

## Mission Statement

We mobilize resources and offer credit to maximize value and economically empower the micro-finance clients and other stakeholders by offering customer-focused quality financial services.

## Our Vision

“...to be the preferred micro finance service provider contributing to the economic prosperity of Africa...”

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## Our Core Values

Professionalism  
Integrity  
Creativity and innovation  
Teamwork  
Unity of purpose  
Respect and dedication to customer care  
Effective corporate governance



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The Listening, Caring Financial Partner

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2007/0358  
30/03/2008

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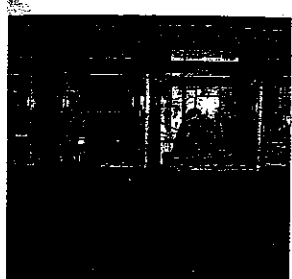
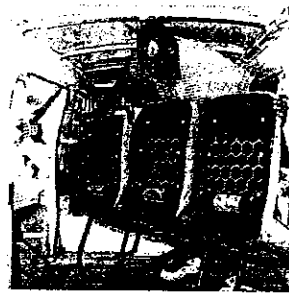
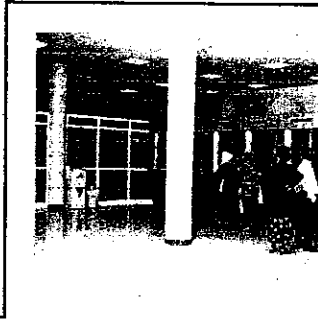
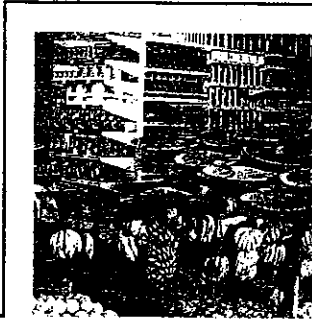
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2007/0358

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### Our Inspiration

That when years turn our vision dim and gray we shall still be seeing beauty in the tired wrinkles of our faces and shall take full comfort in the wisdom and knowledge of the fact that we will have done all that is within our power to achieve our dreams and unlock our full potential.

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**Taking banking services to the people.**



# NOTICE OF ANNUAL GENERAL MEETING



Notice is hereby given that the First Annual General Meeting (AGM) of the shareholders of Equity Bank Limited will be held on Friday 27th May 2005 at Fourway Towers 9th Floor, Muindi Mbingu Street, Nairobi at 10.00 am to transact the following business:

1. To read the Chairman's report.
2. To receive, consider and if thought fit, adopt the Annual Report and Financial Statements for the year ended 31st December 2004 together with the Directors' and Auditors' reports thereon.
3. To approve a dividend for the year 2004 of 40% of paid up capital.
4. To elect Directors:
  - a. Mr P.K. MUNGA retires by rotation in accordance with Article 100 of the Company's Articles of Association and being eligible, offers himself for re-election:
  - b. Mr B.I. WAIREGI retires by rotation in accordance with Article 100 of the Company's Articles of Association and being eligible, offers himself for re-election:
  - c. Mr F.M. MUCHOKI retires by rotation in accordance with Article 100 of the Company's Articles of Association and being eligible, offers himself for re-election:
  - d. Mr ERNEST NZOVU having been appointed as an additional director on 27th January 2005
5. To fix the remuneration of the directors.
6. To note that the auditors Messrs Ernst & Young, being eligible and having expressed their willingness, will continue in office in accordance with section 159 of the Companies Act (Cap 486) and to authorize the directors to fix their remuneration.
7. To transact the following special business:
  - a. To resolve that the Articles of Association of the company be amended as per the draft circulated to shareholders.
  - b. To receive, consider and if thought fit to adopt the report on the proposed listing of the Company on the Nairobi Stock Exchange.
8. Any other business of which notice will have been duly received.

By order of the Board

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Mary W. Wamae  
Company Secretary  
Nairobi, 4th May 2005

## Notes:

1. Any member may by notice duly signed by him or her delivered to the Secretary not less than 2 and not more than 7 days before the day appointed for the AGM propose any other person for election to the Board, such notice to be accompanied by a notice signed by the person proposed of his or her willingness to be elected.
2. A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company. To be valid, a form of proxy must be duly completed by the member and lodged with the Secretary at the Company's Head Office situated in NHIF BUILDING 14TH FLOOR, not later than 10.00 am on Wednesday 25th May 2005 failing which it will be invalid. In case of a corporate body, the proxy must be under its common seal.

## CHAIRMAN'S STATEMENT

On behalf of the Board of Equity Bank, I am greatly honoured to present to you our Annual Report and Financial Statements for the year ended 31st December 2004.

### OVERVIEW OF THE ECONOMY AND BANKING SECTOR

The economic environment continued to improve marginally during the year. Economic indicators showed that the real gross domestic product (GDP) expanded by a higher percentage in 2004 compared to the previous year. The increased activity was partly attributable to favourable weather and rapid growth in tourism. The recovery in tourism is expected to be sustained as Asia reconstructs its facilities following the Tsunami disaster. The statistics also showed that though inflation was high at the beginning of the year it had continued to decline.

We are optimistic that the economy will continue to grow in the coming year. With sustained growth, low interest rates and improvement in infrastructure, the banking sector and our customers are bound to benefit because it is within such an environment that business flourishes.

The Bank plays a key role in the agricultural sector through the disbursement of farm input and crop advance loans, in addition to disbursing payments made to farmers by KTDA, Pyrethrum Board of Kenya, etc. It is in this regard that we will continue to monitor the activities in this sector and the improvement of the support infrastructure.

During the year, there was continued growth in the banking sector with an increase being recorded in total assets and advances. The growth in loans and advances was attributed to the increase in unsecured lending and mortgage financing. There was however, a decline in the



investment in government securities due to low yields which averaged 3% for most part of the year before starting to rise in the fourth quarter. In the currency market, the shilling remained relatively stable against most of the major currencies, only depreciating slightly towards the end of the year. The outlook is that the rate will remain stable owing to stabilizing of world oil prices; release of IMF funds and recovery of the tourism industry.

