Press Release

EQUITY GROUP'S DIFFERENTIATED LEADERSHIP, BUSINESS MODEL AND STRATEGY DEFY A CHALLENGING OPERATING ENVIRONMENT TO GROW PROFITS AFTER TAX BY 14% TO KSHS 18.9BN.

Nairobi 22nd March 2018……. Under a challenging operating environment over the past 2 years, Equity Group management's decisive actions, strategic direction with Equity 3.0 and differentiated business model enabled it to report a 14% growth in Profit After Tax for the year ended December 2017 to Kshs 18.9Bn up from Kshs 16.6Bn in 2016.

The operating environment over this two-year period was characterized by bank failures, severe drought adversely impacting the agricultural sector and resulting in elevated inflation, prolonged presidential elections, interest rate capping causing a credit crunch and ultimately lower economic growth estimated to be 4.7% in 2017 from 5.8% in 2016.

A fortified liquid and agile balance sheet positioned the Group defensively in the challenging and uncertain operating environment whilst diversified revenue streams, geographic diversification and structural efficiency gains enabled the Group to weather the effects of interest rates capping. The Group now has a liquidity ratio of 54%, non-funded income contributes 42%, subsidiaries contribute 14% of earnings and costs have only grown 7% over the past 2 years. Key in management strategy has been innovation and digitization of the Group which is now being rolled out to the subsidiaries consolidating efficiency gains.

Equity Group reported differentiated revenue growth of 2% to Kshs 65.2Bn up from Kshs 64 Bn, despite the impact interest rate caps and the challenging operating environment has had on the banking sector. Non-funded income continues to be a key differentiator and grew by 24% to Kshs 27.6Bn up from Kshs 22.2Bn year on year (YoY) driven by forex income, remittances, commissions, trade finance, agency commission, Amex credit cards and diaspora remittances.

"Equity Group business model has proven that the Group is not dependent on the loan book only to drive shareholder value," Dr Mwangi said and added that "We are reaping the benefits of a strong social brand that focuses on enhancing our relationship with the community through a shared prosperity approach to business. This, coupled with a staff force that is talented, passionate, and committed to our shared vision of transforming the lives and livelihoods of our people gave the Group a strong foundation to confront and defy a perfect storm."

In 2017, the Group crystallized its 3.0 Strategy of digitization through its digital suite of self-service tools known as Eazzy Banking. This saw an exponential growth of customer activity in third-party channels which now contribute over 94% of transaction volumes with recently rolled out Eazzy Banking App growing by 2,005% to 92.8 million transactions from 4.4 million YoY and a value of Kshs 77.8Bn from Kshs 3.3Bn YoY. Eazzy Biz, which is a cash management solution for SMEs had a rapid adoption in the market that resulted in a growth of 516% YoY with a transaction value of Kshs 139Bn from 48.8Bn YoY.

"Our prediction that the branch will cease to be a banking transactional channel has come to pass. Our branches reported a decrease in transaction volumes by 9% to 18.6 Million down from 20.4 Million but with an increase in transaction value to Kshs 1.46 trillion from Kshs 1.44 trillion YoY. This is in line with our strategy of re-inventing the branches as relationship and wealth management centres for our SMEs and high net worth individuals since transactions have moved to self- service channels," Dr Mwangi observed.

Equitel continued to increase market share with transaction volumes growing by 11% to 251.6 million from 227.4 million YoY while the value of transactions grew by 32% to Kshs 480.3Bn up from Kshs 364.4Bn.

The Group's agency network which has now grown to reach over 35,000 agents saw the transaction volume grow by 7% to 66.2 million from 61.9 million with value growing by 15% to Kshs 528.9Bn from Kshs 458.3Bn.

Diaspora remittances grew by 132% to Kshs 30Bn from Kshs 13 Bn YoY due to an increased strategic partnership with payment partners including PayPal, Equity Direct, Western Union, MoneyGram, Wave and Swift.

Income from Treasury Operations increased by 59% to Kshs 19.2Bn from Kshs 12Bn YoY driven by an increase in government securities portfolio to Kshs 128Bn from Kshs 100.6Bn and increasing its contribution to the total income by 25%.

The Group's strategy of regional and business diversification resulted in a double-digit growth across the subsidiaries with an increased contribution of PBT of 14% from 8% YoY, validating the Group's decision to diversify into the East and Central Africa region and diversification in financial services offering. Uganda PBT grew by 88%, Rwanda by 76%, DRC by 55%, South Sudan by 107%, Finserve by 29% and EIB by 48%.

