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EQUITY BUILDING SOCIETY  
ANNUAL REPORT & FINANCIAL STATEMENT

31 DECEMBER 2003

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## EQUITY BUILDING SOCIETY

FOR THE YEAR ENDED 31 DECEMBER 2003

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**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 Tuesday, 16th March 2004 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 statement for the year ended 31 December 2003 together with the Directors' and Auditors' reports thereon.
- 3 To confirm a dividend of Kshs. 1.50 per share proposed by the Directors.
- 4 To elect directors.

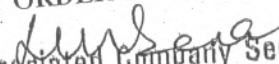
The following directors retire by rotation in accordance with Rule 47 of the Society's constitution and being eligible offer themselves for re-election.

Mr. F.M. Muchoki  
Prof. S.M. Kimenyi

In accordance with Rule 45 of the Society's constitution, one other Director, Mr. Stefan Harpe, elected on 13th August 2003 offers himself for election.

- 5 To reappoint Mungai & Associates, Certified Public Accountants as auditors and authorise the directors to fix their remuneration.
- 6 To transact any other business that may be legally transacted at the meeting.

**BY ORDER OF THE BOARD**

  
Associated Company Secretaries  
Certified Public Secretaries  
**ASSOCIATED COMPANY SECRETARIES**

Date 20 February 2004

**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 75104-00200, Nairobi or posted in time to reach the Secretary not later than 48 hours before the time fixed for the meeting.

## **CHAIRMAN'S STATEMENT**

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It is with great pleasure that I present the annual report and financial statement of Equity Building Society for the year ended 31<sup>st</sup> December 2003.

### **EQUITY MARKS 20 YEARS**

Equity celebrated 20 years of building the Kenyan Nation through provision of a wide range of financial services. During the year, AfriCap, a fund of IFC and European Investment Bank among other international investors, invested 16% shareholding in Equity.

Equity also started offering Western Union Money Transfer services thus expanding its product range.

### **REVIEW OF THE OPERATING ENVIRONMENT**

The Kenyan economy has been experiencing economic recession during the last 6 years. There was also no significant growth in the economy during the year that has just ended. Over the past year the government's focus has been on infrastructure rehabilitation, social-economic development of the population through affordable health care and free primary education, fight against corruption, constitutional review process and further liberalization.

In the latter half of the year, the economic recovery started on a positive note following the resumption of budgetary and development funding by World Bank and International Monetary Fund. The agricultural sector also showed signs of recovery. The government efforts on economic recovery did not have a significant impact but it is hoped that there will be noticeable economic growth in the ensuing years.

### **MISSION STATEMENT**

To mobilize resources to maximize value and economically empower the MicroFinance clients and other stakeholders by offering customer-focused quality financial services and solutions.

### **VISION**

To be the leading and preferred MicroFinance services provider.

This is enhanced and made live by the positioning statement of being the listening, caring, financial partner.

### **STABILITY**

The stability of Equity continues to be guaranteed by stringent internal control systems, risk management and membership to the deposit protection fund which insures customer deposits. The stability is further strengthened by the diversified customer base leading to a high quality portfolio.

## OUTREACH

Equity opened three new branches, in Nakuru, Meru and Mama Ngina Street, Nairobi, and the mobile branch network increased from 24 to 30 units. The number of depositors increased by 62% and borrowers by 57%. With a network of 15 branches and 30 mobile units coupled with the expectation of opening other new branches in Nyahururu, Embu and Nairobi in the next financial year, Equity will continue to avail affordable banking services to the people.

## PERFORMANCE HIGHLIGHTS

- Profit before tax increased by 29% compared to last year to stand at Ksh 142.7 Million.
- Customer deposits stood at Ksh 3.37 Billion representing an increase of 54%.
- The number of depositors increased by 62%.
- Loans and advances increased by 43% to reach a net of Ksh 1.6 Billion.
- The number of borrowers increased by 57%.
- Total assets increased by 52% to stand at Ksh 3.9 Billion.
- Equity maintained a liquidity ratio of 53% throughout the year. The liquidity ratio on the reporting date was 59% against a statutory minimum requirement of 20%.

## SOCIAL RESPONSIBILITY

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

## SHAREHOLDING

Equity has 2,469 Kenyans owning 84% shareholding while AfriCap Fund, which represents IFC and European Investment Bank among other investors, owns 16%. This broad-based ownership has facilitated management accountability which is largely responsible for the success of Equity.

