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Our Vision

"...to be the preferred Micro Finance services provider contributing to the economic prosperity of Africa..."

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.

Core Values

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

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Fourth Annual General Meeting (AGM) of the shareholders of Equity Bank Limited will be held on 25th June 2008 at Kenyatta International Conference Centre (KICC) Nairobi at 10.00 am to transact the following business:

1. To read the notice convening the meeting.
2. To receive, consider and if thought fit, adopt the Annual Report and Financial Statements for the year ended 31st December 2007 together with the Chairman's, Directors' and Auditors' reports thereon.
3. To approve a first and final dividend for the year ended 31st December 2007 of Kshs 2.00 per ordinary share of Kshs 5.00 par value subject to withholding tax where applicable.
4. Election of Directors:
 - a) Mr. Peter Kahara Munga retires in accordance with Article 100 of the Company's Articles of Association and being eligible, offers himself for re-election.
 - b) Mr. Julius Kangogo Kipng'etich retires in accordance with Article 100 of the Company's Articles of Association and being eligible, offers himself for re-election.
 - c) Mr. Peter Njeru Gachuba retires in accordance with Article 100 of the Company's Articles of Association and being eligible, offers himself for re-election.
 - d) Mr Babatunde Temitope Soyoye having been appointed as a director since the date of the last Annual General Meeting retires in accordance with Article 101 of the Company's Articles and being eligible offers himself for election.
 - e) Mr Temitope Olugbeminiyi Lawani having been appointed as a director since the date of the last Annual General Meeting 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(2) of the Companies Act (Cap 486) and to authorize the directors to fix their remuneration.
7. Any other business of which notice will have been duly received.

By order of the Board



Mary Wangari Wamae
Company Secretary
NAIROBI, 22nd May 2008

NOTE:

- 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 Company Secretary at the Company's Head Office situate in NHIF BUILDING 14TH FLOOR, not later than 10.00 am on 23rd June 2008 failing which it will be invalid. In case of a corporate body, the proxy must be under its common seal.
- 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 2007 of Kshs 2.00 per share being 40% of par value to be paid to shareholders on the register at the close of business on 4th April 2008. The dividend will be paid on or about 30th June 2008. Helios EB Investors will not be eligible for the dividend.

2007
C

3 Ilani inatolewa hapa kwamba mkutano Mkuu wa Nne wa Mwaka (AGM) wa wenyehisa wa kampuni ya Equity Bank utafanywa tarehe 25 Juni 2008 katika Jumba la Kenyatta International Conference Centre (KICC) Nairobi saa nne asubuhi kutekeleza shughuli zifuatazo:

1. Kusoma ilani ya kuitisha mkutano
2. Kupokea, kutafakari na ikikubaliwa, kuidhinisha Ripoti ya Mwaka na Taarifa za Kifedha kwa mwaka uliyomalizika 31 Disemba 2007 pamoja na Ripoti za Mwenyekiti, Wakurugenzi na Wakaguzi wa Hesabu.
3. Kuidhinisha mgao wa faida wa kwanza na wa mwisho kwa mwaka wa 2007 wa shilingi 2.00 kwa kila hisa ya kawaida ya shilingi 5.00 kwa kutegemea kodi ya uhifadhi (withholding tax) inapohitajika.
4. Uchaguzi wa Wakurugenzi:
 - (a) Bw. Peter Kahara Munga anastaafu kulingana na kifungu 100 cha sheria za kampuni na kwa kuwa amehitimu, anajiwasilisha kuchaguliwa tena.
 - (b) Bw. Julius Kangogo Kipng'etich anastaafu kulingana na kifungu 100 cha sheria za kampuni na kwa kuwa amehitimu, anajiwasilisha kuchaguliwa tena.
 - (c) Bw. Peter Njeru Gachuba anastaafu kulingana na kifungu 100 cha sheria za kampuni na kwa kuwa amehitimu, anajiwasilisha kuchaguliwa tena.
 - (d) Bw. Babatunde Temitope Soyoye ambaye aliteuliwa kama mkurugenzi tangu tarehe ya Mkutano Mkuu wa Mwaka uliopita anastaafu kulingana na kifungu 101 cha sheria za kampuni na kwa kuwa anahitimu, anajiwasilisha kuchaguliwa.
 - (e) Bw. Temitope Olugbeminiyi Lawani ambaye aliteuliwa kama mkurugenzi tangu tarehe ya Mkutano Mkuu wa Mwaka uliopita anastaafu kulingana na kifungu 101 cha sheria za kampuni na kwa kuwa anahitimu, anajiwasilisha kuchaguliwa.

5. Kuweka malipo ya Wakurugenzi.

6. Kubaini kwamba Wakaguzi wa Hesabu Ernst & Young wakiwa wamehitimu na wamedhihirisha nia yao, wataendelea na kazi hiyo kuambatana na sehemu ya 159 (2) ya Sheria za Makampuni (Cap 486) na kuidhinisha Wakurugenzi kuweka malipo yao.
7. Shughuli nyingine yoyote ambayo ilani yake itakuwa imepokewa ipasavyo.

Kwa Amri ya Halmashauri

Mary Wangari Wamae
Katibu wa Kampuni
Nairobi, 22 Mei 2008

KUMBUKA:

1. Mwanachama yeyote anayeruhusiwa kuhudhuria na kupiga kura katika mkutano na ambaye hawezi kuhudhuria ana haki ya kumchagua mtu atakayehudhuria na kupiga kura kwa niaba yake. Ili ikubalike kisheria fomu ya uwakilishi inapaswa kujazwa kikamilifu na mwanachama na kufikishwa kwa katibu wa kampuni katika afisi kuu za kampuni zilizoko jengo la NHIF OROFA YA14 kabla ya saa nne asubuhi tarehe 23 Juni 2008 la sivyo haitakubalika. Ikiwa uwakilishi ni wa shirika sharti fomu iwe na muhuri wake.
2. Ikikubaliwa na wenyehisa, Halmashauri ya wakurugenzi imeazimia kupendekeza kwenye Mkutano mkuu ujao wa Mwaka mgao wa faida wa shilingi 2.00 kwa kila hisa ikiwa ni aslimia 40% ya thamani ya hisa inayopaswa kulipwa wenyehisa walio kwenye orodha ya usajili ya wenyehisa kufikia kufungwa kwa shughuli za kazi tarehe 4 Aprili 2008. Mgao huo wa faida utalipwa kuanzia tarehe 30 Juni 2008. Helios EB Investors hawatahitimu kupokea mgao huo.

Mr. Peter K. Mungai, MBA
Chairman (Interim) 2012



"...Your bank was also voted the Best Bank in Kenya in the prestigious 2007 Euromoney Awards for Excellence... on the grounds of achievements in lending to the retail sector and reaching out to the 'unbanked', pioneering efforts which bigger banks are trying to keep up with.....(and for exhibiting)... "The ability to innovate, react at speed and make the best use of the inherent strength....."

INTRODUCTION

It gives me great pleasure to welcome you to this year's Annual General Meeting. I sincerely thank you for your support, which has translated to yet another successful year for your bank.

OPERATING ENVIRONMENT

Economic indicators reflect that Kenya's economy performed well in the year 2007. Estimates from the Central Bank of Kenya indicate that the annual growth rate was about 7% with key sectors such as financial services, agriculture (horticulture), tourism, transport, construction, telecommunication, energy and manufacturing playing a critical role. The average annual underlying inflation rate increased to 5.2% owing to increased cost of food and fuel while interest rates rose from 6.0% to 7.5% before settling at 6.8% towards the end of the year.

In the year under review, the shilling appreciated against major world currencies with US Dollar moving from Kshs 69.36 to 63.20; Sterling Pound moving from Kshs 136.79 to 128.45; and the Japanese Yen moving from Kshs 59.47 to 56.52. In the capital market the NSE 20-Share Index declined marginally closing the year at 5,445 points down from 5,646 points in 2006. However, the total market capitalization increased by 7.4% to Kshs 851 billion from Kshs 792 billion.

Under these favourable macroeconomic conditions, the banking sector remained stable and continued to record impressive

performance with profitability growing by 33.9% and total assets expanding by 20.2%. The stock of non performing loans dropped to Kshs 59.1 billion from Kshs 103.8 billion. Liquidity in the market was relatively high with a ratio of 40.65%, more than double the statutory minimum requirement of 20%.

EQUITY BANK PERFORMANCE

Since inception in 1984, your bank has continued to achieve its vision of economically empowering Kenyans by offering affordable financial services. The continued phenomenal growth and outstanding performance has resulted in national and international recognitions of your bank's operations and corporate governance.

We have continued to focus on strengthening your bank by building a solid institutional foundation. This is reflected through strong credit rating where your bank achieved A+ for long term and A1 for short term. In addition, the bank has continued to enhance efficiency and effectiveness in service delivery through a robust information technology banking platform. The bank has maintained leadership in offering innovative products and services resulting in increased market share. I am proud to report to you that the bank closed the year with over 1.8 million bank accounts constituting over 38% of all bank accounts in Kenya.

Our business model continues to be validated through recognition and awards both locally and internationally. During the year, at the

international level, your bank was awarded the prestigious 2007 Global Vision Award in Microfinance as an "Initiator of a concept of the future that will shape the world economy." In recognition of the successful and unique business model and outstanding leadership, the Kenya Methodist University and Kenyatta University awarded our CEO Dr. James Mwangi with an Honorary Doctorate in Business Administration (Honoris Causa), Doctor of Humane Letters (Honoris Causa) respectively.

Your bank was also voted the Best Bank in Kenya in the prestigious 2007 Euromoney Awards for Excellence. While awarding the bank, Euromoney noted:

"... Equity Bank has been awarded the Best Bank in Kenya on the grounds of achievements in lending to the retail sector and reaching out to the 'unbanked', pioneering efforts which bigger banks are trying to keep up with..... (and for exhibiting)... "The ability to innovate, react at speed and make the best use of the inherent strength....."

Further, the US based Micro Capital ranked your bank as the Best Microfinance Institution in Africa and 3rd best in the World in 2007.

Nationally, your bank won the following awards at the 2007 Kenya Banking Survey

- Best Retail Bank
- Best Microfinance Bank
- Fastest Growing Bank
- Runners up in Product Innovation

- Runners up in Small and Medium Enterprise (SME) banking.
- 2nd Best Bank overall

We dedicate all these achievements to you our shareholders, our staff, our customers and all our stakeholders. It could not have been possible without your support.

MARKET CAPITALISATION

Your bank is listed on the Main Investment Market Segment (MIMS) of the NSE. Since listing in August 2006, the bank's share has continued to exhibit sterling performance from an initial market capitalization of Kshs 6.2 billion to stand at Kshs 54 billion as at 31st December 2007. This elevated the bank to the top seven companies in Kenya by market capitalization. We are committed to live up to our mission of maximizing value for our stakeholders.

INVESTMENT BY HELIOS EB INVESTORS, L.P (HELIOS EB)

On 21st December 2007, you approved a capital investment of Ksh. 11 billion by Helios EB in exchange for 90,516,255 ordinary shares representing 24.99% of the bank's issued share capital. The strong growth experienced by the bank in all areas of operations, growth and performance underpins the necessity to maintain adequate core capital. This investment raised shareholders' funds to Ksh 15 billion from Kshs 2.2 billion making the bank one of the best capitalized bank in the region.

INVESTMENT IN HOUSING FINANCE COMPANY OF KENYA (HF)

On 11th July 2007, Equity Bank and British-American Investment Company (K) Limited (BAICL) bought out CDC Group PLC's 24.99% stake in HF. Your bank acquired 23 million shares at a cost of Kshs 433 million while BAICL acquired 5,635,000 shares. This acquisition made your bank and BAICL the strategic partners and anchor shareholders of HF, creating a wider customer base and opening

new possibilities for provision of composite financial services.

LONG AND MEDIUM TERM DEBT

During the year, the Board approved borrowing of Kshs 4.52 billion long term funds from various international development financial institutions in order to diversify the funding base of the bank. In addition, a medium-term loan of Kshs 100 million was obtained from the Ministry of Youth Affairs for on-lending to young entrepreneurs.

CORPORATE GOVERNANCE

During the year under review, Ms Beatrice Sabana retired from the Board of Directors while Mr Babatunde Soyoye and Mr Temitope Lawani, both of Helios EB were appointed to serve on the Board. Whilst welcoming the two new directors, on behalf of the board, I would like to thank Beatrice for her contributions and wish her well in her endeavours.

Detailed statements in respect to Corporate Governance and Social Responsibility are contained elsewhere in this report.

DIVIDEND

The Board is recommending a dividend of Kshs 2.00 per ordinary share of Kshs 5.00 for the year ended 2007 subject to your approval in this meeting. Helios EB investors are not eligible for dividends this year.

FUTURE OUTLOOK

As you are aware, the year 2008 started on a sad note when the country experienced post-election violence affecting normal business operations in the country. Fortunately, this did not adversely affect the operations of the bank other than the initial slow down of the economy. We do not foresee serious impact on the business as a political settlement has since been reached.

Your bank is all geared up for higher growth this year. Focus will continuously be on,

growth and expansion both within Kenya and in the region.

CONCLUSION

On my behalf and that of the Board, management and staff of the bank, we thank you for the support you extended to the bank throughout the year. We continue to count on your support and reaffirm our commitment to meeting the ambitious targets of the bank while remaining focused to the needs of our customers and committed to effective corporate governance practices.

THANK YOU



**Mr. Peter K. Munga, EBS
Chairman
Board of Directors.**

“...Benki ya Equity imetunukiwa benki bora zaidi nchini Kenya kwa misingi ya ufanisi katika ukopeshaji kwa sekta ya rejareja na kuwafikia wale waliokuwa hawapati huduma za benki, na kuanzisha juhudi ambazo benki kubwa zinajaribu kuzifikia...(na kwa dhihirisho hilo)...uwezo wa kubuni, kuchukua hatua za haraka na kutumia kwa njia bora zaidi uwezo ilionao...”

UTANGULIZI

Nina furaha tele kuwakaribisha kwenye Mkutano Mkuu wa Kila Mwaka. Ninawashukuru kwa dhati kwa usaidizi wenu ambao umewezesha kupatikana kwa mwaka mwingine wenye mafanikio kwa benki yenu.

MAZINGIRA YA UTENDAJI

Ishara za kiuchumi zinadhihirisha kwamba uchumi wa Kenya ulikuwa na matokeo bora katika mwaka wa 2007. Makadirio kutoka kwa Benki Kuu ya Kenya yalidhihirisha kwamba kiwango cha ukuaji wa mwaka kilikuwa asilimia 7% huku sekta muhimu kama vile huduma za kifedha, kilimo (mboga, matunda na maua), utalii, uchukuzi, ujenzi, mawasiliano ya simu, kawi na utengenezaji bidhaa zikitekeleza jukumu muhimu. Kiwango cha wastani kwa mwaka cha kupanda kwa gharama ya maisha kiliongezeka na kufikia asilimia 5.2% kutokana na kuongezeka kwa gharama ya chakula na kawi ilhali viwango vya riba viliongezeka kutoka asilimia 6.0% hadi asilimia 7.5% kabla ya kutulia katika asilimia 6.8% kuelekea mwisho wa mwaka.

Katika mwaka unaoangaziwa, shilingi iliimarika dhidi ya sarafu kuu ulimwenguni huku Dola ya Marekani ikishuka kutoka shilingi 69.36 hadi 63.20; Pauni ya Uingereza kutoka shilingi 136.79 hadi 128.45; na Yen ya Japan kutoka shilingi 59.47 hadi 56.52. Kwenye soko la uzaji hisa, shughuli katika soko la alama 20 la Nairobi kiwango cha hisa za kampuni 20 bora ilipungua kwa kiasi kidogo na kufunga mwaka katika alama 5,445 kutoka kiwango cha pointi 5,646 mwaka wa 2006. Hata hivyo, jumla ya

mtaji wa soko iliongezeka kwa asilimia 7.4% kutoka shilingi bilioni 792 hadi shilingi bilioni 851.

