

VISION

"...to be the preferred micro finance services provider contributing to the economic prosperity of Africa..."

MISSION

We mobilise resources and offer credit to maximise value and economically empower the micro-finance clients by offering customer-focused quality financial services.

POSITIONING

The Listening, Caring Financial Partner.

MOTTO

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

CORE VALUES

- **P**rofessionalism
- **I**ntegrity
- **C**reativity and Innovation
- **T**eamwork
- **U**nity of Purpose
- **R**espect and dedication to customer care
- **E**ffective Corporate Governance

CMA - Ke Library



AR0360

116
3393
A 8
1.685
2005
C.

1. Equity Bank Limited - Periodicals
2. Bank and Banking - Periodicals

We Listen

In our business approach we are market-led, innovative and customer focused.

We Care

As a socially responsible corporate citizen, Equity Bank has been responsive to community needs.

We Partner

Equity Bank has partnered with like-minded local and international development partners to further her mission and vision. These partnerships have created opportunities for capacity building and knowledge sharing.



1000

2007/0360

“...growing together
in trust...”

CMA-LIBRARY

Table of CONTENTS

	PAGE
Message from the Chairman -	1
Message from the CEO -	6
Financial Highlights -	10
Key Achievements -	12
Statement on CSR (Corporate Social Responsibility) -	16
Report and Financial Statements -	24

Notice of ANNUAL GENERAL MEETING

Notice is hereby given that the second Annual General Meeting (AGM) of the shareholders of Equity Bank Limited will be held on Friday 21st April, 2006 at The Grand Regency Hotel Nairobi at 10.00 am to transact the following business:

1. Reading 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 2005 together with the Directors' and Auditors' report thereon.
3. To approve a dividend for the year 2005 of 40% on paid up capital.
4. To elect Directors:
 - a) Ms Beatrice Sabana retires by rotation in accordance with Article 100 of the Company's Articles of Association and being eligible, offers herself for re-election:
 - b) Mr Julius Kipng'etich 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. Linus Gitahi 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 Peter Gachuba having been appointed as a director on 31st May 2005 retires in accordance with Article 101 of the Company's Articles and being eligible offers himself for election.
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 authorise the directors to fix their remuneration.
7. Any other business of which notice will have been duly received.

By order of the Board

Mary Wangare Wamae
Company Secretary

NAIROBI, 21st March, 2006

1. 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 situate in **NHIF BUILDING 14TH FLOOR**, not later than 10.00 am on Wednesday 19th April, 2006 failing which it will be invalid. In case of a corporate body, the proxy must be under its common seal. A proxy form is attached to this report.
2. Subject to approval of shareholders, the Board of Directors has resolved to recommend to members at the forthcoming Annual General Meeting a dividend for the year 2005 of 40% of paid up capital (Kshs 2 per share) to be paid on or about 28th April 2006 to shareholders on the register at the close of business on Tuesday 18th April 2006. The register of members will be closed for one day on Wednesday 19th April 2006.

Message from the CHAIRMAN

“ I am pleased to present to you our Bank's annual report for the year 2005. This occasion represents a very significant milestone, these being the first full year results of Equity Bank Limited, following our conversion from a building society in December 2004. ”

Trading Environment

The trading environment was favourable in 2005 and the economy performed well. Preliminary estimates by Central Bank indicate that the growth rate exceeded 5%. The financial environment was also favourable. Inflation was falling for most of 2005 but the combined effect of drought and crude oil prices that ignited inflation in the latter half of 2004. The inflation rate had fallen to 4% in October 2005, from a peak of 18% in October 2004, before rising again to 7.6% by December as the effects of drought translated into higher food prices. Interest rates were reasonably stable throughout the year with the benchmark 91 day Treasury bill rate fluctuating marginally around 8%. In 2005, the shilling strengthened against all major currencies, gaining Kshs. 6.70 on the US dollar, Kshs. 26 on the UK Pound and Kshs. 20 on the Euro. Investor confidence remained high throughout the year in review. The NSE 20-share index closed the year at 3973 points, up from 2945, a 35% appreciation.

The banking sector slowed down somewhat, after a very brisk expansion in 2004. Total domestic credit grew by 5% down from 17% in 2004. Bank credit to the private sector grew by 10% down from 24% in 2004, while credit to government declined by 8%. This is mainly as a result of tightening of monetary conditions by Central Bank, in an effort to contain inflation to



Peter K. Munga



>> Message from the Chairman (cont'd)

below the 5% policy target. The industry performed well in most other respects. Pre-tax profits stood at Kshs. 19.7 billion up from Kshs. 13.4 billion in 2004. Asset quality, as measured by the ratio of non-performing loans to assets improved to 11% from 16%. The industry maintained a liquidity ratio of 43% well above the statutory 20% ratio.

Results

The growing economy and a stable financial environment contributed to very good results. Our assets grew to Kshs. 11.5 billion from Kshs. 6.7 billion at the end of 2004. The growth was driven largely by an increase in customer deposits, which in turn reflects growth of our customer base as well as a modest increase in the average size of deposits. Gross income increased from Kshs. 1 billion to Kshs. 1.8 billion representing a growth of 74%. Pre-tax profits increased from Kshs. 218 million to Kshs. 501 million, a growth of 129%. Profit after tax increased by 153% from Kshs. 136 million to Kshs. 345 million. I take this opportunity to congratulate the management and staff for a job very well done.

“Gross income increased from Ksh. 1 billion to Ksh. 1.8 billion representing a growth of 74%. Pre-tax profits increased from Ksh. 218 million to Ksh. 500 million, a growth of 129%.”

Dividend

The Board is recommending a dividend of Kshs. 2 per share for the year.

Governance and Social Responsibility

Separate statements on Corporate Governance and Social Responsibility are contained elsewhere in this report. There were some changes in the composition of the Board. Stefan Harpe retired, Ernest Nzovu and Wagane Diouf joined the board, and Peter Gachuba was appointed as alternate to Mr. Wagane Diouf who took over from Stefan Harpe as Manager of Africap Microfinance Fund. Peter Gachuba represents Africap in the Eastern & Southern Africa Region. I wish to register the Board's appreciation of Stefan's contribution and to wish him well in his new endeavours.



As you are aware, a new board was inaugurated at the end of last year, following the conversion from a building society to a commercial bank. The Board members have exceeded my expectations and I am truly grateful for their dedication and resourcefulness. I would like to draw your attention to the amendment of our Memorandum and Articles of Association highlighted in the Corporate Governance Statement, in which the Board members voluntarily resolved not to borrow from or engage in business with the Bank. I commend them very sincerely for this very exemplary resolution.

On the social responsibility front, allow me also to highlight some important international achievements. Last year our Bank was honoured by the international community by way of invitation to address the G8 Business Action for Africa Summit in Gleneagles, Scotland, and the UN General Assembly on the occasion of the International Year of Microfinance. Recognition of our social mission at the highest international level is truly gratifying.

Development Partners and Network Associations

Over the years Equity Bank has established partnerships with the various organisations and network associations in its quest for highest standards of corporate governance and accountability. The following are some of the institutions that Equity Bank has had close collaboration:

- Department for International Development (DFID) through Financial Services Deepening Fund (FSD)
- Microsave
- Swiss Foundation for Technical Collaboration (SwissContact)
- AfriCap Microfinance Fund
- Consultative Group to Assist the Poor (CGAP)

Equity Bank recognises and acknowledges their immense contribution in areas among others Credit Policies and Methodologies Review, Institutional and Organisational Development, Market Research, Branding and Product Development, refinement and costing. The Bank, through the Development Partners has also benefited in capacity building through trainings in Total Quality Management, Change and Risk Management, Systems, Processes Mapping, Procedures and Policy Manuals.

>> Message from the Chairman (cont'd)

Equity is a member of the following network associations:

- Association of Micro Finance Institutions (AMFI) - Equity Bank contributes as a Microfinance service provider by offering services/advise to the small, medium and micro entrepreneurs in Kenya.
- Kenya Bankers Association (KBA) - Equity Bank is a member of the association by virtue of its status as a commercial bank. KBA provides updates on the banking/financial industry and monitors compliance by its members with the Banking Act.
- Africa Rural Agricultural Credit Association (AFRACA) - Equity Bank participates by promoting rural credit financing in Kenya.
- Women's World Banking (WWB) - The association is based in the United States of America and its role in Kenya (and the basis of Equity Bank's association with it) is in the contribution it makes to the microfinance sector in Kenya. They provide information on trends and the growth of the microfinance services providers in this part of Africa.
- Global Network for Banking Innovation (GNBI) - The organisation aims at networking member banks (including Equity Bank) in Information Technology and innovations.
- Microfinance Network - The organisation aims at sharing transparent and reliable information about Microfinance institution members (including Equity Bank) operations and financial standards.

Outlook

The economic outlook for 2006 is positive, with growth expected to top 5%. This however is predicated on normal rains in the coming season. While the outlook for the banking industry remains positive overall, the tight monetary policy regime is likely to continue in view of the inflationary pressures. This portends a more challenging trading environment. That said, the Board is cautiously optimistic that the Bank will sustain growth in terms of business expansion, profitability and stakeholder value.

“The Board is cautiously optimistic that the Bank will sustain growth both in terms business expansion, profitability and stakeholder value.”



During the year, we invested in a new core banking IT platform. We also opened 12 new branches, bringing our network to 31 branches. The Board is confident that these investments will generate increased business this year, as well as better service delivery to our esteemed customers. I wish in this regard to thank you shareholders for your support to the private placement of shares. These investments, and indeed all our achievements last year, would not have been possible without this support.

This year, we are anticipating approval from the Capital Markets Authority to list our Bank on the Nairobi Stock Exchange. While the primary purpose of the listing is to enable you discover the market value of your investment, my Board believes that we should give every Kenyan who so wishes the opportunity to be an owner of the Bank.

Conclusion

I wish to conclude by registering my Board's gratitude to all the stakeholders who helped us make 2005 a successful year for the Bank; you shareholders, the Government, and Central Bank in particular, our development partners, business partners and our customers. I trust that all of you will continue supporting our endeavour to take banking services to our people.

Peter K. Munga

Message from the CEO

It is my pleasure to report to you highlights of our Bank's performance in the year 2005 and the plans and expectations for the coming year.

Financial Review

The Bank posted a pre-tax profit of Kshs. 501 million in 2005, a creditable 129% growth over Kshs. 218 million in 2004. This reflects robust growth of income relative to increase in expenses. Interest earnings led the growth, contributing Kshs. 948 million, up from 459 million in 2004, an increase of 106%. Non-interest income was Kshs. 937 million, up from Kshs. 640 million in 2004 representing a 46% growth.

