Press Release

Equity Group Holdings Plc defy COVID-19 headwinds to grow loans to customers by 22% as customer deposits record 19% growth

Nairobi 18th August 2020………….. Equity Group Holdings PLC (EGH) today announced its half year results for the period ended 30th June 2020 reflecting a 24% decline in profitability from Kshs.12.0 billion to Kshs.9.1 billion for the corresponding period the previous year.

Topline net interest income was up 17% to Kshs.24.6 billion up from Kshs.21.1 billion the previous year driven by a 22% growth in loan book from Kshs.320.9 billion to Kshs.391.6 billion. Non-funded income declined by 3% from Kshs.14.5 billion to Kshs.14.1 billion as a result of the waiver of mobile transaction fee in Kenya since April 2020 to drive behavior change towards virtual banking enabled by mobile technology; and lower transactional activity given weak economic activity. Customers shied from use of Merchant Banking and Agency Banking as transactional channels with merchant transactions stagnating as commissions declined by 10% from Kshs.103.3 million to Kshs.93.3million as agency cash in cash out transaction volume declined by 20% from Kshs.54.031 billion to Kshs.42.975 billion with resultant commission declining by 25% from Kshs.1.055 billion to Kshs.789 million. However, retail digital commerce payments Eazzy Pay and Pay with Equity recorded 49% growth in cumulative number of transactions from 1.152 million to 1.719 million transactions as value of transactions grew by 52% to reach Kshs.9.8 billion up from Kshs.6.4 billion.

Total costs increased by 44% to Kshs.26.7 billion up from Kshs.18.6 billion driven by a 15-fold increase in loan loss provision which increased to Kshs.7.7 billion up from Kshs.500 million in recognition of portfolio risk associated with the adverse disruption of COVID-19 health pandemic control, management and containment measures and resultant economic shocks and disruptions of supply chains by economic lockdowns. “Despite NPLs showing a minimal decline from 10.9% to 10.7% quarter on quarter basis and stabilizing below the 13.1% industry average, prudence dictated that we adopt a conservative humble approach in recognizing the risk of uncertainty Covid-19 has imposed on the operating environment” said Dr. Mwangi, The Group Managing Director and CEO while releasing the results.

EGH balance sheet grew by 17% from Kshs.638.7 billion to Kshs.746.5 billion driven by 19% growth in customer deposits to Kshs 543.9 billion from Kshs 458.6, funding that was deployed to grow loans to customers by 22% and investment in Government securities by 20%. Regional subsidiaries grew faster increasing their contribution to the Group profitability to 28% up from 26% same period the previous year. Post balance sheet date, the Group completed the acquisition of 66.53% of BCDC the second largest bank in DRC paving way for the Group to achieve a systemic position after merger and amalgamation of the two subsidiaries in DRC.

To cushion liquidity shocks the Group maintained a liquidity of 54% while Kenya recorded 59.4% liquidity ratio.

The performance as at 30th June 2020 reflects the implementation of both defensive and offensive strategies to respond to the COVID-19 situation that has transformed the operating environment.

"We assessed that the Covid-19 health pandemic would be a medium-term situation until a pharmaceutical solution or vaccine was found. The health protocols of coping and managing by staying at home, social distancing, washing hands and sanitizing while wearing masks would disrupt production, shock supply chains and degenerate into an economic crisis. On this basis, we resolved to prioritize the safety and health of our staff and customers first, and protecting livelihoods by supporting enterprises to survive, adapt, recover and subsequently thrive. In light of the markets we operate in being characterized by a thriving real estate, tourism, travel, private education, transport, logistics, trade and commerce, we have determined that 45% of our clients' loans would need flexible accommodation on loan repayments. Our future as a bank will be defined by who we support our customers both individuals and enterprises to become, said Dr. Mwangi.

"As an offensive strategy, the Bank increased lending to agriculture and agricultural processing growing credit to the sector by 40%, while credit to the enterprises grew by 28% as resources were directed to Personal Protective Equipment (PPEs) production in the region. To support clients comply with the health protocols, the Group focused on virtualization and digitization of the Bank, and by 30th June 2020, 98% of all cash transactions were happening outside the branch network with 83% of transactions being on the mobile platform. Furthermore, resources were dedicated to enhancing fintech innovation in Diaspora remittances to enable social payments reach families that saw regional diaspora remittances growing by 57% from Kshs.66.6 billion to Kshs.104.9 billion," added Dr. Mwangi.

The cash acquisition of the second largest bank in DRC, BCDC paves way for the regional subsidiaries to contribute 35 of the Group balance sheet thus diversifying the Group's risk into a regional risk. Merger of the two subsidiaries in DRC would put the Group on the path of being the largest bank in DRC and making the Group to be systemic in the major markets of Kenya and DRC while diversifying the operating environment from the agriculture and services dominant East African region to the commodity and natural resources rich Central Africa.

On the defensive strategy the Group focused on efficiency and cost optimization that resulted in the Group cost income ratio declining from 52.8% to 48.8%. The Group increased its portfolio credit provision 15-fold from Kshs. 500 million to Kshs.7.7 billion increasing the Group's NPL coverage from 64% to 73%. To mitigate for loss of mobile transactions fee and merchant banking fees and commissions, the Group focused on Diaspora remittances and increased revenues by 51% from Kshs.398 million to Kshs.601 million while increasing forex income by 20% to Kshs. 2.231 billion up from Kshs.1.859 billion.

The Group has adopted an aggressive approach on “safety and health of staff first and customers first”. By end of September half of staff will have been enabled to work from home to minimize staff public transport movements and enhance social distancing at the workplace. The Group has added a Covid-19 insurance cover on the staff medical insurance scheme to ensure staff and their families are comprehensively covered.

Through “Pay with Equity and Eazzy Pay” the Group has facilitated digital retail commerce for customers to minimize the use of cash. Merchant banking has been enhanced by Near Field Communication (NFC) making debit cards and credit cards to have “tap and go” capabilities without pin authentication for small transactions to minimize contact with surfaces. By end of September customers will have access to salary-based loans online on their mobile phones while tea farmers and dairy farmers will access their loans online. The Group has enhanced its online presence while Eazzy Banking app has been revamped as well as Equity Jenga Payments Gateway and APIs

Equity Group Foundation rolled out a Kshs.1.3 billion complimenting support to the fight against Covid-19 by providing frontline health workers dealing with Covid-19 patients with Personal Protective Equipment (PPEs) in Kenya and DRC while providing testing kits to Rwanda. The Foundation further enhanced its MSMEs training to help preserve jobs by slowing layoffs while scaling disbursements of cash transfers under social safety net and protection programs with governments and the donor community. Our associate network of medical clinics Equity Afia doubled its clinics to support provision of non Covic-19 out-patient services. The Foundation continued with youth and women training and credit facility programme under Young Africa Works program to support livelihoods

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