Primary Issue: Government Reopens Two Fifteen-Year Treasury Bond

This month the government will be looking to raise **KES 40Bn (USD 395.90Mn)** for budgetary support by reopening two fifteen year bond **FXD1/2010/15** (**7.06 years**) with a fixed **10.25%** coupon and **FXD2/2013/15 (10.15 years)** a fixed **12.00%** coupon which will attract a withholding tax rate of **10%.** We expect a moderate to high subscription for the **7.06 year** paper and moderate to low subscription for the **10.15 years.** We recommend investors to bid **12.500%** to **12.705%** range for the **7.06-year** (Current yield 12.606%) and **12.80%** to **13.1%** for the **10.15-year** (current 12.654%) bond.

A total of **KES 25.25Bn (USD 294.9Mn)** (in coupons and maturities) will be redeemed in February 2018.

Secondary Market: Secondary market is bound to witness an increase in activity with first half of February transacting **KES 34.94Bn (USD 345.9Mn)** compared to **KES 37.5Bn (USD 371.4Mn)** for the whole of January 2018. The on the run IFB bond traded **KES 9.43Bn (USD 93.3Mn)** with additional trades driven by book movements as clients change fund managers. The market is set to normalize in March.

Interbank: Interbank rate stood at **4.49%** with an average of **5.26%** and **KES 16.49Bn (USD 163.17Mn)** for the month to date compared to **5.78%** and **KES 17.73Bn (USD 175.5Mn)** over the same period in January.

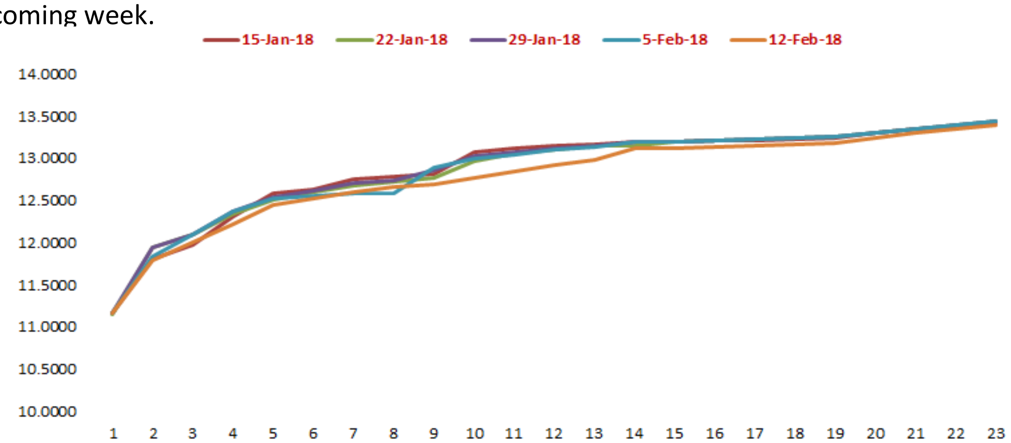
The low rate is pushed by high liquidity in the market due to government payments. The banks CRR cycle comes to an end today. We anticipate interbank to reverse on pressure from tax payment by banks in the coming week.

NSE Yield Curve (5 Week Yield Curve): With the Yield Curve flattening by decline in short term yields **(2Yr, -3.17bps)** and mid-term **(5 Yr, -6.9bps and 10 Yr, -22.7bps)**, we recommend investors to position their portfolio on mid to long term papers. This will protect the portfolio against loses from rising short term yields.

T-Bills: Government will borrow **KES 96Bn (USD 950.2Mn)** in short term papers. The market has seen a high liquidity with T-Bills oversubscribed with past four auctions **averaging 116.5%** with a mean acceptance of **90.4%.** We anticipate subscriptions to remain **>100%** with **acceptance >95%** as rates remain stable at **8.0%, 10.4% and 11.2% for the 91 day, 182 day and 364 day** papers respectively.

February redemptions stand at KES 77.73Bn (USD 769.3Mn).

February Inflation: We project February inflation to range **4.6% to 4.91% with CPI up 1.6%-1.8% to 188.25-188.81.** This be driven marginal increase in pump prices on higher international prices in (December average USD 63.33pb and dollar KES 103.1 versus 62.31pb and KES 103.57 average in November), increase in electricity bills and increased food prices.



Contacts

Research Desk

Victor Koech
koechv@aibcapital.com

Willis Nalwenge
nalwengew@aibcapital.com

Bonds Dealing Desk

Stephen Ngunje, Fixed Income Dealer
ngunjes@aibcapital.com

Crispus Otieno, Fixed Income Dealer
otienoc@aibcapital.com

Research Disclosure

Though utmost care has been taken in the preparation of this report, we do not guarantee the accuracy or completeness of the information contained herein nor will AIB Capital Ltd be held liable for the information contained herein.

The views expressed in this report are solely those of the Research Department and are subject to change without notice.

The information in this report is not an offer for the sale or purchase of any security. This document should only be considered a single factor used by investors in making their investment decisions.

This publication may not be distributed to the public media or quoted or used by the public media without prior and express written consent of AIB Capital Ltd.

NOTICE TO US INVESTORS

This report was prepared, approved, published and distributed by AIB Capital Limited Company located outside of the United States (a non-US Group Company"). This report is distributed in the U.S. by LXM LLP USA, a U.S. registered broker-dealer, on behalf of AIB Capital Limited only to major U.S. institutional investors (as defined in Rule 15a-6 under the

U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through LXM LLP USA.

Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the

Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization.

Analyst Certification. Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report. Please bear in mind that (i) AIB Capital Limited is the employer of the research analysts responsible for the content of this report and (ii) research analysts preparing this report are resident outside the United States and are not associated persons of any US regulated broker-dealer and that therefore the analysts are not subject to supervision by a US broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with US rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account. Important US Regulatory Disclosures on Subject Companies. This material was produced by Analysis AIB Capital Limited solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. It is distributed in the United States of America by LXM LLP USA and elsewhere in the world by AIB Capital Limited or an authorized affiliate of AIB Capital Limited. This document does not constitute an offer of, or an invitation by or on behalf of AIB Capital or its affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which AIB Capital Limited or its Affiliates consider to be reliable. None of AIB Capital Limited accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information.

All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

LXM LLP USA assumes responsibility for the research reports content in regards to research distributed in the U.S. LXM LLP USA or its affiliates has not managed or co-managed a public offering of securities for the subject company in the past 12 months, has not received compensation for investment banking services from the subject company in the past 12 months, does not expect to receive and does not intend to seek compensation for investment banking services from the subject company in the next 3 months. LXM LLP USA has never owned any class of equity securities of the subject company. There are not any other actual, material conflicts of interest of LXM LLP USA at the time of the publication of this research report. As of the publication of this report LXM LLP USA, does not make a market in the subject securities.