

Intercontinental Bank

The proof is in the pudding

- **In this note** we address questions on the state of ICB's balance sheet. By publishing ICB's asset risks and stress-testing them, we hope to close the chapter on the de-marketing of this name and provide investors with the means to assess these risks.
- **Margin loan exposure.** From our discussions with ICB, we understand that its margin loan exposure is NGN90bn, 15% of its total loans. The current cover on this book stands at 70%. Moreover, there are an additional 10% of collateralised assets against this book.
- **Downstream exposure.** While the group's total oil and gas exposure is NGN105bn, its exposure to the downstream oil and gas market is NGN42bn (7% of total loans). The trouble loans in this sector represent around NGN15bn, as per ICB.
- **Equity exposure.** As at 9M09, the group had NGN27bn of equity investments (at cost) on balance sheet. Note that its proprietary investments are impaired for a fall in market value. Provisions for impairments at 9M09 were NGN1.4bn.
- **We believe that total capital at risk** is NGN90bn, on the aggressive assumption that 1) margin cover is 50%; 2) downstream non-performing loans (NPLs) are 75% of total exposure; and 3) 50% of its equity book is impaired. Notably, post this charge, ICB's 9M09 capital ratio would be 15% (vs 25% at 9M09); 5 pts above the minimum requirement.
- **Risks: operational not capital.** Post its 2007/2008 capital raisings, we believe ICB has the capital to absorb its asset risks. The challenges to ICB, and the Nigerian banking sector as a whole, will be in its ability to restructure its balance sheet and reduce its cost base.
- **The proof will be ICB's FY09 results.** While ICB's 9M09 figures should demonstrate that the company is sound, we believe that its FY09 results will provide further evidence of its resilience despite the de-marketing efforts against it. We maintain our **HOLD** rating and lower our target price to NGN10/share (from NGN13).

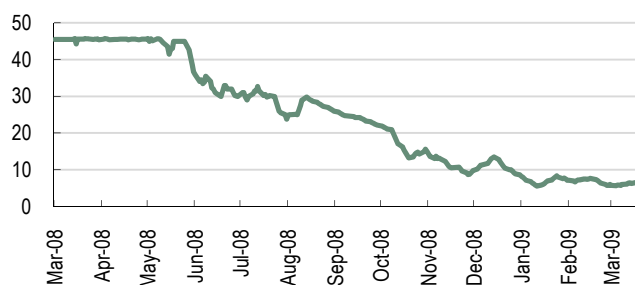
| Report date: | 8 April 2009 | |
|---------------------------------------|---------------------------------|------|
| Rating | HOLD | |
| Current price (NGN) | 6.60 | |
| Target price (NGN) | 10.00 | |
| Current price (US cents) | 4.44 | |
| Target price (US cents) | 6.69 | |
| MktCap, \$mn | 734 | |
| Common shares outstanding, mn | 18,907 | |
| Change from 52 week high: | 86% | |
| Date of 52 week high: | 22 Apr 2008 | |
| Change from 52 week low: | 19% | |
| Date of 52 week low | 30 Jan 2008 | |
| Web: | www.intercontinentalbankplc.com | |
| Share price performance over the last | | |
| | 1 month | -14% |
| | 3 months | -46% |
| | 12 months | -86% |

Summary financials and ratings

| | Assets (\$mn) | Equity (\$mn) | Earnings (\$mn) | EPS (\$ cents) | P/E | Earnings growth | EPS growth | Price/Book | RoAA | RoAE | Dividend yield |
|-----------|---------------|---------------|-----------------|----------------|------|-----------------|------------|------------|-------|-------|----------------|
| Feb 2006 | 2,867 | 423 | 59 | 0.82 | 6.2x | 24% | -38% | 1.30x | 2.64% | 17.0% | 6% |
| Feb 2007 | 5,978 | 1,331 | 121 | 1.13 | 4.7x | 105% | 37% | 0.45x | 2.82% | 14.3% | 10% |
| Feb 2008 | 10,237 | 1,468 | 286 | 1.93 | 2.9x | 137% | 71% | 0.62x | 3.24% | 19.1% | 12% |
| Feb 2009E | 8,532 | 1,593 | 223 | 1.18 | 3.8x | -22% | -39% | 0.56x | 2.55% | 15.6% | 8% |
| Dec 2010E | 12,348 | 2,019 | 334 | 1.77 | 2.7x | NM | NM | 0.46x | 3.10% | 17.9% | 15% |

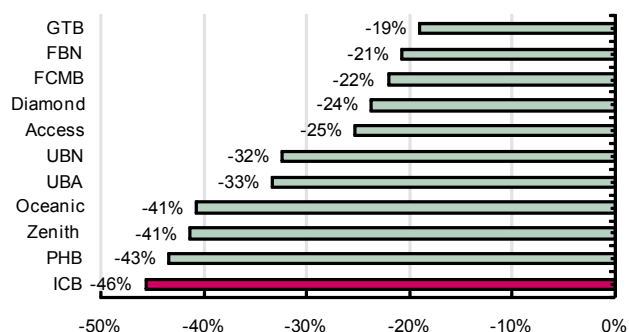
Source: Company data, Bloomberg, Renaissance Capital estimates

Figure 1: Price performance – 52 weeks



Source: MSCI, Bloomberg

Figure 2: Sector stock performance – 3 months



Source: RTS, Bloomberg

Executive summary

In this note, we address the market's concerns on the state of ICB's balance sheet.

By publishing ICB's asset risks and stress-testing them, we hope to close the chapter on the de-marketing of this name and provide investors with the means to assess these risks.

With the data provided in this note, ICB has now disclosed more information on its balance sheet than most of its peers. In our opinion, this demonstrates management's commitment to transparency and improved corporate governance.

We intend to move the debate on ICB forward to the real operational challenges at the company, which centre on its ability to restructure its balance sheet and reduce its cost base in a high risk and slowing macro growth environment. Note that these challenges are not limited to ICB, but are shared across the entire Nigerian banking landscape.

The investment case

We maintain our **HOLD** rating on ICB and adjust our target price to NGN10 per share (from NGN13 per share) to reflect the impact of the asset haircuts that we view as appropriate when valuing the company. Note that, these asset haircuts relate to its margin, downstream oil and gas, and equity exposures.

We take this approach to valuing ICB because the market is currently pricing the stock as a distressed asset and not as a going concern. Based on its historical figures, the market is now pricing ICB at 0.62x its FY08 book and 2.88x its FY08 earnings. Relative to its 9M09 results, ICB is being priced at 0.54x its book and 2.92x its annualised earnings.

At these levels, we believe that the market is pricing significant capital charges and discounting all future earnings growth. While future capital charges should be deducted from the bank's equity, the amount being deducted is not reflective of the risks in ICB's balance sheet, in our view.

Although the total capital at risk at ICB was around NGN45bn at 9M09, we are aggressively assuming NGN90bn of risks. To derive this figure we assume that 1) the cover on the margin loan book is only 50%, instead of the 80% cover that management has indicated; 2) the troubled book of downstream oil and gas loans is NGN32bn, instead of the NGN15bn that management has quoted; and 3) the equity impairment will be equal to 50% (NGN13.5bn) of all equity investments at 9M09 (NGN27bn) on top of the NGN1.4bn charge that ICB has already taken against its equity positions.

After adjusting the group's 9M09 capital base for this capital charge (NGN90bn), ICB's pro forma CAR would be 15% (vs 25% at 9M09). This means that its CAR would still be 5 pts higher than the minimum requirement of 10%. In other words, ICB will still have NGN48bn of excess capital post these aggressive charges.

While there are risks to ICB's capital base and these risks need to be appropriately priced in by the market, as highlighted above, they can be absorbed by the ICB balance sheet, in our view. While maintaining its solvency is not a challenge for the

group, we believe that the key operational concerns relate to its balance sheet structure and cost base.

To upgrade our rating on the stock, ICB would have to demonstrate that it can 1) manage the volatility in its balance sheet and we expect its FY09 results to begin to demonstrate this; and 2) lower its cost base to adjust to the high risk, lower growth environment that will likely characterise 2009-2010, in our view.

The asset risks

In this section, we detail ICB's asset risks as provided by the company and in the following section we stress test these risks and assess the potential capital impact of direct equity charges.

Margin loan exposure

As at 9M09 (Nov 2008), ICB Bank and the group had margin loan exposure of NGN85bn and NGN90bn, respectively. As shown below, its margin loans represented 14.7% and 15.3% of bank and group loans, respectively.

