EQUITY
Bank • Your Listening, Caring Partner

# Investor Briefing
# FY 2013 Results

27 February 2014

# The Creation of an East African Powerhouse

## 1984-1993: Building Strategy

- Equity Bank was founded as Equity Building Society
- Overhaul of firm's strategy having been technically insolvent – emphasis on savings, access to credit

## 1994-2003: Establishing Capacity

- Capacity building and a focus on efficiency through computerization
- Injection of KES150m in capital by stakeholders to build a foundation for future growth
- Transformational strategy evolved from product to market led model
- Affordability, Accessibility and Convenience key pillars

## 2004-2006: Repositioning for Future

- James Mwangi appointed as CEO in 2004
- Re-engineering and transformation to an inclusive financial services provider
- Commercial bank with a bias for microfinance
- Listing on NSE with an initial valuation of KES 6.3bn in August 2006
- US$10 MM Private Placement – British American, 16%

## 2007-2012: High Growth & Financial Leadership

- CEO named Forbes Person of the Year 2012
- CEO named CNBC African Leader of the Year
- CEO named EY World Entrepreneur of the year

- Incorporated as a private company with the assets and liabilities of EBS being transferred to Equity Bank
- Established Visa branded ATMs and POS
- Mobile Banking Channels
- Regional Expansion and introduction of agency banking

## 2013: Establishing International Platform

- Kenyaâs Top Tax Payers 2013
- Best Bank in Kenya Tier 1
- Lowest Charges Bank
- RSM Ashvir Best Kenyan Bank
- Citiâs 2013 Performance Excellence Award

- Largest banking entity in Kenya by customer base with c.13% market share with an asset base of over KES 278bn
- Global IT Platform
- Presence in five countries, globally recognized and rewarded business model
- Global Competitive Human Capital

# Update on Macroeconomic Environment

# Operating Environment

**TAILWINDS**

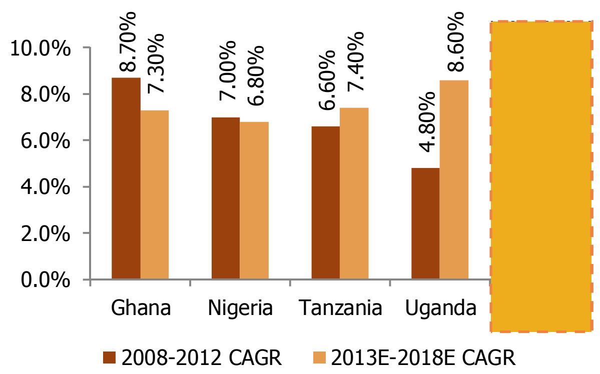
| | |
|---|---|
| **Macroeconomic Environment** | 5.1% of **GDP growth** projected by World Bank<br>**Inflation** expected to remain at single digits (currently 7.2%)<br>Stable **Foreign Exchange rate** (USD/KES86)<br>**Current Account deficit** projected to narrow down |
| **Future economic drivers** | **Oil, Mining and Gas** activities expected to become central to wealth creation<br>**Infrastructure investments** expected to stimulate further economic growth and reduce the costs of doing business<br>**Modernization of Agriculture** and increase acreage under **irrigation** to boost food security<br>**SME growth accelerates** stimulated by international **Influx of Corporates**: General Electric, IBM, Toyota, Google, XIN-XUA, SONY |
| **Regulation** | **New progressive regulation focuses on ease of risk monitoring and regional supervision**<br>**Formation of non-operating holding group company approved**<br>**Bancassurance space opened up for commercial banks** |

**HEADWINDS**

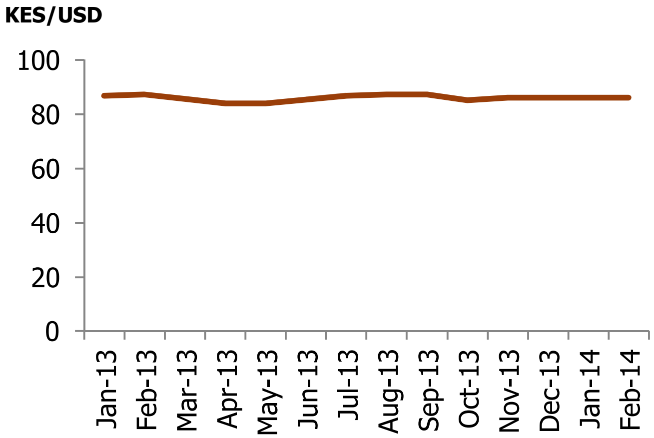
| | |
|---|---|
| **Kenya** | **Reduction of Base Rate by 8.0%.** Good for our customers, Good for us!<br>**Residual credit risk,** expected to reduce with reduction of Base Rate over time |
| **Regional** | **Increased instability in South Sudan** |

# Key Kenyan Macro Economy Indicators

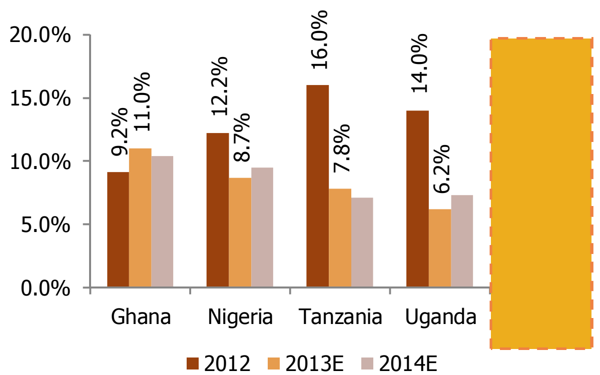
## Real GDP Growth (%) [1]



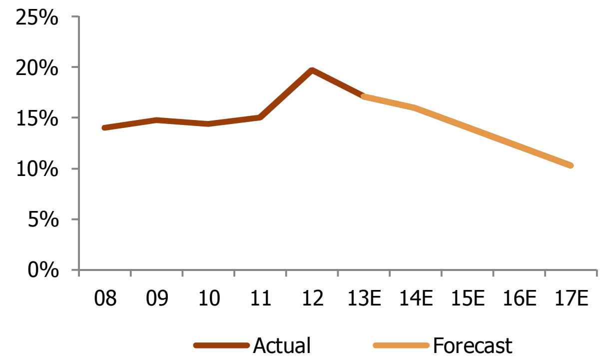

## FX Evolution [2]




## Inflation (%) [1]




## Lending Interest Rates (Avg. %) [1]




1 EIU Kenya Country Report
2 Factset as at 24 February 2014


Update on Strategic Initiatives

# The Equity Story

1. Strategically Positioned in East Africa
2. Market Leadership and Recognition
3. Outstanding Growth Trajectory and Profitability
4. Asset Quality with Strong Funding
5. Strong Management Team and Proven Track Record
6. With Innovation and Technology Driving Growth

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# Strengthening the Management Team

## Group Strategic Team

**DR. JAMES MWANGI, CBS**
**Chief Executive Officer & Managing Director**
- Holds a Bachelor of Commerce degree and is a Certified Public Accountant
- Over 25 years of management experience

**JULIUS KIPNG'ETICH**
**Chief Operating Officer**
Holds a Masters of Business Administration degree and Bachelor of Commerce degree Accounting Option. He has over 18 years of management experience. He joined Equity in 2004 as board member and management in 2012.

**MARY WAMAE**
**Director of Corporate Strategy & Company Secretary**
- LLB degree, Diploma in Law & Certified Public Secretary
- Over 14 years of experience in legal practice and joined the Bank in 2004

**JOHN STALEY**
**Chief Officer – Finance, Innovation and Technology**
- MSc. In Applied & Computational Mathematics, BSc. in Physics; qualified Chartered Accountant
- Over 23 years of experience

**DR. HELEN GICHOHI, MBS**
**Managing Director, Equity Group Foundation**
- Ph.D. in Ecology, MSc in Biology, BSc in Zoology
- Helen joined Equity Bank management in 2012

**JUMAANE TAFAWA**
**Director, Strategic Partnerships**
- Holds an MPA in International Development from Harvard University
- Over 11 years experience. Joined Equity Bank in 2012

## Recent Appointments

**RAPHAEL HUKAI,**
**Chief Information Officer**
- Holds a B.S. degree in Computer Science from the Institute of International Politics of Beijing, China.
- Joined Equity Group in December 2013 after over 16 years of service at IBM Corporation

**REUBEN MBINDU,**
**Human Resource Director**
- Holds a BSc in Computer Science from Germany and is a full member of the Institute of Human Resource management in Kenya
- Expertise in various fields including technology, auditing, communication and human resources having worked at senior management levels in various organizations
- Joined Equity Group from Standard Chartered, where he was the Director of Human Resources for East Africa.

