2	5	1	5	**30**

- The bank ranking assigns a value of 1 for the best performing bank, and a value of 5 for the worst
- The metrics highlighted a bank's profitability, efficiency, growth, asset quality, liquidity, revenue diversification, capitalization and soundness
- MCB emerged 1st position on the back of a high return on equity of 17.4% and high efficiency with a cost to income ratio of 47.0%

- **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

MCB has the highest upside with a potential return of 25.9%

Bank	Country	Current Price	Target Price	Upside	Dividend Yield	Total Potential Return	H1'2017 Ranking
MCB	Mauritius	280.3	352.8	25.9%	0.0%	25.9%	**1**
SBM	Mauritius	7.5	6.5	(13.7%)	4.2%	(9.5%)	**2**
FNB Namibia	Namibia	4,671.0	3,243.7	(30.6%)	2.2%	(28.3%)	**3**
ZNCB	Zambia	1.0	0.5	(53.0%)	1.8%	(51.2%)	**6**
SCB Zambia	Zambia	2.3	0.7	(69.1%)	10.2%	(58.9%)	**4**

- MCB has the highest upside at 25.9%
- SCB Zambia and ZNCB registered the lowest upsides of 58.9% and 51.2%, respectively

Composite Bank Ranking

Overall MCB ranked highest, while ZNCB ranked last

Cytonn's H1'2017 Banking Report Rankings					
Bank	**Country**	**Franchise Value Total Score**	**Total Return Score**	**Weighted Score**	**H1'2017 Ranking**
MCB	**Mauritius**	**22.0**	**1.0**	**9.4**	**1**
SBM	**Mauritius**	**26.0**	**2.0**	**11.6**	**2**
SCB Zambia	**Zambia**	**27.0**	**5.0**	**13.8**	**3**
FNB Namibia	**Namibia**	**30.0**	**3.0**	**13.8**	**3**
ZNCB	**Zambia**	**30.0**	**4.0**	**14.4**	**5**

- In our ranking, franchise value was assigned a weighting of 40% while the intrinsic value was assigned 60% weight
- MCB emerged first while ZNCB emerged the last in ranking

IV. Summary Cytonn SSA Banking Sector Report

Overall Bank Rankings by Franchise Value

GT Bank emerged top in the overall franchise value rankings, with a score of 113

Bank	Country	LDR*	CIR**	ROACE***	NIM****	PEG ratio	P/TBV	Deposit/ Branch (USD mn)	Tangible Common Ratio	Non Interest Income/Revenue	Total	Rank
GT Bank	Nigeria	9	3	7	8	9	30	9	9	29	**113**	**1**
Zenith Bank Plc	Nigeria	14	21	9	27	2	14	10	17	5	**119**	**2**
SCB Ghana	Ghana	34	1	3	2	17	34	7	3	22	**123**	**3**
KCB Group	Kenya	1	13	11	21	12	21	18	13	16	**126**	**4**
Co-operative Bank	Kenya	4	10	16	20	16	25	16	6	14	**127**	**5**
Societe Generale	Ghana	18	17	6	6	19	10	24	21	13	**134**	**6**
CAL Bank	Ghana	5	9	32	16	3	12	13	19	26	**135**	**7**
Equity Holdings	Kenya	13	12	14	13	18	28	22	10	8	**138**	**8**
UBA Bank	Nigeria	24	22	17	23	4	7	15	18	11	**141**	**9**
Access Bank Nigeria	Nigeria	10	26	23	28	5	5	21	23	1	**142**	**10**
I&M	Kenya	7	8	21	25	26	20	5	5	25	**142**	**11**
NIC	Kenya	3	16	25	29	21	9	6	7	27	**143**	**12**
DFCU	Uganda	20	2	2	15	1	23	32	22	31	**148**	**13**
Bank of Baroda(Uganda)	Uganda	32	4	12	26	13	13	12	2	36	**150**	**14**
BoK	Rwanda	15	18	13	12	8	26	34	4	21	**151**	**15**
SCB Zambia	Zambia	35	5	1	3	34	35	8	34	10	**165**	**16**
Stanbic IBTC Holdings	Nigeria	30	20	5	17	6	33	25	28	2	**166**	**17**
Barclays Bank	Kenya	2	25	20	11	31	22	19	14	24	**168**	**18**

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

Source: Cytonn Research

Overall Rankings by Franchise Value

NBK came out last in the franchise value rankings, with a score of 249

Bank	Country	LDR*	CIR**	ROACE***	NIM****	PEG ratio	P/TBV	Deposit/ Branch (USD mn)	Tangible Common Ratio	Non Interest Income/Revenue	Total	Rank
Access Bank Ghana	Ghana	23	28	26	9	7	11	31	11	28	**174**	**19**
Stanbic Bank Uganda	Uganda	27	15	8	10	27	31	29	20	7	**174**	**20**
MCB	Mauritius	26	6	19	36	29	24	1	26	9	**176**	**21**
Stanbic Holdings	Kenya	11	29	27	33	30	15	2	24	6	**177**	**22**
GCB	Ghana	36	27	10	1	14	16	33	8	35	**180**	**23**
NMB Bank	Tanzania	16	24	15	7	22	27	27	12	30	**180**	**24**
Diamond Trust Bank	Kenya	12	14	18	30	15	18	14	29	34	**184**	**25**
Union Bank Plc Nigeria	Nigeria	25	30	30	19	24	3	36	1	18	**186**	**26**
CRDB	Tanzania	8	31	29	14	23	6	35	27	17	**190**	**27**
Ecobank Ghana	Ghana	29	23	4	5	28	32	17	33	20	**191**	**28**
SBM	Mauritius	22	11	28	34	33	17	3	31	12	**191**	**29**
Housing Finance	Kenya	6	34	31	32	20	4	20	15	33	**195**	**30**
Standard Chartered	Kenya	33	19	22	22	32	29	4	16	19	**196**	**31**
Ecobank Transnational Plc	Nigeria	17	33	36	24	10	8	30	36	3	**197**	**32**
FBN Holdings	Nigeria	19	32	34	18	11	1	28	30	32	**205**	**33**
FNB Namibia	Namibia	21	7	24	35	35	36	11	32	4	**205**	**34**
ZNCB	Zambia	31	35	33	4	25	19	26	25	15	**213**	**35**
NBK	Kenya	28	36	35	31	36	2	23	35	23	**249**	**36**

- **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

Overall Rankings by Intrinsic Value

DFCU has the highest upside with a total potential return of 102.9%

Bank	Country	Current Price	Target Price	Upside	Dividend Yield	Total Potential Return	H1'2017 Ranking
DFCU	Uganda	690.0	1347.8	95.3%	7.6%	102.9%	**1**
GCB	Ghana	4.2	7.4	74.5%	7.2%	81.8%	**2**
NIC	Kenya	38.0	58.2	53.2%	3.2%	56.4%	**3**
Union Bank Plc Nigeria	Nigeria	6.2	9.5	54.1%	0.0%	54.1%	**4**
Ecobank Ghana	Ghana	7.5	10.7	42.2%	11.0%	53.2%	**5**
KCB Group	Kenya	40.5	57.1	40.9%	4.9%	45.8%	**6**
Access Bank Ghana	Ghana	3.4	4.8	42.5%	0.0%	42.5%	**7**
Societe Generale	Ghana	0.8	1.0	39.3%	2.1%	41.4%	**8**
Barclays Bank	Kenya	10.0	12.5	25.4%	9.9%	35.3%	**9**
CRDB	Tanzania	160.0	206.3	28.9%	5.7%	34.6%	**10**
Zenith Bank Plc	Nigeria	25.0	30.5	22.0%	8.8%	30.7%	**11**
Bank of Baroda(Uganda)	Uganda	110.0	138.4	25.8%	2.3%	28.1%	**12**
I&M	Kenya	120.0	150.2	25.2%	2.3%	27.5%	**13**
Diamond Trust Bank	Kenya	189.0	236.1	24.9%	1.4%	26.4%	**14**
MCB	Mauritius	280.3	352.8	25.9%	0.0%	25.9%	**15**
Stanbic Bank Uganda	Uganda	27.3	32.2	18.2%	4.2%	22.4%	**16**
CAL Bank	Ghana	1.1	1.2	13.6%	8.5%	22.1%	**17**
Housing Finance	Kenya	12.4	14.2	14.6%	2.0%	16.6%	**18**

Overall Rankings by Intrinsic Value

SCB Zambia has the highest downside with a total potential return of (58.9%)

Bank	Country	Current Price	Target Price	Upside	Dividend Yield	Total Potential Return	H1'2017 Ranking
Co-operative Bank	Kenya	16.3	17.6	8.5%	5.6%	14.1%	**19**
BoK	Rwanda	285.0	303.2	6.4%	5.1%	11.5%	**20**
Access Bank Nigeria	Nigeria	9.9	10.0	1.2%	6.6%	7.7%	**21**
Equity Holdings	Kenya	40.0	40.7	1.7%	5.2%	6.9%	**22**
Stanbic Holdings	Kenya	80.0	79.0	(1.3%)	5.2%	3.9%	**23**
SCB Ghana	Ghana	21.5	21.3	(0.7%)	2.8%	2.1%	**24**
NMB Bank	Tanzania	2,750.0	2528.8	(8.0%)	3.9%	(4.1%)	**25**
UBA Bank	Nigeria	9.7	8.3	(13.9%)	7.5%	(6.5%)	**26**
Standard Chartered	Kenya	227.0	200.3	(11.8%)	4.5%	(7.3%)	**27**
SBM	Mauritius	7.5	6.5	(13.7%)	4.2%	(9.5%)	**28**
GT Bank	Nigeria	43.0	36.2	(15.9%)	5.3%	(10.6%)	**29**
Stanbic IBTC Holdings	Nigeria	42.5	31.1	(26.7%)	3.5%	(23.2%)	**30**
FNB Namibia	Namibia	4,671.0	3243.7	(30.6%)	2.2%	(28.3%)	**31**
FBN Holdings	Nigeria	7.2	4.8	(34.0%)	2.8%	(31.2%)	**32**
Ecobank Transnational Plc	Nigeria	17.0	8.4	(50.6%)	6.4%	(44.2%)	**33**
ZNCB	Zambia	1.0	0.5	(53.0%)	1.8%	(51.2%)	**34**
NBK	Kenya	10.9	5.1	(53.0%)	0.0%	(53.0%)	**35**
SCB Zambia	Zambia	2.3	0.7	(69.1%)	10.2%	(58.9%)	**36**