## STRATEGIC POSITIONING

As an indigenous Kenyan banking institution, Equity is in the frontline in enabling Kenyans implement the president's call of making Kenya a working nation.

Equity is recognized as the leading MicroFinance institution in Kenya. On the international scene Equity has been recognized and quoted in the World Bank book "MicroFinance Revolution Volume IIF" as one of the key players in MicroFinance.

Equity through its membership with the Global Network for Banking Innovation (GNBI) that is coordinated by the Women's World Banking (WWB) is in the league of the top MicroFinance institutions that are impacting positively to the industry worldwide. To further enhance our strategic position, Equity partners with DFID, Swiss Contact, MicroSave and many more.

## **FUTURE OUTLOOK**

With the new government having entered its second year, we are optimistic of having a promising year 2004 with the focus in the agricultural sector especially dairy, pyrethrum, wheat, maize and coffee. We envisage enhancing our partnership with customers in this sector to help them realize their dreams.

During the year, we opened 3 new branches. To further increase our outreach and provide financial services to other areas considered under-banked, Equity plans to open additional branches and mobile units in Nyahururu, Embu and Nairobi. To support this growth and help create employment, we employed 139 additional staff in the year that has just ended and expect to employ a similar number this year.

To maintain our leading position in the MicroFinance Industry and enhance customer service, we are in the process of connecting all our branches via Wide Area Network in the very near future.

## **APPRECIATION**

The excellent performance of Equity Building Society could not have been possible without the support of my fellow Directors 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 staff for their visionary leadership, commitment, integrity and professionalism. It is my sincere hope that we will continue living our mission and vision thus making the year 2004 yet another great success.

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

**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 2003.

**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. 1.50 per ordinary share held to be paid on or about 31 March 2004.

**TRANSFER TO RESERVES**

The profit attributed to the shareholders amounted to Kshs. 97,312,934 out of which a dividend of Kshs. 18,858,584 has been proposed and a balance of Kshs. 78,454,350 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  
Mr. Stefan Harpe (elected on 13th August 2003)  
Prof. Maria Otero (alternate to Stefan Harpe)

**AUDITORS**

The auditors 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  
Certified Public Secretaries  
ASSOCIATED COMPANY SECRETARIES

Date: 5 February 2004

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act requires the directors to prepare financial statements for each financial year that 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;

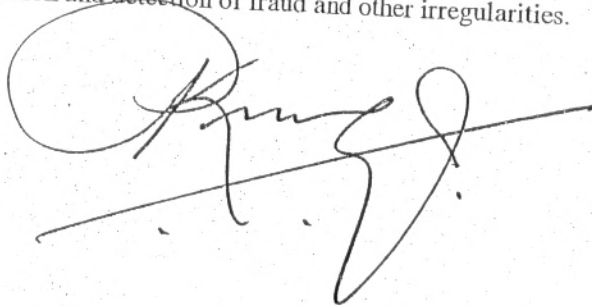
- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed;
- Prepare the financial statements on a going concern basis;

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: 5 February 2004



Director: J.K. MWANGI

Date: 5 February 2004





**AUDITORS' REPORT**

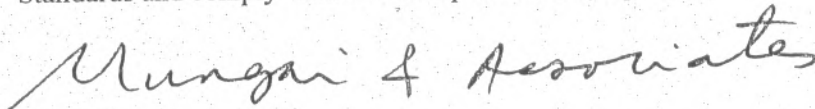
**TO THE INVESTMENT SHAREHOLDERS OF EQUITY BUILDING SOCIETY**

We have audited the financial statements set out on pages 8 to 23 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 the 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 2003 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 42844 - 00100, GPO**  
**Nairobi**

