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EQUITY BUILDING SOCIETY

ANNUAL REPORT AND ACCOUNTS

31 DECEMBER 2002

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1. Equity bank limited - Periodicals
2. Banks and Banking - Monthly - Periodicals

**EQUITY BUILDING SOCIETY
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2002**

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**EQUITY BUILDING SOCIETY
DETAILED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER, 2002**

	2002 Kshs	2001 Kshs
INTEREST INCOME		
Loans and advances	224,523,866	123,547,440
Treasury bills	26,154,950	23,702,990
Placements with banking institutions	<u>28,174,908</u>	<u>28,237,216</u>
	278,853,724	175,487,646
OTHER INCOME		
Commissions	170,391,817	124,980,573
Profit on sale of fixed assets	<u>85,237</u>	<u>22,837</u>
	<u>170,477,054</u>	<u>125,003,410</u>
	<u>449,330,778</u>	<u>300,491,056</u>
INTEREST EXPENSE		
Loan	(1,580,896)	(3,249,055)
Deposits	(58,411,754)	(44,345,428)
Savings accounts	<u>(21,589,478)</u>	<u>(23,319,955)</u>
	<u>(81,582,128)</u>	<u>(70,914,438)</u>
TOTAL OPERATING INCOME	<u>367,748,650</u>	<u>229,576,618</u>
MANAGEMENT EXPENSES		
Salaries and wages	87,075,301	64,889,534
Medical expenses	1,292,619	1,249,275
Travelling expenses & courier services	2,208,456	847,535
Motor vehicle expenses	3,893,477	2,240,868
Rent and rates	9,809,017	6,580,982
Telephone, fax and postage	5,323,004	3,638,278
Insurance	4,437,098	4,260,960
Printing and stationery	13,966,532	8,074,536
Bank charges & commissions	12,502,943	7,051,040
Legal and professional fees	1,391,413	723,097
Licenses	1,213,163	752,385
Office expenses	1,763,411	428,563
Audit fees	450,000	400,000
V.A.T. and disbursements	191,000	231,212
Mobile banking expenses	1,620,621	1,722,009
Donations and subscriptions	869,948	344,986
Repairs and maintenance	2,407,151	1,491,330
Marketing & advertising expenses	12,100,305	10,199,054
Electricity and water	1,678,928	1,332,732
Staff training & recruitment	11,725,257	6,237,224
Customer training	2,874,210	1,993,725
Staff travel & subsistence expenses	734,225	32,560
Staff welfare	1,903,306	11,614
Security	<u>9,967,679</u>	<u>6,377,666</u>
TOTAL MANAGEMENT EXPENSES	<u>191,399,064</u>	<u>131,111,165</u>
Depreciation	40,036,563	32,022,294
Loans provision	<u>25,311,625</u>	<u>12,002,664</u>
	<u>65,348,188</u>	<u>44,024,958</u>
	<u>256,747,252</u>	<u>175,136,123</u>
NET PROFIT FOR THE YEAR	<u>111,001,398</u>	<u>54,440,495</u>

LIQUIDITY RISK MANAGEMENT

Equity manages the liquidity structure of assets, liabilities and commitments so that cashflows are appropriately matched to ensure that all funding obligations are met when due. Equity's operations are such that mismatch of assets and liabilities according to their maturity profiles cannot be avoided. However, management ensures that the mismatch is controlled in line with allowable risk levels. Liquidity is managed on a daily basis both at the Head Office and branches and incorporates known and unanticipated cash needs. The table below analyses maturity profiles of assets and liabilities of the Society based on the remaining period upto 31 December 2002 to the contractual maturity dates.

	Up to 1 month Kshs	1-12 months Kshs	Over 1 year Kshs	Total Kshs
ASSETS				
Cash and balances with Central Bank	243,622,783	-	-	243,622,784
Deposits with banks	30,000,000	415,141,813	-	445,141,813
Treasury bills	-	454,370,111	-	454,370,111
Other debtors	-	50,441,616	-	50,441,616
Loans and advances	95,138,000	426,766,000	599,082,401	1,120,986,401
Fixed assets			260,948,583	260,948,583
TOTAL ASSETS	<u>368,760,783</u>	<u>1,346,719,540</u>	<u>860,030,984</u>	<u>2,575,511,308</u>
LIABILITIES				
Customer deposits	363,002,000	285,877,265	1,493,286,059	2,142,165,324
Short term liabilities	-	99,364,381	-	99,364,381
Taxation	-	75,979	-	75,979
	-	-	-	-
	<u>363,002,000</u>	<u>385,317,625</u>	<u>1,493,286,059</u>	<u>2,241,605,684</u>
CAPITAL EMPLOYED				
Subscribers' and investment capital	-	-	52,861,945	52,861,945
Share premium	-	-	34,485,885	34,485,885
Revenue reserves	-	-	122,203,630	122,203,630
Capital reserves	-	-	113,781,775	113,781,775
Proposed dividend		10,572,389	-	10,572,389
		<u>10,572,389</u>	<u>323,333,235</u>	<u>333,905,624</u>
TOTAL LIABILITIES & CAPITAL EMPLOYED	<u>363,002,000</u>	<u>395,890,014</u>	<u>1,816,619,294</u>	<u>2,575,511,308</u>
NET LIQUIDITY GAP	<u>5,758,783</u>	<u>950,829,526</u>	<u>(956,588,310)</u>	<u>-</u>

