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LAGOS BUSINESS SCHOOL
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Equity Bank (B):
Taking the Lead

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

Equity Bank (B): Taking the Lead

After his return from an exhausting trip with his Chairman, Dr James Mwangi, the charismatic CEO of Equity Bank, was going through a draft of the bank's strategic plan for the period 2009–2013 in his office for the last time on Friday March 20th 2009 ahead of his presentation to the board of directors. His main worry was the best way to implement this plan and help Equity Bank consolidate its leadership position in the Kenyan market and continue with its regional expansion. He identified the critical success factors of the business as people, systems, and products. He wondered if these had been adequately addressed in the strategic plan.

The year 2008 had been a successful year, with the bank's operating income at KSh[1]12.6 billion, representing growth of 116% over the bank's 2007 income level. Profit before tax increased from KSh2.4 billion in 2007 to KSh5.0 billion in 2008, a 108% gain. Equity Bank, with a customer base of 3.3 million in 2008, was the biggest bank in Kenya in terms on customer size.

The bank had more than doubled in size over the last five years. James was worried about how to sustain the growth rate of the bank, and at the same time enhance shareholder value in the light of the global economic meltdown and intense competitive pressure.

Equity Bank's History

Equity Building Society was established in 1984 to provide financial services to Kenyans in the informal sector who had limited access to financial services. From its inception it had a strong social mission, which was to empower Kenyans by providing them with access to financial services. However, Equity's initial performance was not impressive. It came into the market during a period of uncertainty in the financial services sector in Kenya. This was the time when local financial institutions collapsed, leading to a crisis of confidence in the financial sector.

Between 1986 and 1993, Equity Building Society grew savings by KSh2 million, while loans and advances increased by KSh5 million. By 1993, 54% of its loans were non-performing and it had accumulated losses totalling KSh33 million:

> *Deposits were being used to meet operating expenses. The liquidity ratio stood at 5.8%, which was way below the required 20%.*[2]

The firm was eventually declared insolvent by the Central Bank of Kenya (CBK). The new management asked the CBK to reconsider its decision as the old management team that ran the firm had been replaced with a more vibrant one. The

[1] KSh70 = US$1

[2] MicroSave Africa, 2002, p.4

CBK did, and gave the new management one year to turn the firm around instead of shutting it down. At that time, three major depositors accounted for about 85% of total deposits. Two of them were institutional depositors (the National Health Insurance Fund and Ministry of Water) while the third major depositor was Mr James Mwangi, who later joined the bank and rose through the ranks, eventually becoming MD. These parties were interested in saving their deposits and needed to work together.

James Mwangi, a certified public accountant and experienced banker, was encouraged to join the Equity Building Society in 1993 to strengthen the management team. In 1994 he became the Finance Director and Chief Operating Officer (COO). His main task was to give the bank a new, purposeful direction and to initiate change. During his time as Finance Director and COO, the organisation moved from being product-led (with an emphasis on pushing products into the market) to market-led (with an emphasis on understanding the market and customers and providing the right products), with a focus on rural areas and unbanked Kenyans. This was happening at a time when other financial institutions were closing branches and moving out of rural areas.

James changed the business model of the firm from mortgage bank to microfinance institution (MFI). At that time, the demand for mortgage products was very low as the industry was undeveloped. There was demand for basic banking services among unbanked Kenyans, particularly those in the lower socio-economic groups and in rural areas. In 1994, the Equity Building Society was granted a license to operate as a microfinance institution.

As an MFI, Equity had access to short-term savings and could grant short-term facilities (with tenure of 6 to 12 months) of an average size of $300. To attract deposits, Equity adopted a zero account opening system where customers could open new accounts without money. Account holders could deposit money at any time and withdraw money at any time. Ledger and account maintenance fees were reduced to a minimum. All of this happened at a time when other banks had minimum deposit requirements for customers to open an account and withdrawals were allowed only once a week.

New vision and mission statements were developed and the bank embarked on a massive staff training push to inculcate the new culture and encourage professionalism among staff. As a result of these initiatives, the bank started experiencing significant growth in its customer base and deposits (see **Exhibit 1**). To support this growth, the bank launched an IT system called Bank 2000 with the support of UNDP in 2000. The new system helped the bank reduce the time taken to complete transactions at the teller from 30 minutes to 5 minutes. The bank then introduced mobile banking to help extend its reach in rural areas and meet demand for financial services. This was the beginning of the rapid transformation of Equity Bank.

In 2000, the Equity Bank board grew from two to six members. The new board attended a series of retreats facilitated by international experts that focused on strategic issues in microfinance and Equity's role in the Kenyan market.

With the right people and systems in place, the next stage was to work on the processes for sustained growth. Equity then engaged international consultants to put in place formalised operations and processes. This effort resulted in standardised operations throughout the organisation, the identification and reduction of operational risks, improved training materials, and the optimised use of IT systems which resulted in a significant increase in efficiency. For example, the account opening time was reduced from about 25 minutes to 10 minutes and the cash transaction cycle time was reduced from about 30 minutes to 5 minutes.

