

 <p>Member of the Rwanda Stock Exchange Ltd</p>	BARAKA Capital Ltd RSE Member in association with Hartland-Peel Africa Equity Research	E-mail: dgathaara@barakacapital.com research@barakacapital.com Telephone: +250 788 381130 or +250 255 120337 Website: www.hartland-peel.com E-mail: christopher.hartland-peel@hartland-peel.com Telephone: +44 (0) 208 502 0102
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RWANDA

BANK OF KIGALI

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Date: March 13, 2015

Full year 2014 Earnings up 24% to RWF 18.3bn (US\$26.6m). P/E 10.8, P/B 2.21 times.

Forecast for 2015-16 2015 earnings forecast up 27% to RWF 23.2bn (US\$32.4m). Forward: P/E 8.5, P/B 2.00 times.
2016 earnings forecast up 19% to RWF 27.7bn (US\$38.6m). Forward: P/E 7.1, P/B 1.80 times.

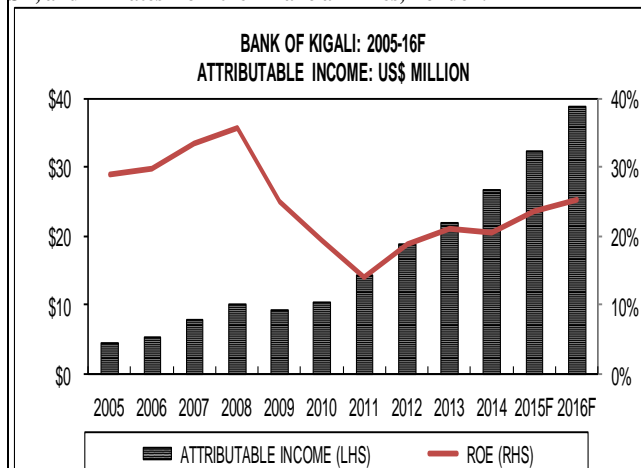
KEY COMPANY INFORMATION

Listed	Rwanda	
Market capitalisation	US\$275m	
Main shareholders	Govt of Rwanda	30%
	RSSB	33%
	Public	37%
Year end	December	
Sector	Commercial bank	
FX rate to US\$	RWF 718	

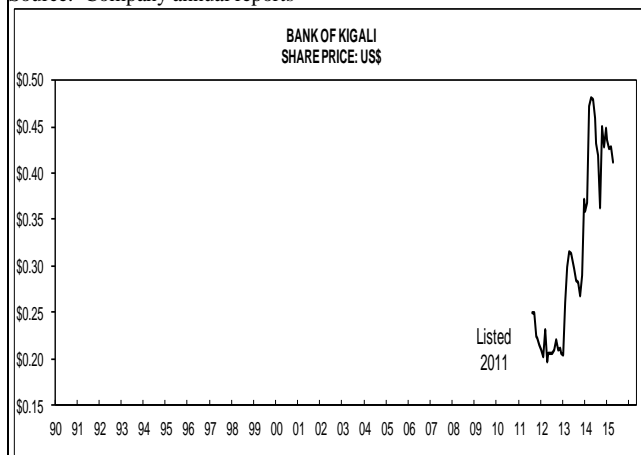
SHARE INFORMATION

P/E:12 month trailing	10.8 times	
Dividend yield	5.5%	
Dividend cover	1.68 times	
Price/Book	2.21 times	
Share price	RWF	296
Mar 12, 2015	US\$	\$0.41

Sources: All information, graphs, tables and data have been sourced from company annual/interim reports, share prices from the Rwanda SE, and FX rates from the Financial Times, London.



Source: Company annual reports



Source: RSE and exchange rates from the Financial Times.

