LBS
PAN-AFRICAN UNIVERSITY

DRAFT

EQUITY BANK CASE (A)

Empowering Kenyans to drive Kenya

On the beautiful morning of Monday March 27, 2006 James Mwangi, the Managing Director and CEO of Equity Bank in Nairobi Kenya was battling with the strategic paper he had to present to the board on the future direction of the bank. He looked out of the window of his 14th floor office at the slow moving traffic looking for inspiration on how he can achieve the audacious goals he had set for the bank in 2006 - tripling profit as well as doubling deposit and customer base.

Equity bank has been described by financial analysts in Kenya as the African 'success story' in micro-finance, and the 2005 financial results of the bank (see exhibit 6) confirmed this achievement. Equity's success in micro-finance business attracted the attention and interest of the big banks in Kenya, who had started preparing to get into that segment of the financial services market.

Equity bank realized that the big banks could use economies of scale and reach to make significant in-roads into their market. To compete effectively in the future, James was faced with the task of moving Equity bank into the big league within the shortest possible time. Towards realizing this objective, he set about pushing the Bank to achieve the following goals in 2006:

- Customer base of 1 million
- Deposits base of Ksh[1]30 billion
- Loans level of Ksh18 billion
- Profit level of Ksh1.8 billion
- Provisions of not more than 4.5%

EQUITY BUILDING SOCIETY

Equity bank started business in 1984 as Equity Building Society. It was registered to

Chris Ogbechie prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

[1] USD1 = 70Ksh

operate as a mortgage finance company. This came at a time when the government of Kenya deregulated the economy of the country as a means of encouraging private sector initiatives. The deregulation of the economy threw up opportunities for proactive and discerning investors to start formal financial institutions.

At the time Equity commenced its business activities, competition in the financial services industry was very fierce among the industry big players, and the market was growing at a slow pace. This forced many of the smaller building societies to close shop. Equity however, barely managed to survive the onslaught by mobilizing customers and deposits through one-on-one marketing. The harsh realities of this survival stage led to the gradual decline of interest and involvement in the affairs of the building society by three of the five founding owners/directors and the subsequent withdrawal of two of them from the business. This period of apparent Board inactivity (1984-1992) resulted in initial stagnation and subsequent decline in the organization's performance. Customer deposits grew by only Ksh 1million between 1986 and 1991and in the same period, loans and advances grew by only Ksh 2 million to Ksh 9 million. Accumulated losses also grew steadily from Ksh 5 million in 1986 to Ksh 22 million in 1991.

Indeed, the first eight years of operations were hard years for Equity. No staff member received an increase in salary. Long hours were worked in order to retain clients by just 20 staff members. All around, many other institutions were being closed as a result of high costs coupled with the continuous loss of customers and increasing levels of loan default.

By December 1993, the Central Bank of Kenya (CBK) declared that Equity was technically insolvent. The CBK noted that supervision by the Board was very poor. While non-performing loans stood at 54% of the portfolio of Kshs12 million, accumulated losses were Ksh 33 million on a capital base of Kshs3 million. Deposits at this time were being used to meet operating expenses. Limits to its powers meant the CBK could not however request the closure of Equity. Only the Registrar of Building Societies, which licensed Equity for business had the power to close the institution. However, it was argued by industry analysts that since there were no complaints from clients, Equity should be given the chance to turn around.

At the start of 1994, Equity was technically bankrupt. It had only 17 staff of who had very low morale, a loan portfolio of Kshs12 million (with 54% being bad), and a deposit base of Kshs25 million. 3 main depositors accounted for 84% of total deposits – Kenyan Ministry of Water Kshs12 million, James Mwangi Kshs7 million, and National Health Insurance Fund (NHIF) Kshs2 million. The board had not met between 1992 and 1994 and performed no oversight functions. The company was grinding to a halt with average annual loss of Kshs5-7 million. A court case was instituted by the Ministry of Water and NHIF seeking to liquidate the company.

With his life savings threatened, James Mwangi opted to rescue Equity by resigning from his lucrative job as group financial controller with Trade bank in 1994. James Mwangi was from a humble family background. He read accounting in the University of Nairobi and being the top student in his class, he was offered jobs by all the top international accounting firms before he graduated. He chose to start his career with Price Water House but after one month, he moved over to Ernst and Young. He worked with Ernst and Young for 3 years and then joined Trade Bank where he rose to the position of group financial controller after 3 years.

James joined Equity Building Society as Finance and Operations Director, and with the then Managing Director, John Mwangi and the Chairman, Mr. Peter Munga, constituted the board. He converted his Kshs.7 million deposit with the bank to ordinary shares and this made him the majority shareholder, but he allowed the then managing director to retain his position, to allow for continuity and contact with the regulatory authorities.

James Mwangi was given the powers to operate as Chief Operating Officer and was also saddled with the responsibility of saving the company in conjunction with the CEO. He tackled this task in steps starting with trying to raise the morale of staff. His vision was of a better future that will be achieved by teamwork, hard work and aspiration. According to James *"we had to fight to save the bank or sink and lose all we had"*. To realize this vision, he set about creating structures which empowered staff through delegation and this gave them trust and self-confidence.

At the same time, James changed the focus of the company to micro-finance. According to him:

> *"Poor people do transactions like any other people, the difference is in the size of the transactions. The poor can be banked profitably provided they are given products that are relevant and affordable"*

At this time in Kenya, the political environment was also changing with the introduction of a multi-party political system. This led to more freedom for the people. In addition, government relaxed its requirement that State employees should bank only at government-controlled banks. This change resulted in a flood of new deposits to Equity and other industry players. The Board realized that if it wanted to turn around Equity, it needed more resources (capital and non-capital) to bring in new thinking, train staff to meet the dynamic challenges of the environment and also expand its marketing thrust. Thus, with this realization by the Board, Equity through the use of two main consultants, implemented a focused approach to staff training and marketing.

Gradually a culture of customer service, hard work, dedication and devotion was being institutionalized. James saw his main role as that of trainer/coach. He was very firm in institutionalizing this culture. At the initial stages, there were strict deadlines, uncompromising customer service, long working hours, etc. Later on he intensified staff training, encouraged on-the-job training and coaching and participative leadership style, which helped to galvanize the workforce.