**ENRICO NORA**
**Director Mobile Innovations**
- Holds a Master Degree in Industrial Engineering from the Polytechnic of Milan, Italy and an MBA (with honours) from the University of Chicago, USA
- Was based in Singapore as CFO & COO of DOCOMO Intertouch, a division of NTT DOCOMO of Japan

**RON REDDICK**
**Director Service Management**
- Holds a Master of Science degree in Telecommunications and a BSEE in Electronic Engineering. He has worked across the globe in executive positions such as COO/CTO of Cell C in South Africa, CTO of Afghan Wireless and as Sr. Dir of Advanced Services for Cisco System

## Operational Executive Team

**GERALD WARUI**
**Director of Customer Service, Research & Development**
- Certified Public Accountant (CPA K) and a graduate of Advanced Management
- Gerald has served in Equity Bank for 15 years

**ALLAN WAITITU**
**Director Special Projects**
- Graduate of Advanced Management Programme
- Over 21 years experience in information technology and banking
- Joined Equity Bank in 2003

**HILDAH MUGO**
**Director of Operations**
- Holds an MBA - strategic management and a Bachelor of Business Administration
- Over 21 years of banking experience and joined Equity Bank in 2004

**MICHAEL WACHIRA**
**Director of Treasury and Marketing**
- Holds a Bachelor of Science degree in Economics and a MSC in Investment Management
- Over 16 years of experience and joined Equity Bank in 2009

**ISAAC MWIGE**
**Director of Relationship Banking**
- Masters degree in International Business Administration, Bachelors of Business Administration
- Over 16 years of banking experience and joined Equity Bank in 2012

**ELIZABETH GATHAI**
**Director of Credit**
- Holds a MBA, Bcom (Finance), CPA(K)
- Over 12 years of banking experience and joined Equity Bank in 2001

# Strategic Initiatives Driving Growth in 2013

3- Bancassurance

22% growth in PBT

5- International Linkages & Development

36% growth in Diaspora remittances

4- Merchant Business & Payment Processing

47% growth in commissions

1- Agency Banking

55% growth In number of agents

2- SME Strategy

28% growth in SME Loan book

Our Foundation: **Solid ICT Infrastructure** Supporting our Business

# 1- Agency Banking Driving Growth

## Key Initiatives

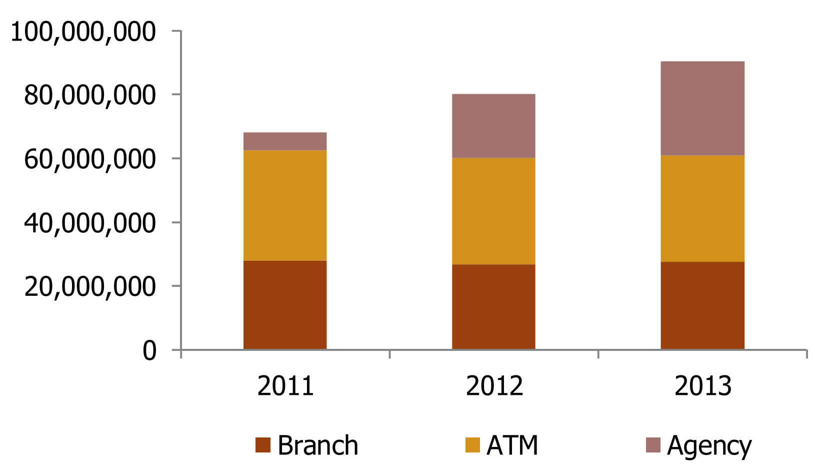
- Extremely successful initiative in Kenya ï number of agents increased **from 875** at the beginning of 2011 to **10,260 agents** in the region by December 2013
- Scalable business model for regional expansion rolled out in **Rwanda and Tanzania**
- **Variable cost** model: leverage on 3rd party infrastructure and cash flows
- Currently doing **account opening origination, cash deposit and withdrawal, balance enquiries** but with potential to increase product offering
- **Risk control** and management using Equity Bank IT Infrastructure

## Results

- **Deposit** growth of c. 26% from Agency network
- Agency network accounts for a third of all transactions- effectively **reducing cash handling costs**
- Reduction of **overcrowding in branches**
- Improved access to the **unbanked**

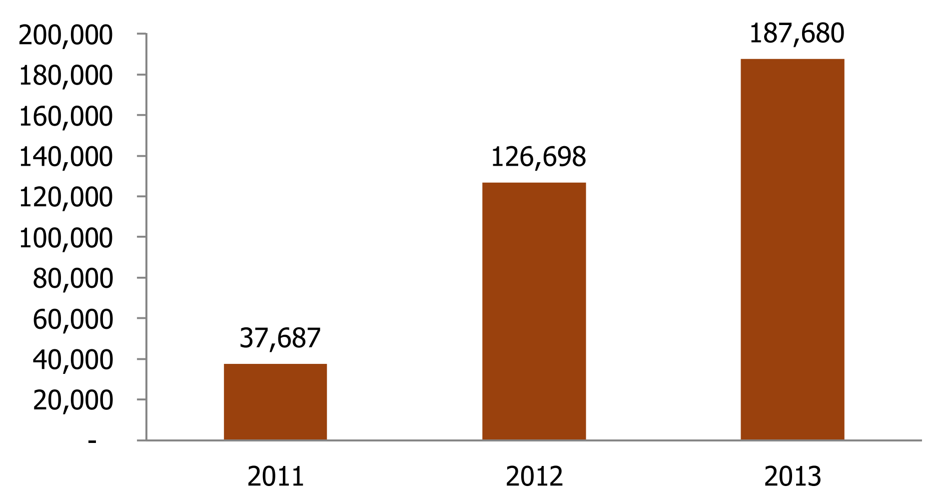
## Agency now accounts for a third of all cash transactions

**Total Transactions**



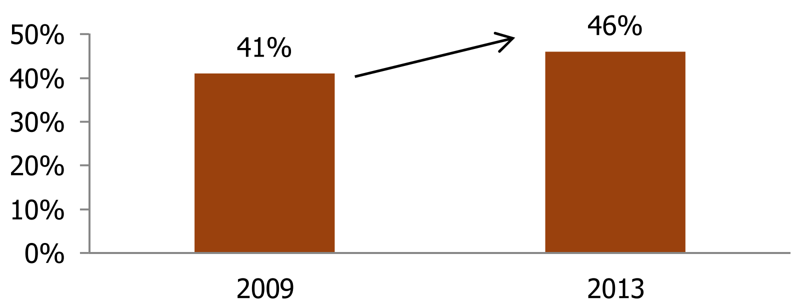

## Growing Value of BOP Transactions (KESm)

**Cumulative amounts (KESm)**



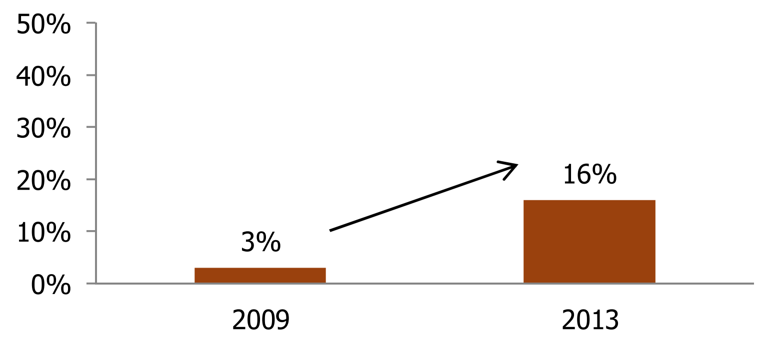
# 2- SME Banking: Nurturing Client Evolution

## SME



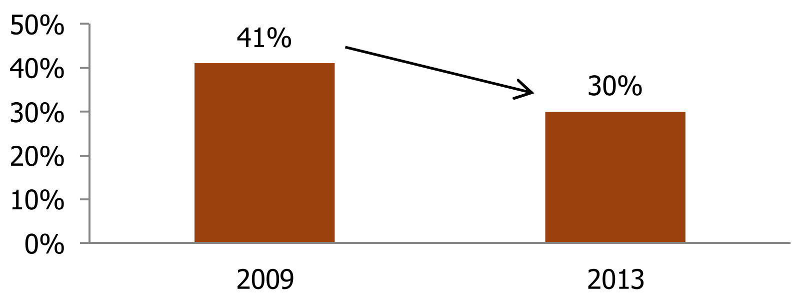

- Increased lending to SME as a proportion of the loan book

## Large Enterprises



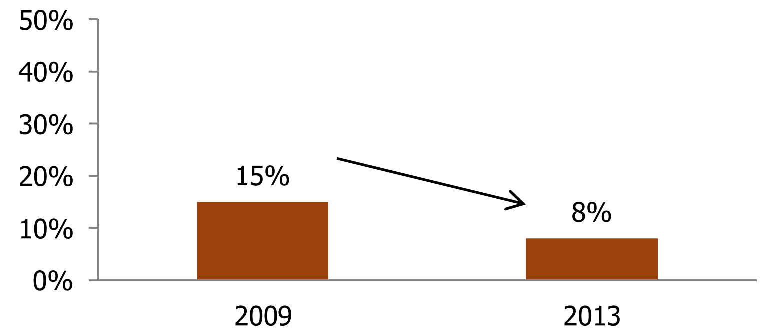

- Focusing on value chain & clusters within large enterprises

## Consumer and Agriculture




- Consumer and agricultural still remain our core areas but contribution now a reduced portion of the loan book

## Micro Enterprises

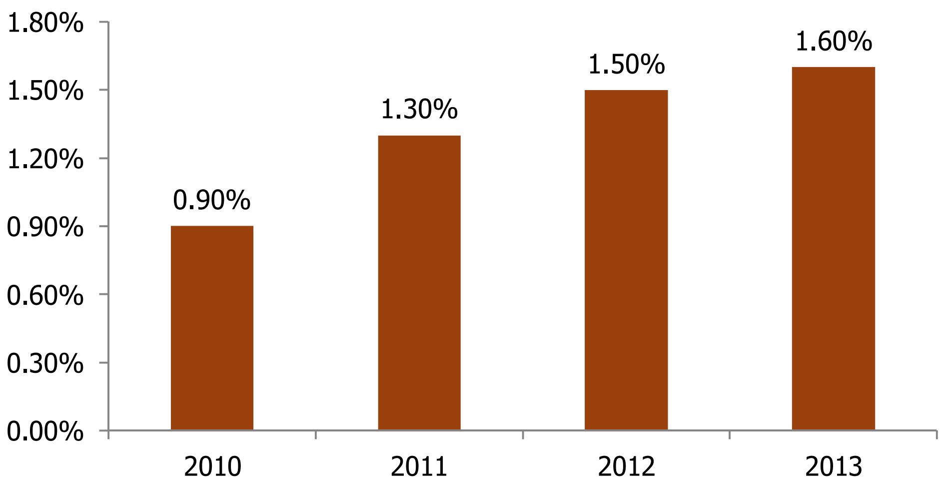



- Microenterprises still our core area but Improving macroeconomic environment driving evolution of micro enterprises into SMEs