Cytonn INVESTMENTS

Composite Bank Ranking

Overall, KCB Group ranked the highest

Bank	Country	Franchise Value Total Score	Total Return Score	Weighted Score	H1'2017 Ranking
KCB Group	Kenya	126	6	54.0	**1**
Zenith Bank Plc	Nigeria	119	11	54.2	**2**
Societe Generale	Ghana	134	8	58.4	**3**
NIC	Kenya	143	3	59.0	**4**
DFCU	Uganda	148	1	59.8	**5**
Co-operative Bank	Kenya	127	19	62.2	**6**
GT Bank	Nigeria	113	29	62.6	**7**
SCB Ghana	Ghana	123	24	63.6	**8**
CAL Bank	Ghana	135	17	64.2	**9**
I&M	Kenya	142	13	64.6	**10**
Bank of Baroda(Uganda)	Uganda	150	12	67.2	**11**
Equity Holdings	Kenya	138	22	68.4	**12**
Access Bank Nigeria	Nigeria	142	21	69.4	**13**
UBA Bank	Nigeria	141	26	72.0	**14**
BoK	Rwanda	151	20	72.4	**15**
Barclays Bank	Kenya	168	9	72.6	**16**
GCB	Ghana	180	2	73.2	**17**
Access Bank Ghana	Ghana	174	7	73.8	**18**

Composite Bank Ranking

Overall, National Bank of Kenya (NBK) came last

Bank	Country	Franchise Value Total Score	Total Return Score	Weighted Score	H1'2017 Ranking
Union Bank Plc Nigeria	Nigeria	186	4	76.8	**19**
Stanbic Bank Uganda	Uganda	174	16	79.2	**20**
Ecobank Ghana	Ghana	191	5	79.4	**21**
MCB	Mauritius	176	15	79.4	**22**
CRDB	Tanzania	190	10	82.0	**23**
Diamond Trust Bank	Kenya	184	14	82.0	**24**
Stanbic IBTC Holdings	Nigeria	166	30	84.4	**25**
Stanbic Holdings	Kenya	177	23	84.6	**26**
NMB Bank	Tanzania	180	25	87.0	**27**
SCB Zambia	Zambia	165	36	87.6	**28**
Housing Finance	Kenya	195	18	88.8	**29**
SBM	Mauritius	191	28	93.2	**30**
Standard Chartered	Kenya	196	27	94.6	**31**
Ecobank Transnational Plc	Nigeria	197	33	98.6	**32**
FNB Namibia	Namibia	205	31	100.6	**33**
FBN Holdings	Nigeria	205	32	101.2	**34**
ZNCB	Zambia	213	34	105.6	**35**
NBK	Kenya	249	35	120.6	**36**

Insurance Companies

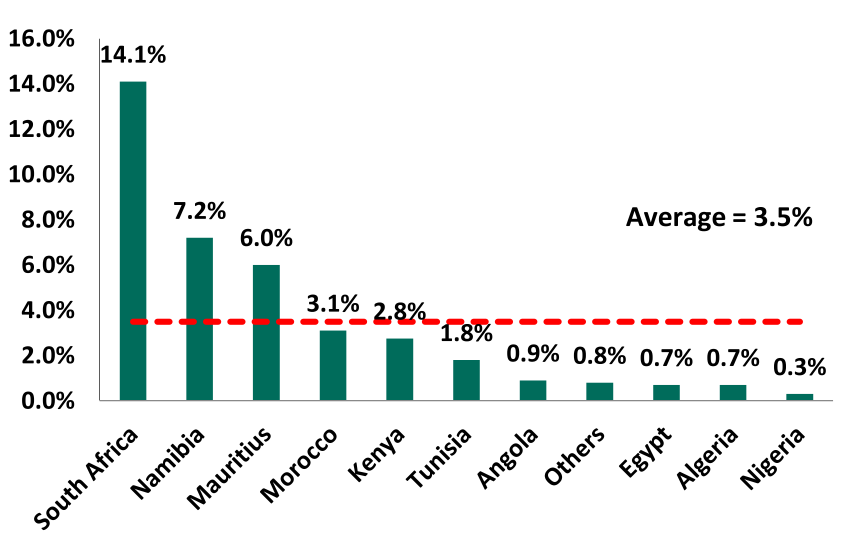
V. SSA Insurance Sector Overview

SSA Insurance Sector Overview

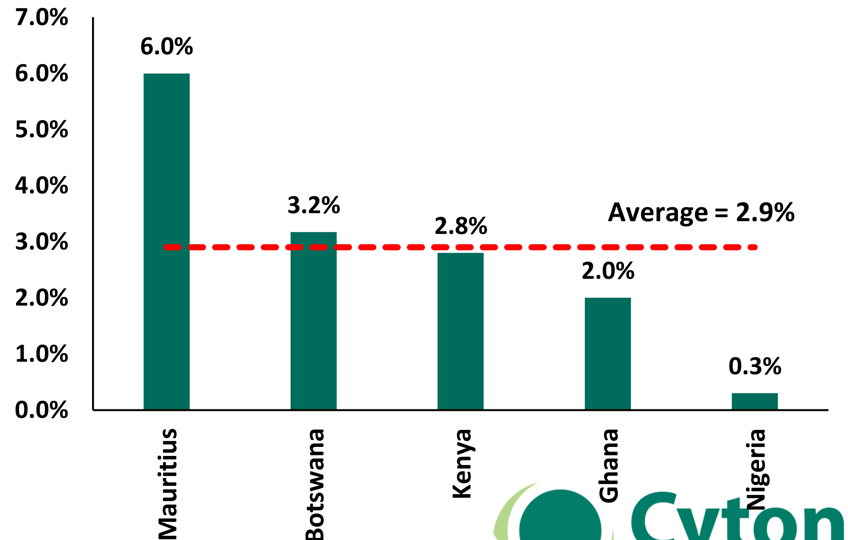
Our Sub-Saharan Africa Coverage Region has an average penetration of 2.9%, which is below the continents' average penetration rate of 3.5%

- The insurance sector under coverage in Sub-Saharan Africa (Kenya, Nigeria, Botswana, Ghana, and Mauritius) has a total of 194 insurance and re-insurance companies, 838 insurance brokers and 25 of the firms are listed across the respective securities' exchanges
- The region's penetration averages 3.5% as at 2016 with South Africa leading the ay with a penetration rate of 14.1%, while Kenya stands at 2.8%. The countries in our coverage have a penetration rate of 2.9% below the continents' average
- The sector is projected to grow at an inflation adjusted premium growth of 2.2% in 2018 and propel further to 2.9% in 2018, which is behind many of other global regions, according to *Swiss Re Economics Research & Research*

