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**EQUITY BUILDING SOCIETY**

**REPORT AND ACCOUNTS**

**31 DECEMBER 2001**

**EQUITY BUILDING SOCIETY  
REPORT AND ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2001**

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**TO THE MEMBERS OF EQUITY BUILDING SOCIETY  
NOTICE OF ANNUAL GENERAL MEETING**

Notice is hereby given that the Annual General Meeting of Equity Building Society which will be held at their registered offices in Fourway Towers, 9<sup>th</sup> Floor, on Friday 22<sup>nd</sup> March 2002 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 General Meeting held on 12<sup>th</sup> April 2001.
3. To received and adopt the audited financial statements for the year ended 31<sup>st</sup> December 2001 together with the Directors' and Auditors' report thereon.
4. To confirm a dividend of Kshs.1.00 per share proposed by the Directors.
5. To elect directors
  - (a) Mr. John K Mwangi retires by rotation in accordance with Rule 45 of the society's Constitution and being eligible, offer himself for re-election.
  - (b) Mr. James N Mwangi retires by rotation in accordance with Rule 45 of the society's Constitution and being eligible, offer himself for re-election.
6. To reappoint Mungai & Associates, certified Public Accountants as Auditors and authorise the directors to fix their remuneration.
7. To transact any other business that may be legally transacted at the meeting.

**BY ORDER OF THE BOARD**

*Associated Company Secretaries.*

**ASSOCIATED COMPANY SECRETARIES**

Date.....8 February..... 2002

**NOTE: A SHAREHOLDER WILLING TO ATEND THE MEETING IS REQUESTED TO BRING ALONG NECESSARY IDENTIFICATION DOCUMENTS.**

I am delighted to present to you the annual Report and Financial Statements of Equity Building Society for the year ended 31<sup>st</sup> December 2001.

### **REVIEW OF OPERATING ENVIRONMENT**

The Kenyan economy continued to perform poorly recording a real GDP growth rate of 0.8%. The infrastructure remained dilapidated while the poverty level and insecurity continued to deteriorate. Disagreement with the World Bank and the International Monetary Fund has seen continued withholding of foreign funding. The constitutional review and presidential debate have taken center stage, thereby eroding investors' confidence. The banking sector which had been adversely affected by the poor economic environment has further been threatened by the Central Bank of Kenya amendment Act 2001 (Donde Bill) depressing performance, slowing growth and increasing non-performing loan portfolio.

### **FINANCIAL REVIEW**

In the circumstances described above, I am pleased to report that Equity Building Society recorded satisfactory performance during the year under review. Total assets grew by an impressive 50%, while customer's deposits grew by 62% to reach Kshs. 1.6 billion. Loans and advances grew by 71% while profit before tax grew by 62% to reach Kshs. 54.4 million. Liquidity ratio remained high averaging in excess of 50% throughout the year as compared to the Central Bank of Kenya minimum requirement of 20%.

### **STABILITY**

The high liquidity ratio, diversified customer and deposit base, high quality loan portfolio, membership to the Deposit Protection Fund Board and stringent internal control systems guarantee Equity Building Society stability.

### **MAJOR ACHIEVEMENTS**

The year 2001 marked a major milestone in the history of Equity Building Society. The institution was subjected to international appraisal by Planet Finance of France using the Girafe methodology. The appraisal and rating conducted as at 30<sup>th</sup> June 2001 saw Equity achieve a rating of G4\* with a positive trend and composite rating of BABBAB. A rating of G4\* is granted to institutions that are high global performers, apply advanced professionalism, are low risk investments and are technically self-sufficient. Equity Building Society became the first institution in the world to achieve a rating with a score of "B" and above in all the six areas of assessment of the Girafe rating methodology.

### **OUT REACH**

A major expansion programme to increase outreach saw the opening of Kerugoya and Nyeri branches during the year. The opening of the two branches has now strategically positioned Equity Building Society to increase its market share in the areas of operations.

### **STAFF**

Equity Building Society recognize our staff as the most valuable resource. To improve their efficiency and competence we have intensified our training and development initiatives through inhouse, local and international training and exposure.

## **GLOBALISATION**

As the drive towards a free, converging global market economy gathers momentum, competition within the banking industry continues to intensify. Equity Building Society recognizes the need to move to a more sharply focused customer and service driven and profit oriented business model. We have completed our first phase of product refinement and development with completion of a market survey on customers' perception of our products and services. This program of customer involvement will continue in order to make EBS a truly market driven institution geared towards customer satisfaction by continuously improving the quality of our products and services.

## **MISSION**

We shall remain focused to our mission of "mobilizing and utilizing resources to maximize value to our micro finance missing and middle sector customers and shareholders by offering superior services and recognizing the contribution of our staff members". We trust focus and pursuit of our mission will make us realize our vision of being the leading and preferred micro finance service provider.

