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Equity Bank: Challenging a Giant

From his office above, Dr. James Mwangi took in the familiar Nairobi buzz of the streets below with a newfound sense of unease. He had thought that by 2012, the toughest decisions for Equity Bank, whose swift successes over the past two decades he had architected as CEO, were behind him. He knew the banking landscape better than most anyone in Kenya, and yet a curious form had arisen in recent years to capture his market share. Safaricom, the Goliathan mobile network operator (MNO) that held the reins to the majority of Kenyan telecommunications, was becoming more and more of a banking competitor with each passing day. This development had sprung from the government's decision to allow Safaricom to engage in the facilitation of money transfers using its network and technology stack.

For a massively underbanked population, Safaricom's method of engagement in financial inclusion seemed tantamount to putting a brick-and-mortar bank in every neighborhood. Yet for Mwangi, something about the telco-turned-financier was amiss. He looked at the charges per transaction and the fee structure surrounding Safaricom's transfer service and believed, from the perspectives of both long-term profitability and consumer advocacy, that he could do better. He had long ago expressed that the betterment of the Kenyan people was a cornerstone of his business model; after doing so, he intrinsically came to see any lost ground as a threat to that purpose. With this impetus, Equity Bank had launched a joint service with Safaricom in 2010 that purported to solve many of the shortcomings identified by Mwangi. As of 2012, however, the beleaguered remains of that project once again pushed him to reassess his position. How could Equity grab a foothold in the rapidly shifting industry? Could he realize his dual obligations to his shareholders and to his people? Breathing in the uncertainty, Mwangi saw one point clearly. He needed a way to face the giant before him, and he needed to win.

Background

Equity Bank

Mwangi was no stranger to the intense demands of reshaping Equity Bank's fundamental framework. Twenty years prior, he was sent in to salvage its original incarnation, Equity Building Society, which was tiny, operationally troubled, and above all insolvent. Ranking 66th out of the 66 banks in Kenya, Mwangi threw all the ingenuity of his thirty-one years of age into its unlikely salvage. Emphasizing customer service and the core accountholder experience, he guided some two-dozen staff

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members toward delivering a cohesive relationship between the bank and its 27,000 customers. Within three years, Equity Bank regained solvency, and its growth was at a pace yet unseen in the bank's history. Staff members bought into the company, and it began extending shares to its customers with annual dividends to spare. By 2010, in a nation of about 40 million citizens, Equity had grown to hold 50% of the country's bank accounts (see **Exhibit 1** for summary statistics and company financials – the highlighted columns in Exhibits 1F-I show the years in which Equity Group and Bank are identical identities).

Mwangi saw each additional customer as an important step toward not just Equity's success, but toward his country's rise from poverty. He framed the extension of new bank accounts in the light of GDP growth; his 2010 goal of bolstering the country's savings rate to between 25–35% would, by his calculations, foster an annual national growth rate of 10% (see **Exhibit 2** for select economic indicators). For targeting the maximization of prospects for those worst-off in his country, Mwangi was recognized by the Financial Times as one of the top 50 thought leaders in emerging markets in 2009. In the same year, he also chaired Kenya Vision 2030, a comprehensive development program geared around a series of five-year plans that sought to make Kenya a "newly industrializing, middle-income country providing a high quality of life to all its citizens by 2030 in a clean and secure environment."

Nonetheless, 77% of the country's adult population still went unbanked. Individuals employed in the informal sector accounted for an estimated 98% of employment at the time, and channels allowing for the mostly cash-based activity therein were seen as risky even by the Kenyans utilizing them. A large amount of transactions occurred in urban areas between people whose families, to whom they would periodically send money, were located remotely. To send this money, family members and merchants used buses or *matatu*—privately owned minibuses or other large vehicles operating as share taxis—to transport the cash physically over long distances. Of course, the process was not only costly, but also highly risky. This risk was sharply exacerbated by the 2008 Kenyan crisis, in which the country was ravaged by political and ethnic violence following a disputed election. Casualties numbered in the thousands, and over half a million people found themselves displaced. The economic impacts of the crisis mean that, in many urban centers, the flow of capital was at a standstill for months (see **Exhibit 3** for various indicators on financial inclusion).

Mwangi saw financial technology as a way to bridge the gap for those beholden to the costs and unpredictability of his cash-based Kenya. He knew Equity's couple-hundred branches were far too limiting to allow for the kind of security and ease-of-access that the country needed. Clients who visited the bank had to travel significant distances, with the time needed to do so effectively costing them money out of their daily earnings. The public's relative distrust of established financial institutions also meant that simply setting up more locations would not necessarily boost account proliferation or relieve congestion at branches in city centers. Additionally, a branch conveniently near to a customer sending money was essentially useless if the recipient did not also have a branch nearby. Mwangi saw the rise of mobile access as the key to his problem, and set out to explore solutions.

Safaricom

While Mwangi saw opportunities for financial technology to close the gap, he was not alone. Telecommunications giant Safaricom had rolled out pilots for its M-Pesa money transfer service as early as 2007. "M" for "mobile," and "Pesa" for money in Swahili, M-Pesa was able to cover more ground than the physically confined Equity. Officially launching in 2007, Safaricom set up over 17,000 agents around the country to allow customers to send money through their cell phones over any distance they chose. The company controlled 80% of the mobile communication network at the time, and their popularity on this front meant that their brand recognition could win the trust of potential

M-Pesa users. By the end of 2010, nearly 10 million Kenyans used M-Pesa. This was an unprecedented technological adoption, especially when considering the mere 4 million total bank accounts in the country (see **Exhibit 4** for details on Safaricom).

Mwangi looked on M-Pesa's success with designs for more comprehensive financial inclusion. As a bank, any measures Equity tried to deploy in the telecom realm would be riding on the infrastructure and network service of a company outside its own industry and area of expertise. While the money transfer capabilities provided by M-Pesa were taking up an ever-growing chunk of Equity's place in the market, they were still not fully-fledged banking services. Loans, various insurance packages, credit, savings accounts, and a host of other familiar products were absent from M-Pesa precisely because Safaricom was legally barred from supplying them as a non-banking entity.

In pursuit of marrying banking services with mobile agility, Equity entered into a partnership with Safaricom to launch M-Kesho in May, 2010. In Swahili, *kesho* meant tomorrow, the future, and Mwangi saw the product as just that. Through M-Kesho, M-Pesa customers could open savings accounts and make small transfers to those accounts at no cost. The accounts paid interest on balances, and granted users access to Equity's larger profile of banking services. Through M-Kesho, Equity anticipated the creation of 11 million accounts by the end of the year, with an average savings above 10 thousand shillings each (see **Exhibit 5** for details on M-Kesho). The near 120 billion shillings saved up, as anticipated by the move, would be catalyzed into Mwangi's vision of creating a savings culture in the country and paving the way for his GDP targets in the long-term. In the short-term, it promised an uptake of Equity's product suite that would solidify the bank position as a FinTech player for generations to come. To lead this charge, it felt like a natural fit to hire an expatriate from South Africa in the same way Safaricom had done a decade earlier. John Staley was the perfect choice; born and educated in top universities in South Africa, and with numerous innovative ideas for mobile: the leading role was his for taking.

The Telco-Bank Battleground: Decisions for Mwangi

The promises of M-Kesho would not hold. As market forces thrust the M-Kesho vehicle into full gear, cracks began to emerge. Technological compatibility was questioned. Fear of security holes and the fit of Kenya's two large behemoths started to take toll as the leadership became tense. Staley felt trapped between a myriad of complicated Kenya regulators and a partner that could not be trusted. There were commercial issues, and the line between who owned the customer blurred. When tariffs arose favoring Safaricom, the ambitious hybrid product fell apart. Despite M-Kesho's failure, Mwangi knew that he still had to engage his institution with the mobile space or risk Equity falling into irrelevancy. By his estimation, there were four options ahead for his bank.

