Cytonn SSA Financial Services Research Q3'2018

Executive Summary: In this quarterly research note, we highlight the performance of the listed banks in the Sub-Saharan Africa Financial Services Sector, looking at their market performance, earnings results and sector-specific news that occurred during Q3'2018.

Section I: Market Movements

During Q3'2018, the equities market was on a downward trend with NASI, NGSEASI and GGSECI losing 14.2%, 15.1%, and 3.4%, respectively. This takes the YTD performance of the NASI, NGSEASI and GGSECI to (12.6%), (15.4%) and 1.9%, respectively, as at the end of Q3'2018.

Below is a summary of the top gainers and losers in our universe of coverage during Q3'2018:

Top Gainers			Top Losers		
Company	**Country**	**Change**	**Company**	**Country**	**Change**
Standard Chartered	Ghana	**12.8%**	HF Group	Kenya	**(31.8%)**
Ghana Commercial Bank	Ghana	**3.9%**	NIC Bank	Kenya	**(28.9%)**
Stanbic Bank Uganda	Uganda	**3.1%**	Access Bank	Nigeria	**(21.3%)**
Bank of Kigali	Rwanda	**1.1%**	UBA Bank	Nigeria	**(20.0%)**
			Union Bank Plc	Nigeria	**(16.4%)**

Kenya

NASI lost 14.2% during the third quarter, a downward trend as was in the second quarter where the market lost 8.7%. The overall performance during the quarter was largely attributed to performance of large caps such as NIC Group, Bamburi, Safaricom, and EABL which declined by 31.0%, 18.5%, 16.2%, and 13.6%, respectively. Equities turnover declined by 32.0% during the quarter to USD 319.5 mn from USD 469.8 mn in June, taking the YTD turnover to USD 1.4 bn. We expect the market to remain subdued in the near-term as international investors exit the broader emerging markets due to the rising interest rates in the US, coupled with the strengthening US dollar.

Nigeria

The Nigerian All Share Index declined 15.1% during the quarter, largely driven by declines in the financial services, consumer staples, and materials manufacturing sectors, which declined by 12.5%, 17.9% and 32.4% respectively. In our Financial Services universe of coverage Access Bank, UBA Bank, Union Bank, FBN Holdings, Zenith Bank, Stanbic IBTC Holdings, Ecobank Transnational and Guaranty Trust Bank all declined by 21.3%, 20.0%, 16.4%, 16.0%, 14.0%, 11.5%, 10.5%, and 10.5% respectively.

Ghana

The Ghana Composite Index also declined during the quarter, losing 3.4%. This was mainly driven by poor performance in the financial services and oil sectors, which declined by 9.2% and 3.9%, respectively. In our Financial Services universe of coverage, Ecobank and CAL Bank declined by 5.3% and 8.6% respectively while and Stanchart Ghana, Ghana Commercial Bank gained by 12.8% and 3.9% respectively.

Section II: Earnings Releases:

Banks in Sub-Saharan Africa released their H1’2018 financial results. Below is a summary of the banks’ performance for the quarter:

Nigeria Banks’ performance

Bank	Core EPS Growth	Interest Income Growth	Interest Expense Growth	Net Interest Income Growth	Net Interest Margin	Non-Funded Income (NFI) Growth	NFI to Total Operating Income	Growth in Total Fees & Commissions	Deposit Growth	Growth In Govt Securities	Loan Growth	LDR	Cost of Funds	Return on Average Equity
Stanbic IBTC	80.9%	5.6%	25.9%	(2.1%)	9.4%	33.6%	57.3%	31.5%	21.3%	0.0%	9.6%	46.4%	4.8%	39.2%
Ecobank Transnational	27.5%	0.1%	(3.6%)	2.7%	8.3%	(2.9%)	47.4%	11.3%	(0.8%)	(1.8%)	(7.3%)	65.5%	3.3%	8.2%
FBN Holdings	15.7%	(3.0%)	10.9%	(8.8%)	5.5%	22.0%	28.0%	13.6%	9.1%	(100.0%)	(7.0%)	56.8%	8.2%	7.9%
GT Bank	14.2%	(2.4%)	20.9%	(9.0%)	13.4%	34.0%	34.9%	13.9%	15.4%	13.9%	(13.3%)	56.9%	3.6%	36.0%
Zenith	8.5%	(12.8%)	(39.4%)	10.8%	7.5%	(8.8%)	37.8%	23.7%	6.4%	122.0%	(14.4%)	59.2%	4.4%	25.7%
Access Bank	0.7%	15.3%	28.6%	2.7%	7.0%	(21.7%)	23.8%	21.1%	26.8%	147.3%	9.5%	79.1%	6.5%	13.4%
Weighted Average H1'2018	**19.6%**	**(1.7%)**	**4.3%**	**(1.0%)**	**8.9%**	**12.4%**	**34.9%**	**16.8%**	**11.4%**	**35.1%**	**(6.9%)**	**53.8%**	**4.0%**	**24.0%**
Weighted Average H1'2017	**33.0%**	**43.4%**	**65.4%**	**38.8%**	**11.3%**	**43.7%**	**33.4%**	**(4.5%)**	**6.7%**	**47.8%**	**(4.2%)**	**67.3%**	**4.3%**	**24.4%**

