**Press Release**

**EQUITY BANK’S INNOVATION LED GROWTH LIFTS THE GROUP’S PERFORMANCE**

*Equity Group’s digital transformation gathers pace as transaction value grows five-fold and Ksh 30Billion is disbursed in 3.5Million loans.*

**Nairobi November 3rd 2016 ……** Equity Bank Kenya continued to demonstrate resilience against the banking sector turbulence attributed to the failure of 3 banks late last year that resulted in uncertainty in addition to the capping of interest rates. Equity Group Holdings profit before tax for the 9 months period to 30th September 2016 grew by 18% over the same period last year to Kshs.21.5billion while total assets increased by 5% to reach Kshs 468 billion.

Net interest income grew by 26% to Kshs.32.3 billion up from Kshs.25.6 billion while total costs increased by 13% to Kshs.27.4 billion up from Kshs.24.2 billion with operating expenses growth being limited to single digit percentage growth as the benefits of the digitization process underway as well as the adoption of variable cost structures begin to be realized.

Equity Bank Kenya saw its profits grow by 20% while the profit before tax in Uganda and Democratic Republic of Congo grew by 130% and 16% respectively. The positive outcomes across the subsidiaries more than offset an exceptional diminution of 84% in the balance sheet of the Group’s subsidiary in South Sudan arising from an a nearly twenty fold depreciation of the South Sudanese Pound (SSP). Regional banking subsidiaries now contribute 30% of the group’s total deposits, 18% of the total loans and 25% of total group asset, signifying growing diversification which places the Group in good stead to sustain its growth momentum going forward.

Dr. Mwangi, Equity Group CEO attributed the performance by the Group to innovation and efficiency focus which resulted to the Group’s cost income ratio declining from 53% to 49% while Equity Bank Kenya which is the Group’s largest subsidiary had its cost income ratio declining from 47% to 43%. However the Group recorded an increase in cost of risk from 0.95% to 1.63% and 0.75% to 1.41% for Equity Bank Kenya. The increase in provision for Equity Bank Kenya has been informed by strategic decision to recognize that loans underwritten at a higher yield have had their interest adjusted downwards. In this regard, the Bank has adopted a conservative approach to reduce future provisions in line with the reduced yields hence increasing current year’s provisions by 95% from Kshs. 1.7 billion to Ksh 3.3 billion.

The most impactful innovation in contributing to efficiency and profitability was Equitel – the Group’s mobile banking platform which within its first full year of operation in Kenya captured 15% of the total mobile money transfer market in both value and volume of transactions. Mobile digital banking processed nearly 3.5 million loans totaling Kshs.30 billion which represented 84% of the loans granted by the bank in Kenya. The quality of the loans disbursed through the mobile digital platform during the year was excellent with a realized recovery rate of 98%.

 Equitel grew its transactions by 142% to reach 150.8 million transactions during the period handling more transactions than the aggregated transactions processed by branches, ATMs and the Agency networks notwithstanding a growth of 23% in the volume of transactions processed through the agency network to reach 46 million while the value of the transactions grew over five-fold to Kshs.250.8 billion up from Kshs.43.5 billion the previous year. In just one year of operation, Equitel captured 15% of the national mobile cash transfers both in number of transactions and value of transfers processed.

The Bank’s early and continuing investment in technology as well as its committed progressive transitioning from the traditional heavy fixed cost based brick and mortar operation to an increasingly digital driven variable cost based model aligns perfectly with the observed changing preferences by banking sector customers.

The 25,000 Agency Network has been instrumental in digitizing cash and the pilot phase of digitizing the bank has been very successful. The banks agents processed 46 million transactions compared to branches and ATMs which together processed 35 million transactions over the period. Merchant banking digital payment increased by 38% while the value of the merchant transactions grew by 35% demonstrating the greater acceptance of digital payments at the retail level.

The success of the one year pilot of digital Equitel mobile banking was crowned by a launch of full scale digitization of the bank through online, internet based, open interoperable mobile banking channels with downloadable applications including cash and liquidity management products for corporate and SMEs. The launch facilitates access of the banking capability by the Bank’s customers through the release of a series of 10 Eazzy banking solutions and tools. New Fintech driven Diaspora remittances channels, PayPal and Equity Direct grew their contribution to remittance processing from 22% to 30% of all Diaspora remittances processed, again demonstrating the repositioning of the bank’s offerings through innovative products and channels.