First among them was to simply continue with the traditional banking model, but refashion it to match the unique demands of Kenyan life. Equity was already finding success in adapting the micro-agent model to the banking world. By equipping 27,000 independent agents—compared with the mere 173 brick-and-mortar branches—with the proper technology, they could deploy virtually anywhere in the country, however urban or rural, and operate as a pseudo-brick-and-mortar branch. Equity could provide customers with access to any services they needed without having to travel large distances, and the trust between clients and the bank would be localized on the person-to-person level (see **Exhibit 6** for details on bank and ATM coverage). Micro-agents dispatching the technology to access Equity's product suite would also mean that each individual user would not have to bear the comparatively high up-front cost of purchasing the latest smartphone, or the continuing cost of paying for its service. In this way, Equity could bring banking to the people in as literal a sense yet possible while still keeping costs low for itself and its users.

Second was to continue in M-Kesho and repurpose its function. This could mean remaining with Safaricom and restructuring the product and user arrangements, or it could mean finding a different partner with whom to implement the product anew. That would also mean restructuring, and making the tough decision to replace the development and project management teams. While Mwangi treated this option with skepticism, he still had to acknowledge the sheer power of Safaricom and the telecom industry as a whole in rivaling Equity's abilities as a financial provider. Perhaps his best bet was to muddle through the constraints of operating as second fiddle in a new era of telecom dominance. After all, how could a bank succeed alone in an age that appeared by many accounts to have abandoned the need for pure banking entities? If the needs of the people were better served by a different technology, Mwangi knew there was no sense in fighting the improvements it brought to their quality of life.

Third was to continue with the politics du jour. Just as Safaricom had stepped outside of its proper lane with the extension of banking services to mobile clients, so too could it be curtailed with the appropriate legislation. While M-Pesa had surely spurred activity and inclusion never seen before in the country, it also had a host of downsides that were taking their toll on the user base. Transaction fees were high. As would be brought to the public's attention by the Bill and Melinda Gates foundation in 2013, sending the equivalent of 1.50USD carried an accompanying charge of 0.30USD [SOURCE: https://docs.gatesfoundation.org/Documents/Fighting%20Poverty%20Profitably%20Full%20Report.pdf]. Given that the majority of transactions on the platform were small in sum, Safaricom was reaping substantial margins from the consumer. There were also allegations [raised in a study funded by USAID: https://dl.acm.org/doi/10.1145/2911982] that Safaricom was signing customers up for subscription services and posting additional fees on small transactions of which the customers, mostly from rural areas and with little financial literacy, were unaware. A mounting concern was also that of data privacy. Kenya did not have data protection laws, and Safaricom was free to use and sell the data of its customers as it saw fit [Particular case from later in 2019: https://hapakenya.com/2019/06/25/safaricom-sued-by-customer-for-ksh-115-trillion-for-an-alleged-data-breach/]. Mwangi felt that, no matter his choice, the participation of telcos in the financial space needed the same type of robust regulations to which banks were already subjected.

The fourth option was the most drastic in terms of risk reward. Mwangi had been positioning Equity as a bank that needed an external company's telecom rails (see **Exhibit 7** for details on the telecom industry). In doing so, the bank was meant to gain maneuvering capabilities in the digital landscape. However, in practice, all it had gained were the fetters of whatever network provider to which it had attached itself. Mwangi thus saw an unlikely solution: build the telco in-house and expand banking services from the beginning. Rather than partner with an existing company, Equity could launch its own telecommunications initiative and meet the customer on a front where they had already begun to feel comfortable in the modern era. One such venture could take the form of a strategic acquisition of a telco with a regional presence. In the last decade, Telco transactions were awash in the marketplace, with deals closed for companies like KenCell, Zain, and Celtel. The undertaking would pose the largest initial cost of all available options, but also boasted the largest potential return. If Equity could put itself in customer's phones directly, there would be no need for an intermediary to dictate any facet of their operations or, in turn, increase costs for Equity and the customer.

Challenging a Giant

Mwangi weighed these options deliberately. Safaricom's size and relative entrenchment in the telecom industry meant it lacked Equity's relative nimbleness when exploring new methods of engaging customers with financial tools. But how could Equity ever hold a candle to a company that had already garnered the trust of half of the adult population with M-Pesa? Was it the case that

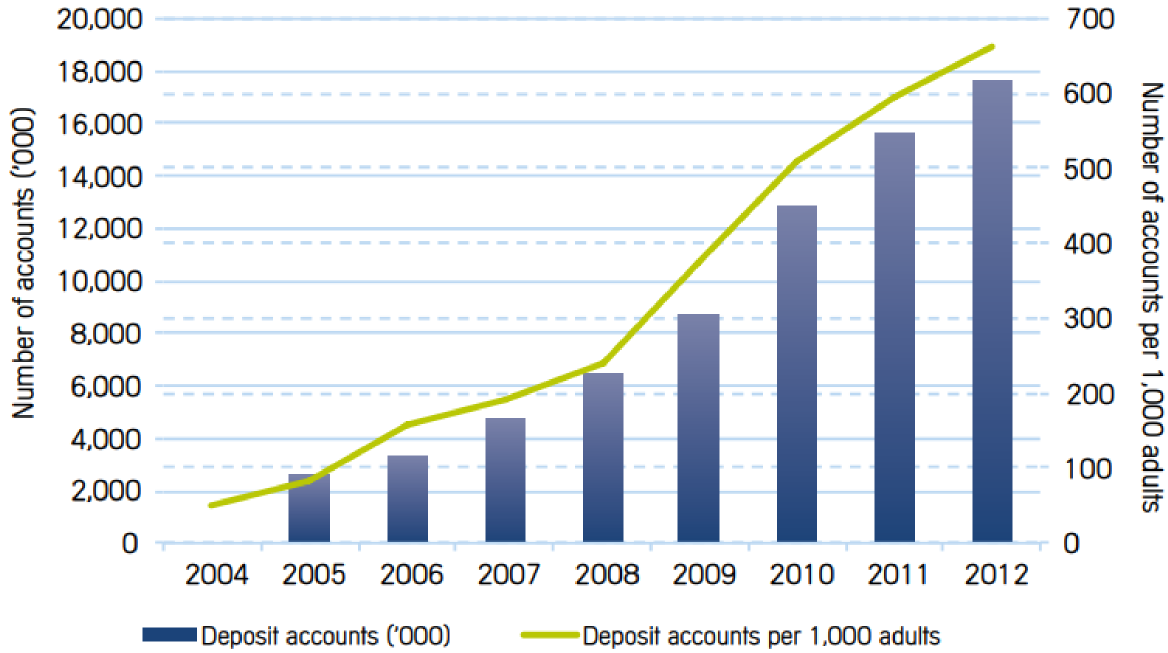
Kenyans had skipped over the need for traditional banking entirely, and instead could prosper by digitizing their cash system alone? Mwangi knew the country was entering a time of sustained and healthy growth, though he could not help but think that the growth for his people and his company could be even stronger and more evenhanded. Many of Safaricom’s shareholders were located abroad, and Mwangi questioned the effects on spending power and demand within a country whose bulk value of transactions were increasingly being cut into by such a firm. Mwangi nearly lost himself in the search. He had to find a solution, somewhere in the hands of the people pacing about on the street below, that could topple his giant.