## **PARTNERSHIP WITH DEVELOPMENT AGENCIES**

Due to our culture of openness, transparency and accountability, we have continued to enjoy technical and collaborative support from international development partners in our effort to provide international - class financial services. At the close of the year, we had partnership with European Union – EU-ACP EBAS and MESP schemes, UNDP – Micro Start Scheme, Swiss Contact - Swiss Foundation for Development, DFID – Financial Services Deepening Challenge Fund and Micro Save Africa.

## **OUTLOOK**

The effects of the negative economic growth coupled with intense focus on constitutional review, presidential succession, general elections and continued withholding of aid disbursement by International Monetary Fund and the World Bank are not conducive to a vibrant economic performance and are likely to induce a wait and see attitude among investors. Although the country's economic performance appears gloomy and uncertain medium term, Equity Building Society remains optimistic that it has strategically positioned itself to build on its success achieved in year 2001.

## **CONCLUSION**

Finally I wish to thank Management and staff for their commitment and dedication to duty; my fellow Directors for their foresight and valuable contribution, our shareholders, customers and development partners without whose support and loyalty the year 2001 wouldn't have been the success it was for the Equity Family.

**P.K. MUNGA**  
**CHAIRMAN**

**EQUITY BUILDING SOCIETY  
DIRECTORS' REPORT**

The directors have pleasure in presenting their report together with the financial statements for the year ended 31 December 2001.

**PRINCIPAL ACTIVITIES**

The principal activity of the society during the period was carrying out business as a building society under the Building Societies act (Cap 489)

**TRADING RESULTS**

The Society trading results are reflected on page 7.

**DIVIDENDS**

The directors recommend dividend of Kshs.1.00 per ordinary share held to be paid on or about 30 April 2002.

**TRANSFER TO RESERVES**

The profit attributed to the shareholder amounted to Kshs.31,593,950 out of which a dividend of Kshs.10,165,789 has been proposed and balance of Kshs.21,428,161 transferred to Revenue Reserves.

**DIRECTORS**

The directors who held office during the period were:-

Mr. P.K. Munga

Mr. J.K. Mwangi

Mr. J.N. Mwangi

Mr. B.I. Wairegi

Mr. E. K. Kimani

Mr. F. M. Muchoki

Prof. S.M. Kimenyi

**AUDITOR**

The Auditors M/S Mungai & Associates, Certified Accountants (K) have indicated their willingness to continue in office.

BY ORDER OF THE BOARD

*Associated Company Secretaries.*

ASSOCIATED COMPANY SECRETARIES

DATE: *8 February 2002*

## **EQUITY BUILDING SOCIETY**

### **STATEMENT OF DIRECTORS RESPONSIBILITIES**

Company Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the society at the end of the financial year and of the profit or loss of the society for that period. In preparation those financial statements, the directors are required to;

- Select suitable accounting policies and then apply them constantly;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed;
- Prepare the financial statements on the going concern basis;

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the society and to enable them to ensure that the financial statements comply with the Building Societies and Companies Act.

They are also responsible for safeguarding the assets of the society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**REPORT OF THE AUDITORS  
TO THE MEMBERS OF EQUITY BUILDING SOCIETY**

We have audited the financial statements set out on pages 4 to 18 which have been prepared on the basis of the accounting policies set out in note 1. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit and to provide a reasonable basis for our opinion. The financial statements of the society are in agreement with the books of account.

The directors are responsible for the preparation of financial statements, which give a true and fair view of the state of affairs of the society and of its operating results. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit to obtain assurance that the accounts are free from material misstatement. An audit included an examination, on a test basis, of the evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as evaluation of the overall presentation of the financial statements. We believe that our audit provided a reasonable basis for our opinion.

In our opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the Society as at 31 December 2001 and of its profit and cash flows for the year then ended in accordance with International Accounting Standards and comply with the Building Societies Act (Cap 489).

*Mungai & Associates.*

CERTIFIED PUBLIC ACCOUNTANTS OF KENYA

P.O. BOX 42502

NAIROBI

Date:..... *19 February 2002* .....