2014: 12 MONTH EARNINGS HIGHLIGHTS

- Bank of Kigali's 12 month attributable earnings to December 2014 were up 24% at RWF 18.3bn (US\$26.6m).
- Highlights were:
 - (i) Net interest margin/total assets down 20bp at 8.1% vs 8.3% on loans & advances up 24%.
 - (ii) Loan charge-off rate down at 2.9% vs 4.3%.
 - (iii) Cost/income ratio unchanged at 48%.
 - (iv) Tax charge of 19% vs 21%.
- Recommendation: UNDERVALUED.** Bank of Kigali has a forecast 2016 Price/Book ratio of 1.80 times and with its forecast 2016 ROE of 25% Bank of Kigali looks undervalued compared with its peers. We see value to RWF 400, up 35%.

Valuation Drivers

	2014	2015F	2016F
Earnings growth	24%	27%	19%
ROE	20%	23%	25%
P/B relative to ROE	Neutral	Discount	Discount
Dividend growth	47%	Up 28%	Up 19%

Issues/Comments:

- (i) **Disclosure:** Good quarterly reporting by Bank of Kigali.
- (ii) **Interest rates:** Interest rates stable.
- (iii) **Rwanda sovereign bond issue:** This gives comfort to investors for the medium-term.

Forecast Assumptions:

December year end	2014	2015F	2016F
Rwanda GDP growth (IMF)	6.0%	6.7%	7.5%
Loan growth	24%	16%	18%
Total asset growth	14%	18%	18%
Net interest income/total assets	8.1%	8.0%	7.8%
Bad debt charge-off rate	2.9%	2.5%	3.0%
Cost/income ratio	47.9%	47.0%	46.0%
Tax rate	19%	21%	20%
Dividend payout ratio	60%	60%	60%

- Impact:** 2015F attributable earnings to rise 27% and ROE to increase 3pp to 23%. 2016F attributable earnings to rise 19% and ROE to increase 2pp to 25%. (**Sensitivity analysis:** page 3).
- The Rwanda macro-environment is supportive with IMF annual GDP growth forecast above 6.0% to 2018.

Strengths	Weaknesses
<ul style="list-style-type: none"> Rwanda's biggest bank with good branch & ATM network to access SME's & retail. Forecast 2016 ROE of 25%. 23% capital adequacy. Loan growth (16% vs 24% in 2014). 	<ul style="list-style-type: none"> Operating expenses have increased 32% CAGR over last five years vs 30% for operating income. Non-interest income declining in % terms since 2011 but forecast to rise.
Opportunities	Threats
<ul style="list-style-type: none"> Good country GDP growth and rising per capita incomes. 77% of population unbanked. 	<ul style="list-style-type: none"> Competition with the arrival of both Kenyan and Nigerian banks.



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Summary

Largest bank in Rwanda.

BPR is the second largest bank but is being re-structured following losses.

Kenyan and Nigerian banks operational in Rwanda.

100% of earnings are generated in Rwanda.

Branch network.

Bank of Kigali has an A1 rating from GCR of South Africa.

NPL's as a % of loans are trending down.

Loan charge-off rate stable at 2.9%.

Cost/income ratio 48%.

Bank of Kigali: Company and Sector

- Bank of Kigali is the largest bank in Rwanda, and one of three Rwandan controlled banks which collectively have 55% of Rwanda's banking assets. Bank of Kigali has:
 - 34% of total banking assets.
 - 31% of loans.
 - 31% of deposits.
- Banque Populaire de Rwanda (unlisted) is the second largest bank in Rwanda but in recent years has incurred losses and has been under-going a restructuring.
- Foreign banks, which have 45% of banking assets, include:
 - Kenya: KCB, Equity Bank & I&M Bank (~25% of banking assets)
 - Nigeria: Access Bank and Guaranty Trust Bank (~10% of banking assets)
 - Pan African: ETI (~10% of banking assets).
- Bank of Kigali is primarily a Rwandan bank with 100% of earnings generated in Rwanda. It has recently opened a representative office in Nairobi, Kenya.
- Bank of Kigali has 70 branches and some 76 ATM's.

BANK OF KIGALI - BRANCH NETWORK



Source: Bank of Kigali December 2014 presentation

- Bank of Kigali has a short-term AA and long-term A1 credit rating from Global Credit Rating of South Africa.
- Non-performing loans have been declining modestly since 2010 and at June 2014 were circa 7% of loans and advances with a provisioning level of 78%.

