
Equity Bank, Kenya

Public Market Assessment



August 2015

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1. Profile of Equity Bank

A. Business Overview

Equity Bank Group Summary Overview

Overview

- Equity Bank offers retail banking, microfinance, and related services to individuals, and small and medium sized enterprises
- The bank was founded in 1984 and is headquartered in Nairobi, Kenya. In 2006, the bank was listed on the Nairobi Stock Exchange and it also trades on the Uganda Securities Exchange
- The Bank has subsidiaries in Kenya, Uganda, South Sudan, Rwanda, and Tanzania

Key operating information

- Total assets: KES373bn (US\$3.6bn)
- Loan book: KES225bn (US\$2.2bn)
- BV of equity: KES61bn (US\$586m)
- Customer deposits: KES277bn (US\$2.7bn)
- 47% share of bank accounts in Kenya
- Number of customers: 9.7m
- Mobile banking customers: 3.2m
- No of Agents: 17,523
- Number of Branches: 228; number of ATMs: 601

Bank operational divisions

Bank	<ul style="list-style-type: none"> • Leading consumer bank in East Africa, with a strong base for pan- African growth
Investment Bank	<ul style="list-style-type: none"> • Equity Investment Bank (EIB) is a wholly owned subsidiary of Equity Bank Limited • Provides investment services for its corporate clients: brokerage, custodial and advisory
Foundation	<ul style="list-style-type: none"> • Aims to improve people in bank's communities using its existing infrastructure, human capital and brand
Insurance	<ul style="list-style-type: none"> • Offers insurance products providing cover for risk mitigation of banking products
Finserv	<ul style="list-style-type: none"> • Offers a mobile channel that integrates bank accounts and other financial products and services • Provides value-added telecom products and services

Jambo Equitel Profile

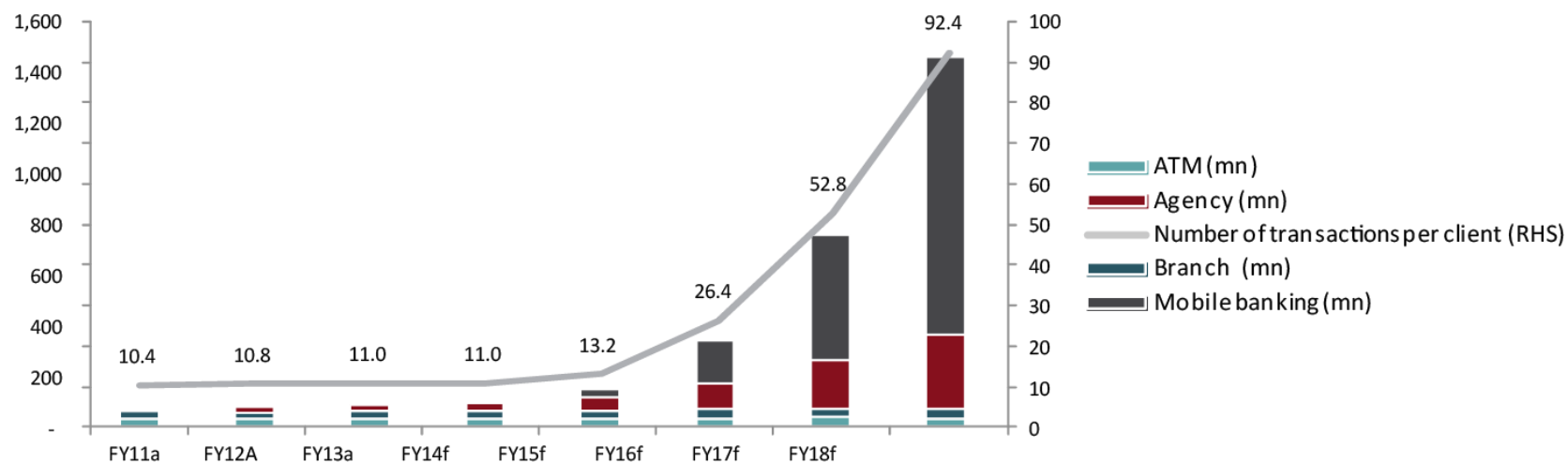
Overview

- Equity Bank has recently launched Equitel as an MVNO to offer all traditional telecom services in Kenya: voice, SMS, data and mobile money
- Through Equitel, Equity bank plans to leverage its banking platform to offer a better, cheaper and safer mobile money product which, in turn, is expected to drive voice, SMS and data usage
- The MVNO is seen as an additional banking channel that will help to sustain Equity's existing business model based on high-margin retail growth
- Had over 416,000 customers as of December 2014

Strategic Advantage

- Equitel is priced very close to Safaricom's MPESA, the dominant telecom services provider in the market
- However, one key differentiator is in the provision of mobile money services – Equitel's tariff of 1% of the transaction amount is cheaper than Safaricom's M-PESA service
- Being owned by a financial services institution, will enable Equitel to provide a greater variety of services such as micro-lending and insurance, than MPESA
- Is expected to capitalize on the widening mobile banking usage in the country

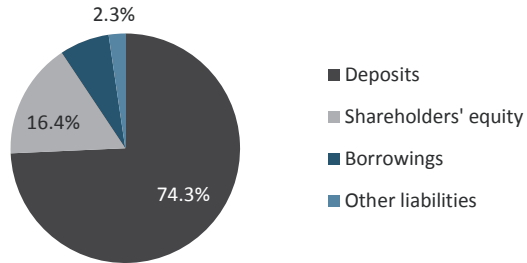
Evolution of Channels



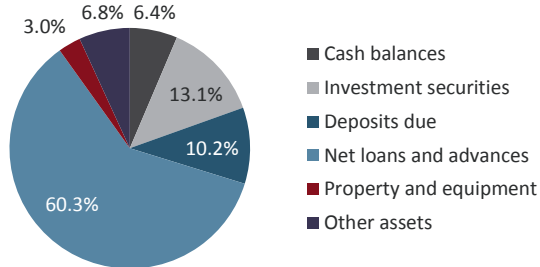
Summary Financial Overview

Funding and Asset Breakdown

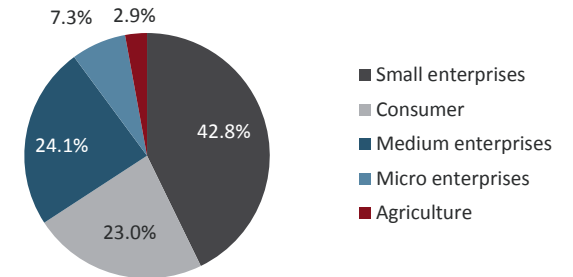
Funding Distribution: KES 373bn (US\$3.6bn)



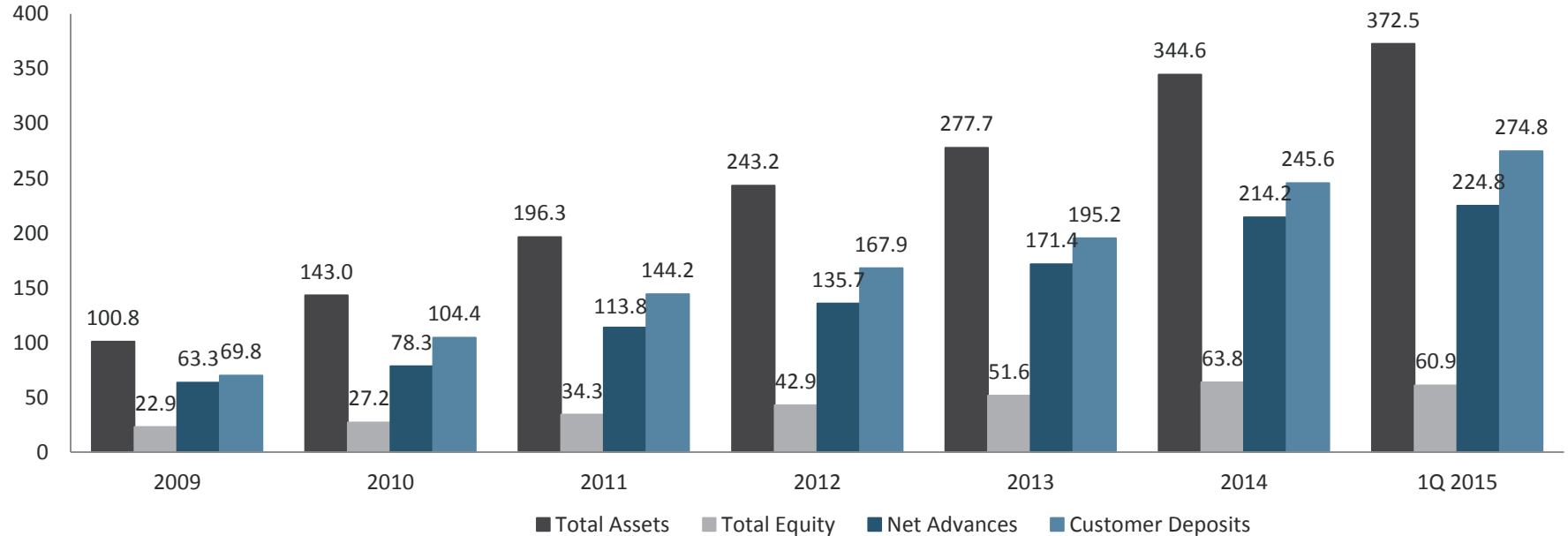
Total Assets: KES 373bn (US\$3.6bn)



Loan Breakdown: KES 222bn (US\$2.4bn)



Historical Metrics



Source: Company information

Note: Financials as of March 31, 2015; Loan Breakdown by sector as of December 31, 2014

Equity Bank Group Historical Financials: Income Statement

US\$ / KES fx avg 79.2 88.9 84.5 86.1 88.0

Income statement						
KESm						CAGR
	2010	2011	2012	2013	2014	10-14
Interest income	13,775	19,339	30,848	31,890	35,367	26.6%
Yield on assets	12.7%	12.6%	15.4%	13.5%	12.6%	
Interest expense	(2,062)	(3,116)	(6,884)	(5,399)	(6,192)	31.6%
Cost of funds (%)	2.2%	2.3%	3.9%	2.6%	2.5%	
Net interest income	11,713	16,223	23,964	26,491	29,175	25.6%
Net interest margin (%)	10.8%	10.5%	11.9%	11.2%	10.4%	
Total non funded income	10,440	12,447	12,863	15,370	18,474	15.3%
Total operating income	22,153	28,670	36,827	41,861	47,649	21.1%
Operating expenses	(11,297)	(14,361)	(17,970)	(20,656)	(24,758)	21.7%
Cost to income ratio (%)	51.0%	50.1%	48.8%	49.3%	52.0%	
Net additional provisions	(1,905)	(1,630)	(1,608)	(2,402)	(1,590)	(4.4%)
Net operating income	8,950	12,679	17,249	18,803	21,301	24.2%
Share of associate profit	95	155	171	201	1,064	83.2%
Tax expense	(1,913)	(2,509)	(5,340)	(5,726)	(5,213)	28.5%
Net income	7,132	10,325	12,080	13,278	17,152	24.5%
Net Margin (%)	32.2%	36.0%	32.8%	31.7%	36.0%	

Income statement						
US\$m						CAGR
	2010	2011	2012	2013	2014	10-14
Interest income	174	218	365	370	402	23.3%
Yield on assets	12.7%	12.6%	15.4%	13.5%	12.6%	
Interest expense	(26)	(35)	(82)	(63)	(70)	28.2%
Cost of funds (%)	2.2%	2.3%	3.9%	2.6%	2.5%	
Net interest income	148	183	284	308	332	22.4%
Net interest margin (%)	10.8%	10.5%	11.9%	11.2%	10.4%	
Total non funded income	132	140	152	179	210	12.4%
Total operating income	280	323	436	486	542	18.0%
Operating expenses	(143)	(162)	(213)	(240)	(281)	18.5%
Cost to income ratio (%)	51.0%	50.1%	48.8%	49.3%	52.0%	
Net additional provisions	(24)	(18)	(19)	(28)	(18)	(6.9%)
Net operating income	113	143	204	218	242	21.0%
Share of associate profit	1	2	2	2	12	78.4%
Tax expense	(24)	(28)	(63)	(67)	(59)	25.1%
Net income	90	116	143	154	195	21.3%
Net Margin (%)	32.2%	36.0%	32.8%	31.7%	36.0%	

Operating KPIs						
	2010	2011	2012	2013	2014	CAGR 10-14
Number of customers ('000)	5,908	7,151	7,838	8,407	9,660	13.1%
Growth %	35.2%	21.0%	9.6%	7.3%	14.9%	
Mobile banking customers	-	1,282	2,166	2,777	3,200	nm
% of customers on mobile banking	-	17.92%	27.63%	33.03%	33.13%	
Number of transactions ('000)	-	68,208	81,133	89,375	97,300	nm
Growth %	nm	nm	18.9%	10.2%	8.9%	
ATM	-	34,476	33,429	33,750	38,200	nm
Branch	-	27,999	26,709	28,125	26,500	nm
Agency	-	5,735	19,977	28,125	32,600	nm
Mobile banking	-	-	-	-	-	nm
Number of branches	165	186	208	216	228	8.4%
Number of agents	875	3,234	6,344	10,260	15,785	106.1%
Number of staff	5,563	6,243	7,060	7,788	8,690	11.8%
Cost per staff	(988)	(1,018)	(1,078)	(1,218)	(1,313)	7.4%

Source: Company information

Equity Bank Group Historical Financials: Balance Sheet

Balance sheet						
KESm						CAGR
Assets	2010	2011	2012	2013	2014	10-14
Property & equipment	6,971	7,592	9,072	9,796	10,528	10.9%
Cash and cash equivalents	18,610	35,406	45,136	34,649	48,407	27.0%
Government securities	31,228	30,502	41,101	44,572	48,369	11.6%
Loans and advances to customers	78,302	113,825	135,692	171,363	214,170	28.6%
Intangible assets	1,927	1,352	1,415	2,955	3,425	15.5%
Investment in associate	1,260	1,366	1,457	1,574	-	(100%)
Other assets	4,721	6,251	9,297	12,819	19,671	42.9%
Total assets	143,018	196,294	243,170	277,729	344,572	24.6%
Liabilities						
Customer deposits	97,764	144,165	167,913	195,153	245,582	25.9%
Borrowing	7,464	13,769	25,679	26,736	30,242	41.9%
Deposits and balances of banks	7,167	1,023	890	-	-	(100.0%)
Other liabilities	3,420	3,052	5,772	4,285	4,972	9.8%
Total liabilities	115,814	162,009	200,254	226,174	280,796	24.8%
Total shareholders equity	27,204	34,285	42,916	51,555	63,776	23.7%
Total liabilities and shareholders equity	143,018	196,294	243,170	277,729	344,572	24.6%

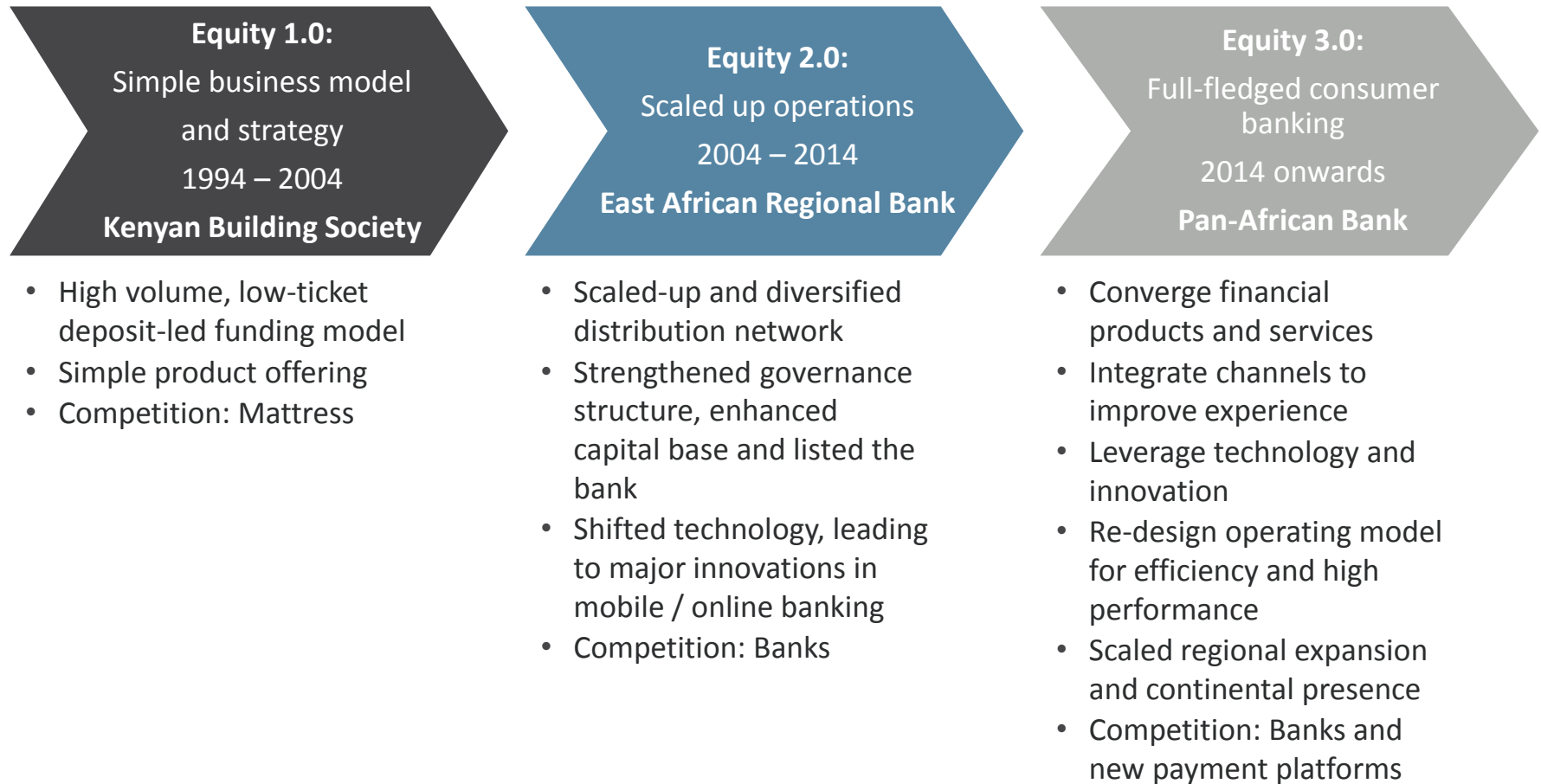
Balance sheet						
US\$m						CAGR
Assets	2010	2011	2012	2013	2014	10-14
Property & equipment	88	85	107	114	120	8.0%
Cash and cash equivalents	235	398	534	402	550	23.7%
Government securities	394	343	487	518	550	8.7%
Loans and advances to customers	989	1,281	1,607	1,991	2,435	25.3%
Intangible assets	24	15	17	34	39	12.5%
Investment in associate	16	15	17	18	-	(100%)
Other assets	60	70	110	149	224	39.2%
Total assets	1,806	2,209	2,879	3,226	3,917	21.4%
Liabilities						
Customer deposits	1,234	1,623	1,988	2,267	2,792	22.6%
Borrowing	94	155	304	311	344	38.2%
Deposits and balances of banks	90	12	11	-	-	(100.0%)
Other liabilities	43	34	68	50	57	7.0%
Total liabilities	1,462	1,823	2,371	2,627	3,192	21.6%
Total shareholders equity	343	386	508	599	725	20.5%
Total liabilities and shareholders equity	1,806	2,209	2,879	3,226	3,917	21.4%

