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ON LOCAL LISTED BANKS

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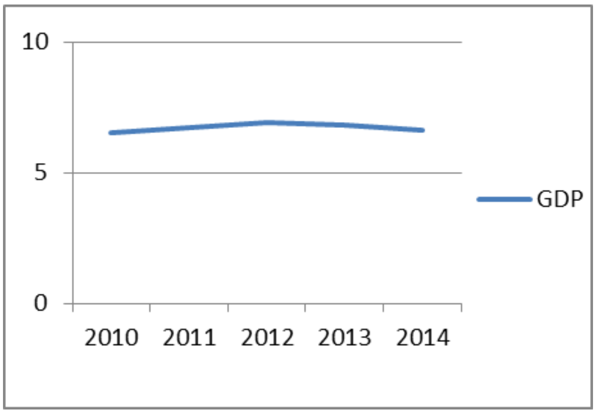
Tanzania Economic Growth Outlook

Economic Growth overview:



Tanzania's economy has been resilient to shocks and is expected to remain buoyant with a GDP growth forecast of 6.8% in 2013. GDP growth was driven by private consumption (growing population), exports (due to favourable gold prices) and gross fixed capital (mainly public investment). Private investment is expected to lead growth in the short and medium term. In terms of dynamic sectors, tourism and mining continue to experience high growth rate even if agriculture remains the largest sector.

Services, industry and construction continue to be the driving forces. However, frequent power outages continue to hurt potential output. Export, which received a boost during the crisis as demand for gold in world markets continued to rise, is expected to perform well with forecast at 9.7% in 2013. In 2012 energy and capital goods slowed while agricultural and manufactured exports, services receipts and government transfer inflows boosted inflows.

The widening of the current-account deficit in fiscal year 2011/2012 prompted the Tanzanian Government to request a precautionary Standby Credit Facility arrangement, which was approved by the International Monetary Fund in July 2012. Inflation is expected to ease further to single digits in 2013. With the expected fall in the inflation rate, the exchange rate should stabilise in 2013 and 2014. Increased oil imports for power generation are driving demand for foreign currency. The Tanzanian Shilling exchange rate is market determined, with only official interventions by the Central Bank to smooth out excessive volatility. As a result, the shilling has not been volatile or overvalued, although it depreciates. Its continued depreciation could translate into higher domestic prices and result in inflationary pressures on the real economy, particularly through the cost of imported fuel and other inputs.

Economic Key Indicators and Forecasts

	2010	2011	2012	2013	2014
Real GDP	6.5	6.7	6.5	6.8	6.6
Inflation	6.2	12.7	12.1	8.8	9.8
Foreign Exchange (Tshs/US$)	1,409	1,572	1,529	1,626	1,670
Policy Interest Rates	7.58	12.00	12.03	12.15	12.33

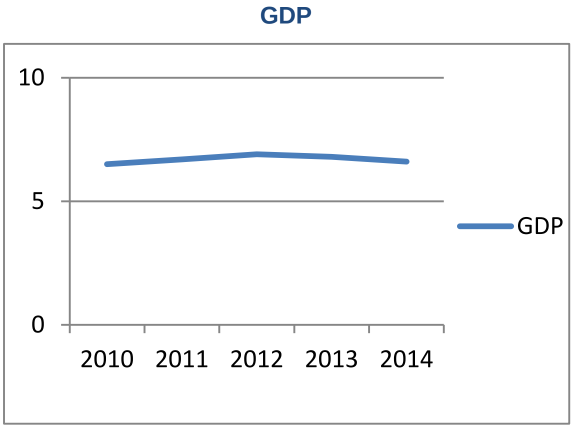
Source: NBS, BOT & Global Insight

Economic Outlook

Strong domestic demand should support growth through 2013 despite a deteriorating global outlook. We are expecting domestic demand to remain the main driver of growth in 2013 despite rising food and energy prices having eroded disposable incomes over 2011/12.

In addition, public investment into energy and transport infrastructure is expected to offset weaker momentum in the mining sector.

We expect fiscal and monetary policy to remain on the simulative side in over the medium term, although the authorities are likely to gradually move towards a more balanced policy mix in fiscal years (FY) 2012/13 in order to bring down inflation.



We expect a continued economic improvement in 2013 due to economic acceleration reported this year. GDP grew to 6.5% year-on-year in the third quarter of 2012, according to a summary report released by the National Bureau of Statistics (NBS). The expansion was driven by double digit growth in manufacturing and transport and communication categories. In addition the electricity, gas and water sector accelerated rapidly in 2012. Growth in the agricultural sector, which accounts for around 20% of overall GDP, slowed somewhat from 5.2% in second quarter 2012 to 4.4% in the second half of 2012, supported by good rainfall and government efforts to improve agricultural production.

Increased economic integration within the East African Community (EAC), is likely to benefit Tanzania in the medium-to-long term. The East African Common Market Protocol, which aims to lead to the free movement of goods, services, capital and labour within the five member countries (Burundi, Kenya, Rwanda and Uganda) was finally launched on 1 July 2010. While implementation issues will mean that the removal of barriers between the EAC countries is likely to be a gradual process, we believe it will still serve to underpin efficiency gains and economic growth in the medium-to-long term.

Exchange rates

The Tanzanian shilling, like its regional peers, came under pressure in parts of 2012 due to political unrest in the Middle East and North Africa, raising risk aversion and the global oil prices also pushing up consumer price inflation. However, generally in 2012 the shilling has enjoyed a higher degree of stability.

