Press Release

Equity Group Weathers Turbulent Environment to Emerge the Most Profitable Bank in Kenya

Nairobi 25th May 2017…….. Equity Group continued to execute its strategy to digitize and focus on preserving stakeholder value resulting in enhanced efficiencies and a responsive business model to emerge the most profitable bank in Kenya with a profit before Tax of Kshs 6.9Bn based on bank results published to date.

This was against a backdrop of an increasingly turbulent macro environment characterized by among others: prolonged drought resulting in significant crop failure, loss of livestock leading to high food prices coupled with high energy prices that drove inflation to a five-year high of 11.4%. Depressed global oil prices, rising interest rates in the US markets that have brought mixed fortunes among other unquantified global phenomena. The Group remains well positioned to respond to the emerging opportunities by focusing on SMEs, particularly in the energy, infrastructure and export sectors. At the same time the Group benefitted from the contribution of regional banking subsidiaries and improving remittance flows which supported growth in forex income and deposits.

The Group's balance sheet grew by 14% to KShs 492Bn up from KShs 430Bn driven by a growth in customer deposits of 18% in Kenya and 16% at the Group level against flat growth of the Kenya banking sector. The Group leveraged on its wide network and brand to grow its deposit base to Kshs 349.3bn from Kshs 300.3bn.

Speaking during the investor briefing and release of its quarter one 2017 results, the Group Chief Executive Officer Dr. James Mwangi said, "A cautious approach in credit underwriting because of inability to price risk saw the loan book decline by 5% from KShs 275Bn to KShs 262Bn. The increase in funding was invested in government securities which on a risk adjusted basis currently yields similarly to loans, and yielded about 12%. Government securities grew by 81% from KShs 62B to KShs 113B with the highest growth experienced in Kenya where government securities grew by 154% from KShs 42Bn to KShs 105Bn."

The focus on SMEs which are well secured, reduced the net risk exposure in terms of provisions and write offs. An appropriate mix of forex denominated loans (25%) and local currency loans (75%) in Kenya plus regional subsidiaries growing loan book limited the effects of interest capping in Kenya.

Despite the capping of interest rates, the reduction in interest yields coupled with a reduction in loan book by 5%, interest income only declined by 11% from Kshs 12.9Bn to KShs 11.5Bn. This was due to the growth in interest income from government securities portfolio which grew by 81% and growing high yielding loan book of the regional subsidiaries.

Non-funded income grew by 21% from Kshs 5.2Bb to KShs 6.3Bn reducing the adverse effects of reduced interest income on total income. The net effects of these resulted in only a 3% reduction in total income to KShs 15.2Bn from Kshs 15.5Bn.

Dr Mwangi added; "The Group exercised its agility to balance funded income versus non-funded income from a ratio of 67:33 to 58:42 by increasing non-funded income significantly: Mobile banking transactions grew by 75% to Kshs 308.8mn up from Kshs 176.9mn; Trade Finance by 78% to Kshs 282.8mn from KShs 159; Diaspora Remittances by 79% to Kshs 130.1mn from 72.5mn; agency banking by 19% to Kshs 206.4mn from Kshs 172.8mn and merchant commissions by 8% to Kshs 279.2mn from Kshs 258.3mn."

The Group's innovations culture ventured into the mobile and fintech space enabling digitization of the Bank's operations. The bank has developed a new business model of digital banking with a suite of digital banking products named Eazzy Banking that have seen very dramatic uptake especially Eazzy Banking App, validating the evolving consumer trends and desire for convenience brought about by technology. Eazzy banking App transactions grew by 28%; Eazy Biz by 56%; EazzyNet by 32%; EazzyPay by 171%.
Despite deposits growing by 16%, Interest expense only increased by 5% to Kshs 2.6bn from Kshs 2.4bn.