Equity Bank Group: Key Performance Indicators

Financial KPIs						CAGR
	2010	2011	2012	2013	2014	10-14
Total shares in issue - end of year (m)	3,703	3,703	3,703	3,703	3,703	-
Price (KES)	27	16	23	32	51	17.4%
Adjusted EPS (KES)	1.9	2.8	3.3	3.6	4.6	24.5%
Adjusted DPS (KES)	0.8	1.0	1.3	1.5	1.8	22.5%
Dividend yield %	3.0%	6.3%	5.4%	4.7%	3.5%	
BV equity / share	7.3	9.3	11.6	13.9	17.2	23.7%
Profitability						
Average yield on assets	12.7%	12.6%	15.4%	13.5%	12.6%	
Average cost of funding	2.2%	2.3%	3.9%	2.6%	2.5%	
NIM	10.8%	10.5%	11.9%	11.2%	10.4%	
ROA	5.8%	6.1%	5.5%	5.1%	5.5%	
ROE	28.5%	33.6%	31.3%	28.1%	29.7%	
Loan quality						
NPL ratio %	4.5%	2.8%	3.1%	5.2%	4.3%	
Cost of risk %	2.6%	1.7%	1.3%	1.5%	0.8%	
Multiples						
Price / earnings ratio	13.9x	5.7x	7.1x	8.9x	11.0x	
Price / book value multiple	3.6x	1.7x	2.0x	2.3x	2.9x	
Price / tangible book value	3.9x	1.8x	2.1x	2.4x	3.1x	
Capital adequacy						
Tier 1 capital ratio	26.4%	23.7%	22.6%	21.1%	18.6%	
Capital adequacy ratio	32.4%	30.1%	32.1%	25.7%	20.9%	
Funding						
Loan / deposit ratio	80.1%	79.0%	80.8%	87.8%	87.2%	

Source: Company Filings

Strategy Evolution of Equity Bank



B. Management

Equity Bank Kenya: Non-executive Directors



Peter Munga, CBS – Non-executive Chairman

- Mr. Munga is a CPS with management experience in both public and private sector. He holds a diploma in HR and Financial Management
- Mr Munga is a retired Deputy Secretary and is the Chairman of National Oil Corporation and a Director in Micro-Enterprise Support Programme Trust, British American Investments Company (Kenya Ltd), Rockefeller Foundation and Equatorial Nut Processors



Temitope Lawani – Non-executive Director

- Mr. Lawani received his BS in Chemical Engineering from the MIT, Juris Doctorate (cum laude) from Harvard Law School and MBA (2nd Year Honors) from Harvard Business School.
- He is a co-founder and Managing Partner of Helios Investment Partners
- Prior to founding Helios he was a Principal in the San Francisco and London offices of TPG Capital ("TPG")
- Serves on BoD of Vivo Energy, FCMB PLC, Helios Towers Nigeria, InterSwitch Ltd, Helios Towers Africa Limited and Finacity



Benson I. Wairegi, EBS – Non-executive Chairman

- Mr. Wairegi is a CPA and holds an MBA degree and a B.Com (Accounting) degree from the University of Nairobi
- He is the Group Managing Director of British-American Investments Company (Kenya) Ltd., the parent company to British-American Insurance Company Ltd and British-American Asset Managers Limited. He is also a Director of Housing Finance (HF), Chairman of Kenyatta University Council and a member of the Board of Trustees of the Insurance Training and Education Trust



Fredrick Muchoki O.G.W – Non-executive Director

- Mr. Muchoki is a businessman with vast commercial experience. He is the Managing Director of Continental Business Systems, Presta and Office Equipment Limited, Mugumo Coffee Ltd, Online Mobile Com. Ltd and Summerdale Inn Ltd



Dennis Aluanga - Non-executive Director

- Mr. Aluanga holds an MBA degree from the University of Edinburgh Business School, UK and is a Certified Public Accountant. He is a partner at Helios Investment Partners and serves as a non-executive director at Nation Media Group as well as at Property Development and Management Ltd. Dennis was the Chief Operating Officer at Industrial Promotion Services (East Africa) between 2008 and June 2011. Prior to joining IPS, he served in several capacities at Nation Media Group rising to the position of COO



Alykhan Nathoo – Non-executive Director

- Mr. Nathoo is an MBA graduate from Harvard Business School and holds a BA in Quantitative Economics from Stanford University
- He has over 15 years of experience in PE at Bain Capital, Dubai International Capital and at Helios Investment Partners.
- He is a Partner at Helios Investment Partners and is on the Board of Continental Outdoors

Equity Bank Kenya: Senior Management



Dr. James Mwangi, CBS – CEO & Managing Director

- Dr. Mwangi holds four Honorary doctorate degrees in recognition of his contributions to the Kenyan society. He holds a B.Com degree and is a CPA. He has over 22 years of management experience
- Dr Mwangi has been honoured twice with Presidential national awards. He is currently the Chairman of Kenya's Vision 2030 Delivery Board charged with the responsibility to ensure that Kenya becomes a middle income country with global high standards of living by 2030
- He serves on several international bodies as an advisor and sits on the Board of the Africa Leadership Academy in South Africa



Dr. Julius Kipng'etich – COO

- Dr. Kipng'etich holds an MBA degree and a B.Com degree from University of Nairobi
- Joined Equity after an 8 year career as the CEO of Kenya Wildlife Service and was previously the MD of Investment Promotion Centre
- He is a leading member of the Mau Task Force, The Steering Committee for the Marketing of Kenya Stadia and The 1st University Council Member - Management University of Africa. He is also the Patron of AIESEC – University of Nairobi



Dr. Helen Gichohi, MBS – Managing Director, Equity Group Foundation

- Dr. Gichohi holds a Ph.D. in Ecology from the University of Leicester in the UK. She also holds a Master of Science degree in Biology of Conservation and a BSc in Zoology from the Universities of Nairobi and Kenyatta University respectively
- She joined Equity Group Foundation in December 2012 from the African Wildlife Foundation where she served for 11 years. She served as Director of the African Heartlands Program before rising to become Vice President for Programs in February 2002
- She was appointed as the first AWF President in 2007 and led the move of AWF's Headquarters to Nairobi, Kenya from Washington DC in the USA



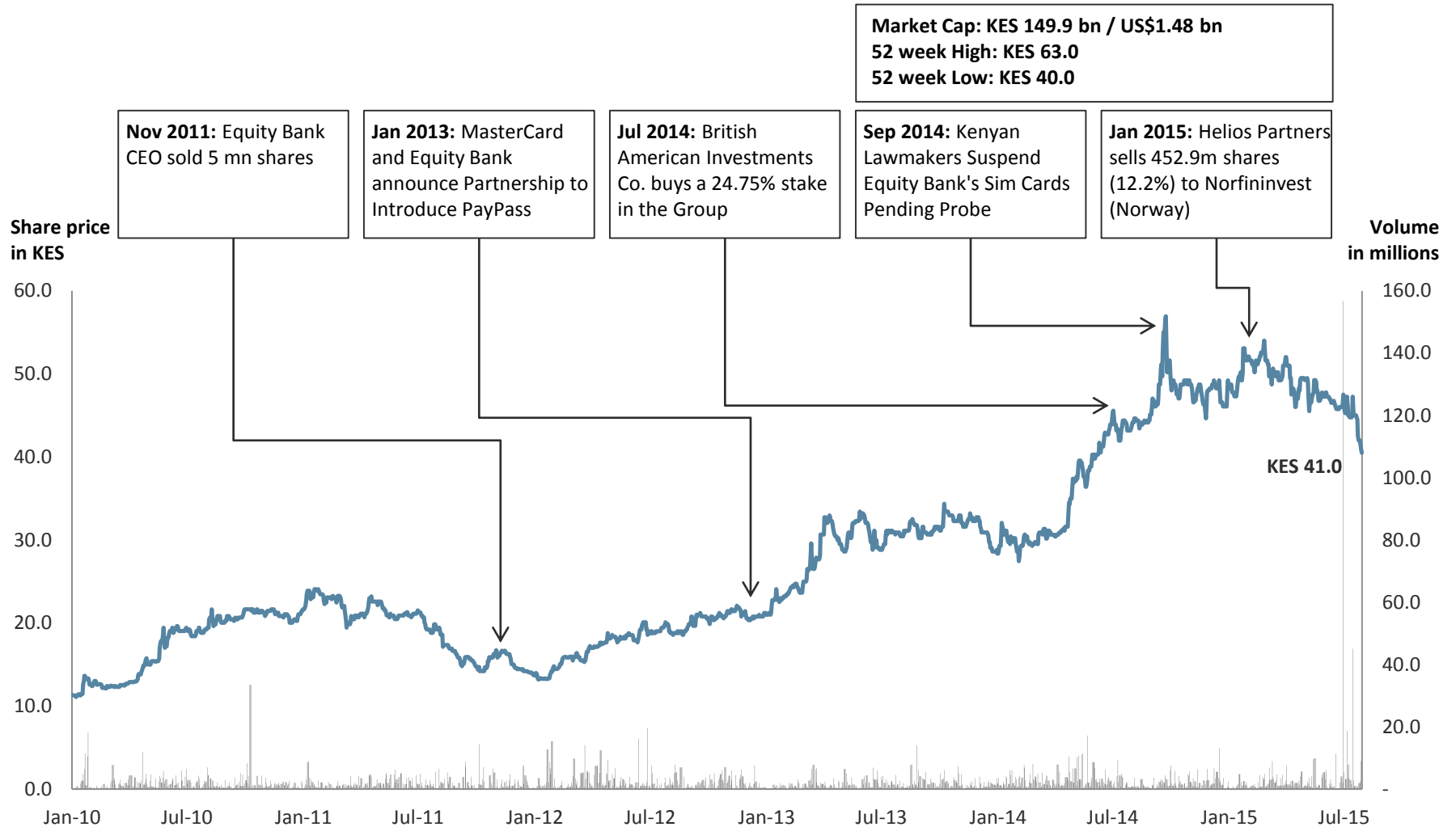
John Staley – Chief Officer : Finance, Innovation & Payments

- John has an M.Sc. in Applied and Computational Mathematics, a B.Sc. in Physics and a B.Sc. (Honours) degree in Geophysics. He also holds a B.Com. (Honours) degree majoring in Accounting and is a qualified CA
- A specialist in implementing cost effective ICT solutions, John worked as the CEO of Credit Indemnity (Pty) Ltd in South Africa before joining Equity Bank in 2009. He has been actively involved in the use of mobile phones to provide financial service since 1998

C. Public Market Performance and Share Register

Historic Share Performance

Five year share price chart



Source: Bloomberg as of July 29, 2015

Shareholding Structure

Share Register

#	Holder Name	% Outstanding
1	Helios Eb Investors	24.45%
2	British-American Investmen	7.12%
3	Equity Bank Emp Shre Ownrshp Pln	3.74%
4	Mwangi James Njuguna	3.45%
5	Fortress Highlands Limited	2.73%
6	Kimani Andrew Mwangi	2.44%
7	Maewa Holdings Ltd	1.74%
8	Fidelity International	1.60%
9	FMR Llc	1.13%
10	Franklin Resources	1.07%
11	Schroder Investment Mgmt (Lux)	0.79%
12	Jpmorgan Chase & Co	0.76%
13	Harding Loevner Lp	0.71%
14	Wasatch Advisors Inc	0.61%
15	Munga Peter Kahara	0.61%
16	Eaton Vance Management	0.49%
17	T Rowe Price Associates	0.40%
18	Blackrock Fund Advisors	0.39%
19	William Blair & Company Llc	0.36%
20	Wairegi Benson Irungu	0.25%
Total		54.8%
	Other Shareholders	45.2%
	Public Float	53.44%

Wholly Owned Subsidiaries⁽¹⁾

#	Name	Principal Activity	2014 Equity Value	
			KESm	US\$m
1	Equity Bank Kenya Ltd	Banking	40,733	440
2	Equity Bank Uganda Ltd	Banking	3,965	43
3	Equity Consulting Group Ltd	Consultancy	1	0
4	Equity Insurance Agency Ltd	Insurance Brokerage	100	1
5	Equity Nominees Ltd	Custodial services	0	0
6	Equity Investment Services Ltd	Investment Banking	420	5
7	Finserve Africa Ltd	IT outsourcing	1,001	11
8	Equity Bank South Sudan Ltd	Banking	2,537	27
9	Equity Bank Rwanda Ltd	Banking	2,807	30
10	Equity Bank Tanzania	Banking	2,815	30
11	Equity Investment Bank	Investment Banking	420	5
Total			54,799	592

Source: Company information. Bloomberg

1. Equity value is the book value reported in the financials as of December 31, 2014

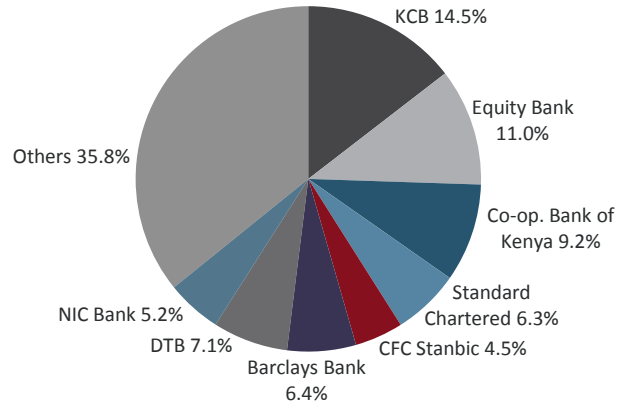
2. Equity Bank Benchmarking

Segregating the Kenyan Banking Market

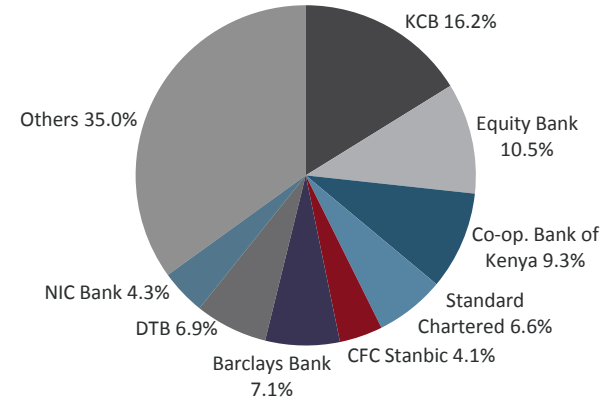
Large Peer Group	Medium Peer Group	Small Peer Group
<ul style="list-style-type: none"> • Kenya Commercial Bank Ltd • Equity Bank Ltd • Co-operative Bank of Kenya Ltd • Standard Chartered Bank (K) Ltd • Barclays Bank of Kenya Ltd • CFC Stanbic Bank (K) Ltd 	<ul style="list-style-type: none"> • Commercial Bank of Africa Ltd • Diamond Trust Bank (K) Ltd • I&M Bank Ltd • NIC Bank Ltd • National Bank of Kenya Ltd • Citibank N.A. Kenya • Chase Bank Ltd • Bank of Baroda (K) Ltd • Bank of Africa (K) Ltd • Prime Bank Ltd • Family Bank Ltd • Imperial Bank Ltd • Housing Finance Co. of Kenya Ltd • Bank of India • Ecobank Kenya Ltd • Guaranty Trust Bank Ltd 	<ul style="list-style-type: none"> • African Banking Corporation Ltd • Gulf African Bank Ltd • Equatorial Commercial Bank Ltd • Giro Commercial Bank Ltd • Victoria Commercial Bank Ltd • Consolidated Bank of Kenya Ltd • Development Bank of Kenya Ltd • K - Rep Bank Ltd • Guardian Bank Ltd • Fidelity Commercial Bank Ltd • Habib Bank A.G. Zurich • First Community Bank Ltd • Trans - National Bank Ltd • Habib Bank Ltd • Jamii Bora Bank Ltd • Paramount Universal Bank Ltd • Oriental Commercial Bank Ltd • Credit Bank Ltd • Middle East Bank (K) Ltd • UBA Kenya Ltd • Dubai Bank Ltd • Charterhouse Bank Ltd

Sector Deposits and Loans

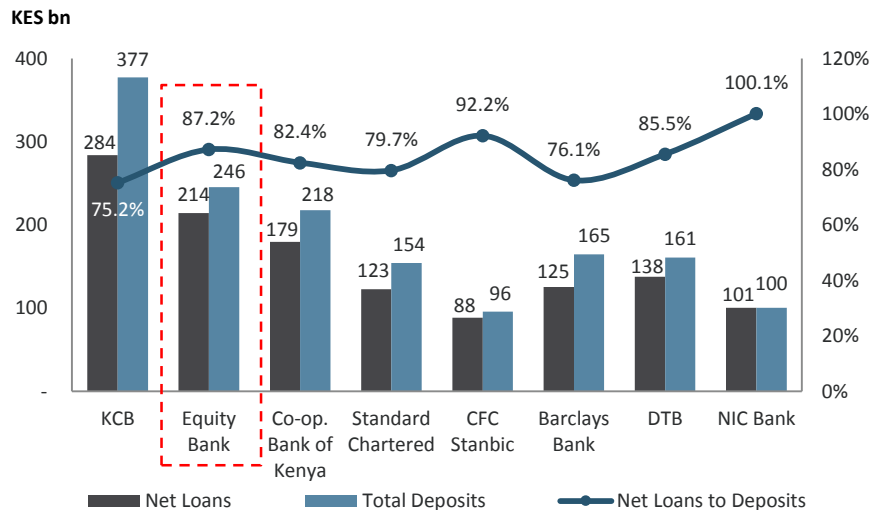
Total net loans market share – December 31, 2014



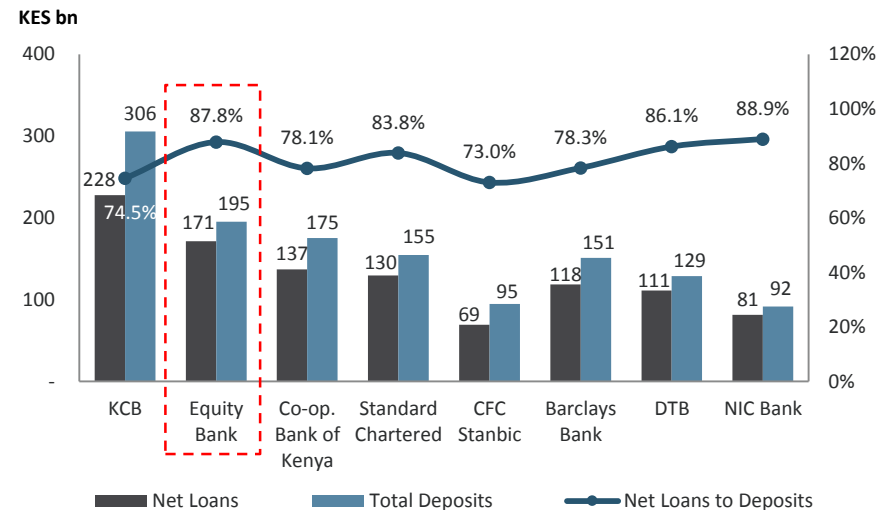
Total deposits market share – December 31, 2014