Figure 3: Intercontinental Group bank margin loan exposures, 9M09 (NGNm)

| | ICB Bank | ICB Group |
|--------------------|----------|-----------|
| Margin loans | 85,224 | 90,000 |
| - % of total loans | 14.7% | 15.3% |
| Total loans | 580,662 | 586,337 |

Source: Company data

In terms of the split in ICB's margin loan book, we would note that the bulk of the lending was done to SME/individuals (44% of total) and corporates (39% of total). As shown below, less than NGN5bn was funded from the balance sheet of Intercontinental Securities Ltd.

Figure 4: Intercontinental Group split in margin loans, 9M09 (NGNm)

| | Amount | % of total |
|---|---------------|-------------|
| Corporates | 35,000 | 39% |
| Stockbrokers | 11,000 | 12% |
| SME/ individuals | 39,224 | 44% |
| Total bank loans | 85,224 | 95% |
| Intercontinental Securities Ltd (prop book) | 4,776 | 5% |
| Total group loans | 90,000 | 100% |

Source: Company data

Lastly on ICB's margin loan book, we would add that the book is 70% covered. To close the 30% gap in its margin loan book, management has secured at least 10% of additional assets from each of its customers. The maximum size of the uncollateralised gap is therefore 20% today. Furthermore, we would note that, some customers are still servicing their outstanding positions with other sources of income and ICB fully expects them to continue to do so.

Lastly, we would add that, the cover on this portfolio is still relatively high because ICB initially asked for 120% cover and then increased the cover to 150% and finally 200% before closing its margin loan book to new business.

With regard to how management intends to treat the NPLs on its margin loan book going forward, it indicated to us that it would be classifying all non-performing margin loans as non-performing, despite the one-year moratorium on margin loans. ICB also intends to provide fully for these non-performing margin loans in its FY09 results (Feb 2009).

On this basis, we would expect to see a spike in its 4Q09 NPLs and currently forecast a NGN10.5bn (78%) increase in NPLs, the bulk of which should come from margin loans. Note that ICB Group's NPLs have fallen 19% in absolute terms over 9M09 (from NGN16.6bn in FY08 to NGN13.5bn in 9M09).

The remainder of NPLs will most probably come from its exposure to the downstream oil and gas sector. In the following section we discuss ICB's risks in this sector.

Downstream oil and gas exposure

Before looking at its downstream oil and gas exposure, we would note that oil and gas loans represented around 18% of total group lending at 9M09. As shown below, ICB's total oil and gas loan book was NGN105.3bn. Of the NGN105.3bn, downstream lending contributed around 40% (NGN42bn).

Figure 5: Intercontinental Group oil and gas loan exposures, 9M09 (NGNm)

| | |
|-------------------------------|---------|
| Total oil and gas loans | 105,271 |
| - % of total loans | 18.0% |
| Downstream oil and gas market | 42,108 |
| - % of total oil and gas | 40% |

Source: Company data

With regard to how the downstream oil and gas book was performing, management noted that, while its petrol marketers have continued to perform well, its diesel marketers (known locally as importers of automotive gasoline oil [AGOs]) have been negatively affected by the recent decrease in diesel prices.

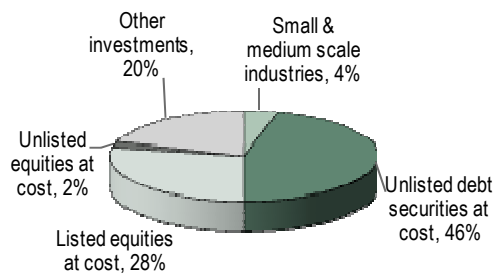
Based on management estimates, this troubled book represents approximately NGN15bn of the total downstream oil and gas loans. To assist these AGOs in meeting their obligations to ICB, management has entered into agreements on financial covenants wherein a substantial part of profit generated on new transactions will be used to service the previous transactions.

After reviewing ICB's risk asset portfolio, we now discuss the risks to its investment portfolio.

Equity exposures

As shown below, ICB Group had total gross financial investments of NGN89.7bn at 9M09. Notably, its equity investments, which are held at cost, accounted for 30% of total investments (NGN27bn). Although equity and debt investments are held at cost on the bank's balance sheets (as per Nigerian GAAP), ICB impairs all proprietary investments for market value falls. At 9M09, it took NGN1.4bn of provision on these proprietary investments.

Figure 6: ICB Group split in gross financial investments, 9M09 (%)



Source: Company data

Figure 7: ICB Group financial investments, FY08 vs 9M09 (NGNmn)

| | FY08 | 9M09 | % change |
|---------------------------------------|---------------|---------------|------------|
| Investments in: | | | |
| Small & medium scale industries | 3,529 | 3,589 | 2% |
| Unlisted debt securities at cost | 53,106 | 41,274 | -22% |
| Listed equities at cost | 29,939 | 25,123 | -16% |
| Unlisted equities at cost | 6,429 | 1,795 | -72% |
| Other investments (1) | - | 17,945 | NM |
| Gross investment in securities | 93,003 | 89,726 | -4% |
| Provisions for impairments | (235) | (1,434) | 510% |
| Net investment in securities | 92,768 | 88,292 | -5% |

(1) These investments are primarily in ICB Group subsidiary companies

Source Company data

While ICB's equity exposure is still high, we would note that it has reduced it by 26% (NGN9.5bn) since FY08. At FY08, its equity investments represented around 39% of total gross financial investments.

Looking ahead to ICB's 4Q09 and 1Q10, we would expect to see further impairments on the equity portion of this investment portfolio on the back of continued weakness in the equity markets.

After highlighting the key asset risks to ICB's balance sheet, we now assess the potential capital impact of these risks in the following section.

Capital impact of the asset risks

To assess the capital at risk from its margin, downstream oil and gas and equity exposures, we estimate the impact the charging of these risks would have on the group's total capital.

However, before assessing the net impact of these charges, we first explain the charges that we view as appropriate for each of the aforementioned asset risks. Note that our suggested charges are extremely aggressive in light of the 1) covers in place for the margin loan book; 2) at risk downstream oil and gas exposures; and 3) real equity risks as explained by ICB.

The charges for ICB's margin loan, downstream oil and gas, and equity exposures that we would recommend are:

- **NGN45bn for margin loan exposure.** Although the effective cover on ICB's margin loan book is 80%, as explained earlier, we believe that equity investors in this name would probably need to price in a cover of only 50% (as shown below). This would therefore mean that, instead of charging NGN18bn to total capital, investors would charge NGN45bn (20% of 9M09 equity). Note that this charge is extremely aggressive when one considers that ICB has 80% cover on these positions.

Figure 8: Intercontinental Group margin loan charges (NGNm)

| | |
|--|---------------|
| Effective cover on Group margin loans | 80% |
| Assumed cover on Group margin loans | 50% |
| Assumed cover on Group margin loans (amount) | 45,000 |
| Margin loan charge | 45,000 |
| % of 9M09 equity (ex-pref capital) | 20% |

Source: Renaissance Capital estimates

- **NGN32bn for downstream oil and gas exposure.** While ICB's management has clearly indicated that the troubled loans in this segment are only NGN15bn, we believe that equity investors will need to price for slightly more than double these levels of exposure (NGN32bn). Note that this charge represents 75% of ICB's total exposure to the downstream oil and gas sector and 14% of 9M09 equity (as shown below). Note that, in all fairness the charge should not be more than 50% of the exposure as ICB would still have the product to sell. Finally, on ICB's downstream exposures, we would add that since the publication of its 9M09 results, these exposures have been significantly reduced as a result of payments received from Petroleum Product Pricing Regulatory Agency (PPPRA) on behalf of its customers.

Figure 9: Intercontinental Group downstream oil and gas charges (NGNm)

| | 9M09 | |
|-------------------------------|---------------|--------------|
| | Amount | % of equity |
| Downstream oil & gas exposure | 42,108 | 18.4% |
| Equity charge if: | | |
| - 25% were to be lost | 10,527 | 4.6% |
| - 50% were to be lost | 21,054 | 9.2% |
| - 75% were to be lost | 31,581 | 13.8% |
| - 100% were to be lost | 42,108 | 18.4% |

Source: Renaissance Capital estimates

- **NGN14bn for equity exposure.** Despite ICB's policy to mark-to-market its proprietary investments, we believe that the market will take this approach to its entire equity portfolio. To be extremely conservative, we have marked down its equity portfolio by 50% and effectively disregarded all provisions made YtD (NGN1.4bn). Note that the NSE All Share Index is down approximately 40% since its 9M09 results (30 Nov 2008).