Key to note is that:

I. All banks recorded an increase in core EPS growth, with the weighted average increase coming in at 19.6% in H1’2018 compared to 33.0% In H1’2017. Growth was driven by an increase in the Non-Funded Income (NFI), which came in at 12.4% compared to 43.7% in H1’2017 with a 1.7% decline in Net Interest Income (NII). This indicates that interest income is shrinking due to decline in loans,

II. Average deposit growth came in at 11.4% compared to an average of 6.7% in H1’2017, while interest expense paid on deposits recorded a growth of 4.3% on average compared to a 65.4% weighted average growth in H1’2017. This indicates that account opening has slowed down compared to last year, even as the Central Bank of Nigeria aims to drive financial inclusion with the objective of lowering the financial exclusion rate to 20.0% by 2020, from an average of 55.0% in H1’2017,

III. Average loan decline came in at 6.9% compared to a 4.2% decline in H1’2017, indicating a slowdown in lending by banks due to poor asset quality. Investment in government securities grew by 35.1%, outpacing the decline in loans, showing increased lending to the government by banks as the broader economy continues to recover from the effects of the 2016 recession. The loan to deposit ratio thus stood at 53.8% owing to the faster growth in deposits compared with the decline in loans,

IV. The average Net Interest Margin of the Nigerian banking sector currently stands at 8.9%, lower than the weighted average of 11.3% in H1’2017, and

V. The return on average equity of the banking sector stands at 24.0%, which is a marginal decline from the weighted average of 24.4% as at H1’2017.

Ghana Banks' performance

Below is a summary of the performance of Ghanaian banks that are in our Universe of coverage that have released H1'2018 results;

Bank	Core EPS Growth	Interest Income Growth	Interest Expense Growth	Net Interest Income Growth	Net Interest Margin	Non-Funded Income (NFI) Growth	NFI to Total Operating Income	Growth in Total Fees & Commissions	Deposit Growth	Growth In Govt Securities	Loan Growth	LDR	Cost of Funds	Return on Average Equity
Ecobank Ghana	27.5%	0.1%	(3.6%)	2.7%	8.3%	(2.9%)	47.4%	11.3%	(0.8%)	(1.8%)	(7.3%)	65.5%	3.3%	8.2%
Ghana Commercial Bank	16.8%	(1.2%)	106.3%	(1.2%)	14.6%	42.8%	25.9%	39.1%	51.7%	53.4%	79.3%	35.1%	8.7%	18.3%
CAL Bank	(9.2%)	11.7%	8.9%	14.5%	10.3%	(24.9%)	20.2%	20.2%	17.4%	34.6%	12.1%	75.1%	9.3%	22.7%
Standard Chartered Ghana	(13.1%)	5.8%	14.4%	4.0%	11.2%	22.0%	33.3%	59.5%	29.0%	40.2%	(9.0%)	29.7%	3.3%	25.7%
Weighted Average H1'2018	**5.6%**	**3.1%**	**28.4%**	**3.3%**	**11.0%**	**15.6%**	**34.9%**	**38.0%**	**24.2%**	**30.2%**	**12.0%**	**44.8%**	**4.9%**	**18.7%**
Weighted Average H1'2017	**(8.4%)**	**17.5%**	**53.7%**	**8.5%**	**14.1%**	**23.8%**	**31.7%**	**(0.8%)**	**20.0%**	**22.4%**	**8.0%**	**50.0%**	**4.1%**	**18.6%**

Key to note is that:

I. Banks recorded an increase in core EPS growth with the exception of CAL Bank and Standard Chartered, with the weighted average increase coming in at 5.6% compared to a decrease of 8.4% in H1'2017. Growth was driven by an increase in the Non-Funded Income (NFI), which came in at 15.6%, and a 3.3% growth in Net Interest Income (NII),

II. Average deposit growth came in at 24.2%, from a weighted average of 20.0% in H1'2017. Interest expense paid on deposits recorded a faster growth of 28.4% on average, indicating increased positive sentiment as the Bank of Ghana attempted to consolidate five banks into the Consolidated Bank of Ghana due to operational malpractices,

III. Average loan growth came in at 12.0% from 8.0% previously, while investment in government securities has grown by 30.2% compared to an average of 22.4% in H1'2017, indicating increased lending to the government by banks as they avoid the risky borrowers. The loan to deposit ratio thus declined to 44.8% due to the faster deposit growth as compared to loan growth,

IV. The average Net Interest Margin in the Ghanaian banking sector for H1'2018 currently stands at 11.0%, compared to the H1'2017 average of 14.1%, and,

V. Return on average Equity (RoaE) for the Ghanaian banking sector stood at a weighted average of 18.7% as compared to an average of 18.6% in H1'2017.