### BUSINESS OVERVIEW

Year 2004 was a turning point for the business. The climax was the transformation of Equity Building Society to Equity Bank on 31st December 2004, making us Kenya's 44th commercial bank with a capital base of KShs1.3 billion. I would like to take this opportunity to commend the 2469 shareholders of Equity Building Society who unanimously approved the transfer of the Building Society's assets and liabilities to Equity Bank in exchange for its shares.

**"...growing together in trust"**



# CHAIRMAN'S STATEMENT

Before the conversion, Equity Building Society had operated successfully for over 20 years as a building society where it had matured as a key player in the Microfinance sub-sector. The Society's capital base before conversion, of nearly KSh600 million, was way over the Central Bank's statutory minimum requirement of KSh250 million. On conversion, additional capital amounting to KSh725 million was raised, which will be utilised to fund the expansion of the Bank as well as invest in new business operations.

## GOVERNANCE

The Bank made appointments to its Board of Directors as follows:

Peter K. Munga	-Appointed 21 December 2004
James N. Mwangi	-Appointed 21 December 2004
Benson I. Wairegi	-Appointed 21 December 2004
Fredrick M. Muchoki	-Appointed 21 December 2004
Stefan A. Harpe	-Appointed 21 December 2004
Beatrice Sabana	-Appointed 21 December 2004
Julius K. Kipng'etich	-Appointed 21 December 2004
Linus W. Gitahi	-Appointed 21 December 2004
Wanjiku Mugane	-Appointed 21 December 2004
Ernest Nzovu	-Appointed 27 January 2005

I believe the new board members, whose skills and experience is a mix of corporate and public service management, will steer the Bank in the right direction.

## CORPORATE SOCIAL RESPONSIBILITY

During the year, the Bank continued to give back to the communities within which it operates, and the Board is keen to see this continue. As part of our responsibility as a corporate citizen, we have continued our sponsorship of pre-university employment programme for top KCSE

candidates, played a key role in the mass public financial literacy campaign and supported homes and institutions that help the needy and disadvantaged, among others.

## FUTURE OUTLOOK AND STRATEGY

Equity's business model hinges on a clear focus on the market and customer. The success of this model is evident in the growing customer base and profitability of the institution. In view of the increased scope of business, the Bank plans to continue its planned expansion strategy which is aimed at ensuring that as many people as possible are able to access affordable financial services. As part of this strategy you can expect to see new branches being opened, diversification in the products and services offered, and the roll-out of ATMs, all of which we believe will enhance service delivery to our valued customers.

The milestones achieved by the institution over the last couple of years have won accolades and recognition from around the globe. The UN Advisory Board on Year of Micro-credit, while on a visit, singled out for special praise, our mobile banks as a watershed in fostering access to financial services by low-income rural populations. It is for this reason that we look forward to another year in which we shall continue to be innovative in the way we do business.

## APPRECIATION

I would like to extend our appreciation to our customers who have continued to support the business and to whom we owe our success. Our gratitude also goes to the other stakeholders who have continued to offer guidance and support in various ways as the Bank transforms itself into one of the premier financial institutions in the country.

# CHIEF EXECUTIVE'S STATEMENT

The year under review was a challenging one for us as we prepared for the conversion of Equity Building Society into a bank. Following the conversion, international financial reporting standards confine us to publishing the financial statements as outlined on pages 15 to 30.

## PERFORMANCE HIGHLIGHTS

The pre-tax profits grew by 54% to close at KShs218 million up from KShs142 million in 2003;

Total income earned for the year was over KShs1 billion, which is nearly double that recorded the previous year. There was especially significant growth in commission income driven by the growth in volume of business;

Total assets grew by 71% to close at KShs6.7 billion further strengthening the asset base;

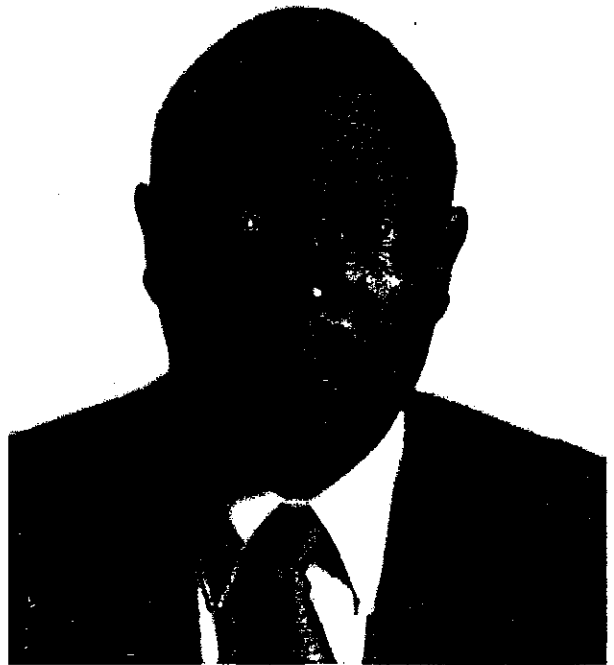
There was commendable growth in both the deposits and the loan portfolio, which closed at KShs5.1 billion and KShs3.1 billion respectively, up from KShs3.4 billion and KShs1.7 billion in 2003. This was supported by the growth in the number of active accounts which closed at over 413,000;

Our liquidity which remained above 60% was prudently utilized to enhance interest income earned from placements and deposits with other banks;

The core capital to total deposits ratio stood at 25%, three times the Central Bank of Kenya (CBK) requirement of 8%, while our capital to risk weighted assets ratio at 33% was also significantly above the CBK requirement of 12%;

The improved results were attributed to an improved loan portfolio quality, enhanced cost control measures and the

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efficiency of service delivery resulting in non funded income growth of over 100%. Also instrumental was the loyalty and support from customers, development partners, and commitment by staff. The results show that the business still has a lot of capacity to grow further.