Net loans and deposits – December 31, 2014



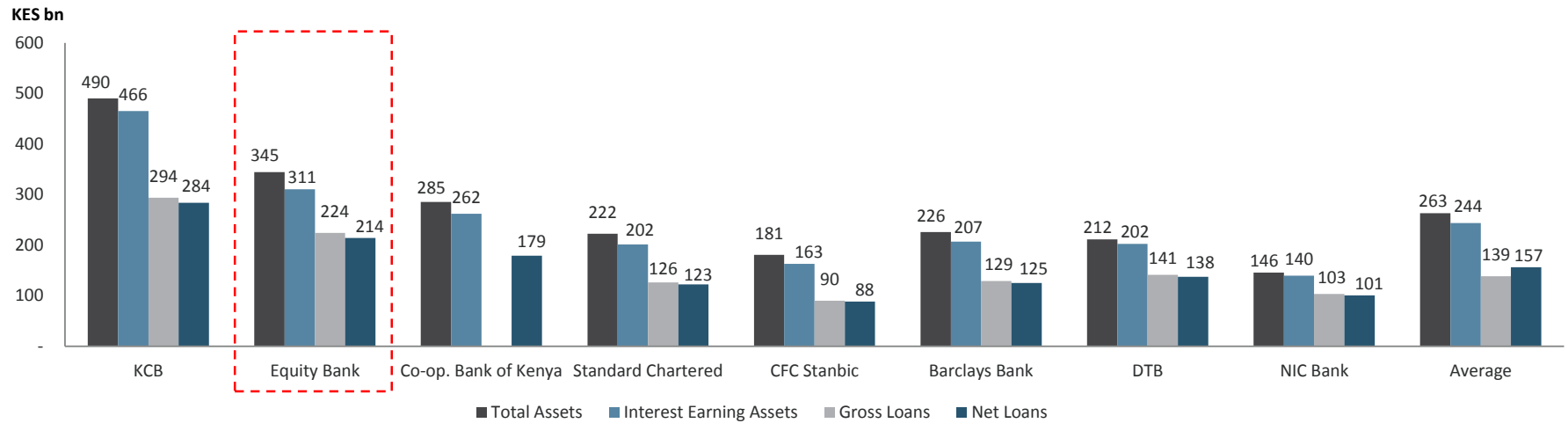
Net loans and deposits – December 31, 2013



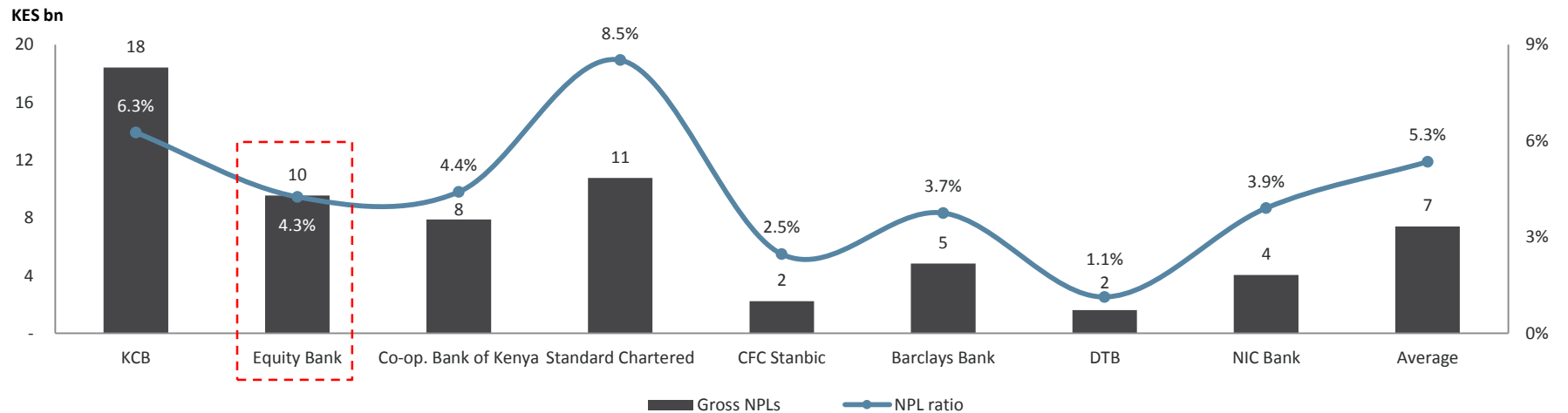
Source: Company information, Central Bank of Kenya database
 Legend: KCB – Kenya Commercial Bank, DTB – Diamond Trust Bank

Asset Profile for Kenyan Banks

Asset value – December 31, 2014



Asset quality – December 31, 2014

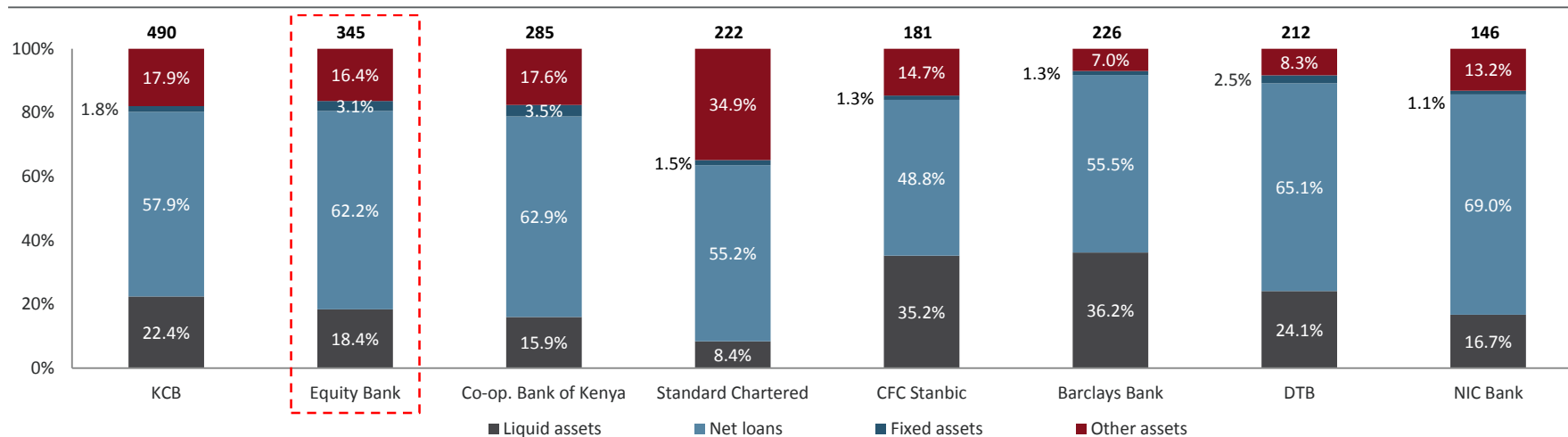


Source: Company information

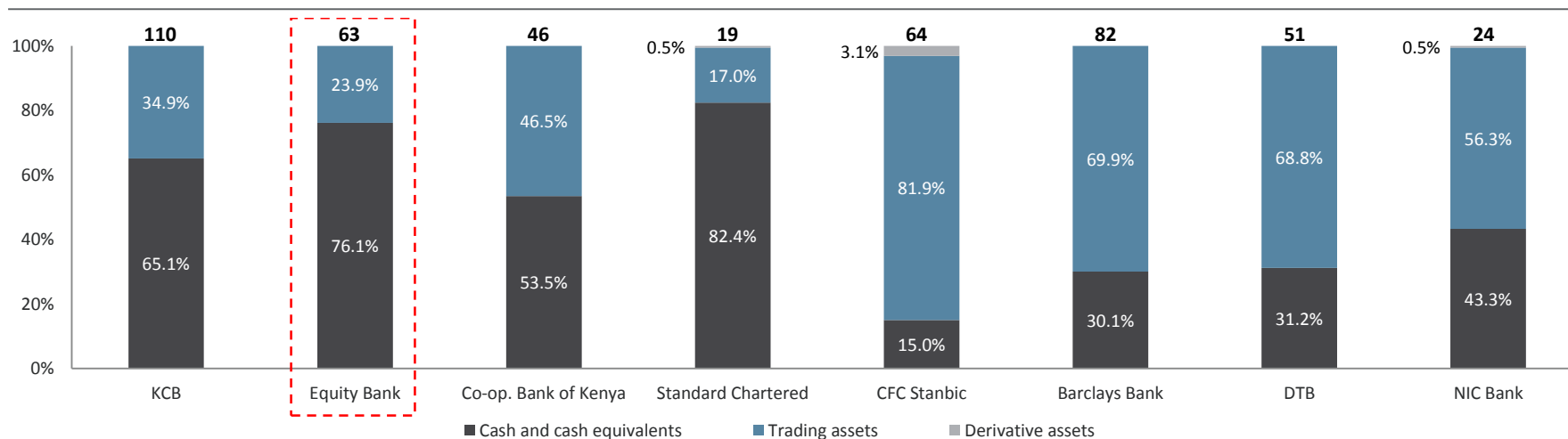
Note: For Co-operative Bank of Kenya, Gross loans as of December 31, 2014 are not available, and have not been considered in the average
NPLs and NPL Ratio are as of September 30, 2014

Asset Composition

Asset mix – December 31, 2014 (KESbn)



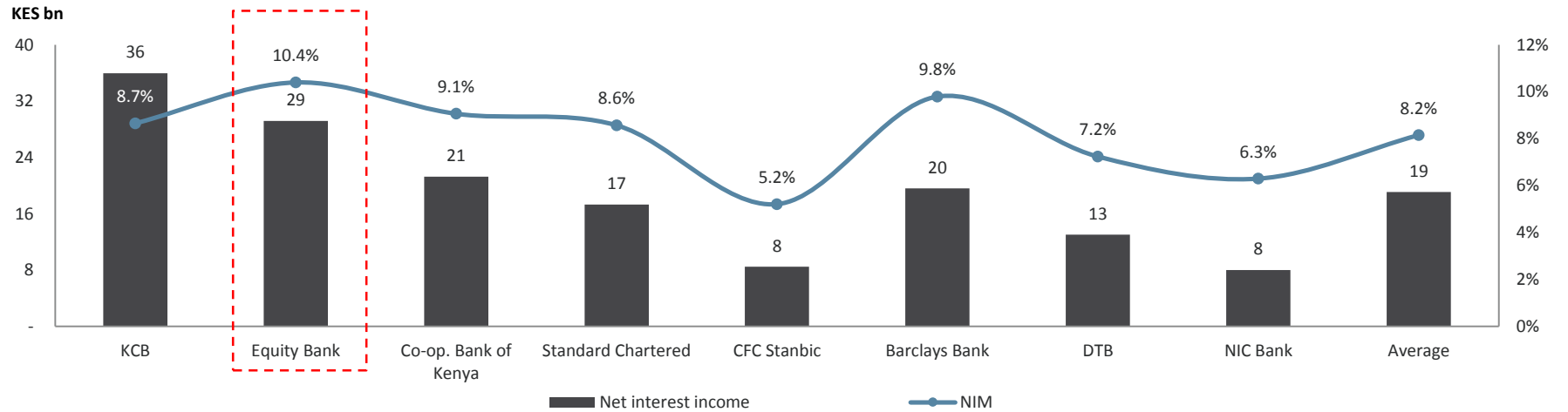
Liquid assets mix – December 31, 2014 (KESbn)



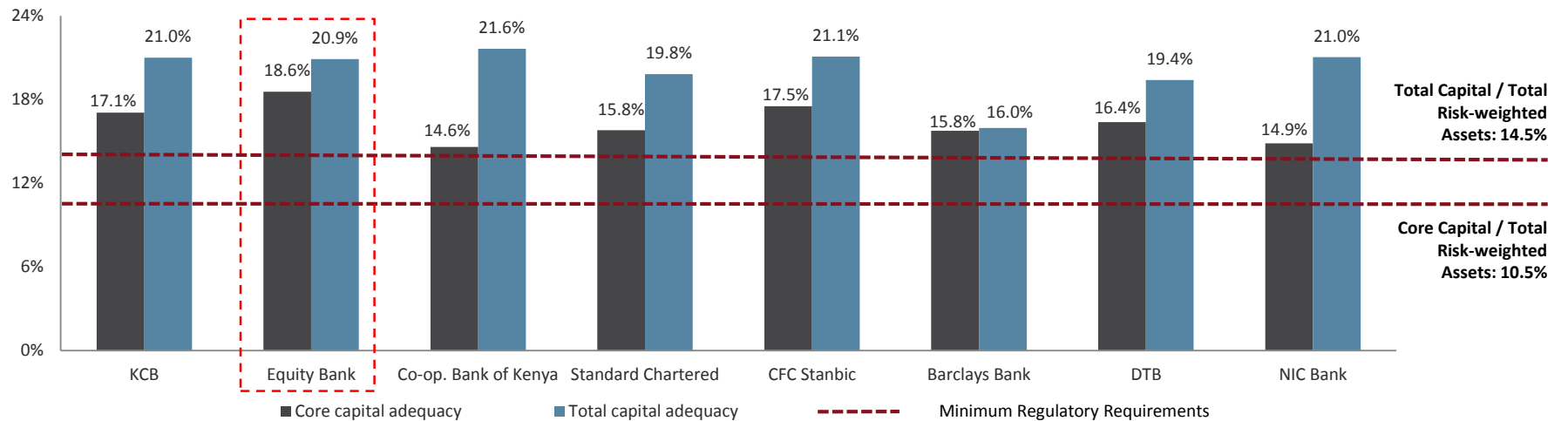
Source: Company information

Margin Analysis and Capital Adequacy

NIM and net interest income – FY2014



Capital adequacy ratios – December 31, 2014

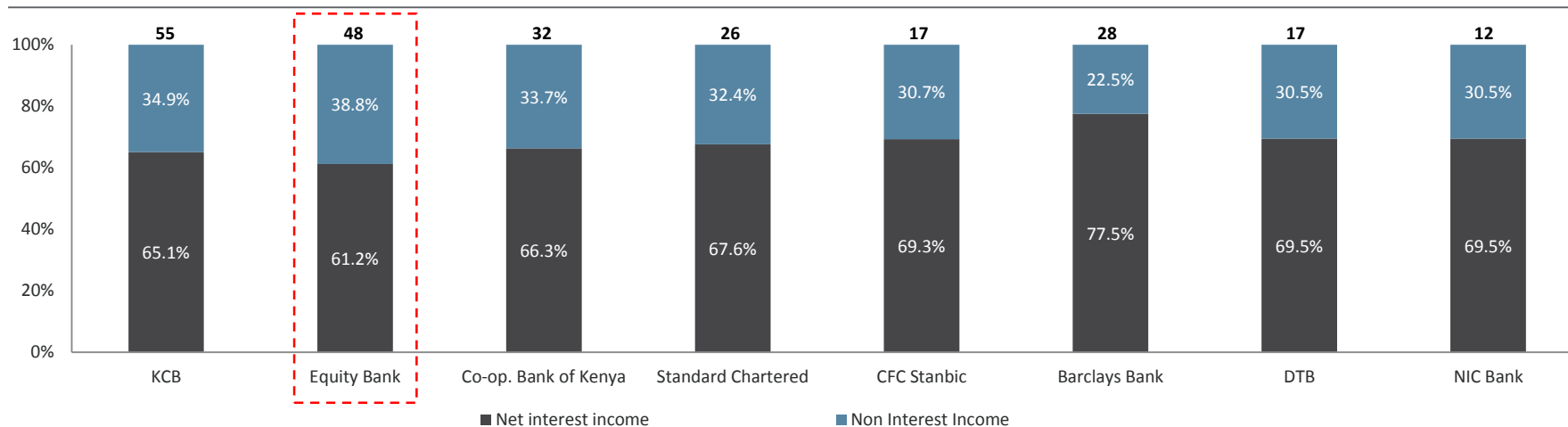


Source: Company information

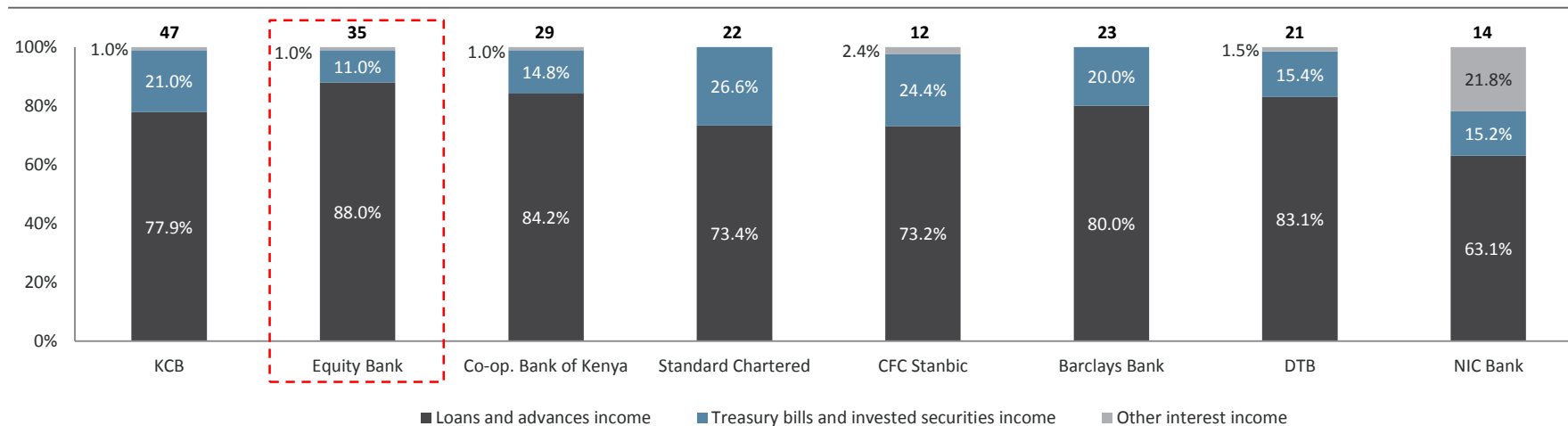
Note: Standard Chartered has a minimum regulatory requirement of 8.0% and 12.0% for the Core and Total Capital Adequacy ratios respectively

Earnings Quality

Income mix – FY2014 (KESbn)



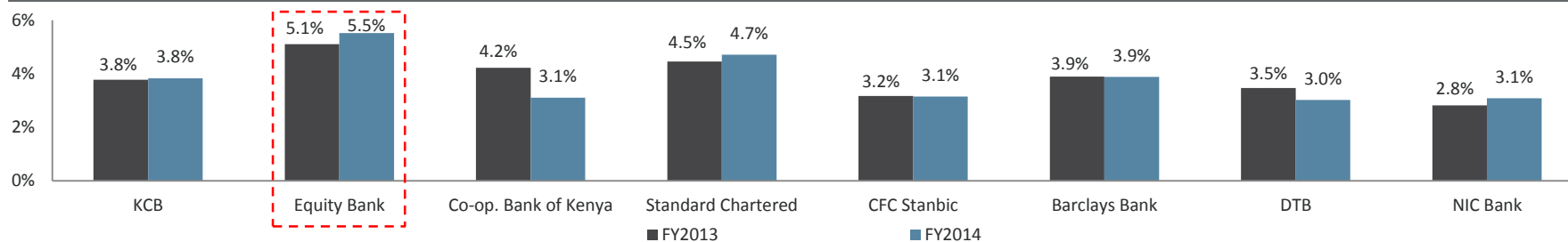
Interest income mix – FY2014 (KESbn)