The next area of focus was leadership at the senior level. In 2003, Equity Bank began recruiting key senior management in order to strengthen its marketing, human resources management, finance, IT and internal audit functions. In the same year, AfriCap[3] bought a 16% stake in Equity Bank, joined the board and provided some valuable technical assistance in the areas of risk management and management information systems.

In 2004, James Mwangi took over as Managing Director and CEO of the bank and began to broaden and deepen the management systems in response to the growing and increasingly diverse challenges presented by the rapid growth of the organisation. His leadership style was participatory, with senior managers being given increasing levels of responsibility within the bank.

James led the senior and middle level managers in the development of new vision and mission statements, core values (see **Exhibit 2**) and a strategic plan for the bank, a process that was facilitated by a consultant. Seven critical success factors were identified as drivers of the business:

1. An organisational culture that values people enhances performance and supports the business
2. A market-led, innovative and customer-focused organisation
3. Qualitative, effective and efficient operations
4. A growing, high quality asset portfolio
5. Robust, effective and efficient systems and processes
6. Value maximisation for stakeholders
7. The execution of strategically planned expansion

By the middle of 2005, everyone within Equity Bank knew these factors, had adopted the institution's plan, and understood the roles they played in achieving the plan. Stretch goals, targets, measures and activities were agreed upon for each critical success factor. With a commonality of vision and an understanding of the strategic plan and the activities necessary to achieve it, Equity Bank was able to delegate more responsibility and further empower its managers.

At the beginning of 2005, Equity Building Society was legally transformed into Equity Bank. The smooth change over and rapid admission of the bank to the central clearing system reflected the detail and care with which the transformation process had been planned and executed. With the transformation, Equity still remained a broad-based bank in line with its vision and mission. This was evident from the bank's product portfolio. The savings product range had grown to include personal and business current accounts and about 80% of savings accounts by volume were ordinary savings accounts. The loan product range was expanded to include asset finance, business overdrafts and insurance premium finance products. However, salary advances of a small value ($300-500) and farm input loans still accounted for about 72% of the volume of loans and about 12% of their value. Business loans comprised 10% by volume and 43% by value.

The delivery channels reflected the broad-based nature of the bank. They included large urban branches that handled high transaction volumes, smaller branches in rural centres, ATMs, and mobile branches. In addition, the larger branches had special *"corporate"* sections that ensured that the higher value customers were given a more personalised service.

Equity Bank responded to the need for local financial services by creating mobile branches, making use of secured vehicles to establish a branch in a local village during the village's market day once or twice a week. The mobile banks were fitted with

[3] AfriCap is an apex capital fund financed by DFID, IFC, EIB and others.

modern information technology systems powered by solar panels and backed by advanced security systems. Account details and transactions were relayed to the head office in Nairobi via satellite. Each mobile banking unit was attached to an Equity branch. A village satellite branch was established in a simple rented structure that was served once or twice per week by a mobile banking unit. Customer data was downloaded at the beginning of each day from the hub branch server, and staff, cash and armed security were transported to the satellite branch. At the end of each day, the mobile unit returned to the hub branch and transactions were downloaded[4]. In areas where the mobile branch experienced significant growth in customer base, additional banking days were added. Some of the most successful mobile branches were eventually graduated into full branches.

Initially, the majority of Equity Bank customers were low-income workers, small business traders, farmers, and government employees. The bank had moved into other market segments such as higher income earners, students and youth, as well as larger scale corporations. The professional image of Equity Bank's banking halls and auto branches[5] encouraged the higher value customers to see it as a bank that could meet their needs. The growing demand for the bank's products/services was also putting some pressure on its finances. There was, therefore, the need to explore ways of raising additional capital for the bank. The capital market was a good option that required the bank getting listed on the Nairobi Stock Exchange.

On August 7th 2006, Equity Bank was listed on the Nairobi Stock Exchange; shares were initially valued at KSh70 each, but quickly traded up to a high of KSh182 per share. This completed Equity Bank's progression from what was effectively a small family firm to a high-potential organisation, then a high performing, professional organisation and, finally, a listed institution.

The Aggressive Growth Phase (2006–2008)

In 2006, Equity Bank embarked on an ambitious growth strategy to become a dominant force in its market segment and make it difficult for competitors to mount an effective challenge in that segment.

The bank's growth between 2005 and 2008 had been phenomenal. Pre-tax profit grew from KSh0.5 billion in 2005 to KSh5.0 billion in 2008 (1000%), operating revenue in 2005 was KSh1.8 billion and KSh12.6 billion in 2008 (a growth rate of 700%), while the number of customers increased from 0.56 million in 2005 to 3.30 million in 2008 (a 600% increase – see **Exhibit 3** for details).