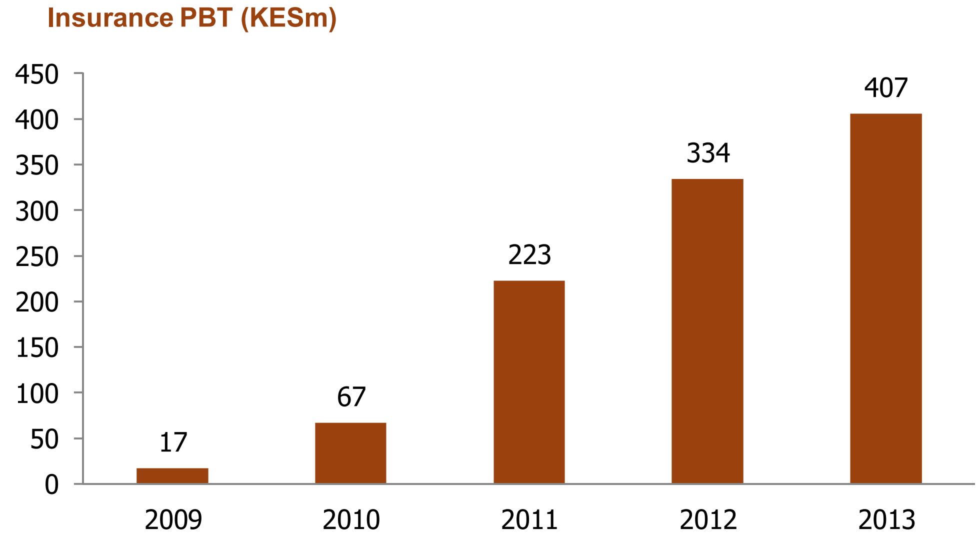
***SME now accounts for 46% of loan book***

# 3- Increased Focus on Bancassurance

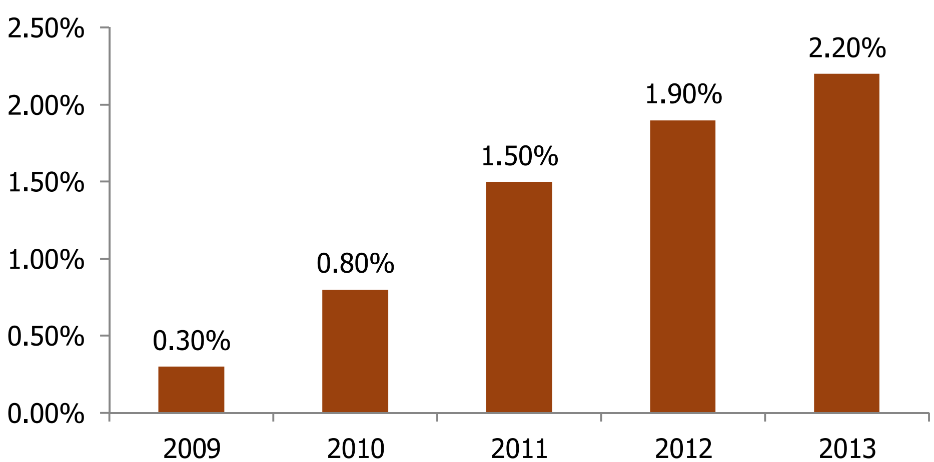
## Contribution to Group Revenue



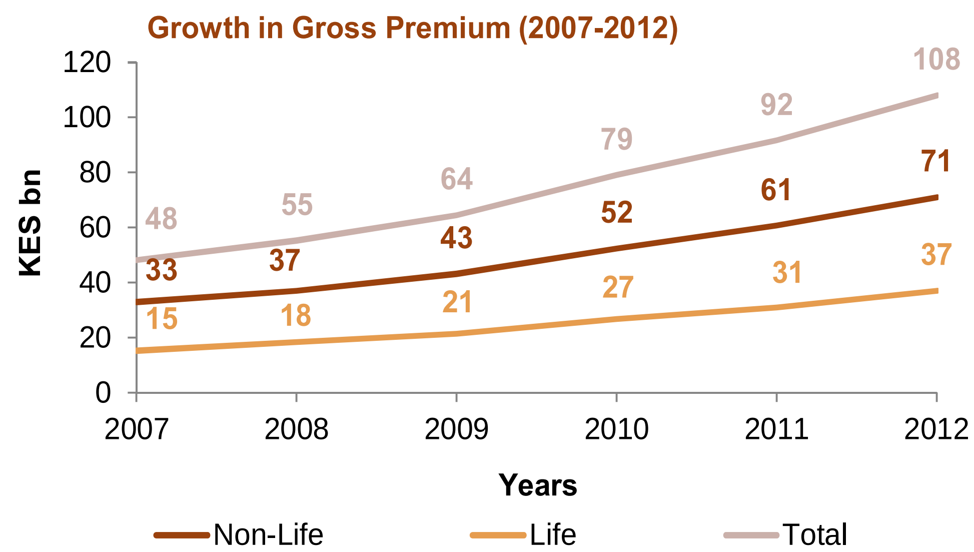

## PBT Evolution




## Insurance Contribution to Group PAT



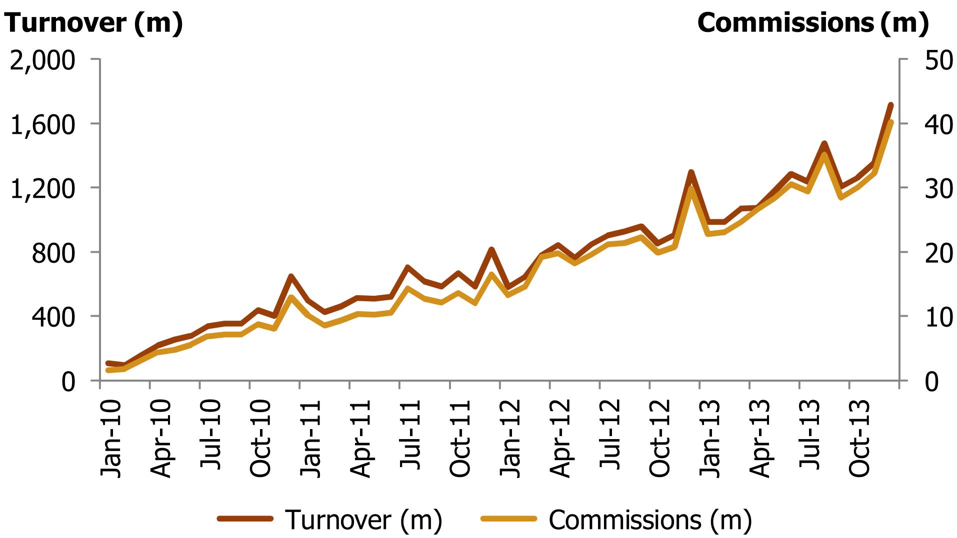

## Trend in Kenyan Insurance Premium Growth – (KESbn)




Source: AKI Report 2011/12

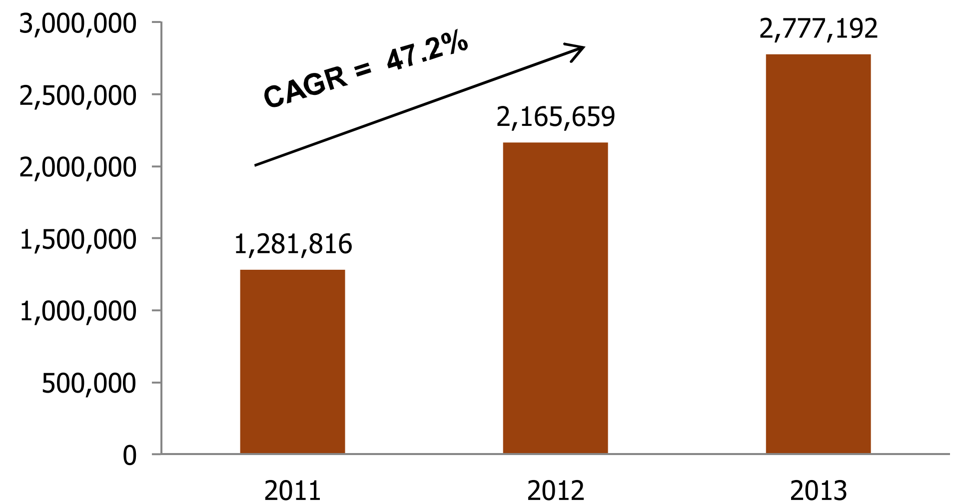
# 4- Payment Processing & Merchant Business

## Turnover and Commissions




- Equity Bank well positioned to significantly increase volumes and commission

## Mobile Banking Customers




- Cash Lite system and ease of transaction processing driving buyer values and customer stickiness

## Partners

VISA
PayPal
UnionPay 银联
Google
MasterCard
Diners Club International
JCB
American Express
SWIFT