The tremendous growth of interest earnings reflects both an increase in loans and advances to customers, as well as earnings from placements with other financial institutions, treasury bills and bonds. Net loans and advances to customers stood at Kshs. 5.5 billion at the close of the year, up from Kshs. 2.9 billion at end of 2004, while treasury bills and bond holdings closed at Kshs. 1.2 billion, up from Kshs. 578 million at the end of 2004. The growth in assets was driven by very solid support from customers, who increased deposits by Kshs. 4 billion raising our total deposit base from Kshs. 5 billion to Kshs. 9 billion. In percentage terms, contribution of interest on loans and advances increased from 33% to 38%, the contribution of interest on treasury bills, bonds and placement increased from 9% to 14% while the contribution of non-interest income declined from 62% to 52%.

Total operating expenses increased by 60 % from Kshs. 817.5 million to Kshs. 1.3 billion. This reflects the relatively significant expansion of the Bank during the year. This saw the opening of 12 new branches, and increase in staff from 530 to 884. Staff cost increase accounted for 50% of the increase in costs during the year. Establishment costs associated with the branch expansion and depreciation charges contributed 20%, and the rest is accounted for by increased operational costs. Overall, operating costs as a ratio of operating income improved from 79% to 72%.



James N. Mwangi



“The new core banking system, Finacle by Infosys, came online in October... It was completed on time and within budget, which is not a simple feat for IT projects of this scale. The dedication, resourcefulness and energy and sacrifice of the staff, and the core project team in particular, made this possible.”

The Bank closed the year with total assets of Kshs. 11.5 billion, up from Kshs. 6.7 billion, an increase of Kshs. 4.8 billion, representing 72% growth. Advances to customers took the lion's share of the growth, increasing by Kshs. 2.65 billion, accounting for 56%. Other earning assets, that is, securities and placements took Kshs. 856 million, accounting for 18%. Net fixed assets also increased substantially, by Kshs. 633 million on account of technology investment and branch expansion. On liabilities, this reflects customer deposits which increased by Kshs. 4 billion accounting for 83% of the increase. Other current liabilities increased by Kshs. 313 million accounting for 6.5%. Tax liability stood at Kshs. 168 million up from Kshs. 112 million. During the year, a portion of accumulated reserves was capitalised by way of a bonus share issue, in which every shareholder got four shares for every one held, thereby increasing our share capital from Kshs. 91 million to Kshs. 453 million.

Operations Review

The year was an extremely challenging one, but also one, I am pleased to report, of very significant achievements for the Bank. The key challenges were conversion from a building society to a commercial bank, and the implementation of a new IT platform. Both projects have been successfully completed.

In October 2005, the Bank was admitted to the clearing house, marking the end of the conversion process. We are now offering our customers the full range of banking services, including current accounts, foreign exchange and trade finance services. The reception of these services by our customers is very encouraging.

The new core banking system, Finacle by Infosys, came online in November 2005, and was fully deployed in all the branches by the end of the year. It was completed on time and within budget, which is not a simple feat for IT projects of this scale. The resourcefulness, energy and sacrifice of the staff, and the core project team in particular, made this possible. I will forever be indebted to them for this achievement. We also rolled out ATM infrastructure and City ATMs became operational in January 2006.

With these major projects more or less behind us, our focus this year is on quality and efficiency. We are looking at this in terms of customer service and quality of our assets, particularly the loan portfolio. With regard to customer service, I am confident that the investments we made last

year will have a very significant impact on the quality of service to our customers, particularly as regards reducing congestion in the banking halls. We will be forever grateful to our customers' forbearance during the system change over. In the area of portfolio quality, I am pleased to report that we have strengthened our credit department and processes with very encouraging results.

Business Development

The year saw the Bank open 12 new branches bringing our network to 31 branches. The Bank now has a presence in six of Kenya's eight provinces. We intend to establish a presence in Western Province this year. During the year we also acquired the retail business of the Industrial Development Bank. In addition to the business, the acquisition enabled us to establish a presence on Harambee Avenue, a very prime location. In line with the growth of our branch network and customer base, our staff complement increased to 884 from 530 at the beginning of 2005. We are proud to have contributed to the employment challenge by adding 354 new jobs to the economy.

Staff development continues to be a major area of focus for the Bank. We took our staff through various courses to enhance their capacity to support business. The Bank is also putting a lot of emphasis on leadership development and succession planning, and in 2005, several staff members attended leadership development courses. A programme has been put in place to ensure that all management and supervisory positions have capable potential successors in place. During the year, the Bank established an employee share ownership programme (ESOP) and I am happy to report that through ESOP, the staff have acquired 5.5% shareholding in the Bank.

Turning to products, during the year we re-launched *Biashara Imara* (an easy access working capital loan for micro and small enterprises) to a resounding success. *Biashara Imara* has become one of the most sought after product by our customers. By the end of the year over 5,000 customers had benefited from *Biashara Imara* loans. We are particularly gratified by its success because this goes to the heart of our mission statement: empowering our microfinance clients. Following the acquisition of a commercial banking license, we introduced three new products that we could not offer before, namely current accounts, trade finance and foreign exchange. The current account product has been rolled out in all the branches and the customer response is very favourable. Foreign exchange service has been rolled out in selected branches in Nairobi, and a trade finance department has been established in the head office.

“Last year, all our management staff attended a leadership development course. A programme has been put in place to ensure that all management and supervisory positions have capable potential successors in place”



“I am glad to report that in 2005, the Bank was very favourably rated by two international rating agencies. South Africa based Global Credit Rating (GCR) awarded the Bank investment grade ratings “A1-” and “A” on short and long-term credit respectively. MicroRate, a US based microfinance rating agency awarded α - (alpha minus) citing among other factors, good efficiency and effectiveness, low and well management risk and good future prospects.”

The Bank continues to manage all risks prudently based on international best practice and ensuring compliance with the Central Bank guidelines. A key element of our risk management policy is external credit rating. I am glad to report that in 2005, the Bank was very favourably rated by two international rating agencies. South Africa based Global Credit Rating (GCR) awarded the Bank investment grade ratings “A1-” and “A” on short and long-term credit respectively. MicroRate, a US based microfinance rating agency, awarded α - (alpha minus) citing among other factors “Excellent management and staff, Good governance and strategic positioning, well capitalised, strong liquidity, good profitability, competitive loan and savings products”. We have started preparations with Basel II risk management guidelines which will come in force in 2008..

Plans for 2006

As I indicated earlier, the most intense phase of the Bank’s transformation is now more or less behind us. This allows us to focus on serving our customers. This year, we are confident of very substantial growth in customer numbers. Our main focus is to ensure that we serve them efficiently. We plan to open a number of new branches in markets where existing ones are congested, expanding some of the existing ones, and upgrading some of the busy mobile centres. We also plan to significantly increase our ATM network. Alongside this, a vigorous campaign is underway to encourage our customers to make use of ATMs.

Conclusion

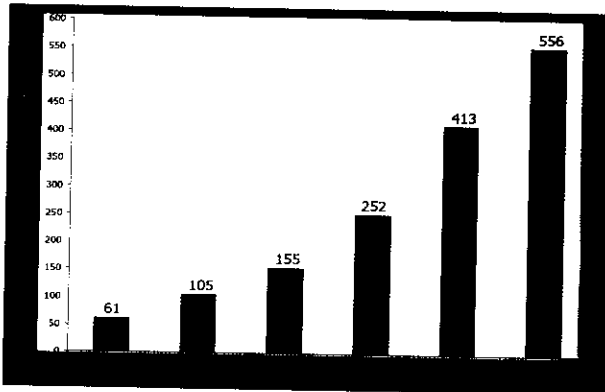
Last year was a year of remarkable achievements for the Bank, and I believe a significant stride towards fulfilling our African dream. I am confident that the Bank is well positioned to continue performing well in what we believe will be an increasingly competitive market place.

James N. Mwangi



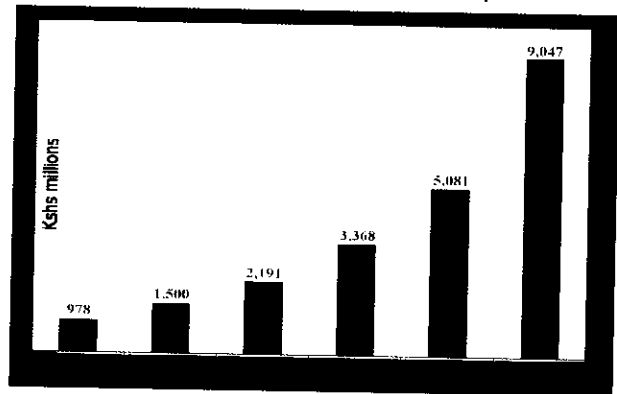
Financial HIGHLIGHTS

Growth in Number of Deposit Clients



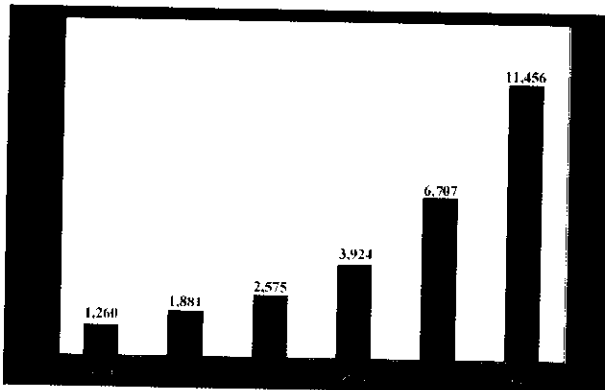
Home to 22% of all bank accounts in Kenya and the largest bank in terms of Customer numbers

Growth in Volume Customer Deposits



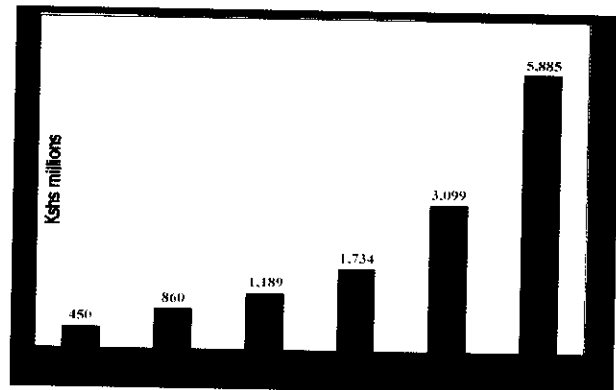
The volume of deposits has consistently grown at an average of more than 50% every year.