Customer deposits increased from KSh9.0 billion in 2005 to KSh50.3 billion in 2008 (growth of over 500%), while loans and advances increased from KSh5.9 billion in 2005 to KSh45.2 billion in 2008 (an eight-fold increase). In spite of the increased lending, Equity's ratio of non-performing loans (NPL) to total loans fell from 10% in 2005 to 6% in 2008 (the industry average was 9% in 2008).

According to James, Equity's success was derived from the size of its customer base: *"We make money from volumes, we charge about a tenth of what other banks charge for their services. We can sustain that because we have a large customer size."*

[4] Coetzee et al (2003)

[5] An auto branch was a mix of cash dispensing machines and full ATMs that also accepted deposits. Equity customer service staff provided assistance at the auto branch during business hours. They provided advice to customers on how to use the ATMs, and initiated sales of other products and services. This approach effectively built financial education of the low-income community into e-banking service delivery.

This growth had been achieved through aggressive customer acquisition, the expansion of the bank's distribution network, the introduction of new products, and its investments in appropriate technology infrastructure and in human capital.

In 2007, the bank entered into a partnership with leading retail stores in Kenya such as Nakumatt, Tuskys and Uchumi, which housed its 660 point-of-sale (POS) terminals. This enabled the bank to further increase its customer outreach nationwide.

The key drivers of growth were a continued increase of the customer base and product development. The growth of its customer base was sustained through a continuous expansion of the branch network and investment in new distribution channels including ATMs, mobile banking and point-of-sale (POS) outlets.

In 2008, the bank fine-tuned its vision and mission statements to reflect the new direction and expanding customer base (see **Exhibit 4**). The new vision of the bank was to be *"the champion of socio-economic prosperity of the people of Africa,"* while the new mission was *"offering inclusive, customer focused financial services that socially and economically empower our clients and other stakeholders."*

New Products

In 2006 the bank launched new products and hosted new delivery channels which included internet banking, m-banking, and SMS. These offered customers alternatives to the traditional channels, and in turn extended the bank's reach.

In 2007, the bank launched more new products and services, which included *"Cash Back," "Fanikisha,"* and *"Hekima Milele."* The *"Cash Back"* product allowed customers to use their ATM card to pay for their shopping and withdraw cash from retail stores and petrol stations at the same time. The *"Fanikisha"* product was a collection of loan products that were targeted at women in business, giving them access to affordable loans from KSh1,000 to over KSh10 million. *"Hekima Milele"* was a mortgage and investment product developed as a result of a strategic collaboration between Housing Finance (HF)[6], the British-America Insurance Company (Kenya) and Equity Bank which leveraged on the core businesses of each of the firms.

Equity Bank also launched several agricultural credit delivery channels targeted at farmers and fishermen (see **Exhibit 5**).

Customer Acquisition and Retention

The customer acquisition strategy was based on the bank's commitment to customer focus. The bank was known for its grassroots relationship-based banking. A combination of personal selling, community (social) marketing and its "in the marketplace" service had been successfully used to acquire customers. Its community marketing had an element of corporate social responsibility. For example, prizes were presented to the best farmers and university scholarships were provided for high-potential children who had excelled academically, with a commitment that upon successful completion of their university education, they would be hired by Equity Bank.

Referrals, driven by word-of-mouth, were another powerful weapon in the customer acquisition process. Favourable word-of-mouth communication was usually spurred by memorable customer experiences. Equity had always been aware of the power of word-of-mouth in the marketplace and the importance of influencing it through customer service, relationship marketing and public relations. The bank's activities

[6] On 11th July 2007, Equity Bank and British-American Insurance Company (Kenya) Ltd (BAICL) bought out Commonwealth Development Corporation (CDC) Group Plc's 24.99% stake in Housing Finance (HF). Equity acquired 23 million shares at a cost of KSh433 million while BAICL acquired 5.6 million shares.

were usually highly publicised as a means of showing the strength of the bank and its achievements in order to build trust and confidence amongst its customers and potential customers.

Listening to customers and engaging them in dialogue also contributed to customer acquisition; this enabled the bank to develop unique products targeted at the needs of customers. The bank conducted regular market research studies that gave valuable insights into customers' needs, perceptions and concerns. The results of these research studies were used in developing new products, fine-tuning existing ones, and improving service delivery.