Transition governance was also a problem in 1994, with the Board being expanded from 3 to 5 directors. This decision was taken based on the CBK's recommendation that the board size be increased in order to foster good corporate governance and make the board more effective. The chairman and the managing director seized the opportunity to invite two of their friends to come on board without regards to their competencies and value to the company. The new board could not add value to the company and James was still saddled with the job of re-engineering the company.

By 1995, customer deposit grew to Ksh.124 million from Ksh.31 million in 1993 with profit rising to Ksh.9.7 million from a loss of Ksh.5 million within the same period. With the company showing signs of profitability, James successfully approached the International Finance Corporation (IFC) and European Investment Bank (EIB) in 1996, to invest in Equity through AfriCap (owned by IFC and EIB) and they were given a seat on the board. This international connection helped in improving the image of the company and won customers' confidence.

In 1997, with this new focus, the company set a target of Kshs.1 billion deposit base by 2000, and this was achieved as planned. This burst of performance saw the deposit base of Equity grow by 40-50% per year from 1995 till 2002 (Exhibit7). Profit margins also grew strongly. Equity had bounced back. Success afforded access to international partners, initially with EU-MESP and UNDP-Microstart, and thereafter, with Swiss Contact and Micro Save-Africa, and more recently with the British Department for International Development.

A striking illustration of the rebirth of Equity is the rating issued by CBK. Shortly after 1993, rating moved to marginal, then to fair, and by 2002 it was satisfactory. Capital Adequacy was fair and Asset Quality was satisfactory and so were earnings and liquidity ratios. By 2002, Equity had become a highly profitable institution that operated through 12 branches, 18 mobile units, with 107,000 depositors, whose total deposits was Ksh 1.6 billion, and a loan portfolio of 18,000 borrowers worth Ksh 1 billion. The activities of the building society had become computerized with about 190 staff members, 7 Directors, and 2,367 shareholders. By the end of 2005, Equity had become the biggest bank in Kenya in terms of customer base, 13th largest in capitalization, 14th largest in terms of deposit base, and rated among the top five banks by the CBK

Equity had now completed the transformation from Building Society into a full-fledged commercial bank focusing on retail banking and micro-finance.

THE KENYAN BANKING INDUSTRY AND THE SOCIO-ECONOMIC AND POLITICAL ENVIRONMENT

The introduction of multi-party politics in the early 90s brought some measure of stability and freedom into the political and economic landscapes in Kenya. However, government remained under the control of the same political party that had been in power for so long a time with little or no innovation. This caused the economy to slowly decline in spite of the early gains of deregulations. During this time, the economy stagnated with approximately 56% of the entire population of about 38 million people living below the poverty line. Economic outlook of the country became bleak: there was little or no inflow of foreign investment, general savings ratio was so low, and Kenya's debt equaled its gross domestic product.[2]

Between 2002 and 2005, government's commitment to revamp the economy resulted in recovery in the Kenyan economy after years of declining growth. Growth accelerated from 0.4% in 2002 to 2.8% in 2003, and further to 4.3% in 2004, as economic activities were lifted by credit expansion as a result of favourable fiscal and monetary policies.

As a result of this economic growth, the banking sector expanded its total asset portfolio by 10.8% from Ksh576 billion in 2004. Within this period also, government securities held by the banking sector increased by 9.1% to Kshs137 billion, driven mainly by higher returns on the longer-term treasury bonds. The deposit liabilities grew by 11% to Kshs512 billion mainly due to external donor inflows and increased earnings from tourism. In the banking sector, returns on asset increased from 2.1% in 2004 to 2.5% in 2005 while returns on shareholders' funds also increased from 21.7% to 24.4% within the same period. Bank lending to the private sector also witnessed an increase by Kshs66 billion in 2004, a growth of about 22% up from 4.7% in 2003. This was largely due to lower interest rate. However, bank credit to the private sector grew by only 10% in 2005, while credit to government declined by 8%. This was mainly as a result of tightening of monetary conditions by the Central bank, in an effort to contain inflation to below the 5% policy target.

The banking industry performed well in most other respects in 2005. Pre-tax profits stood at Kshs19.7 billion up from Kshs13.4 in 2004. Asset quality, as measured by non-performing loans to assets improved to 11% from 16%. The industry maintained a liquidity ratio of 43% well above the statutory 20% ratio.

However, sustaining this economic recovery was contingent on performance of the Kenyan government on several fronts. For example, political peace and stability were as important as macroeconomic stability. In addition, public investments in physical infrastructures, efficiency of institutions of government that deliver services to business, enabling and predictable economic policies etc. were very crucial to sustaining this much needed economic recovery.

The economic outlook for 2006 was positive, with growth expected to top 5% while the outlook for the banking industry remained positive overall.

THE KENYAN MICRO-FINANCE INDUSTRY

Towards the end of the 1980s and the early 1990s, the Micro Finance sector in Kenya started to grow. The focus of this sector was such that laid much emphasis on the product rather than the market or clients' needs and demands. As a result of this, some Micro Finance Institutions (MFIs) experienced high customer defection rates, ranging between 25% and 60% in the early 1990s. The few MFIs that undertook market research and

---

[2] *Note: Poverty line in Kenya was put at US$1per day*

reacted to market needs and demands registered improved performance and lower customer defection rates.

In the Micro Finance sector, there were formal and informal players. There were five major categories of players

Categories	**Institutions**
Commercial Banks	Kenyan Rural Enterprise Programme (K-Rep), Cooperative Meadows Credit Union (Coop MCU), NIC Bank, Credit Finance Corporation (CFC), etc.
Building Societies	Equity Building Society *(prior to becoming a commercial bank)*
Limited Liability Companies	Faulu Kenya, Women Economic Development Project (WEDCO)
NGOs/ Companies Limited by Guaranty	Kenyan Women Finance Trust (KWFT), Small and Micro-Enterprise Programme (SMEP), Business Initiative and Management Assistance Services (BIMAS), Ecumenical Church Loan Fund (ECLOF, K-Rep Development Agency, Family Finance
Cooperatives	SACCOs (Savings and Credit Cooperative, *Societies with no legal and formal structures)*

The first three categories were well-structured institutions with formal legal framework unlike the NGOs and Cooperatives that had no legal structures. Despite not having formal and legal structures, a few Cooperatives had assets much larger than those of some of the commercial banks. This is because, apart from NGOs, SACCOs tops the list when formidable grassroots operations and sheer volume of business is considered.