	2009	2010	2011	2012	2013	2014
Non-performing loans - gross	6,685	9,003	10,893	12,608	14,628	17,160
As % of total loans	8.3%	8.5%	8.3%	6.5%	6.9%	6.6%
Bad debt provisions/NPL's	57.1%	45.8%	69.1%	70.7%	88.2%	77.5%

Source: Bank of Kigali annual reports & December 2014 presentation.

- The loan charge-off rate has averaged 2.9% over the period 2010-14. 2014's loan charge-off rate was 2.9%. We are forecasting a loan charge-off rate of 2.5% in 2015 and 3.0% in 2016.
- Bank of Kigali's 2014 cost/income ratio was 48% and compares favourably with regional banks.

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Sensitivity analysis.

10. Set out below is a sensitivity analysis of changes in key assumptions.

Key points are that:

10.1 0.5% change in the net interest margin has the greatest impact, then

10.2 0.5% change in the loan charge-off rate, followed by

10.3 The impact of a 1% change in the cost/income ratio.

Net interest margin impact.

Bad debt charge-off rate.

Cost/income ratio.

Total assets.

RWF million	2015F	2016F
Net interest margin/total assets \pm 0.5%	1,824	2,322
Impact on attributable earnings	7.9%	8.4%
Bad debt charge-off \pm 0.5%	1,189	1,417
Impact on attributable earnings	5.1%	5.1%
Cost/income ratio \pm 1%	551	671
Impact on attributable earnings	2.4%	2.4%
Total assets \pm 1%	248	617
Impact on attributable earnings	1.1%	2.2%



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Capital raised in FY2011 at IPO.

Strong Rwanda GDP growth but current a/c deficit. Inflation presently at a three year low.

CAGR over five years to 2014:

Net interest income: 30%.

Operating expenses: 32%.

Tax stable in the low 20% range.

Attributable income up 28% compound over 5 years to 2014.

Cost/income ratio low at 48%, falling to a forecast 46% in 2016.

Shareholders' equity up 180% in the four years to 2014.

Loan growth up 26% compound over five years to 2014.

Bad debts peaked in 2013 (in % terms) and now trending lower.

Capital adequacy at 23%.

NPL's trending down in % terms.

2014 P/E at 10.9 and forward 2016 P/E of 7.1 times.

Dividend pay-out increase from 50% to 67% from 2014.

Leverage rising modestly.

ROE rising.

Quarterly earnings rising with low volatility.

US\$ earnings forecast:

Up 22% in 2015 to US\$32m.

Up 19% in 2016 to US\$39m.

