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## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the fifth Annual General Meeting (AGM) of Equity Bank Limited will be held on **Thursday 26th March 2009 at the Kenyatta International Conference Centre (KICC) NAIROBI at 10.00 am**, to transact the following business:

1. The Company Secretary to read the notice convening the meeting.
2. To receive, consider and if thought fit, adopt the Annual Report and Audited Financial Statements for the year ended 31st December 2008 together with the Chairman's, Director's and Auditors' reports thereon.
3. To approve a first and final dividend for the year ended 31st December 2008 of Kshs. 3 (three only) per ordinary share of Kshs. 5 (five only), subject to withholding tax, where applicable.
4. Election of Directors:
  - a) Mr Ernest Nzovu retires by rotation in accordance with Article 100 of the Company's Articles of Association and being eligible, offers himself for re-election as a director;
  - b) Mr Peter Njeru Gachuba retires in accordance with Article 100 of the Company's Articles of Association and does not seek re-election;
  - c) Mr Linus Gitahi retires in accordance with Article 100 of the Company's Articles of Association and does not seek re-election;
  - d) Professor Shem Migot- Adholla having been appointed as a director by the Board on 12th February 2009, retires in accordance with Article 101 of the Company's Articles of Association and being eligible, offers himself for election as a director;
  - e) Dr Ezekiel Alembi having been appointed as a director by the board on 12th February 2009 retires in accordance with Article 101 of the Company's Articles of Association and being eligible, offers himself for election as a director;
5. To approve the remuneration of the directors;
6. To note that the auditors Messrs Ernst & Young, being eligible and having expressed their willingness, will continue in office in accordance with section 159 of the Companies Act (Cap 486) and to authorize the directors to fix their remuneration;
7. As a Special Business, to consider and if thought fit, pass the following resolution which will be proposed as a Special Resolution:

THAT in accordance with Article 50(b) of the Articles of Association of the Company every ordinary share of Kshs 5/- (five shillings) each in the authorised and issued share capital of the Company

be, and is hereby sub-divided into ten ordinary shares of Kshs 0.50 (fifty cents) each in the authorised and issued share capital of the Company, and accordingly that the authorised and issued share capital of the Company immediately following the passing of this resolution be stated as Kshs 1,851,388,510 divided into 3,702,777,020 ordinary shares of Kshs 0.50 each.

8. Any other business of which notice will have been duly received.

By Order of the Board

Mary Wangari Wamae  
Company Secretary  
P.O. Box 75104 -00200  
NAIROBI,

12th February 2009

### 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. 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 situated at **NHIF BUILDING 14TH FLOOR, Upper Hill, Nairobi**, not later than **10.00 am on 24th March 2009** failing which it will be invalid. In the 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 ended 31st December 2008 of Kshs 3 per share being 60% of nominal value, to be paid to shareholders on the register of members of the Company at the close of business on **25th March 2009**. The dividend will be paid on or about **3rd April 2009**.
- 3) At a meeting of the Board of Directors held on Thursday 12th February 2009 the board approved a proposal to split the existing ordinary shares of the Bank from ordinary shares of Kshs 5 nominal value into ordinary shares of Kshs 0.50 nominal value. [The proposed share split is subject to the approval of the Capital Markets Authority and the Nairobi Stock Exchange]. The record date for the share split is 25th March 2009. Entitlement to the final dividend for the year ended 31st December 2008 will be calculated on the number of ordinary shares of Kshs 5 each held by members on such record date.



## TANGAZO LA MKUTANO MKUU WA MWAKA

Ilani inatolewa hapa kwamba mkutano mkuu wa Tano wa Mwaka (AGM) wa Kampuni ya Equity Bank utafanywa tarehe 26 Machi 2009 katika jumba la Kenyatta International Conference Centre (KICC) Nairobi saa nne asubuhi kutekeleza shughuli zifuatazo:

1. Katibu wa kampuni kusoma ilani ya kuandaa mkutano
2. Kupokea, kutafakari na ikionekana inafaa, kuidhinisha ripoti ya mwaka na Taarifa za kifedha zilizokaguliwa kwa mwaka uliomalizika 31 Disemba 2008, pamoja na ripoti za Mwenyekiti, Wakurugenzi na Wakaguzi wa Hesabu.
3. Kuidhinisha mgao wa faida wa kwanza na wa mwisho kwa mwaka uliomalizika 31 Disemba 2008 wa shilingi 3 (tatu) kwa kila hisa ya kawaida wa shilingi 5 (tano) kwa kutegemea kodi ya uhifadhi (withholding tax) inapohitajika.
4. Uchaguzi wa Wakurugenzi:
  - a) Bw, Ernst Nzovu anastaafu kwa zamu kulingana na kifungu 100 cha sheria za kampuni na kwa kuwa anahitimu, anajiwasilisha kuchaguliwa tena kama mkurugenzi;
  - b) Bw. Peter Njeru Gachuba anastaafu kulingana na kifungu 100 cha sheria za kampuni na hajajiwasilisha kuchaguliwa tena;
  - c) Bw. Linus Gitahi anastaafu kulingana na kifungu 100 cha sheria za kampuni na hajajiwasilisha kuchaguliwa tena;
  - d) Profesa Shem Migot-Adholla ambaye aliteuliwa kuwa mkurugenzi na Halmashauri tarehe 12 Februari 2009 anastaafu kulingana na kifungu 101 cha sheria za kampuni na kwa kuwa anahitimu anajiwasilisha kuchaguliwa kama mkurugenzi;
  - e) Dkt Ezekiel Alembi ambaye aliteuliwa kama mkurugenzi na Halmashauri tarehe 12 Februari 2009 anastaafu kulingana na Kifungu 101 cha sheria za kampuni na kwa kuwa anahitimu, anajiwasilisha kuchaguliwa kama mkurugenzi.
5. Kuidhinisha 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 ya sheria za makampuni (Cap 486) na kuidhinisha wakurugenzi kuweka malipo yao.
7. Kama shughuli maalum kufikiria na ikionekana inafaa, kupitisha azimio maalum:

KWAMBA kuambatana na kifungu 50(b) cha sheria za kampuni kila hisa ya kawaida ya shilingi 5 (shilingi tano) kila moja katika mtaji wa hisa ulioidhinishwa na kutolewa na kampuni iwe na hapa inagawanywa katika hisa kumi za kawaida za shilingi 0.50 (senti hamsini/sumuni) kila moja katika mtaji wa hisa ulioidhinishwa na kutolewa wa kampuni na kulingana na hayo mtaji wa hisa wa kampuni ulioidhinishwa na kutolewa mara tu kufuatia kupitishwa Tangazo la Mkutano Mkuu wa Mwaka kwa

azimio hili uwe shilingi 1,851,388,510 na kugawanywa kwa hisa za kawaida 3, 702,777,020 za shilingi 0.50 kila moja.

8. Shughuli nyingine yoyote ambayo ilani yake itakuwa imepokelewa.

Kwa Amri ya Halmashauri

Mary Wangari Wamae  
Katibu wa Kampuni  
S.L.P 75104-00200  
Nairobi

12 Februari 2009

Maelezo

- 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. Mwakilishi sio lazima awe mwanachama wa kampuni. Ili ikubalike fomu ya uwakilishi inapaswa kujazwa kikamilifu na mwanachama na kufikishwa kwa katibu wa kampuni katika afisi kuu za kampuni zilizoko jengo la NHIF OROFA ya 14, Upper Hill, Nairobi, kabla ya saa nne asubuhi tarehe 24 Machi 2009 la sivyoyaitakubalika. Ikiwa uwakilishi ni wa shirika, sharti fomu iwe na muhuri wake.
- 2) Ikiubaliwa na wenyehisa, Halmashauri ya Wakurugenzi imeazimia kupendekeza kwenye mkutano mkuu ujao wa mwaka mgao wa faida wa mwaka uliomalizika 31 Disemba 2008 wa shilingi 3 kwa kila hisa ikiwa ni asilimia 60 ya thamani ya hisa inayopaswa kulipwa wenye hisa walio kwenye orodha ya usajili ya wenyehisa kufikia kufungwa kwa shughuli za kazi tarehe 25 Machi 2009. Mgao huo wa faida utalipwa tarehe au kufikia tarehe 3 Aprili 2009.
- 3) Kwenye mkutano wa Halmashauri ya Wakurugenzi uliofanywa Alhamisi tarehe 12 Februari 2009 Halmashauri iliidhinisha pendekezo la kugawa hisa za kawaida za kampuni zilizopo kutoka hisa za kawaida za thamani ya shilingi 5 na kuwa hisa za kawaida za thamani ya shilingi 0.50. [Pendekezo hilo la kugawa hisa linategemea idhini kutoka kwa Halmashauri ya Usimamizi wa Masoko ya Hisa na Soko la Uuzaji Hisa la Nairobi]. Tarehe iliyowekwa ya kugawanywa kwa hisa hizo ni tarehe 25 Machi 2009. Kiasi cha mgao wa faida wa mwisho kwa mwaka uliomalizika 31 Disemba 2008 kitahesabiwa kulingana na idadi ya hisa za kawaida za shilingi 5 (shilingi tano) kila moja zinazomilikiwa na wanachama kufikia tarehe hiyo.



Mr. Peter K. Munga, EBS



## CHAIRMAN'S STATEMENT

## *The banking sector pre tax profit increased by 46.6 percent from Kshs 16.3 billion in June 2007 to Kshs 23.9 billion in June 2008.*

It gives me great pleasure to present to you the Bank's *Annual Report* for the year ended 31st December 2008. The year 2008 was a truly historic one as we embarked on our regional expansion program by rolling out operations in Uganda. Equity Bank Uganda Limited, a wholly owned subsidiary of Equity Bank Limited is now operational, while plans to roll out in Sudan are at an advanced stage. Indeed, it gives me a lot of pride to inform you that your bank continued to register robust performance despite a very challenging operating environment.

### OPERATING ENVIRONMENT

The year started on a slow economic pace. In 2008 the economy of Kenya slowed down significantly from 7.0 percent real GDP growth rate recorded in 2007 to around 2.2 percent. During the year under review, the 12 month overall inflation increased from 9.7 percent in December 2007 to 26.2 percent in December 2008. The increase was mainly on account of supply shocks resulting from adverse climatic conditions that led to food shortage the effects of the post election crisis, and, sharp increases in international crude oil prices. The underlying inflation was 7.3 percent in November 2008, which was above the 5 percent target by the Central Bank of Kenya.

The year saw a significant rise in short term interest rates with the bench mark 91 day and 182-day Treasury Bills rising to 8.4 percent and 9.06 percent from 6.98 percent and 7.89 percent, respectively. In the year under review, the shilling depreciated against the

major currencies falling from 63.20 to 78.04 against the US Dollar.

Although the year under review witnessed two significant Initial Public Offers, the capital market registered a bear run with the NSE 20 Share Index closing at 3521, down from 5445 in 2007. However the total market capitalization was nearly unchanged at Kshs 854 billion from Kshs 851 billion the previous year.

During the period under review, the world got into recession arising from the Global Financial Crisis. However, I am glad to report that despite the unfavourable local and global macroeconomic environment, Kenya's banking sector remained stable, principally, because our banking system is not fully integrated into the troubled global financial network.

The performance of the Kenyan banking sector was overall rated as strong, with players achieving improved operational results. The sector also remained well capitalized. As of June 2008, shareholders funds, deposits and assets increased by 35.2 percent, 27.7 percent and 31.9 percent respectively. Liquidity, as measured by liquid assets as a proportion of total liabilities, stood at 42.4 percent, well above the statutory minimum requirement of 20 percent as of June 2008.

The banking sector registered rapid expansion with branch network increasing by 44.6 percent to 772 branches by June

2008. The combined balance sheet of the sector expanded over the same time period, with deposits at 82 percent of total liabilities driving the increase in the aggregate balance sheet. The banking sectors assets increased by 31.9 percent to Kshs 1,099.1 billion in June 2008. Loans and advances contributed 50.5 percent of the sector's total assets.

Government securities and placements contributed 17.8 percent and 15.0 percent of total assets respectively. The banking sector pre tax profit increased by 46.6 percent from Kshs 16.3 billion in June 2007 to Kshs 23.9 billion in June 2008.

### PERFORMANCE OF EQUITY BANK

At Equity, we have continued to record phenomenal growth, and exemplary performance. The business model has passed the test of time, and has been validated as a tool of economic empowerment and social transformation for society. In this regard, I am pleased to inform you that we closed the year with 3 million bank accounts, constituting over 49 percent of all bank accounts in Kenya. During the same year, your bank received numerous accolades both locally and internationally, further confirming the success of the business model and its implementation strategy. At the international level, *Euromoney* rated your bank as the Best Bank in Kenya for the second year consecutively since 2007. While conferring the award, *Euromoney* made a special note of the bank's efforts in reaching out to Kenyans who previously did not have access to banking services.



Similarly, *Africa Investor (Ai)* rated Equity Bank the best-performing public listed company in Africa in 2008. According to *Africa Investor (Ai)*, the contributing factors to this outstanding performance included strong market capitalization, increased value of shares traded as a proportion of market capitalization, and the creation of value for investors. During the year under review, Equity Bank, which registered an overall change of 3.3 percent during the year, was the only company that closed on the positive end of the scale at the Nairobi Stock Exchange.

The 2008 *African Bankers Awards* named your bank as the Best Microfinance Bank in Africa. Equity was cited as a bank that has contributed most significantly to fighting poverty in Africa. In confirming the award, the *African Bankers Awards* considered among other factors, achievements, record earnings, innovative practices and commitment by financial institutions to corporate social responsibility and gender equality.

At the regional level, the annual *East African CEO's Most Respected Company Awards* named your bank as the most respected financial institution in East Africa and the third most respected company in Kenya. In the same year, the *Super brand* recognized your bank as the only banking *Super brand* in East Africa. Needless to say, this is a strong endorsement of our management structures, corporate governance and leadership, by our peers in the region.

At the national level, your bank was ranked as the Best Bank Overall by the Annual Bank Survey in Kenya as well as by the *Renaissance Capital Annual Bank Awards*. The Renaissance Capital Awards were informed by a survey that benchmarked against a series of twelve parameters. Your bank moved a step up from the 2007 awards to claim the first position in

a survey that involved all the banks in the country. Factors cited as contributing to this overall best performance included good asset quality, capital adequacy, high earnings and strong liquidity.

#### REGIONAL EXPANSION

Following your approval during the last Extra Ordinary General meeting held in June 2008 the bank rolled out its regional expansion plan by acquiring 100 percent stake in Uganda Microfinance Limited. Equity Bank Uganda Limited is now a wholly owned subsidiary of Equity Bank and is fully operational with great prospects. It was fully licensed as a commercial bank by the Bank of Uganda on 20th December, 2008. Your bank has also started initial preparations for expansion into Southern Sudan. The first branch in Juba is due to be operational later this year. An initial workforce has already been posted to Juba and a Chief Operating Officer is already on the ground.

#### CORPORATE GOVERNANCE

During the year under review, your board continued to serve with dedication and provided the strategic direction in line with the provisions of our Articles of Association. And in order to enhance diversity of skills and competence in the board, the Board of Directors approved the appointment of Professor Shem Migot-Adholla and Dr Ezekiel Alembi to the board on 12th February, 2009. More detailed statements in respect of your bank's commitment to good Corporate Governance and Social Responsibility are carried elsewhere in this report.

#### DIVIDEND

In terms of dividends, the Board is recommending a dividend of Kshs 3.00 per ordinary share of Kshs 5.00 for the year ended 2008, subject to your approval at this meeting.

#### FUTURE OUTLOOK

I should reiterate that your bank is more than ever before, geared towards growth and expansion. In the 2009 financial year, we shall continue to grow our business in Kenya while also expanding into the region. In order to accomplish these goals, we shall continue to put greater emphasis on more robust technological systems, competent human resources, as well as build more strategic partnerships with our stakeholders, all aimed at ensuring value-adding products and services by your bank and all its subsidiaries in Kenya and abroad.