- Strategic partnership with merchants driving mobile banking business



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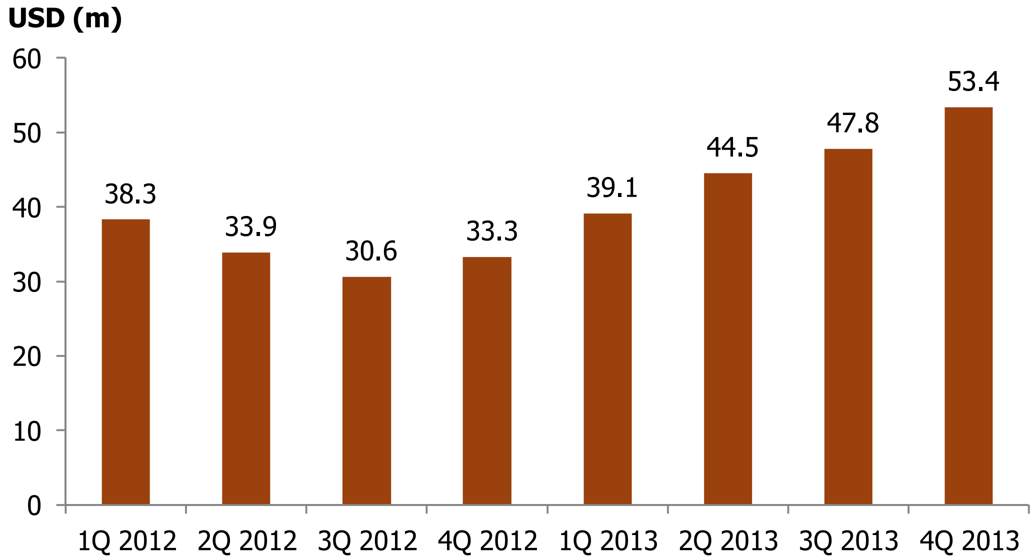
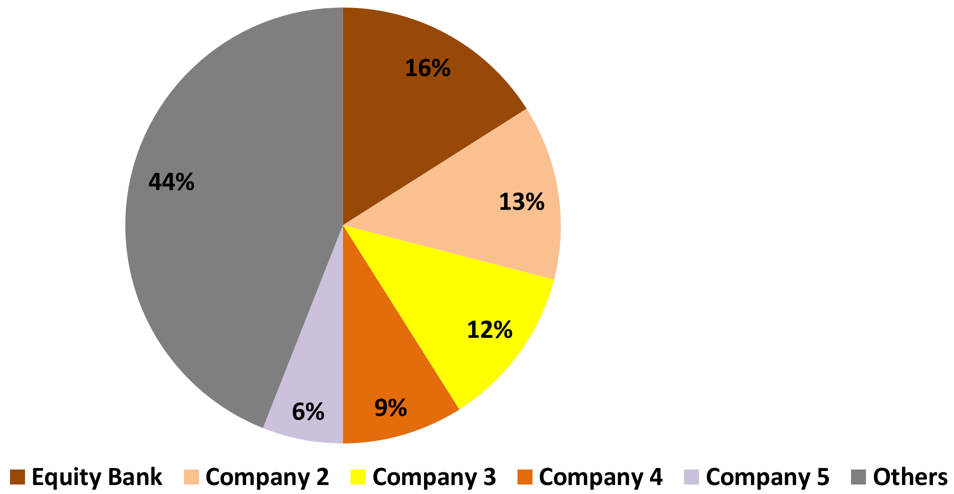
# 5- Consolidating International Linkages

## Equity Bank Currently Leads Monthly Diaspora Remittances (USDm)




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

## Market Share of Remittances




- Market leader with approximately 16.3% market share
- In 2013, **USD 185m** from the diaspora was channelled into the country through Equity Bank
- **10.3% increase** in the sector in 2013 vs. 2012
- Increased remittances that have continued to flow in to the country will take the space of **declining FDI**

Source: Central Bank of Kenya
[1] Others includes over 30 institutions

# 2013 Thematic Areas

# Tapping into our Competitive Advantages

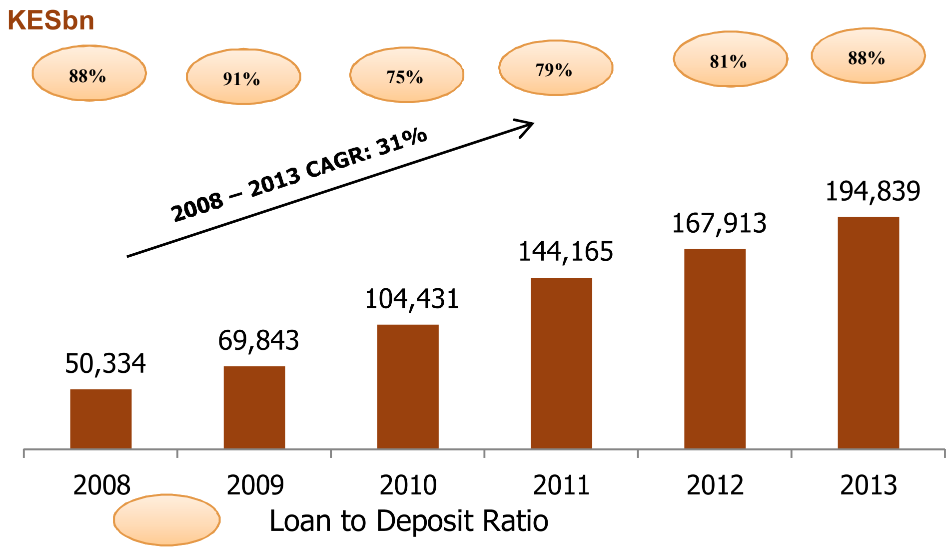
**In 2013 we Consolidated our leadership in our core market by:**

| Themes | 1 Enhancing Product Offering | 2 Investing in Technology & Infrastructure | 3 Leveraging Off Core Strengths & Capabilities |
|---|---|---|---|
| **Strategic Priorities** | ■ Increased the **mobile delivery** services<br>■ Increased **Diaspora banking** by utilisation of existing infrastructure<br>■ Focused on greater penetration into **SME** and corporate market<br>■ Enhanced the use of **technology and automation**<br>■ Further expanded the roll-out of the **Agency banking** model<br>■ Strengthened our **Merchant Business** and **Payment Processing** | ■ Moved from Version 7 to **Version 10** of **Finacle Core Banking**<br>■ Upgraded processing power by installing **IBM P7 servers**<br>■ Enhancement of **Storage capacity** through installation of **D8000 servers**<br>■ Implemented **Open Way Switch**- achieving Mobile and Card system convergence<br>■ Implemented **Data Warehouse** with **Analytics**<br>■ Investment m**ulti-connectivity** for all service points (POS, ATMS, Cash-back systems, branch, Agents) to guarantee uptime of Networks | ■ Recruited and trained world class **human capital**<br>■ Continued the **strengthening** of unique business model<br>■ Leveraged our regional **distribution network** for greater product sales across the region<br>■ **Market share** strengthened, along with brand entrenchment |


# 2013 Results and Key Financials

# 600,000 New Customers Driving Growth of Deposits

## Deposits Evolution

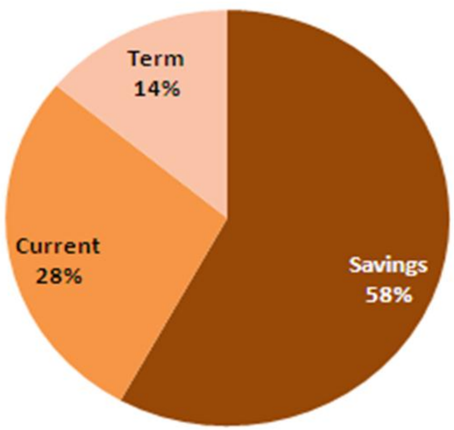



## Highlights

- Our deposits comprising **70%** of total funding
- Term deposits accounted for 14% of deposits, Savings 58% and demand accounts 28% as at end of Q4 2013
- Share holders funds consist of over 19% of Total funding
- Long term offshore funds with average tenor of 7 years comprising 10% of funding
- Stable **loan to deposits ratio**

