Equity Bank's differentiated strategy results in growth of the Bank's size to nearly half a trillion on the backdrop of a challenging operating environment

Nairobi….15th March 2017……. Equity Group's resilient business model weathered a difficult and turbulent operating environment in 2016 to grow its balance sheet size to nearly half a trillion Kenya Shillings.

The Group's profit before tax grew to KShs 24.9bn from KShs 24.0 bn with the regional subsidiaries contributing KShs 1.4 bn accounting for 5% of the Group profit before tax.

In Kenya, the banking environment was characterized by heightened uncertainty following three commercial banks being put under statutory management, effects of interest capping regulation at no more than 400 basis points above CBR for loans and not less than 70% of CBR on interest earning deposits, credit to private sector contraction, bear run on the Stock markets and skewed liquidity amongst banks.

The macro- economic environment was also characterized by foreign exchange rate instability, rising inflation, devastating drought resulting in famine, food inflation and negative impact on water supply, hydro energy and security.

On the regional front, the environment was characterized by uncertainties due to the electioneering in Tanzania and Uganda, the transitions in South Sudan and DRC. In addition, the pending 2017 elections in Kenya and Rwanda played a role in slowing economic activities as investors' exercised caution in their investment decisions.

The year also witnessed a slump in global commodities prices leading to a slowdown in regional trades and economic growth. The impact of the slow down effect of the China economy which has affected global commodity prices and political events in The US and UK are also being felt.

Speaking while releasing the end of year results, the Group Managing Director and CEO Dr. James Mwangi said "The Group is well positioned to weather shocks from the environment as reflected in the Group's liquid and well capitalized balance sheet. The Group closed the year with liquidity levels of over 48% and total capital adequacy ratio of over 19%.Our value proposition to shareholders is solid and our strategy continues to pay off with an Earning Per Share (EPS) of KShs 4.38. As a result of this, the Board has proposed a dividend payment totaling KShs. 7.547bn."

The digitization strategy continued to bear fruits for the Bank as the Group rolled out tools that deepened financial inclusion and broadened access, which resulted in an enhanced savings culture. The deposits for the Group grew by 11% from KShs 303bn to KShs 337bn as at 31st December 2016 supported by growth in number of customers by 11% from 10,039,620 to 11,129,016. The increased adoption of the new delivery channels of mobile banking under Equitel and Eazzy Banking App as well as Agency Banking saw the number of transactions grow from 200 million to 335 million transactions, which is a growth of 67% ,with Agency and mobile banking pushing over 289M of this total transactions levels. The uptake of Equitel in the period under review increased from 1.6 Million customers to 2.7 Million while the downloads of the Eazzy Banking App rolled out late last year was at 130,266 downloads as at 31st December 2016. The number of Equity Agents increased from 23,885 to 29, 561 in the same period. These new self-service channels that enable customers to do their banking on their own devices has revolutionized money transfer and payments with customers having greater control and freedom to manage their bank accounts confirming that customers want a banking service that is integrated to their everyday lives.

The effect of using these alternate delivery channels has translated to improved efficiency and cost saving which is expected to continue going forward. As a result, the cost to income ratio in Kenya (excluding impairments) has improved from 47.1% to 44.8% while for the Group improved from 52.9% to 50.7%.

With retail transactions moving to the technology driven channels (Eazzy banking) and third party infrastructure such as the Equity Agents and merchant banking, the bank branches have become the preferred centers for relationship banking for SMEs and corporates. The SMEs sector loan book grew by 10% with the total loan book at the end of the year closing at KShs 266Bn. Total loans disbursed during the period under review was 6.3million with those disbursed through Equitel accounting for 85%. Investment securities grew by 135% from KShs 43Bn to KShs 101Bn.

Regional expansion to five countries in Eastern Africa and investment in non- banking subsidiaries has enabled the bank to cushion itself against adverse challenges from the operating environment that may arise from any of the markets. The Group's regional expansion and diversification strategy has maintained a growth momentum with subsidiaries in Rwanda, DRC and Tanzania registering growth in deposits of 34%, 29% and 23% respectively. Subsidiaries in DRC, Uganda and Rwanda saw loan growth of 25%, 24% and 22% respectively.

As a result of the growth across the different balance sheet items, total revenue grew by 14% from KShs 56bn to KShs 64bn driven by improved revenue from the subsidiaries, growth in interest income grew by 19% from KShs 43bn to KShs 52bn, and growth in non-funded income reached KShs 22.2bn from KShs 21.9bn.

The Group maintained its prudent approach to managing its loan book and increased its provisions as a proactive measure in the challenging macroeconomic environment which impacted negatively on the quality of financial assets portfolio. NPLs for the group closed at 6.8% compared to an estimated industry average of above 10%.

The Group, through Equity Group Foundation continued to scale its social impact interventions in 2017. 1,680 Wings to Fly scholars got comprehensive scholarships through support of The MasterCard

Foundation and KFW bringing the total beneficiaries to 14,168. The Equity Leaders program admitted 732 scholars bringing the total to 5060 beneficiaries out of whom 363 are students/alumni of international universities. In the agricultural intervention over 500,000 farmers have been transformed to agribusiness entrepreneurs and 2616 medium sized farmers have been supported to scale up their agribusinesses. Through the Bank, Equity Group Foundation has reached out and trained 1,455,759 women and youth on financial education which has helped them to join the financial system and improve on their business skills. On health, the Foundation embarked on rolling out the Equity Afia clinics which are fully owned and managed by Equity medical graduates with over 5 years working experience. In the pilot phase in 2016, Equity Afia clinics were opened in Rongai, Buruburu, Kayole, Thika and Kawangware.

In 2016 Equity Group was recognized globally and was ranked by The Banker Top Banks in the world 2016 as the fastest growing big bank in Africa, 8th best bank in the world on Return on Assets for the second year running and 43rd best bank in the world in Soundness as measured by capital asset ratio while being ranked the 34th best bank in terms of Return on Capital. Euromoney Awards of Excellence named Equity as Africa’s best bank 2016, Kenya’s Best Bank and Kenya’s Best SME Bank.

Global Credit Rating maintained Equity’s investment grade AA- with a stable outlook. In the local scene, Equity Bank was ranked by Think Business 2016 Banking Awards as the Best Bank overall, Best Tier 1 Bank, Best Bank in SME Banking, Best Bank in Retail Banking, Best in Agency Banking, Best Microfinance Bank, and runners up best bank in asset finance, internet banking, mortgage finance, product marketing and customer satisfaction while Superbrand has for the last 10 years in a row recognized Equity Bank as the Top Banking Superbrand in Kenya.

Future Outlook

In order to weather a continued challenging operating environment the Group has focused on enhancing a nimble, agile balance sheet with strong liquidity and improving asset quality, brand investment and visibility, digitization and innovation for increased efficiency and customer convenience. The Group will continue to focus on unlocking its potential and utilizing the embedded value in its balance sheet by improving productivity across all its subsidiaries.

Improved customer experience across all channels continues to remain a key focus as well as maintaining a quality loan book while still consolidating the liability (deposit) franchise. The Group continues to focus on prudent and optimal capital allocation to boost value creation for its shareholders as well as shared prosperity to all its stakeholders.

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