The situation started to change (especially in the second quarter of 2012) to improve as the shilling started to gain against various foreign currencies (including the dollar).

While the shilling has held up well compared with some of its emerging market peers, it remains vulnerable to shifts in investor appetite due to Tanzania's high current-account deficit, which is likely to increase in tandem with the higher oil price.

We expect the Tanzanian shilling to slip somewhat in the 2013. The broadly stability shown in Tanzanian shilling at around Tshs.1,570-1,590/USD during 2012, we believe that persistent double digit inflation together with an easing of liquidity conditions will impair confidence in the domestic currency going into 2013, impeding a lasting stabilization in the foreign exchange market. Moreover, Tanzania reliance on foreign aid and investment inflows will result into further weakness in current account deficit.

The medium trend for the Tanzanian shilling will be determined by the maintenance of a positive outlook for the external sector and the steady return of foreign direct investment and aid flows to emerging markets, as well as good performances in the tourism, mining and agricultural sectors.

Monetary Policy

Through 2009-11 an expansive monetary policy has been pursued by the Bank of Tanzania to counter the adverse effects of a challenging external environment. According to the central bank, the accommodative monetary policy stance was taken to complement the government's expensive fiscal policy in a bid to stimulate the domestic economy. The BoT's lax monetary policy stance has allowed monetary aggregated increase rapidly in recent years. This has largely been driven by a sharp acceleration in private sector credit growth to 31.9% year-on-year from 20.3% a year earlier, before slowing to 15.7% in late 2012.

While the Tanzania's has made significant headway in developing the effectiveness of monetary policy over the past decade, the transmission mechanism remains limited by the still relatively rudimentary state of the domestic banking sector. Monetary policy remains focused on managing liquidity conditions to decrease the volatility resulting from inflows and outflows of foreign exchange. The BoT is expected to maintain an accommodative monetary policy stance during fiscal year (FY) 2012/13 despite double-digit inflation rate. The BoT is to maintain a tight monetary policy stance in FY 2012/13 (July-June) according to its monetary policy statement (MPS) for the current fiscal year. The central bank will target reserve money of 16.0% and M3 money supply growth of 18.0% in FY 2012/13. Furthermore, the bank will target annual growth of private-sector credit of 20.0% compared with at least 20.8% in FY 2011/12.

Inflation

The consumer price index (CPI) slightly fell to 10.9% in December 2012. This was slightly down from the yearly high of 19.2% in March 2012. Tanzania Inflation rate is expected to improve persistent in 2013. There are some indications that inflation is now bottoming out. We are forecasting consumer price inflation to drop into the high single digits in the first quarter for 2013, but expect inflation to return to double digits in the second quarter, averaging 12.0% over the year, significantly above the average of 6.9% over 2000-10. However, this is predicated on increases in food and energy prices remaining relatively contained as the persistently strong momentum in the All Items Less Food and Energy category indicates more structural inflationary pressures.

The Banking Sector Overview

There are 45 licensed banks and financial institutions operating in a ~Tshs.43 trillion (US$ 28 billion) economy, 32 commercial banks; 8 Community banks and 5 financial Institutions. There are also about 521 bank branches predominantly located in urban areas. 8 banks represent 75% of the banking industry assets. Despite some successful financial-sector reforms, the banking industry tends to play only a small role in the country's economy despite the sector's wealth balance sheet, providing very limited and mostly short-term credit. Payment services are underdeveloped, particularly in rural areas.

The data below shows the compounded Annual Growth Rate (CAGR) of Assets in the banking industry from FY08 to FY12:

(Tshs. bn)	FY08	FY09	FY10	FY11	FY12	CAGR
Loan & Advances	4,163	4,534	5,485	7,100	8,121	18%
Government & Debt Securities	1,549	1,719	2,442	2,030	2,767	16%
Balances with other banks	1,114	1,459	1,857	1,932	1,894	14%
Other assets	1,451	2,105	2,581	3,220	3,480	24%
Total	8,277	9,817	12,365	14,282	16,262	18%

Source: Published Financial Statements & TSL Analysis

From the data above, the industry's Assets has grown by a CAGR of 18% in the past five years (from FY08 to FY12). Loan & Advances grew by 18%, Government & Debt Securities by 16%, Balances with other banks, 14% and other assets 24%.

Income Levels

(Tshs. bn)	FY08	FY09	FY10	FY11	FY12	CAGR
Total Income	941	1,110	1,282	1,511	1,965	20%
Gross income	757	832	975	1,190	1,451	18%
Net Earning	209	217	197	231	257	5%

Source: Published Financial Statements & TSL Analysis

Income level has been rising steadily as depicted in the table above, indicating a general improvement of income made by banks operating in the country.

Source of Financing

About 85% of the banking assets are funded by client deposits. Other banks deposits, other liabilities and shareholders' fund are other assets financing sources. The table below depict CAGR of all sources of financing assets.

Source of Financing	FY08	FY09	FY10	FY11	FY12	CAGR
Client deposits	6,400	7,906	9,846	11,395	12,599	18%
other banks deposits	350	253	509	535	651	17%
Other liabilities	551	408	490	611	1,063	18%
Shareholders' funds/capital	973	1,248	1,519	1,738	1,948	19%

Source: Published Financial Statements & TSL Analysis

Competitive Landscape

To remain competitive and efficiency, banks should:

- Provide customers the opportunity to choose by making more products and service offered more transparent and available.
- Rebalancing fee structures to achieve the clarity and sustainability required.
- Assisting customers shape their own banking experiences by improving how they provide information and advice, recruiting online affinity groups and by developing flexible loyalty programs.
- Develop models around customer needs by reprioritizing spending, including increasing the use of low-cost digital models and using more innovative technology.