Among the banks, Cooperative Bank with its micro savings product *Haba na Haba* and *Biashara Plus* business loans dictated the pace in the sector. The bank had proven its ability to offer micro credit products with very flexible collateral requirements. Legislation on Micro Finance that was being proposed by Parliament would open the door for more players in the sector. Besides, there had been some moves by the major players in the sector aimed at getting the government to bring Cooperatives under some form of supervision.

EQUITY BANK

In April 2004, The Board of Equity Bank sacked the Managing Director, John Mwangi for non-performance, and appointed the Finance Director, James Mwangi as the new MD. On assumption of office, James Mwangi recognized that he needed expertise on the board in investment banking, human resources, and legal. He went on to convince the board on the need to enlarge it to 9 directors. A board nomination committee was set up for the first time to search for new independent directors who would add the required value to the board.

The new MD got the board to focus on key corporate governance issues that would put the bank in good light with international organizations. The board outlawed director borrowing, insider trading and recruitment of directors' children in the bank. These were incorporated into the memorandum and articles of association of the bank.

Converting Equity Building Society to Equity Bank brought up new challenges that James had to face. One of the biggest challenges was to get the bank to participate in Kenya's Clearing House (regulated by the Central Bank of Kenya) as this required a cash deposit of at least Kshs.500 million.
On paying Ksh.500 million, which is about 36% and 8.5% of the shareholders' fund and deposit base respectively, the bank was admitted into the clearing house in October 2005. This enabled the bank to offer customers the full range of banking services, including current accounts, foreign exchange and trade finance services. The bank had also planned to be listed in the Nairobi Stock Exchange before the end of first half of 2006 to enable it access funds from the capital market.

Another challenge was managing a much larger organization. As Equity converted into a commercial bank, by implication there would be an increase in staff size, asset base, liability size, capital base etc. Effectively and efficiently managing this enlarged entity was to pose a challenge. James handled this by focusing on having the right people in the right places. This led to the recruitment of quality staff at the top in 2004 and 2005. Consultants were hired to put the right processes and systems in place. The bank invested in human capital development and in developing good leadership. The staff went through various courses to develop their capacity to support the business. A programme was put in place to ensure that all management and supervisory positions had capable potential successors in place.

As the bank grew, there was the danger of dilution and erosion of its Culture and Values. In order to avoid this happening, the MD had made himself the chief custodian of the bank's culture. All new staff had to go through a 3-day induction programme that focused on the bank and its culture, under the guidance of the MD.

With the increasing role of technology in the efficient rendition of financial services, Equity appreciated the imperatives of deploying first class technological banking infrastructures like the Automated Teller Machines, Online Real-time Banking Software etc as critical for success. In 2005, the bank invested in a new core IT platform, Finacle by Infosys that enabled it to operate on-time real-time operation in all its branches including the mobile ones. This also enabled the bank to ATM infrastructure and 50 ATMs became operational in January 2006.

Target Market

Being a micro-finance provider, the Bank's business focus was on the following categories of customers:

- Small-scale farmers
- Salary and wage workers in the low and middle income bracket
- Micro-businesses (mainly informal business operators)
- Small and Medium-sized Enterprises (SMEs)

The Bank served these customers with deposit products and loan products (Exhibit 4) that were simple and easy to access.
69 percent of the depositors were in the rural areas while 31 percent were in the urban areas. For the borrowers, 43 percent were salary workers, 35 percent farmers, 18 percent micro-businesses, and 4 percent others.

In addition the Bank offered other services typical of commercial banks such as banker's cheque, money transfer, letters of credit, cheque clearing, bank guarantees, etc.

For Equity, SMEs were regarded as corporate customers and were therefore treated differently from the retail customers. Branch operations were split into two distinct units – to handle retail and corporate customers. The teller points and credit officers for corporate customers were different in each branch. For example, the teller points for corporate customers have sitting facilities and are in cubicles.

Risk Management

The management of Equity Bank saw micro-finance business more of a marketing challenge than a risk management challenge. Micro-finance credits were based more on the ability to pay than on provision of suitable collaterals.

Credit officers processed credits on a daily basis and turn around time for credit application was, on the average, 60 minutes from application to drawdown.

The Bank managed all risks prudently based on international best practice and ensuring compliance with the Central Bank of Kenya guidelines. A key element of the bank's risk management policy was external credit rating. In 2005, the Bank was favourably rated by two international rating agencies. South African based Global Credit Rating (GCR) awarded the Bank investment grade ratings "A1-" and "A" on short and long-term credit respectively. MicroRate, a United States of America based mocro-finance rating agency awarded alpha minus citing among other factors, "good efficiency and effectiveness, low and well managed risk, and good future prospects." The Bank had started preparation for compliance with Basel II risk management guidelines, which would come into force in 2008.

Image Projection and Reputation Management

Over the years, the Kenyan populace had continually seen Equity as a Building Society (though it had been an active player in the Micro Finance Sector). With the conversion to commercial bank, the Bank faced an enormous challenge of projecting the desired image of the Bank. This entailed undertaking a proper corporate branding project for the Bank.

Customer Service

In 2005, Equity bank's branches were notorious for congestions as each branch had more customers than it could handle. As the number of customers increased, this situation was bound to worsen. As a remedial measure, the bank had to grow its bank network in 2005 by 100% and subsequently planned to grow it further by 50% in 2006. In addition the Bank introduced 50 ATMs, called Auto-branches, to decongest the branches. The problem was that the aversion to technology for most of the low-income customers was high they were not comfortable using ATMs. This led to the Bank engaging in customer education at all levels on the use of ATMs.

The bank had to take banking services to the people in sub-urban and rural areas through mobile banks. As at the beginning of 2006, the Bank had 54 mobile banks and planned to add 15 new ones in 2006. According to James *"access to financial services is a critical element of lifting people out of poverty"*. Mobile banking was then seen as a way of empowering Kenyans.

International Recognition

Equity Bank business model had attracted worldwide attention and on many occasions the bank had been invited to various international for a like the United Nations Conference of Building Inclusive Financial systems in New York. The Bank's Chief Executive was invited to address the G8 Africa Business Action Conference at Gleneagles – Scotland in July 2005. Equity Bank was also invited to accompany the United Nation Secretary General, Kofi Annan, to convince socially responsive Swiss investors to focus on Africa.