Kutokana na hali hizi bora za kiuchumi, sekta ya benki ilisalia kuwa thabiti na kuendelea kupata matokeo bora huku faida ikikua kwa asilimia 33.9% na jumla ya rasilmali ikiimarika kwa asilimia 20.2%. Kiwango cha mikopo isiyolipwa kilipungua na kufikia shilingi bilioni 59.1 kutoka shilingi bilioni 103.8. Uwezo wa kupata pesa katika soko ulikuwa wa juu ukiwa na kiwango cha asilimia 40.65%, zaidi ya mara dufu ya kiwango cha chini kinachohitajika kisheria cha asilimia 20%.

UTENDAJI WA BENKI YA EQUITY

Tangu kubuniwa mnamo mwaka wa 1984, benki yenu imeendelea kuafikia maono yake ya kuwapa uwezo wa kiuchumi Wakenya kwa kutoa huduma za gharama ya chini za kifedha. Kuendelea kukua na utendaji bora umefanya uendeshaji shughuli na uongozi wa benki yenu kutambuliwa kitaifa na kimataifa,

Tumeendelea kuzingatia uimarishaji wa benki yenu kwa kujenga msingi thabiti wa jamii. Hii inadhihirika kwa kupata alama ya juu katika mikopo ambapo benki yenu ilipata A+ kwa kipindi cha muda mrefu na A1 kwa kipindi cha muda mfupi. Zaidi ya hayo, benki imeendelea kuimarisha utekelezaji na ufanisi katika utoaji huduma kupitia mfumo madhubuti wa benki wa tekinolojia ya habari. Benki imedumisha uongozi katika kutoa bidhaa mpya na huduma na kusababisha ongezeko katika kiwango cha soko. Ninajivunia kuwatangazia kwamba

benki ilimaliza mwaka ikiwa na zaidi ya akaunti za benki milioni 1.8 zikijumuisha asilimia 38% ya akaunti zote za benki nchini Kenya.

Mtindo wa biashara yetu unaendelea kuthibitishwa kupitia kutambuliwa na kupata tuzo kitaifa na kimataifa. Katika kipindi cha mwaka, katika kiwango cha kimataifa, benki yenu ilitunukiwa tuzo la heshima la 2007 Global Vision Award katika sekta ya kifedha kwa kuwa “mwanzilishi wa dhana ya siku zijazo ambayo itaunda uchumi wa dunia”.

Kwa kutambua ufanisi na mfano wa kipekee wa biashara na uongozi bora, Chuo Kikuu cha Kenya Methodist na Chuo Kikuu cha Kenyatta vilimtuza Afisa Mkuu Mtendaji wetu Dr. James Mwangi shahada ya Honorary Doctorate katika masuala ya usimamizi wa biashara, Business Administration (Honoris Causa), na Doctor of Humane Letters (Honoris Causa) mtawalia.

Benki yenu pia ilitajwa kuwa benki bora zaidi nchini Kenya katika tuzo la hadhi kuu la 2007 Euromoney Awards for Excellence. Ikiitua benki, Euromoney ilisema:

“...Benki ya Equity imetunukiwa benki bora zaidi nchini Kenya kwa misingi ya ufanisi katika ukopeshaji kwa sekta ya rejareja na kuwafikia wale waliokuwa hawapati huduma za benki, na kuanzisha juhudi ambazo benki kubwa zinajaribu kuzifikia...(na kwa dhihirisho hilo)...uwezo wa kubuni, kuchukua hatua za haraka na kutumia kwa njia bora zaidi uwezo ilionao...”

Zaidi ya hayo, Kampuni ya Micro Capital yenye makao yake Marekani iliiorodhesha benki yenu kama taasisi bora zaidi ya kifedha barani Afrika na ya tatu kwa ubora ulimwenguni mwaka 2007.

Kitaifa, benki yenu ilishinda tuzo zifuatazo kwenye uchunguzi wa benki nchini Kenya mwaka wa 2007

- Benki bora zaidi ya rejareja
- Benki bora zaidi ya shughuli za kifedha
- Benki inayokua kwa haraka zaidi
- Mshindi katika uvumbuzi wa bidhaa
- Mshindi katika shughuli za benki ndogo na za kiwango cha kadri (SME)
- Benki ya pili kwa ubora kwa ujumla

Tunatoa mafanikio haya yote kwa heshima yenu wanahisa wetu, wafanyakazi, wateja wetu na washika dau wetu wote kwani hayangepatikana bila usaidizi wenu.

MTAJI WA SOKO

Benki yenu imeorodheshwa kwenye sehemu muhimu ya soko, Main Investment Market Segment (MIMS) kwenye soko la hisa la Nairobi (NSE). Tangu kuorodheshwa mwezi Agosti mwaka 2006, hisa za benki zimeendelea kudhihirisha ufanisi bora kutoka kiwango cha mwanzo cha mtaji wa soko cha shilingi bilioni 6.2 hadi shilingi bilioni 54 kufikia tarehe 31 Disemba 2007. Hii iliinua benki kuwa katika kiwango cha kampuni saba bora nchini Kenya kulingana na mtaji wa soko. Tumejitolea kutimiza lengo letu la kuboresha thamani kwa washikadau wetu.

UWEKEZAJI WA HELIOS EB INVESTORS, L.P (HELIOS EB)

Mnamo tarehe 21 Disemba 2007 mliidhinisha uwekezaji wa mtaji wa shilingi bilioni 11 na Helios EB uliobadilishana na hisa 90,516,255 za kawaida ambazo ni sawa na asilimia 24.99% ya mtaji wa hisa za kampuni zilizotolewa. Ukuaji mkubwa uliopatikana na benki katika nyanja zote za uendeshaji shughuli, ukuaji na ufanisi

unadhihirisha umuhimu wa kudumisha mtaji wa kutosha wa shughuli muhimu. Uwekezaji huu uliongeza fedha za wenyehisa na kufikia shilingi bilioni 15 kutoka shilingi bilioni 2.2 na kuifanya benki kuwa mojawapo ya benki yenye mtaji bora zaidi katika kanda hii.

UWEKEZAJI KATIKA HOUSING FINANCE COMPANY OF KENYA (HF)

Mnamo tarehe 11 Julai 2007, benki ya Equity na kampuni ya British-American Investment Company (Kenya) Limited (BAICL) zilinunua kiwango cha asilimia 24.99% cha hisa za CDC Group PLC katika HF. Benki yenu ilipata hisa milioni 23 kwa gharama ya shilingi milioni 433 ilhali BAICL ilipata hisa 5,635,000. Ununuzi huu uliifanya benki yenu na BAICL kuwa washirika wa kimkakati na wenyehisa dhabiti wa HF, na hivyo kupanua msingi wa wateja na kufungua uwezekano mpya wa kutoa huduma mbalimbali za kifedha.

DENI LA MUDA MREFU NA WA KADRI

Wakati wa kipindi cha mwaka, Halmashauri iliidhinisha ukopaji mkopo wa muda mrefu wa shilingi bilioni 4.52 kutoka kwa taasisi mbalimbali za kimataifa za maendeleo ya kifedha ili kupanua msingi wa utoaji fedha wa benki. Pamoja na hayo, mkopo wa kiwango cha kadri wa shilingi milioni 100 ulipatikana kutoka kwa wizara ya masuala ya vijana ili kukopeshwa wafanyibiashara vijana.

UONGOZI WA KAMPUNI

Wakati wa mwaka unaoangaziwa, Bi Beatrice Sabana alistaafu kutoka kwa Halmashauri ya Wakurugenzi ilhali Bw. Babatunde Soyoye na Bw. Temitope Lawani, wote wa Helios EB waliteuliwa kuhudumu katika Halmashauri. Huku nikiwakaribisha wakurugenzi hao wawili wapya kwa niaba ya Halmashauri, ningependa kumshukuru Beatrice kwa mchango wake na kumtakia kila na heri katika yote afanyayo. Taarifa yenye maelezo zaidi kuhusiana na Usimamizi wa Kampuni na Jukumu kwa Jamii imewekwa kwingineko kwenye ripoti hii.

MGAO WA FAIDA

Halmashauri inapendekeza mgao wa faida wa shilingi 2.00 kwa kila hisa ya kawaida ya shilingi 5.00 kwa mwaka uliomalizika 2007 ikiwa mtaidhinisha kwenye mkutano huu. Wawekezaji wa Helios EB hawajahitimu.

MATARAJIO YA BAADAYE

Kama mnavyofahamu, mwaka huu, wa 2008 ulianza kwa huzuni wakati nchi hii ilipokumbwa na ghasia baada ya uchaguzi na kutatiza uendeshaji shughuli za kawaida nchini. Kwa bahati nzuri, hii haikuathiri sana shughuli za benki isipokuwa kule kukokota kwa uchumi. Hatubashiri madhara makubwa kwa biashara kwani makubaliano ya kisiasa tayari yameshaafikiwa.

Benki yenu imejiandaa kwa ukuaji zaidi mwaka huu. Tutaendelea kuzingatia ukuaji na upanuzi nchini Kenya na katika kanda hii.

HITIMISHO

Kwa niaba yangu na ile ya Halmashauri, wasimamizi na wafanyakazi wa benki tunawashukuru kwa usaidizi mliotoa kwa benki kwa mwaka huo wote. Tunaendelea kutegemea usaidizi wenu na kukariri kujitolea kwetu kutimiza malengo ya benki huku tukiendelea kutilia maanani mahitaji ya wateja wetu na kujitolea kudumisha maadili yafaayo ya uongozi.

ASANTE



Bw. Peter K. Munga, EBS
Mwenyekiti
Halmashauri ya Wakurugenzi

CEO'S STATEMENT



“ ... the annual cumulative pre-tax profit for the year 2007 grew by 116% to Kshs2.38 billion compared to Kshs1.10 billion reported in 2006. The growth in profitability is attributed to a 73 % increase in total operating income to Kshs 5.82 billion compared to Kshs3.37 billion realized in 2006.... ”

I am delighted and privileged to present to you the bank's report for year 2007. The impressive performance recorded during the year scaled the bank to new heights leading to local and international recognition. The business grew in in all spheres translating into better prospects for all stakeholders.

FOCUS

The bank remained focused and aligned to its vision of being the preferred financial services provider contributing to the economic prosperity of Africa. Greater emphasis on focused customer service was taken to a higher level in pursuit of our mission of mobilising resources and offering credit to our customers.

FINANCIAL REVIEW

The bank's unmatched growth trajectory in the banking industry is attributable to your support and the unique business model which focuses on high volumes and low margins while simplifying and demystifying financial intermediation. I am pleased to note that the annual cumulative pre-tax profit for the year 2007 grew by 116% to Kshs 2.38 billion compared to Kshs 1.10 billion reported in 2006. The growth in profitability is attributed to a 73 % increase in total operating income to Kshs 5.82 billion compared to Kshs 3.37 billion realized in 2006. The cost to income ratio has reduced significantly to 59.4% from 67% as a result of significant improvement in operating efficiency.

In the year under review, our total assets expressed through the bank's total balance sheet grew by 166% to close at Kshs 53.22 billion from Kshs 20.02 billion as at December 2006. The growth in assets was supported by increase in funding via a core capital injection of Kshs11billion and additional long-term subordinated debt of Kshs 4 billion.

Our deposit base rose by 93% to 31.53 billion from Kshs 16.33 billion in 2006. The growth in deposits was driven by an 81% increase in number of customers' accounts to stand at 1.8 million from 1.0 million accounts as at the beginning of the year. The branches opened during the year contributed 14% of these new accounts.

To facilitate economic activities by our customers, the bank increased its lending to Kshs 21.84 billion from Kshs 10.93 billion in the previous year. This growth in the loan book was evidenced by the number of loan accounts that grew to 392,822 from 252,147. I am happy to report that the bank achieved a reduction in the ratio of gross non-performing loans and advances from 6.95% to 5.39%.

During the year under review, total shareholders funds have increased considerably to Ksh 15 billion from Ksh 2.2 billion. This phenomenal growth was replicated at the Nairobi Stock Exchange with our market capitalization rising to approximately Kshs 54 billion from Kshs 12.6 billion. I would like to congratulate the shareholders for their wise decision of

approving 24.99% shareholding investment by Helios EB for an additional Kshs 11 billion capitalization.

The Bank's phenomenal growth and performance has been recognized both locally and internationally. The accolades accorded the bank include, conferment of the Global Vision award at the June 2007 Vision Summit, voted the Best Bank in Kenya by Euromoney Awards for Excellence in July 2007 and scooped 6 awards at the 2007 Kenya Annual Bank Awards in November.

OPERATIONS REVIEW

The bank's expansion program in terms of additional branches, ATMs and Point of Sale terminals, the growth in customer base and growth in our loan book have all contributed to the impressive performance. To enable easy and affordable access to financial services by more Kenyans, the bank has been carrying out a strategic planned expansion program. In 2007, the bank opened 29 new branches, installed an additional 150 ATMs to bring the total to 350 ATMs and recruited an additional 1,029 staff to ensure effective service delivery. These heavy investments have been undertaken without slowing down the bank returns.

In addition to new branches and ATMs, the bank entered into a partnership with leading retail stores such as Nakumatt, Tusksys and Uchumi rolling out 660 Points of Sale (POS) terminals. This has enabled the Bank to

increase its outreach, with a footprint of over 1,000 channels and outlets nationwide easing customers' access to various services and products.

To better serve our customers, the banking hours were extended to between 8.00 am to 4.30pm on weekdays and 8.00am to 12.00pm on all Saturdays.

BUSINESS DEVELOPMENT

During the year, as part of our continuous effort to deliver innovative financial services to our customers, we launched new products and services which include; "Cash Back"; "Fanikisha", and "Hekima Milele". The "Cash Back" product allows customers to use their ATM cards to pay for their shopping and at the same time withdraw cash from retail stores and petrol stations. We continue to roll out the service to more outlets increasing our availability and accessibility.

In recognition of the pivotal role that women play in our society, we launched "Fanikisha" loan products marketed as; Shaba, Imara, Fedha, Dhahabu, Almasi and Platini. These all-inclusive products target women in business, enabling them to access affordable loans from Kshs1,000 to over Kshs10 million.

"Hekima Milele" is a mortgage and investment product developed as a result of the strategic collaboration between Housing Finance (HF), British-American Insurance Company (Kenya) Limited (BAICL) and the Bank, leveraging on the competitive advantages of the three institutions.

Agriculture forms the back bone of our economy. As a bank we have special ties with the agricultural sector as we owe our existence to it. To ensure that farming is commercialised, the bank launched Kilimo Biashara, (commercialising agriculture) and Warehouse Receipt System aimed at economically supporting players in the agricultural sector.

Uvuvi Biashara (commercialising fishing) will target the fisheries sector. These products provide affordable credit facilities to farmers and fishermen.

I am also proud to report that during the latter part of the year, we obtained principle membership to VISA (the largest international card association). This is another major milestone for the Bank, as it has enabled the bank to issue VISA cards and to use our ATMs and Points Of Sale (POS) to acquire VISA transactions. This will enable our customers to transact anywhere in the world.

STAFF DEVELOPMENT

The Bank continued with its aggressive staff capacity building through hiring of new staff with specialised skills and competencies as well as staff training and development. The Bank continued with its very successful leadership development program which saw a number of staff attend training at Harvard Business School, IESE Business School in Spain, Strathmore Business School and Boulder Microfinance Leadership Program. The organisational culture that values people and supports business, grounded on core values of Professionalism, Integrity, Creativity, Teamwork, Unity of purpose, respect and dedication to customer delight and effective corporate governance continue to be strengthened.

FUTURE OUTLOOK

The year 2008 started on a low note due to the post election crisis that impacted on our business momentum. However we are pleased to note there was no physical damage to any of our business premises and all our staff are safe. We have undertaken a review of the impact of the crisis on our business and do not expect any material impact. Despite this, we are optimistic that we will achieve our set targets for the year 2008. The critical success factors for our business which include, people, systems and products are well grounded to assure resilience.

Looking into the future, we intend to continue with the planned expansion strategy to increase our presence nationwide and within the East African region. To support the growth strategy, the Bank will continue to invest in technology optimization to meet the new market needs and challenges. In addition, the bank will continue to invest in the requisite internal capacity in terms of human capital to effectively deliver products and services to manage the Bank into the future.