Total Assets



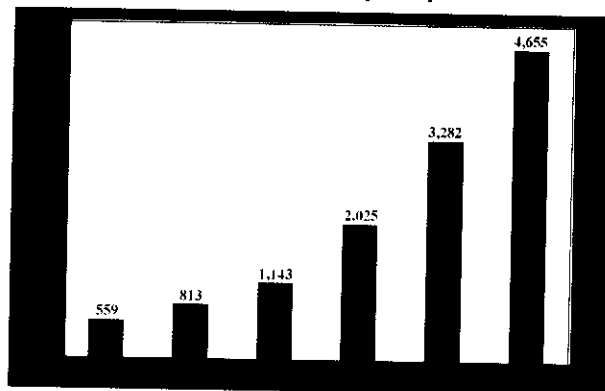
The balance sheet has grown by approximately 10 times in the last 5 years. In 2005, the Bank was ranked 16th overall in terms of total assets out of a total of 44 banks.

Growth in Loan Portfolio



A significant proportion of the deposits mobilized are invested in loans and advances. Despite an average growth rate of 69% the quality of the loan portfolio has remained good.

Growth in Liquidity

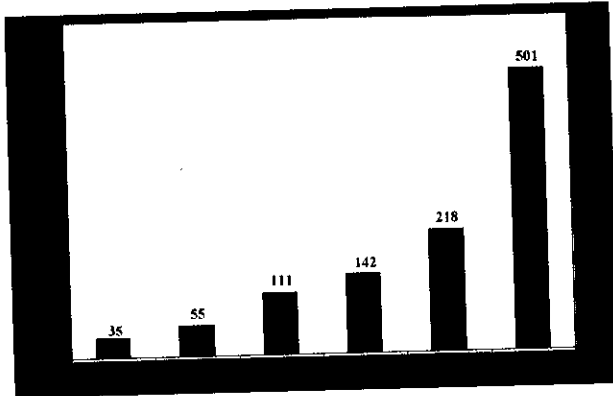


Liquidity (i.e. cash and cash equivalents) has remained consistently high and closed at 52% in 2005 against a statutory minimum requirement of 20%.



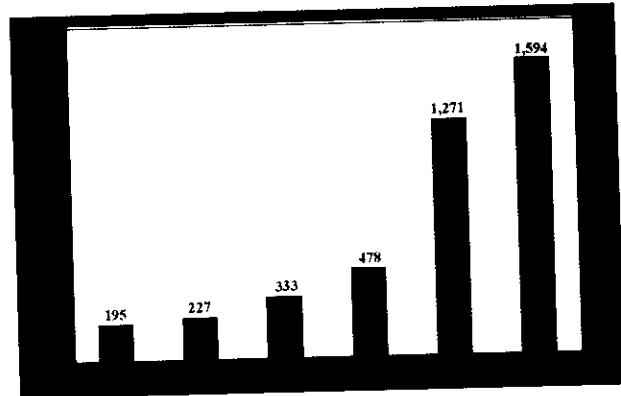
CMA-LIBRARY

Growth in Profits before Tax



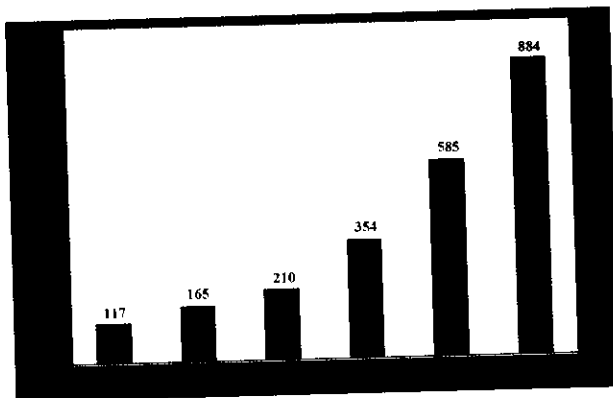
Profits during the year increased by 129%.

Share Holders Funds



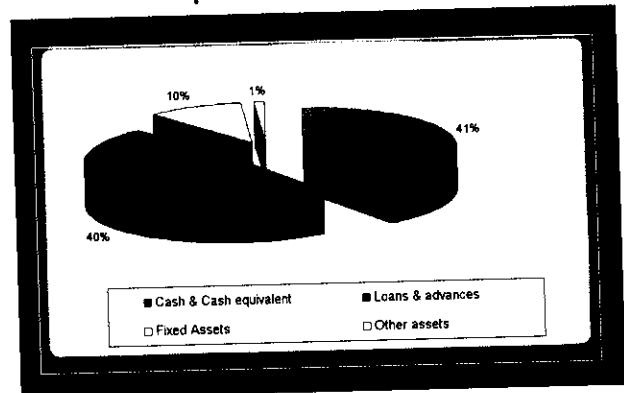
The Bank is adequately capitalized with a core capital to deposits ratio and core capital to total risk weighted assets ratio of 16% and 19% respectively. These are above the statutory minimum requirements of 8% and 12%.

Growth in Staff Numbers



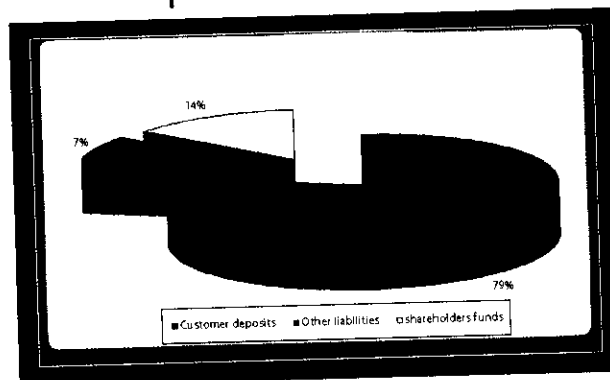
The Bank continues to offer employment opportunities which saw number of staff increase by 67% in 2005.

Composition of Total Assets



89% of the total assets have been deployed in earning assets.

Composition of Total Liabilities



The Bank is adequately funded by shareholders funds and customer deposits.



Key ACHIEVEMENTS

A number of international luminaries have paid courtesy call on us on their mission to study poverty reduction initiatives in Africa. Among the dignitaries who have visited us include: UN Advisor HRH Princess Maxima of Netherlands, UN First Lady Nane Annan, CGAP President Elizabeth Littlefield, WWB President Nancy Barry and Melinda French Gates.



The CEO Equity Bank, James Mwangi at the the G8 Business Action for Africa Summit.

Equity Bank's business model has attracted worldwide attention and in many occasions we have been invited to represent the Bank in various international forums like the UN Conference of Building Inclusive Financial Systems in New York. The Bank's Chief Executive was invited to address the G8 Africa Business Action Conference at Gleneagles – Scotland in July 2005.



UN Advisors - HRH Princess Maxima of the Netherlands, Mr. Diederik Laman Trip Chairman of ING Netherlands, Marilou van Golste Brouwers Zeist, The Netherlands and Equity Bank CEO, Directors & Management on her visit on 25th February 2005.

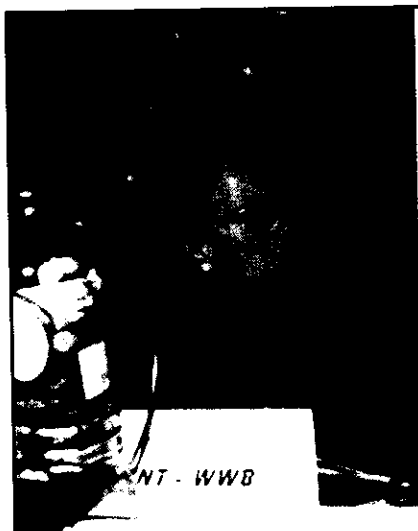
HRH Princess listened to a presentation on the rise of Equity Bank when on a mission to assess the impact of MFIs during the International Year of Microcredit. She made the following observation, *"It is fantastic to hear how you have really come up with this model having come from a very bad situation"*.



After her visit, to Equity Bank Mrs Annan had this to say: ***"Equity is more than just a bank but also a friend and partner of the people, helping to make their dreams come true and thus empowering them to pull themselves out of poverty."***



United Nations First Lady Nane Annan, wife of the U.N Secretary General Kofi Annan honours Equity Bank with a State Visit - June 2004.



World's Women Banking President Nancy Barry congratulating Equity Bank on its success on 'reaching the un-banked population'.

Nancy Barry formerly with World Bank and currently President World's Women Banking had this to say when she visited Equity just before conversion into a bank: ***"Equity Building Society as most of you know is a leading institution in Kenya where you get attended to in 2-3 minutes, that accounts are opened in three minutes, and you get a loan normally while you are still on the premises. That is not true in my home town, which is the money centre of financial institutions, New York City: Equity Building Society gets it right by being customer driven and putting the customer first. What I have seen is continuous innovation" when I asked what the secret is, this is what I got, our customers and our ability to listen and learn how to serve our customers better are the secret to our success."***

>> Key ACHIEVEMENTS (cont'd)



The Group Chairman of British American Insurance Holding Ltd, Dawood Rawat visited Equity Bank recently and made an extensive tour of the various departments and this is what he said about the Bank, ***"I have visited many organizations I know a good one when I see one. Equity is excellent"***

<< Dawood Rawat, Group Chairman-British America Holding Limited together with Equity Bank Chairman and the CEO.



Melinda French Gates (in green kanga) and some Equity Bank staff members during her recent visit.

During her visit Melinda had this to say about Equity Bank: ***"I appreciate learning more about Equity Bank's mobile unit and other new efforts to reach the country's poor. I commend you for your work in this sector."***

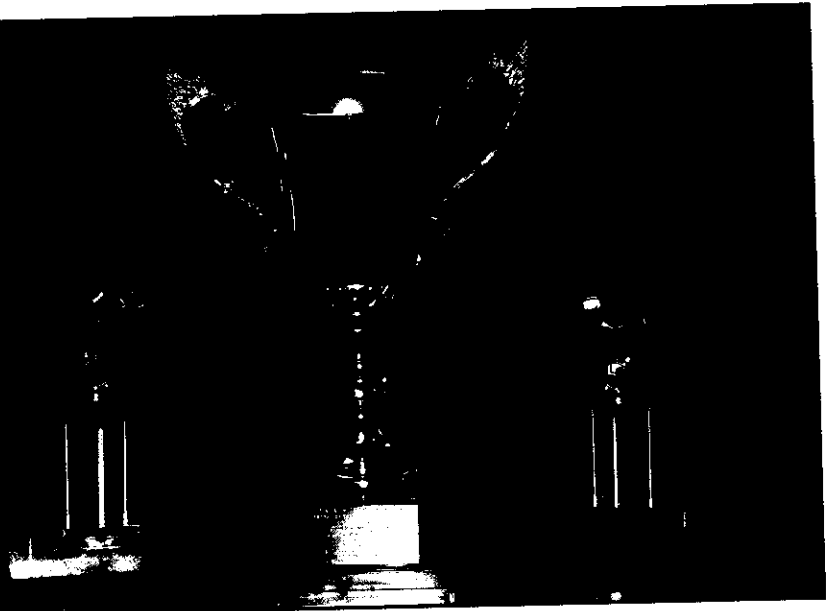
At the local scene, Equity Bank has been honoured by the Head of State who awarded the Chairman and CEO the Head of State Commendation for their efforts to empower Kenyans towards wealth creation and employment. Equity Bank's customer was the winner of the Global Microentrepreneurship Award during the 2005 UN Year of Microcredit.