Even with about 45 banks currently operating in Tanzania, the banking sector continues to grow, it is yet a lucrative (only 14% bankable) sector and thus it will continue to attract new entrants we therefore foresee mounting competition in future. Even though the competition shows that Tanzania is still considered as a country with low competition, margins are still high compared to other countries in the region.

Stiff competition is expected to come from mobile phone companies which originally were not active players in financial intermediation, however in recent days have successfully disrupted the market to gain a large share in the retail payment systems managing to provide missing link between banked, under and un-banked population.

We view the economic background as supportive, given that the current yield curve, low real short term rates, and improving lead indicators, as well as current lending criteria are supportive of stronger not weaker growth. These, in turn, would improve asset values and potentially increase earnings development for the sector.

CRDB BANK PLC ("CRDB")

Recommendation: MEDIUM-TERM BUY

We recommend a **Medium–Term BUY** on the CRDB at a price of Tshs. 150 with upside of ~15%. Despite trading at a FY13F price earnings ratio (PER) of 4.4xs (lowest among listed banks in the DSE: NMB is trading at PER 6.7xs, DCB 11.3xs), we hold our view that the bank is attractive with significant earnings upside expected in FY13F.

Our optimistic viewpoint is based on our positive outlook on CRDB key growth drivers including acceleration in balance sheet growth owing to an increased push in liabilities and growth in the proportion of interest earning assets to total assets. Further, the successful continuance expansion strategy, innovative approach to business development, and product diversification will cement further on the development seen in 2012. CRDB has managed to increase ~21 branches in the past 12 months including a subsidiary in Bujumbura, Burundi. CRDB currently has 841 POS, 94 branches and plans to open about 15 branches in FY13.

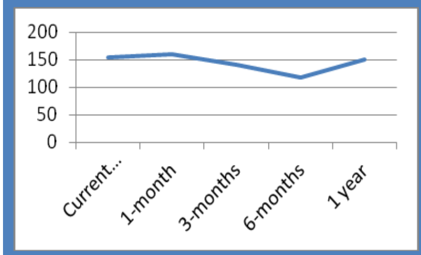
Furthermore, we believe that the bank will lend aggressively in FY13 to continue offsetting the reduction in net interest margins and the rise in cost of funds.

After undergoing a slowdown in FY09 - FY11, coupled with costs acceleration (consistent cost to income ratio of ~ 70%) as a result of expansion, investing in ICT and challenges with NPL, we expect the bank to consolidate growth opportunities from its existing network.

CRDB's NPL and loans impairments provisions have both improved compared to 2011 and two years before, NPL as a percentage of total gross loans for 2012 was 6% compared with 8% in 2011. Impairment losses on Loans and Advances has decreased to Tshs. 29.6 billion from Tshs. 31.2 billion provided for in 2011. These improvements are attributed to reduced credit default risks but we maintain that the bank's NPL ratio of 6% is still on the relative higher side. NPL's are unlikely to accelerate significantly but we are cautious of the higher NPLs coverage relative to the other listed banks average of ~3%. CRDB's NPL ratio is expected to decline further to levels lower than the current 6%.

The bank's implementation of its two prolonged strategies that sought to generally improve services and the image of the bank – improving services & offering customers convenience, innovative, alternative delivery channels for fulfilling customers' demands and increase its market share. The bank's market share (measured by the assets size) stood at 19% down from 21% in 2011. Further growth is expected to be driven by rapid branch and network expansion plans, coupled with

Key Statistics	CRDB
Price (Tshs.)	160
Issued Shares (mn)	2,177
Market cap (Tshs. bn)	337
Market cap (US$ mn)	210
Year End	Dec
PER (x)	
2012A	4.57
2013E	4.00
2014E	3.60
2015E	5.40
EPS (Tshs.)	
2012A	35
2013E	40
2014E	47
2015E	54
DPS (Tshs)	
2012A	12*
2013E	13
2014E	15
2015E	18
NAV (Tshs.)	
2012A	143
2013E	164
2014E	172
2015E	178



innovation and upgrading of its ICT systems – the bank plans to have a branch in each district in Tanzania over the next three years.

The bank has a substantial presence in markets (using its network, SACCOs and Microfinance and insurance subsidiaries) with positive medium and long term fundamentals. With our strong establishment in physical network, strong brand, customer loyalty and our plan to expand through Agency Banking we believe that we will have competitive advantages over new entrants like Equity Bank.

Highlights on CRDB Financials

CRDB	FY08	FY09	FY10	FY11	FY12	CAGR
Loan & Advances	836,803	949,505	1,123,348	1,429,262	1,806,865	21%
Government securities	205,720	252,977	426,546	493,735	518,574	26%
Other Assets	407,278	652,197	755,508	790,644	749,401	16%
Total Assets	1,449,801	1,854,679	2,305,402	2,713,641	3,074,840	21%
Deposits	1,276,433	1,624,795	2,036,224	2,411,577	2,588,413	19%
Interest income	110,287	143,319	156,685	188,357	261,685	24%
Interest expenses	(20,846)	(35,925)	(35,511)	(34,972)	(55,464)	28%
Impairment loans & advances	(5,019)	(18,173)	(20,357)	(31,216)	(29,667)	56%
Other income	43,489	54,079	68,339	57,363	97,973	23%
Operating expenses	(68,147)	(81,428)	(106,067)	(130,657)	(166,465)	25%
Net earnings	40,257	47,583	46,355	36,322	75,644	17%