## OPERATIONS

The Bank continued with its expansion plan during the year, resulting in the opening of six additional branches. The opening of the new branches is meant to tap the potential of some of these areas in addition to increasing outreach. The branches are complimented by a mobile branch network consisting of 46 units whose number will also increase. The mobile branches/ units have been instrumental in penetrating the rural areas thereby ensuring that as many people as possible have access to financial services.

During the past year a lot of emphasis was placed on documenting and streamlining our processes and procedures

**A safe, secure place for your money.**





## CHIEF EXECUTIVE'S STATEMENT

so as to ensure efficiency, standardization and control in the delivery of products and services to customers during the conversion. Other achievements include the networking of the branches via a Wide Area Network (WAN) which resulted in customers being able to deposit or withdraw their money anywhere across the branch network, and in a more efficient way. The connectivity was achieved through the use of the latest microwave and satellite technology.

Following the conversion into a bank we are in the process of introducing new products and services such as current accounts, treasury and trade finance related products e.g. forex accounts, swaps, forwards, letters of credit etc. This will offer our customers a wider range of services which they previously had to source from other banks.

### STAFF

From the year 2002, we have engaged in an aggressive recruitment programme of quality personnel with the requisite banking knowledge and experience to help steer the business forward as we roll out new financial products. The rationale for the drive is borne out of the fact that Equity Bank, like the Building Society before it, remains a people institution managed by professionals. In order to remain competitive we shall not only continue to bring in top professionals, but also invest in training of employees. By the end of the year the staff compliment stood at 530 up from 354 employees at the end of 2003.

### WAY FORWARD

The new status of the Bank, and the overcoming of the legal challenges that limited it from offering a wider range of products and services, gives us more scope for growing the business. However, I wish to stress that the introduction of new products and services will not necessitate any increases in transaction

charges as we hope to leverage on the existing economies of scale, that are expected to improve even further.

Our strategic focus is to grow and align the business on the path of profitability by continuing to deliver value to the customer. As already highlighted, there are plans to roll-out new products and services, open more branches, enhance our Information Technology (IT) systems and infrastructure, and introduce ATMs.

As the volume of the business grows, the Bank intends to use technology as much as possible to ensure that speed, efficiency and risk are managed.

Our business model remains focused on the customer and the market. The Bank's management has identified eight critical success factors that will be the focus in the coming year. These are:

1. Maintaining an organizational culture that values people;
2. Focusing on mobilizing adequate resources;
3. Provision of quality financial services;
4. Maintaining a high quality asset portfolio;
5. Ensuring that there are robust systems and processes in place;
6. Continuing to maximize value to stakeholders;
7. Being market-led and customer focused, and
8. Planned expansion.

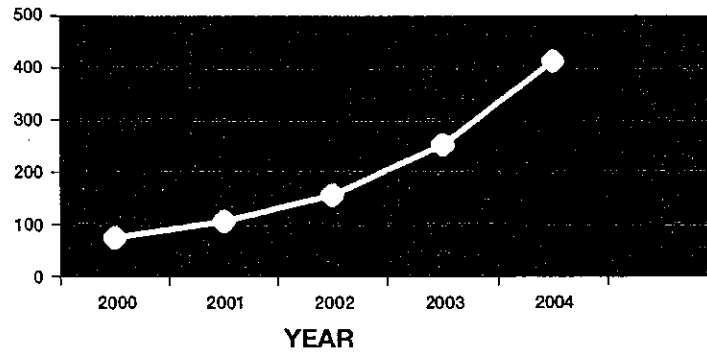
We remain firm on the commitment that our customers, most of whom include small-scale commercial farmers, salary and wage workers, micro, small and medium enterprises, will continue to find us accessible, competitive and affordable.

On behalf of the management, I would like to welcome the new Board of Directors as we look forward to yet another fruitful year.

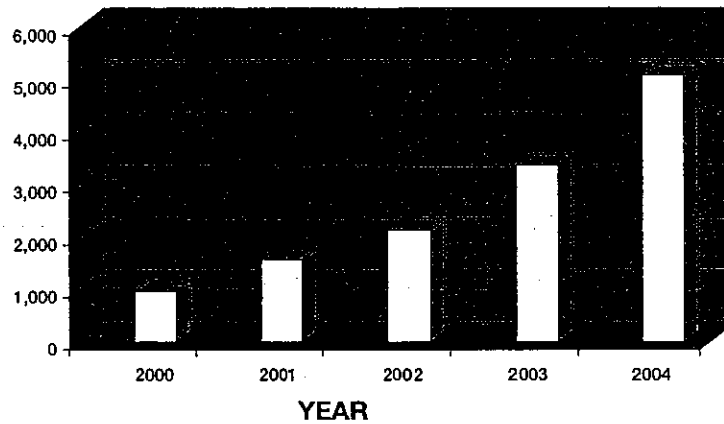
# FINANCIAL HIGHLIGHTS



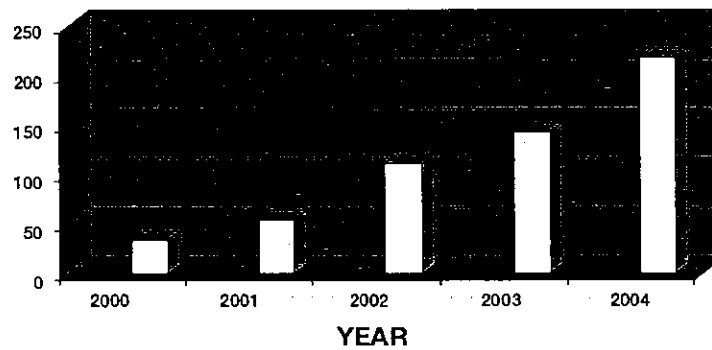
CUSTOMER BASE (thousands)



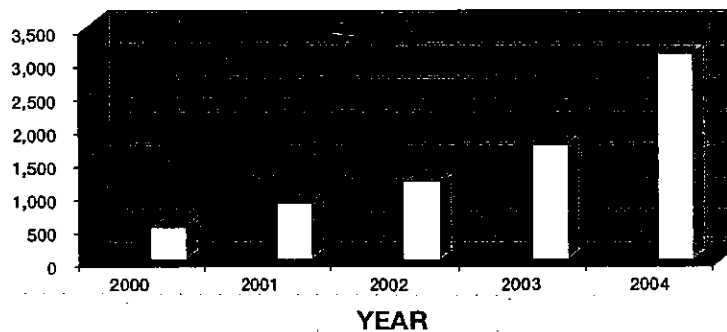
DEPOSITS (KShs million)



PROFIT BEFORE TAX (KShs million)



LOAN PORTFOLIO (KShs million)



“...growing together in trust”

The directors submit their report and the audited financial statements for the year ended 31st December 2004, which show the state of the Bank's affairs.