Kenyan Banks' performance;

During the quarter, listed banks in Kenya released their H1'2018 results, recording average core earnings growth of 19.0% compared to a decrease of 14.4% in H1'2017. The table below highlights the performance of the banking sector, showing the performance using several metrics, and the key take-outs of the performance:

Listed Banking Sector Operating Metrics

Bank	Core EPS Growth	Interest Income Growth	Interest Expense Growth	Net Interest Income Growth	Net Interest Margin	Cost to Income Ratio	Non-Funded Income (NFI) Growth	NFI to Total Operating Income	Growth in Total Fees & Commissions	Deposit Growth	Growth In Govt Securities	Loan Growth	LDR	Cost of Funds	Return on Average Equity
Stanbic	104.5%	15.4%	21.7%	11.9%	4.9%	50.1%	34.0%	50.0%	(4.2%)	21.3%	26.9%	15.4%	71.4%	3.1%	14.8%
National Bank of Kenya	39.3%	(9.6%)	(10.1%)	(8.9%)	6.9%	95.6%	(13.1%)	28.8%	(15.7%)	(2.8%)	9.8%	(16.1%)	49.8%	3.0%	(0.6%)
StanChart	30.3%	7.9%	8.8%	7.5%	8.0%	61.0%	12.2%	32.9%	36.2%	2.8%	3.5%	(1.1%)	48.4%	3.6%	18.0%
KCB Group	18.0%	6.1%	11.9%	4.3%	8.6%	52.0%	(0.1%)	32.2%	(6.0%)	8.7%	8.7%	3.6%	80.3%	3.0%	21.9%
Equity Group	17.6%	10.2%	14.0%	9.1%	8.8%	52.8%	1.5%	40.2%	(1.0%)	8.5%	18.7%	3.8%	69.9%	2.7%	23.9%
I&M	11.7%	5.1%	13.2%	0.1%	7.1%	53.7%	34.4%	35.1%	39.5%	30.6%	(28.3%)	12.6%	77.2%	4.6%	17.2%
Co-op Bank	7.6%	7.9%	2.2%	10.4%	8.6%	54.9%	(1.6%)	32.1%	(2.6%)	3.9%	12.0%	(0.6%)	84.6%	3.9%	18.0%
Barclays	6.2%	7.6%	22.4%	4.0%	9.0%	66.3%	6.9%	30.0%	1.9%	14.9%	33.6%	7.5%	81.2%	2.60%	17.5%
DTB	2.5%	3.9%	3.0%	4.6%	6.5%	57.4%	8.0%	21.6%	7.2%	9.9%	22.5%	3.5%	70.4%	5.0%	15.5%
NIC Group	(2.1%)	8.6%	30.0%	(4.9%)	6.0%	60.9%	7.0%	29.5%	(3.0%)	10.5%	25.7%	(1.5%)	78.2%	5.4%	12.8%
Housing Finance	(95.7%)	(13.2%)	(12.7%)	(13.9%)	4.9%	99.3%	38.2%	30.4%	7.2%	(3.1%)	17.3%	(9.8%)	131.4%	7.0%	(0.2%)
Weighted Average H1'2018*	**19.0%**	**7.9%**	**12.0%**	**6.4%**	**8.1%**	**55.7%**	**6.9%**	**34.3%**	**4.6%**	**10.0%**	**13.7%**	**3.8%**	**73.8%**	**3.4%**	**19.5%**
Weighted Average H1'2017**	**(14.4%)**	**(7.2%)**	**(6.0%)**	**(6.9%)**	**8.0%**	**59.2%**	**5.1%**	**34.0%**	**12.5%**	**9.4%**	**21.5%**	**7.3%**	**77.9%**	**3.4%**	**17.9%**

***** 31st August 2018***
***** 31st August 2017***

Key takeaways from the table above include:

I. The listed banks recorded a 19.0% average increase in core Earnings Per Share (EPS), compared to a decline of 14.4% in H1’2017. Only NIC Group and Housing Finance Group recorded declines in core EPS, registering declines of 2.1% and 95.7%, respectively. CFC Stanbic recorded the highest growth at 104.5% y/y, supported by 21.9% increase in total operating income, coupled with a 14.0% decrease in total operating expenses. HF Group recorded the biggest decline at 95.7%, on the back of a 13.9% decline in Net Interest Income (NII), and a high cost to income ratio of 99.3%,

II. The sector recorded a relatively strong deposit growth, which came in at 10.0% compared to 9.4% in H1’2017. The strong deposit growth led to a 12.0% growth in the interest expenses. However, the cost of funds remained flat at 3.4%, an indication that the greater proportion of deposit accounts were non-interest bearing. The removal of the base deposit rate will reduce the interest expense for banks and this will enhance the reduction of the cost of funds,