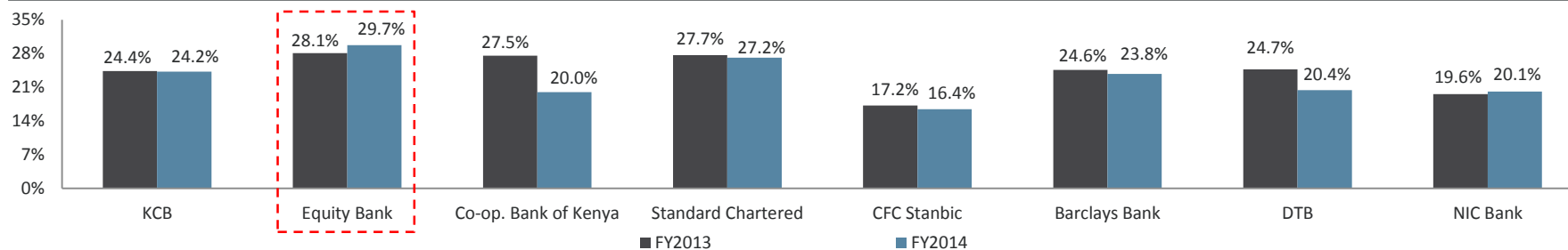
Source: Company information

Returns Analysis of Asset and Equity Returns

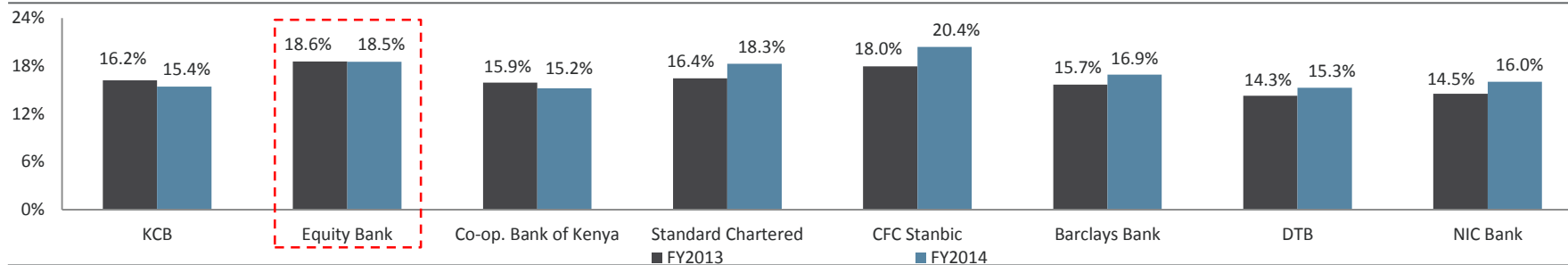
Return on assets



Return on equity



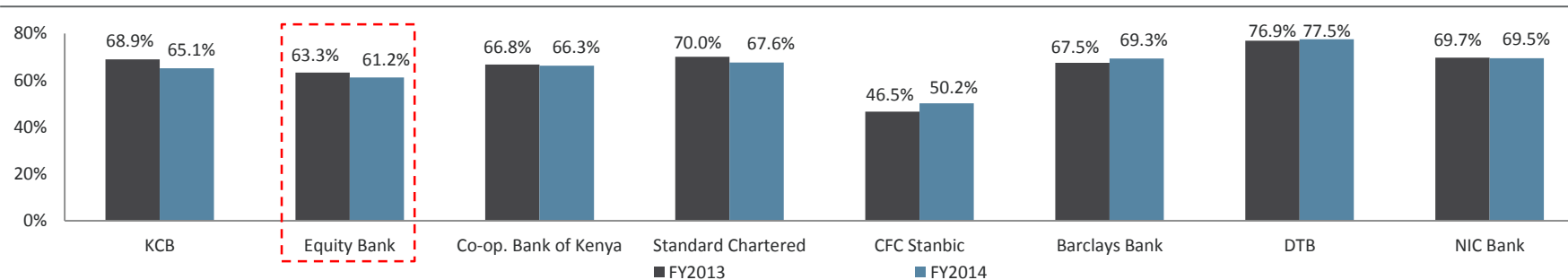
Equity / total assets



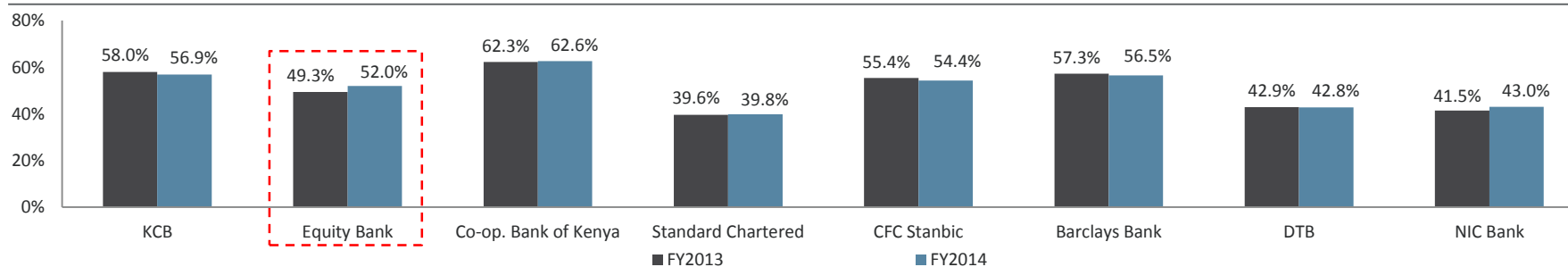
Source: Company information

Net Interest Contribution and Equity Ratio

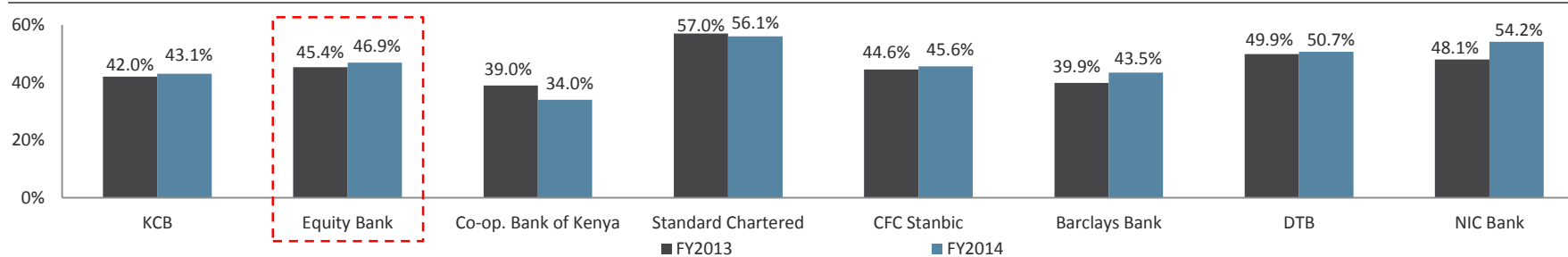
Net interest income / net revenue



Cost to income ratio



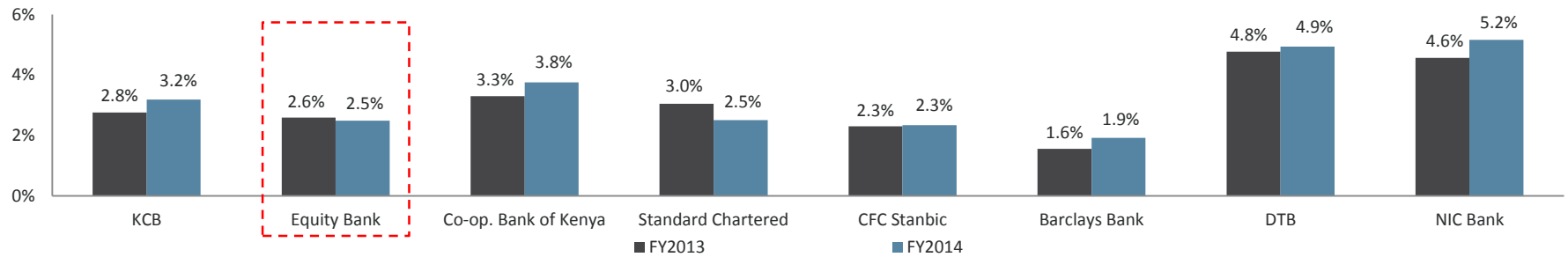
Profit before taxation margin



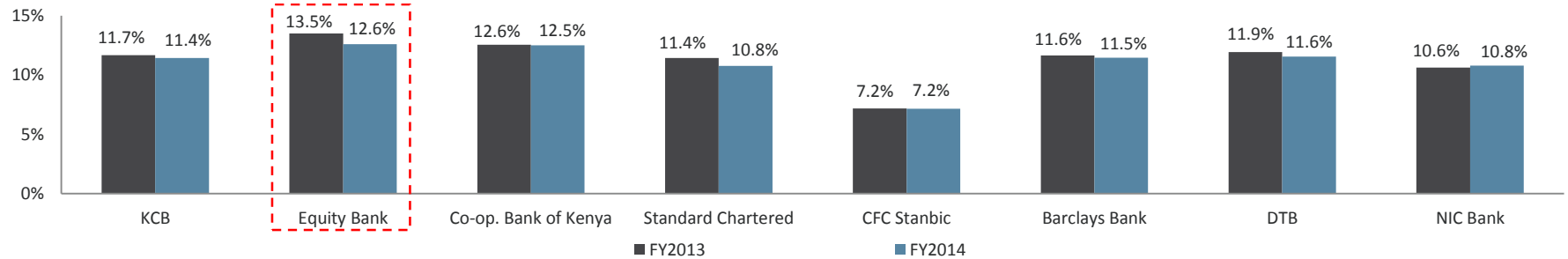
Source: Company information

Cost v/s Yield Analysis

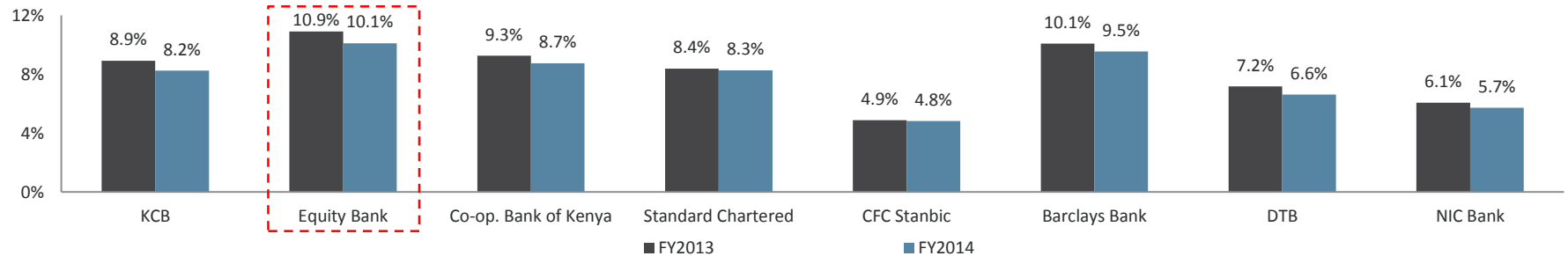
Cost of funds



Yield on earning assets



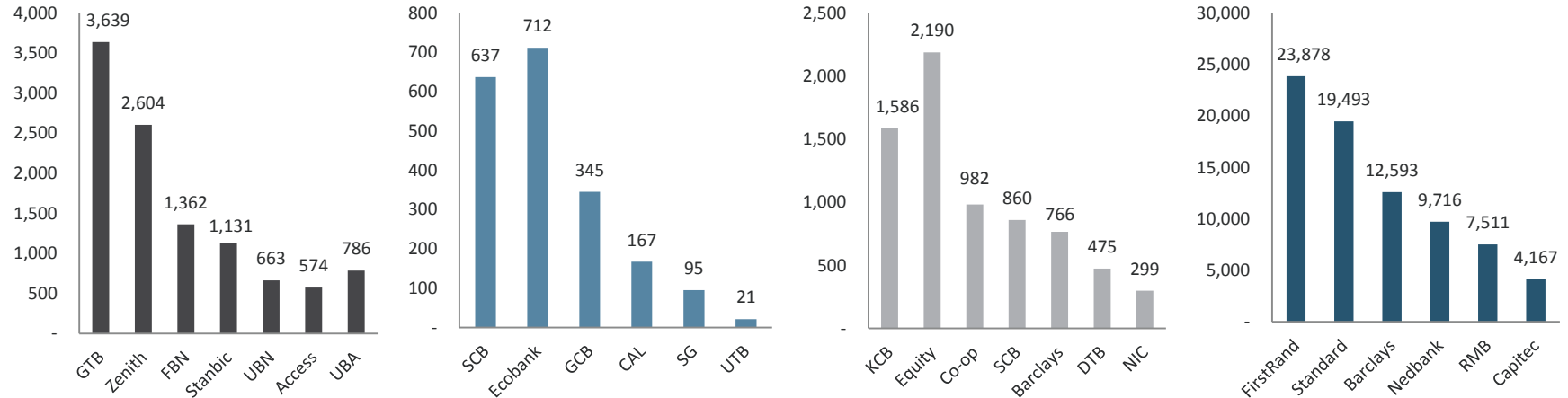
Spread between yield on assets and cost of funds



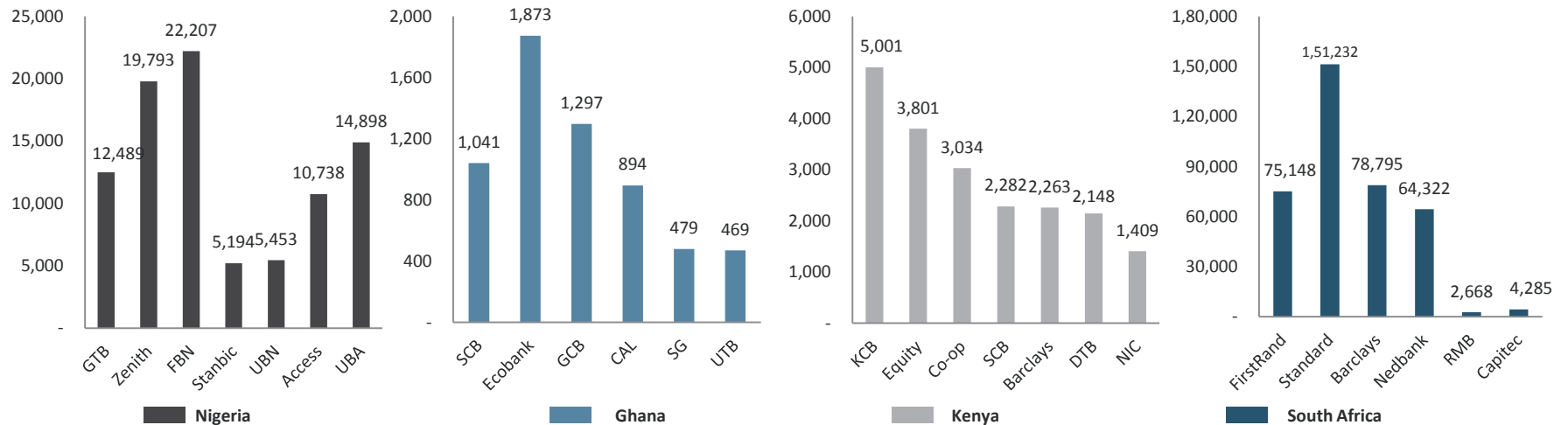
Source: Company information

Pan African Banks – Relative Valuation

Market capitalization, US\$m



Total assets, US\$m

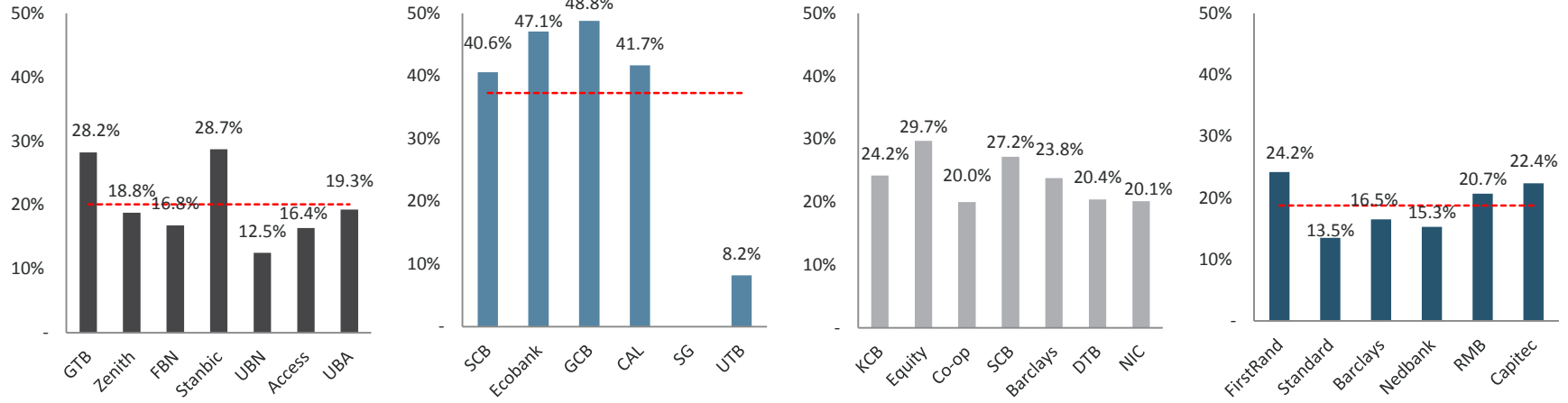


Source: Bloomberg, as of July 29, 2015

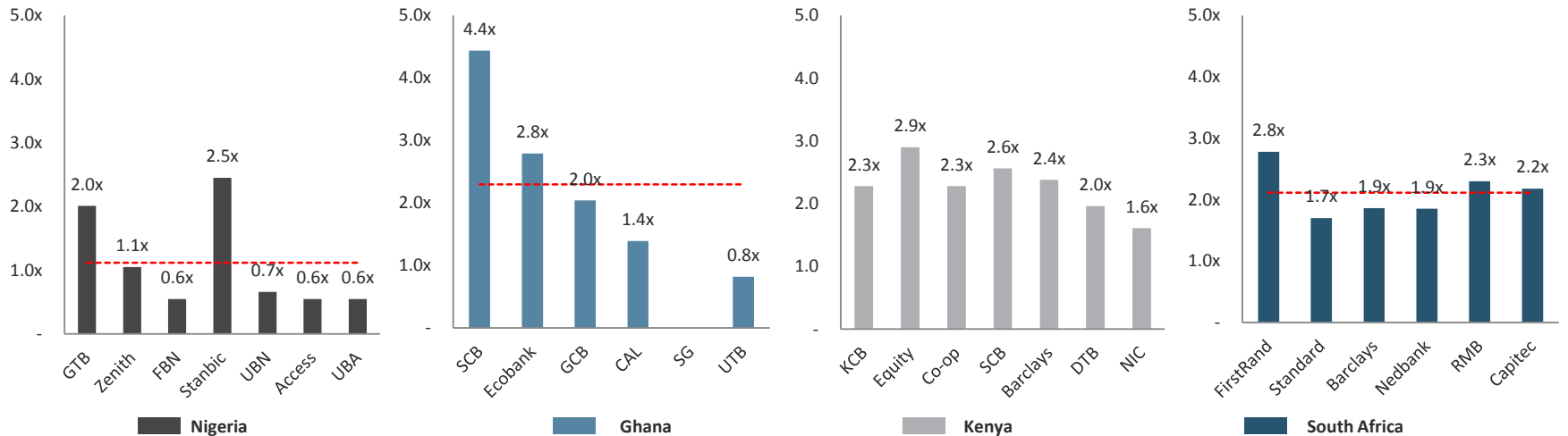
Legend: GTB – Guaranty Trust Bank, FBN – FBN Holdings, UBN – Union Bank of Nigeria, UBA – United Bank for Africa, SCB – Standard Chartered Bank Ghana, GCB – Ghana Commercial Bank, CAL – CAL Bank, SG – Societe Generale Ghana, UTB – UT Bank, KCB – Kenya Commercial Bank, SCB – Standard Chartered Bank Kenya, DTB – Diamond Trust Bank Kenya, RMB – RMB Holdings