**EQUITY BUILDING SOCIETY  
PROFIT & LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2001**

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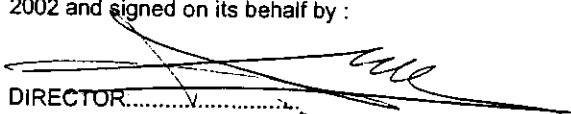
|  | NOTES      | 2001<br>Kshs              | 2000<br>Kshs              |
|--|------------|---------------------------|---------------------------|
| <b>INCOME</b>                              |            |                           |                           |
| Interest earnings                          | 1(b) and 3 | 175,487,646               | 132,267,698               |
| Less: Interest expense                     | 4          | (70,914,438)              | (66,852,264)              |
| Net interest income                        |            | <u>104,573,208</u>        | <u>65,415,434</u>         |
| <b>OTHER INCOME</b>                        |            |                           |                           |
| Commissions and other incomes              | 5          | 125,003,410               | 76,544,142                |
| <b>TOTAL OPERATING INCOME</b>              |            | <u><b>229,576,618</b></u> | <u><b>141,959,576</b></u> |
| <b>EXPENDITURE</b>                         |            |                           |                           |
| Management expenses                        | 6          | 131,111,165               | 81,641,558                |
| Depreciation                               |            | 32,022,294                | 16,284,479                |
| Loans provision                            |            | 12,002,664                | 10,379,744                |
| <b>TOTAL OVERHEAD EXPENSES</b>             |            | <u>175,136,123</u>        | <u>108,305,781</u>        |
| <b>PROFIT FOR THE YEAR BEFORE TAXATION</b> | 7          | <u>54,440,495</u>         | <u>33,653,795</u>         |
| <b>TAXATION</b>                            | 8          | (22,846,545)              | (16,127,845)              |
| <b>PROFIT AFTER TAX</b>                    |            | <u>31,593,950</u>         | <u>17,525,950</u>         |
| Proposed dividend                          | 15         | (10,165,789)              | (6,677,190)               |
| <b>RETAINED PROFIT FOR THE YEAR</b>        |            | <u><b>21,428,161</b></u>  | <u><b>10,848,760</b></u>  |
| Earnings per share                         |            | 5.36                      | 3.71                      |

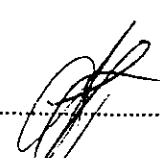
The notes on pages 11-19 form part of these accounts.

**EQUITY BUILDING SOCIETY**  
**BALANCE SHEET AS AT 31 DECEMBER 2001**

| <b>ASSETS</b>                                   | <b>NOTES</b> | 2001<br>Kshs         | 2000<br>Kshs         |
|---|--------------|----------------------|----------------------|
| Cash and Bank Balances                          |              | 254,011,856          | 120,909,879          |
| Deposits with Banks and Treasury Bills          | 9            | 568,466,518          | 443,681,322          |
| Sundry Debtors                                  | 10           | 37,303,783           | 10,762,165           |
| Loans and Advances                              | 11           | 761,584,675          | 445,824,160          |
| Fixed Assets                                    | 20           | 261,760,226          | 238,535,288          |
| <b>TOTAL ASSETS</b>                             |              | <b>1,883,127,058</b> | <b>1,259,712,814</b> |
| <br>  |              |                      |                      |
| <b>LIABILITIES</b>                              |              |                      |                      |
| Customer Deposits                               | 12           | 1,608,950,482        | 977,806,147          |
| Short Term Liabilities                          | 13           | 34,160,211           | 78,690,961           |
| Taxation  | 14           | 2,381,082            | 2,006,168            |
| Dividend proposed                               | 15           | 10,165,789           | 6,677,190            |
|   |              | <b>1,655,657,564</b> | <b>1,065,180,466</b> |
| <br>  |              |                      |                      |
| <b>CAPITAL EMPLOYED</b>                         |              |                      |                      |
| Subscribers' and Investment Capital             | 16           | 50,828,945           | 50,891,470           |
| Share Premium                                   | 17           | 24,220,885           | 23,183,280           |
| Revenue reserves                                | 18           | 58,537,894           | 37,109,733           |
| Capital Reserve                                 | 19           | 93,881,770           | 83,347,865           |
|   |              | <b>227,469,494</b>   | <b>194,532,348</b>   |
| <b>TOTAL LIABILITIES &amp; CAPITAL EMPLOYED</b> |              | <b>1,883,127,058</b> | <b>1,259,712,814</b> |

The accounts set out on pages 4 to 19 were approved by the Board of Directors on 8<sup>th</sup> Feb 2002 and signed on its behalf by :

DIRECTOR.....

DIRECTOR.....

The notes on pages 11-19 form part of these accounts.

**EQUITY BUILDING SOCIETY  
CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2001**

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|  | NOTES | 2001<br>Kshs        | 2000<br>Kshs        |
|--|-------|---------------------|---------------------|
| NET CASH FROM OPERATING ACTIVITIES         | 21(a) | 308,279,773         | 283,431,250         |
| Ordinary dividends paid                    |       | <u>(6,576,325)</u>  | <u>-</u>            |
| <b>INVESTING ACTIVITIES</b>                |       |                     |                     |
| Purchase of fixed assets                   |       | (55,544,395)        | (95,275,139)        |
| Proceeds from sale of fixed assets         |       | 320,000             | 834,624             |
| NET CASH OUTFLOW FROM INVESTING ACTIVITIES |       | <u>(55,224,395)</u> | <u>(94,440,515)</u> |
| <b>FINANCING</b>                           |       |                     |                     |
| Proceeds from sale of shares               |       | 2,001,410           | 41,256,540          |
| Grant Capital                              |       | 9,406,710           | -                   |
| NET CASH INFLOW FROM FINANCING             |       | <u>11,408,120</u>   | <u>41,256,540</u>   |
| NET CASH INFLOW                            |       | <u>257,887,173</u>  | <u>230,247,275</u>  |
| INCREASE IN CASH AND CASH EQUIVALENT       | 21(b) | <u>257,887,173</u>  | <u>230,247,275</u>  |