**Date:** 6 February 2004

EQUITY BUILDING SOCIETY  
 PROFIT AND LOSS ACCOUNT  
 FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 Kshs	2002 Kshs
<b>INCOME</b>			
Interest earned	1(b) and 2	324,428,615	278,853,724
Less: Interest expense	3	<u>(67,855,107)</u>	<u>(81,582,128)</u>
Net interest income		<u>256,573,508</u>	<u>197,271,596</u>
<b>OTHER INCOME</b>			
Commission and other income	4	<u>306,428,856</u>	<u>170,477,054</u>
		<u>306,428,856</u>	<u>170,477,054</u>
<b>TOTAL OPERATING INCOME</b>		<u><b>563,002,364</b></u>	<u><b>367,748,650</b></u>
<b>EXPENSES</b>			
Management expenses	5	319,049,110	191,399,064
Depreciation	19	50,711,025	40,036,563
Loans provision		<u>50,585,228</u>	<u>25,311,625</u>
<b>TOTAL OPERATING EXPENSES</b>		<u><b>420,345,363</b></u>	<u><b>256,747,252</b></u>
<b>PROFIT BEFORE TAXATION</b>	6	<b>142,657,001</b>	<b>111,001,398</b>
<b>TAXATION</b>	7	<u>(45,344,067)</u>	<u>(36,763,273)</u>
<b>PROFIT AFTER TAX</b>		<b>97,312,934</b>	<b>74,238,125</b>
Proposed dividend	14	<u>(18,858,584)</u>	<u>(10,572,389)</u>
<b>RETAINED PROFIT FOR THE YEAR</b>	17	<u><b>78,454,350</b></u>	<u><b>63,665,736</b></u>
Earnings per share	22	<u><b>11.35</b></u>	<u><b>10.50</b></u>

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

**EQUITY BUILDING SOCIETY**  
**BALANCE SHEET AS AT 31 DECEMBER 2003**

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	Note	2003 Kshs	2002 Kshs
<b>ASSETS</b>			
Cash and Bank Balances		451,469,289 ✓	243,622,784
Deposits with Banks	8	702,984,208	449,345,409
Treasury Bills	8	-	454,370,111
Treasury Bonds	8	870,085,303	-
Other Debtors	9	39,968,461 ✓	46,238,020
Taxation Recoverable	13	1,579,954	(75,979)
Loans and Advances	10	1,606,723,038	1,120,986,401
Fixed Assets	19	<u>251,136,128</u>	<u>260,948,583</u>
<b>TOTAL ASSETS</b>		<b><u>3,923,946,381</u></b>	<b><u>2,575,435,329</u></b>
<b>LIABILITIES</b>			
Customer Deposits	11	3,368,588,854	2,191,544,681
Short Term Liabilities	12	<u>77,156,179</u>	<u>49,985,024</u>
		<b><u>3,445,745,033</u></b>	<b><u>2,241,529,705</u></b>
<b>CAPITAL EMPLOYED</b>			
Subscribers' and Investment Capital	15	62,861,945	52,861,945
Share Premium	16	144,485,885	34,485,885
Revenue reserves	17	200,657,980	122,203,630
Capital Reserve	18	51,336,954	113,781,775
Proposed dividend	14	<u>18,858,584</u>	<u>10,572,389</u>
		<b><u>478,201,348</u></b>	<b><u>333,905,624</u></b>
<b>TOTAL LIABILITIES &amp; CAPITAL EMPLOYED</b>		<b><u>3,923,946,381</u></b>	<b><u>2,575,435,329</u></b>

The accounts set out on pages 8 to 21 were approved by the Board of Directors on 5 February 2004 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  
STATEMENT OF CHANGES IN EQUITY  
AS AT 31 DECEMBER 2003

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	Share Capital Kshs	Revaluation Reserve Kshs	Share Premium Kshs	Retained Profit Kshs	Grant Capital Kshs	Borrowing & Forfeited shares Kshs	Dividend Kshs	Total Kshs
Balance at 1 January 2003	52,861,945	81,461,684	34,485,885	122,203,630	30,549,715	1,770,376	10,572,389	333,905,624
Retained profit for the year				78,454,350				78,454,350
Grant capital received					19,016,863			19,016,863
Transfers					1,770,376	(1,770,376)		
Reversal of revaluation		(81,461,684)						(81,461,684)
Premium on sale of shares			110,000,000					110,000,000
Additional shares in the year	10,000,000							10,000,000
Dividend paid							(10,572,389)	(10,572,389)
Proposed dividend							18,858,584	18,858,584
Balance at 31 December 2003	<u>62,861,945</u>	<u>-</u>	<u>144,485,885</u>	<u>200,657,980</u>	<u>51,336,954</u>	<u>-</u>	<u>18,858,584</u>	<u>478,201,348</u>