Insurance Penetration – Africa 2016



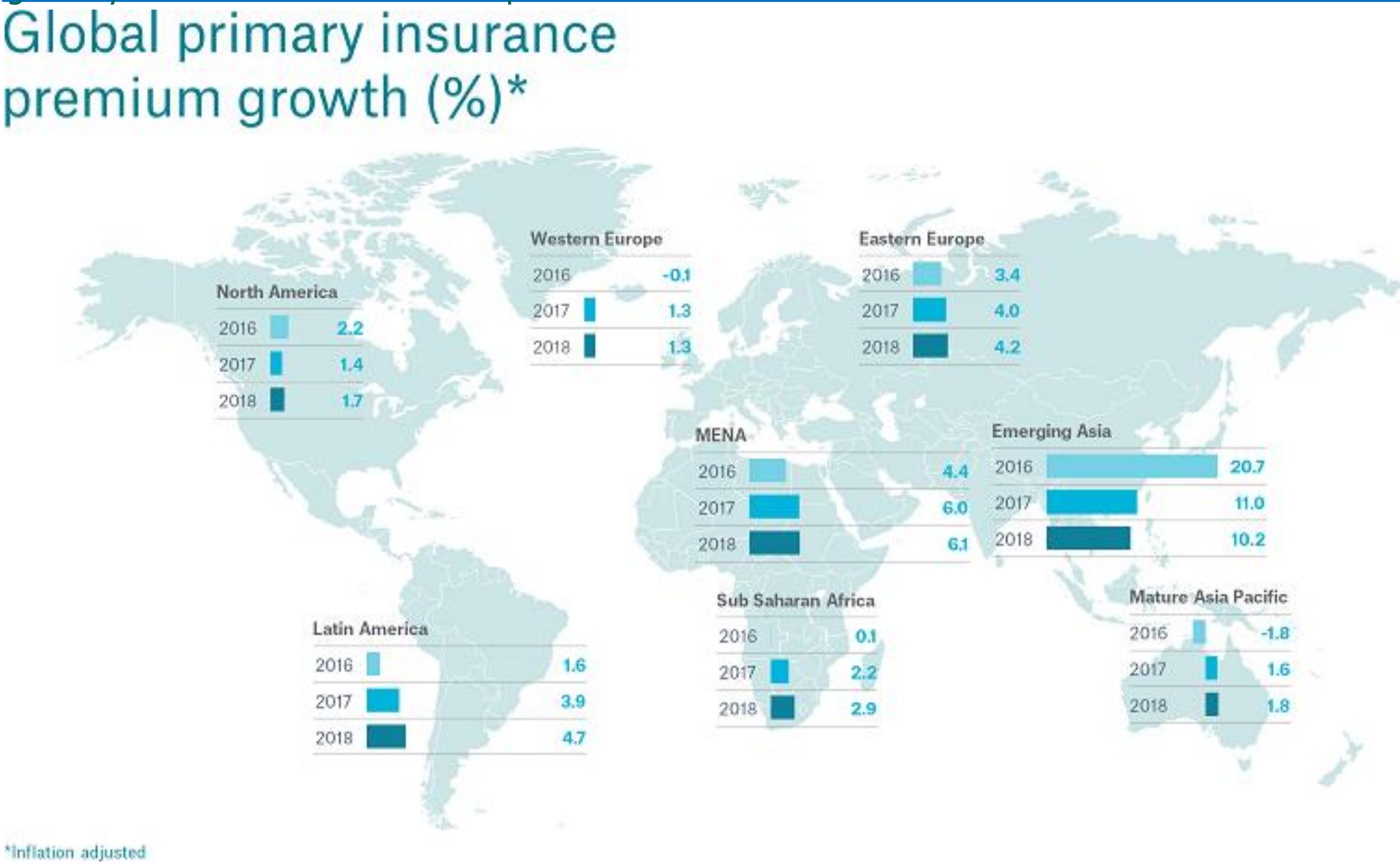
Insurance Penetration – SSA Select 2016



Source – Cytonn Research

Global Insurance Overview

Sub-Saharan Africa ranks behind most of the regions on premium growth globally and is expected to grow by 2.2% in 2017 in terms of premiums



Source: Swiss Re Economic Research & Consulting for 2016

SSA Insurance Sector – Global Ranking Comparison

SSA ranks at par with global players in most metrics, despite low penetration. However, in terms of combined ratio – the region is worse off, showing the poor profitability of the core insurance business

Name	P/B	P/E	ROE	Dividend Yield	Loss Ratio	Combined Ratio	Country
Wafa Assurance	3.3x	20.2x	16.7%	2.5%	67.3%	84.4%	Morocco
Sampo OYJ	2.2x	15.5x	14.5%	5.1%	63.7%	85.8%	Finland
China Pacific Insurance	2.0x	21.4x	9.8%	2.3%	61.2%	99.2%	China
Fairfax Financial Hldgs Ltd	1.4x	19.3x	7.5%	2.0%	59.9%	94.9%	Canada
Porto Seguro SA	1.2x	9.5x	13.6%	4.3%	65.7%	88.0%	Brazil
Zurich Insurance Group AG	1.3x	12.8x	10.4%	6.1%	67.1%	98.5%	Switzerland
Aviva PLC	1.2x	31.8x	3.8%	4.8%	69.2%	101.1%	Britain
Allianz SE-REG	1.3x	11.7x	11.2%	4.0%	64.9%	93.7%	Germany
American International Group	0.8x	37.5x	(0.3%)	2.1%	64.4%	98.3%	United States
Assicurazioni Generali	1.0x	11.7x	8.7%	5.0%	65.1%	62.5%	Italy
AXA SA	1.0x	10.9x	8.7%	4.5%	69.5%	96.5%	France
Select Global Average	**1.5x**	**18.3x**	**9.5%**	**3.9%**	**65.3%**	**91.2%**	
SSA Average (Listed)*	**1.6x**	**10.4x**	**13.9%**	**3.6%**	**64.6%**	**120.4%**	

** - Metrics for SSA listed insurance companies under Cytonn Research coverage only.*

Source: Cytonn Research, Bloomberg

Cytonn INVESTMENTS

SSA Insurance Companies Under Coverage Multiples

SSA Insurance sector is trading at an average PBV of 1.6x and a PE of 7.6x

Insurance	Country	Share Price*	No. Of Shares Issued (Bn)	Market Cap (USD mn)	P/TBV	P/E
Enterprise Group	Ghana	5.3	0.1	120.7	**2.2x**	17.5x
Botswana Holdings	Botswana	18.8	0.3	512.2	**1.8x**	10.9x
CIC Insurance Group	Kenya	5.4	2.6	108.9	**1.5x**	8.9x**
Britam Holdings	Kenya	15.0	2.5	371.4	**1.4x**	7.7x
Jubilee Holdings	Kenya	475.0	0.1	304.9	**1.3x**	7.9x
Liberty Kenya Holdings	Kenya	13.0	0.5	64.8	**1.3x**	10.4x
Mauritius Union	Mauritius	59.0	0.0	78.9	**1.2x**	11.9x
AXA Mansard	Nigeria	2.2	10.5	59.2	**1.1x**	9.5x
Sanlam Kenya	Kenya	28.0	0.1	40.4	**1.0x**	5.0x**
Mauritian Eagle	Mauritius	83.3	0.0	22.0	**1.0x**	8.2x
Continental Re	Nigeria	1.4	10.4	39.8	**0.7x**	5.3x
Custodial and Allied	Nigeria	3.6	5.9	58.1	**0.6x**	3.4x
Kenya Re Insurance	Kenya	20.0	0.7	133.8	**0.5x**	4.2x
Median					**1.2x**	**8.2x**
*****Average**					**1.6x**	**7.6x**

**Share Price as at 6th October 2017*

***5 year normalized P/E*

***Average is market cap weighted

Source: , Cytonn Data

Cytonn INVESTMENTS

VI. Regional and Country Review- Insurance Sector

Ranking Methodology and Valuation

We undertook this report to offer investors a comprehensive view of Sub-Saharan Africa listed insurance companies

- Select listed insurance companies in the Sub Saharan Africa market were analysed by the Cytonn Investment Team
- The analysis was brought about by a need to be able to offer our investors, especially global investors, which insurance companies in our view 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, diversification, risk appetite and solvency
- The analysis was undertaken using H1'2017 results (franchise value) and analyst's projections of future performance of the banks (future growth opportunities)
- For insurance companies 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
- Ranking based on a weighted average ranking of Franchise value* (40%) and Intrinsic value* (60%)

Cytonn INVESTMENTS

a. Kenya

Rankings by Franchise Value

Kenya Re emerged top in the franchise value rankings*, Sanlam Kenya coming last

Company	ROaTE**	Investment Income/Total Income	Loss Ratio	Expense Ratio	Combined Ratio	Ceded Premium Ratio	Solvency Ratio	Underwriting Leverage	Reserve Leverage	Corporate Governance Score	Total	H1'2017 Rank	FY'2016 Rank
Kenya Re	2	5	2	3	1	6	1	1	1	6	28	**1**	1
Jubilee Holdings	1	3	5	1	4	5	3	3	4	1	30	**2**	2
Liberty Holdings	3	2	4	6	6	1	5	2	3	2	34	**3**	5
Britam Holdings	5	4	1	5	3	2	4	4	2	5	35	**4**	3
CIC Group	6	6	3	2	2	4	2	6	5	3	39	**5**	4
Sanlam Kenya	4	1	6	4	5	3	6	5	6	4	44	**6**	6

- **The Insurance ranking assigns a value of 1 for the best performing insurance company, and a value of 6 for the worst**
- The rankings highlights profitability, efficiency, diversification, risk appetite and governance
- Kenya Re maintained top position on the back of a low combined ratio, a better underwriting leverage and reserve leverage
- CIC Group dropped from position 4 to position 5, affected by a low return on average tangible equity and low underwriting leverage

Source: Cytonn Research

****   All metrics in the franchise value rankings are explained in slides 41 - 44***

***** ROaTE- Return on Tangible Equity***

Rankings by Total Potential Return

Kenya Re was the leader in intrinsic value ranking followed closely by Liberty Holdings with total potential returns of 26.6% and 25.4%, respectively

Company	Current Price	Intrinsic Valuation	Upside	Dividend Yield H1'17	Total Return	Rank
Kenya Re	20.0	24.6	23.0%	3.6%	26.6%	**1**
Liberty Holdings	13.0	16.3	25.4%	0.0%	25.4%	**2**
Jubilee Holdings	475.0	573.1	20.7%	1.8%	22.5%	**3**
Britam Holdings	15.0	16.6	10.7%	1.8%	12.5%	**4**
Sanlam Kenya	28.0	31.3	11.8%	0.0%	11.8%	**5**
CIC Group	5.4	5.2	(2.8%)	1.8%	(1.0%)	**6**

- Kenya Re and Liberty Holdings held the first and second positions with total potential returns of 26.6% and 25.4%, respectively
- CIC Group registered the lowest total potential return, with a downside of 1.0%

Source – Cytonn Research

Comprehensive Rankings

When combining franchise and intrinsic rankings, Kenya Re maintains the top position

CYTONN'S H1'2017 INSURANCE REPORT RANKINGS					
Company	Franchise Value Total Score	Total Return Score	Composite FY'2016 Score	H1'17 Rank	FY'16 Rank
Kenya Re	28	2	12	**1**	1
Jubilee Holdings	30	3	14	**2**	3
Liberty Holdings	34	1	14	**3**	5
Britam Holdings	35	5	17	**4**	2
CIC Group	39	4	18	**5**	4
Sanlam Kenya	44	6	21	**6**	6

- **Franchise value was assigned a weighting of 40% while the intrinsic value was assigned 60% weight,**
- Kenya Re maintained the top position ranking top in the composite score category supported by a strong franchise value score
- Liberty Holdings was the most improved, rising 2 positions to position 3 owing to its higher potential return of 31.2% and an improvement in its franchise value score
- Sanlam Kenya came in at position six in the composite ranking similar to FY'2016