#### CONCLUSION

On my behalf and that of the board, management and staff, we sincerely thank you for the support that you have continued to extend to the Bank. We are particularly grateful for the confidence that you have shown in your Bank. We will continue to count on your support in the new year. On our part, we reaffirm our commitment to delivering even greater value to your investment. We shall continue to focus on implementing the business model that has worked so well this far. Through this process, we shall continue to positively impact on the lives and livelihoods of our customers.

#### THANK YOU

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



## TAARIFA YA MWENYEKITI INAENDELEA

## *Faida kabla ya kutozwa ushuru ya sekta ya benki iliongezeka kwa asilimia 46.6 kutoka shilingi bilioni 16.3 mwezi Juni 2007 hadi shilingi bilioni 23.9 mwezi Juni 2008.*

Nina furaha kuu kuwasilisha kwenu taarifa ya mwaka ya Benki hii kwa mwaka uliomalizika tarehe 31 Disemba 2008. Mwaka wa 2008 ulikuwa wa kihistoria kweli huku tukianzisha mpango wa upanuzi wa kanda kwa kuanzisha utekelezaji nchini Uganda. Equity Bank Uganda, ambayo ni kampuni tanzu inayomilikiwa na Benki ya Equity sasa inatekeleza shughuli zake. Mipango ya kuanzisha shughuli za benki hii nchini Sudan zimepiga hatua kubwa. Kwa kweli ninajivunia kuwafahamisha kwamba Benki yenu iliendelea kufanya vyema licha ya mazingira ya utendaji kazi yenye changamoto nyingi.

### MAZINGIRA YA UTENDAJI SHUGHULI

Mwaka ulianza kwa mwendo wa polepole kiuchumi. Katika mwaka wa 2008, uchumi wa Kenya uliendelea chini kwa kiwango kikubwa kutoka kiwango halisi cha ukuaji wa pato la kitaifa la asilimia 7.0 hadi takriban asilimia 2.1. Wakati wa kipindi cha mwaka huo, kiwango cha jumla cha miezi 12 cha kupanda kwa gharama ya maisha kiliongezeka kutoka asilimia 9.7 mwezi Disemba 2007 hadi asilimia 26.2 mwezi Disemba 2008. Ongezeko hilo lilitokana haswa na matatizo ya ugavi yaliyosababishwa na uhaba wa chakula; athari za mzozo wa baada ya uchaguzi na ongezeko la juu la bei za kimataifa za mafuta ambayo hayajasafishwa. Kiwango cha chini cha kupanda kwa gharama ya maisha kilikuwa asilimia 7.3 mnamo mwezi Novemba 2008, ambacho kilikuwa cha juu zaidi ya kile cha asilimia 5 kilichotarajiwa na Benki Kuu ya Kenya.

Mwaka huo ulishuhudia viwango vya riba vya muda mfupi vikiongezeka kwa kiwango kikubwa huku alama za hati za thamani za serikali za siku 91 na siku 182 zikiongezeka kwa asilimia 8.4 na asilimia 9.06 kutoka asilimia 6.98 na 7.89 mtawalia. Katika kipindi cha mwaka unaochunguzwa, thamani ya shilingi ya Kenya ilipungua dhidi ya sarafu kuu, ikipungua kutoka 63.20 hadi 78.04 dhidi ya dola ya Marekani.

Ingawa mwaka huo ulishuhudia kutolewa kwa hisa za kampuni mbili kuu kwa mara ya kwanza yaani IPO, soko la hisa lilikabiliwa na upungufu wa biashara huku soko la hisa la Nairobi la alama ya kampuni ishirini likifikia 3521 kutoka 5445 mwaka wa 2007. Hata hivyo mtaji wa jumla wa soko haukubadilika sana ukiwa na shilingi bilioni 854 kutoka shilingi bilioni 851 mwaka uliotangulia.

Wakati wa kipindi cha mwaka unaoangaziwa, uchumi kote ulimwenguni ulizorota kutokana na mzozo wa kifedha duniani. Hata hivyo, nina furaha kutangaza kwamba licha ya hali ya kiuchumi isiyofaa nchini na ulimwenguni kote kwa ujumla, sekta ya benki nchini ilibakia thabiti kwa sababu mfumo wetu wa benki haujatanganishwa kikamilifu na ule wa mtandao wa kifedha duniani uliokumbwa na msukusuko.

Utendaji wa sekta ya benki nchini Kenya uliorodheshwa kuwa thabiti kwa ujumla huku wahusika wakiafikia matokeo bora ya uendeshaji shughuli. Sekta ya benki ilisalia

kuwa na mtaji bora. Kufikia Juni 2008, fedha za wenyehisa, akiba na rasilimali ziliongezeka kwa asilimia 35.2, 27.7 na 31.9 mtawalia. Uwezo wa kupata pesa kama unavyopimwa kupitia kwa rasilimali za pesa kama sehemu ya jumla ya madeni ilikuwa asilimia 42.4 kikiwa kiwango cha juu zaidi ya mahitaji ya chini ya asilimia 20 kufikia Juni 2008.

Sekta ya benki ilishuhudia upanuzi wa haraka huku matawi yakiongezeka kwa asilimia 44.6 hadi matawi 772 kufikia Juni 2008. Mizania ya pamoja ya sekta hiyo ilipanuka katika kipindi hicho huku akiba zikiwa asilimia 82 ya jumla ya madeni na kusukuma ongezeko kwenye mizania. Rasilimali za sekta za benki ziliongezeka kwa asilimia 31.9 na kufikia shilingi bilioni 1,099.1 mwezi Juni 2008. Mikopo ilichangia asilimia 50.5 ya jumla ya rasilimali za sekta hiyo. Thamana za serikali na hati nyinginezo zilichangia asilimia 17.8 na 15.0 ya jumla ya rasilimali mtawalia. Faida kabla ya kutozwa ushuru ya sekta ya benki iliongezeka kwa asilimia 46.6 kutoka shilingi bilioni 16.3 mwezi Juni 2007 hadi shilingi bilioni 23.9 mwezi Juni 2008.

### UTENDAJI WA BENKI YA EQUITY

Katika Benki ya Equity, tumeendelea kuafikia ukuaji mkubwa na utendaji bora. Kielelezo cha biashara kimefaulu jaribio la wakati, na kimedhihirishwa kama kifaa cha kuipa jamii uwezo wa kiuchumi na mageuzi ya kijamii. Kutokana na hayo, nina furaha kuwafahamisha kwamba tulifunga mwaka tukiwa na akaunti za benki milioni 3



zinazojumuisha asilimia 49 ya akaunti zote za benki nchini Kenya. Wakati wa mwaka huo, Benki yenu ilipata tuzo kadhaa nchini na kimataifa, hili likiwa dhihirisho wazi la ufanisi wa kielelezo cha biashara hii na mfumo wa utekelezaji katika kiwango cha kimataifa. *Euromoney* iliorodhesha Benki yenu kama Benki Bora Zaidi nchini Kenya kwa mwaka wa pili mfululizo tangu mwaka wa 2007. Ikitoa tuzo hilo *Euromoney* ilitaja juhudi za Benki hii za kuwafikia Wakenya ambao hapo awali hawakuweza kuafikia huduma za benki.

Kadhalika, *African Investor (Ai)* yenye makao yake huko Marekeni ilitaja Benki ya Equity kuwa kampuni ya umma iliyoorodheshwa inayotekeleza shughuli zake kwa ubora zaidi barani Afrika mnamo 2008. Kulingana na *African Investor (Ai)*, sababu zinazochangia utendaji huu bora ni pamoja na mtaji thabiti wa soko, kuongezeka kwa thamani ya hisa zinazouzwa kama sehemu ya mtaji wa soko, na kubuni thamani kwa wawekezaji. Wakati wa kipindi cha mwaka unaoangaziwa Benki ya Equity ambayo ilipata badiliko la ujumla la asilimia 3.3 wakati wa kipindi cha mwaka huo, ndio kampuni pekee iliyofunga mwaka kwa kupata ufanisi katika soko la uuzaji hisa la Nairobi.

Tuzo la *African Bankers Awards* la mwaka 2008 liliitaja Benki yenu kuwa Benki Bora Zaidi ya kifedha barani Afrika. Benki ya Equity ilitajwa kuwa benki iliyochangia zaidi katika kupambana na umasikini barani Afrika. Katika kuthibitisha tuzo hilo, *African Bankers Awards* ilichunguza miongoni mwa masuala mengine, shughuli bunifu na kujitolea kwa taasisi za kifedha kwa jukumu la mashirika kwa jamii na usawa wa jinsia.

Katika kiwango cha kanda, tuzo za Maafisa Wakuu wa eneo la Afrika Mashariki kwa Kampuni inayoheshimiwa zaidi liliitaja Benki yenu kuwa taasisi ya kifedha inayoheshimiwa zaidi eneo la Afrika Mashariki na kampuni ya tatu inayoheshimiwa zaidi nchini Kenya. Mwaka huo huo, *Super brand* ilitambua Benki yenye kama aina bora ya benki ya kipekee yaani *Super brand* katika eneo la Afrika Mashariki. Huku ni kukubalika kwa

hali ya juu kwa miundo yetu ya usimamizi, usimamizi wa shirika na uongozi na wenzetu katika eneo hili.

Katika kiwango cha kitaifa Benki yenu iliorodheshwa kama benki Bora zaidi kwa ujumla na uchunguzi wa kila mwaka wa Benki nchini Kenya pamoja na tuzo za *Renaissance Capital Annual Bank Awards*. Tuzo za *Renaissance Capital Awards* zilizingatia uchunguzi uliotilia maanani vipengee kumi na viwili. Benki yenu ilipanda hatua moja juu kutoka tuzo za 2007 na kutwaa nafasi ya kwanza katika uchunguzi uliohusisha benki zote za humu nchini. Sababu zilizotajwa kwa kuchangia utendaji huu bora ni pamoja na ubora wa rasilimali, kujitosheleza kwa mtaji, mapato ya juu na udthabiti wa uwezo wa kupata pesa.

#### UPA NUZI WA KANDA

Kufuatia idhini yenu wakati wa mkutano mkuu usio wa kawaida mnamo Juni 2008 Benki ilianzisha mpango wake wa upanuzi katika eneo hili kwa kupata asilimia 100 ya umiliki katika Uganda Microfinance. Equity Bank Uganda sasa ni kampuni tanzu inayomilikiwa kikamilifu na Benki ya Equity na inatekeleza shughuli zake kikamilifu ikiwa na matarajio makuu kama inavyodhihirishwa na hesabu za kifedha katika ripoti hii. Kadhalika ilipewa leseni ya kuhudumu kama benki ya kibiashara na Benki ya Uganda tarehe 20 Disemba 2008. Benki yenu pia imeanzisha matayarisho ya mwanzo katika eneo la Sudan Kusini. Tawi la kwanza huko Jubalinarajiwa kuanza kuendesha shughuli zake mwaka huu. Wafanyakazi pamoja na Afisi kuu wa utendaji tayari wamepelekwa huko Juba.

#### USIMAMIZI WA KAMPUNI

Wakati wa kipindi cha mwaka unaowangaziwa, wanachama wa Halmashauri waliendelea kuhudumu kwa kujitolea na kutoa mwelekeo wa kimkakati kuambatana na sheria za kampuni. Na kwa madhumuni ya kuimarisha maarifa mbalimbali na ujuzi katika halmashauri, Halmashauri ya Wakurugenzi iliidhinisha uteuzi wa Profesa Shem Migot-Adholla na

Dkt. Ezekiel Alembi kujiunga na Halmashauri tarehe 12 Februari 2009. Taarifa kamili kuhusu usimamizi wa kampuni na jukumu la kijamii zimechapishwa kwingineko katika ripoti hii.

#### MGAO WA FAIDA

Kuhusiana na mgao wa faida, Halmashauri inapendeleza mgao wa faida wa shilingi 3.00 kwa kila hisa ya kawaida ya shilingi 5.00 kwa mwaka uliomalizika 2007 kwa kutegemea idhini yenu katika mkutano huu.

#### HALI YA BAADAYE

Ninakariri tena kwamba Benki yenu imejiandaa kwa ukuaji na upanuzi zaidi. Katika kipindi cha matumizi ya fedha cha 2009 tutaendelea kukuza biashara yetu nchini Kenya huku tukiipanua katika kanda hii. Uzingatiaji maalum utawekwa katika kuimarisha utendaji bora wa tekinolojia, wafanyakazi walio stawi na kupitia kubuniwa kwa jukwaa la pamoja na huduma. Hii itawezesha utoaji bora zaidi wa huduma na Benki yenu, na matawi yake yote nchini Kenya na ng'ambo.

#### HITIMISHO

Kwa niaba yangu binafsi na kwa niaba ya Halmashauri ya wasimamizi na wafanyakazi, tunawashukuru kwa dhati kwa usaidizi ambao mmeendelea kuipa Benki hii. Hasa tunashukuru kwa imani ambayo mmeonyesha kwa Benki yenu. Tunaendelea kuthamini usaidizi wenu katika mwaka huu mpya. Kwa upande wetu, tunakariri kujitolea kwetu kuimarisha thamani ya rasilimali yenu. Tutaendelea kuzingatia utekelezaji wa kielelezo chetu cha biashara ambacho kimefanya kazi vyema sana kufikia sasa. Kupitia utaratibu huu, tutaendelea kuchangia ipasavyo maisha na hali ya kujikimu ya wateja wetu.

Asanteni

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



CHIEF EXECUTIVE OFFICER (CEO) AND MANAGING DIRECTOR



Dr. James Mwangi, MBS



*Your bank posted exceptional financial results, returning a pretax profit of Kshs 5.022 billion for the year ended 31st December 2008, up from Kshs 2.378 billion for the same period last year.*

It is a great honour for me to present to you the Bank's report for the year ended 31st December 2008. During the year, the bank recorded phenomenal growth in all aspects of its business, resulting in even better value and prospects for all stakeholders.

#### VISION

To begin with, the bank realigned its vision to be, "... the champion of socio-economic prosperity of the people of Africa." Indeed, concerted efforts were directed at rebranding the Bank in order to enhance visibility and our customers' experience in the pursuit of our mission of, "...offering inclusive, customer focused financial services that socially and economically empower our clients and other stakeholders."

#### FINANCIAL REVIEW

Your Bank posted exceptional financial results, returning a pre-tax profit of Kshs 5.022 billion for the year ended 31st December 2008, up from Kshs 2.378 billion for the same period last year. This operational efficiency is attributed to massive economies of scale reaping from our robust ICT platform, which has allowed us to significantly up-scale operations at minimal incremental costs. The Group's audited profit before tax more than doubled, growing by 111 per cent before tax, compared to 31st December 2007, all, despite the prevailing global financial crisis. The global crisis was exacerbated by the economic down turn in our country as a result of the post-election violence, the effects of the prolonged drought and high international oil prices.

These external factors led Kenya's real GDP growth rate to tumble from a high of 7 percent in 2007 to a forecast 2.2 percent for the year just ended with inflation reaching its highest level in a decade at 26.2 percent.

I am pleased to report that while business performance slowed down in the fourth quarter due to the afore mentioned factors, we continued to record impressive results as we proactively balanced growth and risk while enhancing our operating environment and thus increased productivity.

Group total operating income went up by 116 percent to reach Kshs 12.6 billion, from Kshs 5.8 billion in the previous year, while operating expenses grew by 120 percent to Kshs 7.6 billion up from Kshs 3.5 billion. The acceleration in cost growth was due to the on-going local and regional expansion of the business and the enhanced provisioning on the loan book in order to maintain quality in light of the economic down turn.

The Bank's cost to income ratio remained constant, around 60 percent despite the acquisition of Uganda Micro Finance (now Equity Bank Uganda Limited) with a branch network of 31 (thirty one) and the addition of 28 new branches as well as one operating subsidiary in Kenya.