**EQUITY BUILDING SOCIETY  
CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2003**

	Note	2003 Kshs	2002 Kshs
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	20(a)	<u>871,116,276</u>	<u>347,454,140</u>
Dividend paid		<u>(10,572,389)</u>	<u>(10,165,789)</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of fixed assets		<u>(122,360,249)</u>	<u>(39,318,938)</u>
Proceeds from sale of fixed assets		<u>-</u>	<u>179,255</u>
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>		<u>(122,360,249)</u>	<u>(39,139,683)</u>
<b>FINANCING ACTIVITIES</b>			
Proceeds from sale of shares		<u>120,000,000</u>	<u>12,298,000</u>
Grant Capital		<u>19,016,858</u>	<u>19,900,005</u>
<b>NET CASH INFLOW FROM FINANCING ACTIVITIES</b>		<u>139,016,858</u>	<u>32,198,005</u>
<b>NET CASH INFLOW</b>		<u>877,200,496</u>	<u>330,346,673</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	20(b)	<u>877,200,496</u>	<u>330,346,673</u>

EQUITY BUILDING SOCIETY  
NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2003

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.

(b) Revenue recognition

Income is recognised 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 loan 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).

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

(g) **Retirement benefits obligations**

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

(h) **Taxation**

Taxation on the operating results for the year comprises the current charge and deferred tax. The 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 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 and net balances with banking institutions.

(j) **Comparatives**

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

	Kshs	Kshs
<b>2. INTEREST INCOME</b>		
Loans and advances	259,611,702	224,523,866
Treasury bills	5,325,389	26,154,950
Treasury bonds	31,790,021	-
Placements with banking institutions	<u>27,701,503</u>	<u>28,174,908</u>
	<u><b>324,428,615</b></u>	<u><b>278,853,724</b></u>
<b>3. INTEREST EXPENSE</b>		
Loans	-	(1,580,896)
Deposits	(44,421,485)	(58,411,754)
Savings accounts	<u>(23,433,622)</u>	<u>(21,589,478)</u>
	<u><b>(67,855,107)</b></u>	<u><b>(81,582,128)</b></u>
<b>4. COMMISSION &amp; OTHER INCOME</b>		
Commission & other income	306,428,856	170,391,817
Profit on sale of fixed assets	-	85,237
	<u><b>306,428,856</b></u>	<u><b>170,477,054</b></u>
<b>5. MANAGEMENT EXPENSES</b>		
Salaries and employee benefits	168,620,005	113,093,907
Other management expenses	<u>150,429,105</u>	<u>78,305,157</u>
	<u><b>319,049,110</b></u>	<u><b>191,399,064</b></u>

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

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**6. PROFIT BEFORE TAXATION IS ARRIVED AFTER CHARGING/(CREDITING)**

	2003	2,002
	Kshs	Kshs
Crediting:		
Profit on sale of assets	-	(87,337)
Charging:		
Depreciation		
Directors' salaries - (as executives)	50,711,025	40,036,563
- (as non executives)	21,300,000	18,440,000
Auditors' remuneration	1,740,000	1,730,000
	<u>450,000</u>	<u>450,000</u>

**7. TAXATION**

At 30% on profit for the year as adjusted for tax purposes	44,689,296	36,896,607
Deferred Taxation	<u>654,771</u>	<u>(133,334)</u>
	<u>45,344,067</u>	<u>36,763,273</u>
Accounting profit before taxation	<u>142,657,001</u>	<u>111,001,398</u>
Taxation at corporation tax rate at 30%	42,797,100	33,300,419
Taxation on non-deductible costs and depreciation	<u>2,546,967</u>	<u>3,462,854</u>
	<u>45,344,067</u>	<u>36,763,273</u>

**8. DEPOSITS WITH BANKS AND TREASURY BILLS/BONDS**

**Placements with banks:**

Kenya Commercial Bank Limited	353,537,888	291,876,199
Akiba Bank Limited	206,967,618	73,265,614
The Co-operative Bank of Kenya Limited	100,000,000	50,000,000
Development Bank of Kenya Limited	-	30,000,000
Diamond Trust Bank Limited	40,000,000	-
Interest receivable on placements	<u>2,478,702</u>	<u>4,203,596</u>
	<u>702,984,208</u>	<u>449,345,409</u>

