PRESS RELEASE

EQUITY GROUP REPORTS FIRST HALF PERFORMANCE THAT REFLECTS BUSINESS TRANSFORMATION, RECOVERY AND RESILIENCE

- Growth of digital business with 99% of transactions happening outside the branch
- Growth of profit after tax, 36%
- Growth in Net loans to customers, 29%
- Growth in Net Interest Income, 28%
- Growth in Non-Funded Income 23%
- Growth in Total Assets, 19%
- Out of Kshs 171.4 billion Covid restructured loan book, Kshs 46.6 billion has been fully repaid, and a further Kshs 114.0 has resumed repayment
- NPL at 8.5% against industry average of 14.7%
- NPL coverage at 94%.

Nairobi, 23rd August 2022: Equity Group half year results continue to reflect a sustained digital transformation with 99% of all customer transactions now happening outside the branch network. “Covid-19 acted as a tailwind to our efforts of digitising our business,” said Dr James Mwangi, Group Managing Director and CEO while releasing the results. “The business transformation has supported recovery and built resilience in the business. Going online and virtual through digitisation has brought ease and convenience to our customers resulting in increased uptake of our products and growth of the business”, added Dr Mwangi.

The Group’s recovery and resilience strategy saw the Group's profit after tax grow by 36% to Kshs 24.4 billion up from Kshs 17.9 billion for the comparative half year results of the previous year. The profit growth was principally driven by a 29% growth in interest income to Kshs 55 billion up from Kshs 42.8 billion as a result of growth of loans to customers by 29% to Kshs 650.6 billion up from Kshs 504.8 billion. “The loan growth was targeted to supporting our clients to recover and rebuild after the Covid-19 business disruptions while allowing re-purposing and retooling for resilience and agility to take advantage of emerging opportunities and green shoots in the real economy, “said Dr Mwangi.

The differentiated strategy adopted by management to support borrowers to cope with the difficulties of Covid-19 business disruptions has seen most of the businesses survive and recover. Out of Kshs 171.4 billion Covid-19 restructured loan book, Kshs 46.6 billion has been fully repaid, and a further Kshs 114.0 has resumed repayment, with only Kshs 8.1 billion non-performing. Out of the remaining Kshs 11 billion which is anticipated to resume repayment within the next six months, only Kshs 2.7 billion is showing strain of recovery.

The Group’s culture of customer centricity and focus informed the management’s Covid-19-environment strategy of focusing on customers’ recovery and resilience. Targeted lending reflected by the 29% growth of the loan book is part of the strategy to sustain recovery, growth and allow the real economy to thrive and brighten the lights of the economy in generating growth opportunities.

In pursuit of resilience and prudence, management has fully provided for the entire Kshs 8.1 billion Covid-19 book that has resumed repayment and is non-performing while proactively downgrading Kshs 2.7 billion of the remaining restructured book. The success of the recovery and resilience strategy is reflected by the decline in NPL ratios to 8.5% compared to 10.7% the previous year. The Group's 8.5% NPL positively and favourably compares to Kenya's banking industry NPL ratio of 14.7% as at 30th June 2022.

The Group's NPL coverage stands at 94%. NPL coverage inclusive of credit risk guarantees stands at 119.8% and cost of risk has normalised to pre-Covid rates of below 1.5%.

The Group continues to prudently hedge against default through a loan book diversification strategy across market segments, with large enterprises holding 26%, SMEs 43%, consumer 20%, agriculture 8%, and micro enterprises 3% of the loan book. Group loan book diversification currently reflects 45.9% in US dollars and 54.1% in local currencies. Geographical sovereign risk diversification has Kenya holding 65%, DRC 19.6%, Uganda 7.3%, Rwanda 4.4%, Tanzania 3.6% and South Sudan 0.1%.

