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EQUITY BUILDING SOCIETY

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2000

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EQUITY BUILDING SOCIETY
REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2000

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TO THE MEMBERS OF EQUITY BUILDING SOCIETY

NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given for the Annual General Meeting of Equity Building Society which will be held at their registered office in Fourway Towers, Nairobi, 9th Floor, on 12th April 2001 at 10.00 a.m to transact the following business.

1. To read the notice convening the meeting.
2. To confirm the minutes of the previous Annual General Meeting held on 5th May 2000.
3. To receive and consider the audited accounts for the year ended 31st December 2000, together with the Director's and Auditors reports thereon.
4. To reappoint Mungai & Associates, Certified Public Accountants as Auditors and authorise the directors to fix their remuneration.
5. To Confirm a dividend of 0.75 per share proposed by the Directors.
6. To transact any other business which may be properly transacted at an Annual General Meeting.

BY ORDER OF THE BOARD



ASSOCIATED COMPANY SECRETARIES

NOTE: A MEMBER WILLING TO ATTEND THE MEETING IS REQUESTED TO BRING ALONG THE SOCIETY'S PASSBOOK AND IDENTIFICATION DOCUMENTS.

CHAIRMAN'S STATEMENT

I am delighted to present to you Equity Building Society's annual Report and Financial statements for the year ended 31st December 2000.

Review of operating environment

The Kenyan economy continued to perform poorly recording negative real GDP growth. Infrastructure remained dilapidated while the prolonged drought not only caused famine but also water and power rationing. This not only affected the agricultural and manufacturing sector but the service and informal sector. Disagreement with the World Bank and the International Monetary Fund delayed disbursement of funding. The constitutional - making debate continued to hinder investor's confidence. The banking sector was not spared and experienced depressed performance, slow growth and higher non - performing loan portfolio largely as a result of the economic environment.

Financial Review

In the circumstances described above, I am pleased to report that Equity Building Society recorded a satisfactory performance. Total assets grew with an impressive 78% while customer's deposits grew by 61% to reach the Kshs. 1 billion mark; a dream come true. Turnover increased by 52% while profit before tax grew by 40%. Liquidity ratio remained high averaging in excess of 50% of deposits throughout the year as compared with the Central Bank of Kenya minimum guideline of 20%.

Major Developments

The year under review marked a major milestone in the history of the society. Major projects were undertaken to upgrade physical infrastructure while keeping pace with technological advancement in the delivery of banking and financial services. The whole bank was fully computerized while human resource development was given priority through extensive and intensive staff training. Modern premises were constructed and completed to house the Karatina Branch while a new branch was opened at Thika Town. These major developments have strategically positioned Equity Building Society to cope with increased business.

To support anticipated growth the society successfully floated more shares towards the end of the year. The number of directors was increased during the year from three to seven to give a wide representation and diversity of wealth of knowledge and experience.

Due to its positive reputation, Equity Building Society was able to attract support of International development partners in its endeavor to provide international class financial services. At the close of the year, partnership existed with European Union under the Micro Enterprise Support Programme, Business Assistance Scheme and with the United Nations Development Programme under the Micro Start Scheme.

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Out Look

The effects of the negative growth coupled with the devastating effects of the dry weather conditions, power rationing, constitutional review stalemate and delayed aid disbursement by International Monetary Fund and the World Bank are not conducive to a speedy resumption of growth. Kenyans obsession with political other than economic considerations due to the Moi succession and the fast approaching 2002 elections is likely to boost a wait and see attitude among investors. Although the Country's economic recovery appears uncertain in the medium term, Equity Bulding Society remains optimistic that it has strategically positioned itself, to reap benefits of realignment in the financial industry, providing it with a platform to build on the satisfactory year 2000 performance.

Conclusion

Finally I wish to thank all our staff for their commitment and dedication to duty; my fellow directors for their valuable contribution and our Shareholders, customers and development partners for their support and loyalty in a difficult year.



P. K. MUNGA
CHAIRMAN

EQUITY BUILDING SOCIETY

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited accounts for the year ended 31 December, 2000

PRINCIPAL ACTIVITIES

The principal activity of the Society during the period was carrying out business as a building society under the Building Societies Act (Cap489).

TRADING RESULTS

The Society's trading results are reflected on page 4.

DIVIDENDS

The directors recommend the payment of dividend at the rate of 15% for every share held.