III. Average loan growth was anomic coming in at 3.8%, which was lower than 7.3% recorded in H1’2017, indicating that there was an even slower credit extension in the economy, due to sustained effects of the interest rate cap. Government securities on the other hand recorded a growth of 13.7% y/y, which was faster compared to the loans, albeit slower than 21.5% recorded in H1’2017. This indicates that banks’ continued preference towards investing in government securities, which offer better risk-adjusted returns. Interest income increased by 7.2%, as banks adapted to the interest rate cap regime, with increased allocations in government securities. This, however, should be a point of concern as it points to a reduction in the banking sector’s primary function of intermediation between depositors and credit consumers, with the loan to deposit ratio declining to 73.8% from 77.9% in H1’2017. Reduced credit extension especially to the private sector comprised mainly of the MSMEs, curtails both the short and long-run economic growth,

IV. The average Net Interest Margin in the banking sector currently stands at 8.1%, a slight improvement from the 8.0% recorded in H1’2017. The improvement was mainly due to the increase in Net Interest Income by 6.4% y/y, aided by the 7.9% improvement in the interest income y/y, and

V. Non-funded Income grew by 6.9% y/y, faster than 5.1% recorded in H1’2017. The growth included a total fee and commission’s growth of 4.6% albeit slower than the 12.5% growth recorded in H1’2017. Growth in fee and commission income was however subdued by the slow loan growth, thus impacting fee and commission income from loans. Banks have been focusing on expanding the other fee and commission income streams, with increased focus on transactional income from alternative transaction channels. Banks have been shifting focus to this revenue space, by offering holistic banking services such as advisory. With increased focus on other NFI sources such as transaction income from mobile and online channels, bancassurance, money remittance, and payment services etc., banks will likely see expansion in NFI going forward as net interest income remains somewhat subdued under the current interest rate cap regime.

For more information on the Kenyan listed Banks H1’2018 results, see our Kenya H1’2018 Banking Sector Report.

Below is a summary of the performance metrics for our universe of coverage;

Bank	Core EPS Growth	Interest Income Growth	Interest Expense Growth	Net Interest Income Growth	Net Interest Margin	Non-Funded Income (NFI) Growth	NFI to Total Operating Income	Growth in Total Fees & Commissions	Deposit Growth	Growth In Govt Securities	Loan Growth	LDR	Cost of Funds	Return on Average Equity
CFC Stanbic Holdings	104.5%	15.4%	21.7%	11.9%	4.9%	34.0%	50.0%	(4.2%)	21.3%	26.9%	15.4%	71.4%	3.1%	14.8%
Stanbic IBTC Holdings	80.9%	5.6%	25.9%	(2.1%)	9.4%	33.6%	57.3%	31.5%	21.3%	0.0%	9.6%	46.4%	4.8%	39.2%
National Bank of Kenya	39.3%	(9.6%)	(10.1%)	(8.9%)	6.9%	(13.1%)	28.8%	(15.7%)	(2.8%)	9.8%	(16.1%)	49.8%	3.0%	(0.6%)
Standard Chartered	30.3%	7.9%	8.8%	7.5%	8.0%	12.2%	32.9%	36.2%	2.8%	3.5%	(1.1%)	48.4%	3.6%	18.0%
Ecobank Transnational	27.5%	0.1%	(3.6%)	2.7%	8.3%	(2.9%)	47.4%	11.3%	(0.8%)	(1.8%)	(7.3%)	65.5%	3.3%	8.2%
Ecobank Ghana	27.5%	0.1%	(3.6%)	2.7%	8.3%	(2.9%)	47.4%	11.3%	(0.8%)	(1.8%)	(7.3%)	65.5%	3.3%	8.2%
KCB Group	18.0%	6.1%	11.9%	4.3%	8.6%	(0.1%)	32.2%	(6.0%)	8.7%	8.7%	3.6%	80.3%	3.0%	21.9%
Equity Group	17.6%	10.2%	14.0%	9.1%	8.8%	1.5%	40.2%	(1.0%)	8.5%	18.7%	3.8%	69.9%	2.7%	23.9%
Ghana Commercial Bank	16.8%	(1.2%)	106.3%	(1.2%)	14.6%	42.8%	25.9%	39.1%	51.7%	53.4%	79.3%	35.1%	8.7%	18.3%
FBN Holdings	15.7%	(3.0%)	10.9%	(8.8%)	5.5%	22.0%	28.0%	13.6%	9.1%	(100.0%)	(7.0%)	56.8%	8.2%	7.9%
GT Bank	14.2%	(2.4%)	20.9%	(9.0%)	13.4%	34.0%	34.9%	13.9%	15.4%	13.9%	(13.3%)	56.9%	3.6%	36.0%
I&M holdings	11.7%	5.1%	13.2%	0.1%	7.1%	34.4%	35.1%	39.5%	30.6%	(28.3%)	12.6%	77.2%	4.6%	17.2%
Zenith	8.5%	(12.8%)	(39.4%)	10.8%	7.5%	(8.8%)	37.8%	23.7%	6.4%	122.0%	(14.4%)	59.2%	4.4%	25.7%
Co-op Bank	7.6%	7.9%	2.2%	10.4%	8.6%	(1.6%)	32.1%	(2.6%)	3.9%	12.0%	(0.6%)	84.6%	3.9%	18.0%
Barclays Bank	6.2%	7.6%	22.4%	4.0%	9.0%	6.9%	30.0%	1.9%	14.9%	33.6%	7.5%	81.2%	2.60%	17.50%
DTB	2.5%	3.9%	3.0%	4.6%	6.5%	8.0%	21.6%	7.2%	9.9%	22.5%	3.5%	70.4%	5.0%	14.0%
Access Bank	0.7%	15.3%	28.6%	2.7%	7.0%	(21.7%)	23.8%	21.1%	26.8%	147.3%	9.5%	79.1%	6.5%	13.4%
NIC Group	(2.1%)	8.6%	30.0%	(4.9%)	6.0%	7.0%	29.5%	(3.0%)	10.5%	25.7%	(1.5%)	78.2%	5.4%	12.8%
CAL Bank	(9.2%)	11.7%	8.9%	14.5%	10.3%	(24.9%)	20.2%	20.2%	17.4%	34.6%	12.1%	75.1%	9.3%	22.7%
Standard Chartered Ghana	(13.1%)	5.8%	14.4%	4.0%	11.2%	22.0%	33.3%	59.5%	29.0%	40.2%	(9.0%)	29.7%	3.3%	25.7%
Housing Finance	(95.7%)	(13.2%)	(12.7%)	(13.9%)	4.9%	38.2%	30.4%	7.2%	(3.1%)	17.3%	(9.8%)	131.4%	7.0%	(0.2%)
Weighted Average H1'2018	**20.1%**	**2.4%**	**9.8%**	**2.2%**	**9.1%**	**11.6%**	**36.7%**	**15.0%**	**12.5%**	**24.0%**	**(1.1%)**	**63.4%**	**4.2%**	**22.7%**
Weighted Average H1'2017	**12.4%**	**22.2%**	**36.8%**	**19.5%**	**9.9%**	**23.4%**	**34.3%**	**3.7%**	**7.5%**	**34.5%**	**0.8%**	**69.9%**	**3.8%**	**22.7%**