Source: CRDB Financials and TSL Analysis

Key Statistics

CRDB Bank PLC	FY08	FY09	FY10	FY11	FY12	CAGR
Number of shares (Mn)	2,175	2,175	2,175	2,177	2,177	
Pre-tax profit (Tshs. Mn)	60,005	61,922	64,134	51,013	108,063	16%
Profit after Tax (Tshs. Mn)	40,257	47,583	47,246	37,710	75,644	17%
Dividend (Tshs. Mn)	4,253	15,928	17,432	19,589	26,400*	58%
Market Capitalization (Tshs. Mn)	485,000	255,743	250,125	326,480	304,780	-11%
Net Assets value (Tshs Mn)	140,932	207,774	240,922	254,764	310,754	22%
Price per share (Tshs.)	220	120	115	150	140	-11%
Book value per share (Tshs.)	65	96	111	117	143	22%
Earnings per share (Tshs.)	22	17	22	17	35	12%
Dividends per share (Tshs.)	2.2	5.9	8.1	9	12*	53%
Price Earnings Ratio	10.3	6.9	5.2	8.8	4.0	-21%
Dividend Yield	1%	5%	7%	6%	9%*	73%
Dividend Payout Ratio	11%	33%	37%	53%	35%*	34%
Price book value	3.44	1.23	1.04	1.28	0.98	-27%

Source: DSE Data and TSL Analysis

* TSL estimates

EPS stood at Tshs. 35 in FY12, a significant rise from the Tshs. 17 in 2011. We forecast a Tshs. 40 EPS FY13E, a higher growth rate which is in line with our projections of bank's profit of Tshs. 125 billion in FY13E. The total amount of dividend paid on July 2012 for the year ended 2011 was 19.6 billion, substantially higher than 17.5 billion paid in 2011. Based on the existing dividend policy we forecast a dividend amounting Tshs. 26.4 billion, thus Tshs.12 dividend per share in 2012. We project a CAGR in dividend by 18% for the next three years.

In 2012, the bank continued to roll on execution its five year strategy which included the rollout of the new Core Banking System (Bank Fusion-Universal Banking). This enabled the bank to enhance its service delivery efficiency and also complete the rollout of centralizing back office transactions.

The bank's strategy rests on portfolio diversification and retail banking with a focus on loans, liquidity, assets quality and risks and costs management. Downside risks to our projections include execution risk given the accelerated pace of growth, exposure to credit risk and growing non-performing loans as well as a significant drop in commissions and lending rates that could impact profitability as competition intensifies.

Forward Looking

CRDB is looking at three growth avenues to cushion its assets base and earnings, especially in light of increased competition in the high volume wholesale banking and the MSME market. The bank intends to accelerate the push and consolidation of its growth in the retail market and increase the small and medium sized loan book, achieve low cost of funding as well as higher consumer banking commission income. Achieving these key growth drivers, CRDB results will be as depicted in the table below:

CRDB Projected Estimates

CRDB Bank PLC	**FY13**	**FY14**	**FY15**
Loan & Advances	2,190,289	2,655,076	3,218,493
Government securities	653,423	823,337	1,037,436
Other Assets	872,811	1,016,543	1,183,946
Total Assets	3,710,659	4,477,954	5,403,910
Deposits	3,088,819	3,685,966	4,398,557
Interest income	324,782	403,094	500,288
Interest expenses	(70,837)	(90,470)	(115,545)
Loan impairment	(46,258)	(72,128)	(112,465)
Other income	120,030	147,052	180,157
Operating expenses	(208,110)	(260,172)	(325,260)
Net earnings	88,564	103,691	121,402

Source: CRDB Financials and TSL Analysis

Key statistics

CRDB Bank PLC	**FY2013E**	**FY2014E**	**FY2015E**
Number of shares (Mn)	2,177	2,177	2,177
Pre-tax profit (Tshs. Mn)	125,184	145,018	167,994
Profit after Tax (Tshs. Mn)	87,629	101,513	117,596
Dividend (Tshs. Mn)	28,918	33,499	38,807
Market Capitalization (Tshs. Mn)	326,550	348,320	380,975
Net Assets value (Tshs Mn)	356,924	375,235	387,464
Price per share (Tshs.)	150	160	175
Book value per share (Tshs.)	164	172	178
Earnings per share (Tshs.)	40	47	54

CRDB Bank PLC	FY2013E	FY2014E	FY2015E
Dividends per share (Tshs.)	13	15	18
Price Earnings Ratio (x)	3.2	7.6	7.6
Dividend Yield (%)	9%	10%	10%
Dividend Payout (%)	35%	35%	35%
Price book value (x)	0.91	0.93	0.98

Source: TSL Estimates

Key Growth Drivers

Innovation and Underpenetrated Market

Following the rapid expansion and growth in scale and volumes, the bank is poised for a strong future growth. Sustained growth and enhancement of the retail services capabilities by opening of new branches will, in our opinion, outweigh the 2012 performance. Future projections of its balance sheet, profitability, and costs are within acceptable levels. For now, the bank will "bank" on its future to guide and sustain it present.

The bank continues to implement changes to its technology, upgrade its communication it is implementing system based changes geared towards centralizing back office transactions and upgrading its core banking system. The bank's microfinance subsidiary also increased its network of partners to over 500.