A number of international luminaries had paid courtesy calls on the Bank on their mission to study poverty reduction initiatives in Africa. Among the dignitaries were: UN Advisor HRH Princess Maxima of Netherlands, UN First Lady Nane Annan, World's Women banking President Nancy Barry. Nancy Barry had this to say when she visited Equity in 2004 just before the conversion into a bank: *"Equity Building Society is a leading institution in Kenya where you get attended to in 2-3 minutes, that accounts are opened in 3 minutes, and you get a loan normally while you are still on the premises. That is not true in my home town, which is the money center of financial institutions, New York City"*

Equity Bank's customer was the winner of the Global Micro-entrepreneurship Award during the 2005 UN Year of Micro-credit.

Corporate Social Responsibility

The Bank as a policy tried to contribute to sustainable economic development working with employees, their families, the local community and the society at large to improve the quality of life for all the stakeholders.

Since 2001, the Bank had offered internship to best KCSE student in every district that the bank operated in and vocational employment when in university. The program was expanded in 2005 to two students per district, the best boy and girl, to ensure gender balance. The program assisted students, mainly from underprivileged backgrounds to pay for their university education.

The Bank encouraged the branches to be active members of the communities that they served. One of the popular community activities was supporting excellence in education by donating trophies and prizes to schools that excelled or improved their performance. The branches in the tea growing areas had an annual trophy for excellence in tea farming. The Bank had also initiated a partnership with the Meru Hospice to provide business loans to persons living with HIV/AIDS.

James had a sense of fulfillment for the result achieved so far by the bank. According to him:

> *"We have put in place the right strategy, the right processes, the right people, and so our next challenges were to build the right image and focus on customer service and the quality of our assets, particularly the loan portfolio."*

He believed that the Bank had a simple business model that was scaleable and could enable them move into other parts of Africa. This business model was described by James as:

> *"…Market-driven relationship banking*
> *…low cost mass market operation*
> *…driven by savings*
> *…built on household income"*

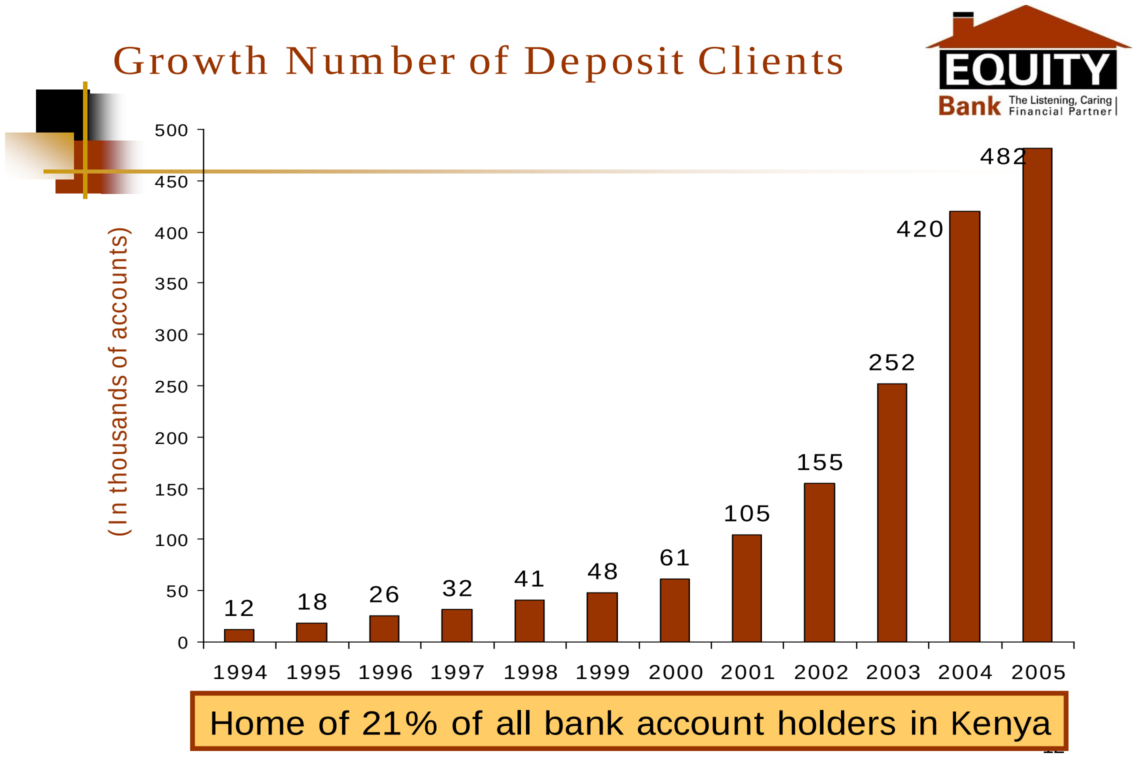
A banking operation that depended on simple, basic products delivered efficiently to world class standards by dedicated staff, who knew the market. Critical to the business model were simple processes that work, product range that meet the needs of the customers and efficient well trained staff.

THE FUTURE

James' vision of Equity Bank in 2010 was in two parts. Firstly from the internal customers' perspective, Equity Bank would be the employer of choice in Kenya driven by what the bank stood for and its impact in the society. Secondly, from external customers' perspective, equity bank would be a 'movement' and not a bank. Loyalty would be achieved by impact the bank would have in transforming the lives of the customers, who would be over 3 million people drawn from the low and middle income groups.

How to actualize this vision was James' pre-occupation but first he had to convince his Board on how he intended to achieve the 2006 audacious goals.