Key to note is that:

I. The sector recorded a 20.1% increase in the core EPS compared to 12.4% in H1'2017, which was driven by a 2.2% increase in the NII coupled with an 11.6% increase in NFI,
II. The stunted growth in NII could largely be attributed to a 9.8% increase y/y in interest expense, which outpaced the 2.4% increase in the interest income. The relatively slow growth in interest income could be attributed to reduced customer lending by banks, which results in banks foregoing interest income from loans which have relatively higher yields than government securities,
III. Faced with the prospects of reduced interest income, banks focused on growing NFI, mainly the fees and commissions on loans, and other fees mainly from transactional income and trading income. This saw NFI grow by 11.6% y/y and contribute to 36.7% of total industry operating income compared to NFI of 23.4% in H1'2017,
IV. Deposit growth came in at 12.5% y/y compared to 7.5% in H1'2017 as banks aggressively mobilized deposits via alternative channels such as mobile and internet banking channels. Increased penetration of mobile money technology has boosted the uptake banking services via these alternative channels. The increasing deposits contributed to the 9.8% increase y/y in the interest expense,
V. Loans disbursed declined by 1.1% y/y compared to an increase of 0.8% in H1'2017 as banks cut back on lending to improve their asset qualities. Furthermore, for the Kenyan banking sector, lending was affected by the interest rate cap regime, with banks opting to invest in government securities, which had higher returns on a risk-adjusted basis. Banks cited inability to price borrowers within the set margin of 4.0% above the Central Bank Rate (CBR), and,
VI. Reduced lending coupled with an increase in the deposits mobilized saw the loan to deposit ratio come in at 63.4%, down from 69.9% recorded in H1'2017 which is still below our preferred level of 80%-90%.

In conclusion, it is generally noted that there was reduced lending in the respective countries during the period under review. However, loan growth is likely to increase going forward, as the economies recover from shocks occasioned by the slump in global commodity prices experienced last year, drought and political instability. Increased loan growth will translate to higher NII. This increase in NII coupled with the increased focus on growing NFI will lead to higher operating income for the sector. Increased adoption of mobile banking as an alternative channel of transaction will also boost transactional income as well as improve operational efficiency and thus by extension higher profitability. The sector performed relatively well during the period, with an average return on average equity of 22.7%. We therefore remain bullish about the prospects of the Sub-Saharan Africa banking sector.