The launch of full scale digitization is likely to fully transform Equity Bank during the year making it more of a Fintech with convergence capability of a bank focusing on building the liability side while Equitel mobile channel combined with the Fintech analytics capability and big data computing helping build the asset side. This new capability brought about by digitization will increase the bank’s transaction income as more people embrace the power of the new digital tools’ ability to support modern lifestyle demands by enabling them to do banking and more payment transactions through their devices. The bank will achieve disruptive capability with immense flexibility and adaptability.

Equity Bank front loaded its investment in IT and digital security ahead of this launch to ensure that its customer transactions benefit from world class security. Equity became the first bank in the region to obtain the prestigious global Payment Card Industry Data Security Standard 3.1 (**PCI DSS 3.1**) certification effective 28th August 2016. The certification affirms Equity’s adherence to international security standards related to the protection of customer information. In addition. Equity Bank recently partnered with a Global Security Operation Centre (GSOC) in line with the Bank’s strategic vision of providing secure banking services to the customers. The GSOC is the central nerve center that offers real-time internal and external threats detection and cyber defense 247. The GSOC is equipped with specialized technology, processes and expertise to monitor, assess and proactively defend the Bank from any potential threats both internally and externally.

Strong customer deposits growth in Kenya of 22% (Kshs 48 billion) more than off-set a decline in deposits in south Sudan by 81% (Kshs 36 billion) resulting in an overall growth in customer deposits at the group level of 5%. Liquidity ratio has in Kenya was enhanced from 25% to 45% in and Capital ratio remained strong providing significant headroom for growth by the group.

Return on Equity (RoE) for the Group increased from 25% over the same period last year to 26% while Return on Assets increased 4.3% to 4.5%.

Equity Bank has been recognized both locally and internationally as the most innovative Bank in Africa and best mobile banking services provider in Africa by the Banker. Global Credit Rating maintained Equity’s investment grade at AA- with a stable outlook while the Group was ranked 8th best bank globally in return on assets for the second year running by the Banker ranking of the top 1000 worlds banks 2016. Equity Group also retained its global award winning status by being named by Euro money Awards of Excellence as Africa’s best bank 2016.

Equity Group has continued to invest in social impact programmes through Equity Group Foundations with resounding success in society. To date 12,377 deserving pupils have received comprehensive secondary school scholarships through the Wings to Fly program; 3405 has gone through the Equity Leaders Programme with 329 of them having joined/alumni of global universities. 14,000 Kenyans have been reached with renewable energy products. In agriculture, 500,000 peasant farmers have been transformed to agribusiness. Nearly 1.3 million youth and women have received financial training (FiKA) while 25,303 have received entrepreneurship training. This has helped to deepen financial inclusion with loans worth KShs 32 billion availed to women under the Fanikisha products and loans worth Kshs 18 billion accessed by youth.

**FUTURE OUTLOOK**

1. Regional operating environment characterized by strong collaboration of economic drivers and harmonization of reform agenda and policies characterized by stable micro economic indicators with average GDP growth of 6% against a background of 1.5% GCP growth of Sub-Sahara Africa provide impact for rapid growth. The region has become a leading investment destination for global capital and have witnessed massive infrastructure investment by the respective countries. Diaspora remittances and tourism industry are on the rise and early signs of economic diversification and transformation are visible providing optimism for business growth.
2. It is not our practice to share our predictions and prefer allowing investors to seek to understand the business drivers of value and make their projections based on their templates. However, we are persuaded to share some fundamental facts that are a result of the new law capping interest rate and the market reaction that will continue to shape the performance of the Group.
3. The ratio of interest earning and non-interest earning deposits is likely to remain within the range of 35:65% of total deposits with the effective cost of funds being within the range of 3%.
4. Deposit growth is likely to be within double digit rate as interest capping has removed pricing consideration in favor of risk consideration which favors attractiveness of the Group. Digitization and launch of Eazzy pay and Eazzy Biz are likely to have current account and transaction floats increase significantly. The Bank is well positioned to attract deposits by leveraging on superior customer experience, convenience, a strong balance sheet and a strong and trusted brand.
5. Digitization is likely to favour the use of online, mobile channels and Agency network which are cost effective, variables cost 3rd party channels which will play a key role in the digitization of cash, reducing operational costs and improving cost income ratio to 42% in the medium term.
6. Interest on loan book is likely to be 250 basis points above the CBR rate driven by a weighted average cost, a mix of SME & retail loans and corporate loans of 70% and 30% respectively, the former yielding 400 basis point above CBR with the net interest above 9%.
7. Average yield on Treasury Investments is likely to be 100 basis points above the CBR reducing the difference between the yield on loan book and yield on government investments (narrowing the spread)

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