Q32020 Kenya Banks Earnings Update - Equity Group Holdings PLC

- Equity Group reported KES.14.8Bn in **Profit after Tax** Q32020, a 14.6% dip compared to KES.17.3Bn Q32019 attributable to 50.7% increase in operating expenses, caused by 686.1% surge in loan loss provision to KES.14.8Bn.
- **Total Assets** grew by 37.9% from KES.677.1Bn to KES.933.9Bn mainly supported by 30.1% growth in the **loan book** to KES.453.9Bn**,** as well as 34.4% growth in **holdings of government securities** to KES.222.8Bn. Quarter on quarter, loan book and holdings of government securities grew 15.9% and 3.0% respectively, highlighting the group's efforts to support its customers and spur economic growth during the pandemic
- **Customer deposits** increased 44.5% to KES.691.0Bn compared to KES.478.1Bn Q32019.
- **Total Interest Income** grew 21.7% to KES.52.1Bn on the back of 24.4% growth in income from loans and advances to KES.36.0Bn coupled with 21.9% increase in interest income from government securities to KES.15.4Bn.
- **Interest expense** increased to KES.12.8Bn (+21.6%) compared to KES.10.5Bn Q32019, driven by 17.9% growth in interest costs on customer deposits.
- **Non-funded income** increased by 10.1% from KES.22.5Bn to KES.24.8Bn on the back of a 40.9% y o y increase in foreign exchange trading income.
- **Asset Quality – Non-Performing Loans** (NPLs) increased to KES.51.8Bn from KES.30.5Bn a direct result of heightened defaults associated with the pandemic.

FY2020 Outlook

- The group's profitability has taken a hit from the effects on the COVID-19 pandemic and we expect the group to record an overall decline FY2020 due to declining interest income as a result of selective lending and declining yields on government securities
- The bank's new strategy that has resulted in increased lending to the private sector is likely to boost interest income, while exposing the bank to increased credit risk.
- Loan loss provisions are expected to increase significantly FY2020 as the bank aims to conserve capital liquidity while protecting quality of balance sheet.
- With increasing yields on government securities, we expect the lender to increase its holdings of government securities in the final quarter of the financial year.
- Non-funded income has been a key contributor to the group's revenues in previous years. We expect the bank to focus on NFI growth to boost earnings during the pandemic period.