CONCLUSION

I take this opportunity to thank the Board, our customers, staff, development partners, shareholders and other stakeholders who have contributed toward these great achievements. I am confident that the Bank is adequately positioned for the next phase of growth and expansion both locally and in the region in line with our vision "To be the preferred Micro-Finance services provider contributing to the economic prosperity of Africa..."

Thank you.



Dr. James Mwangi, MBS
Chief Executive Officer and Managing Director.

“ Faida ya mwaka kwa jumla kabla ya kutozwa ushuru kwa mwaka wa 2007 ilikua kwa asilimia 116% na kufika shilingi bilioni 2.38 ikilinganishwa na shilingi bilioni 1.10 zilizopatikana mwaka wa 2006. Ukuaji katika faida umetokana na ongezeko la asilimia 73% katika jumla ya mapato ya uendeshaji kufikia shilingi bilioni 5.82 ikilinganishwa na shilingi bilioni 3.37 zilizopatikana mwaka wa 2006.”

Ni furaha na heshima kuu kwangu kuwasilisha kwenu ripoti ya benki ya mwaka 2007. Ufanisi bora uliopatikana wakati wa kipindi cha mwaka huo ulipandisha benki katika viwango vipya na kuifanya kutambuliwa nchini na kimataifa. Biashara ilikua katika nyanja zote na kuletea washika dau matumaini bora zaidi.

UZINGATIVU

Benki iliendelea kuzingatia na kulinganisha maono yake ya kuwa mtoaji huduma za kifedha anayependelewa na kuchangia katika ufanisi wa kiuchumi wa Afrika. Uzingatiji zaidi wa huduma kwa mteja uliimarishwa na kufikia kiwango cha juu zaidi katika kutafuta kutimiza lengo letu la kukusanya rasilimali na kutoa mikopo kwa wateja wetu.

UCHUNGUZI WA KIFEDHA

Ukuaji wa benki hii ambao haujashuhudiwa katika sekta ya benki umetokana na usaidizi wenu na mfano wa kipekee wa biashara ambao unazingatia kiwango kikubwa na faida finyu huku ikirahisisha na kuweka wazi huduma za mashirika ya kifedha. Nina furaha kusema kwamba faida ya mwaka ya jumla kabla ya kutozwa ushuru kwa mwaka wa 2007 ilikua kwa asilimia 116% na kufika shilingi bilioni 2.38 ikilinganishwa na shilingi bilioni 1.10 zilizopatikana mwaka wa 2006. Ukuaji katika faida umetokana na ongezeko la asilimia 73% katika jumla ya mapato ya uendeshaji kufikia shilingi bilioni 5.82 ikilinganishwa na shilingi bilioni 3.37 zilizopatikana mwaka wa 2006. Kiwango cha gharama kikilinganishwa

na mapato kimepungua kwa kiasi kikubwa na kufikia asilimia 59.4% kutoka asilimia 67% kutokana na kuimarika kwa kiwango kikubwa kwa utendaji bora katika uendeshaji shughuli.

Katika mwaka unaoangaziwa, jumla ya rasilimali zetu zilizoonyeshwa kupitia kwa mizania ya jumla ya benki zilikua kwa asilimia 166% na kufikia shilingi bilioni 53.22 kutoka shilingi bilioni 20.02 mnamo Disemba 2006. Ukuaji katika rasilimali ulisaidiwa na ongezeko la ufadhili kupitia kuwekwa kwa mtaji wa shilingi bilioni 11 na kuongezwa kwa deni saidizi la muda mrefu la shilingi bilioni 4.

Msingi wetu wa akiba uliongezeka kwa asilimia 93% na kufikia bilioni 31.53 kutoka shilingi bilioni 16.33 mwaka wa 2006. Ukuaji katika akiba ulitokana na ongezeko la asilimia 81% la idadi ya akaunti za wateja na kufikia milioni 1.8 kutoka akaunti milioni 1.0 mwanzoni mwa mwaka huo. Matawi mapya yaliyofunguliwa wakati wa kipindi cha mwaka huo yalichangia asilimia 14% ya akaunti hizo mpya.

Ili kusaidia shughuli za kiuchumi za wateja wetu, benki iliongeza mikopo hadi shilingi bilioni 21.84 kutoka shilingi bilioni 10.93 katika mwaka uliotangulia. Ukuaji huu katika daftari ya mikopo ulidhihirishwa na idadi ya akaunti za mikopo ambazo ziliongezeka na kufikia 392,822 kutoka 252,147.

Nina furaha kutangaza kwamba benki iliafikia upunguaji katika kiwango cha jumla cha mikopo isiyolipwa kutoka asilimia 6.95% hadi 5.39%.

Wakati wa kipindi cha mwaka unaoangaziwa, jumla ya fedha za wenyehisa imeongezeka kwa kiwango kikubwa kufikia shilingi bilioni 15 kutoka shilingi bilioni 2.2. Ukuaji huu mkubwa ulidhihirika pia kwenye soko la hisa la Nairobi huku mtaji wetu wa hisa ukiongezeka na kufikia takriban shilingi bilioni 54 kutoka shilingi bilioni 12.6. Ningependa kuwapongeza wenyehisa kwa uamuzi wao wa busara wa kuidhinisha uwekezaji wa hisa wa asilimia 24.99% na Helios EB kwa mtaji wa shilingi bilioni 11 zaidi.

Ukuaji wa kiwango kikubwa wa benki hii umetambuliwa humu nchini na kimataifa. Sifa kuu zilizotunukiwa benki hii ni pamoja na kutuzwa tuzo la Global Vision Award katika mkutano uliofanywa Juni 2007, kutajwa kuwa benki bora zaidi nchini Kenya na Euromoney Awards for Excellence mnamo Julai 2007 na kuzoa tuzo sita katika sherehe ya Kenya Annual Bank Awards mnamo mwezi Novemba.

UCHUNGUZI WA UENDESHAJI SHUGHULI

Mpango wa upanuzi kwa kuongeza matawi, mitambo ya ATM, na vituo vya uuzaji, ukuaji katika idadi ya wateja na ukuaji kwenye daftari ya mikopo, yote yamechangia utendaji bora. Ili kurahisisha na kuwezesha kufikiwa kwa huduma za kifedha na Wakenya zaidi, benki imekuwa ikitekeleza mpango wa kimkakati wa upanuzi.

Katika mwaka wa 2007, benki ilifungua matawi 29 mapya, kuweka mitambo 150 zaidi ya ATM

na kuifanya mitambo hiyo kufikia 350 na kuajiri wafanyakazi 1,029 zaidi ili kuhakikisha huduma zinatolewa ipasavyo. Uwekezaji huu umefanywa bila kutatiza mapato ya benki.

Mbali na matawi mapya na mitambo ya ATM, benki ilianzisha ushirika na maduka makubwa ya rejareja kama vile Nakumatt, Tuskys na Uchumi na kusambaza vituo 660 vya uzaji (PO5). Hii imewezesha benki kuongeza uwezo wa kuwafikia wateja zaidi huku kukiwa na vituo zaidi ya 1,000 nchini kote vinavyosaidia wateja kupata kwa urahisi huduma mbalimbali na bidhaa.

Ili kuwahudumia wateja wetu kwa njia bora zaidi masaa ya benki yaliongezwa kutoka saa mbili asubuhi hadi saa kumi unusu siku za katikati ya wiki na saa mbili asubuhi hadi saa sita adhuhuri siku za jumamosi.

USTAWI WA BIASHARA

Wakati wa kipindi cha mwaka, kama sehemu ya juhudi zetu zisizo na kikomo za kutoa huduma bunifu kwa wateja wetu, tulianzisha bidhaa mpya na huduma zikiwemo "Cash Back", "Fanikisha", na "Hekima Milele". Bidhaa ya "Cash Back" inawawezesha wateja kutumia kadi zao za ATM kulipia vifaa wanavyonunua na wakati huo huo kutoa pesa kutoka kwa maduka yao rejareja na vituo vya mafuta. Tunaendelea kusambaza huduma hii kwa vituo zaidi huku tukiimarisha kupatikana na kufikiwa kwetu.

Katika kutambua wajibu unaotekelezwa na wanawake katika jamii, tulianzisha bidhaa za mkopo za "Fanikisha" zinazohamasishwa kama; Shaba, Imara, Fedha, Dhahabu, Almasi na Platini. Bidhaa hizi zote zinawalenga wanawake katika biashara, na kuwawezesha kupata mikopo ya gharama nafuu kutoka shilingi 1000 hadi zaidi ya milioni 10.

"Hekima Milele" ni bidhaa ya mkopo wa kugharamia nyumba na uwekezaji iliyostawishwa kutokana na ushirikiano baina ya Housing Finance (HF), British-American Insurance Company (Kenya) Limited (BAICL),

na Benki hii, na kunufaika na fursa ya ushindani ya taasisi zote tatu

Kilimo ni uti wa mgongo wa uchumi wetu. Kama benki, tuna uhusiano maalum na sekta ya kilimo kwani kuwepo kwetu kunatokana na sekta hiyo. Ili kuhakikisha kilimo kinafanywa kibiashara, benki ilianzisha kilimo biashara, na upokezi kwenye bohari za uhifadhi kwa lengo la kusaidia wahusika katika sekta ya kilimo. Uvuvi biashara unalenga sekta ya uvuvi wa samaki. Bidhaa hizo zinatoa mikopo ya gharama nafuu kwa wakulima na wavuvi.

Najivunia kutangaza kwamba katika sehemu ya mwisho mwisho ya mwaka, tulipokea uwanachama wa VISA (chama kikubwa zaidi cha kimataifa cha kadi). Hii ni hatua nyingine muhimu kwa benki hii, kwani imewezesha benki kutoa kadi za VISA na kutumia mitambo yetu ya ATM na vituo vya uzaji kutekeleza shughuli za VISA. Hii itawawesha wateja wetu kuendesha shughuli zao za kibiashara popote ulimwenguni.

USTAWI WA WAFANYAKAZI

Benki iliendelea na mpango wake madhubuti wa kuimarisha wafanyakazi kupitia uajiri wa wafanyakazi wapya wenye taaluma mahsusi na maarifa pamoja na kutoa mafunzo na kuwastawisha wafanyakazi. Benki iliendelea na mpango wake uliofanikiwa wa kustawisha uongozi ambao ulipelekea wafanyakazi kadhaa kuhudhuria mafunzo katika Harvard Business School, IESE Business School huko Uhispania, Strathmore Business School na Mpango wa Boulder Microfinance Leadership. Utamaduni wa mfumo ambao unathamini watu na kuunga mkono biashara, uliojikita katika maadili muhimu ya kitaaluma, uadilifu, ubunifu, ushirikiano, lengo moja, heshima na kujitolea kuridhisha wateja na uongozi ufaao unaendelea kuimarishwa.

HALI YA BAADAYE

Mwaka wa 2008 ulianza polepole bila shughuli nyingi kutokana na mzozo uliotokea baada ya uchaguzi ambao uliathiri kasi ya biashara yetu. Hata hivyo tunafurahi kusema kwamba

hakukuwa na uharibifu wa vifaa katika maeneo yoyote ya biashara yetu na wafanyakazi wetu wote walikuwa salama. Tumechunguza athari ya mzozo huo kwenye biashara yetu na hatutarajii madhara makubwa. Licha ya hayo, tuna matumaini kwamba tutaafikia malengo tuliyoweka kwa mwaka wa 2008. Mambo muhimu kwa ufanisi wa biashara yetu ambayo ni watu, mifumo na bidhaa ni imara kutuhakikishia udhabiti.

Tukiangazia hali ya siku zijazo, tunanua kuendelea na mikakati ya upanuzi iliyopangwa kuimarisha huduma zetu kote nchini na katika eneo la Afrika Mashariki. Ili kuunga mkono mfumo wa ukuaji, benki itaendelea kuwekeza katika uimarishaji wa teknolojia ili kutimiza mahitaji ya soko mpya. Zaidi ya hayo, benki itaendelea kuwekeza katika uimarishaji wa utendaji kazi ili kutoa bidhaa na huduma ipasavyo kuisimamia benki kuelekea siku zijazo.

HITIMISHO

Nachukua nafasi hii kuishukuru Halmashauri, wateja wetu, wafanyakazi, washirika wa maendeleo, wenyehisa na wahusika wengine ambao wamechangia katika mafanikio haya makubwa. Nina imani kwamba benki hii iko katika nafasi inayofaa kwa awamu ijayo ya ukuaji na upanuzi humu nchini na katika kanda hii kuambatana na maono yetu "Kuwa mtoaji huduma za kifedha anayependelewa na kuchangia katika ufanisi wa kiuchumi wa Afrika..."

Asante

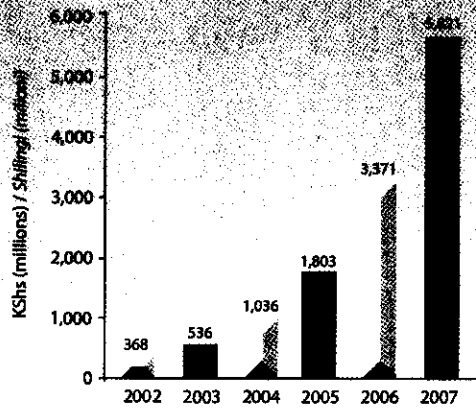
Dr. James Mwangi, MBS

Afisa Mkuu na Mkurugenzi Mtendaji

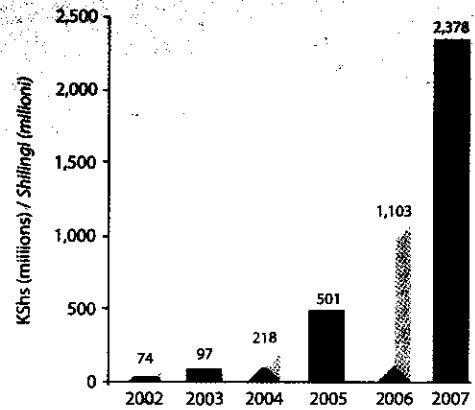
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FINANCIAL HIGHLIGHTS

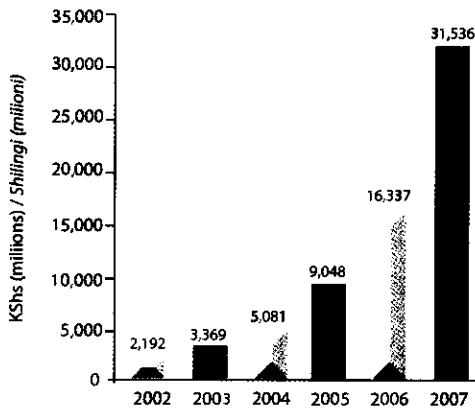
GROWTH IN GROSS OPERATING INCOME
UKUJAJI KATIKA FAIDA KABLA YA
YA LEHESHAJI SHUSURU