DIRECTORS

The directors who held office during the period were:-

Mr. P.K. Munga

Mr. J.K. Mwangi

Mr. J.N. Mwangi

Mr. F. M. Muchoki

Mr. E. K. Kimani

Prof. S. M. Kimenyi

Mr. B. I. Wairegi

AUDITORS

The auditors M/S Mungai & Associates, Certified Public Accountants of Kenya, have indicated their willingness to continue in office.

BY ORDER OF THE BOARD



ASSOCIATED COMPANY SECRETARIES.

DATE: 7/3/2001

AUDITOR'S REPORT
TO THE MEMBERS OF EQUITY BUILDING SOCIETY

- 1) We have audited the accounts and statements set out on pages 7 to 14 and obtained all the information and explanations we deemed necessary for the purpose of our audit. Proper books of accounts have been maintained and the accounts are in agreement therewith.
- 2) We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform our audit to obtain reasonable assurance that the accounts are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the accounts. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the accounts.
- 3) We noted certain breaches of the Building Societies Act. These exceptions are detailed on page 6 which forms part of this audit report.
- 4) Evidence of title to properties has been produced and inspected by us to our satisfaction.
- 5) Subject to the above, in our opinion, the accounts reflects a true and fair view of the state of the society's financial affairs as at 31st December, 2000 and of its profit and cash flows for the period then ended and comply with the Building Societies Act (Cap. 489).

Mungai & Associates

CERTIFIED PUBLIC ACCOUNTANTS OF KENYA

Date 7/3/2001

P.O. BOX 42502,
NAIROBI

SPECIAL REPORT TO THE MEMBERS OF EQUITY BUILDING SOCIETY
(SECTION 33 (3))

The society has within the year ended 31 December 2000 failed to comply with a certain aspect of the Building Society's Act Cap 489, which we here below enumerate.

POWER TO MAKE ADVANCES (S.24)

The Act requires advances to be made only to members upon the security of land. As at 31 December 2000 advances not secured on land amounted to Shs. 68,055,204

EQUITY BUILDING SOCIETY

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PROFIT & LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2000

	2000 Kshs	1999 Kshs
INCOME		
Interest Earnings	132,267,698	86,650,7
Less: Interest on Deposits and Savings accounts	(66,852,264)	(52,368,6
Net interest income	65,415,434	34,282,0
OTHER INCOME	=====	=====
Commissions and other incomes	76,544,142	66,800,18
	76,544,142	66,800,18
TOTAL OPERATING INCOME	141,959,576	101,082,24
EXPENDITURE:-		
Management expenses	81,641,558	59,388,77
Depreciation	16,284,479	6,571,72
Net Loans Loss Provision	10,379,744	10,000,00
TOTAL OVERHEAD EXPENSES	108,305,781	75,960,49
NET PROFIT FOR THE YEAR BEFORE TAXATION	33,653,795	25,121,74
LESS:- PROVISION FOR TAXATION	(12,506,168)	(7,958,49
TAX PENALTIES & INTEREST	(3,621,677)	(2,043,810
PROFIT AFTER TAX	17,525,950	15,119,442
Less dividend payable	(6,677,190)	
RETAINED PROFIT FOR THE YEAR	10,848,760	15,119,442
Add: Profit Brought Forward	26,260,973	11,141,531
Profit Carried Forward	37,109,733	26,260,973
	=====	=====
Earnings per share	3.71	15.42
Dividends per share	0.75	
	=====	=====

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EQUITY BUILDING SOCIETY

BALANCE SHEET AS AT 31 DECEMBER 2000

ASSETS	NOTES	2000 Kshs	1999 Kshs
Cash and Bank Balances		120,909,879	117,820,700
Deposits with Banks and Treasury Bills	4	438,003,241	210,845,000
Sundry Debtors	5	16,440,246	8,665,400
Mortgages & Other Advances	3	445,824,160	288,232,200
Fixed Assets	11	238,535,288	83,696,500
TOTAL ASSETS		1,259,712,814	709,260,095
LIABILITIES			
Customers Deposits	6	977,806,147	607,510,030
Short Term Liabilities	7	78,690,961	33,293,990
Taxation		2,006,168	2,711,740
Dividend payable		6,677,190	
CAPITAL EMPLOYED		1,065,180,466	643,515,770
Subscribers' and Investment Capital		50,891,470	34,061,210
Share Premium		23,183,280	0
Revenue reserves	9	37,109,733	26,260,973
Capital Reserve		83,347,865	5,422,142
TOTAL LIABILITIES & CAPITAL EMPLOYED		1,259,712,814	709,260,095