Over the last three years during the Covid-19 pandemic, Equity Group has gone through its greatest business transformation in line with the environmental challenges. "Equity Group had adopted a strategy of business transformation through digitisation to offer customers a more online business experience offering ease and convenience. Digitisation compresses time and geography, transforming Equity banking experience from where you go, to what you do on your own devices, whatever time, wherever you are, a truly 24 hours banking experience." While our agility and flexibility allowed us to increase our software engineers by 600 new staff and our Chief Information Officers to 17 from one, Covid-19 coping, mitigation and adaptation protocols acted as a catalyst and tailwind for customers adoption of digital tools, online practices and change of technology adoption culture to deliver a speedy business transformation of the look, feel and experience of the Equity Group business," said Dr. Mwangi.

Between June 2019 and June 2022, digital banking transactions through mobile and internet channels, Agency and Merchant infrastructure doubled from 330 million to 663.9 million while transactions on the Group's own infrastructure of branches and ATMs declined from 25.3 million to 19.2 million transactions delivering an online self-service business model with 99% of banking transactions being outside the branch and a corresponding 74% of the value of transactions, leaving branches to do high value transactions. During the same period, the value of digital transactions has grown over 400% to Kshs 4.4 trillion up from Kshs 1.2trillion while the value of branch and ATMs based transactions have grown to Kshs 1.7trillion up from Kshs 1.1 trillion. The Group has witnessed take-off of its business-to-business, consumer digital payments and consumer-to-business payments through corporate internet cash and liquidity management EazzyBiz and retail payment solutions. Pay With Equity merchant solutions have grown by nearly 400% from June 2019 to June 2022 from 13.5 million transactions to 52.2 million transactions. Year on year personal internet transactions grew by 1,081% from 600,000 to 7.5 million transactions with the value of the transactions growing by 366% from Kshs 39.5 billion to Kshs 184 billion. Consumer to business retail commerce digital transactions on Pay with Equity retail merchants grew by 382% from 7.8 million to 37.5 million transactions whose value grew by 314% from Kshs 42.2 billion to Kshs 174.8 billion. Business-to-consumer payments transactions through the internet Equity cash and liquidity management solution EazzyBiz grew by 51% from 2.2 million transactions to 3.3 million transactions with value growing by 52% from Kshs 637 billion to Kshs 966.7 billion. The value of mobile transactions on Equitel grew by 62% from Kshs 844 billion to Kshs 1.366 trillion while Equity mobile app value of transactions grew 97% to Kshs 552.9 billion up from Kshs 280.1 billion.

“To align to the realities of the operating environment, the business challenges of disruptions by Covid-19 and the broken global supply chains, the Group strategically opted to focus on becoming a leading Trade Finance regional bank to ease the cost of financing trade while facilitating cross border trade in the East African common market and the African Continental Free Trade Area,” said Dr Mwangi.

Gross trade finance revenue grew by 64% to Kshs 2.6 billion up from Kshs 1.6 billion while trade finance related lending grew by 106% to Kshs 34.4 billion up from Kshs 16.7 billion as trade finance guarantees and off-balance sheet items grew by 62% to Kshs 158.4 billion up from Kshs 97.7 billion. Focus on payments and trade finance saw non-funded income grow by 23% to Kshs 25 billion up from Kshs 20.4 billion to compare with the 28% growth of Net Interest Income of Kshs 39.8 billion up from Kshs 31.2 billion. The non-funded income, a higher quality class of income, constitutes 38.6% of the total income in spite of the 29% growth in both the loan book and interest income.

Geographical expansion and business diversification has started to bear fruit and impact the Group’s value creation and growth. The Group registered a 19% growth in total assets to Kshs 1333.9 billion from Kshs 1,119.7 billion primarily driven by 59% growth in long term debt funding to Kshs 162.6 billion and 18% growth in customer deposits to Kshs 970.9 billion up from Kshs 820.3 billion as customer numbers grew 18% to 16.9 million up from 14.3 million. The geographical expansion and business diversification strategy has successfully reduced the concentration of sovereign risk on Kenya by having subsidiaries contribute 40% of the Groups Total Assets, 42% of the Group total revenue and 28% of the profit after tax. Expansion and diversification initiatives have affirmed the strategy as subsidiaries other than Kenya posted a return on average equity of 22.3% above the cost of capital of 21% and enabling the Kenyan mother business to register a 35.5% return on average equity and 4.2% return of average assets. The Kenya business also registered a 39.2% cost to income ratio as a result of declining unit cost on shared services on account of economies of scale.