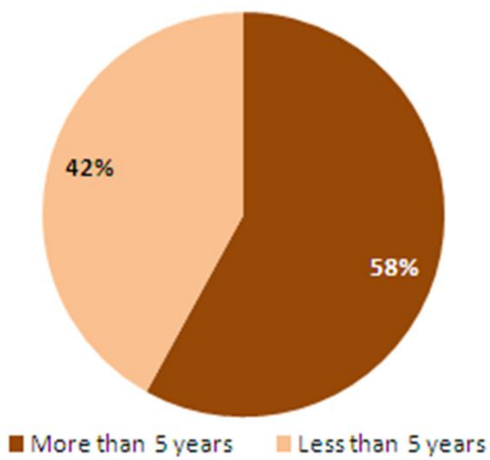
## 2013 Deposits Breakdown

### By Type[1]



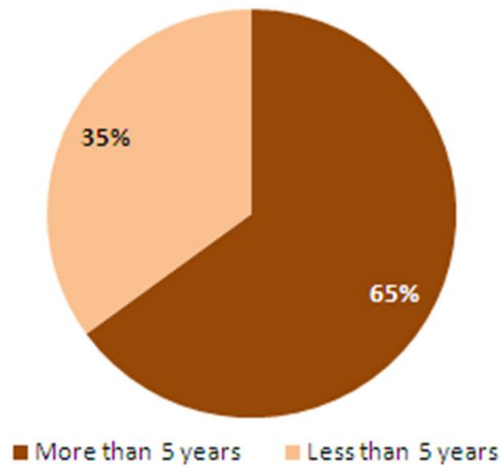

**Total: KES 195bn**

### By Maturity[1]




**Total: KES 195bn**

## 2013 Funding Breakdown by Maturity[1]

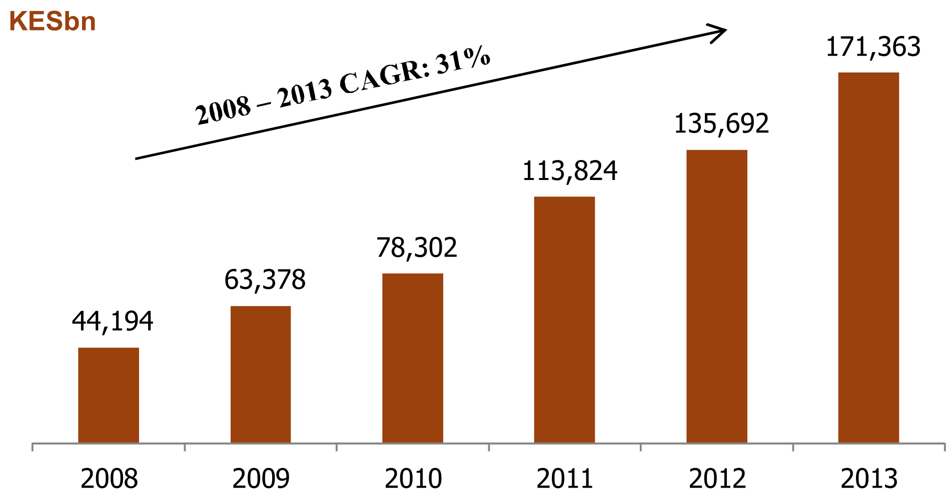



**Total: KES 277.73 bn**

1. Split based on Kenya only

# 26% Growth of the Loan Booké

## Net Customer Loans Evolution



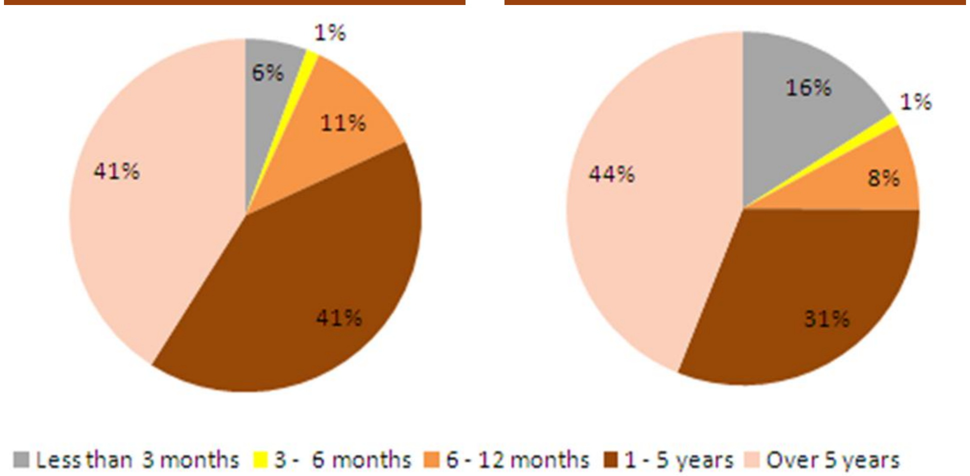

## Key Commentary

- Continued growth in the loan book achieving a **26% growth** y/y and 13% growth in loan accounts
- Growth in loan book in the year mainly **driven by SMEs**
- Loan book split into **5 client types**: Consumer, Agriculture, Micro, SME and Large Enterprises
- Portfolio **diversified** across various economic sectors such as personal and house hold, trade and industry, transport & logistics, energy, agriculture and real estate

## Breakdown by Maturity

### 2013 Loan Book[1]

### 2013 Assets

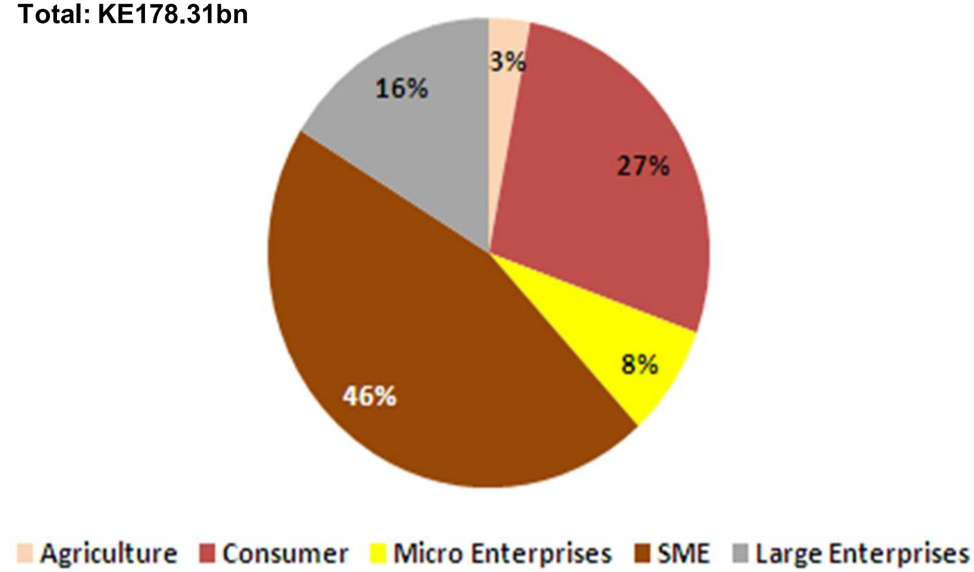



**Total: KE171.36bn**

**Total: KES 277.73bn**

## 2013 Gross Loan Book Breakdown By Customer Type

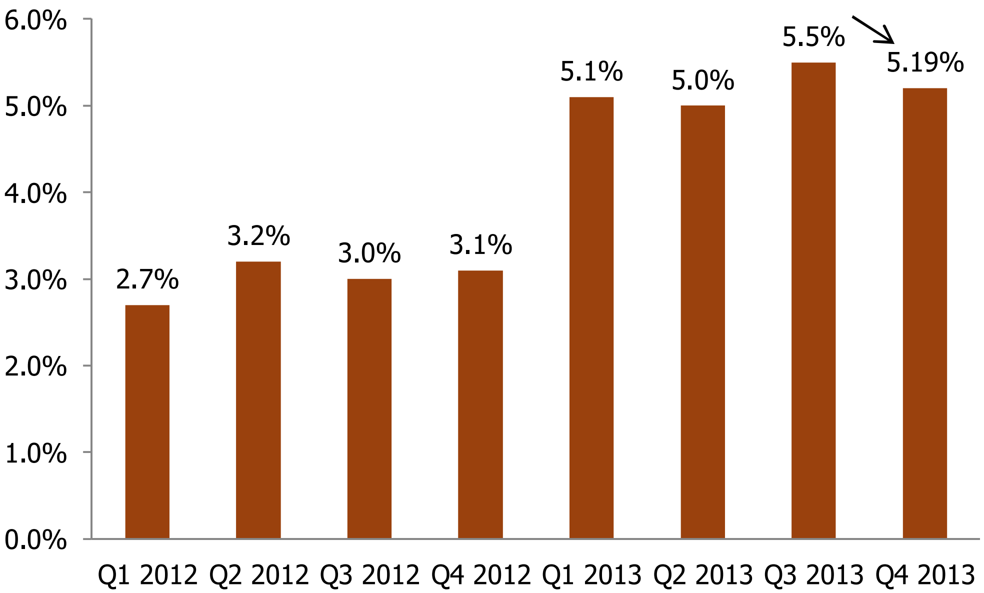
**Total: KE178.31bn**




1. Split based on net loans from Kenya only

# Reduction in NPLs in Q4

## Gross NPL Ratio – Improved in Q4 2013



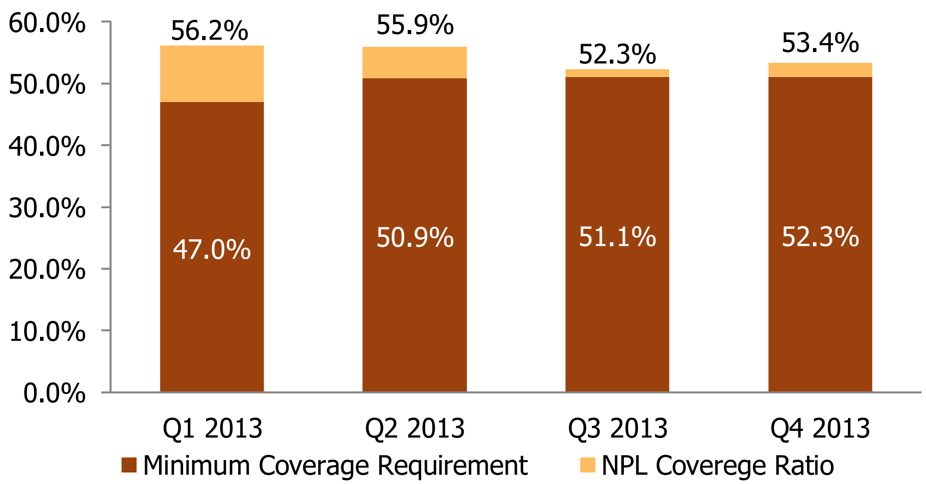

## NPL Ratio Evolution

Impacted by the challenging macro-economic conditions across all target markets and region, main reasons being:

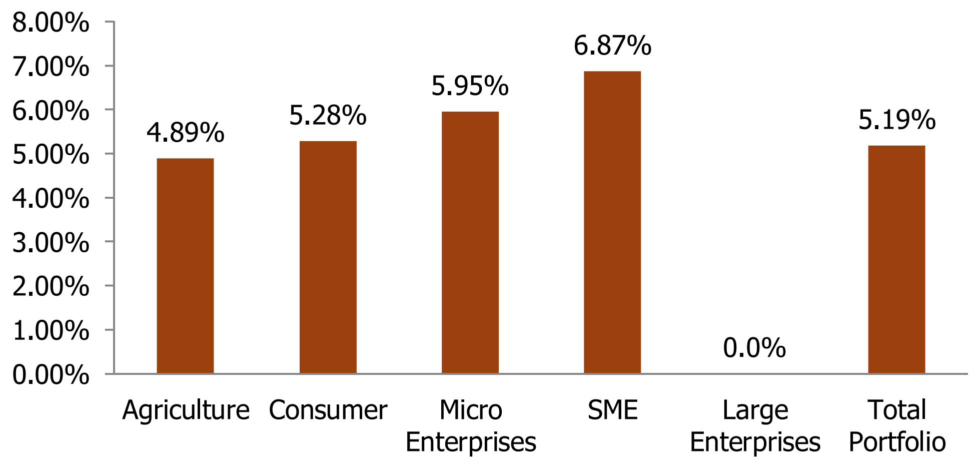
- With the new devolved structures, SMEs continued to experience delayed government payments
- Continued strain in South Sudan economy arising from oil exportation challenges
- New prudential guidelines requiring longer observation period hence the position may hold for next 6 months