Exhibit 1A Summary Statistics on the Kenyan Banking Industry

Year	Banking sector loans and advances (Ksh Billions)	Banking sector loans and advances growth	Domestic credit to private sector by banks (% of GDP)	Bank nonperforming loans to total gross loans (%)	Number of ATMs per 1,000 km²	Number of ATMs per 100,000 adults	Number of borrowers from commercial banks per 1,000 adults	Number of commercial bank branches per 1,000 km²	Number of commercial bank branches per 100,000 adults
2005	338.4		26.13%	25.70%	0.57	1.58	26.90	0.93	2.60
2006	396.1	17.1%	22.77%	21.30%	1.08	2.92	40.13	1.00	2.69
2007	495.4	25.1%	22.93%	10.64%	1.78	4.65	55.62	1.34	3.51
2008	631.2	27.4%	25.28%	9.23%	2.33	5.92	61.53	1.60	4.07
2009	721.6	14.3%	24.93%	8.00%	2.91	7.18	72.23	1.77	4.36
2010	876.4	21.4%	27.13%	6.30%	3.67	8.80	75.45	1.94	4.65
2011	1,152.0	31.4%	30.42%	4.40%	3.87	8.99	81.15	2.12	4.92
2012	1,296.5	12.5%	29.48%	4.70%	4.18	9.39	80.95	2.31	5.19

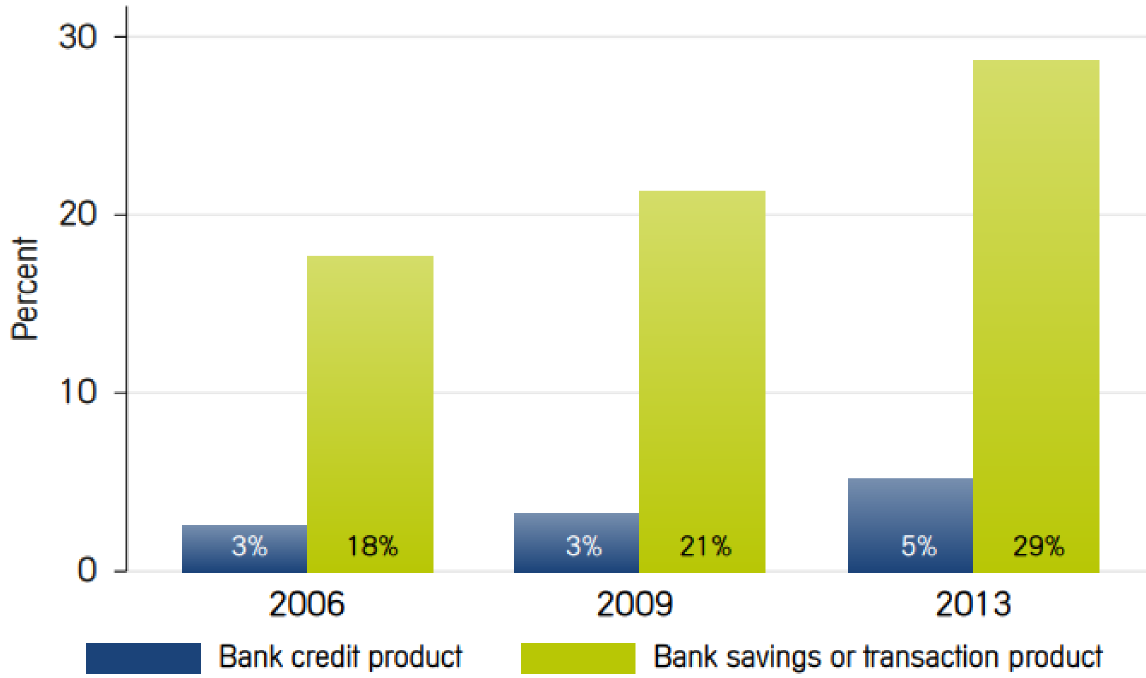
Source: Central Bank of Kenya; IMF Financial Access Survey (FAS)

Exhibit 1B Increase in Deposit Accounts, 2004–2012



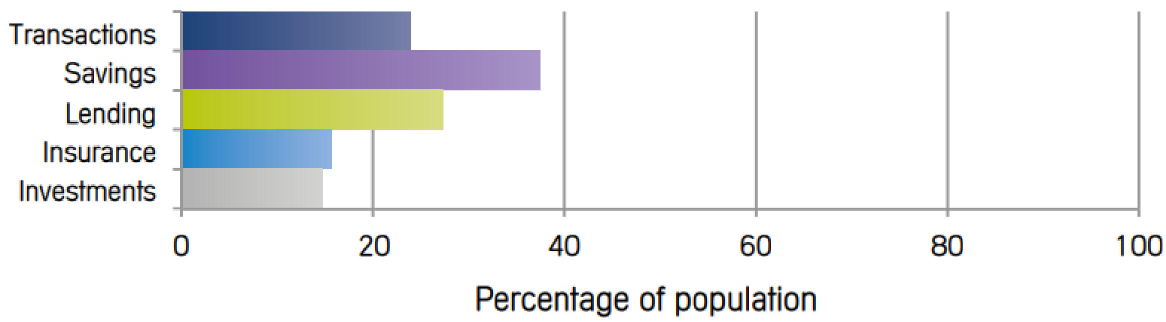
Source: Communications Authority of Kenya

Exhibit 1C Utilization of Bank Product Types over Time (% of Population)



Source: Communications Authority of Kenya

Exhibit 1D Usage of Financial Products by Functionality, 2013



Source: FSD Kenya

Note: 'Savings' is made up of savings at a SACCO, microfinance institution, ASCA, ROSCA, having a Postbank account or a bank account for savings or investment. 'Lending' is made up of having a personal loan from: a bank, a SACCO, a microfinance institution, a government institution, an employer, an ASCA, a chama, or family and friends, along with a few other specialized categories. 'Transactions functionality' is comprised of a current account with a checkbook, a bank account for everyday needs but no checkbook, or an ATM/debit card. 'Insurance' is comprised of car, house/contents, agriculture, NHIF, other medical, life, or other insurance.

Exhibit 1E Timeline for Equity Bank's Ascendency

Year	Equity 10 Year Self Disruption Strategy	Equity GROUP Total Assets Kshs Millions	YoY Growth in Total Assets	Total Assets Position Ranking in Kenya's Banking Industry	Comments
1990	Equity 0.0	24			
1991		16	-33.33%		
1992		22	37.50%		
1993		28	27.27%		CBK CAMEL Rating of Equity as Technically Insolvent; Grinding to a Halt
1994	Equity 1.0	122	335.71%	66	Turnaround of Equity Building Society- Shift to Microfinance; Savings Led; Low Margin High Volume Business Model
1995		142	16.39%		CBK Bank Supervision Department (BSD) Annual Report NOT Granular in Disclosing List of Banks via Balance Sheet and Profit and Loss
1996		214	50.70%		
1997		325	51.87%		
1998		487	49.85%		
1999		709	45.59%		
2000		1,260	77.72%	44	Completion of Computerization of Equity Building Society
2001		1,881	49.29%	35	16% Shareholding Acquired by IFC Microfinance Investment Fund
2002		2,576	36.95%	32	
2003		3,924	52.33%	21	
2004	Equity 2.0	6,707	70.92%	18	
2005		11,456	70.81%	13	Conversion from Equity Building Society into a Bank Effective Jan 2005
2006		20,024	74.79%	13	Listing on NSE
2007		53,129	165.33%	5	Helios Becomes Anchor Investor; Behind Barclays, KCB, Stanchart, Cooperative
2008		78,836	48.39%	6	Acquires UML to Enter Uganda; Behind KCB, Barclays, Stanchart, Cooperative; CFC
2009		100,812	27.88%	6	Greenfield Entry into South Sudan; Behind KCB, Barclays, Stanchart, Cooperative; CFC
2010		143,018	41.87%	3	Pilot Launch of Agency banking in Q3; Behind KCB (Domestic Owned) and Barclays (Foreign Owned)
2011		196,294	37.25%	2	Scale up of Agency Banking; Overtakes Barclays; Second Behind KCB
2012		243,170	23.88%	2	Greenfield Entry into Rwanda; Second Behind KCB

