IMARA
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Securities

Imara African Banking Compendium

Liquid, Lucrative, yet Largely Languishing

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Analysts

Anthony Lopes Pinto
anthony.lopes-pinto@imara.co
+244 939 328 724

Brian Mugabe
brian.mugabe@imara.co
+27 767 025 784

Addmore Chakurira
addmore.chakurira@imara.co
+263 772 265 454

Nontando Zunga
nontando.zunga@imara.co
+263 772 772 755

Farai Vengesai
farai.vengesai@imara.co
+263 774 712 323

Aobakwe Mokgethi
aobakwe.mokgethi@imara.co
+267 318 8886

Jimmy Mwambazi
jmwambazi@stockbrokerszambia.com.zm
+260 211 232 456

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Africa's banking giants – fast facts

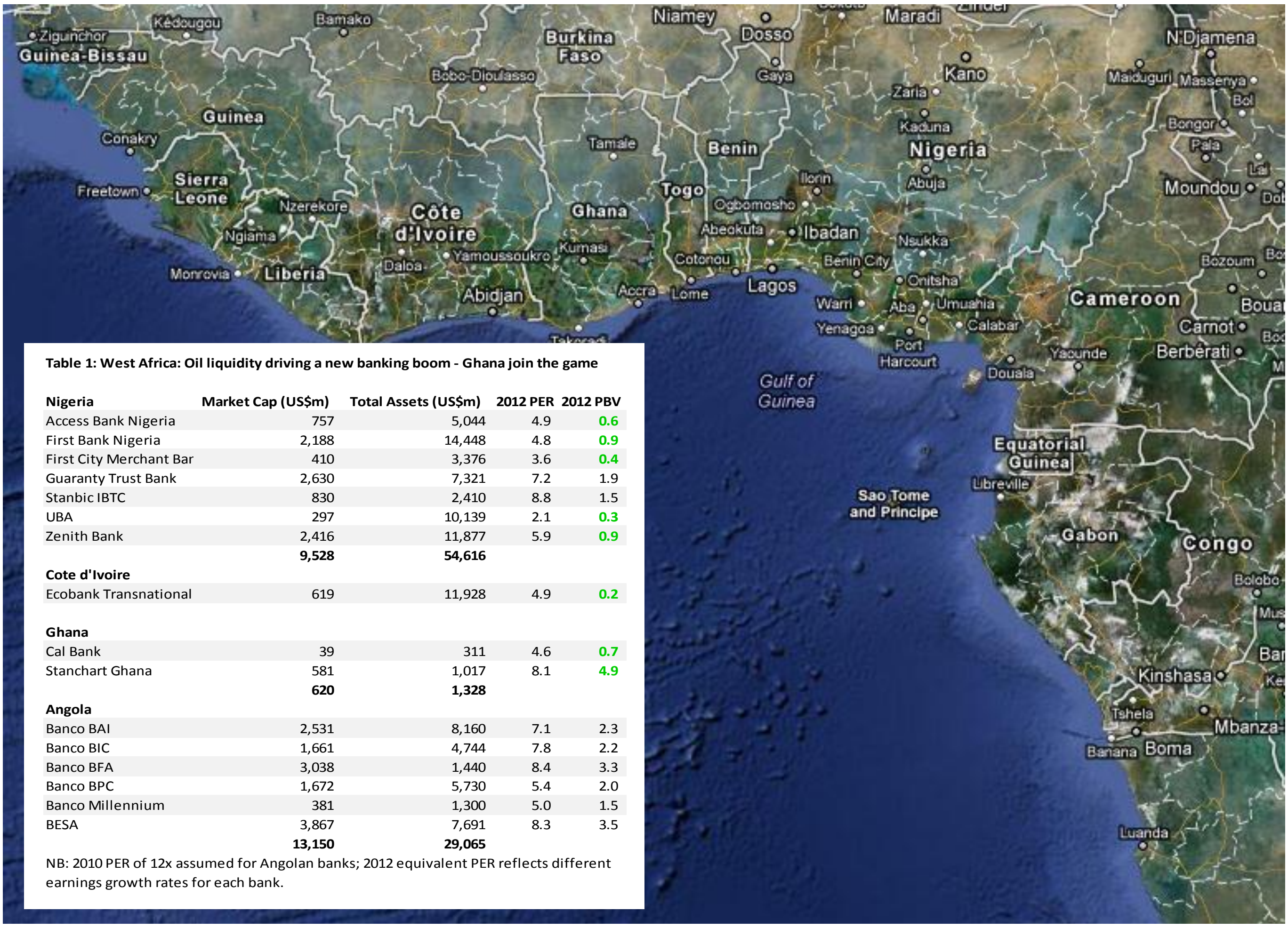


Table 1: West Africa: Oil liquidity driving a new banking boom - Ghana join the game

Nigeria	Market Cap (US$m)	Total Assets (US$m)	2012 PER	2012 PBV
Access Bank Nigeria	757	5,044	4.9	0.6
First Bank Nigeria	2,188	14,448	4.8	0.9
First City Merchant Bar	410	3,376	3.6	0.4
Guaranty Trust Bank	2,630	7,321	7.2	1.9
Stanbic IBTC	830	2,410	8.8	1.5
UBA	297	10,139	2.1	0.3
Zenith Bank	2,416	11,877	5.9	0.9
	9,528	**54,616**		
Cote d'Ivoire				
Ecobank Transnational	619	11,928	4.9	0.2
Ghana				
Cal Bank	39	311	4.6	0.7
Stanchart Ghana	581	1,017	8.1	4.9
	620	**1,328**		
Angola				
Banco BAI	2,531	8,160	7.1	2.3
Banco BIC	1,661	4,744	7.8	2.2
Banco BFA	3,038	1,440	8.4	3.3
Banco BPC	1,672	5,730	5.4	2.0
Banco Millennium	381	1,300	5.0	1.5
BESA	3,867	7,691	8.3	3.5
	13,150	**29,065**		

NB: 2010 PER of 12x assumed for Angolan banks; 2012 equivalent PER reflects different earnings growth rates for each bank.

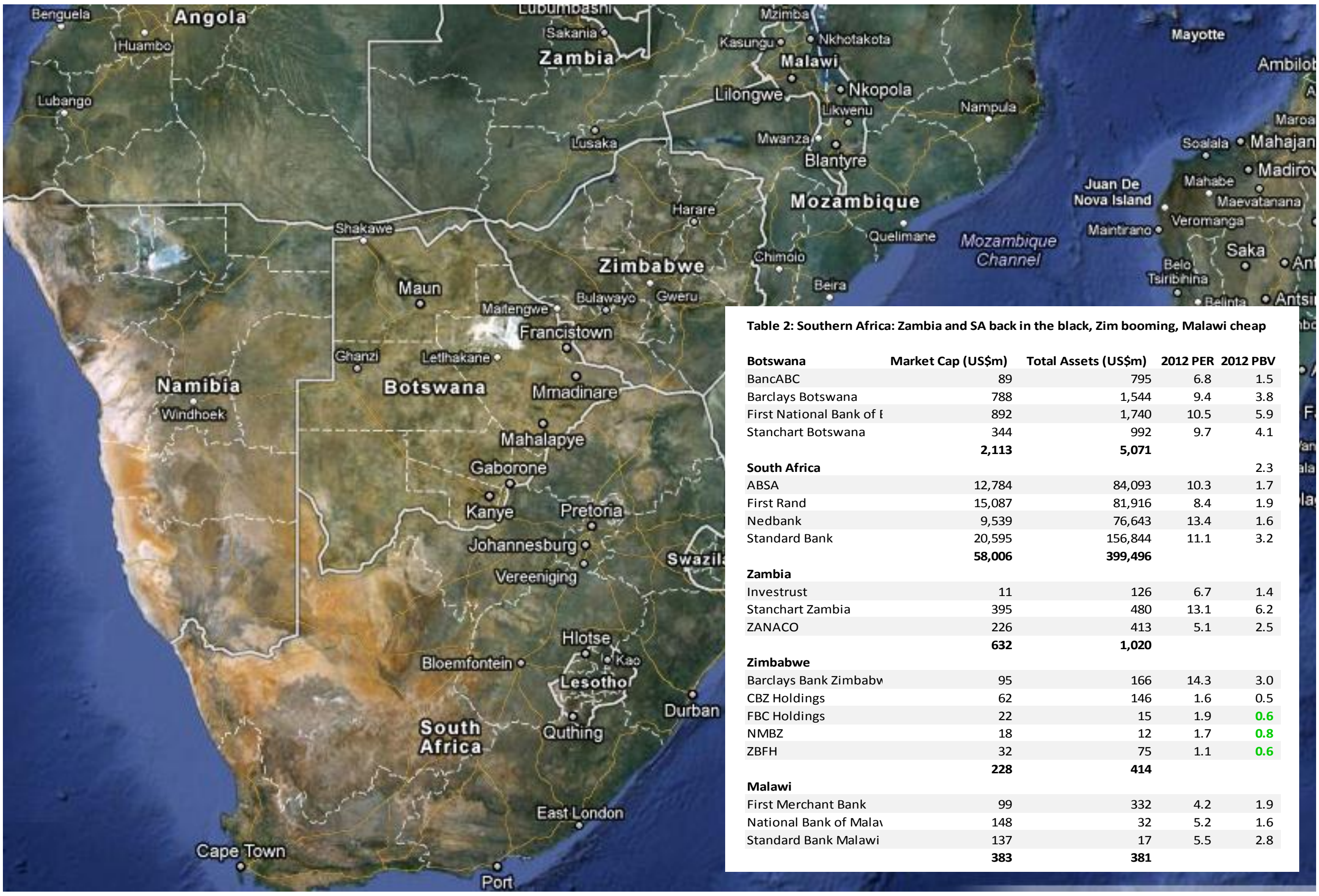


Table 2: Southern Africa: Zambia and SA back in the black, Zim booming, Malawi cheap

Botswana	Market Cap (US$m)	Total Assets (US$m)	2012 PER	2012 PBV
BancABC	89	795	6.8	1.5
Barclays Botswana	788	1,544	9.4	3.8
First National Bank of E	892	1,740	10.5	5.9
Stanchart Botswana	344	992	9.7	4.1
	2,113	**5,071**		
South Africa				2.3
ABSA	12,784	84,093	10.3	1.7
First Rand	15,087	81,916	8.4	1.9
Nedbank	9,539	76,643	13.4	1.6
Standard Bank	20,595	156,844	11.1	3.2
	58,006	**399,496**		
Zambia				
Investrust	11	126	6.7	1.4
Stanchart Zambia	395	480	13.1	6.2
ZANACO	226	413	5.1	2.5
	632	**1,020**		
Zimbabwe				
Barclays Bank Zimbabw	95	166	14.3	3.0
CBZ Holdings	62	146	1.6	0.5
FBC Holdings	22	15	1.9	0.6
NMBZ	18	12	1.7	0.8
ZBFH	32	75	1.1	0.6
	228	**414**		
Malawi				
First Merchant Bank	99	332	4.2	1.9
National Bank of Malav	148	32	5.2	1.6
Standard Bank Malawi	137	17	5.5	2.8
	383	**381**		

Africa’s banking giants – fast facts (cont.)

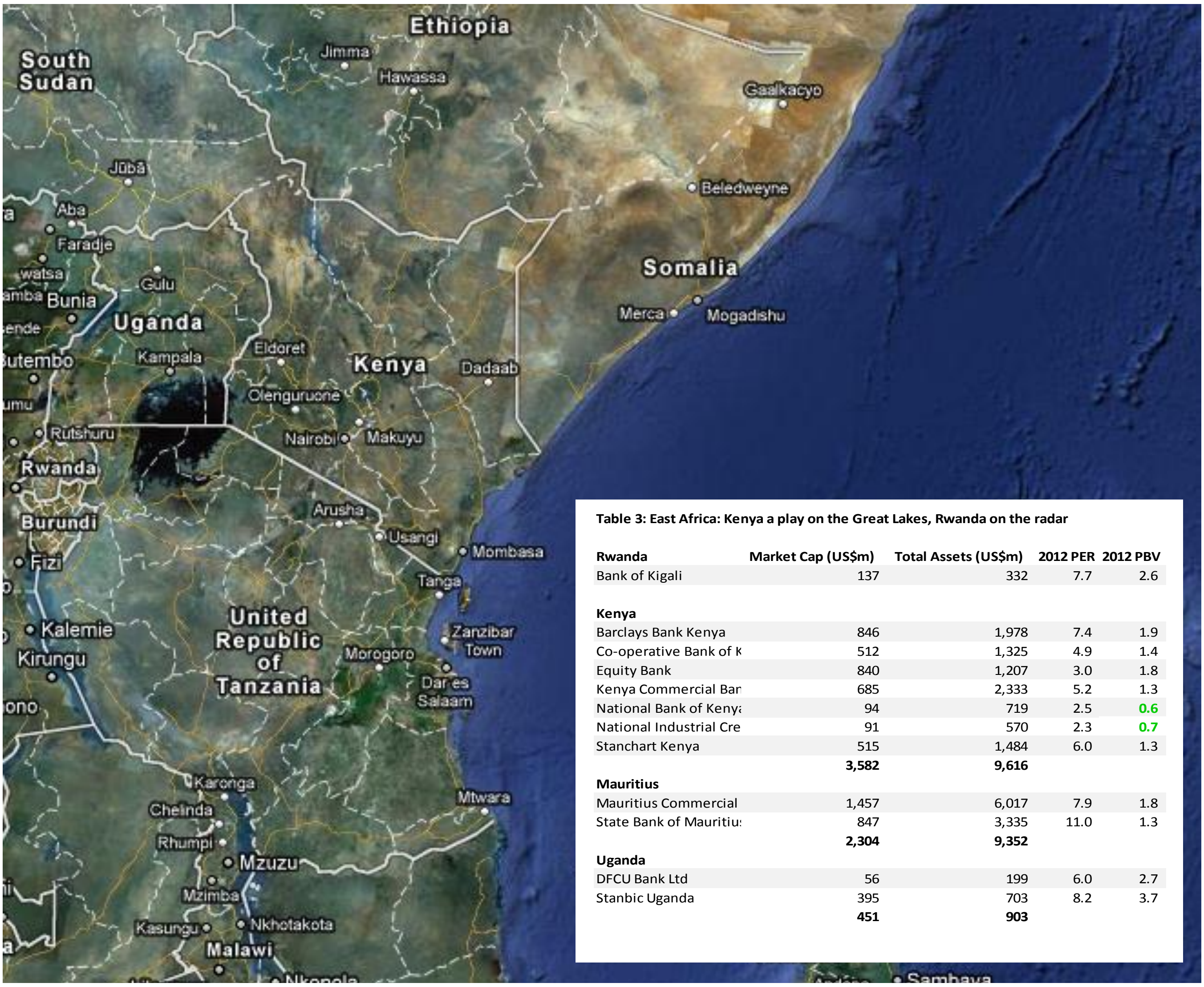


Table 3: East Africa: Kenya a play on the Great Lakes, Rwanda on the radar

Rwanda	Market Cap (US$m)	Total Assets (US$m)	2012 PER	2012 PBV
Bank of Kigali	137	332	7.7	2.6
Kenya				
Barclays Bank Kenya	846	1,978	7.4	1.9
Co-operative Bank of K	512	1,325	4.9	1.4
Equity Bank	840	1,207	3.0	1.8
Kenya Commercial Bar	685	2,333	5.2	1.3
National Bank of Keny	94	719	2.5	0.6
National Industrial Cre	91	570	2.3	0.7
Stanchart Kenya	515	1,484	6.0	1.3
	3,582	**9,616**		
Mauritius				
Mauritius Commercial	1,457	6,017	7.9	1.8
State Bank of Mauritius	847	3,335	11.0	1.3
	2,304	**9,352**		
Uganda				
DFCU Bank Ltd	56	199	6.0	2.7
Stanbic Uganda	395	703	8.2	3.7
	451	**903**		

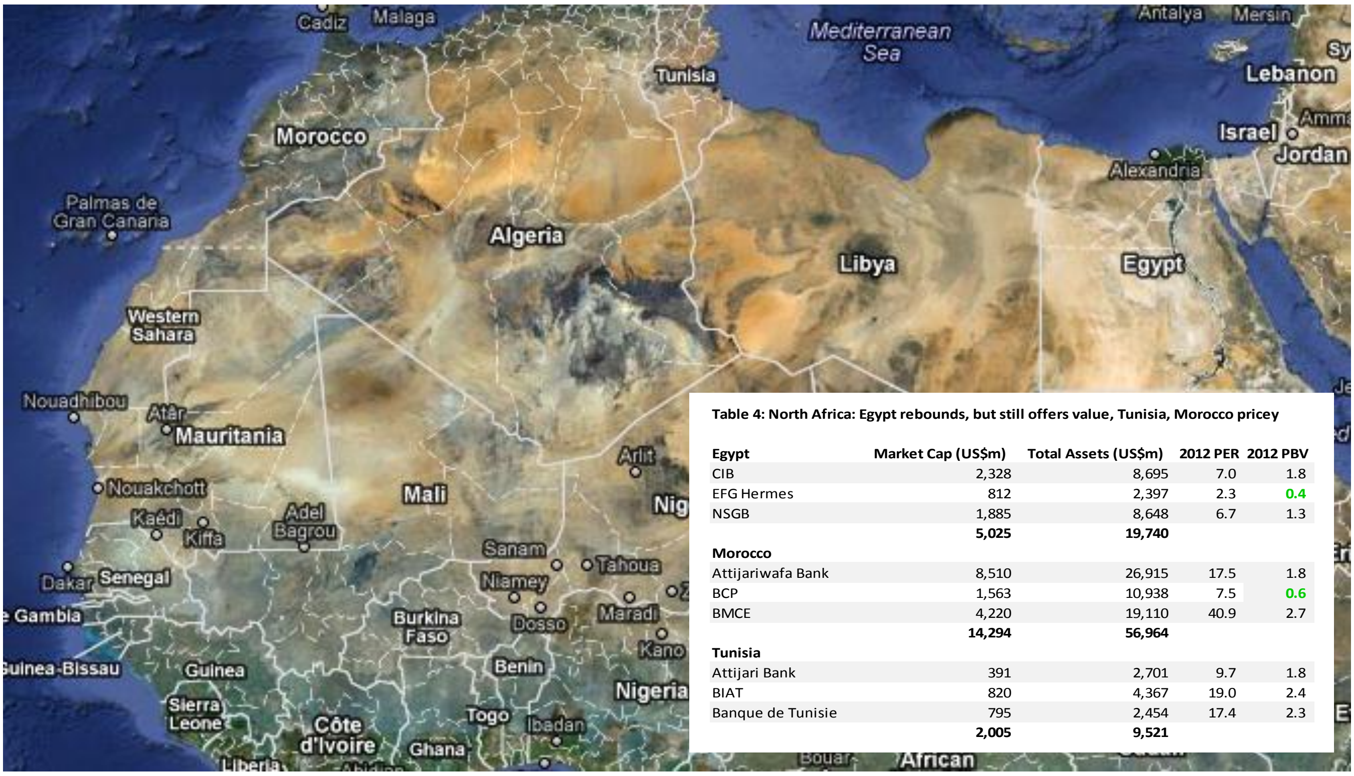


Table 4: North Africa: Egypt rebounds, but still offers value, Tunisia, Morocco pricey

Egypt	Market Cap (US$m)	Total Assets (US$m)	2012 PER	2012 PBV
CIB	2,328	8,695	7.0	1.8
EFG Hermes	812	2,397	2.3	0.4
NSGB	1,885	8,648	6.7	1.3
	5,025	**19,740**		
Morocco				
Attijariwafa Bank	8,510	26,915	17.5	1.8
BCP	1,563	10,938	7.5	0.6
BMCE	4,220	19,110	40.9	2.7
	14,294	**56,964**		
Tunisia				
Attijari Bank	391	2,701	9.7	1.8
BIAT	820	4,367	19.0	2.4
Banque de Tunisie	795	2,454	17.4	2.3
	2,005	**9,521**		

Appendix to Abbreviations

AKZ	Angolan Currency – Kwanza (AZK95 : US$1- at 15/02/12)
AMCON	Asset Management Corporation of Nigeria
ATM	Automated Teller Machines
ATW	Attijariwafa Bank Morocco
AUA	Assets Under Administration
BADEA	Arab Bank for Economic Development in Africa
BAI	Banco Áfricano de Investimentos/African Investment Bank
BCP	Banque Commercial Populaire Morocco
BDA	Banco de Desenvolvimento de Angola/Development Bank of Angola
BoG	Bank of Ghana
BESA	Banco Espírito Santo de Angola
BFA	Banco Fomento de Angola
bn	Billion
BNA	Banco Nacional de Angola/Angolan National Bank
BPC	Banco de Poupança e Crédito/Savings and Credit Bank
BRICS	Brazil, Russia, India, China, South Africa
BVDA	Bolsa de Valores e Derivativos de Angola/Stock and Derivatives exchange of Angola
CASE	Cairo and Alexandria Stock Exchange
CBN	Central Bank of Nigeria
CIR	Cost to Income Ratio
CMC	Comissão do Mercado de Capitais/Capital Markets Commission
DCF	Discounted Cash Flow
DRC	Democratic Republic of Congo
ECA	Excess Crude Account
ECOWAS	Economic Community Of West African States
EPS	Earnings per Share
ETI	Ecobank Transnational Incorporated
EU	European Union
FBN	First Bank of Nigeria
FCMB	First City Merchant Bank of Nigeria
FDI	Foreign Direct Investment
FNBB	First National Bank of Botswana
GDP	Gross Domestic Product
GNI	Gross National Income
GTB	Guaranty Trust Bank
HEPS	Headline earnings per share
HL	Hecto-litre (100 litres)
ICBC	Industrial and Commercial Bank of China
ICCO	International Cocoa Organisation
ISA	Imara Securities Angola SCVM Limitada
LDR	Loan to Deposit Ratio
LIBOR	London Inter-Bank Offered Rate
m	Million
M & A	Mergers and Acquisitions
MNC	Multi-National Company
MSCI EM	MSCI Emerging Markets Index
NBM	National Bank of Malawi
NIMs	Net interest margins
NPL	Non-Performing Loans
NSE	Nigerian Stock Exchange/Nairobi Stock Exchange (depending on context)
NSGB	National Société Génerale Banque Egypt
NSIA	Nigerian Sovereign Investment Authority
OECD	Organisation of Economic Co-operation and Development
PER	Price Earnings Ratio
PBV	Price to Book Value
PPP	Private, Public Partnerships
PROPARCO	Groupe Agence Française de Développement
SADC	Southern African Development Community
SBI	State Bank of India
SCZ	Standard Chartered Bank Zambia
SSA	Sub-Saharan Africa
tn	Trillion
UBA	United Bank for Africa plc
UNHCR	United Nations High Commissioner for Refugees
WIP	Work in Progress
YTD	Year to date
ZANACO	Zambia National Commercial Bank plc
ZETREF	Zimbabwe Economic and Trade Revival Facility

Executive Summary

Crises of all shapes and sizes have wobbled global banking markets, yet African banks, protected by their relative level of immaturity (and in some cases exchange controls), in the main continue to grow, typically at a bare minimum of double the rate of GDP growth. African financial markets have predominantly benefited from firm commodity prices, increasing levels of FDI, remittances, and most importantly through increased domestic consumption and a growing *nouveau riche* middle class. On the corollary, and again, in the main, markets have been inefficient to price in the solidity in earnings and, future growth prospects, going forward, especially in such no-brainers as Kenya and Nigeria, where the overall bearish sentiment, will surely turn.

In this, our second African Banking Compendium, we have expanded our coverage to include Rwanda and Angola. The former is rapidly developing its domestic capital market to complement the larger, East African hub in Nairobi. East Africa remains particularly interesting and dynamic. Ever pioneering, penetration levels are being driven by the lower cost 'Agency model' which is working well in mobilising cheap deposits. Kenya and the East African region have also pioneered the development of the now famous *Mpesa* telephony banking solution, which has been a case study for several other African countries to follow. Then of course, as big brother, Kenyan banks are, more recently, playing a key role in the development of banking systems in emerging oil rich oases Uganda and Southern Sudan. Factoring this into the equation, and notwithstanding robust domestic growth in Kenya's own economy, a re-rating is more than likely. Our sample is trading on a 2012 PER of 4.8x, which is the lowest for our sample. Enough said - fill your boots!

We have also taken a look into arguably, Africa's most exciting emerging financial markets giant, Angola. In just over a decade since the end of the civil war, the banking sector has grown exponentially, and boasted US$53bn worth of total assets at the end of September 2011 with US$32bn in deposits at the same date. Bear in mind that only 13.5% of the circa 20m Angolans have access to banking facilities of any sort, so the potential for cheap deposit mobilisation is massive. While the frenzy had died down following the commodities price crash in 2008/9, the momentum has started again and with foreign currency reserves at an all-time high of over US$25bn, the mood is decidedly optimistic. A board of directors was appointed to the Capital Markets Commission at the end of January, and we may soon see the beginning of a domestic capital market this year. We have a look at five of the largest banks in the country, which control roughly 80% of total assets.

While we are on the subject of oil economies, let us take a look at West Africa, where the NSE has performed dismally and YTD, continues to underperform the MSCI EM markets, by an increasingly wider margin. Post the margin loan bubble, massive over-provisions and the launch of Nigeria's own bail-out fund, international sentiment has been muddied by riots and protests following the reduction in oil price subsidies and an increase in violence in the Muslim North. The bottom line is that the banking sector has probably never been in better shape. Balance sheets are well capitalised and, despite the politicking, Nigeria's oil fundamentals remain solid. Sooner or later the tide will turn, however Africa's largest oil-driven market is not likely to keep treading oil… on a 2012 PER of 6.7x. Next door in Ghana where oil has started flowing, Cal Bank on a rating of 4.8x is cheap as chips.

On to Egypt and the Maghreb region post the Arab Spring in 2011, markets which are more exposed to Europe than the rest of Africa ex South Africa. In Cairo, the CASE index started the year on a bullish note, gaining 32% YTD despite the ongoing political tensions, which remain high. On low single digit 2012 PERs, value abounds still, and bear in mind that investment income revenues would have been affected negatively, so going forward, there should be more upside on an earnings recovery. Morocco and Tunisia weathered the storm well, and the domestic bourses were supported by strong local retail and institutional demand, in the absence of foreign appetite. While both markets are overpriced, Morocco, we believe, has the higher upside. Not having had a 'real' Arab Spring, apart from a few reforms, not too much has changed. Of importance, however, is Morocco's invitation to join the GCC, which will have a significant positive impact on FDI, concessionary funding and further afield, on remittances. Our preferred play here would be BCP, which is trading at a significant discount to its peers on the CSE; ATW remains the blue-chip play, albeit much less attractively priced. We prefer its pan-African drive, which is not earnings dilutive.

Then we have the Southern African sub-continent, where the South African consumer market is still stretched, making a cautious comeback, but still ever so tentative. Of the top four, First Rand seems the most reasonably priced. Making a dramatic comeback is Zimbabwe, where the two years of dollarisation have made all the difference in the real economy. Total banking sector deposits are now well over US$3bn from naught, when dollarisation started in 2009. Not at all shabby. Firm commodity prices (especially platinum and gold) and rising tobacco revenues have driven the underlying liquidity, helped along by a healthy contribution from the diamond sector. Yet without a lender of last resort, default risk and more importantly, counter party risk, are at all-time highs. Not for the risk averse, yet with so much promise!

Regional Banking Comparatives

Bank	Year end	Price	Market Cap (US$m)	Weighting inc SA	Weighting ex SA	Earnings Growth T + 1	Earnings Growth T + 2	3 year GGR Loans	3 year GGR Deposits	PER (x) T + 1	PER (x) T + 2	Dividend yield (%) T + 1	Dividend yield (%) T + 2	PBV (x) T + 1	Recommendation
Angola			13,150	NB: Angola Market capitalisation assuming 12x earnings											
Banco BAI	Dec-10	n/a	2,531	2.5%	6.0%	32%	28%	54%	38%	9.1	7.1	2.8%	3.5%	2.3	
Banco BIC	Dec-10	n/a	1,661	1.7%	4.0%	21%	27%	25%	42%	9.9	7.8	4.0%	5.1%	2.2	
Banco BFA	Dec-10	n/a	3,038	3.0%	7.2%	7%	28%	20%	20%	10.5	8.4	6.2%	7.8%	3.3	
Banco BPC	Dec-10	n/a	1,672	1.7%	4.0%	54%	44%	30%	30%	7.8	5.4	0.0%	0.1%	2.0	
Banco Millennium	Dec-10	n/a	381	0.4%	0.9%	68%	42%	47%	68%	7.1	5.0	0.0%	0.0%	1.5	
BESA	Dec-10	n/a	3,867	3.9%	9.2%	20%	20%	76%	43%	10.0	8.3	4.0%	4.8%	3.5	
Nigeria			9,528			94%	35%	44%	29%	7.6	5.9	6.9%	9.6%	1.2	
Access Bank Nigeria	Dec-10	₦ 6.75	757	0.8%	1.8%	69%	31%	19%	11%	6.4	4.9	5.0%	6.5%	0.6	BUY
First Bank Nigeria	Dec-10	₦ 10.70	2,188	2.2%	5.2%	31%	66%	35%	27%	8.0	4.8	6.3%	10.4%	0.9	BUY
First City Merchant Bank	Dec-10	₦ 4.02	410	0.4%	1.0%	52%	50%	21%	27%	5.4	3.6	13.2%	19.8%	0.4	BUY
Guaranty Trust Bank	Dec-10	₦ 14.26	2,630	2.6%	6.3%	35%	11%	73%	37%	7.0	6.7	9.7%	10.8%	1.9	BUY
Stanbic IBTC	Dec-10	₦ 7.06	830	0.8%	2.0%	21%	31%	42%	34%	13.8	10.6	6.7%	8.7%	1.5	SELL
UBA	Dec-10	₦ 1.84	297	0.3%	0.7%	1920%	67%	25%	12%	3.5	2.1	18.0%	30.0%	0.3	UNDER REVIEW
Zenith Bank	Dec-10	₦ 12.28	2,416	2.4%	5.8%	33%	31%	36%	28%	6.9	5.5	2.7%	4.5%	0.9	BUY
Cote d'Ivoire			770			32%	65%	19%	19%	5.2	3.1	9.5%	10.0%	0.2	
Ecobank Transnational Inc.	Dec-10	₦ 9.90	770	0.8%	1.8%	32%	65%	19%	19%	5.2	3.1	9.5%	10.0%	0.2	BUY
Ghana			620			12%	45%	18%	27%	11.5	7.9	3.3%	4.5%	4.6	
Cal Bank	Dec-10	GH¢ 0.27	39	0%	0%	16%	26%	31%	33%	5.9	4.6	9.5%	10.0%	0.7	BUY
Stanchart Ghana	Jun-11	GH¢ 49.50	581	1%	1%	11%	46%	18%	27%	11.9	8.1	2.9%	4.2%	4.9	HOLD
Botswana			2,113			6%	8%	17%	5%	10.5	9.8	6.7%	7.2%	4.6	
BancABC	Dec-10	BWP 4.60	89	0.1%	0.2%	21%	20%	35%	36%	8.1	6.8	2.6%	3.2%	1.5	BUY
Barclays Botswana	Dec-10	BWP 6.99	788	0.8%	1.9%	5%	5%	14%	2%	9.9	9.4	5.0%	5.3%	3.8	HOLD
First National Bank of Bots.	Jun-11	BWP 2.63	892	0.9%	2.1%	7%	5%	22%	3%	11.0	10.5	8.1%	8.5%	5.9	HOLD
Stanchart Botswana	Dec-10	BWP 9.03	344	0.3%	0.8%	2%	18%	4%	11%	11.4	9.7	7.9%	9.3%	4.1	HOLD
South Africa			58,006			3.9%	14.3%	3.8%	5.8%	12.2	10.6	3.5%	3.8%	2.3	
ABSA	Dec-10	ZAR 151.66	12,784	12.8%	n/a	20%	9%	3%	7%	11.1	10.3	3.5%	3.8%	1.7	FULLY VALUED
First Rand	Jun-11	ZAR 22.80	15,087	15.1%	n/a	-30%	8%	1%	4%	9.1	8.4	4.6%	5.0%	1.9	ADD
Nedbank	Dec-10	ZAR 160.17	9,539	9.5%	n/a	11%	14%	8%	8%	15.3	13.4	3.4%	3.9%	1.6	HOLD
Standard Bank	Dec-10	ZAR 110.42	20,595	20.6%	n/a	16%	22%	4%	5%	13.6	11.1	2.8%	2.7%	3.2	HOLD
Zambia			621			13%	21%	18%	27%	12.9	10.2	4.1%	5.5%	4.8	
Investrust	Dec-10	ZMK 19.20	11	0.01%	0.03%	-201%	71%	28%	13%	11.4	6.7	3.0%	5.1%	1.4	HOLD
Stanchart Zambia	Dec-10	ZMK 82.00	395	0.4%	0.9%	-3%	18%	16%	35%	15.6	13.1	4.0%	4.7%	6.2	SELL
ZANACO	Dec-10	ZMK 1,000.00	226	0.2%	0.5%	42%	25%	22%	13%	8.2	5.1	4.3%	6.8%	2.5	BUY
Zimbabwe			228			-25%	126%	44%	30%	18.2	6.9	4.0%	6.0%	1.6	
Barclays Bank Zimbabwe	Dec-10	US$ 0.04	95	0.1%	0.2%	-286%	178%	30%	30%	39.8	14.3	0.8%	2.1%	3.0	HOLD
CBZ Holdings	Dec-10	US$ 0.09	62	0.1%	0.1%	66%	29%	60%	25%	2.1	1.6	11.9%	15.3%	0.5	HOLD
FBC Holdings	Dec-10	US$ 0.06	22	0.0%	0.1%	393%	90%	20%	20%	3.7	1.9	2.7%	5.1%	0.6	HOLD
NMBZ	Dec-10	US$ 0.01	18	0.0%	0.0%	480%	166%	20%	20%	4.5	1.7	2.2%	6.0%	0.8	HOLD
ZBFH	Dec-10	US$ 0.20	32	0.0%	0.1%	0%	165%	87%	50%	3.0	1.1	0.0%	0.0%	0.6	HOLD
Malawi			383			35%	24%	37%	27%	6.3	5.1	7.8%	9.6%	2.1	
First Merchant Bank	Dec-10	MWK 7.00	99	0.1%	0.2%	63%	32%	57%	39%	5.5	4.2	5.6%	7.4%	1.9	BUY
National Bank of Malawi	Dec-10	MWK 52.50	148	0.1%	0.4%	18%	16%	32%	19%	6.0	5.2	9.2%	10.6%	1.6	BUY
Standard Bank Malawi	Dec-10	MWK 106.00	137	0.1%	0.3%	32%	27%	29%	28%	7.0	5.5	7.9%	10.1%	2.8	BUY
Rwanda			137			33%	29%	28%	10%	9.9	7.7	3.0%	3.9%	2.6	
Bank of Kigali	Dec-10	MWK 122.00	137	0.1%	0.3%	33%	29%	28%	10%	9.9	7.7	3.0%	3.9%	2.6	HOLD
Kenya			3,582			38%	32%	26%	25%	6.4	5.1	8.4%	10.7%	1.5	
Barclays Bank Kenya	Dec-10	KES 13.00	846	0.8%	2.0%	9%	9%	-3%	4%	8.0	7.4	12.4%	13.6%	1.9	HOLD
Co-operative Bank of Kenya	Dec-10	KES 11.75	512	0.5%	1.2%	62%	18%	31%	31%	5.8	4.9	5.5%	6.5%	1.4	BUY
Equity Bank	Dec-10	KES 18.95	840	0.8%	2.0%	84%	79%	53%	49%	5.3	3.0	6.5%	11.7%	1.8	BUY
Kenya Commercial Bank	Dec-10	KES 19.40	685	0.7%	1.6%	20%	28%	32%	28%	6.7	5.2	7.7%	9.9%	1.3	BUY
National Bank of Kenya	Dec-10	KES 19.95	94	0.1%	0.2%	26%	21%	39%	11%	3.1	2.5	3.8%	4.6%	0.6	HOLD
National Industrial Credit Bank	Dec-10	KES 25.50	91	0.1%	0.2%	46%	21%	22%	25%	2.8	2.3	4.9%	5.9%	0.7	BUY
Stanchart Kenya	Dec-10	KES 158.00	515	0.5%	1.2%	15%	15%	17%	11%	7.0	6.0	9.8%	11.3%	1.3	HOLD
Mauritius			2,177			8%	10%	17%	9%	8.7	8.4	3.8%	4.2%	1.5	
Mauritius Commercial Bank	Jun-11	MUR 167.00	1,457	1.5%	3.5%	8%	8%	17%	9%	8.6	8.1	3.7%	4.0%	1.8	HOLD
State Bank of Mauritius	Jun-11	MUR 80.00	720	0.7%	1.7%	9%	14%	17%	9%	8.9	8.9	4.1%	4.7%	1.1	HOLD
Uganda			451			31%	33%	34%	23%	10.6	7.9	4.6%	6.2%	3.6	
DFCU Bank Ltd	Dec-10	UGX 1,000.00	56	0.1%	0.1%	46%	23%	20%	43%	7.4	6.0	5.4%	6.7%	2.7	BUY
Stanbic Uganda	Dec-10	UGX 100.00	395	0.4%	0.9%	29%	35%	36%	20%	11.0	8.2	4.5%	6.1%	3.7	HOLD
Egypt			5,025			26%	11%	24%	33%	6.7	6.1	3.3%	3.7%	1.4	
CIB	Dec-10	EGP 23.65	2,328	2.3%	5.6%	-9%	10%	20%	17%	7.7	7.0	3.8%	4.2%	1.8	BUY
National Société Génerale Banque	Dec-10	MUR 28	1,885	1.9%	4.5%	20%	7%	17%	8%	7.1	6.7	1.0%	1.1%	1.3	BUY
Morocco			14,294			3%	-2%	31%	26%	25.1	23.3	2.2%	2.4%	2.0	
Attijariwafa Bank	Dec-10	MUR 373	8,510	8.5%	20.3%	18%	11%	19%	10%	18.3	17.5	2.1%	2.4%	1.8	HOLD
Banque Comercial Populaire	Dec-10	MUR 200	1,563	1.6%	3.7%	-62%	67%	124%	140%	12.4	7.5	4.4%	4.4%	0.6	BUY
BMCE	Dec-10	MUR 208	4,220	4.2%	10.1%	-3%	-54%	22%	17%	43.6	40.9	1.5%	1.9%	2.7	SELL
Tunisia			2,005			13%	14%	15%	14%	18.9	16.5	2.6%	3.0%	2.2	
Attijari Bank	Dec-10	TND 17.29	391	0.4%	0.9%	15%	10%	17%	19%	10.7	9.7	1.7%	1.9%	1.8	HOLD
BIAT	Dec-10	TND 72.00	820	0.8%	2.0%	15%	18%	13%	11%	22.4	19.0	3.2%	3.8%	2.4	SELL
Banque de Tunisie	Dec-10	TND 10.79	795	0.8%	1.9%	10%	11%	17%	15%	19.3	17.4	2.5%	2.8%	2.3	BUY
Weighted Average inc SA			99,940	100%		15%	15%	15%	14%	13.0	11.5	4.0%	4.5%	2.1	
Weighted Average ex SA			41,934		100%	32%	16%	30%	25%	14.3	12.7	4.5%	5.6%	1.9	

Regional Banking Comparatives (Cont.)

Recommendation	Total Assets (US$m)	Gross Income (US$m)	Attr. Income (US$m)	Net interest margin	Cost/ income ratio	Effective tax rate	Loans/ Deposits	NPL/ Advances	Prov exp/ Advances	Debt/ Equity	RoAE	RoAA	Loans/ Equity	Rough CAR	Bank
	29,065	2,868	998	7.3%	37.4%	5.1%	79.2%	3.7%	2.7%	6.4%	43.0%	3.8%	5.0	13.2%	**Angola**
	8,160	725	222	9.0%	32.1%	0.8%	41.1%	7.9%	6.1%	4.5%	30.9%	2.6%	3.2	13.6%	Banco BAI
	4,744	478	138	5.4%	34.0%	18.8%	54.1%	4.8%	0.7%	42.7%	28.2%	3.2%	4.0	16.2%	Banco BIC
	1,440	132	36	7.1%	58.9%	0.0%	68.2%	4.0%	2.4%	0.0%	52.4%	4.6%	5.8	16.2%	Banco BFA
	5,730	707	139	9.0%	44.5%	17.0%	67.6%		4.2%	0.0%	24.7%	2.6%	5.1	12.1%	Banco BPC
	1,300	149	139	7.6%	62.6%	13.7%	72.2%	6.1%	3.5%	0.0%	19.4%	2.7%	3.9	18.6%	Banco Millennium
	7,691	679	322	6.4%	19.7%	0.2%	129.1%	1.6%	0.8%	0.5%	60.2%	4.7%	6.0	9.4%	BESA
	54,616	5,471	874	8.2%	62.8%	22.8%	75.7%	4.3%	1.3%	23.6%	12.2%	2.3%	2.3	18.0%	**Nigeria**
BUY	5,044	481	70	7.1%	70.0%	31.2%	88.3%	8.0%	1.1%	21.0%	6.6%	1.5%	3.1	18.2%	Access Bank Nigeria
BUY	14,448	1,455	209	7.1%	64.9%	23.7%	78.8%	0.0%	1.9%	35.9%	10.3%	1.5%	4.0	15.4%	First Bank Nigeria
BUY	3,376	393	50	5.9%	76.8%	12.1%	97.6%	4.3%	-0.1%	-17.2%	6.0%	1.6%	2.3	26.8%	First City Merchant Bank
BUY	7,321	769	246	11.6%	51.5%	17.3%	80.2%	6.8%	1.8%	31.2%	19.3%	3.5%	0.5	20.6%	Guaranty Trust Bank
SELL	2,410	356	59	9.3%	70.2%	30.1%	95.2%	6.2%	0.4%	27.9%	11.5%	2.6%	2.6	21.5%	Stanbic IBTC
UNDER REVIEW	10,139	841	4	7.5%	75.3%	16.5%	49.6%	6.0%	2.9%	46.5%	0.4%	0.04%	2.6	10.6%	UBA
BUY	11,877	1,177	234	6.1%	64.3%	25.2%	56.8%	3.6%	0.6%	7.7%	10.7%	2.1%	2.2	15.6%	Zenith Bank
	11,928	826	94	6.7%	65.9%	22.0%	66.4%	15.2%	1.9%	34.2%	9.9%	1.3%	4.8	13.2%	**Cote d'Ivoire**
BUY	11,928	826	94	6.7%	65.9%	22.0%	66.4%	15.2%	1.9%	34.2%	9.9%	1.3%	4.8	13.2%	Ecobank Transnational Inc.
	1,328	223	50	10.4%	47.5%	28.6%	48.4%	5.4%	3.0%	26.2%	38.9%	4.5%	2.8	14.0%	**Ghana**
BUY	311	53	6	7.8%	52.0%	24.9%	77.1%	5.2%	5.0%	123.6%	13.8%	2.0%	3.5	19.1%	Cal Bank
HOLD	1,017	170	44	10.6%	47.2%	28.9%	46.5%	5.4%	2.9%	19.6%	40.6%	4.7%	2.7	13.7%	Stanchart Ghana
	5,071	665	199	7.4%	42.9%	19.1%	60.8%	1.8%	1.5%	39.5%	45.8%	4.2%	5.7	16.5%	**Botswana**
BUY	795	118	9	14.7%	80.3%	27.6%	66.9%	5.5%	0.5%	150.6%	16.7%	1.3%	7.3	7.0%	BancABC
HOLD	1,544	237	76	8.7%	39.0%	24.0%	62.3%	1.5%	2.8%	47.9%	45.3%	4.9%	4.6	20.4%	Barclays Botswana
HOLD	1,740	212	76	6.3%	40.3%	10.0%	67.7%	2.0%	0.8%	21.3%	49.8%	4.5%	6.2	15.1%	First National Bank of Bots.
HOLD	992	98	39	5.0%	49.2%	28.9%	37.9%	1.0%	0.7%	38.5%	44.2%	2.4%	6.4	13.4%	Stanchart Botswana
	399,496	32,228	5,520	2.8%	58.6%	29.1%	100.9%	5.5%	1.1%	91.6%	18.6%	1.4%	8.3	8.8%	**South Africa**
FULLY VALUED	84,093	8,893	953	4.0%	58.3%	27.5%	124.4%	7.7%	1.2%	316.6%	15.2%	1.1%	8.9	11.0%	ABSA
ADD	81,916	8,326	2,390	2.8%	53.7%	26.7%	83.9%	4.2%	0.8%	10.9%	34.8%	2.6%	7.6	9.3%	First Rand
HOLD	76,643	3,759	866	2.9%	55.8%	26.1%	95.5%	5.5%	1.3%	61.3%	11.5%	0.8%	10.3	8.6%	Nedbank
HOLD	156,844	11,250	1,310	2.1%	63.7%	33.2%	101.3%	5.1%	1.1%	25.0%	12.3%	0.8%	7.7	7.1%	Standard Bank
	893	155	23	9.6%	54.7%	39.4%	41.2%	7.5%	0.3%	23.7%	39.6%	3.5%	4.3	11.4%	**Zambia**
HOLD	126	22	(1)	9.8%	76.0%	22.2%	68.6%	21.0%	7.2%	241.7%	-11.4%	-0.9%	9.5	6.9%	Investrust
SELL	480	77	13	9.1%	49.5%	42.0%	35.1%	4.9%	-0.7%	6.7%	48.5%	3.5%	4.3	10.4%	Stanchart Zambia
BUY	413	78	10	10.3%	63.6%	34.7%	51.9%	12.0%	2.0%	53.4%	24.1%	3.4%	4.3	13.2%	ZANACO
	414	30	(14)	5.8%	85.5%	21.8%	60.7%	2.3%	0.8%	0.0%	4.5%	0.4%	3.2	112.5%	**Zimbabwe**
HOLD	166	6	3	1.4%	104.7%	31.1%	29.2%	1.0%	0.8%	0.0%	-4.0%	-0.6%	1.7	123.4%	Barclays Bank Zimbabwe
HOLD	146	17	2	7.3%	66.6%	31.0%	87.0%	1.1%	0.4%	0.0%	23.7%	3.1%	6.4	91.2%	CBZ Holdings
HOLD	15	1	1	7.1%	83.7%	58.9%	64.6%	4.6%	0.8%	0.0%	3.9%	0.0%	2.0	112.8%	FBC Holdings
HOLD	12	0	(0)	14.7%	88.9%	26.6%	100.4%	3.9%	1.6%	0.0%	5.1%	1.0%	3.6	167.8%	NMBZ
HOLD	75	7	(19)	10.2%	64.1%	-52.8%	78.6%	6.0%	1.4%	0.0%	-7.0%	-1.6%	2.5	89.8%	ZBFH
	381	137	46	14.4%	57.1%	32.1%	75.4%	3.0%	0.1%	0.0%	30.6%	5.8%	2.5	8.2%	**Malawi**
BUY	332	27	9	14.4%	52.2%	30.1%	70.1%	7.0%	0.3%	0.0%	26.3%	4.0%	3.3	19.3%	First Merchant Bank
BUY	32	65	22	14.7%	55.0%	32.5%	70.9%	0.8%	0.0%	0.0%	26.9%	5.9%	2.3	5.7%	National Bank of Malawi
BUY	17	46	14	14.0%	62.9%	33.1%	84.0%	2.5%	0.0%	0.0%	37.7%	7.0%	2.3	3.0%	Standard Bank Malawi
	332	42	10	8.7%	66.0%	28.8%	72.7%	9.1%	2.4%	0.0%	24.5%	3.5%	3.2	24.6%	**Rwanda**
HOLD	332	42	10	8.7%	66.0%	28.8%	72.7%	9.1%	2.4%	0.0%	24.5%	3.5%	3.2	24.6%	Bank of Kigali
	9,616	1,364	143	10.7%	54.6%	25.2%	76.7%	3.9%	1.3%	10.9%	29.9%	4.4%	4.2	18.6%	**Kenya**
HOLD	1,978	348	(35)	11.9%	51.6%	27.4%	79.8%	5.5%	1.4%	8.8%	26.6%	4.8%	3.4	11.9%	Barclays Bank Kenya
BUY	1,325	168	(9)	8.9%	58.9%	20.6%	77.3%	5.7%	0.9%	2.5%	25.0%	3.5%	5.4	15.6%	Co-operative Bank of Kenya
BUY	1,207	208	51	14.6%	50.8%	21.1%	75.7%	3.1%	2.4%	35.9%	28.5%	5.9%	3.4	36.3%	Equity Bank
BUY	2,333	316	49	9.7%	62.1%	26.7%	76.5%	3.7%	0.8%	0.0%	39.9%	3.2%	4.7	12.5%	Kenya Commercial Bank
HOLD	719	83	18	11.5%	49.5%	25.1%	46.7%	4.3%	1.7%	0.0%	22.7%	3.6%	2.6	13.2%	National Bank of Kenya
BUY	570	71	13	5.5%	43.9%	28.5%	88.5%	3.9%	-0.8%	2.8%	26.0%	3.5%	5.6	18.5%	National Industrial Credit Bank
HOLD	1,484	171	57	6.2%	54.5%	30.0%	76.6%	1.3%	0.5%	0.0%	31.5%	4.0%	4.7	12.5%	Stanchart Kenya
	9,352	713	227	4.9%	39.2%	16.8%	86.7%	2.7%	0.4%	32.9%	19.8%	2.6%	5.1	16.1%	**Mauritius**
HOLD	6,017	482	157	4.7%	41.1%	15.9%	87.6%	3.4%	0.3%	27.1%	23.1%	2.7%	5.9	14.7%	Mauritius Commercial Bank
HOLD	3,335	231	70	5.2%	35.3%	18.6%	84.8%	1.4%	0.6%	44.6%	13.2%	2.3%	3.6	18.8%	State Bank of Mauritius
	903	58	11	9.6%	53.5%	19.9%	79.1%	2.0%	-1.4%	3.8%	31.8%	3.3%	6.0	11.7%	**Uganda**
BUY	199	23	4	7.9%	56.7%	21.4%	86.9%	3.8%	-0.7%	30.2%	25.5%	2.9%	5.2	18.1%	DFCU Bank Ltd
HOLD	703	35	7	9.9%	53.0%	19.7%	78.0%	1.7%	-1.5%	0.0%	32.7%	3.4%	6.2	10.8%	Stanbic Uganda
	19,740	2,081	1,740	5.5%	44.2%	17.7%	49.8%	2.5%	1.6%	2.3%	19.5%	2.7%	4.0	26.2%	**Egypt**
BUY	8,695	546	250	5.4%	40.2%	15.1%	54.4%	2.9%	2.0%	4.0%	25.7%	2.9%	4.4	13.1%	CIB
BUY	8,648	1,120	1,309	4.1%	45.7%	15.9%	65.6%	3.0%	1.1%	1.3%	16.3%	2.3%	4.8	13.4%	National Société Génerale Banque
	56,964	2,471	756	3.5%	49.1%	32.3%	96.5%	5.3%	0.3%	22.6%	12.5%	1.0%	6.7	10.7%	**Morocco**
HOLD	26,915	1,416	417	3.4%	44.4%	33.3%	105.4%	5.5%	0.3%	38.0%	15.4%	1.4%	5.6	13.1%	Attijariwafa
BUY	10,938	281	156	3.8%	45.8%	33.2%	88.4%	5.5%	0.4%	0.0%	7.9%	0.8%	8.5	8.8%	BCP
SELL	19,110	775	183	3.7%	59.6%	30.1%	81.3%	5.0%	0.1%	0.0%	8.4%	0.5%	8.2	6.5%	BMCE
	9,521	345	93	3.2%	44.2%	27.8%	96.7%	9.9%	0.7%	51.7%	13.3%	1.6%	7.6	12.2%	**Tunisia**
HOLD	2,701	120	23	2.6%	47.9%	33.5%	89.5%	8.0%	1.0%	113.8%	16.6%	1.2%	9.0	11.5%	Attijari Bank
SELL	4,367	134	24	2.8%	56.3%	36.1%	80.7%	9.9%	0.5%	35.1%	9.5%	0.7%	8.9	9.1%	BIAT
BUY	2,454	91	45	3.9%	29.9%	16.6%	116.7%	10.8%	0.8%	38.4%	15.6%	2.6%	5.6	15.8%	Banque de Tunisie
	4.0%	4.5%	210%	4.2%	55.7%	27.7%	91.9%	5.2%	1.0%	62.3%	18.4%	1.7%	6.9	11.9%	**Weighted Average inc SA**
	4.5%	5.6%	187%	6.1%	51.8%	25.8%	79.5%	4.7%	0.9%	21.9%	18.0%	2.2%	4.9	16.2%	**Weighted Average ex SA**

Discounted Cash-flow Valuation matrix

	Currency	Earnings per share 2010	2011F	2012F	2011 10%	2011 15%	2011 20%	2011 25%	2011 30%	Discount rate 10%	15%	20%	25%	30%	Price	(Premium)/ Discount	Recommendation
Nigeria																	
Access Bank Nigeria	NGN	0.63	1.06	1.39	13.89	9.26	6.94	5.56	4.63	12.55	11.10	9.89	8.85	7.96	6.75	64%	BUY
FCMB	NGN	0.49	0.74	1.11	11.10	7.40	5.55	4.44	3.70	9.93	8.78	7.81	6.99	6.28	4.02	119%	BUY
First Bank Nigeria	NGN	1.02	1.34	2.23	22.26	14.84	11.13	8.90	7.42	Z$19.78	17.48	15.54	13.89	12.48	10.70	63%	BUY
Guaranty Trust	NGN	1.34	2.03	2.13	21.30	14.20	10.65	8.52	7.10	19.61	17.38	15.50	13.89	12.52	14.26	22%	BUY
Stanbic IBTC	NGN	0.50	0.51	0.67	6.67	4.45	3.34	2.67	2.22	Z$6.03	5.33	4.75	4.25	3.82	7.06	-24%	SELL
UBA	NGN	0.03	0.52	0.88	8.76	5.84	4.38	3.51	2.92	7.78	6.88	6.12	5.47	4.91	1.84	274%	UNDER REVIEW
Zenith Bank	NGN	1.19	1.79	2.22	22.20	14.80	11.10	8.88	7.40	Z$20.14	17.83	15.88	14.22	12.79	12.28	45%	BUY
Cote d'Ivoire																	
ETI	USD	0.009	0.012	0.020	0.20	0.13	0.10	0.08	0.07	0.18	0.16	0.14	0.12	0.11	0.06	99%	BUY
Ghana																	
CAL Bank	GHS	0.04	0.05	0.06	0.58	0.39	0.29	0.23	0.19	0.53	0.47	0.42	0.37	0.34	0.27	73%	BUY
Stanchart Ghana	GHS	3.75	4.18	6.10	61.04	40.69	30.52	24.41	20.35	54.70	48.38	43.04	38.50	34.60	49.50	-2%	HOLD
Namibia																	
FNB Namibia	NAD	2.01	1.90	2.09	20.87	13.91	10.44	8.35	6.96	19.13	16.95	15.11	13.54	12.20	13.51	25%	BUY
Botswana																	
BancABC	BWP	0.47	0.57	0.68	6.81	4.54	3.41	2.72	2.27	6.20	5.49	4.89	4.38	3.94	4.60	35%	BUY
Barclays Botswana	BWP	0.67	0.71	0.74	7.43	4.95	3.71	2.97	2.48	6.84	6.06	5.40	4.84	4.36	6.99	-2%	HOLD
FNBB	BWP	0.22	0.24	0.25	2.50	1.67	1.25	1.00	0.83	2.30	2.04	1.82	1.63	1.47	2.63	-12%	HOLD
Stanchart Botswana	BWP	0.78	0.79	0.93	9.34	6.23	4.67	3.74	3.11	8.51	7.54	6.71	6.01	5.41	9.03	-6%	HOLD
South Africa																	
ABSA	ZAR	11.30	13.61	14.77	147.66	98.44	73.83	59.06	49.22	135.51	120.09	107.04	95.94	86.41	151.66	-11%	FULLY VALUED
First Rand	ZAR	3.61	2.52	2.73	27.25	18.17	13.63	10.90	9.08	25.01	22.17	19.76	17.71	15.95	22.80	10%	ADD
Nedbank	ZAR	9.48	10.48	11.93	119.28	79.52	59.64	47.71	39.76	109.00	96.56	86.04	77.09	69.41	160.17	-32%	SELL
Standard Bank	ZAR	7.02	8.13	9.95	99.45	66.30	49.73	39.78	33.15	90.33	79.98	71.23	63.79	57.40	110.42	-18%	HOLD
Zambia																	
Investrust	ZMK	(1.67)	1.68	2.88	28.80	19.20	14.40	11.52	9.60	25.55	22.58	20.07	17.93	16.11	82.00	-72%	HOLD
Stanchart Zambia	ZMK	5.42	5.27	6.24	62.44	41.62	31.22	24.97	20.81	56.86	50.36	44.86	40.18	36.17	82.00	-31%	SELL
Zanaco	ZMK	97.41	122.21	194.78	1,947.81	1,298.54	973.91	779.13	649.27	1,735.50	1,534.27	1,364.32	1,219.71	1,095.84	1,000.00	74%	BUY
Zimbabwe																	
Barclays Zimbabwe	USD	(0.00)	0.00	0.00	0.03	0.02	0.02	0.01	0.01	0.03	0.02	0.02	0.02	0.02	0.04	-53%	HOLD
CBZ Holdings	USD	0.026	0.043	0.055	0.55	0.37	0.27	0.22	0.18	0.50	0.44	0.39	0.35	0.32	0.09	336%	HOLD
FBC Holdings	USD	0.003	0.017	0.032	0.32	0.21	0.16	0.13	0.11	0.28	0.25	0.22	0.20	0.18	0.06	256%	HOLD
NMBZ	USD	0.000	0.002	0.007	0.07	0.04	0.03	0.03	0.02	0.06	0.05	0.04	0.04	0.04	0.01	306%	HOLD
ZBFH	USD	(0.01)	0.07	0.18	1.77	1.18	0.89	0.71	0.59	1.54	1.36	1.21	1.08	0.96	0.20	503%	HOLD
Malawi																	
FMB	MWK	0.78	1.27	1.68	16.80	11.20	8.40	6.72	5.60	15.17	13.42	11.95	10.70	9.62	7.00	71%	BUY
NBM	MWK	7.36	8.68	10.05	100.50	67.00	50.25	40.20	33.50	91.70	81.23	72.37	64.83	58.37	52.50	38%	BUY
NBS	MWK	1.93	2.15	3.37	33.68	22.46	16.84	13.47	11.23	30.05	26.57	23.63	21.13	18.98	52.50	-55%	SELL
Stanbic Malawi	MWK	11.36	15.06	19.12	191.25	127.50	95.62	76.50	63.75	173.18	153.30	136.50	122.20	109.95	106.00	29%	BUY
Rwanda																	
Bank ok Kigali	RWF	9.26	12.29	15.81	158.09	105.40	79.05	63.24	52.70	143.01	126.59	112.71	100.89	90.77	122.00	4%	HOLD
Kenya																	
Barclays Kenya	KES	1.49	1.62	1.76	17.62	11.75	8.81	7.05	5.87	16.17	14.33	12.77	11.44	10.31	13.00	10%	HOLD
Co-op	KES	1.26	2.04	2.40	23.99	15.99	11.99	9.60	8.00	21.86	19.36	17.25	15.45	13.91	11.75	65%	BUY
Equity Bank	KES	1.93	3.55	6.34	63.41	42.27	31.70	25.36	21.14	56.10	49.57	44.05	39.36	35.34	18.95	162%	BUY
KCB	KES	2.43	2.91	3.73	37.29	24.86	18.64	14.91	12.43	33.74	29.87	26.59	23.80	21.42	19.40	54%	BUY
NBK	KES	5.16	6.51	7.90	78.97	52.64	39.48	31.59	26.32	71.78	63.56	56.61	50.69	45.63	19.95	219%	HOLD
NIC	KES	6.28	9.18	11.07	110.68	73.79	55.34	44.27	36.89	100.65	89.13	79.39	71.10	63.99	25.50	250%	BUY
SBK	KES	19.77	22.72	26.15	261.53	174.35	130.76	104.61	87.18	238.76	211.49	188.44	168.82	151.99	158.00	34%	BUY
											9.71						
Mauritius																	
MCB	MUR	17.94	19.50	20.50	205.00	136.67	102.50	82.00	68.33	188.69	167.25	149.12	133.68	120.44	167.00	0%	HOLD
SBM	MUR	7.80	9.00	10.30	103.00	68.67	51.50	41.20	34.33	94.08	83.34	74.26	66.53	59.90	80.00	4%	HOLD
Uganda																	
DFCU	UGX	92.74	135.43	166.50	1,664.99	1,110.00	832.50	666.00	555.00	1,511.66	1,338.43	1,192.02	1,067.38	960.55	1,000.00	34%	BUY
Stanbic Uganda	UGX	7.04	9.05	12.18	121.85	81.23	60.92	48.74	40.62	109.85	97.20	86.52	77.43	69.64	100.00	-3%	HOLD
Egypt																	
CIB	EGP	3.38	3.07	3.37	33.73	22.49	16.86	13.49	11.24	30.92	27.40	24.42	21.89	19.71	23.65	16%	HOLD
EFG Hermes	EGP	1.83	4.45	5.61	56.08	37.39	28.04	22.43	18.69	50.82	44.99	40.06	35.86	32.27	12.80	251%	BUY
NSGB	EGP	3.32	3.97	4.23	42.29	28.19	21.15	16.92	14.10	38.87	34.45	30.72	27.53	24.80	28.19	22%	BUY
Tunisia																	
Attijari Bank	TND	1.41	1.62	1.79	17.88	11.92	8.94	7.15	5.96	16.39	14.52	12.94	11.60	10.45	17.29	-5%	HOLD
BIAT	TND	2.79	3.22	3.79	37.94	25.30	18.97	15.18	12.65	34.57	30.62	27.27	24.43	21.99	72.00	-52%	SELL
Banque de Tunisie	TND	0.51	0.56	0.62	6.20	4.13	3.10	2.48	2.07	5.68	5.03	4.48	4.02	3.62	10.79	-47%	SELL
Morocco																	
Attijariwafa	MAD	23.10	27.18	30.03	300.34	200.23	150.17	120.14	100.11	275.18	243.82	217.31	194.74	175.38	373.00	-26%	HOLD
BCP	MAD	26.83	29.37	29.42	294.17	196.11	147.09	117.67	98.06	272.03	241.20	215.14	192.94	173.89	200.00	36%	BUY
BMCE	MAD	4.76	5.07	6.20	61.99	41.33	31.00	24.80	20.66	56.31	49.86	44.41	39.77	35.79	207.60	-73%	SELL

NB: We have used DCF cash flow techniques to discount projected earning at the above assumed interest rates in order to arraive at our targeted valuations. Bearing in mind that stated earnings are, to a large extent dependent on the quality of the loan books, and the necessary provisioning levels, we use this valuation in conjuction with relative valution techniques, to ensure a wholistic assessment of pricing.

Recommendation Criteria

If Valuation upside > 10%, **BUY**

If Valuation downside < -10%, **SELL**

If upside/downside is between -10% and 10%, **HOLD**

Ranking of African banks and countries by key metrics

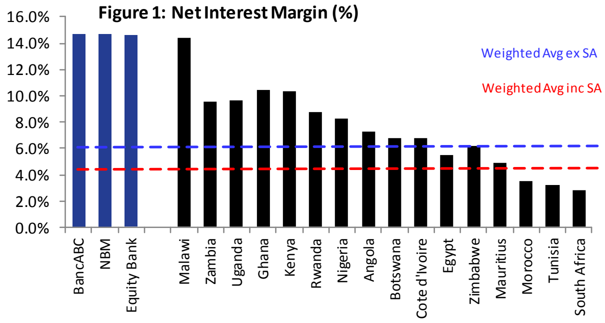


Figure 1: Net Interest Margin (%)

Source: Imara Africa Securities

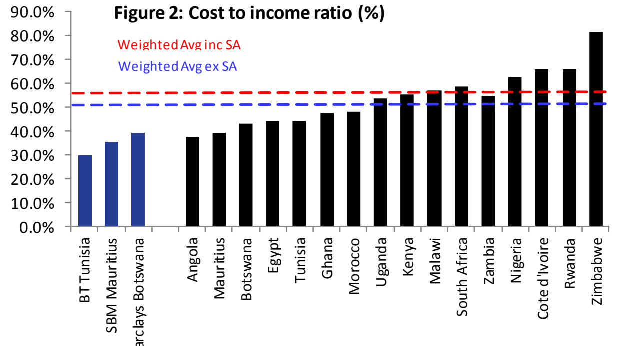


Figure 2: Cost to income ratio (%)

Source: Imara Africa Securities

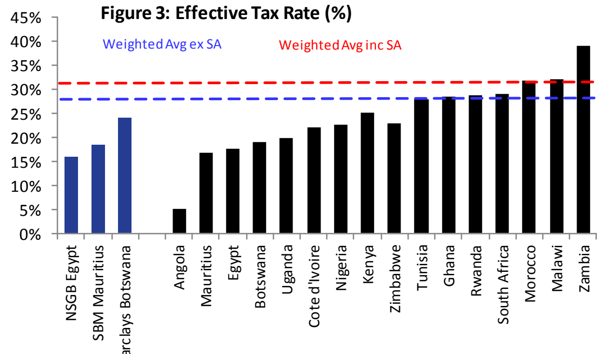


Figure 3: Effective Tax Rate (%)

Source: Imara Africa Securities

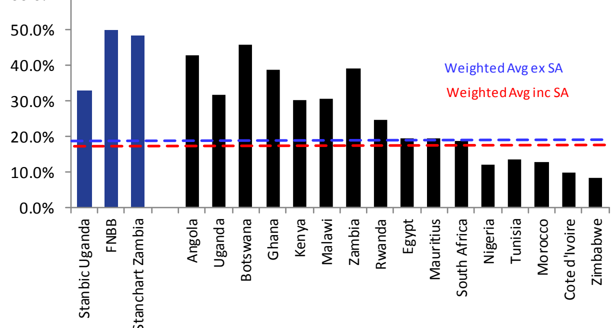


Figure 4: Return on Average Equity - RoAE (%)

Source: Imara Africa Securities

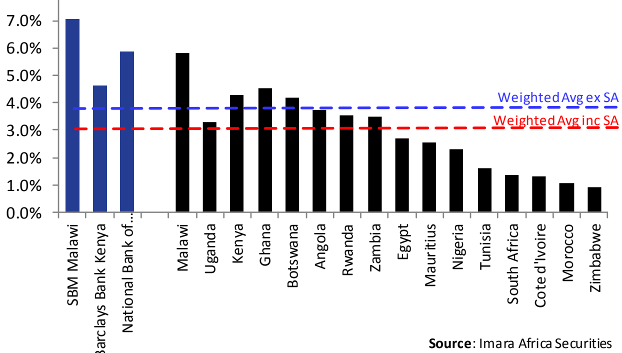


Figure 5: Return on Average Assets - RoAA (%)

Source: Imara Africa Securities

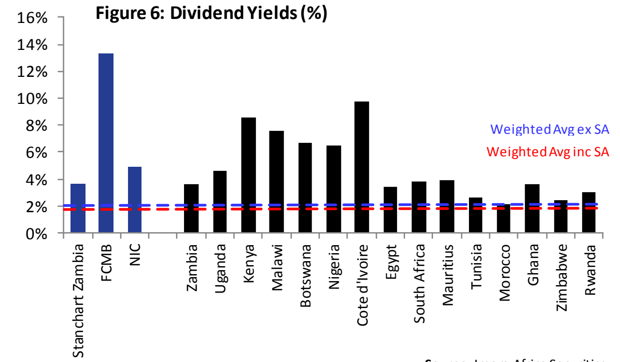


Figure 6: Dividend Yields (%)

Source: Imara Africa Securities

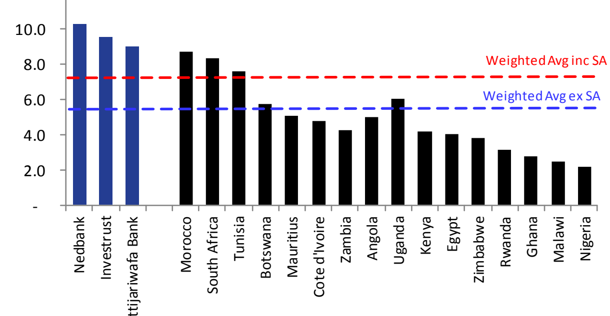


Figure 7: Loans/Equity (x)

Source: Imara Africa Securities

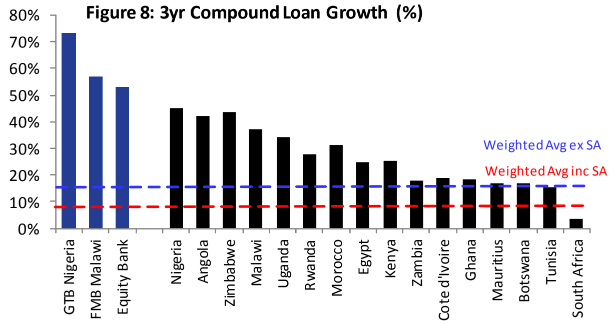


Figure 8: 3yr Compound Loan Growth (%)

Source: Imara Africa Securities

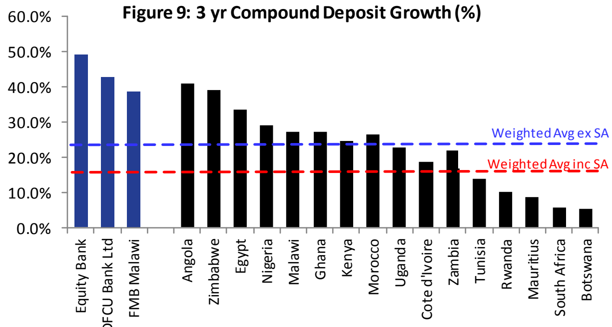


Figure 9: 3 yr Compound Deposit Growth (%)

Source: Imara Africa Securities

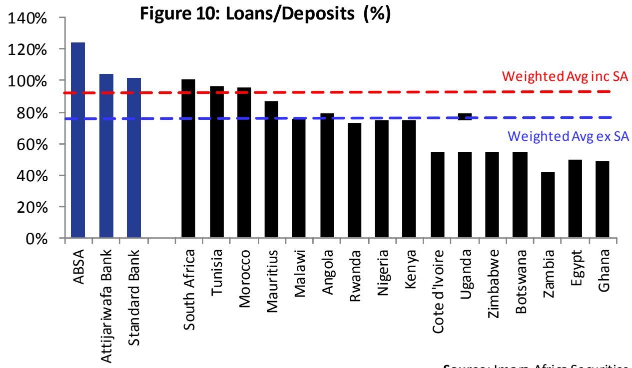


Figure 10: Loans/Deposits (%)

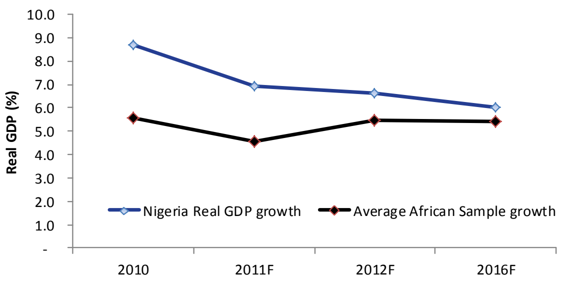
Source: Imara Africa Securities

Nigeria – Macro-economic overview

Key Themes:

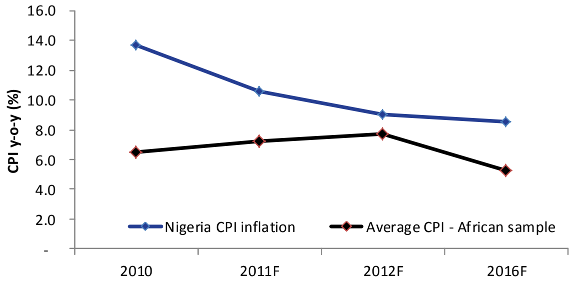
- A large buffer of international reserves and low debt helped mitigate the impact of the global crisis on Nigeria. Growth is strong and oil revenues have rebounded.
- The amnesty extended to rebels in the Niger Delta led to a sharp recovery in oil production while non-oil GDP growth has remained high. Real GDP grew by 7.5% in H1 2010, y-o-y, and is projected to have risen to 8.5% for the year as a whole. Growth in the non-oil sector has been moderating since 2007, but remained robust at 8.3% in H1 2010, with many sectors growing at double digit rates.
- With firm oil prices, the external reserves position has continued to improve, closing at US$34.4bn as at 17 November, 2011.
- Nigeria's exchange rate is managed by the CBN which has adjusted the mid-point of the target official exchange rate from ₦150.00/US$ 1.00 to ₦155.00/US$ 1.00 within a +/-3.0% band. This means that the Naira should float roughly within a range of ₦150.00/US$1.00–₦160.00/US$1.00, unless extraordinary shocks necessitate a change in stance.
- Provisional data indicate that aggregate domestic credit (net) grew by 24.6% in October 2011 over the end-December 2010 level, (29.5% annualised), which was below the indicative benchmark of 32.6% for 2011.
- Credit to the private sector grew by 24.2% (29.1% annualised) which was higher than the indicative benchmark of 23.3% for 2011.
- The average interbank call and Open buy back (OBB) rates rose from 11.4% and 11.1% before the extraordinary MPC meeting, held in October 2011, to 15.0% and 13.7%, respectively, after the meeting, reflecting a tightening to further rein in inflation and bridge the speculative gap.
- The average weighted three-month deposit rate went up to 7.1% in October from 5.5% in September (still negative, though less so). Also, the rates on deposits for 12 months increased from 4.5% in September to 4.9% in Oct 2011.
- The All-Share Index (ASI) decreased by 16% on y -o-y basis from 24,770 at end-December 2010 to 20,045 on Dec 12, 2011. Market Capitalisation also declined, by 20% from ₦7.9tn to ₦6.3tn over the same period, due partly to the delisting of acquired banks. The bearish market is consistent with the trends globally in a very uncertain world where fund managers have resorted to a flight to safety. However, strong earnings and fundamentals mean that the market is at present very attractive to long-term investors.
- Appetite for Emerging markets has been dampened by the ongoing Euro sovereign crisis; post the CBN interventions, Nigerian banks are very well capitalised (weighted average CAR of 24%) and growth prospects are still very good.
- The CBN introduced radical measures to clean up 8 failed banks. Following recapitalisation and a change in management, the CBN is now courting foreign investors interested in entering the market.
- Investors await the Petroleum Industry Bill, which remains under consideration with the National Assembly
- Nigeria's external debt remains low at 2.2% of GDP.
- Oil production is expected to remain stable at 2.4 mbpd during 2011 and rise to 2.5 mbpd by 2013, although at these levels is near capacity, hence has increased downside risk.
- Savings of surplus oil revenues should amount to US$11.8bn (4.8% of GDP) and a cumulative US$40bn through 2013, (if no withdrawals where to be made from the ECA/SWF).
- The diversification of lending to SMEs, agriculture and other under-served sectors should be addressed through targeted reforms, such as the strengthening of credit risk bureaus, improving collateral execution and bankruptcy procedures including the expansion of commercial courts and the strengthening of the land registry.
- The newly-established Asset Management Corporation of Nigeria (AMCON) begun to purchase NPLs at prices in excess of book values, with a view to restoring the equity of the intervened banks to zero.

Figure 11: Nigeria Real GDP Growth 2010 - 2016



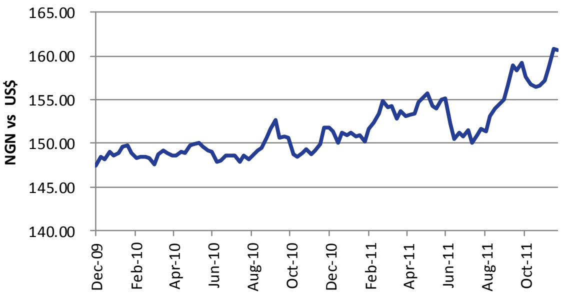
Source: IMF

Figure 12: Nigeria CPI Inflation 2010 - 2016



Source: IMF

Figure 13: Nigerian Naira vs US$



Source: Oanda.com

Nigeria – Macro-economic overview (Cont.)

- The cost of cleaning up the balance sheets and recapitalising the 10 intervened banks is estimated by the authorities at about ₦2.4tn (US$15 bn; 7.5% of GDP).
- The authorities expect to cover the cost of bank recapitalisations through grants from the CBN, a levy on banking assets, and by selling NPLs at a premium as the asset prices rise. The initial recapitalisation bonds are three-year, zero-coupon instruments that will be replaced at maturity with longer-term coupon-bearing bonds. Once equity in the insolvent banks is brought to zero, the banks will be sold to private investors who will bring in additional capital sufficient to meet statutory requirements.
- The 80/20 rule, whereby 80% of the excess revenues saved in the Excess Crude Account (ECA) in the previous year would be disbursed regardless of movements in world oil prices, and other ad hoc withdrawals from the account, have almost depleted the ECA and undermined its stabilisation function.
- The ratification of a Sovereign Wealth Fund for the country dubbed the Nigerian Sovereign Investment Authority (NSIA) is currently being considered by the National Assembly. The NSIA will comprise three funds: a stabilisation fund (to offset shortfalls in hydrocarbon revenues), an infrastructure fund (to develop infrastructure), and a saving fund (for future generations). Each of these funds will be ring-fenced—there will be no cross financing from one fund to another.
- It is unlikely that the fuel subsidy would be removed entirely before the next MPC meeting. It is still a possibility though and the inflationary impact of such a decision is a risk to keep in mind in spite of the expected positive fiscal and foreign exchange market impacts of this decision.

Access Bank

Incorporated in 1989 and subsequently listed in 1998, Access Bank Plc is a full scale commercial bank in Nigeria. It has also expanded its footprint beyond Nigeria's borders, with subsidiaries in eight other African countries, namely Ghana, Sierra Leone, The Gambia, Côte d'Ivoire, Zambia, Burundi, Rwanda and the DRC, as well as having a presence in the United Kingdom. As at FY2010, the group had over two million customers served from 148 branches by 2,255 employees across all its jurisdictions. Nigeria remains the anchor though, with 110 branches and 1,317 employees out of the total.

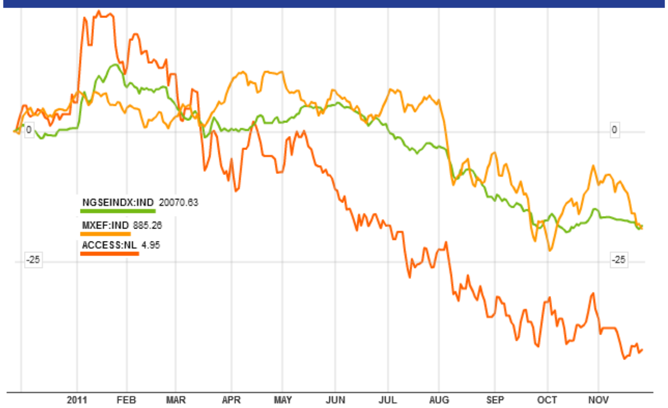
- An attributable loss in the nine months to Dec 09 of ₦4.2bn as the CBN's strict provisioning came to the fore was turned around in FY2010, where the group recorded an attributable profit of ₦11.2bn.
- The increase in earnings was, however, driven more by a reduction in the impairment charge, as operating income actually fell by 4.8% to ₦65.0bn, as both net funded income fell y-o-y while non-funded income reflected a marginal increase.
- In its 9M 2011 results to September, a strong recovery in net interest income as well as an improved CIR led to earnings increasing by 34.9% to ₦12.9bn.
- In a move to make the step up from '2nd' to '1st' tier bank, Access shareholders approved the merger (effective takeover) of the bank with that of one of the 'rescued' banks, Intercontinental Bank. This will make the combined entity a top 3-5 bank in Nigeria, depending on the metric, and we expect the benefits to Access of the wider branch network and lower cost of funds to be significant.
- Using a DCF valuation, we value Access Bank at ₦11.10 per share, without taking into account the acquisition of Intercontinental. A coverage based PBV average based on the last published post-merger pro-forma accounts suggests a valuation of ₦10.21 per share. In our view, Access looks best placed to benefit from M&A activity relative to its peers. **BUY**.

STRENGTHS	WEAKNESSES
Regional spread/diversity in nine countries (inc. Office in UK)	High counterparty risk - contation from peers
IFRS Compliant	High cost of deposits due to interbank reliance
Tight cost containment	Large oil and gas exposure (AMCON to resolve)
Expansive branch network (148 branches)	Relatively small branch network
	NPLs at 8% still high (in light of MP tightening)
OPPORTUNITIES	**THREATS**
Writeback on provisions; FX bond income	Future oil price shocks to affect Naira - macro
Growth in regional subs. esp Ghana, Rwanda	Overregulation
Growth of the Nigerian Bond mkt and FX bonds	Increased competition with new players entering
Issue of new Access Bond (Naira denominated)	Settling in problems/costs post merger
Intercontinental acquisition to provide mass	Capital flow reversals

BLOOMBERG: ACCESS : NL			BUY
Current price (₦)			6.75
Current price (US$)			0.04
Target price (₦)			11.10
Upside/Downside			64.50%
12 month High/Low (₦)			11.50; 4.70
Liquidity			
Market Cap (₦m)			120,744
Market Cap (US$m)			756.8
Shares (m)			17,888
Free Float (%)			30.0
Ave Monthly value traded (US$m)			0.6
Ave Monthly volume (m)			13.6
Share Price Performance			
6 months (%)			-12.6%
Relative change (%)*			-32.1%
Relative change (%)**			85.3%
12 months			-21.4%
Relative change (%)*			239.5%
Relative change (%)**			631.2%
** Relative to NSE index*			***Relative to MSCI EM index*
Financials (Y/E 31 March)	**2010**	**2011F**	**2012F**
Normalised EPS (₦)	0.63	1.06	1.39
DPS (₦)	0.20	0.34	0.44
NAV/Share (₦)	9.76	10.55	11.94
Net Interest Margin (%)	7.1%	7.1%	7.1%
FINANCIAL SUMMARY (₦m)			
Net interest income	44,166	53,647	69,911
Profit before tax	16,353	23,218	36,104
Attributable earnings	11,245	18,971	24,842
RATIOS			
RoAE	6.6%	10.4%	12.4%
RoAA	1.5%	2.0%	2.1%
Cost/Income Ratio (%)*	70.0%	61.0%	56.7%
Loans/Deposits (%)	88.3%	88.3%	88.3%
VALUATION RATIOS			
PBV (x)	0.7	0.6	0.6
PER (x)	10.7	6.4	4.9
Dividend Yield (%)	3.0%	5.0%	6.5%
Dividend payout ratio (%)	31.8%	31.8%	31.8%

***Pre provision for impaired advances

Figure 14: Access Bank vs MSCI EM vs NSE Index



Q3 2011 Financial & Operational Review

In its 9M 11 results to September, Access Bank continued to see an increase in earnings momentum, with gross earnings increasing by 5.4% y-o-y to ₦82.2bn. Funded income largely drove income growth, increasing by 26.7% on a net basis. NIMs improved to 8.3% compared with 6.8% at Q3 10 and 7.1% at FY 10.