**EQUITY BUILDING SOCIETY  
STATEMENT OF CHANGES IN EQUITY**

|                               | Share capital     | Revaluation Reserve | Share Premium     | Retained Profit   | Grant Capital     | Capital Reserve  | Total              |
|-------------------------------|-------------------|---------------------|-------------------|-------------------|-------------------|------------------|--------------------|
|                               | Kshs              | Kshs                | Kshs              | Kshs              | Kshs              | Kshs             | Kshs               |
| Balance at 1 January 2001     | 50,891,470        | 81,461,684          | 23,183,280        | 37,109,733        | 1,243,000         | 643,181          | 194,532,348        |
| Retained profit for the year  |                   |                     |                   | 21,428,161        |                   |                  | 21,428,161         |
| Grant capital received        |                   |                     |                   |                   | 9,406,710         |                  | 9,406,710          |
| Premium on sale of shares     |                   |                     | 1,037,605         |                   |                   |                  | 1,037,605          |
| Additional shares in the year | 218,925           |                     |                   |                   |                   |                  | 218,925            |
| Shares transfers              | (281,450)         |                     |                   |                   |                   | 281,450          | 0                  |
| Changes in borrowing shares   |                   |                     |                   |                   |                   | 845,745          | 845,745            |
|                               | <b>50,828,945</b> | <b>81,461,684</b>   | <b>24,220,885</b> | <b>58,537,894</b> | <b>10,649,710</b> | <b>1,770,376</b> | <b>227,469,494</b> |

**EQUITY BUILDING SOCIETY**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2001**

**1. SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these financial statements are set out below:-

**(a) Basis of preparation**

The financial statements are prepared in accordance with, and comply with, International Accounting Standards. The financial statements are prepared under the historical cost convention and modified to include the revaluation of certain properties.

**(b) Revenue recognition**

Income is recognized in the period in which it is earned. When an account becomes non-performing, interest is suspended until it is realized on a cash basis.

**(c) Provision for loans losses**

Specific provisions for doubtful debts are held in respect on loans and advances. The provisions are based on periodic appraisal of the advances portfolio, and take account of past loss experience, economic conditions and estimated realizable value of the underlying collateral and are charged to the profit and loss account. In addition, a general provision is maintained against the advances portfolio.

**(d) 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 during the year were as follows:-

|  |       |
|--|-------|
| Motor vehicle                          | 25%   |
| Leasehold Improvements                 | 12.5% |
| Office Equipment, furniture & Fittings | 12.5% |
| Computers & accessories                | 30%   |

**(e) Treasury bills and bonds**

Treasury bills and bonds are stated at nominal value. Interest is credited to income over the period of issue.

**(f) Loans and advances**

Loans and advances are generally shown at the principal amount adjusted for any provision for losses. The provision for losses is increased by suspended interest and decreased by charge-offs (net of recoveries)

**(g) Retirement benefits obligations**

The company's management staff are eligible for retirement benefits under a fixed defined benefits plan.

**EQUITY BUILDING SOCIETY**  
**NOTES TO THE ACCOUNTS.....CONTINUED**

(h) **Taxation**

Tax on the operating results for the year comprises the current charge and deferred tax . Current charge is provided on the results in the year as shown in the accounts adjusted in accordance with tax legislation.

Deferred tax is provided using the balance sheet liability method on all temporary adjusted in accordance with tax legislation.carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated on the basis of the tax rate currently enacted.

(j) **Cash and cash equivalents**

For the purpose of presentation of cash flows in the financial statements, the cash and cash equivalents include cash in hand and at bank, net balances with banking institutions and investment in government Securities.

(k) **Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

| 3 | <b>INTEREST INCOME</b>                | Kshs                | Kshs                |
|---|---------------------------------------|---------------------|---------------------|
|   | Loans and advances                    | 123,547,440         | 104,982,660         |
|   | Treasury bills                        | 23,702,990          | 1,636,923           |
|   | Placements with banking institutions  | 28,237,216          | 25,648,115          |
|   |                                       | <u>175,487,646</u>  | <u>132,267,698</u>  |
|   |                                       | =====               | =====               |
| 4 | <b>INTEREST EXPENSE</b>               |                     |                     |
|   | Loans                                 | (3,249,055)         | (1,440,758)         |
|   | On deposits                           | (44,345,428)        | (35,131,605)        |
|   | Savings accounts                      | (23,319,955)        | (30,279,901)        |
|   |                                       | <u>(70,914,438)</u> | <u>(66,852,264)</u> |
|   |                                       | =====               | =====               |
| 5 | <b>Commission &amp; other incomes</b> |                     |                     |
|   | Profit on sale of fixed assets        | 124,980,573         | 76,544,142          |
|   |                                       | 22,837              | -                   |
|   |                                       | <u>125,003,410</u>  | <u>76,544,142</u>   |
|   |                                       | =====               | =====               |
| 6 | <b>MANAGEMENT EXPENSES</b>            |                     |                     |
|   | Salaries and employee benefits        | 71,974,110          | 37,608,950          |
|   | Other management expenses             | 59,137,055          | 44,032,608          |
|   |                                       | <u>131,111,165</u>  | <u>81,641,558</u>   |
|   |                                       | =====               | =====               |