Source: Company Data

Exhibit 1F Equity Group Income Statements, 2005–2012

	2012	2011	2010	2009	2008	2007	2006	2005
Interest income	30,848	19,339	13,775	10,792	7,979	3,155	1,634	948
Interest expense	(6,884)	(3,116)	(2,062)	(1,622)	(1,362)	(495)	(127)	(82)
Net interest income	23,964	16,223	11,713	9,170	6,617	2,660	1,508	866
Fee and commission income	2,301	2,349	1,644	1,382	1,624	562		
Net fee and commission income	2,301	2,349	1,644	1,382	1,624	562	1,854	937
Net trading income	2,090	2,423	2,925	286	780	246		
Other operating income	8,472	7,675	5,871	4,838	3,584	2,353		
Operating Income before impairment losses	36,827	28,670	22,153	15,676	12,605	5,821	3,371	1,803
Net impairment loss on financial assets	(1,608)	(1,630)	(1,905)	(1,035)	(1,020)	(25)		
Operating income after Impairment losses	35,219	27,040	20,248	14,641	11,585	5,796		
Personal Expenses	(7,172)	(6,009)	(5,266)	(4,339)	(2,954)	(1,469)	(1,856)	(1,040)
Operating lease expenses	(1,213)	(919)	(609)	(645)	(375)	(182)		
Depreciation and amortization	(2,316)	(1,745)	(1,489)	(1,174)	(749)	(423)	(280)	(138)
Other operating expenses	(7,269)	(5,688)	(3,934)	(3,263)	(2,519)	(1,409)		
Total Operating expenses	(17,970)	(14,361)	(11,298)	(9,421)	(7,617)	(3,458)	(2,269)	(1,302)
Profit before tax and equity income	17,249	12,679	8,950	5,220	4,988	2,363		
Share of profit of associate	171	155	95	58	34	15		
Profit before income tax	17,420	12,834	9,045	5,278	5,022	2,378	1,103	501
Income tax expense	(5,340)	(2,509)	(1,913)	(1,044)	(1,112)	(488)	(349)	(156)
Profit for the year	12,080	10,325	7,132	4,234	3,910	1,890	753	345
Attributed to: Equity holders of the parent	12,080	10,325	7,132	4,234	3,615	1,890		
Earnings per share (basic and diluted)	3.26	2.79	1.93	1.14	10.68	6.88	8.32	3.80

Source: Company Data

Note: Numbers in millions of Kenyan Shillings

Exhibit 1G Equity Bank Income Statements, 2005–2012

	2012	2011	2010	2009	2008	2007	2006	2005
Interest income	30,848	19,339	12,885	9,691	7,169	3,155	1,634	948
Interest expense	(6,884)	(3,116)	(1,829)	(1,413)	(1,217)	(495)	(127)	(82)
Net interest income	23,964	16,223	11,056	8,278	5,952	2,660	1,508	866
Fee and commission income	2,301	2,349	1,528	1,253	1,308	562		
Net fee and commission income	2,301	2,349	1,528	1,253	1,308	562	1,854	937
Net trading income	2,090	2,423	2,437	1,225	734	246		
Other operating income	8,472	7,675	5,172	4,517	3,562	2,353		
Operating Income before impairment losses	36,827	28,670	20,193	14,273	11,556	5,821	3,371	1,803
Net impairment loss on financial assets	(1,608)	(1,630)	(1,558)	(880)	(875)	(25)		
Operating income after Impairment losses	35,219	27,040	18,635	13,393	10,681	5,796		
Personal Expenses	(7,172)	(6,009)	(4,455)	(3,586)	(2,584)	(1,469)	(1,856)	(1,040)
Operating lease expenses	(1,213)	(919)	(547)	(471)	(357)	(182)		
Depreciation and amortization	(2,316)	(1,745)	(1,258)	(1,042)	(712)	(423)	(280)	(138)
Other operating expenses	(7,269)	(5,688)	(3,063)	(2,724)	(2,271)	(1,409)		
Total Operating expenses	(17,970)	(14,361)	(9,323)	(7,823)	(6,799)	(3,458)	(2,269)	(1,302)
Profit before tax and equity income	17,249	12,679	9,312	5,570	4,757	2,363		
Share of profit of associate	171	155	95	58	34	15		
Profit before income tax	17,420	12,834	9,407	5,628	4,791	2,378	1,103	501
Income tax expense	(5,340)	(2,509)	(1,852)	(1,065)	(1,038)	(488)	(349)	(156)
Profit for the year	12,080	10,325	7,555	4,563	3,753	1,890	753	345
Attributed to: Equity holders of the parent	12,080	10,325	7,555	4,563	3,753	1,890		
Earnings per share (basic and diluted)	3.26	2.79	2.04	1.23	10.25	6.88	8.32	3.80

Source: Company Data

Note: Numbers in millions of Kenyan Shillings

Exhibit 1H Equity Group Balance Sheets, 2005–2012

ASSETS								
	2012	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
Cash and marketable securities	86235	65784	50491	25129	25006	25539	4342	2560
Loans and advances to customers	135692	113824	78299	63326	44070	21836	10930	5524
Property and equipment	9072	7592	6970	6442	4796	2603	1469	1045
Other Assets	12171	9094	7258	5915	5007	3098	3283	2328
Total assets	243170	196294	143018	100812	78879	53076	20024	11457
LIABILITIES & SHAREHOLDERS EQUITY								
	2012	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
Deposits from customers	167913	144165	104431	69843	50334	31536	16337	9048
Borrowed funds	26569	14792	7963	6487	6463	4521	485	647
Other	5772	3052	3420	1574	2502	2102	1001	168
Total liabilities	200254	162009	115814	77904	59299	38159	17823	9863
Total equity	42916	34285	27204	22908	19580	14917	2201	1594
Total liabilities and equity	243170	196294	143018	100812	78879	53076	20024	11457

Source: Company Data

Note: Numbers in millions of Kenyan Shillings

Exhibit 1I Equity Bank Balance Sheets, 2005–2012

ASSETS								
	2012	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
Cash and marketable securities	68259	49329	43658	21848	24169	25539	4342	2560
Loans and advances to customers	122410	106486	72902	59868	40857	21836	10930	5524
Property and equipment	6530	6044	5693	5193	4259	2603	1469	1045
Other Assets	18630	15052	11637	9603	7850	3098	3283	2328
Total assets	215829	176911	133890	96512	77135	53076	20024	11457
LIABILITIES & SHAREHOLDERS EQUITY								
	2012	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
Deposits from customers	142386	125492	95204	65825	48977	31536	16337	9048
Borrowed funds	25755	13769	7464	6114	6167	4521	485	647
Other	5017	2603	2915	1235	2332	2102	1001	168
Total liabilities	173158	141864	105583	73174	57476	38159	17823	9863
Total equity	42671	35047	28307	23338	19659	14917	2201	1594
Total liabilities and equity	215829	176911	133890	96512	77135	53076	20024	11457

Source: Company Data

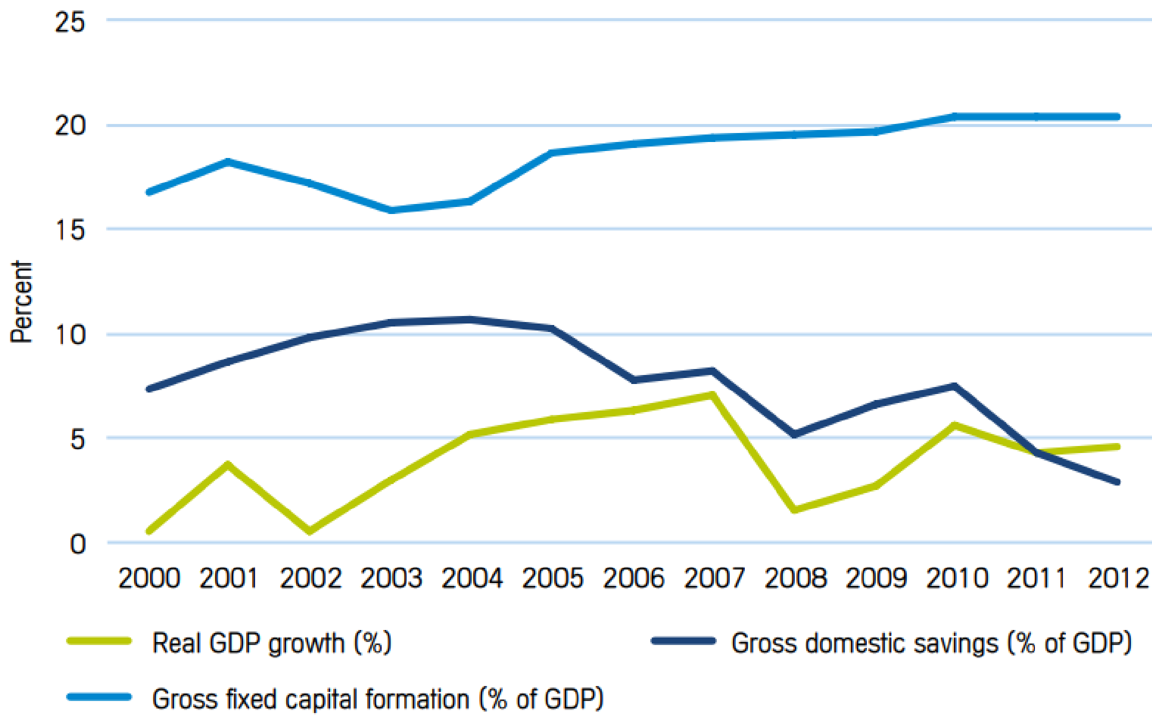
Note: Numbers in millions of Kenyan Shillings