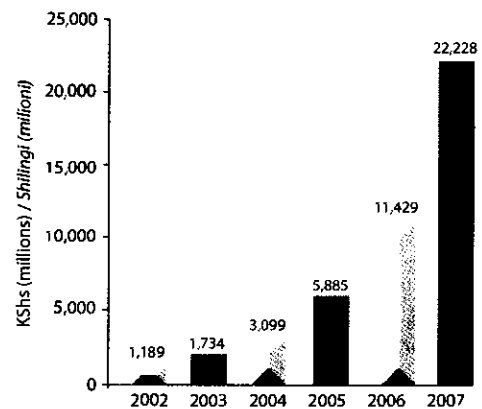
GROWTH IN PRE-TAX PROFIT
UKUJAJI KATIKA FAIDA KABLA YA
KUTOZWA USHURU



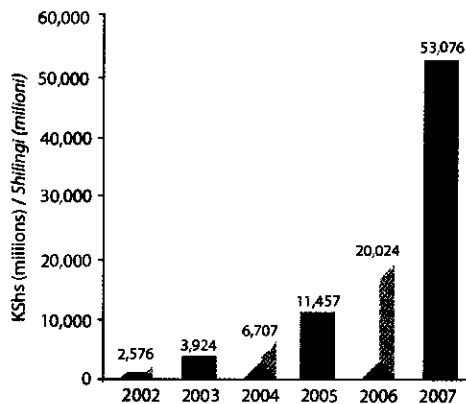
GROWTH IN CUSTOMER DEPOSITS
UKUJAJI KATIKA AKIBA ZA WATEJA



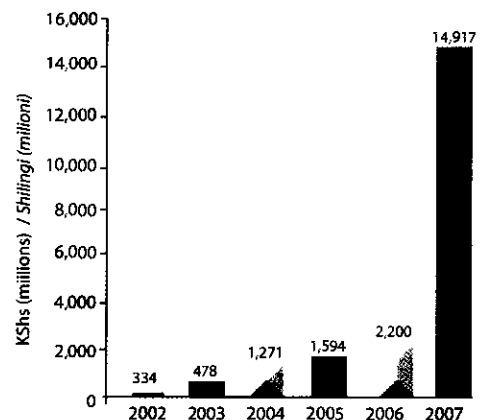
GROWTH IN GROSS LOAN PORTFOLIO
UKUJAJI KATIKA JUMLA YA MIKOPO

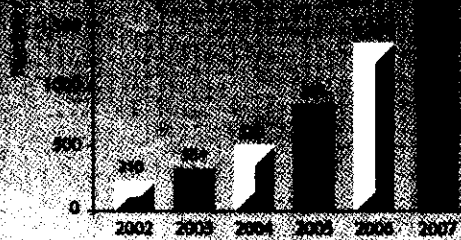
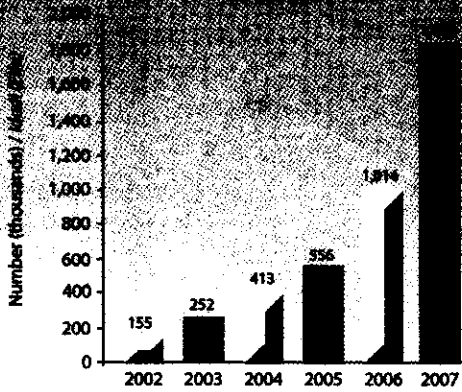


GROWTH IN TOTAL ASSETS
UKUJAJI KATIKA JUMLA YA RASIMALI

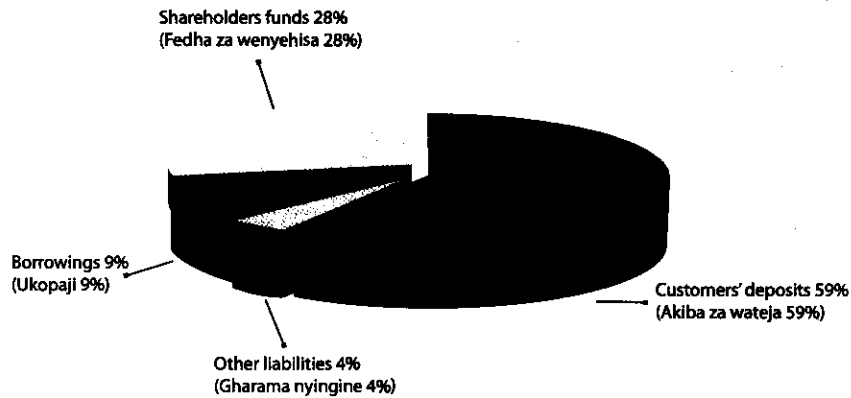


GROWTH IN SHAREHOLDER'S FUNDS
UKUJAJI KATIKA FEDHA ZA WENYEHISA

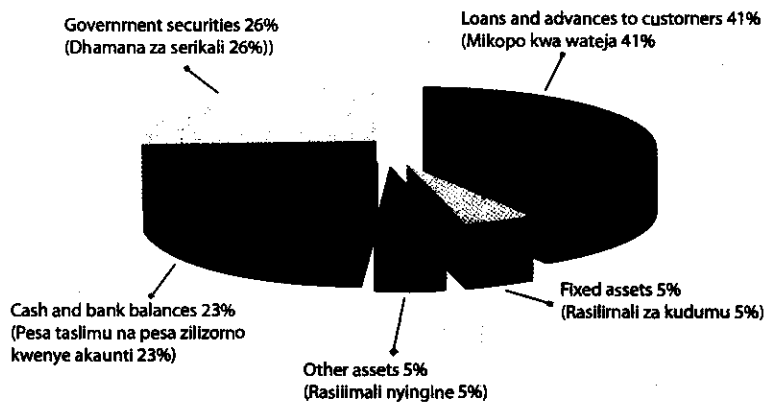




DISTRIBUTION OF LIABILITIES (UGAWAJI GHARAMA)



DISTRIBUTION OF ASSETS (UGAWAJI RASLIMALI)



KEY ACHIEVEMENTS

August 2007 - Our unique banking model was recognized once again when we were voted the Best Bank in Kenya in the Euromoney 2007 Awards for excellence. Euromoney Awards for excellence define banking excellence in global categories and across 110 countries. The awards set the standards for banking and capital market excellence amongst the top ranking financial institutions around the world.

EUROMONEY
2007
Awards for excellence

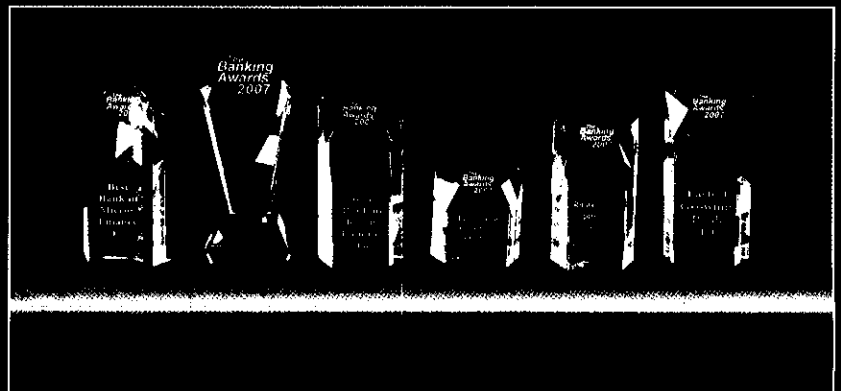
"...Euromoney Awards is to banking what Oscars is to film..."

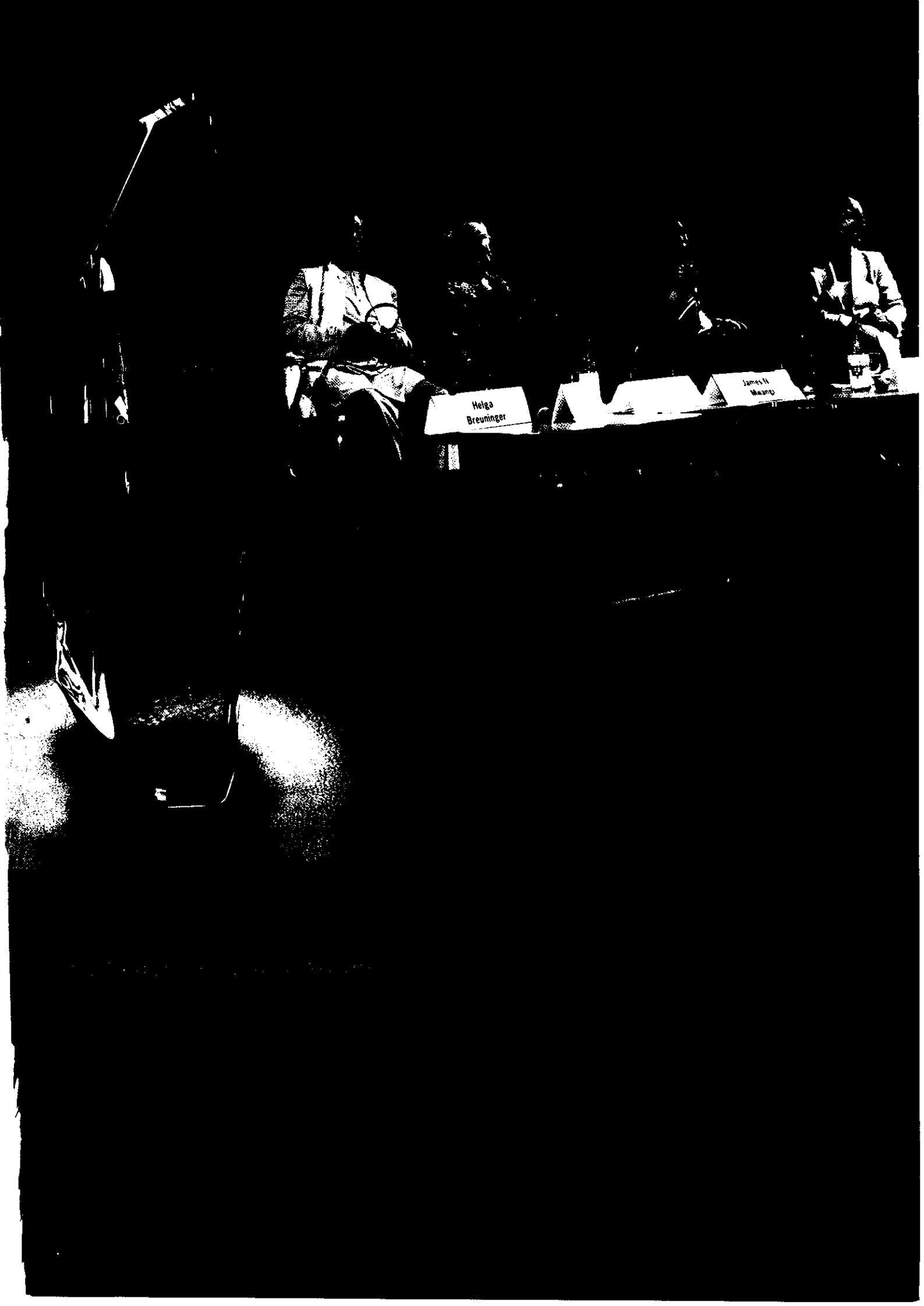
GCR GLOBAL CREDIT RATING <small>Local Expertise • Global Presence</small>		EQUITY Bank	
Global Credit Rating-2007			
Rating	Short-term: A1 Long-term: A+		
	Equity's performance for the YTD has been positive. The YTD performance is due to sustained growth in banks operating base, leading to higher volumes, and a continued shift to higher yielding assets. The bank has also realised from economies of scale from its investment in delivery channels.		
Contributing Factors	High Quality Management & Strategic Management		
	Good Profitability		
	Strong Deposit growth		

Equity Bank was rated by Global Credit Rating (GCR) in 2007 short term A1 and long term A+. This was in recognition of the bank's performance in deposit growth, good profitability underpinned by high quality and strategic management of the business.

The Banking Awards 2007

Equity Bank emerged as the 2nd Best Bank overall in the country in 2007 an improvement from 3rd Best Bank the previous year. The bank won the Best Retail Bank, Best Micro-Finance Bank, Fastest Growing Bank, Runners up in Product Innovation & SME Banking.





Helga
Breuninger

James H.
Wang

STATEMENT ON CORPORATE SOCIAL RESPONSIBILITY (CSR)

In the financial year 2007, Equity Bank made Corporate Social Responsibility (CSR) a reality by supporting various communities through provision of resources and expertise in the areas of health, education, sports and poverty alleviation. The bank's CSR involvement received strong support from Equity Bank staff members who wholeheartedly offered their time and personal contributions to make a positive impact in the lives of customers, stakeholders and general public.

Through corporate giving, Equity Bank is undoubtedly one of the most active and outstanding corporate citizens in Kenya that supports initiatives aimed at positively impacting on lives and livelihoods of Kenyans. To ensure sustainability, the Bank has turned into supporting projects with massive social economic impact as a way of scaling up its social corporate responsibility.

EDUCATION PROGRAMS

The bank spends heavily in the provision of education by running a pre-university internship program. The program since its inception sponsors the best girl and boy in Kenya Secondary School Education (KCSE) from all districts in the country where it has operations. To date the bank has spent over Kshs 600 million. In 2007 the bank sponsored 106 interns to the tune of Kshs 150 million. In addition, the bank has spent Kshs. 200,000 for purchase of text books for St. Anne School in Bonchari Kisii. The bank supports parents by availing accessible and affordable education products and loan accounts.



From Left: Peterson Muthathai-Chairman Principals Association, Ibrahim Hussein-Chairman TSC, James Mwangi-Equity CEO, Prof Saitoti- Minister for Education, Peter Munga-Equity Chairman, Francis Ng'ang'a-KNUT Secretary General, Gabriel Lengoiban-TSC Secretary, Abdi Mohammed-PDE Nairobi, Peter Macharia-PDE Rift Valley, with the 2006 pre-university program beneficiaries.

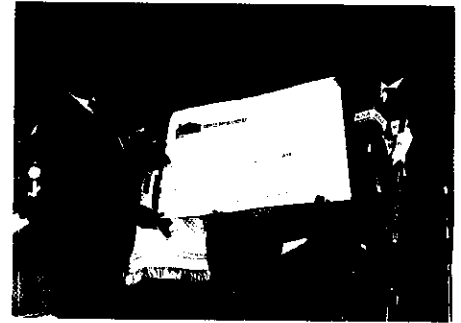
In realization of the critical role culture and arts play in molding society, the bank has been sponsoring the Kenya Annual Schools and Colleges Drama and Music festivals. For the year under review the bank spent over Kshs 11 million for the events. The Bank further supports education by creatively rolling out free of charge institutional accounts in the support of the country's free primary and secondary education programme.

COMMUNITY EMPOWERMENT

To provide an opportunity for the expression of our cultural heritage, the bank sponsored the Turkana Traditional dance troupe from Northern Kenya to participate and show case their talents during the 44th Jamhuri Day celebrations in Nairobi. The event received nation wide media publicity in which the dance troupe was able to promote their culture to the nation as well as interact with people from other cultures.



Members of the Turkana dance troupe entertaining the crowd during the 44th Jamhuri Day Celebrations.



Dr. James Mwangi CEO Equity Bank hands over to Dr. Kilemi Mwiria Asst. Minister of Education the bank's contribution towards the support of the National Schools & Drama Festivals. Looking on is the Chairman of the Drama Festival Dr. Ezekiel Alembi.

FINANCIAL LITERACY

The Bank is committed to raising the financial literacy level in the country and it has been carrying out free training to women and youth. This program is aimed at imparting basic business knowledge to ensure their businesses survive through the formative and vulnerable stages of growth.



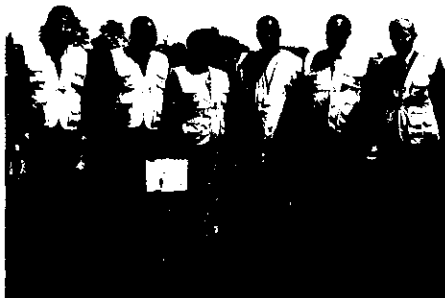
A public financial literacy education campaign conducted by the bank during the launch of Equity Bank branch in Banda.

In addition, the bank has published two business manuals 'How to start a small business' and 'How to grow and manage a business' that share lessons and industry best practices.

ENVIRONMENTAL RESPONSIBILITY

Equity Bank has been active in investing in initiatives that safeguard the environment and provides an opportunity to engage in economic activities. The bank has spent Kshs 24 million to install lights in various streets in major towns and light mast in the expansive informal Gikomba market. This has raised

STATEMENT ON CORPORATE SOCIAL RESPONSIBILITY (CSR)



The bank partnered with UNEP during the 2007 World Environmental Day in tree planting and community sensitization on the importance of environmental conservation.

security while at the same time providing an opportunity to residents and business community in Gikomba to carry out trade late into the evening. The bank sponsored two high mast flood lights for Kenyatta University to light up the university compound and enhance security.

POVERTY ERADICATION - STAND UP CAMPAIGN

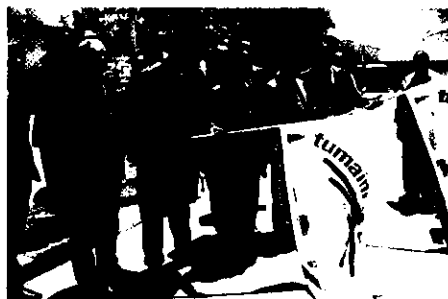
- In 2007, Equity Bank proactively involved stakeholders by forming strategic partnerships to carry out corporate social responsibility programmes with far reaching results. The bank was at the forefront during the 'Stand up against poverty' campaign organized under the United Nations Millennium Development Goals.