EXHIBIT 1



Growth Number of Deposit Clients
EQUITY
Bank The Listening, Caring Financial Partner
(In thousands of accounts)
500
450
400
350
300
250
200
150
100
50
0
12
18
26
32
41
48
61
105
155
252
420
482
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
Home of 21% of all bank account holders in Kenya

Growth in Loan Portfolio

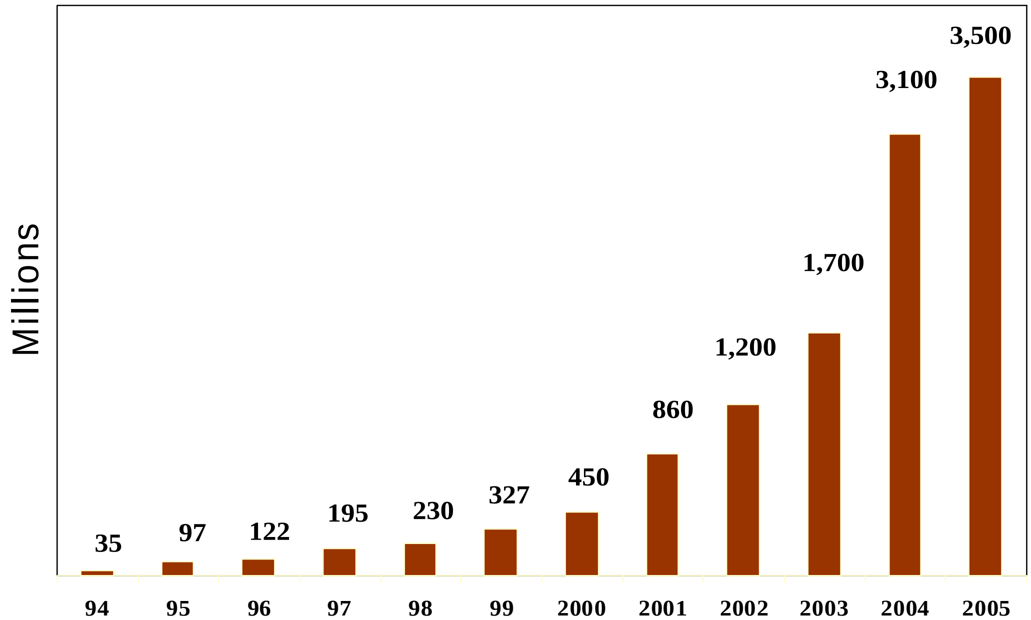


EXHIBIT 2

BRANCH NETWORK

EBL branch network was accessible through 31 branches (located in Central, Nairobi, Eastern, Rift Valley, Nyanza and Coast provinces of Kenya), supported by 52 mobile units and 50 ATMS that delivered quality financial services to the medium and low-income segments of the population.

The bank plans to open 12 branches per year from 2007 through to 2010.

EQUITY PLAZA – EMBU BRANCH

EQUITY Bank The Listening, Caring Financial Partner

22

EQUITY NAKURU BRANCH

19

Mobile Banking

- Taking banking services to the people - 46 village mobile banks (rural focus)

EXHIBIT 3

EQUITY BANK

Vision

"… To be the preferred micro finance services provider contributing to the economic prosperity of Africa…"

Mission

We mobilize resources and offer credit to maximize value and economically empower the micro-finance clients by offering customer-focused quality financial services.

Positioning

The Listening, Caring Financial Partner.

Motto

"… Growing together in trust…"

Core Values

- Professionalism
- Integrity
- Creativity and Innovation
- Teamwork
- Unity of Purpose
- Respect and dedication to customer care
- Effective Corporate Governance

EXHIBIT 4

I. Equity Bank Deposit Products

- Super Junior Savings Account
- Personal Savings Account
- Remittance Savings Account
- Business Savings Account
- Business Current Account
- “Jijenge” (Contractual Savings Account)
- Call And Fixed Deposits

II. Equity Bank Loan Products

- ➢ Social Loans
  - Medical
  - Education
  - Emergency
- ➢ Working Nation Loans
  - Salary Advance
  - Equiloan – Check-off loan
- ➢ Agricultural Loans – Backbone of the Economy
  - Farm Input loan
  - Crop Advance loan
  - Commercial Farm Loan
- ➢ Supporting Commerce, Trade & Industry
  - Micro loans (“Biashara Imara”)
  - Business loans – overdraft / working capital
  - Development loans

EXHIBIT 5

EQUITY BANK ORGANIZATIONAL CHART (March 2006)

