



## Cytonn Investments Response to Recent Social Media Comments on Recently Released GCR Rating

We note the social media article making rounds about Cytonn’s debt to equity ratio.

Kindly note that Cytonn is the only developer in the region that has subjected itself to rating by Global Credit Ratings (GCR), a recognized global rating agency; credit rating is whereby the rating agency, for a fee, reviews the financial well-being of a firm and provides an opinion periodically. In the spirit of transparency and accountability, Cytonn subjected itself to this process in 2016.

The recent report had the following items of note:

**What GCR liked was:**

- “the rigor of governance and risk management”, and,
- Taaleri’s commitment to take a stake of up to 20% in the company.

**What GCR asked that we improve on:**

- “curtailed access to bank facilities”, and,
- The need to successfully raise equity.

We think the assessment was generally fair, but we note local social media spinning the issue and implying that Cytonn has more debt than is typical, in an article entitled “GCR Downgrades Cytonn as Debt to Equity ratio worsens to 86%!”. The article is misleading, quotes numbers that are outside the commentary from GCR, and appears designed to mislead. The reality is that the Group Total Liabilities (Debt plus Deposits / Placements) for financial companies is usually a lot higher, and Cytonn’s is the lowest of the group as shown in the table below.

Group Total Liabilities to Equity Ratio					
No	Company	GCR Rated	Equity	Group Total Liabilities*	Group Total Liabilities/Equity
1	NBK	No	5.9	103.8	1,774.9%
2	KCB	Yes	99.0	554.2	559.8%
3	Barclays	No	40.8	222.2	544.6%
4	Stanbic	No	42.2	222.8	527.8%
5	Equity	Yes	86.3	449.9	521.2%
6	NIC	Yes	31.8	165.2	519.9%
7	Stanchart	No	44.6	232.0	519.7%
8	I&M	No	45.1	230.2	510.6%
9	HF	No	11.1	52.2	468.9%
10	Coop	No	68.0	318.6	468.4%
11	DTB	Yes	87.1	317.4	364.6%
12	Jubilee	Yes	26.2	86.8	331.2%
13	Britam	No	28.8	83.6	290.6%
14	<b>Cytonn</b>	<b>Yes</b>	<b>5.7</b>	<b>13.1</b>	<b>231.4%</b>
<b>Industry Average</b>					<b>545.2%</b>

\*Group Total Liabilities have been calculated using all borrowings and funds from 3rd parties, which for Cytonn is our investors seeking high yielding returns, for banks is depositors, and for insurance companies is insurance liabilities



### **Frequently Asked Questions About the Rating:**

#### **1. Why are you rated by GCR?**

Rating is a voluntary review process that a company submits to. We are the only real estate developer in the region that has submitted themselves to a rating by GCR. We encourage all investors with monies in real estate, banks, and insurance companies to ask about their GCR rating.

#### **2. Why did GCR downgrade Cytonn?**

Review of ratings is a normal part of review. The key issues GCR wants addressed is raising equity, which we are already addressing through the 20% Share Option Purchase Agreement with Taaleri. However, on the issue of raising bank debt, we have a different view because our unique value proposition to our clients is to offer the high interest rates to our clients, rather than to the bank. If we start borrowing from the bank, we will be essentially telling our clients to take their money to the bank, earn little interest for it, and then we borrow the same money from the bank at a higher rate. We concur with the view that we need to raise equity and we are already doing that; we do not fully agree that we should fund from banks, it would be a betrayal of the promise to our clients. While we are already engaging with commercial banks, our priority remains bringing high yields to our clients.

#### **3. How does this affect our investment?**

The feedback to raise equity has been resolved through the 20% Share Option Purchase Agreement with Taaleri, our principal investment partner, who has invested over Kshs. 5 billion with us and manages over USD. 7 billion (Kshs. 700 billion) globally. The feedback to borrow from banks rather than from our investors we don't quite concur with, the rating is a view for the consumption of our investors, it does not change anything with your investment.

#### **4. Where can I get full information?**

The Board of Directors and the Representatives of Taaleri will be hosting a prescheduled investor session on Thursday 7.00 PM at Serena Hotel. Please RSVP at [clientservices@cytonn.com](mailto:clientservices@cytonn.com) if you want to meet the Board or Management for more clarity.

#### **5. Why do you get recurring social media attacks?**

We believe that our unique business model, of funding directly from clients and offering them the high rates that banks would charge us, can be unsettling to established players.

For more information, kindly contact us at [corporate@cytonn.com](mailto:corporate@cytonn.com) or speak to your Financial Advisor.