INTEREST RATE RISK

Structural interest rates' risk arises when assets and liabilities in Equity's commercial activities have different maturity profiles or repricing dates. The primary source of interest rate risk originating in other activities arises from the employment of non-interest bearing liabilities such as shareholders' funds. When assets reprice more or in greater proportion than liabilities during a given period, a positive interest rate sensitivity gap results and this tends to benefit the interest income in a rising interest rate environment. Conversely, when liabilities reprice more or in greater proportion than assets during a given period, a negative interest rate sensitivity gap results and this tends to benefit net interest rate positions and in different interest rate scenarios with a view to limiting potential adverse effects on net interest income. The table below shows interest rate sensitivity gap for Equity as at 31 December 2002 based on the earlier of maturity or repricing dates. This is not necessarily indicative of the position at other times.

	Up to 1 month Kshs	1-12 months Kshs	Over 1 year Kshs	Non-interest bearing Kshs	Total Kshs
ASSETS					
Cash and balances with Central Bank				243,622,784	243,622,784
Deposits with banks	30,000,000	415,141,813	-	-	445,141,813
Treasury bills	-	454,370,111	-	-	454,370,111
Sundry debtors	-	4,203,596	-	42,489,060	46,692,656
Loans and advances	95,138,000	426,766,000	599,082,401	-	1,120,986,401
Computer stationery stocks	-	-	-	3,748,960	3,748,960
Fixed assets	-	-	-	260,948,583	260,948,583
TOTAL ASSETS	125,138,000	1,300,481,520	599,082,401	550,809,387	2,575,511,308
LIABILITIES					
Customer deposits	363,002,000	285,877,265	1,493,286,059	-	2,142,165,324
Short term liabilities	-	49,379,357	-	49,985,024	99,364,381
Taxation	-	-	-	75,979	75,979
CAPITAL EMPLOYED	363,002,000	335,256,622	1,493,286,059	50,061,003	2,241,605,684
Subscribers' and investment capital	-	-	-	52,861,945	52,861,945
Share premium	-	-	-	34,485,885	34,485,885
Revenue reserves	-	-	-	122,203,630	122,203,630
Capital reserves	-	-	-	113,781,775	113,781,775
Proposed dividend	-	-	-	10,572,389	10,572,389
				333,905,624	333,905,624
TOTAL LIABILITIES & CAPITAL EMPLOYED	363,002,000	335,256,622	1,493,286,059	383,966,627	2,575,511,308
INTEREST RATE SENSITIVITY GAP	(237,864,000)	965,224,898	(894,203,658)	166,842,760	-

	2002 Kshs	2001 Kshs
21. NOTES TO THE CASH FLOW STATEMENT		
a) Reconciliation of operating profit to net cash inflow from operating activities		
Profit before tax	111,001,398	54,440,495
Depreciation	40,036,563	32,022,294
Profit on sale of assets	(85,237)	(22,837)
(Increase) in interest receivable and other assets	(5,301,866)	(26,541,618)
(Increase) in loans and advances	(359,401,726)	(315,760,515)
Increase in deposits received	560,861,325	631,144,335
Increase /(decrease) in interest payable and other liabilities	39,412,059	(44,530,750)
Taxation paid	<u>(39,068,376)</u>	<u>(22,471,631)</u>
Net cash inflow from operating activities	<u>347,454,140</u>	<u>308,279,773</u>
b) Analysis of cash and cash equivalents		
	Change	
Cash and bank balances at 1 January	(10,389,072)	243,622,784
Deposits and balances due from banks	84,511,262	445,141,813
Treasury bills	<u>256,224,483</u>	<u>454,370,111</u>
	<u>330,346,673</u>	<u>1,143,134,708</u>
	<u>1,143,134,708</u>	<u>812,788,035</u>
22. RELATED PARTY TRANSACTIONS		
In the normal course of business, the following transactions were carried on at arm's length.		
Staff loans and advances	<u>10,477,441</u>	<u>8,079,367</u>
23. EARNINGS PER SHARE		
Net profit for the year before taxation	111,001,398	54,440,495
Number of shares	<u>10,572,389</u>	<u>10,165,789</u>
Earnings per share	<u>10.50</u>	<u>5.36</u>
24. CURRENCY		
The accounts are presented in Kenya Shillings (Kshs.)		