The group's consolidated loan book reached Kshs 44.1 billion up from Kshs 21.8 billion the previous year; a growth of 102 per cent. This growth was made possible through

the deployment of capital investment by Helios EB at the end of last year. Helios EB, one of the world's leading private equity funds acquired 24.99 percent shareholding in Equity Bank making Equity the largest Bank in the country in terms of core capital. Despite the growth in loans the Bank continued to reflect liquidity of 47 percent.

The growth trajectory was further complemented by the maintenance of a high quality asset portfolio with a portfolio at risk of only 6.0 percent against an industry average of 9.0 percent.

Group customer deposits reached Kshs 50.3 billion going up by 59 percent from the Kshs 31.5 billion reported the previous year. The number of Group deposit customer accounts has grown to over 3.3 million while the branch network has grown to 129 branches supported by 500 VISA branded ATMs and 2500 Point of Sale (POS).

This exceptional performance comes at a time when, as you have heard from the Chairman, Equity has been feted as the "Best Microfinance Bank in Africa during the annual African Bankers Awards ceremony held in Washington DC, USA in October, 2008 and having been named the "Best Performing Ai100 Company during the Africa Investor Awards (Ai) ceremony held at the New York Stock Exchange in September, 2008.

And for the second year running, *Euromoney* voted Equity as the best bank in Kenya in June 2008. These international accolades



## CEO AND MANAGING DIRECTOR'S STATEMENT CONTINUED

were re-echoed back home when the bank emerged the overall best bank in Kenya at the *Renaissance Capital Bank awards* in August 2008 and cited locally as the only stock that returned positive shareholder value during the year 2008 at the Nairobi Stock Exchange.

### BUSINESS DEVELOPMENT

As part of our dedication to deliver value-adding and innovative products to our customers, we continued to aggressively rollout our existing products and services all over the country and to introduce new ones, especially through Alternative Business Channels. In 2008, we installed many state-of-the-art ATMs throughout our branch network and ATM lobbies. Similar effort was also focused on POS terminals to assist our partnering organizations in eliminating the need for cash transaction within their ecosystems. Other areas of focus by the Bank in the year was our Cash Back product, Visa debit card, EAZZY 24/7, all aimed at facilitating our customers to have a faster, secure, and more convenient access to financial services round the clock and anywhere.

In our determination to establish a one-stop financial services hub, the Bank, through its wholly owned subsidiary, Equity Insurance Agency, rolled out insurance products to our customers. The Bank was also licensed by the Capital Markets Authority and the Retirement Benefits Authority to offer Custodial Services. Through these services, we continue to enhance our customers' experience as most of their financial services needs can now be met under one roof.

Your Bank is also aligned to the long term aspirations of the country as espoused in the *Kenya Vision 2030* national policy blueprint, as well as to the economic development plans of all the countries where we have presence. In this regard, we shall continue to work closely with the government and

other key international and local partners in championing the socio-economic transformation of the African continent.

### STAFF DEVELOPMENT

The bank continued to be the employer of choice by attracting some of the best skills and expertise in the market. In the year under review, the staff complement increased by 1600, to 4036. The recruitment of new talent was complemented by a strategic capacity-building and staff development program for existing staff. In the year under review, the bank completed the first phase of its leadership development program where all staff in management positions went through the training. This training was meant to create a leadership pool of staff who mentor and guide the new and younger staff members into Equity's corporate culture, professionalism and the integration of Equity's brand values. Training on project management was also rolled out and will continue to be offered to staff in order to equip them with all-encompassing management skills.

Besides, specific technical and strategy training was offered to different cadres of staff. The Bank invested heavily in staff development and capacity building in recognition of their role in the growth and development of the business. Among some of the main courses that staff have attended were at the Harvard Business School, IESE Business School and Strathmore Business School. As part of integrating and up scaling staff's capacity in customer delight, a strategy on customer experience was launched and all staff in the Bank sensitized on it.

The Bank also invested in a bonding and team building retreat for all business units. This exercise was aimed at energizing staff and focusing them on the importance of team spirit in setting and meeting targets, as well as in growing the business.

### BUSINESS CONTINUITY PROGRAMME

Events in recent times continue to show that an ideal work environment can no longer be assumed and any organization that does not prepare an effective mechanism to respond to crisis conditions, does so at its own peril. Equity Bank has developed an enterprise wide Business Continuity Programme (BCP) that covers its operations in both Kenya and in the region. Based on best global and industry practice, the Programme provides a structured framework for responding to incidents that would threaten the continuity of the Bank's operations. The Bank's management is committed to ensuring expedient service recovery in the unlikely event of a crisis.

### FUTURE OUTLOOK

The combined effect of the second round of the global economic crisis and the drought being experienced in Kenya are expected to hamper the recovery of the Kenyan economy in 2009. We shall, however, continue to balance risk, efficiency and controls with calculated growth in order to continue enhancing share holder value. Our business in Uganda coupled with the maturity of our recently opened branches will be the engine for growth in the coming year.

### CONCLUSION

In conclusion, let me state that your Bank is in great shape and is well-positioned to continue with the good performance. With your support, that of our customers and with the commitment of our staff, we rededicate ourselves to deliver even greater value in 2009.

### THANK YOU

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



## *Benki yenu ilipata matokeo ya hali ya juu ya kifedha na kupata faida ya shilingi bilioni 5.022 kabla ya kutozwa ushuru kwa mwaka uliomalizika 31 Disemba 2008, kutoka shilingi bilioni 2.378 katika kipindi sawa na hicho mwaka uliopita.*

Ni furaha na heshima kuu kwangu kuwasilisha kwenu ripoti ya Benki ya mwaka uliomalizika tarehe 31 Disemba 2008. Wakati wa kipindi cha mwaka huo, benki iliafikia ukuaji mkubwa katika vipengee vyote vya biashara na kupelekea kupatikana kwa thamani bora zaidi na matarajio kwa washika dau wote.

### MAONO

Kwanza, Benki hii iliweka upya maono yake kuwa "...bingwa wa ufanisi wa kijamii na kiuchumi wa watu wa Afrika". Juhudi kabambe zilielekezwa katika kuunda upya chapa ya benki kuendeleza tajriba ya wateja katika kuafikia wito wetu wa "...kutoa huduma jumuishi za kifedha zinazozingatia wateja na ambazo zinawapa uwezo wa kifedha wateja wetu na washika dau wengine.

### UCHUNGUZI WA KIFEDHA

Benki yenu ilipata matokeo ya hali ya juu ya kifedha na kupata faida ya shilingi bilioni 5.022 kabla ya kutozwa ushuru kwa mwaka uliomalizika 31 Disemba 2008, kutoka shilingi bilioni 2.378 katika kipindi sawa na hicho mwaka uliopita. Utendaji huu bora unatokana na mpango wetu madhubuti wa tekinolojia ya habari na mawasiliano ambao umetuwzesha kuimarisha uendeshaji shughuli zetu kwa gharama ya chini.

Faida ya hesabu zilizokaguliwa ya Kundi la kampuni iliongezeka mara dufu kabla ya kutozwa ushuru ikilinganishwa na 31 Disemba 2007, licha ya mzozo wa kifedha uliopo kwa wakati huu ulimwenguni kote. Mzozo huo wa kimataifa ulizidishwa humu nchini kutokana na ghasia za baada ya uchaguzi, athari za ukame wa muda mrefu na bei za juu za mafuta ya kimataifa. Changamoto hizi zilipelekea kiwango cha

pato halisi la kitaifa la Kenya kupungua kutoka asilimia 7 mnamo 2007 hadi kiwango kinachobashiriwa cha asilimia 2.2 kwa mwaka uliomalizika hivi punde ilhali kiwango cha kupanda kwa gharama ya maisha kilifikia kiwango cha juu zaidi katika kipindi cha mwongo mmoja kwa kufikia asilimia 26.2.

Nina furaha kutangaza kwamba ingawa utendaji wa biashara ulienda chini katika robo ya nne ya mwaka kutokana na sababu zilizotajwa hapo juu, tuliendelea kupata matokeo mema kwani tulisawazisha ukuaji na hali ya mashaka na kuimarisha mazingira ya uendeshaji na hivyo basi kuongeza utoaji.

Mapato ya jumla ya uendeshaji shughuli ya Kundi la kampuni yaliongezeka kwa asilimia 116 na kufikia shilingi bilioni 12.6 ilhali gharama za uendeshaji zilikuwa kwa asilimia 120 na kufikia shilingi bilioni 7.6 kutoka shilingi bilioni 3.5. Ongezeko la gharama lilitokana na mpango wa upanuzi wa biashara unaoendelea humu nchini na katika kanda hii na kuimarishwa kwa utaratibu wa utoaji wa mikopo kudumisha ubora ikizingatiwa kudidimia kwa uchumi.

Kiwango cha gharama ya benki ikilinganishwa na mapato kilibakia thabiti kikiwa takriban asilimia 60 licha ya kununuliwa kwa Uganda Microfinance (ambayo sasa ni Equity Bank Uganda Ltd) yenye mtandao wa matawi 31 na kuongezwa kwa matawi mapya 28 na tawi moja tanzu la uendeshaji nchini Kenya.

Daftari ya utaratibu wa pamoja wa mikopo ya Kundi ilifikia shilingi bilioni 44.1 kutoka shilingi bilioni 21.8 mwaka uliotangulia; huu ukiwa ukuaji wa asilimia 102. Ukuaji huu

uliwezekana kupitia uenezaji wa rasilimali za mtaji wa Helios mwishoni mwa mwaka uliopita. Helios EB, mojawapo ya hazina kuu za kifedha za kibinafsi ilinunua asilimia 24.99 ya hisa katika Benki ya Equity na kuifanya Equity kuwa benki kubwa zaidi nchini kulingana na mtaji wa kimsingi. Licha ya ukuaji katika utoaji mikopo Benki iliendelea kudhihirisha uwezo wa kupata pesa wa asilimia 47.

Ukuaji huo pia uliongezewa na udumishaji wa rasilimali za ubora wa hali ya juu zenye hali ya mashaka ya asilimia 6.0 pekee dhidi ya kiwango cha wastani katika sekta hiyo cha asilimia 9.0.

Akiba za wateja wa Kundi zilifikia shilingi bilioni 50.3 huku zikiongezeka kwa asilimia 59 kutoka shilingi bilioni 31.5 zilizoripotiwa mwaka uliotangulia. Idadi ya akaunti za akiba za wateja za Kundi imeongezeka na kuwa zaidi ya milioni 3.3 ilhali mtandao wa matawi umeongezeka na kufikia matawi 129 yakiungwa mkono na mitambo 500 ya ATM za aina ya VISA na POS 2500.

Utendaji huu wa hali ya juu umetokea wakati Equity imetunukiwa heshima ya kuwa "Benki Bora ya Kifedha barani Afrika wakati wa sherehe ya tuzo za kila mwaka za *African Bankers Awards* iliyofanyika Washington DC, nchini Marekani mwezi Oktoba 2008 na baada ya kutajwa kuwa "kampuni Bora ya Utendaji - Best Performing Ai100" wakati wa sherehe ya tuzo ya *Africa Investor Awards* iliyofanywa katika Soko la hisa la New York mwezi Septemba 2008.

Na kwa mwaka wa pili mfululizo, *Euromoney* iliitaja Equity kama benki bora zaidi nchini Kenya mwezi Juni 2008. Tuzo hizo zote za



## TAARIFA YA AFISA MKUU NA MKURUGENZI MTENDAJI INAENDELEA

kimataifa zilirejelewa humu nchini wakati benki hii ilipoibuka benki bora zaidi nchini Kenya kwenye tuzo za *Renaissance Capital Bank* mwezi Agosti 2008 na kutajwa nchini kuwa hisa ya pekee iliyoleta thamani ifaayo kwa wenyehisa wakati wa mwaka wa 2008 katika soko la uuzaji hisa la Nairobi.

### MAENDELEO YA KIBIASHARA

Kama sehemu ya kujitolea kwetu kutoa bidhaa zinazongeza thamani na bunifu kwa wateja wetu, tuliendelea kuimarisha bidhaa na huduma zetu zilizopo kote nchini na kuanzisha mpya haswa katika biashara badalia yaani Alternative Business Channels. Katika mwaka wa 2008, tuliweka mitambo mipya 150 ya ATM kwenye mtandao wa matawi yetu na kumbi za ATM. Juhudi sawa na hizo zilielekezwa katika vituo vya POS kusaidia mashirika tunayoshirikiana nayo kuondolea mbali biashara ya pesa taslimu katika maeneo yao. Maeneo mengine yaliyozingatiwa na Benki katika kipindi cha mwaka huo ni bidhaa ya Cash Back, kadi za pesa za Visa, EAZZY 24/7, ambayo yalinuiwa kuwezesha wateja wetu kupata huduma za kifedha kwa haraka, kwa njia salama na kwa urahisi zaidi wakati wowote, popote, saa ishirini na nne.

Katika uamuzi wetu wa kuanzisha kituo kimoja cha huduma za kifedha, Benki kupitia kwa kampuni yake tanzu inayoimiliki, Equity Insurance Agency, ilianzisha huduma za bidhaa za bima kwa Wakenya. Benki pia ilipewa leseni na Halmashauri ya usimamizi wa Masoko ya Hisa na Halmashauri ya Marupurupu ya uzeeni kutoa huduma za kusimamia fedha. Kupitia kwa huduma hizi, tunaendelea kuimarisha matarajio ya wateja wetu kwani mengi ya mahitaji yao ya kifedha sasa yanaweza kushughulikiwa katika kituo kimoja. Benki yenu pia imefungamana na malengo ya nchi hii ya muda mrefu kama yalivyofafanuliwa katika sera ya maongozi ya kitaifa ya Ruwaza ya maendeleo ya 2030 pamoja na mipango ya maendeleo ya nchi zote ambako tunatekeleza shughuli zetu. Kuhusiana na jambo hili tutaendelea kufanya kazi kwa ushirikiano na serikali na washirika wengine wa humu nchini na wa kimataifa

katika kupigania mageuzi ya kijamii na kiuchumi ya bara la Afrika.

### USTAWI WA WAFANYAKAZI

Benki iliendelea kuwa mwajiri anayependwa kwa kuvutia wafanyakazi wenye ujuzi na maarifa zaidi kwenye soko. Katika kipindi cha mwaka unaoangaziwa, idadi ya wafanyakazi iliongezeka kwa 1600 na kufikia 4036. Kuajiriwa kwa wafanyakazi wenye vipawa vipya kuliungwa mkono na mpango wa kimkakati wa kuimarisha utendaji kazi na kustawisha wafanyakazi waliopo. Katika mwaka huo, Benki ilikamilisha awamu ya kwanza ya mpango wa kustawisha uongozi ambapo wafanyakazi wote wenye nyadhifa za uongozi walihudhuria mafunzo hayo. Mafunzo hayo yalinuiwa kubuni kundi la wafanyakazi viongozi ambao watashauri na kuongoza wafanyakazi wapya na wa umri wa chini katika utamaduni wa kitaaluma wa kampuni na uadilifu wa thamani ya aina ya bidhaa za kampuni. Mafunzo kuhusu usimamizi wa miradi pia yalianzishwa na yanaendelea kutolewa kwa wafanyakazi ili kuwa na maarifa na ujuzi kamili wa usimamizi.

Kando na hayo mafunzo maalum ya kiufundi na mkakati yalitolewa kwa wafanyakazi wa viwango mbalimbali. Benki iliwekeza kiasi kikubwa katika ustawishaji wafanyakazi na kuwapa uwezo kwa kutambua jukumu muhimu wanalotekeleza katika ukuaji na ustawishaji wa biashara. Miongoni mwa baadhi ya mafunzo muhimu ambayo wafanyakazi walihudhuria yalikuwa katika vyo vya Harvard Business School, IESE Business School na Strathmore Business School. Kama sehemu ya utangamano na uimarishaji uwezo wa wafanyakazi katika kuhudumia wateja, mkakati kuhusu uzoefu wa wateja ulizinduliwa na kuhamasishwa kwa wafanyakazi wote wa benki.

