

Valuation Summary

- Equity Group Holdings is currently trading at a P/B of 1.9x, versus an industry average of 1.3x

Key highlights during the Half

- The Equitel platform continues to outperform market expectations;
 - Customer numbers have grown by 115.0% to 2.2 mn from 1.0 mn in H1'2015
 - Cumulative transaction numbers have grown by 225.0% to 252.8 mn transactions while the value has grown by 525% to Kshs. 264.2 bn
 - Equitel continues to perform well in terms of loan recovery averaging 96.0% in the past 8 months, highlighting their efficiency in loan collection
- Equity bank has received numerous awards and recognition in various platforms in 2016;
 - Overall ranking of #835 in "The Banker's Top 1000 World Banks 2016"
 - Rated AA- and A1+ on the long term and short term security class, respectively by The Global Credit Rating Company as at August 2016
 - Ranked "Overall Winner" in the "Best Bank in Kenya" category for the 4th year running by the Think Business Awards 2016

Income Statement

- Core earnings per share increased by 18.0% to Kshs. 2.7 from Kshs. 2.3 in H1'2015. This was driven by a high growth in operating income of 21.9% despite a 25.5% increase in operating expenses
- Operating revenue grew by 21.9% to Kshs. 32.1 bn from Kshs. 26.3 bn in H1'2015, driven by a 36.9% growth in Net Interest Income (NII) to Kshs. 21.2 bn from Kshs. 15.5 bn. The growth in NII was driven by a 35.4% growth in interest income to Kshs. 26.1 bn from Kshs. 19.3 bn in H1'2015 outpacing the 29.3% increase in interest expense to Kshs. 4.9 bn from Kshs. 3.8 bn. Net interest margin improved to 10.8% in H1'2016 from 10.5% in H1'2015
- Non-interest income remained flat at Kshs. 10.8 bn as a result of a 24.2% decline in fees and commissions on loans to Kshs. 2.0 bn being countered by a 7.8% increase in other fees and commissions to Kshs. 5.2 bn. The current revenue mix stands at 66:34 funded to non-funded income. The flat Non-funded income raises questions about the positioning of Equity Bank as a fee driven transaction bank with growth coming from interest income not fee income
- Operating expenses increased by 25.5% to Kshs. 17.9 bn from Kshs. 12.1 bn in H1'2015, driven by a 177.5% increase in loan loss provision (LLP) to Kshs. 1.9 bn from Kshs. 0.7 bn in H1'2015. Staff costs also increased significantly by 19.4% to Kshs. 6.1 bn from Kshs. 5.1 bn in H1'2015. Excluding LLP, the operating expenses grew by 17.7% to Kshs. 15.9bn from Kshs. 13.5 bn. The faster growth in operating expense than operating income resulted in an increase in the cost to income ratio to 55.6% from 54.0% in H1'2015
- PAT grew by 18.0% to Kshs 10.1 bn from Kshs 8.6 bn in H1'2015 compared to our expectations of a 16.1% increase

Balance Sheet

- The balance sheet recorded an expansion with total assets increasing by 10.8% to Kshs. 444.4 bn from Kshs. 401.0 bn, driven by a 13.6% increase in loans to Kshs. 269.0 bn from Kshs. 236.8 bn. Government securities increased significantly by 44.3% to Kshs. 73.0 bn from Kshs. 50.6 bn in H1'2015
- Total Liabilities grew by 9.8% to Kshs. 369.0 bn from Kshs. 336.0 bn in H1'2015 driven by a 74.8% growth in borrowings to Kshs. 38.5 bn from Kshs. 22.0 bn in H1'2015. Customer deposits grew by 6.5% to Kshs. 319.2 bn from Kshs. 299.7 bn in H1'2015. The faster growth in the loan book led to an increase in the loan to deposit ratio to 84.3% from 79.0% in H1'2015, higher than the industry average of 82.5%
- The gross non-performing loans grew by 19.0% to Kshs 12.9 bn from Kshs 10.9 bn in H1'2015 which led to an increase in NPL ratio to 4.7% from 4.6% in H1'2015
- The yield on interest earning assets increased to 13.6% from 12.9% in H1'2015 with the cost of funds increasing to 2.9% from 2.5%
- Equity Group Holdings is currently sufficiently capitalized with a core capital to risk weighted assets ratio at 18.7%, 8.2% above the statutory requirement with total capital to total risk weighted assets above the statutory requirement by 5.4%