### I. PRINCIPAL ACTIVITY

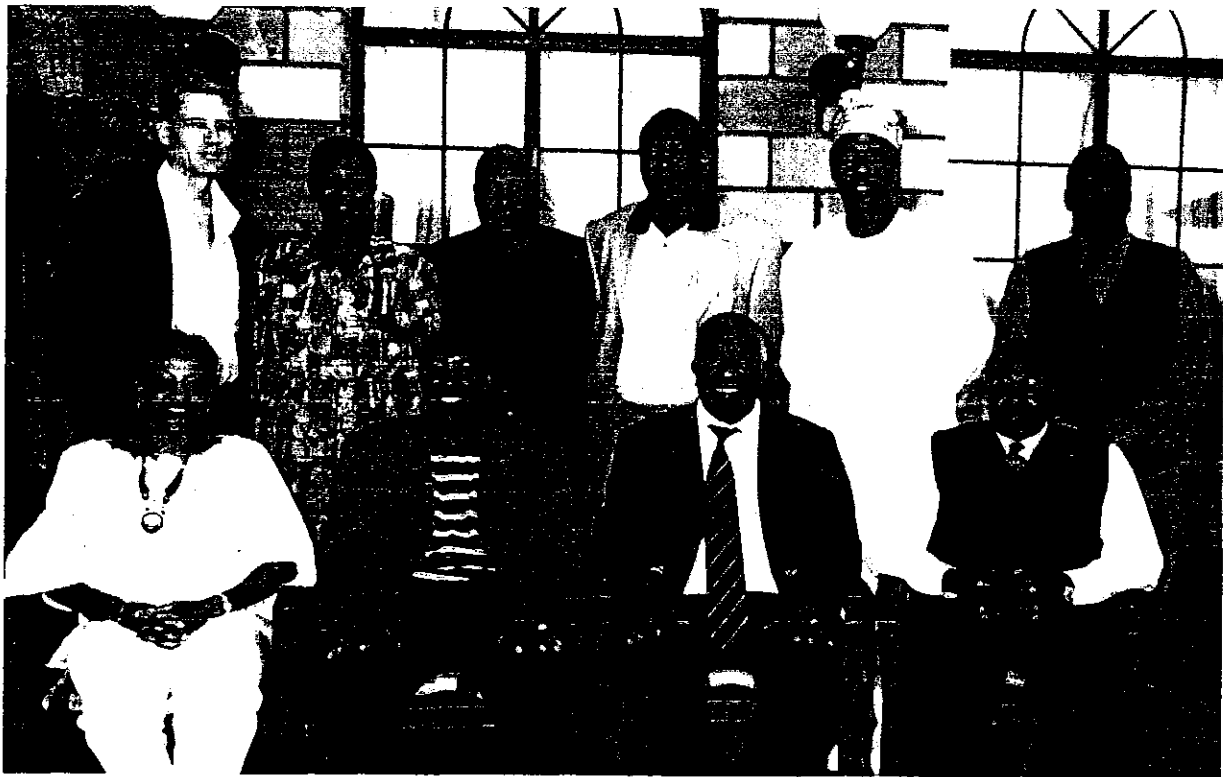
The principal activity of the Bank is to offer retail banking and microfinance services.

The Bank was licensed to operate as a bank with effect from 28th December 2004. Through an extraordinary general meeting held on 24 December 2004, the Bank's shareholders authorized the transfer of all assets, liabilities and the business of Equity Building Society to the Bank with effect from 31st December 2004. The transfer of the assets, liabilities and the business of Equity Building Society was in exchange of shares in the Bank, on a one to one basis.

### 2. TRANSFORMATION OF EQUITY BUILDING SOCIETY TO EQUITY BANK LIMITED

Through a special resolution on 11th December 2004 the members of Equity Building Society approved the sale and transfer of all the business, assets and liabilities of Equity Building Society (EBS) to Equity Bank Limited;

Through a special resolution on 24th December 2004, the shareholders of Equity Bank Limited approved the transfer of all the business, assets and liabilities of Equity Building Society to Equity Bank Limited;



*Top (L-R): Ssefan Harpe, Beatrice Sabana, Frederick Muchoki, James Mwangi, Linus Gitahi, Julius Kipng'etich  
Bottom (L-R): Wanjiku Mugane, Benson Wairegi, Peter Munga, Ernest Nzovu.*

# DIRECTORS' REPORT

The transfer of business, assets and liabilities of Equity Building Society to Equity Bank Limited took effect on the 31st December 2004. (Hereinafter called the "transfer date").

Consequent to the said transfer:

Equity Bank took over all business and assets of Equity Building Society and assumed all liabilities incurred by Equity Building Society up to the Transfer Date.

All existing investing members of Equity Building Society became ordinary shareholders in Equity Bank Limited, each holding shares equivalent to the number of shares previously held by each of them in Equity Building Society.

All debts payable by or to Equity Building Society became debts payable by or to Equity Bank Limited;

All charges, mortgages, guarantees, pledges, bonds and other security documents, contracts, agreements, instruments and transactions entered into by or made in favour of Equity Building Society remain and continue to be valid and in full force and shall at all times be deemed to be held by, issued to, entered into and binding on Equity Bank Limited;

All accounts held in Equity Building Society are deemed to be accounts held in Equity Bank Limited.