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

20) FIXED ASSETS

	INVESTMENT IN LEASEHOLD LAND	LEASEHOLD LAND & BUILDINGS	LEASEHOLD IMPROVE- MENTS	MOTOR VEHICLE	OFFICE EQUIPMENT, FURNITURE & FITTINGS	COMPUTERS	VILLAGE CELL BANKING	TOTAL
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
COST								
At 1 January 2002	65,210,000	61,008,905	39,913,135	24,111,994	76,106,261	57,026,169	-	323,376,464
Additions	-	-	4,916,702	-	12,791,658	14,113,172	7,497,406	39,318,938
Transfers	-	-	(5,577,546)	-	5,577,546	-	-	-
Disposals	-	-	-	(1,220,907)	-	-	-	(1,220,907)
At 31 December 2002	<u>65,210,000</u>	<u>61,008,905</u>	<u>39,252,291</u>	<u>22,891,087</u>	<u>94,475,465</u>	<u>71,139,341</u>	<u>7,497,406</u>	<u>361,474,495</u>
DEPRECIATION								
At 1 January 2002	-	-	10,633,369	9,017,912	20,049,587	21,915,370	-	61,616,238
Disposals	-	-	-	(1,126,889)	-	-	-	(1,126,889)
Charge for the year	-	-	4,439,440	5,221,016	10,493,461	19,431,598	451,048	40,036,563
At 31 December 2002	-	-	15,072,809	13,112,039	30,543,048	41,346,968	451,048	100,525,912
NET BOOK VALUE								
At 31 December 2002	<u>65,210,000</u>	<u>61,008,905</u>	<u>24,179,482</u>	<u>9,779,048</u>	<u>63,932,417</u>	<u>29,792,373</u>	<u>7,046,358</u>	<u>260,948,583</u>
At 31 December 2001	<u>65,210,000</u>	<u>61,008,905</u>	<u>29,279,766</u>	<u>15,094,082</u>	<u>56,056,674</u>	<u>35,110,799</u>	-	<u>261,760,226</u>

The assets of the society were revalued in year 2000 in respect of the investment in leasehold land and land & buildings by Townlands valuers, a registered firm of valuers.

16. SUBSCRIBERS' AND INVESTMENT CAPITAL

	Number of shares	Par Value Kshs	2002 Kshs	2001 Kshs
Balance brought forward	10,165,789	5	50,828,945	50,891,470
Shares sold during the year	406,600	5	2,033,000	218,925
Borrowing shares	-		-	(281,450)
	<u>10,572,389</u>	5	<u>52,861,945</u>	<u>50,828,945</u>

17. SHARE PREMIUM

Balance brought forward	24,220,885	23,183,280
Shares sold during the year	<u>10,265,000</u>	<u>1,037,605</u>
	<u>34,485,885</u>	<u>24,220,885</u>

18. REVENUE RESERVES

Balance brought forward	58,537,894	37,109,733
Retained profit for the year	<u>63,665,736</u>	<u>21,428,161</u>
Balance carried forward	<u>122,203,630</u>	<u>58,537,894</u>

19. CAPITAL RESERVE

	Revaluation Kshs	Grant Capital Kshs	Borrowing Shares Kshs	Forfeited Shares Kshs	Total Kshs
Balance brought forward	81,461,685	10,649,710	1,127,195	643,180	93,881,770
Movement in the year	<u>-</u>	<u>19,900,005</u>	<u>-</u>	<u>-</u>	<u>19,900,005</u>
Balance carried forward	<u>81,461,685</u>	<u>30,549,715</u>	<u>1,127,195</u>	<u>643,180</u>	<u>113,781,775</u>

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) guidance, interest was suspended on loans and advances by the society amounting to Kshs 27,996,155. Interest is not being recognised on loans and advances 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.