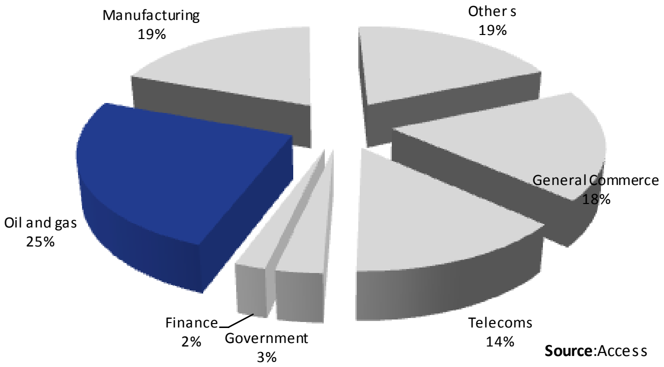
Non-interest income growth was far less palatable, however, up just 0.6% to ₦20.5bn, a scenario which was attributed to a sluggish market for government securities. Operating income growth was thus somewhat diluted to 16.6%, ending the 9M period at ₦62.0bn.

Operating expenses continued to be well controlled, rising by just 8.8% to ₦36.8bn, leading to a notable improvement in the cost to income ratio from 63.7% to 59.4%. Adjusting for the AMCON levy, management notes that operating cost growth would have been an even more impressive c3.5% y-o-y.

Provisions registered an increase y-o-y of 68.1% to ₦8.7bn, as the impact of the mandatory 1% general provision (₦5bn) came through the numbers. Attributable earnings closed the period at ₦12.9bn, representing an increase of 34.9%, or annualised EPS of 96 kobo, from 62.9 kobo in FY2010.

Balance sheet growth was 4.2% from the half year, with total assets at ₦1.0tn. Net loans and advances to customers went up 6.9% to ₦548.1bn, while investment securities rose by 25.0% to ₦130.2bn with the group receiving AMCON bonds for NPL sales. Oil and gas remained the highest class of loan exposure at 25%, while also having the largest NPL contribution at 41%. A large oil and gas loan was mainly responsible for the skew, (more than likely to Zenon) and management stated that this position will have been sold to AMCON by the end of Q4. NPL's were down to 8% q-o-q from 9% at H1 11. Customer deposits growth was flat at 1.2% to ₦646.6bn, attributed to a reduction in high cost deposits in a bid to improve margins. The CAR ended the period at 23%, slightly higher than the 22% at H1 but below FY 2010's 26%.

Figure 15: Loan distribution by sector at 30 Sept. 2011



Source:Access

Income Statement (₦m)	Q3 2010	Q3 2011	% ch
Net interest income	32,724	41,457	27%
Other income	20,408	20,522	1%
Operating Income	**53,133**	**61,978**	**17%**
Provisions	(5,201)	(8,744)	68%
Expenses	(33,824)	(36,808)	9%
Associate loss	(41)	-	-100%
Profit before tax	9,565	12,812	34%
Attributable earnings	**9,556**	**12,890**	**35%**

Balance Sheet (₦m)	FY 2010	Q3 2011	% ch
Cash and short term funds	25,395	24,553	-3%
Treasury Bills	35,858	36,577	2%
Loans & Advances	429,782	548,121	28%
Fixed Assets	25,390	23,704	-7%
Goodwill	1,432	1,432	0%
Other	286,967	391,162	36%
Total Assets	**804,824**	**1,025,549**	**27%**
Deposits	486,926	646,642	33%
Due to banks	64,039	91,108	42%
Borrowed Funds	22,686	36,831	62%
Other liabilities	56,502	75,748	34%
Shareholders' funds	174,671	175,220	0%
Total liabilities and equity	**804,824**	**1,025,549**	**27%**

Net interest margin	9.4%	9.5%	1%
Cost to income ratio	63.7%	59.4%	-7%
RoE	7.3%	9.8%	34%
RoA	1.6%	1.7%	6%
Rough CAR	23.5%	18.2%	-22.7%
Loan/Deposit	88.3%	84.8%	-4.0%

Outlook, Valuation and Recommendation

In a bid to give it more scale and enable it to compete more favourably against the first tier banks, Access successfully submitted a plan to the CBN to take over one of the rescued banks, Intercontinental Bank, by way of a scheme of merger, which has subsequently been approved by both sets of shareholders.

This transaction will effectively leapfrog Access into the top 3-5 banks in Nigeria, giving it an additional 366 branches and a pool of cheap deposits that will reduce its relatively high cost of funds. The bigger scale should also allow Access to write larger ticket business, while non-interest income will benefit from the increased transactional volumes that a wide retail network will bring. As with any takeover/merger, risks will remain regarding how long it would take for synergies to have an impact on the bottom line, and of course to integrate the different cultures, people and processes.

The forecasts presented in the scheme IM suggest that the merger will be accretive for Access by FY2012.

Using a DCF valuation, we value Access Bank at ₦11.10 per share, without taking into account the acquisition. A PBV average based on the last published post-merger pro-forma accounts suggests a valuation of ₦10.21 per share. **BUY**.

First Bank Nigeria

Founded in 1894, First Bank of Nigeria Plc (FBN) is one of the largest banks in Nigeria and indeed in West Africa. With over 685 branches as at Q3 11, the group has one of the largest branch networks in Nigeria. In 2002, FBN established a wholly owned banking subsidiary in the United Kingdom, FBN Bank (UK) Limited. In 2007, FBN Bank (UK) set up its Paris office to serve as a marketing base to service francophone West Africa. FBN also has a representative office in South Africa and has obtained a licence to open a representative office in China. The group comprises 10 subsidiaries, spanning asset management, investment banking, capital markets, insurance, microfinance, private equity, mortgage and pension fund custodian services.

- One of Nigeria's original 'top tier' banks, FBN came through the CBN's audits unscathed in 2009, but suffered with the rest of the sector as the central bank issued new prudential guidelines.
- After a drop in earnings in FY2009 to ₦4.9bn, 2010 saw a recovery in performance, with attributable earnings closing at ₦33.4bn.
- The recovery has continued in 2011, with 9M earnings increasing by 31.79% to ₦42.9bn.
- By year end, we should have seen the conclusion of AMCON's NPL purchases from the market, which will also include FBN's exposure to Sea Wolf of c₦99bn. The group NPL ratio should thus continue to trend downwards going forward.
- The group announced the acquisition of 75% of Banque International de Credit, a bank in the DRC, as part of its SSA expansion strategy.
- Using a DCF valuation, we arrive at a target price for FBN of ₦17.48, representing 63.0% upside on its current share price of ₦10.70. As one of Nigeria's traditional 'top tier' banks, we expect FBN to remain a major player in the sector. **BUY**.

STRENGTHS	WEAKNESSES
Extensive branch network/deposit base Strong management/Branch Microlending to grow significantly	Relatively high cost of deposits - term Negative market sentiment toward banks Excess CBN provisions
OPPORTUNITIES	**THREATS**
Provision reversal FBN Microfinance Bank Aquisition of weakened banks	Counterparty risk; overregulation Higher borrowing costs Prolonged market slump

BLOOMBERG: FIRSTBAN : NL			BUY
Current price (₦)			10.70
Current price (US$)			0.07
Target price (₦)			17.48
Upside/Downside			63.41%
12 month High/Low (₦)			16.20; 7.94
Liquidity			
Market Cap (₦m)			349,163
Market Cap (US$m)			2,188.4
Shares (m)			32,632.1
Free Float (%)			26.0
Ave Monthly value traded (US$m)			1.5
Ave Monthly volume (m)			23.0
Share Price Performance			
6 months (%)			-20.8%
Relative change (%)*			12.4%
Relative change (%)**			206.7%
12 months			-13.6%
Relative change (%)*			188.8%
Relative change (%)**			365.6%
** Relative to NSE index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (₦)	1.02	1.34	2.23
DPS (₦)	0.51	0.67	1.11
NAV/Share (₦)	10.44	12.45	15.79
Net Interest Margin (%)	7.1%	7.1%	7.1%
FINANCIAL SUMMARY (₦m)	**2010**	**2011F**	**2012F**
Net interest income	121,462	147,414	202,837
Profit before tax	41,299	57,239	95,175
Attributable earnings	33,411	43,689	72,644
RATIOS			
RoAE	10.3%	11.7%	15.8%
RoAA	1.5%	1.7%	2.2%
Cost/Income Ratio (%)*	64.9%	61.3%	52.7%
Loans/Deposits (%)	78.8%	78.8%	78.8%
VALUATION RATIOS			
PBV (x)	1.0	0.9	0.7
PER (x)	10.5	8.0	4.8
Dividend Yield (%)	4.8%	6.3%	10.4%
Dividend payout ratio (%)	50.0%	50.0%	50.0%

***Pre provision for impaired advances

Figure 16: First Bank vs MSCI EM vs NSE Index

Q3 2011 Financial & Operational Review

The 9M results to 30 September 2011 have continued in the same vein as FY2010 in terms of improved earnings. Net interest income of ₦118.9bn was recorded, an increase of 32.73%. Margins went up to 8.1% (9M 10: 6.4% and H1 2011: 7.8%) during the period. Included in interest income was a reclassification of ₦10.2bn from non-interest income, relating to the writing back of suspended interest following AMCON sales.

Net fees and other income saw an even better performance, up 49.1% to ₦60.8bn, as the contribution of non-interest to interest income shifted to 33.8% from 31.3% at September 2010. This was driven by increased commission on turnover due to higher deposit volumes, increased transaction volumes and credit related fees, among other factors. Operating income thus increased by 37.9% to ₦179.7bn.

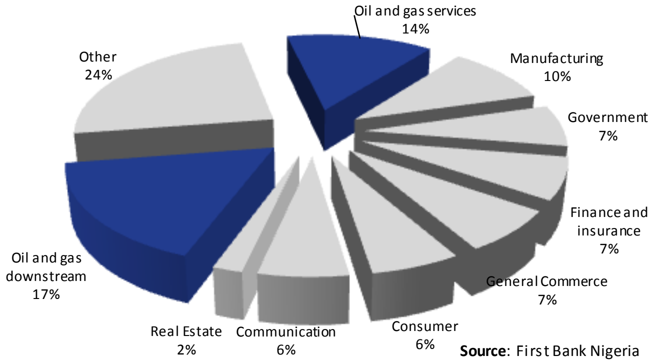
Operating expenses were up 27.6% to ₦107.1bn and the cost to income ratio improved to 59.6% from 64.4%. The provisioning charge was 4x higher y-o-y at ₦23.5bn, (₦14.4bn at the half year). There was a notable increase in provisions for other assets, up to ₦4.9bn from ₦600m at the half year, as the declining equity market led to large mark downs. PBT closed the period at ₦49.0bn, an increase of 20.4%, while attributable earnings were up 31.8% to ₦42.9bn.

The balance sheet shrank by 1.8% from the H1 position to ₦2.9tn, with net loans and advances up 11.3% to ₦1.3tn, while Treasury bill holdings were up 5.7x to ₦135.3bn and investments gained 44.9% to ₦510.8bn. On the liabilities side, deposits went up by 38.6% to ₦2.0tn, continuing to show strong growth. The reported NPL ratio improved to 4.7% from 5.8% y-o-y, but reflected a deterioration from the 3.8% as at H1 2011.

Outlook

The focus for FBN going forward will remain on lowering the cost of funds to boost net interest margins, increasing the contribution of non-interest income by pushing fees and commissions, getting the CIR to stay below 60% and measured loan and advances growth.

Figure 17: Loan distribution by sector at 30 Sept. 2011



Source: First Bank Nigeria

Income Statement (₦m)	Q3 2010	Q3 2011	% ch
Net interest income	89,584	118,905	33%
Other income	40,753	60,779	49%
Total Income	**130,337**	**179,684**	**38%**
Provisions	(5,704)	(23,544)	313%
Expenses	(83,930)	(107,123)	28%
Profit before tax	**40,703**	**49,017**	**20%**
Taxation	(8,141.0)	(6,127)	-25%
Attributable earnings	**32,562**	**42,915**	**32%**

Balance Sheet (₦m)	FY 2010	Q3 2011	% ch
Cash at central Bank	75,517	157,056	108%
Balances with banks	550,414	619,488	13%
Treasury Bills	23,763	135,265	469%
Loans & Advances	1,143,614	1,272,224	11%
Fixed Assets	53,986	57,619	7%
Other	457,964	619,782	35%
Total Assets	**2,305,258**	**2,861,434**	**24%**
Deposits	1,450,567	2,010,946	39%
Due to banks	148,286	139,561	-6%
Borrowed Funds	124,617	115,399	-7%
Other liabilities	241,162	273,711	13%
Shareholders' funds	340,626	321,817	-6%
Total liabilities and equity	**2,305,258**	**2,861,434**	**24%**

Net interest margin	7.0%	7.8%	12%
Cost to income ratio	64.4%	59.6%	-7%
RoE	12.7%	17.8%	39.5%
RoA	1.9%	2.0%	6.2%
Rough CAR	20.3%	15.4%	-23.9%
Loan/Deposit	78.8%	63.3%	-19.8%

Valuation and Recommendation

We estimate EPS of 153 kobo per share for FY2011, an increase of 49.8% on FY2010, with forecast RoAE and RoAA ratios of 15.6% and 2.1% respectively.

In the 9M results presentation, FBN indicated that negotiations were continuing for AMCON to buy its Sea Wolf loan, which was circa ₦99bn, and that a haircut of approximately 10% was expected.

The group also announced the acquisition of 75% of Banque International de Credit, a bank in the DRC in line with its SSA expansion strategy. While the growth prospects in that market cannot be argued against, anecdotal evidence suggests that that is one of the more difficult markets to invest in, both from an infrastructure deficit and political risk perspective, and thus makes an interesting choice as a first foray into SSA. We are not sure it is the right one, but according to the numbers presented by FBN, it is buying into a profitable business, with a net income of US$5m at FY2010, and total assets of US$198m, net loans of US$83m and deposits of US$163m. Equity was at US$21m, and management indicates it paid 2x book for the bank.

Using a DCF valuation, we arrive at a target price for FBN of ₦17.48, representing 63.0% upside on its current share price of ₦10.70. As one of Nigeria's traditional 'top tier' banks, we expect FBN to remain a major player in the sector. **BUY**.

First City Merchant Bank of Nigeria

First established as City Securities Ltd in 1977, First City Merchant Bank, was licensed in 1982, becoming the first local bank in Nigeria to be established without government support. In 2001, the bank changed its name from First City Merchant Bank to First City Monument Bank, FCMB, as it transformed into a universal bank. A private placement of shares raised over ₦7bn, followed by the conversion to a public liability company in 2004, whereupon it listed on the NSE. During the bank consolidation phase in the mid-2000s, FCMB acquired Cooperative Development Bank, Midas Bank and Nigerian American Bank (former Nigerian subsidiary of Bank Boston), and went from 26 branches to 150 branches by 2007. FCMB currently has a network of 149 branches and cash centres and 150 ATMs.

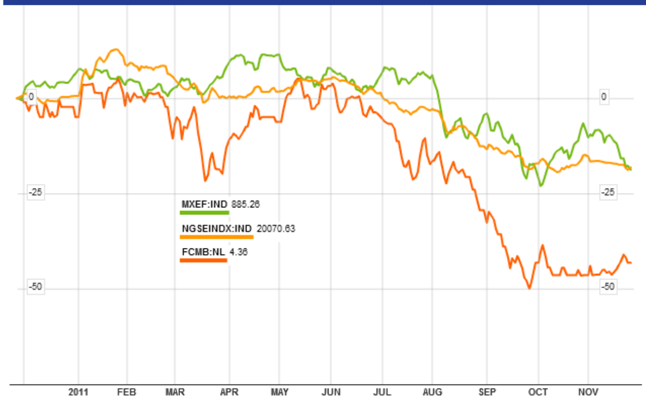
- FY2010 recorded a strong rebound in earnings, with the bottom line rising to ₦7.9bn from an annualised ₦847m in FY2009. The result was driven by non-funded income growth of 59.4% to ₦18.1bn, as net interest income actually declined during the year by 10.4% to ₦21.9bn, as well as an improved CIR and a net provision write back position.
- Contrastingly, it was the funded income line that drove revenues in the 9M 2011 results, up 40.6% on a net basis to ₦22.2bn, while non-interest income recorded an increase of 29.0%. The CIR further improved to 64.9% and attributable earnings closed the period at ₦7.9bn, up 72.8%.
- With its retail unit only just having broken even in Q3 2011, FCMB has sought to strengthen its position in the sector via the acquisition of one of the rescued banks, FinBank.
- Our DCF valuation for FCMB comes out at ₦9.56 per share, substantially above its current share price of ₦4.02. This is a pre-M&A valuation, and a coverage based PBV average based on the last published post-merger pro-forma accounts suggests a valuation of ₦7.99 per share. **BUY**.

STRENGTHS	WEAKNESSES
Diversified revenue stream	Contingent liabilities of merger
Strong investment and Corporate banking	Traditionally lower efficiencies
Technical partnership with Saber	Traditonal relianance on wholesale
Capital and Helios Inv. Partners	funding (albeit reducing post merger)
Low NPL ratio inc margin loans at 4.3%	
OPPORTUNITIES	**THREATS**
M&A with Finbank to introduce economies	Macro picture may shake if oil dips
of scale and cheap retail deposits	Euro-crisis will heighten costs of loans
Increase in branch and customer count	Increased competition with entry of new
via Finbank	banks
Dirt cheap valuation - significant upside	

BLOOMBERG: FCMB : NL			BUY
Current price (₦)			4.02
Current price (US$)			0.03
Target price (₦)			9.56
Upside/Downside			137.81%
12 month High/Low (₦)			8.70; 3.70
Liquidity			
Market Cap (₦m)			65,410
Market Cap (US$m)			410.0
Shares (m)			16,271
Free Float (%)			15.0
Ave Monthly value traded (US$m)			1.4
Ave Monthly volume (m)			55.0
Share Price Performance			
6 months (%)			-45.7%
Relative change (%)*			147.2%
Relative change (%)**			574.7%
12 months			-46.4%
Relative change (%)*			402.1%
Relative change (%)**			1483.8%
** Relative to NSE index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (₦)	0.49	0.74	1.11
DPS (₦)	0.35	0.53	0.80
NAV/Share (₦)	8.28	9.02	10.13
Net Interest Margin (%)	5.9%	5.9%	5.9%
FINANCIAL SUMMARY (₦m)			
Net interest income	21,934	26,120	31,646
Profit before tax	9,026	13,697	20,550
Attributable earnings	7,935	12,042	18,067
RATIOS			
RoAE	6.0%	8.6%	11.6%
RoAA	1.6%	2.0%	2.5%
Cost/Income Ratio (%)***	76.8%	71.8%	66.4%
Loans/Deposits (%)	97.6%	97.6%	97.6%
VALUATION RATIOS			
PBV (x)	0.5	0.4	0.4
PER (x)	8.2	5.4	3.6
Dividend Yield (%)	8.7%	13.2%	19.8%
Dividend payout ratio (%)	71.8%	71.8%	71.8%

***Pre provision for impaired advances

Figure 18: FCMB vs MSCI EM vs NSE Index



Q3 2011 Financial & Operational Review

FCMB's 9M 2011 results to September reflected a slowdown in impetus from both the FY2010 rates of growth, which would be expected however given the higher base effect, as well as relative to H1 2011. Interest income drove revenue growth, increasing by 40.6% on a net basis to ₦22.2bn. NIMs were marginally down to 6.8% compared with 6.9% at 9M 2010 and H1 2011.

Non-interest income recorded an increase of 29.0% to ₦15.6bn, hampered by a 15.9% fall in corporate finance fees as commissions went up by 95. 6% and other income by 82.7%. Operating income increased by 35.5% to ₦37.8bn y-o-y, and 5.8% q-o-q.

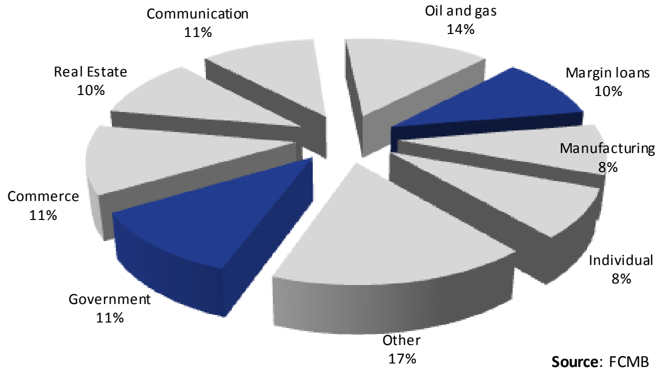
Operating expenses remained well shackled, up just 4.1% to ₦24.5bn, leading to a massive improvement in the CIR from 84.5% to 64.9% on a y-o-y comparison, while the improvement from H1 2011 was from 65.8%.

Y-o-y provisions went from a net ₦1.8bn written back to a charge of ₦3.4bn. The NPL ratio still improved, however, following further AMCON sales, to 4.3% from 5.5% at the year end. PBT went up by 62.0% y-o-y, with attributable earnings closing the period at ₦7.9bn, an increase of 72.8%.

Balance sheet growth was 3.8% from H1 2011, with total assets at ₦611.1bn. This was as a result of the AMCON sales diluted 4.6% increase in net loans and advances to ₦318.9bn, as well as the 14.3% increase in investment securities to ₦151.0bn. The group also noted that there was a deliberate move to boost off balance sheet activities (up 94.2% from FY2010 to ₦126.7bn) so as to limit the impact of the 0.3% AMCON levy which is based on total assets. There was further improvement in the NPL ratio, while the coverage ratio declined to 104% from 114% at H1. The group had exposure to Zenon, which was expected to be resolved in Q4, with FCMB anticipating a 25% haircut on its AMCON sale.

Customer deposits growth remained measured, up 11% to ₦371.0bn YTD, as the group maintained its strategy to realign the deposit mix towards lower cost current and savings accounts, the NIM effects of which would be fully felt in FY2012. The CAR ended the period at 30.5%, slightly lower than the 31% at FY2010 and H1 2011.

Figure 19: Loan distribution by sector at 30 Sept. 2011



Source: FCMB

Income Statement (₦m)	Q3 2010	Q3 2011	% ch
Net interest income	15,764	22,161	41%
Other income	12,101	15,602	29%
Operating Income	**27,865**	**37,763**	**36%**
Provisions	1,771	(3,375)	n/a
Expenses	(23,535)	(24,504)	4%
Profit before tax	**6,101**	**9,884**	**62%**
Taxation	(10,677)	(17,792)	67%
Attributable earnings	**4,576**	**7,908**	**73%**

Balance Sheet (₦m)	FY 2010	Q3 2011	% ch
Cash	93,307	99,904	7%
Treasury Bills	74,334	151,291	104%
Loans & Advances	330,421	321,835	-3%
Fixed Assets	20,065	19,556	-3%
Other	20,464	18,510	-10%
Total Assets	**538,591**	**611,096**	**13%**
Deposits	335,402	370,977	11%
Borrowed Funds	25,116	20,747	-17%
Other liabilities	43,302	82,389	90%
Shareholders' funds	134,771	136,983	2%
Total liabilities and equity	**538,591**	**611,096**	**13%**

Net interest margin	4.2%	5.2%	22%
Cost to income ratio	84.5%	64.9%	-23%
RoE	4.5%	7.7%	70.0%
RoA	1.1%	1.7%	52.3%
Rough CAR	30.3%	26.8%	-11.5%
NPL ratio	6.5%	4.3%	-33.8%
Loan/Deposit	98.5%	86.8%	-11.9%

Outlook

With its retail unit only just having broken even in Q3 2011, FCMB, like Access Bank and indeed ETI, has sought to strengthen its position in the sector via acquisition. The banking crisis led to an opportunity to acquire FinBank, a transaction which has now been approved by both sets of shareholders and regulators.

The positives arising from this merger for FCMB are clear. The most obvious will be the transformation of the bank's funding profile from a wholesale slant to retail, and the impact on reducing the cost of funds. The merger will immediately double FCMB's retail and commercial customer pool to c1.2m, create cross selling opportunities and of course, give it access to an increased branch network, going from 149 branches to 333.

Other positives include the increase in financial leverage by about 50%, cost synergies, a fall in the LDR to 64% from 85% Q3 2011, an improvement in the liquidity ratio to 86% from 54% as well as proceeds from any disposal of non-core subsidiaries of FinBank. With a maximum shareholder dilution of just 2% for FCMB expected to arise from the transaction, the deal is expected to be accretive very quickly for FCMB.

Valuation and Recommendation

Our pre-M&A DCF valuation for FCMB comes out at ₦9.56 per share, which is substantially above its current share price. The PBV average based on the published post-merger pro-forma accounts suggests a valuation of ₦7.99 per share. **BUY.**

Guaranty Trust Bank plc
RC 152321

EQUITY RESEARCH

NIGERIA

FEBRUARY 2012

Guaranty Trust Bank plc

Guaranty Trust Bank plc (GTB) was incorporated as a limited liability company licensed to provide commercial and other banking services to the Nigerian public in 1990. The bank commenced operations in February 1991, and in September 1996, became a publicly quoted company. GTB undertook its second share offering in 2004 and successfully raised over ₦11bn, ensuring it was satisfactorily poised to meet the ₦25bn minimum capital base for banks introduced by the CBN in 2005. In 2007, the bank became the first Nigerian financial institution to undertake a US$350m regulation S Eurobond issue and a US$750m London listed GDR Offer. In December 2009, GTB successfully completed the first tranche of its US$200m corporate bond. Along with the Nigerian operations, the bank has five offshore bank subsidiaries in the Gambia, Sierra Leone, Ghana, Liberia and in the UK. The group has a branch network of 186.

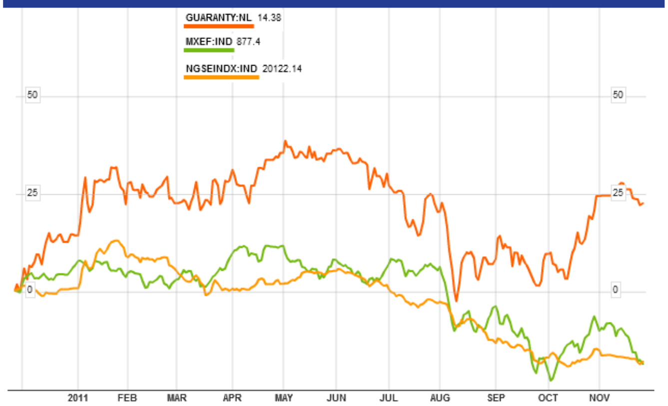
- One of our preferred picks in the sector, GTB continues to perform well with consistent performance indicators.
- After a relatively flat earnings growth performance in FY2009, attributable earnings for FY2010 were ₦38.9bn, up 36.0%. This was largely due to a fall in provisions, however, as a flat revenue performance and rising costs impeded operating income growth.
- Earnings for 9M 2011 closed the period at ₦40.5bn, an increase of 33.3%, boosted by extraordinary income.
- All Zenon related exposures were settled with AMCON by the H1 2011 results to June.
- Using a DCF valuation, we arrive at a target price for GTB of ₦17.38, representing 21% upside on its current share price of ₦14.26. GTB remains our number one pick in the sector. Forward earnings and dividend yields add weight to our recommendation, justifying its premium relative ratings. **BUY**.

STRENGTHS	WEAKNESSES
Strong balance sheet - high CAR Access to European capital markets Share price resilience vs market Strong deposit growth/strong brand	High NPL provisions on margin book Negative Market sentiment towards banking sector Zenon exposure (Amcon should resolve)
OPPORTUNITIES	**THREATS**
Aquisition/merger opportunities post CBN cleanup Focus on other segments of market and not only the high end.	Exchange risk on foreign liabilities Large oil and gas exposure Oil price shocks could affect loan book

BLOOMBERG: GUARANTY : NL			BUY
Current price (₦)			14.26
Current price (US$)			0.09
Target price (₦)			17.38
Upside/Downside			21.89%
12 month High/Low (₦)			16.79; 11.40
Liquidity			
Market Cap (₦m)			419,689
Market Cap (US$m)			2,630.5
Shares (m)			29,431.2
Free Float (%)			30.0
Ave Monthly value traded (US$m)			31.5
Ave Monthly volume (m)			352.0
Share Price Performance			
6 months (%)			-10.3%
Relative change (%)*			-44.6%
Relative change (%)**			51.3%
12 months			19.5%
Relative change (%)*			-27.2%
Relative change (%)**			-766.7%
** Relative to NSE index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (₦)	1.34	2.03	2.13
DPS (₦)	1.03	1.39	1.53
NAV/Share (₦)	7.28	7.69	8.14
Net Interest Margin (%)	11.6%	11.6%	11.6%
FINANCIAL SUMMARY (₦m)			
Net interest income	83,853	114,054	137,355
Profit before tax	47,568	64,058	70,811
Attributable earnings	39,320	52,951	58,533
RATIOS			
RoAE	19.3%	24.0%	25.1%
RoAA	3.5%	3.9%	3.4%
Cost/Income Ratio (%)***	51.5%	50.8%	54.3%
Loans/Deposits (%)	80.2%	80.2%	80.2%
VALUATION RATIOS			
PBV (x)	2.0	1.9	1.8
PER (x)	10.7	7.0	6.7
Dividend Yield (%)	7.2%	9.7%	10.8%
Dividend payout ratio (%)	77.2%	68.4%	72.1%

***Pre provision for impaired advances

Figure 20: GT Bank vs MSCI EM vs NSE Index



Q3 2011 Financial & Operational Review

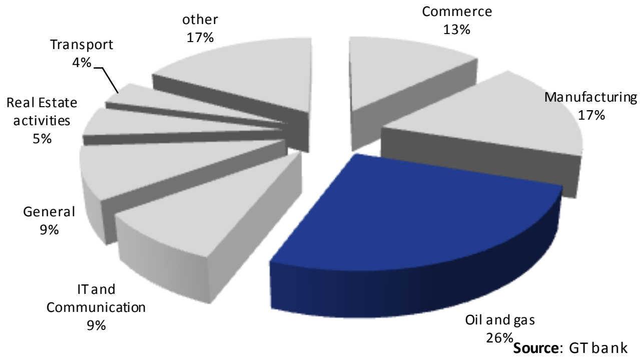
The 9M results to 30 September 2011 saw gross earnings for GTB up 15.5% to ₦138.4bn. Interest income increased by 10.9% to ₦94.1bn, while interest expense was 20.6% lower at ₦19.6bn. This led to net interest income gaining 23.8% to ₦74.5bn. Net fee and commission income growth was not far behind at 23.0% to ₦32.0bn. Net foreign exchange income was ₦5.7bn vs ₦3.5bn in 9M 2010, while income from investments was a quarter of the ₦4.1bn in the comparative period. After accounting for the ₦916m in underwriting income, total operating income came out at ₦114.2bn, an increase of 21.1%.

Operating expenses growth was contained to below our expectations, up just 4.6% to ₦53.7bn, yielding a cost to income ratio of 47.0% compared with 54.4% during the comparative period, and 47.4% at H1 2011. Loan loss expenses more than doubled to ₦11.0bn (9M 2010: ₦4.0bn) y-o-y, and were 36.9% up from H1 11's ₦8.0bn. Management had indicated at the half year that all AMCON related transactions for the group had been concluded, including GTB's Zenon exposure.

Profit before tax went up by 26.4% to ₦49.3bn, and attributable earnings closed the period at ₦40.5bn. The latter's 33.3% rise included an extraordinary income item of ₦2.2bn related to the disposal of the bank's holding in one of its Small and Medium Enterprises Equity Investment Scheme positions. EPS was 173 kobo while HEPS was 164 kobo.

Total assets grew 6.00% from the half year to ₦1.5tn. Net loans and advances increased at a greater pace during Q3, up 12.2% to ₦703.7bn, while Treasury bill holdings dropped by 18.0% and investment securities were 16.8% higher. The NPL ratio improved to 2.8%, this compared with 3.6% at 30 June. Deposit growth was 4.6% to ₦957.8bn, possibly reflecting limited appetite in a rising interest rate environment.

Figure 21: Loan distribution by sector at 30 June 2011



Source: GT bank

Income Statement (₦m)	Q3 2010	Q3 2011	% ch
Net interest income	60,176	74,485	24%
Non interest income	34,135	39,679	16%
Operating income	**94,311**	**114,164**	**21%**
Expenses	(51,297)	(53,664)	5%
Provisions	(4,045)	(11,169)	1.761
Profit before tax	38,969	49,331	27%
Taxation	(8,147)	(10,619)	30%
PAT	30,822	38,712	26%
Extraodinary items	0	2,229	n/a
Minority Interest	(420)	(416)	n/a
Attributable earnings	**30,402**	**40,525**	**33%**

Balance Sheet (₦m)	H1 2010	Q3 2011	% ch
Cash	71,426	74,445	4%
Balances with banks	296,110	317,568	7%
Securities	222,315	182,340	-18%
Loans & Advances	627,334	703,732	12%
Fixed Assets	52,908	54,578	3%
Other	134,619	156,350	16%
Total Assets	**1,404,712**	**1,489,013**	**6%**
Deposits	915,640	957,762	5%
Taxation	3,916	4,384	12%
Other liabilities	270,398	300,563	11%
Shareholders' funds	214,758	226,304	5%
Total liabilities and equity	**1,404,712**	**1,489,013**	**6%**

Net interest margin	7.0%	8.3%	18%
Cost to income ratio	54.4%	47.0%	-14%
RoE	18.9%	23.9%	26.5%
RoA	2.9%	3.6%	25.8%
Rough CAR	20.7%	20.6%	-0.4%
Loan/Deposit	68.5%	73.5%	7.2%

Outlook

GTB looks set to perform strongly in FY2011, driven by efficiencies on the income side, (low cost of funds and liquidity to take advantage of interest rate hikes), as well as on the expenses side, with the CIR target of below 50% likely to be attained.

Following the publication of the 9M results, we have revised our forecasts higher for FY2011, also adjusting for the extraordinary item recorded in Q3. We estimate diluted EPS to increase to 203 kobo (adjusted for an assumed 1 for 5 bonus issue), and dividend per share to be declared of 122 kobo, representing a pay-out ratio of 60%. These assumptions yield RoAE and RoAA ratios of 21.9% and 3.9% respectively.

Valuation and Recommendation

Using a DCF valuation, we arrive at a target price for GTB of ₦17.38, representing 21% upside on its current share price of ₦14.26. With its consistent history of solid profitability, backed by impressive asset management and cost containment skills, GTB remains our number one pick in the sector. Forward earnings and dividend yields add weight to our recommendation, justifying its premium relative ratings. **BUY**.

Stanbic IBTC Bank
A member of Standard Bank Group

Stanbic IBTC Bank plc

The Standard Bank Group of South Africa merged its Nigerian operations, Stanbic Bank Nigeria with that of IBTC Chartered Bank PLC in 2007. The merger, by way of the first ever tender offer in Nigeria led to US$525m in FDI and gave birth to a new entity now known as Stanbic IBTC Bank PLC (Stanbic IBTC) which became part of the Standard Bank Group (50.8% owned). StanbicIBTC through its wholly owned stock broking and asset management subsidiary, IBTC Asset Management Limited, manages several mutual funds, including the IBTC Nigerian Equity Fund, which is Nigeria's largest mutual fund. Traditionally strong as a corporate and investment bank, Stanbic IBTC continues to look at strengthening its position in the sector. The group's retail presence has grown since the merger, with 164 branches as at 9M 2011 from over 60 branches in 2007.

- A difficult year for the banking sector was compounded further for Stanbic IBTC given its significant capital markets business as the NSE remained in the doldrums.
- 2010 experienced a solid recovery as the group aggressively increased its risk assets while also working to improve its funding mix. Along with a notable decline in provision charges, this led to attributable earnings growth of 15.1% to ₦8.8bn.
- For 9M 2011, bottom line earnings momentum declined compared with FY2010, up 6.5% to ₦7.2bn, due to increased provisioning and the impact of the ongoing branch rollout on costs.
- Stanbic IBTC's traditional corporate and investment banking bias will continue to weigh on its performance in the short to medium term, while it works to realign its funding mix. RoAE continues to lag many of its peers, while relative PER and PBV ratios are the highest in the sector. We value the group at ₦5.33 and see downside to the current price. **SELL.**

STRENGTHS	WEAKNESSES
Well capitalised, improving NPLs at 6.2% Strong brand name, access to intnl capital Deposits up 22% at interim date US$4.2bn AUM, 80% being pensions Growing netwrok - 164 branches at Q3	Relatively high cost of funding and high dependence on interbank market High cost to income ration as bank increases penetration levels
OPPORTUNITIES	**THREATS**
Continued growth in maket share Launch of US$200m Private Equity Fund Deepening of bond market Growth of retail infrastructure Recovery in NSE and investment banking	Future oil price shocks will affect Naira Regulatory inconsistencies; although improving now. Stiff competition

BLOOMBERG: IBTCCB : NL			SELL
Current price (₦)			7.06
Current price (US$)			0.04
Target price (₦)			5.33
Upside/Downside			-24.46%
12 month High/Low (₦)			10.46; 4.27
Liquidity			
Market Cap (₦m)			132,375.0
Market Cap (US$m)			829.7
Shares (m)			18,750.0
Free Float (%)			24.1
Ave Monthly value traded (US$m)			4.9
Ave Monthly volume (m)			110.0
Share Price Performance			
6 months (%)			14.8%
Relative change (%)*			-180.0%
Relative change (%)**			-318.2%
12 months			-29.2%
Relative change (%)*			290.1%
Relative change (%)**			896.3%
** Relative to NSE index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (₦)	0.50	0.51	0.67
DPS (₦)	0.39	0.47	0.62
NAV/Share (₦)	4.47	4.56	4.69
Net Interest Margin (%)	9.3%	8.3%	8.3%
FINANCIAL SUMMARY (₦m)			
Net interest income	26,370	30,664	36,210
Profit before tax	13,528	16,371	21,402
Attributable earnings	8,802	10,652	13,925
RATIOS			
RoAE	11.5%	13.5%	17.2%
RoAA	2.6%	2.6%	2.7%
Cost/Income Ratio (%)***	70.2%	70.1%	69.3%
Loans/Deposits (%)	95.2%	95.2%	95.2%
VALUATION RATIOS			
PBV (x)	1.6	1.5	1.5
PER (x)	14.0	13.8	10.6
Dividend Yield (%)	5.5%	6.7%	8.7%
Dividend payout ratio (%)	77.3%	92.5%	92.5%

***Pre provision for impaired advances

Figure 22: Stanbic IBTC vs MSCI EM vs NSE Index

Q3 2011 Financial & Operational Review

Stanbic IBTC's 9M 2011 results to 30 September recorded a gross earnings increase of 20.6% to ₦49.6bn. Interest income increased by 11.9% to ₦29.1bn, while interest expense gained 12.8% to ₦6.4bn, leading to an 11.7% rise in net interest income to ₦22.7bn. With the CBN tightening its monetary policy and increased competition for lending, NIMs fell to 6.2% from 6.9% y-o-y (7.0% at the H1 2011).

Net fee and commission income growth was a lot more positive at 21.6% to ₦15.6bn while foreign exchange income was 127.0% higher at ₦4.2bn. Total non-interest income was up 36.3% to ₦20.2bn, and operating income gained 22.0% to ₦43.0bn.

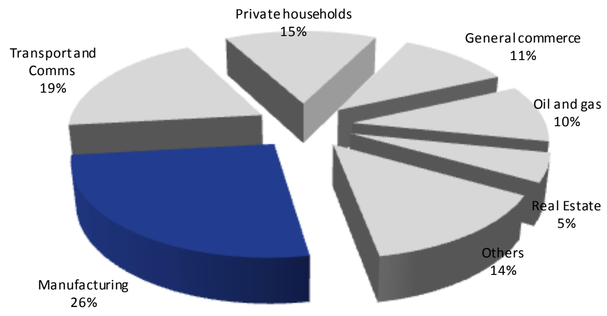
Operating expenses remained under pressure as the branch expansion continued, (another 23 branches were added during the 9M period), the result of which was a cost increase of 24.4% to ₦30.8bn. Depreciation also played a role, up 21.6%, as did the advent of the AMCON levy. The cost to income ratio deteriorated marginally to 71.8% compared with 70.4% y-o-y but was much improved from 75.2% at H1 2011. Loan loss expenses were up 3x y-o-y to ₦1.2bn from ₦370.0m.

PBT growth was diluted from the top line because of the increases in provisions and expenses to 9.2%, closing at ₦11.0bn, and attributable earnings ended the period 10% higher at ₦7.9bn.

Total assets were up 27% YTD to ₦488.8bn, driven by the increase in loans and advances, with loans up 31% to ₦215.5bn. Treasury bill holdings more than doubled, up 119% to ₦27.2bn. The NPL ratio improved further to 6.2% from 6.3% at H1 2011. The top 4 group NPLs represented 69% of the total, with the highest single contributor representing 56% of the total. Imminent resolution of that particular NPL is expected.

YTD, deposits grew by 22% to ₦228.1bn, as the continued exit from more expensive deposit positions was offset by the growing branch network. This was reflected in the positive shift in the deposit mix, with the lower cost demand/savings/domiciliary deposits now 68% of total deposits compared with 55% at both FY2010 and H1 2011. The CAR at the end of the 9M period was down to 23.2%.

Figure 23: Loan distribution by sector at 30 Sep 2011



Source: IBTC

Income Statement (₦m)	Q3 2010	Q3 2011	% ch
Net interest income	20,359	22,732	12%
Non-interest income	14,839	20,222	36%
Operating income	**35,198**	**42,954**	**22%**
Opererating expenses	(24,775)	(30,828)	24%
Provisions	(370)	(1,151)	211%
Profit before tax	10,053	10,975	9%
Attributable earnings	**7,181**	**7,882**	**10%**

Balance Sheet (₦m)	FY 2010	Q3 2011	% ch
Cash	10,048	13,127	31%
Balances with banks	88,659	86,910	-2%
Treasury bills	12,428	27,235	119%
Loans & Advances	163,952	215,454	31%
Fixed Assets	31,252	29,787	-5%
Other	77,913	116,238	49%
Total Assets	**384,252**	**488,751**	**27%**
Deposits	186,466	228,147	22%
Due to banks	56,152	86,438	54%
Borrowed Funds	18,272	23,333	28%
Other liabilities	34,220	60,751	78%
Shareholders' funds	83,750	83,519	0%
Total liabilities and equity	**384,252**	**488,751**	**27%**

Net interest margin	10.2%	9.2%	-10%
Cost to income ratio	70.4%	71.8%	2%
RoE	11.4%	12.6%	10.1%
RoA	2.5%	2.2%	-13.7%
Rough CAR	29.3%	21.5%	-26.7%
Loan/Deposit	87.9%	94.4%	7.4%

Outlook

We expect a relatively flat earnings performance for Stanbic IBTC in FY2011, although ahead of the previous year courtesy of improved net interest margins given the monetary tightening and rise in MPR during H2 and a better deposit mix, steady growth in non-interest income as well as a declining CIR. We forecast earnings per share of 61 kobo per share, and a dividend per share of 47 kobo. Our +1 RoAE and RoAE numbers come out at 14% and 2.6% respectively. We see earnings momentum picking up in 2012 and beyond, however, as the benefits of increased scale begin to manifest. To truly position itself amongst the top banks, we think Stanbic IBTC may have to look at merging with/acquiring another player in the sector.

Valuation and Recommendation

While aggressively pursuing its retail expansion strategy, which should bear dividends in the longer term, Stanbic IBTC's traditional corporate and investment banking and asset management bias will continue to weigh on its performance in the short to medium term. RoAE continues to lag many of its peers, while relative PER and PBV ratios are the highest in the sector. We value the group at ₦5.33, indicating no justifiable upside on an intrinsic basis. **SELL.**

EQUITY RESEARCH

NIGERIA

FEBRUARY 2012

United Bank for Africa plc

United Bank for Africa Plc (UBA), is the product of the merger of what were at the time Nigeria's third and fifth largest banks, the old UBA and the Standard Trust Bank Plc, respectively, and a subsequent acquisition of Continental Trust Bank Limited. Following Nigeria's independence from Britain, UBA was originally incorporated in 1961. Today, UBA is one of Africa's largest home grown financial institutions, offering universal banking to more than 7.2m customers across 726 branches in 18 African countries, as well as having a presence in the USA, the UK and France.

- UBA's recovery lagged many of its contemporaries in the sector in FY2010 following the challenges of FY2009, as falling net interest income and losses on AMCON sales led to attributable earnings decreasing to ₦668.0m from an annualised ₦1.7bn in FY2009.
- In 9M 2011, the group continued to underperform, with PBT and exceptional items down 28.0% to ₦12.1bn, while attributable earnings growth of 91.3% was boosted by a lower effective tax rate.
- The pan-African expansion has weighed down on performance over the years (ex-Nigeria African operations had a CIR of 88% as at the 9M period compared with 79% for the group), expectedly, but the tide seemed to have turned, with 9M 2011 revealing a positive PBT number for the first time, of ₦706m compared with a loss of ₦2.9bn at FY2010.
- In our December Nigerian bank's note, we valued UBA at ₦7.04, with 2011 earnings estimated at ₦13.6bn, which the Zenon loss alone wipes out. Given the recent developments, we are currently revising our models and will be amending the presented forecasts. We thus revise our recommendation from **HOLD to UNDER REVIEW**, although given the levels it has dropped to there is no doubt some speculative value in the share now.

STRENGTHS	WEAKNESSES
Largest branch/ATM network in Nigeria Regional presence in 19 countries Diversified income stream Tier 1 bank with US$9.6bn in deposits Low cost deposits	Low profitablity ratios High cost base Inefficient asset mix
OPPORTUNITIES	**THREATS**
Development of the gas sector Regional revenues growing Acquisition/market share growth Consolidation of SSA operations Growth in regional trade	Future oil price shocks Naira weakness Prolonged SSA gestation period

BLOOMBERG: UBA : NL			UNDER REVIEW
Current price (₦)			1.84
Current price (US$)			0.01
Target price (₦)			n/a
Upside/Downside			n/a
12 month High/Low (₦)			9.43; 2.42
Liquidity			
Market Cap (₦m)			47,312
Market Cap (US$m)			296.5
Shares (m)			25,713.0
Free Float (%)			78.0
Ave Monthly value traded (US$m)			10.1
Ave Monthly volume (m)			880.0
Share Price Performance			
6 months (%)			-69.7%
Relative change (%)*			276.8%
Relative change (%)**			928.4%
12 months			-74.0%
Relative change (%)*			581.9%
Relative change (%)**			2426.3%
** Relative to NSE index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (₦)	0.03	0.52	0.88
DPS (₦)	0.02	0.33	0.55
NAV/Share (₦)	6.9	7.1	7.4
Net Interest Margin (%)	7.5%	7.2%	7.2%
FINANCIAL SUMMARY (₦m)			
Net interest income	70,776	76,527	92,540
Profit before tax	15,885	16,076	26,842
Attributable earnings	668	13,494	22,532
RATIOS			
RoAE	0.4%	7.5%	12.1%
RoAA	0.04%	0.8%	1.1%
Cost/Income Ratio (%)***	75.3%	74.8%	70.0%
Loans/Deposits (%)	49.6%	49.6%	49.6%
VALUATION RATIOS			
PBV (x)	0.3	0.3	0.2
PER (x)	70.8	3.5	2.1
Dividend Yield (%)	0.9%	18.0%	30.0%
Dividend payout ratio (%)	63.0%	63.0%	63.0%

***Pre provision for impaired advances

Figure 24: UBA Bank vs MSCI EM vs NSE Index

Q3 2011 Financial & Operational Review

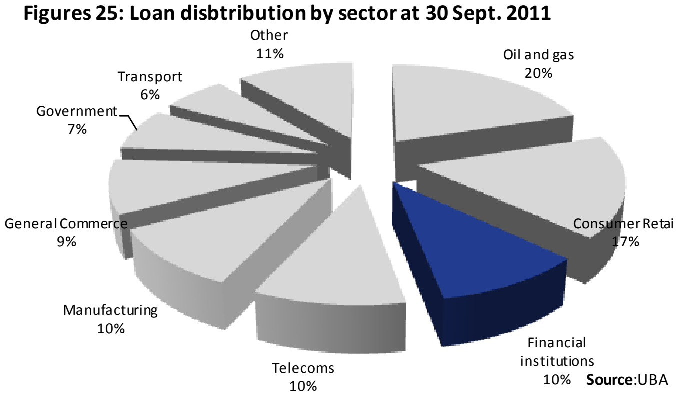
Interest income remained under pressure in UBA's 9M 2011 results, down 5.8% gross, but with interest expense falling by a higher margin of 17.2%, net interest income gained 2.7% to ₦56.1bn. Despite rising interest rates, the NIMs fell to 4.6% from 5.1% y-o-y, but were flat compared with H1 2011. The disappointing performance was attributed to a "transmission lag effect" on earning assets yields. The group's earning asset mix appears to still have some inefficiencies carried over from FY2010.

Non-interest income fared marginally better, up 4.6% to ₦43.5bn. This was driven by increases in commissions and fees, transaction volumes and the performance of UBA's remittance products. Operating income increased by 3.5% to ₦99.6bn. The ex-Nigeria operations contributed 20% to operating income, up from 19% at H1 2011. Operating expenses reversed the interim results trend, increasing by 7.3% to ₦78.9bn, resulting in a deterioration in the cost to income ratio to 79.3% compared to 77.2% at H1 2011 and 76.5% at 9M 2010.

Provision charges of ₦8.7bn reflected a 53.1% rise y-o-y, as the mandatory 1% general provision came into effect, and seemingly high provisioning in the other African countries. Associate and JV share of profits was ₦252.0m from a loss of ₦75m in 9M 2010. Without the non-recurring exceptional losses of ₦5.3bn from the comparative period, PBT increased by 4.8% to ₦12.1bn. (Pre-exceptionals PBT was actually down 28.0%, however). A lower effective tax rate saw attributable earnings close at ₦11.1bn, up 91.3%. Ex-Nigeria subsidiaries turned profitable, contributing ₦706.0m to PBT, against losses of ₦2.9bn in FY 2010.

The balance sheet grew 11.4% from H1 2011 to ₦2.0tn. Net loans and advances shrunk by 1.5% during the quarter to end the 9M at ₦705.3bn. Loan growth would have been higher (+23%), were it not for ₦88.0bn in sales to AMCON. The group NPL ratio improved to 6.0% (Nigeria 3.8%) from 10.8% at H1 2011. Contrastingly, deposits and managed funds were 6.0% higher to ₦1.5tn. Gross LDR ended the period at 49.3% against 53.6% at H1, while the CAR increased in sympathy to 20.0% (H1 11: 17.0%). 13.7% of net loans and 16.0% of deposits were from Africa outside Nigeria.

Figures 25: Loan disbtribution by sector at 30 Sept. 2011



Source:UBA

Income Statement (₦m)	Q3 2010	Q3 2011	% ch
Net interest income	54,612	56,064	3%
Other income	41,587	43,505	5%
Operating income	**96,199.0**	**99,569.0**	4%
Operating expeneses	(73,545)	(78,934)	7%
Provisions	(5,711)	(8,744)	53%
Profit before tax	16,868	12,143	-28%
Exceptional item	(5,280)	-	n/a
Attributable earnings	**5,820**	**11,133**	**91%**

Balance Sheet (₦m)	Q3 2010	Q3 2011	% ch
Balances with banks	79,117	201,148	154%
Treasury Bills	402,514	302,045	-25%
Loans & Advances	275,870	506,903	84%
Investment securities	636,174	705,289	11%
Fixed Assets	67,607	60,475	-11%
Other assets	203,537	249,519	23%
Total Assets	**1,664,819**	**2,025,379**	**22%**
Deposits	1,346,760	1,537,885	14%
Other liabilities	128,296	105,771	-18%
Borrowings	-	187,917	n/a
Shareholders' funds	189,763	193,806	2%
Total liabilities and equity	**1,664,819**	**2,025,379**	**22%**

Net interest margin	7.3%	5.7%	-22%
Cost to income ratio	76.5%	79.3%	4%
RoE	4.1%	7.7%	87%
RoA	0.5%	0.7%	57%
Rough CAR	12.0%	10.6%	-11.2%
Loan/Deposit	20.5%	33.0%	60.9%

Outlook

UBA issued an unexpected profit warning for FY2011. It now expects to report a loss driven primarily by "write-offs against earnings including write-offs from disposal of loans to AMCON, with the Zenon write-off of ₦15bn being the largest, while there were also losses from long term trading contracts that were prematurely liquidated".

This announcement is disappointing, as no indications of losses of this quantum were given at the 9M results announcement. UBA has continued to underperform its peers since the banking sector reforms began, and this will only add to investor scepticism about its immediate outlook. In announcing the profit warning, UBA also came out with a relatively bullish Q1 12 forecast, reflecting PAT of ₦12.1bn, earnings momentum which it expects to maintain driven by an increased LDR, treasury business, improved margins, lower CIR, better risk management and continued growth in the profitability of the rest of Africa businesses, amongst others. The bank also announced that it had suspended its equity capital raising plans due to market conditions.

Valuation and Recommendation

In our December Nigerian bank's note, we valued UBA at ₦7.04, with 2012 earnings estimated at ₦13.6bn, which the Zenon loss alone wipes out. Given the recent developments, we are currently revising our models and will be amending the presented forecasts. We thus revise our recommendation from **HOLD** to **UNDER REVIEW**.

Zenith Bank plc

The bank was incorporated on 30 May 1990 as Zenith International Bank Limited, as a private limited company, and was licensed to carry on the business of banking in June 1990. The bank changed name to Zenith Bank Plc on 20 May 2004, and its shares were listed on the NSE on 21 October 2004. The group now has operations not only in Nigeria, but also in Ghana, the UK, Sierra Leone, the Gambia and a rep office in South Africa. The group has a network of 315 branches.

- Driven by a reduction in the net provision charge and a lower tax rate, Zenith saw attributable earnings more than double in FY2010 to ₦37.4bn compared with the annualised FY2009 results.
- That earnings momentum was not sustained through 9M 2011, however, as this time higher provisions as well as cost pressures led to attributable earnings growth of a still impressive 37.9% to ₦42.5bn.
- The 'rest of Africa' operations continued to be a positive contributor to the bottom line on a net basis.
- Zenith should have concluded any sales to AMCON by 31st October 2011 in line with the target set by the 'bad bank'. Its main exposure requiring to be purged was to Zenon. Zenith participated in the NPL sale to AMCON in H1 to the tune of ₦37bn, for which the bank received ₦17bn in AMCON bonds, while ₦35bn in write backs/recoveries was recorded. The NPL ratio remained below 4% and is expected to remain at current levels going forward.
- The group remains very liquid, with a relatively low LDR. With the MPR rate having risen in in H2, we expect Zenith to benefit through improved NIMs. The LDR at 56.6% also provides a lot of room for risk asset growth going forward.
- Using a DCF valuation, we arrive at a target price for Zenith Bank of ₦17.83, representing 45% upside on its current share price of ₦12.28. After GTB, this is our second favourite pick in the sector. **BUY.**

STRENGTHS	WEAKNESSES
Top tier bank, superior performance Relatively efficient branch network Lowest NPL's in sector at 3.6% Solid balance sheet, high liquidity Selection regional forays profitable	Overconservative LDR at 57%? Zenon loan exposure - to be resolved via AMCON
OPPORTUNITIES	**THREATS**
Room to expand loans, low LDR Continued real growth in BS Cautious expansion regionally	Mid tier M&A activity to increase competition Macro-volatility linked to commodities fluctuations

EQUITY RESEARCH

NIGERIA

FEBRUARY 2012

BLOOMBERG: ZENITHBA : NL			**BUY**
Current price (₦)			12.28
Current price (US$)			0.08
Target price (₦)			17.83
Upside/Downside			45.18%
12 month High/Low (₦)			16.99; 11.30
Liquidity			
Market Cap (₦m)			385,549
Market Cap (US$m)			2,416.5
Shares (m)			31,396.5
Free Float (%)			85.5
Ave Monthly value traded (US$m)			25.4
Ave Monthly volume (m)			330.0
Share Price Performance			
6 months (%)			-19.7%
Relative change (%)*			6.7%
Relative change (%)**			191.1%
12 months			-10.8%
Relative change (%)*			170.0%
Relative change (%)**			267.1%
** Relative to NSE index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (₦)	1.19	1.79	2.22
DPS (₦)	0.02	0.33	0.55
NAV/Share (₦)	11.51	13.09	15.18
Net Interest Margin (%)	6.1%	6.1%	6.1%
FINANCIAL SUMMARY (₦m)			
Net interest income	91,546	109,855	131,826
Profit before tax	50,026	66,699	87,507
Attributable earnings	37,414	49,884	65,445
RATIOS			
RoAE	10.7%	12.9%	14.7%
RoAA	2.1%	2.4%	2.6%
Cost/Income Ratio (%)***	64.3%	60.4%	56.7%
Loans/Deposits (%)	56.8%	56.8%	56.8%
VALUATION RATIOS			
PBV (x)	1.1	0.9	0.8
PER (x)	10.3	6.9	5.5
Dividend Yield (%)	0.1%	2.7%	4.5%
Dividend payout ratio (%)	1.4%	18.5%	24.9%

***Pre provision for impaired advances

Figure 26: Zenith Bank vs MSCI EM vs NSE Index

Q3 2011 Financial & Operational Review

For the 9M results to 30 September 2011, gross earnings were up 31.1% to ₦183.0bn. Both net interest income (up 48.9% to ₦94.0bn) and non-interest income (up 33.6% to ₦58.2bn) showed an impressive growth trajectory. The growth in net interest income was particularly impressive as income went up 29.7% against a decline in the interest expense of 11.7%. This led to an improvement in NIMs to 10.5% from 7.5% at H1 2011 and 6.0% at year end. Fees and commissions income made up the bulk of the non-funded income at 78.4% and were mainly responsible for the increase in that line item.

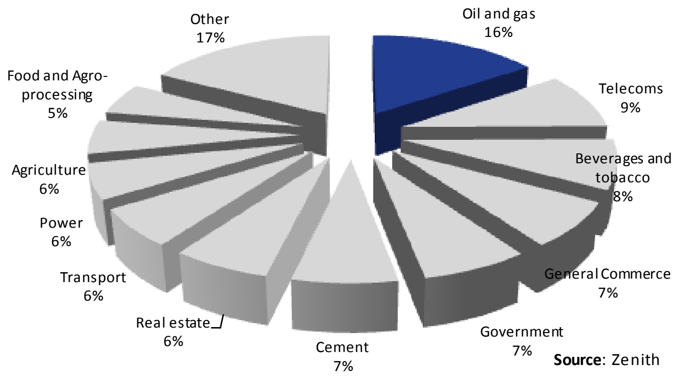
Operating income increased by 42.6% to ₦152.1bn, but that notable growth rate was overshadowed by the 44.2% increase in operating expenses to ₦94.8bn. This led to the cost to income ratio declining to 63.5% against 62.7% in the comparative period, continuing the trend from the half year, where inflation and mandatory provisions were cited as the main contributors to the deterioration of the ratio.

The provisioning charge was 3.5x higher y-o-y at ₦7.2bn, (₦5.4bn at the half year). The higher costs diluted PBT growth to 28.03%, but a lower effective tax rate reversed that impact with attributable earnings up 37.91% to ₦42.5bn.

The bulk of the group's earnings, 95.45%, came from the Nigeria operations, with the 'Rest of Africa' contributing ₦1.2bn (9M 2010: ₦1.2bn) and Europe ₦712.0m against ₦426.0m in 9M 2010.

The balance sheet grew by 7.3% from the H1 2011 position to ₦2.2tn. Net loans and advances were up 5.8% to ₦839.9bn, while deposits were up at a slightly higher pace of 6.9% to ₦1.5tn. The published NPL ratio showed a 30bp deterioration to 3.6% compared with 3.3% at the interim stage, but was almost half the 6.4% ratio at FY 2010. The loan to deposit ratio increased slightly to 56.6% from 56.0% at H1 2011. Rising yields on treasury bills were reflected in the 23.1% increase in Treasury bill holdings to ₦442.9bn. The CAR remained well above regulatory requirements at 28.5% (H1 2011: 28%).

Figures 27: Loan distribution by sector at 30 June 2011



Source: Zenith

Income Statement (₦m)	Q3 2010	Q3 2011	% ch
Net interest income	63,161	94,015	49%
Other income	43,520	58,178	34%
Total Income	**106,681**	**152,193**	**43%**
Provisions	(2,041)	(7,225)	254%
Expenses	(65,481)	(94,834)	45%
Profit before tax	39,159	50,134	28%
Attributable earnings	31,130	42,950	**38%**

Balance Sheet (₦m)	FY 2010	Q3 2011	% ch
Cash at central Bank	141,724	114,100	-19%
Long term investment	210,345	258,066	23%
Balances with banks	399,503	376,151	-6%
Treasury bills	298,869	442,944	48%
Loans & Advances	713,285	839,863	18%
Fixed Assets	67,145	69,847	4%
Other	64,156	103,077	61%
Total Assets	**1,895,027**	**2,204,048**	**16%**
Deposits	1,318,072	1,545,114	17%
On-lending facilities	26,049	43,966	69%
Borrowed Funds	27,975	23,111	-17%
Other liabilities	159,370	214,026	34%
Shareholders' funds	363,561	377,831	4%
Total liabilities and equity	**1,895,027**	**2,204,048**	**16%**

Net interest margin	6.0%	7.6%	26.7%
Cost to income ratio	61.4%	62.3%	1.5%
RoE	11.4%	15.2%	32.8%
RoA	2.2%	2.6%	18.6%
Rough CAR	31.8%	26.0%	-18.4%
Loan/Deposit	54.1%	54.4%	0.4%

Outlook

Zenith will continue to focus on competing for market share, but focused on the very competitive top end of the corporate market, the strategy being to fund high quality assets with cheap retail deposits. It will also maintain its technologically driven bias, as well as look for more opportunities for entering new markets and further diversifying its product and geographical mix. Cost containment is another facet the group will focus on as it aims to keep driving down its CIR. The bank is also expected to have completed its AMCON sales as per the deadline set by AMCON of 31 October, largely related to its exposure to Zenon.

We expect Zenith to more or less maintain the same momentum in earnings as shown at the 9M results, with an improved performance into 2012 buoyed by improved margins, an increase in risk assets,

Valuation and Recommendation

Using a DCF valuation, we arrive at a target price for Zenith Bank of ₦17.83, representing 45% upside on its current share price of ₦12.28. After GTB, this is our second favourite pick in the sector. **BUY.**

Ecobank Transnational Incorporated (ETI)

Headquartered in Togo, ETI, a public limited liability company, was established as a bank holding company in 1985 under a private sector initiative spearheaded by the Federation of West African Chambers of Commerce and Industry with the support of ECOWAS, in a bid to try and break the dominance of foreign and state owned banks in West Africa. ETI commenced operations with its first subsidiary in Togo in March 1988. Today, ETI is a full-service regional banking institution employing over 10,000 staff in 755 branches and offices in 33 countries, making it the pre-eminent play on the banking sector in Africa.

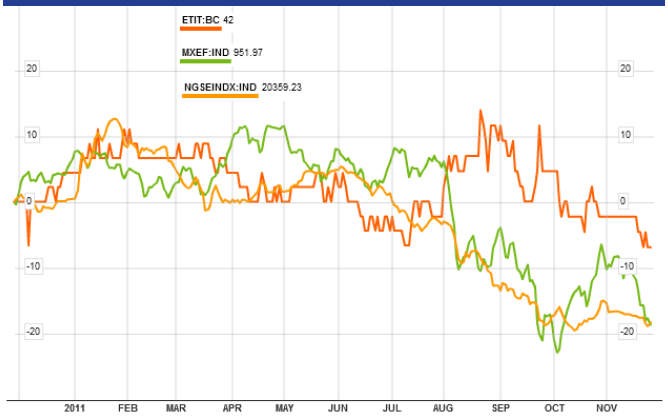
- A difficult year for Ecobank Nigeria in 2009, in line with the broader industry, which saw it record a loss before tax of US$16.6m, as well as losses by the southern Africa cluster, led to attributable earnings declining by 45.8% to US$51.1m for the group.
- In its 9M 2011 results to September, net interest income put on 16.2% as NIMs improved to US$399.0m. Net fees and commissions went up by 45.2%, while net trading income also recorded strong growth of 64.8%. The CIR improved to 67.9% from 70.7%, and despite an increase in provision charges of 26.7% y-o-y to US$80.4m, attributable earnings closed the period at US$106.6m, up 51.9%.
- Nigeria has been an Achilles heel for ETI, where it has not really gained enough scale. To address this, ETI has taken over one of the rescued banks, Oceanic, which will substantially boost its market position.
- Entry into Angola, Zimbabwe and Tanzania expands the African footprint to 33.
- Pre-Oceanic, we value ETI, based on a DCF valuation, at 12.4 USc per share, representing upside of 99% against the 6.20 USc it currently trades at on its most liquid listing in Nigeria. A coverage based PBV average based on the last published post-merger pro-forma accounts suggests a valuation of 10.3 USc per share. **BUY.**

STRENGTHS	WEAKNESSES
Pan African presence: now 33 countries Expansive branch network: 755 branches Strong brand and balance sheet Good corp. gov. cross-border synergies Weak correlation across countries	Local currency weakness; commodity shocks Low efficiency ratios; faster capital erosion Need to focus on consolidation as opposed to aggressive expansion for its sake Too big/complex??
OPPORTUNITIES	**THREATS**
Immature subsidiries going into the black New frontier markets eg Angola, Zimbabwe Strategic alliance with Nedbank Rapidtranfer money trf service growth Nigerian operation back on track	Continued stiff competition Persistent need for new capital

BLOOMBERG: ETI : NL			BUY
Current price (₦)			9.90
Current price (US$)			0.06
Target price (₦)			19.73
Upside/Downside			99.27%
12 month High/Low (₦)			50.00; 37.00
Liquidity			
Market Cap (XOFm)			122,779.8
Market Cap (US$m)			769.5
Shares (m)			12,402.0
Free Float (%)			20.0
Ave Monthly value traded (US$m)			0.4
Ave Monthly volume (m)			7.0
Share Price Performance			
6 months (%)			-82.3%
Relative change (%)*			344.8%
Relative change (%)**			1114.0%
12 months			-92.1%
Relative change (%)*			699.6%
Relative change (%)**			3043.1%
** Relative to NSE index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (US$)	0.0091	0.0120	0.0198
DPS (XOF)	0.0040	0.0059	0.0062
NAV/Share (XOF)	46.16	52.80	59.79
Net Interest Margin (%)	6.7%	6.7%	6.7%
FINANCIAL SUMMARY (US$m)			
Net interest income	474.8	522.6	559.5
Profit before tax	169.0	248.2	261.3
Attributable earnings	112.7	165.5	174.2
RATIOS			
RoAE	9.9%	13.4%	12.4%
RoAA	1.3%	1.7%	1.6%
Cost/Income Ratio (%)***	69.1%	65.8%	66.6%
Loans/Deposits (%)	66.4%	66.4%	66.4%
VALUATION RATIOS			
PBV (x)	0.21	0.19	0.17
PER (x)	6.8	5.2	3.1
Dividend Yield (%)	6.4%	9.5%	10.0%
Dividend payout ratio (%)	44.0%	48.9%	31.2%

***Pre provision for impaired advances

Figure 28: Ecobank vs MSCI EM vs NSE Index



Q3 2011 Financial & Operational Review

In its 9M 2011 results to September, ETI continued to gain from margin improvements as net interest income put on 16.2% to US$399.0m, with NIMs up 60bp y-o-y and 30bp compared to H1 2011, to 6.2%. Net fees and commissions went up by 45.2% to US$263.3m. While lease, dividend and other operating income were down y-o-y, their drop was more than compensated for by the 64.8% increase in net trading income to US$131.6m. Operating income for the period was up 29.9% to US$804.3m.

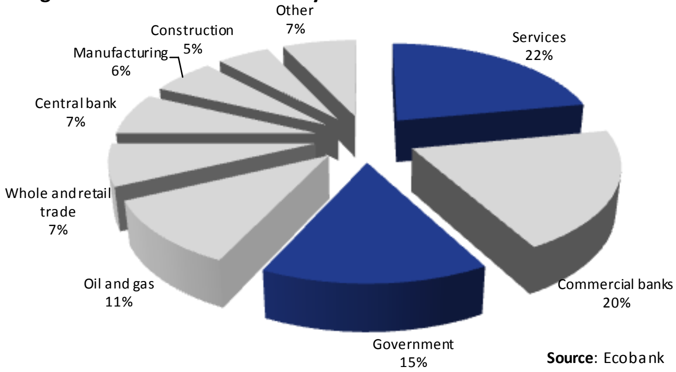
Operating expenses saw a steep increase of 24.8% to US$546.2m, with staff costs going up by 22.8% to US$251.4m and other expenses rising by 31.7% to US$240.5m. With revenues growing ahead of expenses growth, however, the cost to income ratio improved to 67.9% from 70.7%.

Provisions registered an increase of 26.7% to US$80.4m, a function of a growing loan book and management's decision to be conservative with provisioning to boost reserves. Management points out that the possibility of significant write backs come the year end exists due to a large proportion of "discretionary" provisions. PBT increased by 50.6% to US$177.7m and attributable earnings closed the period at US$106.6m, up 51.9%. The retail banking arm, or 'Domestic' business was the worst performer, with a PBT contribution of US$6.4m, while the Corporate banking business contributed US$96.3m and Ecobank Capital contributed US$72.1m.

The balance sheet was flat q-o-q, up just 1.0% to US$11.9bn. Loans went up by 4.5% to US$5.7bn, with holdings of treasury bills down 17.6% to US$650.2m and trading assets down 40.8% to US$9.8m. NPLs improved to 5.7% from 13.6% at 9M 2010 and 7.2% at H1 2011. This was attributed to more NPL sales to AMCON and the aforementioned prudent approach to lending, as well as write offs.

Deposits were largely unchanged q-o-q, shedding 0.9% to US$8.9bn, with the focus remaining on growing low cost current and savings accounts. The LDR was 64% (61% at H1 2011), while the CAR ended the period at 19.5%, unchanged from the H1 2011 position.

Figures 29: Loan distribution by sector at 31 Dec 2010



Source: Ecobank

Income Statement (US$m)	Q3 2010	Q3 2011	% ch
Net interest income	343	399	16%
Other income	276	405	47%
Total Income	**619**	**804**	**30%**
Provisions	(63)	(80)	27%
Expenses	(438)	(546)	25%
Profit before tax	118	178	51%
Attributable earnings	**70**	**107**	**52%**

Balance Sheet (US$m)	FY 2010	Q3 2011	% ch
Cash at central Bank	1,126	1,248	11%
Balances with banks	1,613	1,598	-1%
Treasury bills	589	650	10%
Loans & Advances	5,264	5,723	9%
Fixed Assets	464	491	6%
Other	1,410	2,219	57%
Total Assets	**10,467**	**11,928**	**14%**
Deposits	7,925	8,911	12%
Due to banks	372	497	34%
Borrowed Funds	226	410	81%
Other liabilities	789	914	16%
Shareholders' funds	1,155	1,196	4%
Total liabilities and equity	**10,467**	**11,928**	**14%**

Net interest margin	6.1%	6.7%	9%
Cost to income ratio	70.7%	67.9%	-4%
RoE	8.1%	19.8%	144.4%
RoA	0.9%	1.2%	33.3%
Rough CAR	15.0%	13.2%	-11.9%
Loan/Deposit	66.4%	64.2%	-3.3%

Outlook

ETI notes that bar another 5-6 countries, its geographical expansion programme is reaching the tail end. A consolidation phase should improve earnings and see the CIR trending downwards.

Following the Nigerian banking crisis, ETI identified Oceanic Bank, for acquisition and confirmed its 100% purchase on 24 October. This will achieve ETI's goal of becoming a tier 1 bank in Nigeria, creating a bank with over 600 branches. ETI recently announced that strategic partner Nedbank had provided a US$285m 3yr convertible facility which Nedbank can choose to exercise between 24 and 36 months' time to become a 20% shareholder in ETI (valuation implications are obvious). Part of the funds will go towards the Oceanic acquisition. If the conversion does occur, this should prove positive for both parties.

ETI concluded the acquisition of Trust Bank in Ghana in Q4 after some local opposition to the transaction had delayed its consummation.

Valuation and Recommendation

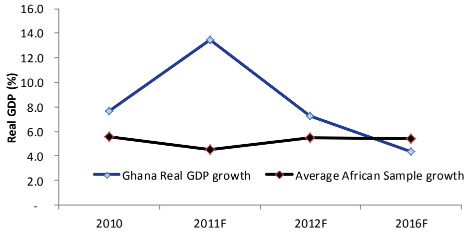
Pre-Oceanic, we value ETI at 12.4 USc per share, representing upside of 99% in Nigeria. (Upside is 34.5% on the BRVM and 59.0% on the GSE). A coverage based PBV average based on the last published post-merger pro-forma accounts suggests a valuation of 10.3 USc per share. **BUY**.

Ghana – Macro-economic overview

Key Themes:

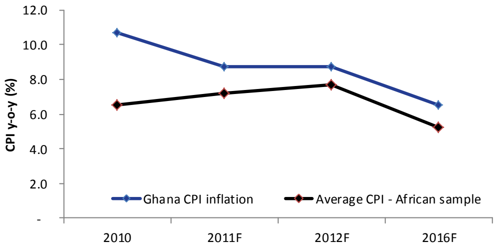
- The economy recovered in 2010, expanding by 5.5-6% after a temporary slowdown in FY2009. Exports were buoyant, as were construction and service activities.
- Inflation has been close to 9% since mid-2010, down from over 20% in 2009.
- Ghana's cocoa sector benefitted from the surge in global cocoa prices, with the increase between Dec 2010 and Feb 2011 boosting projected 2011 exports by more than US$250m (0.7% of GDP).
- Payments to clear domestic arrears and energy sector debts have reduced immediate stability risks and instances of bank undercapitalisation have been significantly reduced. Efforts are still needed to resolve weak banks, ensure compliance with regulations, improve corporate governance in banks, and strengthen banks' accounting and risk management practices.
- Buoyant cocoa and gold prices helped Ghana ride out the global financial crisis and, over the past year, financing constraints have eased as non-resident demand for domestic currency bonds re-emerged.
- With a strong balance of payments, the Cedi has traded in a relatively narrow range since mid-2009.
- Strong non-oil activity should contribute to 6–7% growth in 2012 and beyond. Inflation is projected to remain in single digits, provided fiscal and monetary policies are supportive.
- A portion of Ghana's initial oil revenues is being saved and steps are being taken to strengthen tax collection and expenditure management.
- The incidence of bank undercapitalisation is being addressed, with banks raising capital or merging with stronger banks to comply with the increased statutory minimum capital requirement that became effective at the end of Dec 2010. Management of state owned banks has been strengthened to improve corporate governance, and some progress has been made in strengthening micro and macro prudential regulation and supervision.
- Ghana emerged as a new oil producer in late-2010, and yields from the current Jubilee field are projected to stabilise at about 110,000 bpd during 2011-15 (implying annual export earnings of about US$4bn (at current oil prices). If two other fields prove commercially viable, oil production could rise further after 2015, which, together with the commercial exploitation of gas reserves, could imply stronger growth and exports than in the baseline for this report. With non-oil growth in the 6–7% range, the start of oil production is projected to boost growth temporarily to the 13% range in 2011.
- The monetary policy stance has been unchanged since mid-2010. With stable inflationary pressures, the Bank of Ghana (BoG) policy rate has been held at 13.5% since July 2010, following an easing from 18.5% in late-2009.
- The then sizeable fiscal and external current account imbalances have been greatly reduced, the inflation rate has declined to single digits, and the stock of international reserves has risen to about US$5bn, up from only US$2bn at the end of 2008.
- A three-year Extended Credit Facility (ECF) was approved by the IMF on in 2009, with an access equivalent of SDR387.45m (about US$595m or 105% of quota).
- As of mid-April, more than 11,000 Ivorian refugees had sought refuge in Ghana, and Ghana is working with the UNHCR to identify funding. Broader economic spill-overs from the conflict have been limited.

Figure 30: Ghana Real GDP Growth 2010 - 2016



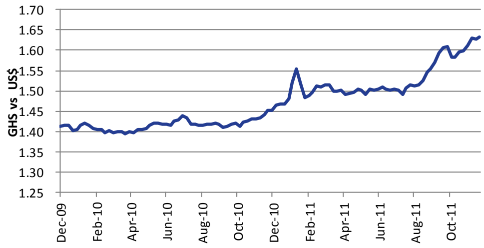
Source: IMF

Figure 31: Ghana CPI Inflation 2010 - 2016



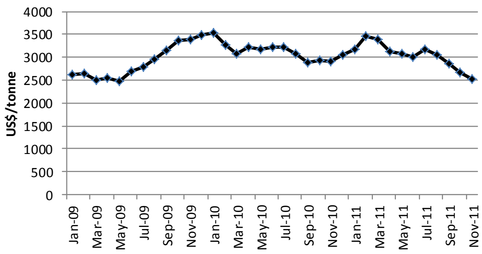
Source: IMF

Figure 32: Ghanaian Cedi vs US$



Source: Oanda.com

Figure 33: International Cocoa prices



Source: ICCO

Figure 34: 2 year Gold price

Ghana – Macro-economic overview (Cont.)

- Côte d'Ivoire represents less than 1% of Ghana's total export market, and financial ties are weak. Ghanaian banks have no correspondent relationships with Ivorian banks, and have been largely unaffected by their closure.
- By late-March, more than 16,000 Ghanaians had been evacuated from Libya. The repatriation could reduce Ghana's remittance earnings, which exceeded 6% of GDP in 2010.
- A strategy to regularize payment arrears is being developed and a comprehensive database will be established to facilitate monitoring of payment arrears. The March 2011 fiscal data are consistent with achieving the planned full-year fiscal consolidation.
- Efforts underway to strengthen expenditure controls will need to be sustained. With rising global commodity prices, domestic energy pricing needs to be kept under close review, to avoid the re-emergence of costly subsidies.
- Public debt ratios continued to edge higher in 2010. Total public debt was an estimated 39% of GDP at end-2010, up 3 percentage points from 2009. Two-thirds of this increase comprised higher domestic debt. The debt data exclude expenditure arrears and central government liabilities for unpaid State Owned Enterprises (SOE) debts, estimated at 9% of GDP at end-2010.
- Liquidity growth picked up strongly in 2010, as the strong balance of payments boosted central bank NFA, despite partial sterilisation. Reserve money expanded 35% in 2010, while broad money rose 46%, both well above year-ago outturns. Private sector credit also picked up towards end-2010.
- While, in the aggregate, the banking system is profitable and liquid with high capital levels, NPL ratios are elevated, in part due to government payment arrears. The 2010 FSAP Update highlighted risks from extensive state involvement in the banking sector and deficiencies in commercial banks' risk management and accounting practices, shortfalls in BoG supervision and systemic risk analysis, and weak enforcement of creditor rights.
- Risks to growth largely stem from the budget. Unless arrears are successfully regularised, they would pose risks to corporate liquidity and banking portfolios. Equally, if fiscal imbalances are not addressed, large financing needs could fuel inflation and currency instability; these, in turn, would undermine the business climate and prospects for attracting new investments to diversify Ghana's economic base.

Monetary aggregates and balances

- The total assets of the banking sector as at August 2011 grew by 28.9% compared with 29.0% in the same period in 2010. Domestic assets increased by 26.7% by the end of August 2011 compared with growth of 30.2% for the same period in August 2010. Foreign assets also grew by 51.3% compared with a growth of 17.8% for the corresponding period in 2010.
- Net loans and advances of GH¢7.11bn represented a year-on-year growth of 14.0% in August 2011 compared with a slower growth rate of 4.9% recorded in August 2010. Banks' investment portfolio (bills and securities) reached GH¢5.92bn and showed an annual growth of 55.3% by the end of August 2011 compared with a growth of 98.6% as at the end of August 2010.
- Deposit liabilities, which remain the main source of banks' funding, grew by 39.8% from GH¢9.91bn in August 2010 to GH¢13.85bn in August 2011.
- Total borrowings grew y-o-y by 2.5%, up from GH¢1.65bn in August 2010 to GH¢1.69bn in August 2011.

Figure 35: Ghana's new oil fields

CAL Bank

Cal Bank

Today Ghana presents a very interesting proposition for bigger players in Africa looking to regionalise earnings portfolios geographically. Having one of the most stable democracies in Africa, the country's latest fortunes as an emerging oil economy will not only lead to growth in the financial services industry, but significant down-stream implications for the economy at large.

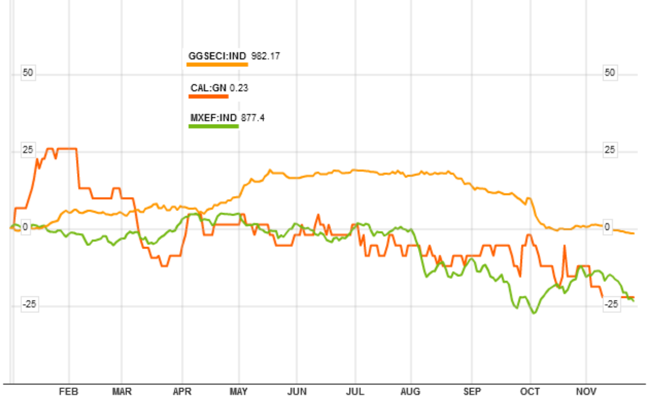
- Cal Bank, as one of the smaller players, would not normally flicker on foreign investors' radars. While well diversified, the group is still undercapitalised. We see the counter as an excellent acquisition/merger target, particularly for the well capitalised players in Nigeria and Morocco looking to diversify geographically. New oil revenues and increased FDI inflows from the end of 2011 should revamp the banking industry in Ghana and justify a long term exposure.
- Considering the collapse of the global financial market in 2008 and the only recently settled Nigerian banking crisis, CAL Bank's rights issue in September 2009 received reasonable support, but only raised GH¢14m (US$10m) of the targeted GH¢30m (US$21m) sought after. A follow-up is likely in the near future.
- While Q4 results will benefit from the capital injection, results up to Q3 were affected by the sub-optimal capital structure, and the over-reliance on more expensive inter bank borrowings. It is not surprising to note that profitability ratios and rough CAR indicators are inferior to those of better capitalised Standard Chartered, for example.
- The entry of several investment funds into Cal's shareholder's register, is encouraging and highlights the bank's solidity, despite its relatively small size.
- Trading at a c20% discount to book value and low single digit earnings ratings, value in the counter is undeniable. Currently trading at a 20% discount to the index, some catch up is in order.