The bank's business model of reaching the lower-end retail and MSME base through SACCOS and microfinance subsidiaries has given it the scale to take advantage of under penetration of the bankable population. CRDB enjoys a competitive edge in the retail & MSME segment by virtue of increasing presence in key deposit taking urban, peri-urban areas, and rural centres and offering easy access to banking products. However, competitors such as NMB, NBC, Microfinance Institutions, community Banks, SACCO's and other mainstream commercial banks targeting the retail space are becoming stronger.

On the MSME side, the bank has been able to successfully reach this market segment through its SACCOs and Micro finance Service Company. The bank plans to increase its SACCOs network from the current 200 to over 500 in 2015. However, in a view of increasing its outreach and access less costly sources of funding, the banks has embarked in aggressive branch network expansion strategy and is also encouraging and attracts customers to deposit in low cost accounts i.e. savings and current accounts.

Adapting to a changed environment

CRDB, in general hold healthy balance sheet, enjoy excellent liquidity and is strongly capitalised – with low leverage and moderate (current and projected) loan-to deposit ratios.

The spill over from the global financial crisis and the resulting recession, for CRDB was not significant or destabilizing as was in other emerging economies. By contrast, the bank remained stable, despite impairment of assets quality caused by weaknesses waning commodity prices and the slowdown in direct investment in the agricultural, tourism and manufacturing sectors.

The bank's lending margins reduced marginally on both foreign and local currency lending. Trade financing also became a little expensive and hard to source – with soaring interest rates and confirmation fees for LCs and bank guarantees. There were some cases where the bank required LCs to be cash collateralized. Despite this, in our view, CRDB is a good example of a bank that has resiliently managed to deal with the crisis and has good future potential – but which has not yet been given credit for this by the market.

CRDB launched a subsidiary in neighbouring Burundi in 2012 in order to capitalise on opportunities brought about by growing trade between the two countries. It is the first local bank to run business in another East African Community member state. In the past, it was thought that South African and Nigerian banks were the only that were expanding rapidly in the continent. But the CRDB move shows that has changed. CRDB has opened the subsidiary bank to act as a springboard for more branches in the tea and coffee exporting neighbouring country. Trade between Burundi and Tanzania has been growing in recent years, mainly because Burundian businesses rely heavily on the Tanzanian port of Dar es Salaam to import goods. The bank would turn its attention towards the Democratic Republic of Congo, a vast, mineral-producing central African country that lacks a developed banking sector. CRDB believes the move will give the Tanzanian company international exposure to compete professionally and effectively in a global landscape while improving its profit margin and dividends for the shareholders.

Key Risks

In our view the two key risks that investors have to contend with are implementation risk, credit risk and default risk.

Operational risk

With the fast pace of growth both in network, business volumes, innovation and technology enhancement; CRDB bank faces implementation and operational risk. We, however, note that the bank has been increasing staff numbers commensurately with the pace of growth in the network. Further, the bank's core banking system (Bank Fusion- Universal Banking) has been designed specifically for banks with a high volume business model; the system/software is both flexible and scalable.

Credit and Default risk

Credit and default risk is also a concern. Historically the bank loan loss has been above the sector mean as the bank faced high magnitude of NPL's over a number of agricultural sectors loans. However, the bank's impairment charges decreased in FY12. Going forward, the bank's model of financing MSMEs through the SACCOs and its microfinance subsidiaries will continue to provide a relatively better platform cushioning against non performing loans.

NATIONAL MICROFINANCE BANK ("NMB")

Recommendation: Medium-Term BUY

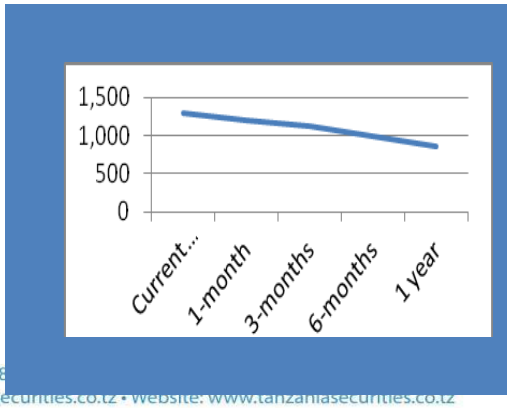
We recommend a **MEDIUM TERM BUY** on NMB at a price of Tshs. 1,200 with up/down side of 25%. The counter is now trading at the PER trailing of 6.15xs and PER FY13E of 7.18xs, we hold the view that the bank is attractive with significant earnings upside expected in FY13. In 2012 the banks EPS (Tshs. 185 per share) increased significantly (+28%) compared with FY11 (Tshs. 144 per share). Further, we expect the bank to continue to outperform its sector peers (those listed in the (DSE) with ~30% EPS growth and we also foresee strong medium term growth (3yr EPS CAGR of 20%) for the bank, driven by an increase share of sector deposits, rising transaction (off-balance sheet) income as a result of existing channels (i.e. mobile banking, point of sale facilities, ATMs, etc) and alternative service delivery channels (such as agency banking) and cost stabilization.

NMB continues to offer a combination of solvency, low funding costs, moderate exposure to risks and an appealing valuation, in our view – we believe that market are now relatively provide a better reward for the quality and caution of the bank's management. Despite the current trading price of Tshs. 1,300 levels, NMB still trades at a discount to its peers in the NSE. The bank has a very interesting presence (147 branches – present in each district in the country and over 400 ATMs) in the market with positive long term fundamentals and it is generating enough cash to comfortably pay FY12's 5.9% dividend yield and still finance further its network expansion, introduce new service delivery channels and continue with the modernization strategy.