### 3. RESULTS AND CASH FLOWS

The Banking license took effect on 28th December 2004 and the shareholders resolved to transfer assets and liabilities effective from 31st December 2004.

Therefore, the Bank did not carry out trading during the year. However the results and cash flows of the Equity Building Society before the transfer are shown on page 25 and page 26 of this report, respectively.

### 4. DIVIDENDS

Subject to the approval of shareholders, the Directors recommend the payment of a dividend for the year of KShs37,717,167, being 40% of the paid-up share capital.

### 5. RESERVES

The reserves of the Bank are set out on page 24 of this report.

### 6. DIRECTORS

The Directors of the Bank at the date of this report are listed out on page 6. The Articles of Association of the Bank provide for rotation of directors.

### 7. AUDITORS

Ernst & Young, who were appointed as auditors during the year in accordance with Section 159(1) of the Companies Act and subject to Section 24(1) of the Banking Act, have expressed their willingness to continue in office.

By Order of the Board

Mary W. Wamae  
Company Secretary  
31st March 2005

# CORPORATE GOVERNANCE STATEMENT

## 1. THE BOARD OF DIRECTORS

The Board of Directors of Equity Bank are committed to conducting the affairs of the Bank with openness, integrity and accountability and in accordance with the highest standards of governance practices. The Board consists of 10 directors, 9 of whom are non-executive and who have a good mix of skills, experience and competencies in various fields of expertise. The selection of directors is on the basis of the skills and expertise and not on shareholding. The full Board meets at least every quarter or as often as business demands.

The board has constituted six Board Committees as follows:

- a) Audit;
- b) ALCO and Risk;
- c) Credit;
- d) Strategy and Investment;
- e) Governance, Board Nomination and Staff Remuneration;
- f) Tendering and Procurement.

These committees provide the overall strategic direction, review performance, take material policy decisions and ensure that the Bank meets its responsibilities to its shareholders and other stakeholders and that the control environment adequately protects the company assets against major risks. Though the day to day running of the Bank is delegated to the management, the board retains overall responsibility.

## 2. INTERNAL CONTROLS

The Bank continues to lay emphasis on regular review of its processes, policies, procedures and structures with a view to ensuring the best performance of the Board, and overall management of the business. The Bank has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information.

Procedures are also in place to ensure that the assets are subject to proper physical control and that the Bank remains structured to ensure appropriate segregation of duties. There are also regular management meetings held to strategise on ways of enhancing and safeguarding the business.

## 3. PERFORMANCE REPORTING

In accordance with the Banking Act and the CBK Prudential Guidelines, the Bank is committed to ensuring that shareholders and other stakeholders are provided with full and timely information about its quarterly performance. The performance of the Bank is regularly discussed by the Board. Performance trends, forecasts and actual performance against budgets are closely monitored. Financial reports are prepared using appropriate accounting policies that are applied consistently.

## 4. ETHICS AND VALUES

The Bank has established core values that have been communicated to all staff. In keeping with the Bank's code of ethics all employees are expected to avoid activities and financial interests, which could conflict with their responsibilities to the company. The welfare of staff and clients is an essential principle of the Bank, which strives to provide all employees and clients with safe working conditions and/or environment. The Bank maintains a policy of equal opportunity of employment for all qualified persons and strives to provide all employees with fair terms of employment.

The Bank is committed to empowering and uplifting the lives of Kenyans and continues to sponsor activities and events that support social causes.

# STATEMENT OF DIRECTORS' RESPONSIBILITIES



**T**he 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 Bank as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure the Bank keeps proper accounting records which disclose, with reasonable accuracy, at any time, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal control.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern in the foreseeable future.

**Peter K. Munga** Chairman

**James Mwangi** Chief Executive Officer

**Mary W. Wamae** Company Secretary

31st March 2005



*Teamwork. Board members deliberate at a recent company event.*

# FINANCIAL STATEMENTS



## BALANCE SHEET AS AT 31st DEC 2004

	Note	2004 KShs.
<b>ASSETS</b>		
Cash and bank balances	2	789,678,494
Placements and balances with other banking institutions	3	1,914,077,698
Treasury bonds	4	578,301,500
Loans and advances to customers	5	2,873,697,859
Other assets	6	119,724,212
Property and equipment	7	408,014,334
Prepaid leases on land	8	4,254,762
Investment property	9	11,268,545
Intangible assets	10	8,402,762
<b>TOTAL ASSETS</b>		<b>6,707,420,166</b>
<b>LIABILITIES</b>		
Deferred tax		8,543,244
Customers' deposits	11	5,081,455,802
Other liabilities	12	334,172,349
Tax payable	13	11,993,954
<b>TOTAL LIABILITIES</b>		<b>5,436,165,349</b>
<b>SHAREHOLDERS' FUNDS:-</b>		
Share capital	14	90,564,545
Reserves	15	1,180,690,272
<b>TOTAL SHAREHOLDERS' FUNDS</b>		<b>1,271,254,817</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<b>6,707,420,166</b>

These financial statements were approved by the Board of Directors on 31st March, 2005 and were signed on its behalf by:-

Peter K. Munga	Chairman
James Mwangi	Chief Executive Officer
Mary W. Wamae	Company Secretary



## FINANCIAL STATEMENTS

### Statement of Changes in Shareholders' Funds for the year ended 31st December 2004

	Share capital KShs.	Share premium KShs.	Capital reserves KShs.	Revenue reserves KShs.	Other reserves KShs	Total KShs.
On initial issue of share capital	27,059,425	698,133,165	-	-	-	725,192,590
On transfer of assets and liabilities from Equity Building Society	63,505,120	144,485,885	50,693,689	299,076,033	(11,698,500)	546,062,227
At 31 December 2004	90,564,545	842,619,050	50,693,689	299,076,033	(11,698,500)	1,271,254,817



# NOTES TO THE FINANCIAL STATEMENTS

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## I. Significant Accounting Policies

### a) Basis of preparation

The financial statements of the Bank have been prepared on the historical cost basis, except for the measurement at fair value of derivative financial instruments and available for sale financial assets.