Source – Cytonn Research

Cytonn INVESTMENTS

b. Other SSA Insurance Companies Under Coverage

Rankings by Franchise Value

Botswana Holdings emerged top in the franchise value rankings*, Continental Re coming last

Company	Country	ROaTE	Investment Income/ Total Income	Loss Ratio	Expense Ratio	Combined Ratio	Ceded Premium Ratio	Solvency Ratio	Underwriting Leverage	Reserve Leverage	Total	H1'2017 Rank
Botswana Holdings	Botswana	4	1	1	1	1	7	3	3	1	**22**	**1**
Mauritian Eagle	Mauritius	6	7	3	3	2	1	2	4	2	**30**	**2**
AXA Mansard	Nigeria	5	2	4	4	3	2	4	2	4	**30**	**3**
Custodial and Allied	Nigeria	2	4	6	6	6	3	6	1	3	**37**	**4**
Enterprise Group	Ghana	1	3	5	2	4	5	5	7	7	**39**	**5**
Mauritius Union	Mauritius	7	5	6	5	5	4	1	5	6	**44**	**6**
Continental Re	Nigeria	3	6	1	7	7	6	7	6	5	**48**	**7**

- **The Insurance ranking assigns a value of 1 for the best performing insurance company, and a value of 7 for the worst**

Source: Cytonn Research
**** All metrics in the franchise value rankings are explained in slides 41 - 44***
***** ROaTE- Return on Tangible Equity***

Rankings by Total Potential

Mauritian Eagle was the leader in intrinsic value ranking followed by Botswana Holdings with total potential returns of 52.4% and 37.8%, respectively

Company	Country	Current Price	Intrinsic Valuation	Upside	Dividend Yield FY'17e	Total Return	H1'2017 Rank
Mauritian Eagle	Mauritius	83.30	125.90	51.1%	1.3%	52.4%	**1**
Botswana Holdings	Botswana	18.80	22.30	18.6%	19.2%	37.8%	**2**
Custodial and Allied	Nigeria	3.60	4.60	27.8%	6.3%	34.1%	**3**
Mauritius Union	Mauritius	59.00	59.30	0.5%	3.0%	3.5%	**4**
AXA Mansard	Nigeria	2.24	2.22	(0.9%)	1.2%	0.3%	**5**
Continental Re	Nigeria	1.43	1.29	(9.8%)	5.8%	(4.0%)	**6**
Enterprise Group	Ghana	5.30	3.60	(32.1%)	0.9%	(31.2%)	**7**

- Mauritian Eagle and Botswana Holdings held the first and second positions with total potential returns of 52.4% and 37.8%, respectively
- Enterprise Group registered the lowest total potential return, with a downside of 31.2%

Source – Cytonn Research

Comprehensive Rankings

When combining franchise and intrinsic rankings, Botswana Holdings takes the top position

Company	Country	Franchise Value Total Score	Total Return Score	Weighted Score	H1'2017 Rank
Botswana Holdings	Botswana	22	2	10	**1**
Mauritian Eagle	Mauritius	30	1	13	**2**
AXA Mansard	Nigeria	30	5	15	**3**
Custodial and Allied	Nigeria	37	3	17	**4**
Enterprise Group	Ghana	39	6	19	**5**
Mauritius Union	Mauritius	44	4	20	**6**
Continental Re	Nigeria	48	7	23	**7**

- **Franchise value was assigned a weighting of 40% while the intrinsic value was assigned 60% weight.**

Source – Cytonn Research

c. SSA Insurance Companies Under Coverage Comprehensive Rankings

Franchise Value – Comprehensive Ranking

Botswana Holdings emerged top in the franchise value rankings*, Sanlam Kenya coming last

Company	Country	ROaTE	Investment Income/Total Income	Loss Ratio	Expense Ratio	Combined Ratio	Ceded Premium Ratio	Solvency Ratio	Underwriting Leverage	Reserve Leverage	Total	H1'2017 Rank
Botswana Holdings	Botswana	5	1	1	1	1	13	9	4	2	**37**	**1**
Kenya Re	Kenya	7	9	4	6	2	12	1	1	1	**43**	**2**
Enterprise Group	Ghana	2	8	5	10	10	3	3	2	4	**47**	**3**
Mauritius Union	Mauritius	6	4	10	7	4	2	5	3	6	**47**	**4**
Custodial and Allied	Nigeria	8	13	5	4	3	1	10	5	3	**52**	**5**
Jubilee Holdings	Kenya	3	5	12	2	9	5	7	7	9	**59**	**6**
Mauritian Eagle	Mauritius	1	7	8	3	6	8	4	13	12	**62**	**7**
Britam Holdings	Kenya	11	6	3	11	7	11	8	8	4	**69**	**8**
Continental Re	Nigeria	4	12	6	13	12	9	2	9	7	**74**	**9**
Liberty Holdings	Kenya	9	3	9	12	13	4	11	6	8	**75**	**10**
CIC Group	Kenya	13	11	7	5	5	7	6	12	11	**77**	**11**
AXA Mansard	Nigeria	12	10	10	8	8	6	12	10	10	**86**	**12**
Sanlam Kenya	Kenya	10	2	13	9	11	10	13	11	13	**92**	**13**

- **The Insurance ranking assigns a value of 1 for the best performing insurance company, and a value of 13 for the worst**

Source – Cytonn Research

Cytonn INVESTMENTS

Total Potential Return – Comprehensive Ranking

Mauritian Eagle was the leader in intrinsic value ranking followed by Botswana Holdings with total potential returns of 52.4% and 37.8%, respectively

Company	Country	Current Price	Intrinsic Valuation	Upside	Dividend Yield FY'17e	Total Return	H1'2017 Rank
Mauritian Eagle	Mauritius	83.3	125.9	51.1%	1.3%	52.4%	**1**
Botswana Holdings	Botswana	18.8	22.3	18.6%	19.2%	37.8%	**2**
Custodial and Allied	Nigeria	3.6	4.6	27.8%	6.3%	34.1%	**3**
Kenya Re	Kenya	20.0	24.6	23.0%	3.6%	26.6%	**4**
Liberty Holdings	Kenya	13.0	16.3	25.4%	0.0%	25.4%	**5**
Jubilee Holdings	Kenya	475.0	573.1	20.7%	1.8%	22.5%	**6**
Britam Holdings	Kenya	15.0	16.6	10.7%	1.8%	12.5%	**7**
Sanlam Kenya	Kenya	28.0	31.3	11.8%	0.0%	11.8%	**8**
Mauritius Union	Mauritius	59.0	59.3	0.5%	3.0%	3.5%	**9**
AXA Mansard	Nigeria	2.2	2.2	(0.9%)	1.2%	0.3%	**10**
CIC Group	Kenya	5.4	5.2	(2.8%)	1.8%	(1.0%)	**11**
Continental Re	Nigeria	1.4	1.3	(9.8%)	5.8%	(4.0%)	**12**
Enterprise Group	Ghana	5.3	3.6	(32.1%)	0.9%	(31.2%)	**13**

Source – Cytonn Research

Cytonn's SSA Insurance Sector Report – Comprehensive Rankings

When combining franchise and intrinsic rankings, Botswana Holdings takes the top position

CYTONN'S H1'2017 INSURANCE REPORT RANKINGS					
Company	**Country**	**Franchise Value Total Score**	**Total Return Score**	**Weighted Score**	**H1'2017 Rank**
Botswana Holdings	Botswana	37	2	16	**1**
Kenya Re	Kenya	43	4	20	**2**
Custodial and Allied	Nigeria	52	3	23	**3**
Mauritius Union	Mauritius	47	9	24	**4**
Mauritian Eagle	Mauritius	62	1	25	**5**
Enterprise Group	Ghana	47	13	27	**6**
Jubilee Holdings	Kenya	59	6	27	**7**
Britam Holdings	Kenya	69	7	32	**8**
Liberty Holdings	Kenya	75	5	33	**9**
Continental Re	Nigeria	74	12	37	**10**
CIC Group	Kenya	77	11	37	**11**
AXA Mansard	Nigeria	86	10	40	**12**
Sanlam Kenya	Kenya	92	8	42	**13**

- **Franchise value was assigned a weighting of 40% while the intrinsic value was assigned 60% weight.**

Source – Cytonn Research

Cytonn INVESTMENTS

VII. Appendix

A. Metrics Used - Definitions

Banks

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

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

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

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

Cytonn INVESTMENTS

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

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

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

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

Banking Sector Report – Metrics Used, continued…

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

9. Gross non-performing 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

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

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

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

13. Corporate Governance Score –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

Insurance

Insurance Sector Report – Metrics Used

Cytonn has undertaken the analysis of listed insurance companies in Kenya using 10 metrics

- **Return on Average Tangible Equity** – An Insurance Company's return on average tangible equity (ROaTE), is the amount of profit the company earns as a percentage of average tangible shareholders' equity. It's a profitability measure that shows how much a company generates with the money shareholders have invested
  - Output – Insurance firms with higher ROaTEs are better at utilizing capital to generate profits

- **Investment Income/ Total Income Ratio –** This ratio indicates the proportion of investment income that makes up total income generated by the company. It is a measure of revenue diversification that shows how much revenue a company generates away from its underwriting business
  - Output – Insurance firms with higher investment income to total income ratios have more diversified revenue streams, and are less reliant on their underwriting business

- **Loss Ratio –** An insurance company's loss ratio is the ratio of its net claims to the net premiums. It is a measure of the company's ability to settle the claims from the premiums generated from policyholders
  - Output – A higher loss ratio indicates that the insurance company is using more of its premiums to pay out claims and are more likely to be less profitable