Figure 10: Intercontinental Group equity charges (NGNm)

| | |
|------------------------------------|---------------|
| Equity exposure on balance sheet | 26,918 |
| Estimated charge | 13,459 |
| % of 9M09 equity (ex-pref capital) | 6% |

Source: Renaissance Capital estimates

Having gone through our estimate of the appropriate equity charges in the current market environment, we now estimate the impact of these charges on ICB's total capital.

Capital impact of equity charges

As shown below, ICB had a CAR ratio of 25% at 9M09 and currently has a CAR ratio of 22%. If we assume the decline in ICB's CAR is due to the growth in its risk-weighted assets (RWAs), we can estimate what its total capital and RWAs are today (as shown below).

Figure 11: Intercontinental Group capital impact of equity charges (NGNm)

| | 9M09 | Current |
|---|---------------|---------------|
| Total capital | 230,066 | 230,066 |
| RWAs | 920,264 | 1,045,755 |
| CAR | 25.0% | 22.0% |
| Margin loan charge (50% of total) | 45,000 | 45,000 |
| Downstream oil and gas charge (75% of total) | 31,581 | 31,581 |
| Equity exposure on balance sheet (50% of total) | 13,459 | 13,459 |
| Total charge to capital | 90,040 | 90,040 |
| Pro forma CAR | 15.2% | 13.4% |
| Minimum capital requirement (% of RWAs) | 10.0% | 10.0% |
| Excess capital (%) | 5.2% | 3.4% |
| Excess capital (amt.) | 47,999 | 35,450 |
| - Write-off of remaining 25% of downstream exposure | (10,527) | (10,527) |
| - Other potential charges | (37,472) | (24,923) |

Source: Renaissance Capital estimates

Based on the analysis shown above, we estimate that if ICB were to charge NGN90bn to its total capital today (39% of total capital), its pro forma CAR would fall to 13.4% (from 22%). Based on its 9M09 results, its CAR would have fallen to 15.2% (from 25%). Although this capital charge is overly aggressive in our opinion, we would note that ICB's CAR ratio would still be between 3.4% and 5.2% above the regulatory minimum today and at 9M09, respectively.

In other words, today ICB would still have NGN36bn of excess capital post these aggressive charges. At 9M09, it would have had NGN48bn of excess capital post these asset haircuts.

To calculate the fair value of ICB, we deduct these equity charges (NGN90bn) at a multiple of 1.5x from our fair value estimate. We apply this multiple to offset some of

the earnings growth that we are currently projecting. This is because the capital hit will impair future earnings growth.

Based on our five-year DDM model, our fair value of ICB is NGN17 per share. Note that we use a cost of equity of 19.5% and a terminal growth rate of 6%. To this valuation we deduct NGN7 per share to reflect the equity charges and arrive at a fair value of NGN10 per share.

Although the upside potential to ICB's current valuation is 51%, we remain long-term holders of ICB, not because of our concerns over its ability to remain solvent, but because we see more upside potential elsewhere in the sector. Having said that, we would be trading buyers of ICB at these levels.

As our stress test demonstrates, ICB's ability to withstand significant capital charges is not in doubt. The question is can management re-engineer its balance sheet and reduce its cost base fast enough to remain an attractive long-term investment?

In the following section we discuss its operating challenges/opportunities in detail and explain why the market should focus on these issues and not on the group's solvency.

The challenges and opportunities

In our analysis of ICB's balance sheet and profit and loss account, two overriding concerns came up. The first was the structure of its balance sheet and the second was its cost base, which does not appear to have been built for a slowing economy.

While these are principally challenges, they also represent an opportunity for ICB to significantly increase its profitability, in our opinion.

ICB's balance sheet challenges

As shown below, ICB's FY08 was very resilient with a highly deposit-funded balance sheet (76% of total funding) and a lowly penetrated asset base (loan penetration of only 31%) in Feb 2008 (FY08). Additionally, with a CAR of 25% its capital position was very strong (as shown below).

Figure 12: Intercontinental Group balance sheet summary at FY08 (NGNm)

| | |
|--|-----------|
| Gross loans | 456,270 |
| Provisions | (20,813) |
| Loans and advances | 435,457 |
| Total assets | 1,392,210 |
| Deposits | 1,057,079 |
| Shareholders' funds (ex pref shares) | 199,663 |
| Ratios | |
| Loan penetration (net loans/ TA) | 31% |
| Loan/ deposit ratio | 41% |
| Deposit funding/ Total funding | 76% |
| Equity-to-asset ratio (ex pref shares) | 14% |
| Capital adequacy ratio | 25% |

Source: Company data

The only apparent weakness in its balance sheet at Feb 2008 was its equity-to-asset ratio, which was 14%; much higher than its international peers but about 3 ppts lower than its Nigerian peers (on average). While this may have been seen as a challenge, we should bear in mind that 76% of its assets were funded by deposits, so its real capital risks were much lower.

With such a strong balance sheet, we would logically think that ICB could withstand almost any shock. While this is probably true from a capital perspective, it is not true from an operational one and the reason is that the duration of ICB's balance sheet is very short term. On this it is important to note that this is not a problem for ICB on its own, but a wider industry problem in the Nigerian banking landscape.

In the table below, we outline the maturity profile and resulting liquidity gaps in ICB's balance sheet at FY08.

Figure 13: Intercontinental Group liquidity risk reviewed at FY08 (NGN mn)

| | 0-30 days | 31-90 days | 91-180 days | 181-365 days | Over 1 year | Total |
|---|----------------|---------------|---------------|---------------|----------------|------------------|
| Cash and balances at central banks | 103,978 | - | - | - | 21,903 | 125,881 |
| Treasury bills and other eligible bills | 20,413 | 44,651 | 35,218 | 44,603 | - | 144,885 |
| Due from other banks | 476,045 | - | - | - | - | 476,045 |
| Loans and advances (gross) | 172,531 | 25,683 | 34,002 | 37,291 | 186,763 | 456,270 |
| Advances under finance lease (gross) | 77 | 138 | 2,787 | 4,622 | 7,218 | 14,842 |
| Investment securities | 12,576 | - | - | - | 80,191 | 92,767 |
| Investments in associates | 46,155 | - | - | - | 2,798 | 48,953 |
| Other assets | - | - | 2,455 | 2,505 | 10,982 | 15,942 |
| Fixed assets | - | - | - | - | 37,674 | 37,674 |
| Total assets | 831,775 | 70,472 | 74,462 | 89,021 | 347,529 | 1,413,259 |
| Customer deposits | 775,918 | 52,670 | 58,607 | 55,285 | 114,599 | 1,057,079 |
| Due to other banks | 21,116 | - | - | - | - | 21,116 |
| Current income tax | - | - | - | 14,435 | - | 14,435 |
| Deferred income tax | - | - | - | - | 1,667 | 1,667 |
| Other liabilities | 26,937 | 12,945 | 2,363 | 6,107 | 20,387 | 68,739 |
| Borrowings | - | - | - | - | 20,274 | 20,274 |
| Total liabilities | 823,971 | 65,615 | 60,970 | 75,827 | 156,927 | 1,183,310 |
| - Net liquidity gap | 7,804 | 4,857 | 13,492 | 13,194 | 190,602 | 229,949 |

Source: Company data

As shown above, about 70% of ICB's liabilities had a duration of between 0-30 days. This is because its single largest liability pool (ie customer deposits) is primarily made up of deposits with short-term pricing structures. This balance sheet structure is a challenge to manage because it is clearly volatile and at risk of material swings in its deposit base.

Having said this, it is important to note that ICB's asset base is also very short term in nature and this off-sets the bulk of these challenges at each maturity level. Furthermore, the group's shareholders' equity (NGN230bn) fully covers the group's net liquidity gap.

An example of the potential volatility in ICB's balance sheet is provided in the table below.