Exhibit 2A Select Economic Indicators

INDICATOR	2008	2009	2010	2011+	2012*
Population (Millions)	36.7	37.7	38.5	39.5	40.7
GDP at market prices (in KES .Min.)	2,107,589.4	2,366,984.2	2,553,733.0	3,048,867.0	3,440,115.0
Growth of GDP at Constant (2001) Prices (%)	1.5	2.7	5.8	4.4	4.6
GDP per Capita (in 2001 Prices) (KES.)	36,933.0	36,962.0	38,346.0	38,941.0	39,607.0
Transport and Communication GDP at Current Prices (KES. Millions)	216,052	234,752	257,339	303,258	321,110
Postal and telecommunications GDP (KES. Millions)	56,756	62,508	64,413	65,923	71,489
Transport and Communication as % of GDP	10.3	9.9	10.1	9.9	9.3
Postal and telecommunications as % of GDP	2.7	2.6	2.5	2.2	2.1
Growth of Transport and Communication at Constant (2001) Prices (%)	3.0	6.4	5.9	4.7	4.0
Growth of Postal and telecommunications at Constant (2001) Prices (%)	7.8	10.0	4.5	4.3	5.3
Private sector wage employment in Information and Communication ('000s)	62.8	67.6	73.5	76.0	81.3
Public sector wage employment in Information and Communication ('000s)	1.3	1.6	1.8	2.2	2.6
Consumer Prices, Annual Average [Index numbers February 2009=100]	92.36	102.10	106.27	121.17	132.53
CPI Annual Inflation Rate (Overall) %	16.2	10.5	4.1	14.0	9.4
* Provisional; + Revised					

Source: Communications Authority of Kenya, 2013

Exhibit 2B Trends in GDP Growth, Savings, and Investments, 2000–2012



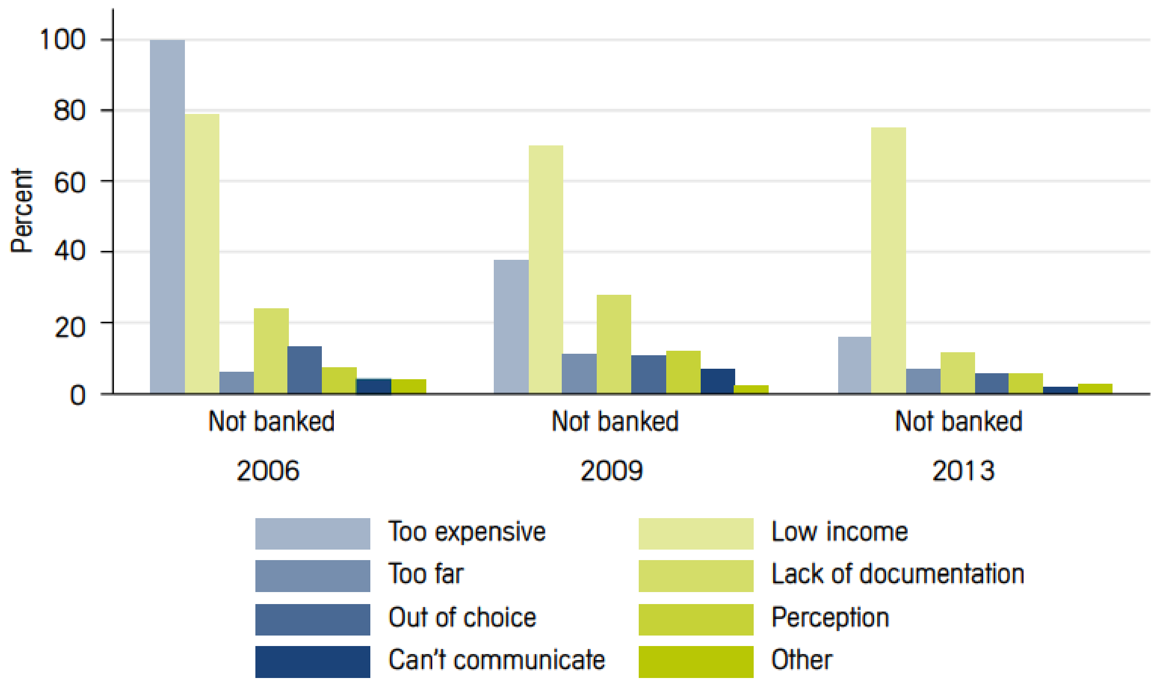
Source: Communications Authority of Kenya

Figure 3A Various Financial Inclusion Indicators

Year	Financial inclusion rate	Banked population penetration rate	Number of deposit accounts per 1,000 adults	Number of loan accounts per 1,000 adults	Number of mobile money accounts per 1,000 adults	Number of mobile money agent outlets per 1,000 km²	Number of mobile money agent outlets per 100,000 adults	Number of mobile money transactions per 1,000 adults	Value of mobile money transactions (% of GDP)	Outstanding commercial bank deposits (% of GDP)	Outstanding commercial bank loans (% of GDP)
2005			82.09							24.10	21.14
2006	58.70%	15.00%	157.54							21.09	18.37
2007			189.53		61.83	2.78	7.27	251.43	0.76	22.92	18.57
2008			287.19		227.06	10.72	27.27	2,802.92	6.71	23.91	22.98
2009	67.30%	21%	367.94		385.36	40.43	99.83	8,394.78	16.53	26.81	22.54
2010			499.79		691.84	69.31	165.95	13,084.57	23.10	29.95	24.87
2011			581.04	81.15	782.48	88.68	205.79	17,654.81	31.38	31.10	27.78
2012			625.81	80.95	830.93	135.14	303.46	22,700.30	36.08	31.81	27.25