**EQUITY BUILDING SOCIETY  
NOTES TO THE ACCOUNTS....CONTINUED**

7 Profit before taxation is arrived after charging/crediting

Crediting:

Profit on sale of assets

|        |       |
|--------|-------|
| 22,837 | 0     |
| =====  | ===== |

Charging:

Depreciation

|            |            |
|------------|------------|
| 32,022,294 | 16,284,479 |
|------------|------------|

Directors emoluments

|            |           |
|------------|-----------|
| 12,480,000 | 9,425,000 |
|------------|-----------|

Auditors remuneration

|         |         |
|---------|---------|
| 400,000 | 390,000 |
| =====   | =====   |

8 Taxation

|      |      |
|------|------|
| 2001 | 2000 |
| Kshs | Kshs |

At 30% on profit for the year as adjusted for tax purposes

|            |            |
|------------|------------|
| 18,068,376 | 12,506,168 |
|------------|------------|

Deferred Tax

|           |   |
|-----------|---|
| 2,312,706 | - |
|-----------|---|

Penalties

|            |            |
|------------|------------|
| 20,381,082 | 12,506,168 |
|------------|------------|

|           |           |
|-----------|-----------|
| 2,465,463 | 3,621,677 |
|-----------|-----------|

|            |            |
|------------|------------|
| 22,846,545 | 16,127,845 |
| -----      | -----      |

Accounting profit before taxation

|            |            |
|------------|------------|
| 54,440,495 | 33,653,795 |
|------------|------------|

Taxation using corporation tax rate

|            |            |
|------------|------------|
| 16,332,149 | 10,769,214 |
|------------|------------|

Non - deductible costs and depreciation.

|           |   |
|-----------|---|
| 4,048,933 | - |
|-----------|---|

|            |            |
|------------|------------|
| 20,381,082 | 10,769,214 |
| =====      | =====      |

9 DEPOSITS AND BALANCES

Placements with banks:

|      |      |
|------|------|
| 2001 | 2000 |
| Kshs | Kshs |

Kenya Commercial Bank Limited

|             |             |
|-------------|-------------|
| 207,500,000 | 211,932,008 |
|-------------|-------------|

Housing Finance Company of Kenya Limited

|   |             |
|---|-------------|
| - | 126,071,233 |
|---|-------------|

Dubai Bank Limited

|             |   |
|-------------|---|
| 153,130,551 | - |
|-------------|---|

Interest receivable

|           |           |
|-----------|-----------|
| 7,835,967 | 5,678,081 |
|-----------|-----------|

|             |             |
|-------------|-------------|
| 368,466,518 | 343,681,322 |
|-------------|-------------|

Central Bank of Kenya -Treasury bills

|             |             |
|-------------|-------------|
| 200,000,000 | 100,000,000 |
|-------------|-------------|

|             |             |
|-------------|-------------|
| 568,466,518 | 443,681,322 |
| =====       | =====       |