Benki pia iliwekeza katika mapumziko ya kutangamana na kuimarisha ufanyaji kazi kwa pamoja kama kundi kwa vitengo vyote vya biashara. Zoezi hili lilinuiwa kuwatia motisha wafanyakazi na kuwafanya kuzingatia umuhimu wa moyo wa ushirikiano kama kundi katika kuweka na kutimiza malengo, pamoja na kukuza biashara.

### MPANGO WA UENDELEZAJI BIASHARA

Matukio katika siku za hivi majuzi yanaendelea kuonyesha kwamba mazingira bora ya kufanya kazi hayawezi kupuuzwa na shirika lolote lile ambalo halitayarishi mfumo mwafaka wa kukabiliana na hali wakati wa mzozo linajihatarisha lenyewe. Benki ya Equity imestawisha mpango mpana wa uendelezaji biashara, Business Continuity Programme (BCP) ambao unajumuisha shughuli zake zote nchini Kenya na katika eneo hili. Mpango huo wenye msingi katika utendaji bora duniani na katika sekta hii unatoa mfumo madhubuti wa kukabiliana na matukio ambayo yangetishia kuendelea kwa shughuli za Benki. Wasimamizi wa Benki wamejitolea kuhakikisha ya kwamba iwapo mzozo utatokea kwa bahati mbaya, huduma za benki zinarejelewa haraka iwezekanavyo.

### HALI YA BAADAYE

Mchanganyiko wa athari ya duru ya pili ya mzozo wa kiuchumi duniani na ukame unaokumba Kenya unatarajiwa kutatiza ufufuzi wa uchumi wa Kenya katika mwaka wa 2009. Tutaendelea kusawazisha hali ya mashaka, utendaji bora, na udhibiti wa ukuaji uliokisiwa ili kuendelea kuimarisha thamani ya umiliki hisa. Biashara yetu nchini Uganda pamoja na kukomaa kwa matawi yetu yaliyofunguliwa majuzi zitakuwa msukumo wa ukuaji katika mwaka ujao.

### HITIMISHO

Kwa kumaliza, Benki yenu iko katika hali nzuri na nafasi bora ya kuendelea na utendaji wake bora. Kwa usaidizi wenu na ule wa wateja na wafanyakazi tunajitolea upya kuleta mafanikio bora zaidi mwaka wa 2009.

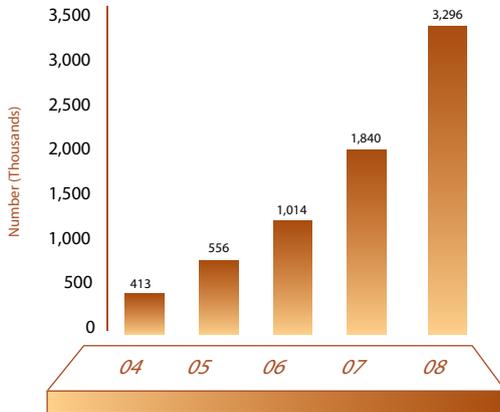
### Ahsante

**Dr. James Mwangi, MBS**  
Afisa Mkuu na Mkurugenzi Mtendaji

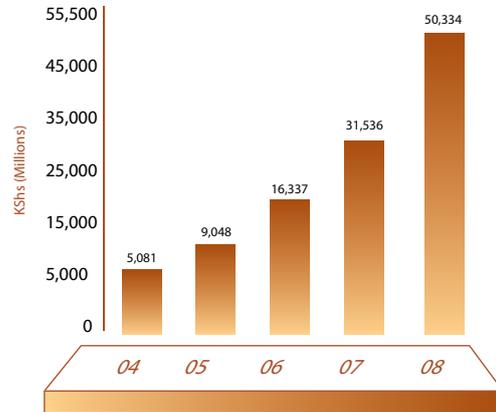


# FINANCIAL HIGHLIGHTS

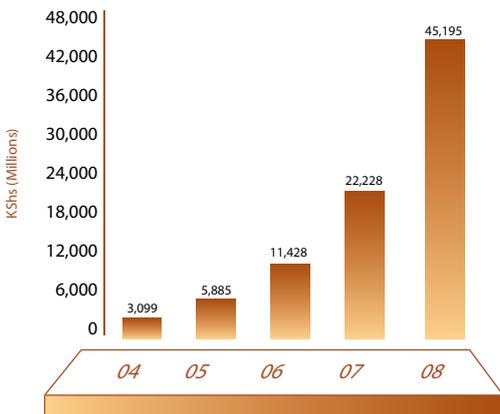
**GROWTH IN CUSTOMER NUMBERS**  
Ukuaji katika idadi ya wateja



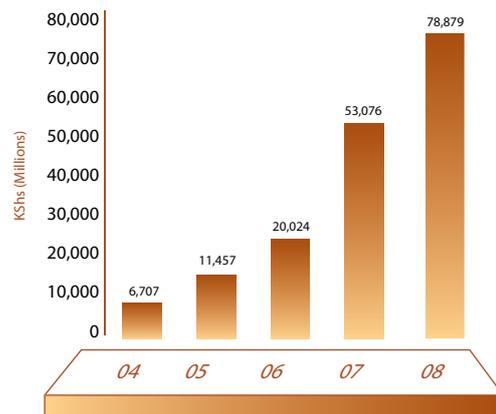
**GROWTH IN CUSTOMER DEPOSITS**  
Ukuaji katika akiba za wateja



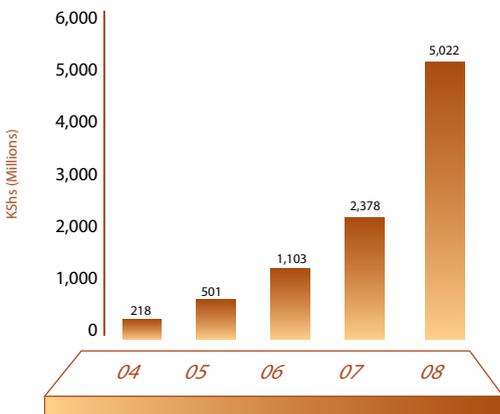
**GROWTH IN GROSS LOAN PORTFOLIO**  
Ukuaji katika jumla ya mikopo



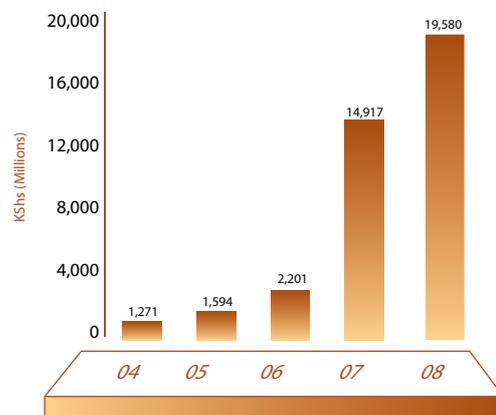
**GROWTH IN TOTAL ASSETS**  
Ukuaji katika jumla ya rasilimali



**GROWTH IN PROFIT BEFORE TAX**  
Ukuaji katika faida kabla ya kutozwa ushuru

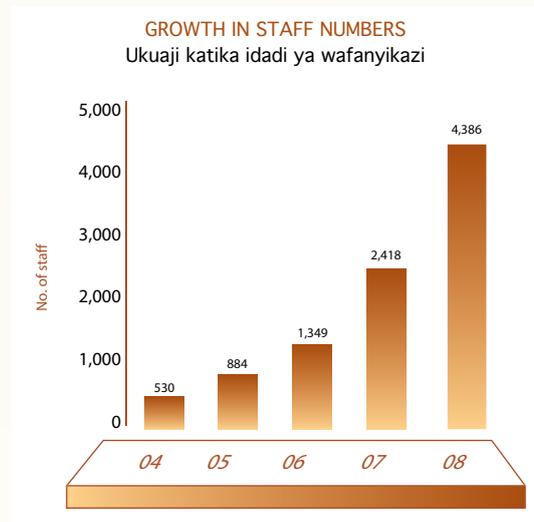
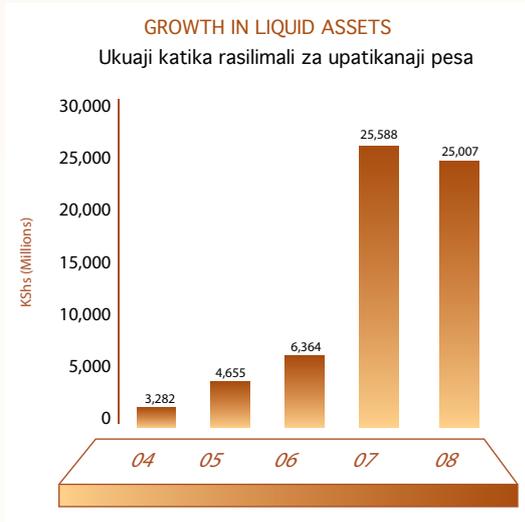


**GROWTH IN SHAREHOLDERS FUNDS**  
Ukuaji katika fedha za wenye hisa

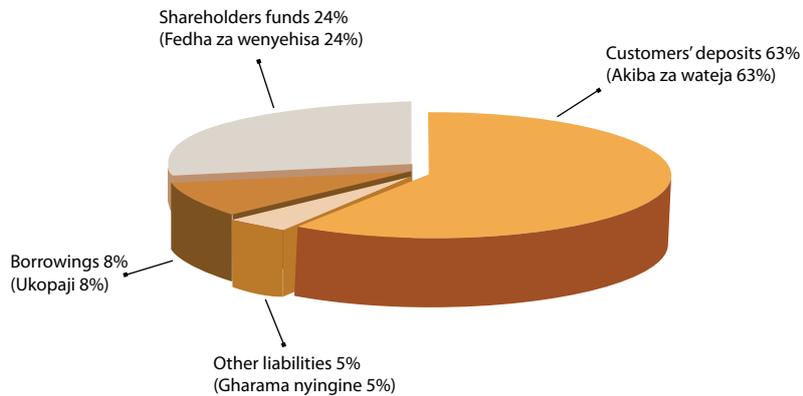




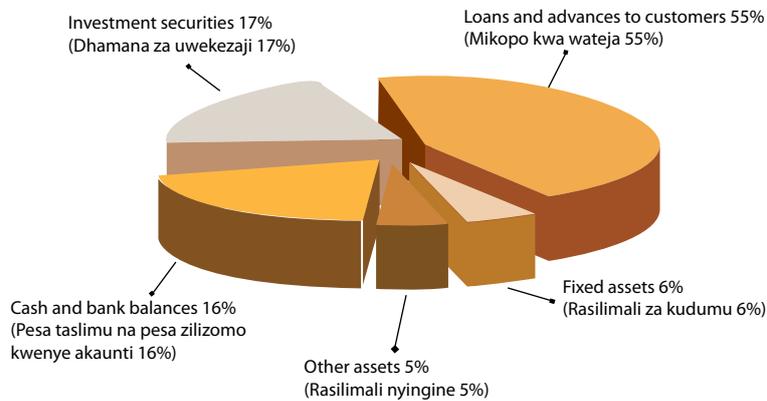
# FINANCIAL HIGHLIGHTS



## DISTRIBUTION OF LIABILITIES (UGAWAJI GHARAMA)



## DISTRIBUTION OF ASSETS (UGAWAJI RASILIMALI)





## BANK INFORMATION

<b>PRINCIPAL PLACE OF BUSINESS:</b>	14th Floor, NHIF Building P.O. Box 75104-00200 NAIROBI
<b>REGISTERED OFFICE:</b>	14th Floor, NHIF Building P.O. Box 75104-00200 NAIROBI
<b>LAWYERS:</b>	Coulson Harney Advocates 1st Floor, Block A Nairobi Business Park Ngong Road P.O. Box 10643-00100 NAIROBI
<b>BANKERS:</b>	Central Bank of Kenya P.O. Box 60000 - 00400 NAIROBI
<b>AUDITORS:</b>	Ernst & Young Kenya-Re Towers, Upperhill Off Ragati Road P.O. Box 44286 - 00100 NAIROBI
<b>SECRETARY:</b>	Mary Wangari Wamae 14th Floor, NHIF Building P.O. Box 75104-00200 NAIROBI

## KEY ACHIEVEMENTS



Equity Bank staff celebrate after winning the overall best bank sports trophy 2008 among many other awards.

## KEY ACHIEVEMENTS

### **AFRICAN BANKERS AWARDS 2008 - MICROFINANCE BANK OF THE YEAR**

Equity Bank was named the Best Microfinance bank in Africa during the annual African Bankers Awards ceremony held in Washington DC, USA. According to the organizers, the award went to the micro finance lender who had contributed most to reduce poverty in Africa. The awards reward among other things achievements, record earnings, innovative practices and their commitment to corporate social responsibility and gender equality. They are designed to recognize the reforms, rapid modernization, consolidation, integration and expansion of the African Banking sector.



### **EQUITY BANK WAS BEST PERFORMING AI 100 COMPANY IN AFRICA 2008**

The New York Stock Exchange recognized Equity Bank for its role in business and investment during the Africa Investor (Ai) Awards held in New York. Equity Bank was named the Best Performing Ai 100 Company. The Ai 100 awards recognize the best performing public listed company in Africa. Judges look out for market capitalization, value of shares traded as a proportion of market capitalization, and financial performance in terms of size and the ability of the company to create value for investors. The Africa investor Awards are unique Pan-African business and investment awards that recognize and reward the achievements of the private sector across wide-ranging sectors and disciplines. These awards attract the market leaders from across the continent and salute their achievements.



### **BANKING AWARDS 2008: BEST BANK IN KENYA**

Equity Bank was voted the Best Bank in Kenya during the 2008 Renaissance Capital Awards in a survey benchmarked against a series of 12 parameters, chief of which included asset quality, capital adequacy, earnings and liquidity. The indicators are the standard measures internationally used by rating agencies to grade banks. The ratings included 41 commercial banks and two non-bank financial institutions in Kenya.



## KEY ACHIEVEMENTS

### **BEST BANK IN KENYA (2007-8) BY EUROMONEY AWARDS FOR EXCELLENCE**

For the second year running, Equity Bank was voted the best bank in Kenya during 2008 Euromoney Awards for Excellence. The Euromoney Awards for Excellence are to the financial services industry what the Oscars are to film.



### **CEO'S MOST RESPECTED COMPANY AWARDS FOR 2008: BEST BANK IN EAST AFRICA.**

Equity Bank was voted the most respected bank in East Africa and the second runners up CEO's most company in Kenya. The most Respected Company survey is conducted annually by PriceWaterhouseCoopers (PWC) and The Nation Media Group.

### **SUPERBRAND AWARDS 2008:**

Equity Bank was voted the only banking superbrand in 2008. This was in recognition of the remarkable achievement the bank has realized in making banking affordable and accessible to all. The bank is now home to over 49% of all the bank account holders in Kenya, making Equity Bank the largest bank, by customer base, in the region.





# STATEMENT ON CORPORATE SOCIAL RESPONSIBILITY (CSR)

Equity's Vision is to champion the socioeconomic prosperity of the continent of Africa. To realize this vision, the Bank has focused on providing inclusive financial services to all consumers regardless of their race, gender, ethnic group, religious conviction or locality. Through its work, the Bank has transformed the lives of a large number of customers who had previously been excluded from the formal economic sector and given them hope, dignity and economic empowerment.

## ERADICATION OF POVERTY, HUNGER AND THE PROVISION OF HUMANITARIAN AID



**Equity Bank staff donate food to orphaned children's home in Ol Kalaou.**

Equity Bank has partnered with both Government and non-governmental groups such as the *Alliance for a Green Revolution in Africa (AGRA)*, the World Economic Forum (WEF) under the project *Business Alliance Against Chronic Hunger (BAACH)* and the Millennium Promise to make credit accessible to farmers and thereby helping improve food security and contributing to the eradication of poverty and hunger.