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) which comprise standards and interpretations approved by the International Accounting Standards Board (IASB).

### b) Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by the employees up to the balance sheet date.

### c) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 91 days of maturity from the date of acquisition, and include cash balances on hand, treasury bills and other eligible bills, amounts due from other banks and trading securities.

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## NOTES TO THE FINANCIAL STATEMENTS

### d) Property and equipment

Property and equipment are stated at cost less accumulated depreciation.

Depreciation is calculated so as to write off the cost of property and equipment, on the straight-line basis, over the estimated useful lives of the property and equipment concerned. The annual rates of depreciation used are as follows:-

Freehold land	Nil
Leasehold land	Rates based on the shorter of the lease term or estimated useful lives
Buildings	2.5%
Furniture and fittings	12.5%
Motor vehicles	25%
Office equipment	12.5%
Computer hardware and software	33.3%
Furnishings	25%
Leasehold improvements	12.5%
Village cell banking	25%

### e) Retirement benefit costs

The Bank contributes to a defined contribution pension scheme for its management staff. The assets of the scheme are held in a separate trustee administered fund that is funded by both the Bank and employees.

The Bank also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are by local statute and are currently limited to KShs. 200 per employee per month

The Bank's contributions to the above schemes are charged to the profit and loss account in the year to which they relate.

### f) Originating loans and provisions for loan impairment

Loans originated by the Bank by providing money directly to the borrower are categorized as loans originated by the Bank and are carried at amortized cost. All loans and advances are recognized when cash is advanced to borrowers.

Specific provision is made against loans and advances considered to be doubtful of recovery. The amount of provisions is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows including amounts recoverable from guarantees and collateral, discounted at the effective interest rate of loans.

A general provision is maintained based on an evaluation of the portfolio of loans and advances in respect of losses, which,

# NOTES TO THE FINANCIAL STATEMENTS

although not specifically identified, are known from experience to be present in any such portfolio. This provision is based on the director's assessment of the risk of non-recovery known to be present in the portfolio of the group advances.

Where a loan or an advance is deemed unrecoverable, it is written off against the related provision for impairments. Subsequent recoveries of amount previously written off are credited to the profit and loss account in the year of recovery.

Loans and advances are stated after deduction of specific and general provisions.

## g) Taxation

Current taxation is provided for on the basis of the results for the year as shown in the financial statements, adjusted in accordance with the tax legislation.

Deferred taxation is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and the unused tax credits can be utilized.

## h) Guarantees, acceptances and letters of credit

Guarantees, acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

## 2. Cash and Bank Balances

	KShs.
Cash in hand	304,830,681
Cash at bank	484,847,813
	<u>789,678,494</u>

## 3. Placements and Balances with other banking institutions

Balances with commercial banks	<u>1,914,077,698</u>
--------------------------------	----------------------

## 4. Treasury Bonds

Cost	590,000,000
Impairment	(11,698,500)
	<u>578,301,500</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 5. Loans and advances

	Kshs.
a) Loans and advances (gross)	3,099,456,144
Provisions for impairment	<u>(225,758,285)</u>
Net loans and advances	<u>2,873,697,859</u>
b) Impaired loans and advances	242,496,000
Provision for impairment (excluding suspended interest)	<u>(130,304,370)</u>
	<u>112,191,630</u>
c) Maturity analysis: -	
- Matured and maturing within 1 year	1,597,555,012
- Maturing after 1 year	<u>1,501,901,132</u>
	<u>3,099,456,144</u>

## 6. Other assets

Interest receivable on placements	17,315,066
Interest receivable on treasury bonds	12,935,726
Other receivables and prepayments	<u>89,473,420</u>
	<u>119,724,212</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 7. Property and Equipment

	Freehold land & buildings	Leasehold improvements	Motor vehicles	Office equipment, furniture & fittings	Computers	Village cell banking vans	Total
	KShs.	KShs.	KShs.	KShs.	KShs.	KShs.	KShs.
<b>COST</b>							
At 31 December 2004	40,340,496	99,617,710	44,708,229	221,049,357	188,929,488	24,478,586	619,123,866
<b>DEPRECIATION</b>							
At 31 December 2004	4,552,066	27,247,691	17,446,963	63,740,161	87,134,070	10,988,581	211,109,532
<b>NET BOOK VALUE</b>							
At 31 December 2004	35,788,430	72,370,019	27,261,266	157,309,196	101,795,418	13,490,005	408,014,334



# NOTES TO THE FINANCIAL STATEMENTS

## 8. Prepaid Leases

	KShs.
COST	
At 31 December 2004	4,588,185
ACCUMULATED AMORTISATION	
At 31 December 2004	333,423
<hr/>	
NET BOOK VALUE	
At 31 December 2004	4,254,762

## 9. Investment Property

This relates to land bought by Equity Building Society, before the Society's assets were taken over by the Bank, for resale to its members. In the view of the directors, if this property is sold in the open market, it would fetch at least the amount shown in the balance sheet.

## 10. Intangible Assets

	KShs.
COST	
At 31 December 2004	25,062,670
ACCUMULATED AMORTISATION	
At 31 December 2004	16,659,908
<hr/>	
NET BOOK VALUE	
At 31 December 2004	8,402,762

These represent computer application software used by the Bank to maintain its records.