Figure 14: Liquidity gap at ICB, FY08 vs 9M09 (NGNm)

| | FY08 | 9M09 |
|---------------------------------------|------------------|------------------|
| Cash and balances at central banks | 125,881 | 5,571 |
| Treasury bills & other eligible bills | 144,885 | 67,873 |
| Due from other banks | 476,045 | 226,143 |
| Loans and advances (gross) | 456,270 | 601,431 |
| Advances under finance lease (gross) | 14,842 | 23,373 |
| Investment securities | 92,767 | 88,292 |
| Investments in associates | 2,798 | 3,798 |
| Other assets | 62,097 | 153,530 |
| Fixed assets | 37,674 | 49,255 |
| Total assets | 1,413,259 | 1,219,266 |
| Customer deposits | 1,057,079 | 732,224 |
| Due to other banks | 21,116 | 84,175 |
| Current income tax | 14,435 | 17,181 |
| Deferred income tax | 1,667 | 1,624 |
| Other liabilities | 68,739 | 76,361 |
| Borrowings | 20,274 | 52,131 |
| Total liabilities | 1,183,310 | 963,696 |

Source: Company data, Renaissance Capital estimates

As shown above, ICB's 9M09 gross loan book increased to NGN601bn (+32%) while its deposit base fell to NGN732bn (-31%) since its FY08 results. Although we

are confident that ICB will manage this gap, we believe that this level of balance sheet volatility will not be welcomed by the market.

On why ICB's deposit base declined NGN325bn over the past nine months, we believe that this can be explained by the following:

- **Seasonal trends.** There are typically very strong deposit campaigns going into full-year results in Nigeria. This is often done to enhance the size of the balance sheet at year-end. Clearly some of these short-term funds left the bank post its year-end as per usual.
- **The global credit crunch.** In Feb 2008, ICB had roughly \$750mn (NGN88.5bn) of foreign currency deposits in its balance sheet. Since then, it has had to repay about \$590mn of these deposits and currently only has \$160mn (NGN24bn) left. It is important to note that ICB was able to meet its obligations to all of its foreign depositors.
- **Competition.** The competition for deposits in Nigeria over the past year has been very intense given the liquidity crunch. Prior to the recently imposed rate limits, some banks were offering rates of around 20% for lumpy institutional deposits.
- **De-marketing.** ICB has suffered significantly from de-marketing. This has contributed to the decline of some of its large institutional deposits.

Although ICB's deposit base fell significantly over the first nine months of FY09, we do not disregard the possibility of ICB correcting this in 4Q09. Note that ICB ranks as one of the few new generation banks that has built a deposit base that is comparable with the older and more established banks (ie UBA, First Bank and Union). However, because its deposit base is relatively new, it is less stable.

Regardless of whether this deposit shortfall is covered or not, it is clear that ICB will have to focus on growing its core retail deposit base going forward. This deposit base is attractive, not only because the cost of these deposits are significantly lower than institutional deposits, but because they are far more stable. To build this more stable deposit base, the group is taking steps to build on its credibility with its customers and shareholders.

We are encouraged that ICB's management has a plan in place to deal with this goal and is working towards improving its mix of demand deposits to 80% (from 42% at the 9M09), as we discuss in the following section.

ICB's balance sheet opportunity

Based on the exercise we have done below, we can see that if ICB were able to improve its proportion of demand deposits to 80% of total average deposits (from 44% at 9M09 on average balances), it could increase its current customer margin by NGN14.6bn or 43% of its FY08 profits. This level of operational gearing is exceptional and certainly worth holding on to this name for, in our opinion.

Figure 15: Operational gearing at ICB Group, based on 9M09 average balances and rates (NGN mn)

| | Avg. balances | % of total | Rate | Cost |
|------------------------------------|----------------|-------------|---------------|----------------|
| Demand | 218,326 | 44% | 0.02% | 44 |
| Savings | 87,774 | 18% | 2.01% | 1,764 |
| Other | 186,545 | 38% | 10.39% | 19,382 |
| Total | 492,645 | 100% | 4.30% | 21,190 |
| | Avg. balances | % of total | Rate | Yield |
| Overdrafts | 201,157 | 43% | 26.27% | 52,844 |
| Term loans | 210,818 | 45% | 20.83% | 43,913 |
| Time loans | 58,979 | 13% | 20.05% | 11,825 |
| Total | 470,955 | 100% | 23.06% | 108,583 |
| | | | Rate | Amount |
| Customer spread | | | 18.75% | 87,393 |
| Customer spread (Demand @ 80%) | | | 21.72% | 101,982 |
| Incremental customer margin | | | 2.96% | 14,589 |

Source: Company data, Renaissance Capital estimates

On the achievability of its target, we would note that demand deposits represented 62% of total deposits at FY08.

ICB's cost base challenge

As shown below, ICB's cost base has increased three-fold in the past two years alone (2006-2008); it has grown from NGN22bn to NGN72bn over this period. Between Feb 2006 and Feb 2009, we estimate that ICB's cost base will increase at a CAGR of 65% pa. In 2009, ICB will have a cost base of over NGN100bn. To put this into perspective, its total balance sheet in 2005 was NGN203bn.

Figure 16: ICB Group income and cost development, 2005-2009E (NGNm)

| | 14M to Feb 2005 | Feb 2006 | % chg | Feb 2007 | % chg | Feb 2008 | % chg | Feb 2009E | Feb 2006-09E CAGR |
|-----------------------------|--------------------|---------------|--------------|---------------|---------------|----------------|---------------|----------------|----------------------|
| Total income | 24,134 | 32,693 | 35.5% | 70,134 | 114.5% | 125,588 | 79.1% | 158,226 | 69.2% |
| Gross earnings | 32,009 | 43,187 | 34.9% | 86,244 | 99.7% | 181,589 | 110.6% | 230,255 | 74.7% |
| Total staff costs | (6,180) | (9,078) | 46.9% | (20,033) | 120.7% | (38,791) | 93.6% | (54,307) | 81.5% |
| Admin/Other expenses | (6,796) | (12,276) | 80.6% | (20,417) | 66.3% | (29,964) | 46.8% | (41,950) | 50.6% |
| Depreciation | (1,269) | (979) | -22.8% | (2,105) | 115.0% | (3,587) | 70.4% | (4,842) | 70.4% |
| Total operating costs | (14,244) | (22,333) | 56.8% | (42,555) | 90.5% | (72,342) | 70.0% | (101,099) | 65.4% |
| Net operating income | 9,890 | 10,360 | 4.8% | 27,579 | 178.9% | 53,246 | 93.1% | 57,127 | 76.7% |
| Ratios: | | | | | | | | | |
| Cost/income ratio | 59% | 68% | | 61% | | 58% | | 64% | |
| Staff costs/total costs | 43% | 41% | | 47% | | 54% | | 54% | |

Source: Company data, Renaissance Capital estimates

Historically, the growth in ICB's cost base has not been a problem because its income growth has been stronger, up 69% pa over the past three years (2006-2009E).

However, in FY10 the challenge for ICB will be to deliver strong profit growth in an environment of high loan loss provisions (eg 60% YoY) and strong cost growth (20% YoY). In this scenario, with all other things being held constant, ICB has to deliver income growth of 18% YoY for its PBT growth to be flat YoY, as shown below.

Figure 17: ICB Group the challenges of its cost base (NGNm)

| | Feb 2009E | Feb 2010E | % chg |
|---|----------------|----------------|------------|
| Total income | 158,226 | 186,043 | 18% |
| Operating costs | (101,099) | (121,319) | 20% |
| Net operating income | 57,127 | 64,723 | 13% |
| Total loss provisions | (13,000) | (20,800) | 60% |
| Share of profit in associated companies | 1,357 | 1,561 | 15% |
| Pretax profit | 45,484 | 45,484 | 0% |

Source: Renaissance Capital estimates

Note that if ICB were to target 20% PBT growth in Feb 2010, income growth would have to be 23% YoY (ceteris paribus). This is rather demanding given the slowing macro environment.

ICB's response to the challenge

We are very encouraged that ICB recognises the challenges that its cost base presents and has taken the following steps:

- **Introduced a performance pay structure.** Staff costs have become the largest component of ICB's cost base over the past three years and now represent 54% of total costs, up from 41% of total in 2006. To reduce these costs, management has introduced a performance-based pay structure that has reduced salaries by 30% on a monthly basis. The remaining 30% is being paid out to employees on a quarterly basis when all their objectives are being met. Based on its FY08 annual staff costs, the monthly savings are in the region of NGN1bn.
- **Reduced overhead costs.** ICB has set-up a strategic sourcing unit with the purpose of reducing overheads by capitalising on economies of scale to obtain lower prices/costs for supplies to the bank.
- **Maintained cost target.** For the next fiscal year (FY10), management has said it wants to limit its cost base to 35% of this year's gross income. Based on our 2009 estimate for gross income, ICB's cost base in 2010 should be around NGN81bn, 20% lower than our 2009 estimate of its cost base (NGN101bn).