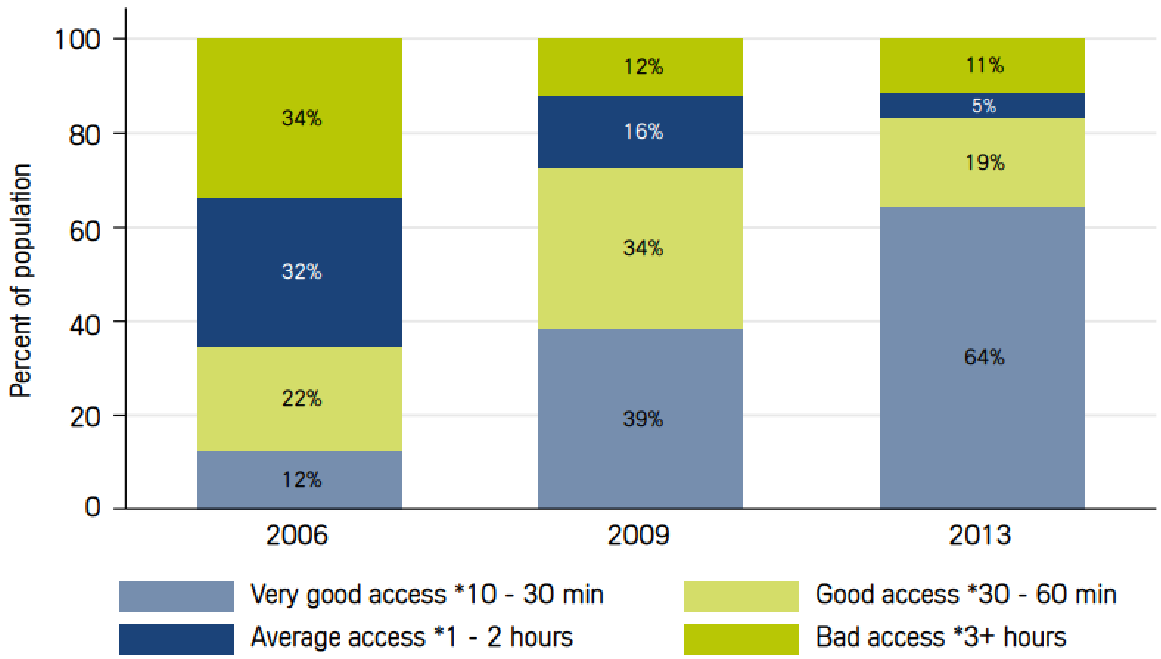
Source: IMF FAS, FinAccess Surveys

Exhibit 3B Reasons for Not Having a Bank Account



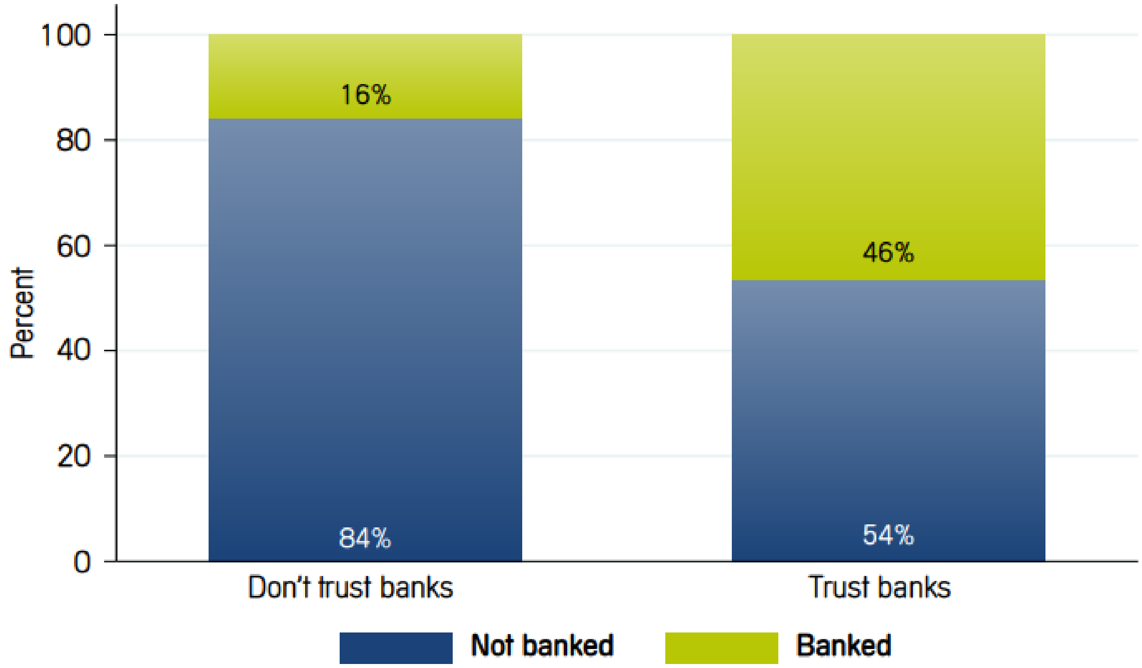
Source: FinAcess

Exhibit 3C Reported Bank Distance by Year (% of Population)



Source: FinAccess

Exhibit 3D Formal Access by Trust in Banks (% of Population)

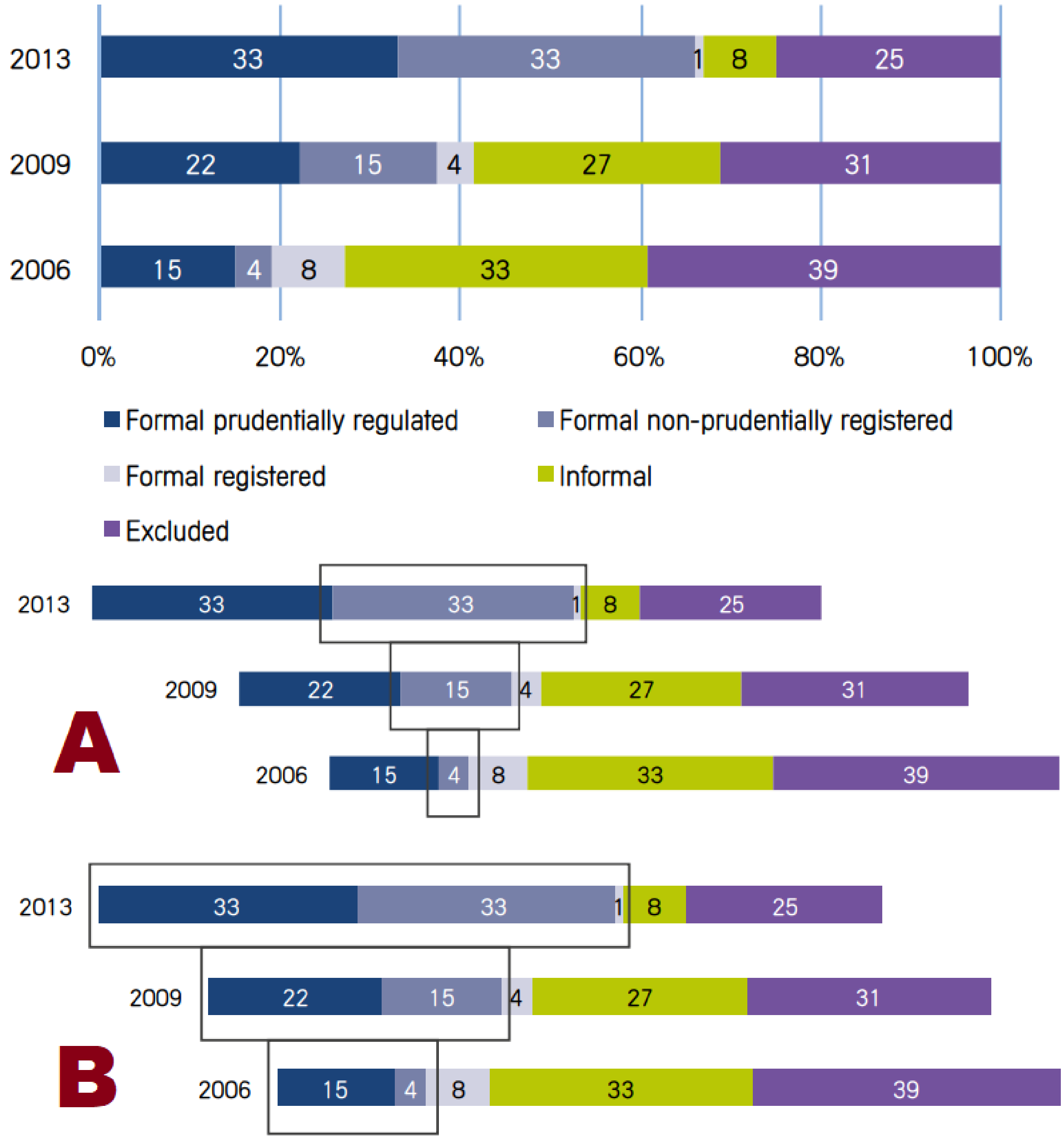


Source: FinAccess

Exhibit 4A Safaricom Key Indicators

Source: Safaricom Annual Shareholder Report, 2012

Exhibit 4B M-Pesa and Inclusion in Terms of Usage of Financial Service Types (% of Population)



Source: FinAccess

Note: A: Outlined area highlights the growth of M-Pesa
B: Outlined area highlights the coevolution of access to formal banking and M-Pesa services

Exhibit 5A Sample M-Kesho Brochure

What is M-KESHO?