	2002 Kshs	2001 Kshs
d) Other Loans		
Staff loans	<u>10,477,441</u>	<u>8,079,367</u>
12. CUSTOMERS DEPOSITS		
Saving accounts	1,493,286,059	991,545,917
Fixed term deposits	<u>648,879,265</u>	<u>589,758,082</u>
	<u>2,142,165,324</u>	<u>1,581,303,999</u>
13. SHORT-TERM LIABILITIES		
Micro -Enterprise Support Program credit facility	-	15,906,966
Other creditors and accruals	20,457,460	18,253,245
Unearned income on loans	29,527,564	-
Interest payable	<u>49,379,357</u>	<u>25,792,111</u>
	<u>99,364,381</u>	<u>59,952,322</u>
14. TAX PAYABLE		
Provision for taxation	36,896,607	18,068,376
Paid in the year	<u>(39,000,000)</u>	<u>(18,000,000)</u>
Tax payable	(2,103,393)	68,376
Deferred taxation	<u>2,179,372</u>	<u>2,312,706</u>
	<u>75,979</u>	<u>2,381,082</u>
15. DIVIDENDS PER SHARE		
Dividends	10,572,389	10,165,789
Subscribers capital and investments	<u>10,572,389</u>	<u>10,165,789</u>
Dividends per share	1	1

EQUITY BUILDING SOCIETY
NOTES TO THE ACCOUNTS.....CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2002

10. OTHER DEBTORS	2002	2001
	Kshs	Kshs
Head office account (items in transit)	29,309,369	21,758,863
Other debtors and prepayments	16,928,651	15,544,920
Interest receivable	<u>4,203,596</u>	<u>7,835,967</u>
	<u>50,441,616</u>	<u>45,139,750</u>
11. LOANS AND ADVANCES		
a) Balances due or outstanding on loans not including prospective interest.		
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 30,494 Loans where the debt does not exceed Kshs. 10,000	51,188,118	25,336,465
On 4,938 Loans where the debt exceeds Kshs 10,000 and does not exceed Kshs. 20,000	69,473,157	36,698,250
On 4,210 Loans where the debt exceeds Kshs 20,000 and does not exceed Kshs. 60,000	129,789,666	67,375,933
On 445 Loans where the debt exceeds Kshs 60,000 and does not exceed Kshs. 100,000	34,195,011	21,833,034
On 362 Loans where the debt exceeds Kshs 100,000 and does not exceed Kshs. 150,000	44,079,454	24,468,726
On 1079 Loans where the debt exceeds Kshs. 150,000	<u>850,088,662</u>	<u>673,406,027</u>
	1,178,814,068	849,118,435
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:-	-	-
	<u>1,178,814,068</u>	<u>849,118,435</u>
b) Loans and advances - gross	1,189,291,509	857,197,802
Less:		
Provision for Loans		
Specific	(28,419,906)	(34,140,580)
General	(11,889,047)	(8,569,037)
Suspended interest	<u>(27,996,155)</u>	<u>(52,903,510)</u>
Net loans and advances	<u>1,120,986,401</u>	<u>761,584,675</u>

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived after charging/(credit)

	2002	2001
	Kshs	Kshs
Crediting:		
Profit on sale of assets	<u>(87,337)</u>	<u>(22,837)</u>
Charging:		
Depreciation	40,036,563	32,022,294
Directors salaries - (as executives)	18,440,000	12,480,000
- (as non executives)	1,730,000	-
Auditors remuneration	<u>450,000</u>	<u>400,000</u>

8. TAXATION

At 30% on profit for the year as adjusted for tax purposes	36,896,607	18,068,376
Deferred Taxation	<u>(133,334)</u>	<u>2,312,706</u>
	36,763,273	20,381,082
Penalties	<u>-</u>	<u>2,465,463</u>
	<u>36,763,273</u>	<u>22,846,545</u>
Accounting profit before taxation	<u>111,001,398</u>	<u>54,440,495</u>
Taxation at corporation tax rate	33,300,419	16,332,149
Taxation on non-deductible costs and depreciation	<u>3,462,854</u>	<u>4,048,933</u>
	<u>36,763,273</u>	<u>20,381,082</u>

9. DEPOSITS WITH BANKS AND TREASURY BILLS

Placements with banks:

Kenya Commercial Bank Limited	291,876,199	207,500,000
Akiba Bank Limited	73,265,614	-
The Co-operative Bank of Kenya Limited	50,000,000	-
Development Bank of Kenya Limited	30,000,000	-
Dubai Bank Limited	<u>-</u>	<u>153,130,551</u>
	<u>445,141,813</u>	<u>360,630,551</u>
Central Bank of Kenya -Treasury bills	<u>454,370,111</u>	<u>198,145,628</u>

(h) Taxation

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

Deferred tax is provided using the balance sheet liability method on all temporary differences between the 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.