Financial forecasts

Figure 18: ICB Group financial summary (NGN mn)

| | Feb 2007 | Feb 2008 | Feb 2009E | 22M Dec. 2009E | Dec 2010E |
|---------------------------------|-----------------|------------------|------------------|------------------|------------------|
| Balance sheet (NGNmn) | | | | | |
| Assets | | | | | |
| Interbank | 203,740 | 476,045 | 238,023 | 138,846 | 180,500 |
| Securities | 122,293 | 240,451 | 72,135 | 30,056 | 37,570 |
| Net loans | 262,537 | 435,457 | 576,497 | 662,972 | 852,791 |
| Gross loans | 277,055 | 456,270 | 606,839 | 697,865 | 907,224 |
| Interest earning assets | 663,410 | 1,292,439 | 996,679 | 959,839 | 1,234,111 |
| Total assets | 704,783 | 1,392,210 | 1,196,221 | 1,325,666 | 1,673,104 |
| Liabilities | | | | | |
| Interbank | 3,594 | 21,116 | 22,172 | 23,096 | 30,024 |
| Securities | 8,605 | 20,274 | 21,288 | 22,175 | 28,827 |
| Deposits | 467,934 | 1,057,079 | 739,955 | 813,951 | 1,058,136 |
| Interest bearing liabilities | 480,133 | 1,099,219 | 783,695 | 859,501 | 1,117,267 |
| Total liabilities | 547,894 | 1,192,547 | 972,943 | 1,080,001 | 1,399,569 |
| Shareholders' equity | 156,889 | 199,663 | 223,278 | 245,665 | 273,535 |
| Income statement (NGNmn) | | | | | |
| Interest income | 51,733 | 114,786 | 152,367 | 279,339 | 197,909 |
| Interest expense | (17,221) | (47,983) | (74,479) | (130,554) | (96,822) |
| Net interest income | 34,511 | 66,803 | 77,888 | 148,785 | 101,087 |
| Net fee income | 25,628 | 36,305 | 50,827 | 93,183 | 71,158 |
| Trading income | 1,937 | 6,542 | 8,792 | 16,118 | 12,070 |
| Other income | 8,059 | 15,938 | 20,719 | 37,986 | 27,971 |
| Total revenues | 70,134 | 125,588 | 158,226 | 296,072 | 212,286 |
| Staff costs | (20,033) | (38,791) | (54,307) | (99,564) | (70,600) |
| Other costs | (22,522) | (33,551) | (46,792) | (85,785) | (60,345) |
| Total costs | (42,555) | (72,342) | (101,099) | (185,349) | (130,945) |
| Operating profit | 27,579 | 53,246 | 57,127 | 110,723 | 81,341 |
| Provisioning charge | (5,509) | (8,657) | (13,000) | (23,833) | (19,500) |
| Other pre-tax items | 565 | 1,044 | 1,357 | 2,488 | 2,036 |
| Pre-tax profit | 22,635 | 45,633 | 45,484 | 89,378 | 63,877 |
| Tax | (7,154) | (10,860) | (11,371) | (22,344) | (15,969) |
| Minorities | (360) | (779) | (1,023) | (2,011) | (1,437) |
| Other post tax gains/ Losses | - | - | - | - | - |
| Net profit | 15,121 | 33,994 | 33,090 | 65,022 | 46,470 |
| Dividend on pref shares | - | - | (25) | (20) | (20) |
| Net attributable profit | 15,121 | 33,994 | 33,064 | 65,003 | 46,451 |
| Dividend on ordinary shares | 6,970 | 14,600 | 9,919 | 19,501 | 18,580 |
| Key YoY growth rates (%) | | | | | |
| Net loans | | 65.9 | 32.4 | NM | 28.6 |
| Interest earning assets | | 94.8 | (22.9) | NM | 28.6 |
| Deposits | | 125.9 | (30.0) | NM | 30.0 |
| Interest bearing liabilities | | 128.9 | (28.7) | NM | 30.0 |
| Assets | | 97.5 | (14.1) | NM | 26.2 |
| Equity | | 27.3 | 11.8 | NM | 11.3 |
| Net interest income | | 93.6 | 16.6 | NM | NM |
| Fee income | | 41.7 | 40.0 | NM | NM |
| Revenues | | 79.1 | 26.0 | NM | NM |
| Costs | | 70.0 | 39.8 | NM | NM |
| Operating profit | | 93.1 | 7.3 | NM | NM |
| Net profit | | 124.8 | (2.7) | NM | NM |
| EPS | | 62.7 | (23.8) | NM | NM |
| BVPS | | (27.8) | 11.8 | NM | 11.3 |
| Per share data (NGN) | | | | | |
| No of ordinary shares (mn) | 10,724 | 17,966 | 18,907 | 18,907 | 18,907 |
| EPS | 1.41 | 2.29 | 1.75 | 3.44 | 2.46 |
| DPS | 0.65 | 0.81 | 0.52 | 1.03 | 0.98 |
| BVPS | 14.63 | 10.56 | 11.81 | 12.99 | 14.47 |
| Balance sheet ratios (%) | | | | | |
| Loans/Assets | 37 | 31 | 50 | 51 | 51 |
| Deposits/Liabilities | 66 | 76 | 61 | 63 | 63 |
| Loans/Deposits | 56 | 41 | 81 | 81 | 81 |
| Equity/Assets | 22.3 | 14.3 | 18.5 | 16.3 | 16.3 |
| Capital ratios (%) | | | | | |
| Tier 1 | N/A | 25.0 | N/A | N/A | N/A |
| Tier 2 | N/A | - | N/A | N/A | N/A |
| Total | N/A | 25.0 | N/A | N/A | N/A |
| Asset quality | | | | | |
| NPLs (NGNmn) | 12,871 | 16,589 | 32,935 | 46,109 | 46,109 |
| NPL reserves (NGNmn) | 14,518 | 20,813 | 34,893 | 54,433 | 54,433 |
| NPLs/Gross loans (%) | 4.65 | 3.64 | 4.72 | 5.08 | 5.08 |
| Reserves/NPLs (x) | 1.1 | 1.3 | 1.1 | 1.2 | 1.2 |
| Credit charge (%) | 2.45 | 2.36 | 4.13 | 2.43 | 2.43 |
| Margins (%) | | | | | |
| Asset margin | 10.31 | 11.74 | 24.81 | 18.04 | 18.04 |
| Liability margin | 4.69 | 6.08 | 13.33 | 9.80 | 9.80 |
| NIM | 6.88 | 6.83 | 13.21 | 9.22 | 9.22 |
| Spread | 5.62 | 5.66 | 11.47 | 8.25 | 8.25 |
| Costs (%) | | | | | |
| Cost/Income | 60.7 | 57.6 | 62.6 | 61.7 | 61.7 |
| Cost/Avg assets | 7.9 | 6.9 | 7.8 | 8.7 | 8.7 |
| Effective tax rate | 31.6 | 23.8 | 25.0 | 25.0 | 25.0 |
| Profitability ratios (%) | | | | | |
| ROAE | 14.3 | 19.1 | 28.0 | 17.9 | 17.9 |
| ROAA | 2.82 | 3.24 | 5.09 | 3.10 | 3.10 |
| Other P&L ratios (%) | | | | | |
| Int Inc/Revenues | 49 | 53 | 50 | 48 | 48 |
| Fees/Revenues | 37 | 29 | 31 | 34 | 34 |
| Trading Income/Revenues | 3 | 5 | 5 | 6 | 6 |
| Fees/Staff costs | 128 | 94 | 94 | 101 | 101 |
| Fees/Total costs | 60 | 50 | 50 | 54 | 54 |
| Payout ratio (%) | 46.1 | 42.9 | 30.0 | 40.0 | 40.0 |
| No of: | | | | | |
| Employees | 1,303 | 3,392 | 3,985 | 10,261 | 10,261 |
| Branches | NM | NM | 200 | 308 | 308 |