Equity Bank also supports communities in distress. Thus, following the post-election violence in January, 2008, the Bank, in conjunction with various stakeholders, supported the Internally Displaced Persons (IDPs) by providing aid valued at Ksh. 85 million through the 'Tumaini na Undugu'

*initiative*. Further, the Bank extended credit with flexible security and repayment terms as well as financial literacy programmes to help the victims regain their dignity and pick up their lives by starting small income generating activities individually or in groups.

## EDUCATION

Over the years, Equity Bank has been a solid partner to the education sector. The Bank has a Memorandum of Understanding (MOU) with the Ministry of Education to disburse the Free Primary Education (FPE) funds and the Free Secondary Education (FSE) funds in support of the Free Primary and Free Secondary Education programmes. In addition, Equity Bank has invested in a number of other initiatives in the Education Sector. Key among these is the bank's Pre-University Programme, which has been running since 1998. The Programme extends University Education Sponsorship to the top male and female student in all the districts where the bank has a presence. To this end, the bank in 2008 spent some Kshs 112 Million on 186 students who excelled in the 2007 KCSE. The Bank has also been the main sponsor of the Kenya National Schools and Colleges Drama and Music Festivals as part of the mission to support and nurture

more talent among the youth of Kenya. In the year under review, the bank spent some Kshs 4 million in sponsorship for the two annual events. Finally, the Bank in conjunction with Kenyatta University, begun a community outreach programme. Through this programme university students live and work with local communities addressing local social and economic challenges through the initiation and implementation of development projects.



**Equity Bank staff explaining to women about Fanikisha programme.**

## GENDER EQUALITY AND WOMEN'S EMPOWERMENT

Equity Bank promotes gender equality and women's empowerment. This is done through designing and delivering products suitable for women. For example, in partnership with the United Nations Development Programme (UNDP) the



**Hon. Professor Ongeru-Minister for Education, Hon. Professor Olweny-Assistant Minister, Dr. James Mwangi-CEO Equity Bank, Peter Munga-Chairman Equity Bank and other dignitaries with 2007 Pre-University Programme beneficiaries.**



## STATEMENT ON CORPORATE SOCIAL RESPONSIBILITY (CSR)

bank launched the *Fanikisha* Project, which provides access to financial services, information and financial literacy training to women entrepreneurs. As mentioned previously, Equity Bank also pursues gender equality by providing access to university education for both the best boy and best girl in the districts in which it operates.

**HEALTH**

Equity Bank invests in initiatives aimed at reducing the spread of HIV/AIDS, drugs and substance abuse. Through Community Outreach Programs, the Bank partnered with some public universities where the students worked with communities to create awareness and provide counselling on HIV/AIDS and substance abuse.

Employees of the bank have been supporting Orphans and Vulnerable Children in different parts of the country. Moreover, Equity Bank has partnered with such institutions as the Meru Hospice to provide access to financial services to HIV/AIDS infected and/or affected people.

**ENVIRONMENTAL SUSTAINABILITY**

Equity Bank remains committed to environmental protection and sustainability. In this regard, the Bank has invested in activities such as participating in tree planting, environmental cleanups, beautification and landscaping in areas where we operate.



**Equity Bank staff helping in environmental clean up.**



**Tree planting by Equity Bank Staff in Laare, Mount Kenya.**

**BANK LEADERSHIP'S VOLUNTARY SERVICE TO SOCIETY**

The staff of Equity Bank, under the leadership of Dr James Mwangi, the Chief Executive Officer, volunteered their time and expertise for the benefit of society. In the year under review, staff spent time conducting financial literacy courses, mentoring and coaching people on the fundamentals of entrepreneurship and financial management.



**Dr. James Mwangi, CEO Equity Bank at Clinton Global Initiative meeting in New York USA.**

The leadership team has contributed time and expertise to several policy and advocacy forums at national, regional and international levels. For example, the team participated

in the drafting of the *Kenya's Vision 2030* between 2006 and 2008. The leadership has also participated in such fora as the *World Economic Forum* on Africa and AFRACA. At the international level, the bank leadership serves on several international advisory bodies such as the UN, UNEP, the Clinton Global Initiative, and the Global Economic Network.



**Equity Bank staff explains a point to customers during a financial literacy session.**

**CONCLUSION**

For Equity Bank, investing in the society and giving back is a key part of our corporate strategy. The bank will therefore continue to support corporate socially responsible initiatives.



# BOARD OF DIRECTORS



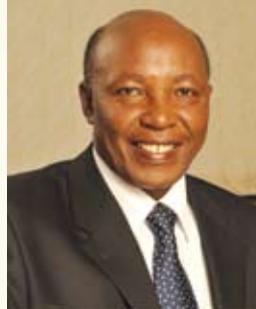
**PETER MUNGA, EBS  
CHAIRMAN**

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, MBS  
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 Doctor of Entrepreneurship from Jomo Kenyatta University of Agriculture and Technology. He is also the holder of 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 19 years



**BENSON WAIREGI,  
VICE CHAIRMAN**

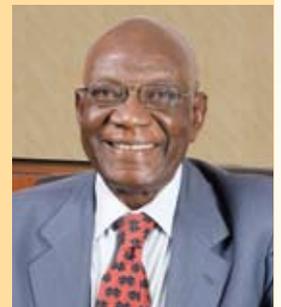
Mr. Wairegi holds a Masters of Business Administration degree and Bachelor of Commerce (Accounting option) degree from University of Nairobi and is a Certified Public Accountant – CPA (K). He is the Group Managing Director of British-American Investments Company (Kenya) Ltd. the parent company to British-American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

Mr. 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.



**JULIUS KIPNG'ETICH**

Professor Migot-Adholla holds a Ph.D in Sociology of Development, Masters of Arts in Sociology both from University of California, Special Graduate Student in Agriculture Economics (Michigan State University) and a Bachelor of Arts. He is a consultant on agriculture and rural development, land policy reform and environmental issues. He is also the Chairman of the Board of Directors, Institute of Policy Analysis and Research (IPAR) Nairobi and sits on the Board of the Center for Corporate Governance. He previously served as Vice-Chairman, Board of Directors, Kenya Wildlife Service, Lead Specialist on Land Policy and Administration for Africa Region in the World Bank and also as Permanent Secretary, Ministry of Agriculture and Rural Development.



**PROFESSOR  
SHEM MIGOT-ADHOLLA**



**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 and Associates, Know How International Limited and KHI Training



**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.

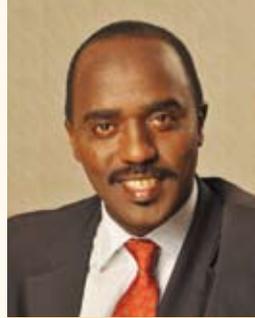


## BOARD OF DIRECTORS



**BABATUNDE SOYOYE**

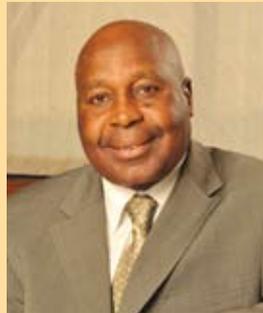
Mr. Soyoye holds a Masters in Business Administration degree and Bachelors degree in Electrical Engineering. He is a co-founder of Helios Investment Partners, a Board member of Africatel Holdings B.V., and Manager of Business Development at Singapore Telcom International.



**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.

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



**FREDRICK MUCHOKI**

Mr. Gachuba holds a Masters of Science degree in International Business and a Bachelor of Science degree from University of Southern New Hampshire in the USA. He is an Investment Banker and is AfriCap's Partner responsible for East and South Africa.



**PETER GACHUBA**

Dr. Alembi holds a Ph.D from University of Helsinki in Finland, Master of Arts degree in Literature and a Bachelor of Education Arts degree from Kenyatta University. He is a senior lecturer at the Department of Literature at Kenyatta University, the National Chairman of the Kenya Schools and Colleges Drama Festival, the African President of the International Festival of Young Playwrights and also Vice President for the International Society for Folk Narrative Research in charge of Africa. He is the author of numerous articles and children's books and has won many awards including the Jomo Kenyatta Prize for Literature.



**DR. EZEKIEL ALEMBI**

Mr. Diouf holds a Masters of Business Administration degree from Georgia Institute of Technology (Atlanta) and a Bachelor of Science degree in Computer Science and Finance from Ecole Suprieure de Gestion (Paris). He is also the managing Partner of Africap, based in Dakar Senegal.



**WAGANE DIOUF  
(ALTERNATE TO PETER  
GACHUBA)**



**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.



## EXECUTIVE MANAGEMENT



### **Dr. James Mwangi, MBS Chief Executive Officer & Managing Director**

Dr. Mwangi holds an Honorary Doctorate in Business Administration (Honoris Causa), from Kenya Methodist University, Doctor of Humane Letters (Honoris Causa) Kenyatta University, and Doctor of Entrepreneurship from Jomo Kenyatta University of Agriculture and Technology (Honoris Causa). He is also the holder of 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 19 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 11 years at Equity Bank.



### **Mary Wamae, Director of 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 13 years of private practice experience.



### **Dr. Wahome Gakuru, Director of Marketing, Advocacy and Policy**

Dr. Gakuru received his Ph.D from Arizona State University having majored in Public Administration and Policy. He also holds MBA degrees from Willamette University, USA, and the University of Nairobi. Before joining Equity Bank in 2008, he was the Acting Director in charge of the Kenya Vision 2030 and the Director of Social Sector Department at the National Economic and Social Council (NESC). Prior to joining NESC Dr. Gakuru was Head of Strategy Development at the National AIDS Control Council. He has over 15 years lecturing experience. Dr. Gakuru has many honors and awards including being a recipient of the prestigious Fulbright Scholarship.



### **Henry Karugu, Director of Product Development, Innovation and Research**

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 16 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, Director of Finance**

John holds a Masters degree in Business Administration and is a member of ICPAK, and KIM. He has over 21 years of banking experience, having worked for Standard Chartered Bank as Head of Finance, Systems and Processes- Africa Region, Head of Finance, Shared Services Centre - East and Southern Africa Region, and Finance Director in Tanzania and Botswana.



### **Allan Waititu, Director of Projects**

Allan is a Microsoft Certified Systems Engineer, a Novell Certified Network Engineer and a graduate of Advanced Management Programme (Strathmore-IESE Business School, Barcelona Spain). He has over 18 years experience in the information technology industry having previously worked for Trade Bank, Daima Bank and Phoenix Assurance.



## EXECUTIVE MANAGEMENT

**Winnie Kathurima-Imanyara, Director of Leadership Development and Corporate Change**

Winnie holds a degree in Business Administration, Bachelors of Science in Industrial Psychology and Postgraduate Diploma in Human Resources. Winnie has over 22 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.

**Peter Makau, Director of Corporate Banking**

Peter is an Associate of the Chartered Institute of Bankers (London) and a career banker with over 21 years experience at senior level with major local and international banks including Citibank N.A., ABN Amro Bank N.V., Standard Chartered Bank Kenya Limited, Stanbic Bank Kenya Limited, and NIC Bank Limited. He is well versed in banking business with a bias in Corporate Banking and has responsibility for driving and managing the bank's Corporate Banking business.

**Mbaabu Muchiri, Director of Retail Banking**

Mbaabu holds a Masters in Business Administration (MBA) from the United States International University(USIU), a Bachelor of Education degree and is a Certified Public Accountant (Kenya), a Certified Public Secretary (Kenya) and a Certified Information Systems Auditor (CISA). He is a graduate of Advanced Management Programme ( Strathmore-IESE Business School, Barcelona Spain ). He has over 17 years of management experience having previously worked with Central Bank of Kenya and Coca-Cola Africa.

**Rodney G. Schuster, Director of Regional Expansion**

Rodney holds a Masters of Arts in International Development and a Bachelor of Arts in Geography. He has over 10 years experience in microfinance and was founder member of Uganda Microfinance Ltd/Uganda Microfinance Union. He has also worked in West Africa in Sierra Leone and Togo. He joined Equity Bank in 2008.

**Samuel Kamiti, General Manager, Alternate Business Channels**

Sam holds a Bachelor of Science in Mathematics and Computer Science and Post Graduate Diploma in Computer Science from the University of Nairobi. He is a Certified Information Security Manager (CISM) and Certified Information Systems Auditor (CISA). He has over 28 years experience in the information and communication technology field and over 20 years experience in banking IT and operations having worked with CRDB in Tanzania, Central Bank of Kenya and Standard Chartered Bank Kenya Limited.

**Peter Gachau, General Manager, IT**

Peter holds a Bachelor of Education (Science) degree from Kenyatta University and a Post Graduate Diploma in Computer Science. He has over 15 years experience in Information Technology having previously worked for ABC Bank, ABN AMRO Bank among others.

**Bildard Fwamba - Head of Internal Audit**

Bildard holds a Bachelor of Commerce (Accounting option) degree from Kenyatta University and is a Certified Public Accountant (Kenya). He has over 11 years experience in audit having previously worked with Central Bank of Kenya and British America (K) Insurance Company.



# REPORT OF THE DIRECTORS

AS AT 31ST DECEMBER 2008

The directors have pleasure in submitting their report together with, the Audited Financial Statements for the year ended 31st December 2008, 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 and its subsidiary companies.

## 1. Activities

The Bank is engaged in the business of banking and is licensed under the Banking Act. The Bank has also invested in six wholly owned subsidiaries whose activities are as shown under note 17(b).

## 2. Results

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

## 3. Dividends

The Board has recommended a dividend of KShs 3.00 (three) per share which represents 60% of paid up capital subject to the approval of shareholders at the Annual General Meeting.

## 4. Proposed Share Split

At a meeting of the Board of Directors of Equity Bank Limited (the Company) held on Thursday 12th February 2009 the Board approved a proposal to split the existing ordinary shares of the Company, from ordinary shares of Kshs 5/- (five) nominal value, into ordinary shares of Kshs. 0.50 nominal value. If approved, the revised nominal capital of the Company will be Ksh 1,851,388,510 divided into 3,702,777,020 ordinary shares of Kshs 0.50 each. The proposed share split is subject to the approval of the Capital Markets Authority and the Nairobi Stock Exchange (NSE). The resolution in respect of the split is contained in the Notice of Annual General Meeting which forms a part of this annual report

## 5. Directors

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

Peter Kahara Munga**	- Chairman
Dr. James Njuguna Mwangi	- Chief Executive Officer/ Managing Director

Benson Irungu Wairegi - Vice Chairman

Fredrick Mwangi Muchoki

Peter Gachuba\*\*

Wagane Diouf \*

Julius Kangogo Kipng'etich\*\*

Linus Wang'ombe Gitahi

Ernest Mattho Nzovu

Babatunde Temitope Soyoye\*\*\*

Temitope Olugbeminiyi Lawani\*\*\*

Prof Shem Migot-Adholla \*\*\*\*

Dr Ezekiel Alembi\*\*\*\*\*

\* Senegalese – Alternate to Peter Gachuba

\*\* Retired by rotation on 27th June 2008 and were re-elected

\*\*\* British – elected on 27th June 2008

\*\*\*\* Appointed on 12th February 2009

Article 100 of the Memorandum and 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.

## 7. Approval of Financial Statements

The financial statements were approved by the Board of Directors on 12th February 2009.

By Order of the Board

Mary Wangari Wamae

Company Secretary

P.O. Box 75104 -00200

Nairobi,

12th February 2009



## RIPOTI YA WAKURUGENZI KWA MWAKA ULIOMALIZIKA TAREHE 31 DISEMBA 2008

Wakurugenzi wana furaha kuwasilisha ripoti yao pamoja na taarifa za kifedha zilizokaguliwa kwa mwaka uliomalizika 31 Disemba 2008 kulingana na Kifungu 22 cha Sheria za Benki na Kifungu 157 cha Sheria za Makampuni, ambacho kinafichua hali ya masuala ya Benki na kampuni zake tanzu.