STRENGTHS	WEAKNESSES
Real GDP growth for 2011 at 13%	Persistent Currency weakness
Stable democracy and political environment	Weak BOP position
Strong operational/IT platform	More capital needed
Diversified earnings stream	High inflation levels
Grwoth into nascent oil sector	Expensive deposits; lack of critical mass
OPPORTUNITIES	**THREATS**
Ghana a future oil economy	Drop in level of remittances from abroad
Merger with a larger player to buttress capital	Food price spikes
$10m Proparco loan signed in July to enhance capital and creditworthiness	Election in 2012 may affect macro economy negatively
Continued branch expansion and ATM network	

BLOOMBERG: CAL : GN			BUY
Current price (GH¢)			0.27
Current price (US$)			0.16
Target price (GH¢)			0.47
Upside/Downside			73.08%
12 month High/Low (GH¢)			0.40; 0.22
Liquidity			
Market Cap (GH¢m)			64.5
Market Cap (US$m)			39.3
Shares (m)			238.8
Free Float (%)			35.0%
Ave Monthly value traded (US$m)			0.05
Ave Monthly volume (m)			0.3
Share Price Performance			
6 months (%)			-3.6%
Relative change (%)*			-77.2%
Relative change (%)**			-47.3%
12 months			-3.6%
Relative change (%)*			398.7%
Relative change (%)**			21.9%
** Relative to GSE Composite Index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (GH¢)	0.04	0.05	0.06
DPS (GH¢)	0.013	0.015	0.019
NAV/Share (GH¢)	0.33	0.36	0.40
Net Interest Margin (%)	7.8%	7.8%	7.8%
FINANCIAL SUMMARY (GH¢m)			
Net interest income	37.1	46.6	58.7
Profit before tax	12.6	14.6	18.5
Attributable earnings	9.5	11.0	13.9
RATIOS			
RoAE	13.8%	13.3%	15.3%
RoAA	2.0%	1.9%	1.9%
Cost/Income Ratio (%)***	52.0%	50.7%	49.5%
Loans/Deposits (%)	90.8%	90.8%	90.8%
VALUATION RATIOS			
PBV (x)	0.8	0.7	0.7
PER (x)	6.8	5.9	4.6
Dividend Yield (%)	4.8%	5.6%	7.1%
Dividend payout ratio (%)	32.8%	32.8%	32.8%

***Pre provision for impaired advances

Figure 36: Cal Bank vs MSCI EM vs GSE Index



H1 2011 Financial & Operational Review

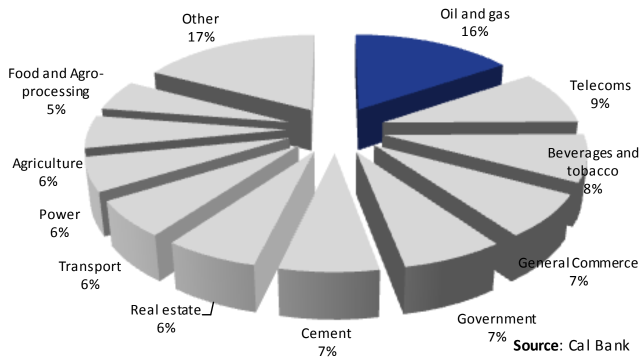
CAL Bank is one of the second-tier banks in Ghana that has found it difficult to make its mark in a market dominated by heavy weights Standard Chartered and Ecobank. With relatively weaker deposit mobilisation capacity, directly attributable to the smaller retail penetration (17 branches and 48 ATM's) the group relies on more expensive wholesale inter-bank funding, but has also accessed a PROPARCO credit facility to the tune of some US$35m. The oil bonanza is accelerating on the back of the first full year of oil revenues in 2011. From a lower base, we anticipate greater upside for Cal than the larger listed plays.

We still see Cal as a viable take-over target for regional/international banks looking to gain access into one of Africa's newest oil producers. A merger or dilution should be viewed positively, as this would place the bank on a better footing to emerge as a more serious player in the growing banking sector.

H1 2011 was characterised by weaker NIMs, which muted interest earnings, despite robust (real) deposit and loan growth. Non-funded earnings compensated for this however, for a bottom line growth of 14%, translated into a RoE of 13%. After having taken a breather in FY2010, internal cost inflation has accelerated to 22% y-o-y during H1 2011. While efficiency levels are still good on a CIR of 53.6%, the trend should be taken heed of.

Deposits and advances grew ahead of inflation, in line with monetary aggregates, however the performance lagged that of peer, Stanchart, reflecting Cal's relatively inferior market positioning and deposit gathering ability. Borrowings make up 17% of liabilities and continue to be a relatively expensive source of funds for the bank. Cal's exposure to the oil industry has yet to develop and they will have to work on mobilising facilities in order to take advantage of the anticipated lucrative opportunities that will present themselves. The bank remains liquid with our rough CAR working out to 19.1% as at the end of H1 2011, and the quality of the loan book remains good with the NPL ratio at 5.2% at the end FY2010.

Figures 37: Loan disbtribution by sector at 30 June 2011



Source: Cal Bank

Income Statement (GH¢m)	H1 2010	H1 2011	% ch
Net interest income	17.0	18.6	9%
Other income	8.1	11.6	43%
Total Income	**25.1**	**30.2**	**20%**
Provisions	(4.9)	(5.8)	19%
Expenses	(13.3)	(16.2)	22%
Profit before tax	(2.1)	2.6	n/a
Attributable earnings	**4.8**	**5.5**	**14%**

Balance Sheet (GH¢m)	H1 2010	H1 2011	% ch
Cash at central Bank	78.4	52.3	-33%
Cash on hand	2.6	5.9	129%
Balances with banks	74.8	99.9	34%
Government Securities	70.2	102.9	47%
Loans & Advances	237.5	292.6	23%
Fixed Assets	27.4	29.0	6%
Other	10.7	16.4	54%
Total Assets	**501.5**	**599.0**	**19%**
Deposits	306.7	379.3	24%
Due to banks	12.9	15.6	21%
Borrowed Funds	89.2	104.3	17%
Other liabilities	15.6	14.5	-7%
Shareholders' funds	75.0	84.4	12%
Total liabilities and equity	**501.5**	**599.0**	**19%**

Net interest margin	8.9%	7.5%	-16%
Cost to income ratio	52.8%	53.6%	2%
RoE	12.9%	13.0%	0.9%
RoA	1.9%	1.8%	-5.0%
Rough CAR	21.7%	19.1%	-11.8%
Loan/Deposit	77.5%	77.1%	-0.4%

Outlook, Valuation and Recommendation

Ghana's positive outlook that should result in GDP growth of 12.3% in 2011 and low, single digit inflation, makes for a strong investment case. The new oil sector is creating opportunities for the local banking sector and should have pervasive positive implications for the banking sector, as liquidity increases.

As a mature democracy, the 2012 elections, should pave the way for increased FDI and renewed economic stimulus that will positively affect the economy at large. Undoubtedly, undervalued counters like Cal should benefit from the enhanced interest in Ghana, and, hopefully, an increase in foreign investor appetite in 2012. Indeed, our valuation of GH¢0.47 indicates such. **BUY.**

Top 10 Shareholders	%
Social Security and National Insurance Trust	33.5%
MR. Donkor Afare Apeadu	7.4%
MR. Daniel Ofori	5.5%
Vanguard Assurance Company Limited	4.0%
SCBN\ Barclays Mauritius re Kura Africa Fund	3.3%
MR. Adu Jnr. Frank Brako	3.0%
SCBN\ SSB Eaton Vance Tax-Mananged Emerging Mark	1.3%
STD Noms TVL PTY\ Frontier Market Select Fund LD	1.1%
Stanchart Mauritius re Deut Africa Opps Fund	1.1%
Stanchart Mauri. re AIG Sub-Saharan Africa Master Fu	1.1%
Other	38.8%
Total	**100.0%**

EQUITY RESEARCH

GHANA

FEBRUARY 2012

Standard Chartered Bank Ghana

Ghana's pre-eminent international financial services group boasts a robust capital base and some of the highest net interest margins in Africa. Already with a foothold in the fledgling oil economy, Stanchart is well placed to ride the exponential growth wave that will hit the Ghanaian coast. Stanchart is admittedly not the cheapest play on Ghana, and at current levels, looks rather fully priced.

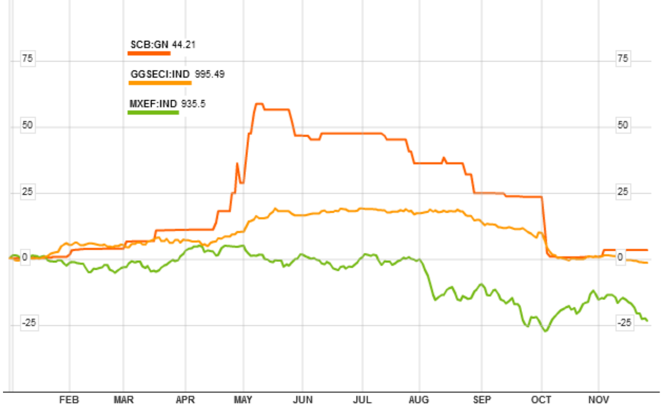
- 2012 is an election year and while the outcome is relatively difficult to predict, the likelihood that the country's significant economic progress will be derailed, on the back of politically motivated strife, as we are seeing in Southern Sudan is low. The political machine will continue to focus on creating policies, conducive to the inflow of FDI and development of the oil fields.
- Ghana's weak current account position makes the country over reliant on donor funding and a soft currency remains a concern for portfolio investors. Increased FDI into the oil and ancillary sectors and subsequent oil revenues are working towards the maintenance of a stronger currency, and large sectors of the real economy are registering strong growth, with cement, construction, services and transportation sectors being the notable movers.
- As one of the financial blue chips, Stanchart's 26% balance sheet growth is a real reflection of the booming real economy, despite the global malaise.
- Our model values Stanchart Ghana at GH¢48.38, which means it is trading at a slight premium to discounted earnings. From a price performance basis although the share has dropped from its one year high of GH¢70, it is still outperforming CAL Bank by a margin of some 30%. The bank is well placed to benefit from the pending oil induced boom that is sure to come once oil revenues start flowing. **HOLD** for now, Accumulate for the medium term.

STRENGTHS	WEAKNESSES
Premier international bank in Ghana Very healthy Net interest margins Quality book; low NPLs Political stability; established democracy Real GDP growth for 2011 at 13%	Weak current account position for the time being
OPPORTUNITIES	**THREATS**
Emerging oil economy; opportunties in oil and affiliated sectors FDI inflows into economy	Commodity price shocks; gold & cocoa Local currency weakness Stiffer competition

BLOOMBERG: SCB : GN			HOLD
Current price (GH¢)			49.50
Current price (US$)			30.18
Target price (GH¢)			48.38
Upside/Downside			-2.27%
12 month High/Low (GH¢)			70.00; 44.00
Liquidity			
Market Cap (GH¢m)			952.9
Market Cap (US$m)			581.0
Shares (m)			19.3
Free Float (%)			11.0
Ave Monthly value traded (US$m)			3.3
Ave Monthly volume (m)			0.1
Share Price Performance			
6 months (%)			-23.5%
Relative change (%)*			49.9%
Relative change (%)**			245.9%
12 months			12.3%
Relative change (%)*			-930.6%
Relative change (%)**			-520.6%
** Relative to GSE Composite Index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (GH¢)	3.75	4.18	6.10
DPS (GH¢)	1.27	1.41	2.07
NAV/Share (GH¢)	10.18	12.98	16.91
Net Interest Margin (%)	10.6%	10.6%	10.6%
FINANCIAL SUMMARY (GH¢m)			
Net interest income	152.7	212.0	283.9
Profit before tax	101.5	113.0	165.2
Attributable earnings	72.2	80.4	117.5
RATIOS			
RoAE	40.6%	36.1%	40.8%
RoAA	4.7%	4.1%	4.4%
Cost/Income Ratio (%)***	47.2%	48.6%	44.3%
Loans/Deposits (%)	42.8%	42.8%	39.1%
VALUATION RATIOS			
PBV (x)	4.9	3.8	2.9
PER (x)	13.2	11.9	8.1
Dividend Yield (%)	2.6%	2.9%	4.2%
Dividend payout ratio (%)	33.9%	33.9%	33.9%

***Pre provision for impaired advances

Figure 38: Stanchart Ghana vs MSCI EM vs GSE



9M 2011 Financial & Operational Review

Standard Chartered Bank Ghana has long established roots in Ghana, 116 years to be exact. In that time it has developed an enviable business running a tight book that is as profitable as it is clean. With a combination of local presence, time tested relationships and most importantly, a solid majority shareholder with deep pockets and access to global capital markets, Stanchart Ghana is the best suited bank to benefit from Ghana's emergence as a middle income economy with significant potential accruing from future oil revenues. Immediate upside is being gleaned from increasing FDI into the oil sector (as witnessed by the increase in foreign currency balances), however Ghana presents banks with one of the strongest consumer lending propositions. With the deepening of the banking sector and greater intermediation, consumer finance will develop further as new players enter the market, interest rates continue to trend downwards and competition intensifies.

In 2007 Tullow Oil (Bloomberg: TLW:LN), announced the discovery of a major oil field in Ghana, the Jubilee oil field, with estimated reserves of 2-4bn barrels of oil. Production averaged 80k bpd in 2011 and is expected to peak at 120k bpd, earning the country over US$4bn per year.

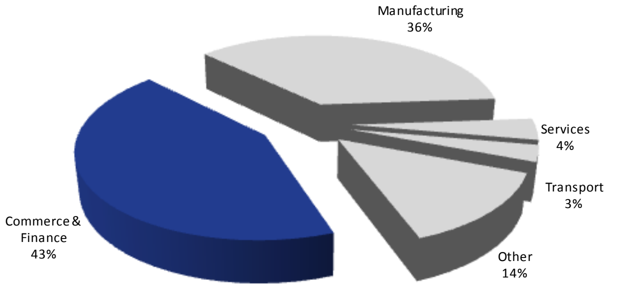
Overview of the income statement to 30 Sep 2011

- Net interest income increased by 4% on marginally thinner NIMs, and non-funded income retreated by 14% y-o-y, producing a flat result for the 9 months to Sept 2011.
- In line with the weak topline, aggressive cost containment, kept the CIR at an enviable 45.3%.
- The bottom line too, was flat, however respectable returns on equity and assets were reported at 52.5% and 6.2% respectively.

Overview of the balance sheet at 30 Sep 2011

- Deposits grew strongly by 43% to GH¢1,247m (US$760m) and loans increased by 21% to GH¢580m (US$354m). The less aggressive lending stance has resulted in an even lower loan/deposit ratio, and the bank has opted for the safety of risk free assets i.e. government bonds and yield instruments.

Figures 39: Loan disbtribution by sector at 30 Dec 2010



Source: Stanchart Ghana

Income Statement (GH¢m)	Q3 2010	Q3 2011	% ch
Net interest income	108.8	113.4	4%
Other income	63.4	54.4	-14%
Total Income	**172.3**	**167.8**	**-3%**
Provisions	(4.2)	(7.7)	85%
Expenses	(82.9)	(75.9)	-8%
Profit before tax	85.2	84.1	-1%
Attributable earnings	**59.6**	**58.9**	**-1%**

Balance Sheet (GH¢m)	Q3 2010	Q3 2011	% ch
Cash at central Bank	188.5	177.4	-6%
Balances with banks	13.4	65.3	386%
Securities	55.5	178.0	220%
Loans & Advances	480.6	579.8	21%
Fixed Assets	19.7	18.3	-7%
Other	669.6	785.8	17%
Total Assets	**1,427.4**	**1,804.7**	**26%**
Deposits	875.0	1,247.1	43%
Due to banks	196.6	191.2	-3%
Borrowed Funds	7.5	42.0	460%
Other liabilities	150.7	110.6	-27%
Shareholders' funds	197.5	213.8	8%
Total liabilities and equity	**1,427.4**	**1,804.7**	**26%**

Net interest margin	11.9%	9.4%	-21%
Cost to income ratio	48.1%	45.3%	-6%
RoE	40.2%	36.7%	-8.7%
RoA	5.6%	4.4%	-21.9%
Rough CAR	16.1%	13.7%	-15.1%
Loan/Deposit	54.9%	46.5%	-15.3%

Outlook, Valuation and Recommendation

Undoubtedly, liquidity into the economy is increasing and some segments of the economy are booming as a result thereof. Ghana will be one of the fastest growing economies in FY2011, and we expect the heady pace of growth to fall into 2012.

Based on current earnings projections Stanchart is fairly valued at current market pricing levels. Medium term fundamentals remain solid, however, we anticipate some shakiness in the run up to elections at the end of the year. While we rate the counter a Hold, we recommend that investors pick up any parcels on interim price weakness, fueled by either the elections anxieties or commodities price shocks.

Top 10 Shareholders	%
Standard Chartered Holdings (Africa) BV	69.4%
Social Security and National Insurance Trust	14.3%
SSBN/SSB TST X71 AX71 6169E	2.1%
SCBN/RBC Dexia Investor Services Trust	0.9%
Teachers Fund	0.5%
SCBN/EPACK Investment Fund Limited	0.5%
Ghana Union Assurance Co Ltd	0.4%
Council for Ghana University Endowment	0.3%
SSNIT SOS Fund	0.2%
Edward Kojo Amoma Anim-Addo	0.2%
Other	11.2%
Total	**100.0%**

Angola Macro-economic Overview

Key Themes:

By many accounts, Angola's emerging market credentials are indisputable. Record high international oil prices and growing output from new oilfields has helped sustain average double digit GDP growth since 2004 - reaching 18.6% in 2006, 20.2% in 2007, and 14.8% in 2008. This makes Angola one of the world's fastest growing economies and suggests that the country is now solidly in the midst of an economic recovery following its bloody 27-year civil war. The oil windfall has also paved the way for increased fiscal expansion and a subsequent outward shift in domestic demand that is propelling the real sectors of the economy.

Continued heavy reliance on the extractive industry renders the Angolan economy vulnerable to commodity cycles. Lower oil prices in 2009 took a toll on government revenues and reduced GDP growth to less than 1%. Following a recovery in 2010 and 2011, 2012 promises to see the economy shift into overdrive bringing back heady double-digit growth, from a high base. The national budget for 2010 forecasts growth of 6.2%, against a revised target of 6.7% by the IMF. Growth is recovering on the back of rising production, a higher average oil export price, a recovery in the construction sector and on-going expansion into agriculture, manufacturing and construction.

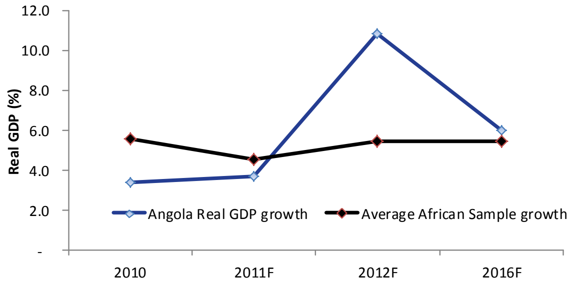
GDP is projected to rise by some 6.5% in 2011, with oil sector growth (from temporarily deflated levels in 2010) amounting to 3.8% and non-oil sector activity set to rise by some 8.1%, much closer to trend growth rates.

With a population now estimated at over 20m and one of the highest per capita GDPs in SSA, at over US$4,900, there are signs of an emerging middle class and this is most evident in the telecoms and beverages sectors where Angola has some of the higher alcohol consumption rates and the highest ARPU rate. Beer consumption is now in excess of 8m hl per annum while there are over 9m mobile phone subscribers, with an average ARPU of over US$20.

Overview of the banking sector

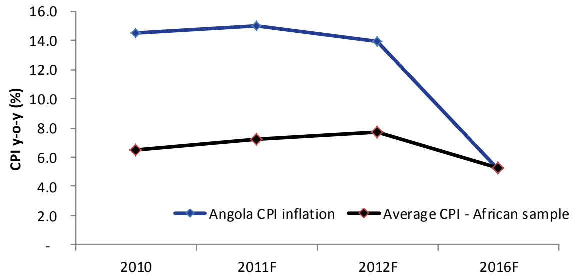
- The banking sector has 23 banks (3 state banks) with the top 7 included in the top 200 banks in Africa. This compares to a total of 9 banks in 2002. The country has 1,289 ATM machines, 12,140 POS machines and 1.3m debit cards issued. It is estimated that current banking penetration in the region of 13.5%.
- As at September 2011 total banking assets amounted to US$53bn compared to US$2.9bn in 2003, growth of 18.5x in a period of eight years, and a compound growth rate of 44%.
- At the same date, deposits were US$32bn having grown by 14.8x from US$2.1bn in 2003.
- Loans and advances grew to US$22.1bn in August 2011 from US$0.7bn, by 30x and for a CAGR of 53% and for an average LDR of 68.8%.
- The top 5 banks in the country accounted for 79% of total banking assets and the average NPL rate at September 2011 was 5.1%. Looking at profitability metrics, the average ROE in 2010 was 33% while the cost to income ratio was circa 30%.

Figure 40: Angola Real GDP Growth 2010 - 2016



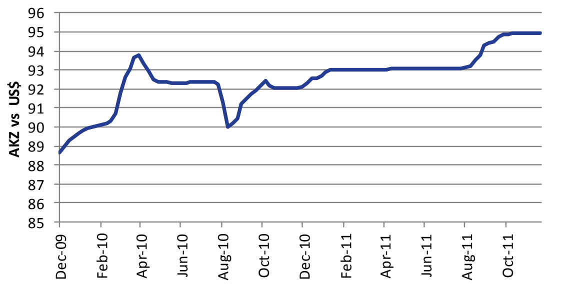
Source: IMF

Figure 41: Angola CPI Inflation 2010 - 2016



Source: IMF

Figure 42: Angolan Kwanza vs US$



Source: Oanda.com

Banco Africano de Investimento

Banco BAI is the biggest bank in Angola taking pole position by all quantitative metrics, and when listed, we believe, will rank as one of Africa's top 10 banks by market capitalisation ex SA. Assets and earnings have been growing at an exponential rate, as driven by the country's rapidly developing non-oil sector. Already well diversified at home, Banco BAI has branched into Europe via Portugal and has a presence in South Africa and Brazil.

- Banco BAI ranks as one of SSA's largest unlisted banks with assets over US$8bn which have grown at a 3 year compound growth rate of 41%, from a high base, thanks to buoyant oil driven liquidity injections into the domestic economy, high FDI and a booming non-oil economy.
- Profitability and NIMs remain some of the highest in Africa, principally due to the closed nature of the banking sector. Only recently has the first Anglophone bank, Standard Bank, been awarded a license. The banking space has grown from virtually nothing, when the civil war ended in 2002, to one of the most vibrant sectors with over 23 players and over US$53bn in total banking assets.
- Being the banker to Sonangol (and a subsidiary thereof), Banco BAI's preferred status is the major competitive advantage. Notwithstanding this, Sonangol has its own fully fledged financial arm, which effectively competes with Banco BAI. Significant scope for growth remains, and the bank has already made forays into micro-lending and is consolidating its investment banking presence. Massive potential still exists in the retail market, where only one in ten Angolans are in the formal banking market.
- While some lending products are available to retail clients, these are usually very expensive and more often than not, secured. Low consumer lending levels are seen in the LDR, which at 41% is one of the lowest in Africa. With more competition, and a paradigm shift in terms of a move away from 'riskless' banking, lending products will eventually be developed.
- As one of the shiniest jewels in the Sonangol crown, Banco BAI will be one of the prime candidates for listing once the bourse sees the light of day.

BLOOMBERG: N/A			www.bancobai.ao
Equivalent price (AKZ)			12,368.73
Equivalent price (US$)			130.11
Exchange Rate vs US$ (AKZ)			95.06
Upside/Downside			N/A
12 month High/Low (AKZ)			N/A
Liquidity			
Equivalent Market Cap (AKZm)			240,571.8
Equivalent Market Cap (US$m)			2,530.7
Assumed number of shares (m)			19.5
Free Float (%)			N/A
Ave Monthly value traded (US$m)			N/A
Ave Monthly volume (m)			N/A
Share Price Performance			
6 months (%)			N/A
Relative change (%)*			N/A
Relative change (%)**			N/A
12 months			N/A
Relative change (%)*			N/A
Relative change (%)**			N/A
Financials	**2010**	**2011F**	**2012F**
Equivalent EPS (AKZ)	1,030.73	1,364.46	1,742.62
Equivalent DPS (AKZ)	257.68	341.11	435.65
Equivalent NAV/Share (AKZ)	3,741.42	5,295.64	7,246.99
Net Interest Margin (%)	9.0%	9.0%	9.0%
FINANCIAL SUMMARY (AKZm)			
Net interest income	35,164.3	42,197.1	50,636.5
Profit before tax	20,205.9	26,748.2	34,161.5
Attributable earnings	21,123.6	26,538.7	33,893.9
RATIOS			
RoAE	30.9%	30.2%	27.8%
RoAA	2.6%	3.7%	4.6%
Cost/Income Ratio (%)***	32.1%	29.1%	26.6%
Loans/Deposits (%)	41.1%	41.1%	41.1%
VALUATION RATIOS			
Equivalent PBV (x)	3.3	2.3	1.7
Assumed PER (x)	12.0	9.1	7.1
Equivalent dividend Yield (%)	2.1%	2.8%	3.5%
Dividend payout ratio (%)	25.0%	25.0%	25.0%

***Pre provision for impaired advances

NB: The above figures are for illustration purposes only as this bank is not yet listed. Market capitalisation has been calculated using an assumed PER of 12x (Weighted average forward PER for our sample of African peers, ex South Africa).

STRENGTHS	WEAKNESSES
Largest bank in Angola with assets of US$8.3bn Highly profitable; High RoAE/RoAAs Lean cost structure Liquid balance sheet, CAR Banker to Sonangol and state	Weak regulatory framework/redtape Bureaucracy Young financial sector, inherent structural weaknesses Dearth of skilled staff
OPPORTUNITIES	**THREATS**
Prime listing candidate Continued growth >10% penetration levels International offices in SA, Portugal Growth into investment banking Booming domestic economy	Commodity price shocks Increasing competition for deposits

BancoBIC

Crescemos Juntos

EQUITY RESEARCH

ANGOLA

FEBRUARY 2012

Banco BIC

Culminating from the union of the wealthiest Angolan and Portuguese magnates, Banco BIC's pedigree is without question, and the spectacular success enjoyed to date hardly comes as a surprise. Having celebrated their sixth anniversary in May 2011, Banco BIC's positioning in the Angolan market is as solid and unshakeable as the Baobab tree, aptly chosen as the bank's emblem.

- Banco BIC has already been recognised as the 42nd largest bank in Africa by the 'African Business' magazine.
- The aggressive growth strategy saw the opening of 25 branches in 2010, taking the branch network to 135 in total, the third largest in the country after BAI and BPC. Banco BIC stands out in the foreign exchange operations, with a share of 16.5% of the primary foreign exchange market and is ranked fourth in deposits, with a share of 13.8% (12.5% in 2009) and fifth in loans, with a market share of 10.5% (10.0% in 2009).
- Launched in May 2008, Banco BIC Portugal, which has an identical shareholding structure has 6 branches, €420m in total assets and broke even in less than 18 months. The bank is already the correspondent bank to four banks in Angola.
- This rapid rollout coupled with aggressive marketing campaigns resulted in customer numbers surpassing 548,000. In 2009, Banco BIC issued a total of 365,000 cash point cards, giving it a market share of 17.5%. At year end there were 141 ATMs, 27 more than in 2009, and their usage continues to grow, with 61m transactions recorded in 2010.
- In 2010, net assets increased by 14%, from US$4.3bn to US$4.9bn, an increase of US$585m.
- Gross loans increased by US$124m or 6% to US$2.3bn. Credit granted to customers in 2010 represented around 40% of total assets for an LDR of 52%, indicating high liquidity and significant room for growth of the book. NPLs ended the year at 4.8% of gross loans and were fully provided for.
- Deposits increased by US$436m (12%) to US$4.0bn, and recovered in H2 2010, as the government cleared their arrears to the private sector.
- Banco BIC ended FY2010 with a net profit of US$142m, corresponding to a decrease of US$7m or a reduction of 4%, compared with the previous year, and dividends of US$37m were paid out.
- With the economy firmly back in the black, we anticipate that Banco BIC's star is still on a steep rise.

BLOOMBERG: N/A			www.bancobic.ao
Equivalent price (AKZ)			65,404.37
Equivalent price (US$)			688.03
Exchange Rate vs US$ (AKZ)			95.06
Upside/Downside			N/A
12 month High/Low (AKZ)			N/A
Liquidity			
Equivalent Market Cap (AKZm)			157,919.6
Equivalent Market Cap (US$m)			1,661.3
Assumed number of shares (m)			19.5
Free Float (%)			N/A
Ave Monthly value traded (US$m)			N/A
Ave Monthly volume (m)			N/A
Share Price Performance			
6 months (%)			N/A
Relative change (%)*			N/A
Relative change (%)**			N/A
12 months			N/A
Relative change (%)*			N/A
Relative change (%)**			N/A
Financials	**2010**	**2011F**	**2012F**
Equivalent EPS (AKZ)	5,450	6,604	8,403
Equivalent DPS (AKZ)	2,180	2,642	3,361
Equivalent NAV/Share (AKZ)	21,666	29,297	38,829
Net Interest Margin (%)	5.4%	5.4%	5.4%
FINANCIAL SUMMARY (AKZm)			
Net interest income	15,700.7	19,076.3	23,127.1
Profit before tax	16,198.8	19,627.1	24,973.9
Attributable earnings	13,160.0	15,945.1	20,288.9
RATIOS			
RoAE	28.2%	25.9%	24.7%
RoAA	3.2%	3.2%	3.4%
Cost/Income Ratio (%)***	34.0%	31.1%	28.5%
Loans/Deposits (%)	52.0%	52.0%	52.0%
VALUATION RATIOS			
Equivalent PBV (x)	3.0	2.2	1.7
Assumed PER (x)	12.0	9.9	7.8
Equivalent dividend Yield (%)	3.3%	4.0%	5.1%
Dividend payout ratio (%)	40.0%	40.0%	40.0%

***Pre provision for impaired advances

NB: The above figures are for illustration purposes only as this bank is not yet listed. Market capitalisation has been calculated using an assumed PER of 12x (Weighted average forward PER for our sample of African peers, ex South Africa).

STRENGTHS	WEAKNESSES
5th largest bank in Angola; assets of US$4.8bn Highly profitable; High RoAE/RoAAs Lean cost structure; CIR of 34% Liquid balance sheet, LDR 52% First family links	Weak regulatory framework/redtape Bureaucracy Young financial sector, inherent structural weaknesses Dearth of skilled staff
OPPORTUNITIES	**THREATS**
Prime listing candidate Continued growth >10% penetration levels International offices in Portugal Growth into investment banking Booming domestic economy	Commodity price shocks Increasing competition for deposits

Banco de Formento de Angola (BFA)

BFA is the third largest bank in Angola and a JV between Unitel (49.9%), the largest mobile phone operator in Angola and Banco BPI (50.1%) of Portugal. A strong brand and extensive network have assured effortless growth and profitability. It is one of the more conservative players, as displayed by its asset distribution.

- At the end of 2011, BFA's commercial network comprised of 147 outlets, namely 125 branches, 6 investment centres, 12 corporate centres, 1 large companies centre and 4 customer service points.
- 94,000 new customers were added in FY2011 bringing the number of clients to more than 875,000 by year end.
- At the end of 2010, the number of valid debit cards stood at 627,000, which corresponds to a 27% market share, while the number of active credit cards stood at 8,488.
- BFA's strong brand and dominant local position saw total assets ending the year at US$6.7bn which corresponded to an increase of US$315m (+4.9%) relative to the end of the previous year.
- The growth was directly as a result of deposits which expanded by 13% to US$5.4bn equating to a 19.2% share of deposits, second place in the market after Banco BAI.
- The loan and guarantees portfolio recorded a 26% increase, to US$2.7bn, with 79% being loans in US$. This represented a 12.7% market share of total credit granted in 2010, and the fourth largest loan book. In the high interest rate environment that prevailed as the central bank tightened monetary policy, BFA remained risk averse with the bulk of assets being invested in treasury instruments as shown by the very low LDR of 28% at year end.
- Although the quality of the book deteriorated during FY2010 with NPLs increasing to 5.6% of gross loans, this is still a very manageable level and one of the lowest bad debt levels in the country. We expect this ratio will decline in FY2011, on the back of the economic recovery and a dilution owing to the growth of the loan book, which has much scope for growth.
- BFA generated a net profit of US$261.8m in 2010, which corresponds to a slight improvement of 4.6% over FY2009. A solid RoAE of 52% was achieved in FY2010 and a handsome dividend of US$165m was distributed to shareholders (65% pay-out ratio).
- BFA remains a veritable cash printing press, with a prudent board and still significant growth prospects, from a high base.

BLOOMBERG: N/A			www.bfa.ao
Equivalent price (AKZ)			221.25
Equivalent price (US$)			2.33
Exchange Rate vs US$ (AKZ)			95.06
Upside/Downside			N/A
12 month High/Low (AKZ)			N/A
Liquidity			
Equivalent Market Cap (AKZm)			288,813.7
Equivalent Market Cap (US$m)			3,038.2
Assumed number of shares (m)			1,305.4
Free Float (%)			N/A
Ave Monthly value traded (US$m)			N/A
Ave Monthly volume (m)			N/A
Share Price Performance			
6 months (%)			N/A
Relative change (%)*			N/A
Relative change (%)**			N/A
12 months			N/A
Relative change (%)*			N/A
Relative change (%)**			N/A
Financials	**2010**	**2011F**	**2012F**
Equivalent EPS (AKZ)	18.44	21.04	26.43
Equivalent DPS (AKZ)	11.98	13.68	17.18
Equivalent NAV/Share (AKZ)	46.53	67.57	93.99
Net Interest Margin (%)	7.1%	7.1%	7.1%
FINANCIAL SUMMARY (AKZm)			
Net interest income	25,123.1	27,565.0	34,043.1
Profit before tax	23,138.2	26,404.5	33,162.9
Attributable earnings	24,067.8	27,465.4	34,495.3
RATIOS			
RoAE	52.4%	49.8%	46.3%
RoAA	4.6%	4.6%	4.6%
Cost/Income Ratio (%)***	31.7%	30.5%	27.5%
Loans/Deposits (%)	34.1%	34.1%	34.1%
VALUATION RATIOS			
Equivalent PBV (x)	4.8	3.3	2.4
Assumed PER (x)	12.0	10.5	8.4
Equivalent dividend Yield (%)	5.4%	6.2%	7.8%
Dividend payout ratio (%)	65.0%	65.0%	65.0%

***Pre provision for impaired advances

NB: The above figures are for illustration purposes only as this bank is not yet listed. Market capitalisation has been calculated using an assumed PER of 12x (Weighted average forward PER for our sample of African peers, ex South Africa).

STRENGTHS	WEAKNESSES
Number 3 bank in Angola; assets of US$6.2bn Highly profitable; High RoAE/RoAAs Lean cost structure; CIR of 32% Liquid balance sheet, LDR of 34% Banker to Unitel and state	Weak regulatory framework/redtape Bureaucracy Young financial sector, inherent structural weaknesses Dearth of skilled staff
OPPORTUNITIES	**THREATS**
Prime listing candidate Continued growth >15% penetration levels Portuguese parent Growth into investment banking Booming domestic economy	Commodity price shocks Increasing competition for deposits, 21 banks and several in the pipeline

Banco Millennium Angola (BMA)

Banco Millennium Angola (BMA) was constituted on the 3rd of April 2006 and six years later has grown its balance sheet to over US$1.3bn on solid profitability margins. Millennium BCP of Portugal, the majority shareholder (52.7%), boasts a solid track record in emerging markets, whilst Angola's multi-national entity, Sonangol (31.5%), contributes a healthy client base and access to the country's most credit worthy sectors. A youthful management team and innovative culture has already seen the bank receiving international plaudits, impressive in a very competitive banking sector.

- The most significant development in 2009 was the entry of Sonangol who acquired a 31.5% shareholding in the bank. Banco Privado Atlântico (BPA), another one of Angola's newest banks swopped 10% of their capital for a 15.8% stake in BMA. These developments resulted in injection of US$106m in tier one capital.
- 16 new branches were opened in FY2010 bringing the total to 39 branches in 12 of the 18 Angolan provinces, with 714 employees, 43% more than in 2009.
- The objective going forward will continue to be to grow the banks infrastructure and client base, whilst maintaining an innovative edge to grow market share.
- The bank achieved a net profit of US$32.8m, representing growth of 63% over FY2009. Currently undergoing an aggressive expansion plan, all profits are being ploughed back, as testified by the 87% CGR in earnings over the past 5 years.
- Deposits increased by 34% to US$773m and have grown at a 4 year CGR of 60% p.a. Loans and advances ended the year at US$606m, for an LDR of 75% and an equivalent 5 yr CGR of 70%. Generally, it seems, the Portuguese banks tend to be more aggressive lenders than their Angolan counterparts.
- Millennium's strategy to increase penetration and re-invest all profits has paved the way for their break-neck growth. Still hungry for market share, we don't see any let up in their growth trajectory. The challenge for the 'second tier' banks will be product differentiation, as the client base is homogeneous. Notwithstanding, Millennium has been very innovative in this regard.

BLOOMBERG: N/A			www.millenniumangola.ao
Equivalent price (AKZ)			3,820.41
Equivalent price (US$)			40.19
Exchange Rate vs US$ (AKZ)			95.06
Upside/Downside			N/A
12 month High/Low (AKZ)			N/A
Liquidity			
Equivalent Market Cap (AKZm)			36,221.5
Equivalent Market Cap (US$m)			381.0
Assumed number of shares (m)			19.5
Free Float (%)			N/A
Ave Monthly value traded (US$m)			N/A
Ave Monthly volume (m)			N/A
Share Price Performance			
6 months (%)			N/A
Relative change (%)*			N/A
Relative change (%)**			N/A
12 months			N/A
Relative change (%)*			N/A
Relative change (%)**			N/A
Financials	**2010**	**2011F**	**2012F**
Equivalent EPS (AKZ)	318.37	535.05	761.94
Equivalent DPS (AKZ)	-	-	-
Equivalent NAV/Share (AKZ)	1,803.84	2,506.58	3,268.52
Net Interest Margin (%)	7.6%	7.6%	7.6%
FINANCIAL SUMMARY (AKZm)			
Net interest income	6,229.9	8,534.5	11,094.9
Profit before tax	3,495.9	5,875.2	8,366.5
Attributable earnings	3,018.5	5,072.9	7,224.0
RATIOS			
RoAE	19.4%	24.8%	26.4%
RoAA	2.7%	3.6%	4.0%
Cost/Income Ratio (%)***	53.3%	45.3%	39.8%
Loans/Deposits (%)	74.7%	74.7%	74.7%
VALUATION RATIOS			
Equivalent PBV (x)	2.1	1.5	1.2
Assumed PER (x)	12.0	7.1	5.0
Equivalent dividend Yield (%)	0.0%	0.0%	0.0%
Dividend payout ratio (%)	0.0%	0.0%	0.0%

***Pre provision for impaired advances

NB: The above figures are for illustration purposes only as this bank is not yet listed. Market capitalisation has been calculated using an assumed PER of 12x (Weighted average forward PER for our sample of African peers, ex South Africa).

STRENGTHS	WEAKNESSES
Number 7 bank in Angola; assets of US$1.3bn Highly profitable; High RoAE/RoAAs CIR of 53% in spite of aggressive expansion Liquid balance sheet, LDR of 34% Banker to Sonangol and state	Weak regulatory framework/redtape Bureaucracy Young financial sector, inherent structural weaknesses Dearth of skilled staff
OPPORTUNITIES	**THREATS**
Prime listing candidate Continued growth >15% penetration levels Strong Portuguese parent Growth into investment banking Booming domestic economy	Commodity price shocks Increasing competition for deposits, 21 banks and several in the pipeline

BANCO ESPIRITO SANTO ANGOLA

Banco Espirito Santo Angola (BESA)

BESA was created in August 2001 and opened its doors to the public at the end of January 2002. Since then, the bank has growth from strength to strength and currently is the second largest bank in Angola when ranked by total assets (US$7.9bn).

- Euronext listed Banco Espirito Santo of Portugal (BES:PL) is the largest shareholder in the bank, with an equity stake of 52% of the issued capital. In 2008 and 2009, the Angolan subsidiary was the most profitable of BES' international operations, contributing 21% of foreign profits, ahead of Brazil (17.8%) UK (13.9%) and Spain (9.6%).
- BESA has a network of 31 branches which includes one private client centre and 2 corporate client centres in six of the country's main provinces. The strategy is to continue to increase their physical presence with a firm focus on providing private banking services for its high net worth clientele.
- BESA set up the Angola's first fund management company, which manages a closed real estate investment fund, BESA Património, and a company that manages pension funds, BESA Opções Reforma. Always at the forefront of innovation, the bank is set to venture into leasing and factoring, following the recent pertinent legislation promulgated.
- At the end of the 2010 financial year, the bank's net assets were USS7.9bn, 23% ahead of the previous year. Customer deposits were US$2.9bn, a 14% increase on FY2009.
- The loan book continued to grow aggressively form a high base, closing the year at US$3.7bn (2009: US$2.4bn), up 54%. The market share of customer loans and securities stood at 25.5% (19.6% in 2009), the largest loan book in the country for an LDR of 129%. While this ordinarily would be a risky feat for local banks, BESA's parent has global reach and access to international capital pools, hence are able to afford their subsidiaries a higher level of intermediation. Notwithstanding the significant increase in loans, NPL levels are still negligible at 1.6% of the book, mostly as a result of the aggressive growth in the loan book. A catch up is anticipated going forward.
- The rapid loan growth compromised capital adequacy in FY2010 and we anticipate the need for a capital injection and or the contraction of further subordinated debt.

BLOOMBERG: N/A			www.besa.ao
Equivalent price (AKZ)			21,557.22
Equivalent price (US$)			226.77
Exchange Rate vs US$ (AKZ)			95.06
Upside/Downside			N/A
12 month High/Low (AKZ)			N/A
Liquidity			
Equivalent Market Cap (AKZm)			367,615.2
Equivalent Market Cap (US$m)			3,867.2
Assumed number of shares (m)			17.1
Free Float (%)			N/A
Ave Monthly value traded (US$m)			N/A
Ave Monthly volume (m)			N/A
Share Price Performance			
6 months (%)			N/A
Relative change (%)*			N/A
Relative change (%)**			N/A
12 months			N/A
Relative change (%)*			N/A
Relative change (%)**			N/A
Financials	**2010**	**2011F**	**2012F**
Equivalent EPS (AKZ)	1,796.43	2,163.72	2,607.00
Equivalent DPS (AKZ)	715.00	861.18	1,037.62
Equivalent NAV/Share (AKZ)	3,879.73	6,088.22	8,744.46
Net Interest Margin (%)	6.4%	6.4%	6.4%
FINANCIAL SUMMARY (AKZm)			
Net interest income	35,901.0	43,241.1	52,099.9
Profit before tax	30,694.6	36,970.2	44,544.3
Attributable earnings	30,634.6	36,898.0	44,457.2
RATIOS			
RoAE	60.2%	43.4%	35.2%
RoAA	4.7%	4.5%	4.4%
Cost/Income Ratio (%)***	19.7%	17.7%	15.9%
Loans/Deposits (%)	129.1%	129.1%	129.1%
VALUATION RATIOS			
Equivalent PBV (x)	5.6	3.5	2.5
Assumed PER (x)	12.0	10.0	8.3
Equivalent dividend Yield (%)	3.3%	4.0%	4.8%
Dividend payout ratio (%)	39.8%	39.8%	39.8%

***Pre provision for impaired advances

NB: The above figures are for illustration purposes only as this bank is not yet listed. Market capitalisation has been calculated using an assumed PER of 12x (Weighted average forward PER for our sample of African peers, ex South Africa).

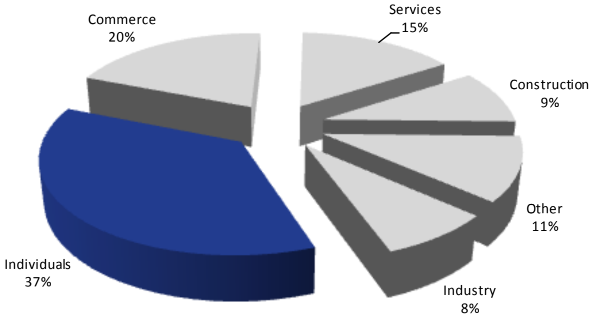
STRENGTHS	WEAKNESSES
Number 2 bank in Angola; assets of US$7.7bn Highly profitable; High RoAE/RoAAs Very lean cost structure; CIR of 20% Leading Portuguese bank, strong brand Skills/technology transfer	Weak regulatory framework/redtape Bureaucracy Young financial sector, inherent structural weaknesses Balance sheet overstretched by Angolan stds
OPPORTUNITIES	**THREATS**
Prime listing candidate Continued growth >15% penetration levels Increasing trade with Portugal Growth into investment banking Booming domestic economy	Commodity price shocks Increasing competition for deposits, 21 banks and several in the pipeline Illiquidity

Banco de Poupança e Credito (BPC)

As the largest publicly owned commercial bank, BPC's dominant position has been a natural consequence of the dominance of the civil services as a proportion of the country's fiscus, estimated to have a value of over US$10bn in FY2011. The ratification of new legislation, opening up the market to other banks will dilute this dominance, however with a continued vantage position, BPC will continue to be one of the dominant players in the Angolan banking space.

- At the end of FY2009 (the latest published accounts) the bank had 2,836 employees, 131 branches, 66 service posts and 3 mobile branches.
- Total deposits increased by US$268m, up 7% to US$4.0bn and we anticipate growth to the US$4.8bn level in FY2010.
- During FY2009, over 170,000 new accounts were opened bringing the sum to 1.2m active accounts, of which 96.7% belonged to individuals and of which over 500,000 are salaried accounts (mostly civil service employees). The average balance per account was US$3,319, which reflects the relatively higher liquidity levels attendant in oil economies.
- The credit granted to the various economy sectors amounted to US$2.9bn. The bank is one of the most active financiers of public projects within the transport, telecommunications, sanitation and public health sectors, an example of which was the financing of the expansion of the TAAG aircraft fleet.
- As a consequence of the increase in the Bank's efficiency, attributable revenues registered a 28% increase to US$140m compared to 2008.
- The LDR ended FY2009 at 68% and debt quality improved as indicated by The NPL ratio improving from 7.7% to 4.9% as at the end of FY2009.

Figures 43: Loan disbtribution by sector at 31 Dec 2009



Source: BPC Annual report

BLOOMBERG: N/A			www.bpc.ao
Equivalent price (AKZ)			1,588.94
Equivalent price (US$)			16.72
Exchange Rate vs US$ (AKZ)			95.06
Upside/Downside			N/A
12 month High/Low (AKZ)			N/A
Liquidity			
Equivalent Market Cap (AKZm)			158,893.5
Equivalent Market Cap (US$m)			1,671.5
Assumed number of shares (m)			100.0
Free Float (%)			N/A
Ave Monthly value traded (US$m)			N/A
Ave Monthly volume (m)			N/A
Share Price Performance			
6 months (%)			N/A
Relative change (%)*			N/A
Relative change (%)**			N/A
12 months			N/A
Relative change (%)*			N/A
Relative change (%)**			N/A
Financials	**2010**	**2011F**	**2012F**
Equivalent EPS (AKZ)	132	204	293
Equivalent DPS (AKZ)	0	1	1
Equivalent NAV/Share (AKZ)	603	809	1,105
Net Interest Margin (%)	9.0%	9.0%	9.0%
FINANCIAL SUMMARY (AKZm)			
Net interest income	29,537.2	38,398.4	49,917.9
Profit before tax	15,953.2	24,539.3	35,357.6
Attributable earnings	13,241.1	20,367.6	29,346.8
RATIOS			
RoAE	24.7%	28.8%	30.7%
RoAA	2.6%	3.2%	3.5%
Cost/Income Ratio (%)***	41.7%	36.4%	31.8%
Loans/Deposits (%)	67.6%	67.6%	67.6%
VALUATION RATIOS			
Equivalent PBV (x)	2.6	2.0	1.4
Assumed PER (x)	12.0	7.8	5.4
Equivalent dividend Yield (%)	0.0%	0.0%	0.1%
Dividend payout ratio (%)	0.3%	0.3%	0.3%

***Pre provision for impaired advances

NB: The above figures are for illustration purposes only as this bank is not yet listed. Market capitalisation has been calculated using an assumed PER of 12x (Weighted average forward PER for our sample of African peers, ex South Africa).

STRENGTHS	WEAKNESSES
Largest bank in Angola with assets of US$8.3bn Highly profitable; High RoAE/RoAAs Lean cost structure Liquid balance sheet, CAR Banker to Sonangol and state	Weak regulatory framework/redtape Bureaucracy Young financial sector, inherent structural weaknesses Dearth of skilled staff
OPPORTUNITIES	**THREATS**
Prime listing candidate Continued growth >10% penetration levels International offices in SA, Portugal Growth into investment banking Booming domestic economy	Commodity price shocks Increasing competition for deposits

Botswana – Macro-economic overview

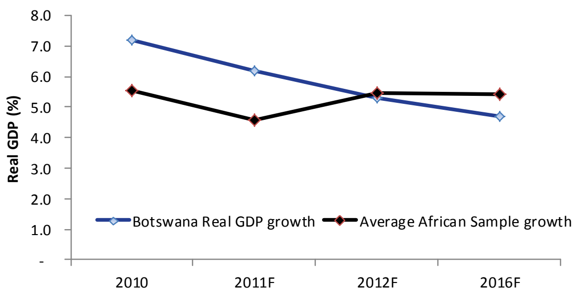
Key Themes:

- Botswana's economy staged an impressive recovery during the past year. The recovery was led by the diamond sector which was propelled by rapidly rising prices for rough diamonds in international markets. Mining contributed 31% to total GDP of BWP100.9bn (US$15.4bn). Non-mining sector growth was also solid, notwithstanding the deceleration of public expenditure growth.
- Despite the recovery, underlying inflationary pressures remain contained. Consumer price inflation (year-on-year) rose from about 7% at end-2010 to 8.3% as of May 2011, but driven almost exclusively by cost-push factors related to food and fuel price shocks. Since a 50 basis points cut in the prime lending rate in December 2010, the central bank has left rates unchanged. The Pula depreciated against the Rand by 7.4% during 2010, to end the year close to parity (BWP1 = ZAR1.03 as at 31 December. The Pula has since bounced back and has appreciated 6% against the ZAR YTD but has depreciated 12% against the US$ over the same period.
- The estimated fiscal outturn in FY2010/11 was better than expected with a deficit close to 10% of GDP, compared to the original budget target of 12% of GDP. The non-mineral primary deficit declined from about 31% of non-mineral GDP in FY2009/10 to 27 % in FY2010/11.
- The overall external position has also strengthened. Annual export growth (in US$) was about 35% in FY2010 to US$4.6bn. Strong export growth led to a considerable narrowing of the trade deficit in FY2010. Beyond diamonds, other minerals such as copper and nickel have benefitted from a surge in international prices. Outside mining, beef exports also rose in FY2010, while the weakest performer continues to be the textile sector. Since the beginning of 2011, beef exports have been hardest hit as a result of the outbreak of foot and mouth disease, while the textile industry has begun to gain traction.
- The medium-term outlook is for the recovery to be sustained. While inflation remains above the central bank's target band of 3% to 6%, it is expected that it will fall within this range in the second half of 2012. Output growth is projected to average about 5.5% with an important contribution by sectors other than diamonds.

Botswana banking industry overview

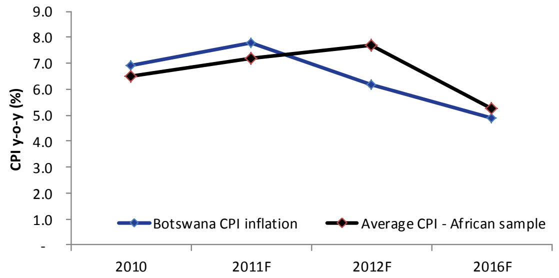
- The number of licensed commercial banks and statutory banks remained at 11 and 3, respectively, as there were no new market entrants during the year.
- Four new branches were opened across the industry in 2010, compared to five in 2009, bringing the number of operational branches country-wide to 94. An additional 29 ATMs were installed during the year, bringing the number of ATMs to 381. FNBB recorded the highest increase of 16 ATMs.
- The four largest banks (FNBB, Barclays, Stanchart and Stanbic) continued to dominate the private commercial bank market in terms of market share of total assets, deposits and loans. These banks accounted for 87%, 86% and 87% of industry total assets, deposits and loans, respectively, in FY2010.
- Credit growth in 2010 was marginally higher than in 2009, but remained lower than pre-recession levels.

Figure 44: Botswana Real GDP Growth 2010 - 2016



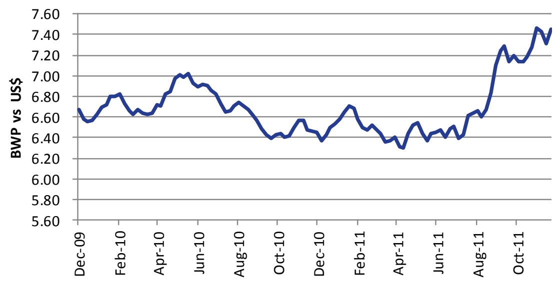
Source: IMF

Figure 45: Botswana CPI Inflation 2010 - 2016



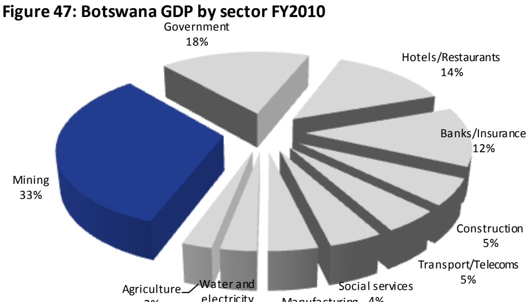
Source: IMF

Figure 46: Botswana Pula vs US$



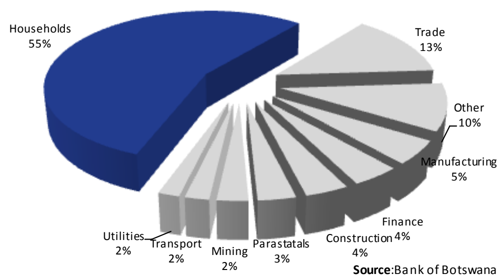
Source: Oanda.com

Figure 47: Botswana GDP by sector FY2010



Source:Bank of Botswana

Figure 48: Botswana Commercial bank loans - Oct 2011

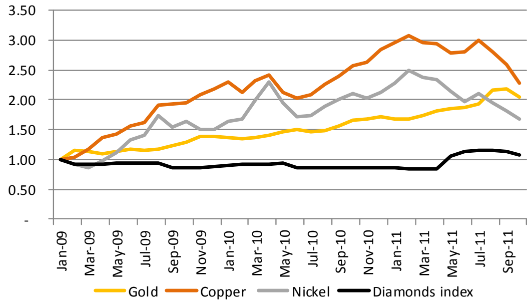


Source:Bank of Botswana

Botswana - Macro-economic overview (Cont.)

- During the year, total loans and advances grew by 12% (11% in 2009), from BWP19.1bn (US$2.9bn) in 2009 to BWP21.3bn (US$3.3bn).
- Deposits continued to constitute a significant portion of banking sector liabilities, at 84%, while shareholder funds constituted only 8% of liabilities. Deposits grew by 11% from BWP37.6bn (US$5.8bn) in FY2009 to BWP41.6bn (US$6.4bn) in FY2010.
- The four largest banks' share by value of deposit accounts dropped to 86% in 2010 from 90% in 2009, which may be an indication of customers' willingness to switch banks in search of better service quality at a reasonable price. This is a reflection of increased competition in the banking sector as smaller banks of the likes of Bank Gaborone are eating away at market share.
- The ratio of loans to deposits rose for a fifth consecutive year and stood at 53% in FY2010 (52% recorded in FY2009). This marginal growth was due to a rapid growth in deposits of 11% in FY2010 compared to 0.7% in FY2009, while advances grew only slightly from 11% to 12% in FY2010.
- The banking industry continued to experience a decline in earnings in FY2010, registering a fall of 7% to BWP5.5bn (US$0.8bn) from BWP6.0bn (US$0.9bn) in FY2009. This was largely due to a 7.3% drop (BWP0.2bn) in interest earned on loans and advances following the 50 basis points reduction in the Bank Rate.
- RoAE declined from 40.3% in FY2009 to 34.5% in FY2010, while RoAA increased marginally from 2.7% in 2009 to 3.0% in FY2010. The decline in RoAE was as a result of a significant growth of 35% in total equity. Notwithstanding the decline to these levels, RoAE of 34.5% is high when compared to international norms of approximately 20% - 30% (in many cases lower) for banks of comparable size.
- NIMs were unchanged in FY2010 compared to the previous year following a decline in net interest income from 7.7% in FY2009 to 4.1% in FY 2010. The decline in net interest income was consistent with the tight economic conditions and also the easing of monetary policy in FY2010. The industry's NIM stood at 6.5%, down from 6.7% in the previous year and is forecast at 6.3% in FY2012.
- The marginal drop in the CIR, from 45.2% to 44.8% in 2010, was attributable to cost containment by banks in light of reduced margins.
- Aggregate NPLs grew by 2%, from BWP1.5bn (US$0.2bn) in FY2009 to BWP1.6bn (US$0.2bn) in FY2010, which is a much slower rate than the 53% increase in the previous year which, relative to total advances, signifies an improvement in asset quality. Past due loans were highly concentrated in the household sector, accounting for 80.1% of the commercial banking industry's total past due loans in FY2010.
- The household sector maintained the largest proportion of banking industry advances at 60%, compared to 58% in 2009, while loans to the private sector declined to 38% with loans to the public sector remaining unchanged. The decline in the share of lending to the private sector was due to a combination of reduced government spending and banks being more risk averse. The share of lending to the household sector grew by 13% to BWP12.9bn in 2010 (BWP11.4bn in 2009), which was a slower rate of growth compared to 17% in the previous year.

Figure 49: Hard Commodities rebased - Jan 2009



EQUITY RESEARCH

BOTSWANA

FEBRUARY 2012

BancABC

H1 2011 pre-tax profit and profit after tax at BWP62.6m (US$9.6m) and BWP39.1m (US$6.0m) were up 84% and 36% respectively on the prior year. Attributable income from core banking operations increased by 62% from BWP45m (US$6.6m) to BWP73m (US$10.2m) as banking subsidiaries recorded increased profitability. The recovery in the Zimbabwean contribution was particularly notable.

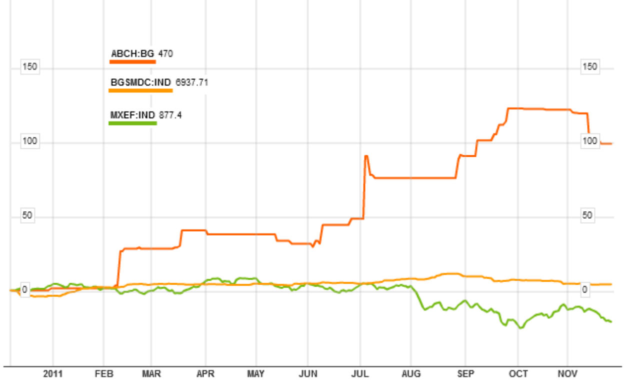
- The balance sheet increased to BWP7.4bn (US$1.1bn) compared to BWP5.1bn as at 30 June 2010 and BWP6.0bn as at 31 December 2010. The balance sheet now exceeds US$1.0bn for the first time in the history of the group.
- This increase in deposits was mainly driven by BancABC Zimbabwe which increased its deposits by BWP1.1bn (US$168.3m). BancABC Zimbabwe's loan book at BWP1.5bn (US$229.5m) constitutes the largest contribution at 37%. Zimbabwe's GDP growth is estimated to grow by 9.4% in FY2012, driven by rapid expansion in the mining, agriculture, finance, tourism and FMCG sectors.
- The overall quality of the loan book has improved as evidenced by the reduction in the non-performing loans ratio from 9.4% to 5.5% and is trending towards the group's target of 3%.
- The cost to income ratio stood at 72%, 2 percentage points lower than recorded in prior year. This however, still remains higher than its peers and a long way off management's target of 50%.
- BancABC's retail expansion continues to transform the nature of the group, however, increasing operational costs in the interim remain a concern. Loan book growth is healthy while the quality is improving. BancABC is the best performing share on the domestic board with a 144% increase YTD, against a DCI performance of 7%. We value the bank at BWP6.20, representing 31.8% upside and issue a **BUY** recommendation.

STRENGTHS	WEAKNESSES
Regional footprint Highest net interest margins Diversified earnings stream Excellent share price performance ADC can provide additional capital	Illiquid stock; High gearing levels High CIR, Lower profitability Higher potential for bad debts in Zimbabwe due to lack of lender of last resort
OPPORTUNITIES	**THREATS**
Expansion into retail sector High growth in Zimbabwean economy Cost optimisation to improve	Aggressive competition Declining net interest margins Retail banking sector already very full

BLOOMBERG: ABCH : BG			BUY
Current price (BWP)			4.60
Current price (US$)			0.61
Target price (BWP)			6.20
Upside/Downside			34.68%
12 month High/Low (BWP)			3.80; 1.20
Liquidity			
Market Cap (BWPm)			673.5
Market Cap (US$m)			89.1
Shares (m)			146.4
Free Float (%)			0.2
Ave Monthly value traded (US$m)			0.4
Ave Monthly volume (m)			0.7
Share Price Performance			
6 months (%)			48.4%
Relative change (%)*			29028.5%
Relative change (%)**			-813.6%
12 months			95.7%
Relative change (%)*			-4005.6%
Relative change (%)**			-3368.1%
** Relative to DCI*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (BWP)	0.47	0.57	0.68
DPS (BWP)	0.10	0.12	0.15
NAV/Share (BWP)	2.88	3.03	3.19
Net Interest Margin (%)	14.7%	14.7%	14.7%
FINANCIAL SUMMARY (BWPm)			
Net interest income	297.8	387.2	464.6
Profit before tax	91.1	110.4	132.4
Attributable earnings	68.6	83.1	99.7
RATIOS			
RoAE	16.7%	19.2%	21.9%
RoAA	1.3%	1.1%	1.0%
Cost/Income Ratio (%)***	80.3%	80.0%	80.0%
Loans/Deposits (%)	62.7%	62.7%	62.7%
VALUATION RATIOS			
PBV (x)	1.6	1.5	1.4
PER (x)	9.8	8.1	6.8
Dividend Yield (%)	2.2%	2.6%	3.2%
Dividend payout ratio (%)	21.3%	21.3%	21.3%

***Pre provision for impaired advances

Figure 52: Banc ABC vs MSCI EM vs BSE Index



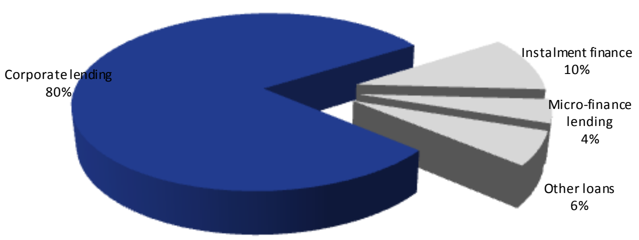
H1 2011 Financial & Operational Review

- The retail banking roll-out is progressing well and to date, 21 branches are operational compared to 13 branches at June 2010, and management plans to have opened no less than 30 more branches across their southern African footprint.
- Net interest income increased to BWP191.4m representing a 30% increase compared to the prior year. Growth was largely driven by the balance sheet which has increased by BWP1.4bn or 23% since 31 December 2010, driven by both advances and deposits.
- Operating expenses were BWP244.0m, representing an 18% increase on the prior year figure of BWP206.0m. This increase was due to the ongoing retail bank rollout. The cost to income ratio is expected to continue to decline as revenue growth from these entities continues to accelerate. For the period, the cost to income ratio stood at 72%, 2 percentage points lower than that recorded in prior year. This, however, still remains higher than its peers and the group's target of 50%.
- Attributable profit stood at BWP37.4m (up 33%) driven by BancABC Zimbabwe and BancABC Tanzania which recorded increases of 421% and 69%, respectively. BancABC Botswana's profit was flat whereas BancABC Mozambique and BancABC Zambia recorded declines of 41% and 18% respectively. BancABC Mozambique's bottom line was affected by a lower too line, higher operating costs and the depreciation of the pula against the meticais. BancABC Zambia's profitability was affected by higher operating costs.

Overview of balance sheet as at 30 June 2011

- Deposits increased to BWP6.0bn from BWP4.9bn in December 2010 and BWP4.1bn as at 30 June 2010, representing a 45% increase for the half which was way above inflation and its peers.
- Loans and advances increased to BWP4.0bn from BWP3.1bn (22%) as at December 2010 and BWP2.3bn as at 30 June 2010 representing a 72% increase. BancABC Botswana is the 2nd highest contributor to the group's loan book behind bank ABC Zimbabwe at 28%, which has made a dramatic comeback, post dollarization and the nascent economic recovery in that country.
- BancABC has a loan to deposit ratio of 67% which is in line with most of its peers, although higher than the industry average 53%.

Figures 53: Loan disbtribution by type at 30 Dec 2010



Source: BancABC

Income Statement (BWPm)	H1 2010	H1 2011	% ch
Net interest income	146.8	191.4	30%
Other income	121.6	145.7	20%
Total Income	**268.4**	**337.0**	**26%**
Provisions	(17.0)	(25.8)	52%
Expenses	(206.0)	(244.0)	18%
Profit before tax	34.0	62.6	84%
Attributable earnings	**28.1**	**37.2**	**33%**

Balance Sheet (BWPm)	H1 2010	H1 2011	% ch
Cash and short term funds	717.7	1,356.6	89%
Derivative financial inst.	6.4	8.1	25%
Securities	1,477.2	1,141.5	-23%
Loans & Advances	2,341.7	4,019.0	72%
Fixed Assets	302.6	392.8	30%
Other	275.8	447.3	62%
Total Assets	**5,121.5**	**7,365.2**	**44%**
Deposits	4,132.0	6,004.0	45%
Derivative financial liabilitie:	5.6	-	n/a
Borrowed Funds	471.0	682.0	45%
Other liabilities	92.9	226.2	143%
Shareholders' funds	420.0	453.0	8%
Total liabilities and equity	**5,121.5**	**7,365.2**	**44%**

Net interest margin	7.7%	7.4%	-3.5%
Cost to income ratio	76.7%	72.4%	-5.6%
RoE	13.4%	16.4%	23.0%
RoA	1.1%	1.0%	-7.8%
Rough CAR	9.6%	7.5%	-21.0%
Loan/Deposit	56.7%	66.9%	18.1%

Outlook, Valuation and Recommendation

- We expect Zimbabwean and Botswana operations to continue to drive the balance sheet growth going forward given the economic recovery in both countries coupled with the retail expansion.
- BancABC has drawn down on a credit line for US$13.5m from the IFC, the proceeds of which will be used to further capitalise BancABC Zimbabwe and BancABC Tanzania.

BancABC's retail roll-out has begun to bear fruit as evidenced by a growth in profitability and the loan book. The stability and dollarisation of the Zimbabwean economy has aided the strong performance. We value BancABC at BWP6.20 and reiterate our **BUY** recommendation post a strong rally in FY2011.

Top 10 Shareholders	%
African Development Corporation	20.0%
DT Munatsi	14.6%
Old Mutual Life Assurance Co. of Zimbabwe	10.9%
International Finance Corporation	10.7%
Stanbic Nominees Botswana - BIFM	7.5%
B Moyo	4.9%
Barclays Botswana Nominees - SIMS	4.6%
Nederlandse Financierings	2.5%
Barclays Botswana Nominees - Other	2.4%
Dennilton Investments	2.0%
Free float	20.0%
Total	**100.0%**

Barclays Bank of Botswana Limited

EQUITY RESEARCH

BOTSWANA

FEBRUARY 2012

Barclays Bank Botswana Limited

In H1 2011, net interest income was flat at BWP494.1m (US$75.6m), was in line with the movement in advances and deposits which were slightly down y-o-y. During the period, Barclays ceased giving out new loans as it concentrated on the rehabilitation of its loan book.

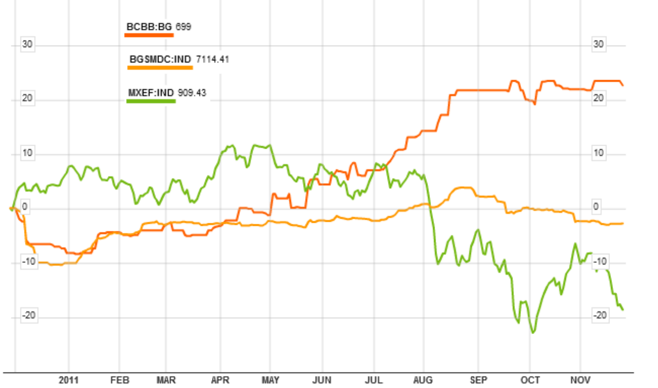
- The H1 2011 performance was significantly improved by a BWP63.4m (US$9.7m) reduction in the impairment charge for the period under review. This came about as a result of improved collection rates and a robust credit policy. The loan loss rate has improved from 3.7% in FY2010 to 1.5% at the interim date.
- Loans and advances were marginally down (-0.4%) to BWP5.7bn (US$8.7m) while deposits were down 2.2% to BWP9.3bn (US$1.4bn). Although management attributes this slow-down to stringent credit policies, some of it was as a result of the bank losing market share to its competitors.
- The bank continues to maintain a healthy capital adequacy ratio of 26.4% above the minimum regulatory requirement of 15%.
- Barclays Corporate Division completed a number of significant lending transactions, and was the receiving bank for all local IPOs. In partnership with Mascom, Barclays launched the ‘Myzaka’ e-wallet, Botswana’s first mobile banking offering.
- Barclays bank has come under pressure over the past couple of years due to the poor quality of its loan book and increased competition. The bank has since re-positioned itself in the market. With a superior geographical representation and extensive customer base, Barclays is well positioned to regain its competitiveness in the local market. Barclays’ share price has gained 26% YTD, against a DCI performance of 7%. We value Barclays at BWP6.84 believe the counter to have limited upside. **HOLD**.

STRENGTHS	WEAKNESSES
Largest Branch Network in Botswana	High leverage
Significant market share	Fully valued; limited upside
Diversified income streams	Mature operation, less upside
Strong parent company	Inability to diversify regionally
Solid NIMs	
OPPORTUNITIES	**THREATS**
Low loan/deposit ratio; significant growth potential	Increased competition: BancABC to enter retail banking space
Growth of mobile money product	Prolonged macro weakness
Recovery of economy post recession	Weak export markets for diamonds and tourism

BLOOMBERG: BCBB : BG			HOLD
Current price (BWP)			6.99
Current price (US$)			0.92
Target price (BWP)			6.84
Upside/Downside			-2.19%
12 month High/Low (BWP)			7.10; 5.39
Liquidity			
Market Cap (BWPm)			5,956.6
Market Cap (US$m)			787.9
Shares (m)			852.2
Free Float (%)			11.0%
Ave Monthly value traded (US$m)			2.0
Ave Monthly volume (m)			2.2
Share Price Performance			
6 months (%)			17.1%
Relative change (%)*			10185.2%
Relative change (%)**			-352.0%
12 months			24.6%
Relative change (%)*			-954.8%
Relative change (%)**			-939.7%
** Relative to DCI*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (BWP)	0.67	0.71	0.74
DPS (BWP)	0.33	0.35	0.37
NAV/Share (BWP)	1.48	1.82	2.20
Net Interest Margin (%)	8.7%	8.7%	8.7%
FINANCIAL SUMMARY (BWPm)			
Net interest income	1,001.8	1,155.0	1,212.7
Profit before tax	657.3	793.3	832.9
Attributable earnings	499.5	602.8	632.9
RATIOS			
RoAE	45.3%	42.8%	37.0%
RoAA	4.9%	4.8%	4.7%
Cost/Income Ratio (%)***	39.0%	36.4%	36.4%
Loans/Deposits (%)	62.3%	45.0%	45.0%
VALUATION RATIOS			
PBV (x)	4.7	3.8	3.2
PER (x)	10.4	9.9	9.4
Dividend Yield (%)	4.8%	5.0%	5.3%
Dividend payout ratio (%)	49.8%	49.8%	49.8%

***Pre provision for impaired advances

Figure 54: Barclays vs MSCI EM vs BSE Index



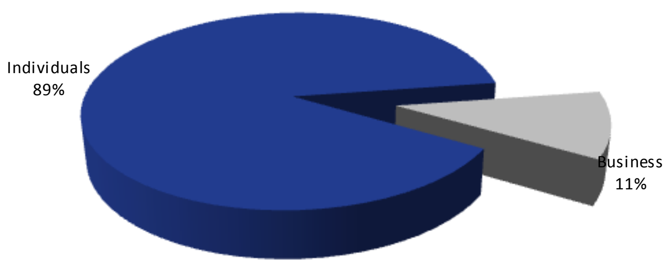
H1 2011 Financial & Operational Review

- Barclays Bank is the second largest bank in Botswana by balance sheet size after FNBB. Its geographical representation far surpasses its competitors with a branch network of 40 representing 43% of the industry's total.
- Net interest income for the period was flat at BWP494m, up 0.9% when compared to the comparable period. The net interest margin for the period stood at 6.9%, up from 6.1% which is the second highest behind BancABC and above the industry average of 6.5%.
- The bank downsized its work force during FY2010, as a strategy to enhance efficiencies. Total operating costs decreased by 6.4% to BWP280.6m. The bank currently has a cost to income ratio of 42.7% which is the second lowest after FNBB and is below the industry average of 44.8%.
- Total income decreased by 2.2% to BWP656.9m (H1 2010: BWP672.0m), largely due to a decrease in fee income. The negative impact of reduced fee income during the period has been to some extent negated through strong growth in trading income.
- Pre-tax and post-tax profits were 25.6% and 35.6% ahead of the previous period at BWP330.5m and BWP279.0m, respectively.

Overview of the Balance sheet at 30 June 2011

- Deposits recorded a marginal decrease of 2.2% to BWP9.3m. Barclays is the only bank amongst its peers which recorded a decrease in deposits for the reporting period, and an indication of loss of market share.
- Loans and advances were also marginally down to BWP5.7bn (-0.4%). Impairment charges for the period decreased by 58.1% to BWP45.8m due to a robust collection policy and improved book quality. The NPL ratio similarly improved to 1.5% compared to 3.8% at the end of FY2010.
- Barclays still has some room to increase its loan book, as evidenced by the loan to deposit ratio of 64%. In H2 2011, we expect the loan book to increase more significantly than the previous half.

Figure 55: Loan distribution by sector at 31 Dec 2010



Source: Barclays Botswana

Income Statement (BWPm)	H1 2010	H1 2011	% ch
Net interest income	489.8	494.1	1%
Other income	182.3	162.8	-11%
Total Income	**672.0**	**656.9**	**-2%**
Provisions	(109.2)	(45.8)	-58%
Expenses	(299.8)	(280.6)	-6%
Profit before tax	263.1	330.5	26%
Attributable earnings	**205.7**	**279.0**	**36%**

Balance Sheet (BWPm)	H1 2010	H1 2011	% ch
Cash at central Bank	394.2	525.0	33%
Cash on hand	162.1	140.9	-13%
Balances with banks	81.9	288.4	252%
Securities	3,697.0	3,494.5	-5%
Loans & Advances	5,726.9	5,701.7	0%
Fixed Assets	106.9	112.4	5%
Other	1,581.5	1,305.6	-17%
Total Assets	**11,750.5**	**11,568.5**	**-2%**
Deposits	9,506.4	9,297.9	-2%
Due to banks	101.8	15.0	-85%
Borrowed Funds	937.5	625.7	-33%
Other liabilities	201.4	324.1	61%
Shareholders' funds	1,003.5	1,305.8	30%
Total liabilities and equity	**11,750.5**	**11,568.5**	**-2%**

Net interest margin	10.3%	10.4%	1%
Cost to income ratio	44.6%	42.7%	-4%
RoE	41.0%	42.7%	4.2%
RoA	3.5%	4.8%	37.7%
Rough CAR	13.5%	18.3%	35.5%
Loan/Deposit	60.2%	61.3%	1.8%

Outlook, Valuation and Recommendation

Barclays has come under pressure from increased competition, mainly from FNBB and very recently Stanbic and other new entrants over the past couple of years. Management has embarked on a strategy it termed "Ikatu" which is aimed at growing the bank through increased customer collaboration and leveraging off the greater Barclays Group. The strategy is also aimed at providing technology based services to customers.

We value Barclays at BWP7.64 (10% upside), and recommend that investor **HOLD** Barclays at current levels.

Top 10 Shareholders	%
Barclays Bank plc	67.8%
SCBN (Pty) Ltd	4.3%
Stanbic Noms - BIFM BPOPF	3.8%
SCBN (Pty) Ltd	3.8%
Motor Vehicle Accident fund	3.1%
Stanbic Noms - BIFM	2.8%
SCBN (Pty) Ltd	1.5%
SCBN (Pty) Ltd	0.9%
BBN (Pty) Ltd	0.9%
Stanbic Noms - AG BPOPF	0.8%
Other	10.3%
Total	**100.0%**

First National Bank of Botswana

First National Bank's pre-tax profit increased by 20% to BWP367.7m (US$97.5m) for FY2011, on the back of a robust book. PAT increased by 32% to BWP573.8m (US$87.7m) and the bank continues to be one of the most profitable by RoAE.

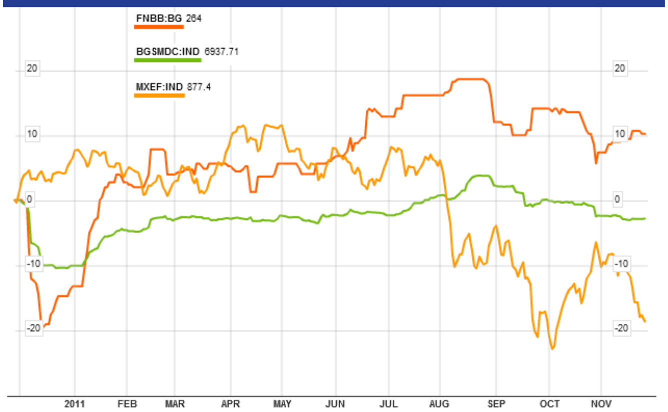
- The resurgence of upside risks associated with interest income due to increased rates of default and the central bank's monetary policy saw FNBB re-directing its efforts towards growing its retail banking business and improving market penetration.
- Net interest income increased by 22% to BWP661.8m (US$101.9m). Net interest margins increased from 4.1% to 5.1% during the year, as the majority of loan growth was driven by the retail division.
- Greater transaction volumes boosted non-funded income which increased by 24% to BWP504.5m (US$77.1m).
- In order to fully utilise the Additional Company Tax (ACT) credit, which fell away in July 2011 as a result of tax legislation changes, the bank declared and paid a special dividend of 8.00 thebe per share in June 2011. The impact of this was a reduction in the effective tax rate in the current year compared to prior year.
- FNBB has been the market leader in the banking industry over the past couple of years, driven mainly by the technological advantage it had over its peers. It boasts healthy profitability ratios and a low cost to income ratio. Its continued branch expansion into the rural areas should increase its customer base.
- FNBB's share price has gained 16% YTD, against a DCI performance of 7%. We value FNBB at BWP2.30 and see limited upside potential. **HOLD**.

STRENGTHS	WEAKNESSES
Significant market share; strong brand	No scope to penetrate regional markets
Diverse earnings stream	
Innovative/cutting edge technology	
low gearing levels	
High profitability from high base	
OPPORTUNITIES	**THREATS**
Continued retail penetration	Very competitive local market
Uptake of mobile and internet banking	Declines in net interest margins
Continued focus on technological	Weak recovery in Botswana
Resilient throughout economic slowdown	

BLOOMBERG: FNBB : BG			HOLD
Current price (BWP)			2.63
Current price (US$)			0.35
Target price (BWP)			2.30
Upside/Downside			-12.38%
12 month High/Low (BWP)			2.95; 1.90
Liquidity			
Market Cap (BWPm)			6,743.3
Market Cap (US$m)			892.0
Shares (m)			2,564.0
Free Float (%)			13.0
Ave Monthly value traded (US$m)			1.6
Ave Monthly volume (m)			4.8
Share Price Performance			
6 months (%)			34.9%
Relative change (%)*			20892.5%
Relative change (%)**			-614.3%
12 months			-13.8%
Relative change (%)*			690.5%
Relative change (%)**			370.0%
** Relative to DCI*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (BWP)	0.22	0.24	0.25
DPS (BWP)	0.20	0.21	0.22
NAV/Share (BWP)	0.45	0.47	0.50
Net Interest Margin (%)	6.3%	6.3%	6.3%
FINANCIAL SUMMARY (BWPm)			
Net interest income	662.0	738.7	809.1
Profit before tax	638.2	681.5	713.2
Attributable earnings	574.2	613.1	641.7
RATIOS			
RoAE	49.8%	51.9%	51.4%
RoAA	4.5%	4.5%	4.2%
Cost/Income Ratio (%)***	40.3%	40.5%	40.5%
Loans/Deposits (%)	67.7%	68.9%	65.9%
VALUATION RATIOS			
PBV (x)	5.9	5.6	5.3
PER (x)	11.7	11.0	10.5
Dividend Yield (%)	7.6%	8.1%	8.5%
Dividend payout ratio (%)	89.3%	89.3%	89.3%

***Pre provision for impaired advances

Figure 56: Barclays vs MSCI EM vs BSE Index



FY 2011 Financial & Operational Review

FNBB, which has, through its production diversification and innovation, grown to be the largest bank in the country, is seeking to expand its presence not through brick and mortar infrastructure but more vigorously through innovative, new technology based products, as dictated by their 'Bricks to Clicks' initiative.