In addition, the bank has spent resources in the health sector. Through 'Operations Eardrop', in Garissa over 200 people received treatment and obtained free hearing aids. The project was carried out in partnership with a team of local medics and visiting doctors from Europe.

HUMANITARIAN RESPONSE

Equity bank partnered with the Methodist Church of Kenya, the Anglican Church of Kenya, the Presbyterian Church of East Africa and the Kenya Broadcasting Corporation and launched the 'Tumaini na Undugu' humanitarian response initiative. This was a response to the post-election violence that left many people displaced from their homes and in desperate need for food, shelter and clothing. The bank contributed a seed fund of Kshs 10 million to the initiative that distributed

over Kshs 75 million worth of food, clothing, medicine, water and counseling services.



The CEO Equity Bank Dr James Mwangi together with Bishop Dena-ACK (from left), Rev.S.Muriguh-PCEA, Rev.S.Kanyaru-Methodist & Archbishop B.Nzambi-ACK flag off the Tumaini na Undugu Initiative in Rift Valley.

SOCIAL INVESTMENT WOMEN EMPOWERMENT

Equity Bank invested heavily in an array of initiatives aimed at empowering women in business through access to affordable credit. In a joint venture with United Nations Development Program (UNDP), Equity Bank launched 'Fanikisha', a financial product that equips women in business as well as gives them quality business training to enable them to run their businesses successfully.



H. E. President Mwai Kibaki (left) launching the Equity Bank Fanikisha Loan product. Looking on (from Right) is the UNDP Resident Representative in Kenya, Elizabeth Lwanga, Equity Bank Board Chairman, Peter Munga and Chief Executive Officer Dr. James Mwangi.

INITIATING KENYAN GREEN REVOLUTION

The bank has been at the forefront of supporting agricultural developments in the country. The bank rolled out a community-based initiative enabling grain farmers to deposit their produce with appointed

warehousing agents. This allows farmers to access funds from the bank by discounting the warehouse receipts which act as collateral. In addition, the warehouse system provides storage facilities enabling farmers to reduce wastage associated with poor and lack of proper storage facilities. For instance, the collaboration between Equity and the National Cereals and Produce Board, NCPB, has seen NCPB increase its procurement of maize from one million to four million bags during the last harvest season in 2007. This came in handy in averting massive famine as a result of the disruption to farmers following the post election violence.

The bank launched Kilimo Biashara and 'Uvuvi Biashara' initiatives which provide value chain players with affordable credit facilities and business training enhancing their management and operational skills. The noble involvement of the bank against the market practice where the sector is viewed as high risk is driven by the commitment of transforming rural communities and their business undertakings.

The bank has made a deliberate move to support agriculture in partnership with other actors such as Alliance for a Green Revolution in Africa (AGRA), International Fund for Agricultural Development (IFAD) through Ministry of Agriculture as part of promoting Green Revolution in Africa.

The bank is committed to promoting food security and it participated in the 2007 World Food Day by donating trophies to various outstanding farmers.



Equity Bank in partnership with the Alliance for a Green Revolution in Africa (AGRA), International Fund for Agricultural Development (IFAD) through Ministry of Agriculture launched Kilimo Biashara.

BOARD OF DIRECTORS

PETER MUNGA, CHAIRMAN

Mr. Munga is a Certified Public Secretary with vast experience in both public and private sector management. He holds a diploma in Human Resources and Financial Management. Mr. Munga is a retired Deputy Secretary. He is the Chairman of National Oil Corporation and a director in Micro-Enterprise Support Programme Trust (MESPT), British American Insurance Company, Rockefeller Foundation and Equatorial Nut Processors.



DR. JAMES MWANGI, CEO & MD

Dr. Mwangi holds an Honorary Doctorate in Business Administration (Honoris Causa), from Kenya Methodist University, Doctor of Humane Letters (Honoris Causa) Kenyatta University and a Bachelor of Commerce degree (Accounting Option) from the University of Nairobi and is a Certified Public Accountant (CPA (K)). Dr. Mwangi is a graduate of Advanced Management Programme (Strathmore-IESE Business School, Barcelona Spain). He has wide experience in the banking industry spanning over 18 years.



BENSON WAIREGI, VICE CHAIRMAN

Mr. Wairegi holds a Masters of Business Administration degree and Bachelor of Commerce (Accounting option) degree from University of Nairobi and is a Certified Public Accountant – CPA (K). He is the Group Managing Director of British-American Investments Company (Kenya) Ltd. the parent company to British-American Insurance Company (K) Ltd and British-American Asset Managers Limited. He is also a Director of Agricultural Finance Corporation.



DR. JULIUS KIPNG'ETICH

Dr. Kipng'etich holds a Masters of Business Administration degree and a Bachelors of Commerce (Accounting option) degree from University of Nairobi. He is the Chief Executive Officer of Kenya Wildlife Service and was previously the Managing Director of Investment Promotion Centre.

TEMITOPE LAWANI

Mr. Lawani holds a Masters of Business Administration degree and a Bachelor of Science - Chemical Engineering. He is a co-founder of Helios Investment Partners, a Board member of First City Monument Bank PLC, Africatel Holdings B.V., Corporate Development Analyst at Walt Disney Co and member of the Harvard Law School Dean's advisory Board.



FREDRICK MUCHOKI

Mr. Muchoki is a businessman with vast commercial experience. He is the Managing Director of Continental Business Systems and Presta Office Equipment Limited.



PETER K. HIGGINS
Mr. Higgins holds a Bachelor of Business Administration degree from the University of Southern California and a Bachelor of Science degree from the University of Southern California. He is a Director of the Board of Directors of the USA. He is an Investment Banker and is Africap's Partner responsible for East and South Africa.



BABATUNDE SOYOYE

Mr. Soyoye holds a Masters in Business Administration degree and a Bachelors degree in Electrical Engineering. He is a co-founder of Helios Investment Partners, a Board member of Africatel Holdings B.V., and Manager of Business Development at Singapore Telcom International.



ERNEST NZOVU

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

LINUS GITAHI

Mr. Gitahi holds a Masters of Business Administration degree from The United States International University (USIU) and Bachelors of Commerce (Accounting option) degree from University of Nairobi. He also holds a diploma in Management from the Kenya Institute of Management. He is the Chief Executive Officer of Nation Media Group and was previously the Managing Director, GlaxoSmithKline, West Africa.



MARY WAMAE

SECRETARY TO THE BOARD & COMPANY SECRETARY

Mrs. Wamae holds a 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 a graduate of Advanced Management Programme (Strathmore-IESE Business School, Barcelona Spain) She is an Advocate of the High Court of Kenya and holds a Post Graduate Diploma in Gender and Development and has over 13 years private practice experience.



SENIOR MANAGEMENT



Dr. James Mwangi, Chief Executive Officer & Managing Director

James holds an Honorary Doctorate in Business Administration (Honoris Causa), from Kenya Methodist University, Doctor of Humane Letters (Honoris Causa) Kenyatta University and a Bachelor of Commerce degree (Accounting Option) from the University of Nairobi and is a Certified Public Accountant (CPA (K)). James is a graduate of Advanced Management Programme (Strathmore-IESE Business School, Barcelona Spain). He has wide experience in the banking industry spanning over 18 years.



Gerald Warui, Director of Operations & Customer Service

Gerald is a Certified Public Accountant (Kenya) and a graduate of Advanced Management Programme (Strathmore-IESE Business School, Barcelona Spain). He has over 14 years experience in the banking sector having previously worked with Fidelity Bank and 10 years at Equity Bank.



Winnie Kathurima-Imanyara, Director of Change and Corporate Affairs

Winnie holds a degree in Business Administration (Kenya), Bachelors of Science in Industrial Psychology from Canada and Postgraduate Diploma in Human Resources (Kenya). Winnie has over 21 years experience in senior management in different institutions across the globe. She has worked for Reckitt and Colman, SmithKline Beecham, Safaricom Kenya and Kenya Petroleum Refineries. Her international experience spans across continents; she has undertaken assignments in South Africa, Singapore and Pakistan. Winnie is also the Chief Executive of Equity Consulting Group and Equity Group Foundation which undertakes consulting and corporate social responsibilities of Equity Bank respectively.



Henry Karugu, Director of Marketing & Product Development

Henry holds a Bachelors degree in Pharmacy from the University of Nairobi, a Post Graduate Diploma in Marketing from the Chartered Institute of Marketing (CIM). He has over 15 years working experience in marketing, having previously worked as Marketing Director, GlaxoSmithKline for East and West Africa having risen from Brand Manager and Marketing Manager of the same company.



John Njoroge, Finance Director

John holds a Master degree in Business Administration and is a member of ICPAK, and KIM. He has over 20 years of banking experience, having worked for Standard Chartered Bank as Head of Finance, Systems & Processes- Africa Region, Head of Finance, Shared Services Centre - East & Southern Africa Region, and Finance Director in Tanzania & Botswana .



Mary Wamae, Director of Corporate Strategy & Company Secretary

Mary holds a 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 a graduate of Advanced Management Programme (Strathmore-IESE Business School, Barcelona Spain). She is an Advocate of the High Court of Kenya and holds a Post Graduate Diploma in Gender and Development and has over 14 years of private practice experience.

REPORT OF THE DIRECTORS

AS AT 31ST DECEMBER 2007

The directors have pleasure in submitting their report together with, the audited financial statements for the year ended 31 December 2007 in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan Companies Act, which discloses the state of affairs of the Bank.

1. ACTIVITIES

The Bank is engaged in the business of banking and provision of financial services and is licensed by the Central Bank of Kenya under the Banking Act.

2. RESULTS

The results for the year are set out on page 32.

3. RESERVES

The reserves of the Bank are set out on page 61, note 29 of this report.

4. DIVIDENDS

The Board has recommended a dividend of 40% of par value (KShs 2.00 per share) subject to the approval of shareholders at the Annual General Meeting. Helios EB Investors who became shareholders on 21st December 2007 will not be entitled to any dividend for the year 2007.

5. DIRECTORS

The directors who served during the year and to the date of this report are set out below:

Peter Kahara Munga	- Chairman
James Njuguna Mwangi	- Chief Executive/Managing Director
Benson Irungu Wairegi **	- Vice-chairman
Fredrick Mwangi Muchoki **	
Peter Njeru Gachuba	
Wagane Diouf *	
Beatrice Makanga Sabana****	
Julius Kangogo Kipng'etich	
Linus Wang'ombe Gitahi	
Ernest Mattho Nzovu	
Babatunde Temitope Soyoye****	
Temitope Olugbeminiyi Lawani****	

* Senegalese – Alternate to Peter Gachuba

** Retired by rotation on 30th March 2007 and were re-elected

*** Retired by rotation on 30th March 2007 and did not seek re-election

**** British - Appointed on 21st December 2007

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

6. AUDITORS

The auditors, Ernst & Young, have indicated their willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act and subject to Section 24(1) of the Banking Act.

By order of the Board



Mary Wangari Wamae
Company Secretary
22nd May 2008

Wakurugenzi wanafuraha kuwasilisha ripoti yao pamoja na Taarifa ya Hesabu za Pesa iliyokaguliwa kwa mwaka uliomalizika 31 Disemba 2007 kulingana na kifungu cha 22 cha sheria za Benki na kifungu 157 cha sheria za Makampuni nchini Kenya, ambazo zinabainisha hali ya kifedha ya benki.

1. SHUGHULI

Benki inajishughulisha na biashara ya benki na utoaji huduma za kifedha na imepewa leseni na Benki Kuu ya Kenya chini ya kifungu cha sheria cha Benki.

2. MATOKEO

Matokeo ya mwaka yamewekwa katika ukurasa wa 23.

3. AKIBA

Akiba za Benki zimewekwa katika ukurasa wa 61, ukumbusho 29 wa ripoti hii.

4. MGAO WA FAIDA

Halmashauri imependekeza mgao wa faida wa asilimia 40% kuambatana na thamani (ya shilingi 2 kwa kila hisa) iwapo wenyehisa wataidhinisha kwenye Mkutano Mkuu wa Mwaka. Wawekezaji wa Helios EB ambao walijiunga kuwa wanachama mnamo tarehe 21 Disemba 2007 hawatapata mgao wowote wa faida wa mwaka wa 2007.

5. WAKURUGENZI

Wakurugenzi ambao walihudumu wakati wa kipindi cha mwaka huo hadi wakati wa kutolewa ripoti hii wameorodheshwa hapo chini:

Peter Kahara Munga	- Mwenyekiti
James Njuguna Mwangi	- Afisa Mkuu Mtendaji/ Mkurugenzi Mkuu
Benson Irungu Wairegi **	- Naibu-Mwenyekiti
Fredrick Mwangi Muchoki **	
Peter Njeru Gachuba	
Wagane Diouf *	
Beatrice Makanga Sabana***	
Julius Kangogo Kipng'etich	

Linus Wang'ombe Gitahi
Ernest Mattho Nzovu
Babatunde Temitope Soyoye****
Temitope Olugbeminiyi Lawani****

- * Msenegalese – Anayebadilishana na Peter Gachuba
- ** Alistaafu kwa zamu mnamo 30 Machi 2007 na kuchaguliwa upya
- *** Alistaafu kwa zamu mnamo 30 Machi 2007 na hakujiwasilisha kuchaguliwa tena
- **** Mwingereza – Aliteuliwa tarehe 21 Disemba 2007 Kifungu cha sheria cha 100 cha Katiba na Sheria za Kampuni kinawezesha wakurugenzi kustaafu kwa zamu.

6. WAKAGUZI

Wakaguzi wa hesabu za pesa, Ernst & Young, wamedhihirisha nia yao ya kuendelea kufanya kazi hii kulingana na Sehemu 159(2) ya Sheria za Makampuni nchini Kenya na kuambatana na Sehemu 24(1) ya Sheria za Benki.

Kwa Amri ya Halmashauri



Mary Wangari Wamae
Katibu wa Kampuni
22 Mei 2008

STATEMENT ON CORPORATE GOVERNANCE

FOR THE YEAR ENDED 31ST DECEMBER 2007

Equity Bank's corporate governance is a culture built on the bank's core values. The Bank is managed under the direction of the Board of Directors that is responsible for the long term strategic direction to ensure maximization of economic value for all stakeholders. This goal is pursued whilst being accountable to the shareholders for maintaining high standards of corporate governance and business ethics. It is also characterized by transparency and openness, fairness, good corporate citizenship, compliance with regulatory and prudential requirements.

The bank has created an elaborate governance structure comprising shareholders (AGM), Board of Directors, and Board Committees together with an effective management structure that enhances the separation of duties and dual control system.

OVERSIGHT ROLE OF THE BOARD OF DIRECTORS

The Board of Directors has supervised the delivery of dramatic growth over the years, with the bank continuing to deliver strong financial performance. The Board has provided leadership to the Bank resulting in the Bank being able to take its services to the furthest reach of the Kenyan society and generate of great shareholder wealth.

The Board has attracted directors who have shown great commitment and enthusiasm in involving themselves in the affairs of the Bank and who have demonstrated the spirit and ethos of the organization. The Directors have passed resolutions barring them from trading with the bank or obtaining credit facilities from the bank. Each of the directors has subscribed to the Code of Corporate Practices which guide them in the fulfillment of their duties and responsibilities to shareholders, customers, employees and the community.

During the year, eight non-executive Directors and one executive director served on the Board, nine meetings were held, four of which were scheduled and all directors attended at least 75% of all the Board meetings.

During the year 2007, the Board commissioned and successfully completed a self evaluation exercise. It was conducted in keeping with highest international standards. The evaluation focused on the role and responsibility of the Board, structure, composition, functions and processes, information, meetings among other critical areas.

BOARD COMMITTEES

The Board has established seven board committees which are all governed by charters.

Audit Committee ensures that the bank has and adheres to sound policies, processes and procedures that deliver business strategic plans effectively and further reviews the financial performance of the Bank, internal controls, performance and findings of internal auditors. The same is comprised of three non-executive directors.