- **Expense Ratio –** This is the ratio of a companies operating expenses to its net premiums. It is a measure of efficiency of management in generating premiums for the business written by the company
  - Output – A higher expense ratio indicates that the company is incurring more expenses in mobilizing more premiums, an indicator of inefficiency of operations

Insurance Sector Report – Metrics Used, continued…

Cytonn has undertaken the analysis of listed insurance companies in Kenya using 10 metrics

- **Combined Ratio** - The combined ratio reflects both the cost of protection and the cost of generating and maintaining the business
  - Output - When the combined ratio is under 100%, underwriting results are considered profitable; when the combined ratio is over 100%, underwriting results are considered unprofitable

- **Ceded Premium Ratio –** Ceded premium ratio indicates the amount of gross premiums which insurance companies cede to reinsurance. It is a measure of how much risk an insurance company is willing to take and diversify to reinsurance companies
  - Output – A low ceded premium ratio indicates a company has a high risk appetite to a company with a higher ratio. Also extremely high ratios also indicates that the company may not be able to run its operations effectively

- **Solvency Ratio –** This ratio is the amount of policy holder surplus to assets which indicates the amount of assets not required for the payment of claim
  - Output – A higher ratio indicates that the company is more solvent and less likely to go bankrupt

- **Underwriting Leverage Ratio**– This is the ratio of net premiums to shareholder’s funds. This ratio is **inversely** related to the capacity of companies to write additional business because new policies generate liabilities, which must be supported by surplus due to the limited liability of insurance companies
  - Output – A high ratio indicates that the capacity to write new business is low

Insurance Sector Report – Metrics Used, continued…

Cytonn has undertaken the analysis of listed insurance companies in Kenya using 10 metrics

- **Reserve Leverage Ratio** – This is the ratio of net claims to shareholder's funds. This ratio represents an insurer's major unpaid obligations as a percentage of net worth, and is **inversely** related to the firm's ability to bear loss shocks and errors in loss forecasting
    - Output – A higher ratio indicates that the company has a lower ability to absorb sudden large shocks

- **Corporate Governance Score** – Given the recent developments in the Financial services sector, which include Dubai Bank and Imperial Bank being put under receivership due to poor governance, 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

Insurance Sector Report – Metrics Used, continued…

The rating of the insurance companies was done using franchise and intrinsic value

a. **Franchise Value Total Score:** In this ranking, the insurance companies are ranked by health, by looking at metrics for profitability, efficiency, diversification and risk appetite. The insurance companies are then assigned scores ranging from 1, which is the best performing (re)insurer in the metric, till 6, which is the worst performing (re)insurer. The scores from each (re)insurer are then summated, with the (re)insurer with the lowest total score emerging on top, and that with the highest score emerging at the bottom

b. **Total Return Score:** Potential upside for each (re) insurer based on the intrinsic valuation, and the current market price. The (re)insurer with the highest upside was ranked 1st, and that with the lowest upside, or greatest downside, was ranked last. Cytonn's Analysts carry out this valuation, arriving at the actual value of each (re) insurer based on an underlying perception of its true value, including all aspects of the business, in terms of both tangible and intangible factors, and future growth expectations. This value may or may not be the same as the current market value

c. **Overall Rank:** Using the Franchise Value and Total Return, insurance companies are given a score. Franchise value was assigned a weighting of 40%, while the intrinsic value was assigned a 60% weight

B. Economic Overview

Kenya Economic Review

All macro-economic indicators point to a neutral outlook in 2017

Macro-Economic Indicators	2017 Expectations	2017 YTD Experience	Going Forward	2017 Outlook
GDP	GDP growth of 5.4% - 5.7% in 2017	GDP growth for Q2'2017 came in at 5.0%, compared to 6.3% in Q2'2016, slowed down by a 1.7% decline in growth in agriculture, and financial intermediation that slowed to a growth of 4.3% from 8.1% recorded in Q2'2016	GDP growth is expected to stabilize in the remainder of 2017, from the depressed 4.7% experienced in Q1'2017, and come in at 4.7% - 5.2%, despite the depressed rainfall witnessed during the long rains season between March and May, which has served to ease the food shortage in the country	**Neutral**
Interest Rates	A stable outlook on interest rates in 2017, with the CBR maintained at 10.0%	The CBK has maintained the CBR at 10.0%. Domestic borrowing is expected to pick up in the coming weeks, with improved liquidity levels in the market, brought about by heavy maturities of government securities, and hence we don't expect the government to be under pressure to meet its borrowing targets for the fiscal year 2017/18	The interest rate environment is expected to remain relatively stable, with the CBK not accepting high yields on treasury securities and the MPC maintaining the CBR at 10.0%	**Neutral**
Inflation	Expected to average above the 2.5% - 7.5% government target	Inflation declined to 5.7% in the month of October from 7.1% in September, on account of a decline in food prices, following improved weather conditions	We expect the inflation rate to stabilize going forward but to average above the 7.5% upper bound government target in 2017	**Neutral**
Currency	Shilling to depreciate against major currencies	The shilling has depreciated by 1.1% against the dollar YTD, due to speculation in the forex market and heightened dollar demand from oil and retail importers	We expect the currency to remain relatively stable against the dollar due to a weaker USD in the global markets and It is also important to note that the CBK has sufficient reserves (USD 7.1 bn - equivalent to 4.7 months of import cover) to support the shilling in the short term	**Neutral**

Cytonn INVESTMENTS

Kenya Economic Review

All macro-economic indicators point to a neutral outlook in 2017

Macro-Economic Indicators	2017 Expectations	2017 YTD Experience	Going Forward	2017 Outlook
Corporate Earnings	Corporate earnings growth of 8.0% in 2017 due to lower earnings for commercial banks attributed to the cap on interest rates	Banks have recorded a weighted average decline in core EPS of 13.8% in H1'2017, compared to an average growth of 15.5% in H1'2016 Insurance firms have recorded a weighted average decline in core EPS of 5.6% in H1'2017, compared to an average growth of 69.4% in H1'2016	We still expect corporate earnings to be worse than 2016, weighed down by the Financial Services sector, owing to slower private sector credit growth at 2.1% as at May and the effects of the cap on interest rates	**Neutral**
Investor Sentiment	Foreign investors to demand higher premiums due to political risks posed by elections and economic risk due to the planned rate hikes by the US Fed	Investor sentiment has been high, with foreign investors entering the market in search of attractive valuations, amid a relatively peaceful election period	Political and economic risks on frontier markets still remains a risk. However, we expect long term investors to enter the market seeking to take advantage of the attractive valuations	**Neutral**
Security	Expect the government to put initiatives in place to ensure improved security. However, the 2017 election remains a challenge	In January, the U.S. Department of State issued a travel warning regarding threats by Al-Shabaab on the Somalia border, coastal and north-eastern counties. In March, the U.K government issued a warning due to security concerns in parts of Laikipia County	Security is expected to be tight during and after the elections period, with the government expected to keep this in check. However, uncertainty still exists due to the ongoing elections	**Neutral**

Cytonn INVESTMENTS

Tanzania - Summary Economic Outlook

GDP, Corporate earnings, foreign investor sentiment & political environment have a positive outlook while we are negative on exchange rate. Of the 7 indicators we track, 4 are positive, 2 neutral and 1 negative

Macro-Economic Indicators	2016 Experience	YTD Experience	Going Forward	2017 Outlook
GDP	2016 experienced a growth of 7.0% similar to 2015, due to an increase in government spending. Agriculture, mining, real estate which significantly contributed to the growth of country's GDP	GDP grew by 5.7% y/y in Q1'2017 from 5.5% recorded in Q1'2016, The economy though has been hit by a slow budget implementation, a slowdown in credit to the private sector, and drought	Tanzania is expected to experience robust economic growth underpinned by infrastructure development and a strengthening consumer base. World Bank projects 7.1% growth in 2017 and to average 6.2% between 2017 and 2026	**Positive**
Interest Rates	Interest rates decreased due to an overall decline in the weighted average yield for the T-bills market while the policy rate was maintained at 12.0% for the year	Interest rates increased slightly in Q1'2017 with deposit & lending rates increasing by 1.2%. Lending rates have been on a rise increased is attributable to an increased risk premium following a rise in non-performing loans in the recent months	Bank of Tanzania (BoT) plans to shift to a fully fledged interest-rate-based framework in 2017. The policy rate is expected to be maintained at 12.0%	**Neutral**
Inflation	Inflation has remained relatively low and near the government's' medium-term target of 5.0% . Inflation slightly increased to 5.0% in December 2016, from 4.8% in November 2016 attributed to increased prices of food	Inflation has reduced by 110 bps to 5.4% in June from 6.1% in May due to reduced food prices and energy costs	Inflation is expected to average7.2% in 2017 from 5.2% in 2016. This will be spurred by higher international prices for industrial materials and drought-related food shortages in the early part of 2017.	Neutral

Tanzania - Summary Economic Outlook

GDP, Corporate earnings, foreign investor sentiment & political environment have a positive outlook while we are negative on exchange rate. Of the 7 indicators we track, 4 are positive, 2 neutral and 1 negative