**EQUITY BUILDING SOCIETY  
NOTES TO THE ACCOUNTS.....CONTINUED  
FOR THE YEAR ENDED 31 DECEMBER 2001**

Page 14

| 10 | <b>SUNDRY DEBTORS</b>  | 2001<br>Kshs       | 2000<br>Kshs       |
|----|--|--------------------|--------------------|
|    | Head office account ( items in transit)  | 21,758,863         | 5,116,821          |
|    | Other debtors and prepayments  | 15,544,920         | 5,645,344          |
|    |  | <u>37,303,783</u>  | <u>10,762,165</u>  |
|    |  | =====              | =====              |
| 11 | <b>LOANS AND ADVANCES</b>  | 2001<br>Kshs       | 2000<br>Kshs       |
|    | (a) Balances due or outstanding on loans not including prospective interests.  |                    |                    |
|    | Loans 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:- |                    |                    |
|    | On 12,237 Loans where the debt does not exceed Kshs. 10,000  | 25,336,465         | 14,105,162         |
|    | On 2,614 Loans where the debt exceeds Kshs 10,000 and does not exceed Kshs. 20,000   | 36,698,250         | 22,450,030         |
|    | On 2,191 Loans where the debt exceeds Kshs 20,000 and does not exceed Kshs. 60,000   | 67,375,933         | 37,573,225         |
|    | On 284 Loans where the debt exceeds Kshs 60,000 and does not exceed Kshs. 100,000  | 21,833,034         | 14,697,067         |
|    | On 203 Loans where the debt exceeds Kshs 100,000 and does not exceed Kshs. 150,000   | 24,468,726         | 14,860,253         |
|    | On 721 Loans where the debt exceeds Kshs. 150,000  | 673,406,027        | 303,468,227        |
|    |  | <u>849,118,435</u> | <u>407,153,964</u> |
|    | On Loans 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                  | 0                  |
|    |  | <u>849,118,435</u> | <u>407,153,964</u> |
|    |  | =====              | =====              |
| b) | Loans and advances - gross   | 857,197,802        | 502,990,971        |
|    | Less:  |                    |                    |
|    | Provision for Loans  |                    |                    |
|    | Specific   | (34,140,580)       | (29,097,303)       |
|    | General  | (8,569,037)        | (5,031,107)        |
|    | Suspended interest   | (52,903,510)       | (23,038,401)       |
|    |  | <u>761,584,675</u> | <u>445,824,160</u> |
|    | Net loans and advances   | =====              | =====              |



**EQUITY BUILDING SOCIETY**  
**NOTES TO THE ACCOUNTS....CONTINUED**

c) Non performing loans where interest is suspended.  
 As per Central Bank of Kenya ( the Regulatory Authority) guidelines, interest was suspended on loans and advances by the society amounting to Kshs 52,903,510. Interest is not being recognised on loans and classified as substandard, doubtful, and loss. The Society uses a grading system that classifies loans and advances into grades 1 to 5 which recognises grades 3, 4 and 5 as non - performing.

|    |             |           |           |
|----|-------------|-----------|-----------|
| d) | Other Loans | Kshs      | Kshs      |
|    | Staff loans | 8,079,367 | 6,500,404 |
|    |             | =====     | =====     |

|     |                           |               |             |
|-----|---------------------------|---------------|-------------|
| 12) | <b>CUSTOMERS DEPOSITS</b> | 2001          | 2000        |
|     |                           | Kshs          | Kshs        |
|     | Saving accounts           | 991,545,917   | 651,044,533 |
|     | Fixed term deposits       | 589,758,082   | 326,761,614 |
|     | Interest payable          | 27,646,483    | 13,439,875  |
|     |                           | -----         | -----       |
|     |                           | 1,608,950,482 | 991,246,022 |
|     |                           | =====         | =====       |

|     |   |            |            |
|-----|---|------------|------------|
| 13) | <b>SHORT-TERM LIABILITIES</b>                     | 2001       | 2000       |
|     |   | Kshs       | Kshs       |
|     | Micro -Enterprise Support Program credit facility | 15,906,966 | 46,562,428 |
|     | Other creditors and accruals                      | 18,253,245 | 18,688,658 |
|     |   | -----      | -----      |
|     |   | 34,160,211 | 65,251,086 |
|     |   | =====      | =====      |

|     |                           |              |              |
|-----|---------------------------|--------------|--------------|
| 14) | <b>TAX PAYABLE</b>        | 2001         | 2000         |
|     |                           | Kshs         | Kshs         |
|     | Provision for taxation    | 18,068,376   | 12,506,168   |
|     | Taxation paid in the year | (18,000,000) | (10,500,000) |
|     |                           | -----        | -----        |
|     | Tax payable               | 68,376       | 2,006,168    |
|     | Deferred tax              | 2,312,706    | -            |
|     |                           | -----        | -----        |
|     |                           | 2,381,082    | 2,006,168    |
|     |                           | =====        | =====        |

|     |                                     |            |           |
|-----|-------------------------------------|------------|-----------|
| 15) | <b>DIVIDENDS PER SHARE</b>          | 2001       | 2000      |
|     |                                     | Kshs       | Kshs      |
|     | Dividends                           | 10,165,789 | 6,677,190 |
|     | Subscribers capital and investments | 10,165,789 | 6,677,190 |
|     | Dividends per share                 | 1          | 0.75      |
|     |                                     | =====      | =====     |