DIRECTOR

DIRECTOR

The accounts were approved by the directors on 7/3/2001

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2000

	NOTES	2000 Kshs	1999 Kshs
NET CASH FROM OPERATING ACTIVITIES	8	300,264,663	138,863,
TAX PAID		<u>(16,833,413)</u>	<u>(7,292,</u>
INVESTING ACTIVITIES			
Purchase of fixed assets		(95,275,139)	(35,023,4
Proceeds from sale of fixed assets		834,624	
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(94,440,515)</u>	<u>(35,023,4</u>
FINANCING			
Proceeds from issue of shares		41,256,540	3,639,7
NET CASH INFLOW FROM FINANCING		<u>41,256,540</u>	<u>3,639,7</u>
NET CASH INFLOW		<u>230,247,275</u>	<u>100,187,6</u>
INCREASE IN CASH AND CASH EQUIVALENT		230,247,275	100,187,6

EQUITY BUILDING SOCIETY
 NOTES TO THE ACCOUNTS
 FOR THE YEAR ENDED 31 DECEMBER 2000

1) ACCOUNTING POLICIES

a) Accounting Convention:-

The accounts of the society have been prepared under the historical cost convention, modified by the revaluation of leasehold properties.

b) Income

Income represents interest income, commissions and other incomes earned during the year. When an account becomes non-performing, interest is suspended until it is realised on a cash basis.

c) Depreciation

Leasehold properties are not depreciated as they are held for investment purposes. Land and Buildings are also not depreciated on the basis that adequate repairs and maintenance are carried out to ensure such properties maintain their value.

Depreciation on fixed assets is calculated on a straight line basis to write-off the cost or valuation over their expected useful lives. The rates applied are as follows:-

Motor vehicle	- 25% per annum
Leasehold Improvements	- 12.5% per annum
Office Equipment, Furniture & Fittings	- 12.5% per annum
Computers & accessories	- 30% per annum

d) Loan Loss Provision

Where in the opinion of the directors recovery of loans advanced is unlikely, specific provisions are made against the advances.

2) TAXATION

Tax provision is made on the taxable income at prevailing corporation rate of 32.5%.

EQUITY BUILDING SOCIETY
 NOTES TO THE ACCOUNTS
 FOR THE YEAR ENDED 31 DECEMBER 2000

3) MORTGAGES

a) Balances due or outstanding on mortgages not including prospective interests.

Mortgages where the repayments are not upwards of 12 months in arrears and the society has not been upwards of 12 months in possession of the property:-	2000 Kshs	1999 Kshs
On 2873 Mortgages where the debt does not exceed Shs. 10,000/=	14,105,162	9,968,200
On 1605 Mortgages where the debt exceeds shs 10,000/= and does not exceed Shs. 20,000/=	22,450,030	12,927,600
On 1208 Mortgages where the debt exceeds shs 20,000/= and does not exceed Shs. 60,000/=	37,573,225	14,606,100
On 192 Mortgages where the debt exceeds shs 60,000/= and does not exceed Shs. 100,000/=	14,697,067	8,044,600
On 121 Mortgages where the debt exceeds shs 100,000/= and does not exceed Shs. 150,000/=	14,860,253	7,821,900
On 386 Mortgages where the debt exceeds Shs. 150,000/=	303,468,227	235,595,120
	<u>407,153,964</u>	<u>288,963,740</u>
On Mortgages where the repayments are upwards of 12 months in arrears and the society has not been upwards of 12 months in possession of the property:-	0	
	<u>407,153,964</u>	<u>288,963,740</u>
b) Mortgages and other loans - gross	502,990,971	327,094,910
Less:		
Provision for bad debts		
Specific	(29,097,303)	(25,938,280)
General	(5,031,107)	(2,543,000)
Suspended interest	(23,038,401)	(10,381,360)
	<u>445,824,160</u>	<u>288,232,270</u>

C) Non performing loans where interest is suspended.

Interest was suspended on mortgage advances and loans by the society amounting to kshs 52,908,000. Interest is not being accrued on these advances as they are classified as substandard, doubtful, and loss. The society uses a grading system that classifies advances into grades 1 to 5 which recognises grades 3, 4 and 5 as non - performing.