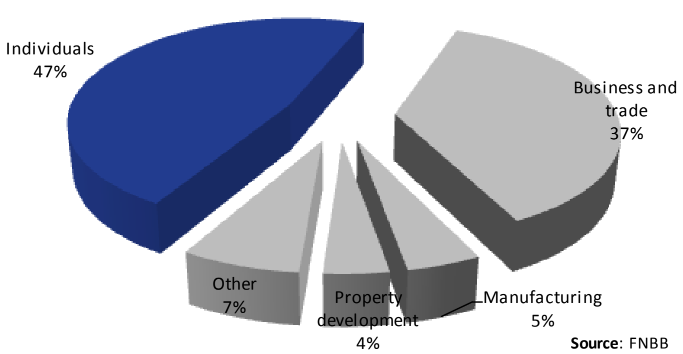
Overview of the income statement at end FY2011

- Net interest income for FY2011 was 22% ahead of the previous year. FNBB has been able to grow its net interest income by an average of 18% over the past 4 years. NIMs for the period increased from 4.1% to 5.1%, although they are still below the industry average of 6.5%.
- The improvement in non-interest income of 24% is part of the bank's strategy to diversify income streams away from interest income in order to mitigate risks associated with interest rate developments and any deterioration in loan quality.
- Total expenses increased by 24%, impacted by the alignment of non-managerial staff salaries to the market, an increased staff compliment, various projects intended to improve efficiencies, customer service and information systems for reporting. The costs were also impacted by the opening of a new branch and the revamping of already existing branches as well as the increase in ATMs by 30. FNBB's cost to income ratio stood at 40% representing a 1 percentage point increase on the prior period, but commendably, is 4.8% behind the industry average.
- PBT and PAT increased by 20% and 32% respectively when compared to the previous year, the latter as a result of the reduction in the effective tax rate.

Overview of the balance sheet at end FY2011

- Deposits grew by 3% to BWP10.6bn in FY2011. Although retail deposits increased by 20%, the decline in corporate deposits negatively affected the overall growth in deposits as some corporates embarked on expansion initiatives using their cash resources.
- Loans and advances increased by 24% to BWP7.2bn, driven mainly by the property finance and retail divisions. FNBB has been able to grow its loan book at an average of 17% y-o-y over the past 4 years.

Figure 57: Loan distribution by sector at 31 Dec 2010



Source: FNBB

Income Statement (BWPm)	FY 2010	FY 2011	% ch
Net interest income	544	662	22%
Other income	411	506	23%
Total Income	**954**	**1,168**	**22%**
Provisions	(43)	(59)	36%
Expenses	(379)	(471)	24%
Profit before tax	532	638	20%
Attributable earnings	**436**	**574**	**32%**

Balance Sheet (BWPm)	FY 2010	FY 2011	% ch
Cash at central Bank	1,201	1,707	42%
Accounts receivable	58	171	195%
Balances with banks	-	361	n/a
BOB Certificates	4,946	3,497	-29%
Loans & Advances	5,803	7,171	24%
Fixed Assets	187	202	8%
Other	37	51	37%
Total Assets	**12,233**	**13,159**	**8%**
Deposits	10,305	10,597	3%
Due to banks	4	215	5280%
Borrowed Funds	208	245	18%
Other liabilities	558	953	71%
Shareholders' funds	1,159	1,148	-1%
Total liabilities and equity	**12,233**	**13,159**	**8%**

Net interest margin	4.0%	4.9%	24%
Cost to income ratio	39.7%	40.3%	2%
RoE	37.6%	50.0%	33%
RoA	3.6%	4.4%	22%
Rough CAR	19.2%	15.5%	-20%
Loan/Deposit	56.3%	67.7%	20%

Outlook, Valuation and Recommendation

- Although the impairment charges for the year increased by 36%, the impairment to gross advances ratio at 0.8% is in line with management's expectations. The NPL ratio was maintained at 2%.
- FNBB's CAR which excludes the dividend reserve has been maintained at 15.72% which is in line with budget and above the required ratio by the Bank of Botswana.

FNBB has been the market leader over the past couple of years, driven mainly by the technological advantage it had over its peers. It boasts healthy profitability ratios and a low CIR. We value FNBB at BWP2.30 and proffer a **HOLD** recommendation.

Top 10 Shareholders	%
First National Bank Holdings (Botswana) Ltd	73.5%
SCBN - BIFM	4.3%
SCBN - IAM	3.3%
Stanbic Nominees - BIFM	3.2%
SCBN - FAM	2.9%
SCBN - SSB	2.4%
Motor Vehicle Accident Fund	2.1%
FNB Nominees - SIMS	1.6%
FNB Nominees - Agray	0.7%
SCBN - BIFM	0.7%
Other	5.3%
Total	**100.0%**

EQUITY RESEARCH

BOTSWANA

FEBRUARY 2012

Standard Chartered Bank Botswana Limited

Standard Chartered Bank Botswana first opened for business in 1897, making it the country's oldest bank. In 1956, the office was given a full branch status and this was followed by the opening of branches in Lobatse (1958), Mahalapye (1963) and Gaborone (1964). Today, the Bank operates a network of 17 branches and agencies supported by a Loan Centre and Customer Call Centre.

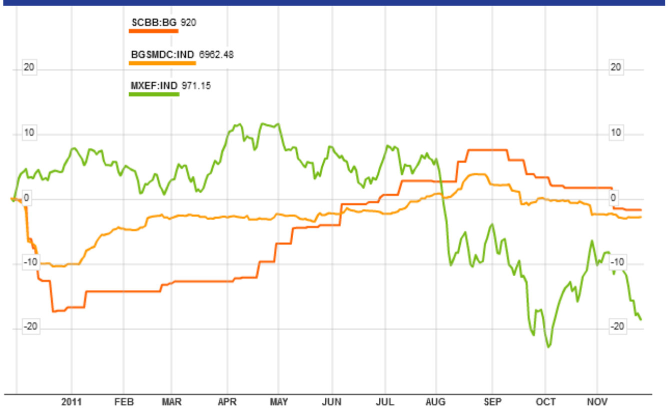
- Stanchart continued with a predominant focus on the corporate sector. The majority of its loan book (86.6%) is made up of wholesale loans.
- Stanchart has been conservative with respect to its branch expansion, but the bank embarked on a refurbishment and re-branding of the existing branch network which started in 2010 and is expected to be complete by the end of 2011.
- The bank grew its loans and advances by 28.7% to BWP4.1bn, but still has room to grow further, given the relatively low loan to deposit ratio of 46.2% which is the lowest in the sector. The quality of the loan book showed an improvement, with the NPL ratio falling from 2.2% to 1.0%. Together with Barclays, Stanchart has one of the cleanest loan books in the country, testimony to their conservative blue chip status.
- Total income increased by 21% to BWP419m (US$55m) with all segments of the business reporting strong growth.
- Operating expenses were tightly managed as evidenced by a cost to income ratio of 52%, that decreased by five percentage points. This however still remains ahead of the industry average of 44.8%.
- Stanchart's share price has gained 18% YTD, against a DCI performance of 7%. We value Stanchart at BWP8.51, representing slight over valuation and propose a **HOLD** recommendation.

STRENGTHS	WEAKNESSES
High and consistent div payout	Lost market share in deposits
Strong brand name	High banking penetration levels
Solid balance sheet, stable CARs	low housing stock in in Botswana
Impeccable quality of book	
Solid growth in loans	
OPPORTUNITIES	**THREATS**
Growth into SME banking	Stiff competition in retail space
Recovery of consumer market	Decline in NIMs
Leaner cost structure	Protracted sluggish growth
improving technological advances	Weak Eurozone affecting diamond sales and tourism

BLOOMBERG: SCBB : BG			HOLD
Current price (BWP)			9.03
Current price (US$)			1.19
Target price (BWP)			8.51
Upside/Downside			-5.77%
12 month High/Low (BWP)			10.05; 8.00
Liquidity			
Market Cap (BWPm)			2,601.2
Market Cap (US$m)			344.1
Shares (m)			288.1
Free Float (%)			25.0
Ave Monthly value traded (US$m)			1.7
Ave Monthly volume (m)			0.6
Share Price Performance			
6 months (%)			1%
Relative change (%)*			370%
Relative change (%)**			-112%
12 months			-3%
Relative change (%)*			233%
Relative change (%)**			6%
** Relative to DCI*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (BWP)	0.78	0.79	0.93
DPS (BWP)	0.70	0.71	0.84
NAV/Share (BWP)	2.23	2.79	4.50
Net Interest Margin (%)	5.0%	5.0%	5.0%
FINANCIAL SUMMARY (BWPm)			
Net interest income	483.8	510.8	593.6
Profit before tax	282.7	287.1	339.3
Attributable earnings	224.2	227.7	269.1
RATIOS			
RoAE	44.2%	31.5%	25.6%
RoAA	2.4%	2.1%	2.3%
Cost/Income Ratio (%)***	38.7%	36.5%	37.6%
Loans/Deposits (%)	37.9%	37.9%	45.0%
VALUATION RATIOS			
PBV (x)	4.1	3.2	2.0
PER (x)	11.6	11.4	9.7
Dividend Yield (%)	7.8%	7.9%	9.3%
Dividend payout ratio (%)	90.0%	90.0%	90.0%

***Pre provision for impaired advances

Figure 58: Barclays vs MSCI EM vs BSE Index



H1 2011 Financial & Operational Review

Standard Chartered Bank Botswana first opened for business in 1987, making it the country's oldest bank. Today, the Bank operates a network of 17 branches and agencies supported by a Loan Centre and Customer Call Centre

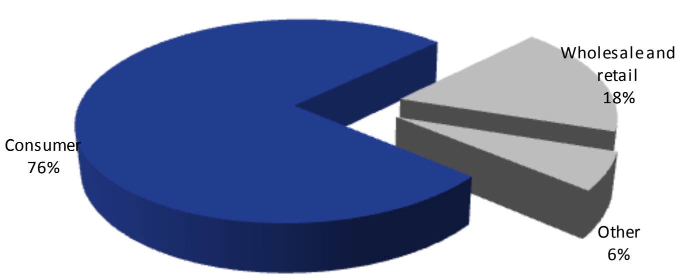
Overview of the income statement at 30 June 2011

- Net interest income increased by 4.31% to BWP249.1m, which was stymied by a drop in NIMs from 6% to 5.2% on an annualised basis.
- Non-interest income on the other hand was the main driver of top-line earnings and increased by 58.8% from BWP107.0m to BWP170.0m, driven mainly by increased transactional volumes and forex trading. The combined result was a 21.2% increase in operating income from BWP345.8m to BWP419.1m for the 6 months to 30 June 2011.
- Operating expenses were contained, slightly ahead of CPI inflation and increased by 9.8% to BWP218.9m, and the cost to income ratio improved from 57.5% to 52.1%. The refurbishment of branches which stared in 2010 was expected to be completed before the end of 2011, and therefore we expect a further reduction in the cost to income ratio in the FY2011 results.
- Profit before tax and profit after tax increased by 43.7% to BWP200.2m and 37.8% to BWP176.5m respectively, and the bank ended the half year on a stronger profitability margin of 55% as dictated by the annualised RoE.

Overview of the balance sheet at 30 June 2011

- Stanchart recorded a 33% increase in deposits y-o-y, with the wholesale banking division driving the majority of this growth with a 46.3% contribution. This growth however slowed down significantly as deposits actually decreased by 4% when compared to Dec 2010.
- Loans and advances grew by 27.5% to BWP4.2bn year-on-year. Wholesale banking loans account for the majority of the loan book, at 85.6% (H1 2010: 69.9%), with the division contributing 25.8% of the total impairment charge for the period.
- The total impairment charge improved slightly from BWP24.1m to BWP23.7m. Loan book quality also improved as evidenced by a reduction in the NPL ratio from 2.2% to 1% over the comparable period.

Figure 59: Loan distribution by sector at 31 Dec 2010



Source: Stanchart Botswana

Income Statement (BWPm)	H1 2010	H1 2011	% ch
Net interest income	239	249	4%
Other income	107	170	59%
Total Income	**346**	**419**	**21%**
Provisions	(24)	(24)	-2%
Expenses	(199)	(219)	10%
Profit before tax	123	177	44%
Attributable earnings	**99**	**136**	**38%**

Balance Sheet (BWPm)	H1 2010	H1 2011	% ch
Cash and cash equivalents	422	409	-3%
Balances with banks	132	129	-2%
Investment Securities	4,718	5,412	15%
Loans & Advances	3,177	4,088	29%
Fixed Assets	27	30	12%
Other	882	628	-29%
Total Assets	**9,358**	**10,697**	**14%**
Deposits	6,664	8,838	33%
Due to banks	1,527	415	-73%
Borrowed Funds	243	245	1%
Other liabilities	474	562	19%
Shareholders' funds	451	637	41%
Total liabilities and equity	**9,358**	**10,697**	**14%**

Net interest margin	6.0%	5.2%	-13%
Cost to income ratio	57.5%	52.2%	-9%
Annualised RoE	43.8%	42.8%	-2.3%
RoA	2.1%	2.5%	20.6%
Rough CAR	11%	13%	21.5%
Loan/Deposit	48%	46%	-3.0%

Valuation and Recommendation

Standard Chartered has come under immense pressure as the bank has lost market share to its competitors as witnessed by the contraction in the deposits at period end. The loan book growth has been robust, however, at 17% over 6 months, and the loan quality remains impeccable, with negligibly low NPLs.

As the economic recovery gains traction, despite the blip in deposits we continue to see Stanchart as one of the most solid players in the banking space, and are in accordance with their slogan, 'Here for good'.

From a valuation viewpoint, we believe the counter to be fully valued at these levels and our valuation actually indicated slight downside on the current price. We issue a **HOLD** recommendation.

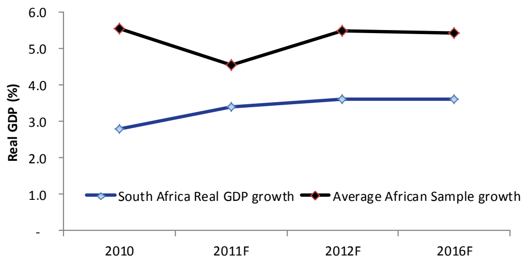
Top 10 Shareholders	%
Standard Chartered Bank Holdings	75.0%
MVA Fund	3.4%
SCBN (Pty) Ltd Re: FAM 3582376	3.1%
SCBN (Pty) Ltd Re: BIFM NPOPF	2.9%
Stanbic Nominees RE: BIFM	2.3%
SCBN (Pty) Ltd RE: IAM 030/14	2.2%
FNB Nominees (Pty) Ltd Re: SIMS BPOPF	1.1%
Standard Chartered Bank	0.8%
SCBN (Pty) Ltd RE: SSB 001/77	0.6%
SCBN (Pty) Ltd Re: FAM 201/010	0.6%
Others	8.0%
Total	**100.0%**

South Africa – Macro-economic overview

Key Themes:

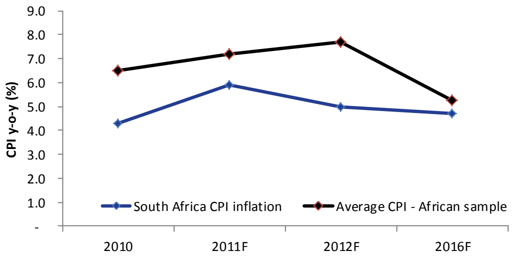
- South Africa's recovery from the 2008–09 recession has been uneven and hesitant. The recovery has been largely led by private and public consumption growth, while export volumes and private investment have remained markedly below pre-crisis levels (unlike in most other large emerging markets). Moreover, quarterly growth rates (in seasonally adjusted annualised terms) have wavered between robust and more mediocre rates. Still, while lagging behind other large emerging markets in the business cycle, GDP is now above the pre-crisis peak, and although output remains below potential this gap is expected to close by early 2012.
- Headline inflation reached its lowest level since 2004 late in 2010 (3.2% y-o-y). Besides the negative output gap, the fall in inflation reflected currency appreciation and moderate domestic food prices.
- These developments offset the sharp increases in electricity tariffs and other administrative prices engineered to increase power generation capacity and improve public services. Inflation expectations, however, have declined more gradually and remain slightly below the upper limit of the 3-6% target range. And since early 2011, high food and fuel prices have increased headline inflation. Against this backdrop, the government has developed an ambitious development strategy, the New Growth Path (NGP), whose objectives include:
  - The creation of five million jobs over the next 10 years by raising economic growth to 6-7%;
  - Increasing domestic savings to reduce the economy's reliance on portfolio inflows; and
  - Monetary policy provided additional stimulus, with a 150-basis-points cut in the policy rate in 2010. These cuts have brought the policy rate to 5.5%, its lowest level in more than 30 years.
- With inflation and inflation expectations on the rise since early 2011, the scope for further policy cuts is limited. In its communication to the market, the South African Reserve Bank (SARB) has clearly explained the cost-push nature of the recent rise in inflation, and its readiness to raise policy rates as needed to prevent second-round effects.
- The current account deficit narrowed to 2.75% of GDP in 2010 from 4% of GDP in 2009.
- High export prices helped offset low export volumes, while weak investment demand limited import volumes. The composition of South African exports has shifted toward commodities from manufacturing products. And the geographic distribution is also changing with Asian markets gaining share at the expense of those in Europe.
- The increase in commodity trade and favourable commodity prices, have made China South Africa's main individual trading partner.
- The government also stepped up reserve accumulation (which increased from US$40bn at end-December 2009 to US$50bn at end May, 2011) and relaxed controls on capital outflows by residents.
- Having come through the recession in reasonable shape, the financial sector is now contending with a period of low credit demand and rising costs. Proactive bank supervision, low dependency on external funding, and conservative risk management have contributed to banks' resilience in recent years.

Figure 60: South Africa Real GDP Growth 2010 - 2016



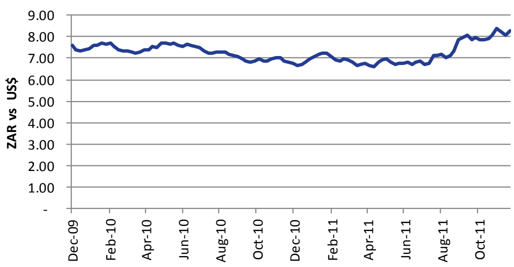
Source: IMF

Figure 61: South Africa CPI Inflation 2010 - 2016



Source: IMF

Figure 62: South African Rand vs US$



Source: Oanda.com

South Africa – Macro-economic overview (Cont.)

- Impaired advances to gross loans and advances have stabilised at under 6% of the loan portfolio, but have displayed unusual stickiness partly as a result of a slow debt workout process.
- The IMF expects the economy to expand by about 4% in 2011–12, underpinned by solid domestic demand. Private consumption growth should remain robust, supported by high real wages and the low interest rate environment.
- Private investment growth, too, should accelerate, with the pickup in overall activity and the lifting of the moratorium on the issuance and renewal of mining licenses.
- The main downside risks to this scenario are external. South Africa's close links to advanced economies, especially in the core Euro area, exposes it to possible sluggishness in their recovery as monetary and fiscal stimuli are rolled back and to any fallout from the sovereign debt crisis in peripheral Euro area countries.
- On the domestic side, high household debt may constrain consumption growth as interest rates become less supportive in the coming months.

ABSA

Having weathered the global financial crisis reasonably well, the Barclays subsidiary is finding it particularly difficult to fire its engines and revert to a growth trajectory. The economy has started ticking along again, however SA is lagging behind its EM peers and there seems to be little impetus to accelerate growth. For ABSA this has translated into flat deposits and loans, stable margins and costs and sticky NPLs. Fully valued at these levels and with no immediate blue sky.

- Despite some slippage in market share and balance sheet size, customer numbers have grown to 12.3m (+7%) and deposits increased by 10%, which will guarantee growth in the years ahead. Despite interest rates being at 30 year lows, loans contracted by 1% and NPLs were sticky at 7.7% which is the highest for the South African banks and a worry especially in light of increasing inflationary pressures and the likelihood of interest rates moving upwards.
- South Africa's shaky recovery is not being helped by the Eurozone crisis which has affected portfolio flows and FDI into EMs. Consequently ABSA Capital reported a flat performance to the interim date.
- Being closely correlated to the broad economy by virtue of the size of the group, headline earnings were positively impacted by marginally improved NIMs but more so by credit losses which contracted by 22%, resulting in a credit loss ratio of 1.2%.
- Being a bellweather stock, we remain largely unexcited by the growth prospects going forward. A reasonable headline earnings performance at the interim date was the result of lighter provisioning and tight cost control and not volume growth, which is of particular concern as this indicates lost traction in a competitive market. We remain neutral on ABSA and believe the counter to be fully valued at these levels. **FULLY VALUED, HOLD.**

STRENGTHS	**WEAKNESSES**
Diversifired earnings base	Declining margins on weak macro
One of the South Africa's big four	Sticky NPLs
Strong parent company in Barclays	Decline in loan book
Well capitalised; lean and profitable	High risk aversion to Africa as seen
Solid core deposit growth	overly cautious approach
OPPORTUNITIES	**THREATS**
Growth in market share of deposits	Aggressive competition
Strong credit rating	Rand weakness
Recovery in commodity prices	Sluggish recovery dampening loans
Recovery in global trade.	Contagion from weak Eurozone
Growing trade with China	Commodity price shocks

BLOOMBERG: ASA : SJ			**HOLD**
Current price (ZAR)			151.66
Current price (US$)			17.80
Target price (ZAR)			135.51
Upside/Downside			-10.65%
12 month High/Low (ZAR)			146.97; 123.19
Liquidity			
Market Cap (ZARm)			108,924
Market Cap (US$m)			12,784
Shares (m)			718.2
Free Float (%)			19.0%
Ave Monthly value traded (US$m)			352.4
Ave Monthly volume (m)			19.8
Share Price Performance			
6 months (%)			13.4%
Relative change (%)*			109.4%
Relative change (%)**			-297.6%
12 months			22.4%
Relative change (%)*			261.5%
Relative change (%)**			-863.09%
** Relative to JSE ALSI*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (ZAR)	11.3	13.6	14.8
DPS (ZAR)	4.4	5.3	5.8
NAV/Share (ZAR)	78.4	87.0	96.0
Net Interest Margin (%)	4.0%	4.0%	4.0%
FINANCIAL SUMMARY (ZARm)			
Net interest income	23,340	28,349	31,349
Profit before tax	11,851	14,267	15,482
Attributable earnings	8,118	9,773	10,605
RATIOS			
RoAE	15.2%	16.5%	16.1%
RoAA	1.1%	1.3%	1.3%
Cost/Income Ratio (%)***	58.3%	57.2%	57.1%
Loans/Deposits (%)	131.9%	131.9%	131.9%
VALUATION RATIOS			
PBV (x)	1.9	1.7	1.6
PER (x)	13.4	11.1	10.3
Dividend Yield (%)	2.9%	3.5%	3.8%
Dividend payout ratio (%)	39.2%	39.2%	39.2%

***Pre provision for impaired advances

Figure 63: ABSA vs MSCI EM vs JSE All Share

H1 2011 Financial & Operational Review

Absa Group Limited (Absa or the Group), listed on the JSE Limited, is one of South Africa's largest financial services groups offering a complete range of banking, insurance and wealth management products and services. Absa's business is conducted primarily in South Africa but it also has equity holdings in banks in Mozambique and Tanzania and representative offices in Namibia and Nigeria. ABSA is a subsidiary of Barclays Bank plc, which has a 55.5% equity interest in the group.

ABSA withstood the impact of the 2008/9 financial crash, which affected economic activity, loan appetite and ultimately loan quality. Sluggish capital markets and inflows have dampened non-interest revenues, and the resultant stagnation has shrunk the retail pie somewhat and necessitated a keener focus on quality as opposed to quantity.

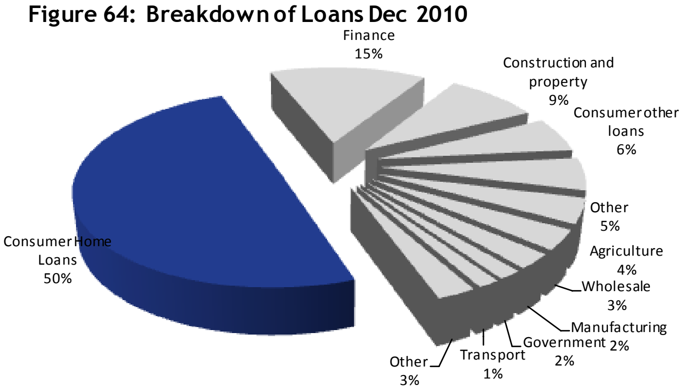
Overview of the income statement to 30 June 2011

- Net interest earnings increased by 3% on slightly improved margins, however, the contraction in the book was the main anchor to stronger top-line growth. In a low interest rate environment NIMs were preserved by hedging.
- Non-funded earnings were up 10% driven particularly by Absa Business Bank fees and commissions and Financial Services (mostly insurance and investments) contributions.
- Provisions dropped by 22% reflecting the partial economic recovery, higher real incomes and 30 year low interest rates, while expenses growth was contained at 9% y-o-y for a CIR of 57.2%.
- Attributable earnings increased by 19%, not bad on a flat book, however, mostly attributable to reduced provisioning levels.

Overview of the Balance sheet to 30 June 2011

- Deposits increased by 11% y-o-y which is commendable and reflective of the bank's blue chip status and competitive muscle.
- Loans declined by 1% y-o-y and by the same margin from the FY2010 position. Retail loans were flat, while the ABB segment shrunk marginally as did ABSA capital. NPLs at over 7% remain sticky, however should unwind as the book grows.

Figure 64: Breakdown of Loans Dec 2010



Source: ABSA

Income Statement (ZARm)	H1 2010	H1 2011	% ch
Net interest income	11,293	11,622	3%
Other income	9,713	10,680	10%
Total Income	**21,006**	**22,302**	**6%**
Provisions	(3,704)	(2,902)	-22%
Expenses	(11,700)	(12,761)	9%
Profit before tax	5,602	6,639	19%
Attributable earnings	**3,842**	**4,581**	**19%**

Balance Sheet (ZARm)	H1 2010	H1 2011	% ch
Cash at central Bank	22,380	25,814	15%
Stat liquid assets	35,846	50,999	42%
Balances with banks	43,131	30,911	-28%
Securities	84,299	78,707	-7%
Loans & Advances	499,976	495,460	-1%
Fixed Assets	7,164	7,363	3%
Other	25,408	26,664	5%
Total Assets	**718,204**	**715,918**	**0%**
Deposits	359,943	398,330	11%
Due to banks	38,713	17,365	-55%
Borrowed Funds	177,056	162,254	-8%
Other liabilities	89,198	79,681	-11%
Shareholders' funds	53,294	58,288	9%
Total liabilities and equity	**718,204**	**715,918**	**0%**

Net interest margin	3.4%	3.5%	4%
Cost to income ratio	56%	57%	3%
RoE	14.4%	15.7%	9%
RoA	1.1%	1.3%	20%
Rough CAR	10.0%	11.0%	10%
Loan/Deposit	139%	124%	-10%

Valuation and Recommendation

Discounting forward earnings at 10% we arrive at our valuation of ZAR135 which implies slight overvaluation. Indeed ABSA is trading close to its' 52 week high, and we see limited upside in the near term. In our opinion the fundamental weakness remains the sluggish loan book growth which will act as a noose on future earnings outperformance. The residential property market is still in the woods and inflationary pressures and a potentially higher interest rate environment paint a dreary outlook for that market segment. On the upside the patch-up of the Eurozone crisis in 2012 will provide renewed liquidity for EMs, and this should spurn capital flows into South Africa, enhancing Investment Banking.

Top 10 Shareholders	**%**
Barclays Bank Plc	55.5%
Public Investment Corporation	9.4%
Batho Bonke Capital	5.1%
Old Mutual Asset Managers	3.0%
Coronation Fund Managers	1.9%
Stanlib Asset Management	1.7%
Sanlam Investment Management	1.6%
Dimensional Fund Advisors Inc	1.0%
The Vanguard Group Inc	1.0%
Prudential Portfolio Managers	0.8%
Other	19.0%
Total	**100.0%**

EQUITY RESEARCH

SOUTH AFRICA

FEBRUARY 2012

First Rand Bank

First Rand is one of South Africa's big 4 banks with a capitalisation of over US$14bn. Through its ownership of First National Bank, Rand Merchant Bank and Wes Bank the group has a dominant presence in retail and investment banking, and a geographic presence in 16 countries globally including representative offices in Dubai, Shanghai, Luanda, Lagos and Nairobi. During the year, Momentum was unbundled and OUTsurance was disposed of and distributed to shareholders by dividend in specie.

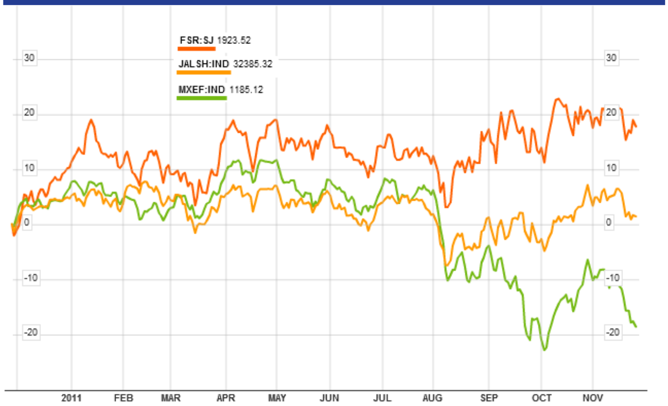
- Normalised group earnings are now above pre-global financial crisis levels and normalised earnings grew by 21% on a y-o-y basis.
- During the year the group disposed of its shareholdings in Momentum and OUTsurance which were distributed to shareholder by dividend in specie, concentrating the group's core focus around corporate, retail and investment banking.
- A special dividend of ZAR0.70 from the transactions mentioned above makes the total dividend yield for the period 7.0%. The share price maintained the trajectory followed post the LDR (Oct 2011) to register a YTD return of 12.2%, outperforming the JSE All Share (ALSI : IND) and Emerging Markets (MXEF : IND) indices.
- BJM was acquired during the year, strengthening the group's wealth/stockbroking offering and adding ZAR40.1bn to assets under administration (AUA).
- FNB continued to expand its operating platforms in Zambia and Mozambique and received a full banking license in Tanzania. Opportunities in priority countries, Ghana and Nigeria continue to be assessed. Rep offices were opened in Angola and Kenya. FNB Africa contributed 16% of the FNB segments PBT.
- FNB's sterling performance despite the slow economy underscores the unstinting focus on maintaining superior RoE's continues to awe. Valuations indicate further upside, although nothing to get too excited about. **ADD**.

STRENGTHS	WEAKNESSES
Geographic and SBU diversity Strong corporate governance Strong brand/entrepreneurial spirit Africa penetration strategy, tie up with CCB, CAD, EXIM China et al	Mostly macro related to domestic economy
OPPORTUNITIES	**THREATS**
Dominance of Indo-Africa trade corridor Consolidation of African footprint Rep offices opened in Angola and Kenya Ghana and Nigeria still priority areas	Stiff competition for markets and skills Sluggish recovery in SA a dampener

BLOOMBERG: FSR : SJ			ADD
Current price (ZAR)			22.80
Current price (US$)			2.68
Target price (ZAR)			25.01
Upside/Downside			9.71%
12 month High/Low (ZAR)			21.70; 17.08
Liquidity			
Market Cap (ZARm)			128,545
Market Cap (US$m)			15,087
Shares (m)			5,638
Free Float (%)			47.8
Ave Monthly value traded (US$m)			46.8
Ave Monthly volume (m)			17.5
Share Price Performance			
6 months (%)			19.6%
Relative change (%)*			205.7%
Relative change (%)**			-388.4%
12 months			42.2%
Relative change (%)*			405.1%
Relative change (%)**			-1541.6%
** Relative to JSE ALSI*			***Relative to MSCI EM index*
Financials	**2011**	**2012F**	**2013F**
Fully diluted EPS (ZAR)	3.61	2.52	2.73
DPS (ZAR)	1.51	1.05	1.14
NAV/Share (ZAR)	10.85	12.31	13.90
Net Interest Margin (%)	2.8%	2.8%	2.8%
FINANCIAL SUMMARY (ZARm)			
Net interest income	17,369	18,844	20,414
Profit before tax	19,440	21,081	22,829
Attributable earnings	20,366	14,187	15,364
RATIOS			
RoAE	34.8%	21.7%	20.8%
RoAA	2.6%	2.0%	2.0%
Cost/Income Ratio (%)***	53.7%	53.6%	53.5%
Loans/Deposits (%)	83.9%	83.9%	83.9%
VALUATION RATIOS			
PBV (x)	2.1	1.9	1.6
PER (x)	6.3	9.1	8.4
Dividend Yield (%)	6.6%	4.6%	5.0%
Dividend payout ratio (%)	41.8%	41.8%	41.8%

***Pre provision for impaired advances

Figure 65: First Rand vs MSCI EM vs JSE All Share



FY 2011 Financial & Operational Review

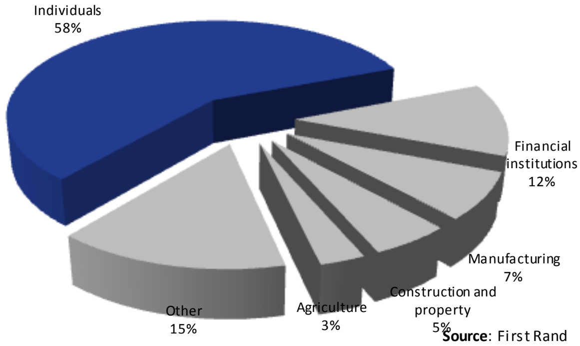
FNB's cultish adherence to the preservation of top notch profitability margins has resulted in the stream-lining of the group, disposing of the group's insurance units, OUTsurance and Momentum for which shareholders received a handsome dividend in specie. With a renewed focus on commercial, retail and investment banking, the stellar performance reported in 2011 will be strengthened as the group continues to win market share from some of the other big players.

- NIM's were flat y-o-y, however the 7% growth in the loan book was the main driver of funded income which increased to ZAR17.4bn, making up 35% of total group revenues.
- Non-funded earnings leapt by 18%, well ahead of the pack in terms of scale and magnitude, and signifying a greater contribution from client franchises, and the groups major attraction.
- Provisions declined by 22%, as the economic fundamentals continued to improve. Firm commodities prices, stable inflation, low interest rates and a real increase in wages has improved debt quality in general.
- Another brag point for the group was the containment of expenses, which was only bettered by Standard Bank. Together with Nedbank, FNB is one of the lowest cost operators in SA.
- Normalised group earnings are now above pre-global financial crisis levels and normalised earnings grew by a strong 21% on a y-o-y basis.

Overview of income statement to 30 June 2009

- Deposits grew by 8% to over ZAR553bn while customer numbers increased to 7.1m customers. FNB is holdings its own against stiff competition.
- With the reversion to a sluggish economic growth pattern, and in a highly geared market, quality lending opportunities were scarce; Nonetheless the bank managed to grow their book ahead of inflation (+7%), the only of the big four to do so, ensuring funded earnings sustainability.
- The NPL ratio improved to 4.2% from 5.0%, as NPLs from the credit crunch era continued to unwind. On this metric, FNB has the best quality book. A relatively low LDR indicates proportionally higher potential to increase loans going forward as the economic recovery gathers steam.

Figure 66: Loan distribution by sector at 30 June 2011



Source: First Rand

Income Statement (ZARm)	FY 2010	FY 2011	% ch
Net interest income	16,350	17,369	6%
Other income	26,954	31,882	18%
Total Income	**43,304**	**49,251**	**14%**
Provisions	(5,686)	(3,778)	-34%
Expenses	(24,865)	(26,901)	8%
Profit before tax	12,753	18,572	46%
Attributable earnings	**10,674**	**21,527**	**102%**

Balance Sheet (ZARm)	FY 2010	FY 2011	% ch
Cash and cash equivalents	27,067	34,240	27%
Derivative financial instruments	39,764	37,206	-6%
Accounts receivable	5,743	7,289	27%
Investment securities	117,171	124,756	6%
Loans & Advances	434,793	464,593	7%
Fixed Assets	10,018	10,542	5%
Other	210,684	19,301	-91%
Total Assets	**845,240**	**697,927**	**-17%**
Deposits	512,469	553,657	8%
Derivative financial instruments	36,035	36,361	1%
Borrowed Funds	9,183	6,690	-27%
Other liabilities	236,121	44,588	-81%
Shareholders' funds	51,432	56,631	10%
Total liabilities and equity	**845,240**	**697,927**	**-17%**

Net interest margin	2.9%	2.9%	-1%
Cost to income ratio	57%	55%	-5%
RoE	20.8%	38.0%	83.2%
RoA	1.3%	3.1%	144.2%
Rough CAR	7.3%	10.5%	43.2%
Loan/Deposit	85%	84%	-1.1%

Outlook, Valuation and Recommendation

South Africa's jobless recovery and uncertain medium term growth prospects continue to send mixed signals, and while domestic consumption has driven the muted recovery that has taken place in 2011, the country's economic position remains decidedly shaky. In the face uncertainty, corporates continue to postpone any expensive capital expansion plans and overstretched consumers coupled with a flat housing market do not make for a roaring growth cocktail as we witnessed up to the financial crash. Consequently, the big banks are going to have to jostle for space in a tight local market, keeping an eye out for any economic surprises that may be transmitted from Europe particularly.

We value First Rand at just over ZAR25 and see a bit of upside to reach our target price. Notwithstanding, the group's solid headline performance and loan growth in FY2011 is impressive when compared to the peer grouping. **ADD.**

Top Shareholders (with >5% shareholding)	%
RMB Holdings	30.1%
Public Investment Commissioner	11.8%
First Rand Empowerment Trust	8.8%
Financial Securities Limted (Remgro)	8.5%
Total greater than 5%	**59.1%**

NEDBANK GROUP

A Member of the OLD MUTUAL Group

Nedbank Group

The Nedbank Group comprises a range of wholesale and retail banking services through three main business clusters, namely Nedbank Corporate, Nedbank Capital and Nedbank Retail with a core focus on South Africa, however a great southern African franchise is also on the cards. The continued focus of the group will be on growing their non-funded revenue streams and reinforcing their brand and customer base.

- HEPS increased by 28.8% to R2bn and EBIT was up 36.1%. Diluted HEPS increased by 26.3% from 475 cents to 600 cents. Earnings growth was driven by ongoing strong non-interest revenue (NIR) growth, improving margins and lower retail impairments.
- The balance sheet remained well-capitalised, with the core Tier 1 capital adequacy ratio increasing to 10.7% (Dec 2010: 10.1%), while the group's Tier 2 capital position was reduced when the ZAR1.5bn Ned 5 bond was repaid in April 2011 and not replaced. The group's liquidity buffers were increased by ZAR9.0bn and the long-term funding profile continued to lengthen in proactive preparation for Basel III.
- Net asset value per share grew by 6.1% (annualised) from ZAR98.31 in Dec 2010 to ZAR101.28 in June 2011. On a 2012 PBV of 1.6x, Nedbank in trading in line with its peers.
- The group has been proactive in managing the efficiency of its capital structure, and in the first quarter of 2009 successfully placed a 13-year (non-call 8-year) US$100m listed lower-Tier 2 subordinated unsecured floating-rate note with an international investor. Our rough CAR computation shows an improvement in capitalisation levels at the interim date.
- Nedbank is the smallest of the big four, has the best quality book in the market (NPLs at 3.9% of loans) and, historically, has had the lowest efficiency ratio in the market. The contraction and deterioration of market conditions will see the group continuing to act cautiously, until there are reasonable signs of recovery and growth. We believe valuations to be full at current levels. **HOLD.**

STRENGTHS	WEAKNESSES
Strong parent company in Old Mutual Increasingly diversified earnings base Conservatively managed, well capitalised	Depressed macro environment in SA Shrinking net interest margins Still competitive environment
OPPORTUNITIES	**THREATS**
Consolidation of latest aquisitions ie. Nedline, Boe Pvt Client, Fairbain Pvt bank Acquisition of remaining 49.9% of Imperial bank	Prolonged economic recovery Increased probability of exceptional expenses

BLOOMBERG: NED : SJ			HOLD
Current price (ZAR)			160.17
Current price (US$)			18.80
Target price (ZAR)			109.00
Upside/Downside			-31.95%
12 month High/Low (ZAR)			154.45; 123.60
Liquidity			
Market Cap (ZARm)			81,275
Market Cap (US$m)			9,539
Shares (m)			507.4
Free Float (%)			20%
Ave Monthly value traded (US$m)			496.3
Ave Monthly volume (m)			26.4
Share Price Performance			
6 months (%)			11.8%
Relative change (%)*			84.5%
Relative change (%)**			-274.1%
12 months			33.7%
Relative change (%)*			343.2%
Relative change (%)**			-1249.1%
** Relative to JSE ALSI*			***Relative to MSCI EM index*
Financials	**2011**	**2012F**	**2013F**
EPS (ZAR)	9.5	10.5	11.9
DPS (ZAR)	5.0	5.5	6.2
NAV/Share (ZAR)	86.9	91.9	97.6
Net Interest Margin (%)	2.9%	2.9%	2.9%
FINANCIAL SUMMARY (ZARm)			
Net interest income	16,608	18,004	19,785
Profit before tax	6,947	7,678	8,740
Attributable earnings	4,811	5,317	6,053
RATIOS			
RoAE	11.5%	11.7%	12.6%
RoAA	0.8%	0.8%	0.9%
Cost/Income Ratio (%)***	55.8%	56.3%	56.3%
Loans/Deposits (%)	96.9%	96.9%	96.9%
VALUATION RATIOS			
PBV (x)	1.8	1.7	1.6
PER (x)	16.9	15.3	13.4
Dividend Yield (%)	3.1%	3.4%	3.9%
Dividend payout ratio (%)	52.2%	52.2%	52.2%

***Pre provision for impaired advances

Figure 67: Nedbank vs MSCI EM vs JSE All Share

H1 2011 Financial & Operational Review

The Group posted a strong interim performance, driven by a marked recovery in loan quality and non-funded revenues. Balance sheet growth was muted by poor credit demand, as corporates continue to tread cautiously in a choppy economic climate. Nedbank has held its own and remains well placed to benefit from an uptick the economic cycle by H2 2012.

Overview of the income statement to 30 June 2011

- NII grew by 7.4% to ZAR8.7bn (H1 2010: ZAR81bn). NIMs increased to 3.5% from 3.3% in the June 2010 period and 3.3% in the year to Dec 2010, while average interest-earning banking assets increased by 5.9% (annualised) (June 2010 growth: 2.8%).
- NIR increased 15.9% to ZAR7.1bn (H1 2010: ZAR6.2bn) and 12.5% before fair-value adjustments. Negative fair-value adjustments on own subordinated debt amounted to ZAR46m (H1 2010: ZAR110m). In line with the group's focus on growing the transactional franchise, core fee and commission income grew strongly by 14.1%.
- Expenses grew by 12.3% to ZAR8.8bn (H1 2010: ZAR7.9bn), including significant investment in growing the franchise. Increases in distribution, cash fees and an increase in variable compensation also contributed to the growth in expenses. The CIR deteriorated marginally 55.3% to 55.8%.

Overview of the balance sheet at 30 June 2011

- Deposits increased by 1.5% (annualised) to ZAR494 bn (FY2010: ZAR490bn). This resulted in the LDR remaining strong at 95.5% (2010: 96.0%).
- Group loans and advances decreased by 1.4% to ZAR472bn (FY2010: ZAR475bn). Since June 2010 loans and advances increased by 2.3%.
- Strategic rebalancing of the asset portfolio in Nedbank Retail, on a like-for-like basis, resulted in a decrease in home loans of 2.7% (annualised) and an increase in motor finance of 7.5% (annualised). Unsecured lending continued to grow with personal loans and card receivables increasing by 26.5% (annualised) and 13.6% (annualised) respectively.
- Impairment levels improved as a result of a better credit environment and affordability levels together with enhanced collection capabilities and reduced levels of defaulted advances.

Income Statement (ZARm)	H1 2010	H1 2011	% ch
Net interest income	8,082	8,686	7%
Other income	6,158	7,139	16%
Total Income	**14,240**	**15,825**	**11%**
Provisions	(3,244)	(2,792)	-14%
Expenses	(7,872)	(8,838)	12%
Profit before tax	2,888	3,924	36%
Attributable earnings	**2,314**	**2,919**	**26%**

Balance Sheet (ZARm)	H1 2010	H1 2011	% ch
Cash and Cash Equivalents	8,063	11,743	46%
Reserve deposits	11,278	11,654	3%
Gvt Securities	40,294	36,056	-11%
Investment securities	11,249	12,808	14%
Loans & Advances	461,303	471,918	2%
Fixed Assets	5,203	5,835	12%
Other	53,457	59,861	12%
Total Assets	**590,847**	**609,875**	**3%**
Deposits	480,418	493,974	3%
Liabilities under Acceptances	1,818	2,754	51%
Long term debt instruments	26,594	28,190	6%
Other liabilities	40,124	38,935	-3%
Shareholders' funds	41,893	46,022	10%
Total liabilities and equity	**590,847**	**609,875**	**3%**

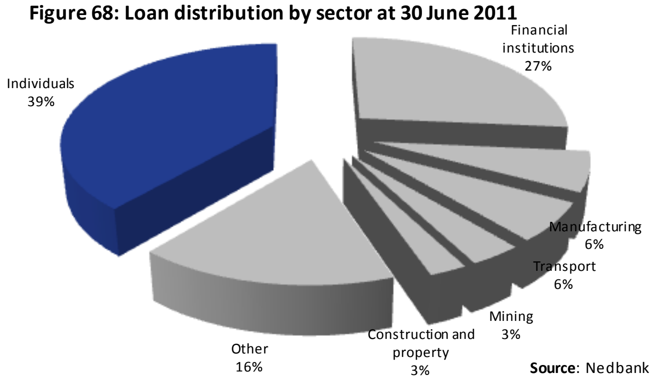
Net interest margin	3.3%	3.5%	5%
Cost to income ratio	55.3%	55.8%	1%
RoE	11.0%	12.7%	15%
RoA	0.8%	1.0%	22%
Rough CAR	8.1%	8.6%	6%
Loan/Deposit	96.0%	95.5%	-1%

Valuation and Recommendation

Low single digit growth in deposits and loans shows that Nedbank has been relatively less successful at maintaining its portion of the market in FY2011, which was a difficult year all round. Going forward, the performance is very much expected to be closely correlated with the gradual recovery as government spending increases, so we are not expecting any surprises.

Using our discounted earnings valuations model, we believe Nedbank to be overvalued relative to our target valuation. Relative earnings valuations come to the same conclusion. We see better value in Firstrand though. **HOLD**.

Figure 68: Loan distribution by sector at 30 June 2011



Source: Nedbank

Top 10 Shareholders - June 2011	%
Old Mutual Life Assurance Company	51.9%
Nedbank Group Treasury shares	10.4%
Public Investment Corporation	7.1%
Lazard Asset Management	3.1%
Coronation Fund Managers	2.7%
Sanlam Investment Management	2.2%
Government Institutions Pension Fund	1.3%
Blackrock Inc (US and UK)	1.2%
Other	20.2%
Total	**100.0%**

Standard Bank plc

Established in 1862 the Standard Bank group is, by a large margin, the strongest African franchise with a presence in 17 African and 13 ex-Africa countries. ICBC's 20.1% investment into the group aligns perfectly with China's strategy of exploiting African resources to drive their economic super powerhouse ambitions. The US$750m injection from the disposal of Russian and Argentinian operations will buttress Africa's capital needs. The quintessential rock solid play on Africa's path to Emerging Markets status.

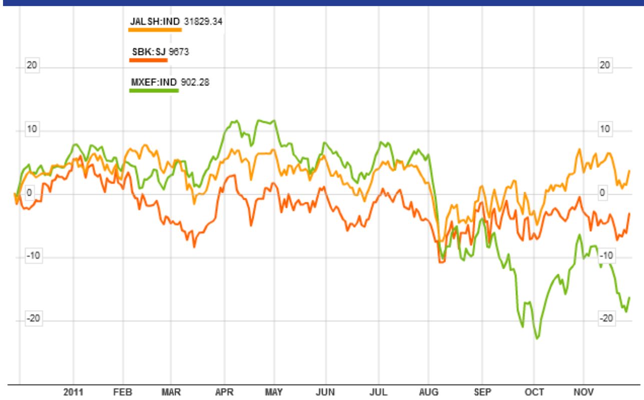
- In March 2011, Standard bank announced the sale of their 36% stake in Troika to Sberbank, the largest bank in Russia. An agreement was also signed with Industrial and Commercial Bank of China (ICBC) for the sale of a majority stake in Standard Bank Argentina (SBA). Standard will sell 55% of their current 75% shareholding and retain a 20% shareholding in SBA. Subject to conditions and approvals, proceeds of approximately US$750m will flow to the group and earnings will reduce by approximately US$50m per annum.
- These divestitures mark a change in the groups' strategy and mark the refocusing of the groups' energies on developing financial hubs in East, West and Southern Africa. Further cost rationalisation will see the UK operations also shrinking.
- Additional cost savings initiatives in the international initiatives are expected to save up to US$75m per year.
- While the bulk of the recovery in earnings has resulted from the normalisation in provisioning levels in South Africa, it is comforting to note that the book has returned to a growth projectory ending the recessionary phase through which the group had gone through. A new core focus on Africa has also intensified the group's energies, and should accelerate penetration efforts, benefitting from the strongly growing resource and consumer markets across the continent. Still the best play on pan-African economic growth.

STRENGTHS	WEAKNESSES
Largest African banking group Play on Africa, BRIC and EMs Solid capitalisation; sound strategy Important synergy wiht Sino-Africa trade link through major shareholder	Deteriorating book in SA Rand strength; global instability
OPPORTUNITIES	**THREATS**
Opps opening up in Angola, Russia, Argen	Competitive landscape Prolonged SA recession Post global recession macro imbalances

BLOOMBERG: SBK : SJ			HOLD
Current price (ZAR)			110.42
Current price (US$)			12.96
Target price (ZAR)			90.33
Upside/Downside			-18.20%
12 month High/Low (ZAR)			107.85; 87.75
Liquidity			
Market Cap (ZARm)			175,470
Market Cap (US$m)			20,595
Shares (m)			1,589
Free Float (%)			44.0
Ave Monthly value traded (US$m)			855.4
Ave Monthly volume (m)			66.0
Share Price Performance			
6 months (%)			-5.2%
Relative change (%)*			-180.8%
Relative change (%)**			-23.7%
12 months			-4.1%
Relative change (%)*			70.3%
Relative change (%)**			40.1%
** Relative to JSE ALSI*			***Relative to MSCI EM index*
Financials	**2011**	**2012F**	**2013F**
EPS (ZAR)	7.0	8.1	9.9
DPS (ZAR)	3.0	3.1	3.0
NAV/Share (ZAR)	58.3	62.9	68.5
Net Interest Margin (%)	2.1%	2.1%	2.1%
FINANCIAL SUMMARY (ZARm)			
Net interest income	28,742	30,829	33,602
Profit before tax	19,481	22,539	27,586
Attributable earnings	11,161	12,913	15,804
RATIOS			
RoAE	12.3%	13.4%	15.1%
RoAA	0.8%	0.9%	1.0%
Cost/Income Ratio (%)***	63.7%	62.3%	60.5%
Loans/Deposits (%)	90.0%	90.0%	90.0%
VALUATION RATIOS			
PBV (x)	1.9	1.8	1.6
PER (x)	15.7	13.6	11.1
Dividend Yield (%)	2.7%	2.8%	2.7%
Dividend payout ratio (%)	43.1%	38.6%	30.4%

***Pre provision for impaired advances

Figure 69: Standard vs MSCI EM vs JSE All Share



H1 2011 Financial & Operational Review

Standard Bank Group is the largest African banking group by assets and earnings offering a range of banking and related financial services. The group has extensive operations in 17 countries in Africa and 13 countries, outside of Africa, focusing on links to Africa and natural resources. The group owns a controlling stake in the JSE listed insurance company, Liberty Holdings Limited.

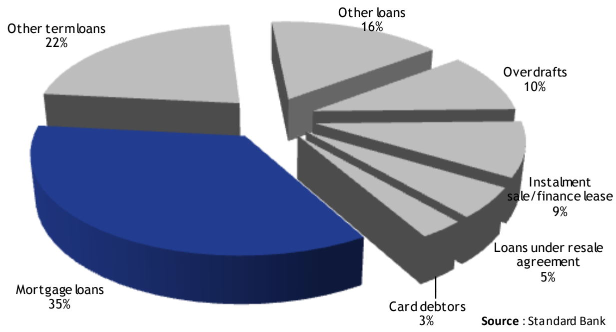
Overview of income statement to 30 June 2011

- The group generated headline earnings of ZAR6.6bn, up 11% on the corresponding period last year, and HEPS of ZAR4.18 were up 10%.
- Net interest income reduced by 1% when compared with the H1 2010 and was flat on H2 2010. NIMs on interest earning assets reduced 12 basis points to 3.9%.
- NIR was up 6% compared to the prior period. This result was achieved despite a 5% drop in trading revenues, as net fee and commission income grew 8% and other revenue climbed 42%.
- Headline earnings from the rest of Africa were down 17% as investments in IT, infrastructure and people continued in key growth countries. As anticipated, Personal & Business Banking in the rest of Africa incurred a slightly bigger loss than in the prior period, with more branches added to the network to position the franchise for growth and attain the desired economies of scale.

Overview of balance sheet at 30 June 2011

- Banking assets grew 4% compared to H1 2010 reversing the two-year trend of a shrinking balance sheet. Deposits showed growth across the board, ending the period 9% higher at ZAR731bn (US$85.8bn).
- Loans increased by 4% to ZAR741bn (US$87bn). Mortgage loans grew 5% on tentative signs of recovering credit demand in South Africa and the number of applications climbed 36%.
- Credit impairment charges of ZAR3.0bn were 22% lower than the prior period and NPLs reduced to 5,1% of the loan book (FY2010: 5,8%; H1 2010: 6.4%).
- The LDR ended the period at 101%, which indicates deleveraging, in line with the mood in European financial markets.

Figure 70: Loan distribution by sector at 31 Dec 2010



Source : Standard Bank

Income Statement (ZARm)	H1 2010	H1 2011	% ch
Net interest income	14,425	14,323	-1%
Other income	16,646	19,470	17%
Total Income	**34,861**	**36,763**	**5%**
Provisions	3,790	2,970	-22%
Expenses	(21,314)	(22,251)	4%
Profit before tax	9,370	10,876	16%
Minority interests	(818)	(1,064)	30%
Attrib. earnings	**5,897**	**6,580**	**12%**

Balance Sheet (ZARm)	H1 2010	H1 2011	% ch
Cash at central Bank	25,687	30,816	20%
Financial Investments	376,934	395,729	5%
Investment property	19,520	22,095	13%
Derivatives	147,066	138,196	-6%
Loans & Advances	712,474	741,071	4%
Fixed Assets	13,316	14,793	11%
Other	19,792	31,770	61%
Total Assets	**1,314,789**	**1,374,470**	**5%**
Deposits from Customers	671,783	731,620	9%
Due to banks	101,345	114,936	13%
Subordinated debt	26,727	23,473	-12%
Other liabilities	410,928	397,308	-3%
Shareholders' funds	104,006	107,133	3%
Total liabilities and equity	**1,314,789**	**1,374,470**	**5%**

Annualised net interest margin	2.3%	2.2%	-4%
Cost to income ratio	61.1%	60.5%	-1%
RoE	11.3%	12.3%	8%
RoA	0.9%	1.0%	7%
Rough CAR	11.7%	11.6%	-1%
Loan/Deposit	106.1%	101.3%	-4%

Valuation and Recommendation

The strong interim performance officially marks the end of the recessionary wave and lays the foundation for even stronger growth going forward. The investment into the expansion of the franchise has been unstinting, and will surely gain traction in the coming years, especially in rapidly evolving markets like Ghana, Nigeria and Angola. The group remains unrivalled in its growth achievements, and should remain in pole position for years to come.

Discounted earnings valuations indicate pricing at the higher range and little upside. Standard, however, remains strategically superior and financially, more muscular that its peers. Strong deposit growth indicates the safe haven status of the brand, and its undeniable blue chip status, in uncertain markets. We are comfortable with valuation levels and remain neutral on Standard Bank. **HOLD.**

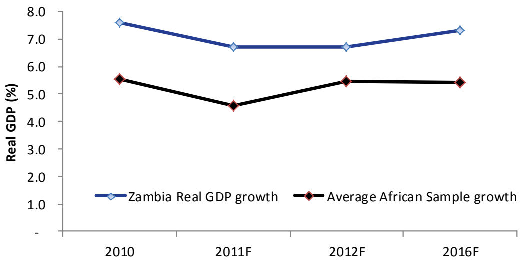
Top 10 Shareholders - June 2011	%
Industrial and Commercial Bank of China	20.1%
Public Investment Corporation	13.3%
Tutuwa Participants (Staff and BEE Component)	5.6%
Dodge and Cox	3.0%
Old Mutual Group	2.2%
Investment Solutions	2.0%
Sanlam Group	1.5%
Vanguard Emerging Markets Fund	1.2%
Oppenheimer Developing Markets Fund	1.0%
Engineering Industries Pension Fund (EIPF)	1.0%
Other	49.1%
Total	**100.0%**

Zambia – Macro-economic highlights

Key Themes:

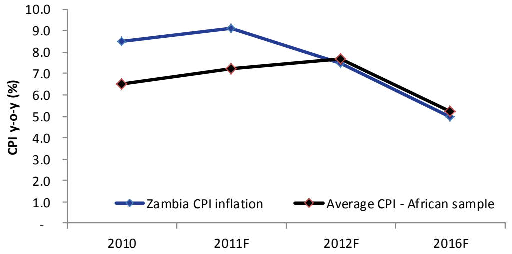
- Growth has been strong and broad based. Real GDP grew by 7.6% (6.8% excluding mining) in 2010 and is projected to have grown by 6.5% in 2011.
- Inflation declined in line with expectations in 2010, and continued its downward trend to close the year marginally lower at 7.2% in December 2011 owing to subdued food inflation. Non-food price inflation remains in the low double digits.
- Returns on Government securities rose marginally due to higher government borrowing. Although interest rates on the 91-day treasury bills decreased to 7.4% in Dec 2011 from 7.7% in Dec 2010, interest rates across the Treasury bill maturity spectrum increased. Similarly, interest rates on Government bonds edged upwards to 16.2% in 2011 for the longest dated 15-year bond versus 15.5% in 2010. Base lending rates in commercial banks have declined slightly from 19.2% in 2010 to 17% in 2011, but have remained high and are not in line with low inflation and macroeconomic stability. At the current level, commercial bank interest rates are over 300% the inflation rate.
- Money supply growth had been brisk; at September 2011 it was 26.8% y-o-y, with lending to private enterprises being the main contributory factor and signifying increased confidence and investment levels. Private sector credit has recovered to pre-global financial crisis levels, NPLs are starting to decline, while real lending rates remain high. Credit to the private sector increased by almost 14% in real terms between January 2010 (when it bottomed out) and January 2011.
- The balance of payments experienced a record-high current account surplus of US$951m in 2011 from US$614m in 2010. High copper prices resulted in export earnings of US$8.4bn in 2011 up from US$5.8bn in 2010. Nevertheless, the exchange rate remained relatively stable as the mining companies kept their profits offshore. International reserves remain relatively solid at about 4.3 months of prospective imports as of September 2011.
- The BoZ placed Finance Bank, the fifth largest bank in Zambia, under temporary administration in December 2010 due to alleged breaches of the Banking and Financial Services Act (BFSA). These breaches are alleged to have included a much higher concentration of ownership than allowed by the BFSA, large non-performing related-party loans, and poor governance. Finance Bank was subsequently sold to First National Bank Zambia Limited in September 2011 for approximately US$ 5.4m. However, in October 2011, the sale was reversed by the newly elected Patriotic Front government on the basis that the administration was politically motivated and that no documentation confirming the sale could be found.
- Copper prices are projected to remain high, driven by the ongoing growth in Asia. FDI pledges have been strong, and substantial private sector investments, particularly in mining, are being rolled out or in the pipeline. The 2011 maize harvest is expected to be a record high given the favourable weather. The authorities have expanded the number of farmers covered by the agricultural input subsidy program by almost 70%.
- The private sector's marketing capacity will be challenged by another record maize harvest expected in 2011; the government's active involvement in the maize market will have to continue this year. Subject to Cabinet approval, planned medium-term maize market reforms aim at steadily shifting towards market pricing and the scaling-back of export and import controls, so as to allow for greater room for private sector marketing.

Figure 71: Zambia Real GDP Growth 2010 - 2016



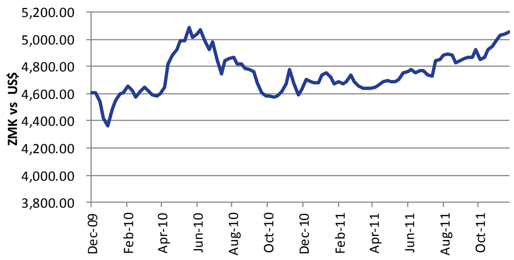
Source: IMF

Figure 72: Zambia CPI Inflation 2010 - 2016



Source: IMF

Figure 73: Zambian Kwacha vs US$



Source: Oanda.com

Figure 74: Copper price chart

Zambia – Macro-economic highlights (Cont.)

- In March 2011, Zambia was assigned a sovereign credit rating of B+ by Fitch and Standard and Poor's Ratings. With this assignment, government intends to issue a US$500m debut sovereign bond in 2012.
- The September 2011 presidential elections led to the ushering in of current president Michael Chilufya Sata and his pro-poor Patriotic Front (PF) Party. Since coming into power, the PF party has been relatively "active", with the reversal of the sale of Finance Bank and its reversion to its shareholders being the first significant decision. Subsequently, Commissions of enquiry into recent notable government transactions including the sale of Zamtel Communications to LAPGreen of Libya (since reversed) and the sale of former Zambia National Commercial Bank ("Zanaco") to Rabobank of the Netherlands (currently under review) have been effected. The 2012 budget also offered some notable changes, such as an increase in mineral royalties tax from 3% to 6% and an increase in tax exempt income from ZMK1m (approx. US$200) per month to ZMK2m (approx. US$400).
- The new government has also made changes to the banking environment in Zambia, initially with a relaxation of liquidity ratios and a reduction in the corporate tax on banks from 40% to 35% to reduce the cost of lending.
- More recently, the Minister of Finance introduced a tiered minimum capital requirement structure, and a rather significant increase in the minimum capital requirement from ZMK12bn (US$2.3m) to ZMK104bn (US$20.3m) for "local" banks and ZMK520bn (US$102m) for "foreign" banks. These changes will significantly change Zambia's banking landscape.

Standard Chartered Bank Zambia

Standard Chartered Bank Zambia Plc, SCZ, is a subsidiary of the global banking group Standard Chartered PLC. SCZ listed on the LuSE on 30 November 1998. The bank is primarily involved in corporate and retail banking, which are further divisionalised into personal banking, priority banking, SME Banking and wholesale banking services. The bank has 25 branches and 27 ATMs strategically located across the country.

- **"Here for good"** SCZs strategy remains developing customer-centric solutions on the consumer front, and leveraging their balance sheet and access to group expertise to create relevant wholesale banking products on the wholesale front. SCZ achieved record profits in FY2010, with net profits increasing by 99% to ZMK133.2bn, making it the most profitable bank in Zambia that year.
- **Bonus Issue** In April 2011, SCZ carried out a 5-for-1 bonus share issue to increase its share capital in order to meet the Bank of Zambia's minimum capital requirement of ZMK12bn (US$2.3m). SCZ's share capital increased from ZMK2bn to ZMK12bn and the share price was diluted by a factor of 6.
- **Valuation** Using a combination of valuation methods, namely DCF and relative valuations, we arrive at a price target for SCZ of ZMK50.36, representing 39% downside on its current price of ZMK82. Our recommendation is further buttressed by the 2012 PBV rating, which at 4.5x is significantly higher than peers, both locally and regionally. We see higher upside in ZANACO. **SELL.**

STRENGTHS	WEAKNESSES
Well capitalised; Copper prices recovered swiftly	Lower earnings growth relative to Zanaco
Significant scope to grow loans on low loan to deposit ratio	Overdependence on mining sector
Fat NIMs due to high cost of funding	Low asset utilisation levels
Strong market fundamentals; low penetration	Tiny free float
OPPORTUNITIES	**THREATS**
Deepening of financial sector in Zambia	Currency instability; trade shocks and direct imapact on NIMs and NPLs
Lower sovereign risk will reduce funding costs	Drought/commodity price shocks
Growth on further strong economic growth	Electricity shortfalls could impede growth
Technology driven products	Higher competition

BLOOMBERG: SCBL : ZL			SELL
Current price (ZMK)			82.00
Current price (US$)			0.02
Target price (ZMK)			50.36
Upside/Downside			-38.6%
12 month High/Low (ZMK)			150.00; 60.00
Liquidity			
Market Cap (ZMKm)			2,014,740
Market Cap (US$m)			394.7
Shares (m)			24,570.0
Free Float (%)			10.0
Ave Monthly value traded (US$m)			0.3
Ave Monthly volume (m)			17.6
Share Price Performance			
6 months (%)			-40.6%
Relative change (%)*			764.8%
Relative change (%)**			498.4%
12 months			23.0%
Relative change (%)*			236.6%
Relative change (%)**			-884.9%
** Relative to LASI index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (ZMK)	5.42	5.27	6.24
DPS (ZMK)	3.33	3.24	3.84
NAV/Share (ZMK)	13.24	15.45	18.07
Net Interest Margin (%)	9.1%	9.1%	9.1%
FINANCIAL SUMMARY (ZMKm)			
Net interest income	195,492	231,555	277,866
Profit before tax	229,744	223,408	264,688
Attributable earnings	133,152	129,480	153,405
RATIOS			
RoAE	48.5%	36.7%	37.2%
RoAA	3.5%	2.8%	3.0%
Cost/Income Ratio (%)***	49.5%	47.6%	45.4%
Loans/Deposits (%)	36.4%	36.4%	36.4%
VALUATION RATIOS			
PBV (x)	6.2	5.3	4.5
PER (x)	15.1	15.6	13.1
Dividend Yield (%)	4.1%	4.0%	4.7%
Dividend payout ratio (%)	61.5%	61.5%	61.5%

***Pre provision for impaired advances

Figure 75: Stanchart vs MSCI EM vs LuSE Index

FY 2011 Financial and Operational Review

We have used the June 2011 year-to-date prudential numbers for Standard Chartered to assess its H1 2011 performance as we await their interim results. The prudential numbers are published and submitted to the Bank of Zambia, and give a fair indication of where the interim/final numbers will be.

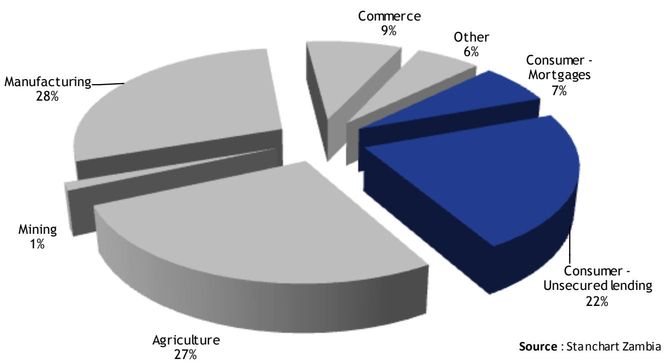
Overview of the income statement at 30 June 2011

- For the 6 months ended June 2011, total income declined by 4% to ZMK215.3bn (US$42.2m) owing largely to a 16% reduction in net interest income to ZMK99.5bn (US$19.5m), on the back of a drop in annualised net interest margins from 7.5% to 4.8%.
- Non-interest income increased by a modest 10% to ZMK115.8bn (US$22.7m) and provisions increased by 22%.
- Expenses where held flat on the previous period, however as a result of the deterioration in the top-line, the cost to income ratio worsened slightly to 52.3%, but still, Stanchart remained the most efficient players in the market by a wide margin.
- Net profits declined marginally from ZMK68.8bn (US$13.5m) to ZMK65.1bn (US$12.7m), down 5%.
- Returns on equity and assets remain the highest in the sector at 73.8% and 4.5% respectively.

Overview of the income statement at 30 June 2011

- There was a 35% growth in the balance sheet, with deposit growth of 29% to ZMK3.5tn (US$686m).
- As at 30 June 11, Stanchart ranked first in terms of total assets, fourth in terms of loans and advances, and first in terms of total deposits.
- Amounts due to banks more than doubled growing from ZMK332bn (US$65.1m) to ZMK709bn (US$138.9m).
- Loans and advances to customers grew by 17% to reach ZMK1.2tn (US$240.5m) whilst balances with other banks increased by 63% to ZMK1.4tn (US$270.8m) and investment securities increased by 20% to ZMK1.4tn (US$270.2m)
- The loan to deposit ratio decreased slightly from 38% in H1 2010 to 35% in H1 2011, and the bank remains highly liquid.

Figure 76: Loan distribution by sector at 31 Dec 2010



Source : Stanchart Zambia

Income Statement (ZMKm)	H1 2010	H1 2011	% ch
Net interest income	118,279	99,524	-16%
Other income	105,423	115,804	10%
Total Income	**223,702**	**215,328**	**-4%**
Provisions	2,859	3,483	22%
Expenses	(115,850)	(112,596)	-3%
Profit before tax	110,711	106,215	-4%
Profit after tax	**68,832**	**65,074**	**-5%**

Balance Sheet (ZMKm)	H1 2010	H1 2011	% ch
Cash at central Bank	250,680	440,621	76%
Cash on hand	121,340	115,438	-5%
Balances with banks	847,108	1,382,340	63%
Securities	1,149,695	1,379,387	20%
Loans & Advances	1,046,703	1,227,966	17%
Fixed Assets	23,565	28,281	20%
Other	55,668	134,554	142%
Total Assets	**3,494,759**	**4,708,587**	**35%**
Deposits	2,721,498	3,503,464	29%
Due to banks	332,442	708,937	113%
Borrowed Funds	20,680	19,370	-6%
Other liabilities	154,636	188,817	22%
Shareholders' funds	265,503	287,979	8%
Total liabilities and equity	**3,494,759**	**4,708,567**	**35%**

Net interest margin	7.5%	4.8%	-35%
Cost to income ratio	51.8%	52.3%	1%
RoE	51.9%	45.2%	-12.8%
RoA	3.9%	2.8%	-29.8%
Rough CAR	11.7%	10.4%	-10.9%
Loan/Deposit	38.5%	35.1%	-8.9%

Valuation and Recommendation

Our outlook for SCZ for H2 2011 remains favourable, with a slight increase in net profits projected for FY2011. However, this assumes that head office recharges remain at their FY2010 and pre-2007 levels at circa ZMK5bn (US$1m) or below ZMK10bn (US$2m). We expect slower earnings growth going forward, as the company remains relatively conservative on expanding its lending book. There will also be added pressure from a higher absolute cost of finance as deposit growth continues to exceed loan growth, though we only expect modest growth in deposits for H2 2011 relative to the growth seen in H1 2011.

Using DCF and relative valuations we arrive at a price target for SCZ of ZMK50.36, representing 44% downside on its current price of ZMK82. **SELL.**

Top 10 Shareholders	%
Standard Chartered Holdings Africa Bv	90.0%
National Pension Scheme Authority	1.5%
Standard Chartered Zambia Securities Nominees	0.8%
ZSIC Life Policy Holders Fund	0.7%
Saturnia Regna Pension Trust Limited	0.5%
NAPSA Staff Pension Scheme	0.5%
Zambia State Insurance Pension Trust Fund	0.5%
Private Individual	5.0%
Stanbic Bank Zamibia Nominees	0.3%
Standard Chartered Zambia Securities Nominees	0.2%
Total	**100.0%**

Zanaco

Zambia National Commercial Bank plc (Zanaco) is a registered commercial bank whose principal activity is to provide banking and financial services in Zambia. Following its privatisation in 2007, Zanaco completed its IPO and was listed in 2008 and retains its position as the provider of banking services to the Government, parastatals and their employees, which form a major part of the banks' client base. The ownership structure post IPO remains Rabobank with 45.6%, GRZ with 25% and a free float on the LuSE of 29.4%.

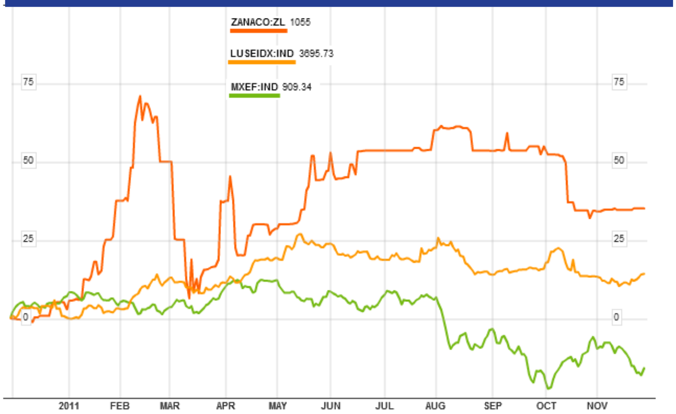
- **Change of Plan** Zanaco is narrowing its strategy to focus on 3 key areas; retail, government, and food and agriculture (F&A). On the back of its vast local presence and customer base, it already leads the retail space in terms of customer numbers and branch/agency network. This places it in a strong position to obtain government business, especially regarding payment of government employees across the country. Zanaco will also leverage on the core strengths of Rabobank in F&A.
- **Retail Strengths & Threats** Zanaco has over 500,000 accounts, giving it a market share of approximately 45% of the national customer base. It is the largest bank in Zambia by branches and customers. It has 57 full-service branches, 153 "Zanaco Express" agencies and 160 ATMs. However, cost pressure will continue to increase as the client number increase.
- **Strong share price performance** Zanaco outperformed both the local index and the MXEF index by respectable margins. Consolidation and optimisation of the synergies following Rabo Bank's entry are still accretionary, hence we anticipate further outperformance.
- **Recommendation** Using a combination of valuation methods, namely DCF and relative valuations, we arrive at a price target for Zanaco of ZMK1,534, representing 53% upside on its current price of ZMK1,000. **BUY.**

STRENGTHS	WEAKNESSES
Reputable major shareholder: Rabobank	Relatively high Cost/Income ratio
One of the top 4 banks in Zambia	High NPLs - legacy issue at circa 12%
Solid balance sheet	
Largest branch network	
Conservative management team	
OPPORTUNITIES	**THREATS**
Capital raise to grow capacity	Rabobank entry under investigation
Further growth of deposits and loan book	Commodity price shocks
Improvement in profitability and	Well established competition
quality of loan book	and threat of newcomers
New partnership with Postal Services	High future capital commitments

BLOOMBERG: ZANACO : ZL			BUY
Current price (ZMK)			1,000.00
Current price (US$)			0.20
Target price (ZMK)			1,534.27
Upside/Downside			53.43%
12 month High/Low (ZMK)			1,369.00; 789.00
Liquidity			
Market Cap (ZMKm)			1,154,819
Market Cap (US$m)			226.2
Shares (m)			1,154.8
Free Float (%)			29.4%
Ave Monthly value traded (US$m)			0.1
Ave Monthly volume (m)			1.4
Share Price Performance			
6 months (%)			-13.0%
Relative change (%)*			178.0%
Relative change (%)**			92.4%
12 months			28.5%
Relative change (%)*			269.5%
Relative change (%)**			-1074.0%
** Relative to LASI index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (ZMK)	97.41	122.21	194.78
DPS (ZMK)	28.00	42.77	68.16
NAV/Share (ZMK)	404.66	484.10	610.72
Net Interest Margin (%)	10.3%	10.3%	10.3%
FINANCIAL SUMMARY (ZMKm)			
Net interest income	324,195	394,287	559,236
Profit before tax	172,295	216,165	344,517
Attributable earnings	112,510	141,158	224,972
RATIOS			
RoAE	24.1%	25.2%	31.9%
RoAA	3.4%	3.5%	4.3%
Cost/Income Ratio (%)***	63.6%	61.6%	54.2%
Loans/Deposits (%)	66.6%	66.6%	66.6%
VALUATION RATIOS			
PBV (x)	2.5	2.1	1.6
PER (x)	10.3	8.2	5.1
Dividend Yield (%)	2.8%	4.3%	6.8%
Dividend payout ratio (%)	28.7%	35.0%	35.0%

***Pre provision for impaired advances

Figure 77: Zanaco vs MSCI EM vs LuSE Index



Q3 2011 Financial and Operational Review

A strong outcome for Q3 2011 was the combined result of stable funded and non-funded earnings growth, tightly controlled expenses and an improvement in loan quality, as witnessed by the reduction in provisions for the period. As the largest player in the market, contracting NIMs in the market will continue to pressure the bottom line, however the focus on SMEs, Food and Agriculture and the Government will continue to yield positive results. No comparative figures were provided in the results release and we have compared Q3 2011 cumulative figures to FY2010.

Overview of the income statement at 30 Sept 2011

- Total income increased by 16% to ZMK445.6bn in Q3 2011. Funded income makes up 64% of total revenue and makes the bank more susceptible to spread changes in the market. Annualised NIMs of 9.6% compare well to those for FY2010.
- The cost to income ratio for the 9 month period of 64% is six percentage points lower than that for FY2011, and if maintained will affect the bottom line positively for the full year.
- Annualised RoE for the period at 47% places the bank in the upper quartile for profitability returns.

Overview of balance sheet at 30 September 2011

- Balance sheet growth remained strong, with total assets up 34% in nine months to ZMK4.7tn (US$924m).
- From a high base, deposits grew by 44% to ZMK3.7tn (US$731m), showing the group's strength in the local market. This will bode well for NIMs and the full impact of this should be seen in 2012 figures.
- Loans and advances grew by 12% from the year-end balance to ZMK1.9tn (US$380m) for an LDR of 52%, which indicates a slowdown in the loan book, relative to the growth in deposits and also explains the reduced provisioning levels. Management anticipates that loan growth will revert to the 20-30% trend witnessed in recent years and this should be a priority to ensure optimal sweating of assets.
- Our outlook remains positive for Zanaco for H2 2011 owing to growth in interest income and the growth in fee and commission income expected.

Income Statement (ZMKm)	FY2010	Q3 2011	% ch
Net interest income	243,146	283,579	17%
Other income	139,911	162,061	16%
Total Income	**383,057**	**445,640**	**16%**
Provisions	(25,773)	374	-101%
Expenses	(271,218)	(285,065)	5%
Profit before tax	129,221	160,949	25%
Attributable earnings	**84,383**	**94,658**	**12%**

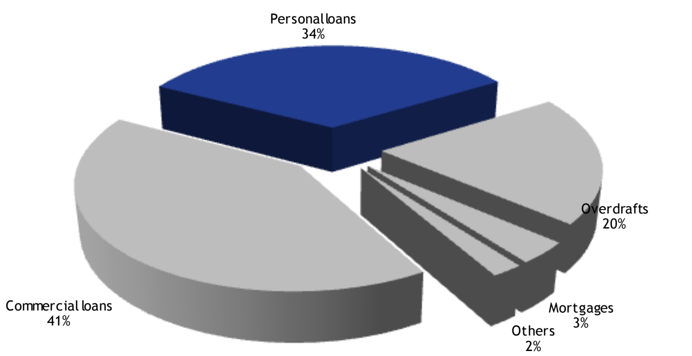
Balance Sheet (ZMKm)	FY 2010	Q3 2011	% ch
Cash at central Bank	404,031	424,913	5%
Cash on hand	0	156,546	n/a
Balances with banks	122,034	695,858	470%
Investment securities	956,252	1,146,432	20%
Loans & Advances	1,725,504	1,940,577	12%
Fixed Assets	169,938	185,328	9%
Other	142,261	169,773	19%
Total Assets	**3,520,020**	**4,719,427**	**34%**
Deposits	2,591,242	3,735,566	44%
Due to banks	24,278	11,233	-54%
Borrowed Funds	161,894	241,686	49%
Other liabilities	266,228	277,959	4%
Shareholders' funds	467,378	452,979	-3%
Total liabilities and equity	**3,520,020**	**4,719,427**	**34%**

Net interest margin	10.3%	9.6%	-7%
Cost to income ratio	70.8%	64.0%	-10%
RoE	24.1%	27.9%	15.7%
RoA	3.2%	2.7%	-16.3%
Rough CAR	15.6%	13.2%	-15.7%
Loan/Deposit	66.6%	51.9%	-22.0%

Valuation and Recommendation

Using DCF and relative valuations we arrive at a price target for Zanaco of ZMK1,534, representing 45% upside on its current price of ZMK1,055. Significant positives for the group include their unrivalled deposit gathering ability and the close affiliation to the government and an international heavyweight. The synergies of this relationship have already manifested in the 9 month results, however these will continue to strengthen, especially in the agricultural sector, which is rapidly developing into one of the more prolific in Africa. **BUY**.

Figure 78: Loan distribution by type at 31 Dec 2010



Source : Zanaco

Top 10 Shareholders	%
Rabo Financial Institutions Development BV	45.6%
Government Of Zambia	25.0%
National Pension Scheme Authority	8.9%
Lizara Investments	3.4%
Public Service Pensions Fund Board	2.8%
Standard Chartered Zambia Securities Nominees	2.3%
Workers Compensation Fund C.B.	2.1%
Saturnia Regna Pension Trust Limited	1.8%
Mukuba Pension Trustees	0.7%
Other	7.6%
Total	**100.0%**

EQUITY RESEARCH

ZAMBIA

FEBRUARY 2012

Investrust Bank

Investrust Bank Plc, Investrust, was incorporated on 19 September 1996 as Investrust Merchant Bank Zambia Limited and was registered as a bank under the Banking and Financial Services Act of Zambia. In 2004, the bank converted to a public company and changed its name to Investrust Bank Plc and was quoted on the Lusaka Stock Exchange ("LuSE"). The bank applied for and was granted a full listing on the LuSE on 18 June 2007.