An efficiently funded and leveraged balance sheet structure with 73% of funding from short term customer deposits, 12% medium term debt funding and 11% long term shareholder funding has allowed the creation of an agile asset mix of 49% net loan book, 27% government securities and 16% cash and cash equivalent. The initial prudent and conservative risk backstopping through capital buffers conservation that saw dividend not being paid for two consecutive years and conservative policy that saw Group register 62.4% liquidity in June 2021. Provisions for NPLs saw NPL coverage reach 94% and 120% with credit risk guarantees and the mass distribution of Covid-19 vaccines, making the pandemic business as usual, has left the Group strategically positioned for balance sheet efficiency and optimisation. With normalisation of Covid-19 risk, the Group is focused on using the balance sheet agility to unlock efficiencies and optimisation. Asset allocation from low earning assets saw cash and cash equivalent decline by 2% while growth in loans accelerated to 29% from 23% at Q4 2021 while investments in Government securities decelerated to 16% down from 81% driving Net Interest Margins to increase to 6.9% up from 6.6% at H1 2021 as yields on earning assets grew to 9.7% up from 9.2%. On the strength of efficiencies of business transformation through digitisation and realisation of economies of scale on growth and diversification, the Group has registered strong performance.

The Group cost to income ratio has improved to 46.7% down from 48.5% and cost to asset ratio has improved to 4.7% down from 5.4% on a 19% expanded balance sheet of Kshs 1,333.9 billion up from Kshs 1,119.7 billion. Group return on average equity has increased to 28.9% up from 25% while Group return on average assets has risen to 3.8% up from 3.3%. "Growth of the scale of business and economies of scale, pursuit of efficiencies and optimisation of the balance sheet, and efficiencies of business transformation through digitisation have served us well and positioned us strategically for the future," said Dr Mwangi.

With the assessment of Covid-19 pandemic risk normalising to business as usual, the Group has dialled conservative measures down. The Group has resumed dividend payment with 30% to 50% of profits after tax available for pay out in accordance with the dividend policy, conservative capital recognition has been eased to pursue growth through balance sheet efficiency and optimisation. Core and total capital computation during the Covid-19 pandemic conservatively excluded deferred tax asset from loan provisioning and mark to market gains and losses. As the pandemic has normalised to business as usual, the deferred tax asset relating to those items is now included as permitted by the Central Bank prudential guidelines and to allow industry comparison of capital ratio. "The strong capital ratios of 15.5% for core capital to risk weighted assets and 20.2% for total capital to risk weighted assets together with strong liquidity ratio of 53.2% positions the Group to reallocate low earning assets to high yielding assets." said Dr Mwangi

Recognising the need for and importance of social licence to operate, Equity Group has scaled its shared prosperity model of the twin economic and social engines that includes society and host communities as a key stakeholder through payment of dividends of social impact investments. These are designed to their aspirations which currently comprise of education, financial inclusion and financial literacy for funding wealth creation opportunities and poverty eradication, access to affordable health and responsible preservation of the environment. The social impact investments to date amount to Kshs 69.377 billion or USD 583 billion under the social engine of Equity Group Foundation.

Equity Group continues to attract global recognitions and accolades such as Moody's and GCR sovereign risk credit rating, the 5th Strongest Banking brand by Brand Finance, the Oslo Business for Peace award, Inclusion in the Bloomberg 50 list, the global top ranking by the Banker Top 1000 Banks, the Global SME awards and the African leadership awards.

From the excellent lessons from the business recovery and resilience strategy that enabled the Group, and its customers adapt and mitigate the effects of the business disruption and emerge stronger and resilient, the Group has formulated an environmental strategy "The Africa Recovery and Resilience Plan". To implement the Plan, the Group has partnered with anchor shareholders IFC, Arise, National governments, national UN representative offices, 14 development banks and the Global regional and national private sector champions to scale and fast track economic recovery and resilience through private sector driven expansion of opportunities in the real economy of manufacturing, value addition, increased output in trade and investment, increased SME formalisation and capacitation, promotion of use of technology, innovation and clean energy while conserving and protecting the environment.