Pan African Banks – Relative Valuation

Return on Equity, LTM December 31, 2014



Price to Book, July 29, 2015

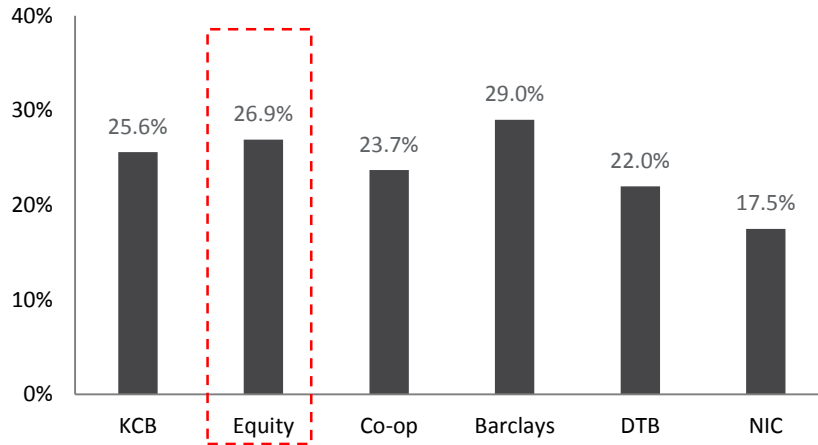


Source: Bloomberg, as of July 29, 2015

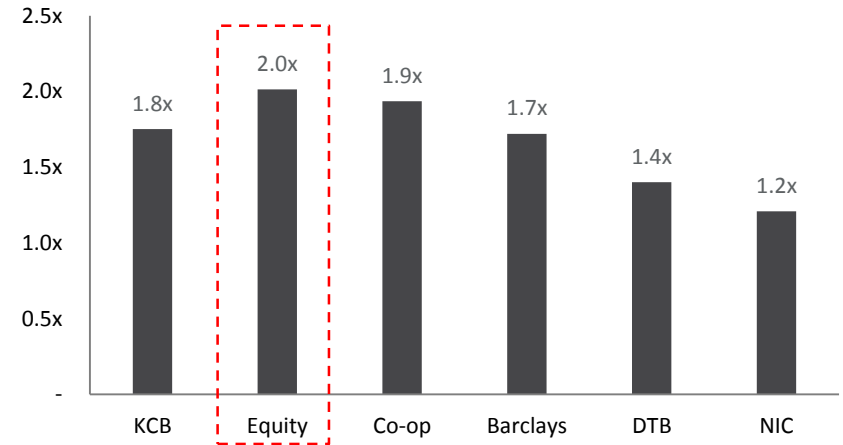
Legend: GTB – Guaranty Trust Bank, FBN – FBN Holdings, UBN – Union Bank of Nigeria, UBA – United Bank for Africa, SCB – Standard Chartered Bank Ghana, GCB – Ghana Commercial Bank, CAL – CAL Bank, SG – Societe Generale Ghana, UTB – UT Bank, KCB – Kenya Commercial Bank, SCB – Standard Chartered Bank Kenya, DTB – Diamond Trust Bank Kenya, RMB – RMB Holdings

Valuation Using Trading Multiples - Kenya

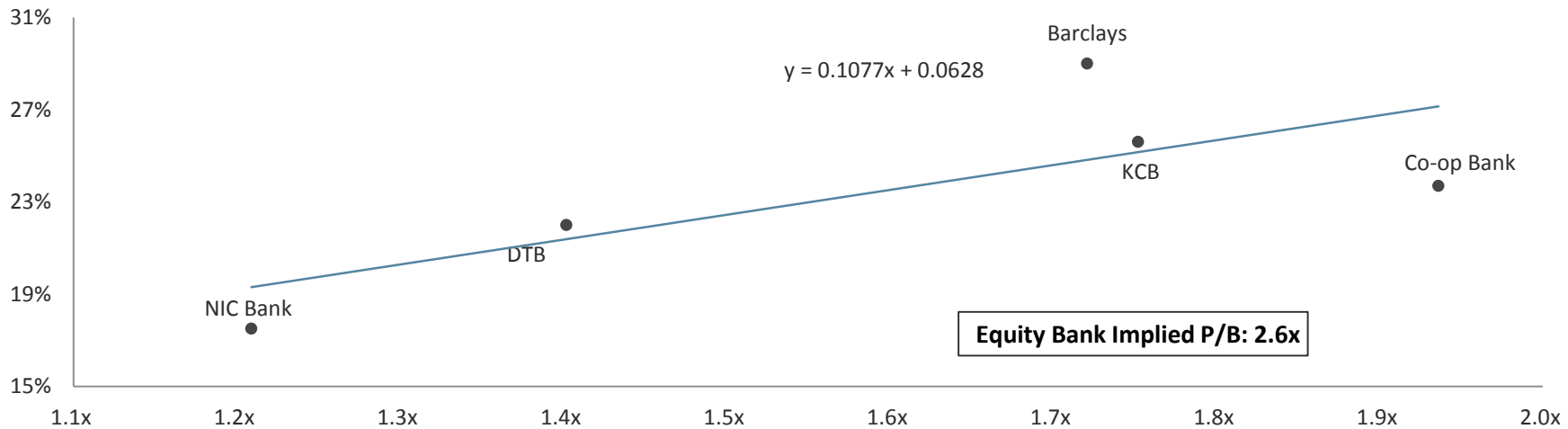
ROE 2015E



P / B 2015E



2014E Regression Analysis – P / B vs ROE



Source: Bloomberg as of July 29, 2015

Trading Multiples - Kenya

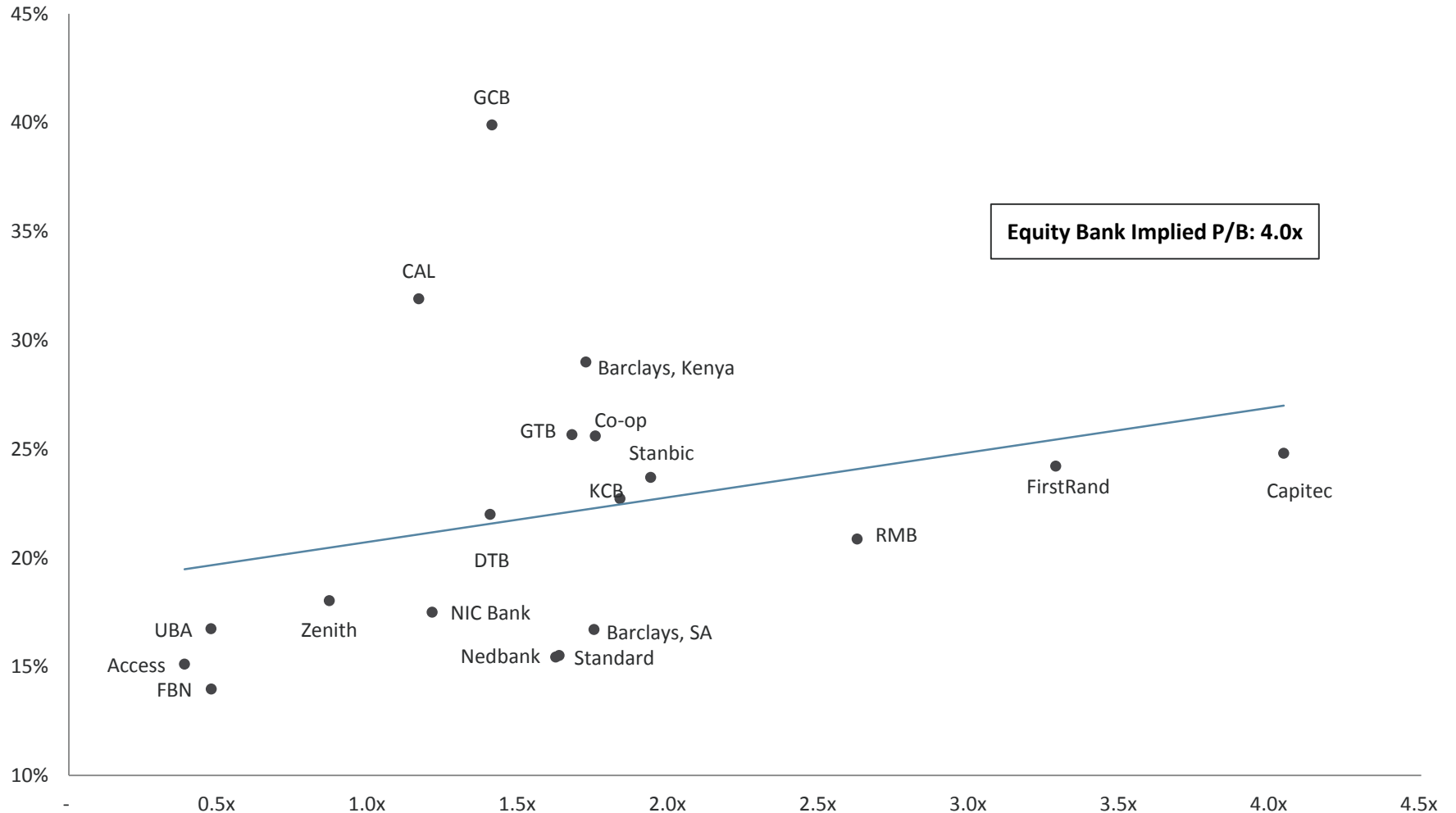
Company	Market Cap	Total Assets	P / E		P / B		ROE		ROA		NPL Ratio	Dividend Yield
			CY 2014	CY 2015E	CY 2014	CY 2015E	CY 2014	CY 2015E	CY 2014	CY 2015E	2014	CY 2014
Kenya Commercial Bank	1,586	5,001	9.6x	8.4x	2.28x	1.75x	24.2%	25.6%	3.8%	4.2%	6.3%	3.5%
Co-operative Bank of Kenya	982	3,034	12.1x	8.9x	2.28x	1.94x	20.0%	23.7%	3.1%	3.6%	4.4%	2.5%
Standard Chartered Bank Kenya	860	2,282	8.5x	9.2x	2.56x	NA	27.2%	NA	4.7%	NA	8.5%	5.1%
Barclays Bank of Kenya	766	2,263	9.4x	8.0x	2.38x	1.72x	23.8%	29.0%	3.9%	4.0%	3.7%	6.0%
Diamond Trust Bank Kenya	475	2,148	9.1x	7.2x	1.96x	1.40x	20.4%	22.0%	3.0%	3.1%	1.1%	1.0%
NIC Bank	299	1,409	6.8x	6.7x	1.61x	1.21x	20.1%	17.5%	3.1%	2.7%	3.9%	1.7%
Min			6.8x	6.7x	1.61x	1.21x	20.0%	17.5%	3.0%	2.7%	1.1%	1.0%
Mean			9.2x	8.1x	2.18x	1.60x	22.6%	23.6%	3.6%	3.5%	4.7%	3.3%
Median			9.2x	8.2x	2.28x	1.72x	22.1%	23.7%	3.5%	3.6%	4.2%	3.0%
Max			12.1x	9.2x	2.56x	1.94x	27.2%	29.0%	4.7%	4.2%	8.5%	6.0%
Equity Group Holdings	1,488	3,377	8.9x	8.2x	2.90x	2.01x	29.7%	26.9%	5.5%	5.6%	4.3%	3.6%

	P/E		P/B
	2015E Median	2015E Average	2015E Median
Implied Market Multiple	8.2x	8.1x	1.7x
Equity Bank EPS / LTM BVPS	4.63	4.63	16.45
Implied Target Price (KES)	38.0	37.5	28.3
Current Market Price (KES) (July 29, 2015)	41.0	41.0	41.0
Premium / (Discount)	7.4%	8.5%	31.0%

Source: Bloomberg as of July 29, 2015, All numbers in US\$ millions, except per share data

Valuation Using Trading Multiples - Pan African Banks

2014E Regression Analysis – P / B vs ROE



Source: Bloomberg, as of July 29, 2015

Legend: GTB – Guaranty Trust Bank, FBN – FBN Holdings, UBN – Union Bank of Nigeria, UBA – United Bank for Africa, SCB – Standard Chartered Bank Ghana, GCB – Ghana Commercial Bank, CAL – CAL Bank, SG – Societe Generale Ghana, UTB – UT Bank, KCB – Kenya Commercial Bank, SCB – Standard Chartered Bank Kenya, DTB – Diamond Trust Bank Kenya, RMB – RMB Holdings

Trading Multiples - Pan African Banks

Company	Country	Market Cap	Total Assets LTM	Price / EPS		P / B		ROE		ROA		NPL Ratio LTM	Dividend Yield		2014 Capital Adequacy		Loans to Deposits LTM	3-Year Asset Growth
				2014	2015E	2014	2015E	2014	2015E	2014	2015E		2014	2015E	Tier 1	Total		
Kenya Commercial Bank Ltd	Kenya	1,586	5,001	9.6x	8.4x	2.28x	1.75x	24.2%	25.6%	3.8%	4.2%	6.3%	3.5%	4.7%	17.1%	21.0%	75.2%	14.0%
Co-operative Bank of Kenya	Kenya	982	3,034	12.1x	8.9x	2.28x	1.94x	20.0%	23.7%	3.1%	3.6%	4.4%	2.5%	3.3%	14.6%	21.6%	82.4%	19.2%
Standard Chartered Bank	Kenya	860	2,282	8.5x	9.2x	2.56x	NA	27.2%	NA	4.7%	NA	8.5%	5.1%	4.5%	15.8%	19.8%	79.7%	10.7%
Barclays Bank of Kenya Ltd	Kenya	766	2,263	9.4x	8.0x	2.38x	1.72x	23.8%	29.0%	3.9%	4.0%	3.7%	6.0%	7.6%	15.8%	16.0%	76.1%	10.9%
Diamond Trust Bank Kenya Ltd	Kenya	475	2,148	9.1x	7.2x	1.96x	1.40x	20.4%	22.0%	3.0%	3.1%	1.1%	1.0%	475	16.4%	19.4%	85.5%	25.2%
NIC Bank Ltd	Kenya	299	1,409	6.8x	6.7x	1.61x	1.21x	20.1%	17.5%	3.1%	2.7%	3.9%	1.7%	299	14.9%	21.0%	100.1%	22.7%
Guaranty Trust Bank PLC	Nigeria	3,639	12,489	7.1x	7.0x	2.01x	1.67x	28.2%	25.7%	4.4%	4.0%	1.7%	6.9%	7.4%	21.4%	21.4%	80.7%	13.6%
Zenith Bank PLC	Nigeria	2,604	19,793	5.2x	5.0x	1.05x	0.87x	18.8%	18.0%	2.9%	2.7%	1.8%	9.5%	10.0%	NA	20.0%	69.2%	17.3%
FBN Holdings Plc	Nigeria	1,362	22,207	3.3x	3.6x	0.55x	0.47x	16.8%	14.0%	2.0%	1.8%	3.0%	1.1%	5.0%	NA	17.7%	61.9%	14.9%
Stanbic IBTC Holdings PLC	Nigeria	1,131	5,194	7.7x	8.6x	2.45x	1.83x	28.7%	22.7%	3.4%	2.8%	4.4%	4.4%	4.6%	15.8%	19.1%	72.8%	19.4%
Union Bank of Nigeria PLC	Nigeria	663	5,453	5.2x	11.5x	0.66x	NA	12.5%	NA	2.5%	NA	NA	0.0%	NA	NA	NA	63.8%	(1.9%)
Access Bank PLC	Nigeria	574	10,738	2.7x	2.8x	0.55x	0.39x	16.4%	15.1%	2.2%	2.0%	2.2%	9.1%	10.3%	14.0%	18.0%	77.7%	8.9%
United Bank for Africa PLC	Nigeria	786	14,898	2.8x	3.0x	0.55x	0.47x	19.3%	16.7%	1.7%	1.7%	1.6%	2.3%	6.0%	15.0%	17.0%	44.3%	12.9%
FCMB Group Plc	Nigeria	269	6,235	2.4x	2.6x	0.31x	0.32x	14.6%	12.3%	2.0%	1.6%	3.9%	10.0%	10.1%	NA	NA	64.6%	24.8%
Standard Chartered Bank	Ghana	637	1,041	10.8x	8.4x	4.44x	NA	40.6%	NA	6.4%	NA	15.8%	1.7%	NA	NA	15.7%	62.2%	21.2%
Ecobank Ghana Ltd	Ghana	712	1,873	7.7x	6.9x	2.79x	NA	47.1%	39.9%	6.1%	5.6%	NA	10.4%	6.9%	NA	17.2%	65.5%	39.3%
Ghana Commercial Bank Ltd	Ghana	345	1,297	4.3x	4.4x	2.04x	1.41x	48.8%	39.9%	7.4%	5.3%	8.7%	6.0%	7.5%	NA	22.6%	44.2%	20.1%
CAL Bank Ltd	Ghana	167	894	4.1x	4.1x	1.39x	1.16x	41.7%	31.9%	6.7%	6.3%	NA	8.0%	8.0%	NA	21.8%	100.8%	49.7%
Societe Generale Ghana Ltd	Ghana	95	479	NA	NA	NA	NA	NA	NA	NA	NA	11.9%	NA	NA	NA	16.2%	84.6%	NA
UT Bank Ltd	Ghana	21	469	8.0x	2.7x	0.82x	0.47x	8.2%	NA	0.7%	NA	NA	0.0%	NA	NA	NA	105.9%	31.7%
FirstRand Ltd	SA	23,878	75,148	15.1x	13.4x	2.78x	3.28x	24.2%	24.2%	2.1%	2.2%	2.3%	4.3%	4.0%	14.8%	16.7%	90.6%	10.7%
Standard Bank Group Ltd	SA	19,493	151,232	13.7x	11.2x	1.70x	1.62x	13.5%	15.4%	1.0%	1.2%	3.7%	4.2%	4.7%	12.9%	155.0%	87.5%	8.4%
Barclays Africa Group Ltd	SA	12,593	78,795	12.0x	11.0x	1.86x	1.75x	16.5%	16.7%	1.4%	1.4%	4.2%	5.1%	5.6%	12.7%	14.4%	104.4%	8.0%
Nedbank Group Ltd	SA	9,716	64,322	12.1x	10.9x	1.85x	1.63x	15.3%	15.5%	1.3%	1.3%	2.5%	4.1%	4.7%	11.6%	14.6%	95.5%	7.7%
RMB Holdings Ltd	SA	7,511	2,668	14.2x	12.7x	2.30x	2.62x	20.7%	20.9%	19.8%	NA	NA	4.3%	4.0%	NA	NA	NA	10.1%
Capitec Bank Holdings Ltd	SA	4,167	4,285	21.9x	17.8x	2.18x	4.04x	22.4%	24.8%	4.8%	5.3%	5.4%	3.6%	2.2%	29.9%	35.7%	88.2%	47.3%
Min				2.4x	2.6x	0.31x	0.32x	8.2%	12.3%	0.7%	1.2%	1.1%	0.0%	1.4%	11.6%	14.4%	44.2%	(1.9%)
Mean				8.6x	7.8x	1.81x	1.53x	23.6%	22.5%	4.0%	3.1%	4.8%	4.6%	5.7%	16.2%	25.5%	78.5%	18.7%
Median				8.0x	8.0x	1.96x	1.62x	20.4%	22.0%	3.1%	2.8%	3.9%	4.3%	4.9%	15.0%	19.3%	79.7%	14.9%
Max				21.9x	17.8x	4.44x	4.04x	48.8%	39.9%	19.8%	6.3%	15.8%	10.4%	10.3%	29.9%	155.0%	105.9%	49.7%
Equity Group Holdings Kenya	Kenya	1,488	3,377	8.9x	8.2x	2.90x	2.01x	29.7%	26.9%	5.5%	5.6%	4.3%	3.6%	4.8%	18.6%	20.9%	87.2%	20.6%

Source: Bloomberg, as of July 29, 2015
All numbers in US\$m, except per share data

Broker Recommendations

Broker	Target Price (KES)	Implied P / B	Recommendation	Date
Faida Investments	41.22	2.6x	NEUTRAL	1-Aug-14
Exotix Frontier Equities	52.90		HOLD	6-Oct-14
Renaissance Capital	45.00	2.8x	HOLD	26-Aug-14
Morgan Stanley	46.50	3.2x	HOLD ⁽¹⁾	3-Nov-14
Median	45.75			
Current Market Price	41.00			
Premium / (Discount)	(10.4%)			

Source: Respective broker research

All currency in KES

1. Morgan Stanley does not provide BUY, HOLD, or SELL ratings; they have an 'Equal-weight' for Equity Bank, which can be approximated as a HOLD rating

