Press Release

EQUITY GROUP RETURNS TO GROWTH

- **Net Interest income growth of 31%**
- **Interest earning assets growth of 36%**
- **Profit after tax growth of 36%**

Nairobi 12th May 2022…. As the global economy continues to recover from the COVID-19 pandemic crisis, Equity Group has eased its defensive strategy that had been deployed during the economic uncertainty and returned to its growth strategy. The defensive strategy involved internally generated cash being retained, while forgoing dividend payouts for two consecutive years to build capital buffers. This yielded an increase in shareholder funds to Kshs.176.2 billion as at 31st December 2021 up from Kshs.111.8 billion as at 31st December 2019. Cost of risk peaked at 6.1% for the year ended 31st December 2020 from the normalized cycle of 1.5% to increase NPL coverage to 98.2%. The Group's liquidity ratio increased to 63.4% as at 31st December 2021 up from 52.1% at 31st December 2019 as the Group preserved cash. The loan/deposit ratio declined to 61.3% as at 31st December 2021 from a high of 75.9% as at 31st December 2019 with investment in cash equivalents and Government securities growing to Kshs.636.9 billion or 48.8% of the entire balance sheet up from Kshs.258.6 billion or 38.4% of balance sheet as at 31st December 2019. The defensive strategy adopted and pursued by the Group for the 2 years of the COVID-19 pandemic positioned it well for its optimum quality and efficient growth strategy in the post COVID-19 economy.

For the year to 31st March 2022 the Group's total assets and balance sheet grew by 19% from Kshs.1,066.4 billion to Kshs.1,269.5 billion compared to the corresponding period in the previous year while cash and cash equivalents declined by 31% from Kshs. 241 billion down to Kshs.166.4 billion as the Group resumed aggressive lending. Net loans grew 28% to Kshs. 623.6 billion up from Kshs.487.7 billion while investments in Government securities grew by 50% to Kshs.389.4 billion up from Kshs.258.9 billion. This saw interest earning assets grow by 35.7%. Asset reallocation from cash and cash equivalents to interest earning assets resulted in net interest income growth of 31% to Kshs.19.4 billion up from Kshs.14.8 billion with a yield on earning assets growing to 9.5% up from 8.9%. Operating income grew by 21% to Kshs.30.9 billion up from Kshs.25.5 billion with non-funded income constituting 37.2% of the operating income.

Regional subsidiaries continued to gain market share with their total revenue contribution to the Group growing to 40% (Kshs.12.8 billion) up from 37% (Kshs.9.6 billion). The subsidiaries increased their profit after tax contribution to 30% (Kshs.3.6 billion) of the Group's profit after tax up from 21% (Kshs 1.9 billion). Return on Average equity for subsidiaries stood at 23.6% against a cost of capital ratio of 21% with both Equity Bank Uganda and Equity Bank Rwanda joining Equity Bank Kenya to register return on average assets of above 4%, despite the asset reallocation liquidity marginally declined to 56.9% down from 60.6% which reflect on the size of headroom and opportunity for continued optimization of assets allocation and loan growth. Strategic pursuit of quality growth saw non-performing loans decline to 8.6% down from 11.3% with cost of risk normalizing at 1.2% and non-performing loan coverage rising to 95% up from 87.4%. Equity's innovation push through digitization witnessed growth of self-service activities and a significant shift of customer use of fixed cost channels to variable cost and third-party channels. Brick-and-mortar channels consisting of branches and ATMs handled only 2.9% of transactions while the digital channels of mobile, internet and third-party channels handled 97.1% of all transactions reflecting the success of the Group's digital strategy. Pay With Equity universal mobile retail payment is revolutionizing retail business by enabling efficiency of digital payment to contribute significantly to economic efficiency.

The combined efficiency gains in net interest margin growth to 6.8% up from 6.4% as a result of efficient asset allocation, improved performance of the subsidiaries, declining cost of credit risk, and cost efficiencies of digitization, resulted in total income growth of 21% while total operating costs grew by 13%. Cost income ratio declined to 45.3% down from 49.8%. Profit after tax grew by 36% to Kshs.11.9 billion up from Kshs.8.7 billion the previous year. Return on Average assets improved to 3.7% up from 3.3% with return on average equity growing to 27.4% up from 25.1%. Earnings per share grew by 34% to Kshs.3.10 up from Kshs.2.30.

On account of the strong strategic position of the Group and improving socio-economic environment the Group has rolled out the `Africa Recovery and Resilience Plan' aimed at supporting the private sector quick recovery, repurpose and thrive by building back better by enhancing resilience.