Credit Committee reviews and oversees the overall lending policy of the Bank, ensures lending systems and procedures are adequate and adhered to. In addition it also ensures there is full compliance with Central Bank of Kenya prudential guidelines, Banking Act and international accounting standards to guarantee high quality asset portfolio.

Risk Management Committee ensures quality, integrity and reliability of the Banks' management. The committee also discharges duties relating to corporate accountability and associated risks in terms of management assurance and reporting. The committee monitors compliance with the Banks' risk policies and procedures and regularly reviews the adequacy of the Risk Management framework in relation to the risks faced by the Bank.

Strategy and Investment Committee supervises the development of corporate strategy and monitors implementation of the same. It manages the process of resource allocation to increase shareholder value in pursuit of the vision of the bank. It also reviews and considers the proposed strategic investments, makes recommendations to the Board and advises the management accordingly.

Tendering and Procurement Committee oversees and keeps the Board appraised on issues pertaining to the tendering and procurement of goods and services for the bank including regularly reviewing the tendering and procurement procedures.

Governance, Board Nominations and Staff Remuneration Committee ensures implementation and compliance with Human Resource Policies, makes recommendations to the board for policy on executive and senior management remuneration formulated to attract and retain high caliber staff and motivate them to implement the bank's strategy. The committee also ensures the board appointments maintain a good mix of skills, experience and competence in various field of expertise.

Board Executive Committee provides coaching and mentoring for the Chief Executive and provides the link between the Board and the management. The committee provides a first line of support and response to management.

STATEMENT ON CORPORATE GOVERNANCE

FOR THE YEAR ENDED 31ST DECEMBER 2007

Risk Management and Internal Controls

The Bank's Board of Directors is the primary risk manager. Even as the Board has delegated the day-to-day operations of the Bank to management, it remains accountable for ensuring that operations are carried out in compliance with applicable laws & regulations and are consistent with safe and sound banking practices.

In line with the Basel II requirements, the Bank has in place a comprehensive framework for risk management. The Bank's business units have identified a range of inherent risks which have been mapped indicating their drivers, frequency, impact, risk levels, trends, risk owners and respective mitigating strategies. All risks associated with banking institutions and those specific to the Bank are actively managed by the respective business units and monitored by the Bank's Risk Management Department. The Bank's risk limits are assessed regularly to ensure their appropriateness in line with business objectives and current market conditions. The Head of Risk Management reports to the Board's Risk Management Committee.

The Bank's Internal Audit department plays a vital role within governance processes by keeping the Board and senior management

aware of risk and control issues and by assessing the effectiveness of risk management. Reporting to the Audit Committee of the Board, the department plays the following vital roles:

- Objectively evaluates the existing risk and internal control framework.
- Systematically analyses business processes and associated controls.
- Reviews operational and financial performance.
- Recommends for more effective and efficient use of resources.
- Assesses the accomplishment of corporate goals and objectives.

The Bank has also established a Compliance and Quality Assurance department that reviews the compliance framework and specific compliance issues. The department also follows up on implementation of Internal Audit recommendations.

PARTICULARS OF SHAREHOLDING

As at 31st December 2007 the details of shareholding was as follows:

Name	Number of Shares	%
Helios EB Investors	90,516,255	24.99
British-American Investments Company (Kenya) Limited	40,081,689	11.06
Nelson Muguku Njoroge	22,545,255	6.22
James Njuguna Mwangi	19,898,505	5.49
John Kagema Mwangi	17,100,000	4.72
Equity Bank Employees Share Ownership Plan	15,018,400	4.14
Africap Limited	15,000,000	4.14
Andrew Mwangi Kimani	10,928,040	3.01
Fortress Highlands Limited	10,101,000	2.78
Peter Kahara Munga	8,707,479	2.4
Other 7077 Shareholders	112,313,282	31.05
Total Shares	362,209,905	100.00

STATEMENT OF DIRECTORS RESPONSIBILITIES

FOR THE YEAR ENDED 31ST DECEMBER 2007

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 designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free of material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors 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 judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by 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 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.



Director



Director



Secretary

6th March 2008

REPORT OF THE INDEPENDENT AUDITORS

TO THE MEMBERS OF EQUITY BANK LTD. FOR THE YEAR ENDED 31ST DECEMBER 2007

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Equity Bank Limited, set out on pages 32 to 66, which comprise the balance sheet as at 31 December 2007, income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an independent opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of Equity Bank Limited as at 31 December 2007 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

REPORT ON OTHER LEGAL REQUIREMENTS

As required by the Kenyan Companies Act, we report to you, based on our audit, that:

- i) we have obtained all the information and explanations which, to the best of our knowledge and belief, were considered necessary for the purposes of our audit;
- ii) in our opinion, proper books of account have been kept by the Bank, so far as appears from our examination of those books; and
- iii) the Bank's balance sheet and income statement are in agreement with the books of account.



ERNST & YOUNG

Nairobi

12th March 2008

INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2007

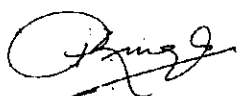
<i>In millions of Kenya Shillings</i>	Note	2007	2006
Interest income	8	3,155	1,635
Interest expense	8	(495)	(127)
Net interest income	8	2,660	1,508
Fee and commission income	9	562	366
Net fee and commission income		562	366
Net trading income	9	246	24
Other operating income	10	2,353	1,473
OPERATING INCOME		5,821	3,371
Net impairment loss on financial assets	11	(25)	133
Personnel expenses	12	1,469	952
Operating lease expenses	13	182	99
Depreciation and amortisation	14, 15	423	280
Other expenses	16	1,409	804
		3,458	2,268
Share of profit from associated company	17(a)	2,363 15	1,103 -
PROFIT BEFORE INCOME TAX		2,378	1,103
Income tax expense	18	(488)	(349)
PROFIT FOR THE YEAR		1,890	754
EARNINGS PER SHARE (KSHS)	19	6.88	2.77
DIVIDENDS PER SHARE (KSHS)	20	2.00	2.00

The notes on pages 36 to 66 are an integral part of these financial statements.

BALANCE SHEET
AS AT 31ST DECEMBER 2007

<i>In millions of Kenya Shillings</i>	Note	2007	2006
ASSETS			
Cash and cash equivalents	21	11,996	4,709
Loans and advances to customers	22	21,836	10,930
Investment securities	23	13,543	1,656
Investment in associate	17	442	-
Property and equipment	14	2,607	1,469
Intangible assets	15	224	161
Other assets	24	2,428	1,099
TOTAL ASSETS		53,076	20,024
LIABILITIES			
Deposits from customers	25	31,536	16,337
Current tax liabilities	18	209	147
Deferred tax liabilities	26	45	11
Long term borrowings	27	4,521	485
Other liabilities	28	1,848	844
TOTAL LIABILITIES		38,159	17,824
EQUITY			
Share capital	29	1,811	453
Share premium	29	10,543	480
Fair value reserve	29	13	1
Statutory reserve	29	253	-
Retained earnings		1,754	1,085
Proposed dividends	29	543	181
TOTAL EQUITY		14,917	2,200
TOTAL LIABILITIES AND EQUITY		53,076	20,024

The financial statements were approved by the Board of Directors on 6th March 2008 and signed on its behalf by:-



Director



Director



Secretary

The notes on pages 36 to 66 are an integral part of these financial statements.

CASHFLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2007

<i>In millions of Kenya Shillings</i>	Note	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		2,378	1,103
Adjustments for:			
Depreciation of property and equipment	14	353	242
Amortisation of intangible assets	15	70	38
Profit on disposal of property and equipment		-	(2)
		2,801	1,381
Change in loans and advances to customers		(10,906)	(5,405)
Change in other assets		(1,329)	(1,553)
Change in deposits from customers		15,199	7,289
Change in other liabilities and provisions		1,004	202
		6,769	1,914
Income tax paid	18	(392)	(355)
Net cash used in operating activities		6,377	1,559
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment securities		(11,887)	(307)
Investment in associate	17	(427)	-
Purchase of property and equipment	14	(1,493)	(667)
Purchase of intangible assets	14	(133)	(109)
Proceeds from the sale of property and equipment		2	2
Net cash used in investing activities		(13,938)	(1,081)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in subordinated liabilities		4,033	485
Proceeds from issue of new shares		10,996	-
Dividends paid	20	(181)	(181)
Net cash from financing activities		14,848	304
Net increase in cash and cash equivalents		7,287	782
Cash and cash equivalents at 1 January	21	4,709	3,927
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	21	11,996	4,709

The notes on pages 36 to 66 are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 2007

In millions of Kenya Shillings

For the year ended 31 December 2006	Share capital	Share premium	Revenue reserves	Statutory loan reserve	Fair value reserves	Proposed dividend	Total
At 1 January 2006	453	480	512	-	(33)	181	1,593
Profit for the year	-	-	754	-	-	-	754
Revaluation of treasury bonds	-	-	-	-	34	-	34
Dividends:							
Final for 2005 paid	-	-	-	-	-	(181)	(181)
Proposed for 2006	-	-	(181)	-	-	181	-
At 31 December 2006	453	480	1,085	-	1	181	2,200
FOR THE YEAR ENDED 31 DECEMBER 2007							
At 1 January 2007	453	480	1,085	-	1	181	2,200
Capitalisation from share premium	480	(480)	-	-	-	-	-
Capitalisation from revenue reserve	425	-	(425)	-	-	-	-
Share capital issued	453	10,543	-	-	-	-	10,996
Profit for the year	-	-	1,890	-	-	-	1,890
Revaluation of treasury bonds	-	-	-	-	12	-	12
Statutory loan reserve	-	-	(253)	253	-	-	-
Dividends:							
Final for 2006 paid	-	-	-	-	-	(181)	(181)
Proposed for 2007	-	-	(543)	-	-	543	-
At 31 December 2007	1,811	10,543	1,754	253	13	543	14,917

The notes on pages 36 to 66 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2007

1. REPORTING ENTITY

Equity Bank Limited (The "Bank") is a company domiciled in Kenya. The address of the Bank's registered office is P. O. Box 75104-00200 Nairobi. The principal activity of the bank is to offer retail banking and microfinance services.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The financial statements were approved by the Board of Directors on 6th March 2008.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- Financial instruments at fair value with profit or loss measured at fair value
- Available-for-sale financial assets are measured at fair value
- Investment property is measured at fair value

(c) Functional and presentation currency

The financial statements are presented in Kenya Shillings, which is the Bank's functional currency and have been rounded off to the nearest million.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in notes 4 and 5.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these financial statements (except as otherwise disclosed).

(a) Associates

An associated company is that in which the Bank has significant influence, but not control, over the financial and operating policies. The financial statements include the Bank's share of the total recognised gains and losses of the associated company on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. At the company level, associates are recognised using the equity method.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2007

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates ruling on the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the mean exchange rate as at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

(c) Interest income and interest expense

Interest income and expense are recognised in the income statement on accrual basis.

Interest income and expense presented in the income statement include:

- Interest on financial assets and liabilities on accrual basis taking into account the effective interest rate basis
- Interest on available-for-sale investment securities on an effective interest basis

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

(d) Fees and commission

Fees and commission income and expenses, other fees and commission income, including account servicing fees, investment management fees, placement fees and syndication fees, are recognised as the related services are performed.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

(e) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, and foreign exchange differences.

(f) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(g) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2007

are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

(h) Financial assets and liabilities

(i) Recognition

The Bank initially recognises loans and advances, on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

(ii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

(iii) Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a Bank of similar transactions such as in the Bank's trading activity.

(iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets.

(vi) Identification and measurement of impairment

At each balance sheet date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to assets such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2007

In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to the income statement. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through the income statement.

(i) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

(j) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the balance sheet with transaction costs taken directly to the income statement. All changes in fair value are recognised as part of net trading income in the income statement. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

(k) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Bank chooses to carry the loans and advances at fair value through the income statement.

(l) Investment securities

(i) Fair value through the income statement

The Bank carries some investment securities at fair value, with fair value changes recognised immediately in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2007

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through the income statement, or available-for-sale.

(ii) Held to maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated at fair value through the income statement or available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale.

(iii) Available-for-sale

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in the income statement using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in the income statement.

(m) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost includes any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in the income statement as incurred.

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative years are as follows:

The annual rates of depreciation in use are as follows:-

	2007	2006
Freehold land	Nil	Nil
Buildings	2.5%	2.5%
Motor vehicles	25%	25%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2007

Office equipment, furniture and fittings	12.5%	12.5%
Computer hardware	33.3%	33.3%
ATM machines, core banking software and hardware	20%	20%
Village cell banking vans	25%	25%

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

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

(n) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both. Investment property is measured at fair value.

(o) Software

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful life of software is three to five years.

(p) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

(q) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement when they are due.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus if the Bank has a present obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(r) Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2007

(s) Segment reporting

The Bank operates wholly in Kenya. A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank's primary format for segment reporting is based on business segments.

(t) Dividends

Dividends are recognised as a liability in the year in which they are declared. Proposed dividends are disclosed as a separate component of equity.

(u) Offsetting of financial assets and liabilities

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

(v) Sale and repurchase agreements

Securities purchased from the Central Bank of Kenya under agreement to resell (reverse repos), are disclosed as treasury bills as they are held to maturity after which they are repurchased and are not negotiable or discounted during the tenure.

(w) Borrowings

Borrowings are recognised initially at fair value.

4. FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Board Risk Management Committee, which is responsible for developing and monitoring Bank risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2007

The Risk Management Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Board Risk Management Committee is assisted in these functions by Risk Management Department. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board Risk Management Committee.

(b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the Bank Management through the Chief executive office. The Management has delegated this responsibility to various Credit committees as prescribed in the Banks Credit Charter. A separate Bank Credit department, reporting to the Chief Executive Officer, is responsible for oversight of the Bank's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to various Credit committees as stipulated in the Banks Credit Charter...
- *Reviewing and assessing credit risk.* Bank Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances) and by issuer, credit rating band, market liquidity and country (for investment securities).
- *Developing and maintaining the Bank's risk grading* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by Bank Risk.
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Bank Credit on the credit quality of local portfolios and appropriate corrective action is taken.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement Bank credit policies and procedures, with credit approval authorities delegated from the Bank Credit Committee. Each business unit has a Credit Risk Manager who reports on all credit related matters to local management and the Bank Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and Bank Credit processes are undertaken by Internal Audit.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2007

Exposure to credit risk

<i>In millions of Kenya Shillings</i>	Note	Loans and advances to customers	
		2007	2006
Carrying amount	22	22,228	11,429
Individually impaired			
Grade 4: Impaired (Loss)		346	419
Grade 5: Impaired (doubtful)		484	140
Gross amount		830	559
Allowance for impairment	11	278	382
Carrying amount		552	177
Collectively impaired			
Grade 1: Normal		20,061	10,183
Grade 2: Watch list		969	451
Gross amount		21,030	10,634
Allowance for impairment	11	114	117
Carrying amount		20,916	10,517
Past due but not impaired			
Grade 3: Substandard		368	236
Carrying amount		368	236
Past due comprises:			
60-90 days		368	236
Carrying amount		368	236
Total carrying amount		21,836	10,930

Impaired loans

Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. These loans are graded 4 to 5 in the Bank's internal credit risk grading system.

Past due but not impaired loans

These are loans where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank. These loans are graded 3 in the Bank's internal credit risk grading system.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main

NOTES TO THE FINANCIAL STATEMENTS

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components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for Banks of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Bank writes off a loan balance when Credit department determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral have failed to cover the entire facility outstanding. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Collateral on Loans and Advances

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired or when a borrower has cleared a loan and would like to obtain another facility at the time when the validity of the valuation has since expired.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

<i>In millions of Kenya Shillings</i>	Loans and advances to customers	
	2007	2006
Against individually impaired		
Property	796	327
Equities	33	13
Other	-	-
Against collectively impaired		
Property	23,909	9,820
Equities	996	409
Other	-	-
Against past due but not impaired		
Property	18,033	7,406
Equities	751	308
Other	-	-
Total	44,518	18,283

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

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FOR THE YEAR ENDED 31ST DECEMBER 2007

<i>In millions of Kenya Shillings</i>	Loans and advances to customers	
	2007	2006
Concentration by sector		
Consumer	5,370	2,098
Micro Credit	3,012	2,477
Agriculture	678	499
SME	6,970	2,336
Corporate	6,198	4,019
	22,228	11,429

(c) Liquidity risks

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Treasury maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by Board Risk Management Committee.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers.