RWANDA STOCK MARKET		BANK OF KIGALI					
Year end	December	2011	2012	2013	2014	2015F	2016F
Year end share price - Rwanda Fr	127	129	243	300	296	296	
Increase	-15.3%	1.6%	88.4%	23.5%	-1.3%	0.0%	
Year end share price (US\$)	\$0.21	\$0.20	\$0.36	\$0.44	\$0.41	\$0.41	
Increase	-16.8%	-2.8%	76.0%	21.1%	-5.3%	0.0%	
Issued shares (million) - year end	667.3	667.3	667.3	667.3	667.3	667.3	
	1 for 11,000 bonus IPO issue						
Issued shares (million) - weighted	566.1	667.3	667.3	667.3	667.3	667.3	
Issued shares (million) - adjusted	667.3	667.3	667.3	667.3	667.3	667.3	
Market capitalisation - RFr million	84,752	86,086	162,163	200,201	197,532	197,532	
US\$ exchange rate - period end	604	631	676	689	718	718	
Market capitalisation - US\$ million	\$140.3	\$136.3	\$239.9	\$290.6	\$275.1	\$275.1	
Rwanda macro data							
GDP growth (IMF)	7.5%	8.8%	4.7%	6.0%	6.7%	7.5%	
GDP per capita - US\$ (IMF)	\$628	\$694	\$703	\$721	\$768	\$832	
Govt. budget surplus/(deficit) to GDP	-1.4%	-1.1%	-1.8%	-1.2%	-6.0%	-0.7%	
Current a/c surplus/(deficit) to GDP	-7.5%	-11.3%	-7.1%	-12.3%	-12.4%	-10.0%	
Inflation rate	8.3%	3.7%	3.4%	0.5%	0.5%	0.5%	
Interest income	22,671	32,070	45,200	51,900			
Interest expense	6,076	8,339	10,000	12,600			
	16,595	23,731	35,200	39,300	45,557	52,414	
Bad debt charge	4,594	3,647	9,100	7,600	7,529	10,625	
	12,001	20,084	26,100	31,700	38,028	41,788	
Other income	12,859	14,675	18,600	18,900	24,145	31,448	
Operating expenses	14,207	20,292	26,000	27,900	32,760	38,577	
Restructuring costs	0	0	0	0	0	0	
Income before tax (ZKw million)	10,654	14,467	18,700	22,700	29,413	34,660	
Taxation	1,965	2,686	3,900	4,400	6,177	6,932	
Effective tax rate	18.4%	18.6%	20.9%	19.4%	21.0%	20.0%	
Attributable to shareholders	8,689	11,781	14,800	18,300	23,236	27,728	
Dividend	4,338	5,893	7,407	10,898	13,942	16,637	
Bad debt charge off to loans & advances	3.5%	1.9%	4.3%	2.9%	2.5%	3.0%	
Growth of loans & advances	21.4%	50.3%	7.6%	23.9%	16.0%	18.0%	
Growth of total assets	45.6%	12.1%	30.9%	14.3%	18.0%	18.0%	
Cost/income ratio	48.2%	52.8%	48.3%	47.9%	47.0%	46.0%	
Other income/net interest income	77.5%	61.8%	52.8%	48.1%	53.0%	60.0%	
Operating expenses/total assets	4.9%	6.3%	6.2%	5.8%	5.8%	5.7%	
Net interest income/total assets	5.8%	7.4%	8.3%	8.1%	8.0%	7.8%	
Shareholders equity	61,584	63,107	70,800	89,500	98,795	109,886	
Long-term debt	4,998	5,944	34,200	39,900	43,000	46,000	
Loans & advances	123,130	185,066	199,100	246,700	286,172	337,683	
Provisions for bad debts	7,532	8,910	12,900	13,300	15,000	16,500	
Provisions/loans & advances	5.8%	4.6%	6.1%	5.1%	5.0%	4.7%	
Deposits	181,019	208,424	280,500	324,600	376,536	440,547	
Loans & advances/deposits	68.0%	88.8%	71.0%	76.0%	76.0%	76.7%	
Loans & advances/total assets	42.8%	57.3%	47.1%	51.1%	50.3%	50.3%	
Fixed assets	19,554	21,627	21,000	20,500	22,500	25,000	
Total assets	287,899	322,794	422,400	482,600	569,468	671,972	
Shareholders equity	\$102	\$100	\$105	\$130	\$138	\$153	
Total assets (US\$ million)	\$477	\$511	\$625	\$700	\$793	\$936	
Loans & advances (US\$ million)	\$204	\$293	\$295	\$358	\$399	\$470	
Deposits (US\$ million)	\$300	\$330	\$415	\$471	\$524	\$614	
Capital adequacy	28.1%	22.4%	23.1%	23.1%			
Non-performing loans - gross	10,893	12,608	14,628	17,160			
As % of total loans	8.3%	6.5%	6.9%	6.6%			
Bad debt provisions/NPL's	69.1%	70.7%	88.2%	77.5%			
Period end P/E	8.3	7.3	11.0	10.9	8.5	7.1	
Earnings per share - published	15.35	17.65	22.18	27.42	34.82	41.55	
- adjusted	15.35	17.65	22.18	27.42	34.82	41.55	
EPS growth	24.3%	15.0%	25.6%	23.6%	27.0%	19.3%	
Dividend per share - declared	6.50	8.83	11.10	16.33	20.89	24.93	
- adjusted	6.50	8.83	11.10	16.33	20.89	24.93	
Dividend growth	n.m.	35.8%	25.7%	47.1%	27.9%	19.3%	
Dividend yield	5.1%	6.8%	4.6%	5.4%	7.1%	8.4%	
Dividend cover	2.00	2.00	2.00	1.68	1.67	1.67	
Book value per share	92	95	106	134	148	165	
Share price to book value	1.38	1.36	2.29	2.24	2.00	1.80	
Return on total assets	3.0%	3.6%	3.5%	3.8%	4.1%	4.1%	
Leverage (total assets/equity)	4.7	5.1	6.0	5.4	5.8	6.1	
ROE	14.1%	18.7%	20.9%	20.4%	23.5%	25.2%	
EARNINGS							
Q1	1,915	3,200	3,500	4,900			
Q2	1,985	2,800	3,800	4,900			
H1	3,900	6,000	7,300	9,800			
Q3	1,900	2,900	3,546	4,287			
9 months	5,800	8,900	10,846	14,087			
Q4	2,889	2,881	3,954	4,213			
	8,689	11,781	14,800	18,300			
EARNINGS PER SHARE							
Q1	2.87	4.80	5.24	7.34			
Q2	2.97	4.20	5.69	7.34			
H1	5.84	8.99	10.94	14.69			
Q3	2.85	4.35	5.31	6.42			
9 months	8.69	13.34	16.25	21.11			
Q4	4.33	4.32	5.93	6.31			
	13.02	17.65	22.18	27.42			
Attributable income (US\$ million)	\$14.4	\$18.7	\$21.9	\$26.6	\$32.4	\$38.6	
	38.3%	29.7%	17.3%	21.3%	21.8%	19.3%	