Section III: Latest Developments in the Sub Saharan Africa Banking Sector:

Kenya

I. President Uhuru Kenyatta signed the Finance Bill, 2018 into law on Friday 21st September, 2018, after Members of Parliament passed the proposed amendments to the Bill as highlighted in our Cytonn Weekly #36/2018. Key to note is that the assented Finance Bill 2018 does away with the floor on deposit pricing, which was initially set at 70.0% of the Central Bank Rate (CBR) but retains the cap on loan pricing at 4.0% above the CBR. This gives lenders flexibility on deposit pricing, which may see banks reduce their cost of funds. We are of the view that the new legislation will mean increased net interest margins (NIM) for banks due to reduced interest expense on deposits going forward,
II. The Central Bank of Kenya (CBK) proposed to introduce a Banking Sector Charter that will guide service provision in the sector as highlighted in our Cytonn Weekly #30/2018. The Charter aims to instill discipline

in the banking sector in order to make it responsive to the needs of the banked population. The Charter is expected to facilitate a market-driven transformation of the Kenyan-banking sector and bring about tangible benefits for Kenyans, specifically to increase access to affordable financial services for the unbanked and under-served population. We are of the view that, if adopted, the Banking Sector Charter will go a long way towards removing the existing opacity in loan prices and promote the adoption of the risk-based loan-pricing framework. However, we are even of the stronger view, as captured in our Focus Notes titled "*Rate Cap Review Should Focus More on Stimulating Capital Markets*" and *Status of Rate Cap Review in Finance Bill*, that the best way to bring discipline in the banking sector is to reduce banking sector dominance by promoting alternative sources of credit to the economy such as privately placed investments solutions,

III. The Monetary Policy Committee (MPC) met twice in Q3'2018. In the July 30th meeting, the committee decided to lower the Central Bank Rate (CBR) to 9.0% from 9.5%, noting that inflation expectations were well anchored within the target range of 2.5% - 7.5%, and that economic growth prospects were improving. In the September 25th meeting, the MPC retained the CBR at 9.0%, citing that inflation expectations remained well anchored within the target range largely due to lower food prices and that there was sustained optimism for stronger economic growth in 2018 as per the private sector market perception survey. This was mainly attributed to a rebound in agriculture, pick up in private sector economic activity, renewed business confidence due to the ongoing war against corruption and a stable macroeconomic environment. The MPC noted that there was, however, need to monitor the second-round inflationary effects arising from the VAT on petroleum products, and any perverse response to its previous decisions,

IV. The Central Bank of Kenya (CBK) downgraded the banking sector rating to "satisfactory", from a previous rating of "strong" in 2016 as highlighted in our Cytonn Weekly #32/2018. According to the Bank Supervision Annual Report 2017 released by the regulator, the downgrade was as a result of a decline in capital adequacy, as well as a deterioration in asset quality in the sector. Despite the decline in capital adequacy ratios, the banking sector remained well capitalized with sufficient buffers above the minimum required ratios. The deterioration in asset quality came as a result of a challenging business environment in 2017, occasioned by poor weather conditions, delayed payments from both private and public institutions and the upheavals due to the protracted electioneering period last year. The declining capital adequacy may be a signal of looming consolidation in the sector as weaker banks are absorbed by their larger, more stable counterparts in order to recapitalize as per the statutory requirements,

V. KCB Group emerged as the only bidder for a stake in Imperial Bank Limited (IBL), which is under receivership, after Diamond Trust Bank (DTB), having also expressed interest, pulled out of the deal. IBL was put under receivership in August 2015, with a loan book of Kshs 41.0 bn and deposits of Kshs 58.0 bn. The Central Bank of Kenya (CBK) and Kenya Deposit Insurance Corporation is to engage KCB in discussions with the aim of maximizing the value for depositors. If successful, this would mark the second instance a bank is brought out of receivership, after the recently concluded deal that saw SBM Kenya complete the acquisition of certain assets and Liabilities of Chase Bank Limited (under Receivership). For more information, see our Cytonn Weekly #29/2018.

VI. SBM Bank Kenya Limited completed the acquisition of certain assets and liabilities of Chase Bank Limited, which was under receivership. Following the agreement between the Central Bank of Kenya (CBK) and Kenya Deposit Insurance Corporation (KDIC) and SBM Bank Kenya, 75% of the value of all moratorium deposits at Chase Bank will be transferred to SBM Bank Kenya. The remaining 25% will remain with Chase bank Limited. The acquisition will see SBM take control of the 62 Chase Bank branches, significantly increasing the bank's foothold in the country, in line with the bank's inorganic growth strategy.