Further, we believe that the bank will lend aggressively in FY13 as has been its trend in the past five years as the bank make a better use of its deposits in aggressively lending to the private sector which is in dire need of working capital. We also see the bank continue with its efficiency in interest and non-interest expense compared to its peers.

Downward risks to our bullish outlook include a rising loan defaults on both the corporate and retail end could dampen profitability growth prospects. We also note the bank's impairment losses on loan and advances have increased by a CAGR of 43%; an increase of 120% recorded in the FY12.

Key Statistics	NMB
Price (Tshs)	1,300
Issued Shares (mn)	500
Market cap (Tshs. bn)	650
Market cap (US$ mn)	406
Year end	Dec
PER (x)	
2012A	6.67
2013E	7.18
2014E	7.10
2015E	7.40
EPS (Tshs.)	
2012A	195
2013E	232
2014E	276
2015E	329
DPS (Tshs)	
2012A	68*
2013E	81
2014E	97
2015E	115
NAV (BV) per share	
2012A	712
2013E	901
2014E	1,136
2015E	1,433



Key Market Data Performance

NMB	FY2008	FY2009	FY2010	FY2011	FY2012	CAGR
Number of shares (Mn)	500	500	500	500	500	
Pre-tax profit (Tshs. Mn)	70,935	68,038	78,445	102,786	145,205	20%
Profit after Tax (Tshs. Mn)	48,707	47,550	53,981	71,839	97,594	19%
Dividend (Tshs. Mn)	15,000	15,700	18,000	25,000	34,000*	23%
Market Capitalization (Tshs. Mn)	485,000	395,000	330,000	425,000	560,000	4%
Net Assets value (Tshs Mn)	140,933	192,239	230,519	284,000	356,953	26%
Price per share (Tshs.)	970	790	660	850	1,120	4%
Book value per share (Tshs.)	282	384	461	568	714	26%
Earnings per share (Tshs.)	97	93	108	144	195	19%
Dividends per share (Tshs.)	29	31	36	50	68*	24%
Price Earnings Ratio (x)	10	8.53	6.11	5.9	5.74	-13%
Dividend Yield (%)	3%	4%	6%	6%	6%*	19%
Dividend Payout (%)	31*	33*	35%	35%	35%	3%
Price book value (x)	3.44	2.05	1.43	1.5	1.6	-17%

Source: Published Financials, TSL Analysis & DSE data

**TSL Estimates*

NMB's strategy to offer a full range of banking services to the lower end has proven unquestionably successful and has resulted in unprecedented growth. This is backed by the banks innovative strategy complemented by technology. The next phase of growth will be driven by product diversification and operating efficiencies as the bank's economies of scale continue to pay off. Further expansion will also impact profitability significantly over the medium term.

Historical Financial Highlights

NMB	FY08	FY09	FY10	FY11	FY12	CAGR
Loan & Advances	726,479	768,740	857,785	1,123,518	1,354,770	17%
Government securities	437,408	523,084	633,964	361,943	589,348	8%
Other Assets	220,381	377,509	615,332	684,789	852,228	40%
Total Assets	1,384,268	1,669,333	2,107,081	2,170,250	2,796,346	19%
Deposits	1,200,484	1,459,398	1,842,089	1,804,699	2,290,274	18%
Interest income	134,507	141,359	141,442	193,005	287,795	21%
Interest expenses	(11,806)	(13,841)	(11,032)	(7,832)	(9,348)	-6%
Loan impairment	(6,222)	(7,025)	(1,674)	(11,752)	(25,851)	43%
Other income	31,769	40,415	69,589	82,277	94,591	31%
Operating expenses	(77,313)	(92,870)	(119,880)	(152,912)	(201,982)	27%
Net earnings	48,707	47,550	53,981	71,839	97,594	19%

The bank's y/y performance (in compounded basis) over the past five years has improved with the company posting a 17% increase in its lending activities, 19% on its total asset base and 18% on its deposits. Top line–interest income went up by 21% to Tshs. 288 billion backed by y/y growth on loans and advances of 17%. The strong performance in the bank's activities, the resilience of the commercial division, the SMEs, agribusiness and corporate business, and a significant positive result emanated from the corporate Centre which we view as sustainable. In our assessment, NMB is reaping the benefit of having a wider branch network, innovation, its recent systems modernization and a strong funding source.

Downward risks to our bullish outlook include a protracted period of high inflation and rising cost pressures that could erode revenue growth and domestic private consumption. Further, if economic growth does not pick up pace, rising loan defaults on both the corporate and retail end could dampen profitability growth prospects. We also note that the ongoing bank's IT infrastructure upgrade will work effectively so as to compete effectively with peer banks. We hold the view that technical innovation and good customer services will ultimately become a key selling point for retaining and gaining customers.

We are cautious pessimistic on the bank's impairment losses on loan and advances that have increased by 43%; 120% growth recorded in the FY12.