Loan book well provisioned to cushion against any adverse macro shocks and any other unforeseen uncertainties

## Coverage Ratio Evolution[1]



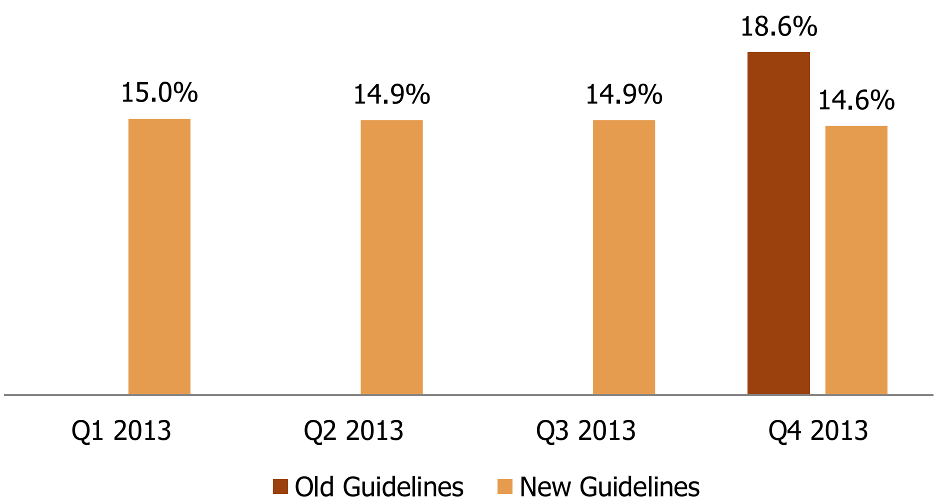

## Gross NPL Ratio By Sector 2013



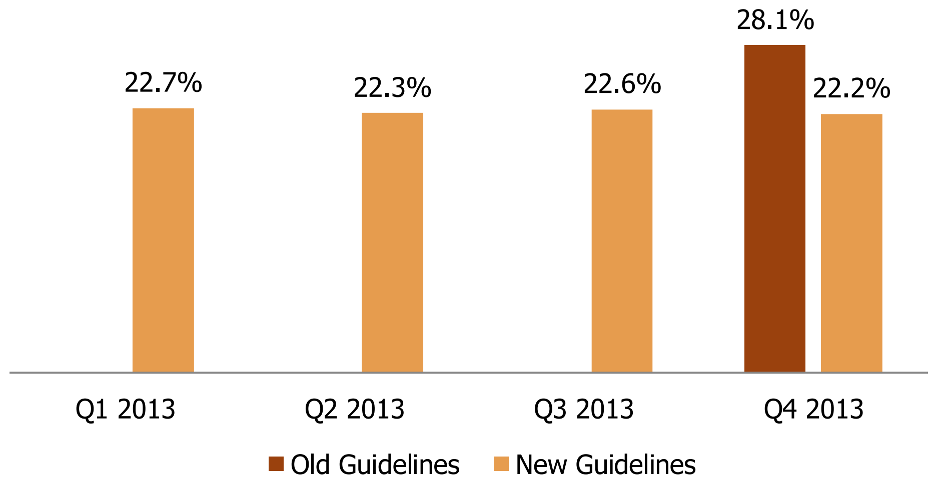

1. Under CBK rules

# Well Capitalised and Liquid Balance Sheet

## Core Capital to Risk Weighted Assets

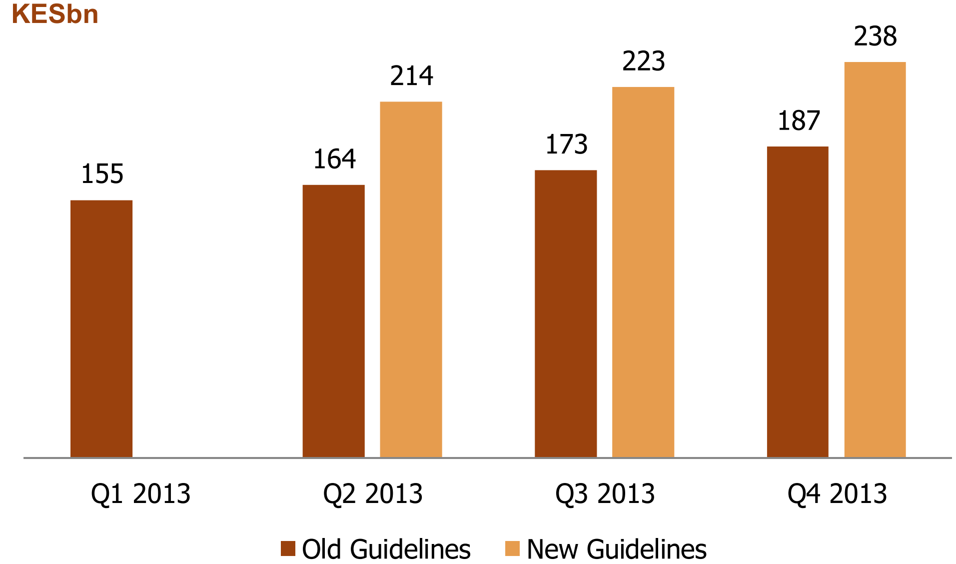



## Total Capital to Risk Weighted Assets




## Total Risk Weighted Assets Evolution (Kenya)

**KESbn**




1. Split based on Kenya only

## Key Commentary

- The bank is well capitalised and increased its buffer allowance following the issuance of the new prudential guidelines in 2013
- Within the year, the Bank only takes in to account 50% of its revenue for Capital Adequacy computations.
- Total capital grew by 18% yoy to reach KES52.72bn.
- The new regulatory requirements Introduced **Market** and **Operational** risk as well as revised upwards the minimum regulatory capital ratios :

ð Core capital to total deposits ratio: from 8.0% to 10.5%

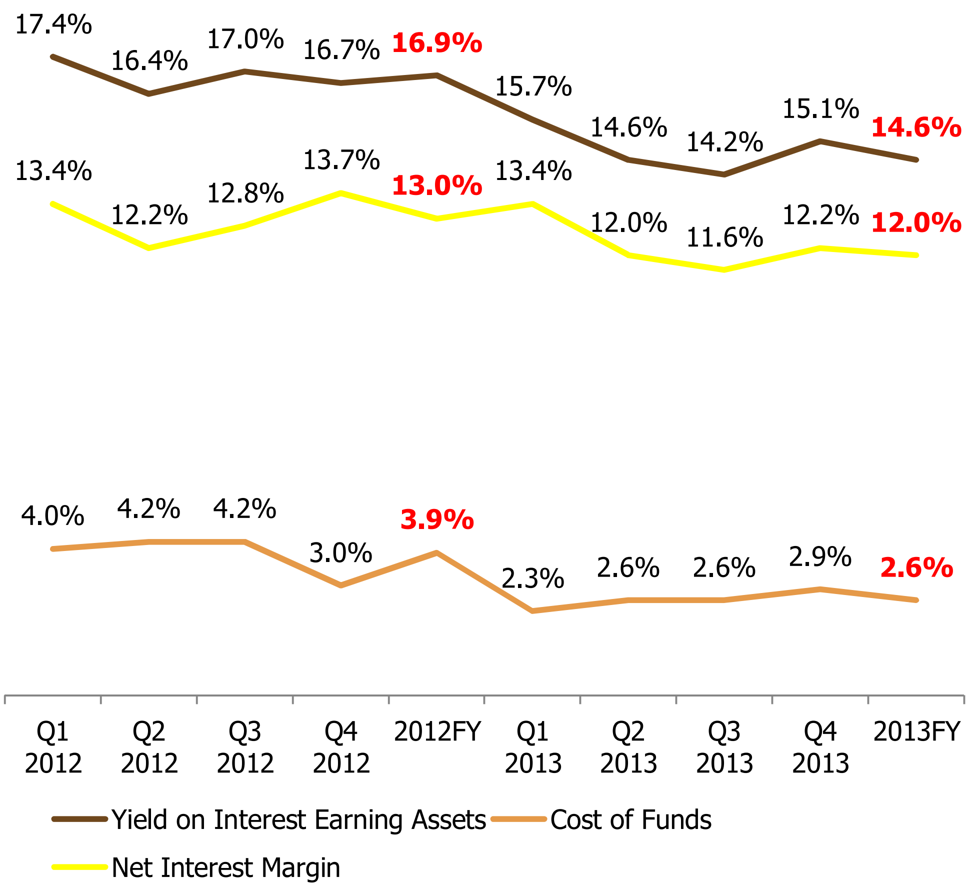
ð Core capital to total RWA: from 8.0% to 10.5%

ð Total capital to total RWA: from 12.0% to 14.5%

# Reduction in Base Rate Impacting Revenue Growth

## Net Interest Margin

High stable NIMS despite tough economic conditions and volatile interest rate environment