- **A Credit Crisis** Having lamented the fact that the bank seemed over-conservative with regards its lending book in our previous write up, Investrust, on the face of it, then went on to aggressively grow its lending book to the detriment of its quality of assets with impairment charges surging 2.8x to ZMK26.8bn (US$5.2m). These impairments contributed to the bank's FY2010 loss of ZMK4.9bn. Investrust's short to medium-term strategy is to clean-up its loan book, whilst customer acquisition, branch expansion, and growing its lending book as part of its long-term strategy.

- **Risks remain** As at H1 2011, the bank recorded a 16% increase y-o-y in total income, a 19% increase y-o-y in operating expenses, and a 148% y-o-y increase in impairments, culminating in a 41% decrease in net earnings to ZMK3.3bn (US$65m). Loans and advances increased by 23% y-o-y, deposits increased by 41% y-o-y, whilst NPL's rose from 16% as at H1 2010 to 21% as at H1 2011.

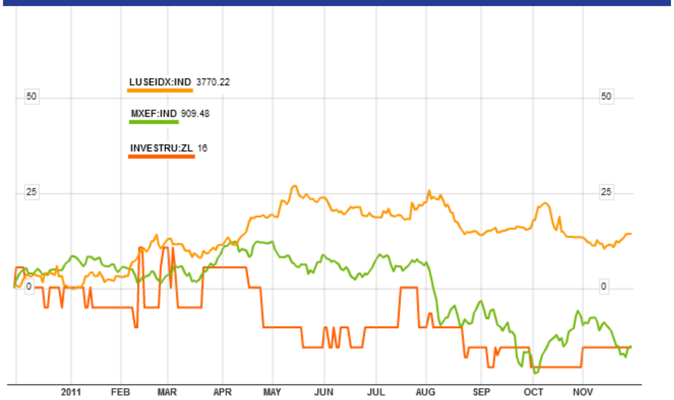
- **Is the storm over?** A combination of persistent impairment charges and the planned branch expansion will put downward pressure on medium-term earnings. However, our long-term outlook remains positive. Using equally weighted DCF and relative valuations, we arrive at a price target for Investrust of ZMK22.58. We are neutral on Investrust and recommend investors **HOLD**.

STRENGTHS	WEAKNESSES
Acute focus on SME sector Quick decision turnaround time Low inflation Low banking penetration rates Strong economic growth and invest.	High cost of funding Small balance sheet Poor book quality NPLs >21% Need to recapitalise
OPPORTUNITIES	**THREATS**
Scaling up through technology and strategic alliances Market consolidation underway, scope for mergers and acquisitions	Increasing competition Slugging growth in income Pressure on expenses by expansion of branch network Future devaluations

BLOOMBERG: INVESTRU : ZL			HOLD
Current price (ZMK)			19.20
Current price (US$)			0.004
Target price (ZMK)			22.58
Upside/Downside			17.59%
12 month High/Low (ZMK)			21.00; 15.00
Liquidity			
Market Cap (ZMKm)			56,909
Market Cap (US$m)			11.1
Shares (m)			2,964.0
Free Float (%)			29.0
Ave Monthly value traded (US$m)			0.1
Ave Monthly volume (m)			19.8
Share Price Performance			
6 months (%)			20.0%
Relative change (%)*			-526.2%
Relative change (%)**			-394.9%
12 months			-4.0%
Relative change (%)*			76.2%
Relative change (%)**			36.5%
** Relative to LASI index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (ZMK)	(1.7)	1.7	2.9
DPS (ZMK)	-	0.6	1.0
NAV/Share (ZMK)	13.3	14.9	17.8
Net Interest Margin (%)	9.8%	9.8%	8.7%
FINANCIAL SUMMARY (ZMKm)			
Net interest income	50,327	65,471	83,347
Profit before tax	-6,351	6,403	10,978
Attributable earnings	-4,939	4,979	8,537
RATIOS			
RoAE	-11.4%	11.9%	17.6%
RoAA	-0.9%	3.5%	4.3%
Cost/Income Ratio (%)***	76.0%	68.1%	61.3%
Loans/Deposits (%)	78.6%	78.6%	78.6%
VALUATION RATIOS			
PBV (x)	1.4	1.3	1.1
PER (x)	(11.5)	11.4	6.7
Dividend Yield (%)	0.0%	3.0%	5.1%
Dividend payout ratio (%)	0.0%	34.3%	34.3%

***Pre provision for impaired advances

Figure 79: Investrust vs MSCI EM vs LuSE Index



H1 2011 Financial and Operational Review

Investrust's H1 performance marks a rebound, following a dismal FY2010 result. We had expected a weak FY2010 performance courtesy of higher expansion and branch related expenses, and not the huge increase in provisioning which led to a loss being recorded. In the 2010 annual report, the bank's chairman noted that steps were being taken to address the impairment issue, including inter alia; strengthening the recoveries unit, reconstituting the legal team to handle and hopefully accelerate loan default court cases that are currently under litigation, implementing stricter measures to ensure enforcement of the bank's credit policy and reorganising and segregating the duty of the credit department. These measures are now taking effect as can be seen in these results.

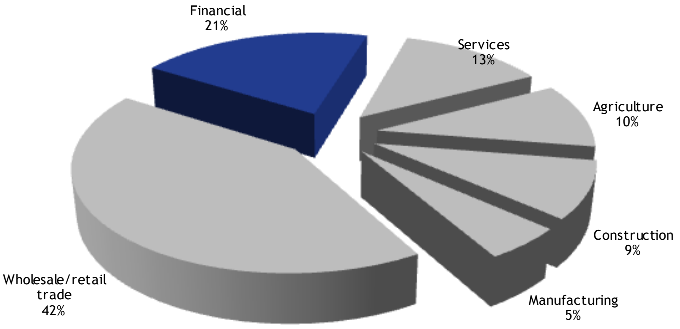
Overview of income statement at 30 June 2011

- Interest income rose by 4.7% to ZMK38.3bn whilst interest expense increased by 2.4% to ZMK12.7bn. The net result was an increase in net interest income of 5.9% to ZMK25.5bn.
- Non-interest income, driven by strong growth in fees and commissions, rose by 32% y-o-y to ZMK20.7bn. Total income increased 16% to ZMK46.2bn.
- Impairment charges were 148% higher than H1 2010 as NPLs rose from 16% to 21% whilst total operating costs increased by 12%.
- PBT at ZMK5.2bn decreased by 21.3%, but PAT fell from ZMK5.6bn to ZMK3.3bn, down 41% as a result of a 100% increase in the tax paid from ZMK950m to ZMK1.9bn.

Overview of the balance sheet at 30 June 2011

- The balance sheet grew by 27.7% from the H1 2010 figure to ZMK737bn, with deposit growth of 43% to ZMK528.4bn.
- Net loans and advances grew by 23% to ZMK396.8bn and this led to a reduction in the LDR from 80% in H1 2010 to 67% in H1 2011, indicating a less aggressive lending strategy in order to contain NPLs.
- As at 30 June 2011, the bank ranked 8th by total assets, 8th by deposits and 7th by loans and advances.

Figure 80: Loan distribution by sector at 31 Dec 2010



Source: Investrust

Income Statement (ZMKm)	H1 2010	H1 2011	% ch
Net interest income	25,163	25,547	2%
Other income	18,649	20,673	11%
Total Income	**43,812**	**46,220**	**5%**
Provisions	(13,399)	(6,757)	-50%
Expenses	(33,589)	(34,267)	2%
Profit before tax	(3,176)	5,196	n/a
Attributable earnings	**(2,470)**	**3,296**	n/a

Balance Sheet (ZMKm)	FY2010	H1 2011	% ch
Cash and cash equivalents	72,519	93,209	29%
Cash on hand	-	19,480	n/a
Balances with banks	46,182	46,290	0%
Investment securities	80,081	94,310	18%
Loans & Advances	374,289	396,805	6%
Fixed Assets	32,716	35,808	9%
Other	39,855	51,455	29%
Total Assets	**645,641**	**737,357**	**14%**
Deposits	476,250	578,388	21%
Due to banks	10,000	22,496	125%
Borrowed Funds	94,950	75,692	n/a
Other liabilities	25,163	20,560	-18%
Shareholders' funds	39,278	40,221	2%
Total liabilities and equity	**645,641**	**737,357**	**14%**

Net interest margin	10.1%	9.2%	-9%
Cost to income ratio	76.7%	74.1%	-3%
RoE	-12.6%	16.4%	n/a
RoA	-0.8%	0.9%	n/a
Rough CAR	7.5%	7.0%	-6.7%
Loan/Deposit	78.6%	68.6%	-12.7%

Valuation and Recommendation

On 17 June, 2011, the bank sought to raise ZMK31.6bn (US$6.2m) via a Rights Offer at a ratio of 2 for every 3 shares held, at an issue price of ZMK16 per share. The funds from the RO will recapitalise the business and facilitate branch expansion. At the interim stage, the level of NPLs remains alarmingly high at 21%, which is the highest in our sample of African banks. Added cost pressure of branch expansion, with management estimates of a 3 year period to breakeven per branch, the near-term performance will remain weak.

Investrust expects a "modest profit or loss" in 2011 due to high impairments, and it is still unknown how long these are expected to persist. We arrive at a DCF valuation of ZMK22.58 and we recommend that investors **HOLD** their position in Investrust.

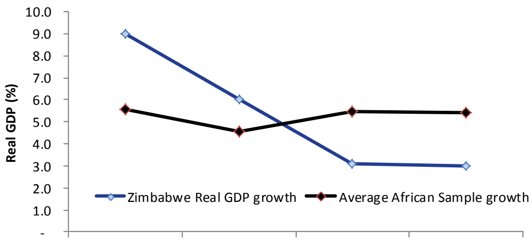
Top 10 Shareholders	%
Private Individual	10.1%
Private Individual	10.1%
Zccm-Ih	10.0%
Chivimba Family Trust	10.0%
Private Individual	9.7%
Workers Compensation Fund	7.7%
Saturnia Regna Pension Trust Fund	6.3%
Madison Pension Trust Fund	5.8%
Private Individual	4.9%
Other	25.5%
Total	**100.0%**

Zimbabwe – Macro-economic highlights

Key Themes:

- The economy is estimated to grow by 9.3% in FY2011 to US$10.1bn underpinned by a 25.8% growth in mining, finance and insurance 24.0%, distribution, hotels and restaurants 10.3% and agriculture 7.4%. GDP is projected to grow by 9.4% in FY2012 to US$11.9bn driven by a 23.0% growth in finance and insurance, 15.9% in mining, 13.7% in distribution, hotels and restaurants and 11.6% in agriculture.
- Strong platinum, gold and diamond prices, coupled with a rebound in the agricultural sector, including tobacco exports, have been the main drivers of the multi-pronged economic rebirth.
- However, IMF asserts that Zimbabwe's net foreign asset position is negative even when taking into account the economy's net present value of mineral wealth. Sound policies, supported by debt relief, are the only feasible options for Zimbabwe to re-establish external sustainability.
- Annual average inflation for the year is expected at 4.1% and to reach 5.0% in FY2012.
- Total bank deposits were approximately US$3.3bn as at end September 2011 and capacity utilisation for the manufacturing sector averaged approximately 52.7% from 43.7% in FY2010.

Figure 81: Zimbabwe Real GDP Growth 2010 - 2016

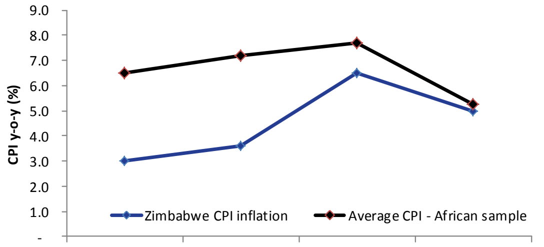


Source: IMF

Overview of developments in FY2011

- **No lender of last resort.** The RBZ's role is still limited to that of performing a supervisory function. The central bank itself, is in a parlous financial position, with US$1.2bn of negative equity and liabilities to commercial banks (in statutory reserves) of US$83m and US$91m owed to resident and non-resident non-banking institutions (Source IMF country report 11/135). Further, redundant staff claims amounting to US$44m have also yet to be resolved and the 2008 audited annual results remain unpublished.
- Hence, the secondary money market is still to be defined with no formal bid/ask and in the rare cases that these exist they are mostly bilaterally agreed.
- Very high bank charges (cash deposit charge, cash withdrawal charge of 3% is common). These have aided banks' NIR which continue to be a significant contributor to income at more than 60%.
- **Growth in structured financing.** We believe that there is scope for banks to grow structured finance deals for corporate clients since they offer lower than market rates of borrowing. Other products of interest are commodity related derivatives.
- **Short lending duration** – deposits are mainly short term and curb banks' ability to fund long term investments.
- **Asset quality pressures.** In light of the liquidity constraints impacting on company cash flows, bad debts are on the rise. The quality of the loan books raise question marks regarding serviceability and recoverability. Nonetheless, most banks lend against full security, mostly of real estate.
- Impairments are generally low at less than 6%. In our view, the low impairments are a result of the aggressive valuations on property which are likely to be significantly lower in reality.
- The lack of a national credit bureau constrains the development of the retail credit market, especially in light of mushrooming microfinance institutions. Some individuals and companies are over-stretched in term of borrowing due to the absence of credit bureaus.

Figure 82: Zimbabwe CPI Inflation 2010 - 2016



Source: IMF

Zimbabwe – Macro-economic highlights (Cont.)

- Domestic intermediation will pose a threat to the profitability of local banks, in our view. Retailers such as furniture, departmental stores and some motor vehicle retailers are offering instalment sales and leasing finance through their in-house financial services offerings. The potential to attract business away from the large retail banks is significant.
- Another threat is from micro-lenders. Since the target market has little disposable income, financial service providers have to battle for “share of wallet”.
- We would be more comfortable with gradual asset growth, rather than the banking system witnessing significant slippages and deteriorating in asset quality. In our opinion, lost asset growth can easily be recovered in subsequent years (when the environment improves); however a build-up of NPLs due to aggressive lending can cause significant damage, mostly attributed to lost confidence.
- We believe that consolidation is likely in the banking sector given the low levels of capitalisation. Most banks are generally illiquid. Nonetheless, by prudential standards, most listed banks are fully capitalised.

BARCLAYS

Barclays Bank Zimbabwe

Barclays' financial results have been depressed as the bank has remained very cautious. Nonetheless, Barclays has a distinct advantage over its indigenous peers, and will be one of the key players in Zimbabwe's economic recovery. With over 39 branches and service centres nationwide, Barclays' branch network is extensive. The branch network is backed by a strong IT platform, as all branches are linked to a satellite based network allowing all customers' accounts to be held on a single database. HOLD.

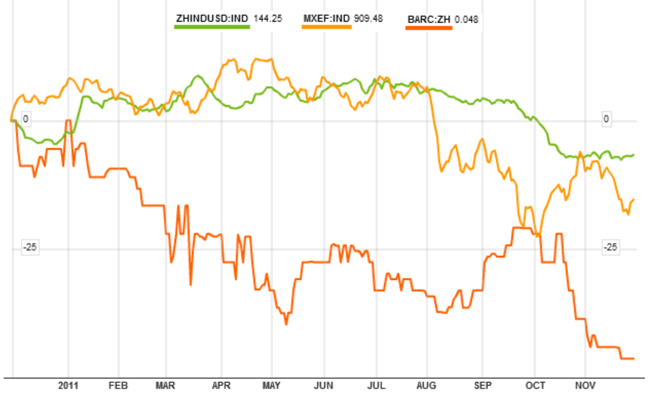
- **Blue chip lending book and prudential risk management**. With a balance sheet in the region of US$228.9m, the bank is selectively growing its advances book while enhancing its product offering to increase transactional volume and hence fee income.
- **Cost containment to the fore**. The future prospects of the bank are highly dependent on its ability to curb costs. Barclays has embarked on a second voluntary retrenchment exercise and received parent support to the tune of US$7.9m. The bank's long term target cost to income ratio is 50%.
- **Fee income covers operating costs.** The bank's operating expenses are currently covered by the fee income, hence Barclays is well poised for significant earnings growth once the advances book starts to grow. Total advances amount to only US$53.0m and impairments are less than 1% highlighting the conservative stance adopted by the bank post dollarisation.
- Volume growth in transactions has been the main driver of commission and fee income. The strength of the bank's brand name should continue to enable volume growth in commission related transactions.
- As the bank is hardly lending, it remains impossible to attach a valuation thereto based on earnings performance and/or forecasts. Value abounds, with that all too evasive 'normalisation' being the turning point. **HOLD**.

STRENGTHS	WEAKNESSES
Strong parent company	High cost base
Access to lines of credit	Breakdown in credit histories
Extensive network/clientele	No scope to expand regionally
Solid NGO clientele base	Less flexible/agile
Extensive skills pool	Politically sensitive
OPPORTUNITIES	**THREATS**
Technology transfer	New entrants into the market
Recapitalisation of industry	Credit risk high
and commerce	Banking system yet to be fully
Huge credit appetite from pvt sector	recapitalised and normalised
	No lender of last resort

BLOOMBERG: BARC : ZH			**HOLD**
Current price (USc)			0.04
Target price (USc)			0.02
Upside/Downside			-52.73%
12 month High/Low (US$)			0.09 - 0.048
Liquidity			
Market Cap (US$m)			94.7
Shares (m)			2,151.9
Free Float (%)			15.2
Ave Monthly value traded (US$m)			0.002
Ave Monthly volume (m)			4.4
Share Price Performance			
6 months (%)			-32.3%
Relative change (%)*			137.0%
Relative change (%)**			376.4%
12 months			-51.1%
Relative change (%)*			641.2%
Relative change (%)**			1644.6%
** Relative to ZSE index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (USc)	(0.0006)	0.001	0.003
DPS (USc)	-	0.0003	0.0009
NAV/Share (USc)	0.0144	0.015	0.016
Net Interest Margin (%)	1.4%	1.4%	1.4%
FINANCIAL SUMMARY (US$m)			
Net interest income	2.8	0.9	1.1
Profit before tax	(1.9)	3.4	9.4
Attributable earnings	(1.3)	2.4	6.6
RATIOS			
RoAE	-4.0%	7.6%	19.9%
RoAA	-0.6%	1.2%	3.7%
Cost/Income Ratio (%)***	104.7%	90.3%	79.0%
Loans/Deposits (%)	23.8%	23.8%	23.8%
VALUATION RATIOS			
PBV (x)	3.1	3.0	2.8
PER (x)	(74.2)	39.8	14.3
Dividend Yield (%)	0.0%	0.8%	2.1%
Dividend payout ratio (%)	0.0%	30.0%	30.0%

***Pre provision for impaired advances

Figure 83: Barclays vs MSCI EM vs ZSE Index



H1 2011 Financial and Operational Review

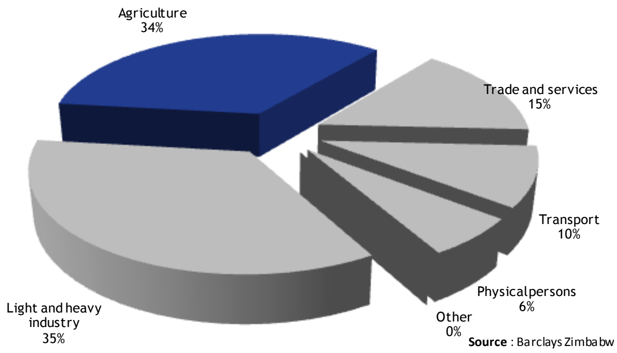
Continuing to benefit from size and scale. Benefiting from a strong brand, Barclays continues to access cheap funds, particularly current account deposits, which are virtually free. Barclays has been, arguably, the most risk averse of the Zimbabwean banks, and with political and systematic risk at all-time highs, the strategy remains one of survival. Political rhetoric remains investor unfriendly and uncertainty continues to ride high, especially for foreign owned companies and banks, which may be earmarked for acquisition should the politics swing left wing. Legislation is still unfinished and the position remains fragile.

On the other hand despite the fact that deposits in the system have grown exponentially as driven by resurgent commodities prices and, for all intents and purposes, a recovery in the agricultural sector, the regulatory framework has never been weaker. The central bank is essentially not a going concern and harbours significant debts to commercial banks and corporates alike, have been run to the ground during the hyperinflationary years. Trying to overcome its own gargantuan funding gap, the collapse of any (or several) of the small undercapitalised banks, or one of the heavily over-stretched larger banks, will lead to certain demise, borne entirely by the depositors.

We estimate that interest paid on demand deposits ranges between 0% and 2.65% while industry wide effective lending rates range between 15% to 45% p.a. due to high credit risk and low liquidity. Although Barclays' market share has retreated to 8% by deposits and 3% by advances due to increased competition, the bank is currently not focused on league table rankings but on positioning for sustainable profitability.

At present penetration rates, the bank is virtually in a break even position, as highlighted by the 96% cost to income rate at the end of June 2011. This is unlikely to change until the risks dissipate. With one of the strongest brands in the country, gaining back lost market share will be relatively easy, so perhaps now represents an excellent speculative opportunity to gain exposure, balanced against the possible risk of nationalisation, in the most extreme bear scenario.

Figure 84: Loan distribution by sector at 31 Dec 2010



Source : Barclays Zimbabw

Income Statement (US$m)	H1 2010	H1 2011	% ch
Net interest income	1.962	2.929	49%
Other income	16.410	20.314	24%
Total Income	**18.373**	**23.243**	**27%**
Provisions	(0.040)	(0.043)	9%
Expenses	(19.261)	(22.290)	16%
Profit before tax	(0.928)	0.910	-198%
Attributable earnings	**(0.633)**	**0.792**	**-225%**

Balance Sheet (US$m)	H1 2010	H1 2011	% ch
Cash at central Bank	107.6	142.7	33%
Investment property	15.0	15.0	0%
Balances with banks	0.004	0.019	338%
Securities	1.1	1.4	24%
Loans & Advances	25.5	53.1	108%
Fixed Assets	21.8	21.9	1%
Other	2.7	3.3	24%
Total Assets	**173.8**	**237.5**	**37%**
Deposits	121.6	181.9	50%
Due to banks	0.7	0.9	29%
Borrowed Funds	-	-	
Other liabilities	20.1	22.6	12%
Shareholders' funds	31.4	32.1	2%
Total liabilities and equity	**173.8**	**237.5**	**37%**

Net interest margin	9.4%	8.4%	-11%
Cost to income ratio	105%	96%	-9%
RoE	-4.0%	4.9%	n/a
RoA	-0.7%	0.7%	n/a
Rough CAR	61%	40%	-34.3%
Loan/Deposit	21%	29%	39.1%

Valuation and Recommendation

Currently trading at a premium to the sector average 2012 PBV of 1.8x, however, valuations based on earnings are fraught with high risk due to the significant uncertainties prevailing in the local financial sector.

Traditionally Barclays trades at a premium as it offers a safe haven and due to its conservative approach to business. We believe that Barclays is an attractive play on the Zimbabwean economy with key attractions being the blue chip client base and low cost deposit mobilisation capability, which will generate substantial funded revenue streams in the years to come. **HOLD.**

Top 10 Shareholders	%
Afcarme Zimbabwe Holdings P/L	67.8%
Old Mutual Life Assurance A/C 1	6.9%
Old Mutual Zimbabwe Ltd	5.7%
Stanbic Nominees P/L- NNR A/C1	0.4%
Barclays Zimbabwe Nominees-A/C # 1	2.3%
Barclays Zimbabwe Nominees P/L- NNR 1	1.4%
Fed Nominees P/L	1.4%
Stanbic Nominees P/L- NNR A/C2	0.3%
Mining Industry Pension Fund	0.7%
Old Mutual Life Assurance A/C 2	0.6%
Other	12.5%
Total	**100.0%**

EQUITY RESEARCH

ZIMBABWE

FEBRUARY 2012

CBZ Holdings

Zimbabwe's banking behemoth, CBZH, continues to post robust profit growth. The major profit drivers include strong performance of NII, an improvement in fee and commission income coupled with cost containment. Despite a 25% plus RoAE, the bank trades at significant discounts (10%-30%) to its peers, mainly due to the poor perception of its asset quality. In our view, CBZH, as the largest bank in the country by all matrices should re-rate accordingly.

- **Dominant position.** The group has the largest depositor base in the country at over US$770.0m and an advances book of US$632.2m, controlling 27% of deposits and 28% of advances.
- **Diversifying income streams.** The group is diversifying its income streams and has launched a life insurance operation. The build-up of long tenure funds allows the group to offer improved mortgage facilities to unlock its land bank. The diversified businesses are likely to contribute more to the bottom line with enhanced recovery.
- **Group rationalisation to improve efficiencies.** The future prospects of the group are highly dependent on its ability to curb costs. Huge cost savings will follow the rationalisation of the bank and building society, where management anticipates slashing expenses by 35%. The group is targeting a cost to income ratio of not more than 63% for FY 2011 while the long-term target is 50%.
- **Most aggressive lender in Zimbabwe.** CBZH has aggressively grown its advances with a loan to deposit ratio of 78%. Management says it is comfortable with a loan to deposit ratio of between 75% and 80%, in the current environment. The bank's gearing is one of the highest at 8.9x, well above country average of 3.9x. Management also state that the bulk of the advances are overdraft facilities which make close monitoring of the accounts easier as opposed to fixed term loans. Only 3% of the book is to government and related institutions.

STRENGTHS	WEAKNESSES
Largest depositor base	Exposure to government?
Banker to the government	Potential NPLs due to aggressive
Diversified income stream	growth in book esp in light of fragile
Access to external credit lines	banking sector ie no lender of last
Well capitalised with large branch network	resort.
OPPORTUNITIES	**THREATS**
Further growth in agriculture and mining	High cost platform
Established presence in Invest. Banking	Bureacratic/red tape
Improving macro env. For Zimbabwe	Prolonged stretch to recapitalisation
Recovery of public/private sectors	Change in relations post Arab spring in
Foreign lines of credit	Libya

BLOOMBERG: CBZ : ZH			HOLD
Current price (US$)			0.090
Target price (US$)			0.39
Upside/Downside			335.60%
12 month High/Low (US$)			0.195 - 0.112
Liquidity			
Market Cap (US$m)			61.6
Shares (m)			684.1
Free Float (%)			30.4
Ave Monthly value traded (US$m)			0.4
Ave Monthly volume (m)			4.6
Share Price Performance			
6 months (%)			-47.1%
Relative change (%)*			245.2%
Relative change (%)**			594.0%
12 months			-45.5%
Relative change (%)*			581.3%
Relative change (%)**			1451.5%
** Relative to ZSE index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (US$)	0.026	0.043	0.055
DPS (US$)	0.000	0.011	0.014
NAV/Share (US$)	0.12	0.19	0.29
Net Interest Margin (%)	7.3%	7.3%	7.3%
FINANCIAL SUMMARY (US$m)			
Net interest income	44.2	7.4	19.2
Profit before tax	25.5	42.4	54.6
Attributable earnings	17.6	29.2	37.6
RATIOS			
RoAE	23.7%	26.8%	22.7%
RoAA	3.1%	3.4%	3.3%
Cost/Income Ratio (%)***	66.6%	57.9%	56.3%
Loans/Deposits (%)	76.9%	98.4%	98.4%
VALUATION RATIOS			
PBV (x)	0.7	0.5	0.3
PER (x)	3.5	2.1	1.6
Dividend Yield (%)	0.0%	11.9%	15.3%
Dividend payout ratio (%)	0.0%	25.0%	25.0%

***Pre provision for impaired advances

Figure 85: CBZ vs MSCI EM vs ZSE Index

H1 2011 Financial and Operational Review

The bank has been focusing on growing its retail book, snapping up market share from the rest of the market, and already the biggest bank in the country. Retail as a percentage of total loans has steadily increased to 14% from 11% as of December 2010 and due to the short duration of the loans, the bank makes more on charges on establishment fees whenever loans are rolled over, which reduces the dependence on the NIMs.

- Deposit growth continues to be well above inflation and at US$727m marked a peak for the bank. The bulk of the deposits are very short term in nature, averaging 30 days, however this has been matched by the provision of overdraft facilities.
- CBZ has adopted the most aggressive lending strategy of all the banks. With government as a major shareholder, the bank has been instrumental in providing finance to the agricultural sector, which has rebounded strongly. Tobacco for example had collapsed to 49m kg in 2008, and since that trough has recovered to 123m kg in 2010 and is expected to end 2011 at 133m kg, rapidly approaching the country's peak production in 1998 of 260m kg. Agriculture already makes up 26% of the banks book and should continue to grow, in line with agricultural output.
- The bank has also been focussing on growing the retail book, where housing and personal loan products now collectively account for more than 10% of the book. With dollarisation eliminating the bulk of any exchange risk, car finance is growing from virtual non-existence, and as the bank controls a large swathe of salaries employees (especially from the government payroll), the lending model adopted is similar to the microfinance model used successfully throughout southern Africa. While credit retail models worked quite well prior to the economic meltdown, more aggressive consumer lending was discouraged by the soft Zimbabwe dollar, which had already started its course down a slippery slope. Without that impediment, retail lending has grown exponentially.
- Growth in the SME and microfinance (in partnership with BADEA) is targeted to constitute approximately 3% of the total book in FY 2011 and to improve in the years to come.

Income Statement (US$m)	H1 2010	H1 2011	% ch
Net interest income	18.1	33.6	86%
Other income	16.4	21.2	29%
Total Income	**34.6**	**54.8**	**59%**
Provisions	(1.0)	(4.5)	334%
Expenses	(24.4)	(31.0)	27%
Profit before tax	9.0	19.3	113%
Attributable earnings	**6.3**	**13.6**	**115%**

Balance Sheet (US$m)	H1 2010	H1 2011	% ch
Cash at central Bank	68.6	164.5	140%
Cash on hand	42.9	34.5	-20%
Balances with banks	19.6	16.3	-17%
Securities	22.1	8.0	-64%
Loans & Advances	444.6	632.3	42%
Fixed Assets	56.9	60.3	6%
Other	32.1	37.7	17%
Total Assets	**686.9**	**953.7**	**39%**
Deposits	508.4	727.0	43%
Due to banks	70.0	45.0	-36%
Borrowed Funds		42.7	n/a
Other liabilities	22.8	39.7	74%
Shareholders' funds	85.7	99.3	16%
Total liabilities and equity	**686.9**	**953.7**	**39%**

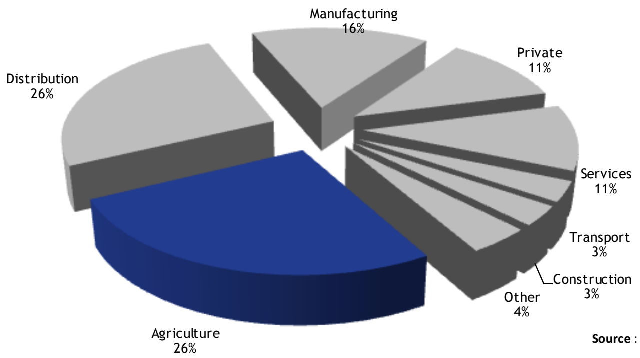
Net interest margin	6.8%	9.7%	42%
Cost to income ratio	70.7%	56.6%	-20%
RoE	14.8%	27.4%	85.4%
RoA	1.8%	2.9%	54.7%
Rough CAR	14.9%	13.2%	-11.7%
Loan/Deposit	87.5%	87.0%	-0.6%

Valuation and Recommendation

We believe that CBZH will grow earnings faster than the ZSE over the next couple of years. The group is concentrating on consolidating its position through quality and efficiency enhancements.

Our DCF valuation discounts future earnings to arrive at a fair value of US$0.39. We remain cautiously optimistic, however reiterate that the aggressive growth in loans has pushed the bank to a LDR of 87%, and without a lender of last resort, or a significant loan goes bust, there is likely to be a country wide liquidity crunch, much worse than exists already. While the earnings justify a greater market valuation, the macro picture dictates caution. **HOLD.**

Figure 86: Loan distribution by sector at 31 Dec 2010



Source : CBZ

Top 10 Shareholders	%
Government of Zimbabwe	16.1%
Libyan Foreign Bank	14.1%
Africa Investment SUB 2 Limited	13.5%
National Social Security Authority	10.5%
CBZ Holdings Limited	8.1%
Remo Nominees (Pvt) Ltd	3.9%
Barclays Zimbabwe Nominees	3.7%
Datvest Nominees	2.7%
Bethel Nominees	2.2%
Stanbic Nominees	2.1%
Other	23.1%
Total	**100.0%**

FBC Holdings Limited
strength • diversity • service

EQUITY RESEARCH

ZIMBABWE

FEBRUARY 2012

FBC Holdings Limited

FBCH has continued to unleash an impressive performance backed by improving economic activity, prudent asset management, increased product and service penetration and a sterling performance from Turnall, its building and allied sector subsidiary.

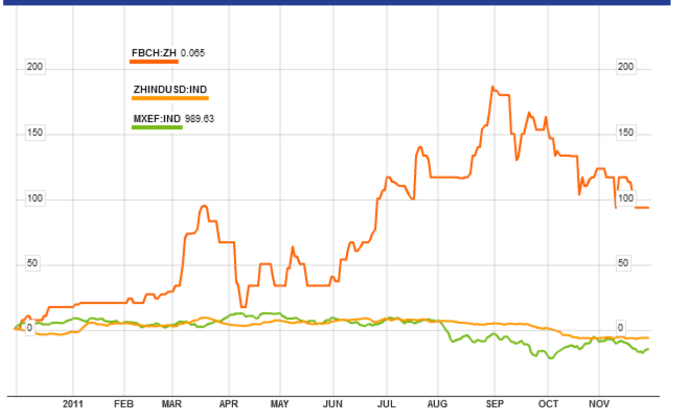
- The group's increased stake in Eagle Insurance to 95% and the newly opened Micro Finance business should see the group becoming a one stop financial services house. The e-commerce drive is expected to result in improved efficiencies, reduced costs and the launch of new products.
- **Group focusing on more business than core business.** The investment in Turnall (TRNL:ZH) remains a strategic move, in view of the lack of a lender of last resort in the market. Management said they would only consider disposing the unit if they needed to recapitalise the bank.
- **On course to launch several other new products.** New products in the pipeline include, a Mobile Money Product which will be usable on all mobile networks and should be introduced by year end. Visa products are also to be launched in the next six months.
- **Small to medium sized corporate sector and the unbanked informal sector seen as the highest growth areas.** The group intends to convert these sectors into strong medium corporates. Management sees great potential to mobilise more deposits especially from the informal unbanked sector and access to lines of credit. This will increase lending on a long term basis for the productive sectors of the economy.
- **Valuation shows significant undervaluation.** The market currently values FBCH's 58.32% stake in Turnall at US$27m against group market cap of US$22m. A no-brainer, and potentially a good partner for banks looking to enter the Zimbabwean banking sector, while valuations are still undemanding.

STRENGTHS	WEAKNESSES
Diversified income stream	Exposure to parastals
Well capitalised	High cost structure
Growing depositor base	Short term deposits
Innovative and aggressive management	Structural weaknessses in market
Plan B - investment in Turnall	
OPPORTUNITIES	**THREATS**
Growth in local market on recap	Potential NPLs in pipeline - LDR 76%
Established presence in Investment Banking	Lack of lender of last resort
Improving macro env. For Zimbabwe	Prolonged stretch to recapitalisation
Recovery of public/private sector	Increasing competition from locals and new
Foreign lines of credit	entrants

BLOOMBERG: FBCH : ZH			HOLD
Current price (US$)			0.062
Target price (US$)			0.22
Upside/Downside			256.30%
12 month High/Low (US$)			0.086 - 0.03
Liquidity			
Market Cap (US$m)			22.4
Shares (m)			360.7
Free Float (%)			47.1
Ave Monthly value traded (US$m)			0.3
Ave Monthly volume (m)			5.1
Share Price Performance			
6 months (%)			47.6%
Relative change (%)*			-449.3%
Relative change (%)**			-802.2%
12 months			106.7%
Relative change (%)*			-1029.5%
Relative change (%)**			-3741.0%
** Relative to ZSE index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (USc)	0.003	0.017	0.032
DPS (US$)	-	0.002	0.003
NAV/Share (USc)	0.09	0.10	0.11
Net Interest Margin (%)	7.1%	7.1%	7.1%
FINANCIAL SUMMARY (US$m)			
Net interest income	11.45	15.28	18.14
Profit before tax	4.1	5.2	9.9
Attributable earnings	1.7	8.3	15.8
RATIOS			
RoAE	3.9%	17.5%	30.1%
RoAA	0.8%	3.1%	5.0%
Cost/Income Ratio (%)***	83.7%	83.4%	76.4%
Loans/Deposits (%)	75.5%	75.5%	75.5%
VALUATION RATIOS			
PBV (x)	0.7	0.6	0.5
PER (x)	18.2	3.7	1.9
Dividend Yield (%)	0.0%	2.7%	5.1%
Dividend payout ratio (%)	0.0%	10.0%	10.0%

***Pre provision for impaired advances

Figure 87: FBC vs MSCI EM vs ZSE Index



H1 2011 Financial and Operational Review

FBCH has a diverse business portfolio including a bank, building society, stock broking company, a reinsurance business and a Micro Finance arm. Currently the group has 15 banking branches plus two agencies, with 54,963 accounts in its book. The bank also has a 58.32% stake in Turnall Holdings Limited, an asbestos cement sheet and pipe manufacturer producing flat and corrugated roofing sheet products, moulded products and water and sewage pipes.

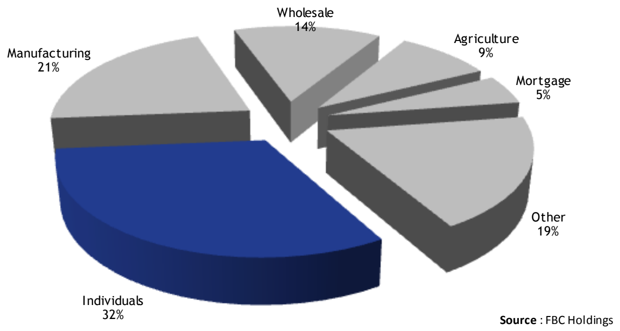
Overview of the income statement at 30 June 2011

- For H1 2011, the group registered an improved performance, showing a PBT growth of 129% to US$6.4m of which 44% came from the bank, 30% from Turnall, 16% from the building society and 12% from reinsurance. The stock broking and insurance divisions however registered losses of US$66,324 and US$51,626 respectively.
- The net interest margin increased on higher net interest income, up 17% to US$6.0m and a lower asset base of US$114.2m down 6% from the prior period's US$121.4m.
- The cost to income ratio improved to 70% from 84% as the group benefited from the staff rationalisation. The attributable profit thus increased by 157% to US$3.9m. An interim dividend of 0.169 US cents per share was declared, a dividend yield of 2.1% and a cover of 3.9x.

Overview of balance sheet as at 30 June 2011

- The group balance sheet increased by 12% from December 2010 to US$264.7m driven by an 11% and 22% growth in deposits and advances respectively.
- Lines of credit amounted to approximately US$45.0m. The bank obtained a US$15m facility from PTA Bank, which was fully repaid and has since been renewed. Another US$5m from PTA Bank is pending disbursement. US$10m each from ZETREF and Afreximbank is also being disbursed. FBC Building Society managed to acquire US$5m lines of credit from PTA Bank for property development and US$5m from Shelter Afrique for low income housing development.
- Gross NPL to advances deteriorated to 4.6% from 3.5%. The group's NPL coverage ratio is currently at 37%.

Figure 88: Loan distribution by sector at 30 June 2011



Source : FBC Holdings

Income Statement (US$m)	H1 2010	H1 2011	% ch
Net interest income	5.1	6.0	17%
Other income	12.4	18.4	49%
Total Income	**17.5**	**24.4**	**39%**
Provisions	(0.01)	(0.8)	**5368%**
Expenses	(14.6)	(17.1)	17%
Profit before tax	2.8	6.4	129%
Attributable earnings	**1.5**	**3.9**	**157%**

Balance Sheet (US$m)	FY2010	H1 2011	% ch
Cash at central Bank	9.1	9.1	0%
Cash on hand	14.1	9.6	-32%
Balances with banks	46.1	38.0	-18%
Securities	2.0	2.9	45%
Loans & Advances	83.1	101.7	22%
Fixed Assets	48.9	53.5	9%
Other	33.4	50.0	50%
Total Assets	**236.7**	**264.7**	**12%**
Deposits	141.9	157.3	11%
Insurance liabilities	5.4	9.1	69%
Trade payables	14.9	19.9	33%
Other liabilities	28.0	28.1	0%
Shareholders' funds	46.5	50.4	8%
Total liabilities and equity	**236.7**	**264.7**	**12%**

Net interest margin	7.8%	8.4%	8%
Cost to income ratio	83.4%	70.2%	-16%
RoE	6.5%	15.5%	137%
RoA	1.3%	3.0%	130%
Rough CAR	21.8%	20.5%	-6%
Loan/Deposit	58.6%	64.6%	10%

Valuation and Recommendation

The market currently values FBCH's 60% stake in Turnall at US$27m against group market cap of US$22m. Cost control, is really the only main concern, however, this should be whittled down with continued top-line growth. The counter is trading at a circa 40% discount to NAV, and the growth into insurance will provide further earnings diversification. A pleasing result and, from a lower base, earnings momentum should be maintained for longer. Still a prime candidate for regional players looking for Zimbabwean exposure, as there is still much more room for growth on full normalisation. Until normalisation, **HOLD**.

Top 10 Shareholders	%
NSSA	22.2%
FBC Nominees	9.2%
Tirent Investments	5.2%
Cashgrant Investments	4.7%
Local Authorities Pension Fund	3.8%
Three Hearts Investments	2.8%
Vidryl International	2.5%
Maisha Holdings Limited	2.4%
Social Investments	2.2%
Mileway Farming	1.7%
Other	43.5%
Total	**100.0%**

NMBZ HOLDINGS LIMITED

EQUITY RESEARCH

ZIMBABWE

FEBRUARY 2012

NMB Holdings Limited

NMB bank comprises several divisions notably, retail banking, corporate banking, treasury and international banking. The bank also now has an associate company involved in the leasing business called African Century Leasing (ACL). The retail bank has a total of 9 branches with plans underway to open two additional branches. The focus has been on re-engaging lines of credit for domestic clients, resulting in strong balance sheet growth, and a return to profitability.

- **Loan to deposit ratio high.** The bank had a loan to deposit ratio of 100%. The high ratio is also emanating from the fact that part of the bank's lending book was funded by US$12m in lines of credit as well as part of the US$10m rights issue funds raised in 2010. The bank had an NPL ratio of 3.9% (Gross NPLs 6.2%), one of the higher levels in the market and reflective of the aggressive lending strategy. Management are targeting an NPL ratio of 3%.
- **Return to core business.** Contribution of net interest income to total income increased to 46% from 36%, whilst non-interest income to total income declined to 50% from 58% the prior period. This represents an increased focus in the bank's core business of financial intermediation and the opening up of new lines of credit.
- Operating expenses declined by 2% against significant increases in NII and non-interest income, which was a significant contributor to the bottom line, paving the way for further earnings outperformance going forward.
- For H1 2011, corporate banking contributed the bigger share to the operating profit line, followed by Retail Banking. NII from corporate banking amounted to US$3.8m (retail banking US$1.0m) although retail contributed the bulk of the fee and commission income.
- DCF valuations show significant upside, however these are still very early days, so we would urge some degree of caution especially in light of the higher NPLs and loan growth. **HOLD**.

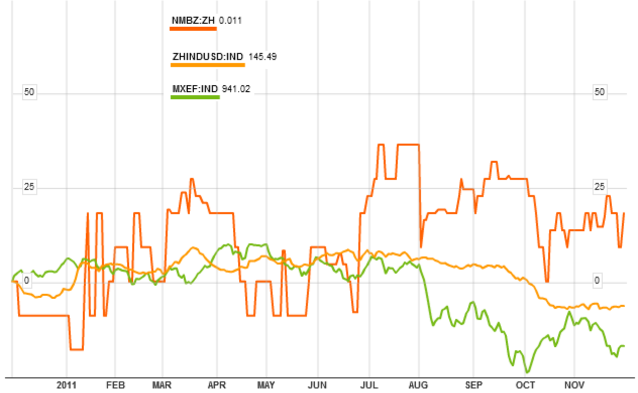
STRENGTHS	WEAKNESSES
Focus on HNWs and niche markets	Higher NPLs, potentially more skeletons
Sophisticated IT platform to reduce costs	100% LDR, limited room for growth
Exponential b/s grwoth	Adverse liquidity position
Strong partner in African Century	
Reputable management	
OPPORTUNITIES	**THREATS**
Improving macro-environment	Lack of lender of last resort
Recovery of public/private sectors	Short life deposits
Increased foreign lines of credit	Increasingly competitive environment
Established presence in Inv. Banking	esp for deposits and blue chip corporates

BLOOMBERG: NMBZ : ZH	HOLD
Current price (USc)	0.01
Target price (US$)	0.04
Upside/Downside	305.8
12 month High/Low (US$)	0.015 - 0.009
Liquidity	
Market Cap (US$m)	17.9
Shares (m)	1,642.3
Free Float (%)	29.0%
Ave Monthly value traded (US$m)	0.0
Ave Monthly volume (m)	4.0
Share Price Performance	
6 months (%)	-9.2%
Relative change (%)*	-32.8%
Relative change (%)**	35.2%
12 months	9.0%
Relative change (%)*	4.7%
Relative change (%)**	-407.2%
** Relative to ZSE index*	***Relative to MSCI EM index*

Financials	2010	2011F	2012F
EPS (USc)	0.0004	0.0024	0.0065
DPS (US$)	-	0.000	0.001
NAV/Share (US$)	0.01	0.01	0.02
Net Interest Margin (%)	5.67%	5.67%	5.67%
FINANCIAL SUMMARY (US$m)			
Net interest income	6.9	13.2	18.5
Profit before tax	0.9	5.7	15.3
Attributable earnings	0.7	4.0	10.7
RATIOS			
RoAE	5.1%	18.9%	41.9%
RoAA	1.0%	2.7%	4.8%
Cost/Income Ratio (%)***	88.9%	74.5%	55.9%
Loans/Deposits (%)	91.4%	91.4%	91.4%
VALUATION RATIOS			
PBV (x)	1.0	0.8	0.6
PER (x)	25.9	4.5	1.7
Dividend Yield (%)	0.0%	2.2%	6.0%
Dividend payout ratio (%)	0.0%	10.0%	10.0%

***Pre provision for impaired advances

Figure 89: NMB vs MSCI EM vs ZSE Index



H1 2011 Financial and Operational Review

NMB bank comprises several divisions notably, retail banking, corporate banking, treasury and international banking. The bank also now has an associate company involved in the leasing business called African Century Leasing (ACL). The bank operates through strategic placement of service centres at key commercial and industrial locations in major cities and has a total of 9 branches with plans underway to open two additional branches.

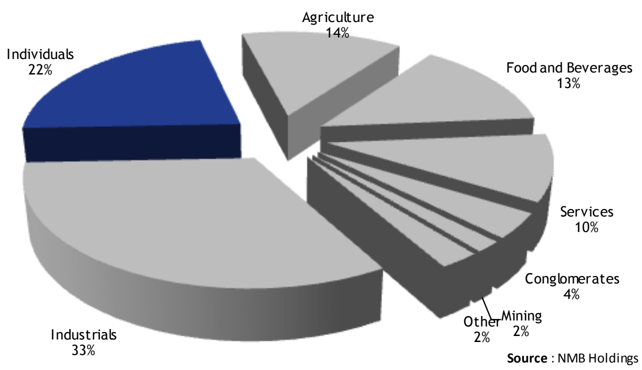
Overview of income statement at 30 June 2011

- The net interest income amounted to US$5.6m (H1 2010: US$2.3m), whilst the non-interest income stood at US$6.2m from US$4.2m as growth in non-interest income was largely driven by net commission and fee income.
- A retrenchment exercise undertaken in 2010 trimmed staff expenses and the cost to income ratio improved to 78% from the prior period's 96% (excluding retrenchments). Management is targeting a cost to income ratio of 70% by Dec 2011.
- The new leasing business (ACL) is already profitable, less than 8 months into operation. As at 30 June 2011, the lease book was US$5.9m before increasing to US$7m as at 30 August 2011.

Overview of the Balance sheet as at 30 June 2011

- Deposits grew by 15% from FY2010 balance, showing resilience in an increasingly competitive environment.
- Loans grew by 26% in six months which compromised the LDR to 100%; any further growth will have to be funded by debt or other structured lending.
- The bank's liquidity ratio worsened to 26.5% from the prior period's 41.9%, but it was however still within the regulatory minimum of 20%.
- The Gross NPL ratio increased to 6.5% up from 5.5% and management reported that they expect to recover at least 50% of the NPLs. Total NPLs stood at US$6.2m up from US$4.0m, whilst provisions for impairment and suspended interest to NPLs were at 53% up from 42%.

Figure 90: Loan distribution by sector at 30 June 2011



Source : NMB Holdings

Income Statement (US$m)	H1 2010	H1 2011	% ch
Net interest income	2.3	5.6	144%
Other income	4.1	6.7	65%
Total Income	**6.4**	**12.4**	**93%**
Provisions	(0.3)	(1.3)	290%
Expenses	(8.4)	(8.3)	-2%
Profit before tax	(2.4)	2.7	-215%
Attributable earnings	**(1.8)**	**2.1**	**-221%**

Balance Sheet (US$m)	H1 2010	H1 2011	% ch
Cash and cash equivalents	18.3	19.4	6%
Financial assets	17.3	24.9	44%
Investment in associate	0.2	0.2	-1%
Quoted investments	0.3	0.3	2%
Loans & Advances	60.3	75.9	26%
Fixed Assets	3.7	5.1	39%
Investment properties	2.6	2.6	-1%
Total Assets	**102.8**	**128.5**	**25%**
Deposits	66.0	75.6	15%
Financial liabilities	17.2	31.0	81%
Borrowed Funds	-	-	n/a
Other liabilities	0.8	0.8	-1%
Shareholders' funds	18.8	21.0	11%
Total liabilities and equity	**102.8**	**128.5**	**25%**

Net interest margin	6.0%	11.2%	88%
Cost to income ratio	132%	67%	-49%
RoE	-18.7%	20.4%	n/a
RoA	-3.4%	3.3%	n/a
Rough CAR	22%	19%	-13.7%
Loan/Deposit	91%	100%	9.8%

Valuation and Recommendation

Growth will be driven by a solid corporate book and gradual growth in retail deposits on the back of a proven record of quality service delivery. NMB is also focusing on sourcing new credit lines to meet corporate demand. The group has US$12m in lines of credit and is currently drawing down US$5m on the ZETREF credit line and finalising the legal documentation for a US$10m approved facility. New innovative and technology driven products are also expected to support future growth.

Price to book valuations are full, but discounted cash flows indicate significant upside, should earnings momentum be maintained. **HOLD** until normalisation.

Top 10 Shareholders	%
Les Nominees	14.9%
Old Mutual Life Assurance	11.2%
African Century Financial Services Invest LLP	10.0%
Lalibela Limited	7.7%
Old Mutual Zimbabwe Limited	6.2%
Alsace Trust	6.0%
Cornerstone Trust	6.0%
Wamambo Investments Trust	5.1%
Drakmore Investments	3.9%
Other	29.0%
Total	**100.0%**

ZB FINANCIAL HOLDINGS

EQUITY RESEARCH

ZIMBABWE

FEBRUARY 2012

ZB Financial Holdings

The group continues to recover although it is still albatrossed by US sanctions. The recovery has been on the back of strong growth in fee income as the number of active accounts increased coupled with fair value adjustments on equities and investment properties. ZBFH is still on the United States Office Foreign Assets Control list of Specially Designated Nationals although it was removed from the EU list. Nonetheless, the group has managed to maintain a strong depositor base.

- **Back in the black.** A combination of a significant improvement in in non-funded earnings (+115%) and a reasonable NII results (+31%) where the main drivers of the solid interim performance posted by ZBFH.
- **Asset quality is a concern.** The group's loan to deposit ratio is high at 79% having increased from 66%. Given the tight liquidity conditions and generally low capacity utilisation, short-term debt servicing constraints remain a challenge resulting in the NPL ratio of 6% having deteriorated from 5%; nonetheless we believe these ratios to be more realistic than those reported by most peers.
- **A one stop financial services shop with cross selling opportunities.** ZBFH is a diversified financial services group with services spanning commercial banking, mortgage finance, stock broking, asset management and insurance. Longer term, the concept should provide economies of scale and scope and should be earnings enhancing.
- **Property recovery will unlock value.** With a significant property portfolio which comprises of owner occupied buildings and a strategic investment in ZSE listed property concern, Mashonaland Holdings (30%) there is scope to unlock value as and when property prices recover in line with regional norms.
- Entry into ZB gives exposure at a much cheaper level to Mash, which accounts for over half of the ZB market cap at current prices. **HOLD.**

STRENGTHS	WEAKNESSES
Large depositor base Diversified income stream Banker to the government Excellent play on Mash Holdings	Undercapitalised On sanctions list - High CIR although trending down now Lost market share, particulary to CBZ Slow moving and stuffy
OPPORTUNITIES	**THREATS**
Growth in local market on recap Improving macro environment Recovery of agricultural sector where the bank used to be strong and mining Reval gains on property portfolio	Prolonged stretch to recapitalisation Increased competition in retail and corporate space

BLOOMBERG: ZHL : ZH			HOLD
Current price (USc)			0.20
Target price (USc)			1.21
Upside/Downside			502.98%
12 month High/Low (US$)			0.016 - 0.012
Liquidity			
Market Cap (US$m)			31.8
Shares (m)			159.2
Free Float (%)			22.6
Ave Monthly value traded (US$m)			0.00
Ave Monthly volume (m)			0.3
Share Price Performance			
6 months (%)			150.0%
Relative change (%)*			-1200.4%
Relative change (%)**			-2312.1%
12 months			150.0%
Relative change (%)*			-1488.3%
Relative change (%)**			-5220.1%
** Relative to ZSE index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (USc)	(0.01)	0.07	0.18
DPS (US$)	-	-	-
NAV/Share (US$)	0.21	0.26	0.33
Net Interest Margin (%)	10.2%	10.2%	10.2%
FINANCIAL SUMMARY (US$m)			
Net interest income	11.7	23.2	32.5
Profit before tax	(1.7)	16.8	44.4
Attributable earnings	(2.6)	11.7	31.1
RATIOS			
RoAE	-7.0%	28.2%	59.8%
RoAA	-1.6%	4.6%	8.6%
Cost/Income Ratio (%)***	64.1%	44.5%	31.4%
Loans/Deposits (%)	63.8%	63.8%	63.8%
VALUATION RATIOS			
PBV (x)	0.9	0.8	0.6
PER (x)	(13.5)	3.0	1.1
Dividend Yield (%)	0.0%	0.0%	0.0%
Dividend payout ratio (%)	0.0%	0.0%	0.0%

***Pre provision for impaired advances

Figure 91: ZB vs MSCI EM vs ZSE Index

H1 2011 Financial and Operational Review

A resurgence in transaction volumes and active accounts has been the main driver behind ZB's pleasing interim performance, which itself is a clear reflection of the marked improvement in the multi-currency operating environment adopted in 2009.

The lifting of sanctions on the bank will eventually be another key milestone, as this should open up new lines of credit for the group. The group continues to evaluate the possibility of a technical and strategic partner, however such development will only likely take place on removal of sanctions. The litigation in which Transnational Holdings is challenging the acquisition by ZBFH of a controlling stake in Intermarket Holdings is still pending.

Overview of the income statement at 30 June 2011

- On stronger volumes, NII increased by 31%, which was well ahead of the low single digit inflation reported during the period. Monetary aggregates have been growing, primarily on the back of a restoration of economic stability on dollarisation, but also on the back of substantial volume increases in agriculture and mining, encouraged by firm commodity prices.
- Non funded revenues, primarily from the short term and line insurance businesses grew by 115% and total income ended at six months at US$27.8m.
- Strong growth in revenues compensated equally strong growth in provisions and operating expenses, the latter of which increased by 36%, notwithstanding rationalisations made in the previous year. The CIR still ended the period in better shape, at 69%, compared to 92% in the comparative period. This level is still more or less in line with the average for the sector which is trending downwards, as lending reverts to the fore.

Overview of the balance sheet at 30 June 2011

- The revival in the public sector revenues positively affected the bank and deposits increased to US$130m. A more aggressive lending policy led to loan growth of 39% to US$102m for an LDR of 79%. NPLs ended the period up a notch to 6%, which is in the upper quartile for Zimbabwean banks.

Income Statement (US$m)	H1 2010	H1 2011	% ch
Net interest income	6.2	8.1	31%
Other income	9.1	19.6	115%
Total Income	**15.3**	**27.8**	**81%**
Provisions	0.0	(1.7)	-5599%
Expenses	(14.0)	(19.0)	36%
Profit before tax	1.3	7.0	435%
Attributable earnings	**1.4**	**4.1**	**191%**

Balance Sheet (US$m)	FY 2010	H1 2011	% ch
Cash at central Bank	41.5	34.3	-17%
Mortgages	3.3	3.2	-4%
Trade and other receivables	4.0	2.0	-50%
Securities	25.7	27.9	9%
Loans & Advances	73.7	102.6	39%
Fixed Assets	36.2	37.9	5%
Other	14.1	16.7	18%
Total Assets	**198.6**	**224.6**	**13%**
Deposits	115.6	130.5	13%
Life assurance funds	19.1	20.8	9%
Borrowed Funds	3.3	3.9	n/a
Other liabilities	23.7	27.7	17%
Shareholders' funds	37.0	41.8	13%
Total liabilities and equity	**198.6**	**224.6**	**13%**

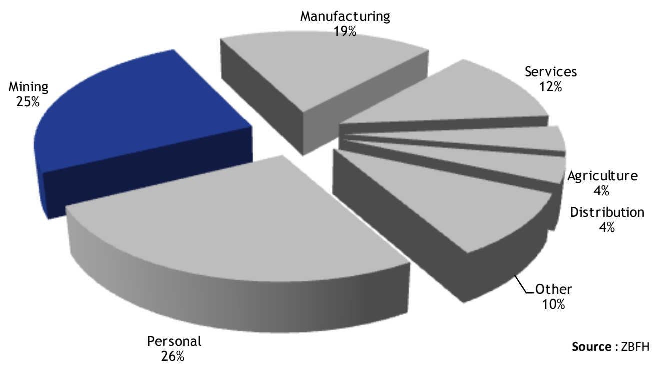
Net interest margin	11.6%	12.0%	3%
Cost to income ratio	92%	69%	-25%
RoE	7.5%	19.4%	157.8%
RoA	1.4%	3.6%	157.4%
Rough CAR	24%	22%	-6.8%
Loan/Deposit	64%	79%	23.3%

Valuation and Recommendation

ZBFH has a significant asset base, with huge potential to unlock shareholder value in the future, especially from their investment in Mash. The market currently values the group's 30% stake there in at US$14m against a group market capitalization of only US$25m.

The removal of sanctions and the probable entry thereafter of a strategic/financial partner are only other motivations to seek medium term exposure. Still trading at a discount to book value, now would be a good time to take a punt for the audacious investor. Otherwise, **HOLD**.

Figure 92: Loan distribution by sector at 30 June 2011



Source : ZBFH

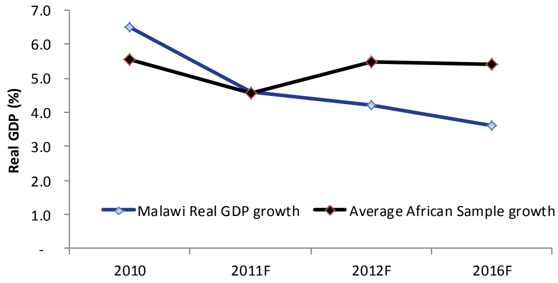
Top 10 Shareholders	%
National Social Security Authority	37.8%
Government of Zimbabwe	23.5%
Old Mutual Life Assurance Co. Zim Ltd	5.7%
ZBS Nominees	5.5%
Mashonaland Holdings Limited	3.0%
Finhold Group Staff Trust	3.0%
Ministry of Finance	1.2%
Guramatunhu Family Trust	1.1%
Zimre Reinsurance (Pvt) Ltd	1.1%
TFS Nominees (Pvt) Ltd	0.9%
Other	17.3%
Total	**100.0%**

Malawi – Macro-Economic Highlights

Key Themes:

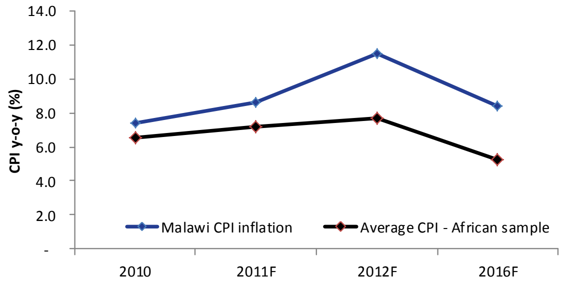
- After experiencing good growth of above 7% p.a. over the past six or so years, the economy is showing signs of slowdown on acute foreign exchange, electricity and fuel shortages. This can be attributed to policy profligacy and the fallout with donors who contribute approximately 40% of the national budget. The IMF forecast growth rates of 4.6% in 2011 and 4.2% for 2012.
- The financial and business services sector is the third largest industry in Malawi, contributing 13% to GDP.
- Foreign reserves are at low levels due to the poor tobacco proceeds recorded in 2011 with foreign reserves at approximately US$200m equal to 1.5 months import cover from 3.4 months. Given the looming BOP deficit combined with escalating inflation, the MWK will remain under duress.
- Although the RBM devalued the Kwacha by 10% to MKK165/US$1 from MWK150/US$1 in early August 2011 this failed to eliminate the forex shortages as it remains well below the parallel market rate of approximately MWK260/US$1.
- The escalation in the "real" inflation rate has left the country faced with prospects of negative real interest rates. The current excess liquidity has resulted in depressed Treasury Bill yields which are approximately 7.0% for 91-day TB and 7.3% for 182-day TBs. Even against the official inflation rate of approximately 8.1% current money market returns are turning negative.
- Nonetheless, earnings growth for most listed companies this year is generally expected to be weaker given the economic woes. At the interim stage most banks' profitability was driven by the once off non-cash severance pay write backs. Deposit growth has generally been slower and most account holders are now multi-banked as they chase facilities. Provisions for banks are likely to be higher given the economic slow-down and those with significant exposures to tobacco, transport and construction are likely to be hit hardest. For banks the forex income driven commissions has slowed and the focus is on efficiency. However, we believe listed banks will weather the storm given the generally solid balance sheets and stringent credit control.

Figure 93: Malawi Real GDP Growth 2010 - 2016



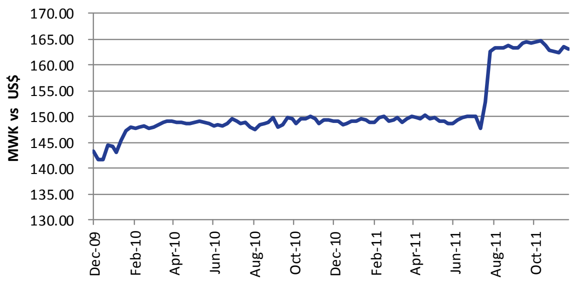
Source: IMF

Figure 94: Malawi CPI Inflation 2010 - 2016



Source: IMF

Figure 95: Malawi Kwacha vs US$



Source: Oanda.com

FMB

Your Friendly Bank

EQUITY RESEARCH

MALAWI

FEBRUARY 2012

First Merchant Bank Malawi

FMB is a one of the three leading financial services groups having enjoyed rapid growth over the past years. The group also offers corporate finance, leasing finance, asset management and transfer secretarial services and owns 51% of Capital Bank Limited, a commercial bank in Botswana.

- **Innovative and technologically driven bank.** FMB is an efficient bank, given its heavy reliance on electronic delivery channels in servicing its clients' needs. The bank operates a real-time online IT operating system, which concept not only offers clients greater convenience but is also another way by which the bank can increase transaction fees derived from customers. Electronic delivery channels also allow the bank to provide improved (faster) services to customers, at lower cost. The model offers extended product offerings and customer focused service, at faster turnaround times.
- **Market share gains.** The bank continues to gain market share and now commands about 21% of the total from 12% five years ago, despite stiff competition. Capital Bank contributes approximately 40% to group deposits. In our view, FMB has been able to gain market share by leveraging not only its traditional credit relationships, but also its distribution, broad product reach, and industry expertise. The distribution network increased to 25 branches and agencies from 19 a year ago.
- The growth in current & savings accounts (40% of total deposits) enabled the group to maintain its NIMs and hence boost NII growth. FMB's solid performance is further evidenced by the increase in its RoAE to 26.3%.
- Intrinsic valuations indicate upside of 71% and the earnings stream from Botswana will provide some level of mitigation against a domestic downturn. On a relative basis FMB is trading on a 2012 PBV of 1.9x vs 2.1 for the country. A **BUY** in our books.

STRENGTHS	WEAKNESSES
Solid balance sheet; well capitalised Fat NIMs; Good quality book Diversifed earnings stream Botswana subsidiary provides level of hedging from local environment	Shortages of foreign currency Expansionary fiscal policy Commodity price shocks
OPPORTUNITIES	**THREATS**
Further product diversification Expansion of agric and Telecoms Increasing geographical presence	Tightening monetary policy Inflationary pressures, Reduced donor funding Dramatic slowdown in growth and crowding out of the private sector

BLOOMBERG: FMB : MW			BUY
Current price (MWK)			7.00
Current price (US$)			0.04
Target price (MWK)			11.95
Upside/Downside			71%
12 month High/Low (MWK)			7.00 - 6.00
Liquidity			
Market Cap (MWKm)			16,353.8
Market Cap (US$m)			98.8
Shares (m)			2,336.3
Free Float (%)			8.9
Ave Monthly value traded (US$m)			0.2
Ave Monthly volume (m)			5.0
Share Price Performance			
6 months (%)			8.9%
Relative change (%)*			-5.0%
Relative change (%)**			-230.7%
12 months			7.7%
Relative change (%)*			189.6%
Relative change (%)**			-362.6%
** Relative to MASI index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (MWK)	0.78	1.27	1.68
DPS (MWK)	0.24	0.39	0.52
NAV/Share (MWK)	3.23	3.74	4.58
Net Interest Margin (%)	14.4%	14.4%	14.4%
FINANCIAL SUMMARY (MWKm)			
Net interest income	3,661	5,626	7,314
Profit before tax	2,616	4,253	5,607
Attributable earnings	1,767	2,877	3,793
RATIOS			
RoAE	26.3%	36.6%	40.4%
RoAA	4.0%	5.3%	5.7%
Cost/Income Ratio (%)***	52.2%	45.1%	43.5%
Loans/Deposits (%)	60.9%	60.9%	60.9%
VALUATION RATIOS			
PBV (x)	2.2	1.9	1.5
PER (x)	8.9	5.5	4.2
Dividend Yield (%)	3.4%	5.6%	7.4%
Dividend payout ratio (%)	30.7%	30.7%	30.7%

***Pre provision for impaired advances

Figure 96: FMB vs MSCI EM vs MASI Index

H1 2011 Financial and Operational Review

The Malawian financial services sector has thrived on the back of consistent strong economic growth which has averaged 7.7% over the past five years up to the end of FY2011, with broad based growth being registered particularly in the agriculture, financial services, and telecommunications sectors. With a widening margin between the official and parallel markets and Government's stated intentions to reduce its reliance on external grants to finance its recurrent budget, uncertainty regarding the immediate future, adds up to a bearish outlook for GDP growth in the coming years. A weak local economy will inadvertently negatively affect the local banking sector, however, FMB remains well placed to confront the challenges that materialise.

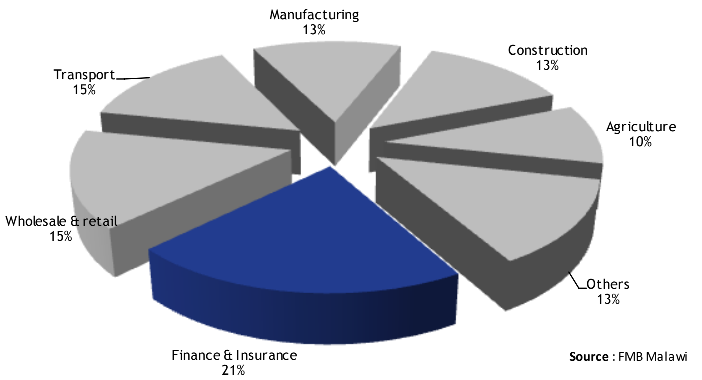
Overview of income statement at 30 June 2011

- At an average of 23%, both funded and non-funded earnings grew strongly and ahead of both CPI inflation and the banks own internal cost inflation.
- FMB is the leanest operator in the market and operating efficiency as measured by the CIR improved from 55% to 52% and not far from the long-term target of 50.0%.
- In our sample of African banks, Malawi has the highest NIMs, and consequently one of the most expensive debt markets in SSA, which is intrinsically linked to the heavily managed exchange rate.

Overview of the balance sheet at 30 June 2011

- In its quest to mobilise deposits, FMB is taking great care to ensure that it maintains as optimal a funding mix as is possible-by mobilising as many cheap deposits as possible. Hence current accounts, for instance, have been growing rapidly and constituted 58% of total deposits at year-end.
- We believe asset quality should remain manageable going forward, as the loan portfolio remains well diversified.
- A significant portion of advances are with large corporates hence a recovery in the economy will have an impact on loan demand. The bank however, has been affected by the subsequent shortage of foreign currency in the economy. The downturn in the economy prompted FMB to increase its provisions to approximately 0.4% of the book.

Figure 97: Loan distribution by sector at 31 Dec 2010



Source : FMB Malawi

Income Statement (MWKm)	H1 2010	H1 2011	% ch
Net interest income	1,691	2,064	22%
Other income	927	1,147	24%
Total Income	**2,618**	**3,211**	23%
Provisions	(31)	(90)	185%
Expenses	(1,433)	(1,662)	16%
Profit before tax	1,153	1,460	27%
Attributable earnings	**792**	**972**	**23%**

Balance Sheet (MWKm)	H1 2010	H1 2011	% ch
Cash and short term invests	4,469	8,196	83%
Securities	11,418	13,849	21%
Loans & Advances	21,780	29,609	36%
Fixed Assets	2,255	2,859	27%
Other	360	456	26%
Total Assets	**40,283**	**54,968**	**36%**
Deposits	29,313	42,235	44%
Other liabilities	3,542	3,678	4%
Shareholders' funds	7,428	9,046	22%
Total liabilities and equity	**40,283**	**54,968**	**36%**

Net interest margin	10.2%	9.5%	-7%
Cost to income ratio	54.7%	51.8%	-5%
RoE	21.3%	21.5%	0.7%
RoA	3.9%	3.5%	-10.1%
Rough CAR	20.7%	19.3%	-6.8%
Loan/Deposit	74.3%	70.1%	-5.6%

Valuation and Recommendation

In our judgment, FMB has a well-diversified product suite at its disposal which should support it even in a tougher environment. The group is also geographically diversified, and any further devaluations locally will be offset by their Botswana subsidiary, which at December 2010, accounted for 38% of total assets.

Our DCF proposes a valuation almost twice the market level. Even using a 20% discount rate still results in a valuation that offers upside. This is intrinsically linked to the hedged nature of the balance sheet (BWP assets), together with the fact that the bank has been able to maintain growth in its loans and deposits above the rate of M3, hence growing its market share.

Notwithstanding the uncertainties created by the politicians, the bank is remains, in our opinion, tried and tested, and is certain to post another strong H2 performance. **BUY.**

Top 10 Shareholders	%
Zambezi Investments Limited	44.9%
Simbury Holdings Limited	22.5%
Prime Capital and Credit Limited	11.2%
Prime Bank Limited	11.2%
Public	10.1%
Total	**100.0%**

National Bank of Malawi

NBM is the largest bank in Malawi by all quantitative metrics, controlling approximately 44% of the market by deposits and 50% by advances. Although it has a strong presence in the retail-banking sector, the bank is also dominant in corporate finance and merchant banking and is growing its market share in the asset-financing business. The bank operates 25 branches and employs 868 people.

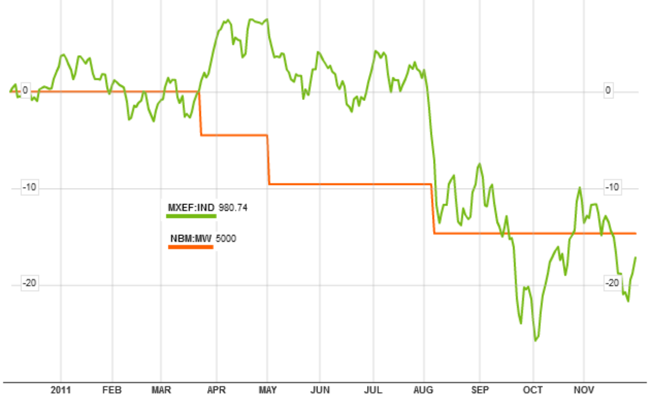
- The quality of the advances book remains solid although growth in lending activities has slowed down due to the deteriorating fundamentals coupled with the foreign exchange shortages. Given the weakening economic environment and the likelihood of an increase in default rates NBM increased its provisions for NPLs by 0.8% in FY2010 to 2.1%.
- The continued access to cheap deposits (approximately 62% of deposits are current and savings accounts) will continue to support healthy NIMs. The bank pays interest of less than 1% on current accounts and approximately 3.8% on term deposits.
- Leading into an economic downturn, the bank has adopted a cautious lending strategy, seen by loans and advances growing by only 9%. Being the largest bank, the slowdown in inevitable, but will be reversed once the cycle turns.
- NBM is starting to reap the benefits of a restructuring exercise which focused on client relationship management, effective cost control, product development and asset quality undertaken over the last two years.
- The IT system was upgraded in FY2010 and is set to result in improved service delivery and facilitate the launch of new products.
- The launch of telephone banking services under the brand name Mo626, continues to grow, which will have an incremental positive impact on reducing per customer operational costs.
- Being the quintessential blue chip, NBM remains a well-priced play on the Malawi economy. **BUY.**

STRENGTHS	WEAKNESSES
Strong reputation Consistent dividend payments Real deposit growth Real loan book growth, Stable politics	Malawi susceptible to commodity price shocks lack of product innovation Tightly controlled local currency
OPPORTUNITIES	**THREATS**
Firm tobacco prices Urbanisation and low banked population	Commodity price shocks local currency weakness inflationary pressures

BLOOMBERG: NBM : MW			BUY
Current price (MWK)			52.50
Current price (US$)			0.32
Target price (MWK)			72.37
Upside/Downside			37.85%
12 month High/Low (MWK)			58.65; 50.00
Liquidity			
Market Cap (MWKm)			24,466
Market Cap (US$m)			147.8
Shares (m)			466.0
Free Float (%)			22.1%
Ave Monthly value traded (US$m)			0.3
Ave Monthly volume (m)			4.5
Share Price Performance			
6 months (%)			-0.9%
Relative change (%)*			-110.1%
Relative change (%)**			-86.1%
12 months			-10.5%
Relative change (%)*			-22.2%
Relative change (%)**			257.9%
** Relative to MASI index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (MWK)	7.36	8.68	10.05
DPS (MWK)	4.08	4.81	5.57
NAV/Share (MWK)	29.13	32.37	36.20
Net Interest Margin (%)	14.7%	14.7%	14.7%
FINANCIAL SUMMARY (MWKm)			
Net interest income	6,841	8,209	9,851
Profit before tax	5,078	5,780	6,690
Attributable earnings	3,411	4,025	4,659
RATIOS			
RoAE	26.9%	28.2%	29.3%
RoAA	5.9%	6.0%	6.0%
Cost/Income Ratio (%)***	55.0%	54.2%	53.0%
Loans/Deposits (%)	72.1%	72.1%	72.1%
VALUATION RATIOS			
PBV (x)	1.8	1.6	1.5
PER (x)	7.1	6.0	5.2
Dividend Yield (%)	7.8%	9.2%	10.6%
Dividend payout ratio (%)	55.4%	55.4%	55.4%

***Pre provision for impaired advances

Figure 98: NBM vs MSCI EM Index



H1 2011 Financial and Operational Review

NBM is the largest bank in Malawi that enjoys competitive strengths easily outweighing its peers. Being the banker to conglomerate, Press Corp, the bank is guaranteed of exposure to the most lucrative assets in the country, including a lion's share of the lucrative foreign exchange market. Despite the increasingly unstable economic environment, the bank remains well managed, liquid and balanced and should sail through this economic downturn.

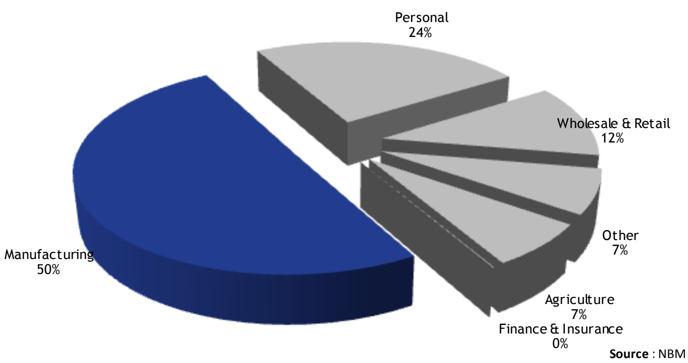
Overview of the income statement at 30 June 2011

- In an economy with M2 growth of in excess of 30%, the top-line performance was rather unimpressive and a direct consequence of the muted growth in the book, and probable loan mispricing.
- The adjusted cost to income ratio has improved to 46.5% from 47.5%, maintained well below the group's long term target of below 50%. This is a result of the operating expenses which have declined although income growth was subdued as growth in H1 2011 lagged average inflation.
- There has been pressure on non-funded income streams negatively impacted by the forex shortages coupled with the generally reduced business activity as the economic environment deteriorated. Nonetheless, there are opportunities for the bank to broaden its income streams, for example, by offering bancassurance with a tie up between UGI and the leasing division.

Overview of the balance sheet at 30 June 2011

- Although the quality of the book remains solid we believe that the growth in the advances book will be limited in the short term due to the deteriorating economic environment, increased competition and the shortage of foreign exchange. Nonetheless, the bank's branch network and corporate reputation will act as the principal barriers to entry. The loan to deposit ratio of 70.8% and a gearing ratio of only 3.1x is one of the lowest in the country.
- The bank has a significant equities portfolio valued at approximately MWK858.0m (US$5.2m). A recovery in the MSE will enhance the bottom-line. We believe NBM can also leverage on this and diversity income with plans to launch a fully-fledged asset management division.

Figure 99: Loan distribution by sector at 31 Dec 2010



Source : NBM

Income Statement (MWKm)	H1 2010	H1 2011	% ch
Net interest income	4,074	4,254	4%
Other income	2,241	2,476	10%
Total Income	**6,315**	**6,730**	**7%**
Provisions	82	4	-95%
Expenses	(2,717)	(2,701)	-1%
Profit before tax	3,091	3,585	16%
Attributable earnings	**2,168**	**2,520**	**16%**

Balance Sheet (MWKm)	H1 2010	H1 2011	% ch
Cash at central Bank	5,040	5,709	13%
Securities	12,986	18,088	39%
Loans & Advances	42,804	46,544	9%
Fixed Assets	10,742	12,774	19%
Other	6,046	5,270	-13%
Total Assets	**77,618**	**88,385**	**14%**
Deposits	55,027	65,624	19%
Other liabilities	9,717	7,898	-19%
Shareholders' funds	12,874	14,863	15%
Total liabilities and equity	**77,618**	**88,385**	**14%**

Net interest margin	14.6%	13.2%	-10%
Cost to income ratio	43.0%	40.1%	-7%
RoE	33.7%	33.9%	0.7%
RoA	5.6%	5.7%	2.1%
Rough CAR	17.7%	18.0%	1.3%
Loan/Deposit ratio	77.8%	70.9%	-8.8%

Valuation and Recommendation

NBM, in our view, is a core name for those investors looking for exposure to Malawi, based on its strong market position, strong brand, value offered to customers, controls and disciplined culture. As the largest bank in the country and principal banker to Press Corp, NBM offers investors a direct play on the local economy. Growth in the consumer segment of the economy is encouraging, and although interest rates remain punitively high, lending to this segment of the economy presents a new growth opportunity.

NBM's strong fundamentals will ensure that is sails through the current economic malaise. Although in a down trend for now, there remains much scope for further growth, as we have seen in recent years. Our DCF valuation implies more upside to the current price and we recommend that investors look to consolidate their positions therein. **BUY.**

Top 10 Shareholders	%
Press Corporation	51.7%
Old Mutual Group	24.8%
Employees (ESOP)	1.4%
Public	22.1%
Total	**100.0%**

NBS Bank
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MALAWI

FEBRUARY 2012

NBS Bank

NBS is the country's 4th largest financial institution in terms of total assets with a focus on the middle to lower income segment. As well as maintaining branches in the main commercial centres, NBS has a widespread established branch network totalling 35 branches capable of mobilising deposits from smaller urban centres that would be too expensive for the major banks to establish and exploit. NBS has the lion's share of the mortgage market (approximately 70%) with the majority of customer deposits (approximately 57%) in savings deposits.

- NBS enjoyed one of the strongest top line performances at the interim stage, with funded earnings growing by 20% on the back of aggressive loan growth.
- Although impairment expenses at the interim date are low at 0.3% of total book having improved from 1.1% at December 2010, NPLs are at the higher end of the market at 7% as at the end of Dec 2010. The slowdown in the market will further exacerbate this position, especially since the negative real interest rates and the pressure on the local currency will incentivise borrowing.
- The cost to income ratio improved to 59% from 61% despite operating expenses growing ahead of average inflation. The bank is still in a growth phase, and continues to expand its branch network, which is already one of the most extensive. Notwithstanding, management expect the CIR to be maintained below 60%.
- NBS is the most geared bank with a gearing ratio of 81%, although it meets the minimum regulatory capital requirements.
- With rampant M2 growth, we believe that NBS' strategy to accumulate as much of the liquidity created and churn it back into the economy in the way of lending to be the surest way of mitigating the risk of capital erosion that will manifest themselves through higher inflation (eventually) and local currency weakness.
- Valuations are undemanding but we are concerned with asset quality. **HOLD**.