Customer retention was based on a sound customer service platform. Customer service was the passion of everyone in the organisation, from the chairman to junior members of staff. According to the chairman: *"Working closely with our customers has made us realise that it is not enough to have strong financial products and services; more crucial is how those services are delivered to people."*

The bank's approach to retention of customers also led to high levels of customer loyalty. According to a customer,

> *Equity is not like other banks. If I have a problem, I can see the Branch Manager and he will listen. They care about their customers and offer loans to us when other banks never would. Equity is my bank, even if I have to queue for an hour to get my salary right now, I know they are working to change that – because they care.*[7]

Equity Bank developed a formal customer service strategy based on detailed analysis of the preferences of its customers. This was done by collecting data using ServQual questionnaires, focus group discussions and mystery shopping. The research results had driven the bank to focus on speed of service, accuracy of transactions, knowledge of staff, staff-client interactions, and the appearance of the branches and staff. Service standards had been set for a variety of critical variables under these categories and were monitored on a regular basis. Performance against these customer service standards was a significant proportion of the branch-based incentive schemes.

The cheerleader of customer service in Equity Bank was the CEO, who always reminded everyone that Equity's foundation was a culture of service. According to the CEO, *"When service is rendered with clean hands, a clear conscience and noble intentions, and when it is received honestly by the customer, a bond is created that unifies the future of both the bank and its customers."*

In 2007, the bank extended its banking hours to between 8.00am to 4.30pm on weekdays, and 8.00am to 12.00pm on Saturdays as a means of improving service to customers. In the same year, the bank also developed a *"prestige banking branch,"* which offered exceptionally personalised services in luxurious surroundings for its Nairobi-based loyal and high-value customers – the brand ambassadors who had been with the bank and promoted it for many years. The personalised service these customers received encouraged even stronger word-of-mouth marketing.

Recognising that customer service was increasingly becoming the key driver in the industry, the bank recruited a team of relationship managers who would foster closer working relationships with customers as part of their job portfolio.

Loyal shareholders throughout the institution had voluntarily committed to introducing new customers to Equity Bank on an annual basis.

[7] MicroSave, March 2007, p.11

Processes for Growth

In January 2006, when its customer base was still less than one million, Equity Bank invested KSh400 million in a core banking platform called *Finacle* (created by Infosys) aimed at facilitating its ambitious growth plan. The system had the capacity to hold 35 million accounts and process 300,000 transactions per minute. The system enabled the bank to roll out 200 ATMs in 2006, 150 ATMs in 2007, and another 150 ATMs in 2008. The system also made it possible for the bank to embark on an aggressive branch and POS terminals expansion programme. As of the end of 2008, the bank had a network of 129 branches supported by 500 VISA-branded ATMs, and 2,500 POS terminals.

These alternative delivery channels helped decongest the banking halls as customers could make withdrawals and payments as well as check their balances at the bank's ATMs. Over 50% of customers' cash withdrawals were from the ATMs.

The system also led the bank to develop new products and additional delivery channels. One of these new products was mobile phone banking, which allowed for airtime top-ups, cash back services at different points of sale, and cash withdrawals from cashiers at supermarkets. In addition, debit cards were launched in 2007.

In order to improve its customer relationship management processes, Equity Bank implemented a Customer Relationship Management System (CRMS). The system provided better customer insight for cross-selling, customer service, revenue and profitability management.

Financial Engineering for Growth

On August 7th 2006, the bank was listed on the Nairobi Stock Exchange (NSE) as a means of positioning it to raise the capital required to finance its growth. On December 21st 2007, Helios[8] EB invested KSh11 billion in Equity in exchange for approximately 90.5 million ordinary shares (24.99% of the bank's issued share capital). Helios got two seats on the board of the bank as a result of the investment. This investment raised the shareholders' fund to KSh15 billion from KSh2.2 billion, making the bank one of the most capitalised in Kenya.

In 2007, the bank also raised a total of KSh4.52 billion in long-term funds from various international development financial institutions in order to diversify its funding base. In addition, a medium-term loan of KSh100 million was obtained from the Ministry of Youth Affairs for on-lending to young entrepreneurs.

Bringing Society into the Bank's Strategy

For Equity Bank, investing in the society and giving back was a key element of its corporate strategy. This giving back was in the form of corporate social responsibility. Equity's vision was to champion the socioeconomic prosperity of the continent of Africa. To realise this vision, the bank focused on providing inclusive financial services to all customers regardless of their race, gender, ethnic group, religious conviction or locality. Through its work, the bank had transformed the lives of a large number of customers who had been previously excluded from the formal economic sector by giving them hope, dignity and economic empowerment. The bank's approach was based on the concept of shared values where it had found points of convergence between its economic and social objectives. The corporate social responsibility activities undertaken by the bank fulfilled its economic and social objectives.

The bank's corporate social responsibility activities were in the following areas:

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[8] Helios EB is a UK-based private equity firm that was founded by two Nigerian investment bankers.

- **Eradication of poverty, hunger and the provision of humanitarian aid:** the bank partnered with both governmental and non-governmental groups such as the Alliance for Green Revolution in Africa (AGGRA) and the World Economic Forum (WEF) under the project Business Alliance against Chronic Hunger (BAACH) to make credit accessible to farmers and to contribute to improving food security and the eradication of hunger and poverty. The bank also supported communities in distress. Following the post–election violence in January 2008 the bank, in conjunction with various stakeholders, supported internally displaced persons (IDPs) by providing aid valued at KSh85 Million through the *"Tumaini na Undugu"* initiative. Furthermore, the bank extended credit with flexible security and repayment terms, and also provided financial literacy programmes to help the victims regain their dignity and pick up their lives by starting small income-generating activities individually or in groups.