**Government Securities:**

Treasury bonds	810,000,000	-
Treasury bills	-	454,370,111
Interest receivable on Treasury bonds	17,679,775	-
Prepaid premium on Treasury bonds	<u>42,405,528</u>	<u>-</u>
	<u>870,085,303</u>	<u>454,370,111</u>



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

## 9. OTHER DEBTORS

	2003 Kshs	2,002 Kshs
Head office account (items in transit)	19,504,485	29,309,369
Other debtors and prepayments	<u>20,463,976</u>	<u>16,928,651</u>
	<u>39,968,461</u>	<u>46,238,020</u>

## 10. 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 44,660 Loans where the debt does not exceed Kshs. 10,000	78,907,336	51,188,118
On 8,957 Loans where the debt exceeds Kshs 10,000 and does not exceed Kshs. 20,000	126,751,091	69,473,157
On 8,572 Loans where the debt exceeds Kshs 20,000 and does not exceed Kshs. 60,000	276,247,467	129,789,666
On 952 Loans where the debt exceeds Kshs 60,000 and does not exceed Kshs. 100,000	73,559,515	34,195,011
On 559 Loans where the debt exceeds Kshs 100,000 and does not exceed Kshs. 150,000	65,878,472	44,079,454
On 1368 Loans where the debt exceeds Kshs. 150,000	<u>1,093,276,075</u>	<u>850,088,662</u>
	<u>1,714,619,956</u>	<u>1,178,814,068</u>

## b) Loans and advances - gross

Less:

Provision for Loans

Specific

General

Suspended interest

Net loans and advances

	1,734,216,114	1,189,291,509
	(47,032,900)	(28,419,906)
	(17,530,296)	(11,889,047)
	<u>(62,929,879)</u>	<u>(27,996,155)</u>
	<u>1,606,723,039</u>	<u>1,120,986,401</u>

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

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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 62,929,879. 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.

	2003 Kshs	2,002 Kshs
d) Other Loans		
Staff loans		
	<u>19,596,156</u>	<u>10,477,441</u>

11. CUSTOMERS' DEPOSITS

Savings accounts	2,539,316,910	1,493,286,059
Fixed term deposits	811,717,361	648,879,265
Interest payable	<u>17,554,583</u>	<u>49,379,357</u>
	<u>3,368,588,854</u>	<u>2,191,544,681</u>

12. SHORT-TERM LIABILITIES

<i>Other creditors and accruals</i>	11,835,739	20,457,460
<i>Unearned income on loans</i>	<u>65,320,440</u>	<u>29,527,564</u>
	<u>77,156,179</u>	<u>49,985,024</u>

13. TAX RECOVERABLE

Provision for taxation	44,689,296	36,896,607
Balance brought forward	(2,103,393)	-
Taxation paid in the year	<u>(47,000,000)</u>	<u>(39,000,000)</u>
Tax payable	(4,414,097)	(2,103,393)
Deferred taxation	<u>2,834,143</u>	<u>2,179,372</u>
	<u>(1,579,954)</u>	<u>75,979</u>

14. DIVIDEND PER SHARE

Dividend	18,858,584	10,572,389
Subscribers' capital and investment	<u>12,572,389</u>	<u>10,572,389</u>
Dividend per share	<u>1.50</u>	<u>1.00</u>

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

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15. SUBSCRIBERS' AND INVESTMENT CAPITAL

	Number of shares	Par Value Kshs	2003 Kshs	2002 Kshs
Balance brought forward	10,572,389	5	52,861,945	50,828,945
Shares sold in the year	2,000,000	5	<u>10,000,000</u>	<u>2,033,000</u>
	12,572,389	5	<u>62,861,945</u>	<u>52,861,945</u>

16. SHARE PREMIUM

Balance brought forward	34,485,885	24,220,885
Shares sold- 2,000,000 at Ksh 60 (par value Kshs 5.00)	<u>110,000,000</u>	<u>10,265,000</u>
	<u>144,485,885</u>	<u>34,485,885</u>

17. REVENUE RESERVES

Balance brought forward	122,203,630	58,537,894
Profit for the year	<u>78,454,350</u>	<u>63,665,736</u>
Balance carried forward	<u>200,657,980</u>	<u>122,203,630</u>