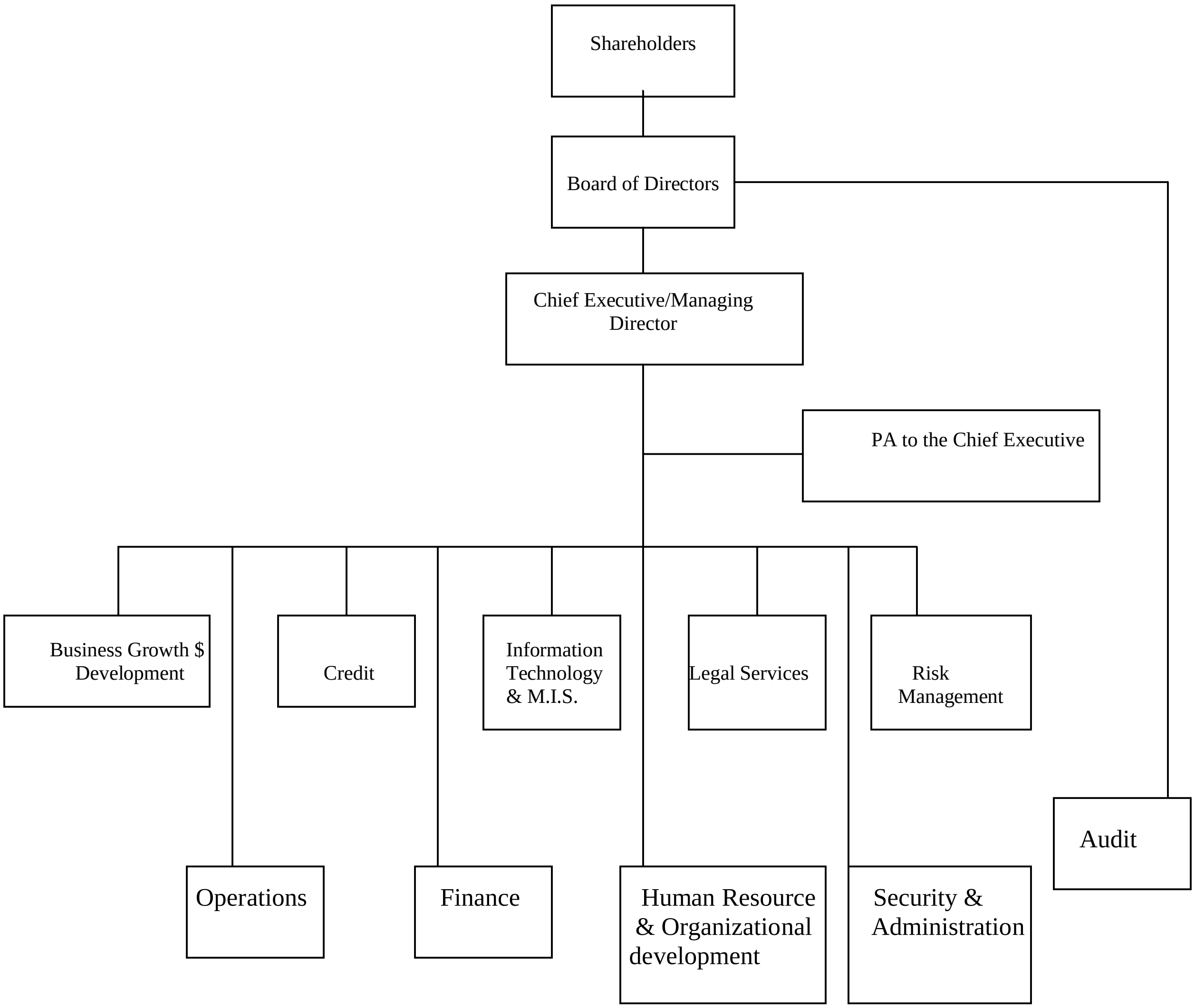


EXHIBIT 6

EQUITY BANK

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 Equity Bank Limited	2004 Equity Building Society
INCOME	**KShs'000**	**KSh'000**
Interest earned	947,830	459,141
Interest expense	(82,327)	(63,504)
Net interest income	865,503	395,637
OTHER INCOME		
Commission and other income	937,237	640,120
TOTAL OPERATING INCOME	1,802740	1,035,757
EXPENSES		
Management expenses	1,040,274	562,944
Depreciation and amortization	137,658	83,671
Provision for bad and doubtful debts	124,276	170,890
PROFIT BEFORE TAXATION	**500,532**	**218,252**
TAXATION	(155,934)	(82,117)
PROFIT AFTER TAXATION	**344,598**	**136,135**
EARNINGS PER SHARE	KShs 3.80	