- **Education:** Over the years, Equity Bank had been a solid partner within the education sector. The bank had signed a Memorandum of Understanding (MOU) with the Ministry of Education to disburse the Free Primary Education (FPE) and Free Secondary Education (FSE) funds in support of education programmes. In addition, Equity Bank invested in a number of other initiatives in the education sector. Key among these was the bank's Pre-University Programme, which had been running since 1998. The programme extended university education sponsorship to the top male and female students in all of the districts where the bank had a presence. To this end, in 2008 the bank spent some KSh112 million on 186 students who excelled in the 2007 Kenya Certificate of Secondary Education (KCSE) exams. The bank had also been the main sponsor of the Kenya National Music and Colleges Drama festivals as part of its mission to support and nurture talent among the youth of Kenya.
  The bank, in conjunction with Kenyatta University, began a community outreach programme through which university students would live and work with local communities and address local social and economic challenges through the initiation and implementation of development projects.
- **Gender Equality and Women Empowerment:** Equity designed and delivered products suitable for women. For example, in partnership with United Nations Development Programme (UNDP), the bank launched the *"Fanikisha"* project which provided access to financial services, information and financial literacy training to women entrepreneurs. Equity Bank also pursued gender equality by providing access to university education for both the best boy and best girl in the districts in which it operated.

- **Health:** Equity Bank invested in initiatives aimed at reducing the spread of HIV/AIDS, drugs and substance abuse. Through community outreach programmes, the bank partnered with some public universities, through which the students worked with communities to create awareness and provide counselling on HIV/AIDS and substance abuse. The bank had partnered with institutions such as the Meru Hospice to provide access to financial services to HIV/AIDS infected or affected people.
  Employees of the bank also supported orphans and vulnerable children in different parts of the country.
- **Environmental Sustainability:** Equity Bank was committed to environmental protection and sustainability. In this regard, the bank had invested in activities such as participating in tree planting, environmental cleanups, beautification and landscaping in the areas where it operated.

- **Bank Leadership Voluntary Service to Society:** The staff of Equity Bank volunteered their time and expertise for the benefit of the society. For several years, the staff had conducted financial literacy courses through which they mentored and coached people on the fundamentals of entrepreneurship and financial management. Furthermore, the leadership team had contributed time and expertise to several policy and advocacy forums at the national, regional and international levels. For example, they participated in the drafting of Kenya's Vision 2030 between 2006 and 2008. They had also participated in the World Economic Forum on Africa. At the international level, they served on several international advisory bodies including the UN, UNEP, the Clinton Global Initiative, and the Global Economic Network.

Corporate Governance

By the end of 2008, the board of Equity Bank was made up of ten directors, including the chairman and the MD. The board was made up mainly of external directors, with the bank's MD being the only executive director. This was to ensure the independence of the board in line with global best practice. Global best practice corporate governance had been one of the main driving forces of the bank right from the 1990s. The bank had built its business on very strong corporate governance principles. There was a strong commitment to conducting the bank's business in accordance with best global business practices and ethics. This helped the bank attract the right kind of investors – in particular, foreign bodies (see **Exhibit 6**).

The board was made up of directors with diverse backgrounds and experiences. The chairman of Equity Bank was also the chairman of a multinational company and was on the board of four other organisations. The directors of Equity Bank were also on the boards of other non-competing organisations. In terms of diversity, three of the directors were investment bankers, two were accountants, two were management specialists, two were academics, one was an economist, and one an entrepreneur. Four of the directors were also the CEOs of organisations in the private sector.

The board operated with eight committees: Audit, Executive, Credit, Risk Management, Governance, Nomination and Staff Remuneration, Systems and Processes, Tendering and Procurement, and Strategy and Investment. All of the committees were governed by charters setting out their mandates and authority.

The issue of conflicts of interest and governance was taken seriously. As such, no director was allowed to take a loan from the bank or have business relationships with the bank directly or indirectly. These corporate governance principles were also passed down to the staff of the bank.

All employees were guided by very high standards of ethical values and the observance of all relevant laws and regulations at all times. The staff had committed to several essential principles which defined their conduct in the course of service: professionalism, integrity, creativity and innovation, team work, unity of purpose, respect and dignity for customers, and effective corporate governance.

Reputation Management

Various local and international awards earned by Equity Bank had contributed to enhancing its image and reputation of the bank. In 2006, Equity Bank was recognised as the 3rd best bank overall and the best bank in retail banking in Kenya by the Market Intelligence Survey (MI). In 2007, the bank was awarded the following by the Kenya Banking Survey: best retail bank, best microfinance bank, fastest growing bank, runners-up in product innovation, runners-up in small and medium enterprise banking, and 2nd best bank overall.