Equity Group has seeded the Plan with Kshs.700 billion to lend to 5 million Micro, Small and Medium Enterprises (MSMEs) while partnering with national Governments to provide the enabling micro economic and policy environment to enable private sector to thrive. Equity Group has partnered with IFC the private sector arm of the World Bank, African Development Bank and 10 European Development Banks to syndicate and finance the primary sectors of agriculture and mining, the manufacturing sector and trade and investment. Partnership with the UN through national resident representatives in the 6 countries we operate in to facilitate capacity building for the MSMEs to ensure inclusivity and that nobody is left behind with social impact investment funding progress in society. Through the partnership with Mastercard Foundation of Young Africa Works which involves financial literacy and entrepreneurship training, credit risk sharing, and credit guarantees for MSME borrowing, the 5 million entrepreneurs will be able to create 50 million jobs directly and indirectly in the region. The Commonwealth Group have offered to partner with Equity to mainstream the Africa Recovery & Resilience Plan for their Commonwealth Heads of Government (CHOGM) Meeting in Rwanda in June.

The Plan has five deliverable objectives and targets:

i. Increased productivity in the primary sectors of agriculture and extractive sectors.

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ii. Developing a manufacturing sector and build on value additions on the primary sector to produce agro-processing and processing of minerals.

iii. Increased investments and trade attracting global, local, and regional capital to build local and regional supply chains to replace broken global supply chains. Enhancing East African Community continental free trade while promoting export of value-added manufactured goods and primary sector produce for import substitution and high value export led growth

iv. Supporting the micro, small and medium, enterprises to formalize, providing access to financing and capital and build capacity to populate the value chains and ecosystem of the primary sectors, the manufacturing and trade and investment and the energy and logistics sector. This will ensure participation and growth of African entrepreneurship and capital.

v. Provide green financing to ensure development and regional growth and transformation to occur in a sustainable way, using clean energy, preserving environment, and enhancing inclusion.

Management has a positive business outlook on account of.

1. Improved prospects for regional integration and economic growth together with continued global economic recovery offering an opportunity to grow a quality loan book by supporting agriculture, manufacturing, trade and investment to replace broken global supply chains.

2. The significant opportunity of efficient balance sheet optimization given the high Group liquidity ratio of 56.9% and low loan to deposit ratio of 61.3%.

3. The opportunity of improving both the yield on interest earning assets through asset reallocation and net interest margin rising from the ability to price credit risk.

4. Normalizing cost of risk that is supported by existing high provisions coverage and partial risk guarantees.

5. Opportunity of efficiency gains from technology enabled business transformation to a self-service on own devices and a variable cost model, a shift from the brick-and - mortar fixed cost business model.

6. The opportunity for cost optimization arising from digitization and efficient processes.

Overview of "Africa Recovery and Resilience Plan"

Background

Africa remains a continent of **significant but nascent economic opportunities** underpinned by secular growth drivers of:

- **Productivity gains** – from improving access to finance, infrastructure and technology
- **Growing Consumption** – driven by large, young, urbanizing and growing population
- **Natural resources** – to fund the future but more importantly catalyse inclusive growth and support comparative advantages for industrialisation
- **Rising cross-border trade** – that expands market opportunities and access to technology and skills
- **Improving value chains** – from enhanced coordination and integration resulting in deeper and richer ecosystems. In addition, Post COVID-19 supply chain disruption, Africa provides alternate supply chains

However, social and economic constraints persist with policymaking tools constrained, especially post the global COVID -19 stimulus.

Therefore, **private sector** will need to play a more prominent role in the recovery and inclusive growth

The Plan

The Africa Recovery and Resilience Plan is aimed at catalysing a **natural resources-led industrialization of Africa, led by agriculture and renewable energy-related commodities.** The primary sector will catalyse and accelerate Africa towards middle-income status.

Equity Group's execution of the "Africa Recovery and Resilience Plan" will be underpinned by its **Social and Economic Engines** that capacitates business value chains (Social Engine) and provide financial solutions to productive ecosystems (Economic Engine).

Equity Group's excess liquidity (currently 1.5% of cumulative GDP of east and central Africa) will be redirected to the private sector across various value chains

5 Pillars of the Plan

The Plan comprises 5 strategic pillars that ensure a systematic framework of execution:

- **Ecosystems of natural resources in agriculture (and renewable energy)** – more coordinated value chains will catalyse and lead an inclusive industrialization of Africa
- **Manufacturing and logistics ecosystem** – increased utilization of installed and differentiated productive capacities will drive complimenting manufacturing hubs across Africa
- **Trade and investment** – access to new markets, technology, capital and skills will enrich and enhance throughput of Africa value chains
- **MSMEs** – inclusivity of small businesses in formal value chains will drive inclusive growth
- **Social transformation and environmental** – capacity building of value chain stakeholders will drive productivity gains of African value chains

Objectives of the Plan

2025 objectives include:

1. **Inclusivity of 100 million:** financial inclusion of households and banking entire value chains
2. **Multiplier effect of 5 million borrowing businesses and 25 million borrowing consumers:** borrowing businesses to expand productive capacities to drive value chain expansion and employment, whilst consumer borrowing to enable household aspirations
3. **Employment of 50 million:** 25 million direct jobs to be created as businesses grow and a further 25 million indirect jobs created as value chains expand and deepen
4. **Additional private sector lending in excess of almost 2% of regional GDP:** loan book to be directed to agriculture (30%), manufacturing (15%), MSMEs (65%)