3. Indicative Valuation (*Confidential*)

4. Investment Case

Equity Bank Investment Case

Attractions

- Equity Bank is the leading retail bank in Kenya. It has grown its balance sheet on average by 25% annually between 2010 and 2014. The growth is expected to continue with **22%** between 2014 and 2018
- Equity Bank is one of the most profitable banks in its peer group with 10.4% NIM, 5.5% ROA and 29.7% ROE in the year ended December 31, 2014
- The bank has a competitive cost of funding at 2.5% due to the ability to fund its balance sheet predominantly with customer deposits. The bank has a 87.2% L/D ratio (i.e. deposits more than cover the funding required by the loan book)
- With mobile penetration currently close to 80%, phones could be used as a viable way to access banking services. Equity Bank, as the first bank to have an MVNO license in Kenya, is well-positioned to take advantage of the untapped growth opportunities in mobile payment, lending and savings
- Equity Bank has been successful in mobile banking strategy so far. The service benefits from an existing client base of 9.7mn Equity Bank account holders. Through mobile devices, Equity Bank could sell short-term loans, insurance and brokerage products

Considerations

- The group's tier 1 and total capital ratios stand at 18.6% and 20.9% as of December 31, 2014. These figures compare with 10.5% and 14.5% minimum regulatory capital requirement. The tight headroom for capital adequacy might create a need to raise equity in the near future, potentially putting pressure on growth and share price
- The bank has a relatively high and volatile NPL ratio (4.3% in 2014, 5.2% in 2013). The potential deterioration in the quality of assets would lead to significant deterioration of the ROE and ROA which could then lead to rerating of the price
- US\$ / KES FX rate has been relatively stable over the last couple of years relative to the other emerging markets. Potential macro instability in Kenya could lead to i) slow down in Equity Bank's growth and ii) the US\$ value per share would decline due to depreciation in KES.
- Equity Bank might make losses on the telco business given the declining tariffs in Kenya (Kenya has one of the lowest tariff ranges in Africa). The negative impact might be limited as Equity Bank only pays variable charges to Airtel (the network operator Equity Bank is using to run its MVNO business)

5. Proposed Transaction Structure (*Confidential*)

Appendix

A. Financial Projections

Equity Bank Forecasts: Income Statement and Operating KPIs

US\$ / KES fx avg 86.1 88.0 98.3 115.0 134.6 157.4

Income statement							
KESm							
	2013	2014	2015F	2016F	2017F	2018F	CAGR
							10-14 14-18
Interest income	31,890	35,367	40,395	53,951	62,657	71,360	26.6% 19.2%
Yield on assets	13.5%	12.6%	12.0%	13.4%	12.7%	11.9%	
Interest expense	(5,399)	(6,192)	(6,999)	(10,695)	(12,040)	(12,146)	31.6% 18.3%
Cost of funds (%)	2.6%	2.5%	2.3%	3.0%	2.8%	2.3%	
Net interest income	26,491	29,175	33,396	43,256	50,617	59,214	25.6% 19.4%
Net interest margin (%)	11.2%	10.4%	9.9%	10.8%	10.3%	9.9%	
Total non funded income	15,370	18,474	22,369	25,646	33,042	43,391	15.3% 23.8%
Total operating income	41,861	47,649	55,765	68,902	83,659	102,605	21.1% 21.1%
Operating expenses	(20,656)	(24,758)	(28,501)	(34,602)	(41,820)	(49,401)	21.7% 18.9%
Cost to income ratio (%)	49.3%	52.0%	51.1%	50.2%	50.0%	48.1%	
Net additional provisions	(2,402)	(1,590)	(3,949)	(5,390)	(7,088)	(7,942)	(4.4%) 49.5%
Net operating income	18,803	21,301	23,315	28,910	34,752	45,262	24.2% 20.7%
Share of associate profit	201	1,064	-	-	-	-	83.2% (100%)
Tax expense	(5,726)	(5,213)	(5,434)	(6,738)	(8,100)	(10,550)	28.5% 19.3%
Net income	13,278	17,152	17,881	22,171	26,652	34,712	24.5% 19.3%
Net Margin (%)	31.7%	36.0%	32.1%	32.2%	31.9%	33.8%	

Income statement							
US\$m							
	2013	2014	2015F	2016F	2017F	2018F	CAGR
							10-14 14-18
Interest income	370	402	411	469	466	453	23.3% 3.0%
Yield on assets	13.5%	12.6%	12.0%	13.4%	12.7%	11.9%	
Interest expense	(63)	(70)	(71)	(93)	(89)	(77)	28.2% 2.3%
Cost of funds (%)	2.6%	2.5%	2.3%	3.0%	2.8%	2.3%	
Net interest income	308	332	340	376	376	376	22.4% 3.2%
Net interest margin (%)	11.2%	10.4%	9.9%	10.8%	10.3%	9.9%	
Total non funded income	179	210	228	223	246	276	12.4% 7.0%
Total operating income	486	542	567	599	622	652	18.0% 4.7%
Operating expenses	(240)	(281)	(290)	(301)	(311)	(314)	18.5% 2.8%
Cost to income ratio (%)	49.3%	52.0%	51.1%	50.2%	50.0%	48.1%	
Net additional provisions	(28)	(18)	(40)	(47)	(53)	(50)	(6.9%) 29.3%
Net operating income	218	242	237	251	258	288	21.0% 4.4%
Share of associate profit	2	12	-	-	-	-	78.4% (100%)
Tax expense	(67)	(59)	(55)	(59)	(60)	(67)	25.1% 3.1%
Net income	154	195	182	193	198	220	21.3% 3.1%
Net Margin (%)	31.7%	36.0%	32.1%	32.2%	31.9%	33.8%	

Operating KPIs							
	2013	2014	2015F	2016F	2017F	2018F	CAGR
							10-14 14-18
Number of customers ('000)	8,407	9,660	11,592	13,331	14,664	16,130	13.1% 13.7%
Growth %	7.3%	14.9%	20.0%	15.0%	10.0%	10.0%	
Mobile banking customers	2,777	3,200	4,057	5,332	7,332	9,678	nm 31.9%
% of customers on mobile banking	33.03%	33.13%	35.00%	40.00%	50.00%	60.00%	
Number of transactions ('000)	89,375	97,300	149,829	344,607	758,136	1,459,411	nm 96.8%
Growth %	10.2%	8.9%	54.0%	130.0%	120.0%	92.5%	
ATM	33,750	38,200	33,712	34,461	37,907	36,485	nm (1.1%)
Branch	28,125	26,500	33,712	34,461	37,907	36,485	nm 8.3%
Agency	28,125	32,600	52,440	103,382	189,534	291,882	nm 73.0%
Mobile banking	-	-	29,966	172,304	492,788	1,094,558	nm nm
Number of branches	216	228	238	248	258	268	8.4% 4.1%
Number of agents	10,260	15,785	15,785	15,785	15,785	15,785	106.1% -
Number of staff	7,788	8,690	8,568	9,176	9,804	10,452	11.8% 4.7%
Cost per staff	(1,218)	(1,313)	(1,411)	(1,517)	(1,631)	(1,753)	7.4% 7.5%

Source: Company information

Equity Bank Forecasts: Balance Sheet

Balance sheet									
KESm									
Assets	2013	2014	2015F	2016F	2017F	2018F	CAGR		
							10-14	14-18	
Property & equipment	9,796	10,528	11,438	12,348	13,258	14,168	10.9%	7.7%	
Cash and cash equivalents	34,649	48,407	46,081	56,602	69,601	83,845	27.0%	14.7%	
Government securities	44,572	48,369	65,970	84,620	99,779	115,027	11.6%	24.2%	
Loans and advances to customers	171,363	214,170	250,775	301,039	374,249	456,560	28.6%	20.8%	
Intangible assets	2,955	3,425	3,050	2,650	2,225	1,725	15.5%	(15.8%)	
Investment in associate	1,574	-	-	-	-	-	(100%)	nm	
Other assets	12,819	19,671	23,919	29,229	35,866	44,163	42.9%	22.4%	
Total assets	277,729	344,572	401,234	486,488	594,979	715,488	24.6%	20.0%	
Liabilities									
Customer deposits	195,153	245,582	286,825	352,582	433,823	522,849	25.9%	20.8%	
Borrowing	26,736	30,242	32,620	35,745	43,211	48,555	41.9%	12.6%	
Deposits and balances of banks	-	-	1,434	1,763	2,169	2,614	(100.0%)	nm	
Other liabilities	4,285	4,972	5,873	6,955	8,252	9,810	9.8%	18.5%	
Total liabilities	226,174	280,796	326,753	397,045	487,455	583,828	24.8%	20.1%	
Total shareholders equity	51,555	63,776	74,481	89,443	107,524	131,659	23.7%	19.9%	
Total liabilities and shareholders equity	277,729	344,572	401,234	486,488	594,979	715,488	24.6%	20.0%	

Balance sheet									
US\$m									
Assets	2013	2014	2015F	2016F	2017F	2018F	CAGR		
							10-14	14-18	
Property & equipment	114	120	116	107	99	90	8.0%	(6.9%)	
Cash and cash equivalents	402	550	469	492	517	533	23.7%	(0.8%)	
Government securities	518	550	671	736	742	731	8.7%	7.4%	
Loans and advances to customers	1,991	2,435	2,551	2,618	2,781	2,900	25.3%	4.5%	
Intangible assets	34	39	31	23	17	11	12.5%	(27.2%)	
Investment in associate	18	-	-	-	-	-	(100%)	nm	
Other assets	149	224	243	254	267	281	39.2%	5.8%	
Total assets	3,226	3,917	4,082	4,230	4,422	4,545	21.4%	3.8%	
Liabilities									
Customer deposits	2,267	2,792	2,918	3,066	3,224	3,321	22.6%	4.4%	
Borrowing	311	344	332	311	321	308	38.2%	(2.7%)	
Deposits and balances of banks	-	-	15	15	16	17	(100.0%)	nm	
Other liabilities	50	57	60	60	61	62	7.0%	2.5%	
Total liabilities	2,627	3,192	3,324	3,452	3,623	3,709	21.6%	3.8%	
Total shareholders equity	599	725	758	778	799	836	20.5%	3.6%	
Total liabilities and shareholders equity	3,226	3,917	4,082	4,230	4,422	4,545	21.4%	3.8%	

Equity Bank Forecasts: Financial Key Performance Indicators

Financial KPIs							CAGR	
	2013	2014	2015F	2016F	2017F	2018F	10-14	14-18
Total shares in issue - end of year (m)	3,703	3,703	3,703	3,703	3,703	3,703	-	-
Price (KES)	32	51	50	60	73	89	17.4%	15.0%
Adjusted EPS (KES)	3.6	4.6	4.8	6.0	7.2	9.4	24.5%	19.3%
Adjusted DPS (KES)	1.5	1.8	1.9	2.3	2.9	3.8	22.5%	20.6%
Dividend yield %	4.7%	3.5%	3.9%	3.8%	3.9%	4.3%		
BV equity / share	13.9	17.2	20.1	24.2	29.0	35.6	23.7%	19.9%
Profitability								
Average yield on assets	13.5%	12.6%	12.0%	13.4%	12.7%	11.9%		
Average cost of funding	2.6%	2.5%	2.3%	3.0%	2.8%	2.3%		
NIM	11.2%	10.4%	9.9%	10.8%	10.3%	9.9%		
ROA	5.1%	5.5%	4.8%	5.0%	4.9%	5.3%		
ROE	28.1%	29.7%	25.9%	27.1%	27.1%	29.0%		
Loan quality								
NPL ratio %	5.2%	4.3%	3.5%	4.0%	5.0%	4.0%		
Cost of risk %	1.5%	0.8%	1.6%	1.9%	2.0%	1.9%		
Multiples								
Price / earnings ratio	8.9x	11.0x	10.4x	10.1x	10.1x	9.5x		
Price / book value multiple	2.3x	2.9x	2.5x	2.5x	2.5x	2.5x		
Price / tangible book value	2.4x	3.1x	2.6x	2.6x	2.6x	2.5x		
Capital adequacy								
Tier 1 capital ratio	21.1%	18.6%	15.9%	15.7%	15.5%	15.6%		
Capital adequacy ratio	25.7%	20.9%	20.1%	19.2%	18.3%	17.9%		
Funding								
Loan / deposit ratio	87.8%	87.2%	87.4%	85.4%	86.3%	87.3%		

Source: Company information

B. Historical Performance Details

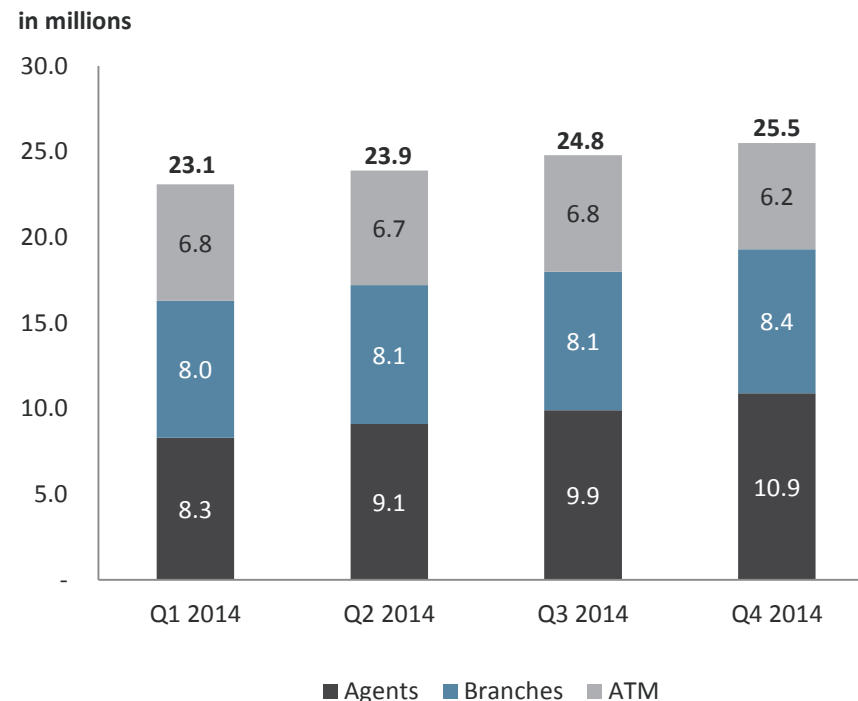
Agency Banking Growth

The bank has continued to grow its Agency Banking business

Operational details

- Accelerated financial inclusion and access to banking services
- Number of agents increased by over 70% y/y to 17,523 agents
- Variable cost model: leveraged on 3rd party infrastructure and cash flows
- Offers services such as account opening origination, cash deposit withdrawal, balance enquiries but with potential to increase product offering to include insurance sales, air ticket loan origination and telecom services

Transactional performance



Amount (KES bn)	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Deposits	31.0	35.4	37.4	45.1	45.2	49.9
Withdrawals	14.2	16.9	15.0	17.5	18.5	21.4

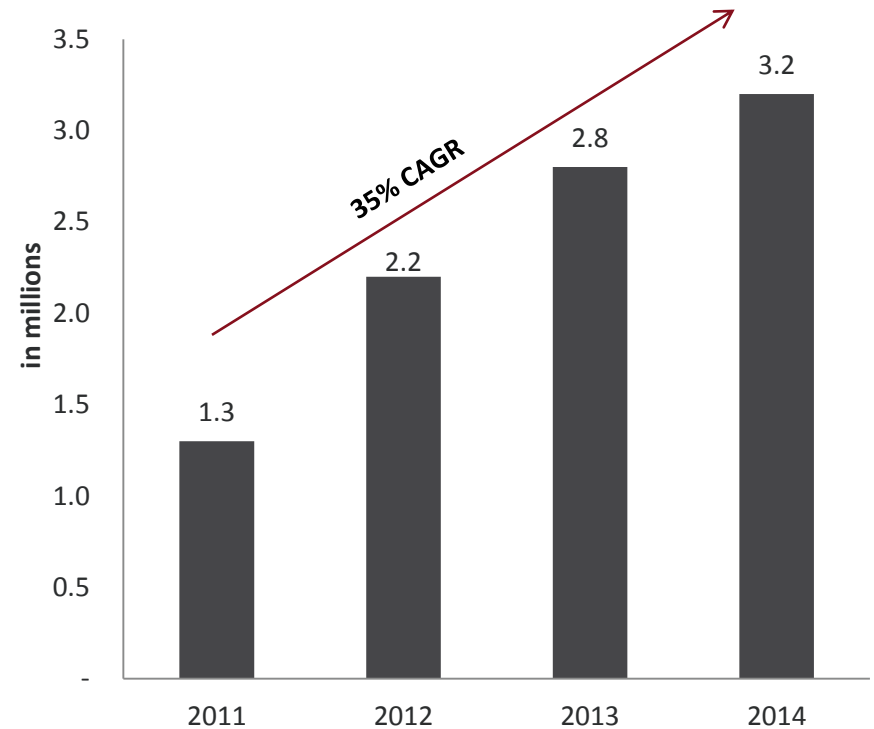
Mobile Banking Optimization

Focus on optimization of Mobile Banking, which has led to 35% annual growth in Mobile Banking customers

Operational channels

Branches	Non-Branch Channels
Network	Mobile Banking
	Agent
	Contact Center
	Internet Banking

Mobile banking growth



Equitel's Strategic Importance

Equitel is critical to Equity 3.0

Why

- Informed by the convergence of telecoms and banking or financial services
- Future of financial services to a great extent is based on the mobile
- Deliver secure services efficiently and effectively
- Reduce cost of delivery and efficiency-customer owned delivery channels
- Adoption of mobile money in Kenya and the mobile phone as a provider of services
- Give customers value-added services and creating stickiness & switching costs

How

- Convert existing phones into dual SIM phones through thin film technology
- Enhance capability & functioning of such phones
- Offer current single-SIM phone owners the opportunity to have access to two networks concurrently

Cost

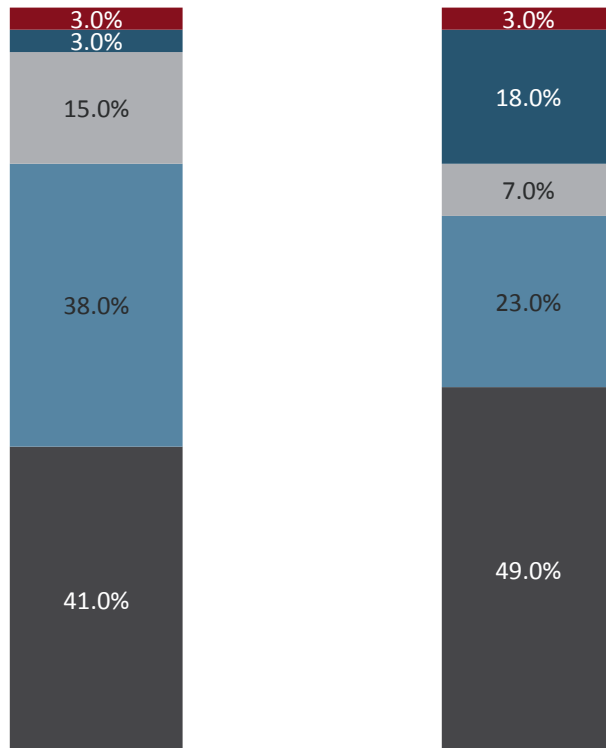
- No capex in terms of investment & no fixed costs
- Variable cost structure with no incremental cost to the structure of the bank

Status

- The Communications Authority of Kenya granted approval for the technology but complaint was raised by Safaricom
- Parliament has not written to stop roll-out but the Company is seeking clarification of issues raised
- CAK and CBK are independent regulatory authorities that are not subject to the influence of any other party and have both granted unconditional approval for roll-out of thin-SIM technology
- Focus is on increasing new SIM activations and usage
- Focus on uptake of Mobile Banking services