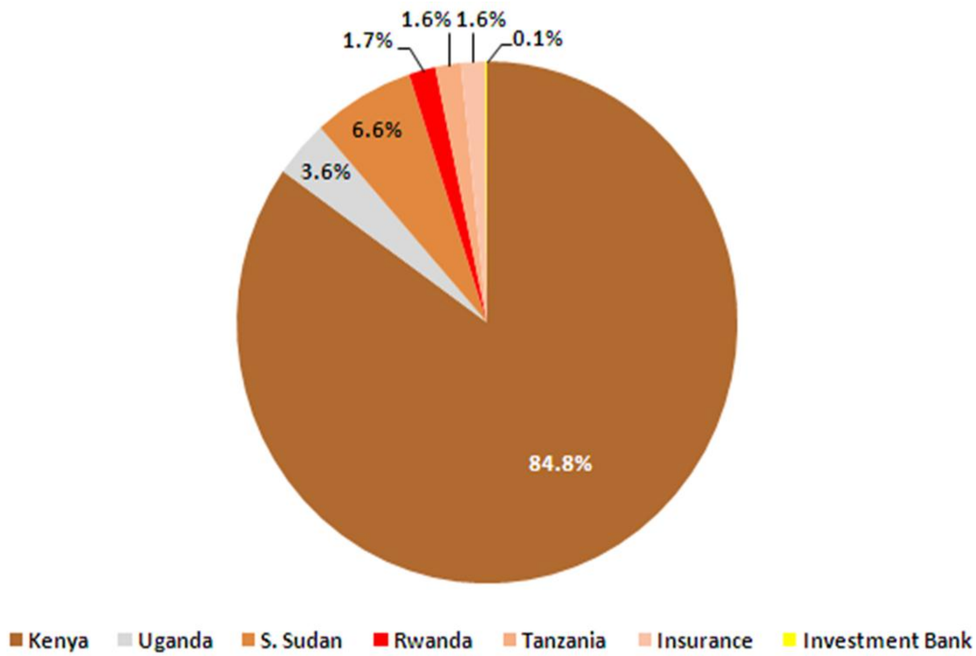



## Revenues

- Net Interest Income grew by 11% while non-interest income grew by 19% y/y
- Forex income contributed 4.5% of total operating income in the group after closing at KES 1.87bn as at Dec-13
- Fees and commission income due to loans grew by 26% y/y to close at KES 4.48bn contributing 11% of total operating income

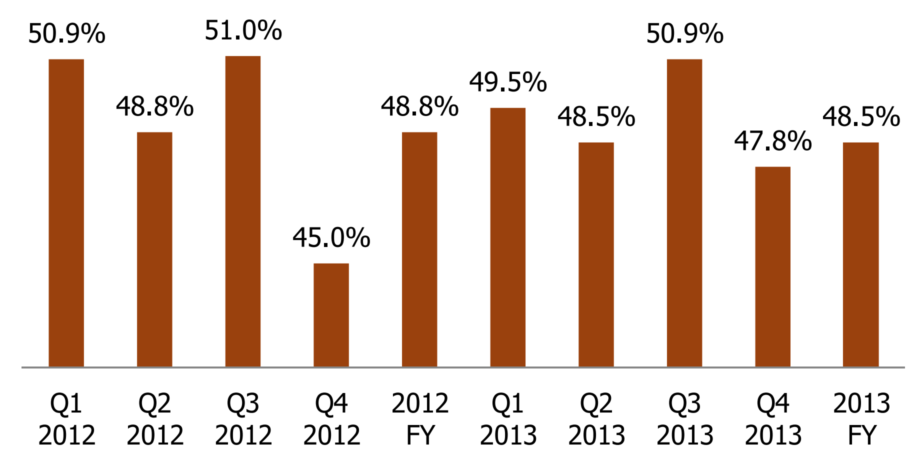
## Subsidiary Contribution to Revenue

KES 42bn

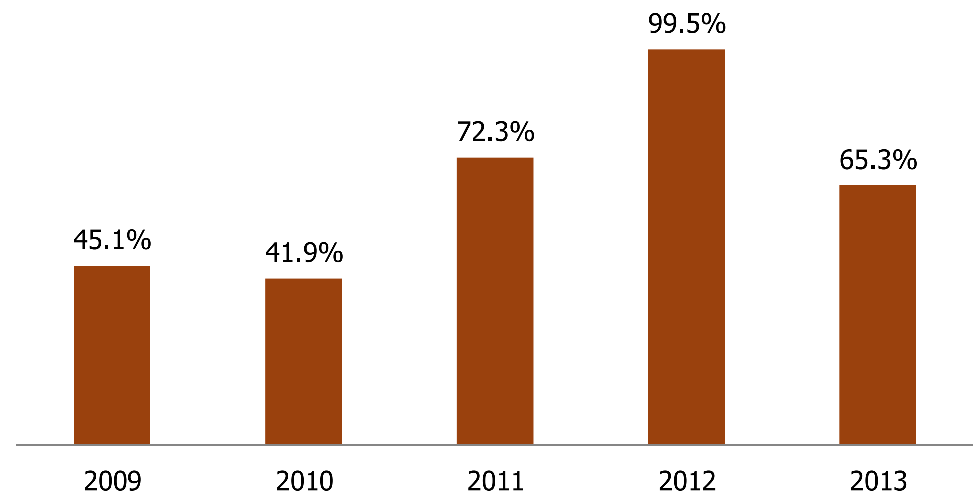


# Focus on Costs: Reduction of Cost to Income Ratio to 48.5%

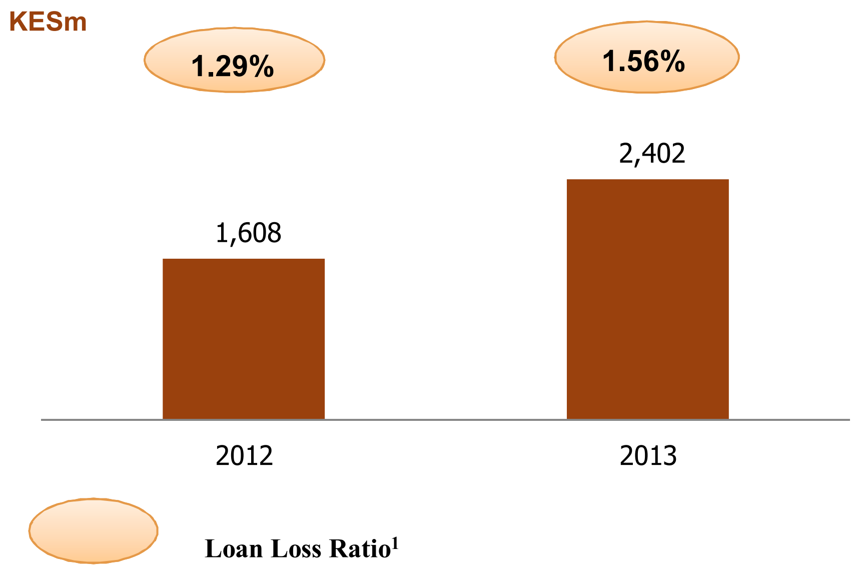
## Cost to Income Ratio




## IFRS Coverage Ratio Evolution[2]




## Loan Loss Provisions Evolution



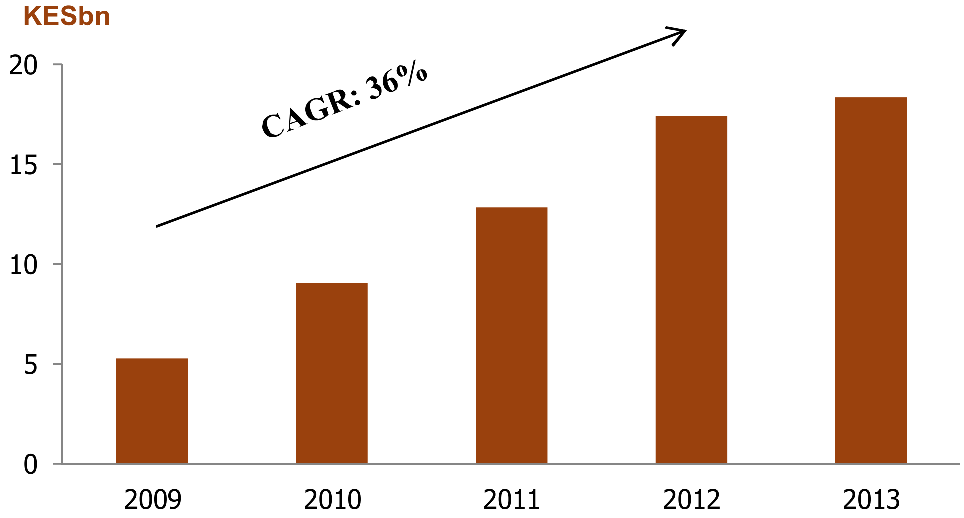

1. Calculated as loan loss provision / average net loans
2. Defined as IFRS Balance Sheet Provisions/Gross NPLs

## Key Commentary

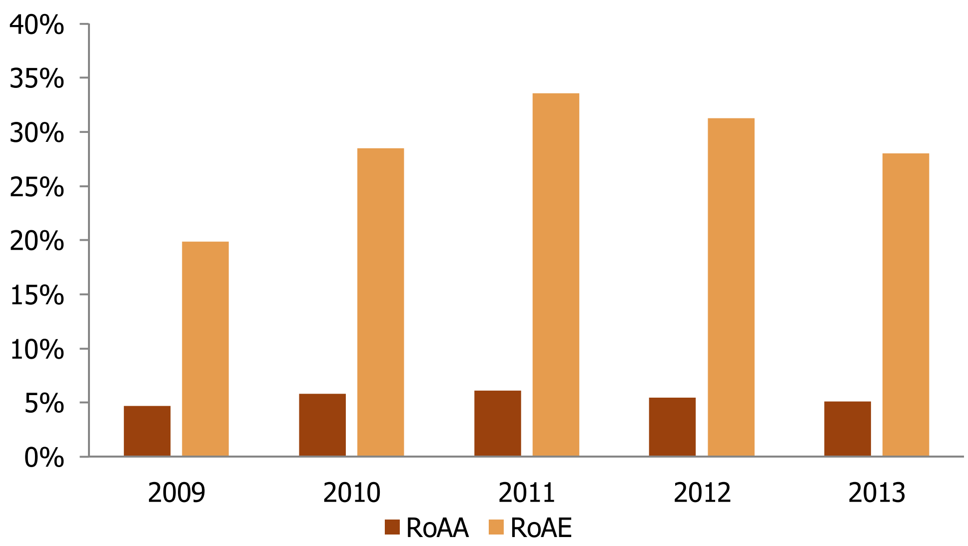
- **Continued focus on cost management**
- Operating expenses increased yoy due to expenses related to physical upgrades of some of our branches to accommodate SME customers
- Cost management expected to be further enhanced by operationalization of the Hyperion planning tool
- CIR ratio expected to be stable in the short term but expected to further reduce in medium term and long term as dividends from agency banking , investments in Payment systems and ICT continue to accrue.