Macro-Economic Indicators	2016 Experience	YTD Experience	Going Forward	2017 Outlook
Exchange Rate	The Tanzanian shilling (Tshs) remained stable trading within a tight range throughout 2016 shedding only 1.5% against the USD; an average of Tshs2,230/USD	The Tshs has lost 2.6% against the USD YTD due to increased importation costs	The Tshs is expected to depreciate against the dollar of on account of increased capital imports widening the trade deficit between 2017 and 2018	**Negative**
Corporate Earnings	2016 saw the Tanzanian banking sector perform relatively well in terms of the levels of capital and liquidity ratios. As well as growth in the insurance sector; 9.3% growth in Life insurance premiums and 7.7% in general insurance premiums	Most companies recorded positive EPS growth in Q1'2017, which boosted positive investor sentiment in the market, resulting in recovery of prices and good stock market performance	With Initiatives to improve the manufacturing industry , measures to ensure commercial banks with a high number of NPLs reduces the overall NPL ratio to not more than 5% . Ccompanies are expected to do better in 2017 with their earnings improving	**Positive**
Foreign Investor Sentiment	Tanzania has witnessed a number PE Deals from foreign investors and was ranked 9th	Tanzania continues to witness increased foreign investor participation with a net inflow of Tshs. 92.0 bn YTD .indicating positive investor sentiments. Tanzania was ranked at position 132 in Ease of doing business report 2017, an improvement from rank 144 in 2016	Corporate earnings recovery, expected recovery of the economy, as well as the continued stable political environment will encourage foreign investor participation in the market in 2017	**Positive**
Security & Political Environment	Political stability remains the cornerstone of Tanzania's strong economic performance	Tanzania has continued to experience political stability providing reassurance to foreign investors	President John Magufuli's administration has taken steps to eradicate corruption in Tanzania's public institutions. This accounts for a conducive political environment	**Positive**

Uganda - Summary Economic Outlook

Interest rates and inflation have a positive outlook while we are neutral on all other indicators. Of the 7 indicators we track, 2 are positive and 5 neutral

Macro-Economic Indicators	2016 Experience	YTD Experience	Going Forward	2017 Outlook
GDP	2016 growth declined to 3.9% from 4.7% in 2015, largely attributed to a slowdown in agricultural sector due to long dry spells, and slow private sector credit growth following the high interest rates	GDP growth came in at 3.9% in Q1'17, compared to 4.1% in Q1'16, driven by slowdown in the agricultural sector especially from cash crops and agricultural support services	2017 growth is expected to come in at 4.5% (government), supported by higher Foreign Direct Investment (FDI) in the oil sector and recovery in private sector growth as lending interest rates decline	**Neutral**
Interest Rates	Bank of Uganda reduced the policy rate by 5.0% from 17.0% in January to 12.0% in December to spur credit uptake	BOU has cut the CBR thrice in the year, which is currently at 10.0%, in a move to spur economic growth through credit creation	BOU is expected to cut the CBR further in line with achieving a core inflation target of 5.0% and supporting recovery of real output in the economy	**Positive**
Inflation	Inflation dropped to 5.7% in December from a 7.4% in January during the year supported by declining fuel and food prices with a stable currency during the year	Inflation has declined to 6.4% in June from 7.2% in May, attributed the decline to a reduction in food inflation, which stood at 18.1% in June down from 23.1% in May	Core inflation is expected is expected to remain below the upper limit of 5.0% supported by reduced imported inflation due to decline in global demand, while the headline inflation is set to be stable	**Positive**
Exchange Rate	The UGX depreciated by 6.6% against the dollar in 2016 due to elevated imports, lower than expected revenue from imports and fiscal imbalances	The UGX has depreciated by only 0.1% against the USD YTD supported by a liquidity squeeze in the money market discouraging banks from betting against the local currency	The tight liquidity in the money market is expected to support the currency going forward to the end of the year due to reduced dollar demand	**Neutral**

Cytonn INVESTMENTS

Uganda - Summary Economic Outlook

Interest rates and inflation have a positive outlook while we are neutral on all other indicators. Of the 7 indicators we track, 2 are positive and 5 neutral

Macro-Economic Indicators	2016 Experience	YTD Experience	Going Forward	2017 Outlook
Corporate Earnings	Many companies struggled in 2016, following a challenging operating environment from increased taxation and high credit costs. However, Banks recorded stable profits in the year	The operating environment has eased down mainly on cost of credit following reduction in the policy rate, and a stable currency pointing to stable earnings	With the macro-economic environment improving, corporate earnings are expected to be stable in 2017, mainly in the banking sector	**Neutral**
Foreign Investor Sentiment	Investor sentiment remained dampened on account of an unfavourable operating environment with high interest rates and a drop in the Ease of Doing Business rankings	The Uganda Securities Exchange has experienced a bullish environment for the first half of year with the USEALSI gaining 14.6% despite the rising political risk in the region with many cross-listed companies from Kenya	Foreign investors are expected to maintain an optimistic outlook for the Ugandan market in the wake of a proposed rights issue by the DFCU, especially if Kenya's election goes on smoothly	**Neutral**
Security & Political Environment	Being an election year, political tension was high and as a result of disputed elections the political environment was unfavourable with post-election violence being experienced	Political tension has continued to be experienced between the ruling government and the opposition on constitutional changes for presidential age limit	Although there still maintains a struggle for democracy and fairness in the state with leaders in the opposition being tortured and incriminated the political stability is expected in the short-term	**Neutral**

Rwanda - Summary Economic Outlook

GDP, Interest Rates, & Foreign Investor Sentiment have a positive outlook while we are neutral all other indicators. Of the 7 indicators we track, 3 are positive and 4 neutral

Macro-Economic Indicators	2016 Experience	YTD Experience	Going Forward	2017 Outlook
GDP	Economy grew by 5.9% in 2016 mainly driven by industry and services and agriculture sectors. It was however a drop from a growth of 6.9% in 2015 due to depreciation of the Franc and falling export revenues	GDP growth for Q1'2017 came in at 1.7% driven by 4% and 3% growth in services and agriculture sectors, respectively. Services sector growth was mainly driven by 17% growth in Hotels and restaurant activities	GDP growth is expected at 6.2% this year despite the slow growth in Q1'2017, driven by recovery of the construction and agriculture sectors, and growth in exports	**Positive**
Interest Rates	Interest rates were on an upward trend in 2016 due to increased borrowing by the government to finance infrastructural developments in the country	In their last quarterly meeting in June, the MPC lowered CBR to 6.0% from 6.25% due to declining inflation and easing exchange rate pressures as well as to spur lending to the private sector	Interest rates are expected to remain low during the year as the inflation rate slows down and the Franc remains steady mainly supported by growth in exports	**Positive**
Inflation	In 2016 inflation rate averaged at 7.1% above the government's target of 5.0% due to increase in food and fuel prices, strong demand for capital goods and fuel products in line with the public investment programme	Inflation has declined to 4.8% in June 2017, the lowest level this year, due to decline in prices of food and non-alcoholic beverages. YTD inflation for the year averages 7.0%	Inflation pressures are expected to ease during the year with the rate coming in between 5.5% and 6.0% as the drought in East African region eases. The rate is however above the target of 5.0%	**Neutral**
Exchange Rate	The Franc depreciated by 10.3% in 2016 due to decline in receipts from key exports including minerals and agricultural commodities	On a YTD basis, the Franc has depreciated by 1.0% compared to 4.6% over the same period last year due to a reduction in trade deficit	Increased inflows from exports, mainly tourism, are expected to result to further decline in trade deficit. The Franc is expected to depreciate by 4.0% this year	**Neutral**

INVESTMENTS

Rwanda - Summary Economic Outlook

GDP, Interest Rates, & Foreign Investor Sentiment have a positive outlook while we are neutral all other indicators. Of the 7 indicators we track, 3 are positive and 4 neutral

Macro-Economic Indicators	2016 Experience	YTD Experience	Going Forward	2017 Outlook
Corporate Earnings	Decline in prices of minerals resulted in reduced earnings for mining companies. The Insurance industry also registered losses due to negative practices such as undercutting the prices	Most corporates, especially in the mining and financial services sectors have recorded growth in earnings mainly supported by recovery in commodity prices and stable macro-economic environment	Corporates are expected to deliver better results this year due to recovering of mineral prices, recapitalisation of insurance industry and stable macro-economic environment	**Neutral**
Foreign Investor Sentiment	In 2016 FDI to Rwanda increased by 78.1% mainly attributed to the country's attractiveness to foreign investment. In the 2017 Doing Business report, Rwanda ranked 2nd in Africa having implemented 47 reforms	There is continued investor interest in Rwanda as evidenced by the recent I&M Bank Rwanda IPO which was oversubscribed by 209%	Investor sentiments are expected to remain high in Rwanda supported by a conducive business environment with transparent mechanisms, little bureaucracy and ease of access to information.	**Positive**
Security & Political Environment	Rwanda has experienced stability under Kagame's rule over the years with minimal opposition and subdued security threats to stability of the country	Rwanda is expected to hold general elections on 4th August with Kagame expected to win though he has been accused of creating fear through attacks on opposition and media	Compared to other African countries, Rwanda is used to holding conducive and sober elections. Thus the political environment is expected to be stable through out the year	**Neutral**

Nigeria Economic Review

Corporate earnings & foreign investor sentiment have a positive outlook while we are neutral on all other indicators but inflation which is negative. Of the 7 indicators we track, 2 are positive, 5 neutral, 1 negative

Macro-Economic Indicators	2016 Experience	YTD Experience	Going Forward	2017 Outlook
GDP	2016 growth was (1.5%) as oil prices declined further, forex reserves were overspent to save the Naira which then had to be unpegged from the dollar, increasing inflation	GDP growth declined by 0.52% y/y from (0.67%) recorded in Q1'2016, driven by a 4.8% decline in y/y oil sector growth despite a 0.7% growth in the non oil sector	2017 growth is expected to come in low but better than 2016, at 0.8% (IMF) driven by a possible recovery in oil prices & production and implementation of the Economic Recovery and Growth Plan (ERGP) for 2017–2020. World Bank raised it's forecast to 1.2% from 1%	**Neutral**
Interest Rates	Interest rates increased due to the weakening currency with 91-day rates getting to 15.4% from lows of 3.6%, prompting an increase in the policy rate to 14.0% from 11.0%	Interest rates increased slightly in Q1'2017 with deposit & lending rates increasing by 1%. The policy rate was maintained at 14%	Interest rates are expected to remain stable with the policy rate maintained because of the uncertainty around the depreciating currency and inflation above target	**Neutral**
Inflation	Inflation rose further hitting highs of 18.6% in Dec and averaging 15.6% due to a weakening currency and forex shortages, as global oil prices declined further	Inflation has declined by 245 bps YTD to 16.1% in June from 18.6% in Dec 2016 due to a high base effect. Food & fuel prices remained high	Inflation is expected to decline but remain high, above the 6-9% target, mainly driven by food prices which are expected to remain high, and the unstable currency affecting imports	**Negative**
Exchange Rate	In June, the Naira was unpegged from the dollar due to increasing pressure and depreciated by 58.2% with the worst at N343.2 to the dollar. There was a shortage in forex reserves and black market dollar trading	The Naira has gained 0.2% against the USD YTD due to efforts to stabilize the currency by the CBN	More efforts to stabilize the Naira such as exchange windows and CBN supplying dollars through the banking sector may prove helpful. However, uncertainty exists should oil prices fail to recover	**Neutral**