STRENGTHS	WEAKNESSES
Strong Brand, formidable parent Solid balance sheet, well capitalised Booming agriculture, mining sectors	Prone to Commodity price shocks No scope for regioanl expansion Local currency shortages jeopardise growth
OPPORTUNITIES	**THREATS**
Pro-Agriculture budget will ensure continued growth and stability Opportunities in mining sector	Downstream impact of global recession recession on related industries eg tobacco Margin contraction and competition

BLOOMBERG: NBS : MW			HOLD
Current price (MWK)			12.00
Current price (US$)			0.07
Target price (MWK)			23.63
Upside/Downside			96.90%
12 month High/Low (MWK)			12.00; 8.01
Liquidity			
Market Cap (MWKm)			8,731.7
Market Cap (US$m)			52.8
Shares (m) ø			727.6
Free Float (%)			0.2
Ave Monthly value traded (US$m)			0.1
Ave Monthly volume (m)			1.1
Share Price Performance			
6 months (%)			14.3%
Relative change (%)*			53.1%
Relative change (%)**			-310.7%
12 months			9.1%
Relative change (%)*			205.9%
Relative change (%)**			-410.3%
** Relative to MASI index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (MWK)	1.93	2.15	3.37
DPS (MWK)	0.75	0.84	1.31
NAV/Share (MWK)	4.96	6.14	7.46
Net Interest Margin (%)	9.7%	9.7%	9.7%
FINANCIAL SUMMARY (MWKm)			
Net interest income	3,209	3,954	5,369
Profit before tax	2,098	2,400	3,500
Attributable earnings	1,404	1,568	2,451
RATIOS			
RoAE	45.8%	38.8%	49.5%
RoAA	4.1%	3.3%	3.8%
Cost/Income Ratio (%)***	60.7%	61.7%	57.6%
Loans/Deposits (%)	81.3%	81.3%	81.3%
VALUATION RATIOS			
PBV (x)	2.4	2.0	1.6
PER (x)	6.2	5.6	3.6
Dividend Yield (%)	6.3%	7.0%	10.9%
Dividend payout ratio (%)	38.9%	38.9%	38.9%

***Pre provision for impaired advances ø Fully dilued post Rights offer

Figure 100: NBS vs MSCI EM Index

H1 2011 Financial and Operational Review

NBS has been one of the most consistent and solid performers in the local banking space, growing deposits and loans at compound growth rates of 40% and 45% respectively over the past four years. The solid performance posted at the interim date, shows no let-up in the pace of growth, and on solid profitability margins, the bank continues to grow its earnings and shareholders wealth significantly ahead of the rate of local inflation and local currency weakness.

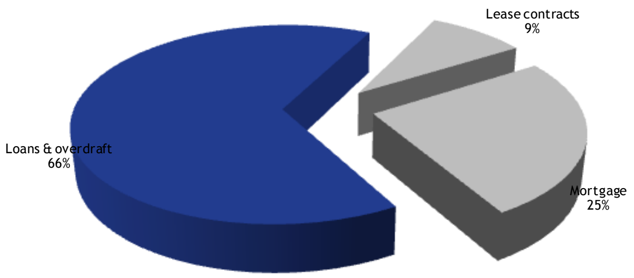
Overview of the income statement at 30 June 2011

- We have used the Q3 interim figures as outlined in the rights issue prospectus, hence the decline when compared to the FY2010.
- Looking at the performance metrics, the annualised NIMs are trailing the full year NIMs by a margin of 170bps, however we anticipate this will be offset by the strong growth in interest earning assets, and we anticipate top-line earnings growth of in the region of 21% y-o-y.
- It also seems likely that non-funded earnings for FY2011 will underperform FY2010 should the Q3 trend be maintained; Annualised non funded earnings amounted to MWK2.5bn, which would be 12% lower than the prior period outcome.
- The cumulative result for the full year should be marginally higher (+6%).

Overview of the balance sheet at 30 June 2011

- In November 2011, NBS sought to raise MWK2bn (US$12.0m) through a two way capital raise as follows:
- Firstly, through an issue of shares for cash to the International Finance Corporation (IFC) Parties thereby raising approximately MWK988m (US$6m).
- Secondly, through a rights issue of 103,949,049 shares at a discounted price of MWK9.60 per share on the basis of one new share for every six held. The offer opened on the 14th of November 2011 and closed on the 9th of December 2011.
- The proceeds of the issue are to be used to provide loan capital to SMEs mainly involved in agriculture and agro-processing and to fund the growth of the banks network including the launch of new products, strengthening the banks long term competitive position and the rights offer was fully underwritten by Nico Holdings Limited and the IFC.

Figure 101: Loan distribution by sector at 31 Dec 2010



Source : NBS

Income Statement (MWKm)	FY2010	Q3 2011	% ch
Net interest income	3,209	2,913	-9%
Other income	2,820	1,868	-34%
Total Income	**6,029**	**4,781**	**-21%**
Provisions	(270)	(108)	-60%
Expenses	(3,661)	(2,957)	-19%
Profit before tax	2,098	1,716	-18%
Attributable earnings	**1,404**	**1,214**	**-14%**

Balance Sheet (MWKm)	FY2010	Q3 2011	% ch
Cash at central Bank	9,166	8,625	-6%
Securities	1,199	1,778	48%
Loans & Advances	24,144	33,790	40%
Fixed Assets	3,072	3,456	13%
Other	1,269	1,629	28%
Total Assets	**38,850**	**49,278**	**27%**
Deposits	29,696	39,975	35%
Borrowed Funds	3,750	2,119	-43%
Other liabilities	1,793	1,703	-5%
Shareholders' funds	3,610	5,481	52%
Total liabilities and equity	**38,850**	**49,278**	**27%**

Net interest margin	12.7%	10.9%	-13.8%
Cost to income ratio	60.7%	61.8%	1.8%
RoE	38.9%	29.5%	-24.1%
RoA	3.6%	3.3%	-9.1%
Rough CAR	12.2%	13.5%	10.9%
Loan/Deposit ratio	81.3%	84.5%	4.0%

Valuation and Recommendation

Post the rights offer and capital raise, NBS has emerged a much better capitalised and stronger contender. Having carved their niche in the SME sector, NBS has proven that above average returns can be achieved from that neglected segment of the economy. Having IFC as a financial and equity partner will ensure great capital mobilisation in order to fully develop the footprint across Malawi, and replicate the success achieved to date.

We have valued NBS using forecasts as supplied by management and outlined in the Rights offer prospectus, arriving at a per share valuation of MWK24, which indicates substantial upside from current market levels. While the interim performance was pleasure, asset quality remains our main concern and we anticipate a further deterioration which will affect 2012 revenues. **HOLD.**

Top 10 Shareholders - Pre R/O	%
NICO	50.1%
IFC Capitalisation Holding Company	16.5%
NITL	5.5%
ESOP	1.4%
Mega Africa Capital Limited	1.0%
General Public	25.4%
Total	**100.0%**

Standard Bank Malawi

Standard Bank Malawi

Standard Bank Malawi is the second largest by total assets and commands approximately a 26% market share, in terms of both deposits and total lending, employing a total of 634 employees.

- **Parent group leveraging benefits.** The bank enjoys parent support from the Standard Bank Group, particularly with access to risk management and technical support facilities ensuring the bank keeps abreast with international banking standards. Lines of credit increased as the availability of offshore credit lines increased. Stanbic can leverage on this given the current foreign exchange shortages.
- **Asset quality remains good.** Despite the strong growth in advances up 26% y-o-y in H1 2011, Stanbic was able to keep NPLs under control. Impairments to total advances declined to 1.2% from 1.9% at FY2010. Nonetheless, the increase in the bank's cost of funding reduced its NIM on average interest earning assets to 5.3%. Standard Bank Malawi enjoys access to foreign lines of credit placing it at an advantage to its peers especially when financing significant investments in mining and agriculture.
- **Diversifying income streams.** As the bank continues to diversify its income streams the contribution of NIR has increased to 57% from 53% on the back of a strong growth in commission and fee income. The bank has a strong focus towards off-balance sheet transactions, such as structured finance. Apart from having tax advantages, off balance sheet activities allow flexibility to use its capital base more optimally and to redeploy capital into activities in which better returns can be earned.
- **Efficiency levels are good.** Costs have been well maintained as operating expenses grew well below average inflation (of approximately 7.2%), resulting in the cost to income ratio improving to 48% from 52%. RoAE remains high in the mid-twenties.
- Still cheap and a **BUY** up to MWK136.

STRENGTHS	WEAKNESSES
Strong Brand, formidable parent Solid balance sheet, well capitalised Booming agriculture, mining sectors	Prone to Commodity price shocks No scope for regioanl expansion Foreign currency shortages Local currency weakness
OPPORTUNITIES	**THREATS**
Pro-Agriculture budget will ensure continued growth and stability Opportunities in mining sector	Downstream impact of global recession recession on related industries eg tobacco Margin contraction and competition

BLOOMBERG: STANDARD : MW			BUY
Current price (MWK)			106.00
Current price (US$)			0.64
Target price (MWK)			136.50
Upside/Downside			28.78%
12 month High/Low (MWK)			106.00; 94.00
Liquidity			
Market Cap (MWKm)			22,613
Market Cap (US$m)			136.6
Shares (m)			213.3
Free Float (%)			12.9%
Ave Monthly value traded (US$m)			0.3
Ave Monthly volume (m)			4.3
Share Price Performance			
6 months (%)			10.4%
Relative change (%)*			11.6%
Relative change (%)**			-253.6%
12 months			6.0%
Relative change (%)*			169.9%
Relative change (%)**			-304.8%
** Relative to MASI index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (MWK)	11.36	15.06	19.12
DPS (MWK)	6.33	8.39	10.65
NAV/Share (MWK)	32.40	37.44	44.10
Net Interest Margin (%)	14.0%	14.0%	14.0%
FINANCIAL SUMMARY (MWKm)			
Net interest income	4,639	6,031	7,840
Profit before tax	3,622	4,588	5,828
Attributable earnings	2,424	3,212	4,080
RATIOS			
RoAE	37.7%	43.1%	46.9%
RoAA	7.0%	7.5%	7.4%
Cost/Income Ratio (%)***	62.9%	62.6%	62.2%
Loans/Deposits (%)	59.2%	59.2%	59.2%
VALUATION RATIOS			
PBV (x)	3.3	2.8	2.4
PER (x)	9.3	7.0	5.5
Dividend Yield (%)	6.0%	7.9%	10.1%
Dividend payout ratio (%)	55.7%	55.7%	55.7%

***Pre provision for impaired advances

Figure 102: NBS vs MSCI EM Index

H1 2011 Financial and Operational Review

Standard Bank in Malawi operates from 19 points of representation across the country and has a staff complement of just over 600. The business of the bank is divided into two main units, namely: Personal and Business Banking Division and Corporate and Investment Banking Division. The Commercial Bank of Malawi was registered as a commercial bank on 15 March 1969. The start-up share capital was K2.5 million and the founder shareholders were the Malawi Development Corporation (20%), Press Holdings Limited (20%) and Banco Pinto Sotto Mayor (60%). The first branch was opened in Limbe on 11 April 1970.

The shareholding structure of the bank has changed over the years and in December 2001 Stanbic Bank, through its subsidiary Stanbic Africa Holdings, acquired a 60.18% interest in the bank and became the majority shareholder.

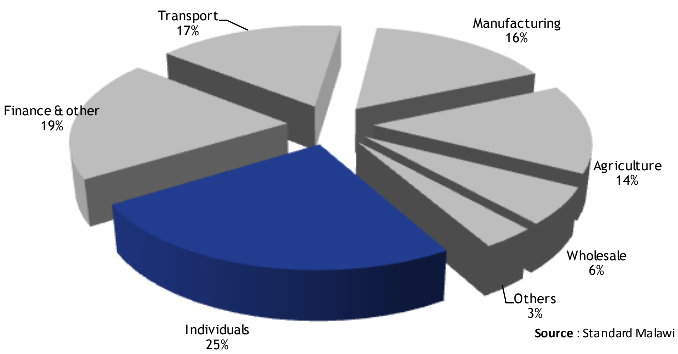
Overview of income statement at 30 June 2011

- Despite solid balance sheet growth, net funded income for the period ended flat when compared to the previous period, mostly as a result of a sharp contraction in NIMs from 12.4% to 9.1%, annualised.
- Non funded income growth of 21% compensated the lacklustre top-line and the net top-line effect was 11% growth y-o-y.
- Expenses growth was notably muted at 3% at the interim date, and should go some way in mitigating the anticipated spike in inflation, following the devaluation of the Kwacha in August 2011. The full impact will affect 2012 figures, and while the currency remains rather stressed, management will keep a keen eye on cost containment. The CIR is still comfortable at 48% at June and was the major contributor to 18% bottom line growth at the half year stage.

Overview of balance sheet at 30 June 2011

- Total assets jumped by 39% driven by deposits which increased to over MWK50bn (US$303m).
- Loans expanded by 53% to MWK42bn (US$255m) for an LDR of 84%.
- NPLs were at a low 2.5% of total loans.

Figure 103: Loan distribution by sector at 31 Dec 2010



Source : Standard Malawi

Income Statement (MWKm)	H1 2010	H1 2011	% ch
Net interest income	2,266	2,277	0%
Other income	2,524	3,048	21%
Total Income	**4,790**	**5,325**	**11%**
Provisions	(306)	(392)	28%
Expenses	(2,474)	(2,552)	3%
Profit before tax	2,010	2,381	18%
Attributable earnings	**806**	**952**	**18%**

Balance Sheet (MWKm)	H1 2010	H1 2011	% ch
Cash at central Bank	4,462	7,711	73%
Securities	9,110	7,690	-16%
Loans & Advances	27,473	42,169	53%
Fixed Assets	3,356	3,650	9%
Other	1,554	2,763	78%
Total Assets	**45,955**	**63,983**	**39%**
Deposits	34,163	50,206	47%
Other liabilities	2,796	3,407	22%
Shareholders' funds	8,997	10,362	15%
Total liabilities and equity	**45,955**	**63,983**	**39%**

Net interest margin	12.4%	9.1%	-26%
Cost to income ratio	52%	48%	-7%
RoE	17.9%	18.4%	2.6%
RoA	3.5%	3.0%	-15.2%
Rough CAR	22%	18%	-15.1%
Loan/Deposit	80%	84%	4.4%

Valuation and Recommendation

The aggressive balance sheet growth at the interim stage was constrained by slashed margins, however tight cost control has resulted in real growth in net asset value. The economic downturn and the acute pressure on the Kwacha are nothing new to Standard Bank, and the proactive stance taken to ride the storm, while maintaining excellent asset quality is testimony of the experience.

With optimal strategic positioning Standard Bank looks well placed the ride the economic storm and act as a store of value for domestic investors. On a 2012 PER of 5.5x, Standard Bank Malawi has further upside potential, at least up to our valuation of MWK136. The company's generous dividend policy is a further incentive for equity investors. **BUY**.

NICO Holdings Limited	20.0%
Old Mutual Life Assurance	4.8%
Standard Bank Pension Fund	2.1%
Public	12.9%
Total	**100.0%**

Rwanda - Macro-economic highlights

Key Themes:

14% banking penetration levels highlights Rwanda opportunity

The banking sector in Rwanda is fairly small, consisting of the following licensed banks and 'other' financial institutions:

- Banque de Kigali (BK)
- Banque Rwandaise de Développement (BRD)
- FINA Bank Rwanda
- Compagnie Générale de Banque (COGEBANQUE)
- Banque Commerciale du Rwanda (BCR)
- Ecobank Rwanda
- Banque de l'Habitat du Rwanda (BHR)
- Banque Populaire du Rwanda (BPR)
- Urwego Opportunity Bank (UOB)
- Access Bank SA
- Banque Populaire du Rwanda SA
- Kenya Commercial Bank (KCB)

These last four were licensed in 2011:

- SIGAMA CSS
- Unguka Bank
- Agaseke Bank
- Equity Bank

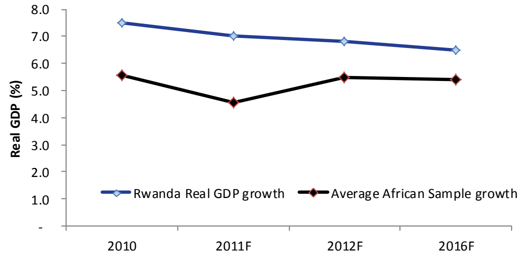
The low number of banks means that the banking sector is highly concentrated, with 4 commercial banks representing 69.1% of the total deposits of the industry and 46.7% of loans as at 31 December 2010. The central bank notes that this situation is expected to keep improving, however, with the share of the 4 banks in loans and advances having fallen from 64.5% in 2007, for example. The IMF notes that concentration runs along other dimensions as well, with both loans and deposits concentrated in a few corporate and institutional clients; corporate lending concentrated in construction and mortgage sectors; a large share of retail lending also goes to mortgage as well as salary-backed loans; and most banking activity is concentrated in Kigali. The above make Rwanda the most concentrated banking market in the EAC region. There is a high degree of competition in the corporate market, while the retail market has historically been mainly served by BPR. The segment is becoming more competitive, however.

During 2010, steps were taken to facilitate greater access to banking services. This saw the banks open 15 additional outlets, and by the end of December 2010 the banking system had 99 branches and 204 counters throughout the country. The number of deposit accounts operated by the commercial banks increased by 40.5% from 1,270,654 in 2009 to 1,785,744 in December 2010.

Turning to monetary sector developments, in H1 2011, the central bank, National Bank of Rwanda (BNR), decided to maintain the key policy rate low so as to keep the market liquid and hence discourage banks from just looking to invest on the money market. Thus, the Key Repo Rate (KRR) was kept unchanged at 6% in Q2 2011, having declined from 9% in December 2009, (increased to 6.5% in the Oct 2011 MPC meeting).

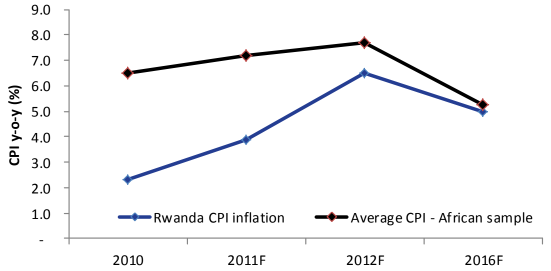
Between December 2010 and June 2011, broad money increased by a cumulative 15.7% with growth of 1.6% in Q1 and 13.9% in Q2. Domestic credit of the banking sector expanded by 25.1% in June 2011 driven by credit to the private sector which increased by 6.1%, a positive response to the loose monetary policy put in place by the BNR.

Figure 104: Rwanda Real GDP Growth 2010 - 2016



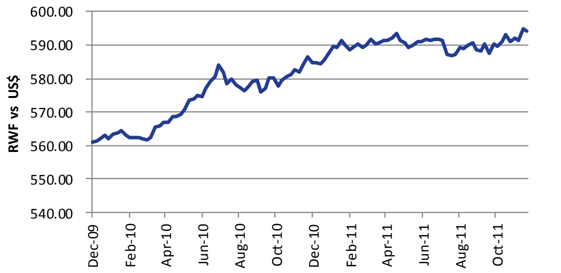
Source: IMF

Figure 105: Rwanda CPI Inflation 2010 - 2016



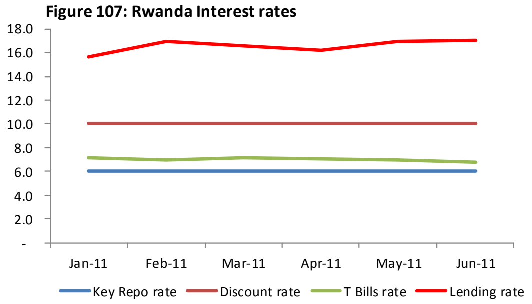
Source: IMF

Figure 106: Rwandan Franc vs US$



Source: Oanda.com

Figure 107: Rwanda Interest rates



Rwanda – Macro-economic highlights (Cont.)

In 2010, banks authorised new loans amounting to RWF262.0bn (US$440m) of which RWF121.9bn (US$205m) was authorised in H1 10. During the same period of 2011, new authorised loans stood at RWF137.8bn (US$231m), y-o-y increase of 13.04%. The sectors that benefited from the rise in credit were, in line with the historical trend, 'commerce, restaurants and hotels' with 36.5%, 'public works and building industry' – 25.4% and 'manufacturing' with a 7.5% share. Agriculture made up 4.1% of the loans.

Despite the increased market liquidity, commercial bank deposit rates trended upwards during the year, to end Q2 11 at 8.03%. This performance encouraged increased rates of saving, with time deposits up 99% in the first half to RWF85.5bn at end June 2011. Lending interest rate closed the period at 16.97%, with the BNR justifying the relatively high rates as being necessary to compensate for the risk incurred by banks, in particular to high levels of NPLs.

The banking sector recorded strong asset growth, increased competition in deposit mobilisation, adequate capitalisation as well as steady profitability in H1 11. As at the end of June, banking sector assets had increased to RWF808.0bn (US$1.4bn) compared to RWF627.1bn (US$1.1bn) as at H1 2010. The gross loan portfolio increased to RWF391.6bn (US$658m) from RWF331.3bn (US$557m), up 18.20% y-o-y. Total deposits for commercial banks increased from RWF462.7bn (US$777m) at H1 10 to RWF596.8bn (US$1.0bn), up 28.9%. The sector solvency ratio of 19.7% at H1 2011 was above the 15% regulatory capital requirement, with total paid-up capital of commercial banks amounting to RWF61.1bn (US$102m).

Sector profitability more than doubled, with consolidated PAT going to RWF9.4bn (US$15.7m) from RWF4.0bn (US$6.7m). RoA and RoE ratios were at 2.4% and 16.7%, respectively, at the half year, up improving from 1.3% and 10.3% as at end June 2010. The major source of income remained interest income from loans, which accounted for 46.9% of total income. The banks continued to clean up legacy NPLs, and both gross and net NPL ratios declined from 12.2% and 10.4% in June 2010 to 9.6% and 8.0% in June 2011, respectively.
The BNR summarised the genesis of the overall state of the banking sector as per the table below:

Financial Soundness Indicators	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
Capital Adequacy					
Solvency ratio	17.6%	20.3%	19.4%	19.9%	19.7%
Off balance sheet items/total qualifying capital	224.4%	203.1%	206.1%	209.7%	242.4%
Insider loans/Core capital	13.5%	8.7%	5.9%	6.7%	5.6%
Large exposure/core capital	103.0%	80.0%	72.5%	78.5%	59.3%
Asset Quality					
NPLs/Gross Loans	12.2%	12.4%	11.3%	10.2%	9.6%
Net NPLs/Net Loans	10.4%	10.7%	9.7%	8.7%	8.0%
Provisions/NPLs	56.8%	57.0%	53.1%	50.5%	49.7%
Earning Assets/Total assets	81.1%	77.6%	78.1%	79.2%	73.2%
Large exposures/Gross loans	20.4%	17.4%	15.1%	17.8%	13.5%
Profitability and earnings					
Return on Average assets	1.3%	1.6%	1.9%	2.5%	2.4%
Return on Average Equity	10.3%	12.2%	13.7%	17.2%	16.7%
Net interest margin	8.8%	8.8%	8.7%	8.6%	9.0%
Cost of Deposits	2.7%	2.6%	2.5%	2.3%	2.2%
Cost to income	89.3%	86.2%	83.2%	79.1%	77.3%
Overhead to income	54.0%	53.8%	55.2%	61.4%	55.8%
Liquidity					
Short term Gap	21.2%	17.4%	18.5%	14.5%	24.1%
Liquid assets/Total Deposits	58.4%	47.9%	57.8%	52.1%	56.0%
BNR Borrowings/Total Deposits	0.0%	0.0%	0.0%	0.3%	0.0%
Gross Loans/Total deposits	71.6%	69.3%	67.0%	68.7%	65.6%
Market Sensitivity					
Forex Exposure/Core capital	1.5%	2.4%	6.8%	7.2%	6.9%
Forex Loans/Forex deposits	4.2%	2.1%	0.4%	1.0%	5.5%
Forex Assets/Forex liabilities	101.0%	103.9%	106.0%	106.7%	112.8%

Source: National Bank of Rwanda

Bank of Kigali

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RWANDA

FEBRUARY 2012

Bank of Kigali

Founded in 1966, Rwanda's biggest bank, Bank of Kigali, BoK, became the Rwanda Stock Exchange's second local listing in August 2011, after the Government of Rwanda offered, via IPO, 133,467,400 shares, which were in addition to the 166,837,000 newly created shares that were also offered to the public. The shares were offered at a price of RWF125 each, with the offer looking to raise RWF37.5bn (US$63m). The IPO was massively oversubscribed by 174%, with high local and foreign investor participation. The share price peaked at RWF200 in the few days immediately following its listing, before falling back to its current levels of RWF122. Proceeds from the offer, after allowing for the RWF16.7bn that was to accrue to the treasury, were to be utilised to address the asset and liability maturity gap, fund the growth of the loan book and branch and alternative delivery channel expansion. The bank now has a branch and ATM network of 41 and 26 respectively.

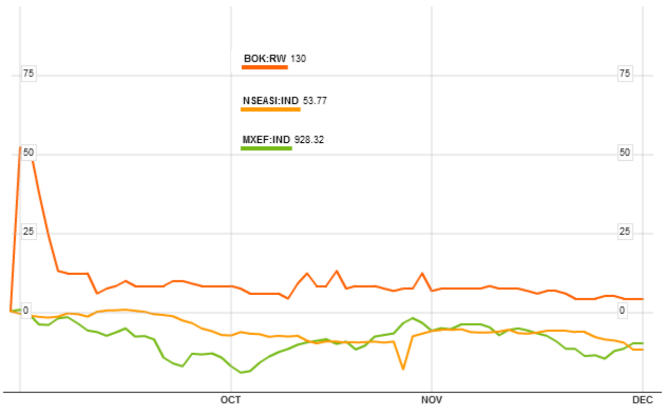
- Upon listing, market euphoria saw the BoK share price hit a high of RWF200, before dropping to its current levels.
- The bank on 14 February 2011 announced truncated unaudited FY 11 results, indicating that all things being equal, it should record FY PAT of RWF8.2bn, with net loans having grown 22.3% and deposits 33.4% y-o-y. We have tweaked our forecasts accordingly to try and capture the announcement. Audited results are set to be published on or around the 15 March 2012.
- Negatively, the NPL ratio worsened to 9.1% from 7.5% at the half year, which we found a bit unsettling, even though the levels were in line with the market.
- We arrive at a DCF valuation for BoK of RWF127 per share, in line with its current price of RWF122. With large untapped potential in Rwanda, we expect BoK to continue to perform ahead of expectations. **HOLD.**

STRENGTHS	WEAKNESSES
Economy opening up rapidly Stable macro-environment, low inflation Stable political environment Foreign investment pouring in Largest bank in Rwanda	Small country and small economy Low purchasing power (albeit rising) Low domestic liquidity levels/volumes
OPPORTUNITIES	**THREATS**
Growth in financial services from ground zero Low banking penetration rates Synergies wtih the larger EA hub coutries Rising per capita incomes	Local currency weakness, weak BOP position Commodity prices volatility

BLOOMBERG: BOK : RW			HOLD
Current price (RWF)			122.00
Current price (US$)			0.20
Target price (RWF)			126.74
Upside/Downside			3.89%
12 month High/Low (RWF)			200.00 - 119.00
Liquidity			
Market Cap (RWFm)			81,411
Market Cap (US$m)			136.6
Shares (m)			667.3
Free Float (%)			12.4
Ave Monthly value traded (US$m)			0.7
Ave Monthly volume (m)			3.3
Share Price Performance			
3 months (%)			-36.1%
Relative change (%)*			n/a
Relative change (%)**			190.7%
12 months			n/a
Relative change (%)*			n/a
Relative change (%)**			n/a
** Relative to NSE 20 index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (RWF)	9.26	12.47	15.81
DPS (RWF)	-	3.7	4.7
NAV/Share (RWF)	47.8	59.7	74.6
Net Interest Margin (%)	8.7%	8.7%	8.7%
FINANCIAL SUMMARY (RWFm)			
Net interest income	12,389	16,126	20,158
Profit before tax	8,683	11,686	14,820
Attributable earnings	6,181	8,319	10,550
RATIOS			
RoAE	24.5%	16.7%	11.6%
RoAA	3.5%	3.7%	3.8%
Cost/Income Ratio (%)***	66.0%	57.5%	51.6%
Loans/Deposits (%)	74.7%	74.7%	74.7%
VALUATION RATIOS			
PBV (x)	2.6	2.0	1.6
PER (x)	13.2	9.8	7.7
Dividend Yield (%)	0.0%	3.1%	3.9%
Dividend payout ratio (%)	0.0%	30.0%	30.0%

***Pre provision for impaired advances

Figure 108: BOK vs MSCI EM vs NSE Index



Q3 2011 Financial and Operational Review

In its first set of financials incorporating the capital raise, BoK continued to show a strong growth trajectory in its earnings. Net interest income growth was 29.04% to RWF 11.6bn, with the net interest margin 60bp lower than 9M 2010 at an annualised 8.0%.

Net NII growth was even more impressive as it benefited from the branch expansion and increased transaction volumes as well as a 59.8% rise in FX trading income, gaining 61.5% to RWF9.7bn. Total operating income increased by 42.0% to RWF21.2bn.

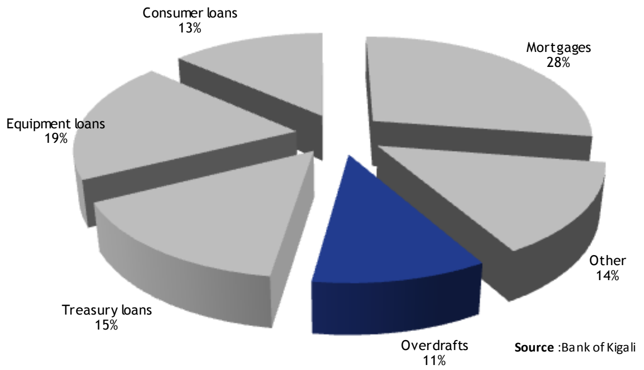
Core or 'recurring' operating cost growth was kept below that of income, up 29.6% to RWF9.3bn. While staff costs were down 4.14% to RWF3.6bn, directors' emoluments (+31.3% to RWF218.0m), other operating expenses (+79.1% to RWF4.0bn) and depreciation (+42.7%) drove costs higher. After accounting for a 4.26x increase in bonuses to RWF1.5bn, the CIR deteriorated marginally to 50.7% from 50.3% y-o-y.

The loan loss provision charge was 16.9% higher at RWF4.7bn, but up 23.4% to RWF1.9bn net of recoveries. PBT gained 60.8% to RWF10.1bn and attributable earnings for the period was RWF5.8bn (9M 2010: RWF4.1bn).

Total assets were up 10.9% to RWF273.8bn from the H1 2011 position. Net loans and advances growth was relatively muted, up 12.6% to RWF125.3bn, with the biggest move on the asset side being the 124.9% increase in 'other' fixed income instruments to RWF15.0bn. Balance sheet provisions were 27.1% higher to RWF5.9bn as the NPL ratio deteriorated to 9.1% from 7.5% at the half year. While the 9.1% was in line with the market, we found it a bit of a concern especially given that loan growth for the 9M period was relatively subdued.

Customer deposit growth was surprisingly down compared with the half year, shedding 2.02% to RWF172.3bn. Interbank deposits on the other hand were 48.37% higher at RWF25.0bn. The fall in deposits saw the LDR increase to 66.5% from 60.2% at the half year. The CAR was down to 19.1% from 20.5%, while annualised RoAE and RoAA closed at 17.4% (9M 2010: 26.5%)

Figure 109: Loan distribution by sector at 31 Dec 2010



Source :Bank of Kigali

Income Statement (RWFm)	Q3 2010	Q3 2011	% ch
Net interest income	8,967	11,571	29%
Other income	5,992	9,674	61%
Total Income	**14,959**	**21,245**	**42%**
Provisions	(4,031)	(4,714)	17%
Expenses	(7,537)	(10,781)	43%
Profit before tax	3,391	5,750	70%
Attributable earnings	**4,089**	**5,830**	**43%**

Balance Sheet (RWFm)	Q3 2010	Q3 2011	% ch
Cash at central Bank	6,333	4,263	-33%
Cash on hand	6,882	12,052	
Balances with banks	36,480	41,897	15%
Securities	23,426	58,149	148%
Loans & Advances	101,402	125,308	24%
Fixed Assets	18,313	19,463	6%
Other	4,840	12,670	162%
Total Assets	**197,676**	**273,802**	**39%**
Deposits	135,678	172,270	27%
Due to banks	18,921	25,010	32%
Borrowed Funds	-	1,724	n/a
Other liabilities	11,208	17,244	54%
Shareholders' funds	31,870	57,554	81%
Total liabilities and equity	**197,677**	**273,802**	**39%**

Net interest margin	7.1%	6.8%	-4%
Cost to income ratio	50.4%	50.7%	1%
RoE	17.1%	13.5%	-21.0%
RoA	2.8%	2.8%	2.9%
Rough CAR	21.5%	26.7%	24.0%
Loan/Deposit	74.7%	72.7%	-2.7%

Valuation and Recommendation

BoK remains the country's biggest bank, with total assets, net loans and deposits all growing ahead of industry aggregates, suggesting further market share gains. Having such a large market share, however, also implies any economic downturn will be transmitted more readily into its results.

We arrive at a DCF valuation for BoK of RWF126.74 per share, 4% upside on its current price of RWF122. While it would seem the share is fully valued at current levels, we do believe the opportunities inherent in the sector in Rwanda could see BoK perform ahead of our expectations going forward. **HOLD**.

Top 10 Shareholders	%
Government of Rwanda	65.3%
Social Security Fund of Rwanda	33.7%
Prime Holding	0.2%
OCIR Café	0.2%
Ocir The	0.2%
National Post Office	0.2%
RAMA (National Health Insurance Fund)	0.2%
Total	**100.0%**

Kenya – Macro-economic highlights

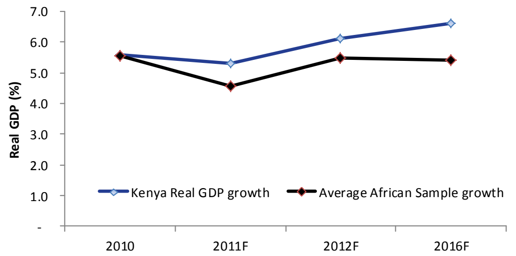
Key Themes:

- Kenya experienced a v-shaped recovery coming out of 2009 and followed that up with a better than expected growth outturn of 5.6% in 2010. Indications are that should growth be kept north of 6% going forward, per capita income of US$1,000 should be within grasp before the turn of the decade, as Kenya achieves middle income country status.
- 2011 however had its drawbacks. A spike in food and oil prices coupled with a crippling drought looks determined to curtail growth, and has since prompted a revision of the World Bank GDP growth forecast for the year lower to 4.8%.
- Added to that, inflation and a depreciating currency stood up among key economic fundamentals spiralling down. A weakening external sector, driven in the main by an imploding import bill saw the former climb from December y-o-y CPI growth of 3% to 19.7% for November, while the Kenyan shilling set a new all-time low of KES107 to the dollar in October 2011.
- The country faces elections in 2012 on the backdrop of the International Court of Justice sponsored investigations into the political disturbances of 2007. Indications that some senior politicians are implicated do not bode well for a country still smarting from a political shock, unprecedented in independent Kenya.
- Additionally, Kenya is at war in Somalia which is expected to exert pressure on its budget at a time that the country faces a record (KES235bn/US$2.8bn) budget deficit. The country is however seeking to transfer command of its troops, and hence the funding of the war to the Africa Union and the United Nations.
- Kenya however, made significant achievements that should aid in shaking off the effects of the challenges at hand. Improved infrastructure (especially roads and energy), the spill-over benefits from the ICT revolution, accelerated regional integration and rapid urbanisation are the most notable.
- The birth of South Sudan is another significant positive. Growth in East Africa among many corporates will be tied to building this new nation that has humongous deficits from basic infrastructure, financial services accessibility among others.

The banking industry

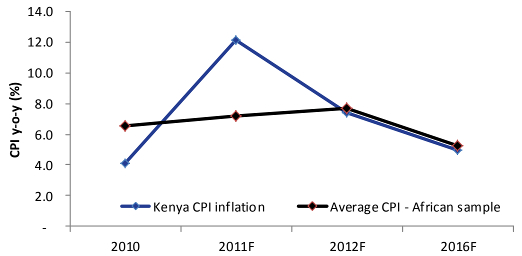
- Kenya's banking industry comprises of;
  - 43 banking institutions,
  - 4 representative offices of foreign banks,
  - 6 deposit taking Micro Finance companies,
  - 121 foreign exchange bureaus, and
  - 2 credit reference bureaus.
- The central bank championed the introduction of Agency Banks to enhance banking penetration levels, Deposit taking Micro Finance Institutions (MFIs) to increase financial inclusion and a Credit Reference Bureau which has since been credited with the general improvement in the quality of loans and advances.
- A return to a high growth path for balance sheets (post the 2009 meltdown), improvements in profitability, loan asset quality improvements, improved banking penetration levels, accelerating regional expansion and enhanced focus on operational efficiency characterised the banking industry during the first nine months of 2011.
- 6 commercial banks, out of Kenya's 43 have been granted approval to roll out banking agencies, with 6,513 agents having been approved. Equity Bank, Cooperative Bank and Kenya

Figure 110: Kenya Real GDP Growth 2010 - 2016



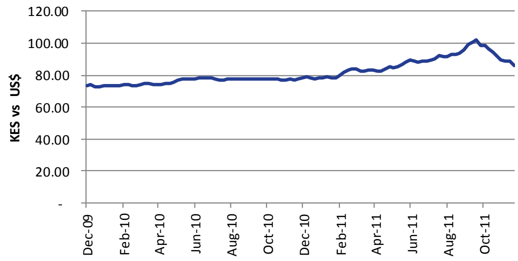
Source: IMF

Figure 111: Kenya CPI Inflation 2010 - 2016



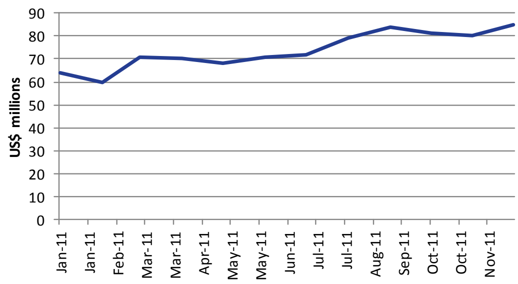
Source: IMF

Figure 112: Kenyan Shilling vs US$



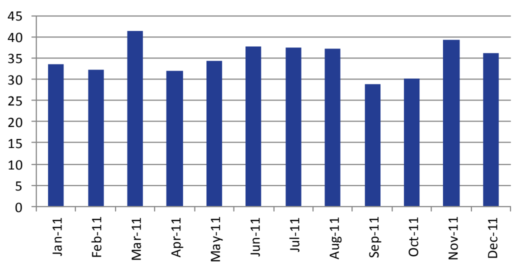
Source: Oanda.com

Figure 113: Kenya monthly remittance inflows



Source: Central Bank of Kenya

Figure 114: Kenya Tea exports (million of kg)



Source: The Tea Board of Kenya

Commercial Bank are among Kenya's big banks that have enthusiastically taken up agency banking as a key market penetration tool.

- An additional deposit taking micro finance business was licensed to bring the total to six. With 1.4m active accounts, DTMs are increasing in competitiveness getting ready to challenge the big banks for market share in the near future.
- HSBC joined Nedbank (RSA) and HDFC Bank (India) in licensing its representative office to operate in Kenya as the country integrates further with the developed world.
- The sector has an asset base of KES2tn (US$24bn) of which 60% are loans and advances with a combined total of 1,114 branches. The banks have 13.65m deposit accounts with deposits amounting to KES1.5tn (US$18bn). Pre-tax profits as at Q3 2011 stood at KES63.5bn (US$760m ± RoA of 3.2%).
- There was improvement in the quality of the lending book on the back of an increase in the use of Credit Reference Bureaus. NPL to advances ratios thus improved, with the quantum of NPLs falling from the 2009 highs, while advances improved in line with growth in deposits.
- NIMs were generally squeezed owing to rising deposit rates as the central bank adopted monetary tightening measures, while NII were generally dampened by the downward re-pricing of bond holdings.
- Enhanced focus of efficiency saw cost to income ratios improve. The adoption of the agency banking model has demonstrable value addition as it saw some banks expand the reach of their brands while keeping a cap on staff numbers and operating expenses.

Outlook

- Bears dominated the NSE in 2011 and financial stocks sympathised with their peers, with the NSE financial index shedding about 22% during the first nine months of the year. The same trend is also observable of the MSCI EM index, which declined over the same period. Trading trends point to the continued reign of the bears, though growth in bank assets and profitability is likely to remain resilient.
- We expect the CBK to maintain tight monetary conditions inspired largely by the need to curb weakness in the KES and the resultant pressure of imported inflation. Higher interest rates are therefore likely to prevail, pushing interest costs up, and squeezing interest rate margins at the same time. NPLs, on the other hand, are likely to come under pressure owing to higher borrowing costs and slower growth in advances is expected as banks focus on liquidity management.
- We, however, expect banks to lead the NSE should the current bear trend relent.
- Fiscal policy has moved toward consolidation. The primary deficit declined from 3.8 percent of GDP in FY 2009/10 to 1.5 percent of GDP in FY 2010/11 because of delays in domestically-financed investment, restraint in current spending, and strong tax revenue performance.
- Private sector credit growth accelerated to 36% in September 2011, about twice the rate of the year before. From the first quarter of 2011, credit growth has exceeded deposit growth as the latter has slowed down in the face of higher inflation.
- The CBK has raised its central bank rate (CBR), its policy rate, by 9.5 percentage points since October 2011 to reverse inflationary pressures, pushing commercial banks to adjust their lending interest rates. Interbank interest rates hovered around 17% in October 2011 from below 2% in January 2011. Treasury bill rates have risen sharply, although they are still slightly below interbank rates.
- High international prices, strong domestic demand, and higher drought-related energy and food imports swelled the external current account deficit to an estimated 9.5% of GDP in 2010/11 from 5.5% in p/y.
- The nominal effective shilling exchange rate depreciated by 15% through to September 2011 reflecting balance of payments pressures and high inflation. Except for small-size foreign exchange sales in recent weeks, the central bank has allowed the exchange rate to adjust to absorb the external shocks.
- The drought in the Horn of Africa has hit Kenya hard. The overall contribution to GDP of drought-affected areas is just about 5%, but the number of Kenyans in need of immediate food aid could reach 3.75m, concentrated in the country's north and north-eastern districts. The total number of refugees from Somalia in Kenya reached nearly 600,000 at end-September 2011.
- The financial system remains sound. Most banks remain highly profitable and capital adequacy ratios are still high, although they declined in Sept 2011 compared to June 2011. This decline reflects: (i) an acceleration in lending that increased total risk-weighted assets, and (ii) mark-to-market losses that limited the growth of capital. NPLs continued to decline (4.9% of loans in September 2011), reflecting the rapid growth of the loan base and improved loan recovery practices by banks. Leading domestic financial institutions continue expanding to neighbouring countries, chiefly Uganda, Tanzania, and South Sudan.
- Cross border linkages have become a prominent feature of the Kenyan banking sector. Foreign and regional banks hold 40% of the banking sector's assets. In recent years, six locally owned Kenyan banks, some of systemic importance, have expanded into neighbouring East African Community (EAC) countries as well as Sudan, Malawi and Mauritius by establishing 11 subsidiaries.

EQUITY RESEARCH

KENYA

FEBRUARY 2012

Barclays Bank of Kenya

Stagnation in both liabilities and earning assets growth is the biggest put off for Barclays. While Kenyan peers grew their total asset bases by an average 21.2% y-o-y for 9M 2011, Barclays only managed 4.3% for FY2011. The same trend can be observed in earnings growth. Pacesetters Equity Bank and KCB grew attributable earnings by more than 40% (9M 2011), Barclays, on the other hand managed only 11% (FY 2011). The bank, however, appeals as a dividend play, with an average ordinary pay-out ratio of 54% over the last five years. Though still cheap, there are better value propositions in the banking space.

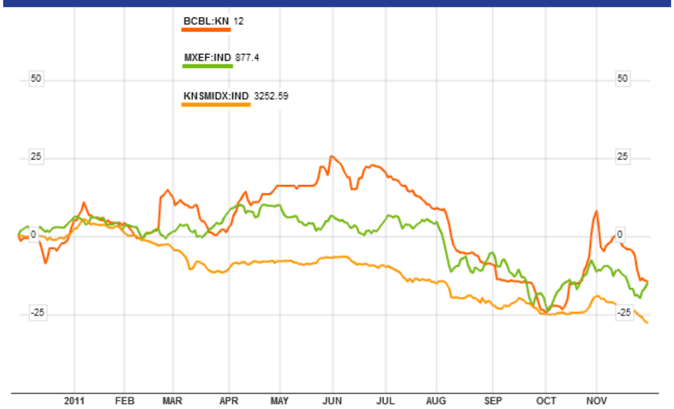
- On a positive note, the bank moved to enhance efficiency, cutting the head count by 200 and taking on board, Flexicube, an ICT system that puts it at par with other tech-savvy players. Efficiencies have since improved enabling the bank to make up for stagnation in revenue generation though costs savings. The CIR has improved from 57% for FY2010 to 51.6% for 2011.
- The NPL ratio improved to 5.5% from 7.5% as at FY2010, despite pressure on asset quality given the high lending rates that impaired customers' capacity to service loans. The bank's gross NPLs stood at KES5.5b (US$61m) despite a general improvement across the whole market. Barclays' impeccable CRM systems should see it tower over its peers is terms of asset quality.
- Barclays is trading relatively stronger to the NSE20 when viewed over a 12 month horizon. The bank historically tracks the general market index, a trait that we expect to hold for the longer term. The declaration of a special dividend spurred interest and we expect this to help the bank hold its relative strength.
- We value Barclays at KES14.33, which offers 10% appreciation from the current share price. The Kenyan market is not short of cheap, well run banks however, so much to choose from. **HOLD.**

STRENGTHS	WEAKNESSES
Third largest bank in Kenya	Strong inflationary pressures
Large unbanked population	Low tourism and diaspora inflows
Comparative sophistication	Very competitive market
Centre of East Africa economic hub	Weak macro fundamentals
Highest RoAA	Economic impact of drought
OPPORTUNITIES	**THREATS**
Recovery in global economies	Further local currency weakness
Strong emerging market credentials	Elections in 2012 and potential strife
Increasing cross border trade	Increased humanitarian assistance
Importance as hub for East Africa	owing to Somali refugees
Oil rich South Sudan, Uganda	Increased food and commodity prices

BLOOMBERG: BCBL : KN			HOLD
Current price (KES)			13.00
Current price (US$)			0.16
Target price (KES)			14.33
Upside/Downside			10.19%
12 month High/Low (KES)			18.00; 10.40
Liquidity			
Market Cap (KESm)			70,610.0
Market Cap (US$m)			845.6
Shares (m)			5,431.5
Free Float (%)			22.5
Ave Monthly value traded (US$m)			2.2
Ave Monthly volume (m)			14.1
Share Price Performance			
6 months (%)			-25.7%
Relative change (%)*			17.9%
Relative change (%)**			278.6%
12 months			-6.5%
Relative change (%)*			124.1%
Relative change (%)**			123.3%
** Relative to NSE 20 index*			***Relative to MSCI EM index*
Financials	**2011**	**2012F**	**2013F**
EPS (KES)	1.49	1.62	1.76
DPS (KES)	1.50	1.62	1.76
NAV/Share (KES)	5.38	6.81	7.35
Net Interest Margin (%)	11.9%	11.9%	11.9%
FINANCIAL SUMMARY (KESm)			
Net interest income	16,336	17,643	19,054
Profit before tax	12,013	13,081	14,241
Attributable earnings	8,073	8,791	9,570
RATIOS			
RoAE	26.6%	26.1%	22.3%
RoAA	4.8%	5.1%	5.1%
Cost/Income Ratio (%)***	51.6%	50.7%	49.8%
Loans/Deposits (%)	79.8%	79.8%	79.8%
VALUATION RATIOS			
PBV (x)	2.4	1.9	1.8
PER (x)	8.7	8.0	7.4
Dividend Yield (%)	11.5%	12.4%	13.6%
Dividend payout ratio (%)	100.9%	100.0%	100.0%

***Pre provision for impaired advances

Figure 115: Barclays vs MSCI EM vs NSE 20 Index



FY2011 Financial and Operational Review

Kenya's third largest bank by assets, underperformed for FY2011 registering a weak top line performance, albeit neutralised by lower provisions. The bank controls 9.3% of the deposit market share (at end FY2011) and operates from 119 branches (double the 2007 count), has a new and robust ICT platform as well as a wide product range that include retail banking, corporate banking, credit card and wealth management services. Its mainstay is corporate and consumer lending and management aims to make the former, which currently accounts for 35% of loan assets.

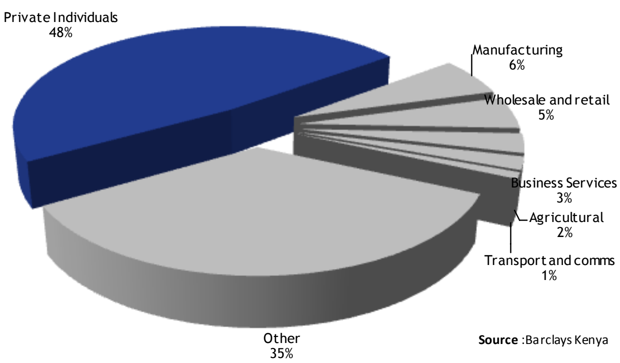
Overview of income statement at 31 Dec 2011

- Interest income growth was largely stagnant on the back of 13.7% y-o-y growth in loans, one of the lowest among Kenyan banks. The bond position declined by 32.9% y-o-y with growth in customer liabilities at 0.3% being the slowest among its peers. Earnings growth is likely to remain constrained if deposit mobilisation does not improve in 2012.
- Cost cutting measures yielded positive results as the CIR improved to 51% from 54% for FY2010. Resultantly, the bottom line grew weakly by 3.2%.
- However, the cost savings achieved in 2011 are durable and likely to bring long term benefits to the bank and if combined with expansion in earnings assets, can lead to a turnaround in 2012.

Overview of balance sheet at 31 Dec 2011

- The bank's balance sheet shrunk by 3.1% to KES167bn (US$2bn) dragged down largely by the slowdown in customer deposits which were flat at 0.3% y-o-y.
- The book grew by 13.7% y-o-y, lethargic (and a contraction in real terms) against the c30% growth in monetary aggregates.
- Lending is skewed towards private individuals who currently constitute 48%, with the agricultural sector consisting 35% of the book.
- NPLs ended the period at 5.5% which marks a deterioration from 4.2% at the end of the prior year.

Figure 116: Loan distribution by sector at 31 Dec 2010



Source :Barclays Kenya

Income Statement (KESm)	FY2010	FY2011	% ch
Net interest income	15,673	16,336	4.2%
Other income	10,350	10,002	-3.4%
Total Income	**26,024**	**26,338**	**1.2%**
Provisions	(1,200)	(729)	-39.3%
Expenses	(14,049)	(13,597)	-3.2%
Profit before tax	10,775	12,013	11.5%
Attributable earnings	**7,822**	**8,073**	**3.2%**

Balance Sheet (KESm)	FY2010	FY2011	% ch
Cash at central Bank	13,131	12,212	-7.0%
Cash on hand			n/a
Balances with banks			n/a
Securities	55,996	37,598	-32.9%
Loans & Advances	87,147	99,072	13.7%
Fixed Assets	3,244	3,056	-5.8%
Balances with related companies			n/a
Other	12,897	15,367	19.1%
Total Assets	**172,415**	**167,305**	**-3.0%**
Deposits due to Central Bank	3,105	3,115	0.3%
Deposits	123,826	124,207	0.3%
Due due to banks	92	123	32.8%
Borrowed Funds	-	-	n/a
Taxation	193	211	9.5%
Other liabilities	12,163	8,536	-29.8%
Shareholders' funds	31,465	29,223	-7.1%
Total liabilities and equity	**172,415**	**167,305**	**-3.0%**

Net interest margin	10.9%	12.0%	9.2%
Cost to income ratio	54.0%	51.6%	-4.4%
RoE	24.9%	27.6%	11.1%
RoA	4.5%	4.8%	6.4%
Rough CAR	30.5%	24.9%	-18.4%
Loan/Deposit	70.4%	79.8%	13.3%

Valuation and Recommendation

Barclays has opted to lose market share, in a deteriorating macro environment, with rising interest rates indicating a coming spike in NPLs, while most of the market has opted for an aggressive growth strategy to outperform inflation and credit risk.

The latter strategy should ensure real growth, with the ancillary higher risk of potentially very high NPLs, combined with increased counter party risk. The latter strategy embodies the conservative culture, through which the bank has amassed its global status. We rate Barclays a **HOLD**, it is fully valued in our opinion.

Top 10 Shareholders	%
Barclays Bank Plc	68.5%
National Social Security Security Fund of Trustees	1.7%
Barclays (Kenya) Nominees - Account No. 1256	0.5%
Standard Chartered Nominees Nominees Limited	0.4%
The Jubilee Insurance Insurance Company	0.3%
Standard Chartered Nominees Nominees Limited	0.3%
Standard Chartered Nominees Nominees Limited	0.3%
Old Mutual Life Life Assurance Ltd Kenya	0.3%
Standard Chartered Nominees Nominees Limited	0.2%
Others	27.6%
Total	**100.0%**

Co-operative Bank of Kenya

Cooperative Bank does a decent job creating value, though its lags behind the pacesetters KCB and Equity. Linkages with cooperatives go to the core of the bank's investment case. With SME and mortgage lending likely to drive performance going forward, this captive market places the bank ahead of the majority of its peers and we expect this to underpin earnings growth. We believe there is merit in adding Cooperative bank to portfolios, together with KCB and Equity.

- Still in a growth phase, the branch network now stands at 94, while customer accounts grew 57% y-o-y to 2.3m as of September 2011.
- Its wholesale financial services to Savings and Credit Cooperatives (SACCOs) in particular continue to deepen with 418 SACCO FOSA (Front Office Service Activities) outlets currently operational and this avails up to 7m clients to the bank's services.
- The establishment of Co-operative Bank of Southern Sudan is in progress with Co-op owning 70% of equity and 30% held by the Southern Sudanese government.
- The bank was appointed one of the three banks to distribute GoK's KES3.8bn SME revolving fund, which has since received an additional KES1bn from treasury. This allows the bank to offer competitive rates, thus entrenching its hold on the SME market.
- The bank rolled out a new core banking system in the first quarter of 2012. The treasury department however, goes live in Q4 2012 giving room for enjoyment of enhanced efficiencies in the current year. We expect this to be a good tool in management's quest to keep the CIR around the 50% level.
- The bank increased its shareholding in Co-operative Insurance Company (CIC) to 30%, to enhance banc-assurance services.
- Co-operative is currently trading at the lower end of its 12 month range and strong double digit growth in should be maintained. Our discounted valuation indicates that up to 50% appreciation is justifiable. **BUY.**

STRENGTHS	WEAKNESSES
Large diversified deposit base Well capitalised; normal profitability Low banking penetration levels	Very high NPL's Ownership structure implies bureaucracy and inefficiencies Droughts have affected growth prospects
OPPORTUNITIES	**THREATS**
Regional expansion into Uganda and Southern Sudan	Stiff competition Slow recovery and susceptibility to commodity price shocks Kenyan Shilling weakness

BLOOMBERG: COOP : KN			BUY
Current price (KES)			11.75
Current price (US$)			0.14
Target price (KES)			19.36
Upside/Downside			64.77%
12 month High/Low (KES)			21.25; 11.85
Liquidity			
Market Cap (KESm)			42,728.0
Market Cap (US$m)			511.7
Shares (m)			3,636.4
Free Float (%)			29.6
Ave Monthly value traded (US$m)			2.2
Ave Monthly volume (m)			15.4
Share Price Performance			
6 months (%)			-31.2%
Relative change (%)*			43.1%
Relative change (%)**			359.6%
12 months			-36.8%
Relative change (%)*			235.5%
Relative change (%)**			1155.9%
** Relative to NSE 20 index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (KES)	1.26	2.04	2.40
DPS (KES)	0.40	0.65	0.76
NAV/Share (KES)	5.63	8.64	12.19
Net Interest Margin (%)	8.9%	8.9%	8.9%
FINANCIAL SUMMARY (KESm)	**2010**	**2011F**	**2012F**
Net interest income	9,189	13,114	15,081
Profit before tax	5,773	9,344	10,993
Attributable earnings	4,581	7,415	8,724
RATIOS			
RoAE	25.0%	28.6%	23.0%
RoAA	3.5%	4.4%	4.3%
Cost/Income Ratio (%)***	58.9%	183.1%	182.4%
Loans/Deposits (%)	69.9%	69.9%	69.9%
VALUATION RATIOS			
PBV (x)	2.1	1.4	1.0
PER (x)	9.3	5.8	4.9
Dividend Yield (%)	3.4%	5.5%	6.5%
Dividend payout ratio (%)	31.8%	31.8%	31.8%

***Pre provision for impaired advances

Figure 117: NBS vs MSCI EM Index

Q3 2011 Financial and Operational Review

Co-operative Bank owes its success to a unique business model, designed to serve cooperatives, expanding to retail and commercial banking, with higher levels of intermediation in the economy. With 1 in every 5 Kenyan belonging to a cooperative, the potential reach of the bank's tentacles is clearly among the most diverse. Its wide product offering, on the other hand, that includes co-operatives banking, SMEs, Micro Credit banking, retail and corporate banking services, fund management, scheme and custody services, stock brokerage services and banc-assurance, is designed to offer a one stop shop to clients. The bank has exploited these to build a history of good financial performance, which we expect to continue going forward.

Overview of the income statement at 30 Sept 2011

- The bank posted a healthy 22% total income growth that was driven largely by an expansion in loans and advances. Interest expense increased from 19% in Q1 2011 to 29% for Q3 2011 in line with rising interest rates.
- Non funded income, on the other hand added only 3% y-o-y. With the bank growing its customer base by 57% higher growth would have been expected especially from transaction fees.
- All subsidiaries made positive contributions to group profit. Kingdom securities' PBT stood at KES25.6m, Co-op Consultancy services at KES7.2m (against a loss of KES5.9m for 9M 2010) while Co-op Trust turned in KES35.7m. We expect the trend to continue for the remainder of 2011.

Overview of the Balance sheet as 30 June 2011

- Loans and advances grew 32% y-o-y against a slower 17% growth in deposits. This was accompanied by an improvement in the quality of the book as NPL ratio improved to 5.2% against 7.7% for the comparable period last year.
- We however, expect pressure on NPLs in for the remainder of the year and the better part of 2012 across the industry, as inflation puts pressure on incomes while deteriorating fundamentals dent corporate profitability.
- Strong free cash flow generation and discounted market ratings points to upside in the bank's share price.

Income Statement (KESm)	Q3 2010	Q3 2011	% ch
Net interest income	6,373	8,808	38%
Other income	5,166	5,304	3%
Total Income	**11,539**	**14,112**	**22%**
Provisions	(601)	(498)	-17%
Expenses	(6,555)	(8,070)	23%
Profit before tax	4,383	5,544	26%
Attributable earnings	**3,731**	**4,543**	**22%**

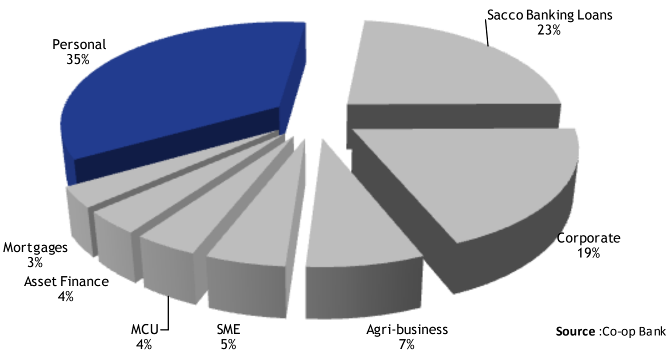
Balance Sheet (KESm)	Q3 2010	Q3 2011	% ch
Cash at central Bank	7,279	9,597	32%
Cash on hand	4,370	5,597	28%
Balances with banks	5,103	6,692	31%
Trading securities	6,359	5,197	-18%
Government securities	26,055	20,132	-23%
Investment securities	154	32	-79%
Loans & Advances	80,520	106,434	32%
Fixed Assets	6,189	7,548	22%
Other	5,284	6,323	20%
Total Assets	**141,313**	**167,552**	**19%**
Deposits	117,351	137,685	17%
Due to banks	2,193	7,315	234%
Borrowed Funds	188	480	155%
Other liabilities	2,237	2,487	11%
Shareholders' funds	19,344	19,585	1%
Total liabilities and equity	**141,313**	**167,552**	**19%**

Net interest margin	8.0%	9.3%	5%
Cost to income ratio	56.8%	57.2%	1%
RoE	25.7%	30.9%	20%
RoA	3.5%	3.6%	3%
Rough CAR	19.6%	15.6%	-13%
Loan/Deposit	68.6%	77.3%	13%

Valuation and Recommendation

Based on our earnings projection, we believe that upside in the region of 50% from the current market pricing level would not be unjustifiable. There remains significant scope to expand the penetration levels to the co-operate and SME sector, while at the same time, increased diversification of earnings, and a keen focus on non-funded revenues will counter the tightening NIMs. Most importantly, the book is growing well ahead of inflation and the market, indicating increasing penetration and growth in market share. Co-op easily merits our **BUY** recommendation.

Figure 118: Loan distribution by sector at 31 Dec 2010



Source :Co-op Bank

Top 10 Shareholders	**%**
Co-op Holdings Cooperative Society	64.6%
Gideon Maina Muriuki	2.0%
Kenya Commercial Banks Nominees A/C 771a	0.8%
NIC Bank Limited	0.5%
Standard Chatered Nominees A/C 9230	0.4%
CfC Stanbic Nominees	0.4%
Insurance Company of East africa	0.2%
Stanely Charles Muchiri	0.2%
Standard Chatered Nominees A/C 9011	0.2%
Others	30.9%
Total	**100.0%**

EQUITY RESEARCH

KENYA

FEBRUARY 2012

Equity Bank

A history of unparalleled balance sheet and earnings growth, improved subsidiary performance in the region and an aggressive expansion program both at home and in the region goes to the core of equity bank's investment case. The bank has found an equilibrium in balancing social ideals and profit maximisation, as can be testified by the multitude of accolades awarded for its social economic transformation prowess, as well as its impeccable history of solid growth in shareholder value. As one of the innovative and profitable African players, and an important play on Uganda and Southern Sudan, we remain bullish on Equity Bank. BUY.

- Spiking interest rates prompted illiquid market conditions, as well as an interest margin squeeze and the rising risk of asset quality deterioration which acted to significantly drag down growth during the quarter under review. The bank however turned to aggressive liability expansion, which enabled high tempo growth in earning assets, as well as cost containment, to maintain its high growth trajectory.
- The banks' mainstay has been microfinance, but lately, SMEs and corporate lending has increased. We expect this, and the further deployment of technology based products, credit cards and the agent banking network to see the bank easily eclipse prior year performance.
- Equity Bank currently trades 31% lower than its price 12 months ago and at a discount to the NSE20. One of East Africa's blue-chips currency wavering as international investor appetite has dried up, however, with Europe and the US on the mend, we expect a strong rebound.
- With strong deposit growth sure to drive earnings growth in 2012, we value Equity at KES50 which is certainly out of kilter with the sluggish sentiment on the bourse. We recommend Equity as a **BUY.**

STRENGTHS	WEAKNESSES
Robust ICT platform; Strong management	Deposits primarily short term
Largest customer base in country at 6.7m	Weather induced macro weakness
Partnership with China Development Bank	Kenya approaching saturation
Strong shareholding structure	*La Nina* weather phenomenon
Play on Uganda and Southern Sudan	Somalian humanitarian condition
OPPORTUNITIES	**THREATS**
Expansion in the rest of East Africa	Exchange rate volatility;
Increased mobile banking and diaspora	Commodity price shocks
Low banking penetration - 75% unbanked	Elections in 2012 - potential volatility
Further growth in mobile banking product - *Mkesho*	Very competitive environment
	Margin Erosion

BLOOMBERG: EQBNK : KN			BUY
Current price (KES)			18.95
Current price (US$)			0.23
Target price (KES)			49.57
Upside/Downside			161.59%
12 month High/Low (KES)			30.25; 16.50
Liquidity			
Market Cap (KESm)			70,167.6
Market Cap (US$m)			840.3
Shares (m)			3,702.8
Free Float (%)			20.0
Ave Monthly value traded (US$m)			15.0
Ave Monthly volume (m)			66.0
Share Price Performance			
6 months (%)			-24.2%
Relative change (%)*			11.1%
Relative change (%)**			256.9%
12 months			-24.9%
Relative change (%)*			191.5%
Relative change (%)**			748.6%
** Relative to NSE 20 index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (KES)	1.93	3.55	6.34
DPS (KES)	0.67	1.24	2.22
NAV/Share (KES)	7.35	10.35	15.51
Net Interest Margin (%)	14.6%	14.6%	14.6%
FINANCIAL SUMMARY (KESm)			
Net interest income	11,713	17,351	26,162
Profit before tax	9,045	16,661	29,776
Attributable earnings	7,132	13,137	23,478
RATIOS			
RoAE	28.5%	40.1%	49.0%
RoAA	5.9%	7.7%	9.6%
Cost/Income Ratio (%)***	50.8%	42.9%	35.9%
Loans/Deposits (%)	75.0%	75.0%	75.0%
VALUATION RATIOS			
PBV (x)	2.6	1.8	1.2
PER (x)	9.8	5.3	3.0
Dividend Yield (%)	3.6%	6.5%	11.7%
Dividend payout ratio (%)	35.0%	35.0%	35.0%

***Pre provision for impaired advances

Figure 119: Equity vs MSCI EM vs NSE 20 Index

Q3 2011 Financial and Operational Review

Equity Bank began its journey as a building society, evolved into a microfinance institution and is now a regional commercial bank with operations in Kenya, Uganda and Southern Sudan. It has since received approvals to set up shop in Rwanda and Tanzania and five branches having been rolled out in the former as of October 2011. The bank's success in banking the customers at the bottom on the economic pyramid has been acclaimed the world over, as a sustainable model for accelerating growth across Africa. Aggressive expansion and unparalleled innovation are the hallmarks of the group which boasts 6.7m customers (57% of the total market), 172 branches, 541 ATMs and 2,797 low cost 'agent banks'.

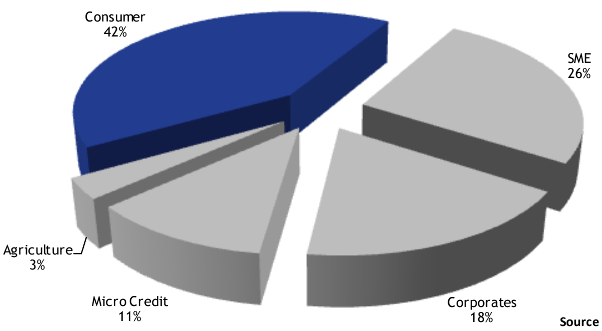
Overview of income statement at 30 June 2011

- A 54% jump in earning assets y-o-y enabled interest income to grow 37% and NII to post an impressive 32% leap. Rising interest rates and heated competition for deposits were the main drivers for the jump in interest expense.
- Non- funded income grew at a slower rate, up 15%, and contributed 45% of total income. This was lower than the historic average of 49% due to a once off KES1.2bn mark to market loss on bond holdings.
- A relatively low increase in staff costs (9%) restricted operating expenses growth to just 17% and the CIR fell to 48%, lower than the sector average of c54% and the banks' historic average of 51%.

Overview of the balance sheet as at 30 Sept 2011

- Deposits soared by 49%, as the low cost Agency banking model boosted the customer count. While impressive, it would be folly to expect such high deposit growth momentum to be maintained, and the contractionary monetary policy being implemented to contain inflation should slow down the rate of deposit growth.
- Low cost deposits funded the aggressive loan book to KES109bn (US$1.3bn, +54%)
- The quality of the loan book continued to improve, with an NPL ratio 3.1% at period end.
- The LDR ended the period at 75% and the bank remains sufficiently liquid and capitalised.

Figure 120: Loan distribution by sector at 31 Dec 2010



Source :Equity Bank

Income Statement (KESm)	Q3 2010	Q3 2011	% ch
Net interest income	8,389	11,115	32%
Other income	8,118	9,341	15%
Total Income	**16,507**	**20,456**	**24%**
Provisions	(1,834)	(1,609)	-12%
Expenses	(8,209)	(9,858)	20%
Profit before tax	6,464	8,989	39%
Attributable earnings	**5,125**	**7,292**	**42%**

Balance Sheet (KESm)	Q3 2010	Q3 2011	% ch
Cash on hand	9,132	22,571	147%
Investment in associates	1,247	1,341	8%
Securities	32,592	28,289	-13%
Loans & Advances	70,904	109,367	54%
Fixed Assets	6,462	7,137	10%
Other	16,247	26,672	64%
Total Assets	**136,584**	**195,377**	**43%**
Deposits	97,018	144,501	49%
Borrowed Funds	7,089	11,404	61%
Other liabilities	4,404	7,712	75%
Shareholders' funds	28,073	31,760	13%
Total liabilities and equity	**136,584**	**195,377**	**43%**

Net interest margin	6.6%	7.1%	-19%
Cost to income ratio	49.7%	48.2%	-3%
RoE	24.3%	30.6%	26%
RoA	5.0%	5.0%	-1%
Rough CAR	22.0%	18.4%	-17%
Loan/Deposit	73.1%	75.7%	4%

Valuation and Recommendation

We arrive at a target price for Equity of KES50, which is significantly higher than the current price. Against arguably the strongest fundamentals in the East African region, the share price weakness is totally out of sync with the performance and certainly with forward growth and earnings potential. While we do anticipate a slowdown in the rate of growth in deposits and loans, Equity remains well placed to provide above market returns. A resolution to the European crisis will see a return of international investors, and blue chip counters like Equity will be some of the first to rebound. Further, the developing Sudanese and Ugandan footholds should see the bank playing a key role in these emerging oil economies. **BUY.**

Top 10 Shareholders	%
Helios EB Investors	24.5%
British-American Investment Co. (Kenya) Ltd	11.0%
Nelson Muguku Njoroge	4.3%
Equity Bank ESOP	3.8%
James Mwangi Njuguna	3.6%
Fortress Highlands Ltd.	2.7%
Andrew Mwangi Kimani	2.4%
AIB Nomineed A/C Solidus Holdings	2.4%
John Kagema Mwangi	2.2%
Others	43.0%
Total	**100.0%**

KCB | Making the Difference

EQUITY RESEARCH

KENYA

FEBRUARY 2012

Kenya Commercial Bank

KCB combines size, the widest regional footprint, cheap relative valuations as well as significant headroom for efficiency enhancement as key attributes in shaping a value investment proposition. Management is awake to the real challenges at hand, as a Mckinsey driven transformation project, currently underway is set to improve efficiency with the aim of slashing operating costs that have been the group's Achilles heel this far. Should management succeed in bringing down the cost to income ratio from the current 66% as of H1 11, to the short term FY 11 target of 55%-56% and the three year long term target of 50%, KCB can easily lead on quantum of earnings generated, given that the bank already leads on total income generated.

- KCB accessed a US$100m 7 year facility from the IFC at a rate of Libor plus 2.25% for lending to the SME and mortgage sectors in the EAC region. We believe this is positive for the bank's profitability given the relatively higher borrowing rates in East Africa.
- All the regional subsidiaries have now broken even, including the Rwanda and Southern Sudanese branches.
- KCB's net NPL ratio of 3.7% is line with its peers, an average 4.4%. The tightening monetary environment will likely lead to an increased impairments, however the bank is well capitalised to counter the deteriorating environment.
- The GOK holds 17.75% of KCB, a fact that has opened up opportunities for the bank to benefit from deposits from quasi government entities. Kenya revenue Authority and National Social Security fund are key accounts that the bank managed to land owing to its government link.
- KCB has traded with strength relative to both its peers and the NSE20. The bank currently trades 8% lower than its price 12 months ago, but stronger than the NSE20 over the same period. We expect this strength to hold for the long haul and the bank to depict leadership once the market turns. KCB is a top pick and we value the stock at KES29.87 which is 54% higher than the current price. **BUY.**

STRENGTHS	WEAKNESSES
Largest regional network in East Africa Highest capitalised bank in EA Regional subsidiaries all profitable at Q3 Most regionally diversified bank Over 1.8m clients	Weak Kenya fundamentals in light of economic recession affecting tourism, horticultural exports and adverse El Nina weather phenomenon
OPPORTUNITIES	**THREATS**
Cross listing in Uganda/Tanzania/Rwanda to enhance demand and increase value Recapitalisation to increase liquidity Emerging market characteristics for EA Further growth in Uganda and S. Sudan	Increasing competition, margin pressure Cost pressures; increased inflationary expectations Prolonged drought; Shilling weakness

BLOOMBERG: KNCB : KN	BUY
Current price (KES)	19.40
Current price (US$)	0.23
Target price (KES)	29.87
Upside/Downside	53.95%
12 month High/Low (KES)	27.00; 14.60
Liquidity	
Market Cap (KESm)	57,233.3
Market Cap (US$m)	685.4
Shares (m)	2,950.2
Free Float (%)	34.4
Ave Monthly value traded (US$m)	5.1
Ave Monthly volume (m)	22.0
Share Price Performance	
6 months (%)	-24.7%
Relative change (%)*	13.2%
Relative change (%)**	263.7%
12 months	-6.6%
Relative change (%)*	124.5%
Relative change (%)**	126.7%
** Relative to NSE 20 index*	***Relative to MSCI EM index*

Financials	2010	2011F	2012F
EPS (KES)	2.43	2.91	3.73
DPS (KES)	1.25	1.50	1.92
NAV/Share (KES)	13.26	14.45	15.86
Net Interest Margin (%)	9.7%	9.7%	9.7%
FINANCIAL SUMMARY (KESm)			
Net interest income	19,645	23,512	28,421
Profit before tax	9,798	11,720	15,015
Attributable earnings	7,178	8,586	11,000
RATIOS			
RoAE	39.9%	28.5%	33.6%
RoAA	3.2%	3.1%	3.2%
Cost/Income Ratio (%)***	62.1%	62.1%	62.2%
Loans/Deposits (%)	75.5%	75.5%	75.5%
VALUATION RATIOS			
PBV (x)	1.5	1.3	1.2
PER (x)	8.0	6.7	5.2
Dividend Yield (%)	6.4%	7.7%	9.9%
Dividend payout ratio (%)	51.4%	51.4%	51.4%

***Pre provision for impaired advances

Figure 121: KCB vs MSCI EM vs NSE 20 Index

Q3 2011 Financial and Operational Review

KCB is East Africa's largest bank in terms of total assets, with 222 branches spread in five countries, namely; Kenya (169), Tanzania (11), Southern Sudan (19), Uganda (14) and Rwanda (9), which are complemented by over 920 ATMs. In addition, the bank has recently signed an agency partnership with the Postal Corporation of Kenya, which when added to the currently active 1,000 agents (target 2,000 by year end), makes the bank's market reach the most intense. KCB thus has the infrastructure, but lacks efficiency to fully exploit it, and as such, a positive movement on this will immensely enhance earnings generation.

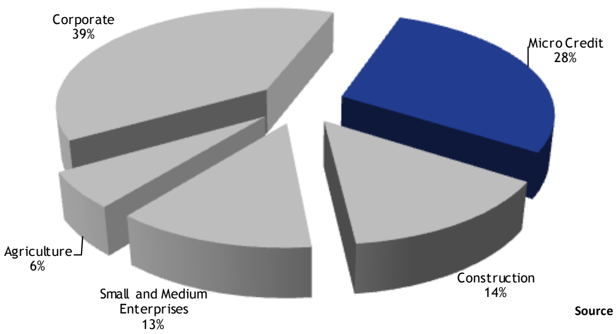
Overview of the income statement at 30 Sept 2011

- Total income grew by 23% y-o-y driven mainly by a 41% growth in non-funded income and a substantial y-o-y reduction in interest cost of 45%. With management targeting a 40% contribution by non-funded income to total income, this trend is expected to be sustained.
- KCB falters when it comes to operating costs for which the CIR has historically been above 60% and is currently at 61%. The slower increase in costs of 16% for the first 9 months of 2011 failed to tame the ratio, but was adequate to enable the bank to post a 43% growth in the bottom-line. With regional subsidiaries now in the black, an improvement in costs containments is certain.

Overview of the Balance sheet at 30 Sept 2011

- Total assets grew by 32% driven largely by customer deposits as the bank adopted an aggressive deposit mobilisation drive aiming to reduce reliance on wholesale deposits. Deposits grew by 31% driven in the main by growth in customer count to 1.8 million.
- Loans surged by 40%, ahead of the 31% growth in customer deposits and the bank reduced its position in government bonds by 26% y-o-y.
- Loan quality continued to improve and net NPLs were reported at 3.7% at the Q3 date, below the market average for Kenya.
- At KES41bn, following the rights issue in 2010, KCB is the highest capitalised bank in Kenya and continues to grow impressively.

Figure 122: Loan distribution by sector at 31 Dec 2010



Source :KCB

Income Statement (KESm)	Q3 2010	Q3 2011	% ch
Net interest income	14,621	16,604	14%
Other income	7,275	10,283	41%
Total Income	**21,896**	**26,887**	**23%**
Provisions	(1,624)	(1,407)	-13%
Expenses	(13,760)	(16,370)	19%
Profit before tax	6,512	9,110	40%
Attributable earnings	**4,496**	**6,433**	**43%**

Balance Sheet (KESm)	Q3 2010	Q3 2011	% ch
Cash at central Bank	8,448	14,908	76%
Cash on hand	6,872	12,503	82%
Balances with banks	17,770	36,786	107%
Trading securities	974	412	-58%
Government securities	18,885	35,993	91%
Investment securities	2,011	7,953	295%
Loans & Advances	137,894	193,089	40%
Fixed Assets	8,598	8,347	-3%
Other	42,755	12,471	-71%
Total Assets	**244,207**	**322,462**	32%
Deposits	193,137	252,388	31%
Due to banks	8,439	14,570	73%
Deposits due to Central Bank	-	-	n/a
Other liabilities	5,796	14,493	150%
Shareholders' funds	36,835	41,011	11%
Total liabilities and equity	**244,207**	**322,462**	32%

Net interest margin	10.7%	8.0%	-25%
Cost to income ratio	62.8%	60.9%	-3%
RoE	24.4%	31.4%	29%
RoA	3.7%	4.0%	8%
Rough CAR	17.4%	15.9%	-9%
Loan/Deposit	71.4%	76.5%	7%

Valuation and Recommendation

Improving efficiency on the back of a business re-engineering program is set to strengthen the bank's cost control structures. This will be augmented by the banks expansive regional footprint, which impressively, should start paying dividends, as all the branches, including the Southern Sudanese operation, have broken even and are all profitable.

While the market was weak in FY2011, profitability and growth has been impressive. Essentially quality stocks in Kenya are selling for even less than they were before. KCB remains one of the best valued stocks in Kenya at the moment, with much blue sky ahead. **BUY.**

Top 10 Shareholders	%
Permanent Secretary of the Treasury of Kenya	17.8%
National Social Security Fund	7.6%
Standered Chartered Nominees (A/C 9688)	2.5%
Stanbic Nominees Kenya	1.9%
Standered Chartered Nominees (A/C 9687)	1.4%
Co-op Custody (A/C 4003)	1.2%
Standered Chartered Nominees (A/C 9230)	1.2%
Kenya Re-Insurance Corporation	0.9%
KCB Nominees Ltd A/C 744D	0.8%
Others	64.8%
Total	**100.0%**

National Bank of Kenya

Having sorted out legacy issues that, hitherto, weighed down performance, the bank looks to GoK's planned divesture as the climax of its transformation process. The imminent privatisation may have stalled for now, but, indications are that there is appetite from investors who see value in restructuring the bank and exploiting the high growing Kenya market. As such, NBK is a potential acquisition target, to take advantage of Kenya's rapidly unfolding EM credentials.

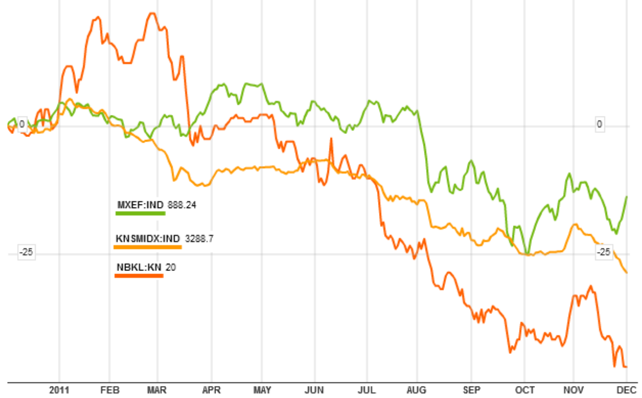
- The bank lags its peers in many areas, with deployment of capital to higher yielding assets being the most notable. NBK's LDR at 47%, is the lowest in the sector (average 71%) and a function of lower a less bullish strategy.
- With government's plans to privatise the bank, this presents a solid opportunity for P/E outfits looking to enter the Kenyan banking space, which promises to continue to be one of the engines for economic growth. While intermediation is already at an advanced stage, consumer credit is still growing at a phenomenal rate, and the market is far from saturation. As Kenya remains the hub for the region, the country will benefit from strong growth being reported in the new oil economies, Uganda and South Sudan (despite the growing pains), not to mention Rwanda's rapidly opening up economy.
- NBK mirrored its relative underperformance in operations to its share price movement. The bank currently trades 27% relatively weaker than the NSE20 when viewed over the past 12 months.
- While the operating performance remains in stark contrast with the rest of the market, one cannot hope for much change, until the proposed privatisation and restructuring take place. With elections this year, the timing thereof remains uncertain. Speculative entry in anticipation of the privatisation may be a good move now, while the counter still trades at a discount to NAV, however for the more conservative investor, we would shy away from this counter. **HOLD**.