The bank was conferred with the Global Vision Award at the June 2007 Vision Summit in Germany, and voted the best bank in Kenya by Euromoney Awards for Excellence in both 2007 and 2008. Equity Bank was named the best microfinance bank in Africa in 2008 during the annual African Bankers Award ceremony in Washington DC, USA.

Equity Bank was also awarded the best Ai 100 performing company in Africa by Africa Investor and the New York Stock Exchange.

Future Challenges

The bank intended to continue with its regional expansion but needed to review its strategy. According to James,

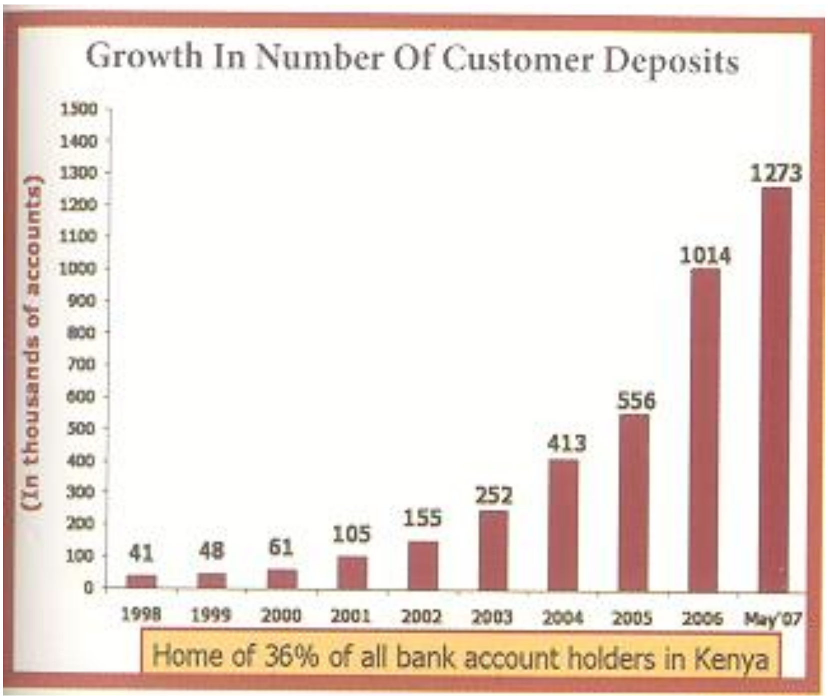
> *As our customers grow; we will have to grow with them. Their needs will shift to much bigger loans and more sophisticated corporate banking products. At some point in time, we may have to think about setting up a separate corporate bank to deal with their needs.*

James was always driven by his favourite quotation – *"honouring our people's trust is a priority; adding value to their lives is a responsibility"* – and he wanted all of the bank's staff to bear that in mind as they faced the challenges of the future.

There would be the need to continuously understand the evolving needs of customers and to ensure that the growth and formalisation of the bank did not significantly reduce the bank's ability to respond to those needs.

James also realised the challenge of dealing with competition aroused by Equity's success. The performance of Equity over the past five years had encouraged other commercial banks to reengineer their systems to compete with Equity. With the advent of e-banking technology in Kenya, particularly mobile phone-based systems, Equity's competitive advantage could be eroded.

Exhibit 1: Equity Performance (1998 – May 2007)



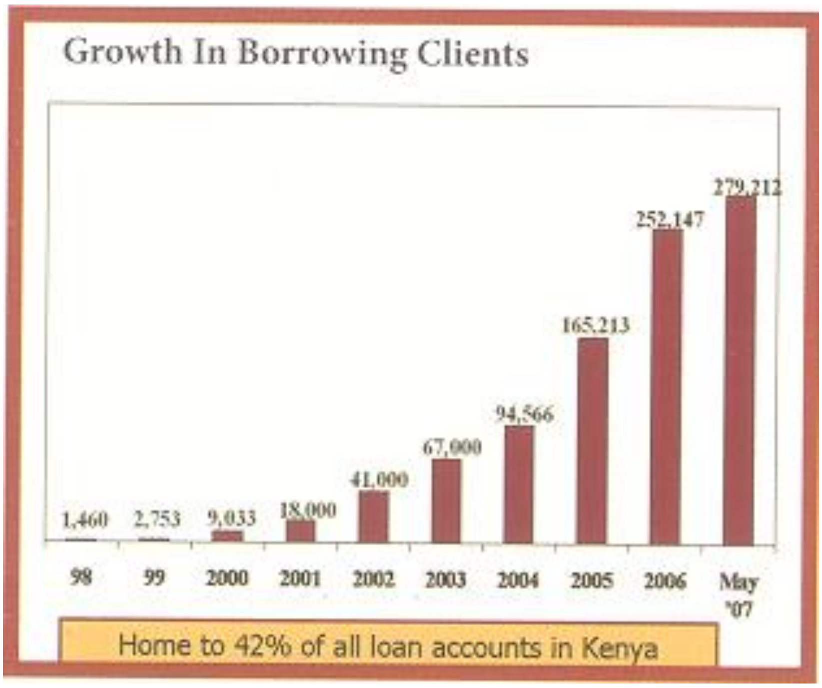


Exhibit 2

Equity Vision, Mission, and Values - 2004

Vision

"To be the preferred microfinance service provider contributing to the economic prosperity of Africa"