The Bank has held for two consecutive years the Kenya Institute of Bankers (KIB) Trophy of professional excellence.



Left: Table Tennis trophy awarded to Equity Bank for taking 3rd Position in the year 2005 inter-banks sports. Also won in 3rd Position was the Basketball Trophy (right).

Centre: K.I.B Trophy of professional excellence.



In the past years, Equity Bank has enjoyed strong ratings both locally and internationally. A recent survey conducted by Marketing Intelligence ranked Equity Bank as the third best Bank in Kenya. *"For a new comer Equity Bank, to rank in 3rd position, is obviously unprecedented, but the Bank, having converted from a building society to a commercial bank seem posed for greater things judging by it's solid capital, growing customer base and good management"*. Equity bank has also been rated by international rating companies like Global credit Rating and MicroRate of South Africa, among others.

GCR GLOBAL CREDIT RATING
1100 21 Avenue - Cape Town

Global Credit Rating - July 2005

Rating	Short-term: A1- Long-term: A
Interpretation	In the short term: High certainty of timely repayment with liquidity factors that are strong and supported by good fundamental protection factors, while risk factors are small. Over the longer term: High credit quality with good protection factors, however risk factors are more variable and greater in periods of economic stress (relative to ratings in higher bands).
Contributing Factors	High Quality Management Well Capitalized Strong Liquidity

MicroRate
A Market Agency of the Bureau

MicroRate Rating - July 2005

Rating	α-(alpha minus)
Interpretation	Good efficiency and effectiveness. Low risk/well managed, and minimally effected by variability during economic cycles. Good future prospects
Contributing Factors	Good governance and strategic positioning Excellent management and staff Good Profitability Competitive loan and savings products

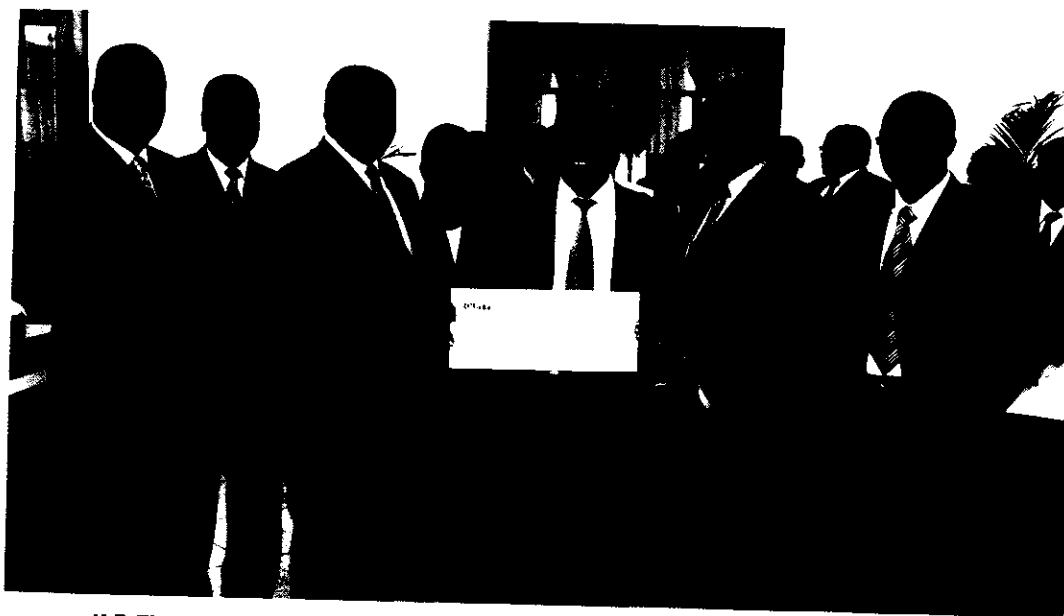
MARKET

Intelligence Bank Survey 2005

Rating	3rd Best Bank Overall
Interpretation	For new comer Equity to rank 3 rd is obviously unprecedented and seems poised for greater things.
Contributing Factors	Solid Capital Growing Customer base Good Management

Statement on **CSR** (Corporate Social Responsibility)

Our mission statement commits us to "mobilise resources and offer credit to maximise value and economically empower our microfinance clients".



H.E. The President receives a cheque of -Kshs. 5 million from the Chairman of Equity Bank for Famine Relief.

Empowering people is enshrined in our mission statement which commits us to "mobilise resources and offer credit to maximise value and economically empower our microfinance clients". Corporate Social Responsibility is the commitment of business to contribute to sustainable economic development working with employees, their families the local community and the society at large to improve the quality of life for all the stakeholders. The end is to combine economic prosperity with social development. Social responsibility is therefore at the core of our mission. Over and above this, the Bank participates and contributes to various social projects and activities as follows:

Financial outreach

Access to financial services is a critical element of lifting people out of poverty. Recognising that many citizens, particularly the low-income, lack access to affordable banking services, the Bank

operates mobile banking services which take services closer to the people. Presently, the Bank has 54 mobile banking centres. The Bank has a research and development programme whose principle objective is to find ways and means of providing financial services to the poor.

Pre-University Internship Programme

Since 2001, the Bank has offered scholarship to the best KCSE student in every district that we operate. In 2005 a total of 60 students who sat their KCSE have benefited under the programme. We have realised that in the past, boys have benefited disproportionately. Consequently, beginning this year the programme has been expanded to two students per district, the best boy and girl, thus ensuring gender balance.



Hon Dr. Noah Wekesa (3rd Left), Acting Minister for Education, poses for a photograph with the beneficiaries of the 2005 University scholarship programme during the official launch of the programme. With him are (l-r) Peter Muthathai(National chairman Principals Association) James Mwangi(CEO Equity Bank), Peter Munga (Chairman Board of Directors, Equity Bank), Prof. Godia, (Education secretary) and Francis Ng'ang'a (Secretary General, KNUT)

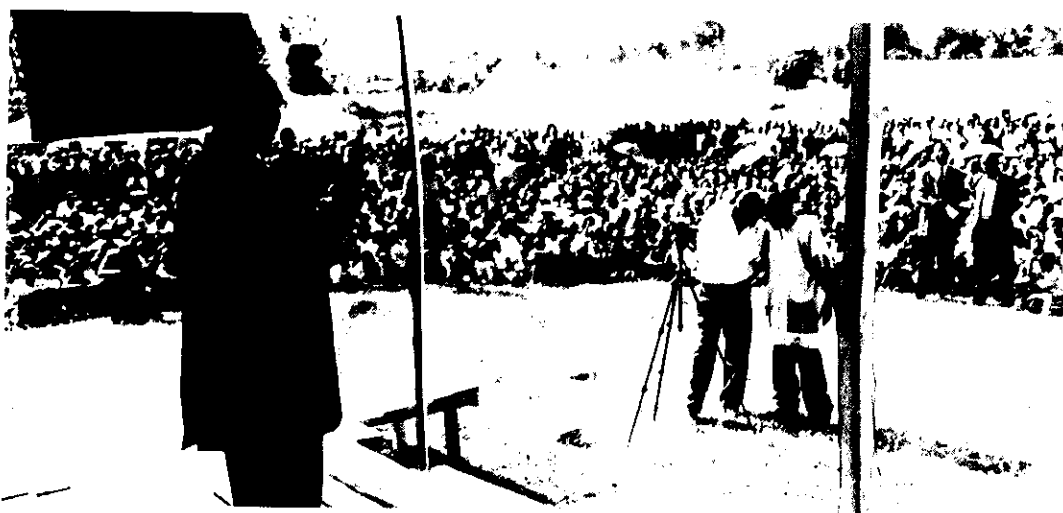
The programme assists students who have obtained excellent results at the end of their secondary school cycle most of whom come from underprivileged backgrounds to pay for their university education. Determination to conquer their limitations is a major character of the students who are selected as they all look forward to pursue their studies which will help them provide a better future for their families and the society.



Equity Bank also offers a free of charge 'Simba Account' to Public Schools to cater for free primary education programme.

Community Service

The Bank's corporate social responsibility supports and encourages our branches to be active members of the communities that they serve. One of the popular community activities is supporting excellence in education by donating trophies and prizes to schools that excel or improve in their performance. Our branches in tea growing areas have an annual trophy for excellence in tea farming. Another popular activity is financial education, provided by volunteer staff members in barazas, churches and other community gatherings. The Bank also undertakes financial literacy at the Agricultural Society of Kenya Trade fairs in our regions of operation. All our branches contribute to charity in their localities. The Bank has initiated a partnership with the Meru Hospice to provide business loans to persons living with HIV.



The PA to the CEO conducts a session during a mass financial literacy day to the residents of Kagio in Kirinyaga District.