Source: Company data, Renaissance Capital estimates

Figure 19: ICB Group financial summary (\$mn)

| Balance sheet (\$mn) | Feb 2007 | Feb 2008 | Feb 2009E | 22M Dec 2009E | Dec 2010E |
|-------------------------------------|------------|------------|------------|---------------|------------|
| Assets | | | | | |
| Interbank | 1,728 | 3,500 | 1,698 | 990 | 1,332 |
| Securities | 1,037 | 1,768 | 515 | 214 | 277 |
| Net loans | 2,227 | 3,202 | 4,112 | 4,729 | 6,294 |
| Gross loans | 2,350 | 3,355 | 4,328 | 4,978 | 6,695 |
| Interest earning assets | 5,627 | 9,503 | 7,109 | 6,846 | 9,108 |
| Total assets | 5,978 | 10,237 | 8,532 | 9,456 | 12,348 |
| Liabilities | | | | | |
| Interbank | 30 | 155 | 158 | 165 | 222 |
| Securities | 73 | 149 | 152 | 158 | 213 |
| Deposits | 3,969 | 7,773 | 5,278 | 5,806 | 7,809 |
| Interest bearing liabilities | 4,072 | 8,082 | 5,590 | 6,131 | 8,246 |
| Total liabilities | 4,647 | 8,769 | 6,940 | 7,703 | 10,329 |
| Shareholders equity | 1,331 | 1,468 | 1,593 | 1,752 | 2,019 |
| Income statement (\$mn) | | | | | |
| Interest income | 413 | 965 | 1,026 | 1,881 | 1,425 |
| Interest expense | (137) | (404) | (502) | (879) | (697) |
| Net interest income | 275 | 562 | 524 | 1,002 | 728 |
| Net fee income | 205 | 305 | 342 | 627 | 512 |
| Trading income | 15 | 55 | 59 | 109 | 87 |
| Other income | 64 | 134 | 140 | 256 | 201 |
| Total revenues | 560 | 1,056 | 1,065 | 1,994 | 1,528 |
| Staff costs | (160) | (326) | (366) | (670) | (508) |
| Other costs | (180) | (282) | (315) | (578) | (434) |
| Total costs | (340) | (608) | (681) | (1,248) | (943) |
| Operating profit | 220 | 448 | 385 | 746 | 586 |
| Provisioning charge | (44) | (73) | (88) | (160) | (140) |
| Other pre-tax items | 5 | 9 | 9 | 17 | 15 |
| Pre-tax profit | 181 | 384 | 306 | 602 | 460 |
| Tax | (57) | (91) | (77) | (150) | (115) |
| Minorities | (3) | (7) | (7) | (14) | (10) |
| Other post tax gains/ Losses | - | - | - | - | - |
| Net profit | 121 | 286 | 223 | 438 | 335 |
| Dividend on pref shares | - | - | (0) | (0) | (0) |
| Net attributable profit | 121 | 286 | 223 | 438 | 334 |
| Dividend on ordinary shares | 56 | 123 | 67 | 131 | 134 |
| Key YoY growth rates (%) | | | | | |
| Loans | | 43.8 | 28.4 | NM | 33.1 |
| Interest earning assets | | 68.9 | (25.2) | NM | 33.0 |
| Deposits | | 95.8 | (32.1) | NM | 34.5 |
| Interest bearing liabilities | | 98.5 | (30.8) | NM | 34.5 |
| Assets | | 71.2 | (16.7) | NM | 30.6 |
| Equity | | 10.3 | 8.5 | NM | 15.2 |
| Net interest income | | 104.0 | (6.6) | NM | NM |
| Fee income | | 49.3 | 12.1 | NM | NM |
| Revenues | | 88.7 | 0.9 | NM | NM |
| Costs | | 79.1 | 11.9 | NM | NM |
| Operating profit | | 103.5 | (14.1) | NM | NM |
| Net profit | | 136.9 | (22.1) | NM | NM |
| EPS | | 71.5 | (39.0) | NM | NM |
| BVPS | | (37.4) | 8.5 | NM | 15.2 |
| Per share data (\$ in cents) | | | | | |
| No of ordinary shares (mn) | 10,724 | 17,966 | 18,907 | 18,907 | 18,907 |
| EPS | 1.13 | 1.93 | 1.18 | 2.32 | 1.77 |
| DPS | 0.55 | 0.60 | 0.37 | 0.74 | 0.73 |
| BVPS | 12.41 | 7.77 | 8.42 | 9.27 | 10.68 |
| Balance sheet ratios (%) | | | | | |
| Loans/Assets | 31 | 48 | 50 | 51 | 51 |
| Deposits/Liabilities | 76 | 62 | 61 | 63 | 63 |
| Loans/Deposits | 41 | 78 | 81 | 81 | 81 |
| Equity/Assets | 14.3 | 18.7 | 18.5 | 18.5 | 16.3 |
| Capital ratios (%) | | | | | |
| Tier 1 | N/A | 25.0 | N/A | N/A | N/A |
| Tier 2 | N/A | - | N/A | N/A | N/A |
| Total | N/A | 25.0 | N/A | N/A | N/A |
| Asset quality | | | | | |
| NPLs (\$mn) | 95 | 118 | 235 | 340 | 340 |
| NPL reserves (\$mn) | 107 | 148 | 249 | 402 | 402 |
| NPLs/Gross loans (%) | 2.82 | 2.73 | 4.72 | 5.08 | 5.08 |
| Reserves/NPLs (x) | 1.1 | 1.3 | 1.1 | 1.2 | 1.2 |
| Credit charge (%) | 2.55 | 2.28 | 3.45 | 2.41 | 2.41 |
| Margins (%) | | | | | |
| Asset margin | 12.76 | 12.35 | 23.01 | 17.86 | 17.86 |
| Liability margin | 6.64 | 7.34 | 12.37 | 9.70 | 9.70 |
| NIM | 7.43 | 6.31 | 12.26 | 9.12 | 9.12 |
| Spread | 6.12 | 5.02 | 10.64 | 8.16 | 8.16 |
| Costs (%) | | | | | |
| Cost/Income | 57.6 | 63.9 | 62.6 | 61.7 | 61.7 |
| Cost/Avg assets | 7.5 | 7.3 | 12.7 | 8.6 | 8.6 |
| Effective tax rate | 23.8 | 25.0 | 25.0 | 25.0 | 25.0 |
| Profitability ratios (%) | | | | | |
| ROAE | 20.4 | 14.6 | 27.2 | 17.7 | 17.7 |
| ROAA | 3.53 | 2.37 | 4.45 | 3.07 | 3.07 |
| Other P&L ratios (%) | | | | | |
| Int Inc/Revenues | 53 | 49 | 50 | 48 | 48 |
| Fees/Revenues | 29 | 32 | 31 | 34 | 34 |
| Trading Income/Revenues | 5 | 6 | 5 | 6 | 6 |
| Fees/Staff costs | 94 | 94 | 94 | 101 | 101 |
| Fees/Total Costs | 50 | 50 | 50 | 54 | 54 |
| Payout ratio (%) | 42.9 | 30.0 | 30.0 | 40.0 | 40.0 |
| No of: | | | | | |
| Employees | 1,303 | 3,392 | 3,985 | 10,261 | 10,261 |
| Branches | NM | NM | 200 | 308 | 308 |

Source: Company data, Renaissance Capital estimates

Figure 20: NGN/\$ exchange rates

| | 2007 | 2008 | 2009E | 2009E | 2010E |
|------------|--------|--------|--------|--------|--------|
| \$/NGN YE | 117.90 | 136.00 | 140.20 | 140.20 | 135.50 |
| \$/NGN avg | 125.30 | 118.90 | 148.50 | 148.50 | 138.90 |

Source: Renaissance Capital estimates

Disclosures appendix

Analysts certification and disclaimer

This research report has been prepared by the research analyst(s), whose name(s) appear(s) on the front page of this document, to provide background information about the issuer or issuers (collectively, the "Issuer") and the securities and markets that are the subject matter of this report. Each research analyst hereby certifies that with respect to the Issuer and such securities and markets, all the views expressed in this document accurately reflect his or her personal views about the Issuer and any and all of such securities and markets. Each research analyst and/or persons connected with any research analyst may have interacted with sales and trading personnel, or similar, for the purpose of gathering, synthesizing and interpreting market information.

Any ratings, forecasts, estimates, opinions or views herein constitute a judgment as at the date of this report. If the date of this report is not current, the views and contents may not reflect the research analysts' current thinking. This document has been produced independently of the Issuer. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the ratings, forecasts, estimates, opinions and views contained herein are fair and reasonable, neither the research analysts, the Issuer, nor any of its directors, officers or employees, have verified the contents hereof unless disclosed otherwise below. Accordingly, neither the research analysts, the Issuer, nor any of its directors, officers or employees, shall be in any way responsible for the contents hereof, and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith. This document may not be relied upon by any of its recipients or any other person in making investment decisions with respect to the Issuer's securities. This report does not constitute a valuation of the Issuer's business, assets or securities for the purposes of the legislation on valuation activities for the Issuer's country.