### 1. Shughuli

Benki inajihusisha na biashara ya shughuli za benki na imepewa leseni chini ya Kifungu cha sheria za Benki. Benki pia imewezeza katika kampuni sita tanzu inazozimiliki kikamilifu ambazo shughuli zake ni kama ilivyoonyeshwa katika maelezo 17(b).

### 2. Matokeo

Matokeo ya Kundi la kampuni yamechapishwa katika ukurasa wa 32.

### 3. Mgao Wa Faida

Halmashauri imependekezwa mgao wa faida wa shilingi 3 (tatu) kwa kila hisa ambao unawakilisha asilimia 60 ya mtaji uliolipiwa kwa kutegemea idhini ya wenye hisa kwenye Mkutano Mkuu wa Mwaka.

### 4. Ugawaji Hisa Uliopendekezwa

Kwenye mkutano wa Halmashauri ya Wakurugenzi wa kampuni ya Equity Bank (Kampuni) uliofanywa Alhamisi tarehe 12 Februari 2009 Halmashauri iliidhinisha pendekezo la kugawanya hisa zilizopo za kawaida za kampuni kutoka hisa za kawaida za thamani ya shilingi 5/- (tano), hadi hisa za kawaida za thamani ya shilingi 0.50. Likipitishwa mtaji wa chini wa Kampuni utakuwa shilingi 1,851,388,510 na kugawanywa kwa hisa 3,702,777,020 za kawaida za shilingi 0.50 kila moja. Pendekezo hilo la kugawanya hisa litategemea idhini ya Halmashauri ya Usimamizi wa Masoko ya hisa na Soko la Uuzaji hisa la Nairobi (NSE). Azimio kuhusiana na kugawanywa kwa hisa limo kwenye Ilani ya Mkutano Mkuu wa Mwaka ambayo ni sehemu ya ripoti hii ya kila mwaka.

### 5. Wakurugenzi

Wakurugenzi waliohudumu wakati wa kipindi cha mwaka huo hadi kufikia sasa wameorodheshwa hapo chini:

Peter Kahara Munga**	- Mwenyekiti
Dkt. James Njuguna Mwangi	- Afisa Mkuu Mtendaji/ Mkurugenzi Mkuu

Benson Irungu Wairegi	- Naibu-Mwenyekiti
Fredrick Mwangi Muchoki	
Peter Gachuba**	
Wagane Diouf *	
Julius Kangogo Kipng'etich**	
Linus Wang'ombe Gitahi	
Ernest Mattho Nzovu	
Babatunde Temitope Soyoye***	
Temitope Olugbeminiyi Lawani***	
Dkt. Shem Migot Adhola****	
Dkt. Ezekiel Alembi****	

\* Raia wa Senegal – Anayebadilishana na Peter Gachuba  
 \*\* Alistaafu kwa zamu tarehe 27 Juni 2008 na kuchaguliwa upya  
 \*\*\* Muingereza – alichaguliwa tarehe 27th Juni 2008  
 \*\*\*\* Aliteuliwa tarehe 12th Februari 2009

Kifungu cha sheria nambari 100 cha Mkataba na Sheria za Kampuni za Benki kinatoa nafasi kwa wakurugenzi kustaafu kwa zamu.

### 6. Wakaguzi

Wakaguzi wa hesabu za fedha, Ernst & Young, wamedhihirisha nia yao ya kuendelea kutekeleza kazi hiyo kulingana na Kifungu 159(2) cha sheria za makampuni nchini Kenya na kuambatana na kifungu 24(1) cha sheria za benki.

### 7. Kuidhinishwa Kwa Taarifa Za Kifedha

Taarifa za kifedha ziliidhinishwa na Halmashauri ya wakurugenzi tarehe 12 Februari 2009.

Kwa Amri ya Halmashauri

Mary Wangari Wamae  
 Katibu wa Kampuni  
 S.L.P 75104-00200  
 Nairobi  
 12 Februari 2009



## STATEMENT ON CORPORATE GOVERNANCE FOR THE YEAR ENDED 31ST DECEMBER 2008

Equity bank has built its business on very strong corporate governance principles. There is a strong commitment to conduct its business in accordance with best business practices and ethics as envisioned by the following principles:

- **Compliance:** ensuring that the bank complies with all relevant laws, statutes, regulations and corporate commitments;
- **Profitability:** ensuring that the bank is profitable and provides a reasonable return on the assets it employs.
- **Leadership:** exercising leadership, enterprise, integrity and judgment in directing the bank so as to achieve continuing prosperity and acting in a manner based on transparency, accountability and responsibility;
- **Accountability and responsibility:** recognizing and differentiating accountability and responsibility linkages to stakeholders and establishing reporting mechanisms to support these linkages;
- **Checks and balances:** ensuring that no one person or block of persons has unfettered power and that there is an appropriate balance of power and authority on the board;
- **Strategy:** determining the corporation's purpose, values and strategy and implementing its values in order to ensure that it survives and thrives, and ensuring that procedures and practices are in place that protect the bank's assets and reputation;
- **Monitoring:** monitoring and evaluating the implementation of strategies, policies, management performance criteria and business plans;
- **Evaluation:** regularly reviewing processes and procedures to ensure the effectiveness of its internal systems of control, so that its decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times; regularly assessing its performance and effectiveness as a whole, and that of the individual directors including the chief executive officer;
- **Risk Management:** identifying key business risk areas, including technology and performance indicators of the business enterprise and monitoring these factors;

- **Disclosure:** providing shareholders and markets with necessary and timely information material to the company's performance and risks.

### The Oversight Role of the Board Of Directors

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 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 to become an all-inclusive bank providing accessible and affordable financial services and in the process, generating great shareholder value.

During the year, nine non-executive Directors and one executive director served on the Board. Five meetings were held during the period with attendance as follows:

Name of Director	Number of meetings attended
Peter Kahara Munga	5
James Njuguna Mwangi	5
Babatunde Temitope Soyoye	5
Temitope Olugbiniyi Lawani	2
Benson Irungu Wairegi	4
Frederick Mwangi Muchoki	5
Julius Kangogo Kipng'etich	5
Peter Gachuba	5
Linus Wang'ombe Gitahi	5
Ernest Mattho Nzovu	5

The board also conducts a self-evaluation exercise in keeping with highest international standards. The evaluation focuses on the role and responsibility of the Board, structure, composition, functions and processes; information and meetings, among other critical areas.

The board has established eight board committees to assist in guiding the direction of the Bank. These are Audit, Credit, Risk management, Governance, Nominations and Staff Remuneration, Systems & processes, Tendering & Procurement, Strategy & Investment, Executive Committees. All the committees are governed by charters setting out their mandates and authority.

### Risk Management and Internal Controls

The Bank has developed a strategic plan to guide the growth, monitor progress and performance both on a short-term and long term basis.



## STATEMENT ON CORPORATE GOVERNANCE CONTINUED FOR THE YEAR ENDED 31ST DECEMBER 2008

The Board of the Bank also ably guides the direction of the bank assisted by the board committees that have been put in place. The Bank also ensures that strategic goals are compatible with overall business strategies and these are developed under the guidance and oversight of the Board members.

The Bank has managed credit risk well by implementing and ensuring compliance with sound credit policies leading to a strong asset quality. The Bank is strong on statutory and regulatory liquidity and capital requirements and regularly reviews its policies, processes and procedures to ensure best performance and compliance at all times. The Bank has also established a comprehensive framework for risk management in tune with the new capital accord (Basel II).

The Bank's internal audit department plays a vital role within the governance processes by keeping the board through its audit committees and senior management aware of risks and control issues.

### Compliance and Quality Assurance

The Compliance and Quality Assurance Function is charged with the responsibility of ensuring compliance with statutory and regulatory requirements as provided for by the banking industry regulators, and with internal Policies and Procedures in which the bank's quality standards and objectives are embedded.

Routine reviews and assessments are done to ensure that the bank's processes are in tandem with the bank's strategy and that they provide the agility necessary to thrive in a competitive business environment.

### Financial Reporting and Disclosures

In accordance with the Banking Act, Capital Markets Authority Act and the Prudential Guidelines the Bank ensures that shareholders and other stakeholders are provided with full and timely information on performance. Financial statements are produced in accordance with International financial reporting standards and the requirements of all the relevant statutes, rules and regulations.

### Business Ethics and Core Values

All the staff of the Bank are guided by very high standards of ethical values and observance of all relevant laws and regulations at all times.

Staff have committed to several essential principles, which define their conduct in the course of service, which are; Professionalism, Integrity, Creativity & Innovative, Team work, Unity of Purpose, Respect for Customer Delight and Effective Corporate Governance.

### Development Partners

The Bank has established relationships and partnerships with several organizations in its quest for the highest standards of corporate governance, accountability and business growth.

Some of these institutions include but are not limited to:-

1. Department for International Development (DFID)
2. United States Agency for International Development (USAID)
3. Swiss Foundation for Technical Cooperation (Swisscontact)
4. Consultative Group Assisting the Poor (CGAP)
5. International Fund for Agricultural Development (IFAD)
6. Alliance for a Green Revolution in Africa (AGRA)
7. Millennium Promise

The Bank is also a member of the following network associations

1. Association of Microfinance Institutions (AMFI)
2. Kenya Bankers Association (KBA)
3. Women's World Banking (WWB)
4. Global Network for Banking Innovation (GNBI)
5. Micro Finance Network (MFN)

### Particulars of Shareholding

The Bank complies with the provisions of the Capital Markets Act and all the Rules Regulations and guidelines made there under. Monthly reports are made to the Capital Markets Authority (CMA) on the particulars of the shareholders as required by the law.

The Chief Executive Officer Dr. James Mwangi holds 5.37% shareholding in the Bank. Prudential Guideline No CBK/PG/02 limits the maximum amount a director or senior manager of a financial institution can hold to 5%. This guideline came into effect after the Chief Executive Officer had, in order to maintain investor and depositor confidence in the Bank given an undertaking to CMA not to dispose any of his shares in the bank for a period of two years from the date of the approval of the listing of the Bank shares on the Nairobi Stock Exchange. On the basis of this the Bank sought and obtained from the Central Bank of Kenya a moratorium period within which to comply with the provisions of the prudential guideline afore stated. The moratorium expires on 28th February 2009.

As at 31st December 2008 the details of shareholding was as shown on note 29(a) page 72.



## STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31ST DECEMBER 2008

The Kenyan Companies Act requires that the directors prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Bank and its subsidiaries (the Group) as at the end of the financial year and of the operating results of the Group and the Bank for that year. It also requires the directors to ensure the Group and the Bank keeps proper accounting records which disclose, with reasonable accuracy, the financial position of the Group and 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 Group and 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 Group and the Bank and of the operating results of the Group and the Bank.

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 Group and the Bank will not remain a going concern for at least the next twelve months from the date of this statement.

**Mr. Peter K. Munga, EBS**

Director

**Dr. James Mwangi, MBS**

Director

**Mary Wangari Wamae**

Secretary

12th February 2009



# REPORT OF THE INDEPENDENT AUDITORS

TO THE MEMBERS OF EQUITY BANK LTD. FOR THE YEAR ENDED 31ST DECEMBER 2008

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Equity Bank Limited and subsidiaries, set out on pages 32 to 79, which comprise the consolidated balance sheet as at 31st December 2008, consolidated income statement, consolidated statement of changes in equity and consolidated 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.

## AUDITORS' 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 auditors' 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 and subsidiaries as at 31st December 2008 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 Group and 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  
3rd March 2009



**CONSOLIDATED INCOME STATEMENT**  
FOR THE YEAR ENDED 31ST DECEMBER 2008

<i>In millions of Kenya Shillings</i>	Note	Group		Bank	
		2008	2007	2008	2007
Interest income	8	7,979	3,155	7,169	3,155
Interest expense	8	(1,362)	(495)	(1,217)	(495)
<b>Net interest income</b>	<b>8</b>	<b>6,617</b>	<b>2,660</b>	<b>5,952</b>	<b>2,660</b>
Fee and commission income	9(a)	1,624	562	1,308	562
Net fee and commission income		1,624	562	1,308	562
Trading income	9(b)	780	246	734	246
Other operating income	10	3,584	2,353	3,562	2,353
<b>Total operating income</b>		<b>12,605</b>	<b>5,821</b>	<b>11,556</b>	<b>5,821</b>
Impairment loss on financial assets	11	1,020	(25)	875	(25)
Personnel expenses	12	2,954	1,469	2,584	1,469
Operating lease expenses	13	375	182	357	182
Depreciation and amortization	14 & 15	749	423	712	423
Other expenses	16	2,519	1,409	2,271	1,409
<b>Total expenses</b>		<b>7,617</b>	<b>3,458</b>	<b>6,799</b>	<b>3,458</b>
<b>Profit before tax</b>		<b>4,988</b>	<b>2,363</b>	<b>4,757</b>	<b>2,363</b>
Share of profit of associate	17(a)	34	15	34	15
<b>Profit before income tax</b>		<b>5,022</b>	<b>2,378</b>	<b>4,791</b>	<b>2,378</b>
Income tax expense	18	(1,112)	(488)	(1,038)	(488)
<b>Profit for the year</b>		<b>3,910</b>	<b>1,890</b>	<b>3,753</b>	<b>1,890</b>
<b>Earnings per share (KShs)</b>	19	10.68	6.88	10.25	6.88
<b>Dividend per share (KShs)</b>	20	3.00	2.00	3.00	2.00



## CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER 2008

<i>In millions of Kenya Shillings</i>	Note	Group		Bank	
		2008	2007	2008	2007
<b>Assets</b>					
Cash and cash equivalents	21	12,766	11,996	12,018	11,996
Loans and advances to customers	22	44,070	21,836	40,857	21,836
Finance lease receivable	22	122	-	-	-
Investment securities	23	12,240	13,543	12,151	13,543
Investment in associate	17(a)	1,156	442	1,156	442
Goodwill	17(c)	887	-	-	-
Property and equipment	14	4,796	2,603	4,259	2,603
Prepaid leases	14	32	4	4	4
Intangible assets	15	621	224	348	224
Investment in subsidiary companies	17(b)	51	-	2,976	-
Amounts due from group companies	32 (g)	-	-	182	-
Other assets	24	2,124	2,428	3,184	2,428
Tax recoverable	18	14	-	-	-
<b>Total assets</b>		<b>78,879</b>	<b>53,076</b>	<b>77,135</b>	<b>53,076</b>
<b>Liabilities</b>					
Deposits from customers	25	50,334	31,536	48,977	31,536
Current tax liabilities	18	514	209	514	209
Deferred tax liabilities	26	94	45	67	45
Other borrowed funds	27	6,463	4,521	6,167	4,521
Other liabilities	28	1,894	1,848	1,751	1,848
<b>Total liabilities</b>		<b>59,299</b>	<b>38,159</b>	<b>57,476</b>	<b>38,159</b>
<b>Equity</b>					
Share capital	29	1,851	1,811	1,851	1,811
Share premium	29(b)	12,161	10,543	12,161	10,543
Available for sale reserve	29(c)	(112)	13	(112)	13
Statutory loan reserve	29(d)	308	253	308	253
Other reserves		(67)	-	-	-
Foreign currency translation reserve	29(f)	(170)	-	-	-
Retained earnings		4,498	1,754	4,340	1,754
Proposed dividends	29(e)	1,111	543	1,111	543
<b>Total equity</b>		<b>19,580</b>	<b>14,917</b>	<b>19,659</b>	<b>14,917</b>
<b>Total liabilities and equity</b>		<b>78,879</b>	<b>53,076</b>	<b>77,135</b>	<b>53,076</b>

The financial statements were approved by the Board of Directors on 12th February 2009 and signed on its behalf by:-

