



Earnings Announcement

Equity Bank Group Kenya Unaudited Group Statements For Period Ended 30th September, 2009

Alexander Muiruri
Tel: (254-20) 2211888
alex@fib.co.ke

Email info@fib.co.ke if you would like
to receive Faida Investment Bank
Research

Windsor House, 1st Floor
University Way, Muindi Mbingu St.
Tel: (254-20) 2243811/2/3
Fax: (254-20) 2243814
Email: info@fib.co.ke
www.faidainvestmentbank.com
P.O. Box 45236, 00100
Nairobi

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Highlights

- ✓ Profit before tax growth flat at Kshs 4.2 bn
- ✓ Income statement provision down 17% to Kshs 452 mn
- ✓ Operating expenses rose 21% to Kshs 6.6 bn
- ✓ Total deposits up 30% to Kshs 65.7 bn since Dec 2008
- ✓ Loan book up 32% to Kshs 58.1 bn since Dec 2008
- ✓ No. borrowers up 26%; Branches up 32%; ATMs up 57%
- ✓ Earnings per share down 1% to Kshs 0.91
- ✓ No interim dividend recommended
- ✓ Current share price down 17.5% to Kshs 14.50 since Dec 2008 against a 13.5% drop in the NSE 20 Index (Jan to Oct)

Report Summary

1::	General Review
2::	Asset Quality
3::	Conclusions

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1:: GENERAL REVIEW OF EQUITY BANK RESULTS

Income Statement (KSh mn)			
9 months to	Sept '08	Sept '09	
Interest Income	5,834	7,840	34%
Interest Expenses	997	1,130	13%
Net Interest Income	4,837	6,710	39%
Non Interest Income	4,843	4,559	-6%
Operating Income	9,681	11,269	16%
Bad Debts Charge	544	452	-17%
Operating Expenses	5,441	6,600	21%
Profit Before Tax	4,261	4,254	-0.2%
Profit After Tax	3,399	3,384	-0.5%
Balance Sheet (KSh mn)			
	Dec-08	9m Sept '09	
Total Assets	78,879	97,423	24%
Loans and Advances	44,070	58,144	32%
Government Securities	12,240	12,395	1%
Shareholders' Funds	19,291	22,437	15%
Selected Performance Ratios			
	Industry	Equity	Equity
	Dec-08	Dec-08	Sep 09
Interest Margin*	11.4%	15.7%	17.3%
Net Interest Margin*	8.0%	13.0%	14.8%
NFI to Total Income	40.7%	47.5%	40.5%
NFI to Operating Cost	0.73x	0.91x	0.69x
Cost to Income	55.9%	52.3%	58.6%
Loss Provision to Income	8.5%	8.1%	4.0%
Operating Margin	35.6%	39.6%	41.4%
Earnings Margin	24.8%	31.0%	30.0%
ROE*	20.4%	22.7%	24.2%
ROA*	2.8%	5.9%	5.8%
Leverage (assets : equity)	7.1x	4.0x	4.3x
Loans to Deposits	67.7%	87.6%	88.6%
Government Securities To Total Assets	17.9%	15.5%	12.7%
Analysis of Non Interest Income Streams			
	9m Sept '09	9m Sept '09	Full Yr 08
	KSh mn	Growth	Growth
Commissions Inc	1,471	-13.3%	81.9%
Forex Inc	150	-78.6%	411.9%
Non Interest Inc	4,559	-5.8%	95.5%
Commission Inc to Operating Costs			
	9m Sept '09	Full Yr 08	Full Yr 07
Cost Coverage(x)	0.22x	0.78x	0.84x

Source: Equity Bank Group Published Interim Results

*Indicates that '09 values have been annualized (i.e. 12 months)

Sturdy income from lending business

The bank's *q-o-q* net interest income (NNI) has grown consistently as the benefits of lower cost of funding reflect on the net interest margin (14.8% *est.*). The dull contribution from non interest income was partially offset by the brisk growth of NNI during the 9m period.

Mixed trends from domestic credit mart

The Kenyan credit market has risen by 6% in the seven months to July 09 due to government loans (up 12%). At the same time consumer credit in the same period is down 24% due to a contraction in credit lent to private households (down 36%). The bank appears to have not been adversely affected by these trends especially since over 35% of its loan book comprises consumer credit.