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The following Tables and Charts set out Bank of Kigali's position relative to listed Regional commercial banks.

EAST AFRICAN BANKS - SUMMARY AND ANALYSIS												
Shares prices as of 12-Mar-15	Share price	Market cap US\$ m	P/E Historic	--- Dividend --- Yield	Cover	Price/ book	Attrib earnings US\$m	Shareholders equity US\$m	Total assets US\$m	Loans & advances US\$m	Deposits US\$m	Year end
RWANDA												
Bank of Kigali	296	275	10.8	5.5%	1.68	2.21	\$27	\$130	\$700	\$358	\$471	Dec-14
KENYA												
Equity Bank	52.00	2,107	11.2	2.9%	3.09	3.02	\$189	\$704	\$3,805	\$2,365	\$2,710	Dec-14
KCB Bank	59.00	1,904	10.3	3.4%	2.86	2.30	\$186	\$835	\$5,415	\$3,133	\$4,166	Dec-14
Standard Chartered Kenya	354.00	1,197	10.2	4.1%	2.40	3.28	\$105	\$387	\$2,554	\$1,503	\$1,793	Dec-13
Barclays Kenya	17.00	1,010	11.0	5.9%	1.54	2.42	\$93	\$422	\$2,494	\$1,385	\$1,820	Dec-14
Coop Bank Kenya	20.25	928	10.1	2.5%	4.02	2.11	\$107	\$420	\$2,679	\$1,588	\$2,033	Dec-13
Diamond Trust Bank	242.00	641	11.5	1.0%	8.75	2.02	\$56	\$320	\$2,336	\$1,520	\$1,778	Dec-14
CFC Stanbic	126.00	545	8.8	4.1%	2.77	1.35	\$63	\$407	\$1,999	\$1,118	\$1,429	Dec-14
I & M Holdings	126.00	541	10.1	2.0%	4.97	2.75	\$55	\$254	\$1,636	\$1,065	\$1,126	Dec-13
NIC Bank	62.00	434	9.6	1.6%	6.43	1.78	\$35	\$174	\$1,258	\$830	\$968	Dec-13
Housing Finance Kenya	38.75	98	9.3	4.6%	2.32	1.52	\$9	\$60	\$476	\$352	\$266	Dec-12
National Bank Kenya	23.75	73	7.6	0.8%	15.55	0.54	\$5	\$121	\$780	\$329	\$641	Dec-12
Total/Weighted average		\$9,478	10.5	3.3%	3.59	2.48	\$903	\$4,104	\$25,433	\$15,188	\$18,730	
TANZANIA												
CRDB Bank	400	474	9.7	3.5%	2.95	1.99	\$52	\$252	\$2,431	\$1,468	\$1,929	Dec-14
NMB	3,720	1,014	11.9	2.8%	2.97	3.28	\$90	\$327	\$2,242	\$1,159	\$1,721	Dec-14
Dar Community Bank	870	32	8.6	3.2%	3.60	3.57	\$2	\$10	\$63	\$36	\$41	Dec-11
		\$1,520					\$144	\$590	\$4,737	\$2,663	\$3,691	
UGANDA												
Stanbic Bank Uganda	33	585	16.6	4.7%	1.28	4.17	\$40	\$161	\$1,285	\$561	\$709	Dec-13
DFC Uganda	801	138	13.0	2.3%	3.32	2.93	\$11	\$50	\$372	\$206	\$220	Dec-12
Bank of Baroda Uganda	130	45	3.8	3.8%	6.91	0.80	\$7	\$29	\$152	\$58	\$110	Dec-08
		\$767					\$59	\$240	\$1,809	\$825	\$1,039	