**Mr. Peter K. Munga, EBS**  
Director

**Dr. James Mwangi, MBS**  
Director

**Mary Wangari Wamae**  
Secretary



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31ST DECEMBER 2008

**Group**  
*In millions of Kenya Shillings*  
**For the year ended 31 December 2007**

	Share capital	Share premium	Retained earnings	Statutory loan reserve	Available for sale reserve	Foreign currency translation reserve	Other reserves	Proposed dividend	Total
At 1 January 2007	453	480	1,085	-	1	-	-	181	2,200
Bonus shares issued	905	(480)	(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

**For the year ended 31 December 2008**

At 1 January 2008	1,811	10,543	1,754	253	13	-	-	543	14,917
Share capital issued	40	1,618	-	-	-	-	-	-	1,658
Profit for the year	-	-	3,910	-	-	-	-	-	3,910
Revaluation of treasury bonds	-	-	-	-	(125)	-	-	-	(125)
Statutory loan reserve	-	-	(55)	55	-	-	-	-	-
Dividends:									
Final for 2007 paid	-	-	-	-	-	-	-	(543)	(543)
Proposed for 2008	-	-	(1,111)	-	-	-	-	1,111	-
Forex Revaluation Reserve	-	-	-	-	-	(170)	-	-	(170)
Other Reserves	-	-	-	-	-	-	(67)	-	(67)
At 31 December 2008	1,851	12,161	4,498	308	(112)	(170)	(67)	1,111	19,580



## STATEMENT OF CHANGES IN EQUITY OF THE BANK

FOR THE YEAR ENDED 31ST DECEMBER 2008

### Bank

*In millions of Kenya Shillings*

#### For the year ended 31 December 2007

	Share capital	Share premium	Retained earnings	Statutory loan reserve	Available for sale reserve	Proposed dividend	Total
At 1 January 2007	453	480	1,085	-	1	181	2,200
Bonus shares issued	905	(480)	(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	-
<b>At 31 December 2007</b>	<b>1,811</b>	<b>10,543</b>	<b>1,754</b>	<b>253</b>	<b>13</b>	<b>543</b>	<b>14,917</b>
<b>For the year ended 31 December 2008</b>							
At 1 January 2008	1,811	10,543	1,754	253	13	543	14,917
Share capital issued	40	1,618	-	-	-	-	1,658
Profit for the year	-	-	3,753	-	-	-	3,753
Revaluation of treasury bonds	-	-	-	-	(125)	-	(125)
Statutory loan reserve	-	-	(55)	55	-	-	-
Dividends:							
Final for 2007 paid	-	-	-	-	-	(543)	(543)
Proposed for 2008	-	-	(1,111)	-	-	1,111	-
<b>At 31 December 2008</b>	<b>1,851</b>	<b>12,161</b>	<b>4,340</b>	<b>308</b>	<b>(112)</b>	<b>1,111</b>	<b>19,659</b>



## CONSOLIDATED CASHFLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2008

<i>In millions of Kenya Shillings</i>	<b>Note</b>	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities</b>			
Profit before income tax		5,022	2,378
Adjustments for:			
Depreciation of property and equipment		633	353
Amortisation of intangible assets		99	70
Foreign currency translation reserve		(170)	-
Amortisation of capital grant		(1)	-
<b>Operating profit before working capital changes</b>		<b>5,583</b>	<b>2,801</b>
Change in loans and advances to customers		(20,425)	(10,906)
Change in other assets		(1,015)	(1,329)
Change in deposits from customers		17,927	15,199
Change in other liabilities and provisions		52	1,004
<b>Cash generated from operations</b>		<b>2,122</b>	<b>6,769</b>
Income tax paid		(732)	(392)
<b>Net cash from operating activities</b>		<b>1,390</b>	<b>6,377</b>
<b>Cash flows from investing activities</b>			
Sale / (purchase) of investment securities		2,082	(11,887)
Investment in associate		(680)	(427)
Purchase of property and equipment		(2,394)	(1,493)
Investment in subsidiary		(51)	-
Purchase of intangible assets		(282)	(133)
Proceeds from the sale of assets		-	2
<b>Net cash used in investing activities</b>		<b>(1,325)</b>	<b>(13,938)</b>
<b>Cash flows from financing activities</b>			
Proceeds from long term borrowing		2,959	4,033
Repayment of long term borrowing		(1,671)	-
Proceeds from issue of new shares		-	10,996
Dividends paid		(583)	(181)
<b>Net cash from financing activities</b>		<b>705</b>	<b>14,848</b>
<b>Net increase in cash and cash equivalents</b>		<b>770</b>	<b>7,287</b>
Cash and cash equivalents at 1 January	21	11,996	4,709
<b>Cash and cash equivalents at 31 December</b>	<b>21</b>	<b>12,766</b>	<b>11,996</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31ST DECEMBER 2008

### 1. REPORTING ENTITY

Equity Bank Limited (The "Bank") is incorporated and domiciled in Kenya. The address of the Bank's registered office is P.O Box 75104 – 00200 Nairobi. The Bank is licenced under the Kenya Banking Act (Chapter 488), and continues to offer retail banking, microfinance and related services.

The Bank has subsidiaries in Kenya and Uganda. Its shares are listed on the Nairobi Stock Exchange.

### 2. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS

Equity Bank Limited and its subsidiaries (the Group) adopted the following new and amended IFRS and IFRIC interpretations during the year:

- IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets (Amendments).
- IFRIC 14 IAS 19 – Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interactions.

IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7, Financial Instruments: Disclosures – Reclassification of Financial Assets (Amendments) allows reclassification of certain financial instruments from held for trading and available for sale categories.

IFRIC 14 IAS 19 – Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interactions addresses how to assess the limit, under IAS 19 Employee Benefits on the amount of the surplus that can be recognized as an asset particularly when a minimum funding requirement exists.

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- IFRS 4, 'Insurance Contracts';
- IFRIC 7, 'Applying the Restatement Approach Under IAS 29, Financial Reporting in Hyperinflationary Economies';
- IFRIC 8, 'Scope of IFRS 2';
- IFRIC 9, 'Re-assessment of Embedded Derivatives'; and,
- IFRIC 10, 'Interim Financial Reporting and Impairment';
- IFRIC 11, IFRS 2 - Group and Treasury Share Transactions,
- IFRIC 12, Service Concession Agreements; and
- IFRIC 13, Customer Loyalty Programmes.

The Group has chosen not to early adopt the following standards, amendments and interpretations to existing standards that were issued, but not yet effective, for accounting periods beginning on or after 1st January 2009.

- IFRS 2, Amendments to IFRS 2 Share-based Payments - Vesting Conditions and Cancellations
- IFRS 3, Business Combinations
- IFRS 8, Operating segments
- IAS 1, Presentation of Financial Statements Amendment
- IAS 23, Borrowing Costs
- IAS 27, Consolidated and Separate Financial Statements
- IAS 32, Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation.

The directors anticipate that the adoption of those standards will have no material effect on the financial statements of the Group and the Bank.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2008

### 3. BASIS OF PREPARATION

#### (a) Statement of compliance

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

#### (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

#### (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) Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiaries as at 31 December each year.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The accounting policies for the subsidiaries are consistent with the policies adopted by the Bank.

#### (e) Significant accounting estimates and judgments

The preparation of financial statements in accordance with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities at the date of the financial statements and the income and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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.

The Group has used significant estimates and judgements in determination of fair value financial instruments and impairment of financial assets as well as non-financial assets.

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 5 and 6.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2008

### 4. 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 Bank level, associates are recognised using the equity method.

#### (b) Foreign currency transactions

- i) 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. Gains and losses arising on conversion and translation are either included in the income statement or, where appropriate recharged to the relevant third party.
- ii) As at the reporting date, the assets and liabilities of foreign subsidiaries are translated into the Bank's presentation currency (Kenya Shillings) at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

#### (c) Recognition of interest income, dividend 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 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 Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Dividend income is recognised when the Group's right to receive that payment is established.

#### (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 which relates mainly to transaction and service fees are expensed as the services are received.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2008

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (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. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

#### (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 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 Group 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 Group becomes a party to the contractual provisions of the instrument.

##### (ii) Derecognition

The Group 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 Group 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, there is a legally enforceable right to set off the recognised amounts and there is an intention 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 group of similar transactions such as in the Group's trading activity.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2008

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (h) Financial assets and liabilities (continued)

##### (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 Group 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 Group 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 any 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 Group on terms that the Group 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 Group, or economic conditions that correlate with defaults in the Group and Bank.

In assessing collective impairment the Group uses statistical modeling 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 modeling. 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2008

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (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 Group 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 Group and 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 Group and 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 Group and 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 Group and the Bank carries some investment securities at fair value, with fair value changes recognised immediately in the income statement.

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 Group and 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31ST DECEMBER 2008

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (l) Investment securities

##### (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 Group and 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 Group and 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 amortised 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:-

	Group	
	2008	2007
Freehold land	Nil	Nil
Buildings	2.5%	2.5%
Motor vehicles	25%	25%
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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2008

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (n) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both. Investment property is measured according to cost model and amortised over the lease period.

#### (o) Software

Software acquired by the Group 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 it is available for use. The estimated useful life of software is three to five years.

#### (p) Impairment of non-financial assets

The carrying amounts of the Group'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 Group 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 Group 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 Group by the weighted average number of ordinary shares outstanding during the year.

#### (s) Segment reporting

A segment is a distinguishable component of the Group and 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.

##### i) Business segments

The Group's main business is banking/finance, which accounts for more than 90% of the Groups' total income. There are therefore no significant distinct business segments to necessitate detailed disclosures.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31ST DECEMBER 2008

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (s) Segment reporting (continued)

##### ii) Geographical segments

One of the group companies, Equity Bank Uganda Limited operates outside the domestic financial market. The income derived from this company is less than 10% of the Group's total income and thus, no detailed geographical segments have been disclosed.

#### (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 until declared.

#### (u) 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.

#### (v) Borrowings

Borrowings are recognised initially at fair value.

#### (w) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

#### (x) Guarantees, acceptances and letters of credit

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

### 5. 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 Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

#### Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Board Risk Management Committee, which is responsible for developing and monitoring Group 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.



## 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Risk management framework (Continued)

The Group's risk management policies are established to identify and analyse the risks faced by the Group, 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 Group, 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.

The Risk Management Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. 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 Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Group 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 Group Management through the Chief executive office. The Management has delegated this responsibility to various Credit committees as prescribed in the Group's Credit Charter. A separate Bank Credit department, reporting to the Chief Executive Officer, is responsible for oversight of the Group'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 Group's Credit Charter.

*Reviewing and assessing credit risk.* Group 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 Group'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 Group's Credit Risk department.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31ST DECEMBER 2008

### 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (b) Credit risk (Continued)

- *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 Group in the management of credit risk.

Each business unit is required to implement Group credit policies and procedures, with credit approval authorities delegated from the Group Credit Committee. Each business unit has a Credit Risk Manager who reports on all credit related matters to local management and the Group 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 Group Credit processes are undertaken by Internal Audit.

#### Exposure to credit risk

##### Loans and advances to customers

In millions of Kenya Shillings	Notes	Group		Bank	
		2008	2007	2008	2007
Gross amount	22	45,195	22,228	41,847	22,228
Individually impaired					
Grade 4: Impaired (doubtful)		1,200	484	1,200	484
Grade 5: Impaired (Loss)		448	346	417	346
Gross amount		1,648	830	1,617	830
Allowance for impairment		(911)	(278)	(776)	(278)
<b>Carrying amount</b>		<b>737</b>	<b>552</b>	<b>841</b>	<b>552</b>
Collectively impaired					
Grade 1: Normal		41,356	20,061	38,259	20,061
Grade 2: Watch list		1,192	969	1,144	969
Gross amount		42,548	21,030	39,403	21,030
Allowance for impairment		(214)	(114)	(214)	(114)
<b>Carrying amount</b>		<b>42,334</b>	<b>20,916</b>	<b>39,189</b>	<b>20,916</b>
Past due but not impaired Grade :Substandard		999	368	827	368
<b>Carrying amount</b>		<b>999</b>	<b>368</b>	<b>827</b>	<b>368</b>
Past due comprises: 60 - 90 days					
<b>Total carrying amount</b>		<b>44,070</b>	<b>21,836</b>	<b>40,857</b>	<b>21,836</b>

#### Impaired loans

Impaired loans are loans for which the Group and 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 Group's internal credit risk grading system.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31ST DECEMBER 2008

### 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (b) Credit risk (Continued)

##### Past due but not impaired loans

These are loans where contractual interest or principal payments are past due but the Group 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 Group. These loans are graded 3 in the Group's internal credit risk grading system.

##### Allowances for impairment

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

##### Loans and advances to customers

<i>In millions of Kenya Shillings</i>	Bank	
	2008	2007
Against individually impaired		
Property	983	796
Equities	131	33
Other	-	-
Against collectively impaired		
Property	49,288	23,909
Equities	1,779	996
Other	-	-
Against past due but not impaired		
Property	34,470	18,033
Equities	1,335	751
Other	-	-
<b>Total</b>	<b>87,986</b>	<b>44,518</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31ST DECEMBER 2008

### 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (b) Credit risk (Continued)

##### Loans and advances to customers (Continued)

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

##### Loans and advances to customers

<i>In millions of Kenya Shillings</i>	Group		Bank	
	2008	2007	2008	2007
Concentration by sector				
Consumer	17,072	5,370	17,072	5,370
Micro Credit	8,042	3,012	5,370	3,012
Agriculture	1,034	678	1,034	678
SME	12,241	6,970	11,566	6,970
Corporate	6,806	6,198	6,805	6,198
	45,195	22,228	41,847	22,228

#### (c) Liquidity risks

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

##### Management of liquidity risk

The Group'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 Group's and 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 Group and 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:

	2008	2007
At 31 December	47%	77%
Average for the year	57%	45%
Maximum for the year	78%	77%
Minimum for the year	42%	34%



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2008

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Group

	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Totals
<i>In million of Kenya Shillings</i>						
<b>Assets</b>						
Cash and cash equivalents	12,616	150	-	-	-	12,766
Loans and advances to customers	4,932	5,780	5,751	26,334	1,273	44,070
Finance lease receivable	-	73	49	-	-	122
Investment securities	-	71	67	3,171	8,931	12,240
Investment in associate	-	-	-	-	1,156	1,156
Goodwill	-	-	-	-	887	887
Property, equipment and prepaid leases	-	-	566	1,394	2,868	4,828
Intangible assets	-	-	-	621	-	621
Investment in subsidiary	-	-	-	-	51	51
Other assets	1,684	429	-	-	11	2,124
Tax recoverable	-	14	-	-	-	14
<b>Total assets</b>	<b>19,232</b>	<b>6,517</b>	<b>6,433</b>	<b>31,520</b>	<b>15,177</b>	<b>78,879</b>
<b>Liabilities</b>						
Deposits from customers	12,661	1,929	1,306	1,174	33,264	50,334
Current tax liabilities	-	514	-	-	-	514
Deferred tax Liabilities	-	-	94	-	-	94
Long term borrowings	-	9	436	2,235	3,783	6,463
Other liabilities	1,733	161	-	-	-	1,894
<b>Total liabilities</b>	<b>14,394</b>	<b>2,613</b>	<b>1,836</b>	<b>3,409</b>	<b>37,047</b>	<b>59,299</b>
<b>Equity</b>						
Share capital	-	-	-	-	1,851	1,851
Share premium	-	-	-	-	12,161	12,161
Fair value reserve	-	-	-	-	(112)	(112)
Statutory loan loss reserve	-	-	-	-	308	308
Other reserves	-	-	-	-	(67)	(67)
Forex revaluation reserve	-	-	-	-	(170)	(170)
Retained earnings	-	-	-	-	4,498	4,498
Proposed dividends	-	-	-	-	1,111	1,111
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,580</b>	<b>19,580</b>
<b>Total liabilities and equity</b>	<b>14,394</b>	<b>2,613</b>	<b>1,836</b>	<b>3,409</b>	<b>56,627</b>	<b>78,879</b>
Liquidity Gap 31 December 2008	4,838	3,904	4,597	28,111	(41,450)	-