(i) 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.

(j) Comparatives

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

2. INCORPORATION

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

	Kshs	Kshs
3. INTEREST INCOME		
Loans and advances	224,523,866	123,547,440
Treasury bills	26,154,950	23,702,990
Placements with banking institutions	<u>28,174,908</u>	<u>28,237,216</u>
	<u>278,853,724</u>	<u>175,487,646</u>
4. INTEREST EXPENSE		
Loans	(1,580,896)	(3,249,055)
Deposits	(58,411,754)	(44,345,428)
Savings accounts	<u>(21,589,478)</u>	<u>(23,319,955)</u>
	<u>(81,582,128)</u>	<u>(70,914,438)</u>
5. COMMISSION & OTHER INCOME		
Profit on sale of fixed assets	170,391,817	124,980,573
	<u>85,237</u>	<u>22,837</u>
	<u>170,477,054</u>	<u>125,003,410</u>
6. MANAGEMENT EXPENSES		
Salaries and employee benefits	113,093,907	71,974,110
Other management expenses	<u>78,305,157</u>	<u>59,137,055</u>
	<u>191,399,064</u>	<u>131,111,165</u>

EQUITY BUILDING SOCIETY**NOTES TO THE ACCOUNTS****FOR THE YEAR ENDED 31 DECEMBER 2002****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 losses on loans

Specific provisions for doubtful debts are held in respect of loans and advances. The provisions are based on periodic appraisal of the advances portfolio, in addition to taking into account past loss experience, economic conditions and estimated realizable value of the underlying collateral. These provisions are then charged to the profit and loss account. A general provision is also made 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 repair and maintenance is carried out to sustain their value.

Depreciation on other 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:-

	Rate
Motor vehicles	25%
Leasehold improvements	12.5%
Office equipment, furniture & fittings	12.5%
Computers & accessories	30%
Village cell banking	25%

(e) Treasury bills and bonds

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

(f) Loans and advances

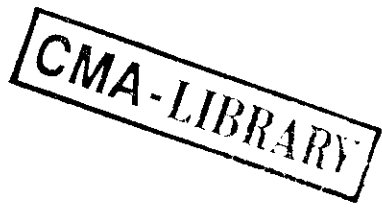
Loans and advances are generally shown at the principal amount adjusted for any provision for losses. The provision for losses is increased by suspended interest and decreased by charge-offs (net of recoveries).

(g) Retirement benefits obligations

The company's management staff are eligible for retirement benefits under a defined contribution scheme.

**EQUITY BUILDING SOCIETY
STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2002**

	Share Capital	Revaluation Reserve	Share Premium	Retained Profit	Grant Capital	Borrowing & Forfeited Shares	Dividend	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Balance at 1 January 2002	50,828,945	81,461,684	24,220,885	58,537,894	10,649,710	1,770,376	10,165,789	237,635,283
Retained profit for the year				63,665,736				63,665,736
Grant capital received					19,900,005			19,900,005
Premium on sale of shares			10,265,000					10,265,000
Issued shares in the year	2,033,000							2,033,000
Dividends paid							(10,165,789)	(10,165,789)
Proposed dividends							10,572,389	10,572,389
	52,861,945	81,461,684	34,485,885	122,203,630	30,549,715	1,770,376	10,572,389	333,905,624



**EQUITY BUILDING SOCIETY
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2002**

	NOTES	2002 Kshs	2001 Kshs
NET CASH FROM OPERATING ACTIVITIES	21(a)	<u>347,454,140</u>	<u>308,279,773</u>
Dividends paid		(10,165,789)	(6,576,325)
INVESTING ACTIVITIES			
Purchase of fixed assets		(33,741,392)	(55,544,395)
Proceeds from sale of fixed assets		<u>179,255</u>	<u>320,000</u>
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(33,562,137)</u>	<u>(55,224,395)</u>
FINANCING			
Proceeds from sale of shares		12,298,000	2,001,410
Grant Capital		<u>19,900,005</u>	<u>9,406,710</u>
NET CASH INFLOW FROM FINANCING		<u>32,198,005</u>	<u>11,408,120</u>
NET CASH INFLOW		<u>335,924,219</u>	<u>257,887,173</u>
INCREASE IN CASH AND CASH EQUIVALENTS	21(b)	<u>330,346,673</u>	<u>257,887,173</u>