The M-KESHO Account is an accessible, affordable bank account that lets you start off with a deposit of as little as Kshs 100. This is the first kind of bank account that makes it easier for you to deposit money into your bank account as well as withdraw money from the same account using M-PESA at your own convenience. You can also query for mini statements and balance enquiry from you M-PESA account.

What are the Features of M-KESHO?

1. Access to Credit Facilities

- M-KESHO customers will have access to loan facilities of between Kshs100 and Kshs 5,000
- Application for loans will be done through the M-PESA menu.
- Qualifying loan amounts will be disbursed into M-PESA.
- Eligibility for loan facilities will depend on your credit history; credit history will be built in the following ways:
  - 6-months history on the M-KESHO Account.
  - 6-months history on other Equity Bank products.
  - 6-months history on M-PESA account.

2. Interest Earning Account

- The following interest rates will apply for M-KESHO Account holders:
  i) From Kshs 0 to Kshs 2,000 – 0.5% Interest per annum.
  ii) From Kshs 2,001 to Kshs 5,000 – 1% Interest per annum.
  iii) From Kshs 5,001 to Kshs 10,000 – 2% Interest per annum.
  iv) Kshs 10,001 and above – 3% Interest per annum.

*Rates to be reviewed monthly on an ongoing basis.
*Rates are indicative and subject to change.

3. Access to Insurance Facilities

- Application for Insurance will be done through the M-PESA menu.
- Annual premiums will be as follows:
  a) Kshs 530 if paid annually (make a one-time payment of the full amount).
  b) Kshs 830 if paid monthly (make monthly payments of Kshs. 69.17).
  c) Kshs 1,030 if paid weekly (make weekly payments of Kshs. 85.83).
- After 1 year it is upgradeable to full life insurance cover.

Source: Company Materials

Exhibit 5B Sample M-Kesho Brochure (cont'd)

How do I open an M-KESHO Account?

Step 1: You must be a registered M-PESA subscriber and must have a Kenyan ID. Passports and other forms of identification will not be accepted.

Step 2: Go to any Equity Bank branch outlets or selected M-PESA agents countrywide (The agent list is available at www.safaricom.co.ke).

Step 3: Fill in the Account opening form. Bring along two copies of your passport photographs and both the original and copy of your national ID.

Step 4: The applications will be vetted by Equity Bank. It takes 48 hours from the time you fill an application to opening your M-KESHO Account.

Step 5: If your application is successful, and the ID number used to open your M-KESHO Account is similar to the one used to open your M-PESA account, you will receive an SMS to update your M-PESA Menu.

Step 6: Up-date your M-PESA menu and you will receive your M-KESHO menu alongside the normal M-PESA menu.

Steps to follow from your phone

Step 1 — Go to the M-PESA menu on your phone and select "M-KESHO"

Step 2 — Go to the M-PESA menu on your phone and select "Send to bank"

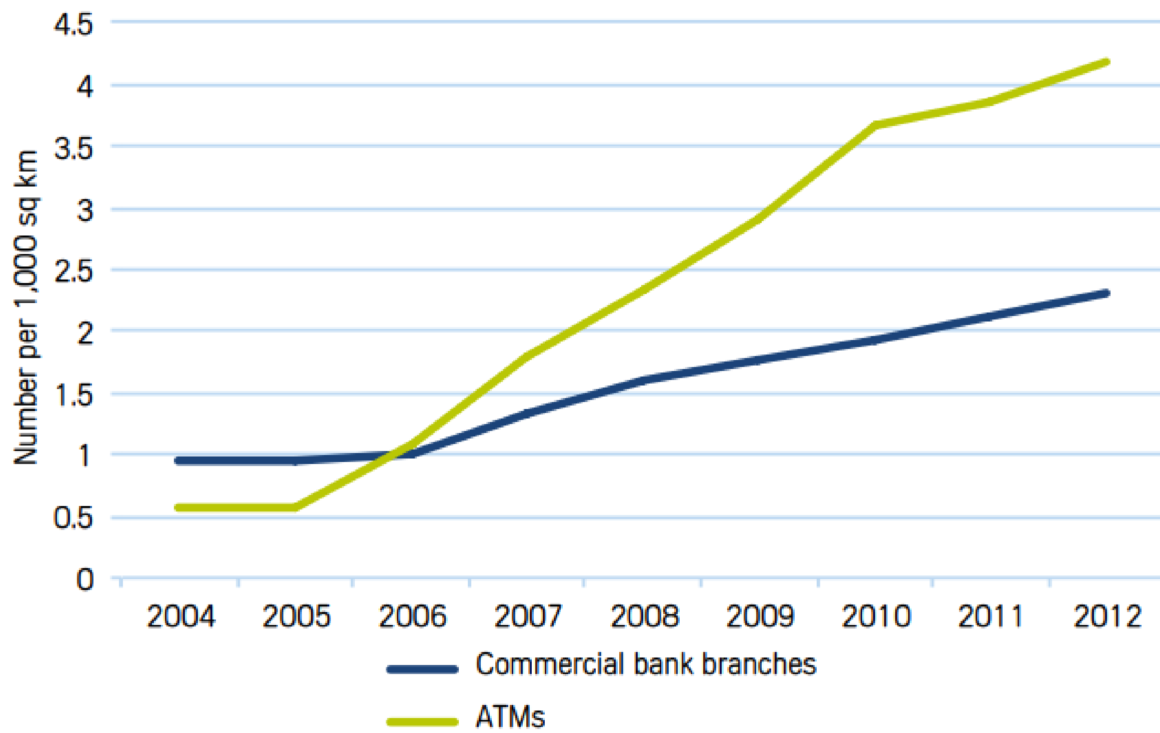
Step 3 — Enter amount to send

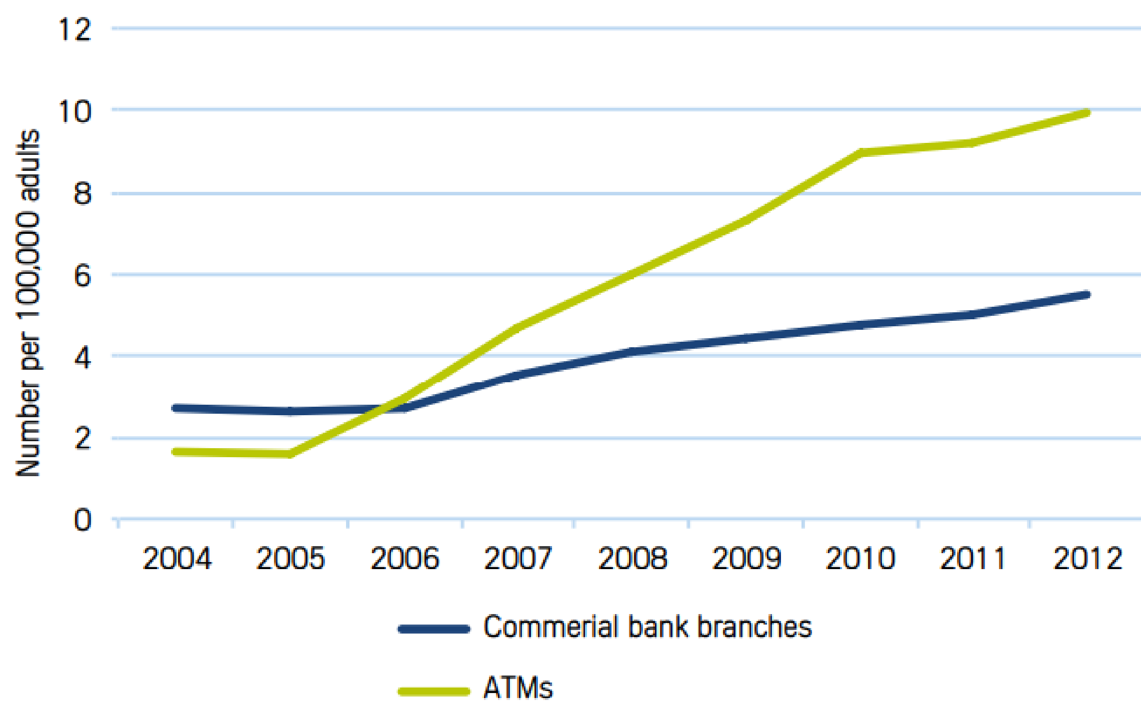
Source: Company Materials

Exhibit 5C Sample M-Kesho Brochure (cont'd)