# 28% ROE, 11% PBT Growth despite Challenging Environment

## PBT Evolution[1]




## RoAA / RoAE Evolution




## Key Commentary

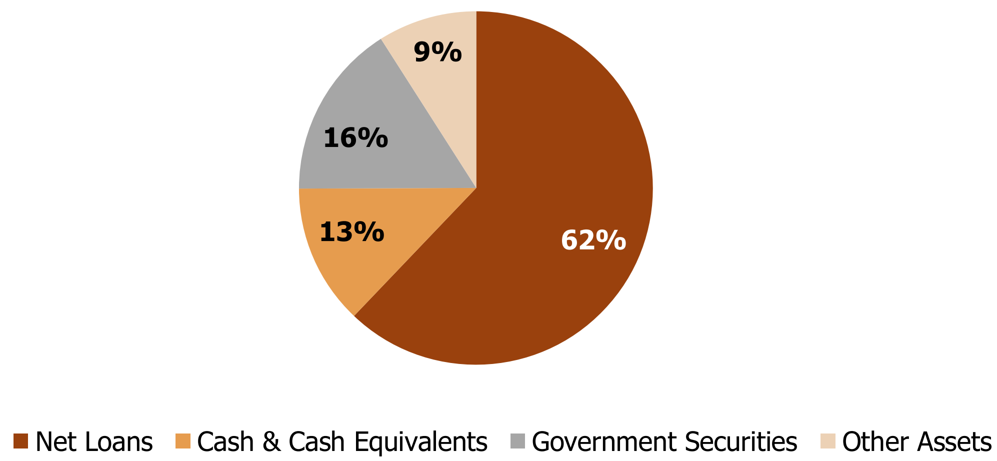
- Group Profit before Tax & exceptional items grew by **11%** y/y to **KES19.15bn**, mainly impacted by the reduction in lending rates and **South Sudan impairment** by KES 0.7bn
- Poor Q2 and Q3 performance impacted by reduction in base rates in May 2013
- Normalised performance in Q4:
  - 35% ROAE
  - 73% growth Q4 vs. Q3
- Continued focus on profitability with a Return on Equity of **28%** despite high capital base (15% CT 1 ratio)

1. Profit before tax after exceptional items

# Structure & Asset Portfolio

| Assets (bn) | Dec-12 KES | Dec-13 KES | Growth % |
|---|---|---|---|
| Net Loans | 135.69 | 171.63 | 26% |
| Cash & Cash Equivalents | 45.13 | 34.53 | (23)% |
| Government Securities - HTM | 30.80 | 34.01 | 10% |
| Government Securities - AFS | 10.00 | 10.36 | 4% |
| Other Assets | 21.55 | 27.20 | 26% |
| **Total Assets** | **243.17** | **277.73** | **14%** |

## Asset Distribution

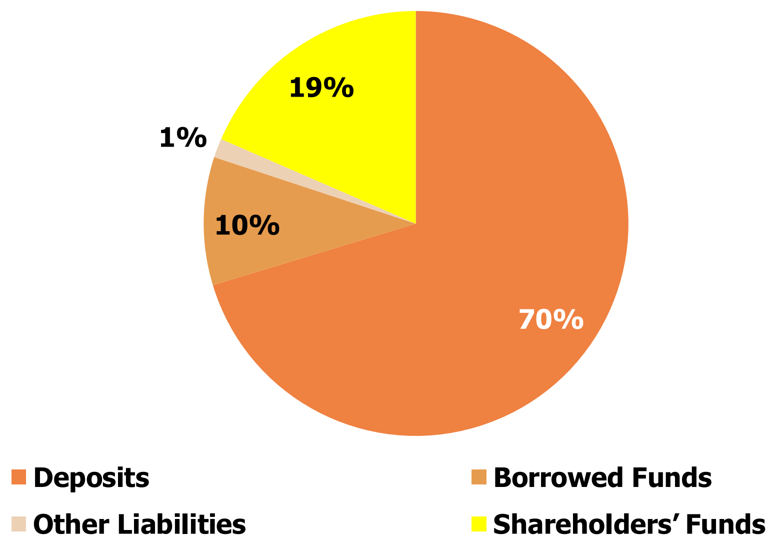



- **Total assets grew by 14%** in the Group with a significant increase being achieved in Loans and Advances.
- Group **net loans and advances grew by 26%** with Kenya growing by 24%, Sudanś by 23%, Rwanda 113%, Tanzania 231% and Uganda grew by 2%
- The Balance Sheet is highly **Liquid at 34%** over the statutory liquidity minimum ratio of 20%
- **85%** of the assets are earning assets

# Structure & Funding Portfolio

| | Dec-12 | Dec-13 | Growth |
|---|---|---|---|
| **Liabilities & Capital (Bn)** | **KES** | **KES** | **%** |
| **Deposits** | 167.91 | 194.84 | 16% |
| **Borrowed Funds** | 26.57 | 26.73 | 1% |
| **Other Liabilities** | 5.77 | 4.60 | (20)% |
| **Shareholders' Funds** | 42.92 | 51.56 | 20% |
| **Total Liabilities & Capital** | **243.17** | **277.73** | **14%** |

## Funding Distribution




- **Shareholders' Funds grew by 20% with** growth mainly being driven by increase in revenue reserves
- **Growth in deposits for the Group was 16%** year on year with Kenya recording 11%, Rwanda 118%, Tanzania 182%, Sudan 11% and Uganda 56% growth rates
- The Borrowed funds consist of long term tenure funds sourced from international DFIs at low cost.

# 2013 Performance

| KESm | December 2012 | December 2013 | December 2013 vs. December 2012 |
|---|---|---|---|
| Interest Income | 30,848 | 31,890 | 3% |
| Interest Expense | (6,884) | (5,399) | (22)% |
| **Net Interest Income** | **23,964** | **26,491** | **11%** |
| Other Income | 12,863 | 15,371 | 19% |
| **Total Income** | **36,827** | **41,861** | **14%** |
| Provisions | (1,608) | (2,402) | 49% |
| Staff Costs | (7,145) | (9,024) | 26% |
| Other Operating Expenses | (10,825) | (11,285) | 4% |
| **Total Costs** | **(19,579)** | **(22,711)** | **16%** |
| **PBT** | **17,249** | **19,150** | **11%** |
| Exceptional Items | 170 | (146) | |
| Tax | (5,339) | (5,726) | 5% |
| **PAT** | **12,080** | **13,278** | **10%** |
| **Proposed Dividend** | **4,628** | **5,554** | **20%** |
| **Key Ratios** | | | |
| NIM | 13.0% | 12.0% | |
| C/I Ratio | 48.8% | 48.5% | |
| Cost of Risk | 1.3% | 1.6% | |
| RoAE | 31.3% | 28.1% | |
| RoAA | 5.5% | 5.1% | |

# Equity Bank: 2013 Dashboard

### HIGHLIGHTS

- **Exceptional results** despite challenging environment:
  - South Sudan instability
  - Reduction of Base Rate by 8.0%
- **Dividend policy maintained: 40% pay-out ratio**

### GROWTH

- **11% growth in PBT**
  - Q2 and Q3 impacted by reduction in Base Rate
  - Stabilization in Q4: **73% growth Q4 vs. Q3**

### RETURNS

- **Top quartile ROE (28.1%) and ROA (5.1%) globally**
  - **Normalized returns of 35% in Q4**
  - Cost to Income ratio down to 48.5%

### RISK

- **Continued focus on risk management**
  - **Reduction in NPL** in Q4 to 5.19%
  - Drop in Base Rate expected to drive NPL down

### CAPITAL AND LIQUIDITY

- **Well capitalized**: 15% core capital to RWA
- **Liquid B/S**: 34% liquidity ratio vs. 20% statutory minimum requirement

### OPERATIONS

- **600,000 new customers!**
- 28% increase in mobile banking users
- 55% increase in agents

**Transforming Lives of our Customers whilst Delivering Superior Returns for our Shareholders in a Challenging Environment**

EQUITY

Bank • Your Listening, Caring Partner


# What to Expect in 2014

# Growth and Return Story

| Past Accomplishments | | Future Aspirations? |
|---|---|---|
| **2007** | **2013** | **2014** |
| 1.8 million customers | 8.4 million customers | 10 million customers |
| ROE: 22.1% | ROE: 28.1% | ROE: 30% |
| ROA: 5.2% | ROA: 5.1% | ROA: 5.3% |
| CIR: 59% | CIR: 49% | CIR: 47% |
| Deposit: KES32bn | Deposit: KES195bn | Deposits: KES 240bn |
| Assets: KES53bn | Assets: KES278bn | Assets: KES 340bn |
| Presence in Kenya only | Presence in 5 countries | Increase market share in the region. |
| | | Reduction of NPLs to 3.5% |
| Market Cap: KES54bn | Market Cap: KES114bn | Market Cap:: ?? |
| Number of Branches: 70 | Number of Branches:216 | Number of Branches: 230 |

# 2014 ï What to Expecté

- Increased focus on **deepening each business** line thereby accelerating growth
- Aim to **Accelerate growth** and market share to:
  - Tanzania: **c.4%** spurred by massive oil find plus Bagamoyo port coming into operation
  - Uganda: **c.6%** as a result of a 30% growth in deposits
  - Kenya: **c.15%**
  - Rwanda: **c.10%** as a result of continued innovation and focused approach by the government
  - South Sudan **c.40%** driven by an increase in oil flow
- Continued **growth** in **Insurance Subsidiary**
- Continued assessment of the Bankô **capital position** guided by its growth rate, reserve retention policy and the new prudential guidelines

# THANK YOU

Dr James Mwangi, CBS
Group Managing Director & CEO
KeEquityBank
@KeEquityBank
Email: info@equitybank.co.ke
Web site: www.equitybankgroup.com