**EQUITY BUILDING SOCIETY
BALANCE SHEET AS AT 31 DECEMBER 2002**

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ASSETS	NOTES	2002 Kshs	2001 Kshs
Cash and bank balances		243,622,784	254,011,856
Deposits with banks	9	445,141,813	360,630,551
Treasury bills	9	454,370,111	198,145,628
Other debtors	10	50,441,616	45,139,750
Loans and advances	11	1,120,986,401	761,584,675
Fixed assets	20	<u>260,948,583</u>	<u>261,760,226</u>
TOTAL ASSETS		<u>2,575,511,308</u>	<u>1,881,272,686</u>
 LIABILITIES			
Customer deposits	12	2,142,165,324	1,581,303,999
Short term liabilities	13	99,364,381	59,952,322
Taxation	14	<u>75,979</u>	<u>2,381,082</u>
		<u>2,241,605,684</u>	<u>1,643,637,403</u>
 CAPITAL EMPLOYED			
Subscribers' and investment capital	16	52,861,945	50,828,945
Share premium	17	34,485,885	24,220,885
Revenue reserves	18	122,203,630	58,537,894
Capital reserves	19	113,781,775	93,881,770
Proposed dividend	15	<u>10,572,389</u>	<u>10,165,789</u>
		<u>333,905,624</u>	<u>237,635,283</u>
TOTAL LIABILITIES & CAPITAL EMPLOYED		<u>2,575,511,308</u>	<u>1,881,272,686</u>

The accounts set out on pages 8 to 21 were approved by the Board of Directors on 30 January, 2003 and signed on its behalf by :

DIRECTOR: P. K. MUNGA

DIRECTOR: J. K. MWANGI

The notes on pages 12-21 form part of these accounts.

**EQUITY BUILDING SOCIETY
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2002**

	NOTES	2002 Kshs	2001 Kshs
INCOME			
Interest earned	1(b) and 3	278,853,724	175,487,646
Less: Interest expense	4	<u>(81,582,128)</u>	<u>(70,914,438)</u>
Net interest income		<u>197,271,596</u>	<u>104,573,208</u>
OTHER INCOME			
Commission and other income	5	<u>170,477,054</u>	<u>125,003,410</u>
		<u>170,477,054</u>	<u>125,003,410</u>
TOTAL OPERATING INCOME		<u>367,748,650</u>	<u>229,576,618</u>
EXPENSES			
Management expenses	6	191,399,064	131,111,165
Depreciation	20	40,036,563	32,022,294
Loans provision		<u>25,311,625</u>	<u>12,002,664</u>
TOTAL OPERATING EXPENSES		<u>256,747,252</u>	<u>175,136,123</u>
PROFIT BEFORE TAXATION	7	111,001,398	54,440,495
TAXATION	8	<u>(36,763,273)</u>	<u>(22,846,545)</u>
PROFIT AFTER TAX		74,238,125	31,593,950
Proposed dividend	15	<u>(10,572,389)</u>	<u>(10,165,789)</u>
RETAINED PROFIT FOR THE YEAR	18	<u>63,665,736</u>	<u>21,428,161</u>
Earnings per share	23	<u>10.50</u>	<u>5.36</u>

The notes on pages 12-21 form part of these accounts.

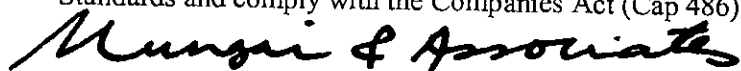
**AUDITORS' REPORT
TO THE INVESTMENT SHAREHOLDERS OF EQUITY BUILDING SOCIETY**

We have audited the financial statements set out on pages 8 to 21 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 includes 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 provides a reasonable basis for our opinion.

In our opinion, proper books of accounts 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 2002 and of its profit and cash flows for the year then ended in accordance with International Accounting Standards and comply with the Companies Act (Cap 486).



MUNGAI & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS OF KENYA

P.O. BOX 42502

NAIROBI

Date: 7 FEBRUARY, 2003

EQUITY BUILDING SOCIETY

STATEMENT OF DIRECTORS' RESPONSIBILITIES

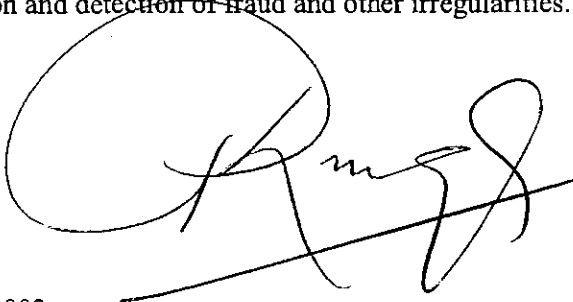
The Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the society at the end of the financial year and of the profit or loss of Equity Building Society for that year. In preparation of the financial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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed;
- Prepare the financial statements on a 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 Act and the Companies Act.