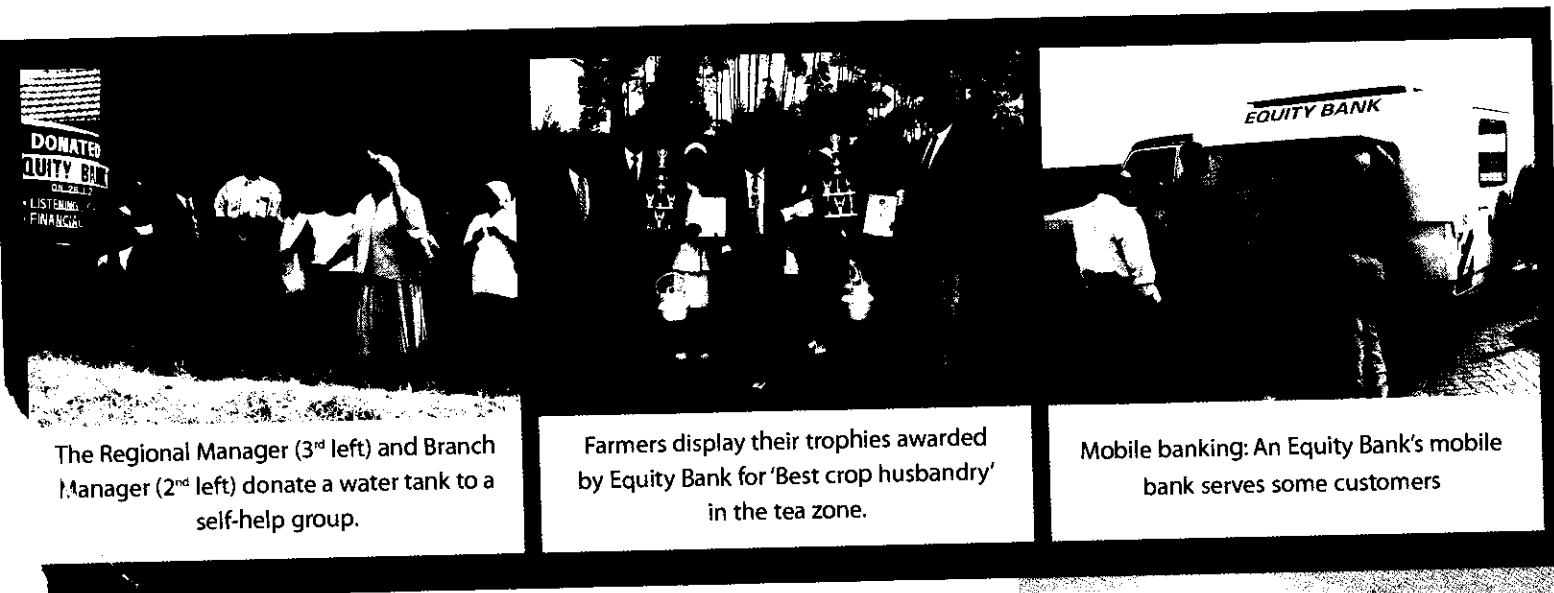


Famine Relief

The Bank has responded to the famine relief appeal by contributing KShs 5 million to the National Famine Relief Fund through the Kenya Bankers Association. The Bank has also launched an appeal for donations from staff and customers.



Equity Bank donates foodstuffs to a children's home



The Regional Manager (3rd left) and Branch Manager (2nd left) donate a water tank to a self-help group.

Farmers display their trophies awarded by Equity Bank for 'Best crop husbandry' in the tea zone.

Mobile banking: An Equity Bank's mobile bank serves some customers

Board of Directors



(Seated l-r)

James N. Mwangi (CEO),

Peter K. Munga (Chairman),

Benson I. Wairegi (Vice Chairman)

James N. Mwangi
Managing Director and Chief Executive Officer

Mr. Mwangi holds a Bachelor of Commerce degree (Accounting Option) from University of Nairobi and is a Certified Public Accountant (CPA-K). He has wide experience in the banking industry spanning over 16 years.

Peter K. Munga
Non-Executive Chairman

Mr. Munga is a Certified Public Secretary with vast experience in both private and public sector management. He holds a diploma in Human Resources and Financial Management. He holds directorships in several organisations including Micro-Enterprise Support Programme Trust (MESPT), British American (K) Insurance Company and Equatorial Nut Processors Limited.

Benson I. Wairegi
Non-Executive Vice-Chairman

Mr. Wairegi holds Masters of Business Administration and Bachelor of Commerce (Accounting Option) degrees from the University of Nairobi and is a Certified Public Accountant (CPA (K)). He is the Managing Director of British American (K) Insurance Company Limited.

Beatrice M. Sabana
Non-Executive Director

Ms. Sabana holds a Masters of Business Administration from University of Leeds and a Bachelor of Education (Business Studies and Economics) degree from Kenyatta University. She has vast experience in the banking sector and is the former Chief Executive Officer of the Association of Micro Finance Institutions (AMFI).

Peter Gachuba
Non-Executive Director

Mr. Gachuba, holds a Master of Science degree in International Business from University of Southern New Hampshire and a Bachelor of Science degree from University of Southern New Hampshire in United States of America. He is an Investment Banker and is AfriCap's Partner responsible for Eastern and Southern Africa Region.

Frederick M. Muchoki
Non-Executive Director

Mr. Muchoki is a businessman with vast commercial experience. He holds directorships in several companies including Presta Limited and Continental Business Systems Limited.



(Standing l-r)

Beatrice Sabana (*Director*),

Peter Gachuba (*Director*),

Frederick M. Muchoki (*Director*),

Mary Wamae (*Secretary to the Board*),

Wanjiku Mugane (*Director*),

Julius K. Kipng'etich (*Director*),

Linus W. Gitahi (*Director*),

Wagane Diouf (*Alternate to Peter Gachuba*) - not in this photo

**Wanjiku Mugane
Non-Executive
Director**

Ms. Mugane is an Advocate of the High Court of Kenya and holds a Masters of Law degree from Georgetown University, Washington DC and a Bachelor of Laws degree from the University of Nairobi. She is a Director of East African Breweries Limited and the Managing Director of First Africa Capital Limited.

**Julius K.
Kipng'etich
Non-Executive
Director**

Mr. Kipng'etich holds Masters of Business Administration and Bachelor of Commerce (Accounting Option) degrees from the University of Nairobi. He is the Chief Executive Officer of the Kenya Wildlife Service and was previously the Managing Director of the Investment Promotion Centre.

**Linus W. Gitahi
Non-Executive Director**

Mr. Gitahi holds a Masters of Business Administration degree from the United States International University of Africa and a Bachelor of Commerce (Accounting Option) degree from the University of Nairobi. He also holds a diploma from the Kenya Institute of Management. Mr. Gitahi is the Managing Director of Glaxo Smithkline, Nigeria prior to which he was the General Manager of Glaxo Smithkline, Kenya.

**Ernest M. Nzovu
Non-Executive
Director**

Mr. Nzovu holds a Bachelor of Arts (Economics) degree from the University of Navarra, Spain and a Diploma in International Affairs from the University of Ife, Ibadan, Nigeria. Mr. Nzovu has for many years been a consultant in human resources and is a director of Hawkins and Associates, KHI Limited and KHI Training.

**Wagane Diouf
(Alternate to
Peter Gachuba)**

Mr. Diouf (not in the above photo) holds a Masters of Business Administration degree from the Georgia Institute of Technology (Atlanta), Bachelor of Science degrees in Computer Science and Finance from Ecole Supérieure de Gestion (Paris). He is the Managing Partner of AfriCap, based in Dakar Senegal.

**Mary W. Wamae
Secretary to the
Board and
Company
Secretary**

Mrs. Wamae holds an LLB degree from the University of Nairobi, a Diploma in Law from the Kenya School of Law and is a Certified Public Secretary (Kenya). She is an Advocate of the High Court and holds a Post Graduate Diploma in Gender and Development and has over 13 years of private practice experience.

Senior Management Team

(Seated l-r)

Mary Wamae (*Head of Legal Services
and Company Secretary*)

Andrew Kimani (*General Manager-IT
Services*)

James Mwangi (*CEO*)

Gerard Warui (*General Manager -
Customer Service*)

Winnie Imanyara (*General Manager -
Business Growth*)



James Mwangi
Chief Executive

B-Com-
Accounting,
CPA (K)
An experienced
career banker of
over 17 years.

Previously with
Ernest & Young
and Trade Bank

Gerard Warui
*General
Manager-
Customer Service*

CPA(K)
Over 15 years
bank experience.

Allan Waititu
Head of Operations

BIT, MCSE, CNE
Has over 15 Years Experience previously
with Daima Bank and Phoenix of East
Africa Assurance Company

Apollo Njoroge
*Head of Business Growth &
Development*

Bsc (hons), MIBA (Finance)
Has over 15 Years Banking Experience
previously with ABC & I&M Banks

Allan Mwangi
Head of Finance

B.Com, CPA (K)
Previously worked with ABN AMRO
Bank, Lonrho Africa Plc and Deloitte &
Touché.

Mbaabu Muchiri
Head of Credit

MBA, Bed, CPA (K),
CPS(K), CISA
Previously with the
Central Bank of
Kenya and Coca-
Cola Africa.

Peter Gachau
Head of IT

Bed. Science.
Diploma in
Computer Science
Previously with
ABC & ABN &
Amro Banks.
Computer
Application
Limited
(Symphony)

Peter Lengewa
*Head of HR &
Organisational
Development*

MBA, B.A Economics &
Business Studies,
Member of America
Society for Training
Development (ASTD)

Major(Rtd)
Marcus Mutua
*Head of Security and
Administration*

Advanced Diploma and
Certifications in
Security Intelligence
from Israel,
Trained in U.S.A. and
the UK.



(Standing l-r)

- Mirie Mwangi (*Financial Consultant*)
- Allan Mwangi (*Head of Finance*)
- Papius Muhindi (*Head of Risk Management*)
- Bildard Fwamba (*Head of Internal Audit*)
- Mbaabu Muchiri (*Head of Credit*)
- Peter Gachau (*Head of IT*)
- Samuel Kamiti (*Head of Alternate Business Channels*)
- Apollo Njoroge (*Head of Business Growth & Development*)
- Peter Lengewa (*Head of Organisational Development & HR*)
- Major (Rtd) Marcus Mutua (*Head of Security and Administration*)
- Allan Waititu (*Head of Operations*)
- Dr David Ndi (*Chief Economist*)

Mary Wamae
Head of Legal Services and Company Secretary

LLB, CPS (K), Advocate of the High Court, Post Graduate Diploma in Gender and Development

Mirie Mwangi
Financial Consultant

MBA, B com, CPA (K) Previously with PriceWaterhouseCoopers, Phillips Medical Systems and Unga Group. Lecturer in Finance (UoN).

Papius Muhindi
Head of Risk Management

B Com (Accounting Option) Previously with Central Bank of Kenya

Bildard Fwamba
Head of Internal Audit

B.Com Accounting, CPA (K) Previously with Central Bank of Kenya (CBK) and British American Insurance Company (BRITAK)

Stephen Mogaka (not in photo)
Head of Debt Recovery Unit

B.Com Accounting, LLB Previously with KCB & Transnational Bank

Samuel Kamiti
Head of Alternate Business Channels

B.Sc ,CISM, Post Graduate Diploma-Computer Science Previously Director CRDB Bank, Dar es Salaam, Tanzania

Dr David Ndi
Chief Economist

PHD, Msc, MA, BA Previously with World Bank Consulted on Economic Policy for Government of Kenya and a lecturer in University of Nairobi

Andrew Kimani
General Manager-IT Services

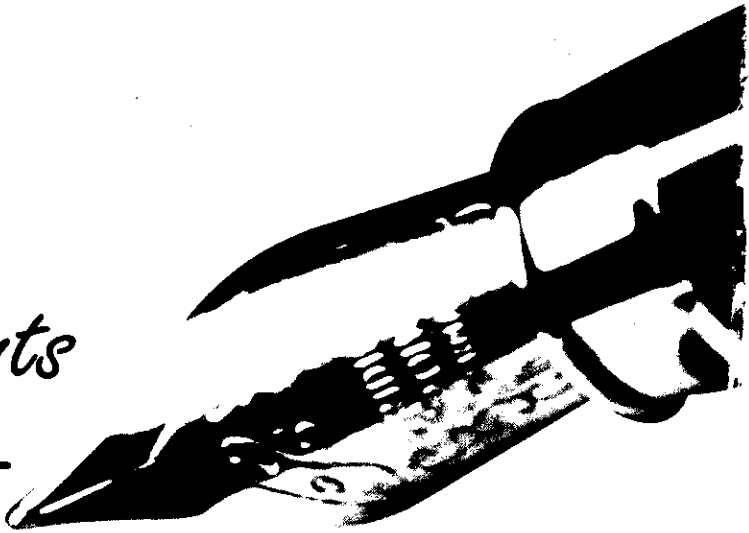
BSc. (Hons) Electrical Engineering Accredited Engineer with I.E.E.E and worked previously as a consultant with ICT and a Communications Engineer with Reuters in South Africa.