**EQUITY BUILDING SOCIETY  
NOTES TO THE ACCOUNTS....CONTINUED**

|            |  |              |              |
|------------|--|--------------|--------------|
| <b>16)</b> | <b>SUBSCRIBERS' AND INVESTMENT CAPITAL</b> | 2001<br>Kshs | 2000<br>Kshs |
|            | Balance brought forward                    | 50,891,470   | 34,061,210   |
|            | Shares sold in the year                    | 218,925      | 16,700,410   |
|            | Borrowing shares                           | (281,450)    | 129,850      |
|            |  | -----        | -----        |
|            |  | 50,828,945   | 50,891,470   |
|            |  | =====        | =====        |
| <b>17)</b> | <b>SHARE PREMIUM</b>                       | 2001<br>Kshs | 2000<br>Kshs |
|            | Balance brought forward                    | 23,183,280   | -            |
|            | Shares sold in the year -par value Kshs 5  | 1,037,605    | 23,183,280   |
|            |  | -----        | -----        |
|            |  | 24,220,885   | 23,183,280   |
|            |  | =====        | =====        |
| <b>18)</b> | <b>REVENUE RESERVES</b>                    | 2001<br>Kshs | 2000<br>Kshs |
|            | Profit brought forward                     | 37,109,733   | 26,260,973   |
|            | Retained profit for the year               | 21,428,161   | 10,848,760   |
|            | Profit carried forward                     | 58,537,894   | 37,109,733   |
|            |  | -----        | -----        |
|            |  | 58,537,894   | 37,109,733   |
|            |  | =====        | =====        |
| <b>19)</b> | <b>CAPITAL RESERVE</b>                     | 2001<br>Kshs | 2000<br>Kshs |
|            | Balance brought forward                    | 83,347,865   | 643,180      |
|            | Revaluation reserves                       | -            | 81,461,685   |
|            | Grant capital                              | 9,406,710    | 1,243,000    |
|            | Borrowing shares                           | 1,127,195    | -            |
|            |  | -----        | -----        |
|            |  | 93,881,770   | 83,347,865   |
|            |  | =====        | =====        |

20) FIXED ASSETS

| COST                  | INVESTMENT IN LEASEHOLD LAND |            | LEASEHOLD LAND & BUILDINGS |             | LEASEHOLD IMPROVEMENTS |            | MOTOR VEHICLE |      | OFFICE EQUIPMENT, FURNITURE & FITTINGS |      | COMPUTERS |      | TOTAL |
|-----------------------|------------------------------|------------|----------------------------|-------------|------------------------|------------|---------------|------|--|------|-----------|------|-------|
|                       | Kshs                         | Kshs       | Kshs                       | Kshs        | Kshs                   | Kshs       | Kshs          | Kshs | Kshs                                   | Kshs | Kshs      | Kshs | Kshs  |
| At 1 January 2001     | 65,210,000                   | 60,871,300 | 22,560,952                 | 16,349,771  | 60,077,054             | 45,140,289 | 270,209,366   |      |  |      |           |      |       |
| Additions; Cost       | -                            | 137,605    | 11,774,637                 | 10,139,520  | 16,029,207             | 11,885,880 | 49,966,849    |      |  |      |           |      |       |
| Work in progress      | -                            | -          | 5,577,546                  | -           | -                      | -          | 5,577,546     |      |  |      |           |      |       |
| Disposals             | -                            | -          | -                          | (2,377,297) | -                      | -          | (2,377,297)   |      |  |      |           |      |       |
| At 31 December 2001   | 65,210,000                   | 61,008,905 | 39,913,135                 | 24,111,994  | 76,106,261             | 57,026,169 | 323,376,464   |      |  |      |           |      |       |
| <b>DEPRECIATION</b>   |                              |            |                            |             |                        |            |               |      |  |      |           |      |       |
| At 1 January 2001     | -                            | -          | 7,296,293                  | 5,594,902   | 11,418,835             | 7,364,048  | 31,674,078    |      |  |      |           |      |       |
| Disposal              | -                            | -          | -                          | (2,080,134) | -                      | -          | (2,080,134)   |      |  |      |           |      |       |
| Charge for the year   | -                            | -          | 3,337,076                  | 5,503,144   | 8,630,752              | 14,551,322 | 32,022,294    |      |  |      |           |      |       |
| At 31 December 2001   | -                            | -          | 10,633,369                 | 9,017,912   | 20,049,587             | 21,915,370 | 61,616,238    |      |  |      |           |      |       |
| <b>NET BOOK VALUE</b> |                              |            |                            |             |                        |            |               |      |  |      |           |      |       |
| At 31 December 2001   | 65,210,000                   | 61,008,905 | 29,279,766                 | 15,094,082  | 56,056,674             | 35,110,799 | 261,760,226   |      |  |      |           |      |       |
| At 31 December 2000   | 65,210,000                   | 60,871,300 | 15,264,659                 | 10,754,869  | 48,658,219             | 37,776,241 | 238,535,288   |      |  |      |           |      |       |