Financial Projections

	FY13E	FY14E	FY15E
Number of shares (Mn)	500	500	500
Pre-tax profit (Tshs. Mn)	173,685	207,750	248,498
Profit after Tax (Tshs. Mn)	116,113	138,146	164,360
Dividend (Tshs. Mn)	40,640	48,351	57,526
Market Capitalization (Tshs. Mn)	647,696	703,788	729,547
Net Assets value (Tshs. Mn)	450,309	568,081	716,654
Price per share (Tshs.)	1,300	1,400	1,460
Book value per share (Tshs.)	901	1,136	1,433
Earnings per share (Tshs.)	232	276	329
Dividends per share (Tshs.)	81	97	115
Price Earnings Ratio (x)	5.6	5.1	4.4
Dividend Yield (%)	6%	7%	8%
Dividend Payout Ratio (x%)	35%	35%	35%
Price book value (x)	1.4	1.2	1.0

Source: TSL Estimates

NMB Growing Network – Continued Focus on SMEs

NMB has made a lot of positive leaps since 2005, where the business orientation was reshaped into a new strategy, ownership structure and management. Its diversification into corporate banking and agribusiness financing compounded with innovative and diversified scenarios to compete with the corporate clientele focused and more innovative foreign subsidiaries banks – the bank has been able to significantly gain its market share into the new segments. With a recent refocus in developing new transactional based products i.e. NMB Mobile, Business Clubs, etc and the current upgrade of its core banking software to allow increased functionality, automation, cross selling of products, automation, and provision of e-banking and other valued services – the bank is well positioned to consolidate its market share increase shareholders' value in the near future.

The recent history of NMB growth in business from 2005 to 2012 has been summarized below:

2005	2012
100% GOT owned	Listed on DSE, 25,000 shareholders
600,000 customers	customers 1,600,000 customers

2005	2012
1,500 staff	3,000 staff
0 ATMs	500 ATMS
0 cards	Over 1.2 million cards
No mobile banking	600,000 registered mobile banking users
Limited product range Full product range	Full range products
Savings accounts	Payments/collections/trade finance
Payments - Lending	Lending
Savings and deposits	Treasury
100 branches	200 branches
Limited technology Real time online nationwide	Real time technology
Lack of strategy	Maintenance Growth mode

Source: NMB and TSL analysis

NMB at the Threshold of Innovation

NMB has stepped up its efforts of innovation. NMB has adopted real-time on line technology nationwide. 120 out of the 147 branches have been connected on the internet fibre network. All branches also have the wireless fail over technology to help them offer reliable services.

Capital Retention

The bank's major source of funding its expansion plans has traditionally been retained reserves, the bank has increased earnings retention to 66% with dividend payout average 34% over the past three years. The motive behind this is to raise capital to match its medium to long term lending and other growth initiatives. NMB operates on relatively loose liquidity and strong capital adequacy framework relative to its peers, the bank offers a combination of solid solvency even after Basel III proposals, low funding cost and a moderate exposure to risks.

The Future Outlook

We strongly believe that NMB still has a bright future outlook. At a stance we firmly believe its innovation will continue further, especially in the alternative banking channels like SIM Banking, customer outreach and agency banking. We anticipate that there will be expansion for less costly funding. There will also be a squeezing on the interest rate because of competitive pressure from the other players in the sector i.e. the entry of banks such as FNB & Equity Bank might insert more pressure on NMB operations and financial performance. Lastly we cite good customer services for a competitive advantage over the other banks

Key Risks

In our view the three key downward risks that investors have to contend with are:

Operational Risk: With the fast pace of growth both in network, business volumes, innovation and technology enhancement; NMB faces execution and operational risk. We, however, note that the bank has engaged the consultant to review and assist in the implementation of its ICT platform. The bank has also increased its staff compliment commensurately with the pace of growth in the network.

Credit and default risk is also a concern. Historically the bank loan loss has been below the sector mean as the bank has benefited from the low magnitude of NPL's over a number of loans and also the bank's model of financing MSMEs through the SACCOs and its microfinance subsidiaries

Contractual risk: there are speculations that the Government may pull out its accounts with the bank and start using the Central bank's (BOT) branch network – if this materializes, it will have a significant impact on the bank's low cost funding source and thus its underlying returns to shareholders.

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DAR ES SALAAM COMMERCIAL BANK ("DCB")

RECOMMENDATION: MEDIUM-TERM HOLD

We recommend a **MEDIUM-TERM HOLD** on DCB. The bank has recently been converted from a community bank to a commercial bank (thus changing its name to DCB Commercial Bank). The changes are part of the efforts by the bank to become a fully fledged commercial bank while also expanding outside Dar es Salaam – its original (and previously only) base.

Changing to commercial banking status, has inevitably necessitated the bank to increase its capital (to meet the Central Bank BOT requirements) while also expanding its presence. This has led to the bank to embark on the rights issue to raise capital. The rights issue exercise generated Tshs. 11.13 billion of new capital to DCB from the sale of 29.28 million shares at a discounted price of Tshs. 380 per share.

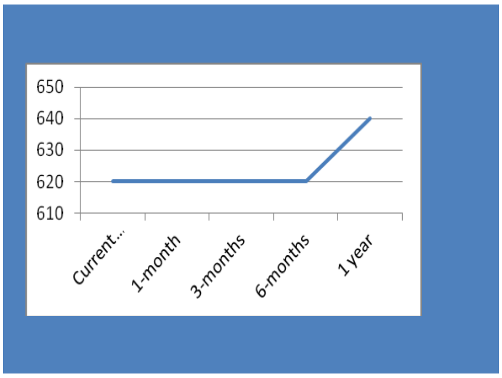
We are recommending a **HOLD** status while studying closely how the bank will handle all the changes from a community bank based in Dar es Salaam into commercial banks with operations beyond Dar es Salaam. The bank intends to start the implementation of its operations as a fully-fledged commercial bank in the FY13. In the plan the bank plans to open branches beyond the current 6 branches in Dar es Salaam.