Winnie Imanyara
General Manager- Business Growth

B.A. Admin, Bsc. Industrial Psychology, Post Graduate Diploma. Previously with Reckit and Colman, SmithKline Beecham, Safaricom Kenya, and Kenya Petroleum Refineries



*Report and
Financial Statements
31 December 2005*



 **ERNST & YOUNG**

CONTENTS PAGE

	PAGE
Bank Information	26
Report of the Directors	27
Statement on Corporate Governance	29
Statement of Directors' Responsibilities	31
Report of the Independent Auditors	32
Financial Statements:-	33
Balance Sheet	33
Profit and Loss Account	34
Statement of Changes in Equity	35
Cash flow Statement	36
Notes to the Financial Statements	37

BANK INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2005

PRINCIPAL PLACE OF BUSINESS:

NHIF Building,
14th Floor
P.O. Box 75104-00200
NAIROBI

REGISTERED OFFICE:

NHIF Building,
14th Floor
P.O. Box 75104-00200
NAIROBI

LAWYERS:

Walker Kontos Advocates
Hakika House
Bishops Road
P.O. Box 60680-00200
NAIROBI

BANKERS:

Central Bank of Kenya
P O Box 60000
NAIROBI

AUDITORS:

Ernst & Young
Kenya-Re Towers, Upperhill
Off Ragati Road
P.O. Box 44286 - 00100
NAIROBI

SECRETARY:

Mary Wangari Wamae
NHIF Building,
14th Floor
P.O. Box 75104-00200
NAIROBI

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2005

The directors submit their report and the audited financial statements for the year ended 31 December 2005, which show the state of the Bank's affairs.

1. 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 28 December 2004. Through an extraordinary general meeting, held on 24 December 2004, the Bank's shareholders authorized transfer of all assets, liabilities and the business of Equity Building Society to the Bank with effect from 31 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 the company;

The company was licensed to operate as a banking institution with effect from 28th December 2004;

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 Limited 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

The results of the Bank for the period are set out on page 34.

As explained in paragraph 1 above, the banking license took effect on 28 December 2004 and the shareholders resolved to transfer assets and liabilities effective from 31 December 2004. Therefore, the Bank did not carry out trading activities for the year ended 31 December 2004. However, the results and cash flows of the Equity Building Society before the transfer are shown on page 34 and page 36 of this report, respectively.

REPORT OF THE DIRECTORS (CONT'D)

FOR THE YEAR ENDED 31 DECEMBER 2005

4. RESERVES

The reserves of the Bank are set out on page 45 of this report.

5. LISTING OF SHARES OF THE BANK AT THE NAIROBI STOCK EXCHANGE

The Bank is in the process of having its shares listed at the Nairobi Stock Exchange in 2006.

6. DIRECTORS

The following were the directors of the Bank during the period and up to the date of this report:-

Peter Kahara Munga **	-	Chairman
James Njuguna Mwangi	-	Chief Executive
Benson Irungu Wairegi **	-	Vice Chairman
Fredrick Mwangi Muchoki **		
Stefan Alexander Harpe	-	Retired on 31 st May 2005
Wagane Diouf *	-	Appointed on 31 st May 2005
Peter Gachuba (Alternate to Wagane Diouf)	-	Appointed on 31 st May 2005
Beatrice Makanga Sabana		
Julius Kangogo Kipng'etich		
Linus Wang'ombe Gitahi		
Wanjiku Mugane		
Ernest Mattho Nzovu **		

* Senegalese ** Retired by rotation on 27th May 2005 and were re-elected.

Article 100 of the Articles of Association of the Bank provides for retirement of directors by rotation.

7. AUDITORS

Ernst & Young have expressed their willingness to continue in office in accordance with the provisions of Section 159(2) of the Kenyan Companies Act (Cap 486) and Section 24(1) of the Banking Act (Cap 488).

By Order of the Board

Mary Wangari Wamae
Company Secretary

11 February
.....2006

STATEMENT ON CORPORATE GOVERNANCE FOR THE YEAR ENDED 31 DECEMBER 2005

1. BOARD OF DIRECTORS

The Board of Directors of Equity Bank are committed to conduct the affairs of the Bank with openness, integrity and accountability and in accordance to the highest standards of governance practices. The Board consists of ten directors, nine of whom are non-executive and who have a good mix of skills, experience and competencies in various relevant 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 once every quarter or more often as business demands. The Board has constituted seven Committees as follows:-

- a) Audit
- b) Risk Management
- c) Credit
- d) Systems and Processes
- e) Strategy and Investment
- f) Governance, Board Nomination and Staff Remuneration
- g) Tendering and Procurement.

The committees provide 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 Management, the Board retains overall responsibility.

Each of the directors has subscribed to a Code of Corporate Practices which sets out the duties and responsibilities of the directors. The Code also provides for the evaluation of board members' performance bi-annually. On 21st July 2005, The Board passed a resolution barring non-executive directors from obtaining loans, guarantees and other credit facilities from the Bank during their tenure of office. In addition, through a resolution passed by shareholders at the annual general meeting held on 27th May 2005, the memorandum and articles of association were amended, barring directors and their associates from trading with the Bank.

2. RISK MANAGEMENT AND INTERNAL CONTROLS

The Bank reviews its policies, processes and procedures on a continuing basis, with a view to ensuring the best performance of the Board and overall management of the business. The Internal Audit Department, reporting to the Audit Committee of the Board, ensures that adequate internal controls are in place and that they are strictly adhered to.

The Bank has established a comprehensive framework for risk management. The Bank's business units have identified a range of possible risks which have been mapped indicating risk drivers, frequency, impact, risk levels, trends, risk owners and the respective mitigating strategies. The Risk Management Department ensures compliance with the Bank's risk limits. All risks associated with banking institutions and those that are specific to Equity Bank, are actively managed by the respective business units and monitored by the Risk Management Department. The Bank's risk limits are assessed regularly to ensure the appropriateness in line with the Bank's objectives, strategies and current market conditions.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

FOR THE YEAR ENDED 31 DECEMBER 2005

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 performance. The performance of the Bank is regularly reported to 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's core values are; professionalism, integrity, creativity and innovation, teamwork, unity of purpose, respect and delight for customer care and effective corporate governance. 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 Kenyan 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, 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 Kenyan 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 financial control.

Nothing has come to the attention of the directors to indicate that the Bank will not remain a going concern for at least the next twelve months from the date of this statement.

Peter K. Munga

.....
Chairman

11 February
.....2006

**STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

The Kenyan 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, 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 Kenyan 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 financial control.

Nothing has come to the attention of the directors to indicate that the Bank will not remain a going concern for at least the next twelve months from the date of this statement.

Peter K. Munga

.....

Director

James N. Mwangi

.....

Director

11 February 2006

.....

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF EQUITY BANK LIMITED

We have audited the financial statements on pages 33 to 52 for the year ended 31 December 2005, and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE INDEPENDENT AUDITORS

As stated on page 31, the directors are responsible for the preparation of financial statements which give a true and fair view of the state of the affairs of the Bank 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.

BASIS OF OPINION

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

OPINION

In our opinion, proper books of account have been kept by the Bank, and the financial statements which are in agreement therewith, give a true and fair view of the state of the financial affairs of the Bank at 31 December 2005 and its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

 **ERNST & YOUNG**

Certified Public Accountants

Nairobi, Kenya

BALANCE SHEET
AS AT 31 DECEMBER 2005

	Note	2005 KShs'000	2004 KShs'000
ASSETS			
Cash and bank balances	3	1,305,979	789,678
Treasury bills and bonds	4	1,254,415	578,301
Placements and balances with other banking institutions	5	2,094,320	1,914,078
Loans and advances to customers	6	5,524,360	2,873,698
Property, equipment and leases	7	1,045,222	412,269
Investment property	8	11,269	11,269
Intangible assets	9	89,477	8,403
Other assets	10	126,910	119,724
Deferred tax	11	4,591	-
TOTAL ASSETS		14,456,543	6,707,420
LIABILITIES			
Customers' deposits	12	9,047,765	5,081,456
Other liabilities	13	646,556	334,172
Tax payable	11	168,229	11,994
Deferred tax		-	8,543
TOTAL LIABILITIES		9,862,550	5,436,165
SHAREHOLDERS' FUNDS:-			
Share capital	14	452,823	90,565
Reserves	15	1,141,170	1,180,690
TOTAL SHAREHOLDERS' FUNDS		1,593,993	1,271,255
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		14,456,543	6,707,420

The financial statements were authorized for issue by the Board of Directors on 11 February 2006 and signed on its behalf by:-

Peter K. Munga

.....

Director

James N. Mwangi

.....