18. CAPITAL RESERVES

	Revaluation Kshs	Grant Capital Kshs	Borrowing Shares Kshs	Forfeited Shares Kshs	Total Kshs
Balance brought forward	81,461,685	30,549,715	1,127,195	643,180	113,781,775
Movement in the year	<u>(81,461,685)</u>	<u>20,787,239</u>	<u>(1,127,195)</u>	<u>(643,180)</u>	<u>(62,444,821)</u>
Balance carried forward	<u>-</u>	<u>51,336,954</u>	<u>-</u>	<u>-</u>	<u>51,336,954</u>

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

19. FIXED ASSETS

COST	INVESTMENT IN LEASEHOLD LAND		LAND & BUILDINGS	LEASEHOLD IMPROVEMENTS		MOTOR VEHICLE	OFFICE EQUIPMENT, FURNITURE & FITTINGS	COMPUTERS	VILLAGE CELL BANKING	TOTAL
	Kshs	Kshs		Kshs	Kshs					
At 1 January 2003	65,210,000	61,008,905		39,252,291	22,891,087		94,475,465	71,139,341	7,497,406	361,474,495
Additions	-	-		9,334,863	5,800,070		33,779,707	52,906,839	16,244,271	118,065,750
Work in progress	-	-		2,344,130	-		-	1,950,369	-	4,294,499
Reallocation	(53,941,455)	(27,520,224)		-	-		-	-	-	(81,461,679)
At 31 December 2003	11,268,545	33,488,681		50,931,284	28,691,157		128,255,172	125,996,549	23,741,677	402,373,065
DEPRECIATION										
At 1 January 2003	-	-		15,072,809	13,112,039		30,543,048	41,346,968	451,048	100,525,912
Charge for the year	-	-		4,390,783	4,971,100		12,154,551	24,773,856	4,420,735	50,711,025
At 31 December 2003	-	-		19,463,592	18,083,139		42,697,599	66,120,824	4,871,783	151,236,937
NET BOOK VALUE										
At 31 December 2003	11,268,545	33,488,681		31,467,692	10,608,018		85,557,573	59,875,725	18,869,894	251,136,128
At 31 December 2002	65,210,000	61,008,905		24,179,482	9,779,048		63,932,417	29,792,373	7,046,358	260,948,583

The assets of the society were revalued in year 2000 in respect of investment in leasehold land and land & buildings by Townlands valuers, a registered firm of valuers. The directors have reversed the revaluation in the current year as property market has remained depressed.

**EQUITY BUILDING SOCIETY  
 DETAILED INCOME AND EXPENDITURE ACCOUNT  
 FOR THE YEAR ENDED 31 DECEMBER 2003**

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	2003 Kshs	2002 Kshs
<b>20. NOTES TO THE CASH FLOW STATEMENT</b>		
a) Reconciliation of operating profit to net cash inflow from operating activities		
Profit before tax	142,657,001	111,001,398
Depreciation	50,711,025	40,036,563
Profit on sale of assets	-	(85,237)
Decrease/(Increase) in interest receivable and other assets	6,269,559	(5,301,866)
(Increase) in loans and advances	(485,736,637)	(359,401,726)
Increase in deposits received	1,177,044,173	560,861,325
Increase in interest payable and other liabilities	27,171,155	39,412,059
Taxation paid	<u>(47,000,000)</u>	<u>(39,068,376)</u>
Net cash inflow from operating activities	<u>871,116,276</u>	<u>347,454,140</u>
b) Analysis of cash and cash equivalents		
	<b>Change</b>	
Cash and bank balances	207,846,505	451,469,289
Deposits and balances due from banks	253,638,799	702,984,208
Treasury bonds	870,085,303	870,085,303
Treasury bills	<u>(454,370,111)</u>	<u>454,370,111</u>
	<u>877,200,496</u>	<u>2,024,538,800</u>
		<u>1,147,338,304</u>
<b>21. RELATED PARTY TRANSACTIONS</b>		
In the normal course of business, the following transactions were carried on at arm's length.		
Staff loans and advances	<u>19,596,156</u>	<u>10,477,441</u>
<b>22. EARNINGS PER SHARE</b>		
Net profit for the year before taxation	142,657,001	111,001,398
Number of shares	<u>12,572,389</u>	<u>10,572,389</u>
Earnings per share	<u>11.35</u>	<u>10.50</u>
<b>23. INCORPORATION</b>		
The society is incorporated under the Building Societies Act (Cap 489).		
<b>24. CURRENCY</b>		
The accounts are presented in Kenya Shillings (Kshs.).		