Mission

"We mobilize resources and offer credit to maximize value and economically empower the microfinance clients and other stakeholders by offering customer-focused quality financial services"

Values

P rofessionalism

I ntegrity

C reativity

T eamwork

U nity of purpose

R espect and dedication to Customer Delight

E ffective Corporate Governance

Statement of Purpose

"We exist to give the freedom of modern banking to the ordinary people of Africa. We understand the lives of our people, and listen carefully to what they need. We are here to serve: our customers lead, we follow. Our aim is to provide new financial possibilities to our customers that have the power to transform their lives. We measure ourselves by our positive impact on the lives and livelihoods of those around us.

Equity Bank is your bank, and it does things your way."

Hedgehog

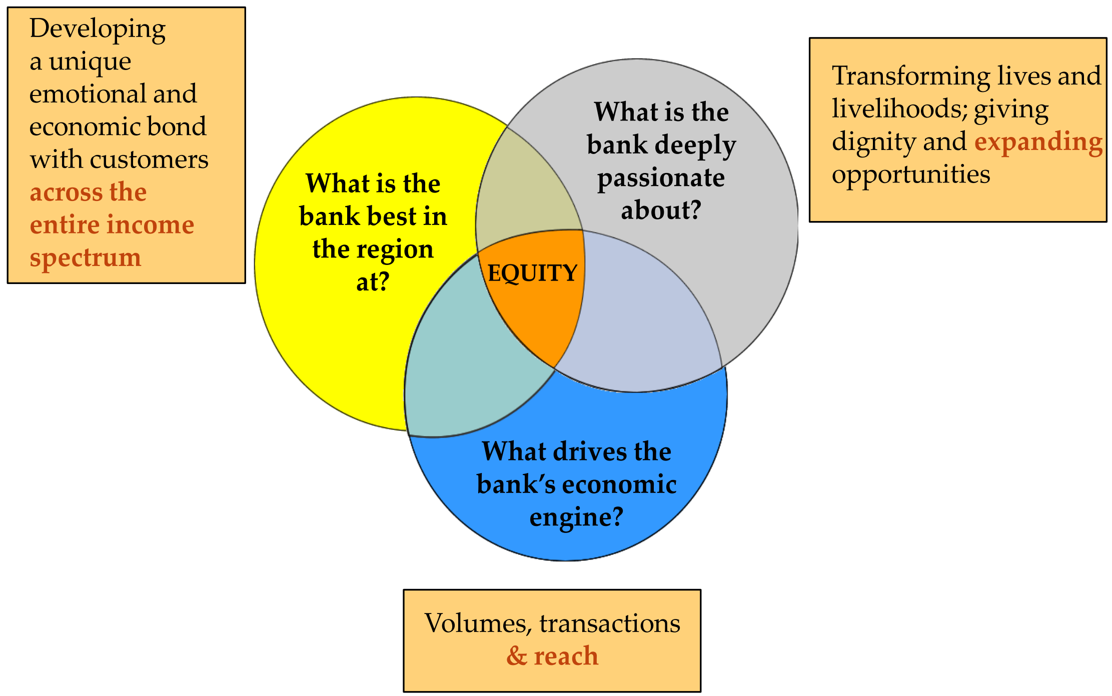


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Exhibit 3: Performance Highlights (KSh millions)

	2004	2005	2006	2007	2008
Customer Base (No)	413	556	1,014	1,840	3,296
Customer Deposits	5,081	9,048	16,337	31,536	50,334
Gross Loan Portfolio	3,099	5,885	11,428	22,228	45,195
Profit before Tax	218	501	1,103	2,378	5,022
Shareholders' Funds	1,271	1,594	2,201	14,917	19,580
Number of Staff (No)	530	884	1,349	2,418	4,386

Income Statement 2005 – 2008 (KSh million)