Each research analyst also certifies that no part of his or her compensation was, or will be, directly or indirectly related to the specific ratings, forecasts, estimates, opinions or views in this research report. Research analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Renaissance Securities (Cyprus) Limited, RenCap Securities, Inc., Renaissance Capital Limited and any of their affiliates (the "Firm"). Like all of the Firm's employees, research analysts receive compensation that is impacted by overall Firm profitability, which includes revenues from other business units within the Firm.

Important issuer disclosures

Important issuer disclosures outline currently known conflicts of interest that may unknowingly bias or affect the objectivity of the analyst(s) with respect to an issuer that is the subject matter of this report. Disclosure(s) apply to Renaissance Securities (Cyprus) Limited or any of its direct or indirect subsidiaries or affiliates (which are individually or collectively referred to as "Renaissance Capital") with respect to any issuer or the issuer's securities.

Intercontinental Bank Plc

RIC: INBK.LG

Renaissance Capital was not aware of any actual, material conflict of interest with the issuer at the time of publication.

Investment ratings

Investment ratings are a function of Renaissance Capital's expectation of total return on equity (forecast price appreciation and dividend yield within the next 12 months).

The investment ratings are: Buy (expected total return of 15% or more); Hold (expected total return of 0-15%); and Sell (expected negative total return).

Investment ratings are determined by the ranges described above at the time of the initiation of coverage of an issuer of equity securities, or a change in target price of any of the issuer's equity securities. At other times, the expected total returns may fall outside of these ranges because of price movement and/or volatility. Such interim deviations from specified ranges will be permitted but will be subject to review by Research Management. It may be necessary to temporarily place the investment rating "Under Review" during which period the previously stated investment rating may no longer reflect the analysts' current thinking.

For issuers where Renaissance Capital has not expressed a commitment to provide continuous coverage, to keep you informed, analysts may prepare reports covering significant events or background information without an investment rating.

Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the security's expected performance and risk.

Renaissance Capital equity research distribution ratings

Investment Rating Distribution

Renaissance Capital Research

| | | |
|------------|-----|-----|
| Buy | 162 | 37% |
| Hold | 74 | 17% |
| Sell | 29 | 7% |
| UR | 47 | 11% |
| NR | 124 | 28% |
| 436 | | |

Banking

| | | |
|-----------|----|-----|
| Buy | 12 | 32% |
| Hold | 14 | 38% |
| Sell | 1 | 3% |
| UR | 2 | 5% |
| NR | 8 | 22% |
| 37 | | |

Investment Banking Relationships*

Renaissance Capital Research

| | | |
|-----------|---|-----|
| Buy | 7 | 54% |
| Hold | 3 | 23% |
| Sell | 1 | 8% |
| UR | 1 | 8% |
| NR | 1 | 8% |
| 13 | | |

Banking

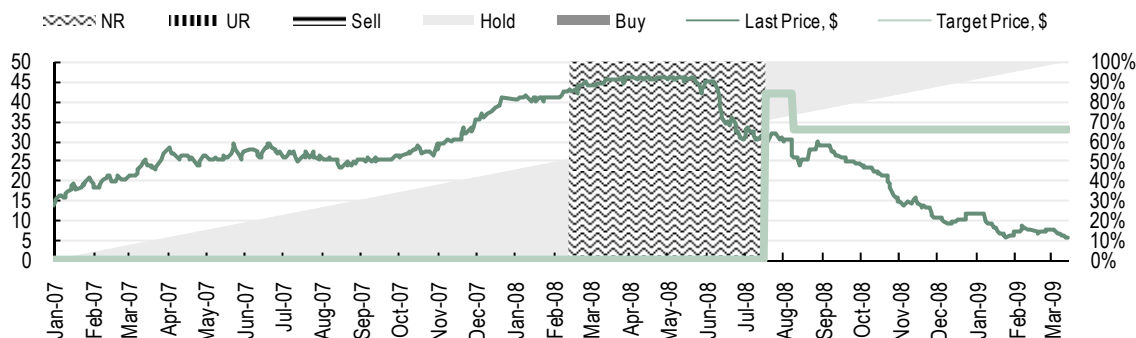
| | | |
|----------|---|------|
| Buy | 0 | 0% |
| Hold | 2 | 100% |
| Sell | 0 | 0% |
| UR | 0 | 0% |
| NR | 0 | 0% |
| 2 | | |

* Issuers from which Renaissance Capital has received material compensation within the past 12 months.

NR – Not Rated

UR – Under Review

Intercontinental Bank share price, target price and rating history



Source: Renaissance Capital, prices local market close or the mid price if illiquid market

© 2009 Renaissance Securities (Cyprus) Limited, an indirect subsidiary of Renaissance Capital Holdings Limited ("Renaissance Capital"), for contact details see Bloomberg page RENA, or contact the relevant Renaissance Capital office. All rights reserved. This document and/or information has been prepared by and, except as otherwise specified herein, is communicated by Renaissance Securities (Cyprus) Limited, regulated by the Cyprus Securities and Exchange Commission.

This document does not form a fiduciary relationship or constitute advice and is not and should not be construed as an offer, or a solicitation of an offer, or an invitation or inducement to engage in investment activity, and cannot be relied upon as a representation that any particular transaction necessarily could have been or can be effected at the stated price. This document is not an advertisement of securities. This document is for information purposes only. Opinions expressed herein may differ or be contrary to opinions expressed by other business areas or groups of Renaissance Capital as a result of using different assumptions and criteria. All such information and opinions are subject to change without notice, and neither Renaissance Capital nor any of its subsidiaries or affiliates is under any obligation to update or keep current the information contained herein or in any other medium.

Descriptions of any company or companies or their securities or the markets or developments mentioned herein are not intended to be complete. This document and/or information should not be regarded by recipients as a substitute for the exercise of their own judgment as the information has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. The application of taxation laws depends on an investor's individual circumstances and, accordingly, each investor should seek independent professional advice on taxation implications before making any investment decision. The information and opinions herein have been compiled or arrived at based on information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified, is provided on an 'as is' basis and no representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness, reliability, merchantability or fitness for a particular purpose of such information and opinions, except with respect to information concerning Renaissance Capital, its subsidiaries and affiliates. All statements of opinion and all projections, forecasts, or statements relating to expectations regarding future events or the possible future performance of investments represent Renaissance Capital's own assessment and interpretation of information available to them currently.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors and trading in these instruments is considered risky. Past performance is not necessarily indicative of future results. The value of investments may fall as well as rise and the investor may not get back the amount initially invested. Some investments may not be readily realisable since the market in the securities is illiquid or there is no secondary market for the investor's interest and therefore valuing the investment and identifying the risk to which the investor is exposed may be difficult to quantify. Investments in illiquid securities involve a high degree of risk and are suitable only for sophisticated investors who can tolerate such risk and do not require an investment easily and quickly converted into cash. Foreign-currency-denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or the price of, or income derived from, the investment. Other risk factors affecting the price, value or income of an investment include but are not necessarily limited to political risks, economic risks, credit risks, and market risks. Investing in emerging markets such as Russia, other CIS, African or Asian countries and emerging markets securities involves a high degree of risk and investors should perform their own due diligence before investing.

Excluding significant beneficial ownership of securities where Renaissance Capital has expressed a commitment to provide continuous coverage in relation to an issuer or an issuer's securities, Renaissance Capital and its affiliates, their directors, representatives, employees (excluding the US broker-dealer unless specifically disclosed), or clients may have or have had interests in the securities of issuers described in the Investment Research or long or short positions in any of the securities mentioned in the Investment Research or other related financial instruments at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale, of any such securities or other financial instruments from time to time in the open market or otherwise, in each case as principals or as agents. Where Renaissance Capital has not expressed a commitment to provide continuous coverage in relation to an issuer or an issuer's securities, Renaissance Capital and its affiliates (excluding the US broker-dealer unless specifically disclosed) may act or have acted as market maker in the securities or other financial instruments described in the Investment Research, or in securities underlying or related to such securities. Employees of Renaissance Capital or its affiliates may serve or have served as officers or directors of the relevant companies. Renaissance Capital and its affiliates may have or have had a relationship with or provide or have provided investment banking, capital

markets, advisory, investment management, and/or other financial services to the relevant companies, and have established and maintained information barriers such as 'Chinese Walls', to control the flow of information contained in one or more areas within the Renaissance Group of companies to which Renaissance Capital belongs, into other areas, units, groups or affiliates of the Renaissance Group.