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

**25. 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 2003 to the contractual maturity dates.

	Up to 1 month Kshs	1-12 months Kshs	Over 1 year Kshs	Total Kshs
<b>ASSETS</b>				
Cash and balances with Central Bank	451,469,289	-	-	451,469,289
Deposits with banks	554,879,173	145,626,333	-	700,505,506
Treasury bonds	-	-	810,000,000	810,000,000
Taxation	-	1,579,954	-	1,579,954
Other debtors	-	60,126,938	-	60,126,938
Loans and advances	192,138,004	568,897,014	42,405,528	1,063,440,546
Fixed assets	-	-	845,688,020	845,688,020
			251,136,128	251,136,128
<b>TOTAL ASSETS</b>	<b>1,198,486,466</b>	<b>776,230,239</b>	<b>1,949,229,676</b>	<b>3,923,946,381</b>
<b>LIABILITIES</b>				
Customer deposits	605,535,146	206,182,215	2,539,316,910	3,351,034,271
Short term liabilities	-	94,710,762	-	94,710,762
	<b>605,535,146</b>	<b>300,892,977</b>	<b>2,539,316,910</b>	<b>3,445,745,033</b>
<b>CAPITAL EMPLOYED</b>				
Subscribers' and investment capital	-	-	62,861,945	62,861,945
Share premium	-	-	144,485,885	144,485,885
Revenue reserves	-	-	200,657,980	200,657,980
Capital reserves	-	-	51,336,954	51,336,954
Proposed dividend	-	18,858,584	-	18,858,584
		<b>18,858,584</b>	<b>459,342,764</b>	<b>478,201,348</b>
<b>TOTAL LIABILITIES &amp; CAPITAL EMPLOYED</b>	<b>605,535,146</b>	<b>319,751,561</b>	<b>2,998,659,674</b>	<b>3,923,946,381</b>
<b>NET LIQUIDITY GAP</b>	<b>592,951,320</b>	<b>456,478,678</b>	<b>(1,049,429,998)</b>	<b>-</b>

26. 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 2003 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
<b>ASSETS</b>					
Cash and balances with Central Bank				451,469,289	451,469,289
Deposits with banks	554,879,173	145,626,333	-		700,505,506
Treasury bonds	-	810,000,000	-	-	810,000,000
Sundry debtors	-	20,158,477	-	75,915,969	96,074,446
Taxation	-	-	-	1,579,954	1,579,954
Loans and advances	192,138,004	568,897,014	845,688,020	-	1,606,723,038
Computer stationery stocks	-	-	-	6,458,020	6,458,020
Fixed assets	-	-	-	251,136,128	251,136,128
<b>TOTAL ASSETS</b>	<b>747,017,177</b>	<b>1,544,681,824</b>	<b>845,688,020</b>	<b>786,559,360</b>	<b>3,923,946,381</b>
<b>LIABILITIES</b>					
Customer deposits	605,535,146	206,182,215	2,539,316,910	-	3,351,034,271
Short term liabilities	-	17,554,583	-	77,156,179	94,710,762
<b>CAPITAL EMPLOYED</b>	<b>605,535,146</b>	<b>223,736,798</b>	<b>2,539,316,910</b>	<b>77,156,179</b>	<b>3,445,745,033</b>
Subscribers' and investment capital	-	-	-	62,861,945	62,861,945
Share premium	-	-	-	144,485,885	144,485,885
Revenue reserves	-	-	-	200,657,980	200,657,980
Capital reserves	-	-	-	51,336,954	51,336,954
Proposed dividend	-	-	-	18,858,584	18,858,584
<b>TOTAL LIABILITIES &amp; CAPITAL EMPLOYED</b>	<b>605,535,146</b>	<b>223,736,798</b>	<b>2,539,316,910</b>	<b>555,357,527</b>	<b>3,923,946,381</b>
<b>INTEREST RATE SENSITIVITY GAP</b>	<b>141,482,031</b>	<b>1,320,945,026</b>	<b>(1,693,628,890)</b>	<b>231,201,833</b>	<b>-</b>

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