# NOTES TO THE FINANCIAL STATEMENTS



## 11. Customers' Deposits

	KShs.
Savings accounts	4,478,979,600
Fixed deposits	595,301,913
Interest payable	7,174,289
	<hr/>
	5,081,455,802

## 12. Other Liabilities

	KShs.
Unearned income	247,398,145
Other creditors and accruals	86,774,204
	<hr/>
	334,172,349

## 13. Tax Payable

KShs. 11,993,954

## 14. Share Capital

Authorized:

50,000,000 ordinary shares of KShs. 5 each. KShs. 250,000,000

Issued and fully paid:

18,112,910 ordinary shares of KShs. 5 each KShs. 90,564,545



## NOTES TO THE FINANCIAL STATEMENTS

### 15. Reserves

	Capital reserves KShs.	Share premium KShs.	Revenue reserves KShs.	Other reserves KShs.	Total reserves KShs.
On transfer of EBS business, assets and liabilities	50,693,689	144,485,885	299,076,033	(11,698,500)	482,557,107
On initial issue of share capital	-	698,133,165	-	-	698,133,165
	50,693,689	842,619,050	299,076,033	(11,698,500)	1,180,690,272

#### (a) Capital reserves

This comprises various reserves transferred from Equity Building Society.

#### (b) Share premium

This relates to the premium paid on issue of shares by the Bank and amounts transferred from Equity Building Society.

#### (c) Revenue reserves

This relates to retained profits transferred from Equity Building Society to the Bank.

#### (d) Others reserves

This relates to diminution of value of treasury bonds taken over by the Bank from Equity Building Society.



# NOTES TO THE FINANCIAL STATEMENTS

## 16. Reserves and Trading Results of Equity Building Society

The results of Equity Building Society before its business, assets and liabilities were transferred to the Bank were as follows:

INCOME	2004	2003
KShs.	KShs.	KShs.
Interest earned	459,141,099	324,428,615
Interest expense	(63,504,212)	(67,855,107)
Net interest income	395,636,887	256,573,508
<b>OTHER INCOME</b>		
Commission and other income	640,120,366	306,428,856
<b>TOTAL OPERATING INCOME</b>	<b>1,035,757,253</b>	<b>563,002,364</b>
<b>EXPENSES</b>		
Management expenses	562,944,040	319,049,110
Depreciation and amortisation	83,671,381	50,711,025
Provision for bad and doubtful debts	170,889,461	50,585,228
	817,504,882	420,345,363
<b>PROFIT BEFORE TAXATION</b>	<b>218,252,371</b>	<b>142,657,001</b>
<b>TAXATION</b>	<b>(82,117,151)</b>	<b>(45,344,067)</b>
<b>PROFIT AFTER TAXATION</b>	<b>136,135,220</b>	<b>97,312,934</b>
<b>PROPOSED DIVIDEND</b>	<b>(37,717,167)</b>	<b>(18,858,584)</b>
<b>RETAINED PROFIT FOR THE YEAR</b>	<b>98,418,053</b>	<b>78,454,350</b>
<b>REVENUE RESERVES AS AT 1 JANUARY 2004</b>	<b>200,657,980</b>	<b>122,203,630</b>
<b>REVENUE RESERVES AS AT 31 DECEMBER 2004</b>	<b>299,076,033</b>	<b>200,657,980</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 17. Cash Flow Statement Of Equity Building Society

The cash flows of Equity Building Society before its business, assets and liabilities were transferred to the Bank were as follows:

	2004 KShs.	2003 KShs.
<b>Cash flows from operating activities</b>		
Net profit before taxation	218,252,371	142,657,001
Adjustments for:-		
Depreciation	83,337,957	50,711,025
Amortisation of prepaid lease	333,424	-
Diminution in value of shares	(11,698,500)	-
Loss on disposal of property and equipment	778,000	-
<b>Operating profit before working capital changes</b>	<b>291,003,252</b>	<b>193,368,026</b>
<b>Working capital changes</b>		
Other assets	(79,755,751)	6,269,559
Loans and advances	(1,266,974,821)	(485,736,637)
Customer deposits	1,712,866,948	1,177,044,173
Other liabilities	219,299,004	27,171,155
<b>Cash generated from operations</b>	<b>876,438,632</b>	<b>918,116,276</b>
Income taxes paid	(60,000,000)	(47,000,000)
<b>Net cash from operating activities</b>	<b>816,438,632</b>	<b>871,116,276</b>
<b>Cash flow from investing activities</b>		
Purchase of property and equipment	(268,253,656)	(122,360,249)
Proceeds from sale of property and equipment	3,000,000	-
Investments	(919,309,687)	(669,353,991)
<b>Net cash flow from investing activities</b>	<b>(1,184,563,343)</b>	<b>(791,714,240)</b>
<b>Cash flow from financing activities</b>		
Proceeds from issue of shares	725,192,500	120,000,000
Grant capital	-	19,016,858
Dividend paid	(18,858,584)	(10,572,389)
<b>Net Cash inflow from financing</b>	<b>706,333,916</b>	<b>128,444,469</b>
<b>Net increase in cash and cash equivalents</b>	<b>338,209,205</b>	<b>207,846,505</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>451,469,289</b>	<b>243,622,784</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>789,678,494</b>	<b>451,469,289</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 18. Central Bank Of Kenya (Amendment) Act 2000

The Kenya Bankers Association (KBA), on behalf of its members, filed an application in the Constitutional Court challenging the operational legality of the Central Bank of Kenya (Amendment) Act 2000 (the Act), which had received assent on 6th August 2001. The Court delivered its judgement on 24 January 2002.

A Decree to confirm the judgement was extracted on 22nd February 2002; the Decree declared that the Act was null and void, unconstitutional and Ultra Vires the Constitution and, therefore, not binding on the members of KBA.

On 17th April 2002, the Attorney General filed an application to vary the Decree on the matter of the Act being Ultra Vires the Constitution. A Consent Order to vary the Decree was granted but soon after challenged by both the Central Bank of Kenya and the KBA. Subsequently to financial year-end, the Central Bank of Kenya withdrew from the court action to challenge the Decree. The matter has yet to be determined in court.

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# NOTES TO THE FINANCIAL STATEMENTS

## 19. Interest Rate Risk

Structural interest rate risk arises when assets and liabilities in the Bank activities have different maturity profiles or repricing dates. The primary source of interest rate risk originating in other banking activities arises from the employment of non-interest bearing liabilities such as shareholders' funds and some current financial instruments. 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 net 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 income in a declining interest rate scenario. The Bank monitors net interest income and market value effects of 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 the Bank at 31st December 2004 based on the earlier of maturity or repricing dates. This is not necessarily indicative of the position at other times. Off balance sheet items do not pose any significant interest rate risk to the Bank.