Source: Company Materials

Exhibit 6 Bank Branch and ATM Coverage: by Geographic Spread and by Population





Source: FinAccess Surveys

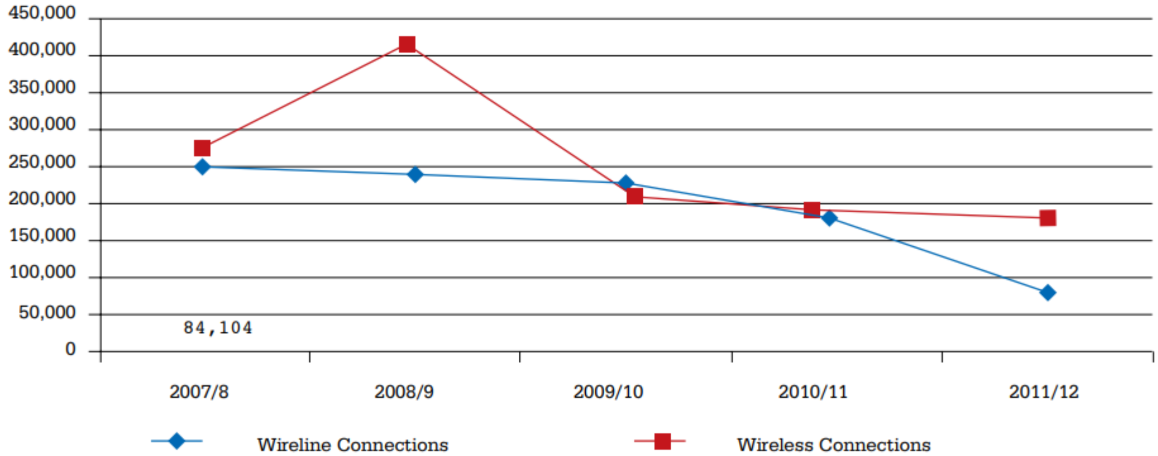
Exhibit 7A Fixed Network Growth Indicators

Financial Year	2007/08	2008/09	2009/10	2010/11	2011/2012
Wireline Capacity	512,281	485,581	421,528	400,764	380,135
Wireline Connections	252,615	247,972	234,522	187,716	74,606
Wireless Connections (Include LLO Subscribers)	274,449	419,047	225,592	191,585	188,155
Total Connections (Wireline and Wireless)	527,064	696,501	460,114	379,301	262,761
Urban Wireline Connections	246,927	240,533	227,486	182,084	72,368
Rural Wireline Connections	5,688	7,439	7,036	5,632	2,238
International Outgoing Traffic (Minutes)	15,582,304	14,471,643	14,761,211	11,455,952	20,058,628
International Incoming Traffic (Minutes)	83,148,332	88,538,230	38,550,399	31,866,685	17,796,496
Traffic to Mobile networks (Minutes)	98,238,064	34,103,924	31,024,688	79,616,952*	104,967,748

Source: Communications Authority of Kenya

Note: As shown in above, fixed wireline connections in urban and rural areas both declined by 60.3 percent to stand at 72,368 and 2,238 connections, respectively. The reduction in these connections could be attributed to the interrupted landline service resulting from frequent cable vandalism.

Exhibit 7B Five-Year Fixed Subscriber Growth Trend



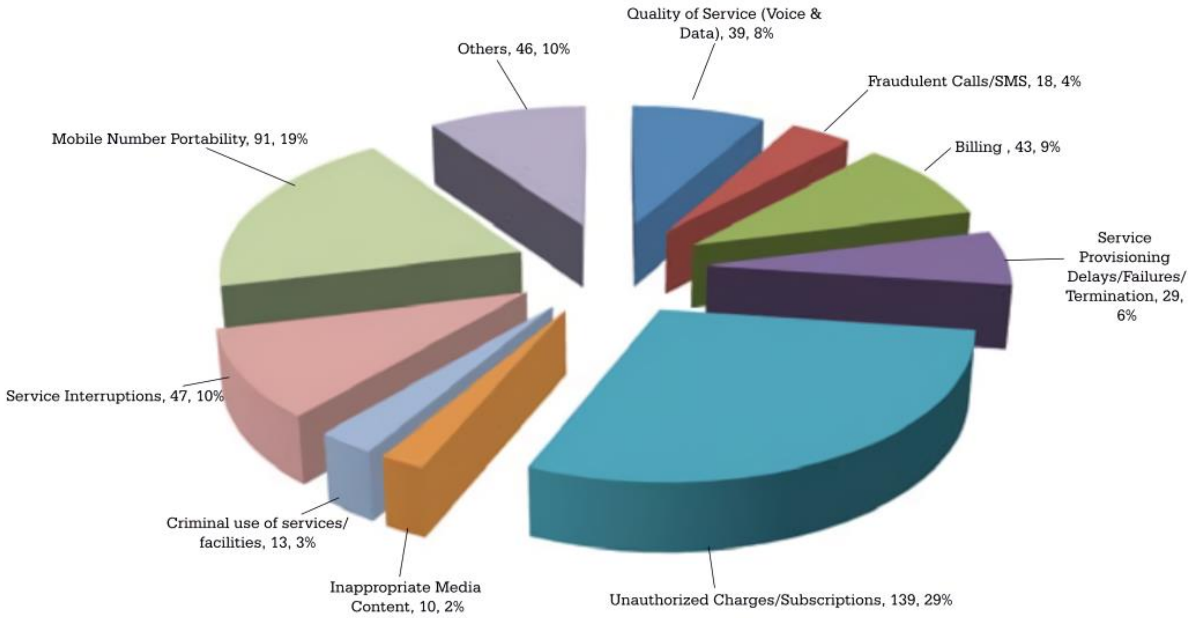
Source: Communications Authority of Kenya

Exhibit 7C Mobile Penetration and Mobile Money Account Growth

Year	Mobile accounts penetration rates	Mobile penetration (% of population)	Individuals using the Internet (% of population)	Number of registered mobile money accounts per 1,000 adults	Number of registered mobile money agent outlets per 1,000 km²	Number of registered mobile money agent outlets per 100,000 adults	Number of mobile money transactions per 1,000 adults	Value of mobile money transactions (% of GDP)
2005		12.6%	3.1%					
2006	0%	19.5%	3.6%					
2007		29.3%	4.4%	61.83	2.78	7.27	251.43	0.76
2008		41.0%	5.2%	227.06	10.72	27.27	2,802.92	6.71
2009	27.90%	47.3%	6.1%	385.36	40.43	99.83	8,394.78	16.53
2010		59.4%	7.2%	691.84	69.31	165.95	13,084.57	23.10
2011		65.0%	8.8%	782.48	88.68	205.79	17,654.81	31.38
2012		69.3%	10.5%	830.93	135.14	303.46	22,700.30	36.08

Source: Central Bank of Kenya, International Telecommunications Union Kenya, IMF

Exhibit 7D Sample of Complaints by Category to Communications Authority of Kenya, 2012



Source: Communications Authority of Kenya