Details of the reported Bank ratio of net liquid assets to deposits at the reporting date and during the reporting year were as follows:

	2007	2006
At 31 December	77%	38%
Average for the year	45%	32%
Maximum for the year	77%	38%
Minimum for the year	34%	25%

(d) Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2007

All foreign exchange risk within the Bank is managed by the Treasury Department. Accordingly, the foreign exchange position is treated as part of the Bank's trading portfolios for risk management purposes.

Overall authority for market risk is vested in the Board Risk Management Committee. The Finance and Treasury Departments in collaboration with the Risk Management Department are responsible for the development of detailed risk management policies (subject to review and approval by Board Risk Management Committee) and for the day-to-day review of their implementation.

Exposure to market risks – trading portfolios

Currently, the Bank does not hold a significant trading portfolio and is therefore not largely exposed to market risks associated with such portfolios.

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The Board Risk Management Committee is the monitoring body for compliance with these limits and is assisted by Treasury Back Office and Finance Department in the day-to-day monitoring activities, while Risk Management Department carries out regular reviews. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

<i>In millions of Kenya Shillings</i>	Carrying amount	Less than 3 Months	3-6 Months	6-12 Months	1 - 5 years	More than 5 yrs
31 December 2007						
Assets						
Cash and cash equivalents	4,060	4,060	-	-	-	-
Loans and advances to customers	21,836	4,486	2,173	4,590	10,370	217
Investment securities	13,543	4,852	-	212	1,097	7,382
	39,439	13,398	2,173	4,802	11,467	7,599
Liabilities						
Deposits from customers	25,681	995	923	1,243	526	21,994
Long term borrowings	4,521	-	-	207	2,356	1,958
	30,202	995	923	1,450	2,882	23,952
Interest rate sensitivity gap at 31 December 2006	9,237	12,403	1,250	3,352	8,585	(16,353)
31 December 2006						
Assets						
Cash and cash equivalents	2,241	2,241	-	-	-	-
Loans and advances to customers	10,930	4,093	1,859	2,287	2,554	137
Investment securities	1,656	581	32	-	648	395
	14,827	6,915	1,891	2,287	3,202	532
Liabilities						
Deposits from customers	13,564	524	452	612	296	11,680
Long term borrowings	485	-	-	-	485	-
	14,049	524	452	612	781	11,680
Interest rate sensitivity gap at 31 December 2006	778	6,391	1,439	1,675	2,421	(11,148)

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FOR THE YEAR ENDED 31ST DECEMBER 2007

Exposure to other market risks – non-trading portfolios

Credit spread risk (not relating to changes in the obligor / issuer's credit standing) on debt securities held by Treasury and equity price risk is subject to regular monitoring by Board Risk Management Committee. Currently, the exposure to other market risks on non-trading portfolio is not significant in relation to the overall results and financial position of the Bank.

(e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business units.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the yearly assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with Bank standards is supported by a programme of regular reviews undertaken by both the Internal Audit and compliance departments. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

(f) Capital management

Regulatory capital

The Central Bank of Kenya sets and monitors capital requirements for the Banking industry as a whole.

In implementing current capital requirements The Central Bank of Kenya requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2007

Various limits are applied to elements of the capital base; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank has complied with all externally imposed capital requirements throughout the year.

The Bank's regulatory capital position at 31 December was as follows:

<i>In millions of Kenya Shillings</i>	Note	2007	2006
Tier 1 capital			
Ordinary share capital	29	1,811	453
Share premium	29	10,543	480
Retained earnings		1,755	1,085
Less investments in equity instruments of other institutions	17	(443)	-
Total		13,666	2,018
Tier 2 capital			
Collective allowances for impairment	11	253	-
Qualifying subordinated liabilities		3,708	-
Total		3,961	-
Total regulatory capital		17,627	2,018
Risk-weighted assets			
Total risk-weighted assets		29,919	15,886
Capital ratios			
Total regulatory capital expressed as a percentage of total risk-weighted assets		59%	14%
Total tier 1 capital expressed as a percentage of risk-weighted assets		46%	14%

5. USE OF ESTIMATES AND JUDGEMENTS

Management discusses with the Board Audit Committee all the developments, selection and disclosure of the Bank's critical accounting policies and estimates and the application of these policies and estimates.

6. SEGMENT REPORTING

Currently, the Bank's primary business segment is retail banking, which accounts for more than 99% of the Bank's business. The Bank operates wholly in Kenya and therefore segmental reporting is considered not appropriate.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2007

7. FINANCIAL ASSETS AND LIABILITIES

*Accounting classifications and fair values
In millions of Kenya Shillings*

	Designated at fair values	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
31 December 2007							
Assets							
Cash and cash equivalents	-	-	-	-	11,996	11,996	11,996
Loans and advances	-	-	21,583	-	-	21,583	21,836
Investment securities	-	5,541	-	7,990	-	13,531	13,543
	-	5,541	21,583	7,990	11,996	47,110	47,375
Liabilities							
Deposits from customers	31,536	-	-	-	-	31,536	31,536
Subordinated debts	4,521	-	-	-	-	4,521	4,521
	36,057	-	-	-	-	36,057	36,057
31 December 2006							
Assets							
Cash and cash equivalents	-	-	-	-	4,709	4,709	4,709
Loans and advances	-	-	10,930	-	-	10,930	10,930
Investment securities	-	66	-	1,556	-	1,622	1,656
	-	66	10,930	1,556	4,709	17,261	17,295
Liabilities							
Deposits from customers	16,337	-	-	-	-	16,337	16,337
Subordinated debts	485	-	-	-	-	485	485
	16,822	-	-	-	-	16,822	16,822

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2007

8. Interest income

<i>In millions of Kenya Shillings</i>	Note	2007	2006
Interest income			
Cash and cash equivalents	21	112	69
Loans and advances to customers	22	2,514	1,437
Investment securities	23	529	129
Total interest income		3,155	1,635
Interest expense			
Deposits from banks		(3)	(3)
Deposits from customers	25	(249)	(118)
Borrowings	27	(243)	(6)
Total interest expense		(495)	(127)
Net interest income		2,660	1,508

Included within various captions under interest income for the year ended 31 December 2007 is a total of KShs NIL (2006: KShs NIL) accrued on impaired financial assets.

Included within interest income on investment securities for the year ended 31 December 2007 is KShs 337 million (2006: KShs 27 million) relating to investment securities held-to-maturity.

9. (a) **Net fee and commission income**

<i>In millions of Kenya Shillings</i>	2007	2006
Fee and commission income		
Total fee and commission income	562	366
Fee and commission expense		
Total fee and commission expense	-	-
Net fee and commission income	562	366
(b) Net trading income		
<i>In millions of Kenya Shillings</i>		
Bonds trading income	99	-
Foreign exchange gain	147	24
	246	24

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2007

10. OTHER OPERATING INCOME

<i>In millions of Kenya Shillings</i>	2007	2006
Rental income	1	1
Other	2,352	1,472
	2,353	1,473

11. ALLOWANCES FOR IMPAIRMENT

<i>In millions of Kenya Shillings</i>	2007	2006
Balance at 1 January	499	361
Specific provisions for the year	115	67
General provisions for the year	113	66
Interest suspended during the year	202	102
Write-offs during the year	(284)	(97)
Adjustment of impairment as per IAS 39	(253)	-
Balance at 31 December	392	499
Impairment loss for the year is arrived at as follows:		
Change for the year : General provisions	113	66
: Specific provisions	115	67
	228	133
Write back of over provisions	(253)	-
Net impairment loss on financial assets	(25)	133

12. PERSONNEL EXPENSES

<i>In millions of Kenya Shillings</i>	2007	2006
Salaries	1,449	940
Contributions to defined contribution plans	20	12
	1,469	952

13. OPERATING LEASE EXPENSES

Non-cancellable operating lease rentals are payable as follows:		
<i>In millions of Kenya Shillings</i>	2007	2006
More than five years	182	99

The Bank leases a number of branch and office premises under operating leases. The leases typically run for a year up to ten years, with an option to renew the lease after that date. Lease payments are increased accordingly to reflect market rentals.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2007

14. PROPERTY, EQUIPMENT AND LEASEHOLD LAND

(a) Property and equipment - 2007

In millions of Kenya Shillings

	Freehold land & buildings	Leasehold improvements	Motor vehicles	Office equipment, furniture & fittings	Computers	Village cell banking vans	Total
COST							
At 1 January 2007	40	503	51	453	942	31	2,020
Additions	-	574	-	224	689	6	1,493
Disposals	-	-	(1)	-	(8)	-	(9)
At 31 December 2007	40	1,077	50	677	1,623	37	3,504
DEPRECIATION							
At 1 January 2007	6	78	29	139	283	20	555
Charge for the year	1	114	3	48	175	12	353
Release on disposal	-	-	(1)	-	(6)	-	(7)
At 31 December 2007	7	192	31	187	452	32	901
NET BOOK VALUE							
At 31 December 2007	33	885	19	490	1,171	5	2,603

(b) Property and equipment - 2006

In millions of Kenya Shillings

	Freehold land & buildings	Leasehold improvements	Motor vehicles	Office equipment, furniture & fittings	Work-in progress	Computer	Village Cell Banking Vans	Total
COST								
At 1 January 2006	40	256	56	322	402	265	21	1,362
Additions	-	247	2	131	-	296	10	686
Transfer from work-in-progress	-	-	-	-	(402)	-	-	(402)
Capitalisation of work-in-progress	-	-	-	-	-	384	-	384
Disposals	-	-	(7)	-	-	(3)	-	(10)
At 31 December 2006	40	503	51	453	-	942	31	2,020
DEPRECIATION								
At 1 January 2006	5	44	26	96	-	136	14	321
Charge for the year	1	34	10	43	-	148	6	242
Release on disposal	-	-	(7)	-	-	(1)	-	(8)
At 31 December 2006	6	78	29	139	-	283	20	555
NET BOOK VALUE								
At 31 December 2006	34	425	22	314	-	659	11	1,465

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2007

14 (c) Prepaid lease

The movement in prepaid operating lease rentals during the year was as follows:

<i>In millions of Kenya Shillings</i>	2007	2006
Cost		
Balance at 1 January	5	5
Acquisitions	-	-
Balance at 31 December	5	5
Amortisation and impairment		
Balance at 1 January	1	1
Amortisation for the year	-	-
Balance at 31 December	1	1
Carrying amounts		
Balance at 31 December	4	4
14 (d) Investment property		
<i>In millions of Kenya Shillings</i>	2007	2006
Cost		
Balance at 1 January	11	11
Acquisitions	-	-
Amortisation for the year	-	-
Balance at 31 December	11	11

The Bank holds some investment property. This relates to land bought by Equity Building Society for resale to its members. The amortisation charge for the year amounted to KShs. 111,000 (2006 : KShs. 111,000).

15. INTANGIBLE ASSETS

<i>In millions of Kenya Shillings</i>	Purchased software	
Cost	2007	2006
Balance at 1 January	236	127
Acquisitions	133	109
Balance at 31 December	369	236
Amortisation and impairment		
Balance at 1 January	75	37
Amortisation for the year	70	38
Balance at 31 December	145	75
Carrying amounts		
Balance at 31 December	224	161

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2007

During 2006 and 2007, the retail banking operations reconsidered their future requirements in relation to customer information software and has recognised impairment in line with its planned replacement in the near term.

16. OTHER EXPENSES

In millions of Kenya Shillings

	2007	2006
Software licensing and other information technology costs	124	65
Auditors' remuneration	3	2
Other	1,282	737
	1,409	804

17(a) INVESTMENT IN ASSOCIATES

In millions of Kenya Shillings

	2007	2006
Investment in Housing Finance	442	-

During the year, the Bank acquired 20% of shares at Housing Finance, a banking institution whose principal activity is provision of mortgage products.

	2007	2006
Share of the associate's balance sheet		
Current assets	2,700	-
Non current assets	7,663	-
Current liabilities	(7,015)	-
Non current liabilities	(1,908)	-
	1,440	-
Revenue	1,158	-
Profit after tax	74	-
Share of income from associated company	15	-

17(b) INVESTMENT IN SUBSIDIARY COMPANIES

In millions of Kenya Shillings

	Percentage Shareholding	2007	2006
Equity Consulting Group	100%	0.5	-
Nafuu Insurance Agency	100%	0.1	-
		0.6	-

The Bank had two wholly owned subsidiary companies as at 31 December 2007; Equity Consulting Group and Nafuu Insurance Agency Ltd, which are incorporated in Kenya. The two subsidiaries were dormant and hence no consolidated accounts have been prepared.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2007

18. INCOME TAX

Recognised in the income statement				
<i>In millions of Kenya Shillings</i>				
	2007		2006	
Current tax expense				
Current year	454		334	
Adjustments for prior years	-		-	
	454		334	
Deferred tax expense				
Origination and reversal of temporary differences	34		15	
Total income tax expense	488		349	
Reconciliation of effective tax rate				
<i>In millions of Kenya Shillings</i>				
	2007	2007	2006	2006
Profit before income tax		2,363		1,102
Income tax using the enacted corporation tax rate	20%	454	30%	334
Non-deductible expenses	20%	34	30%	15
Tax exempt income	20%	-	30%	-
Total income tax expense in income statement	20%	488	30%	349
Income tax recognised in the balance sheet				
Balance brought forward			147	168
Charge for the year			454	334
Paid during the year			(392)	(355)
			209	147

19. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share as at 31 December 2007 is based on the profit attributable to ordinary shareholders of KShs 1,891 million (2006: KShs 754 million) and the weighted average number of ordinary shares outstanding of 275 million (2006: 272 million), calculated as follows:

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2007

Profit attributable to ordinary shareholders <i>In millions of Kenya Shillings</i>	2007	2006
Net profit for the year attributable to equity holders of the Bank	1,891	754
Weighted average number of ordinary shares In millions of shares	2007	2006
Issued ordinary shares at 1 January	91	91
Effect of bonus shares issued during the year	181	181
Effect of new shares issued during the year	3	-
Weighted average number of ordinary shares at 31 December	275	272

Basic and diluted earnings per share are the same.

20. DIVIDEND PER SHARE

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an Annual General Meeting.

At the Annual General Meeting to be held on 25 June 2008, a final dividend in respect of the year ended 31 December 2007 of KShs 2.00 (2006 – KShs 2.00) for every ordinary share of KShs 5 is to be proposed. Payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non-resident shareholders.