Costs pressure persist as provisions remain subdued

The bank's expansion plans and staff costs have raised its cost income ratio by 6.3% since December 2008 and operating costs have outpaced total income growth. The management will have to keep an eye on staff costs (up 38%) to maintain a low cost profile as branch expansion efforts pick up speed. The loan loss provision declined possibly implying lower corporate delinquency risk at a time when grim economic growth had been forecasted and the CBK had lowered key rates to stimulate lending.

Non traditional market to spur new growth

The management continued its regional focus proposing an ambitious plan to further penetrate the Ugandan market with 40 branches by the end of 2010 (Ugandan operations comprise about 10% of group revenue). Retaining a low efficiency ratio will be pegged on the integration of its micro-banking software across the East Africa and the organic growth of its (550) ATM network that will enable Equity to fully exploit its IT backbone.

Support from non interest income dwindling

Despite the growth in interest income, the inability of non interest income to cover operating costs adequately has reflected badly on the EPS. Forex income gained in '08 had been earned on the Safaricom IPO transaction and thus only commission growth is reliable for FY '09.

2:: ASSET QUALITY

“Risk profile rises in line with loan growth”

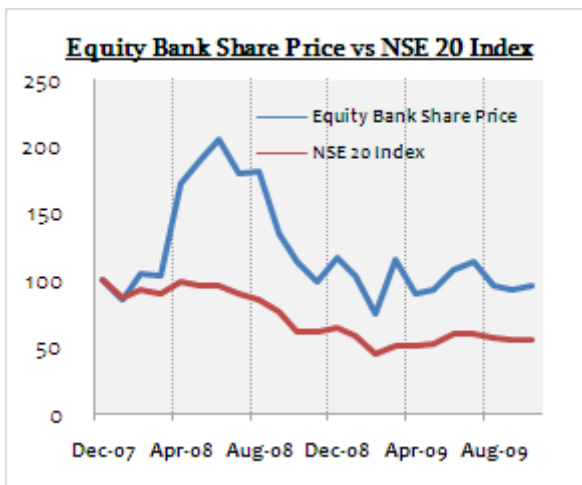
Other Disclosures (KSh mn)			
Equity Bank	Dec-08	HF Yr 09	
Gross NPLs	2,755	4,233	54%
Interest in Suspense	223	537	141%
Total NPLs	2,532	3,696	46%
Loan Loss Provision	750	836	11%
Net NPLs	1,782	2,861	61%
Risk Weighted Assets	48,834	61,816	27%
Selected NPL & Capital Ratios			
Equity Bank	Ind. '09	Dec-08	Sep-09
NPL Provision Growth	21.9%	264.0%	140.0%
NPL/Gross Loans	9.0%	6.1%	6.9%
Core Capital Ratio	-	29.0%	25.0%
Capital Adequacy Ratio	20.2%	41.0%	31.0%
Liquidity Ratio	41.2%	47.0%	33.0%

Non performing loans and provisions rise

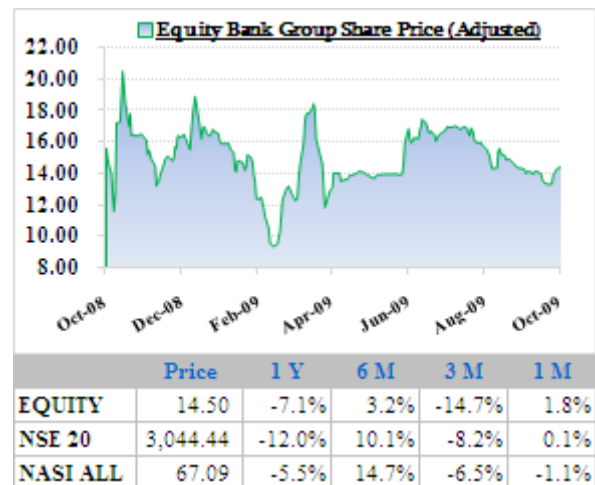
The bank recorded a sizable increase in bad loans as the slowing of the Kenyan economy and drought continue to push default risk on micro loans higher. The increased provisioning (up 140% from Dec '08 to Sep '09) is in line with other banks who are seeking to cover their risk exposure to bad loans. The banks' NPL/Gross loan ratio ranks well with the July '09 industry average of 9.0%.