Director

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 Equity Bank Limited KShs'000	2004 Equity Building Society KShs'000
INCOME			
Interest earned	16	947,830	459,141
Interest expense	17	(82,327)	(63,504)
Net interest income		865,503	395,637
OTHER INCOME			
Commission and other income	18	937,237	640,120
TOTAL OPERATING INCOME		1,802,740	1,035,757
EXPENSES			
Management expenses	19	1,040,274	562,944
Depreciation and amortization	20	137,658	83,671
Provision for bad and doubtful debts		124,276	170,890
		1,302,208	817,505
PROFIT BEFORE TAXATION	21	500,532	218,252
TAXATION	11	(155,934)	(82,117)
PROFIT AFTER TAXATION		344,598	136,135
EARNINGS PER SHARE	22	KShs 3.80	-

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005

	Share capital KShs'000	Share premium KShs'000	Capital reserve KShs'000	Revenue reserves KShs'000	Other reserves KShs'000	Proposed dividend KShs'000	Total KShs'000
On initial issue of share capital	27,059	698,134	-	-	-	-	725,193
On transfer of assets and liabilities from Equity Building Society	63,506	144,486	50,694	299,075	(11,699)	-	546,062
At 31 December 2004	90,565	842,620	50,694	299,075	(11,699)	-	1,271,255
At 1 January 2005	90,565	842,620	50,694	299,075	(11,699)	-	1,271,255
Transfer of capital grants to revenue reserves	-	-	(38,990)	38,990	-	-	-
Profit for the year	-	-	-	344,598	-	-	344,598
Capitalisation of share premium	362,258	(362,258)	-	-	-	-	-
Revaluation of treasury bonds	-	-	-	(181,129)	(21,860)	181,129	(21,860)
Proposed dividend	-	-	-	11,704	-	-	-
Armotisation of grant funds	-	-	(11,704)	-	-	-	-
At 31 December 2005	452,823	480,362	-	513,238	(33,559)	181,129	1,593,993

CASHFLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 KShs'000	2004 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit before taxation	500,532	218,252
Adjustments for:-		
Depreciation	112,705	78,786
Amortisation of prepaid leases	47	333
Amortisation of intangible assets	24,906	4,552
Profit on disposal of village cell baking vans	(1,213)	(11,698)
Write off of computer software	9,305	778
Operating profit before working capital changes	646,282	291,003
Other assets	(7,186)	(79,756)
Loans and advances to customers	(2,650,662)	(1,266,975)
Customers' deposits	3,966,309	1,712,867
Other liabilities	312,384	219,299
Cash generated from operations	2,267,127	876,438
Income taxes paid	(12,833)	(60,000)
Net cash from operating activities	2,254,294	816,438
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(747,142)	(268,254)
Purchase of intangible assets	(115,285)	-
Proceeds from sale of property and equipment	2,650	3,000
(Purchase)/sale of treasury bills and bonds	(697,974)	291,784
Placements with other banking institutions	(180,242)	(1,211,093)
Net cash flow from investing activities	(1,737,993)	(1,184,563)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	-	725,192
Dividend paid	-	(18,858)
Net cash flow from financing activities	-	706,334
Net increase in cash and cash equivalents	516,301	338,209
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	789,678	451,469
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (Note 3)	1,305,979	789,678

NOTES TO THE FINANCIAL STATEMENTS

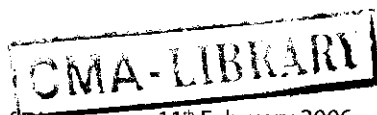
FOR THE YEAR ENDED 31 DECEMBER 2005

1. GENERAL INFORMATION

Equity Bank Limited provides retail banking and microfinance services in various parts of the country. The Bank has a total branch network of 31 and employs 884 (532 in 2004) people.

The Bank is incorporated in Kenya under the Kenyan Companies Act. The address of its registered office is as follows:

14th Floor, NHIF Building
P.O. Box 75104-00200
NAIROBI



These financial statements were approved for issue by the Board of Directors on 11th February 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

a) Basis of preparation

The financial statements of Equity Bank Limited have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

b) Provisions

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

c) Income recognition

i) Interest income

Interest income is recognised in the profit and loss account for all interest bearing instruments on an accrual basis taking into account the effective yield on the asset.

ii) Fees and commission income

Fees and commission income is generally recognised on an accrual basis.

d) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash balances on hand and amounts due from other banks, other than deposits on placement with other banking institutions.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Property, equipment and leases

Property and equipment are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on the straight-line basis, at annual rates estimated to write off carrying values of the assets over the estimated useful lives.

The annual rates of depreciation in use are:-

Freehold land	Nil
Buildings	2.5%
Motor vehicles	25%
Office equipment, furniture and fittings	12.5%
Computer hardware and software	33.3%
Village cell banking vans	25%

Property and equipment are periodically reviewed for impairment. When the carrying amount of the asset is greater than its estimated recoverable amount, it is written down immediately to its estimated recoverable amount.

Leasehold improvements are written off over their estimated useful life or the lease period, whichever is less.

f) Computer software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. However, expenditure that enhances or extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over a period of three years.

g) Employment benefits

Pension obligations

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.

Statutory pension obligations

The Bank contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are defined 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) 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 recognised 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, although not specifically identified, are known from experience to be present in any such portfolio. This provision is based on the directors' assessment of the risk of non-recovery known to be present in the portfolio of the Bank advances.

Where a loan or an advance is deemed irrecoverable, 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.

i) 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 recognised 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.

j) 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.

k) Investments

i) Trading securities

Trading securities are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at cost (which includes transaction costs) and subsequently re-measured at fair value based on quoted bid prices. All related realised and unrealised gains and losses are included in the profit and loss account. Interest earned whilst holding trading securities is reported as interest income.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Investments (continued)

ii) Held to maturity investments

Investment securities with fixed maturity, where management has both the intent and the ability to hold to maturity are classified as held to maturity, and are carried at amortised costs using the effective yield method, less any provision for impairment.

iii) Available for sale investments

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity, or changes in interest rates, exchange rates or equity prices are classified as available for sale and are initially recognised at cost. Available for sale investments are subsequently re-measured at fair value, based on quoted bid prices or amount derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of securities classified as available for sale are recognised directly in equity until the asset is derecognised, at which time the cumulative gains or losses previously recognised in equity shall be recognised in the profit and loss account.

l) Foreign currencies

Assets and liabilities in foreign currencies have been translated at rates approximating the mean rates of exchange ruling at the balance sheet date. Transactions during the year are converted at the rates ruling at the dates of the transactions. Gains and losses on conversion and translation are either included in the profit and loss account or, where appropriate, recharged to the relevant third party.

m) Dividends

Dividends are charged to equity in the year in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

n) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

o) Impairment of assets

The Bank assesses, at each reporting date, whether there is an indication that an asset may be impaired. If such indication exists, the Bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the profit and loss account.

p) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED 31 DECEMBER 2005

3. CASH AND BANK BALANCES

	2005 KShs'000	2004 KShs'000
Cash in hand	506,438	304,830
Cash at bank	799,541	484,848
	<u>305,979</u>	<u>789,678</u>

4. TREASURY BILLS AND BONDS

(i) Treasury bills: Maturing between 3-12 months	372,974	-
(ii) Treasury bonds		
Cost	915,000	590,000
Maturity analysis: - Maturing between 3-12 months	325,000	-
Maturing between 1-5 years	490,000	220,000
Maturing over 5 years	100,000	370,000
	<u>915,000</u>	<u>590,000</u>
Impairment	(33,559)	(11,699)
	<u>881,441</u>	<u>578,301</u>
Total	<u>254,415</u>	<u>578,301</u>

5. PLACEMENTS AND BALANCES WITH OTHER BANKING INSTITUTIONS

Balances with commercial banks	994,320	1,914,078
--------------------------------	---------	-----------

6. LOANS AND ADVANCES TO CUSTOMERS

a) Loans and advances (gross)	885,286	3,099,456
Provisions for impairment	(60,926)	(225,758)
Net loans and advances	<u>524,360</u>	<u>2,873,698</u>
b) Non-performing loans and advances	519,377	245,529
Provision for impairment losses	(19,068)	(130,304)
	<u>300,309</u>	<u>115,225</u>
c) Maturity analysis: - Maturing within 30 days	530,600	298,017
Maturing within 30 days but before 3 months	728,865	218,636
Maturing after 3 months but within 1 year	293,452	1,080,902
Maturing after 1 year	332,369	1,447,039
Maturing after 5 years	-	54,862
	<u>885,286</u>	<u>3,099,456</u>
d) Provisions and interest suspended:		
Balance held as at 1 January	225,758	127,493
Specific provisions made during the year	104,273	157,425
Interest suspended during the year	65,294	32,524
General provisions	20,003	13,464
Write-off during the year	(54,402)	(105,148)
	<u>360,926</u>	<u>225,758</u>

The Bank uses a grading system that classifies advances into grades 1 to 5 and recognizes grades 3, 4 and 5 as non-performing, in compliance with the Central Bank of Kenya guidelines.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Cont'd)

7. PROPERTY, EQUIPMENT AND LEASEHOLD LAND

(i) Property and Equipment

	Freehold land & buildings KShs'000	Leasehold improvements KShs'000	Motor vehicles KShs'000	Office equipment, furniture & fittings KShs'000	Work-in-progress KShs'000	Computers KShs'000	Village cell banking vans KShs'000	Total KShs'000
COST								
At 1 January 2005	40,340	99,618	44,708	221,049	-	188,930	24,479	619,124
Additions	-	156,656	10,596	101,139	402,446	76,305	-	747,142
Disposals	-	-	-	-	-	-	(4,117)	(4,117)
At 31 December 2005	40,340	256,274	55,304	322,188	402,446	265,235	20,362	1,362,149
DEPRECIATION								
At 1 January 2005	4,552	27,248	17,447	63,740	-	87,134	10,989	211,110
Charge for the year	936	16,816	9,029	31,819	-	47,985	6,120	112,705
Release on disposal	-	-	-	-	-	-	(2,680)	(2,680)
At 31 December 2005	5,488	44,064	26,476	95,559	-	135,119	14,429	321,135
NET BOOK VALUE								
At 31 December 2005	34,852	212,210	28,828	226,629	402,446	130,116	5,933	1,041,014
At 31 December 2004	35,788	72,370	27,261	157,309	-	101,796	13,490	408,014

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED 31 DECEMBER 2005

7. PROPERTY, EQUIPMENT AND LEASEHOLD LAND (Continued)

(ii) Prepaid Leases	2005 Shs'000	2004 KShs'000
COST		
At 1 January and 31 December	4,588	4,588
ACCUMULATED AMORTISATION		
At 1 January	333	-
Charge for the year	47	333
At 31 December	380	333
NET BOOK VALUE		
At 31 December	4,208	4,255
TOTAL PROPERTY, EQUIPMENT AND LEASES		
Property and equipment	1,041,014	408,014
Prepaid leases	4,208	4,255
	1,045,222	412,269
8. INVESTMENT PROPERTY	11,269	11,269

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.