	2005	2006	2007	2008
Income				
Interest income	947.8	1,634.5	3,155.0	7,979.0
Interest expense	-82.3	-126.6	-495.0	-1,362.0
Net interest expense	865.5	1,507.8	2,660.0	6,617.0
Commission and other income	937.2	1,863.6	3,161.0	5,988.0
Total operating income	1,802.7	3,371.4	5,821.0	12,605.0
Expenses				
Management expenses	1,040.3	1,855.5	3,060.0	5,848.0
Depreciation and amortization	137.6	279.9	423.0	749.0
Provision for bad and doubtful debts	124.3	133.1	-25.0	1,020.0
Total Expenses	1,302.2	2,268.5	3,458.0	7.617.0
Profit before Tax	500.5	1,102.9	2,363.0	4,988.0
Share of Profit of Associates			15.0	34.0
Taxation	-155.9	-349.5	-488.0	-1,112.0
Profit after Tax	344.6	753.4	1,890.0	3,910.0

Balance Sheet 2005 – 2008 (KSh millions)

	2005	2006	2007	2008
Assets				
Cash and cash equivalents	3,400.3	4,713.6	11,996.0	12,766.0
Government securities	1,254.4	1,650.6	13,543.0	12,240.0
Investment in associates	0.0	0.0	442.0	1,156.0
Loans and advances to customers	5,524.4	10,929.6	21,836.0	44,070.0
Finance lease receivable	0.0	0.0	0.0	122.0
Goodwill	0.0	0.0	0.0	887.0
Property, equipment and leasehold land	1,045.2	1,469.5	2,607.0	4,828.0
Investment in subsidiary companies	0.0	0.0	0.0	51.0
Intangible assets	89.5	161.1	224.0	621.0
Other assets	138.2	1,100.0	2,428.0	2,124.0
Tax recoverable	4.6	0.0	0.0	14.0
Total Assets	11,456.5	20,024.5	53,076.0	78,879.0
Liabilities				
Customers' deposits	9,047.8	16,336.7	31,536.0	50,334.0
Other liabilities	646.5	844.4	1,848.0	1,894.0
Tax payable	168.2	147.0	209.0	514.0
Borrowings	0.0	485.5	4,521.0	6,463.0
Deferred tax	0.0	10.9	45.0	94.0
Total Liabilities	9,862.5	17,824.5	38,159.0	59,299.0
Shareholders' funds				
Share capital	452.8	453.0	1,811.0	1,851.0
Share premium	0.0	480.0	10,543.0	12,161.0
Available for sale reserve	0.0	1.0	13.0	-112.0
Statutory reserve	0.0	0.0	253.0	308.0
Other reserves	0.0	0.0	0.0	-67.0
Foreign currency translation reserve	0.0	0.0	0.0	-170.0
Retained earnings	1,141.2	1,085.0	1,754.0	4,498.0
Proposed dividends	0.0	181.0	543.0	1,111.0
Total Shareholders' funds	1,594.0	2,200.0	14,917.0	19,580.0
Total liabilities and shareholders' funds	11,456.5	20,024.5	53,076.0	78,879.0

Exhibit 4: Vision, Mission and Values – 2008

Vision

"To be the champion of the socio-economic prosperity of the people of Africa."

Mission

"We offer inclusive, customer-focused financial services that socially and economically empower our clients and other stakeholders."

Values

P rofessional

I ntegrity

C reativity & Innovation

T eamwork

U nity of purpose

R espect & Dignity for customers

E ffective Corporate Governance

Purpose Statement
We exist to transform the lives and livelihoods of our people socially and economically by availing them modern, inclusive financial services that maximize their opportunities

Exhibit 5

Distribution channels include:

- Personal banking
- Business banking
- Corporate e-banking
- Retail internet banking
- SMS banking
- Mobile banking
- ATM card
- "Cash Back" services

Exhibit 6: **Equity Bank Governance Principles**

Compliance: ensuring that the Bank complies with all relevant laws, statutes, regulations and corporate commitments.

Profitability: ensuring that the Bank is profitable and provides a reasonable return on the assets it employs.

Leadership: exercising leadership, enterprise, integrity and judgement in directing the Bank so as to achieve continuing prosperity and acting in a manner based on transparency, accountability and responsibility.

Accountability and responsibility: recognizing and differentiating accountability and responsibility linkages to stakeholders and establishing reporting mechanisms to support these linkages.

Checks and balances: ensuring that no one person or block of persons has unfettered power and that there is an appropriate balance of power and authority on the board.

Strategy: determining the corporation's purpose, values and strategy and implementing its values in order to ensure that it survives and thrives, and ensuring that procedures and practices are in place that protects the bank's assets and reputation.

Monitoring: monitoring and evaluating the implementation of strategies, policies, and management performance criteria and business plans.

Evaluation: regularly reviewing processes and procedures to ensure the effectiveness of its internal systems of control, so that its decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times; regularly assessing its performance and effectiveness as a whole, and that of the individual directors including the chief executive officer.

Risk Management: identifying key business risk areas, including technology and performance indicators of the business enterprise and monitoring these factors.

Disclosure: providing shareholders and markets with necessary and timely information material to the company's performance and risks.