Equity Group Holding's growth going forward will be propelled by:

- The continued uptake of alternative channels through Equitel and Agency banking as they capture the market

of customers who want to borrow but have low capability due to credit status

- Continued focus on the SME sector while still deepening their focus on the East African Region
- Focusing more on growing their Non Funded Income through cross selling to other subsidiaries such as, Equity investment Bank and Equity Insurance Agency as the bank aims to have a revenue mix of 60:40 NFI:FI

Below is a summary of the key line items in the balance sheet and income statement

Figures in Kshs billions unless otherwise stated

Balance Sheet Items	H1'2015	FY'2015	H1'2016	y/y change	H1'2016e	% y/y change	Variance in Growth Actual vs. Expected
Government Securities	50.6	42.8	73.0	44.3%	44.3	(12.5%)	(56.8%)
Net Loans and Advances	236.8	269.9	269.0	13.6%	295.4	24.7%	11.1%
Total Assets	401.0	428.1	444.4	10.8%	460.8	14.9%	4.1%
Customer Deposits	299.7	302.2	319.2	6.5%	321.4	7.3%	0.7%
Total Liabilities	336.0	355.9	369.0	9.8%	390.9	16.3%	6.5%
Shareholders' Funds	65.0	72.1	75.4	16.0%	69.9	7.6%	-8.4%

Balance Sheet Ratios	H1'2015	H1'2016	y/y change
Loan to Deposit Ratio	79.0%	84.3%	(5.6%)
Return on average equity	30.5%	26.9%	(11.9%)
Return on average assets	5.1%	4.5%	(13.0%)

Income Statement	H1'2015	FY'2015	H1'2016	y/y change	H1'2016e	% y/y change	Variance in Growth Actual vs. Expected
Net Interest Income	15.5	34.1	21.2	36.9%	18.2	17.4%	(19.6%)
Net non-Interest Income	10.8	21.9	10.8	0.4%	12.8	18.6%	18.2%
Total Operating income	26.3	56.1	32.1	21.9%	31.0	17.9%	(4.1%)
Loan Loss provision	(0.7)	(2.4)	(1.9)	181.5%	(1.3)	94.3%	(87.3%)
Total Operating expenses	(14.2)	(32.1)	(17.9)	25.6%	(16.8)	18.2%	(7.4%)
Profit before tax	12.1	24.0	14.2	17.6%	14.2	17.5%	(0.2%)
Profit after tax	8.6	17.3	10.1	18.0%	9.9	16.1%	(1.9%)

Income Statement Ratios	H1'2015	H1'2016	y/y change
Yield from interest-earning assets	12.9%	13.6%	0.7%
Cost of funding	2.5%	2.9%	0.4%
Net Interest Spread	10.5%	10.8%	0.3%
Net Interest Income as % of operating income	58.9%	66.2%	(0.2%)
Non-Funded Income as a % of operating income	41.1%	33.8%	0.2%
Cost to Income	54.0%	55.6%	0.1%
Cost to Assets	3.5%	4.0%	0.1%

Capital Adequacy Ratios	H1'2015	H1'2016
Core Capital/Total Liabilities	20.4%	23.4%
Minimum Statutory ratio	10.5%	10.5%
Excess	9.9%	12.9%
Core Capital/Total Risk Weighted Assets	17.7%	18.7%
Minimum Statutory ratio	10.5%	10.5%
Excess	7.2%	8.2%
Total Capital/Total Risk Weighted Assets	19.4%	19.9%

Minimum Statutory ratio	14.5%	14.5%
Excess	4.9%	5.4%

Liquidity Ratio	31.0%	37.0%
Minimum Statutory ratio	20.0%	20.0%
Excess	11.0%	17.0%