Ghana

I. The Bank of Ghana (BoG) issued a universal banking licence to government-owned Consolidated Bank Ghana Limited, after revoking the licences of five banks namely UniBank Ghana Limited, The Royal Bank Limited, Beige Bank Limited, Sovereign Bank Limited, and Construction Bank Limited. The BoG appointed Mr. Nii Amanor Dodoo of KPMG as the Receiver for the five banks. All deposit liabilities of the five banks have been transferred to the Consolidated Bank. For more information, see our Cytonn Monthly- July-2018,

II. Bank of Ghana to enforce Anti- Money Laundering laws with fines. Banks and Specialized Deposit Taking institutions (SDIs) that fail to comply with the Central Bank's Anti-Money Laundering regulations risk paying as much as GHS 60,000 in fines. This follows the implementation of the Bank of Ghana's laws on Anti-Money Laundering, in a bid to combat financial crimes,

III. Ghana banks struggle to meet new Minimum Capital requirements**.** At least 15 banks are yet to announce their progress towards meeting the new minimum capital requirement of GHS 400.0 mn, with four months to the deadline. Six banks, including the Consolidated Bank, Republic Bank, Access Bank, Zenith Bank, Barclays Bank as well as GCB Bank, have reached the minimum requirement target, with 7 others undertaking various measures to recapitalize such as raising extra capital from the stock market, injecting fresh capital from existing shareholders or adding their income surplus to their stated capital. Recently, Ecobank, Cal Bank and Standard Chartered have transferred GHS 190.0 mn, GHS 250.0 mn and GHS 302.0 million, respectively, from their income surplus (retained earnings) to their stated capital. However, they are yet to finalize the process with an official certification from the Registrar General's Department. Meanwhile, Omnibank and Sahel Sahara banks are in a merger process with the aim of recapitalizing in order to meet the minimum capital requirement and to avoid abrupt last minute changes,

Nigeria

I. The Central Bank of Nigeria retained the Monetary Policy Rate (MPR) at 14%, Liquidity ratio at 30**%.** In a bid to combat rising inflation and support the local currency, Nigeria's Central Bank Monetary Policy Committee (MPC) met for the second time on 25th September 2018 and retained key lending rate at the current level of 14% and the Liquidity ratio at 30%. The Monetary authority cited the risk of increasing inflationary pressure in the decision by the bank's monetary policy committee to hold the rate at its current level. The policy decision is expected to stimulate activity in the capital markets as the inability of the MPC to hold the meeting this year was having a negative impact in the capital markets due to uncertainties in the country's policy direction leading to mixed market sentiments by investors,

II. First Bank of Nigeria (FBN) repaid a USD 300.0 mn, 8.25% Eurobond note beginning 7th August, two years before the debt matures in 2020. According to FBN, the repayment demonstrates its balance sheet strength and ample forex liquidity, underlining its strong franchise and deep market access. The bank noted that despite the bond being a subordinated Tier 2 instrument, the debt was redeemed without any impact to its capital ratios due to the robust capital base underlined by the surplus Tier 2 capital. This is the second time FBN has called and prepaid bondholders following its debut USD 175.0 mn, 9.75% debt issued in 2007, which was called in 2012. First Bank does not plan to issue any debt in Eurobond markets in the near term following the redemption,

III. Diamond Bank Plc is helping to boost financial inclusion after extending NGN 1.0 bn worth of credit to 550 Small and Medium-Scale Enterprises (SMEs) under the cash flow-based SME lending scheme. The bank has disbursed a total of NGN 267.0 mn during the pilot phase of the scheme, and additional NGN 750.0 mn in the period between June and August 2018. Remarkably, all the loans disbursed under the scheme to the SMEs are performing despite the recipients being first-time borrowers. The initiative, launched in January 2017 in partnership with the Women's World Banking (WWB), is a cash flow-based MSME lending methodology with a strategic focus on cash flow, net asset capacity, character and business proficiency of SMEs in order to determine their credit worthiness. Diamond Bank is emerging to be a lead influence in developing innovative ways of advancing financial inclusion through innovating solutions tailored to boost credit growth to the SME market segment in Nigeria. Its strategy is to boost financial inclusion by providing solutions that deliver superior customer experience as well as create life-style-focused products, processes and channels; with the aim of positioning the bank as the most profitable and fastest growing retail bank in Nigeria by the 2020,

IV. Stanbic IBTC Holdings Plc has listed about 64.2 mn ordinary shares of 50 kobo each to raise its total outstanding shares to about 10.1 bn ordinary shares of 50 kobo each. The supplementary shares were due to the scrip dividend scheme offered by the holding company to eligible shareholders who elected to receive new ordinary shares in lieu of 50 kobo cash dividend declared for the business year ended December 31, 2017.

Tanzania

I. Bank M Tanzania Plc HAS placed under administration by the Bank of Tanzania (BoT) after the bank ran into critical liquidity problems that rendered it unable to meet its maturing obligations. This means the lender will not resume normal business for up to 90 days effective 2nd August 2018, until the regulator determined an appropriate course of action. The move was expected to affect the operations of the Kenyan Lender M-Oriental, formerly Oriental Commercial Bank, where Bank M acquired a 51.0% stake in 2016 through transfer of 42.3 mn shares valued at Kshs 30.0 per share, with the total transaction being valued at Kshs 1.3 bn translating to a P/B of 1.4x. For more information, see our Cytonn Monthly- July-2018.