EQUITY BUILDING SOCIETY

NOTES TO THE ACCOUNTS....CONTINUED

	2000 Kshs	1999 Kshs
D) OTHER LOANS		
Loans granted to construction companies to finance their businesses	21,281,398	15,346,956
Loans secured by fixed deposits, savings accounts and motor vehicles.	29,600,745	4,224,330
Staff loans	6,500,404	11,205,503
Loans unsecured or inadequately secured	38,454,459	7,354,379
	<u>95,837,006</u>	<u>38,131,168</u>
	=====	=====
4) BALANCES WITH BANKS		
	2000 Kshs	1999 Kshs
Placements with banks:		
Kenya Commercial Bank Limited	211,932,008	210,845,068
Housing Finance Company Of Kenya Limited	126,071,233	0
	<u>338,003,241</u>	<u>210,845,068</u>
Treasury Bills	100,000,000	0
	<u>438,003,241</u>	<u>210,845,068</u>
	=====	=====
5) SUNDRY DEBTORS		
	2000 Kshs	1999 Kshs
Interest receivable on deposits	5,678,081	2,306,472
Other debtors and prepayments	10,762,165	6,358,972
	<u>16,440,246</u>	<u>8,665,444</u>
	=====	=====

EQUITY BUILDING SOCIETY

NOTES TO THE ACCOUNTS....CONTINUED

6) Customers Deposit Shs. 977,806,147

Customers deposits comprise of fixed term deposit received from individuals and corporate organisation at varying rate of interest plus customers saving accounts.

7) SHORT-TERM LIABILITIES

Interest payable on deposits and saving accounts
Micro -Enterprise Support Program credit facility
Other creditors and accruals

	2000 Kshs	199 Ks
	13,439,875	7,216,0
	46,562,428	18,888,8
	18,688,658	7,189,0
	<u>78,690,961</u>	<u>33,293,9</u>
	=====	=====

8) NOTES TO THE CASH FLOW STATEMENT

a) Reconciliation of operating profit to net cash inflow from operating activities

Profit before tax
Depreciation
(Increase)/decrease in interest receivable and other assets
(Increase)/decrease in mortgages and other loans
Increase/(decrease) in deposits received
Increase/(decrease) in interest payable and other liabilities
Net cash inflow from operating activities

	33,653,795	25,121,7
	16,284,479	6,571,7
	(7,774,802)	(528,9
	(157,591,888)	(93,412,5
	370,296,108	182,362,1
	45,396,971	18,749,6
	<u>300,264,663</u>	<u>138,863,8</u>
	=====	=====

b) Analysis of cash and cash equivalents

Cash and bank balances at 1 January
Deposits and balances due from banking institutions

	120,909,879	117,820,77
	438,003,241	210,845,06
	<u>558,913,120</u>	<u>328,665,84</u>
	=====	=====

9) SHARE PREMIUM

During the year, the society issued shares of kshs.5 par value at an issue price of kshs.50 giving rise to a share premium of kshs.23,183,280.

10) INCORPORATION

The society is incorporated under the Building Societies Act,(Cap 489).

11) CURRENCY

The accounts are presented in Kenya Shillings (KShs.)

FIXED ASSETS

	INVESTMENT IN LEASEHOLD LAND	LAND & BUILDINGS	LEASEHOLD IMPROVE- MENTS	MOTOR VEHICLE	OFFICE EQUIPMENT, FURNITURE & FITTINGS	COMPUTERS	TOTAL
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
At 1 January 2000	9,968,511	19,848,454	19,424,680	8,903,236	36,128,124	1,107,250	95,380,255
Additions; Cost	1,300,028	13,502,622	3,136,272	9,354,248	23,948,930	44,033,039	95,275,139
Revaluation	53,941,461	27,520,224	0	0	0	0	81,461,685
Disposals	0	0	0	(1,907,713)	0	0	(1,907,713)
At 31 December 2000	65,210,000	60,871,300	22,560,952	16,349,771	60,077,054	45,140,289	270,209,366
DEPRECIATION							
At 1 January 2000	0	0	5,527,185	3,857,530	6,867,498	210,475	16,462,688
Disposal	0	0	0	(1,073,089)	0	0	(1,073,089)
Charge for the year	0	0	1,769,108	2,810,461	4,340,862	7,364,048	16,284,479
At 31 December 2000	0	0	7,296,293	5,594,902	11,208,360	7,574,523	31,674,078
NET BOOK VALUE							
At 31 December 2000	65,210,000	60,871,300	15,264,659	10,754,869	48,868,694	37,565,766	238,535,288
At 31 December 1999	14,747,476	19,848,454	13,897,495	5,045,706	29,260,628	896,775	68,949,058

