

Condensed directors' remuneration report

For the	9 months ended 30.09.2018 Unaudited	6 months ended 30.09.2017 Unaudited	12 months ended 31.12.2017 Audited
	Shs' 000	Shs' 000	Shs' 000
Aggregate directors' emoluments	63,789	56,417	130,774

Condensed consolidated statement of profit or loss

For the	9 months ended 30.09.2018 Unaudited	9 months ended 30.09.2017 Unaudited	12 months ended 31.12.2017 Audited
	Shs' millions	Shs' millions	Shs' millions
Net interest income	33,750	31,840	37,569
Provision for impairment losses on loans and advances	(824)	(2,275)	(2,716)
Net interest income after loan impairment charges	32,926	29,565	34,853
Net fee and commission income	7,180	7,522	16,342
Net foreign exchange and other operating income	5,680	6,669	7,596
Net operating income	45,786	43,756	58,791
Operating expenses	(23,378)	(23,022)	(31,909)
Profit before income tax	22,408	20,734	26,882
Income tax expense	(6,580)	(6,095)	(7,964)
Profit for the period	15,828	14,639	18,918

Condensed consolidated statement of other comprehensive income

For the	9 months ended 30.09.2018 Unaudited	9 months ended 30.09.2017 Unaudited	12 months ended 31.12.2017 Audited
	Shs' millions	Shs' millions	Shs' millions
Profit for the period	15,828	14,639	18,918
Other comprehensive income:			
Available-for-sale investment securities	(192)	1,557	1,297
Exchange differences on translation of foreign operations	(989)	(491)	(1,502)
Other comprehensive income for the period	(1,181)	1,066	(205)
Total comprehensive income for the period, net of tax	14,647	15,705	18,713
Earnings per share (basic and diluted) (Shs)	4.17	3.87	5.00

Condensed consolidated statement of financial position

As at	30.09.2018 Unaudited	30.09.2017 Unaudited	31.12.2017 Audited
	Shs' millions	Shs' millions	Shs' millions
Assets			
Cash, deposits and balances due from financial institutions	78,437	74,795	79,621
Derivative financial asset	167	216	253
Investment securities	158,575	127,744	128,002
Due from related parties	-	548	449
Current income tax	65	1,225	2,193
Loans and advances to customers	288,381	265,449	279,092
Other assets	10,935	22,209	10,631
Property and equipment	10,781	12,597	10,865
Intangible assets (including goodwill)	10,174	10,039	10,099
Deferred income tax	2,790	3,331	2,706
Prepaid leases	81	95	554
Total assets	560,386	518,248	524,465
Liabilities			
Deposits from customers	402,245	368,801	373,143
Borrowed funds	56,249	52,161	47,873
Due to related parties	19	-	-
Other liabilities	10,471	6,649	9,832
Dividend payable	57	-	-
Current income tax	612	355	411
Deferred income tax	61	148	64
Total liabilities	469,714	428,114	431,323
Equity			
Share capital	1,887	1,887	1,887
Share premium	16,063	16,063	16,063
Retained earnings and other reserves	71,870	71,449	74,442
Equity attributable to owners of the Company	89,820	89,399	92,392
Non-controlling interests	852	735	750
Total equity	90,672	90,134	93,142
Total equity and liabilities	560,386	518,248	524,465

Condensed consolidated statement of changes in equity

	Share capital	Share premium	Retained earnings and other reserves	Total	Non-controlling interests	Total equity
	Shs' millions	Shs' millions	Shs' millions	Shs' millions	Shs' millions	Shs' millions
9 months period ended 30 September 2018						
At start of period	1,887	16,063	74,442	92,392	750	93,142
Profit for the 9 months period	-	-	15,726	15,726	102	15,828
Other comprehensive income	-	-	(1,182)	(1,182)	-	(1,182)
Final 2017 dividend declared	-	-	(7,547)	(7,547)	-	(7,547)
IFRS 9 and other adjustments	-	-	(9,569)	(9,569)	-	(9,569)
At end of period	1,887	16,063	71,870	89,820	852	90,672
9 months period ended 30 September 2017						
At start of period	1,887	16,063	63,325	81,275	701	81,976
Profit for the 9 months period	-	-	14,605	14,605	34	14,639
Other comprehensive income	-	-	1,066	1,066	-	1,066
Final 2017 dividend declared	-	-	(7,547)	(7,547)	-	(7,547)
At end of period	1,887	16,063	71,449	89,399	735	90,134
12 months period ended 31 December 2017						
At start of period	1,887	16,063	63,325	81,275	701	81,976
Profit for the 12 months period	-	-	18,869	18,869	49	18,918
Other comprehensive income	-	-	(205)	(205)	-	(205)
Final 2016 dividend declared and paid	-	-	(7,547)	(7,547)	-	(7,547)
At end of period	1,887	16,063	74,442	92,392	750	93,142