The Group's 3.0 Strategy and differentiated business model saw Total Costs decline by 2% to Kshs 38.3Bn from Kshs 39.1Bn reflecting the consolidation of efficiency gains of innovation and digitization of business. Profit before tax grew by 8% to Kshs 26.9Bn up from Kshs 24.9Bn.

Total Assets grew by 11% to Kshs 524.5Bn up from Kshs 473.7Bn YOY with Net Loans growing by 5% to Kshs 279.1Bn up from Kshs 266.1Bn while government securities grew by 27% to Kshs 128Bn up from Kshs 100.6Bn YoY. "While the agile and liquid balance sheet positioned the Group defensively in the past, it now positions the Group competitively to take advantage of emerging opportunities. Dr. Mwangi commented and added; "The unutilized capacity on the balance sheet can now be availed to customers in an improving environment and given the structural efficiency gains in the business, we can utilize this capacity at lower operational costs".

The focus by the Group on the quality of the loan book saw NPLs as at the end of the year close at 6.3% compared to 10.6% for the banking sector.

Deposits grew by 11% to Kshs 373.1Bn from Kshs 337.2Bn as the number of customers reached 12.1 million.

The Group has continued to invest in social impact investments. To date Equity Bank, through Equity Group Foundation has trained close to 1.6 million entrepreneurs including farmers, women, youth groups, and micro-, small- and medium-sized enterprises through various initiatives in partnership with Mastercard Foundation and the International Labor Organization. 25,000 entrepreneurs have received a three-year entrepreneurship training and 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.

The number of Wings to Fly beneficiaries reached over 15,000 at a cost of Kshs 14Bn worth of comprehensive secondary school scholarships and leadership training. 5,431 Top Performing KCSE Scholars have benefited from Equity Bank University Paid Internship worth Kshs 5.3Bn. The Equity Airlift to Global leading universities has so far benefitted 443 university students at a cost of nearly Kshs 12 Bn through the Equity Leadership program.

The Group's business model continues to be validated by rating agencies and recognitions locally, regionally, and globally. Moody's Investor's Service in its latest assessment assigned Equity Bank Kenya first time ratings with a stable outlook based on the Bank's strength. The global local currency rating captured the Bank's strong credit profile which is closely aligned with the B2 (stable) rating of the Kenya government due to the Bank's strong brand recognition, solid liquidity buffers and resilient funding profile, established domestic franchise and extensive adoption of digital and alternative distribution channels. At the same time, Moody's has assigned a national scale rating of Aa3 which ranks Equity Bank Kenya the best credit rated bank in Kenya.

The Global Credit Rating (GCR) maintained Equity's investment grade AA- on long term and A1+ short term with a stable outlook. 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 2017 by Think Business banking awards for the 6th year. The Banker Top 1000 World Banks ranked it 806 overall in its Global Ranking, 37th in soundness (Capital Assets to Assets ratio), 45th in terms of Return on Capital and 8th on Return on Assets. The Bank won 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 customers.

The Group CEO Dr. James Mwangi was named the Chief Executive of the year 2017 by Think Business banking awards 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).

Outlook

Equity Group has completed its 3.0 strategy implementation ahead of schedule with over 94% of all transactions migrated to digital. The rapid adoption of digital banking by customers is an indication that the Group has remained very responsive to the needs and aspirations of its existing and potential customers. "Our commitment to continuously listen to our customers has meant that we constantly disrupt ourselves through innovation. This way, we remain relevant to our customers. We have also increased our internal capability to deliver digital banking by adopting predictive capabilities that inform our futuristic innovations. We believe that the future of banking is predictive capability, and this is where we have set our eyes as a Group," said Dr Mwangi.

At the macro economic level, the African continent is on the verge of a historic transformation which will unlock the continent's economic potential by creating a Free Trade Area. such a trading bloc will create opportunities for trade in goods and services and open opportunities to scale Africa's ability to manufacture finished goods. Equity Group's strategy and business model places the bank in a strategic position to support this agenda. " We see great opportunities for businesses in Africa to take advantage of Africa Free Trade Area. this will open up opportunities for free movement of people supported by Africa open space, accelerated industrialization, joint development of infrastructure and value addition of goods and services through manufacturing especially natural resources and agricultural produce," Dr Mwangi said.

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