	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 other banks	-	-	-	789,678,494	789,678,494
Deposits and balances due from other banks	618,964,242	1,295,113,456	-	-	1,914,077,698
Government securities	-	-	578,301,500	-	578,301,500
Loans and advances to customers (net)	298,017,135	1,299,538,012	1,276,142,712	-	2,873,697,859
Property and equipment	-	-	-	408,014,334	408,014,334
Investment property	-	-	-	11,268,545	11,268,545
Intangible asset	-	-	-	8,402,762	8,402,762
Other assets	5,586,713	7,349,013	-	106,788,486	119,724,212
Prepaid Lease on land	-	-	-	4,254,762	4,254,762
<b>Total assets</b>	<b>922,568,090</b>	<b>2,602,000,481</b>	<b>1,854,444,212</b>	<b>1,328,407,383</b>	<b>6,707,420,166</b>
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>					
Customer deposits	208,849,878	380,747,129	4,491,858,795	-	5,081,455,802
Taxation	-	11,993,954	-	-	11,993,954
Other liabilities	-	-	-	342,715,593	342,715,593
Shareholders' funds	-	-	-	1,271,254,817	1,271,254,817
<b>Total liabilities and shareholders' funds</b>	<b>208,849,878</b>	<b>392,741,083</b>	<b>4,491,858,795</b>	<b>1,613,970,410</b>	<b>6,707,420,166</b>
Interest rate sensitivity gap	713,718,212	2,209,259,398	(2,637,414,583)	(285,563,027)	-

# NOTES TO THE FINANCIAL STATEMENTS

## 20. Liquidity Risk Management

The Bank manages the liquidity structure of assets, liabilities and commitments, such that cash flows are appropriately matched to ensure that all funding obligations are met when due. Banking 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 and incorporates known and unanticipated cash needs. The table below analyses maturity profiles of assets and liabilities of the Bank based on the remaining period from 31st December 2004 to the contractual maturity date.

	Up to 1 month KShs.	1-12 months KShs.	Over 1 year KShs.	Total KShs.
<b>ASSETS</b>				
Cash and balances with banks	789,678,494	-	-	789,678,494
Deposits and bank balances due from other banks	618,964,242	1,295,113,456	-	1,914,077,650
Government securities	-	-	578,301,500	578,301,500
Loans and advances to customers (net)	298,017,135	1,299,538,012	1,276,142,712	2,873,697,859
Property and equipment	-	-	408,014,334	408,014,334
Investment property	-	-	11,268,545	11,268,545
Intangible assets	-	-	8,402,762	8,402,762
Other assets	5,586,713	114,137,499	-	119,724,212
Prepaid lease on land	-	-	4,254,762	4,254,762
<b>Total assets</b>	<b>1,712,246,584</b>	<b>2,708,788,967</b>	<b>2,286,384,615</b>	<b>6,707,420,166</b>
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>				
Customers' deposits	208,849,878	380,747,129	4,491,858,795	5,081,455,802
Taxation	-	11,993,954	-	11,993,954
Other liabilities	296,455,182	46,260,411	-	342,715,593
Shareholders' funds	-	-	1,271,254,817	1,271,254,817
<b>Total liabilities</b>	<b>505,305,060</b>	<b>439,001,494</b>	<b>5,763,113,612</b>	<b>6,707,420,166</b>
<b>Net liquidity gap</b>				
At 31 December 2004	1,206,941,524	2,269,787,473	(3,476,728,797)	-

"...growing together in trust"

# NOTES TO THE FINANCIAL STATEMENTS

## 21. Commitments

The Bank had no capital commitments as at 31st December 2004

## 22. Contingent Liabilities

	KShs.
Guarantees and performance bonds	<u>50,923,000</u>
Litigation	<u>5,300,000</u>

The litigation figure above relates to a court ruling against the Bank. The Bank has appealed against the judgment. No provision has been made in the financial statements as the directors and lawyers are of the same view that there are very reasonable chances of succeeding on appeal.

## 23. Employees

The number of employees at the end of the year was 530 (up from 354 in 2003).

## 24. Incorporation

The Bank was incorporated in Kenya on 21st December 2004 under the Companies Act.

## 25. Currency

The financial statements are presented in Kenya Shillings (KShs.).

# BRANCH NETWORK



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## UPCOMING BRANCHES

NAIROBI  
KISUMU  
ELDORET  
MACHAKOS  
KERICHO  
KITALE  
KISII  
BUNGOMA  
KAKAMEGA

# MOBILE CENTRES

THIKA  
 GATURA  
 GAKOE  
 MUNDORO  
 MUNYUINI  
 GACHEGE  
 MATUU

KERUGOYA  
 KARUMANDE  
 KIMUNYE  
 KAGUMO  
 MWEA

KANGEMA  
 KIHoya  
 WANJERERE  
 MIORO  
 GACHARAGE-INI  
 GIKOE  
 KANYENYA-INI  
 KIRURI  
 ICHICHI

NYAHURURU  
 OL-KALOU  
 MIHARATI  
 KINAMBA

KIRIA-INI  
 KAGICHA  
 KAIRO  
 GIKOE  
 GACHARAGEINI  
 MIORO



KANGARI  
 MUNUNGA  
 KIRERE  
 GIKOE  
 NDUNYU CHEGE  
 MARAGUA  
 NDAKA-INI

MURARANDIA  
 KAHURO  
 ICHICHI  
 KIRURI

MERU  
 MITUNGUU  
 GITHONGO  
 ISIOLO

EMBU  
 MWEA  
 RUNYENJES  
 SLAKAGO

NYERI  
 NANYUKI

OTHAYA  
 KAGICHA

NAIVASHA  
 ENGINEER