Condensed consolidated statement of cash flows

For the	9 months ended 30.09.2018 Unaudited	9 months ended 30.09.2017 Unaudited	12 months ended 31.12.2017 Audited
	Shs' millions	Shs' millions	Shs' millions
Cash generated from operations	45,046	55,080	60,824
Income taxes paid	(4,164)	(7,222)	(9,852)
Net cash generated from operating activities	40,882	47,858	50,972
Net cash used in investing activities	(35,515)	(31,913)	(29,870)
Net cash used in financing activities	(7,359)	(7,610)	(8,053)
Net (decrease) / increase in cash and cash equivalents	(1,992)	8,335	13,049
At start of period	68,582	55,533	55,533
At end of period	66,590	63,868	68,582

Operating environment – Quarter 3, 2018

The operating environment in the last nine months was characterized by volatility in the business environment resulting in elevated inflation, continued interest rate capping causing a credit crunch, and a lowered Central Bank Rate which dipped the yield on loans.

A fortified liquid and agile balance sheet positioned the Group competitively in the uncertain operating environment while diversified revenue streams, geographic expansion and structural efficiency gains enabled the Group to weather the effects of interest rates capping.

Performance highlights

Under a challenging operating environment, the Group's business model enabled it to report 8% growth in Profit After Tax for the third quarter to September 2018 to reach Shs 15.8 billion up from Shs 14.6 billion in 2017.

The Group reported differentiated revenue growth of 1% to Shs 49.3 billion up from Shs 48.7 billion, despite the impact interest rates cap and the challenging operating environment have had on the banking sector. Non-funded income held strong to reach Shs 19.8 billion driven mainly by remittance commissions, trade finance, agency banking, and credit card fees & commissions.

The Group's execution of the 3.0 strategy of digitization through its digital suite of self-service tools known as Eazzy Banking continued to pay off. Third-party channels reported an exponential growth of customer activity, contributing over 97% of transaction volume. Eazzy Banking App grew by 208% to 168 million transactions from 55 million YoY and a value of Shs 89 billion from Shs 52 billion YoY. Eazzy Biz, which is a cash management solution for SMEs had a rapid adoption in the market that resulted in a growth of 148% YoY with a transaction value of Shs 187.3 billion from Shs 90.9 billion YoY. Equitel's transaction value grew by 20% to Shs 425.1 billion up from Shs 353.6 billion despite a slight decline in transaction volumes to 185.4 million from 197.1 million YoY. The agency network which has now grown to reach over 30,000 agents saw the transaction volume grow by 7% to 53.4 million from 49.8 million with value growing by 17% to Shs 459.7 billion from Shs 391.3 billion.

Total costs declined by 4% to Shs 26.9 billion from Shs 28.0 billion reflecting the consolidation of efficiency gains of innovation and digitization of business. Total assets grew by 8% to Shs 560.4 billion up from Shs 518.2 billion YoY with net loans growing by 9% to Shs 288.4 billion up from Shs 265.4 billion while government securities grew by 24% to Shs 159 billion up from Shs 128 billion YoY.

The Group's strategy of regional expansion and business diversification resulted in a double-digit growth across the subsidiaries with an increased profit contribution (PBT) of 18% from 14% YoY, validating the Group's decision to expand into the East and Central Africa region and diversify in financial services offering. Uganda PBT grew by 35%, Rwanda by 70%, DRC by 117%, South Sudan by 53%.

Outlook

The Group has now completed its 3.0 strategy ahead of schedule with over 97% of all transactions migrated to digital. The rapid adoption of digital banking by customers is an indication that the Group has remained very responsive to the needs and aspirations of its existing and potential customers.

Dividends

The Board of Directors does not recommend the payment of dividend for the third quarter of the year 2018.

Explanatory notes

The accounting policies used in preparing these financial statements are consistent with those used for the Group's 31 December 2017 annual financial statements. The above financial statements are extracts from the records of the Group.

They were approved for issue by the Board of Directors on 5 November 2018 and signed on its behalf by:



Dr. James Mwangi
Group Managing Director & CEO



Mary Wamae
Group Executive Director