



EQUITY BANK GROUP


INVESTORS BRIEFING

Half Year Financial Results
30th June 2011




OPERATING ENVIRONMENT

- Globally, the economic outlook in large economies remains fragile....
 - USA – threats of sovereign credit rating downgrade persists largely due to failure by congress to agree on lifting of the debt ceiling and budget deficit cut proposals
 - EU - sovereign debt crises worsening with emergency talks underway in Europe over Italy and Greece sovereign debt crises




OPERATING ENVIRONMENT

- Globally, the economic outlook in large economies remains fragile....
 - EU - 8 of the 91 European banks failed European Banking Authority's stress testing by falling below the 5% core capital threshold. 16 other banks at risk as they displayed 5%-6% core capital ratio
 - China – Growth target on course, however, a number of risks persist, such as high inflation, a precarious property bubble and a decline in credit quality from an excessive amount of bank loans




OPERATING ENVIRONMENT

- Globally, the economic outlook in large economies remains fragile
 - Fallout from the Arab (MENA) spring political unrest continues to be felt especially in the prevailing high oil price



OPERATING ENVIRONMENT

- In Kenya, the outlook is similarly challenging due to:
 - High inflation caused by the surge in oil and food prices. Q2 2011 inflation hit 14.9% in June up from 3% at the start of the year
 - Significant weakening of the Kenya Shilling as at June when compared to the start of the year e.g. from 80.80 to 89.15 against USD; from 110.62 to 127.43 against EUR and from 129.40 to 146.01 against GBP



OPERATING ENVIRONMENT

- In Kenya, the outlook is similarly challenging due to:
 - Tightening of the monetary policy through higher interest rates coupled with Central Bank's other measures to mop up excess liquidity and contain inflation & the depreciation of the shilling
 - Higher cost of funding (cost of deposits) and consequent rising interest rates that may suppress demand for loans and increase default.



OPERATING ENVIRONMENT

- However, sentiments remain positive due to:
 - GDP is projected to grow by 5.7% in 2011 and by 6.3% and 6.5% in the next 2 years. Growth will be driven by manufacturing, construction, tourism and financial sectors
 - Improved public & investor confidence arising from on-going new constitution implementation in key areas such as judiciary, devolution, etc



OPERATING ENVIRONMENT


- However, sentiments remain positive due to:
 - Accelerating implementation of Vision 2030 flagship projects especially in infrastructure. Ksh 221 Billion earmarked for infrastructure development in 2010/11 fiscal year
 - Regulatory amendments
 - CMA- introduced over the counter bonds market
 - CMA- amendment to allow regulated commodity future's market
 - RBA- amendment to allow schemes that are fully invested in guaranteed funds to be exempted from appointing fund managers



OPERATING ENVIRONMENT

- In the Eastern Africa region, there is a mixed bag of economic news:
 - Inflationary pressures are being observed in Tanzania & Uganda – very much like in Kenya.
 - Rwanda's outlook remains positive with expected strong GDP growth prospects
 - South Sudan officially declared independent in July 2011 and becomes the 193rd member of the UN. Great investment and trade opportunities expected for the east African economies

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STRATEGIC PURSUITS

- a) Regional Expansion
 - Rationalisation of Equity Uganda is now complete and from 2011, the business is reporting profits
 - Opening of subsidiaries in Rwanda & Tanzania in Q3
 - Building on the success already achieved in South Sudan, with enhanced sentiments following the country's independence from the North



STRATEGIC PURSUITS


- b) Roll-out and embedding of Agency & mobile banking
 - Services now delivered at convenient locations to our customers with more than 5,000 agents approved and 3 mobile banking platforms rolled out
 - Agency & mobile banking model de-congesting the branch banking halls and enhancing overall customer experience- convenience & ease of access
 - Agency & mobile banking model advancing the intermediation role & significantly reducing cost of financial access.



STRATEGIC PURSUITS

- c) Diversification of Product Offering:
 - Continuing strengthening of the Treasury and Trade Finance business line
 - VISA, China Union Pay and MasterCard branded credit cards now in operation


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STRATEGIC PURSUITS

d) Increased Efficiency:

- Growth of the Balance Sheet to maximize on economies of scale
- Costs rationalization
- Increased productivity of staff
- Optimal utilisation of our IT capabilities
- Increased extraction of the brand value




STRATEGIC PURSUITS

e) Customer Experience Focus:


- Research & Product Development team continues to focus on identifying changes in customer demands and ensuring proactive delivery of products and solutions that meet customer needs
- Delivering enhanced convenience, access and affordability through the Agency & mobile banking model

f) Strengthening and deepening of leadership & management capacity especially at senior levels




Performance Review

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BUSINESS DRIVERS

	June 2010	June 2011	Growth
Number of Customers	4.96M	6.3M	28%
Number of Branches	158	170	8%
Number of ATMs	500	564	13%
Number of Staff	5,168	5,898	14%
Mobile banking platforms	0	3	
Number of operating agents	0	2,300	



FUNDING

	June 2010 Ksh Billion	June 2011 Ksh Billion	Growth
Deposits	87.80	130.08	48%
Subordinated debt	6.47	8.44	31%
Shareholders' Funds	25.73	29.08	13%
Total Funding	122.50	171.35	40%



ASSETS

	June 2010 Ksh Billion	June 2011 Ksh Billion	Growth
Loans	68.25	97.71	43%
Government Securities	26.39	27.46	4%
Cash & Bank Deposits	14.09	30.40	116%
Total Assets	122.50	171.35	40%

ASSET QUALITY

	June 2010 Ksh. Million	June 2011 Ksh. Million	Change %
Gross NPL	4,337	4,070	-6%
NPL/Gross Loans	6.2%	4.1%	-34%
Asset Quality	3.7%	2.0%	-46%

ASSET QUALITY TREND

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
Net NPL	2,603	2,573	1,977	2,213	1,850	1,975
Coverage of NPL	46%	41%	45%	32%	53%	51%
NPL/GL	7.0%	6.2%	4.9%	4.5%	4.5%	4.1%
Asset Quality	3.8%	3.7%	2.7%	2.8%	2.1%	2.0%

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STABILITY & LEGAL COMPLIANCE

	June 2011	Statutory Requirement	Excess
Core Capital/Total Deposit Liabilities	18%	8%	10%
Core Capital/Total Risk Weighted Assets	19%	8%	11%
Total Capital/Total Risk Weighted Assets	24%	12%	12%
Liquidity Ratio	33%	20%	13%

INCOME STATEMENT



	June 2010 Ksh Billion	June 2011 Ksh Billion	Change
Interest Income on Loans	5.53	6.97	26%
Interest on Govt. Securities & Bank Deposits	0.86	1.31	52%
Total Interest Income	6.42	8.31	29%
Total Non Interest Income	4.71	5.89	25%
Total Income	10.12	13.15	30%

EXPENSE STATEMENT

	June 2010 Ksh Billion	June 2011 Ksh Billion	Change
Total Interest Expense	1.00	1.04	4%
Staff Costs	2.43	2.64	9%
Loan Loss Provision	0.92	1.15	25%
Total Operating expenses	6.28	7.32	17%
Cost to Income Ratio (With Provisions)	62%	56%	10%
Cost to Income Ratio (Without Provisions)	53%	47%	11%

PROFIT & LOSS ACCOUNT

	June 2010	June 2011	Growth
Profit Before Tax	3.88	5.90	52%
Profit After Tax	3.01	4.74	57%
Earnings Per Share	1.63	2.56	57%
Return on Equity	24.8%	33.7%	36%
Return on Assets	5.4%	6.0%	11%



THANK YOU

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