STRENGTHS	WEAKNESSES
Government privatisation pending Very cheap valuation, discount to NAV Legacy NPLs cleaned up	Poor quality book in weak ecnonomic cycle could lead to renewed spike Rule of two, ultra risk averse Resistance to change No regional exposure
OPPORTUNITIES	**THREATS**
Management shakeup post privatisation Re-rating post restructure Expansion of agency banking model	Very competive market Higher risk of contagion in the event of a banking casualty Hidden NPLs Vulnerable to polical shocks

BLOOMBERG: NBKL : KN			HOLD
Current price (KES)			19.95
Current price (US$)			0.24
Target price (KES)			63.56
Upside/Downside			218.58%
12 month High/Low (KES)			48.00; 19.00
Liquidity			
Market Cap (KESm)			7,820
Market Cap (US$m)			93.7
Shares (m)			392.0
Free Float (%)			29.5
Ave Monthly value traded (US$m)			0.2
Ave Monthly volume (m)			0.9
Share Price Performance			
6 months (%)			-40.9%
Relative change (%)*			87.7%
Relative change (%)**			503.0%
12 months			-47.7%
Relative change (%)*			275.8%
Relative change (%)**			1529.3%
** Relative to NSE 20 index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (KES)	5.16	6.51	7.90
DPS (KES)	0.60	0.76	0.92
NAV/Share (KES)	25.33	31.09	38.06
Net Interest Margin (%)	11.5%	11.5%	11.5%
FINANCIAL SUMMARY (KESm)			
Net interest income	4,367	5,677	6,812
Profit before tax	2,698	3,407	4,130
Attributable earnings	2,022	2,553	3,095
RATIOS			
RoAE	22.7%	23.1%	22.8%
RoAA	3.6%	3.7%	3.6%
Cost/Income Ratio (%)***	49.5%	47.5%	46.8%
Loans/Deposits (%)	43.6%	43.6%	43.6%
VALUATION RATIOS			
PBV (x)	0.8	0.6	0.5
PER (x)	3.9	3.1	2.5
Dividend Yield (%)	3%	4%	5%
Dividend payout ratio (%)	12%	12%	12%

***Pre provision for impaired advances

Figure 123: NBKL vs MSCI EM vs NSE 20 Index



Q3 2011 Financial and Operational Review

The GoK controls 70.55% of issued share capital of Kenya's oldest government owned bank, and is expected to dispose 51% to a private investors and a further 10% to the public. The process remains marred by political squabbles, but pressure from Kenya's international lenders looks set to eventually force authorities to act sooner. Management has, however, moved to improve the market reach upgrading a number of agents to fully fledged branches, and bringing the branch count to 45. Five new branches are also planned for the second half of the year, with the aim of having a branch count of 50 by year end. Added to that, management confirmed having cherry picked agents, with the view of improving coverage via the low cost agency banking model.

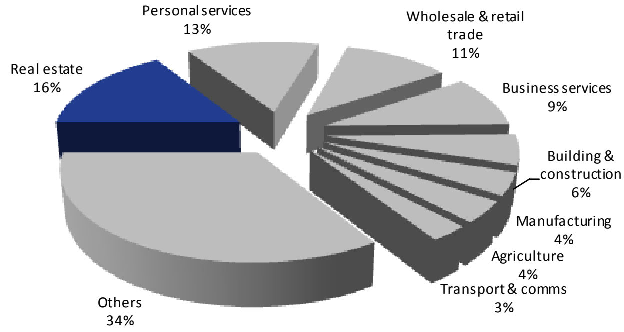
Overview of the income statement at 30 Sept 2011

- Net interest income growth was satisfactory at 26% y-o-y and was underpinned by lower interest cost that registered a 13% decline y-o-y as the bank benefited from low interest rates especially during H1 11. However, with, interest rates rising in Q3 and likely to remain high for the rest of the year, we expect pressure on NIMs going forward.
- The CIR at 59% was at the higher end of the market for the listed banks. While this was driven by non-recurring mark to market losses, NBK's ratio has traditionally been higher than its peers. Management expect the ratio to go back to the historic average of 56%.
- Attributable income shrunk by 9% KES1.2bn, which is unique in a market where M3 is growing at c 30%.

Overview of the Balance sheet at September 2011

- Total assets growth of 4.2% was lower than the peer average of 21%, better only to Barclays' 2%.
- Deposits growth of 5.1% indicates lost market share and a contraction in real terms vs inflation.
- Loan growth of 52% is at the higher end of the market and highlights a deliberate strategy to sweat the bank's assets. Positively, the NPL ratio improved to a low 4.5%.
- Post privatisation, we anticipate a more concerted growth in deposits and loan growth which should propel funded earning and reverse the earnings contraction witnessed at the Q3 stage.

Figure 124: Loan distribution by sector at 31 Dec 2010



Source: NBK

Income Statement (KESm)	Q3 2010	Q3 2011	% ch
Net interest income	3,178	4,020	26%
Other income	1,980	1,772	-11%
Total Income	**5,158**	**5,792**	**12%**
Provisions	(221)	(540)	144%
Expenses	(2,949)	(3,445)	17%
Profit before tax	1,988	1,807	-9%
Attributable earnings	**1,351**	**1,233**	**-9%**

Balance Sheet (KESm)	Q3 2010	Q3 2011	% ch
Cash at central Bank	8,797	6,487	-26.3%
Cash on hand	1,688	1,950	15.5%
Balances with banks	2,715	2,408	-11.3%
Securities	32,307	25,669	-20.5%
Loans & Advances	17,335	26,416	52.4%
Fixed Assets	2,259	2,508	11.0%
Other	2,304	4,782	108%
Total Assets	**67,405**	**70,220**	4.2%
Deposits	53,794	56,517	5.1%
Due to banks	2	180	8900%
Borrowed Funds	-	-	n/a
Other liabilities	4,350	3,379	-22.3%
Shareholders' funds	9,259	10,144	9.6%
Total liabilities and equity	**67,405**	**70,220**	4.2%

Net interest margin	8.1%	9.8%	20%
Cost to income ratio	57.2%	59.5%	4%
RoE	19.5%	16.2%	-17%
RoA	2.7%	2.3%	-12%
Rough CAR	17.1%	17.1%	0%
Loan/Deposit	32.2%	46.7%	45%

Valuation and Recommendation

Even assuming slower than average growth in interest bearing assets, our earnings projections come up with a valuation that still offers significant upside. While NBK is far from 'blue-chip' status, the market seems to have heavily discounted their slack performance. With the privatisation on the cards, we see some speculative value in NBK, as a new entrant is likely to dramatically change the lethargic banking ideology in favour of a more aggressive lending policy to take advantage of Kenya's up and coming EM status. As it stands, we see better value elsewhere in the market and would rather adopt a wait and see approach vis a vis the pending privatisation. **HOLD.**

Top 10 Shareholders	%
N.S.S.F Board of Trustees	48.1%
The Permanent Secretary to the Treasury	22.5%
Paul Wanderi Ndungu	0.4%
NIC Custodial Services A/C 77	0.4%
Standard Chartered Nominees A/C 9660C	0.4%
Standard Chartered Nominees A/C 9098AJ	0.3%
Eng. Ephraim Mwangi Maina	0.3%
The Jubielee Insurance Co. of Kenya Ltd	0.3%
APA Insurance Limited	0.2%
Other	27.1%
Total	**100.0%**

NIC Bank

NIC Bank is one of the cheapest banks on the NSE. The bank, though small in size commanding only 4% share of total banking deposits, is on a healthy growth trajectory, achieving c CGR of 23.6% in total assets spurred over the past four years. With asset utilisation, as measured by RoAA of 3.5% and RoAE of 26%, as well as having the banking sectors lowest CIR ratio of 43%, NIC remains one of the best value propositions.

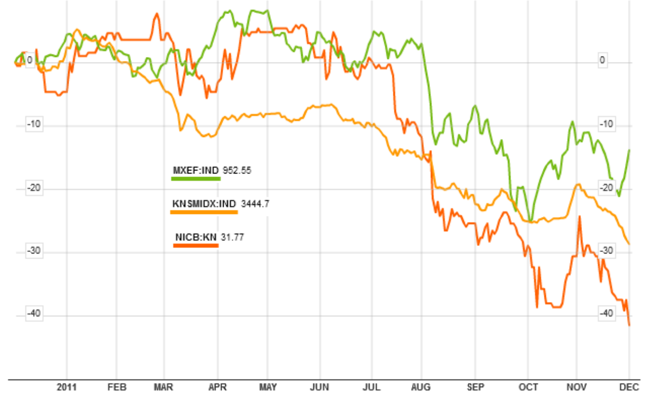
- The bank towers above all when it comes to cost management, having achieved an average CIR of 45% over the past three years and improving it to 43% for 9M 2011 compared to a sector average of 57%. We expect the trend to continue, underpinned, in the main by the bank's exploitation of alternative banking channels like its alliance with Postbank and mobile banking.
- NIC established presence in Tanzania contributed KES120m in FY2010 and looks to replicate its success story in Uganda during FY2012. We expect the efficiency in Kenya to be exported to the rest of the region and this should enable the bank to maintain its growth momentum.
- The LDR of 85.5% is high compared to the peer average of 71.26% and points to the banks aggressive lending strategy, however, not without a keen focus on quality. The NPLs ration ended the period at 3.85% against an average of 4.4% for listed banks.
- NIC has traded in line with the market, and perhaps has even underperformed the NSE20. With a history of solid earnings performance and with a keen eye on the maintenance of a quality book, we anticipate outperformance this year.
- Our valuation of KES89 seems absurd when compared to the market price, however, based on our earnings projections, we see no justification for the bank to be trading at a discount to net NAV. Our FY2011 projection translates into an PER under 10x, which is hardly demanding for a bank growing at a CGR of in excess of 20% pa. **BUY**.

STRENGTHS	WEAKNESSES
Diversified earnings stream	Relatively small market share
Small group, significant upside	Low NIMs
Good quality book	Entry into contractionary cycle
Cheap ratings, undervalued	
Post Bank affiliation	
OPPORTUNITIES	**THREATS**
Low banking penetration levels	Exchange rate volatility
Growth of Tanzanian subsidiary	Stiff competition
Increased use of technology to promote banking	Pressure on costs and margins
Further development of Agency model	High inflationary environment

BLOOMBERG: NICB : KN			BUY
Current price (KES)			25.50
Current price (US$)			0.31
Target price (KES)			89.13
Upside/Downside			249.51%
12 month High/Low (KES)			49.09; 25.00
Liquidity			
Market Cap (KESm)			7,565.7
Market Cap (US$m)			90.6
Shares (m)			296.7
Free Float (%)			43.4
Ave Monthly value traded (US$m)			0.3
Ave Monthly volume (m)			1.1
Share Price Performance			
6 months (%)			-42.3%
Relative change (%)*			94.1%
Relative change (%)**			523.5%
12 months			-40.8%
Relative change (%)*			250.4%
Relative change (%)**			1293.9%
** Relative to NSE 20 index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (KES)	6.28	9.18	11.07
DPS (KES)	0.86	1.25	1.51
NAV/Share (KES)	26.76	36.07	42.15
Net Interest Margin (%)	5.5%	5.5%	5.5%
FINANCIAL SUMMARY (KESm)			
Net interest income	3,399	4,461	5,367
Profit before tax	2,608	3,812	4,595
Attributable earnings	1,864	2,724	3,284
RATIOS			
RoAE	26.0%	29.2%	28.3%
RoAA	3.5%	4.0%	3.9%
Cost/Income Ratio (%)***	43.9%	39.3%	39.2%
Loans/Deposits (%)	84.0%	87.3%	87.3%
VALUATION RATIOS			
PBV (x)	1.0	0.7	0.6
PER (x)	4.1	2.8	2.3
Dividend Yield (%)	3.4%	4.9%	5.9%
Dividend payout ratio (%)	13.7%	13.7%	13.7%

***Pre provision for impaired advances

Figure 125: NIC vs MSCI EM vs NSE 20 Index



Q3 2011 Financial and Operational Review

NIC has only 17 branches across the country, but this number becomes comparable to peers once the 103 Postbank branches that serve its clients are included. Apart from retail banking outlets in Kenya and Tanzania, the bank has an investment arm; NIC Capital, a Bancassurance business; NIC Insurance Agents and a brokerage arm; NIC Securities. All the subsidiaries were profitable, providing 10% of attributable earnings (as of H1 11). The bank is expanding its footprint. Three new branches opened doors in H1 2011, with more being planned for Nairobi and its environs before year end. Its strategic alliance with the Postbank, on the other hand, allows the bank representation in all provinces.

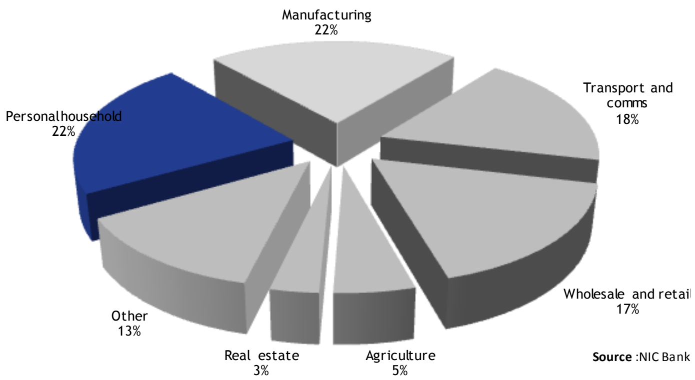
Overview of the income statement at 30 Sept 2011

- Net interest income growth of 25% y-o-y was driven largely by a 13% decline in interest expense as the bank capitalised on the low interest rate regime to pick cheap customer deposits. This cost line is however expected to be under pressure in the second half as cost of funds increase in line with the CBK's tightening stance and heating competition for deposits.
- Non funded income growth was slower at 15%, and this dragged total income growth down to 21%.
- Operating expenses increased by 18% y-o-y which helped the bank achieve an impressive 29% growth in attributable earnings. Cost to income ratio for the period worked out to 43%, and we expect the ratio to remain low especially as the bank exploits agency banking, curtailing cost pressure from branch establishment costs.

Overview of the Balance sheet at 30 Sept 2011

- The balance sheet grew 25% y-o-y, underpinned by 28% growth in deposits for the same period.
- Growth in loans and advances of 42% y-o-y testifies to the aggressive lending stance during the period; the NPL ratio rose marginally to 3.9% (vs 3.39% for FY2010).
- NIC's LDR edged up to 88% compared to 81% for FY10 translating into a reduction in the liquidity ratio to 28.6% against 30.4% in Q3 2010.
- The Rough CAR deteriorated from 15.1% to 14.6% and we anticipate a slowdown in loan growth in FY2012.

Figure 126: Loan distribution by sector at 31 Dec 2010



Source :NIC Bank

Income Statement (KESm)	Q3 2010	Q3 2011	% ch
Net interest income	2,376	2,980	25%
Other income	1,481	1,703	15%
Total Income	**3,857**	**4,683**	**21%**
Provisions	(152)	(94)	-38%
Expenses	(1,701)	(2,011)	18%
Profit before tax	2,004	2,578	29%
Attributable earnings	**1,365**	**1,765**	**29%**

Balance Sheet (KESm)	Q3 2010	Q3 2011	% ch
Cash at central Bank	5,426	3,653	-32.7%
Cash on hand	620	714	15.2%
Balances with banks	6,819	4,457	-34.6%
Securities	6,914	9,094	31.5%
Loans & Advances	38,116	54,271	42.4%
Fixed Assets	746	751	0.7%
Other	1,210	1,991	64.5%
Total Assets	**59,851**	**74,931**	25.2%
Deposits	48,289	61,346	27.0%
Due to banks	-	-	n/a
Borrowed Funds	371	269	-27.5%
Other liabilities	3,118	3,670	17.7%
Shareholders' funds	8,073	9,646	19.5%
Total liabilities and equity	**59,851**	**74,931**	25.2%

Net interest margin	6.1%	5.9%	-4.0%
Cost to income ratio	44.1%	42.9%	-2.6%
RoE	22.5%	24.4%	8.2%
RoA	3.0%	3.1%	3.3%
Rough CAR	17.2%	14.6%	-15.1%
Loan/Deposit	78.9%	88.5%	12.1%

Valuation and Recommendation

NIC is one of the best value propositions in the Kenyan banking sector. Apart from relatively lower NIMs, the only other drawback that we can think of is the bank's relatively lower exposure to the rest of the EA region, specifically Uganda and Southern Sudan, which we see as presenting some of the best hedging and diversification plays for local banks. Notwithstanding, the measured growth strategy has ensured the highest efficiency levels in the market and healthy returns on equity.

Our DCF valuation implies significant upside potential to the currency market price, largely because the market valuations weakened significantly throughout 2011. **BUY**.

Top 10 Shareholders	%
First Chartered Securities Ltd	15.8%
ICEA Asset Management Ltd	9.1%
Livingstone Registrars Ltd	8.1%
Rivel Kenya Ltd	7.7%
Saimar Ltd	4.1%
Amwa Holdings Ltd	2.0%
Duncan Nderitu Ndegwa	1.6%
Kenya Commercial Bank Nominees Ltd A/C 769G	1.4%
Thuthuma Limited	1.3%
Other	48.9%
Total	**100.0%**

EQUITY RESEARCH

KENYA

FEBRUARY 2012

Standard Chartered Bank Kenya

The bank's position in risk free government paper averaged 41% of its earning assets over the past five years. Its advances to deposit ratio has traditionally been one of the lowest at 58% compared to the current industry average of 71%. Stanchart has a lucrative dividend policy, paying-out on average 79% of earnings over the past five years and a top rating in terms of the quality of assets in its loan book. The bank has the highest liquidity ratio of 63% and this ratio traditionally stays about 20 percentage points ahead of the 20% minimum statutory ratio. RoAE stood at 28% and RoAA at 3.3% compared to sector averages of and 20.4% and 2.9% respectively.

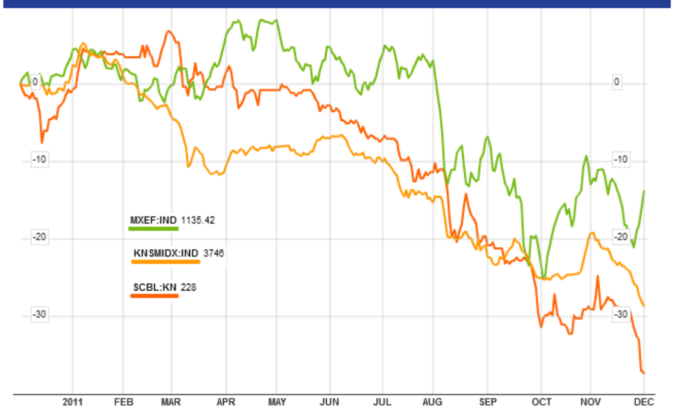
- The bank took a mark-to-market knock on its government securities holdings as interest rates rose, pulling down prices of fixed income assets. A revaluation loss of KES3.4bn went through the balance sheet resulting in a reduction of shareholders' funds to KES18bn (Q1 2011: KES21bn). Management expect this to reverse in H2 as bonds mature and recoup the paper loses.
- The NPL ratio is the lowest in the industry at 0.9% against the sector average of 4.8%. This reflects the bank's focus on corporate and high net worth individuals, underpinned, of course, by a stringent lending policy. The quality of the lending book has always been this high and we do not expect any changes in the foreseeable future.
- A net interest margin of 10% against a sector average of 8.2%, on the back of a very conservative lending policy testifies to the bank's, a strength that we expect to underpin earnings growth in the second half.
- Over the past twelve months, the bank has largely traded with relative weakness against peers, tracking the NSE20 decline on its downward spiral, and catching up with it in August 2011.
- A handsome payout ratio and a little more risk appetite in H2 should result in a strong FY2011 performance, the strategy remains conservative though, and some of the peers have more exciting growth prospects. **HOLD.**

STRENGTHS	WEAKNESSES
Emerging markets pedigree	Agility may be curtailed by parentage
Premium international brand	Inability to offer regional diversification
Quality loan book	Conservative lending policy
Financially secure anchor shareholder	
Stable base for cheap deposits	
OPPORTUNITIES	**THREATS**
Frontier markets emergence	New entrances with international clout (HSBC)
Kenya increasing links to global village	ICJ driven possible political shock
High population growth & Rapid urbanisation	Susceptibility to droughts
Highest liquidity compared to peers	Rising inflation/Weakening fundamentals
Increasing appetite for sophisticated products	

BLOOMBERG: SCBL : KN			HOLD
Current price (KES)			158.00
Current price (US$)			1.89
Target price (KES)			211.49
Upside/Downside			33.86%
12 month High/Low (KES)			282.00; 155.00
Liquidity			
Market Cap (KESm)			42,970.9
Market Cap (US$m)			514.6
Shares (m)			272.0
Free Float (%)			0.2
Ave Monthly value traded (US$m)			0.4
Ave Monthly volume (m)			0.2
Share Price Performance			
6 months (%)			-35.2%
Relative change (%)*			61.8%
Relative change (%)**			419.8%
12 months			-36.5%
Relative change (%)*			234.6%
Relative change (%)**			1147.5%
** Relative to NSE 20 index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (KES)	19.8	22.7	26.2
DPS (KES)	13.5	15.5	17.9
NAV/Share (KES)	74.3	123.8	136.2
Net Interest Margin (%)	6.2%	6.2%	6.2%
FINANCIAL SUMMARY (KESm)	**2010**	**2011F**	**2012F**
Net interest income	8,116	8,927	9,820
Profit before tax	7,682	8,831	10,163
Attributable earnings	5,376	6,180	7,113
RATIOS			
RoAE	31.5%	29.1%	30.5%
RoAA	4.0%	4.1%	4.3%
Cost/Income Ratio (%)***	54.5%	53.8%	53.0%
Loans/Deposits (%)	63.3%	63.3%	63.3%
VALUATION RATIOS			
PBV (x)	2.1	1.3	1.2
PER (x)	8.0	7.0	6.0
Dividend Yield (%)	8.5%	9.8%	11.3%
Dividend payout ratio (%)	68.3%	68.3%	68.3%

***Pre provision for impaired advances

Figure 127: Stanchart vs MSCI EM vs KSE 20 Index



Q3 2011 Financial and Operational Review

Standard Chartered bank controls 7.9% of Kenya's retail deposit market, and serves its clients through 33 branches, 84 ATMs and a host of other alternative banking avenues that includes POS terminals, internet and mobile banking. The bank is well represented in major towns and cities, but lacks representation in some parts of the country like the north east. However, the target niche of corporate and high net worth individuals are concentrated in urban areas and as such absence in some areas is not drawback at all.

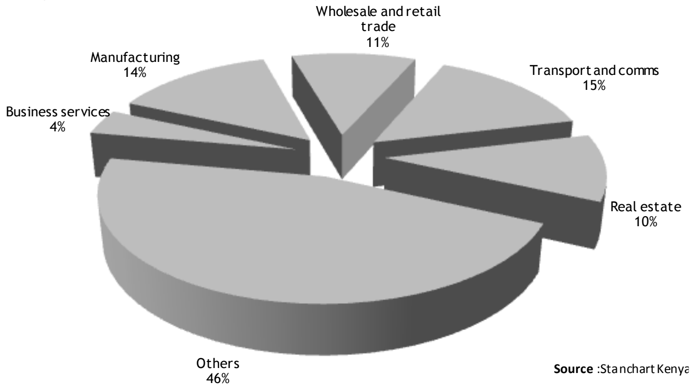
Overview of the income statement at 30 June 2011

- Gross interest income growth of was checked by a 33% decline in interest earnings from government securities, driven largely by a 44% decline in the bank's position in government paper. Further to that, interest income growth of 23% was slower than the 67% growth in the underlying earning assets, indicating comparatively lower yields than the same period last year.
- Interest expense, however, halved to KES0.52m pointing to the ability of the bank to acquire low cost liabilities both on the retail and wholesale markets.
- Non funded income, declined by 14% driven by a loss incurred in Q2 on other income.
- The bank managed to keep CIR ratio in line with its historic average at 48%, although higher than FY2010's 40%. The net result was a 12% decline in earnings to KES2.5bn.

Overview of the Balance sheet at 30 June 2011

- Total assets grew by 17% y-o-y to KES153bn driven by growth in both retail and wholesale deposits. Deposits growth of 10% was registered to KES109bn, which is below the rate of inflation and money supply growth, hence implying loss of market share.
- Loan growth of 67% was recorded to KES83.6bn against a 10% growth in customer deposits.
- The position in government paper shrunk by KES20bn which was reallocated to loans during H1 2011. This shift in mix occurred largely in the second quarter and, as such, the uplift on interest income for the bank is not evident. We expect this to come in H2.

Figure 128: Loan distribution by sector at 31 Dec 2010



Source :Stanchart Kenya

Income Statement (KESm)	H1 2010	H1 2011	% ch
Net interest income	4,024	4,525	12%
Other income	3,021	2,605	-14%
Total Income	**7,045**	**7,130**	**1%**
Provisions	(177)	(233)	32%
Expenses	(2,820)	(3,430)	22%
Profit before tax	4,048	3,467	-14%
Attributable earnings	**2,839**	**2,500**	**-12%**

Balance Sheet (KESm)	H1 2010	H1 2011	% ch
Cash at central Bank	10,573	6,436	-39%
Cash on hand	1,789	2,092	17%
Balances with banks	4,496	3,685	-18%
Trading securities	1,231	2,365	92%
Government securities	51,562	29,103	-44%
Balances due from related co's	6,241	15,223	144%
Loans & Advances	50,246	83,690	67%
Fixed Assets	2,547	3,659	44%
Other	2,536	7,069	179%
Total Assets	**131,221**	**153,322**	**17%**
Deposits	98,882	109,235	10%
Due to banks	1,779	5,376	202%
Other liabilities	14,461	20,716	43%
Shareholders' funds	16,099	17,996	12%
Total liabilities and equity	**131,221**	**153,323**	**17%**

Net interest margin	7.4%	7.6%	3%
Cost to income ratio	40.0%	48.1%	20%
RoE	35.3%	27.8%	-21%
RoA	4.3%	3.3%	-25%
Rough CAR	14.1%	12.8%	-9%
Loan/Deposit	50.8%	76.6%	51%
NPLs	3.10%	1.30%	-58%

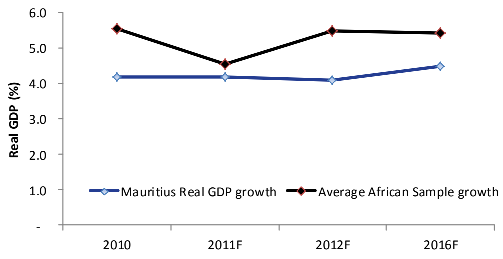
Valuation and Recommendation

We value Stanchart at KES211 which implies upside of in the region of 34%. Up to now Stanchart has preferred a risk averse strategy, relying on their brand name and reputation to garner deposits, and then on treasury bills and commercial paper to provide the return, a very sustainable model indeed. With the spike in loans seen, the strategy to take on greater levels of risk should buttress funded income stream for the second half. Although still undervalued, more exciting growth lies in other stocks. We would recommend that existing shareholders maintain their positions. **HOLD**.

Top 10 Shareholders	%
Standard Chartered Holdings (Africa) BV	73.9%
Kabarak Limited	1.0%
National Social Security Fund - Board of Trustees	0.7%
National Social Security Fund A/C 71258	0.5%
Standard Chartered Africa Holdings Limited	0.5%
Kenya Commercial Bank Nominees Limited	0.4%
Barclays (Kenya) Nominees Limited - A/C 9230	0.4%
Barclays (Kenya) Nominees Limited - A/C 9389	0.4%
Old Mutual Insurance Company Limited	0.3%
Other	22.0%
Total	**100.0%**

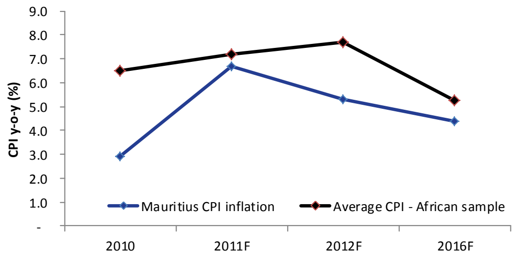
Mauritius – Macro-economic highlights

Figure 129: Mauritius Real GDP Growth 2010 - 2016



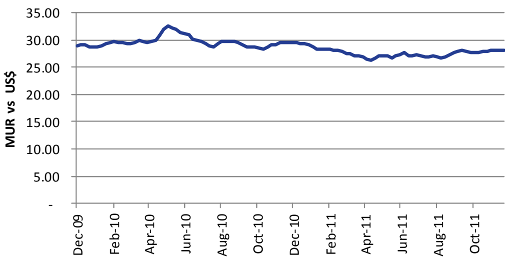
Source: IMF

Figure 130: Mauritius CPI Inflation 2010 - 2016



Source: IMF

Figure 131: Mauritian Rupee vs US$



Source: Oanda.com

Key Themes:

- Mauritius's banking sector is made up of twenty players, the two listed entities, Mauritius Commercial Bank (MCB) and State Bank of Mauritius (SBM), as well as HSBC, Barclays Bank, Bank of Baroda, Bramer Banking Corporation, Habib Bank, Bank One Ltd, Mauritius Post and Cooperative Bank, Banque Des Mascareignes, Investec, SBI Mauritius, Standard bank, Standard Chartered, Deutsche Bank, PT Bank International, AfrAsia Bank, ABC Banking Corporation and Century Banking Corporation.
- There are also eleven non-bank deposit taking institutions. At June 2011, the twenty banks the twenty banks operated a total of 215 branches, 8 counters, 1 mobile van and 416 Automated Teller Machines (ATMs) and employed 6,926 staff.
- As per the June 2011 annual report for the Bank of Mauritius, BoM, credit extended to the private sector by banks grew by MUR18.8bn, or by 9.5%, from MUR197.8bn at the end of June 2010 to MUR216.6bn at the end of June 2011, compared to an increase of 8.3% registered in the preceding year.
- Average private sector credit as a percentage of GDP at market prices went up from 64.6% in 2009-10 to 66.2% in 2010-11. The additional credit was mainly directed towards the tourism and construction sectors, which constituted 36.8% and 33.6% of the rise in credit expansion in 2010-11.
- The "Financial and Business Services", "Traders", "Personal" and "Manufacturing" sectors were the other major recipients of additional credit with around 48.2% of the increase channelled to them.
- Credit to the household sector remained strong with an increase of MUR7.1bn, representing 37.7% of the increase in total credit expansion in 2010-11. Average household credit as a percentage of GDP at market prices stood at 15.6% in the year 2010-11, up from 14.5% a year ago.
- In a bid to stem the distortionary impact of excess liquidity on the money market, the BoM, with effect from the maintenance period starting 8 October 2010, raised the cash ratio that banks were required to maintain from 5.0% to 6.0% of their average deposits liabilities held over the two week-period preceding the maintenance period.
- Concurrently, the minimum cash reserve ratio on any particular day during the maintenance period was raised from 4.0% to 4.5%.
- The cash ratio was raised a second time during the year under review in February 2011 to 7.0% while the minimum cash reserve ratio on any particular day during the maintenance period was concurrently raised from 4.5% to 5.0%. The minimum cash balances held by banks were to be maintained exclusively in the form of balances held by banks with the Bank of Mauritius.
- The average cash balances held by banks at the Bank of Mauritius were in the range of MUR 17.8bn – MUR 24.3bn in 2010-11, higher than the range of MUR 12.4bn – MUR 17.0bn in 2009-10. During 2010-11, banks in general adjusted their deposit and lending rates in line with the changes in the Key Repo Rate (KRR).
- Total assets of banks stood at MUR875.1bn at end-June 2011 compared to MUR843.2bn at end-June 2010, an increase of 3.8%.
- Five banks experienced drops ranging from -4.0% to -27.2% in their total assets in 2010-11, while the remaining 14 banks, excluding the new bank that started operations effective 31 March 2011, recorded increases ranging from 4.8% to 85.3% in total assets.
- Total advances, including debentures and fixed-dated securities, increased by 6.2% in 2010-11 to MUR520.2bn compared to a higher rise of 19.5% in the preceding financial year.
- Total advances at end-June 2011 represented 81.1% and 59.4% of total deposits and total assets, respectively. The corresponding ratios at end-June 2010 were 78.8% and 58.1%, respectively.
- Loans and other financing in foreign currencies outside Mauritius stood at MUR229.2bn at end-June 2011 and represented 44.1% of total advances. Loans and overdrafts in Mauritian rupees amounted to MUR172.9bn, or 33.2% of total advances, while loans and other financing in foreign currencies in Mauritius amounted to MUR50.2bn, or 9.7% of total advances.
- Large exposures for the banking sector amounted to MUR 163.2bn, representing 27.5% of the total fund and non-fund based facilities extended at end-June 2011. The aggregate large exposures to borrowers

represented 227.5% of the capital base of banks at end-June 2011 as compared to 196.5% at end-June 2010.

- Total non-performing advances rose by MUR2.7bn, or 27.1%, from MUR10.0bn at end-June 2010 to MUR12.8bn at end-June 2011. Impaired credit on facilities extended in Mauritius and outside Mauritius went up by 26.8% and 28.8%, respectively in 2010-11. During the same period, the NPL ratio deteriorated from 2.1% to 2.5%. Specific provisions for loan losses made by banks increased by MUR1.4bn, or 30.2%, from MUR4.5bn at end-June 2010 to MUR5.9bn at end-June 2011. Specific provisions made on the impaired accounts on the facilities extended in and outside Mauritius increased by MUR1.2bn and MUR145m, respectively. The ratio of specific provisions to non-performing advances (coverage ratio) improved slightly from 44.8% at end-June 2010 to 45.9% at end-June 2011. On the other hand, provision on portfolio-assessed advances grew from MUR2.2bn at end-June 2010 to MUR3.1bn at end-June 2011.
- Deposits continue to be the principal source of funding and constitute the highest share of total liabilities of banks. The share of deposits in total liabilities decreased marginally from 73.7% at end-June 2010 to 73.3% at end-June 2011. During the year under review, total deposits increased by 3.1% to MUR641.1bn, from MUR621.7bn at end-June 2010.
- The share of foreign currency deposits to total deposits fell to 64.1% at end-June 2011, from 65.1% at end-June 2010. Demand, savings and time deposits accounted for 34.9%, 20.7% and 44.4% of the total deposits, respectively. The corresponding ratios for 2010 were 34.4%, 19.0% and 46.6%.
- The Loans to deposits ratio (LDR) went up from 78.8% at end-June 2010 to 81.1% at end June 2011.
- The capital adequacy ratio declined slightly from 16.6% at end-June 2010 to 16.3% at end-June 2011 due to growth of 9.5% in total risk-weighted assets compared to a relatively lower growth of 7.9% in the net capital base of banks. The capital adequacy ratio ranged from 10.1% to 403.7% at the end of June 2011.

- We believe Mauritius' banking sector is likely to have another moderately placid year in 2012, with its links to the Eurozone meaning that economic growth will remain constrained. The finance minister in presenting the 2012 Budget recently, noted that growth for 2011 was expected to have been approximately 4.2%, while that for 2012 was forecast to be slightly lower at 4.0%, in line with the IMF's global growth rate forecast. Also coming out of the budget was the announcement that after protracted negotiations, the banking sector had agreed to the release of MUR3bn at an affordable interest rate of 3% above the repo rate, so currently 8.5%. Other main features of the scheme were that:
  - New overdrafts and bank loans as well as renewal of existing facilities will be made at the rate of 8.5%.
  - All processing costs and related charges will be waived.
  - Participating banks will collectively make available MUR3bn for the next three years, that is, MUR1bn a year.
  - The Equity Fund will provide a guarantee instrument to offer risk cover amounting to 35% of every loan and overdraft.
  - Finally, banks will be allowed to claim the deduction from tax, in respect of SME bad debts without the need to have recourse to the courts.

- With combined net loans and advances to customers of MUR176.6bn for MCB and SBM as at FY 30 Jun 11, we do not see this having too much of an impact on them in terms of increased risk and so forth, but along with the special "solidarity" levy on profitable banks that was maintained in the 2012 budget (though now halved to 1.7% on book profits and 0.5% on operating income as per the original structure of the levy), we are a little concerned at the direct involvement of the state in bank processes in this manner.
- All in all, we expect growth for the two listed banks, MCB and SBM, to be driven more by product diversification and their regional and/or Indian expansion.

Mauritius Commercial Bank

MCB, was established in 1838, and has since grown to be the biggest bank in Mauritius. It was listed on the Stock Exchange of Mauritius in 1989, and initiated its regional expansion in the early 1990s. It has a market share in Mauritius of approximately 40% of bank credit to the economy and local currency deposits as well as over 50% of all bank cards issued. Its business is conducted through a network of 40 branches, 150 ATMs (39% of all ATMs on the island) and 4,300 PoS terminals. MCB has a presence in 8 countries through subsidiaries in the Seychelles, Madagascar, Mozambique and the Maldives; associates in Reunion, Paris and Mayotte and rep offices in Paris and Johannesburg.

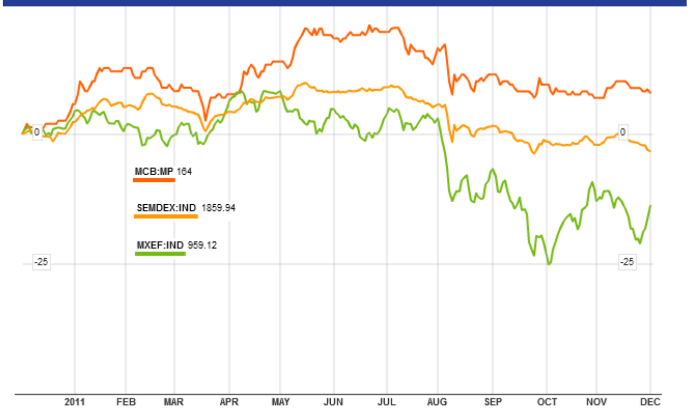
- FY2010 was a difficult year for MCB, with the group recording a decline in earnings of 13.89% as Eurozone and regional issues combined to negatively affect its operations.
- The situation improved in FY 2011, however, as a strong non-interest income performance, as well as some once off income items, led to attributable earnings ending the year up 31.6% to MUR4.5bn.
- MCB remains hawkish on the outlook for the full year. The global economy has remained under pressure, with the situation in the key Eurozone deteriorating even further as the debt crisis deepens. MCB is of the view that these factors will mean earnings for the full year will be in line with those for FY2011, after adjusting for the exceptional items. Its H1 2012 results indeed point to a difficult year, with the group recording PAT growth of just 2.32%.
- MCB is our preferred banking stock on the Mauritian bourse, with both it and SBM being well managed, solid institutions with a focus on ‘vanilla’ banking. Using a DCF model, we value the group at MUR167.25, which is in line with its current price of MUR167. **HOLD.**

STRENGTHS	WEAKNESSES
Market leader; stable macroeconomy Strong brand and management team Solid diversification strategies	High loan to deposit ratio High penetration levels; 97% banked High correlation to global tourism
OPPORTUNITIES	**THREATS**
Trade links between Africa and Asia Further disintermediation and product diversification	Political instability in Madagascar Economic instabilty in Seychelles Weaker tourism/textile industries

BLOOMBERG: MCB : MP			HOLD
Current price (MUR)			167.00
Current price (US$)			5.82
Target price (MUR)			167.25
Upside/Downside			0.15%
12 month High/Low (MUR)			191.00; 128.00
Liquidity			
Market Cap (MURm)			41,813
Market Cap (US$m)			1,457
Shares (m)			250.4
Free Float (%)			29.0
Ave Monthly value traded (US$m)			20.2
Ave Monthly volume (m)			3.5
Share Price Performance			
6 months (%)			-6.7%
Relative change (%)*			-122.9%
Relative change (%)**			-1.1%
12 months			9.9%
Relative change (%)*			116.8%
Relative change (%)**			-436.8%
** Relative to SEMDEX index*			***Relative to MSCI EM index*
Financials	**2011**	**2012F**	**2013F**
EPS (MUR)	17.94	19.50	20.50
DPS (MUR)	5.75	6.22	6.74
NAV/Share (MUR)	94.77	111.26	129.15
Net Interest Margin (%)	4.7%	4.7%	4.7%
FINANCIAL SUMMARY (MURm)			
Net interest income	5,886	7,276	7,787
Profit before tax	5,370	5,805	6,296
Attributable earnings	4,492	4,856	5,267
RATIOS			
RoAE	23.1%	22.1%	20.4%
RoAA	2.7%	2.8%	2.9%
Cost/Income Ratio (%)***	41.1%	43.1%	42.8%
Loans/Deposits (%)	89.1%	89.1%	89.1%
VALUATION RATIOS			
PBV (x)	1.8	1.5	1.3
PER (x)	9.3	8.6	8.1
Dividend Yield (%)	3.4%	3.7%	4.0%
Dividend payout ratio (%)	32.0%	31.9%	32.9%

***Pre provision for impaired advances

Figure 132: MCB vs MSCI EM vs SEMDEX



FY 11 & H1 12 Financial & Operational Review

Given Mauritius' strong economic ties to the Eurozone, and in turn MCB's dominance in and strong linkages with Mauritius, the downturn in Europe in 2010 led to the country at large facing heavy headwinds, which filtered through to MCB's bottom line with earnings of MUR3.4bn, 13.9% lower than FY2009. The lower earnings were also impacted by factors in some of the other countries where MCB has a presence such as Madagascar. The group managed to turn around its performance in FY2011 however, despite the economic situation remaining tenuous.

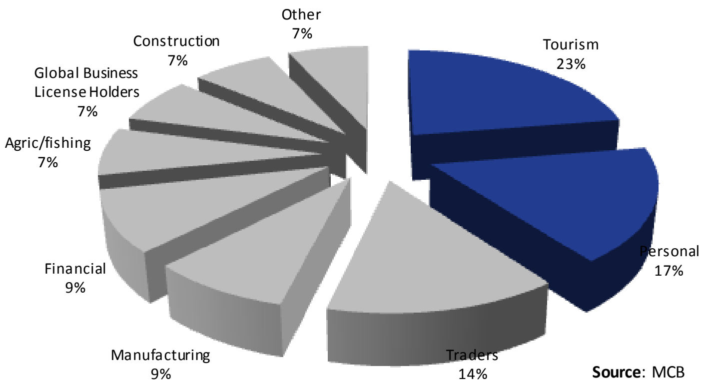
Overview of the income statement at 30 Sept 2011

- In H1 12, MCB recorded a 10.49% increase in net interest income to MUR 3.2bn. Interest income put on 13.76% against an 18.32% rise in interest expense, as margins came under pressure, attributed to restrained private investment patterns locally and difficult conditions abroad. Net fee and commission income went up 10.54% to MUR 1.1bn while other income was 10.29% higher at MUR 722.6m driven by regional trade finance activities. Other income went up at a similar rate, putting on 12.51% to MUR 922.4m.
- Operating expenses went up 15.91% to MUR 2.4bn, and with operating income having grown at a slower pace of 10.47% to MUR 5.0bn, the CIR deteriorated to 48.58% from 46.30% in H1 11, but reflecting a much larger fall from 42.59% at FY 11.
- Attributable earnings recorded a 2.32% increase to MUR 2.0bn. This compared to the Q1 12 performance where PAT was up 12.41%.

Overview of the balance sheet at 30 Sept 2011

- The balance sheet grew by 5.26% from FY 11, with total assets at MUR 181.8bn.
- Net loans went up by 5.27% to MUR126.2bn, while deposit growth was higher at 7.14% to MUR144.1bn.
- The LDR closed the quarter at 87.3%.
- The NPL ratio was not disclosed, but was likely to have deteriorated from the 3.4% Q1 12 figure, although management noted the levels were "well within internationally accepted norms".

Figure 133: Loans distribution by sector at 30 June 2011



Source: MCB

Income Statement (MURm)	H1 2011	H1 2012	% ch
Net interest income	2,898	3,203	10%
Other income	1,623	1,793	10%
Total Income	**4,522**	**4,995**	**10%**
Provisions	(131)	(200)	52%
Expenses	(2,094)	(2,427)	16%
Profit before tax	2,380	2,432	2%
Attributable earnings	**1,967**	**2,028**	**3%**

Balance Sheet (MURm)	H1 2011	H1 2012	% ch
Cash and cash equivalents	16,720	21,622	29%
Balances with banks	1,327	572	-57%
Securities	16,198	16,310	1%
Loans & Advances	114,995	126,223	10%
Investments in associates	6,635	6,582	-1%
Fixed Assets	5,396	6,357	18%
Other	3,916	4,099	5%
Total Assets	**165,187**	**181,765**	**10%**
Deposits	131,633	144,098	9%
Due to banks	1,353	1,145	-15%
Borrowed Funds	2,850	4,696	65%
Other liabilities	5,955	5,414	-9%
Shareholders' funds	23,396	26,412	13%
Total liabilities and equity	**165,187**	**181,765**	**10%**

Net interest margin	4.4%	4.5%	2%
Cost to income ratio	46.3%	48.6%	5%
RoAE	16.8%	15.4%	-9%
RoAA	2.4%	2.2%	-6%
Rough CAR	15.9%	16.6%	4%
Loan/Deposit	87.4%	87.6%	0%

Valuation and Recommendation

The global economy has remained under pressure post MCB's year end, with the situation in the key Eurozone deteriorating even further as the debt crisis deepens. MCB gave a cautious outlook for FY 12 in its annual report, expecting the following:

- RoAE to fall marginally below 20%;
- RoAA to remain at FY2011 levels;
- Net interest income growth of just above 5%;
- Non-interest income growth of c15%;
- A c15% increase in operating expenses leading to CIR deterioration to about 45%;
- Single digit loan expansion; and
- A 6% increase in deposits.

In the H1 2012 commentary, the group remained similarly hawkish, forecasting FY 2012 earnings to be in line with FY 2011.

MCB remains our preferred banking stock on the Mauritian bourse, although both it and SBM are well managed, solid institutions with a focus on 'vanilla' banking. Using a DCF model, we value the group at MUR167.25, a very slight premium to its current price of MUR167. **HOLD.**

State Bank of Mauritius

Set up in 1973 and listed on the Stock Exchange of Mauritius since 1995, SBM is one of Mauritius' leading financial services groups. SBM has also grown its presence beyond the island's borders, with 2 branches in Madagascar and 3 branches in India adding to the 43 branch network it has in Mauritius. It is a full service universal bank providing all its services within a diversified business model.

- SBM's earnings fell in FY2010 by 8.2% to MUR1.9bn, a function of the challenging economic environment, as well as the fact that there was no repetition of the FY2009 extraordinary dividend income while there were also additional provisions taken on above the minimum prescribed levels, reflecting prudence in light of the aforementioned difficult environment.
- FY2011 saw earnings growth turn positive once again, driven by non-funded income, as flat net interest income growth of just 0.2% to MUR2.5bn was offset by a 26.9% increase in non-interest income, leading to an attributable earnings increase of 8.3% to MUR 2.0bn.
- In H1 2012, net interest income showed greater upward momentum, up 14.8% to MUR1.5bn, as the group realigned its asset mix by reducing its exposure to lower yielding gilt securities.
- Management is targeting an increase in profits of more than 12%, RoAE of 20.5%, advances and deposit growth of more than 15% and a net impaired assets ratio of below 1%.
- Based on a DCF valuation, we arrive at a price for SBM of MUR83 per share and see limited upside in the short to medium term. Whilst MCB remains our preferred pick, we are still comfortable with the bank's solid fundamentals and future growth potential, post the current slowdown. **HOLD**.

STRENGTHS	WEAKNESSES
Best Moody's rating locally	Saturated local market
Strong brand; well capiltalised	Limited room for expansion locally
Regional and India presence	Large retail exposure is challenging economy
Strong management team	Small population
Low CIR	
OPPORTUNITIES	**THREATS**
Increased ties with India	Political instabilty in Madagascar
Commodity Exchange - GBOT	Strong competition
Product diversification	Eurozone contraction
CAR has room for growth	

BLOOMBERG: SBM : MP			HOLD
Current price (MUR)			80.00
Current price (US$)			2.79
Target price (MUR)			83.34
Upside/Downside			4.17%
12 month High/Low (MUR)			105.00; 79.00
Liquidity			
Market Cap (MURm)			20,654
Market Cap (US$m)			720
Shares (m)			258.2
Free Float (%)			23.0
Ave Monthly value traded (US$m)			6.1
Ave Monthly volume (m)			2.2
Share Price Performance			
6 months (%)			27.0%
Relative change (%)*			32.8%
Relative change (%)**			-497.9%
12 months			53.8%
Relative change (%)*			213.1%
Relative change (%)**			-1938.0%
** Relative to SEMDEX index*			***Relative to MSCI EM index*
Financials	**2011**	**2012F**	**2013F**
EPS (MUR)	7.80	9.00	10.30
DPS (MUR)	3.00	3.28	3.73
NAV/Share (MUR)	61.86	73.80	73.80
Net Interest Margin (%)	5.2%	5.2%	5.2%
FINANCIAL SUMMARY (MURm)			
Net interest income	2,499	2,596	2,986
Profit before tax	2,475	2,704	3,079
Attributable earnings	2,014	2,201	2,506
RATIOS			
RoAE	13.2%	12.6%	13.2%
RoAA	2.3%	2.1%	2.1%
Cost/Income Ratio (%)***	35.3%	34.1%	34.5%
Loans/Deposits (%)	80.0%	80.0%	80.0%
VALUATION RATIOS			
PBV (x)	1.3	1.1	1.1
PER (x)	10.3	8.9	7.8
Dividend Yield (%)	3.8%	4.1%	4.7%
Dividend payout ratio (%)	38.5%	36.4%	36.2%

***Pre provision for impaired advances

Figure 134: SBM vs MSCI EM vs SEMDEX

FY 11 & H1 12 Financial & Operational Review

Faced with similar challenges to those of its peer MCB, and indeed of the economy at large, SBM saw earnings fall in FY2010 by 8.2% to MUR1.9bn, although the performance was distorted by the fact that FY2009 had an extraordinary dividend item while FY2010 had additional provisioning above the minimum prescribed levels to the tune of MUR170m. Again mirroring MCB, FY2011 told a better story overall, with attributable earnings ending the period up 8.30% to MUR2.0bn.

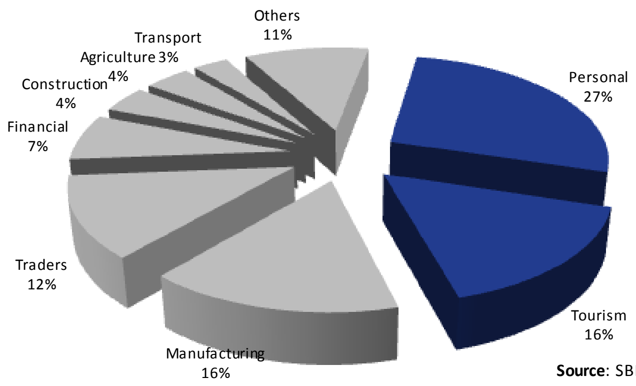
In H1 2012, net interest income was up 14.8% to MUR1.5bn, improving on the rate of growth experienced in Q1 2012 of 9.9% as the asset mix improved significantly with a reduction in the holdings of lower yielding gilt securities. Non-interest income put on 12.5% to MUR 1.1bn, as net fee and commission income surged 51.6% to MUR590.1m buoyed by cross border business, offsetting the 81.2% decline in other operating income to MUR21.6m. Total operating income thus grew by 13.8% to MUR2.5bn.

Operating expenses put on 8.9% to MUR822.5m and the cost to income ratio improved slightly to 32.3% from 33.7% in the comparative period and FY2011's 35.6%. Impairment charges were relatively flat, down 1.6% to MUR149.0m, as the book quality improved to reported gross and net impaired credit ratios of 1.0% and 0.25%, respectively (FY 2011: 1.4% and 0.46%, respectively).

Share of profits from associates was down 19.3% to MUR36.6m, and PBT growth was a diluted 17.06% to MUR1.6bn. Attributable earnings growth of 17.33% to MUR1.3bn was achieved for the half year.

The balance sheet grew by 2.83% to MUR98.4bn, as net loans and advances increased by 9.84% to MUR62.0bn, while the investment securities position was 17.6% lower at MUR19.4bn as the bank continued to reduce its exposure to lower yielding gilts. Trading assets virtually doubled to MUR280.1m. Deposit growth was subdued, up 3.3% to MUR73.2bn. The net LDR closed H1 2012 at 87.5%, while the CAR was at 20.9%.

Figure 135: Loan distribution by sector at 30 June 2011



Source: SBM

Income Statement (MURm)	H1 2011	H1 2012	% ch
Net interest income	1,282	1,472	15%
Other income	957	1,077	12%
Total Income	**2,239**	**2,549**	**14%**
Provisions	(152)	(149)	-2%
Expenses	(755)	(822)	9%
Profit before tax	1,378	1,614	17%
Attributable earnings	**1,139**	**1,337**	**17%**

Balance Sheet (MURm)	H1 2011	H1 2012	% ch
Cash and cash equivalents	15,529	11,140	-28%
Balances with banks	153	2,011	n/a
Securities	23,321	19,431	-17%
Loans & Advances	48,594	62,042	28%
Fixed Assets	2,826	2,713	-4%
Other	1,846	1,083	-41%
Total Assets	**92,269**	**98,419**	**7%**
Deposits	67,230	73,200	9%
Due to banks	151	48	-68%
Borrowed Funds	8,169	7,696	n/a
Other liabilities	1,296	1,455	12%
Shareholders' funds	15,423	16,021	4%
Total liabilities and equity	**92,269**	**98,419**	**7%**

Net interest margin	3.6%	3.5%	-1%
Cost to income ratio	33.7%	32.3%	-4%
RoAE	14.8%	16.7%	13.0%
RoAA	2.5%	2.7%	10.0%
Rough CAR	29.0%	24.3%	-16.0%
Loan/Deposit	72.3%	84.8%	17.3%

Valuation and Recommendation

SBM is intent on regaining lost market share in the domestic market as shown by its aggressive targeting of corporates on the lending side in FY2011, and we expect this trend to continue through to FY2012 and beyond. The group also notes its intention to increase cross border income generating activities in a bid to expand its India business, where it spent an additional US$33m in FY2011, to give a boost to that operation. SBM also mentions that future changes in the banking sector regulatory environment are being considered by the Reserve Bank of India relating to the mode of presence of foreign banks in that country. The RBI has said it would favour local incorporation by foreign banks such that these will be wholly-owned subsidiaries of foreign parents as opposed to branches of foreign banks. SBM will take appropriate action as the situation transpires.

We forecast an increase in net interest income and NIMs in FY2012 as the benefits of the increase in risk weighted assets begin to materialise, while low cost deposit mobilisation continues. Non-interest income should also remain buoyant, while the CIR should remain at current levels.

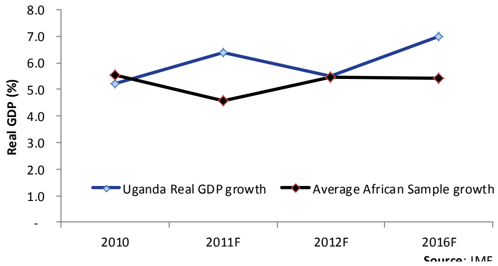
MCB remains our preferred stock in the Mauritian banking sector, traditionally reflecting better profitability and operational ratios. Having said that, SBM is also a solid bank, and based on a DCF valuation, we arrive at a price of MUR83. **HOLD**.

Uganda – Macro-economic highlights

Key Themes:

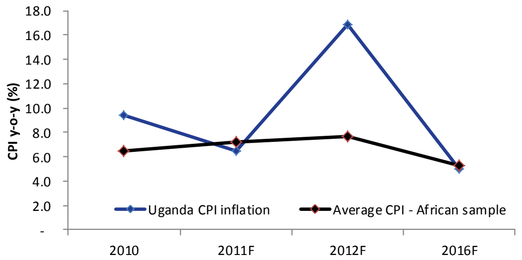
- Like its East African compatriot Kenya, Uganda came out of 2009 with strength as GDP grew 6.3% during the 2010/2011 fiscal year, which was comparable to East Africa's leading economies during the same period.
- Uganda is however, an unfolding oil story. From an economy largely dependent on agriculture Uganda will grace the list of top 50 global oil exporters in a few years to come. By 2015, estimates point to Uganda's export revenue jumping from US$2.0bn to US$4bn, driven by oil revenues.
- As such, fortunes of players in the banking industry are not far removed from developments in the oil and gas industry. Among Uganda's listed banks, we believe that Stanbic Bank Uganda is best poised to benefit given its international flair and dominance in the country.
- 2011 has also been a challenging year for Uganda. Spiking oil and food prices in particular were the outstanding challenges which drove y-o-y inflation to 30.4% from 3.1% in December 2010 and sent the UGX tumbling 22% to UGX2,907 vs the US$ in October 2011.
- The Bank of Uganda responded by adopting a tight monetary policy and has since hiked the central bank rate from 13% in July, when it adopted inflation targeting, to 23% in November 2011. The motivation has been to dampen inflation through slowing down demand and prop up the value of the UGX by attracting deposits. Inflation is yet to peak, though indications are that it is likely to do so in Q1 12, while the UGX, on the other hand, has since recouped some of its losses, gaining 19% from its trough, though it still trails the year open level.
- For the banking industry, bond re-pricing is likely to have weighed down interest earnings in H2 2011 and with the BOU vowing to maintain its tightening stance pressure on interest income will stay put at least up to H1 2012.
- Uganda banks did not mirror trading trends elsewhere in the world. DFCU in particular peaked at about UGX1,000 and remains stuck to that price to date. SBU on the other hand, only started declining in November 2011, having defied the general downward trend for the latter part of 2011. As such we do not expect much upside from the banks and hence we favour exposure especially in Kenya banks whose price declines provided room for share price appreciation.
- In the H1 2010, Tullow Oil (TLW:LN) progressed a series of transactions to align interests and accelerate development of the Lake Albert Rift basin which culminated in the purchase of Heritage Oil and Gas Limited's ("Heritage") interests in EA-1 and EA-3A on 26 July. The process to subsequently farm-down interests to CNOOC and Total, with each partner taking a one third interest in EA-1, 2 and 3A, was signed on the 29th March 2011, following the signing of a MoU between Tullow and the Government of Uganda on 15 March 2011.
- Over 35 wells have been drilled in the basin from Kingfisher-1 in the south to Buffalo-1, 150km to the north. All but one of these wells has encountered hydrocarbons and proven up 1.1 billion barrels of oil resources (P50). This is sufficient volume to exceed the commercial threshold for development with an additional 1.4 billion barrels (P50) yet to find.

Figure 136: Uganda Real GDP Growth 2010 - 2016



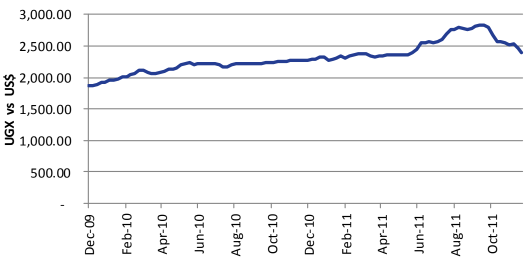
Source: IMF

Figure 137: Uganda CPI Inflation 2010 - 2016



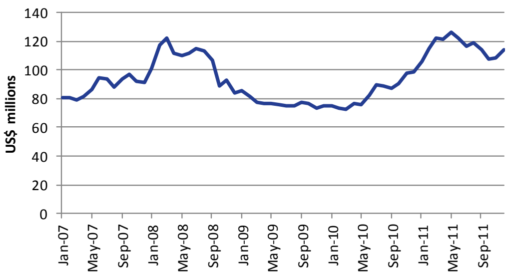
Source: IMF

Figure 138: Ugandan Shilling vs US$

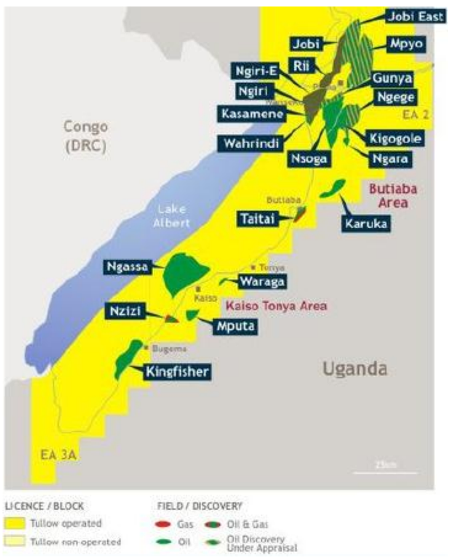


Source: Oanda.com

Figure 139: International Robusta Coffee prices



Source: International Coffe Organisation



EQUITY RESEARCH

UGANDA

FEBRUARY 2012

DFCU Group

DFCU's focus on SMEs differentiates it from its peers. The bank has achieved considerable success in this regard with the Women in Business initiative being one of the most successful. The flawless deployment of a new IT platform, Finacle, in 2010 has allowed the bank to serve this niche market better, with tangible results evident in the H1 2011 financials. We expect DFCU to maintain its growth tempo going forward on improved efficiencies. Down the line, DFCU is optimally placed to benefit from higher liquidity as the country's oil exporting capability increases.

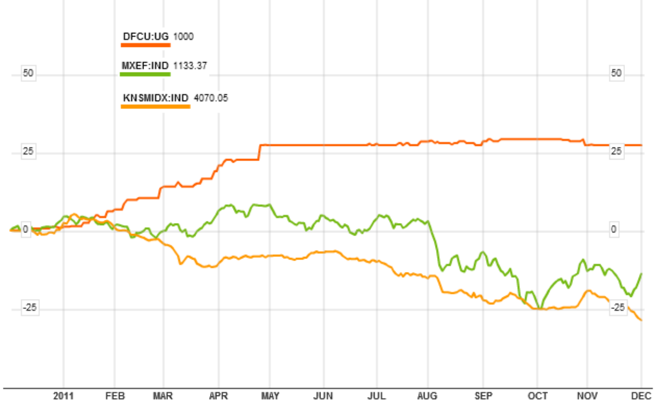
- The bank has over the past three years funded on average 30% of its liabilities with borrowed funds, largely from a host of local and international development agencies. These funds drive the bank's SME loan book. We expect this stream of developmental funding to be maintained and enhance earnings growth.
- Management's focus is on transformation of both the asset and funding mix for the bank. The bank's earning assets book is strong on long tenor assets, originated largely as leases and mortgages, thanks to its developmental banking roots. DFCU intends to redirect efforts to products such as overdrafts and trade financing which are shorter term and higher margin.
- Over 50% of DFCU loan customers are non-deposit account holders. Data mining capabilities of Finacle allows the bank to direct efforts towards such customers in a bid to ensure customer deposits grow and help bring down the cost of capital.
- DFCU is currently trading 28% higher than its price 12 month ago, which compares favorably to a decline of 16% on the USE ALSI and 7% for SBU as well as 38% for BOBU. We expect the bank to maintain this outperformance of the overall index to year end. **BUY**.

STRENGTHS	WEAKNESSES
Leaders on SME-banking, Leasing and mortgages Emerging oil economy Strong links with development funds Strong partner is CDC	High gearing levels Weak Macro - dependent on donor funds Increasing competition with entry of Kenyan banks High inflation, punitive interest rates
OPPORTUNITIES	**THREATS**
Low banking penetration Increasing trade with South Sudan Increased transaction revenues with rollout of mobile banking platform	Aggressive competition; 6 new banks in 2008 Margin contraction, higher NPLs Economic slowdown; reduced remittances Adverse fluctuations in coffee prices Dutch disease

BLOOMBERG: DFCU : UG			BUY
Current price (UGX)			1,000
Current price (US$)			0.43
Target price (UGX)			1,338.43
Upside/Downside			33.84%
12 month High/Low (UGX)			1,025.00; 815.00
Liquidity			
Market Cap (UGXm)			248,601
Market Cap (US$m)			107.4
Shares (m)			248.6
Free Float (%)			24.7
Ave Monthly value traded (US$m)			0.71
Ave Monthly volume (m)			1.7
Share Price Performance			
6 months (%)			0.0%
Relative change (%)*			-100.0%
Relative change (%)**			-100.0%
12 months			27.6%
Relative change (%)*			538.3%
Relative change (%)**			-1040.4%
** Relative to USE index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (UGX)	92.7	135.4	166.5
DPS (UGX)	37.1	54.2	66.6
NAV/Share (UGX)	364.4	445.6	445.6
Net Interest Margin (%)	7.9%	7.9%	7.9%
FINANCIAL SUMMARY (UGXm)			
Net interest income	60,275	78,453	93,173
Profit before tax	29,345	42,853	52,682
Attributable earnings	23,056	33,669	41,392
RATIOS			
RoAE	25.5%	30.4%	37.4%
RoAA	2.9%	3.3%	3.4%
Cost/Income Ratio (%)***	56.7%	51.7%	50.8%
Loans/Deposits (%)	83.5%	83.5%	83.5%
VALUATION RATIOS			
PBV (x)	2.7	2.2	2.2
PER (x)	10.8	7.4	6.0
Dividend Yield (%)	3.7%	5.4%	6.7%
Dividend payout ratio (%)	40.0%	40.0%	40.0%

***Pre provision for impaired advances

Figure 140: DFCU vs MSCI EM vs KSE 20 Index



Q3 2011 Financial and Operational Review

Two new branches were opened in H1 bringing the count to 26. DFCU controls 6% of the deposit market share and accounted for 8.5% of the total banking profits. FY2011 will see the rollout of a mobile banking solution, open two new branches (Ntinda and Entebbe Road) and leverage on the new ICT platform to enhance CRM. This will be in pursuit of management targets of achieving a minimum RoA and RoE of 4% and 35% respectively and to transform the ratio of current accounts to deposits from 30% to 50% in the medium term in order to reduce the cost of funding.

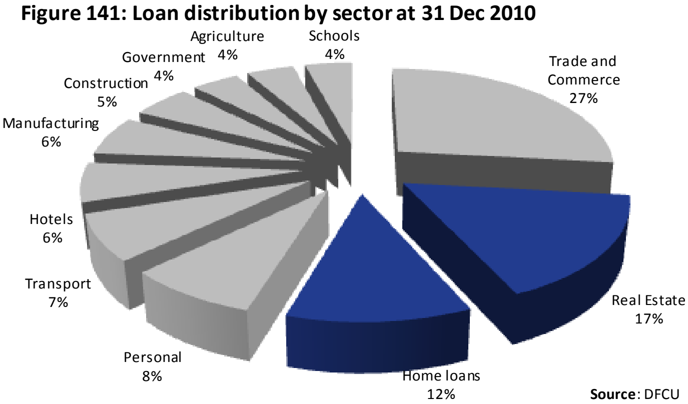
Overview of the income statement at 30 June 2011

- 22% growth in interest income coupled with a slower growth of 5% on interest expense saw the bank post an impressive 26% growth in net interest income.
- Non funded income growth was equally strong and ensured total income growth for the half year of 33%. Non-funded income comprised 26% of total income, which is however lower than management's medium term target of 30%.
- The absence of significant recoveries of previously impaired loans compared to H1 2010, ensured the bank took the full knock on impairments this year. As such, despite keeping the cost to income ratio broadly in line with historic averages at 54%, the bottom-line grew by only 23%.
- With BoU hiking the CBR, in order to rein in inflation, interest income growth is likely to be better in the second half than the first half of 2010. We therefore expect the bank to perform better in H2.

Overview of the Balance sheet at 30 June 2011

- Total assets grew by 28% driven by deposits which registered strong growth of 36%.
- Loans and advances grew in line with deposit at exactly 36% and the bank benefited from the introduction of trade finance and collateral management for traders in commodities.
- With interest rates likely to remain high and inflation expected to slow down after year end, we expect sustained pressure on asset quality.

Figure 141: Loan distribution by sector at 31 Dec 2010



Source: DFCU

Income Statement (UGXm)	H1 2010	H1 2011	% ch
Net interest income	24,695	32,774	33%
Other income	8,710	11,678	34%
Total Income	**33,405**	**44,452**	**33%**
Provisions	680	(2,945)	-533%
Expenses	(19,537)	(24,060)	23%
Profit before tax	14,548	17,447	20%
Attributable earnings	**11,582**	**14,249**	**23%**

Balance Sheet (UGXm)	H1 2010	H1 2011	% ch
Liquid assets	313,629	379,286	20.9%
Advances to customers	364,649	494,283	35.6%
Other assets	32,645	35,124	7.6%
Total Assets	**710,923**	**908,693**	27.8%
Deposits	419,363	568,813	35.6%
Other liabilities	172,220	215,348	25.0%
Borrowed Funds	38,899	28,903	-25.7%
Shareholders' funds	80,441	95,629	18.9%
Total liabilities and equity	**710,923**	**908,693**	27.8%

Net interest margin	7.3%	7.5%	3%
Cost to income ratio	58.5%	54.1%	-7%
RoE	28.8%	29.8%	3%
RoA	3.3%	3.1%	-4%
Rough CAR	20.2%	18.1%	-11%
Loan/Deposit	87.0%	86.9%	0%

Valuation and Recommendation

Uganda's banking sector is set to expand significantly once oil production commences. Already in 2011, US$2.9bn was the cash consideration paid on the entry of CNOOC and Total into the Ugandan oil frenzy, and whilst most of this will be kept offshore, we anticipate that some liquidity will be retained locally. Increased FDI and government spending are natural consequences of the new found wealth, which will have an expansionary impact on monetary aggregates.

Although DFCU is trading at the higher end of its 12 month range we believe there to still be value in the counter, up to a level of UGX1,300, implying some 30% share price appreciation potential. Despite a current tightening in monetary policy to rein in inflation, Uganda's medium term economic outlook is bullish and new oil revenue streams, and increased economic activity spurred by the oil sector is likely to positively impact the non-oil economy too. **BUY**.

Top 10 Shareholders	%
CDC Group PLC	60.0%
Norwegian Investment Fund for Developing Countries	10.1%
National Social Security Fund	5.9%
Investec Asset Management - Panafric	2.3%
Investec Asset Management - Africa	2.3%
Investec Asset Management - Africa Fund	1.9%
Investec Asset Management - HDBAFR	1.1%
Dyer & Blair Investment Bank	0.6%
Barclays Kenya Nominees	0.6%
American International underwriters	0.5%
Other	14.7%
Total	**100.0%**

Stanbic Bank Uganda

EQUITY RESEARCH

UGANDA

FEBRUARY 2012

Stanbic Bank Uganda

SBU leads not only in clout, but also in terms of innovation and profitability. A RoAE outturn of 32% is comparable to East African pacesetter; Equity bank's 33%, while the RoAA of 3% compares favourably to the Kenyan average of 2.8%. Further to that, Standard bank's dominance and Sino ties, places the bank in an optimal position to benefit from the many financing opportunities that will ensue as one of Africa's nascent oil economies develops.

- The bank is currently implementing a new IT platform to be launched in Q1 2012. This follows up on the UGX24bn (US$9m) investment in the distribution channel and IT infrastructure done in 2010. We expect this not only to further entrench the bank's hold on its control of 23% of the market share by deposits, but to further improve efficiency as well as CRM.
- The loans and advances to deposits ratio stood at 78%, having risen from 57% for the same period last year. This was driven by faster growth in loans and advances of 38% compared to 2% growth in deposits over the same period. With the bank's loan to deposit ratio capped at 80%, there is little headroom for earning assets growth without growing deposits first.
- SBU has a history of strong asset quality as depicted by a 3 year average NPL ratio of 1%. The ratio is currently at 1.7% against a sector average of 4%. This also compared favourably to Kenyan banks that average 4.8% and a FY2010 regional average of 6.5%. The rise in interest rates may put more pressure impairments, however Stanbic's maintenance of a quality book will mitigate the downside risk.
- Following the one for one bonus issue last year, Stanbic has been trading at a steady price of UGX100, which values the counter at a premium to DFCU, and even at a heavy premium to its peers on the NSE. While there will be much blue sky for Uganda's largest bank in the nascent oil sector, we are quite happy with valuations for the time being. **HOLD**.

STRENGTHS	WEAKNESSES
Largest financial group in Uganda	No scope to grow regionally
Largest branch network and capitalistation	Relatively unsophisticated market
Capital base to expand operations locally	Weak local currency, devaluation
Knowledge and technology transfer	Hightened inflationary pressures and
Politically stable	susceptibilty to commodity price shocks
OPPORTUNITIES	**THREATS**
Low banking penetration levels	Increasingly competitive environment
Pending oil boom	Thinning net interest margins
Increased trade with Sudan	Drought, flood, political instability
Mobile and internet banking	Drying up of donor funding
lending to emerging oil sector to players	Diplomatic row with Somalia

BLOOMBERG: SBU : UG			HOLD
Current price (UGX)			100.00
Current price (US$)			0.04
Target price (UGX)			97.20
Upside/Downside			-2.80%
12 month High/Low (UGX)			200.00; 90.00
Liquidity			
Market Cap (UGXm)			1,023,773
Market Cap (US$m)			442.2
Shares (m)			10,237.7
Free Float (%)			20.0
Ave Monthly value traded (US$m)			0.3
Ave Monthly volume (m)			6.3
Share Price Performance			
6 months (%)			42.9%
Relative change (%)*			1628.6%
Relative change (%)**			-732.0%
12 months			49.3%
Relative change (%)*			883.9%
Relative change (%)**			-1782.0%
** Relative to USE index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (UGX)	7.0	9.1	12.2
DPS (UGX)	3.5	4.5	6.1
NAV/Share (UGX)	22.5	27.0	33.1
Net Interest Margin (%)	9.9%	9.9%	9.9%
FINANCIAL SUMMARY (UGXm)	**2010**	**2011F**	**2012F**
Net interest income	172,709	224,690	292,274
Profit before tax	88,772	122,657	165,074
Attributable earnings	72,082	92,691	124,745
RATIOS			
RoAE	32.7%	36.6%	40.5%
RoAA	3.4%	3.4%	3.5%
Cost/Income Ratio (%)***	63.9%	60.0%	56.9%
Loans/Deposits (%)	65.4%	65.4%	65.4%
VALUATION RATIOS			
PBV (x)	4.4	3.7	3.0
PER (x)	14.2	11.0	8.2
Dividend Yield (%)	3.5%	4.5%	6.1%
Dividend payout ratio (%)	49.9%	49.9%	49.9%

***Pre provision for impaired advances

Figure 142: NBS vs MSCI EM Index

Q3 2011 Financial and Operational Review

Uganda's biggest bank operates 98 branches which are complimented by more than 200 points of representation (ATMs and POS terminals) and focuses on personal, business, corporate and investment banking services. The key highlights for the half year under review was the stagnation in deposit growth, which brought about changes in the funding mix and looks set to curtail growth in earning assets in the short term. Additionally, the falling away of the government led agricultural lending scheme benefits ensured tax expense returns to historic averages.

Overview of the income statement at 30 June 2011

- Healthy yields on government paper and the loan book saw net interest income grow 31%. This was, nonetheless eclipsed by a stellar 40% growth in non-funded income as the bank's income stream diversification program bears fruit. Total income growth, however, was slower at 23% weighed down by 31% decline in trading income.
- The CIR improved to 53% compared to 64% for FY2010 as investment into the IT and distribution channels in 2010 start to bear fruit. High inflation expectations, in the short term points to pressure on the ratio, at least for the rest of the year.
- Tax expenses to PBT stood at 25%, up from 17% for FY2010. The lower rate in 2010 was due to benefits from the government sponsored agricultural lending program, which have ended.
- Attributable income ended the half year at UXG52.8bn was 18% ahead of the comparable period.

Overview of the balance sheet at 30 June 2011

- Total assets grew by 10%, driven, in the main, by wholesale market deposits to counter sluggish deposit growth.
- Loans grew by 38% ramping the LDR to 78% at period end. The slower deposit growth has been the result of lower government expenditure following the conclusion of elections in February 2011. The higher loan growth should drive funded earning in H2 and lead to a much stronger full year result, in spite of the slowdown in deposit mobilisation.

Income Statement (UGXm)	H1 2010	H1 2011	% ch
Net interest income	82,384	108,223	31%
Other income	57,064	63,570	11%
Total Income	**139,447**	**171,793**	**23%**
Provisions	(6,315)	(10,964)	74%
Expenses	(79,716)	(91,121)	14%
Profit before tax	53,416	69,708	31%
Attributable earnings	**44,776**	**52,846**	**18%**

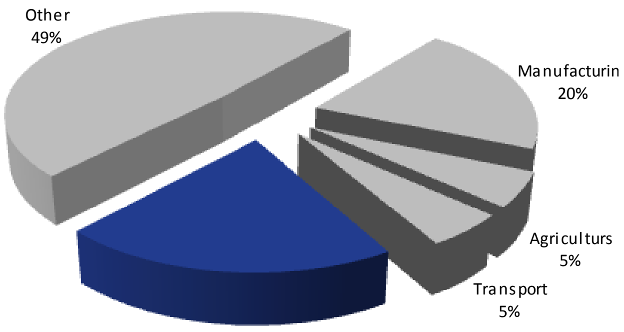
Balance Sheet (UGXm)	H1 2010	H1 2011	% ch
Cash at central Bank	330,764	319,101	-4%
Balances with banks	49,206	17,067	-65%
Securities	588,829	512,334	-13%
Loans & Advances	1,029,990	1,426,269	38%
Fixed Assets	32,107	39,674	24%
Other	228,010	171,680	-25%
Total Assets	**2,258,907**	**2,486,124**	**10%**
Deposits	1,799,788	1,829,495	2%
Due to banks	61,209	171,673	180%
Borrowed Funds	30,327	30,000	-1%
Other liabilities	152,240	223,470	47%
Shareholders' funds	215,343	231,486	7%
Total liabilities and equity	**2,258,907**	**2,486,124**	**10%**

Net interest margin	9.9%	11.1%	12%
Cost to income ratio	57.2%	53.0%	-7%
RoE	41.6%	45.7%	9.8%
RoA	4.0%	4.3%	7.2%
Rough CAR	11.5%	10.8%	-6.1%
Loan/Deposit	57.2%	78.0%	36.2%

Valuation and Recommendation

Currently trading on 4x book value, justification of further upside to the share price would be difficult. Blue-chip status locally, first mover advantage into the nascent oil sector and the strength of Standard Bank's Chinese connections, especially post CNOOC's entry into the Uganda's oil game, are all reasons supporting the premium on which SBU trades. Notwithstanding, out DCF valuations suggest little upside, especially as the lead time to oil revenue flows will be a 12 to 18 month period. Slack deposit growth at H1 is another concern, which against inflation, implies lost market share; We see this as a short term event and the higher LDR will ensure stronger funded income levels in H2. **HOLD.**

Figure 143: Loan distribution by sector at 31 Dec 2010



Source: SBU

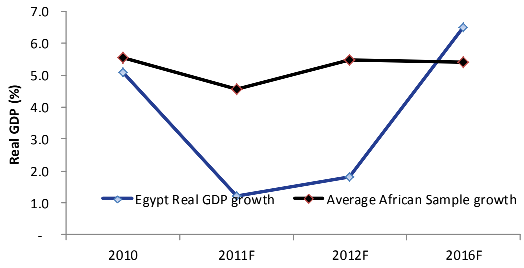
Top 10 Shareholders	%
Stanbic Africa Holdings Limited	80.0%
National Social Security Fund	2.8%
HCBC - Arisaig Africa FundLtd	2.3%
Kabanda Kironde Ibulaimu	0.4%
Central Bank of Kenya Staff Pension Fund	0.3%
Crane Bank Ltd	0.3%
Kenya Airways Ltd - Staff Provident Fund	0.2%
Bank of Uganda Retirement BenefitsScheme	0.2%
Duet Victoire Africa Index Fund	0.2%
Other	13.4%
Total	**100.0%**

Egypt – Macro-economic highlights

Key Themes:

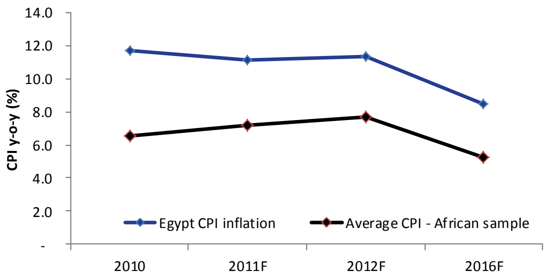
- Egypt is the most populous Arab nation in the world with over 83m people and despite the highly sophisticated financial markets has some of the lowest retail penetration levels at the circa 10% level.
- The Arab Spring has cast a dark shadow over the region and the emergence of the extremist Brotherhood has introduced instability and uncertainty for the world's most populous Muslim nation.
- Egyptians have achieved a major milestone by holding the first leg of their staggered parliamentary elections, but enters a delicate stage, balancing the contrasting interests of opposing forces as the presidential elections loom. The Supreme Council of Armed Forces (SCAF), the Muslim Brotherhood's Freedom, Justice Party and the protestors are the key players in Egypt's political situation whose interest and balancing their need will be crucial to the transition.
- With the parliamentary election out of the way, it is highly probable that the Muslim Brotherhood will assert itself more strongly through parliament against SCAF in the political arena and a clash of these two cannot be ruled out. Additionally, SCAF has considerable economic interests and is estimated to account for between 10 to 20% of the Egyptian economy, and these interests enjoyed the protection of the Mubarak government.
- There is therefore genuine fear that a new civil government may look to weaken SCAF once soldiers return back to the barracks, and as such temptation to hold on to power on the part of SCAF is not just an imagination. This will have disastrous consequences especially if the protesters once more take to the streets.
- The rising to prominence of Islam in politics is also another key risk area. SCAF is a secular entity and has suppressed Islamic forces for decades;
- Egypt's economy continues to be the main casualty of the political storm. Ratings agencies have since downgraded the country's debt, with Standard & Poor's slashing foreign and local currency sovereign credit rating from BB- to B+.
- An army spokesman also confirmed that Egypt's reserves would fall from US$22bn to US$15bn by January 2012. The army has also made the grand gesture of loaning US$1bn to the central bank, which is however not enough to shrug off the challenges at hand.
- Headline inflation has moderated to 8.2% y-o-y in September to 7.1% in October, but the figures remain high in relation to the historic trend.
- The banking sector was also not been spared. Earnings generation slowed down significantly as has the market capitalisation. Interest income slowed down, though not to the same magnitude as investment income.
- Asset quality has taken a knock, driven by exposures in tourism, real estate and the steel industry. The latter two were driven by allegedly fraudulent issue of licences that prompted cancellations. As such banks generally booked higher provisions that the comparable periods in 2010.
- Liquidity remains abundant across the system, depicted by a low average LDR of 49.5% as of June 2011. Banks, under our coverage, however, recorded higher utilisation levels, with CIB's LDR ratio at 58%, NSGB at 69% and CAE at 56%, as of June 2011.

