Press Release

Equity Group profits grow to Kshs.28.5 billion; a profit growth of 6% and a 13% growth in customer deposits

March 26th 2019……...Equity Group's pursuit of a unique business model and strategy to create resilience and manage headwinds of interest rate capping and challenging macroeconomic and business environment has delivered differentiated 2018 financial and business results that competitively positions the Group into an improving operating environment.

The liability franchise has been strengthened with customer base growing to 13.5 million clients and customer deposits growing at 13% to reach Kshs.422.8 billion up from Kshs.373.1 billion driving the growth of the balance sheet to reach Kshs.573.4 billion up from Kshs.524.5 billion the previous year. "This is the growth resilience we were pursuing to navigate the headwinds of slow growth rate of the private sector credit", said Dr. James Mwangi the Group Chief Executive and MD.

The loan book grew by 6% to reach Kshs.297.2 billion while maintaining a non-performing loan ratio of 7.6% against a Kenya banking sector NPL ratio of 12%. The Group fortified the asset base by maintaining the cost of risk at 1.2% by increasing loan loss provision by 8% up to Kshs.3.7 billion, thus boosting the NPL coverage to 89% up from 69%. "This is the prudence that was dictated by the difficult operating environment", said Dr. Mwangi, while releasing the results.

Despite pursuing a conservative strategy to fortify soundness, the Group registered a 6% growth in Profit Before Tax. Profits grew to Kshs.28.5 billion up from Kshs.26.9 billion. With Profit After Tax growing to Kshs.19.8 billion up from Kshs.18.9 billion the previous year. Whilst the Group has fortified the balance sheet, it has also created latent value with a high liquidity ratio of 54% providing capacity for higher margin growth.

The profit growth was underpinned by a 10% growth in net interest income, driven by a 6% growth in loan book and 26% growth in investments in Government securities. Cost optimization during the year resulted into a 1% growth in total costs to Kshs.38.8 billion against a total income growth rate of 3% to Kshs.67.3 billion. Efficiency gains from operations saw cost income ratio reduce from 53.5% to 52.2%. Effective intermediation-maintained yield on interest earning assets at 11.2% against a cost of funds of 2.7% while registering 1% growth in total costs due to successful digitization. The net positive effect of efficiency gains was a return on average equity of 21.1% and a return on average assets of 3.6%. With the strong cashflow, the Board of Directors have recommended a payout of 38.3% of profits available for distribution, a dividend of Kshs.7.5 billion resulting in a payout of Kshs. 2 per share or 400% on par and a dividend yield of 5.7%.

In pursuit of quality of income, the Group registered 38% of the total income contribution from diversified non-funded income streams. The strategy of focusing on non-funded income is building momentum with gross merchant commission growing at 30% to Kshs.2.043 billion up from Kshs.1.576 billion. Fees and commissions from diaspora remittances grew by 169% up to Kshs.751 million up from Kshs.279 million, trade finance fees and commissions grew by 20% to reach Kshs.1.542 billion up from Kshs.1.284 billion, SWIFT and RTGS income grew by 26%, and bond trading income grew by 43%, said Dr. Mwangi.

Geographical and business diversification strategy continue to demonstrate the Group's ability to replicate the Kenyan successful model with non-banking and regional banking subsidiaries increasing their total assets to 26% of the Group's total assets, their deposits and loans contributing 24% and 25% respectively of the Group portfolio while their profit after tax contribution reached 15% of the Group profits.

Fintech innovation and digitization has powered rapid growth of merchant banking and Diaspora banking. The cost structure of the bank has seen total cost grow by only 1% as a result of the shift of the business model from fixed cost infrastructure to variable cost 3rd party infrastructure and self-service model. 96% of all Group cash transactions are now happening outside the branch, primarily on mobile and agency network platforms. 93% of all successfully processed loans are now originated via mobile channels. Fintech innovation and digitization is delivering ease and convenience to customers explaining the new energy and growth momentum of intermediation characterized by growth in customer numbers and customer deposits. This strategy is contributing significantly to cost efficiency as the bank moves from fixed costs to customer self-service model and variable cost 3rd party infrastructure, lowering the staff and other operational costs.

Successful execution and delivery of an integrated strategy coherently pursued for two consecutive years has seen the Group's asset portfolio retaining its high-quality rating; the liability side of client deposits growing faster by 13% than the assets side loans which grew by 6%. This has resulted in enhanced Group liquidity of 54% making the balance-sheet agile and flexible to market emerging opportunities associated with rapid regional growth and the imminent removal of interest capping, after a court ruling declared the interest capping law unconstitutional.

Focused and sustained investment in fintech innovation and digitization has resulted in operational efficiencies, cost optimization, customer convenience and ease of access and use of Group's financial offering, as well as positioned the Group's speed to market with emerging opportunities.

In pursuit of its ambition of shared prosperity, social and impact investments, the Group's spend through its corporate foundation has topped to Kshs.35 billion with 87% of the funding being on the popular and highly impactful Wings to Fly program and Equity Leadership Program, which have seen 16,168 needy kids access free secondary education of whom 12,256 scholars have transitioned to university education with 496 students attending leading global institutions. As well, 1,732,469 young people or 20% of Kenyan youth and women have also benefitted from free 13 weeks' financial education, FIKA-Financial Education for Africa.

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