Below is our Equities Universe of Coverage:

Banks	Price as at 29/06/2018	Price as at 21/09/2018	Price as at 28/09/2018	w/w change	q/q change	YTD Change	LTM Change	Target Price	Dividend Yield	Upside/ Downside
NIC Bank	35.5	26.5	25.3	(4.7%)	(28.9%)	(25.2%)	(28.3%)	48.8	4.0%	97.2%
Zenith Bank	25	20.8	21.5	3.4%	(14.0%)	(16.1%)	-7.70%	33.3	12.6%	67.5%
Diamond Trust Bank	199	172	174	1.2%	(12.6%)	(9.4%)	(4.9%)	283.7	1.5%	64.5%
Union Bank Plc	6.1	5.8	5.1	(12.1%)	(16.4%)	(34.6%)	(11.5%)	8.2	0.0%	59.8%
KCB Group	46.3	38	40.5	6.6%	(12.4%)	(5.30%)	(1.8%)	61.3	7.4%	58.8%
Ghana Commercial Bank	5.2	5.3	5.4	0.8%	3.9%	5.9%	29.5%	7.7	7.1%	51.4%
Equity Group	46.3	38.8	40	3.2%	(13.5%)	(0.6%)	2.6%	56.2	5.0%	45.5%
I&M Holdings	115	90	99	10.0%	(13.9%)	(1.0%)	(23.3%)	138.6	3.5%	43.5%
UBA Bank	10.5	8	8.4	5.0%	(20.0%)	(18.4%)	(0.7%)	10.7	10.1%	37.5%
Co-operative Bank	17.5	13.9	15.2	9.7%	(13.1%)	(5.0%)	(10.1%)	19.9	5.3%	36.2%
Ecobank	8.5	8.1	8	(1.6%)	(5.3%)	5.3%	25.7%	10.7	0.0%	34.1%
CRDB	160	160	160	0.0%	0.0%	0.0%	(8.6%)	207.7	0.0%	29.8%
Barclays	11.5	10.2	10.6	4.4%	(7.4%)	10.4%	5.0%	12.5	9.4%	27.4%
Access Bank	10.4	8.2	8.2	0.00%	(21.3%)	(22.0%)	(14.3%)	9.5	4.9%	21.5%
HF Group	8.5	6.7	5.8	(13.4%)	(31.8%)	(44.2%)	(39.5%)	6.6	6.0%	19.8%
CAL Bank	1.3	1.2	1.2	(0.8%)	(8.6%)	8.3%	33.7%	1.4	0.0%	19.7%

Stanbic Bank Uganda	32	33	33	0.0%	3.1%	21.1%	20.0%	36.3	3.5%	13.5%
Standard Chartered	198	195	192	(1.5%)	(3.0%)	(7.7%)	(16.2%)	196.3	6.5%	8.8%
Guaranty Trust Bank	40.5	34.7	36.4	4.8%	(10.2%)	(10.8%)	(9.1%)	37.1	6.6%	8.7%
Bank of Kigali	286	290	289	(0.3%)	1.0%	(3.7%)	3.20%	299.9	4.8%	8.6%
Bank of Baroda	150	126	126	0.0%	(16.0%)	11.5%	14.5%	130.6	2.0%	5.6%
SBM Holdings	7.3	6.6	6.5	(0.9%)	(10.7%)	(13.3%)	(17.7%)	6.6	4.6%	5.5%
Stanbic Holdings	91.5	90	90	0.0%	(1.6%)	11.1%	13.9%	92.6	2.5%	5.4%
National Bank	6.3	5.5	5.8	6.4%	(7.2%)	(38.0%)	(38.3%)	4.9	0.0%	(15.5%)
Stanbic IBTC Holdings	52	42	46	9.5%	(11.5%)	10.8%	15.0%	37	1.3%	(18.3%)
FBN Holdings	10.6	8.6	8.9	3.5%	(16.0%)	1.1%	62.7%	6.6	2.8%	(22.7%)
Standard Chartered	23.1	26	26.1	0.3%	12.8%	3.4%	54.5%	19.5	0.0%	(25.4%)
Ecobank Transnational	20	18	17.9	(0.6%)	(10.5%)	5.3%	1.1%	9.3	0.0%	(48.2%)
Target Price as per Cytonn Analyst estimates										
*****Upside / (Downside) is adjusted for Dividend Yield***										
******Banks in which Cytonn and/or its affiliates holds a stake. For full disclosure, Cytonn and/or its affiliates holds a significant stake in NIC Bank, ranking as the 5th largest shareholder***										
******** Stock prices are in respective country currency***										

We are "NEUTRAL" on equities since the markets are currently trading below their historical averages. Pockets of value exist, with a number of undervalued sectors like Financial Services, which provide an attractive entry point for long-term investors, and with expectations of higher corporate earnings this year, we are "POSITIVE" for investors with a long-term investment horizon.