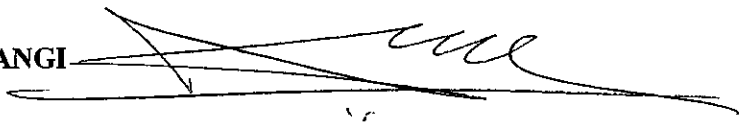
They are also responsible for safeguarding the assets of the society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Director: **P.K. MUNGA**



Date: 30 JANUARY, 2003

Director: **J.K. MWANGI**



Date: 30 JUANUARY, 2003

**EQUITY BUILDING SOCIETY
DIRECTORS' REPORT**

Page 5

The directors have pleasure in presenting their report together with the financial statements for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activities of Equity Building Society are to raise funds through subscription by members, mobilise savings and deposits. These funds are extended as loans, advances, guarantees, mortgages and other credit facilities as prescribed under the Building Societies Act (Cap 489).

TRADING RESULTS

Equity Building Society's trading results are reflected on page 8.

DIVIDENDS

The directors recommend a dividend of Kshs.1.00 per ordinary share held to be paid on or about 31 March 2003.

TRANSFER TO RESERVES

The profit attributed to the shareholders amounted to Kshs. 74,238,125 out of which a dividend of Kshs. 10,572,389 has been proposed and a balance of Kshs. 63,665,736 transferred to revenue reserves.

DIRECTORS

The directors who held office during the year 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

AUDITORS

The auditors M/S Mungai & Associates, Certified Public Accountants of Kenya have indicated their willingness to continue in office in accordance with section 159 (2) of the Companies Act.

BY ORDER OF THE BOARD



ASSOCIATED COMPANY SECRETARIES

DATE: 30 JANUARY, 2003

We further wish to build on our reputation for best practices as documented by MicroSave Africa in the Equity Building Society study "Understanding the Rebirth of Equity Building Society" by Prof. G. Cotzee of South Africa and our international appraisal and rating report by Planet Finance of France dated 30th June 2001. This is by commissioning a further internal appraisal and rating by either Micro rate or Planet Finance during the year 2003.

Shareholding

Equity Building Society has found it necessary to open its doors for shareholding to International Development Partners in order to enhance competitiveness and accelerate growth. To this end, discussions are at an advanced stage for Africap to invest Kshs. 120 million, hopefully by April 2003, which will give them a stake of nearly 16% in our institution.

Human Resources

In order to implement the vision outlined above, our organization has hired highly experienced and professional managers to head Human Resources, Information Technology, Finance and Audit Risk Management Departments.

APPRECIATION

The excellent performance of Equity Building Society in a depressed economy could not have been possible without the full support of my fellow Directors, Management and Staff. The loyalty, confidence and advocacy of our customers provided the building blocks for the rapid growth while our development partners provided the much-needed technical and financial support.

On behalf of the Board and Shareholders I wish to thank Equity's management for their visionary leadership and the staff, for their commitment, integrity and professionalism. It is my sincere hope that we will all dedicate ourselves to the calling of empowering our customers thus making the year 2003 yet another great success.

P.K. MUNGA
CHAIRMAN

activities in the rural areas by encouraging good crop husbandry. In tea farming, we sponsor a trophy and cash prizes for the best 3 tea farmers in each of the tea factories in our regions of operation during the annual field days.

STRATEGIC POSITIONING

Equity perceives a unique opportunity to further consolidate itself as the leading and preferred micro finance services provider. We hope to increase our edge on customer service through staff training and enhancement of our culture of efficiency and customer care.

With the support of our development partner, DFID, we hope to increase outreach in the rural areas by taking banking services to the people through the Village Cell Mobile Banking. DFID's support would further be utilized to consolidate institutional growth by developing a 3-year road map for capacity building.

MicroSave Africa on the other hand will enhance our market-led approach to business, through product refinement and development. This will in turn increase our market research capability aimed at achieving our pursuit for excellence in customer satisfaction. With their support we hope to roll out Jijenge Savings Account and a Sako Plus Loan Account in the near future.

Swiss Contact, our other development partners, continue to support our initiatives to increase productivity by assisting us to re-map and review all our processes, procedures and policies. This exercise will ultimately create a customer friendly working environment.

The position of Equity as a learning destination will further be strengthened through enhanced collaboration with MicroSave Africa, Action Research Partners, exposure visits by senior staff to leading, like-minded International Micro Finance Institutions while at the same time strengthening its participation in membership to Global Network of Banking Innovations (GNBI), Women World Banking (WWB), Association of Micro Finance Institutions (AMFI), African Rural Agricultural Credit Associations (AFRACA), Kenya Institute of Bankers (KIB) and Kenya Association of Building Societies & Housing Finance Institutions (KABS).