The Group's effective cost management resulting from a shift from fixed cost to variable cost delivery channels, digitization and pursuit of efficiency saw total cost decline from Kshs 8.4Bn to KShs 8.3Bn with Kenya which is ahead in digitization reducing its total cost by 5% compared to a growth of 8% last year. The Group posted a zero growth in cost compared to 17% growth in similar period last year. Cost to Income ratio remained constant at 49% at the Group and at 43% for Equity Bank Kenya.

In pursuit of a conservative policy in uncertain times, cost of risk increased in Equity Bank Kenya from 0.67% to 1.14% with provisions for bad and doubtful debts increasing by 63% while at the Group level, cost of risk stood at 1.16% up from 1.03% in a similar period last year. The Group remained well positioned to take advantage of opportunities given its liquidity ratio of 53% in Kenya and 51% at the Group.

The Group's regional expansion has started paying off with regional banking subsidiaries increasing their contribution to the Group's profits from 5% to 10% with Uganda growing by 194%, DR Congo 182%, Rwanda 117% and Tanzania 45%.

Profit before Tax declined by 5% to KShs 6.9Bn down from KShs. 7.3Bn while Profit After Tax declined by 5.5% to Ksh4.9Bn down from KShs 5.1Bn. Equity Group maintained an impressive ROE of 24% and a 4% ROA.

The Group continues to leverage on the top-of-mind brand. Superbrand has for the last ten years in a row recognized Equity Bank as the Top Banking Superbrand in Kenya. The Bank was also named the Best Retail Bank in Kenya and East Africa by the Banker Awards and retained the title of Overall Best Bank in Kenya by Think Business banking awards. The Banker Top 1000 World Banks ranked it 835 overall in its Global Ranking. It was also globally ranked 43rd in soundness (Capital Assets to Assets ratio), 34th in terms of Return on Capital and 8th on Return on Assets. The Global Credit Rating (GCR) maintained Equity's investment grade AA- on long term and A1+ short term with a stable outlook while Euromoney also ranked it Africa's best bank in 2016, Africa's best SME Bank and Kenya's Best Bank. These rankings continued to solidify public confidence and trust thus driving deposit growth in Kenya which stood at 18% at a time of uncertainty and shrinking banking assets.

The Group's strong governance structure as seen in its diversified and highly skilled Board, a talent pool in its executive and management enabled the Group CEO Dr. James Mwangi to be named the Chief Executive of the year by Think Business banking awards in 2017 and the East Africa CEO of the year by the Banker Awards 2017. The Bank also produced the Outstanding Young Banker of the Year, (Gakii Mwongera who is the head of Cash and Liquidity Management) while Rohit Sign the Group Director for Corporate Banking is the holder of the Corporate Banker of the Year 2016.

The quality of the Bank led it to win 19 awards out of its 24 entries in the Think Business 2017 out of which the bank was the Best in 14 categories, First Runners up in four categories and second runners in mobile banking. The Banker East African Awards 2017 named the Bank the Best Retail bank in Kenya and East Africa, the Best Bank in Corporate Social Responsibility in East Africa and the Best Digital Bank in Kenya.

Think Business banking awards 2017 named Equity as the Bank With The Lowest Charges to the individual further validating the bank's strategy. "Our commitment is to continuously innovate modern ways of banking that gives our customers freedom, choice and control while at the same time passing the benefits of affordable banking to them. We delight in empowering our customers to enjoy the freedom of modern banking," said Dr. Mwangi.

Despite the prevailing economic challenges, Equity Group Foundation continue to invest in social impact programs. The number of *Wings to Fly* beneficiaries reached 15,000 at a cost of Kshs 14. Bn worth of comprehensive secondary school scholarships and leadership training. Air lift to Global leading universities has so far benefitted 400 university students at a cost of KShs 9.6 Bn through the Equity Leadership program.

The thirteen-week Financial literacy training program reached 1.5 million youth, women and micro entrepreneurs while 25,000 entrepreneurs received a three-year entrepreneurship training. 600,000 small scale peasant farmers have transformed into agribusiness through training while 2,500 medium scale farmers are being supported to transform through value addition.

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