All capital ratios remain high. CBK had raised interbank liquidity greatly through omo purchases and a reserve ratio reduction to 4.5% during the period. Equity still holds Kshs7.4 bn in subordinated debt on its books that appear to have a negligible effect on interest expenses.

Market Performance



Source: NSE



Source: NSE

3:: CONCLUSIONS

Positive Outlook

We expect regional expansion plans to continue to exert pressure on operating costs and anticipate the bank will target higher deposit growth to fund its robust lending that has seen the loan deposit ratio rise to 89%. Curiously the banks' share closed down 1.0% at Kshs 14.35 (as at 26th October 2009) from the Friday close of Kshs 14.50 driven by very thin trading at the NSE, while the stock price rose 0.6% from Ushs 359 to Ushs 361 at the USE. Obviously investor sentiment is varied across markets, but they may get a lot of comfort from Equity's low cost deposits, its high (47%) market share in terms of bank accounts (growing 37% by September '09), the improved liquidity of the interbank market and its reduced economic exposure to Kenya in driving future growth.

Stock Data Sheet
***Pricing as at September 26, 2009**
****Fiscal Year End: December**
Brief Profile

Equity is among the Top 5 Kenyan banks with a market value of \$775 mn & listed on the NSE & USE. It is largely a micro-finance lender with branches in Uganda.

Large Shareholders as at Year End

	2006	2007	2008
Helios EB Investors	-	24.99	24.45
B. A. Investments Co Ltd	8.24	11.06	11.32
Nelson Muguku Njoroge	8.24	6.22	6.09

Key Banking Ratios (%)

	2006	2007	2008
Industry Mkt. Share			
<i>Total Assets</i>	2.7	5.6	6.7
<i>Deposit Liabilities</i>	2.6	4.2	5.4
<i>Gross Advances</i>	2.4	4.1	6.6
<i>Bank Accounts</i>	30.5	39.0	47.0
Cost to Income	63.0	59.1	52.3
NFI to Total Inc	55.0	53.5	47.5
Leverage (asset:equity)	9.1	3.6	4.0
Loans to Deposits	66.9	69.2	87.6

Kenyan Banking Peer Comparison (Dec. 2008 figures) - KSh mn

	Mkt Cap	Op. Inc	Profit	ROA	ROE	PBV	Branches	ATMs
Equity Bank	59,430	12,606	3,910	5.9	22.7	2.4	102	377
Co-Operative Bank	33,819	9,651	2,374	3.2	23.7	2.0	65	182
Family Bank	-	1,951	367	3.9	25.9	-	45	72

Trading History	2002	2003	2004	2005	2006	2007	2008	YTD
Inflation Adj Return%	-	-	-	-	-	294.2	-3.5	-
Share Price %	-	-	-	-	-	331.6	19.9	-17.6
NSE 20 Index %	0.6	100.9	7.6	41.2	37.4	-4.7	-35.3	-13.5
Market Cap - Sh m	-	-	-	-	12588	54331	65169	53690
Valuation (x)	2002	2003	2004	2005	2006	2007	2008	2009
Price/Earnings (P/E)	-	-	-	-	16.3	21.8	16.5	13.6
NSE-20 Index (P/E)	11.4	20.0	15.3	15.3	16.8	16.1	11.5	13.3
PBV (Equity Bank)	-	-	-	-	5.7	3.6	3.3	2.4
PBV (NSE Banks)	1.0	2.8	2.6	2.7	4.3	3.9	2.4	1.9

Margins %	2002	2003	2004	2005	2006	2007	2008	Latest
Interest Margin %	16.6	12.5	10.7	13.3	14.1	11.7	15.7	15.7
Net Interest Margin %	11.8	9.9	9.3	12.2	13.0	9.8	13.0	13.0
Operating Margin %	30.2	25.3	21.1	27.8	33.1	41.3	39.6	39.6
Earnings Margin %	20.2	17.3	13.1	19.1	22.8	33.1	31.0	31.0

