Press Release

Equity Group Registers a 10% growth in Profit After Tax on the back of a 21% Growth on Loan Book
Profit Before Tax grew by 11% to reach 28.78 Billion up from 22.41 Billion in the same period last year

Nairobi 12th November 2019………….. Equity Group increased its lending to enterprises in the real economy by 21%. This was supported by the Young Africa Works partnership between Equity Group, Mastercard Foundation and the Kenya government whose objective is creating 5 million decent jobs for young people.

Loans and advances to customers grew by Kshs 60.5 billion to Kshs. 348.9 Billion up from Kshs. 288.4 Billion reflecting a growth of 21% with 75% of the loan portfolio held by enterprises. 67% of the loan portfolio is spread in financing trade, housing, energy, water, transport and communication, tourism, restaurants and hotels.

Young Africa Works program has seen 5,740 young people and women go through a 13-week financial education training program while 6,275 enterprises have commenced a 3-year entrepreneurship education program since June 2019.

The Group's balance sheet grew by 21% to Kshs. 677 Billion up from Kshs 560.4 Billion driven mainly by 21% growth in net loans and 40% growth in cash and cash equivalent. Investments in government securities decelerated to only grow by 5% as more funds were reallocated to lending to the real economy. The assets are funded by a growth of 19% in deposits which grew to Kshs 478.1 Billion up from Kshs 402.2 Billion. Shareholders' funds have grown by 20% to Kshs. 108.7 Billion up from Kshs 90.7 Billion while long-term funding has grown by 18% to Kshs 66.3 Billion reflecting a stable diversified mix of funding.

The Group's net interest income grew by 10% to Kshs 32.29 Billion from Kshs 29.47 Billion. Non funded income grew by 14% to Kshs. 22.54 Billion up from Kshs. 19.83 Billion to lift total income by 11% to Kshs 54.83 Billion up from Kshs. 49.3 Billion. The faster growth in total income above net interest income reflects success of the strategic pursuit of the Group to grow quality income through non funded income growth.

Merchant banking business grew by 27% to reach a transaction volume of Kshs 88.4 Billion up from Kshs 69.6 Billion while merchant commission grew by 19% to reach Kshs 1.74 billion up from Kshs 1.46 Billion. The volume of Diaspora remittances grew by 28% to reach Kshs. 101.9 Billion up from Kshs. 79.8 Billion. Forex trading income and commission grew by 20% to Kshs 2.84 Billion up from Kshs. 2.37 Billion with 23% of the traded forex generated by Diaspora remittances.

The Group's cost to income ratio improved to 51.3% from 51.5% driven by a faster improvement in the cost to income ratio of the main subsidiary Kenya to 45.9% from 47%. The improvement in cost income ratio is underpinned by efficiency and cost optimization driven by innovation and digitization. Digitization has helped transform banking from a place you go to something you do. 97% of all transactions now happen outside the branch while 93% of all the Group loan transactions are via the mobile channels.

Relentless pursuit of innovations has resulted in the Group delivering products and services substantially on 3rd party variable cost channels and infrastructure as opposed to fixed cost channels. 77% of the Group transactions are now on mobile, 12% on agency network, 3% through merchants and only 4% and 3% happen on ATMs and branches respectively. Majority of the customers are now enabled on self-service mobile and internet compressing geography and time enabling 24-hour banking services.

The use of 3rd party infrastructure, mainly merchant and payment points has enabled creation of seamless distributed bridges for conversion of cash and digital currency.

The Group has gone beyond digitizing payments and the new frontier is digitization of services with the fastest growth now being registered by digitization of retail commerce through EazzyPay that has seen the volume and value of transactions grow by 91% and 149% respectively year on year.

Corporate internet banking has registered a growth of 72% and 69% on volume and value of transactions respectively. Online trading of Forex on EazzyFx platform grew 100% to register Kshs 7.3 billion in transaction value.

Efficiency, cost optimization as characterized by a variable cost third party delivery infrastructure, self-service model has driven improvement in cost to income ratio, driven by low cost of mobilizing of funds at 2.8%, low growth of staff costs and other operating expenses at 13% and 10% respectively.

The Group's strategy is anchored on an agile balance sheet aligned to the real economy and characterized by a high-quality asset portfolio. The Group has achieved a stable diversified funding strategy with customer deposits, shareholders' funds and long-term debts contributing 71%, 16% and 10% of the funding respectively. These funds have been deployed 52%, 24% and 16% on loans, government securities and cash and cash equivalents respectively allowing the Group to quickly respond to opportunities arising from changes in monetary and economic policies. The agile balance sheet reflects a liquidity of 59.1% in Kenya and 54.2% at the Group.

The Group's focus on quality and diversification of its asset portfolio has resulted in a loan portfolio that is distributed 73% and 27% in local and foreign currency respectively by borrowers 60%, 23%, 14% and 3% in MSME, consumer, large enterprises, and agriculture respectively. NPL's are at 8.3%, 430 basis points lower than the sector NPL ratio of 12.6%. NPL coverage on IFRS 9 stands at 78% in Kenya and 74% at the Group level. To fortify the asset quality, the Group increased its cost of risk to 0.77% up from 0.62% resulting in increase of loan loss provision by 42% to Kshs 1.88 Billion up from Kshs. 1.32 Billion.

The scaling of the business through geographical expansion continues to register impressive results, with the regional subsidiaries growing their assets by 26% to reach a contribution of 27% of the Group's asset base. Two of the subsidiaries Rwanda and Uganda registered a return on average equity (RoAE) of 23.9% and 21.2% respectively, covering their cost of capital, whereas DRC continued its impressive growth in RoAE to 17.7% up from 15.9%. This enabled the Group to register a RoAE of 22.9% and a Return on Average Assets (RoAA) of 3.7%.

The 21% growth in the balance sheet driven by customer deposits growth of 19% and the ability to deploy such growth in funding to a quality asset portfolio, and a liquidity of 54.2% reflect the strong strategic positioning of the Group and its ability to effectively manage portfolio risk following the removal of interest rate capping in the Kenyan market that hold 75.6% of the loan book.

Equity Group Foundation, the social impact investment arm of the Group has continued to build the capacity of micro, small and medium enterprises and youth, women and agricultural households to enhance their capacity to consume products and services of the Group and take up tools of empowering them to exploit economic opportunities. Over the last 5 years, 45,725 small and medium enterprises have received 3-year entrepreneurship education, while 1,979, 232 youth accounting for 20% of Kenya's youth have been taken through a 13 weeks financial education program. In the last 7 years, 638,522 peasant farmers have been supported to transform into agribusinesses while 31,291 medium size farmers have been reached with entrepreneurial education and organized into product value chains supported by 4,600 agro dealers for certified seeds, fertilizers and chemicals.

700,000 low income households have been supported with school fees loans for their families and 16,168 of their children have received comprehensive *Wings to Fly* scholarships. 12,256 Equity Leadership Scholars have transited to university while 514 scholars have earned global university scholarships.

These social and impact investments with support of Mastercard Foundation, Norfund and KfW among other partners have helped to reduce the risk of offering financial intermediation while fortifying the Group brand.

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