SME Support

Share of loan book



■ SME ■ Consumer ■ Micro enterprises ■ Large enterprises ■ Agriculture

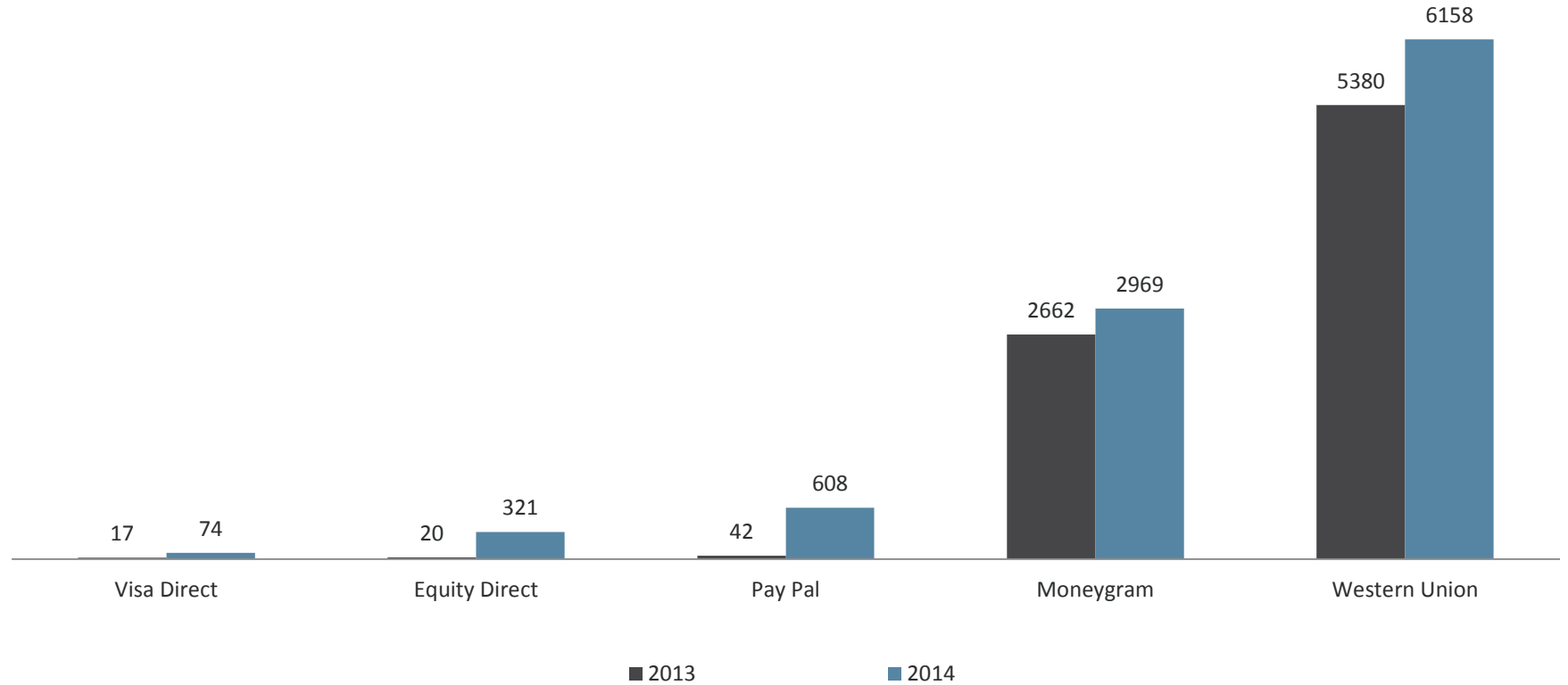
Details

Segments	Details
Agriculture	<ul style="list-style-type: none"> Still a core area but now a reduced part of the loan book
Large Enterprises	<ul style="list-style-type: none"> Focus is on value chain & clusters within large enterprises
Micro Enterprises	<ul style="list-style-type: none"> Still a core area but improving macroeconomic environment driving evolution of micro enterprises into SMEs
Consumer	<ul style="list-style-type: none"> Consumer remains a core area but contribution now a reduced portion of the loan book
SME	<ul style="list-style-type: none"> Increased lending to SME as a proportion of the loan book Enhanced delivery by hinging on Value Chains and Clusters

Equity Bank Diaspora Remittances by Channels

Diaspora Remittances

In KES mn



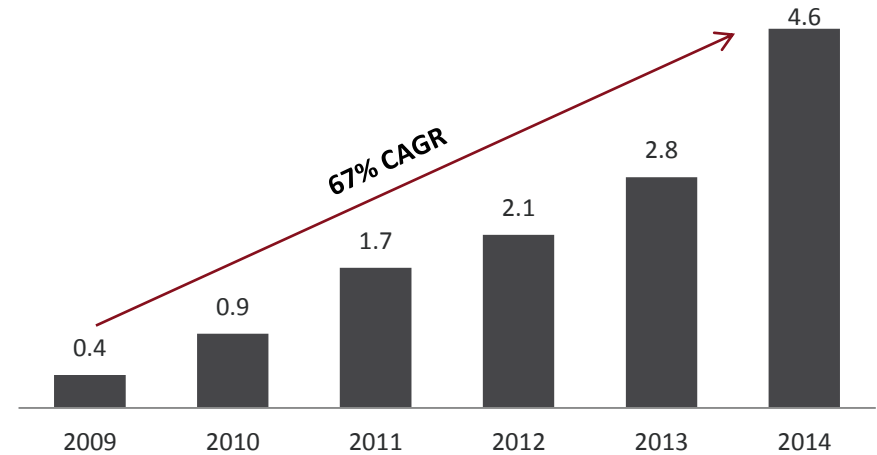
Remittances are a source of short term FX funding and profitable line of business

Payment Processing Overview

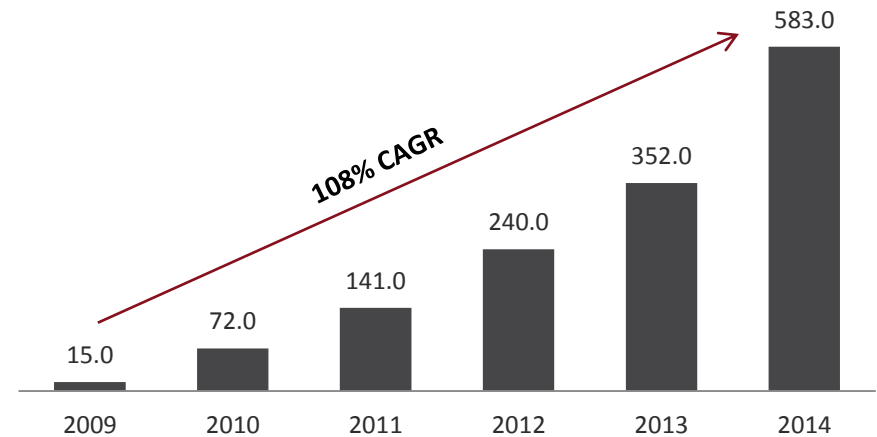
Partnership with key payment companies



Transaction count (mn)



Commissions (KESm)







Regional Expansion & Diversification

	Business Drivers	2013	2014	Growth
Banking Subsidiaries (Uganda, South Sudan, Tanzania, Rwanda)	Customers (number)	1,014,191	1,220,491	20.3%
	Deposits	37.2	55.2	48.3%
	Loan Book	19.3	26.2	35.7%
	PBT	0.25	1.07	328.0%
	Total Assets	50.0	70.7	41.4%





C. Kenyan Banking Sector Overview

Macro Environment

Macro Economic Indicators

Indicator	Kenya 	Uganda 	Rwanda 	Tanzania 
Current Account to GDP	(8.0%)	(10.4%)	(12.3%)	(13.7%)
FX Rate (USD / LCU) As of 9 Feb, 2015	91.4	2,858.6	695.0	1,835.6
Private Sector Credit Growth	25.5%	11.0%	14.3%	13.7%
Real GDP Growth	14.1%	13.8%	5.3%	10.0%
GDP (US\$bn)	62.7	26.1	8.0	36.6
Gross National Savings to GDP	11.6%	15.1%	11.6%	17.8%
Fiscal Balance to GDP	(6.0%)	(4.8%)	(2.0%)	(5.0%)
Gross Debt to GDP	44.7%	35.4%	29.1%	42.1%
Trade Balance to GDP	(18.2%)	(9.8%)	(17.7%)	(17.0%)
Net FDI to GDP	1.8%	4.7%	2.5%	6.3%

Interest Rates + CPI

Interest Rates	Kenya 	Uganda 	Rwanda 	Tanzania 
Bond Issuing Currency	KES	UGX	RWF	TZS
91 Days T. Bill	8.58%	11.54%	4.12%	13.60%
182 Days T. Bill	10.36%	14.20%	4.92%	14.05%
364 Days T. Bill	10.99%	15.68%	5.72%	14.17%
5 Year T. Bond	11.88%	16.50%	12.0%	16.00%
Central Bank Rate	8.50%	11.00%	6.50%	12.00%
Inflation (CPI)	7.29%	5.50%	2.56%	5.87%
Interbank Rate	7.28%	12.04%	4.20%	7.66%

Kenyan Banking Sector Overview

- As of March 31, 2015, the Kenyan banking sector comprised of the Central Bank of Kenya as the regulatory authority, 43 commercial banks, 1 mortgage finance company, 10 microfinance banks, 8 representative offices of foreign banks, 86 foreign exchange bureaus, 14 money remittance providers and 2 credit reference bureaus
- The sector is characterized by the following strengths:
 - Aggressive adoption of alternative channels driving revenue diversification and cost containment
 - Increasing use of credit reference bureaus
 - Continued diversification into new product lines and business segments
- Kenya has been pursuing various reforms and initiatives over the past decade to enhance access, efficiency and stability of the financial sector. Recent financial surveys conducted by the Central Bank indicate:
 - Access to formal financial services has increased significantly, with 32.7% of the adult population accessing financial services from the formal, prudentially regulated financial institutions
 - 66.7% of adults accessed financial services from any type of formal financial provider
 - The financially-excluded adult population dropped from 39% in 2006 to 25% in 2013

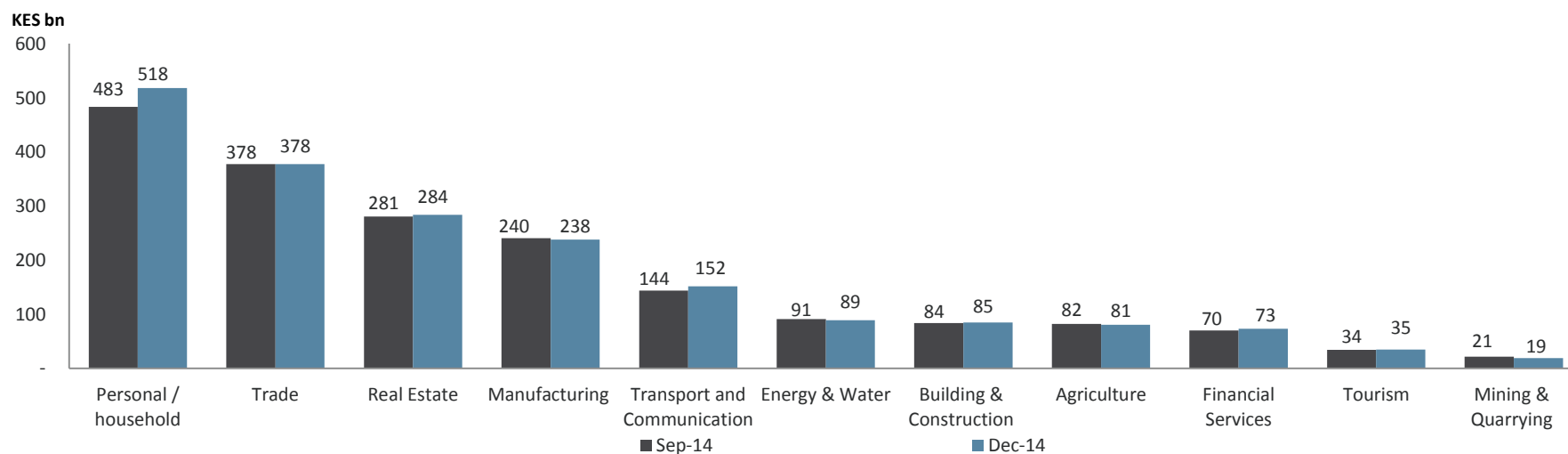
Historical Performance

KESbn	2010	2011	2012	2013	2014	CAGR
Assets	1,548	1,874	2,195	2,514	2,968	17.7%
Loans	829	1,083	1,289	1,455	1,784	21.1%
Deposits	1,220	1,413	1,668	1,857	2,148	15.2%
NPLs	62	58	58	77	102	13.4%
Total Income	102	110	146	177	199	18.3%
PBT	35	41	53	62	71	19.4%

Recent Sector Performance Overview

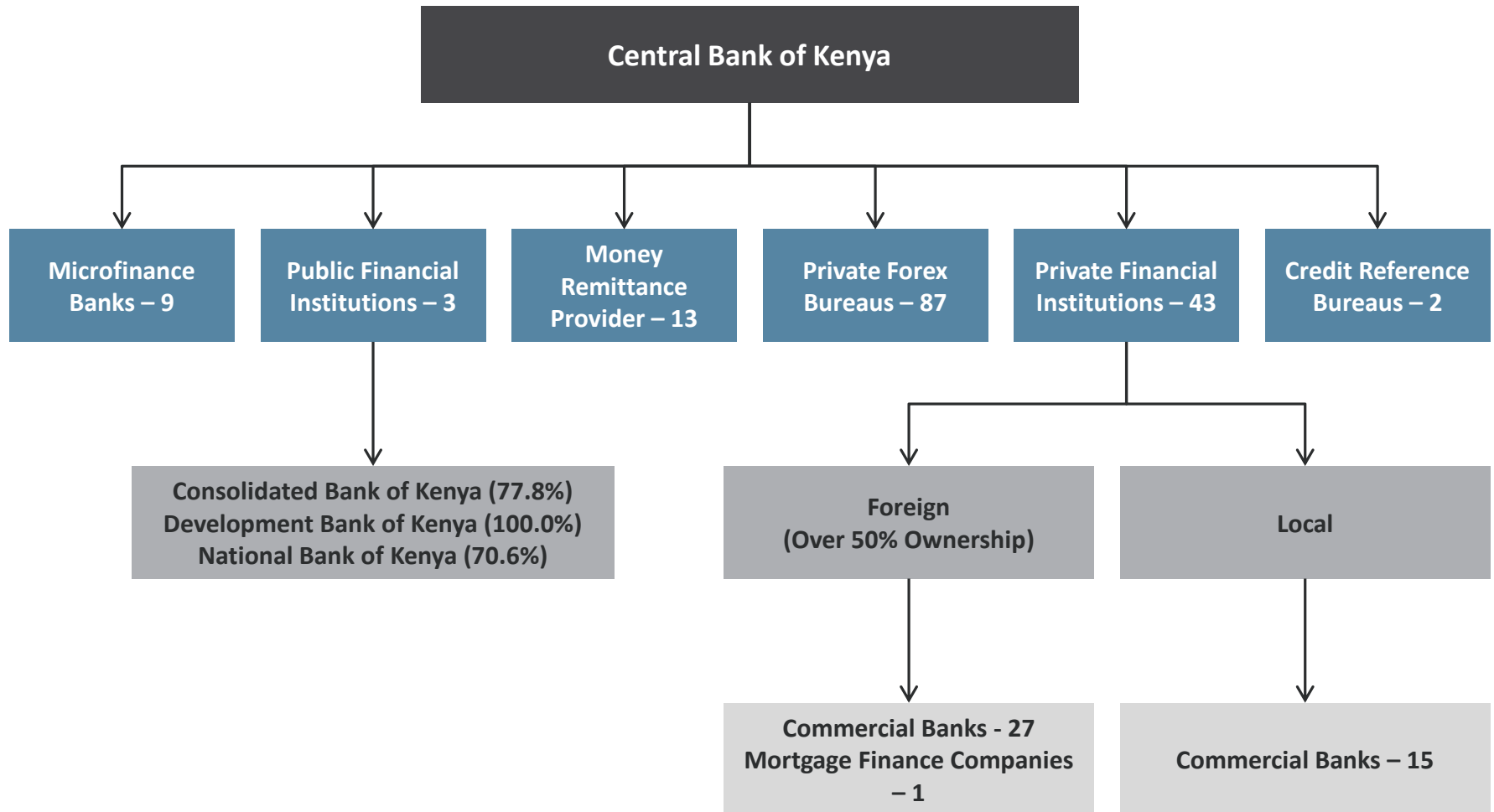
- The banking sector balance sheet increased by 19.3% to KES3.3tn in December 2014 from KES2.7tn in December 2013
- The sector assets comprised of majorly loans and advances, government securities, and placements, which accounted for 58.3%, 20.4% and 5.3% of total assets, respectively
- Gross loans and advances grew by 22.9% to ~KES2tn in December 2014 (KES1.6tn in December 2013), due primarily to increased lending in personal/households, trade, manufacturing, transport and communication and real estate sectors
- Deposits were the major source of funding for the banking sector, accounting for 71.5% of total funding liabilities. The deposit base increased by 17.7% to KES2.3tn in December 2014 (from ~KES2tn in December 2013), mainly supported aggressive mobilization of deposits by banks, remittances and receipts from exports
- Core capital and total capital increased to KES422.1bn and KES508.4bn from KES341.9bn and KES407.5bn, respectively over the same period. The ratios of core and total capital to total risk-weighted assets were 15.9% and 19.2% respectively
- Gross non-performing loans (NPLs) increased by 32.9% to KES107.1bn in December 2014, from KES80.6bn in December 2013. The ratio of gross NPLs to gross loans grew from 5.0% in December 2013 to 5.4% in December 2014
- The sector recorded a PBT of KES140.9bn during the year ended December 2014, an increase of 13.3% (KES124.3bn during the year ended December 2013)

Distribution of Loans by Sector



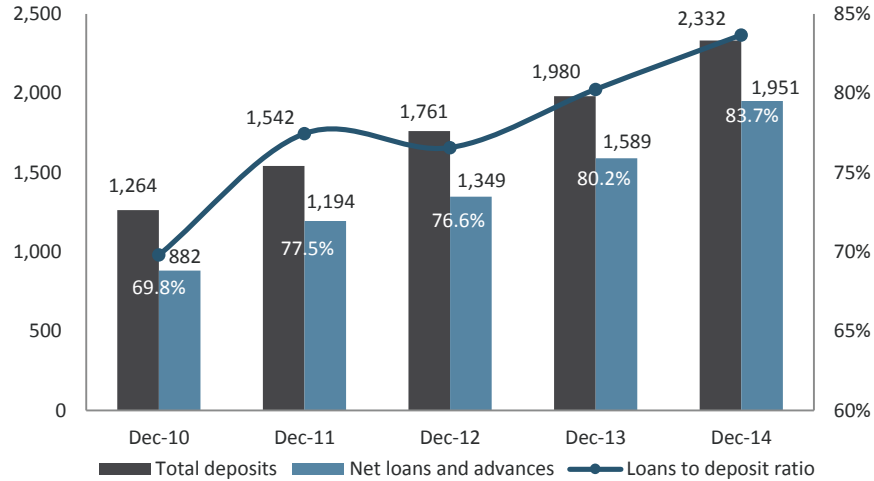
Source: Central Bank of Kenya, Eastern Africa Banking Sector EY Report