Figure 144: Egypt Real GDP Growth 2010 - 2016



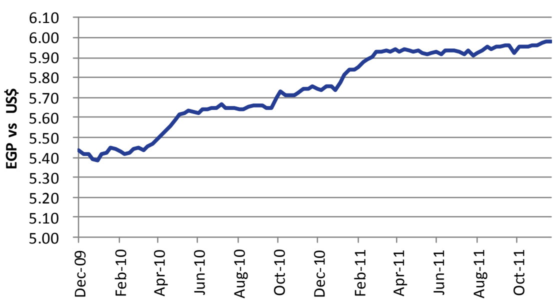
Source: IMF

Figure 145: Egypt CPI Inflation 2010 - 2016



Source: IMF

Figure 146: Egyptian Pound vs US$



Source: Oanda.com

EQUITY RESEARCH

EGYPT

FEBRUARY 2012

Commercial International Bank (Egypt)

CIB withstood effects of the winds of political change that swept through the MENA region in 2011 and looks set to post a stronger performance as Egypt emerges to a more transparent democracy. Valuations took a battering on the back of the aforementioned 'Arab Spring', but the bank remained resilient maintaining a number of positives that we believe will underpin a re-rating once Egypt turns the corner and resolves its political challenges. Capitalisation remains strong, loan and advances are growing each quarter, interest margins are improving and asset quality remain stable underpinned by prudent provisioning.

- Non-interest income generation has dropped, while provisioning has increased markedly which provided the biggest drag to profitability. These were expected noting the environment in which the bank is operating in and we expect a recovery once the political situation normalises.
- Uncertainty brought about by political challenges has seen many customers opting to dollarise. CIB, like its peers in Egypt has been growing foreign currency deposits with Q3 registering 7% growth against stagnant local currency deposits.
- CIB has a significant exposure to the tourism industry (8% of the loan book) and negligible exposure to both the steel and real estate sectors that have been driving the sharp rise in booked provisions across the industry.
- Like most Egyptian financial services counters, the bank's share price has received a battering on the back of the political turmoil. We expect it to recoup some of the losses once the situation improves. Our valuation of EGP27.40 takes into account a circa 10% dip in earnings for FY2011, which will be unwound once the country turns the corner. The Loan book is very low as a percentage of deposits, and NPLs are manageable. A strong recovery will ensure on normalisation. An opportune time to but now, while there is still blood in the streets. **BUY.**

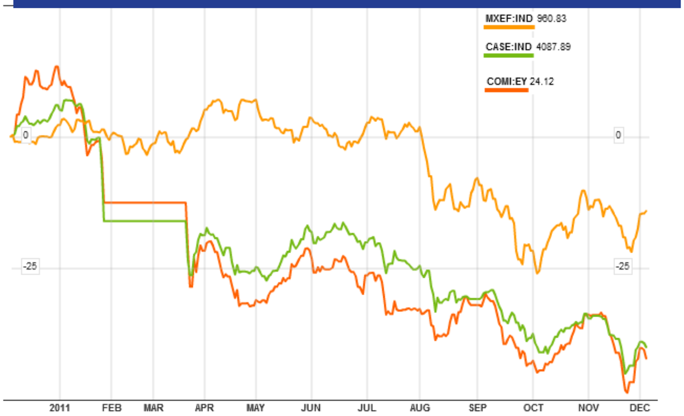
STRENGTHS	WEAKNESSES
Largest balance sheet; highest profitability Quality lending book with only 3% NPLs EM status of Egyptian markets Low LDR rate Good quality book	Weaker Arab markets following Arab Spring Political instability Weak business climate and higher risk of NPLs rising
OPPORTUNITIES	**THREATS**
Growth arriving from fiscal stimuli Regional expansion	Prolonged recession in Europe Further deterioration in politico-ecnomic climate

BLOOMBERG: COMI : EY	BUY
Current price (EGP)	23.65
Current price (US$)	3.92
Target price (EGP)	27.40
Upside/Downside	15.86%
12 month High/Low (EGP)	47.70; 19.90
Liquidity	
Market Cap (EGPm)	14,035
Market Cap (US$m)	2,328
Shares (m)	593.5
Free Float (%)	79.0
Ave Monthly value traded (US$m)	86.3
Ave Monthly volume (m)	22.0
Share Price Performance	
6 months (%)	-21.3%
Relative change (%)*	-17.5%
Relative change (%)**	214.5%
12 months	-42.0%
Relative change (%)*	203.3%
Relative change (%)**	1334.3%
** Relative to EGX 30 index*	**Relative to MSCI EM index

Financials	2011	2012F	2013F
EPS (EGP)	3.38	3.07	3.37
DPS (EGP)	1.00	0.91	1.00
NAV/Share (EGP)	14.44	12.97	12.97
Net Interest Margin (%)	5.4%	5.4%	5.4%
FINANCIAL SUMMARY (EGPm)			
Net interest income	2,257.7	3,261.2	3,750.1
Profit before tax	2,364.0	2,147.3	2,356.2
Attributable earnings	2,005.5	1,824.2	2,001.6
RATIOS			
RoAE	25.7%	22.4%	26.0%
RoAA	2.9%	2.0%	1.5%
Cost/Income Ratio (%)***	40.2%	44.7%	46.8%
Loans/Deposits (%)	54.0%	54.0%	54.0%
VALUATION RATIOS			
PBV (x)	1.6	1.8	1.8
PER (x)	7.0	7.7	7.0
Dividend Yield (%)	4.2%	3.8%	4.2%
Dividend payout ratio (%)	29.6%	29.6%	29.6%

***Pre provision for impaired advances

Figure 147: CIB vs MSCI EM vs CASE: IND



Q3 2011 Financial and Operational Review

CIB is the biggest bank in Egypt, with a market cap of EGP13.1bn (US$2.1bn), and offers, in addition to traditional banking products, wealth management, securitization, direct investment and treasury services. Additionally, the bank owns a number of subsidiaries, including CI Capital, which offers asset management, investment banking, brokerage and research services, in addition to the Commercial International Life Insurance Company, the Falcon Group, and Egypt Factors. CIB has won numerous awards confirming it a reputable bank both in Egypt and North Africa. Actis, a pan emerging market private equity firm, is the major shareholder with 9.3% of the issued share capital.

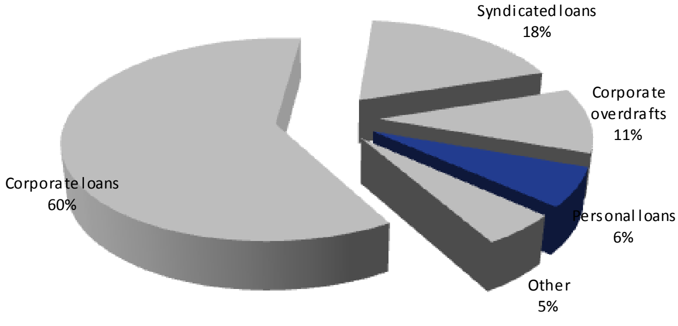
Overview of the income statement at 30 Sept 2011

- CIB reported a consolidated net income of EGP314mn in Q3 2011, down 20% y-o-y and 29% q-o-q, mainly due to a surge in booked provisions accompanied by a significant drop in net investment income.
- The net interest margin showed an improvement in Q3 2011, reaching 3.7% versus 3.5% in Q2 2011, as CIB increased its treasury bills holdings by 23% in Q3 2011 (reversing the trend of Q2 2011), accompanied by the higher growth of FX deposits.

Overview of the Balance sheet at 30 Sept 2011

- The balance sheet continued to grow despite the macroeconomic slowdown. Gross loans recorded 1.7% q-o-q growth (+8% YTD) to reach EGP39.5bn, mainly on the back of growth in retail lending (+7% q-o-q, +17.5% YTD), while corporate lending grew 1% q-o-q and 7% YTD.
- Customer deposits grew 4% q-o-q (+10% YTD), on higher FX deposits (7% q-o-q) and almost flat deposit growth. YTD, FCY deposits have grown 22%, comprising 43% of total deposits, while LCY deposits grew by only 3%. However, CIB's LCY utilisation (LDR) stood at 55%, while the FX utilisation stood at 59% as at the end of September 2011.
- NPLs increased to 2.93% at the end of the third quarter, and will probably be higher at year end, before coming down; still, a relatively low base.

Figure 148: Loan distribution by type at 31 Dec 2010



Source: CIB

Income Statement (EGPm)	Q3 2010	Q3 2011	% ch
Net interest income	1,644	1,952	19%
Other income	1,167	889	-24%
Total Income	**2,811**	**2,841**	**1%**
Provisions	(29)	(312)	988%
Expenses	(1,057)	(1,133)	7%
Profit before tax	1,725	1,396	-19%
Attributable earnings	**1,416**	**1,065**	**-25%**

Balance Sheet (EGPm)	FY 2010	Q3 2011	% ch
Cash at central Bank	5,675	4,585	-19%
Balances with banks	7,055	11,678	66%
Securities	24,556	24,634	0%
Loans & Advances	35,175	37,961	8%
Intangibles	537	457	-15%
Other	2,427	2,235	-8%
Total Assets	**75,425**	**81,550**	**8%**
Deposits	63,364	69,771	10%
Due to banks	1,322	1,515	15%
Other liabilities	2,120	1,682	-21%
Shareholders' funds	8,572	8,535	0%
Total liabilities and equity	**75,425**	**81,550**	**8%**

Net interest margin	3.3%	3.5%	7%
Cost to income ratio	37.6%	39.9%	6%
RoE	33.0%	25.0%	-24.5%
RoA	3.8%	2.6%	-30.4%
Rough CAR	13.7%	13.1%	-4.4%
Loan/Deposit	55.5%	54.4%	-2.0%

Valuation and Recommendation

While earnings will shrink in FY2011, this is a momentary lapse, caused, not by any weaknesses in the bank, but by factors related with the social/political frictions as the country's politics evolve. The biggest downside risk is the prolonged political instability, however, we believe that the painful birthing process is necessary in order to take Egypt into a new era with an open political system, stronger policies accountability and transparency, which will have an overwhelmingly positive impact on the economy. The banking sectors remains structurally profitable, intact and has a good risk profile. The prospects for future growth are very strong, with one third of the population below the age of 15, a diversified economy, and certified middle class credentials.

We relied on DCF valuation to arrive at a target price of EGP27.40, taking into account the slowdown in non-funded earnings for the full year. The bank remains well placed to gain market share from its competitors, and liquid enough to do so without needing recourse to external funding, as there is ample scope for growth by increasing the LDR. NPLs remain low and investors should take advantage of the low appetite for emerging markets, which currently prevails. **BUY.**

NSGB

البنك الأهلي سوسيتيه جنرال

NATIONAL SOCIETE GENERALE BANK

EQUITY RESEARCH

EGYPT

FEBRUARY 2012

NSGB

NSGB's conservatism paid off as the bank's avoidance of relatively riskier sectors, (notably in the tourism and real estate sectors) resulted in a reasonable outcome for the 9-month interim period. Firmer margins, improved efficiency, stable asset quality, strong liquidity and adequate capitalisation levels were the positives reflecting through the results. The bank looks to have taken more stick than its fair share from the political turmoil, and clearly looks oversold. Another bellweather stock which should outperform as the country emerges from their prolonged Arab spring.

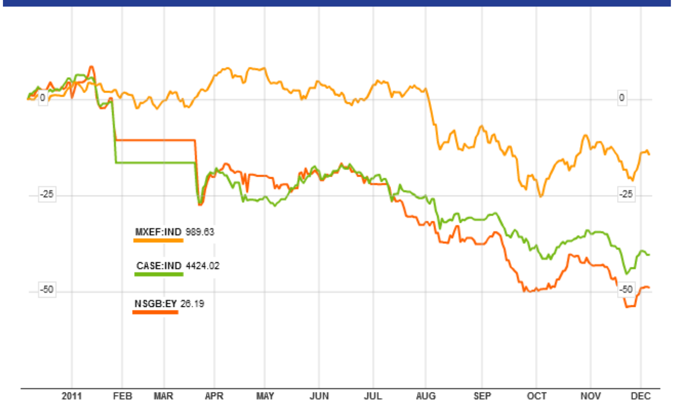
- While investment income remains largely subdued, loan growth showed resilience while book quality remained pristine.
- NSGB has an outstanding US$ denominated loan of EGP0.3 billion with EzzSteel a company that is facing legal challenges owing to pre-revolution licencing issues. Despite the fact that the NSGB can clearly stomach the loan without compromising its going concern status, Ezee Steel has also confirmed that the suspended licence affects only its expansion ambitions and not the current operations. We therefore do not expect the loan to default, but expect provisions to be higher, and dampen reported earnings.
- Asset quality remains stable, the NPL ratio fluctuates in a range of between 3.4% (Dec 10) and 3.37% currently. The coverage ratio reached 100% at the end of Sept. 2011 coming down from 102.3% at the end of 2010.
- The NSGB share price remains significantly lower that its peak price of EGP44 reached in January 2011, prior to the onset of the Arab Spring. The price bottomed out in the fourth quarter of 2011 and in Q1 2012 has made a swift comeback, with a YTD performance of 33%. Our intrinsic valuation for NSGB of EGP34.45 implies some 30% upside to the current price. **BUY**.

STRENGTHS	WEAKNESSES
Extensive branch network; strong parent Solid balance sheet, excellent liquidity Young population, low penetration levels	Highly competitive market
OPPORTUNITIES	**THREATS**
Massive opportunities for cross selling Development of consumer credit sector Massive opportunity in SME sector	Economic contraction may affect debt quality (although still improving) Inflationary pressures; protracted recession

BLOOMBERG: NSGB : EY			BUY
Current price (EGP)			28.19
Current price (US$)			4.67
Target price (EGP)			34.45
Upside/Downside			22.22%
12 month High/Low (EGP)			36.75; 18.44
Liquidity			
Market Cap (EGPm)			11,366.5
Market Cap (US$m)			1,885.0
Shares (m)			403.2
Free Float (%)			22.8
Ave Monthly value traded (US$m)			20.6
Ave Monthly volume (m)			4.4
Share Price Performance			
6 months (%)			-24.1%
Relative change (%)*			-6.7%
Relative change (%)**			255.7%
12 months			-39.1%
Relative change (%)*			196.1%
Relative change (%)**			1234.2%
** Relative to EGX 30 index*		**Relative to MSCI EM index	
Financials	**2011**	**2012F**	**2013F**
EPS (EGP)	3.32	3.97	4.23
DPS (EGP)	0.25	0.29	0.31
NAV/Share (EGP)	18.45	22.28	26.75
Net Interest Margin (%)	4.1%	4.1%	4.1%
FINANCIAL SUMMARY (EGPm)			
Net interest income	1,896.1	2,160.3	2,228.3
Profit before tax	1,590.9	1,901.4	2,027.8
Attributable earnings	1,337.8	1,599.0	1,705.2
RATIOS			
RoAE	16.3%	16.2%	31.6%
RoAA	2.3%	2.5%	2.4%
Cost/Income Ratio (%)***	45.7%	42.8%	42.8%
Loans/Deposits (%)	62.6%	62.6%	62.6%
VALUATION RATIOS			
PBV (x)	1.5	1.3	1.1
PER (x)	8.5	7.1	6.7
Dividend Yield (%)	0.9%	1.0%	1.1%
Dividend payout ratio (%)	7.4%	7.4%	7.4%

***Pre provision for impaired advances

Figure 149: NSGB vs MSCI EM vs CASE:IND



Q3 2011 Financial and Operational Review

Established in April 1978, National Société Générale Bank (NSGB) is the second largest private bank in Egypt by market capitalization and the bank is an affiliate of Société Générale, one of the largest financial services groups in the Eurozone. NSGB and Société Générale Group have, in Egypt, established several subsidiaries namely NSGB Leasing Company “Sogelease” (created in 1997), NSGB Life Insurance Co. set up in 2003 and ALD Automotive in 2005, specialized in car renting and fleet management. Additionally, the bank offers retail banking and corporate & investment banking services.

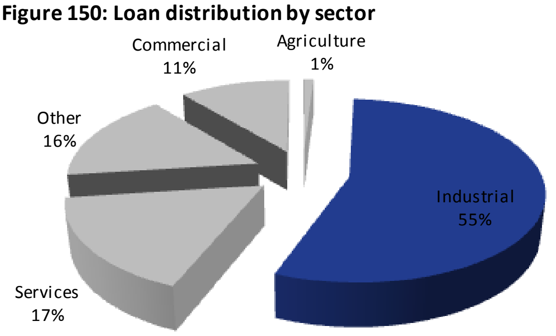
Overview of the income statement at 30 Sept 2011

- Net interest income grew 10% y-o-y and 6% q-o-q, while fees and commissions went up by 7% y-o-y but remained flat q-o-q. Interest margins, on the other hand, improved to 3.8% in Q3 2011 versus 3.7% in Q2 2011, but fell from 4.0% for Q3 2010. Net investment income, as expected. Fell by 20% y-o-y and 23% q-o-q.
- Efficiency showed improvement q-o-q, with cost to income outturn of 36% for Q3 2011 against 44% for the comparative period. This is particularly impressive considering that the improvement in efficiently is against a backdrop of reduced investment revenues.
- Profitability ratios remained solid - annualised RoE at 20%, being in line with prior year.

Overview of the Balance sheet at 30 Sept 2011

- Deposits grew 4% y-o-y driven largely by local currency deposits (+5%), restricted to the retail segment, which grew 10% compared to 1% for the corporate sector. On a q-o-q basis, Q3 2011 registered 3% growth against a 5% Shrinkage in Q2 2011. The recovery is encouraging and sets a good base for growth especially as the political situation normalises.
- Loans grew by 9% y-o-y with local currency loans making up the bulk thereof.
- NSGB maintained one of the highest LDR ratios at 65% compared to an average for the Egyptian market o f49.5% at the end of the first half.
- NPLs at 3% remain at low single digit levels and the exposure to main high risk sectors, hotels and real estate, remains low.

Figure 150: Loan distribution by sector



Source: NSGB

Income Statement (EGPm)	Q3 2010	Q3 2011	% ch
Net interest income	1,409	1,543	10%
Other income	674	656	-3%
Total Income	**2,083**	**2,199**	**6%**
Provisions	29	(79)	-376%
Expenses	(920)	(797)	-13%
Profit before tax	1,199	1,340	12%
Attributable earnings	**996**	**1,087**	**9%**

Balance Sheet (EGPm)	FY 2010	Q3 2011	% ch
Cash at central Bank	5,154	5,238	2%
Balances with banks	4,724	4,298	-9%
Securities	12,348	17,405	41%
Loans & Advances	31,345	34,193	9%
Fixed Assets	700	755	8%
Other	6,613	1,146	-83%
Total Assets	**60,884**	**63,035**	**4%**
Deposits	50,083	52,088	4%
Due to banks	942	533	-43%
Subordindated loan	812	835	3%
Other liabilities	2,426	2,435	0%
Shareholders' funds	6,621	7,143	8%
Total liabilities and equity	**60,884**	**63,035**	**4%**

Net interest margin	3.9%	3.7%	-5%
Cost to income ratio	44.2%	36.3%	-18%
RoE	20.1%	20.3%	1.2%
RoA	2.2%	2.3%	5.4%
Rough CAR	13.0%	13.4%	2.9%
Loan/Deposit	62.6%	65.6%	4.9%

Valuation and Recommendation

Apart from being part of the group of one of Europe’s largest financial institutions, NSGB continues to thrive in one of Africa’s most credible emerging markets. Post the Mubarak era, we believe the country’s economic case will improve and will be buttressed by the local financial sector’s strong fundamentals. Indeed, post Q4 we have already seen a swift re-rating of the entire Egyptian market, which is already one the best performers YTD, despite the ongoing political shenanigans.

We expect interest income to underpin performance while investment income remains subdued for the better part of 2012. Growth in net income is expected to be diluted by weak investment banking business, although the interim rally in the first quarter would suggest that investors believe that the worst is behind. We value NSGB at EGP34.45 which implies upside of some 30% and earns the company a place on our **BUY** list.

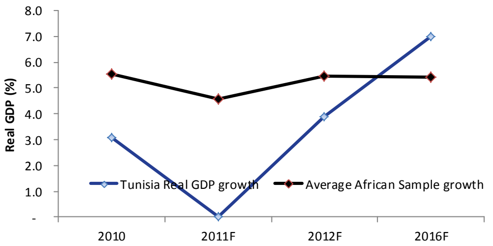
Top 10 Shareholders	**%**
Société Générale France	77.2%
Others	22.8%
Total	**100.0%**

Tunisia – Macro Highlights

Key Themes:

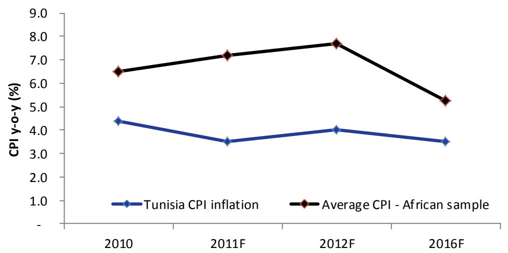
- Sound economic policies and structural reforms underpinned by increasing trade openness allowed Tunisia to record higher growth in recent years and strengthen its economic footing.
- In 2011 the economy was marked by the contraction of production and exports in most of the sectors, a drop in both domestic and external investment as well as a decrease in job creation and worsening of financial balances in the wake of the fall of the Bin Ali regime.
- The virtual stagnation of GDP in real terms over 2011 is mainly due to counter-performance in non-manufacturing industries (-5.7%), in the wake of the suspension of production in phosphate and by-products and in the energy sectors, regression of market services particularly tourism (-31%), and the slower pace of external demand. Inclusive of agriculture and fishing (+9.5%), economic growth would be negative (-0.5%) this year compared to a positive rate of 4% in 2010.
- Facing this situation and to support corporate activity and to spur investment, the Central Bank of Tunisia eased its monetary policy by reducing its key rate twice, bringing it to 3.5% as of 5 September 2011. The bank also reduced the reserve requirement rate to 2% as of June compared to 12.5% up to end of February 2011 and continued to intervene through the money markets to ensure excess liquidity.
- The current account deficit represented 7.1% of GDP in 2011, in line with tighter level of exports in non-manufacturing industries and services. As a result, there was a drop in the level of foreign currency assets to some TND10.6bn (US$7.1bn) or the equivalent of 3.8 months of imports compared to 4.9 months a year earlier.
- M3 money supply and financing of the economy grew at a slower rate of 7.9% and 13.2% respectively at the end of 2011. Bank borrowing went up markedly, requiring higher intervention by the Central Bank in the money market which averaged TND3.6bn (US$2.4bn) in December 2011 and TND3.9bn (US$2.6bn) in the first sixteen days of January 2012. Average interest rates in the money market averaged 3.19% as of the beginning of January 2012 compared to 3.23% in December 2011.
- Inflationary pressures have eased marginally in 2011 at 3.5% compared to 4.4% in the previous year.
- The Association Agreement with the European Union (EU), signed in 1995, was instrumental in raising trade openness and inducing productivity gains by exposing the industrial sector to global competition. Today Tunisia has attracted several international brands including Boeing and Hewlett Packard who have set up factories using local skilled labour.
- The Tunisian financial sector was not directly affected by the global financial crisis. Banks rely only slightly on external financing and continued attracting strongly growing deposits.
- The capital account is only partially open, which has prevented the integration of Tunisian banks with the international financial system. External assets of Tunisian banks represent only 4% of their total assets while external liabilities amount to 8.5% of total liabilities.
- Several restrictions limit capital transactions in foreign currency, including an obligation for banks to transfer their outstanding daily foreign exchange balances to the BCT and ceilings on foreign investment by Tunisian firms, foreign borrowing by banks and foreign investment in Tunisian firms. Foreign ownership—mostly long-term investors in prominent Tunisian holdings—accounts for 25% of the stock market.

Figure 151: Tunisia Real GDP Growth 2010 - 2016



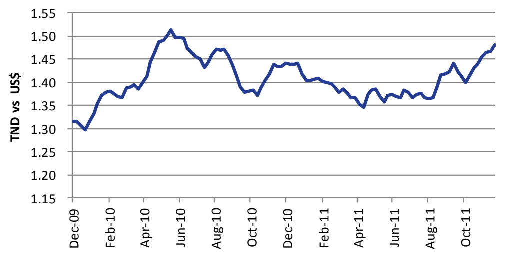
Source: IMF

Figure 152: Tunisia CPI Inflation 2010 - 2016



Source: IMF

Figure 153: Tunisian Dinar vs US$



Source: Oanda.com

- The banking sector made loans of in the region of TND2.5bn (US$1.8bn) to the Bin Ali family and the underlying assets have been nationalised. NPL's directly related to these loans amount to TND355m (US$255m) and have been provided for in full. STB and BNA were the two state banks that took the bulk of the TND215m of the hit.
- Notwithstanding the Ben Ali regime, there seems to be a hole in the banking sector and total NPL's are in the region of 5-7% of GDP (US$2bn - US$3bn).
- With 28 banks, Tunisia is clearly overbanked, for the size of the economy. Players in the banking sector expect mergers/consolidation.
- The relaxation of restrictions on French ownership imposed by Ben Ali may lead to French banks being allowed to increase their shareholdings and/or capital bases. Previously, the central bank had a nationalist/protectionist agenda, especially against the French.

Implications for the market

- TND14.5bn (US$9.7bn) market down circa 10% ytd and is trading on a 2011 p/e of 17.0x
- Like Morocco, the Tunisia stock exchange has been protected by exchange controls. For Tunisia, strong domestic demand from retail investors has also played a greater role and new tax incentives for Tunisians were introduced at the beginning of the year.
- Tunisians can invest up to TND50k per year for 5yrs and receive tax breaks.
- Tunisia will be a play a vital role in the reconstruction of cash rich Libya.
- Growth in Algeria is still relevant, however, expansion there into has not been as aggressive as expected.

Quick thoughts on Libya

- Libyan Arab spring is now over and everything has to be rebuilt from scratch.
- At US$107bn, Libya's foreign currency reserves are the second highest in Africa after Algeria (US$150bn) and vs South Africa on US$51.5bn.
- Tunisia has a significant role to play in rebuilding of Libya, Poulina has already been awarded a US$300m infrastructure contract.
- Further afield, Libya has significant tourism potential. With a large head start, and already attracting 6m tourists a year, the synergies with Tunisia are obvious.
- On 12 December 2011, former dissident and veteran human rights activist Moncef Marzouki was elected as president of Tunisia, and sworn in on 13 December 2011. Marzouki was imprisoned and exiled for years for opposing former President Zine el Abidine ben Ali. Marzouki, head of the secular centre-left Congress for the Republic party, was elected Monday by a ruling coalition dominated by the moderate Islamist Nahda party. The Islamist Nahda party "won the largest share of seats in an assembly charged with appointing a transitional government and drafting a new constitution.
- The European Union remains Tunisia's first trading partner, currently accounting for 72.5% of Tunisian imports and 75% of Tunisian exports. Tunisia is a one of the European Union's most established trading partners in the Mediterranean region and ranks as the EU's 30th largest trading partner. Tunisia was the first Mediterranean country to sign an Association Agreement with the European Union, in July 1995, although even before the date of entry came into force, Tunisia started dismantling tariffs on bilateral EU trade. Tunisia finalised the tariffs dismantling for industrial products in 2008 and therefore was the first Mediterranean country to enter in a free trade area with EU.
- Tunisia also attracted large Persian Gulf investments (especially from United Arab Emirates) the largest include:
  - Mediterranean gate: a US$25bn project to build a new city in the south of Tunis.
  - Tunis Sport City: an entire sports city currently being constructed in Tunis. The city that will consist of apartment buildings as well as several sports facilities will be built by the Bukhatir Group at a cost of US$5bn.
  - Tunis Financial harbour: will deliver North Africa's first offshore financial centre at Tunis Bay in a project with an end development value of US$3bn
  - Tunis Telecom City: A US$3bn project to create an IT hub in Tunis.

EQUITY RESEARCH

TUNISIA

FEBRUARY 2012

Attijari Bank

Tunisia boasts one of the highest per capita GDP's in Africa, and one of the most competitive countries. Post the Tunisian Arab spring, the economic gains made, especially vis à vis the economic integration into Europe, will continue apace. With the political revolution now well behind up, tourist numbers picked up in Q4 and should recover fully in 2012. The national focus has been on recovering lost ground in 2011 and emerging even stronger in 2012 and beyond.

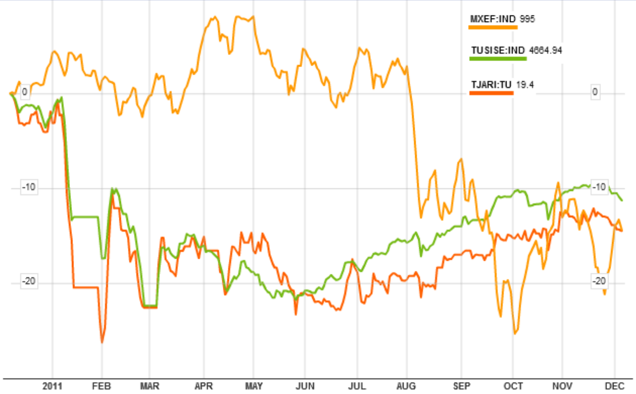
- With one of the soundest economies in Africa, Tunisia was little swayed by the global economic crisis in 2009/8 and has even been resilient to the revolution which led to the ouster of the Bin Ali regime. The extent of the structural rigidity within the economy was witnessed by the fact that the economy shrunk by only half a percent in 2011, patently out of line with the economic impact of socio/political problems in most of the world. This is more impressive still, when viewed against the backdrop of the calamitous European sovereign debt crisis, which is Tunisia's largest trading partner.
- Attijari's performance in 2011 mimicked the general trend, however despite sluggish deposit growth, there has been a marked focus on loan growth to ensure future profitability. At close to 90%, the LDR implies tight liquidity and the bank will most likely have to keep dipping into the local money market to meet short term positions.
- Attijari has started the year on a poor footing and YTD has already registered a share price drop of some 7%. Out discounted valuation implies little upside, mostly because, supported by tax incentives and local institutional demand, the Tunisian bourse has held its own and was not as shaky as Egypt was, for example. Foreign appetite remains low, however, and a resolution on the horizon now in Europe, there may be renewed investor demand for exposure the Tunisia, post the revolution. We are not overly excited. HOLD.

STRENGTHS	WEAKNESSES
Aggressive retial expansion programme Solid balance sheet Well diversified; Strong parent company	Sophisticated banking sector with relatively less upside potential Low efficiency at interim date
OPPORTUNITIES	**THREATS**
continued cross selling and innovation Great integration of Mahgreb region new MENA asset class with increased int.	Prolonged depression in external demand Slump in tourism/remittances

BLOOMBERG: TJARI : TU			HOLD
Current price (TND)			17.29
Current price (US$)			11.58
Target price (TND)			16.39
Upside/Downside			-5.2%
12 month High/Low (TND)			22.21 - 18.85
Liquidity			
Market Cap (TNDm)			583.5
Market Cap (US$m)			390.7
Shares (m)			33.8
Free Float (%)			22.7
Ave Monthly value traded (US$m)			2.5
Ave Monthly volume (m)			0.2
Share Price Performance			
6 months (%)			0.0%
Relative change (%)*			-100.0%
Relative change (%)**			-100.0%
12 months			-22.1%
Relative change (%)*			329.9%
Relative change (%)**			654.9%
** Relative to TUNINDEX*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (TND)	1.41	1.62	1.79
DPS (TND)	-	0.30	0.33
NAV/Share (TND)	9.48	11.42	13.61
Net Interest Margin (%)	2.6%	2.6%	2.6%
FINANCIAL SUMMARY (TNDm)			
Net interest income	92.1	104.9	115.4
Profit before tax	78.4	90.1	99.2
Attributable earnings	47.7	54.8	60.4
RATIOS			
RoAE	16.6%	15.5%	14.3%
RoAA	1.2%	1.3%	1.3%
Cost/Income Ratio (%)***	47.9%	47.8%	48.4%
Loans/Deposits (%)	84.6%	84.6%	84.6%
VALUATION RATIOS			
PBV (x)	1.8	1.5	1.3
PER (x)	12.2	10.7	9.7
Dividend Yield (%)	0.0%	1.7%	1.9%
Dividend payout ratio (%)	0.0%	18.5%	18.5%

***Pre provision for impaired advances

Figure 154: Attijari vs MSCI EM vs TUNINDEX



Q3 2011 Financial and Operational Review

Attijari is a subsidiary of the Moroccan banking giant Attijariwafa Group which has a presence in 22 countries and continues to grow steadily. In Tunisia, Attijari has 169 branches and has a medium term plan to expand the branch network by about 20 branches a year. While internet and mobile distribution channels are growing, they are doing so from a relatively low base, hence the efforts towards a brick and mortar network. Apart from retail banking, which is the largest segment the bank also participates in the leasing and capital markets.

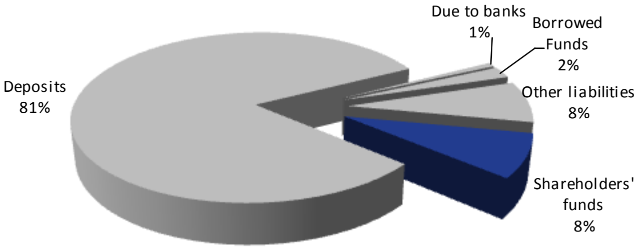
Overview of the income statement at 30 June 2011

- Net interest income increased by 19% which was a result of the more aggressive expansion of the lending book, as NIMs remained unchanged from the prior year.
- Non funded income streams were flat, and total income showed an increase of 8% y-o-y.
- Operating expenses increased by 13%, which was more aggressive than the rate of inflation, and attributable to the continued focus on branch expansion, which will eventually lead to an increase in deposits. Against the strong top-line performance, the cost to income ration ended the period at 54.8%, which is not bad for a bank rolling out 20 year branches per year, on average.
- The bottom line shows a 5% drop, which was entirely attributable to a dramatic increase in the effective tax rate, from 11% to 33%.

Overview of the balance sheet at 30 June 2011

- Deposits grew marginally, by 5% to TND3.2bn (US$2.2bn) and make up the bulk of the groups funding.
- Interbank borrowings dropped by 58% to TND32m, while borrowed funds increased by 133% to TND87m, reflecting the 7 year bond issued. This will be another possible source of funding for the bank, as it continues to aggressively focus on loan growth.
- On the assets side of the balance sheet, loans strongly by 17% at the interim date. While the loan growth is disproportionate with the deposits growth, we do not anticipate a slowdown, as the central bank is deliberately maintaining liquid markets to spur local growth.

Figure 155: Funding structure



Source: Attijari

Income Statement (TNDm)	H1 2010	H1 2011	% ch
Net interest income	38.1	45.5	19%
Other income	43.9	43.4	-1%
Total Income	**82.0**	**88.9**	**8%**
Provisions	(8.0)	(1.0)	-87%
Expenses	(43.3)	(48.7)	13%
Profit before tax	**30.8**	**39.2**	27%
Attributable earnings	**27.3**	**26.1**	**-5%**
	(3)	(13)	**279%**

Balance Sheet (TNDm)	H1 2010	H1 2011	% ch
Cash at central Bank	431.7	196.7	-54%
Balances with banks	145.7	249.6	71%
Securities	309.0	303.6	-2%
Loans & Advances	2,512.2	2,944.3	17%
Fixed Assets	136.8	137.6	1%
Other	198.3	216.7	9%
Total Assets	**3,733.8**	**4,048.5**	**8%**
Deposits	3,120.7	3,289.9	5%
Due to banks	76.3	32.1	-58%
Borrowed Funds	37.2	86.7	133%
Other liabilities	234.1	312.4	33%
Shareholders' funds	265.5	327.5	23%
Total liabilities and equity	**3,733.8**	**4,048.5**	**8%**

Net interest margin	2.6%	2.6%	1%
Cost to income ratio	52.7%	54.8%	4%
RoE	20.6%	15.9%	-22.6%
RoA	1.5%	1.3%	-12.0%
Rough CAR	9.6%	11.5%	19.9%
Loan/Deposit	80.5%	89.5%	11.2%

Valuation and Recommendation

The experience of the global financial crash, Tunisian revolution and even the ongoing European sovereign crisis, Tunisia has remained a steady ship, with gradual growth and no surprises. This has largely been due to the sheltered nature of the market, as supported by local exchange controls and a very active and liquid local investment market. This was further supported by tax incentives for medium term investors on the local bourse, in the absence of much foreign appetite.

Share prices in Tunisia have consequently been a good retainer of value and for the large part, significant pockets of opportunity are few and far between. The same goes for Attijari, which in our opinion is fully valued. **HOLD.**

Top 5 Shareholders	%
Andalucarthage*	54.6%
Group Driss	11.7%
Group Mzabi	9.9%
Groupe Ennakl	3.3%
Hedi Daoud	2.1%
Free float	18.4%
Total	**100.0%**

* Attijariwafa proxy

Banque Internationale Arabe de Tunisie

BIAT is one of the largest banks in Tunisia and the Maghreb, controlled by the Mabruk family, one of the wealthiest in the country. The bank has a predominant focus on the corporate and investment banking, where its size has afforded it consistent real growth. Despite being financially sound, and although the country's risk profile has lowered, post the revolution, the market valuation for BIAT remains absurdly high.

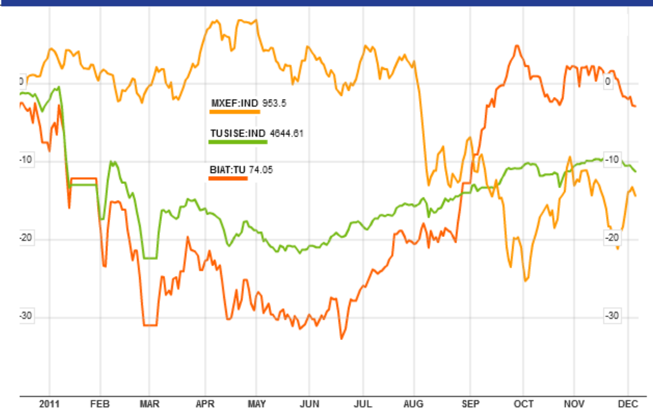
- BIAT controls 15% of total deposits and 11% share of loans in Tunisia and enjoys the lowest cost of funding in the market at 2.1%. For this reason, BIAT was able to increase their NIMs at the interim date by focussing on loan growth.
- Loan growth of 14% at H1 2011 compared to CPI inflation of 3.5% is reflective of the bank's strategy, which is in sync with that of the authorities, to reinvigorate economic activity in the country, post the revolution. With greater transparency and accountability now in place, we see a general improvement in the quality of debt in the banking sector, as name lending has effectively been eradicated. This goes a large extent in explaining the very high impairment ratios that the country has had historically, despite their relatively sophisticated banking system.
- With the flight to quality that took place following the revolution, banks hiked interest rates in order to keep clients. BIAT decided to reduce some of the more expensive term deposits, hence the stagnation of deposits at the interim date.
- Net NPLs at the end of June 2011 were at 8% of the book; the bank's target is to bring it to under 7% by year end. With the improvement in tourism already showing in Q4, this is not an unreasonable target.
- BIAT is clearly overvalued on a 2012 PER of 19x. **SELL.**

STRENGTHS	WEAKNESSES
Lowest cost deposits in market	Need to recapitalise - 80% lent
Improving loan quality - NPLs 8 %	High NPLs at 8%, albeit improving
McKinsey helped with reducing risk	Tunisia already one of the most
Largest capitalisation on bourse	developed in Africa; small ppn
Strong risk asset growth	New Politicians untested
OPPORTUNITIES	**THREATS**
50 new branches over 5 years	Entry of French banks; competition
Opportunities in banking sector post	Local currency weakness
the Bin Ali regime which was prioritised	Euro crisis contagion to industry and
Growth into Libya/Algeria	tourism
Increased investment into Tunisia	

BLOOMBERG: BIAT : TU			SELL
Current price (TND)			72.00
Current price (US$)			48.21
Target price (TND)			34.57
Upside/Downside			-52.0%
12 month High/Low (TND)			80.80; 52.60
Liquidity			
Market Cap (TNDm)			1,224.0
Market Cap (US$m)			819.6
Shares (m)			17.0
Free Float (%)			49.1
Ave Monthly value traded (US$m)			10.6
Ave Monthly volume (m)			0.2
Share Price Performance			
6 months (%)			35.6%
Relative change (%)*			147.5%
Relative change (%)**			-624.9%
12 months			-4.9%
Relative change (%)*			150.5%
Relative change (%)**			66.0%
** Relative to TUNINDEX*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (TND)	2.79	3.22	3.79
DPS (TND)	2.00	2.30	2.72
NAV/Share (TND)	29.7	33.3	37.5
Net Interest Margin (%)	2.83%	2.83%	2.83%
FINANCIAL SUMMARY (TNDm)			
Net interest income	166.7	189.5	218.0
Profit before tax	74.3	85.6	100.9
Attributable earnings	47.5	54.7	64.5
RATIOS			
RoAE	9.5%	10.2%	10.7%
RoAA	0.7%	0.8%	0.8%
Cost/Income Ratio (%)***	56.3%	54.7%	52.8%
Loans/Deposits (%)	70.9%	70.9%	70.9%
VALUATION RATIOS			
PBV (x)	2.4	2.2	1.9
PER (x)	25.8	22.4	19.0
Dividend Yield (%)	2.8%	3.2%	3.8%
Dividend payout ratio (%)	71.6%	71.6%	71.6%

***Pre provision for impaired advances

Figure 156: BIAT vs MSCI EM vs TUNINDEX



Q3 2011 Financial and Operational Review

BIAT is the largest bank in Tunisia by market capitalisation and is predominantly a corporate bank with a focus on the large companies and SME's which was started in 1977. Being one of the highest capped stocks on the Tunisian bourse, BIAT is one of the bell weather stocks on the markets. Valuations are rather pricey and we think upside is limited.

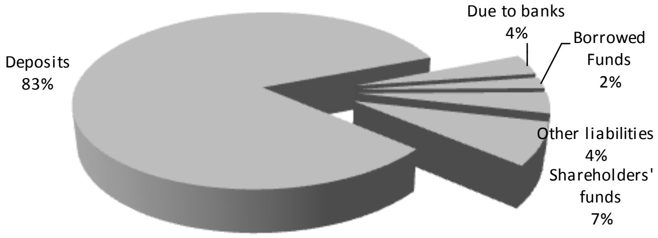
Overview of the income statement at 30 June 2011

- Funded earnings surged ahead, by 22% to TND92m on a firming of NIMs and a bigger loan book, for former which on an annualised basis increased from 2.8% to 3.2%.
- Fees and commissions increased by 9% to TND70.8m, and made up 43% of total revenues.
- Operating expenses increased by 15% to TND89m and against the solid topline level, efficiency ratios improved to 55%, which was in line with the prior year, and not out of sync with the average for the sector.
- PBT increased by 21% and attributable earnings increased by 12% and here again there was a spike in the effective tax rate from 23% to 28%.
- Profitability ratios registered a slight improvement with the return on equity moving up to 21.7% which is a solid return, against local inflation of in the region of 3.5%.

Overview of the balance sheet at 30 June 2011

- Deposits ended the period flat at TND5.6bn (TND3.7bn) and was the main component of the banks funding. Borrowed funds constituted on only 2% of total assets and the bank's gearing is very low.
- In line with the government's thrust to reignite the economy, post the revolution, loans grew by TND4.5bn (US$3bn). Debt quality improved slightly with the NPL ratio moving from 8.2% to 8.0%. This compares poorly against our African sample which is on a weighted NPL ratio of 5.1%, including South Africa. NPLs directly related to the Bin Ali family amounted to some TND18m.
- In line with the sector, the banks is heavily lent, with an LDR of 80.7% as at the end of June 2011 and a rough CAR of 9.1% indicates the need to either reduce lending levels or improve capitalisation via debt or money markets to avoid an internal crunch.

Figure 157: Funding structure



Source: BIAT

Income Statement (TNDm)	H1 2010	H1 2011	% ch
Net interest income	75.1	92.0	22%
Other income	65.2	70.8	9%
Total Income	**140.4**	**162.8**	**16%**
Provisions	(16.9)	(18.4)	9%
Expenses	(77.5)	(89.0)	15%
Profit before tax	45.9	55.4	21%
Attributable earnings	**35.0**	**39.3**	**12%**
	(11)	(16)	

Balance Sheet (TNDm)	FY 2010	H1 2011	% ch
Cash at central Bank	272.8	95.6	-65%
Balances with banks	1,246.7	1,041.7	-16%
Securities	201.5	215.1	7%
Loans & Advances	3,972.6	4,516.3	14%
Fixed Assets	142.4	143.2	1%
Other	685.6	733.6	7%
Total Assets	**6,521.6**	**6,745.5**	**3%**
Deposits	5,601.8	5,595.4	0%
Due to banks	91.3	248.3	172%
Borrowed Funds	144.0	136.3	-5%
Other liabilities	179.9	255.3	42%
Shareholders' funds	504.7	510.2	1%
Total liabilities and equity	**6,521.6**	**6,745.5**	**3%**

Net interest margin	2.8%	3.2%	15%
Cost to income ratio	55.2%	54.7%	-1%
RoE	13.9%	15.4%	11.1%
RoA	1.1%	1.2%	8.6%
Rough CAR	10.1%	9.1%	-9.8%
Loan/Deposit	70.9%	80.7%	13.8%

Valuation and Recommendation

Although earnings are recovering from the revolution induced economic slowdown, we are not overly excited by Tunisia's prospects. The plans to advance with the growth agenda, creating new hugs to technology, aviation, motoring etc. are all very positive, and the recovery in tourism inflows is welcome. From an investor's viewpoint, however, the market dynamics have not changed too much. The bourse remains one of the most expensive in the world, and while we see the banking sector performing markedly better in 2012, valuations are still eye-wateringly lofty.

BIAT is trading on a 2012 earnings multiple of 19.1x, which is unjustifiably high, especially taking into account the less than impeccable book, suffering impairments of 8%. **SELL.**

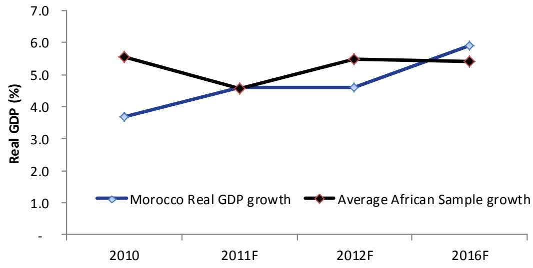
Top 10 Shareholders	%
Mabruk Family	38.0%
Miled	13.0%
Tarmasist	9.5%
Other	39.5%
Total	**100.0%**

Morocco – Macro Highlights

Key Themes:

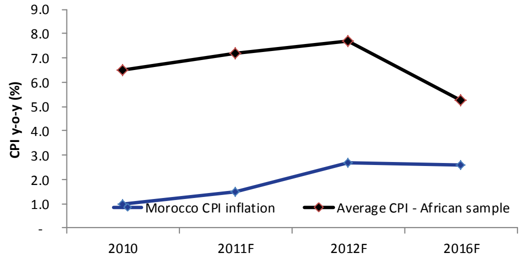
- Despite a deterioration of economic situation of its trading partners, particularly in the Euro area, Morocco's economic performance has remained solid. GDP grew by 5.6% in 2008, despite the declines in the manufacturing, tourism, and export sectors that were registered in the last months of the year.
- In light of the recent stabilizing trends in these sectors and relatively sustained domestic demand, real non-agriculture GDP is expected to grow by about 2.5% in 2009. Combined with the record cereal production, overall GDP growth is projected at about 5%.
- CPI inflation is expected to fall from 3.9% in 2008 to below 2% in 2009, partly as a result of the global decline in commodity prices.
- Specifically, after having reached over 5% of GDP in 2008, the deficit should fell to about 4.5% in 2009.
- In the absence of inflationary pressures, the key interest rate was reduced by 25bps in March 2009, bringing it to 3.25%. Within the context of increased structural liquidity needs, due principally to reduced net foreign exchange inflows, Banque Al-Maghrib (BAM) gradually reduced reserve requirements for banks from 15% to 8% during 2009. It also increased the volume of its money market interventions.
- Morocco's financial system remains robust also because of its limited integration with the external world, it has not felt the direct effects of the global financial crisis. Rather, it is the slowdown of activity in certain sectors, particularly real estate, that could lead to a slight increase in NPLs.
- After witnessing growth of over 20% in 2007 and 2008, related to most sectors, particularly the real estate, credit growth is expected to slow to about 12-13% in 2009. This is still quite high and continued vigilance is needed. NPLs fell considerably, from 15.7% in 2005 to 5.5% in June 2009. However, the figures reflect in part a process of cleaning up the balance sheets of banks by writing off old NPLs that are fully provisioned, and thus do not reflect only recent credit trends
- Average GDP growth of 4% expected vs inflation of 2%. Stable economics has been the driver of growth over the past decade.
- In 2000 GDP was US$48.7bn and now is US$97.3bn, essentially doubling in 10 years. This is directly attributable to policies introduced by King Mohammed V, who is credited with opening up country, mostly to western investment.
- The King is 52 years old and has been ruling for 12 years. As the Alaouite dynasty is linked to the prophet, the king is also the spiritual leader for Moroccan Muslims.
- On the other hand, if you factor in inflation and population growth, 4% growth per annum is stagnant
- Inflation very low – circa 1-2% p.a., mainly due to subsidies which amount to about MAD40bn (US$4.7bn) per annum, for sugar, gas, petrol (MAD7 or US$0.83/litre) and cereals, in the main.
- This is the principle cause of the fiscal deficit and the single largest risk is currency instability in the event of a spike in commodities prices.
- The MDA is pegged on a trade weighted basis to a weighted basket made up of the Euro (80%) and the US$ (20%) dollar.
- Plans have been announced to free float the currency in 5 years' time

Figure 158: Morocco Real GDP Growth 2010 - 2016



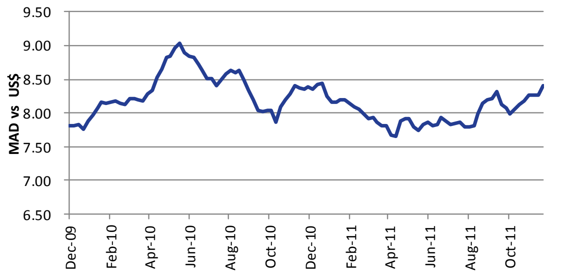
Source: IMF

Figure 159: Morocco CPI Inflation 2010 - 2016



Source: IMF

Figure 160: Moroccan Dirham vs US$



Source: Oanda.com

- It is important to acknowledge that Morocco has only had 12 years of liberalised economic management so is just really beginning to enter the real world now.
- Morocco was invited to join the Gulf Co-operation Council in the near future with the following benefits:
  - less restrictive FDI;
  - lower priced loans from the multilateral banks and maybe also some cheap oil;
  - Easier to export workers to the Middle East to replace those from India and Indonesia
- Currently 3m (10% of population) Moroccans live abroad and account for 25% of banking deposits in Morocco.
- Morocco has strong FDI inflows which average of MAD25bn (US$3.0bn) per year. 2010 was an exceptional year as it marked the entry of Renault who invested MAD37bn (US$4.36) into a car factory with an annual capacity of 400,000 cars, by the deep sea harbor in Tangiers.
- There is an increasing focus on developing an industrial hub in the country, with global players to produce goods using lower cost labour, for France and the European market.
- A deal to introduce Bombardier is also currency underway, and Royal Air Maroc already run a regional maintenance centre, with the main advantage being relatively cheaper skilled labour, with very similar characteristics to the model adopted by the Indians in the IT sector.
- The central bank has 5 months of import cover which has reduced from about 7 months.
- Increasing sophistication in the services sector and nature of FDI e.g. Renault plant, 20 000 employees in the Airbus plant, Boeings Assembly plant etc. Most of the cables now manufactured locally.
- ▪ New Tangiers port cuts the lag from the US to 7 days for ships and Morocco is acting as a cheap (labour-wise) hub for French companies.
- A new regionalization initiative will see other regions marketing themselves more actively to international tourists who currently only visit Marrakech and Fes in the main.
- Plans are in place to create an International Financial Services Centre in Casablanca, like Dubai.

Stock Market Overview

- Market down 12% in FY2011 vs an expectation of a 20% drop, which is what the MXEF lost.
- The market is supported by the large local pension funds, who have can only invest up to 15% of their assets internationally. Foreign exchange restrictions also place local Moroccans in the same position.
- **Impact of Arab Spring**
- It is estimated that Morocco's Arab Spring increased the country's currency account deficit by an amount equivalent to about 1% of GDP.
- The now famous February 20th movement saw demonstrators demanding political, social and economic reforms in a monarchical context. The protests were broad based and included extremists, communists, a splattering of Islamists, mostly of whom are young and unemployed.
- On March the 9th King Mohammed gave a historical speech to the nation whereby he appointed an ad hoc commission to revise the constitution taking essence on the following elements:
  - Regionalisation of the country with regional economic autonomy (12 autonomous regions)
  - Plurality of the Moroccan identity (Arabs, Berber 60% of population, Africans from Sudan)
  - Expand the scope of collective and individual freedoms
  - Make the judiciary an independent power
  - Strengthen the principal of separation of powers
  - The creation of a parliament emerging from free and fair elections (Previously parliament was appointed by the king – he still has veto power however)
  - Appointment of a prime minister from the political party which wins the most seats in parliament
- The broad feeling is that despite the proposed reforms, the power will still be concentrated in the monarchy, without the strife seen in other Arab nations.

- **Changes affecting the market**
- ONA and SNI (Monarchy's investment vehicles) which controlled at least 25% of the market cap were merged and delisted (all major sectors oil, sugar, milk, banks, mining, construction and infrastructure)
- Following the delisting of ONA/SNI, the government has announced plans to dispose of some companies in the portfolio (mostly mature), including:
  - Lesieur Cristal (Vegetable fats) – already sold to Lesieur France
  - Centrale latiere (Milk and dairy)
- Proceeds are being reinvested into new projects, including renewable energies.

EQUITY RESEARCH

MORROCCO

FEBRUARY 2012

Attijariwafa Bank

In spite of the Arab Spring that swept across several of the countries in which the group is present, Attijariwafa, returned a strong interim performance. Operations in Cote d'Ivoire and Libya were ring-fenced, and with their extensive footprint that spans 23 countries, the group was able to still accommodate client's banking needs, in spite of the domestic crises. Post the revolutionary 2011, the group is likely to emerge stronger, as many of the countries that were affected have stepped up plans to accelerate GDP growth. We still think valuations are pretty full to rich. HOLD.

- ATW has a regional presence covering Morocco (1,655 branches) and the largest economies in francophone North and West Africa including Tunisia (169 branches), Senegal (134 branches), Mali (56 branches). The group also has 58 branches in Europe and the Middle East to target the Moroccan, Tunisian and West African diaspora with intermediation and money transfer solutions adapted to their needs.
- The group's strength through diversification resulted in an earnings pattern that bucked the Arab Spring, being testimony of the group's success in creating a diversified financial group.
- Attijariwafa's key attraction lies in the demographic and economic makeup of the countries in which it is active, typically that display robust GDP growth, with low banking penetration levels and favourable demographics. The penetration drive is top priority still and the bank continues to expand and has made new acquisitions in Cameroon and Mauritania.
- Traditionally, the Moroccan market has traded at much higher multiples, driven by strong local institutional demand. Currently trading on a FY2012 earnings rating of 13.7x, ATW is fully valued and shareholders should **HOLD**. With confidence still jittery, investors should add to their portfolios at opportune times.

STRENGTHS	WEAKNESSES
Largest bank in Morocco Regional presence spanning 21 countries Solid balance sheet; low cost base Diversified regionally, 25% foreign deposits No Arab Spring	High loan/deposit ratio will limit growth Tight margins Exposure to Tunisia/Cote d'Ivoire led to write offs in H1 2011
OPPORTUNITIES	**THREATS**
Low penetration levels; scope for growth Developing middle class in Morocco Morocco's entry into GCC Expansion into Africa - Acq of SCB Cameroon and BNP Paribas in Mauritania	Weak Euro market for North African exports and also for tourism Potential of a real Arab Spring?

BLOOMBERG: ATW : MC	HOLD
Current price (MAD)	373.00
Current price (US$)	44.10
Target price (MAD)	275.18
Upside/Downside	-26.23%
12 month High/Low (MAD)	427.00 - 340.00
Liquidity	
Market Cap (MADm)	71,987
Market Cap (US$m)	8,510
Shares (m)	193.0
Free Float (%)	29.5
Ave Monthly value traded (US$m)	9.7
Ave Monthly volume (m)	0.2
Share Price Performance	
6 months (%)	0.3%
Relative change (%)*	-107.4%
Relative change (%)**	-104.6%
12 months	-6.6%
Relative change (%)*	165.3%
Relative change (%)**	124.4%
** Relative to CFG 25 index*	***Relative to MSCI EM index*

Financials	2011	2012F	2013F
EPS (MAD)	23.10	27.18	30.03
DPS (MAD)	6.79	7.99	8.83
NAV/Share (MAD)	154.41	176.51	200.93
Net Interest Margin (%)	3.4%	3.4%	3.4%
FINANCIAL SUMMARY (MADm)			
Net interest income	9,765	11,405	12,654
Profit before tax	7,946	9,350	10,332
Attributable earnings	4,458	5,246	5,796
RATIOS			
RoAE	15.4%	16.4%	15.9%
RoAA	1.4%	1.4%	1.4%
Cost/Income Ratio (%)***	44.4%	44.0%	45.0%
Loans/Deposits (%)	105.4%	105.4%	105.4%
VALUATION RATIOS			
PBV (x)	2.4	2.1	1.9
PER (x)	16.1	13.7	12.4
Dividend Yield (%)	1.8%	2.1%	2.4%
Dividend payout ratio (%)	29.4%	29.4%	29.4%

***Pre provision for impaired advances

Figure 161: ATW vs MSCI EM vs CFG 25 Index

Q3 2011 Financial and Operational Review

With a market capitalisation of over US$8.5bn, Attijariwafa is the 7th largest bank in Africa. The Group has the largest branch network in Morocco and is aggressively continuing its international expansion drive, in particular in the Maghreb region and in West and Central Africa. Recent acquisitions in Burkina Faso, Mauritania and Cameroon has expanded the group's footprint to cover 23 countries, many of which, especially in West Africa, have very low penetration levels. ATW has not compromised quality of earnings for growth, a differentiator, in our opinion.

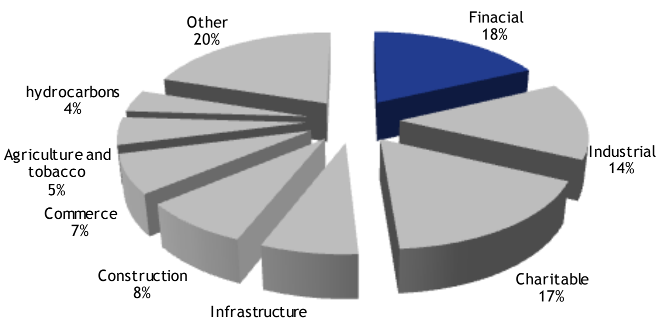
Overview of the income statement to 31 Dec 2011

- Net interest earnings increased by 14% on the back of 10% increase in loans on flat margins of 3.6%. Attijariwafa in Morocco remains the largest contributor to the bottom-line at 59%, Wafa Assurance at 19%, Wafasalaf 4%, Attijari Tunisia (3%), Wababail - leasing (2%), Central Bank of West Africa (CBAO, 2%), CDC (2%), Union Gabonaise de Banque - UGB (2%).
- Non funded income was slow (+6%) due to the slowdown in the local economy during the Arab Spring and less active capital markets.
- Expenses growth was contained to 12% and the cost to income ratio weakened slightly from 44% to 45%, though still very competitive.
- Attributable income for the period increased by 9% for a RoE of 10.9% and a RoA of 1.3%. In summary, not a terrible performance in a revolutionary year.

Overview of the balance sheet at 30 June 2011

- Deposits ended the period 9% firmer at MAD218bn (US$25.8bn). At this level the market share of Attijariwafa bank stands at 26.4%.
- Customer loans posted a 15.2% rise to MAD230bn (US$27.2bn). The market share of the bank for total loans stood at 26.4%.
- Debt quality improved over the comparative period, with distressed loans declining to 5.4% of the book. The Moroccan economy has help up pretty well in the credit crunch, relying on strong domestic demand to drive earnings.
- Aggressive loan growth in Q4 pushed the LDR to 105%, which ranks as one of the highest in Africa, but capital adequacy levels and NPLs are still in check.

Figure 162: Loan distribution by sector at 31 Dec 2010



Source: Attijariwafa

Income Statement (MADm)	FY2010	FY2011	% ch
Net interest income	8,899	9,765	10%
Other income	5,789	6,133	6%
Total Income	**14,687**	**15,898**	**8%**
Provisions	(1,218)	(750)	-38%
Expenses	(6,422)	(7,202)	12%
Profit before tax	7,047	7,946	13%
Attributable earnings	**4,102**	**4,458**	**9%**

Balance Sheet (MADm)	FY2010	FY2011	% ch
Cash at central Bank	13,374	13,818	3%
Cash on hand			n/a
Balances with banks	16,913	15,164	-10%
Securities	29,922	25,966	-13%
Loans & Advances	200,217	230,682	15.2%
Fixed Assets	6,044	6,236	3%
Other	40,186	51,587	28%
Total Assets	**306,655**	**343,452**	**12%**
Deposits	201,448	218,815	9%
Due to banks	23,007	34,656	51%
Borrowed Funds	11,872	15,613	32%
Other liabilities	30,651	33,293	9%
Shareholders' funds	39,678	41,075	4%
Total liabilities and equity	**306,655**	**343,452**	**12%**

Net interest margin	3.6%	3.6%	0%
Cost to income ratio	43.7%	45.3%	4%
RoE	10.3%	10.9%	5.0%
RoA	1.3%	1.3%	-3.0%
Rough CAR	14.4%	13.1%	-9.0%
Loan/Deposit	99.4%	105.4%	6.1%

Valuation and Recommendation

Being the premier financial vehicle for the Kingdom, Attijariwafa has been at the forefront of Morocco's economic miracle, which, in just over a decade, has seen the doubling of GDP. Morocco has been invited to join the GCC, but remains steadfast in the ambition to focus on the development of the Arab Maghreb Union, which remains in limbo due to stalemate over the fate of Western Sahara. Entry into the GCC has several immediate positives, most importantly concessional loans and FDI, and ATW, is likely to be the main beneficiary in the financial sector.

Valuations remain rather lofty and out sync with the pan-African sample. ATW pan-African expansion and dominance in Africa's most stable monarchy underpins its blue-chip status however and the prospect of full GCC membership is a silver lining. **HOLD**.

Top 10 Shareholders	%
SNI	48.7%
Groupe Namda & MCMA	8.1%
Wafa Assurance	6.9%
Santusa Holding	5.6%
Regime Collectif d'allocation et de retraite	4.1%
CIMR	2.4%
CDG	2.4%
Caise Marocaine de retraite	2.3%
RMA Watanya	1.9%
AXA Assurances Maroc	1.1%
Other	16.6%
Total	**100.0%**

EQUITY RESEARCH

MOROCCO

FEBRUARY 2012

BANQUE POPULAIRE

FAITE POUR VOUS

Banque Centrale Populaire

Banque Centrale Populaire's roots can be traced to 1926, when the group's started out as a co-operative to support the country's agricultural sector. With the regionalisation of the Kingdom, BPC will be instrumental in the development of each province into an economic hub, especially in the area of tourism, which is one of the targeted areas for expansion. As a more direct organ of the state, the bank is a less efficient operator and not the first choice in the Moroccan market.

- Through the Paris based subsidiary, Banque Chaabi du Maroc (BCDM), the group has in recent years accelerated its thrust to tap into the large number of Moroccans living in Europe and in the Middle East. This division has opened up branches in France, Spain and UAE which are home to the bulk of the estimated 3.3m Moroccans living abroad. Money transfer services have been introduced to increase the group's share of the circa US$6bn in remittances destined for Morocco each year.
- In April 2011 government sold a 20% stake in the bank, to the regional banks in order to fortify the bank as a mutual bank and bring it in line with international norms. Post the transaction, the Regional Banks now own 39% of the bank while the state portion has reduced to 20%.
- Two capital increases have been planned over the next two years, which aim to increase the bank's equity by in the region of 30%. This will improve liquidity levels.
- The first capital raise will take place in the form of a rights offer with 5% being sold to staff and 10% via the market.
- The biggest disadvantage of the bank is the fact that it is one of the direct state mechanisms used direct monetary policy and investment. Consequently, profitability alone is not the singular motive. Returns are surprisingly not comparable to largest peer ATW, and neither are the valuations. Currently trading at a 40% discount to NAV, BCP has actually outperformed both ATW and the market. Still room for further upside. **BUY**.

STRENGTHS	WEAKNESSES
Part of one of the largest banks in Africa Extensive branch network Banker to the Kingdom Decade of strong growth driven by opening of economy	Stiff competition, low profitability Slowdown in the Eurozone to dampen remittances and tourism receipts State bank, hence not entirely focussed on profitability
OPPORTUNITIES	**THREATS**
Improving top down for Morocco Stable economy with strong remittances and export income; emerging middle class Entry into GCC New regionalisation programme	Build up of bad loans in exposed sectors ie exports and hotels/tourism Ongoing spat wth Algeria over W. Sahara Below par growth in assets A real Arab Spring?

BLOOMBERG: BCP : MC			BUY
Current price (MAD)			200.00
Current price (US$)			23.64
Target price (MAD)			272.03
Upside/Downside			36.01%
12 month High/Low (MAD)			183.00 - 242.50
Liquidity			
Market Cap (MADm)			13,220
Market Cap (US$m)			1,563
Shares (m)			66.1
Free Float (%)			0.2
Ave Monthly value traded (US$m)			5.2
Ave Monthly volume (m)			0.2
Share Price Performance			
6 months (%)			0.4%
Relative change (%)*			-110.2%
Relative change (%)**			-106.3%
12 months			3.3%
Relative change (%)*			67.5%
Relative change (%)**			-211.7%
** Relative to CFG 25 index*			***Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (MAD)	26.83	29.37	29.42
DPS (MAD)	8.00	8.76	8.77
NAV/Share (MAD)	344.40	400.27	456.23
Net Interest Margin (%)	3.8%	3.8%	3.8%
FINANCIAL SUMMARY (MADm)			
Net interest income	7,856	8,568	8,816
Profit before tax	4,584	5,018	5,026
Attributable earnings	1,773	1,941	1,944
RATIOS			
RoAE	7.9%	7.9%	6.9%
RoAA	0.8%	0.9%	0.8%
Cost/Income Ratio (%)***	45.8%	45.4%	47.2%
Loans/Deposits (%)	86.1%	86.1%	86.1%
VALUATION RATIOS			
PBV (x)	0.6	0.5	0.4
PER (x)	7.5	6.8	6.8
Dividend Yield (%)	4.0%	4.4%	4.4%
Dividend payout ratio (%)	29.8%	29.8%	29.8%

***Pre provision for impaired advances

Figure 163: BCP vs MSCI EM vs CFG 25 Index

H2 2011 Financial and Operational Review

Political stability and deliberate adoption of investor friendly policies has seen the banking system of the kingdom of Morocco developing at a rapid rate, with pro-western affiliations allowing them access to international capital markets. In turn Morocco's positive top-down fundamentals have been key in developing a middle class with emerging market ambitions. A young population and low credit and penetration levels will continue to provide a fertile ground for domestic growth. The expansion of the group into countries with large numbers of Moroccans i.e. France, Spain and UAE will give great control over remittances home, which are the second largest in Africa after Egypt.

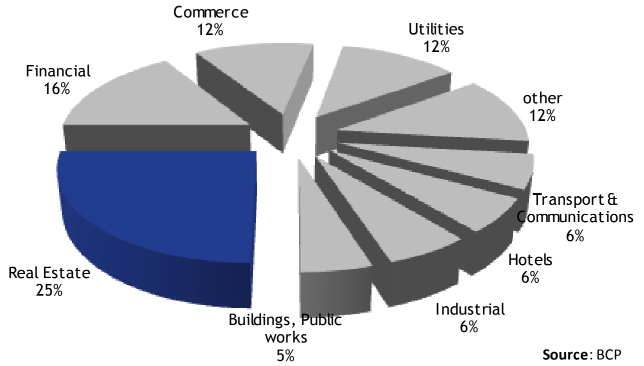
Overview of the income statement to 30 June 2011

- BCP is unique from our universe of banks in that it provides a central role for Group Banque Populaire, the unlisted holding company that is owned by the Moroccan Monarchy. BCP thus acts as a clearing agent for the group, managing the group's liquidity positions.
- As a result of this, it is not possible to compare and/or contrast BCP with any other banks, but to look at it solely in its own right as many of the metrics are skewed due to its unique operating structure.

Overview of the balance sheet at 30 June 2011

- Deposits increased by 5% over prior year to MAD178bn (US$21bn), which places the bank in second position after ATW.
- Loans and advances increased by 8% to MAD158bn (US$18bn) for a LDR of 88%, which remains in line with the previous year.
- Our rough CAR metric of 8.9% implies low liquidity, which management confirmed. Plans are underway for two capital issues, which will improve the banks' liquidity position. As the kingdom's primary tool for directed investment, much of the lending that takes place (into tourism for example) is directed by the monarchy, and in line with the broad economic blueprint. Top down fundamentals are good though and entry into GCC with concessional loans a possibility is a plus for BCP.

Figure 164: Loan distribution by sector at 31 Dec 2010



Source: BCP

Income Statement (MADm)	H1 2010	H1 2011	% ch
Net interest income	877	3,784	331%
Other income	832	1,166	40%
Total Income	**1,709**	**4,949**	**190%**
Provisions	54	(490)	-1006%
Expenses	(557)	(2,354)	323%
Profit before tax	1,162	2,157	86%
Attributable earnings	**767**	**966**	**26%**

Balance Sheet (MADm)	FY 2010	H1 2011	% ch
Cash at central Bank	9,094	8,675	-5%
Balances with banks	10,181	8,238	-19%
Securities	12,865	13,225	3%
Loans & Advances	146,125	158,204	8%
Fixed Assets	7,665	6,419	-16%
Other	29,295	32,456	11%
Total Assets	**215,226**	**227,217**	**6%**
Deposits	169,775	178,887	5%
Due to banks	7,622	10,630	39%
Borrowed Funds	3,557	6,608	n/a
Other liabilities	11,531	12,378	7%
Shareholders' funds	22,740	18,714	-18%
Total liabilities and equity	**215,226**	**227,217**	**6%**

Net interest margin	1.0%	4.2%	306%
Cost to income ratio	32.6%	47.6%	46%
RoE	6.7%	10.3%	53.0%
RoA	0.7%	0.9%	19.3%
Rough CAR	11.6%	8.9%	-23.3%
Loan/Deposit	86.1%	88.4%	2.8%

Valuation and Recommendation

BCP is trading at a discount to NAV, which is a rare for a North African bank. Although profitability ratios are lagging that of peers, and liquidity looks rather tight, the propensity for upside is higher than the overvalued peers, relatively speaking.

Morocco is heading into a period of growth, post the Arab Spring, a result of more concerted growth efforts, particularly at the regional level. BCP will directly benefit from this thrust. Entry into the GCC is also a positive that will bring cheap money from the Gulf states, and as the most stable Arab countries in North Africa, without exception, FDI inflows from the oil-rich grouping are likely. Further afield there lies the prospect of oil off the Western Sahara coast, though that will take longer.

Top 10 Shareholders as at 31/12/10	%
Trésorerie Generale	40.2%
Others (Free float)	17.9%
RCAR	8.4%
OCP	6.6%
RMA Wataniya	5.0%
Staff	3.0%
Banque Populaire d'el Jadida - Safi	1.9%
Banque Populaire de Fez Taza	1.9%
Banque Populaire de Marrakech Beni Mellal	1.9%
Banque Populaire Regionale - autres	13.2%
Total	**100.0%**

Banque Marocaine du Commerce Exterieur

Founded in 1959 and privatised in 1995, BMCE Bank is the second largest listed banking group on the CSE with a vertically integrated business model, spanning commercial, retail and investment banking with a strong presence in francophone North and West Africa and affiliate subsidiaries in Europe and Asia. Profitability seems to have been compromised by the aggressive regional expansion and valuations are far too rich. Any upside would be hard to justify, based on intrinsic valuations.

- With the historic mandate of promoting international trade, BMCE has a long established European presence that affords the group access to international capital flows.
- BMCE ranks 3rd in terms of total assets in the Moroccan banking sector with respective market shares of 13% and 15% for loans and deposits.
- The bank has a presence in more than 20 countries covering Africa, Europe and Asia. The group has a well-diversified income stream with Morocco contributing 61% of net income with the balance made up as follows: Specialised financial services (leasing and factoring), 14%; International 14%; Tangier and offshore 7%.
- In 2011 BMCE acquired 55.7% of the share capital of the Bank of Africa Group, and continues to consolidation of its African footprint with the acquisition of Amalgamated bank in Ghana.
- Through RMA Watanya, BMCE's share of the bancassurance market has increased to nearly 30%.
- With a four year CGR in total assets of 21%, BMCE is one of the fastest growing banks in Morocco, and indeed Africa. The loan book is now over US$13.3bn, with a relatively low NPL level of under 5%.
- Despite the group's solid presence in Morocco and Africa, we find valuation fundamentals to be out of sync with earnings and relative peer comparisons more than justify this. Further, profitability ratios are rather lacklustre, so unfortunately not too many exciting selling points. **SELL.**

STRENGTHS	WEAKNESSES
Second largest private bank in Morocco Diversified geographically and operationally Good quality book, low NPLs Expansive African presence in key economies	Very expensive pricing rel to eanings High debt/equity ratio; low CAR Diminishing marginal returns
OPPORTUNITIES	**THREATS**
Increasing interest in MENA and Ems Strong top down fundamentals for Morocco Low penetration and consumer debt in Africa; solid mould with high synergies	Decrease in global liquidity levels Slowdown could affect quality of book

BLOOMBERG: BCE : MC			SELL
Current price (MAD)			207.60
Current price (US$)			24.54
Target price (MAD)			56.31
Upside/Downside			-72.87%
12 month High/Low (MAD)			265.00; 190.00
Liquidity			
Market Cap (MADm)			35,699.6
Market Cap (US$m)			4,220.4
Shares (m)			172.0
Free Float (%)			20.1
Ave Monthly value traded (US$m)			54.0
Ave Monthly volume (m)			2.2
Share Price Performance			
6 months (%)			-15.3%
Relative change (%)*			265.1%
Relative change (%)**			125.1%
12 months			-20.2%
Relative change (%)*			300.1%
Relative change (%)**			587.9%
** Relative to CFG 25 index*			****Relative to MSCI EM index*
Financials	**2010**	**2011F**	**2012F**
EPS (MAD)	4.76	5.07	6.20
DPS (MAD)	3.00	3.20	3.91
NAV/Share (MAD)	75.70	80.77	86.97
Net Interest Margin (%)	3.7%	3.7%	3.7%
FINANCIAL SUMMARY (MADm)			
Net interest income	4,857	5,268	6,037
Profit before tax	2,037	2,171	2,652
Attributable earnings	819	873	1,066
RATIOS			
RoAE	8.4%	6.5%	7.4%
RoAA	0.5%	0.4%	0.5%
Cost/Income Ratio (%)***	59.6%	59.8%	58.0%
Loans/Deposits (%)	81.3%	81.3%	81.3%
VALUATION RATIOS			
PBV (x)	2.7	2.6	2.4
PER (x)	43.6	40.9	33.5
Dividend Yield (%)	1.4%	1.5%	1.9%
Dividend payout ratio (%)	63.0%	63.0%	63.0%

***Pre provision for impaired advances

Figure 165: BMCE vs MSCI EM vs CFG 25 Index

H2 2011 Financial and Operational Review

Morocco's second largest private banking group consolidated their position in their key markets during H1 2011. The consolidated performance, while diversified, is perhaps counter-productive, at least in the short term where the net effect is an unimpressive earnings performance and weak asset growth. Further, pricing fundamentals are entirely out of sync with earnings and while we buy the regionalisation story we see better value elsewhere.

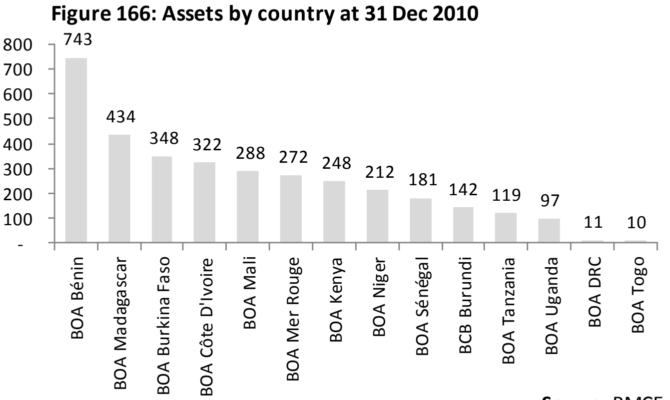
Overview of the income statement to 30 June 2011

- Net interest earnings increased by 8% on the back of a marginal increase in NIMs and a robust growth in the loan book. Annualised margins at 3.5% are slightly ahead of those for the nearest competitor, Attijariwafa Bank (3.4%).
- Non funded earnings increased by a similar rate of 8% compared to 16% for ATW. We see the difference principally the result of the earnings mix where BMCE's expansion strategy, at all cost, has compromised their earnings profile, whereas ATW's more measured expansion, has not had a dilutionary impact on the top-line.
- Expenses grew by 10%, and while this is not unreasonable in an African context, this is disproportionate to Morocco's domestic cost growth. The cost to income ratio was flat at 60% which remains significantly higher than ATW's at 43%.
- An increase in provisions for the period wiped out profit growth for the period, which makes valuations all the more difficult to justify.
- Returns on equity and assets respectively of 9.9% and 0.5% compare poorly to ATW's which were at least double that for the same period, on an annualised basis.

Overview of the balance sheet at 30 June 2011

- Deposits grew by 3% to MAD136bn (US$16.1bn), which is rather anaemic, but in line with the market.
- Loans and advances increased by 5% y-o-y to MAD112bn (US$13.3bn) for a loan/deposit ratio of 82%. Debt quality registered a slight improvement with NPLs ending the period at just under 5%.

Figure 166: Assets by country at 31 Dec 2010



Source: BMCE

Income Statement (MADm)	H1 2010	H1 2011	% ch
Net interest income	2,387	2,584	8%
Other income	1,366	1,472	8%
Total Income	**3,753**	**4,056**	**8%**
Provisions	(315)	(506)	61%
Expenses	(2,207)	(2,425)	10%
Profit before tax	1,231	1,124	-9%
Attributable earnings	**517**	**517**	**0%**

Balance Sheet (MADm)	H1 2010	H1 2011	% ch
Cash at central Bank	8,033	5,246	-35%
Financial assests at fair value	27,751	30,896	11%
Balances with banks	22,971	24,251	6%
Securities	10,168	11,493	13%
Loans & Advances	107,368	112,679	5%
Fixed Assets	4,795	4,951	3%
Other	6,101	6,686	10%
Total Assets	**187,188**	**196,201**	**5%**
Deposits	132,019	136,294	3%
Due to banks	13,603	19,041	40%
Borrowed Funds	11,444	10,294	-10%
Other liabilities	19,682	20,114	2%
Shareholders' funds	10,439	10,456	0%
Total liabilities and equity	**187,188**	**196,201**	**5%**

Net interest margin	3.4%	3.5%	2%
Cost to income ratio	58.8%	59.8%	2%
RoE	9.9%	9.9%	0%
RoA	0.6%	0.5%	-5%
Rough CAR	6.7%	6.3%	-6%
Loan/Deposit	81.3%	82.7%	2%

Valuation and Recommendation

From a strategic view-point, we would concur with the group's strategy to expand their African presence and increase penetration to counter balance a saturated local market. Like we have seen with UBA for example, an aggressive expansion strategy in order to secure a first mover advantage, tends not to be very cost efficient, and earnings dilutive.

While perhaps this may be an easy sell for the insurance industry, where the investment is longer term in nature, this may be a bit of a hard sell for other portfolio investors, interested in more solid earnings growth. We would prefer a leaner penetration strategy and greater focus on risk asset growth, and believe the counter to be over-priced relative to its peers. Accordingly we would recommend a switch into ATW on a like for like basis, or even into BCP, which has more immediate appeal, from a pricing perspective.

Top 10 Shareholders at 19 Aug 2011	**%**
RMA Watanya (Insurance company)	27.9%
Banque Federative du Credit Mutuel	24.6%
Free float	16.0%
Finance.com	9.2%
Caisse de Dépōt et de Gestion	8.4%
MAMDA/MCMA	5.1%
CIMR	4.3%
BMCE employees	1.5%
Pensoes BESCL	2.6%
SFCM	0.4%
Total	**100.0%**

Capital Securities Botswana	Imara Securities Angola SCVM Limitada	Imara Edwards Securities (Pvt.) Ltd.	Imara S P Reid (Pty) Ltd	Namibia Equity Brokers (Pty) Ltd	Stockbrokers Malawi Ltd	Stockbrokers Zambia Ltd
Ground Floor, Plot 64511 Showgrounds Gaborone **Botswana** Tel: + 267 318 8886 Fax: +267 318 8887 Cell: +267 713 1421 or +267 7162 4390 *Member of the Botswana Stock Exchange*	Rua Rainha Ginga 74, 14th Floor, Luanda, Angola Tel: +244 222 372 029 +244 222 372 036 Fax: +244 222 332 340	Tendeseka Office Park 1st Floor Block 2 Samora Machel Ave. Harare **Zimbabwe** Tel: +2634 790 590 Fax:+2634 791 435 4 Fanum House Cnr. Leopold Takawira/Josiah Tongogara Street **Bulawayo** Tel: +263 9 74554 Fax: +263 9 66024 *Members of the Zimbabwe Stock Exchange*	Imara House 257 Oxford Road Illovo 2146 P.O. Box 969 Johannesburg 2000 **South Africa** Tel: +2711 550 6200 Fax: +2711 550 6295 *Member of the JSE Securities Exchange* Imara Africa Securities - A division of Imara S P Reid (Pty) Ltd	1st Floor City Centre Building, West Wing Levinson Arcade Windhoek **Namibia** Tel: +264 6124 6666 Fax: +264 6125 6789 *Member of the Namibia Stock Exchange*	Ground Floor, NBM Business Centre, Cnr Hannover Street & Henderson Street, Blantyre, Tel: +265 08 824 327 +265 09 824 327 +265 08 202 758 Member of the *Malawi Stock Exchange*	2nd Floor (Wing), Stock Exchange Building Central Park Corner Church/Cairo Roads P O Box 38956 Lusaka **Zambia** Tel:+260 211 232 455 Fax:+260 112 240 55 *Member of the Zambia Stock Exchange*