Nigeria Economic Review

Corporate earnings & foreign investor sentiment have a positive outlook while we are neutral on all other indicators but inflation which is negative. Of the 7 indicators we track, 2 are positive, 5 neutral, 1 negative

Macro-Economic Indicators	2016 Experience	YTD Experience	Going Forward	2017 Outlook
Corporate Earnings	Many companies struggled with some putting production on hold due to forex difficulties when importing material. The sectors that suffered most were oil and gas, manufacturing and in turn financial services	Most companies recorded positive EPS growth in Q1'2017, which boosted positive investor sentiment in the market, resulting in recovery of prices and the stock market recovering	With recovery of global oil prices, government effort on Niger Delta security, inflation declining and forex being made available by CBN, companies are expected to do better in 2017 with their earnings improving	**Positive**
Foreign Investor Sentiment	Foreign investor sentiment declined as the year ended with a 15.0% q/q decline in foreign investment and a 0.5% y/y decline in the face of falling oil prices and plummeting reserves	Average YTD foreign investor participation has increased to 46.0% from 40.4% and there was a net foreign outflow of 28.6 bn Naira, compared to 31.8 bn Naira, in a similar period last year	Corporate earnings recovery, expected recovery of the economy, and steps by the CBN to stabilize the shilling will continue to encourage foreign investor participation in the market in 2017	**Positive**
Security & Political Environment	The ruling party has had internal squabbles in passing legislation while suicide attacks increased despite a decline in Niger delta attacks in Q4'2016	Nigeria has remained politically stable since Buhari's return to power. Security threats from Boko Haram and Niger Delta terror groups still persist	Niger delta attacks and Boko Haram still pose a threat. The political scene is relatively stable after peaceful elections and Buhari's war against corruption and indiscipline	**Neutral**

Ghana - Summary Economic Outlook

Corporate earnings & GDP growth have a positive outlook while we are neutral on all other indicators. Of the 7 indicators we track, 5 are positive and 2 neutral

Macro-Economic Indicators	2016 Experience	YTD Experience	Going Forward	2017 Outlook
GDP	2016 growth declined to 3.5% from 3.9% in 2015, mainly due to a decline in industrial growth, following the adverse effects of the energy crises and operational challenges in crude oil production	GDP growth came in at 6.6% in Q1'17, compared to 4.4% in Q1'16, driven by the recovery of the manufacturing sector, while the services sector slowed	2017 growth is expected to come in at 6.3% (government), with economic activity having picked up, primarily driven by growth in private sector credit, improved business sentiment, and easing credit stance	**Positive**
Interest Rates	The BOG kept the policy rate at 26.0% for the large part of 2016, due to elevated inflation levels	The BOG cut the policy rate four times in the year, which is currently at 21.0%, with a favourable economic outlook, while inflation expectations remain subdued	The reduction in the fiscal deficit for the year is expected to foster more stable macro-economic conditions and should see the BOG cut further as inflation and currency pressures ease. Short term interest rates, specifically the yields on the 91 day T-bill, have been on the decline, currently at 13.2%, from 22.9% in September 2016 and 16.2% in January 2017, as the government has stopped borrowing aggressively on the shorter end of the yield curve	**Positive**
Inflation	Inflation dropped to 15.4% in December 2016 following high levels experienced at the beginning of the year, due to a de-regulation process, which saw the removal of subsidies from petroleum products, electricity and water	Inflation rose slightly to 12.3% in August from 11.9% in July, within low levels, following a stringent regulation exercise and a tight policy stance	Inflation is expected to decline and reach 11.2% by the end of 2017, supported by tight policy stance and currency stability, and trend downwards, towards the medium-term target of 6.0% - 10.0% in 2018. Inflation in Ghana has been declining as well, hitting 12.1% in H1'2017 from 18.4% in H1'2016	**Positive**
Exchange Rate	The Ghana Cedi depreciated by 11.3% against the dollar in 2016 due to elevated imports, lower than expected revenue from imports and fiscal imbalances	The Cedi has depreciated by 4.4% against the USD YTD as the prices of the countries major exports, gold, cocoa and crude oil, have been suppressed	The volatility in the foreign exchange market has eased significantly and rising inflows from increased oil production, is expected to support the Cedi, coupled with foreign reserves worth USD 6.4 bn (equivalent to 3.7 months of import cover)	**Neutral**

Ghana - Summary Economic Outlook, continued…

Corporate earnings & GDP growth have a positive outlook while we are neutral on all other indicators. Of the 7 indicators we track, 5 are positive and 2 neutral

Macro-Economic Indicators	2016 Experience	YTD Experience	Going Forward	2017 Outlook
Corporate Earnings	Many companies struggled in 2016, especially in the banking sector, following moves to cut back on loans due to a surge in non-performing loans brought about by a challenging operating environment	The banking sector has begun recording positive results, with the Bank of Ghana placing a positive outlook on corporate earnings, following the improved macro-economic environment	With the macro-economic environment improving, corporate earnings are expected to recover in 2017, as banks record improved profitability	**Positive**
Foreign Investor Sentiment	The government of Ghana was forced to suspend Ghana's Eurobond issuance, aimed at raising USD 700.0 mn, as investors demanded a high premium	Ghana risks facing sanctions from the IMF for failing to disclose full financial data on the fund at the time of extending the 3-year credit facility, following a USD 39.0 mn fine issued to Ghana in 2000 under similar circumstances. Yields on the 10-year Eurobond, set to mature in 2023 have declined by 0.8% points YTD and is currently trading at 7.3%	The ongoing fiscal consolidation process in Ghana, aimed at stabilizing the economy, and solving the debt distress, will serve to improve investor sentiment, with the macro-economic environment improving	**Neutral**
Security & Political Environment	Ghana's National Security Council came out in March 2016 and stated that the country faces a credible security threat, with terrorists having attacked neighbouring Ivory Coast	The National Security Council has stepped up counter-terrorism measures to curb the threat posed by terrorists in the region	Security is expected to remain tight in Ghana, given there have been no recent imminent threats, coupled with the National Security Council stepping up counter-terrorism measures. The prevailing security and political goodwill due to practical development project ideas, coupled with the improving macros are contributing to the positive investor sentiment	**Positive**

INVESTMENTS

Mauritius - Summary Economic Outlook

Corporate earnings, inflation & exchange rate have a neutral outlook while we are positive on all other indicators. Of the 7 indicators we track, 3 are neutral and 4 positive

Macro-Economic Indicators	2016 Experience	YTD Experience	Going Forward	2017 Outlook
GDP	2016 GDP growth came in at 3.7% up from 3.5% in 2015 driven by growth in financial services, tourism and wholesale & retail sectors	Q1'2017 GDP growth came in at 3.4%, driven by growth in financial services, wholesale & retail trade and construction sectors	GDP is expected to grow by 3.9% (WB) in 2017 driven by growth in agriculture following measures to expand agri-business sector, construction as public investment projects are implemented	**Positive**
Interest Rates	Interest rates declined during the year with average lending and deposit rates declining to 6.9% & 2.2% in Dec 2016 from 7.2% & 2.6% in Dec 2015; and the key repo rate being lowered to 4.0% from 4.4% in the same periods	Interest rates have continued on a downward trend, with average lending and deposit rates declining to 6.8% & 2.1% in Dec 2016 from 6.9% & 2.2% in Dec 2015; and the key repo rate being maintained at 4.0%	Going forward, the BoM is expected to embark on loosened monetary policy to increase liquidity through banks by reducing the CRR to 11.4% from 13.2%, and through further lowering the Key Repo Rate to spark economic growth. Interest rates are expected to continue declining	**Positive**
Inflation	Inflation decreased to 1.0% in 2016 from 1.3% in 2015 driven by lower fuel prices and imported lower inflation from major trade partners, despite rising food prices towards the end of 2016	Inflation improved to 2.4% in June 2017 from 0.9% in June 2016 driven by the continued rise in food prices, higher accommodation prices & air ticket prices, and higher prices of alcoholic beverages	We expect inflation to continue improving gradually going forward, moving towards the 5.0% target following (i) budget expansion efforts, and (ii) efforts by the BoM to increase liquidity through banks	**Neutral**
Exchange Rate	The Mauritian Rupee appreciated by 4.3% against the USD in 2016, following the 2015 depreciation due to the global strengthening of the dollar	The MUR has appreciated by 3.8% against the USD YTD, after the US Fed rate hike stimulus on the USD proved to be less hawkish than anticipated	Since the re-negotiation of India DTA's, Mauritius expects to loose fund flows, expected to lead to deterioration of the current account balance which in turn may hurt the MUR. It is however expected to be stabilized given the reserve at 46 months of import cover	**Neutral**