- ***KShs 70 = US $ 1***

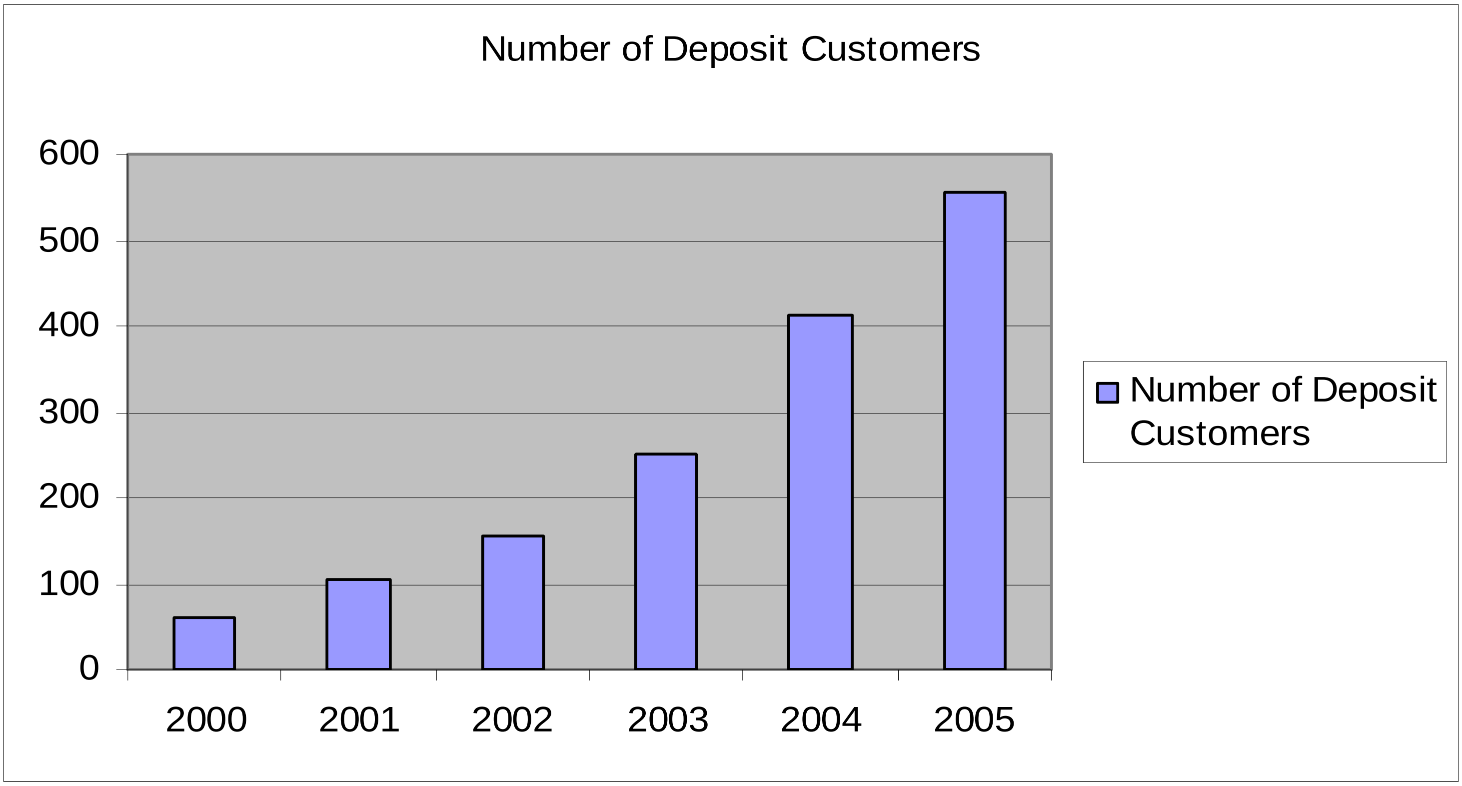
EQUITY BANK

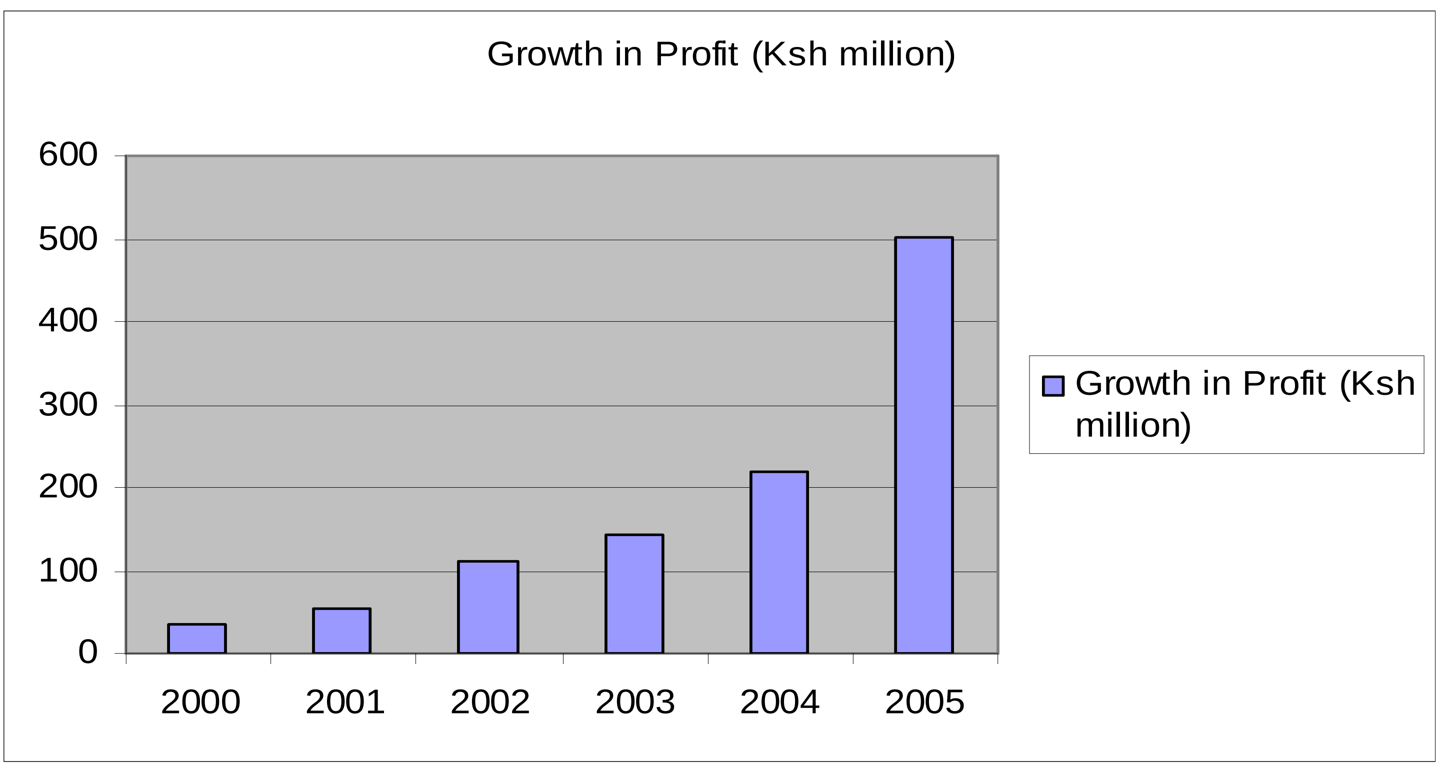
BALANCE SHEET
AS AT 31 DECEMBER 2005

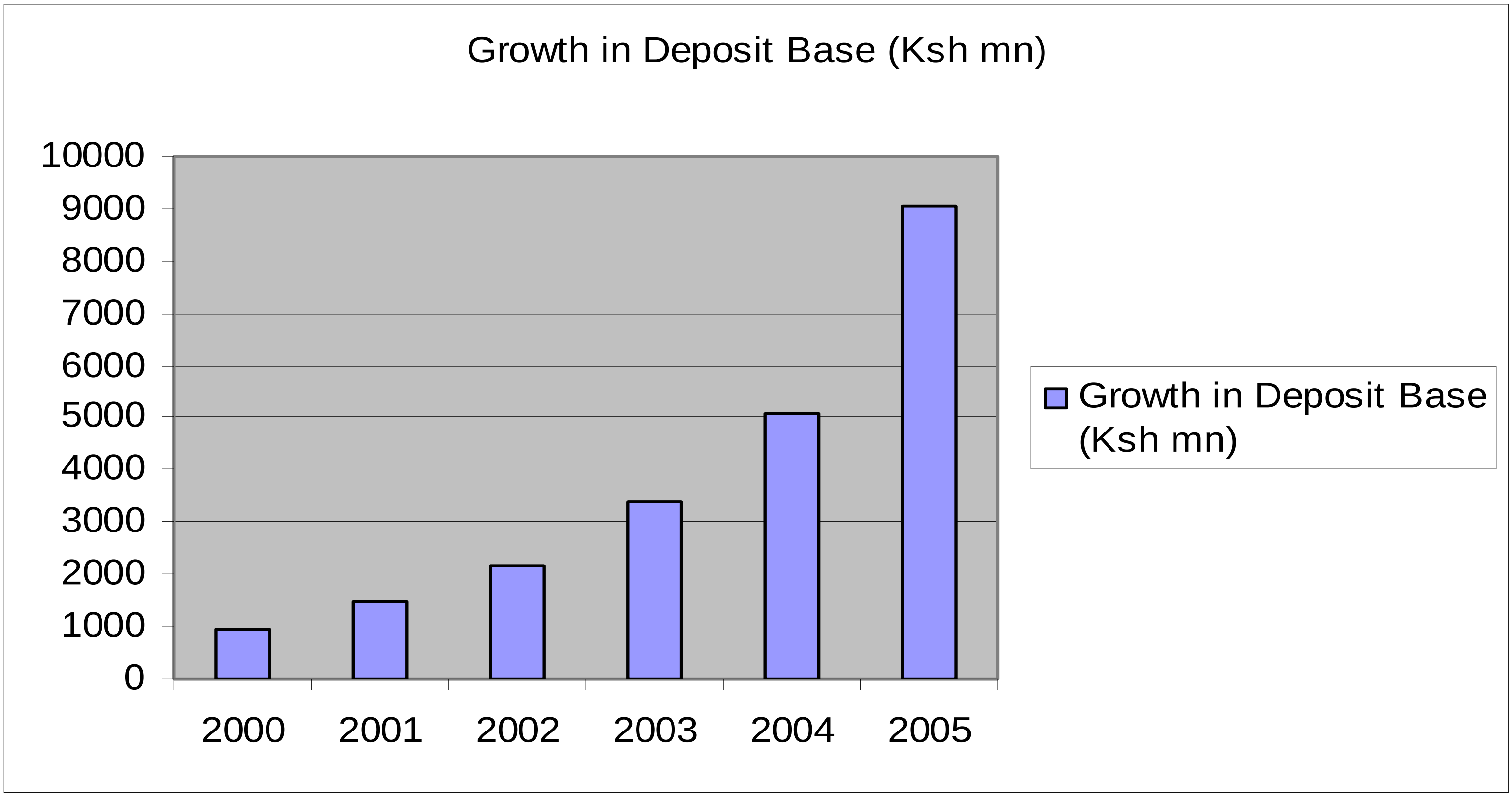
	2005 KShs'000	2004 KSh's000
ASSETS		
Cash and bank balances	1,305,979	789,678
Treasury bills and bonds	1,254,415	578,301
Placements and balances with other banking institutions	2,094,320	1,914,078
Loans and advances to customers	5,524,360	2,873,698
Property, equipment and leases	1,045,222	412,269
Investment property	11,269	11,269
Intangible assets	89,477	8,403
Other assets	126,910	119,724
Deferred tax	4,591	-
TOTAL ASSETS	11,456,543	6,707,420
LIABILITIES		
Customers' deposit	9,047,765	5,081,456
Other liabilities	646,556	334,172
Tax payable	168,229	11,994
Deferred tax	-	-
TOTAL LIABILITIES	9,862,550	5,436,165
SHAREHOLDERS' FUNDS:-		
Share capital	452,823	90,565
Reserves	1,141,170	1,180,690
TOTAL SHAREHOLDERS' FUNDS	1,593,993	1,271,255
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	11,456,543	6,707,420