Shares prices as of 12-Mar-15	Share price	Market cap US\$ m	ROE	Leverage (assets/ equity)	Cost/ income ratio	Non-interest income to interest income	Net Interest margin/ total assets	Loans/ total assets ratio	Loan loss provisions/ Total loans	NPL's/ Total loans	Capital adequacy	Year end
RWANDA												
Bank of Kigali	296	275	20.4%	5.4	47.9%	48.1%	8.1%	51.1%	5.1%	6.6%	23.1%	Dec-14
KENYA												
Equity Bank	52.00	2,107	26.9%	5.4	50.8%	67.0%	8.5%	62.2%	2.0%	4.2%	18.6%	Dec-14
KCB Bank	59.00	1,904	22.3%	6.5	50.2%	61.2%	7.3%	57.9%	3.2%	6.5%	17.1%	Dec-14
Standard Chartered Kenya	354.00	1,197	27.2%	6.6	39.6%	42.8%	7.4%	58.8%	1.7%	5.2%	17.0%	Dec-13
Barclays Kenya	17.00	1,010	22.0%	5.9	51.6%	44.3%	8.7%	55.5%	1.7%	6.1%	15.7%	Dec-14
Coop Bank Kenya	20.25	928	25.5%	6.4	59.5%	75.7%	6.9%	59.3%	3.2%	13.9%	15.7%	Dec-13
Diamond Trust Bank	242.00	641	17.5%	7.3	43.4%	29.7%	6.0%	65.1%	1.7%	1.3%	16.8%	Dec-14
CFC Stanbic	126.00	545	15.4%	4.9	50.2%	99.4%	4.7%	55.9%	1.2%	9.9%	12.6%	Dec-14
I & M Holdings	126.00	541	21.5%	6.4	37.9%	38.7%	6.3%	65.1%	2.0%	6.0%	16.9%	Dec-13
NIC Bank	62.00	434	20.3%	7.2	42.5%	52.8%	5.1%	65.9%	2.4%	4.4%	15.6%	Dec-13
Housing Finance Kenya	38.75	98	14.5%	8.0	50.5%	14.6%	4.8%	74.0%	1.2%	7.6%	19.1%	Dec-12
National Bank Kenya	23.75	73	4.0%	6.4	75.4%	59.4%	7.1%	42.2%	5.3%	11.8%	27.3%	Dec-12
Total/Weighted average		\$9,478	23.1%	6.2	48.8%	57.7%	7.3%	56.8%	2.3%	6.3%	16.9%	
TANZANIA												
CRDB Bank	400	474	20.6%	9.7	60.7%	54.5%	6.5%	60.4%	1.2%	5.6%	14.5%	Dec-14
NMB	3,720	1,014	27.5%	6.8	53.8%	38.1%	9.7%	51.7%	1.9%	2.6%	22.0%	Dec-14
Dar Community Bank	870	32	19.7%	6.0	60.9%	11.0%	11.5%	57.8%	3.1%	3.6%	33.6%	Dec-11
		\$1,520	25.2%	7.7	56.1%	42.7%	8.8%	54.5%	1.7%	3.6%	19.9%	
UGANDA												
Stanbic Bank Uganda	33	585	25.1%	8.0	59.8%	80.5%	7.6%	43.7%	2.7%	2.9%	16.7%	Dec-13
DFC Uganda	801	138	22.5%	7.4	51.2%	26.7%	8.3%	55.5%	2.9%	5.2%	17.0%	Dec-12
Bank of Baroda Uganda	130	45	24.0%	5.3	34.7%	35.9%	6.8%	38.2%	1.4%	1.6%	31.5%	Dec-08
		\$767	24.6%	7.7	56.8%	68.2%	7.7%	45.5%	2.7%	3.2%	17.6%	
Sources: Company annual reports and country stock exchanges.												
= P/E <10.0, Dividend yield >5%, Price/Book <1.50 times, ROE > 25%, Leverage < 5 times, Cost/income ratio < 50%, NPL's < 10%, Capital adequacy > 20%												