21. CASH AND CASH EQUIVALENTS	2007	2006
<i>In millions of Kenya Shillings</i>		
Cash and balances with banks	5,798	1,545
Unrestricted balances with Central Bank	353	22
Restricted balances with Central Bank	1,785	901
Money market placements	4,060	2,241
	11,996	4,709

22. LOANS AND ADVANCES TO CUSTOMERS

<i>In millions of Kenya Shillings</i>	2007	2006
Loans and advances to customers at amortised cost	21,836	10,930
	21,836	10,930

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2007

Loans and advances to customers at amortised cost

In millions of Kenya Shillings

	2007	2006
Gross amount	22,228	11,429
Impairment allowance	(392)	(499)
Carrying Amount	21,836	10,930

23. INVESTMENT SECURITIES

In millions of Kenya Shillings

	2007	2006
Held-to-maturity investment securities	5,553	100
Available-for-sale investment securities	7,990	1,556
	13,543	1,656

Held-to-maturity investment securities

In millions of Kenya Shillings

	2007	2006
Government bonds	5,553	100
Less specific allowances for impairment	-	-
	5,553	100

Available-for-sale investment securities

Government bills and bonds

Less specific allowances for impairment

	2007	2006
Government bills and bonds	7,990	1,556
Less specific allowances for impairment	-	-
	7,990	1,556

24. OTHER ASSETS

In millions of Kenya Shillings

	2007	2006
Investment property	11	11
Accounts receivable and prepayments	292	244
Accrued income	861	39
Funds in clearing	1,208	750
Other	56	55
	2,428	1,099

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2007

25. DEPOSITS FROM CUSTOMERS

In millions of Kenya Shillings

	2007	2006
Retail customers:		
Term deposits	108	79
Current deposits	2,057	2,103
Savings deposits	19,714	10,023
	21,879	12,205
Corporate customers:		
Term deposits	3,672	1,773
Current deposits	3,798	669
Savings	2,187	1,690
	9,657	4,132
	31,536	16,337

26. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

<i>In millions of Kenya Shillings</i>	2007			2006		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property and equipment, and Software	-	(53)	(53)	-	(41)	(41)
Available-for-sale securities	-	-	-	-	-	-
Allowances for loan losses	-	-	-	20	-	20
Other	-	8	8	10	-	10
Net tax assets/(liabilities)	-	(45)	(45)	30	(41)	(11)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2007

26. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movements in temporary differences during the year

<i>In millions of Kenya Shillings</i>	Opening Balance	Recognised in profit or loss	Recognised in equity	Closing balance
2007				
Property and equipment, and software	(41)	(12)	-	(53)
Available-for-sale securities	-	-	-	-
Allowances for loan losses	20	(20)	-	-
Other	10	(2)	-	8
	(11)	(34)	-	(45)
2006				
Property and equipment, and software	(15)	(57)	-	(41)
Available-for-sale securities	-	-	-	-
Allowances for loan losses	10	30	-	20
Other	1	11	-	10
	(4)	(17)	-	(11)

27. LONG-TERM BORROWINGS

<i>In millions of Kenya Shillings</i>	2007	2006
Dexia Micro Credit Fund	763	485
Blue Orchard Loans for Development SA	636	-
Growth Management Limited	636	-
Deutsche Bank Microfinance Fund	452	-
Global Microfinance Facility	477	-
Nederlandse Financierings Maatschappij Voor		
Ontwikkelingslanden N.V (FMO)	1,507	-
Ministry of Youth Affairs	50	-
	4,521	485

During the year, the Bank obtained the following loans:

- i) Medium term loan of US\$ 12,000,000 from Dexia Micro Credit Fund, a company incorporated in Luxembourg. The loan, which is secured by directors' guarantee, accrues interest at the rate at 8% p.a. and will mature on 01th December 2009. The effective interest rate is 8%. Finance cost of KShs 8m has been included in the income statement account.
- ii) Long term loan of US\$ 10,000,000 from Blue Orchard Loans for Development SA, a company incorporated in Luxembourg. The loan, which is secured by directors' guarantee, accrues interest at the rate of 8.75% p.a. and will mature on 01th June 2012. The effective interest rate is 10.29%. Finance cost of KShs 5m has been included in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

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- iii) Long term loan of US\$ 10,000,000 from Growth Management Limited, a company incorporated in UK. The loan, which is secured by directors' guarantee, accrues interest at the rate of 9.5% p.a. and will mature on 1st July 2012. The effective interest rate is 11.18%. Finance cost of KShs 33m has been included in the income statement.
- iv) Long term loan of US\$ 7,105,970 from Deutsche Bank Microfinance Fund, a company incorporated in Germany. The loan, which is secured by directors' guarantee, accrues interest at the rate of 9.5% p.a. and will mature on 31st December 2014. The effective interest rate is 11.18%. Finance cost of KShs 1m has been included in the income statement account.
- v) Long term loan of US\$ 7,500,000 from Global Microfinance Facility, a company incorporated in USA. The loan, which is secured by directors' guarantee, accrues interest rate at 8.3% p.a. and will mature on 1st July 2012. The effective interest rate is 9.76%. Finance cost of KShs 8 million has been included in the income statement account.
- vi) Long-term term loan of KShs 1,507,250,000 from FMO, a company incorporated in the Netherlands. The loan, which is secured by directors' guarantee, accrues interest rate at 10.43% p.a. and will mature on 15th September 2014. The effective interest rate is 12.26%. Finance cost of KShs 16m has been included in the income statement.
- vii) Medium term loan of KShs 50 million from Ministry of Youth Affairs. The loan, which is secured by directors' guarantee, accrues interest rate at 1% p.a. and will mature on 24th December 2010. The effective interest rate is 1%. Finance cost of 0.02m has been included in the income statement.

28. OTHER LIABILITIES

<i>In millions of Kenya Shillings</i>	2007	2006
Short-term employee benefits	92	34
Creditors and accruals	518	321
Other	1,238	489
	1,848	844

29. STATEMENT OF CHANGES IN EQUITY

Share capital and share premium

(a) Share capital	2007	2006
<i>Authorised share capital 362,209,905 ordinary shares of KShs 5 each</i>	1,811	500
<i>Issued and fully paid 362,209,905 ordinary shares of KShs 5 each</i>	1,811	453

Movement in ordinary shares

In millions of shares

	2007	2006
On issue at 1 January	91	91
Bonus shares issued	181	-
Additional shares issued	90	-
On issue at 31 December	362	91

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2007

At 31 December 2007 the authorised share capital comprised of 362 million ordinary shares (2006: 91million), with a par value of KShs 5. All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank.

The top ten largest shareholders as at 31 December 2007 were:

Name	Shares	%
Helios EB Investors	90,516,255	24.99
British-American Investments Company (Kenya) Limited	40,081,689	11.06
Nelson Muguku Njoroge	22,545,255	6.22
James Njuguna Mwangi	19,898,505	5.49
John Kagema Mwangi	17,100,000	4.72
Equity Bank Employees' Share Ownership Plan	15,018,400	4.14
AFRICAP Limited	15,000,000	4.14
Andrew Mwangi Kimani	10,928,040	3.01
Fortress Highlands Limited	10,101,000	2.78
Peter Kahara Munga	8,707,479	2.4
Other 7,077 shareholders	112,313,282	31.05
Total Shares	362,209,905	100%

The distribution of shareholders as at 31 December 2007 was as follows:

Share range	No. of shareholders	Shares held	%
1 to 500	2,826	720,400	0.2%
501-5,000	3,323	5,895,856	1.6%
5,001-10,000	402	2,868,309	0.8%
10,001-100,000	399	11,240,160	3.1%
100,001-1,000,000	110	36,154,780	10.0%
1,000,001 and above	27	305,327,400	84.3%
	7,087	362,209,905	100.0%

(b) Share premium

Share premium arose from the additional 90,516,255 ordinary shares issued during the year at a price of KShs122 per share.

(c) Fair value reserve

The fair value reserve is attributable to revaluation of investment property owned by the Bank during the year and marking to market of investment securities classified under available-for-sale category.

(d) Statutory reserve

The statutory reserve represents excess loan loss provision determined from computation of impairment of loans and advances as per International Accounting Standards (IAS) No. 39.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2007

(e) Dividends

The following dividends were declared and paid by the Bank for the year ended 31 December:

<i>In millions of Kenya Shillings</i>	2007	2006
KShs 2 per ordinary share (2006: KShs 2)	-	181
	-	181

After 31 December 2007 the following dividends were proposed by the directors in respect of 2007. The dividends have not been provided for and there are no income tax consequences.

<i>In millions of Kenya Shillings</i>	2007	2006
KShs 2 per ordinary share (2006: KShs 2)	543	181
	543	181

30. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS

Bank and company

In the ordinary course of business, the Bank conducts business involving guarantees, acceptances and performance bonds. These facilities are offset by corresponding obligations of third parties. At the year end, the contingencies were as follows:

<i>In millions of Kenya Shillings</i>	2007	2006
Guarantees and standby letters of credit	1,601	1,021
Letters of credit, acceptances and other documentary credits	1,165	818
	2,766	1,839

Derivatives/commitments were as follows:

Forward foreign exchange contract amounts	(1)	(4)
---	-----	-----

Nature of contingent liabilities

Guarantees are generally written by a Bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer's default.

Letters of credit commit the Bank to make payment to third parties, on production of documents, which are subsequently reimbursed by customers.

An *acceptance* is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented and reimbursement by the customer is almost immediate.

Forward foreign exchange contracts are commitments to either purchase or sell a designated financial instrument at a specified future date for a specified price and may be settled in cash or another financial asset. The fair values of the respective currency forwards are carried under other assets and other liabilities as appropriate.

NOTES TO THE FINANCIAL STATEMENTS

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Commitments

Capital expenditure contracted for at the balance sheet date but not recognized in the financial statements is as follows:

<i>In millions of Kenya Shillings</i>	2007	2006
Capital commitments	97	326
Loans approved but not disbursed	375	226

31. OTHER CONTINGENCIES

The Bank is currently discussing with Kenya Revenue Authority on some open tax /issues. On the basis of appropriate professional advise, the directors are of the opinion that no loss will crystallise and therefore no provision has been made in these financial statements.

The Bank is defending some actions brought by borrowing consumers in relation to the loans advanced to them. While liability is not admitted, if defence against the actions is unsuccessful, fines and legal costs could amount to KShs 9million. Based on legal advice, the directors do not expect the outcome of the actions to have a material effect on the Bank's financial position.

A review of the impact of the post-election violence on the bank's loan portfolio after year end has been carried out. The directors are of the opinion that no material loss is likely to crystallize therefrom.

32. RELATED PARTIES

a) Loans to key management personnel

In millions of Kenya Shillings

Balance at 1 January

Interest charged

Loans disbursed

Cash received

Balance at 31 December

2007

43

3

8

(6)

48

2006

25

3

20

(5)

43

b) Loans to employees

In millions of Kenya Shillings

Balance at 1 January

Interest charged

Loans disbursed

Cash received

Balance at 31 December

2007

188

25

317

(135)

395

2006

132

13

191

(147)

189

Interest rates charged on balances outstanding are two thirds of the rates that would be charged in an arm's length transaction.

No impairment losses have been recorded against balances outstanding during the year and no specific allowance has been made for impairment losses on balances at the year end.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2007

c) Loans to directors and related parties

<i>In millions of Kenya Shillings</i>	2007	2006
Balance at 1 January	147	-
Interest charged	16	4
Loans disbursed	131	175
Cash received	(131)	(32)
Balance at 31 December	163	147

Interest rates charged on balances outstanding are two thirds of the rates that would be charged in an arm's length transaction.

d) Key management personnel compensation

<i>In millions of Kenya Shillings</i>	2007	2006
Remuneration to executive directors	58	41
	58	41

In addition to their salaries, the Bank also contributes to a post-employment defined benefit plan National Social Security Fund, (NSSF), on their behalf.

e) Directors' emoluments

<i>In millions of Kenya Shillings</i>	2007	2006
As non-executive	15	16
As executives	58	41
Net amount at 31 December	73	57

(f) All the transactions with the related parties are priced on arm's length basis and have been entered into in the normal course of business.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2007

33. 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 2007.

As at 31 December 2007	Kshs	USD	GBP	Euro	Zar	JPY	Others	Kshs Total
<i>In million of Kenya Shillings</i>								
Assets								
Cash and cash equivalents	9,075	2,751	81	81	6	-	2	11,996
Loans and advances to customers	21,553	283	-	-	-	-	-	21,836
Investment securities	13,543	-	-	-	-	-	-	13,543
Investment in associates	443	-	-	-	-	-	-	443
Property and equipment	2,607	-	-	-	-	-	-	2,607
Intangible assets	224	-	-	-	-	-	-	224
Other assets	2,503	14	-	-	-	-	-	2,517
	49,948	3,048	81	81	6	-	2	53,166
Equity and liabilities								
Customer deposits	31,199	229	82	-	25	1	-	31,536
Current Tax Liabilities	209	-	-	-	-	-	-	209
Deferred Tax Liabilities	45	-	-	-	-	-	-	45
Long Term Borrowings	1,557	2,964	-	-	-	-	-	4,521
Other Liabilities	1,767	78	1	2	-	-	-	1,848
Shareholders funds	15,007	-	-	-	-	-	-	15,007
Total liabilities and shareholders funds	49,784	3,271	83	2	25	1	-	53,166
Net balance sheet position	164	(223)	(2)	79	(19)	(1)	2	-
As at 31 December 2006								
Total Assets	19,365	447	66	145	1	-	-	20,024
Total Liabilities	19,484	538	-	2	-	-	-	20,024
Net Balance Sheet Position	(119)	(91)	66	143	1	-	-	-

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The Company Secretary
 Equity Bank Limited
 NHIF Building, 14th Floor
 P.O. Box 75104-00200
 NAIROBI

PROXY FORM

(PLEASE COMPLETE IN BLOCK LETTERS)

I/WE _____

of P.O. Box _____ TELEPHONE NUMBER _____

being a shareholder of Equity Bank Limited, hereby appoint _____

_____ of P.O. Box _____

and failing him _____ of P.O. Box _____

and failing him, the Chairman of the meeting as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on the **25th day of June, 2008 at Kenyatta International Conference Centre, Nairobi (K.I.C.C) at 10.00 a.m** and at any adjournment thereof. This form is to be used to vote in favour of/against* the resolution. Unless otherwise instructed the proxy will vote as he/she deems fit.

As witnessed by my/our hand this _____ day of _____ 2008

NUMBER OF SHARES HELD _____

SHARES ACCOUNT NUMBER _____

SIGNATURE _____

*Delete whichever is not applicable

NOTES:

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.
2. A proxy need not be a member of the Company.
3. To be valid, this proxy form must be duly completed by the member and lodged with the Company Secretary at the Company's Registered Office situate in NHIF BUILDING 14TH FLOOR, NAIROBI not later than **10.00 a.m. on 23rd June, 2008** failing which it will be invalid.
4. In case of a member being a corporate body, this form of proxy must be completed under its common seal or under the hand of an officer or attorney duly authorised in writing.
5. In case of joint holders, the signature of any of them will suffice but the names of all joint holders must be stated.

FOMU YA UWAKILISHI



Katibu wa Kampuni
Kampuni ya Benki ya Equity
Jumba la NHIF, Orofa ya 14
S.L.P. 75104 - 00200
NAIROBI

FOMU YA UWAKILISHI

(TAFADHALI JAZA KWA HERUFI KUBWA)

MIMI/SISI _____

wa S.L.P. _____ SIMU NAMBARI _____

Mwenyehisa wa Kampuni ya benki ya Equity, namteua _____

_____ wa S.L.P. _____

na akikosa kufika _____ wa S.L.P. _____

na akikosa kufika, mwenyekiti wa mkutano kama mwakilishi wangu/wetu kunipigia mimi/sisi kura kwa niaba yangu/yetu katika mkutano mkuu wa kila mwaka wa kampuni utakaofanyika **tarehe 25 mwezi Juni 2008 katika jumba la mikutano la Kenyatta International Conference Centre, Nairobi (K.I.C.C) saa nne asubuhi** na kuambatana na uahirishaji wowote unaoweza kutokea. Fomu hii inapaswa kutumiwa kupiga kura kuunga au kupinga azimio*. Isipokuwa maagizo mengine yatolewe mwakilishi atapiga kura jinsi atakavyoonelea inafaa.

Kama shahidi kwa sahihi yangu/yetu siku hii _____ ya tarehe _____ 2008

IDADI YA HISA ZINAZOMILIKIWA _____

NAMBARI YA AKAUNTI YA HISA _____

SAHIHI _____

*Futa isiyohitajika

KUMBUKA:

1. Mwenyehisa aliyehitimu kuhudhuria na kupiga kura katika mkutano na ambaye hawezi kufika anaweza kumteua mwakilishi kuhudhuria na kupiga kura kwa niaba yake.
2. Mwakilishi sio lazina awe mwanachama wa Kampuni.
3. Ili iwe halali, fomu ya uwakilishi inapaswa kujazwa ipasavyo na mwanachama na kupelekwa kwa Katibu wa Kampuni katika afisi ya kampuni iliyosajiliwa ambayo iko kwenye jumba la NHIF BUILDING Orofa ya 14, NAIROBI kabla ya **saa nne asubuhi tarehe 23 mwezi Juni, 2008** la sivyo haitakuwa halali.
4. Iwapo mwanachama ni shirika, fomu ya uwakilishi inapaswa kujazwa na kuwekwa muhuri wa shirika au kutiwa saini na afisa au wakili ambaye ameidhinishwa kupitia barua.
5. Iwapo wanachama wanamiliki hisa kwa pamoja, sahihi ya mmoja wao itatosha lakini lazima majina ya wanaomiliki hisa hizo kwa pamoja yatajwe.