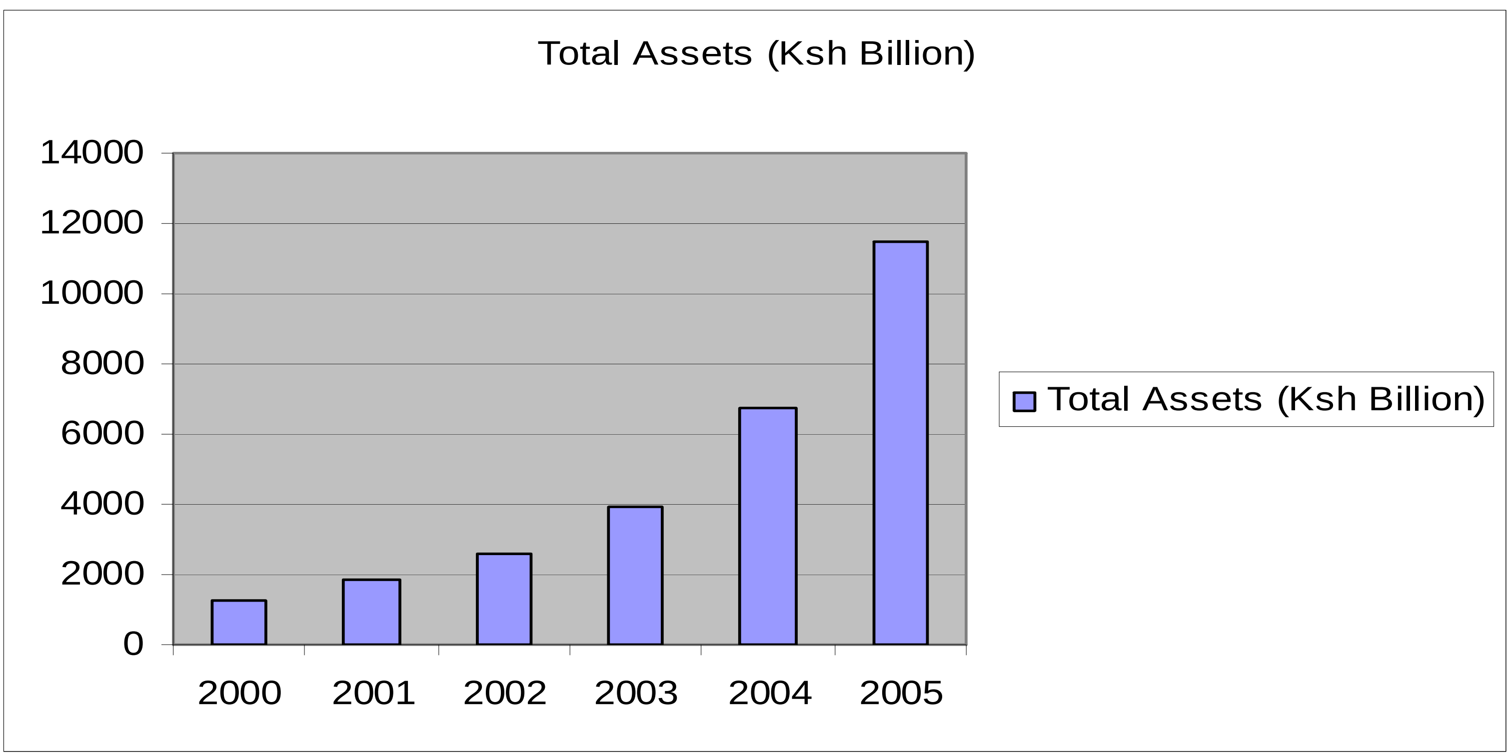
**** KShs 70 = US $ 1***

Exhibit 7


Number of Deposit Customers
600
500
400
300
200
100
0
2000
2001
2002
2003
2004
2005
Number of Deposit Customers


Growth in Profit (Ksh million)
600
500
400
300
200
100
0
2000
2001
2002
2003
2004
2005
Growth in Profit (Ksh million)


Growth in Deposit Base (Ksh mn)
10000
9000
8000
7000
6000
5000
4000
3000
2000
1000
0
2000
2001
2002
2003
2004
2005
Growth in Deposit Base (Ksh mn)


Total Assets (Ksh Billion)
14000
12000
10000
8000
6000
4000
2000
0
2000
2001
2002
2003
2004
2005
Total Assets (Ksh Billion)