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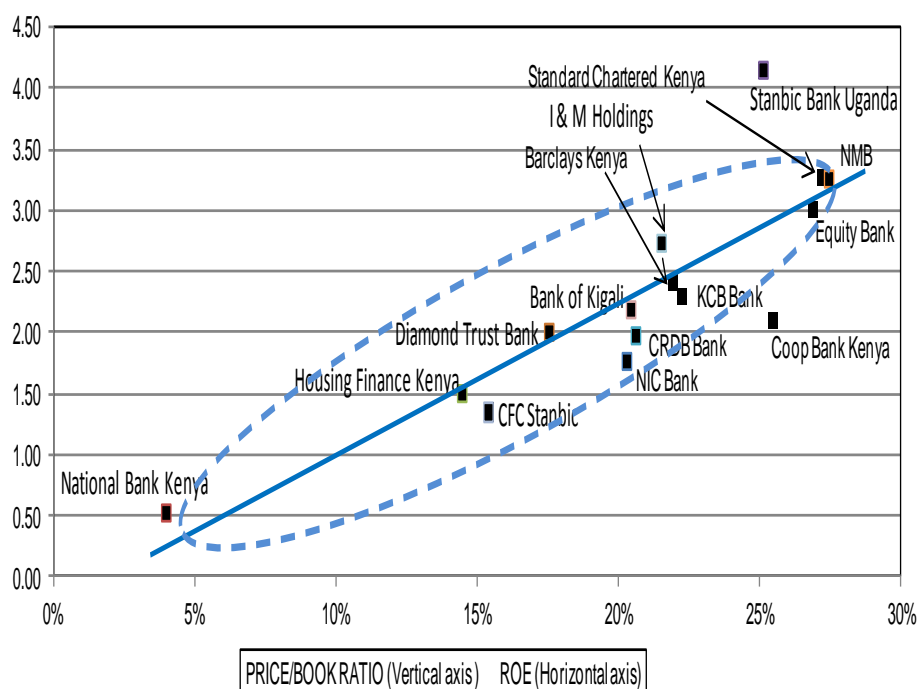
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EAST AFRICA COMMERCIAL BANKS ROE vs PRICE/BOOK RATIOS

**EAST AFRICA & MAURITIUS BANK VALUATIONS
ROE vs PRICE/BOOK**



ROE's derived from latest company audited financials

Comment:

East Africa's commercial banks have a low dispersion when ranked according to ROE and Price/Book.

For every 10% of ROE the price/book ratio doubles.

Bank of Kigali is presently at fair value following the recent 9% fall of the share price from the March 2014 high.

However, factoring in Bank of Kigali's forecast growth to 2016 we believe the share price has value up to RWF 400 (up 35%) based on:

- (i) Forecast 27% earnings growth in 2015 and 19% for 2016 and
- (ii) Forecast 23% ROE for 2015 and 25% for 2016.

Source: Company earnings reports and country stock exchanges.

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