9. INTANGIBLE ASSETS

	2005 Shs'000	2004 KShs'000
COST		
At 1 January	25,063	20,930
Additions	115,285	4,133
Write off	(13,264)	-
At 31 December	127,084	25,063
AMORTISATION		
At 1 January	16,660	12,108
Charge for the year	24,906	4,552
Eliminated on write off	(3,959)	-
At 31 December	37,607	16,660
NET BOOK VALUE	89,477	8,403

This represents computer application software used by the Bank to maintain its records.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED 31 DECEMBER 2005

10. OTHER ASSETS

	2005 KShs'000	2004 KShs'000
Interest receivable on placements	47,981	17,315
Interest receivable on treasury bonds	13,047	12,936
Other receivables and prepayments	65,882	89,473
	<u>126,910</u>	<u>119,724</u>

11. TAX PAYABLE

Balance Sheet:-		
Balance brought forward	11,994	(4,414)
Charge for the year	169,068	76,698
Payments during the year	(12,833)	(60,000)
Overprovision in prior years	-	(290)
	<u>168,229</u>	<u>11,994</u>
Profit and Loss Account:-		
Charge for the year	169,068	76,698
Deferred tax charge	(13,134)	5,709
Overprovision in previous years	-	(290)
	<u>155,934</u>	<u>82,117</u>
Reconciliation of taxation expense based on accounting profit:-		
Accounting profit before taxation	500,532	218,252
Tax applicable rate of 30%	150,160	65,476
Tax effects on items not deducted for tax	18,908	11,222
Originating and reversing temporary differences	(13,134)	5,709
Over provision in previous years	-	(290)
	<u>155,934</u>	<u>82,117</u>
Deferred Tax:-		
Excess of depreciation over tax allowances	15,327	18,976
Other timing differences	(19,918)	(10,433)
	<u>(4,591)</u>	<u>8,543</u>

12. CUSTOMERS' DEPOSITS

Savings accounts	7,018,195	4,478,980
Current accounts	823,837	-
Fixed deposits	1,161,251	595,302
Interest payable	44,482	7,174
	<u>9,047,765</u>	<u>5,081,456</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED 31 DECEMBER 2005

13. OTHER LIABILITIES

	2005 KShs'000	2004 KShs'000
Unearned income	335,005	247,398
Other creditors and accruals	311,551	86,774
	646,556	334,172

14. SHARE CAPITAL

Authorized:		
100,000,000 ordinary shares of KShs 5 each (2004: 50,000,000 ordinary shares of KShs 5 each)	500,000	250,000
Issued and fully paid:		
90,564,549 ordinary shares of KShs 5 each (2004 : 18,112,910 ordinary shares of Kshs 5 each)	452,823	90,565

A bonus issue of four (4) ordinary shares for each one (1) ordinary share held as at 30 June 2005 was made, resulting in additional shares of 72,451,639. The share premium amount of KShs 362,258,000 was capitalized in respect of the issue.

15. RESERVES

	2005 Total reserves KShs'000	2004 Total reserves KShs'000
Capital reserves	-	50,694
Share premium	480,362	842,620
Other reserves	(33,559)	(11,699)
Accumulated profits	513,238	299,075
Proposed dividends	181,129	-
	1,141,170	1,180,690

Capital reserves

This represents capital grants net of amortisation.

Share premium

This relate to the premium paid on issue of shares by the Bank.

Other reserves

This relates to diminution in value of treasury bonds.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED 31 DECEMBER 2005

16. INTEREST EARNED

	2005 Equity Bank Limited KShs'000	2004 Equity Building Society KShs'000
Loans and advances	692,600	362,427
Treasury bills and bonds	76,581	51,241
Placements	178,649	45,473
	947,830	459,141

17. INTEREST EXPENSE

Savings accounts	68,510	41,097
Fixed deposit accounts	13,817	22,407
	82,327	63,504

18. COMMISSION AND OTHER INCOME

Commission income	895,230	616,993
Other income	42,007	23,127
	937,237	640,120

19. MANAGEMENT EXPENSES

Salaries and staff expenses	531,505	288,953
Establishment expenses	172,943	104,956
Provision for inter branch balance	5,000	10,000
Other administrative expenses	330,826	159,035
	1,040,274	562,944

20. DEPRECIATION AND ARMOTISATION

Depreciation	112,705	78,786
Amortisation	24,953	4,885
	137,658	83,671

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2005

21. PROFIT BEFORE TAXATION

	2005 Equity Bank Limited KShs'000	2004 Equity Building Society KShs'000
The profit before tax is stated after charging:-		
Depreciation of property and equipment	112,705	78,786
Amortisation of intangible assets	24,906	4,552
Amortisation of prepaid lease	47	333
Auditors' remuneration	1,200	685
Write off of computer software	9,305	-
Directors' emoluments:	34,454	40,115
Pension scheme contributions:-		
Defined contribution pension scheme	5,503	3,964
National Social Security Fund	1,601	1,000

22. EARNINGS PER SHARE

The basic earnings per share is calculated on the profit after tax for the year of KShs 344,598,000 and on the number of ordinary shares outstanding during the year of KShs 90,564,549.

23. 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 6 August 2001. The Court delivered its judgement on 24 January 2002.

A Decree to confirm the judgement was extracted on 22 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 17 April 2002, the Attorney General filed an application to vary the Decree on the matter of the Act being *Ultra Vires* to 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. Subsequent to financial year-end, the Central Bank of Kenya withdrew from the court action to challenge the Decree. The matter is yet to be determined in court.

Since the Bank was established subsequent to assenting of the Act, the outcome of the ruling will therefore not affect the Bank.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2005

24. FOREIGN CURRENCY EXPOSURE

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The board of directors has set limits on foreign currency positions. The foreign currency positions are monitored on daily basis and hedging strategies used to ensure that positions are maintained within the established limits. The amounts below summarize the foreign currency exposure position as at 31 December 2005.

	2005 KShs'000	2004 KShs'000
Assets in foreign currency	78,623	-
Liabilities in foreign currency	(1,146)	-
Net foreign currency exposure as at 31 December	77,477	-

	Equity Bank Limited KShs'000	Equity Building Society KShs'000
Salaries	487,213	267,228
Pension contributions	7,103	4,964
Other staff costs	37,189	16,761
	531,505	288,953

25. EMPLOYEE COSTS

26. RETIREMENT BENEFITS OBLIGATIONS

a) Equity Pension Scheme

The Bank operates a defined contribution pension scheme for its management staff.

The scheme is independently managed by British American Insurance Company Limited.

b) National Social Security Fund (NSSF)

This is a statutory defined contribution pension scheme in which both the employer and employees contribute equal amounts.

The amounts recognised in the profit and loss account for the year is as follows:

	2005 Equity Bank Limited KShs'000	2004 Equity Building Society KShs'000
Pension scheme	5,503	3,964
National Social Security Fund	1,601	1,000
Current contribution costs	7,104	4,964

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2005

27. RELATED PARTY TRANSACTIONS

Loans due to directors and staff

Total amount of loans and advances granted to the members of the board of directors and employees in the ordinary course of business include:-

	2005 KShs'000	2004 KShs'000
Directors	-	15,180
Employees	182,596	50,398
Shareholders	196,988	-
	<u>379,584</u>	<u>65,578</u>

28. 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 year, 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 year, 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 on the next page shows interest rate sensitivity gap for the Bank at 31 December 2005 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Cont'd)

28. INTEREST RATE RISK (continued)

ASSETS	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
Cash and bank balances	-	-	-	-	-	1,305,979	1,305,979
Treasury bills and bonds	-	-	696,112	484,503	73,800	-	1,254,415
Placements and balances with other banks	-	1,994,320	100,000	-	-	-	2,094,320
Loans and advances to customers	530,600	728,865	2,112,989	2,151,906	-	-	5,524,360
Property, equipment and lease hold land	-	-	-	-	-	1,045,222	1,045,222
Investment property	-	-	-	-	-	11,269	11,269
Intangible assets	-	-	-	-	-	89,477	89,477
Other assets	-	-	-	-	-	126,910	126,910
Deferred tax	-	-	-	4,591	-	-	4,591
Total assets	530,600	2,723,185	2,909,101	2,641,000	73,800	2,578,857	11,456,543
LIABILITIES AND SHAREHOLDERS' FUNDS							
Customer deposits	1,086,683	492,718	306,800	109,922	7,051,642	-	9,047,765
Other liabilities	-	-	-	-	-	646,556	646,556
Tax payable	-	-	-	-	-	168,229	168,229
Share capital & Reserves	-	-	-	-	-	1,593,993	1,593,993
Total liabilities and shareholders' funds	1,086,683	492,718	306,800	109,922	7,051,642	2,408,778	11,456,543
INTEREST RATE SENSITIVITY GAP AT 31.12.05	(556,083)	2,230,467	2,602,301	2,531,078	(6,977,842)	170,079	-
INTEREST RATE SENSITIVITY GAP AT 31.12.04	711,838	617,118	1,592,141	1,662,314	(4,299,728)	(285,563)	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Cont'd)

29 LIQUIDITY RISK MANAGEMENT

The Bank manages the liquidity structure of assets, liabilities and commitments so 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 year at 31 December 2005 to the contractual maturity date.

	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
ASSETS						
Cash and bank balances	1,305,979	-	-	-	-	1,305,979
Treasury bills and bonds	-	-	696,112	484,503	73,800	1,254,415
Placements and balances with other banks	-	1,994,320	100,000	-	-	2,094,320
Loans and advances to customers	530,600	728,865	2,112,989	2,151,906	880,345	5,524,360
Property, equipment and lease hold land	-	-	-	164,877	11,269	1,045,222
Investment property	-	-	-	-	89,477	89,477
Intangible assets	-	-	-	-	-	126,910
Other assets	-	26,002	100,908	4,591	-	126,910
Deferred tax	-	-	-	-	-	4,591
Total assets	1,836,579	2,749,187	3,010,009	2,805,877	1,054,891	11,456,543
LIABILITIES AND SHAREHOLDERS' FUNDS						
Customer deposits	1,086,683	492,718	306,800	109,922	7,051,642	9,047,765
Other liabilities	388,585	257,971	-	-	-	646,556
Tax payable	-	168,229	-	-	-	168,229
Share capital & Reserves	-	-	181,229	-	1,412,764	1,593,993
Total liabilities and shareholders' funds	1,475,268	918,918	488,029	109,922	8,464,406	11,456,543
NET LIQUIDITY GAP AT 31.12.05	361,311	1,830,269	2,521,980	2,695,955	(7,409,515)	-
NET LIQUIDITY GAP AT 31.12.04	711,838	617,118	2,208,371	1,662,314	(5,199,641)	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED 31 DECEMBER 2005

30. COMMITMENTS

	2005 KShs'000	2004 KShs'000
Capital commitment contracted for at year end	32,850	-

This relates to the remaining portion of contract for supply of new computer software.

31. CONTINGENT LIABILITIES

	2005 KShs'000	2004 KShs'000
Guarantees and performance bonds	168,113	50,923
Litigation	9,741	5,300
	<u>177,854</u>	<u>56,223</u>

Litigation amounts included above are in respect of pending court cases against the Bank. No provision has been made on the financial statements as the directors are of the view that the case is unlikely to succeed.

32. CURRENCY

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