Mauritius - Summary Economic Outlook

Corporate earnings, inflation & exchange rate have a neutral outlook while we are positive on all other indicators. Of the 7 indicators we track, 3 are neutral and 4 positive

Macro-Economic Indicators	2016 Experience	YTD Experience	Going Forward	2017 Outlook
Corporate Earnings	Mauritius's financial system was robust and demonstrated its resilience after the collapse of the BAI group in 2015. Capitalisation was satisfactory, but the ratio of non-performing loans, although still quite low, rose to 8% in 2016 compared to 5% in 2015	Most countries recorded positive EPS growth with the banking sector maintaining positive growth	The financial sector which is the largest contributor to corporate earnings is expected to remain stable, though threatened by a rising NPL ratio (8% in 2016 compared with 5% in 2015) and changes to the double taxation agreement with India	**Neutral**
Foreign Investor Sentiment	FDI in Mauritius grew by 69% y/y in H1'2016 driven by investments in real estate, financial services and manufacturing, mainly from South Africa and China. Foreign investor participation in the SEM increased to 43% from 32.3% in 2015	The 2017 World Bank Ease of Doing Business Index ranked Mauritius 1st in Africa and 49th out of 190 countries globally	Foreign investor sentiment is expected to remain strong as Mauritius continues to attract foreign direct investment from emerging economies, as well as courting more traditional markets like the UK, France and the U.S, engaging more countries in DTA's and serving as a gateway for investment into Africa	**Positive**
Security & Political Environment	Mauritius has maintained it's political stability and security since independence, with the ruling coalition securing majority parliamentary seats, and ranked 33 out of 141 countries globally in safety & security	Security and political stability were maintained with no notable threats to national security reported	We expect Mauritius to maintain national security and political stability going forward as they have since independence in 1968	**Positive**

Cytonn INVESTMENTS

Zambia - Summary Economic Outlook

Interest rates, inflation, Exchange Rate and security & political environment have a positive outlook while the rest remain neutral. Of the 7 indicators we track, 4 are positive and 3 neutral

Macro-Economic Indicators	2016 Experience	YTD Experience	Going Forward	2017 Outlook
GDP	Gross domestic product (GDP) grew at 2.8% in 2015 and 3.3% in 2016, much slower than the average 7.4% between 2004 and 2014. This was due to slower regional and global growth and lower global copper prices	GDP growth is forecast to improve in 2017 (3.9%) supported it ranks as the world's 75th highest recorded GDP annual growth rate	An assumed increase in mineral production and improved performance of the agriculture sector is expected to support improved GDP growth forecast in 2017 (3.9%) and 2018 (4.6%). This is in comparison to the projected growth in emerging markets at 4.5%	**Neutral**
Interest Rates	Interest rates continued to rise in the first half of 2016 as monetary conditions remained tight and financial institutions adjusted with a lag to the removal of interest rate caps in November 2015.	Interest rates generally declined over the first half of 2017 from a high of 15.5% at the start of the year to 12.5% as at the end of June 2017	Access to capital in the domestic financial market is restricted and characterized by high interest rates when secured. The Central Bank reviews a monetary policy rate quarterly and this currently stands at 12.5%.	**Positive**
Inflation	Annual inflation decelerated in H2' 16 to an average of 14.5% from 21.8% in the first half of 2016 due to the continued appreciation of the Kwacha against the U.S. dollar, seasonal increase in the supply of some food items, and the continued tight monetary policy stance	Inflation at the end of Q1'17 was at 6.7% down from 7.5 % in December 2016 supported by continued appreciation of the Kwacha VS USD, reduction in retail fuel prices and seasonal increase in the supply of some food items	Continued decline in Inflation and projected inflation is well below the 9.0% 2017 target and well within the medium-term target range of 6-8% by early 2019	**Positive**
Exchange Rate	The Kwacha appreciated by 7.6% against the U.S. dollar supported by improved copper prices, inflows from non-resident investors to purchase Government securities and exporter-led foreign currency conversions to meet domestic obligations	The Kwacha appreciated by 7.6% against the U.S, gained by 17.6% and 1.7% against the British pound, but depreciated by 1.9% against the South African Rand	The Kwacha is expected to remain relatively stable with a bias towards appreciated supported by the improved supply of foreign exchange and higher copper prices	**Positive**

Zambia - Summary Economic Outlook

Interest rates, inflation, Exchange Rate and security & political environment have a positive outlook while the rest remain neutral. Of the 7 indicators we track, 4 are positive and 3 neutral

Macro-Economic Indicators	2016 Experience	YTD Experience	Going Forward	2017 Outlook
Corporate Earnings	The banking sector's earnings performance remained satisfactory as sufficient income was generated to cover operating costs and boosted the capital position through retained earnings	On a year-on-year basis, the sector's profit before remains unchanged in 2016 with deterioration in commercial banks' assets, reflected in rising NPLs to 10.6% in March 2017 from 10.0% in December 2016	With the macro-economic environment improving, corporate earnings are expected to be stable in 2017, mainly in the banking sector	**Neutral**
Foreign Investor Sentiment	Zambia's net foreign Direct Investment (FDI) fell sharply due a decline in FDI liabilities by 12.3% and an accumulation in assets held abroad	Zambia 's ranking dropped to 98 in the World Bank Ease of Doing Business Report because of the difficulty in getting access to electricity and its poor way of dealing with construction permits	Foreign investor sentiment is expected to maintain an optimistic outlook for the Zambian market in light of the stable exchange rate, politically stable climate, lower interest rates, and consistent government policy	**Neutral**
Security & Political Environment	Since independence in 1964, Zambia has enjoyed relative political stability and is ranked 9th out of 54 African countries on the 2016 Mo Ibrahim Index of African Governance	Zambia re-elected President Edgar Lungu following the conclusion of the August 2016 General Elections without any major conflicts and disruptions in the country hence reducing uncertainty	Zambia, unlike most of its neighbors, has managed to avoid the war and upheaval that has marked much of Africa's post-colonial history, earning itself a reputation for political stability	**Positive**

Cytonn INVESTMENTS

Namibia - Summary Economic Outlook

Exchange rate, corporate earnings & security and political environment have a positive outlook while we are neutral on all other indicators but interest rates, for which we have a negative outlook.

Macro-Economic Indicators	2016 Experience	YTD Experience	Going Forward	2017 Outlook
GDP	2016 growth was 0.2% as the growth rate for construction sector contracted by 29.5 percent, due to the persistent water shortage in the Capital of Namibia	GDP growth declined by 2.7% y/y from 4.1% growth recorded in Q1'2016, driven by a 44.9% decline in y/y construction and manufacturing sector	IMF projects the 2017 GDP growth to come in at 3.5 % against 2.1% projected by the Bank of Namibia. The country has however been undergoing a recession for the last three 3 quarters.	**Negative**
Interest Rates	BON increased the repo rate twice inn 2016 to 6.75% in February and later in April to 7% which in turn increased the lending rate to 10.75%, to align interest rates within the Common Monetary Area	There has been a slight decrease in yield for the 91,182 &364 day papers from the beginning of the year, even as BON has maintained the Repo rate at 7%	The BON is speculated to increase the repo rate this year due to the rising interest rates in South Africa, and in bid to avoid possible capital outflows. An increase in Interest Rates may also have an impact on the Non-performing loans	**Negative**
Inflation	Annual inflation rate rose to 6.7% in 2016 compared to 4.6% in 2015 driven by rise in prices in housing, water , electricity, gas and other fuels	. The average annual inflation rate for the period January to June 2017 stood at 7.0% against 6.3% recorded the same period last year. Inflation rate has declined by 210 bps since January to 6.1% in June.	Inflation is expected to decline but remain high, above the 3-6% target, mainly driven by food prices which are expected to decline given improved weather conditions. Inflation is forecasted to average at 6.9% at the end of 2017	**Neutral**

Namibia - Summary Economic Outlook

Exchange rate, corporate earnings & security and political environment have a positive outlook while we are neutral on all other indicators but interest rates, for which we have a negative outlook

Macro-Economic Indicators	2016 Experience	YTD Experience	Going Forward	2017 Outlook
Exchange Rate	The Namibia Dollar appreciated by 5.7% against the US Dollar, 22.7 % against the British Pound and by 9.9 % against the Euro, by the end of December 2016, compared to the end of December 2015	The Namibian Dollar has gained 2.2% against the USD YTD, The Namibian Dollar is expected to trade at 13.36 against the dollar by the end of this quarter	With expectations of the SA Rand strengthening, we expect that the Namibian Dollar will also strengthen	**Positive**
Corporate Earnings	The banking sector continued to be profitable in 2016. Despite the slow down in earnings in 2016, financial, non-banking sector still recorded positive earnings	Most companies recorded positive EPS growth in Q1'2017, despite high inflation recorded in the beginning of the year	With declining inflation and, companies are expected to do better in 2017 with their earnings improving	**Neutral**
Foreign Investor Sentiment	FDI inflows dropped considerably in 2016 to USD 275 mn from USD 1.1 bn in 2015. Namibia also dropped 4 position to 108th position out of 190 countries in the 2017 Doing Business report published by the World Bank	Average YTD foreign investor participation has increased to 46.0% from 40.4% in a similar period last year	Namibia has launched very large infrastructure projects in the country all of which are expected to bring in significant FDI inflows. On the other hand, the country could be affected by the recession of South Africa.	**Neutral**
Security & Political Environment	Namibia has remained politically stable in 2016, 2 years in the presidents term after his election in 2014	The political environment in Namibia has remained stable since the beginning of the year.	Namibia is expected to remain secure and politically stable in 2017	**Positive**

Q&A

In case of any queries or clarifications on this Financial Services Sector Report, kindly contact the Team at:

E-mail: investment@cytonn.com

Tel: +254 (0)709 101 000 / 714 830744