FUTURE OUTLOOK

With the peaceful and successful transition election, the future of the Kenyan economy is very promising. This is evident with the new government's focus on infrastructure rehabilitation, social-economic development of the population through affordable health care and free primary education, fight against corruption and further liberalization. The recovery will be accelerated by the anticipated foreign investment, multilateral donor support and resumption of budgetary and development funding by the World Bank and International Monetary Fund. Further, with the anticipated integration of the East African economies, the wider COMESA market and the NEPAD initiative, many Kenyans share the optimism for a better future.

To consolidate our position as the leading Micro Finance Institution in Kenya we plan to open three additional branches during the year at strategic locations to increase our market share and expand outreach to the economically active poor who are currently un-banked.

To compete more effectively with other financial services providers and offer excellent service, plans are at an advanced stage to install a Wide Area Network (WAN) connectivity of all our branches via VISAT satellite technology.

EQUITY BUILDING SOCIETY

CHAIRMAN'S STATEMENT

It is with much pleasure that I present the annual report and financial statement of Equity Building Society for the year ended 31st December 2002.

REVIEW OF THE OPERATING ENVIRONMENT

The prolonged recession continued to impact negatively on the economy with many organizations closing, downsizing, restructuring and retrenching their staff. Failure to comply with the conditionalities by the World Bank and the International Monetary Fund meant continued withholding of the much-needed funds. The withholding of donor support saw further deterioration of infrastructure, increased national poverty with nearly 60% of the population living below the poverty level.

The election fever towards the end of the year created an environment of uncertainty, eroding investor confidence. These factors combined, adversely affected the Kenyan economy which continued to perform poorly with a GDP growth rate of less than 1%.

MISSION AND VISION

Equity's mission is "To mobilise and efficiently utilise resources to economically empower its customers and other stakeholders by providing value adding superior financial solutions". With the positioning of an efficient, listening and caring financial partner, Equity continues to pursue its vision of "being the leading and preferred micro finance services provider".

The mission and vision is well internalized and shared by the Directors, Management and Staff.

RESULTS

Despite the recession in the economy, I am happy to report that Equity recorded excellent results during the year under review. Profits before tax went up by 104% to a total of Kshs. 111 million. Customer deposits on the other hand grew by 35% to a total of Kshs. 2.1 billion. Loans and advances grew by 47% to reach a gross of Kshs. 1.1 billion. Total assets grew by 37% to reach Kshs. 2.6 billion.

STABILITY

The stability of Equity continues to be guaranteed by the stable and diversified customer base leading to a high quality loan portfolio. Equity maintained a high liquidity ratio of over 50% throughout the year. The stability is further strengthened by stringent internal control systems, risk management and membership to the deposit protection fund which insures customer deposits.

OUTREACH

We opened the 13th Branch, Tom Mboya, in Nairobi in January 2002. Equity is now a safe and secure place for over 155,000 depositors and 41,000 borrowers.

COMMUNITY WORK

Equity has continued to be a socially responsible organization with active involvement in community development work. We continue to offer Pre-university employment to the top KCSE student in each of the districts of operation. We also support agricultural

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

Notice is hereby given that the Annual General Meeting of Equity Building Society will be held at Fourway Towers, 9th Floor on Monday 17 March 2003 at 10.00 a.m. to transact the following business:

1. To read the notice convening the meeting.
2. To receive and adopt the audited financial statements for the year ended 31 December 2002 together with the Directors' and Auditors' reports thereon.
3. To confirm a dividend of Kshs.1.00 per share proposed by the Directors.
4. To consider and approve proposed amendments to the rules of the Society by a special resolution.
5. To elect directors.

The following directors retire by rotation in accordance with Rule 45 of the Society's constitution and being eligible offer themselves for re-election:

Mr. B.I. Wairegi

Mr. E.K. Kimani

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

Date 30 JANUARY, 2003

NOTE:

A shareholder willing to attend the meeting is requested to bring along the necessary identification documents together with the original share certificate.

A shareholder entitled to attend and vote at the meeting is also entitled to appoint a proxy to attend and vote on his/her behalf. A proxy need not be a shareholder of Equity. To be valid, a proxy form which is provided with this report must be duly completed by the shareholder and lodged at the registered office of Equity Building Society, Fourway Towers, 9th floor, P.O. Box 75104, Nairobi or posted in time to reach the Secretary not later than 48 hours before the time fixed for the meeting.