Kenyan Banking Landscape

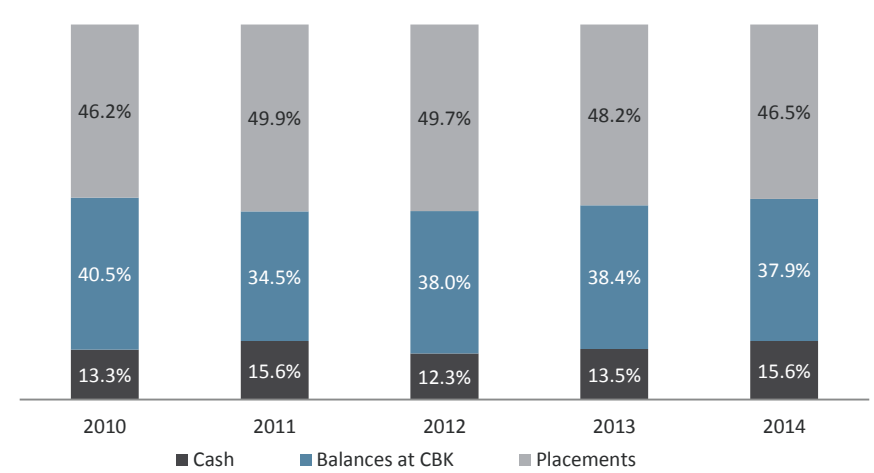


Kenya Bank Sector Metrics

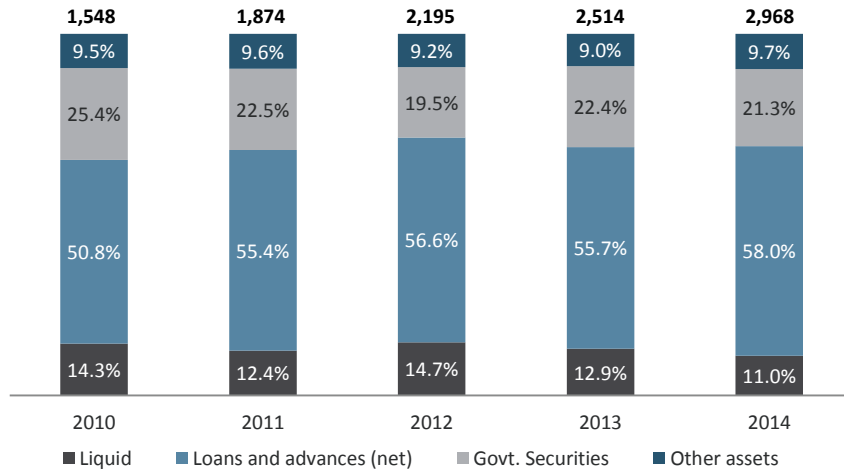
Industry Total Deposits and Loans (KESbn)



Liquid Asset Mix



Industry Asset Composition (KESbn)



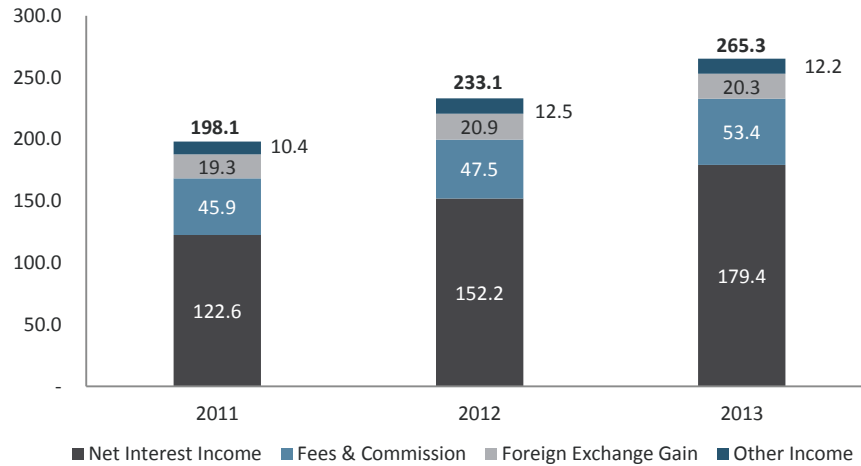
Treasury Bill Average Rate: 91 days



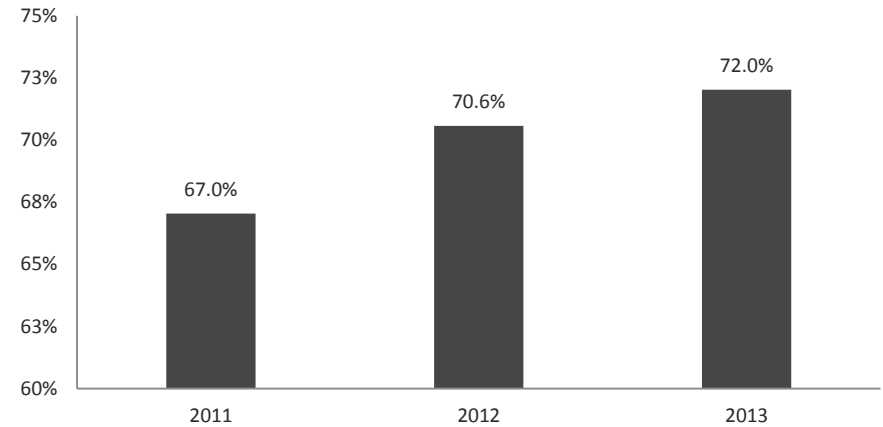
Source: Central Bank of Kenya database

Kenya Bank Sector Earnings Analysis

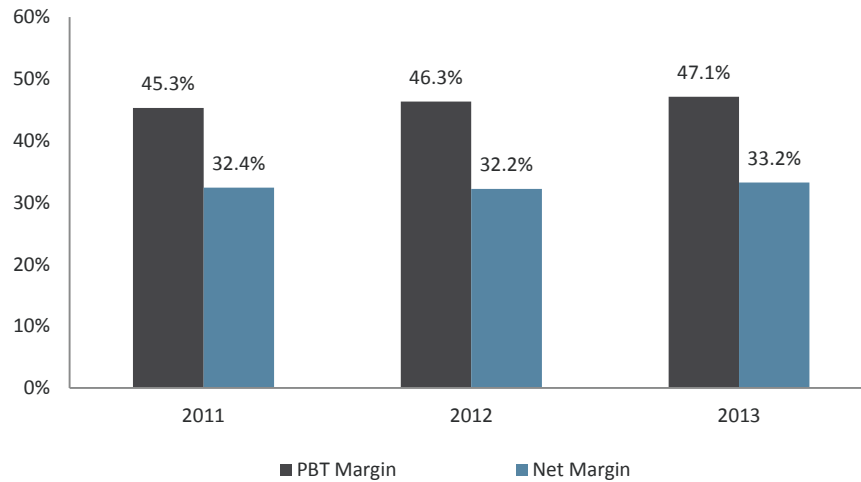
Income Mix



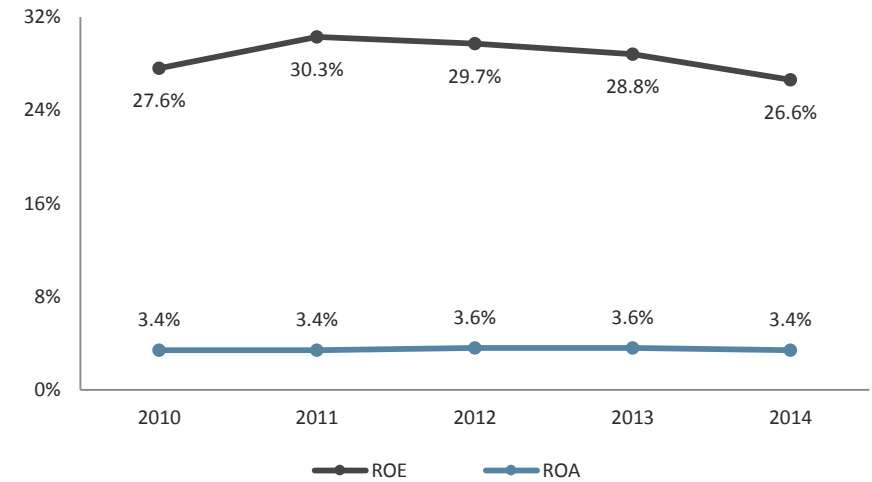
Net Interest Income Margin



Margins



ROE and ROA

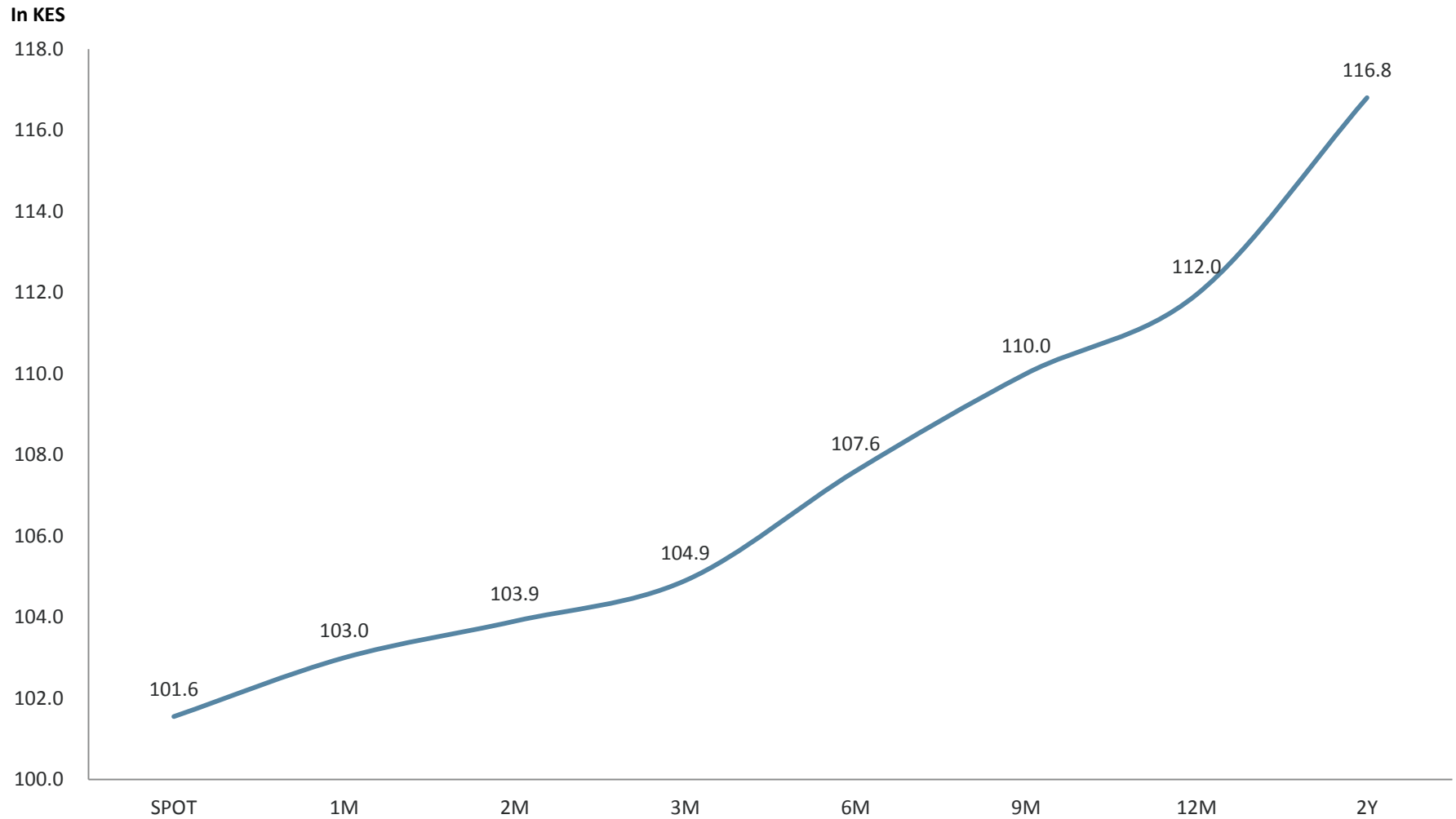


Source: Latest available data from the Central Bank of Kenya database
 Note: Net Interest Income has been adjusted for Bad debts

D. US\$ / KES Forward Curve and Sovereign Bond Yield Curves

US\$/KES Exchange Rate

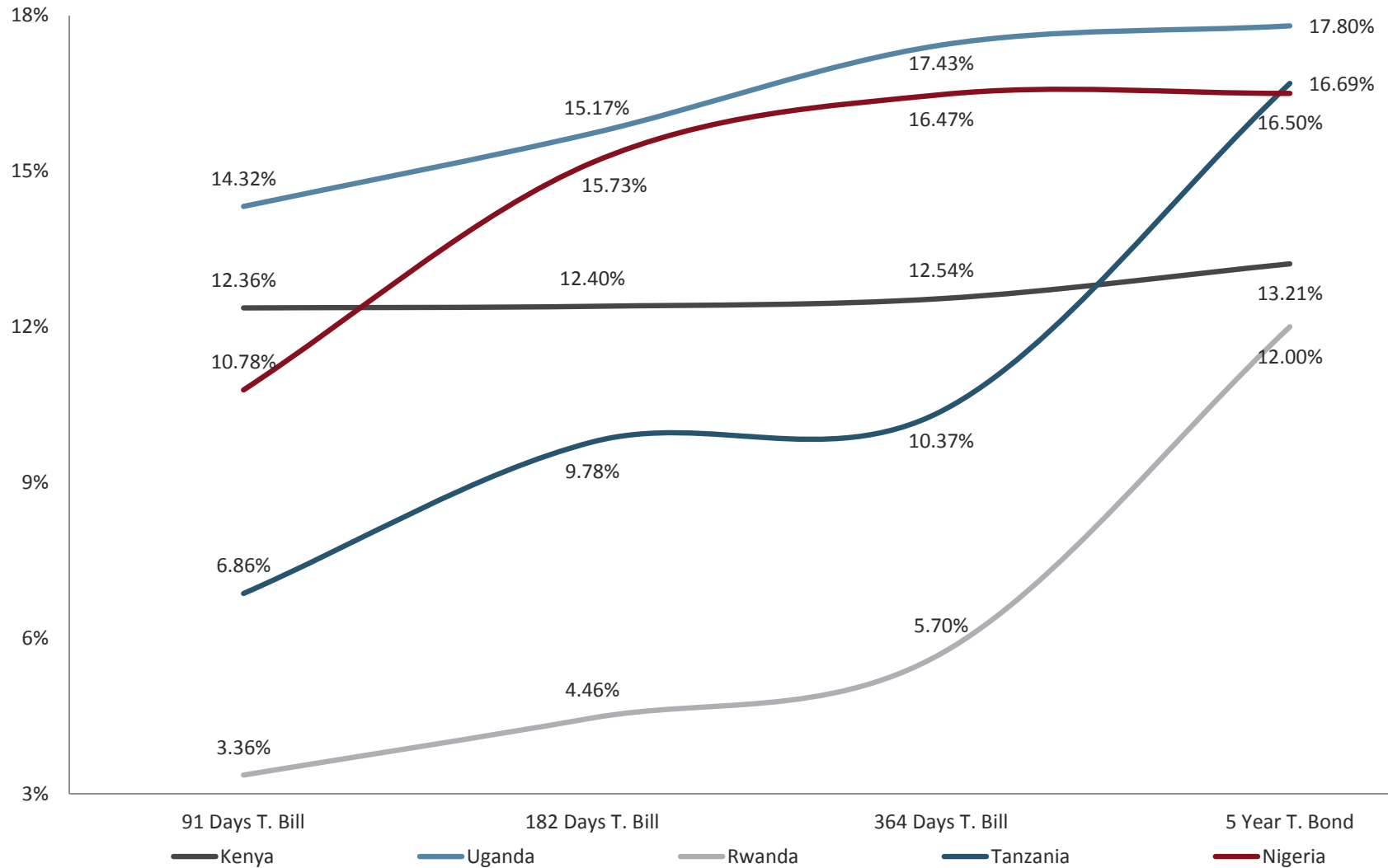
Forward Curve



Source: Bloomberg as of July 29, 2015

Interest Rates Comparison

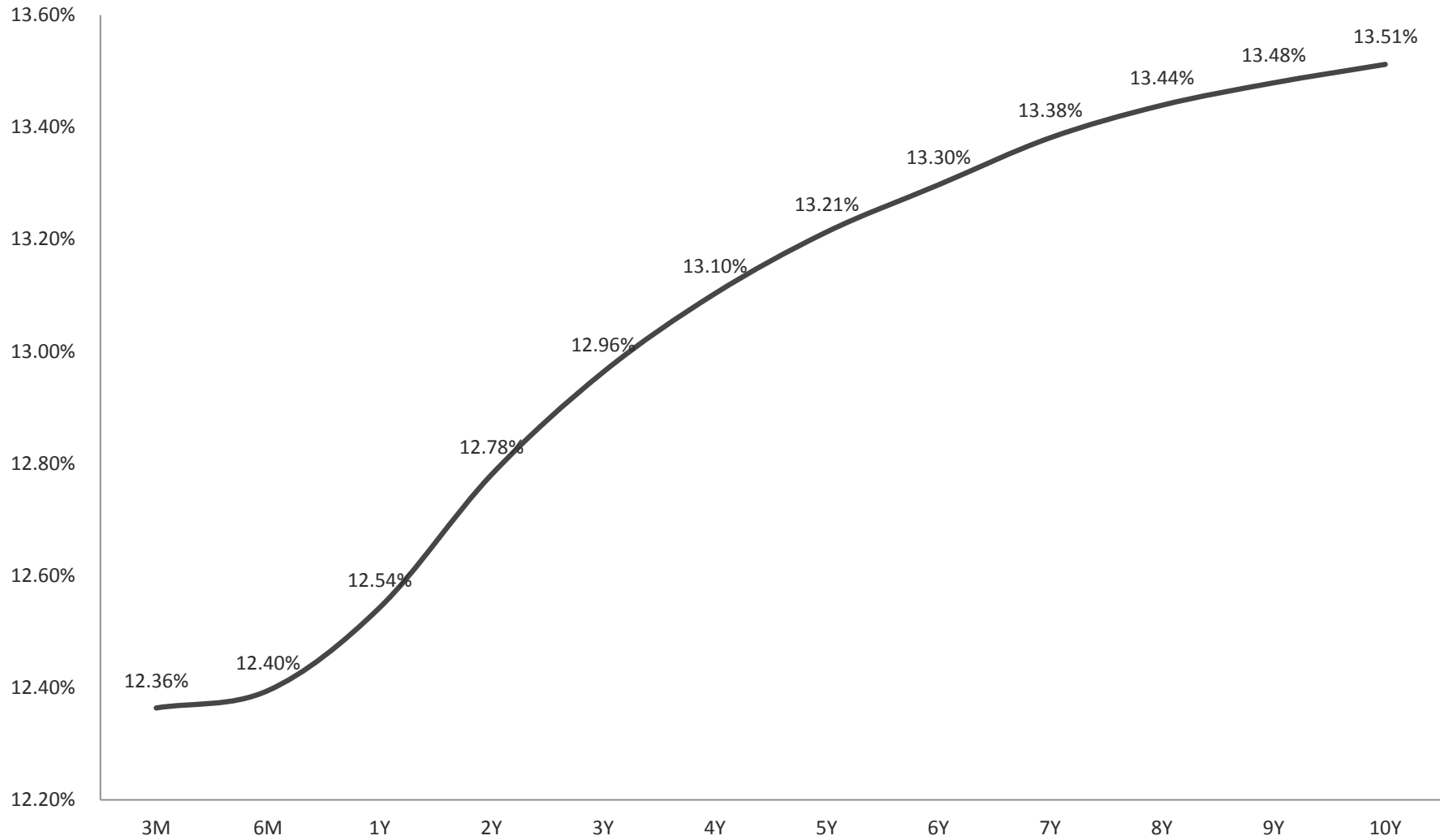
KURT Region Sovereign Bond Yield Curves



Source: Central Banks Statistics as of July 29, 2015

Kenya Interest Rates

Sovereign Bond Yield Curve



Source: Central Banks Statistics and market data as of July 29, 2015