**EQUITY BUILDING SOCIETY  
 DETAILED INCOME AND EXPENDITURE ACCOUNT  
 FOR THE YEAR ENDED 31 DECEMBER, 2001**

**21 NOTES TO THE CASH FLOW STATEMENT**

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

|  |  |                    |                    |
|--|--|--------------------|--------------------|
| Profit before tax  |  | 54,440,495         | 33,653,795         |
| Depreciation   |  | 32,022,294         | 16,284,479         |
| Profit on sale of assets                                       |  | (22,837)           | -                  |
| (Increase) in interest receivable and other assets             |  | (26,541,618)       | (7,774,802)        |
| (Increase) in loans and advances                               |  | (315,760,515)      | (157,591,888)      |
| Increase in deposits received                                  |  | 631,144,335        | 370,296,108        |
| (Decrease)/ increase in interest payable and other liabilities |  | (44,530,750)       | 45,396,971         |
| Taxation paid  |  | (22,471,631)       | (16,833,413)       |
| Net cash inflow from operating activities                      |  | <u>308,279,773</u> | <u>283,431,250</u> |
|  |  | =====              | =====              |

b) Analysis of cash and cash equivalents

|                                      |                    |                    |                    |
|--------------------------------------|--------------------|--------------------|--------------------|
|                                      | Change             |                    |                    |
| Cash and bank balances at 1 January  | 133,101,977        | 254,011,856        | 120,909,879        |
| Deposits and balances due from banks | 124,785,196        | 568,466,518        | 443,681,322        |
|                                      | <u>257,887,173</u> | <u>822,478,374</u> | <u>564,591,201</u> |
|                                      | =====              | =====              | =====              |

**22 INCORPORATION**

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

**23 CURRENCY**

The accounts are presented in Kenya Shillings (KShs.)

**EQUITY BUILDING SOCIETY  
 DETAILED INCOME AND EXPENDITURE ACCOUNT  
 FOR THE YEAR ENDED 31 DECEMBER, 2001**

|                                      | 2001<br>Kshs        | 2000<br>Kshs        |
|--------------------------------------|---------------------|---------------------|
| <b>INTEREST INCOME</b>               |                     |                     |
| Loans and advances                   | 123,547,440         | 104,982,660         |
| Treasury bills                       | 23,702,990          | 1,636,923           |
| Placements with banking institutions | 28,237,216          | 25,648,115          |
|                                      | <u>175,487,646</u>  | <u>132,267,698</u>  |
| Commission & other incomes           | 124,980,573         | 76,544,142          |
| Profit on sale of fixed assets       | 22,837              | -                   |
|                                      | <u>300,491,056</u>  | <u>208,811,840</u>  |
| <b>INTEREST EXPENSE</b>              |                     |                     |
| Loan                                 | (3,249,055)         | (1,440,758)         |
| On deposits                          | (44,345,428)        | (35,131,605)        |
| Savings accounts                     | <u>(23,319,955)</u> | <u>(30,279,901)</u> |
|                                      | (70,914,438)        | (66,852,264)        |
|                                      | <u>229,576,618</u>  | <u>141,959,576</u>  |
| <b>TOTAL OPERATING INCOME</b>        |                     |                     |
| <b>MANAGEMENT EXPENSES</b>           |                     |                     |
| Salaries and wages                   | 64,889,534          | 34,918,428          |
| Medical expenses                     | 1,249,275           | 944,176             |
| Traveling expenses & courier service | 847,535             | 2,752,388           |
| Motor vehicle expenses               | 2,240,868           | 3,087,477           |
| Rent and rates                       | 6,580,982           | 4,697,801           |
| Telephone, fax and postage           | 3,638,278           | 2,361,825           |
| Insurance                            | 4,260,960           | 2,187,732           |
| Printing and stationery              | 8,074,536           | 5,712,464           |
| Bank charges & commissions           | 7,051,040           | 4,761,945           |
| Legal and professional fees          | 723,097             | 2,334,213           |
| Licenses                             | 752,385             | 455,857             |
| Office expenses                      | 428,563             | 2,253,904           |
| Audit fees                           | 400,000             | 390,000             |
| V.A.T. and disbursements             | 231,212             | 181,485             |
| Mobile banking expenses              | 1,722,009           | 1,795,893           |
| Donations and subscriptions          | 344,986             | 270,619             |
| Entertainment                        | -                   | 170,562             |
| Repairs and maintenance              | 1,491,330           | 1,290,641           |
| Marketing & advertising expenses     | 10,199,054          | 3,239,757           |
| Electricity and water                | 1,332,732           | 750,968             |
| Staff training & recruitment         | 6,237,224           | 3,399,467           |
| Customer training                    | 1,993,725           | -                   |
| Staff travel & subsistence expenses  | 32,560              | 92,639              |
| Staff welfare                        | 11,614              | 85,435              |
| Security                             | <u>6,377,666</u>    | <u>3,505,882</u>    |
| <b>TOTAL MANAGEMENT EXPENSES</b>     | <u>131,111,165</u>  | <u>81,641,558</u>   |
| Depreciation                         | 32,022,294          | 16,284,479          |
| Loans provision                      | <u>12,002,664</u>   | <u>10,379,744</u>   |
|                                      | <u>175,136,123</u>  | <u>108,305,781</u>  |
| <b>NET PROFIT</b>                    | <u>54,440,495</u>   | <u>33,653,795</u>   |