The information herein is not intended for distribution to the public and may not be reproduced, redistributed or published, in whole or in part, for any purpose without the written permission of Renaissance Capital, and neither Renaissance Capital nor any of its affiliates accepts any liability whatsoever for the actions of third parties in this respect. This information may not be used to create any financial instruments or products or any indices. Neither Renaissance Capital and its affiliates, nor their directors, representatives, or employees accept any liability for any direct or consequential loss or damage arising out of the use of all or any part of the information herein.

Bermuda: Neither the Bermuda Monetary Authority nor the Registrar of Companies of Bermuda has approved the contents of this document and any statement to the contrary, express or otherwise, would constitute a material misstatement and an offence.

EEA States: Distributed by Renaissance Securities (Cyprus) Limited, regulated by Cyprus Securities and Exchange Commission, or Renaissance Capital Limited, member of the London Stock Exchange and regulated in the UK by the Financial Services Authority ("FSA") in relation to designated investment business (as detailed in the FSA rules). Cyprus: Except as otherwise specified herein the information herein is not intended for, and should not be relied upon by, retail clients of Renaissance Securities (Cyprus) Limited. The Cyprus Securities and Exchange Commission Investor Compensation Fund is available where Renaissance Securities (Cyprus) Limited is unable to meet its liabilities to its retail clients, as specified in the Customer Documents Pack. United Kingdom: Approved and distributed by Renaissance Capital Limited only to persons who are eligible counterparties or professional clients (as detailed in the FSA Rules). The information herein does not apply to, and should not be relied upon by, retail clients; neither the FSA's protection rules nor compensation scheme may be applied.

Kazakhstan: Distributed by Renaissance Capital Investments Kazakhstan JSC, regulated by the Agency for the Regulation and Supervision of the Financial Market and Financial Organizations.

Kenya: Distributed by Renaissance Capital (Kenya) Limited, regulated by the Capital Markets Authority.

Nigeria: Distributed by RenCap Securities (Nigeria) Limited, member of The Nigerian Stock Exchange, or Renaissance Securities (Nigeria) Limited, entities regulated by the Securities and Exchange Commission.

Russia: Distributed by CJSC Renaissance Capital, LLC Renaissance Broker, or Renaissance Online Limited, entities regulated by the Federal Financial Markets Service.

Ukraine: Distributed by Renaissance Capital LLC, authorized to perform professional activities on the Ukrainian stock market.

United States: Distributed in the United States by RenCap Securities, Inc., member of FINRA and SIPC, or by a non-US subsidiary or affiliate of Renaissance Capital Holdings Limited that is not registered as a US broker-dealer (a "non-US affiliate"), to major US institutional investors only. RenCap Securities, Inc. accepts responsibility for the content of a research report prepared by another non-US affiliate when distributed to US persons by RenCap Securities, Inc. Although it has accepted responsibility for the content of this research report when distributed to US investors, RenCap Securities, Inc. did not contribute to the preparation of this report and the analysts authoring this are not employed by, and are not associated persons of, RenCap Securities, Inc. Among other things, this means that the entity issuing this report and the analysts authoring this report are not subject to all the disclosures and other US regulatory requirements to which RenCap Securities, Inc. and its employees and associated persons are subject. Any US person receiving this report who wishes to effect transactions in any securities referred to herein should contact RenCap Securities, Inc., not its non-US affiliate. RenCap Securities, Inc. is a subsidiary of Renaissance Capital Holdings Limited and forms a part of a group of companies operating outside of the United States as "Renaissance Capital". Contact: RenCap Securities, Inc., 780 Third Avenue, 20th Floor, New York, New York 10017, Telephone: +1 (212) 824-1099.

Other distribution: The distribution of this document in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restriction.

Additional information and supporting documentation is available upon request.

Renaissance Capital

Renaissance Securities (Cyprus) Ltd.

Alpha Business Centre, 8th Floor
27 Pindarou Street
1060 Nicosia
Republic of Cyprus
T +357 (22) 505 800
F + 357(22) 676 755

Renaissance Capital

Moscow City
Naberezhnaya Tower, Block C
18, Krasnopresnenskaya Nab.
Moscow 123317 Russia
T + 7 (495) 258 7777
F + 7 (495) 258 7778
www.rencap.com

Renaissance Capital Ltd.

One Angel Court
Cophall Avenue
London EC2R 7HJ
United Kingdom
T + 44 (20) 7367 7777
F + 44 (20) 7367 7778

Renaissance Capital Kazakhstan

Esentai Tower
77/7 Al-Farabi Avenue
Almaty 050060 Kazakhstan
T + 7 (727) 244 1544
F + 7 (727) 244 1545

Renaissance Securities (Nigeria) Ltd

5th Floor, Professional Centre
Plot 1B, Bank PHB Crescent
Victoria Island, Lagos
Nigeria
T +234 (1) 448 5300
F +234 (1) 448 5353

Renaissance Capital

6th Floor, Purshottam Place
Westlands Road
P.O. Box 40560-00100
Nairobi, Kenya
T +254 (20) 368 2000
F +254 (20) 368 2339

Renaissance Capital Ukraine

Parus Business Center,
2 Mechnykova Street, 14th Floor
Kyiv 01601, Ukraine
T +38 (044) 492-7383
F +38 (044) 492-7393

Renaissance Capital Research

Head of Research Roland Nash

+ 7 (495) 258 7916
RNash@rencap.com

Head of Equity Research Alexander Burgansky

+ 7 (495) 258 7904
ABurgansky@rencap.com

Head of Macro/Fixed Income Research Alexei Moisseev

+ 7 (495) 258 7946
AMoisseev@rencap.com

Head of Russia Research Natasha Zagvozdina

+ 7 (495) 258 7753
NZagvozdina@rencap.com

Head of Africa Research Matthew Pearson

+ 44 (20) 7367 7734
MPearson@rencap.com

Banking

+ 7 (495) 258 7748
David Nangle
DNangle@rencap.com
Milena Ivanova-Venturini

Metals & Mining

+ 44 (20) 7367 7781
Rob Edwards
REdwards@rencap.com
Boris Krasnojenov

Macro & Fixed Income Research

+ 7 (495) 258 7946
Alexei Moisseev
AMoisseev@rencap.com
Nikolai Podguzov
Petr Grishin
Andrey Markov
Valentina Krylova
Elena Sharipova
Anastasiya Golovach (Ukraine)
Anton Nikitin

Africa Macro & Strategy

+ 44 (20) 7367 7734
Matthew Pearson
MPearson@rencap.com
Samir Gadio

Chemicals/Engineering/Building materials

+ 7 (495) 783 5653
Marina Alexeenkova
MAlexeenkova@rencap.com

Oil & Gas

+ 7 (495) 258 7904
Alexander Burgansky
ABurgansky@rencap.com
Irina Elinevskaya

Africa Financials

+234 1 448 5300
Kato Mukuru
KMukuru@rencap.com

Consumer/Retail/Agriculture

+ 7 (495) 258 7753
Natasha Zagvozdina
NZagvozdina@rencap.com
Ulyana Tipsina

Media/Technology/Real Estate

+ 7 (495) 258 4350
David Ferguson
DFerguson@rencap.com

East Africa

+ 254 20 360 18 22
Mbithe Muema
MMuema@rencap.com

Central Asia

+ 7 (727) 244 1544
Milena Ivanova-Venturini

Telecoms/Transportation

+ 7 (495) 258 7902
Alexander Kazbegi
AKazbegi@rencap.com
Ivan Kim

Southern Africa

+ 263 1 163 44 63
Dzika Danha
DDanha@rencap.com
Anthea Alexander

Equity Strategy

+ 7 (495) 258 7916
Roland Nash
Rnash@rencap.com
Tom Mundy
Ovanes Oganisian

Utilities

+ 44 (20) 7367 7793
Derek Weaving
DWeaving@rencap.com
Vladimir Sklyar

West Africa

+ 234 1 271 91 33
Esili Eigbe
EEigbe@rencap.com

Ukraine

+38 (044) 492-7383
Anastasiya Golovach