Inc Statement-Shm	2008	Q1 '08	Q2 '08	Q3 '08	Q4 '08	Q1 '09	Q2 '09	Q3 '09
Net Interest Inc	6617	1118	2057	1662	1779	2118	2233	2359
Non Interest Inc	5989	1100	2310	1434	1145	1262	1624	1673
Operating Costs	6598	1177	1863	1857	1700	2166	2143	2291
Loan Loss Provision	1,020	132	326	86	476	54	242	156
Net Income	3910	727	1732	940	511	918	1179	1287
EPS Sh	10.68	0.20	0.47	0.25	0.14	0.25	0.32	0.35
DPS Sh	3.00	-	-	-	3.00	-	-	-
Issued Shares Mn (Adj)	3703	3703	3703	3703	3703	3703	3703	3703
Bk Value per Share	5.28	4.23	4.95	5.21	5.28	5.33	5.69	6.06

Balance Sheet-Sh m		2008	2007	2006	2005	2004	2003	2002
Liquidity %	47.0	74.0	56.0	45.0	47.0	40.0	32.0	-
Capital Adequacy %	41.0	58.0	45.0	37.0	41.0	38.0	33.0	-
Cash to Deposits %	12.2	13.9	11.8	13.5	12.2	13.1	12.2	18.9
Loans & Advances	44,194	24,342	36,241	42,811	44,194	48,237	53,803	58,144
Deposit Liabilities	50,335	34,521	43,860	48,036	50,335	53,721	57,493	65,661
Assets	78,837	57,023	72,485	76,553	78,837	82,991	87,706	97,423
Shareholders' Funds	19,538	15,648	18,341	19,291	19,538	19,721	21,071	22,437

Growth Trends

	1 Yr	3 Yr	Ind
	2008	06-08	2008
Operating Income %	120.3	92.4	28.4
Operating Costs %	95.0	78.2	27.1
Pre Tax Profit %	110.9	115.3	21.6

Profitability Analysis

	Equity	3 Yr	Ind
	2008	Avg	2008
Return on Assets %	5.9	5.3	2.8
Return on Equity %	22.7	28.5	20.4
Revenue/Branch-Sh m	120.1	97.6	149.4
Revenue/Head-Sh m	3.7	3.2	5.2
Profit per Head-Sh m	1.1	0.9	1.3

Operating Cost Management

NFI to Operating Cost	0.91x	0.90x	0.73x
Salaries to Total Inc %	23.3	25.8	27.5

Asset Quality

Net NPL (% CHG)	127.5	78.2	23.2
Bad to Gross Loans %	3.9	3.7	3.3

Financial Position as at 30th Sept '09

Sh m	Dec-08	Sep-09
Net Loans & Advances	44,194	58,114
Government Securities	12,564	12,395
Placements with Banks	6,323	N/A
Intangible Assets	1,465	1,853
Other Assets	14,291	25,061
Total Assets	78,837	97,423
Deposit Liabilities	50,335	65,661
Borrowed Funds	6,463	7,444
Other Liabilities	2,500	1,881
Total Liabilities	59,299	74,986
Minority Interest	0	0
Total Equity	19,538	22,437

GLOSSARY OF TERMS USED IN DOCUMENT

Deposits – Refers to both customer deposits and deposits due to other banking institutions
Bad Debts Charge – Also known as loan loss provision in the income statement
Government Securities – Treasury bills and bonds (both domestic and foreign)
Core Capital Ratio – Tier 1 capital as a percentage of deposit liabilities
Capital Adequacy Ratio – (Tier 1 + Tier 2 capital) as a percentage of total risk weighted assets
NFI – Non Funded Income or Non Interest Income (comprising commissions, forex income & others)
NPL – Net Non Performing Loans (adjusted for interest suspended and loan loss provisions)
ROE – Return on Equity (annualized only where interim figures are available)
ROA – Return on Assets (annualized only where interim figures are available)
Inflation Adj Returns – Real returns adjusted to reflect the country’s average annual inflation

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Head Office:

University Way, Muindi Mbingu St.
Windsor House, 1st Floor
P. O. Box 45236 - 00100
NAIROBI
Tel: (+254-02) 2243811/2/3

Nairobi Office:

Standard Street, Muindi Mbingu St.
Ecobank Towers, 7th Floor
P. O. Box 45236 - 00100
NAIROBI
Tel: (+254-020) 2210561/571

Nakuru Office:

Kenyatta Avenue
Vikers House, 1st Floor
P. O. Box 611
NAKURU
Tel: (+254-051) 2215449