DCB is trading at FY13F price earnings ratio of 11.34xs with attractive valuation with P/B of 0.8x (on the 32 mn shares) - DCB currently trades on a trailing P/B and P/E of 0.8x and 11.34x, which we view is attractive in the P/BV basis but expensive when looked into the PER perspective. We anticipate DCB's DY will significantly decline compared to the previous levels.

In the top and broader view, the banks' future looks relatively better, prospects of expanding to other regions in the country should play along with current plans of pursuing less costly deposits (savings and current) over its current expensive time deposits. We still expect the bank to install and/or increase its branch network and/or ATM machines to match the overall expansion strategy.

We therefore see new deposit mobilization opportunities emerging from the increased deposit taking from the informal sector and new branches to be opened outside Dar es Salaam during FY13.

Key Statistics	DCB
Price (Tshs)	620
Issued Shares (mn)	61
Market cap (Tshs. bn)	37.8
Market cap (US$ mn)	23.6
Year end	Dec
PER (x)	
2012A	9.54
2013E	8.90
2014E	8.73
2015E	7.85
EPS (Tshs.)	
2012A	65
2013E	73
2014E	74
2015E	79
DPS (Tshs)	
2012E	33
2013E	37
2014E	37
2015E	39
NAV (Tshs)	
2012A	24
2013E	29
2014E	35
2015E	43



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DCB Financials

Tshs. million	2008	2009	2010	2011	2012	CAGR
Loan & Advances	28,665	41,167	55,987	57,440	63,993	22%
Government securities	6,182	7,288	11,150	10,848	22,768	39%
Other Assets	13,003	23,382	28,076	31,070	30,796	24%
Total Assets	47,850	71,837	95,213	99,358	117,557	25%
Deposits	35,143	55,767	79,166	81,107	88,535	26%
Interest income	8,881	10,211	14,654	17,314	18,599	20%
Interest expenses	(2,321)	(3,744)	(5,468)	(5,881)	(8,254)	37%
Loan impairment	(924)	(674)	(945)	(532)	(365)	-21%
Other income	702	1,333	1,776	1,263	2,273	34%
Operating expenses	(4,020)	(4,641)	(5,793)	(7,726)	(9,969)	25%
Net earnings	1,417	1,844	3,166	3,261	2,107	10%

Key Statistics

DCB	FY08	FY09	FY10	FY11	FY12	CAGR
Number of shares (Mn)	32	32	32	32	32	
Pre-tax profit (Tshs. Mn)	2,320	2,484	4,364	4,437	2,977	6%
Profit after Tax (Tshs. Mn)	1,417	1,484	3,166	3,262	2,107	10%
Dividend (Tshs. Mn)	648	907	1,555	1,600	1,050	13%
Market Capitalization (Tshs. Mn)	11,340	9,232	9,070	20,480	19,840	15%
Net Assets value (Tshs Mn)	11,363	12,559	14,818	16,525	24,401	21%
Price per share (Tshs.)	350	282	280	640	620	15%
Book value per share (Tshs.)	351	388	457	531	763	21%
Earnings per share (Tshs.)	44	54	99	101	55	10%
Dividends per share (Tshs.)	21	28	48	50	33*	12%
Price Earnings Ratio (x)	7.9	5.3	2.9	6.4	11.2	5%
Dividend Yield (%)	6%	9%	17.1%	7.8%	5.3%*	-3%
Dividend Payout (%)	46%	49%	49%	50%	50%*	3%
Price book value (x)	1.0	0.7	0.6	1.2	0.8	-5%

Source: DSE data and TSL Analysis

DCB Projections

Our estimated projections for this financial year and the two preceding years are as depicted below:

Tshs. million	FY13	FY14	FY15
Loan & Advances	78,222	95,614	116,874
Government securities	31,541	43,694	60,530
Other Assets	38,204	47,394	58,794
Total Assets	147,177	184,260	230,687
Deposits	111,541	140,525	177,040
Interest income	22,374	26,916	32,379
Interest expenses	(11,335)	(15,565)	(21,375)
Loan impairment	(289)	(229)	(182)
Other income	3,049	4,090	5,487

Operating expenses	(12,510)	(15,699)	(19,700)
Net earnings	2,327	2,569	2,837

Risks of our Rational Outlook

Key risks to our rational outlook on DCB include structural limits due to its geographical location, struggles with long term sources of financing and planned long term projects, delays in network expansion and ATM installation, and, complicated expansion and capitalization program. Another difficulty is the stiff competition in the industry to the geographical location that DCB is placed. Credit and default risk is also a concern.

Key Earnings Drivers

We expect DCB assets to grow at a 3 year CAGR of 25%. Deposits are expected to drive balance sheet growth with a proportionate 3 year CAGR of 30%. Interest income growth (CAGR 20%) in the last four years will very likely be sustained by the bank. Customer deposits growth will continue to be driven by economic growth and business expansion in line with its long-term strategy.

It should be noted however that, DCB's strategy to expand outside Dare s Salaam will spread out its products and decrease stiff competition that it faces now in the industry.

Analyst' stock ratings are defined as follows:

Buy: The stock is of good value, is currently underpriced and has strong fundamentals

Hold: The stock is correctly valued with little upside or downside pricing

Sell: The stock is currently overpriced, its total return is expected to underperform; it has weak fundamentals and challenging operating environment

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