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31ST DECEMBER 2008

### 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (ii) Bank

	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Totals
<i>In million of Kenya Shillings</i>						
<b>Assets</b>						
Cash and cash equivalents	11,868	150	-	-	-	12,018
Loans and advances to customers	4,932	4,072	4,751	25,877	1,225	40,857
Investment securities	-	-	49	3,171	8,931	12,151
Investment in associate	-	-	-	-	1,156	1,156
Property, equipment and prepaid leases	-	-	-	1,394	2,869	4,263
Intangible assets	-	-	-	348	-	348
Investment in subsidiary	-	-	-	-	2,976	2,976
Amounts due from Group	182	-	-	-	-	182
Other assets	1,488	1,685	-	-	11	3,184
<b>Total assets</b>	<b>18,470</b>	<b>5,907</b>	<b>4,800</b>	<b>30,790</b>	<b>17,168</b>	<b>77,135</b>
<b>Liabilities</b>						
Deposits from customers	12,636	1,659	1,193	224	33,265	48,977
Current tax liabilities	-	514	-	-	-	514
Deferred tax Liabilities	-	-	67	-	-	67
Long term borrowings	-	-	389	2,004	3,774	6,167
Other liabilities	1,590	161	-	-	-	1,751
<b>Total liabilities</b>	<b>14,226</b>	<b>2,334</b>	<b>1,649</b>	<b>2,228</b>	<b>37,039</b>	<b>57,476</b>
<b>Equity</b>						
Share capital	-	-	-	-	1,851	1,851
Share premium	-	-	-	-	12,161	12,161
Fair value reserve	-	-	-	-	(112)	(112)
Statutory loan loss reserve	-	-	-	-	308	308
Retained earnings	-	-	-	-	4,340	4,340
Proposed dividends	-	-	-	-	1,111	1,111
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,659</b>	<b>19,659</b>
<b>Total liabilities and equity</b>	<b>14,226</b>	<b>2,334</b>	<b>1,649</b>	<b>2,228</b>	<b>56,698</b>	<b>77,135</b>
Liquidity Gap 31 December 2008	4,244	3,573	3,151	28,562	(39,530)	-



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2008

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Group and Bank 2007

	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Totals
<i>In million of Kenya Shillings</i>						
<b>Assets</b>						
Cash and cash equivalents	11,996	-	-	-	-	11,996
Loans and advances to customers	5,490	2,458	2,810	10,861	217	21,836
Investment securities	4,864	-	200	947	7,532	13,543
Investment in associate	-	-	-	-	442	442
Property, equipment and prepaid leases	-	-	-	1,422	1,185	2,607
Intangible assets	-	-	-	224	-	224
Other assets	1,491	437	500	-	-	2,428
<b>Total assets</b>	<b>23,841</b>	<b>2,895</b>	<b>3,510</b>	<b>13,454</b>	<b>9,376</b>	<b>53,076</b>
<b>Liabilities</b>						
Deposits from customers	6,850	923	1,243	526	21,994	31,536
Current tax liabilities	-	209	-	-	-	209
Deferred tax Liabilities	-	-	45	-	-	45
Long term borrowings	-	-	318	1,879	2,324	4,521
Other liabilities	1,770	78	-	-	-	1,848
<b>Total liabilities</b>	<b>8,620</b>	<b>1,210</b>	<b>1,606</b>	<b>2,405</b>	<b>24,318</b>	<b>38,159</b>
<b>Equity</b>						
Share capital	-	-	-	-	1,811	1,811
Share premium	-	-	-	-	10,543	10,543
Fair value reserve	-	-	-	-	13	13
Statutory loan loss reserve	-	-	-	-	253	253
Retained earnings	-	-	-	-	1,754	1,754
Proposed dividends	-	-	-	-	543	543
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,917</b>	<b>14,917</b>
<b>Total liabilities and equity</b>	<b>8,620</b>	<b>1,210</b>	<b>1,606</b>	<b>2,405</b>	<b>39,235</b>	<b>53,076</b>
Liquidity Gap 31 December 2008	15,221	1,685	1,904	11,049	(29,859)	-

(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 Group's and 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31ST DECEMBER 2008

### 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (d) Market risks (Continued)

##### Management of market risks

The Group and 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.

All foreign exchange risk within the Group is managed by the Treasury Department. Accordingly, the foreign exchange position is treated as part of the Group'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 Group and 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 Group's interest rate gap position on non-trading portfolios is as follows:

##### Group interest rate risk

<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 years
<b>31-Dec-08</b>						
<b>Assets</b>						
Cash and cash equivalents	5,669	5,519	150	-	-	-
Loans and advances to customers	44,070	4,948	5,747	4,768	27,378	1,229
Finance lease receivable	122	-	73	49	-	-
Investment securities	12,240	-	-	49	3,171	9,020
	62,101	10,467	5,970	4,866	30,549	10,249
<b>Liabilities</b>						
Deposits from customers	40,947	3,291	1,659	1,194	1,538	33,265
Long term borrowings	6,463	-	-	389	2,300	3,774
	47,410	3,291	1,659	1,583	3,838	37,039
Interest rate sensitivity gap at 31 December 2008	14,691	7,176	4,311	3,283	26,711	(26,790)
<b>31-Dec-07</b>						
<b>Assets</b>						
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
<b>Liabilities</b>						
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 2007	9,237	12,403	1,250	3,352	8,585	(16,353)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2008

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

Group interest rate risk (Continued)

Sensitivity analysis

	Group	Bank
<i>In millions of Kenya Shillings</i>		
2008 +/-1%	61	53
2007 +/-1%	25	25

The sensitivity on the income statement is the effect of the assumed changes in interest rates on loans and advances on the interest income (Note 8) to the year.

Bank Interest Rate Risk

<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 years
<b>31-Dec-08</b>						
<b>Assets</b>						
Cash and cash equivalents	5,481	5,331	150	-	-	-
Loans and advances to customers	40,859	4,948	4,087	4,768	25,827	1,229
Investment securities	12,151	-	-	49	3,171	8,931
	58,491	10,279	4,237	4,817	28,998	10,160
<b>Liabilities</b>						
Deposits from customers	39,610	3,268	1,659	1,194	224	33,265
Long term borrowings	6,167	-	-	389	1,937	3,841
	45,777	3,268	1,659	1,583	2,161	37,106
Interest rate sensitivity gap at 31 December 2008	12,714	7,011	2,578	3,234	26,837	(26,946)
<b>31-Dec-07</b>						
<b>Assets</b>						
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
<b>Liabilities</b>						
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 2007	9,237	12,403	1,250	3,352	8,585	(16,353)

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 Group and 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 Group'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 Group's operations and are faced by all business units.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2008

### 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (e) Operational risks (Continued)

The Group's and the Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's and 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 Group and 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 Group and 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 Group and 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.

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 Group's and 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 Group 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 Group and Bank has complied with all externally imposed capital requirements throughout the year.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2008

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Capital management (Continued)

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

<i>In millions of Kenya Shillings</i>	<b>Note</b>	<b>Bank</b>	
		<b>2008</b>	<b>2007</b>
<b>Tier 1 capital</b>			
Ordinary share capital	29	1,851	1,811
Share premium	29	12,161	10,543
Retained earnings		4,340	1,754
Less investment in equity instruments of other institutions	17	(4,080)	(442)
<b>Total</b>		<b>14,272</b>	<b>13,666</b>
<b>Tier 2 capital</b>			
Collective allowances for impairment	11	308	253
Qualifying subordinated liabilities		5,329	3,708
<b>Total</b>		<b>5,637</b>	<b>3,961</b>
<b>Total regulatory capital</b>		<b>19,909</b>	<b>17,627</b>
<b>Risk-weighted assets</b>			
Total risk-weighted assets		48,834	29,919
<b>Capital ratios</b>			
Total regulatory capital expressed as a percentage of total risk-weighted assets		41%	59%
Total tier 1 capital expressed as a percentage of risk-weighted assets		29%	46%

6. USE OF ESTIMATES AND JUDGEMENTS

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2008

## 7. FINANCIAL ASSETS AND LIABILITIES

### (a) Group

*Accounting classifications and fair values*

	Designated at fair values	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
<i>In millions of Kenya Shillings</i>							
<b>31 December 2008</b>							
<b>Assets</b>							
Cash and cash equivalents	-	-	-	-	12,766	12,766	12,766
Loans and advances	-	-	44,070	-	-	44,070	44,378
Finance lease receivable	-	-	122	-	-	122	122
Investment securities	-	4,113	-	8,127	-	12,240	12,128
	-	4,113	44,192	8,127	12,766	69,198	69,394
<b>Liabilities</b>							
Deposits from customers	50,334	-	-	-	-	50,334	50,334
Subordinated debts	6,463	-	-	-	-	6,463	6,463
	56,797	-	-	-	-	56,797	56,797
<b>31 December 2007</b>							
<b>Assets</b>							
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
<b>Liabilities</b>							
Deposits from customers	31,536	-	-	-	-	31,536	31,536
Subordinated debts	4,521	-	-	-	-	4,521	4,521
	36,057	-	-	-	-	36,057	36,057



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2008

7. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(a) Bank

<i>In millions of Kenya Shillings</i>	Designated at fair values	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
<b>31 December 2008</b>							
<b>Assets</b>							
Cash and cash equivalents	-	-	-	-	12,018	12,018	12,018
Loans and advances	-	-	40,858	-	-	40,857	40,857
Investment securities	-	4,034	-	8,117	-	12,151	12,039
	-	4,034	40,858	8,117	12,018	65,026	64,914
<b>Liabilities</b>							
Deposits from customers	48,977	-	-	-	-	48,977	48,977
Subordinated debts	6,167	-	-	-	-	6,167	6,167
	55,144	-	-	-	-	55,144	55,144
<b>31 December 2007</b>							
<b>Assets</b>							
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
<b>Liabilities</b>							
Deposits from customers	31,536	-	-	-	-	31,536	31,536
Subordinated debts	4,521	-	-	-	-	4,521	4,521
	36,057	-	-	-	-	36,057	36,057



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31ST DECEMBER 2008

### 8. INTEREST INCOME

<i>In millions of Kenya Shillings</i>	Note	Group		Bank	
		2008	2007	2008	2007
<b>Interest income</b>					
Cash and cash equivalents	21	219	112	219	112
Loans and advances to customers	22	6,143	2,514	5,357	2,514
Investment securities	23	1,617	529	1,593	529
<b>Total interest income</b>		<b>7,979</b>	<b>3,155</b>	<b>7,169</b>	<b>3,155</b>
<b>Interest expense</b>					
Deposits from banks		(34)	(3)	(23)	(3)
Deposits from customers	25	(495)	(249)	(460)	(249)
Borrowings	27	(833)	(243)	(734)	(243)
<b>Total interest expense</b>		<b>(1,362)</b>	<b>(495)</b>	<b>(1,217)</b>	<b>(495)</b>
<b>Net interest income</b>		<b>6,617</b>	<b>2,660</b>	<b>5,952</b>	<b>2,660</b>
<b>9. (a) Net fee and commission income</b>					
<i>In millions of Kenya Shillings</i>					
<b>Fee and commission income</b>					
Total fee and commission income		1,624	562	1,308	562
<b>(b) Trading income</b>					
<i>In millions of Kenya Shillings</i>					
Bonds trading income		27	99	27	99
Foreign exchange gain		753	147	707	147
		780	246	734	246
<b>10. OTHER OPERATING INCOME</b>					
<i>In millions of Kenya Shillings</i>					
Rental income		1	1	1	1
Other		3,583	2,352	3,561	2,352
		3,584	2,353	3,562	2,353

Other income relates to income charged on various transactions and services offered by the Bank other than interest, fees and commission.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2008

## 14. PROPERTY, EQUIPMENT AND LEASEHOLD LAND

### (a) Property and equipment

#### Group - 2008

<i>In millions of Kenya Shillings</i>	<b>Freehold land &amp; buildings</b>	<b>Leasehold improve- ments</b>	<b>Motor vehicles</b>	<b>Office equipment, furniture &amp; fittings</b>	<b>Computers</b>	<b>Village cell banking vans</b>	<b>Total</b>
<b>COST</b>							
At 1 January 2008	40	1,077	49	677	1,623	37	3,503
Additions	-	650	-	452	685	-	1,787
Aquisition of subsidiary (restated)	153	-	20	113	217	-	503
Work in progress	-	463	-	96	52	-	611
Disposals	-	-	(4)	-	(4)	-	(8)
At 31 December 2008	193	2,190	65	1,338	2,573	37	6,396
<b>DEPRECIATION</b>							
At 1 January 2008	13	192	36	204	487	32	964
Charge for the year	2	128	14	114	391	1	650
Disposal	-	-	(3)	-	(4)	-	(7)
Write back on revaluation	(7)	-	-	-	-	-	(7)
At 31 December 2008	8	320	47	318	874	33	1,600
<b>NET BOOK VALUE</b>							
At 31 December 2008	185	1,870	18	1,020	1,699	4	4,796



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2008

14. PROPERTY, EQUIPMENT AND LEASEHOLD LAND

(b) Property and equipment

Bank - 2008	Freehold land & buildings	Leasehold improve- ments	Motor vehicles	Office equipment, furniture & fittings	Computers	Village cell banking vans	Total
<i>In millions of Kenya Shillings</i>							
<b>COST</b>							
At 1 January 2008	40	1,077	49	677	1,623	37	3,503
Additions	-	650	-	452	685	-	1,787
Work in progress	-	336	-	96	52	-	484
At 31 December 2008	40	2,063	49	1,225	2,360	37	5,774
<b>DEPRECIATION</b>							
At 1 January 2008	7	192	31	186	451	32	899
Charge for the year	1	128	11	104	371	1	616
At 31 December 2008	8	320	42	290	822	33	1,515
<b>NET BOOK VALUE</b>							
At 31 December 2008	32	1,743	7	935	1,538	4	4,259

**Bank 2007**

*In millions of Kenya Shillings*

<b>COST</b>							
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
<b>DEPRECIATION</b>							
At 1 January 2007	6	78	29	139	283	20	555
Charge for the year	1	114	3	48	175	12	353
Reversal on disposal	-	-	(1)	-	(6)	-	(7)
At 31 December 2007	7	192	31	187	452	32	901
<b>NET BOOK VALUE</b>							
At 31 December 2007	33	885	19	490	1,171	5	2,603



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31ST DECEMBER 2008

#### 14. (c) Prepaid lease

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

<i>In millions of Kenya Shillings</i>	Group		Bank	
	2008	2007	2008	2007
<b>Cost</b>				
Balance at 1 January	21	5	5	5
Acquisitions	15	-	-	-
Balance at 31 December	36	5	5	5
<b>Amortisation and impairment</b>				
Balance at 1 January	3	1	1	1
Amortisation for the year	1	-	-	-
Balance at 31 December	4	1	1	1
<b>Carrying amounts</b>				
Balance at 31 December	32	4	4	4

#### 14. (d) Investment property

*In millions of Kenya Shillings*

<b>Cost/ Amortisation</b>	2008	2007	2008	2007
Balance at 1 January	11	11	11	11
Amortisation	-	-	-	-
Balance at 31 December	11	11	11	11

The Bank holds some investment property. This relates to land bought by Equity Building Society for resale to its members before converting into a bank. The directors are of the opinion that the fair value exceeds the carrying amount.

#### 15. Intangible assets

<i>In millions of Kenya Shillings</i>	Group		Bank	
	2008	2007	2008	2007
<b>Cost</b>				
Balance at 1 January	441	236	369	236
Acquisitions	205	133	149	133
Brand intangible	215	-	-	-
Work in Progress	18	-	70	-
Balance at 31 December	879	369	588	369
<b>Amortisation and impairment</b>				
Balance at 1 January	159	75	144	75
Amortisation for the year	99	70	96	70
Balance at 31 December	258	145	240	145
<b>Carrying amounts</b>				
Balance at 31 December	621	224	348	224

During 2008, 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2008

16. Other expenses

<i>In millions of Kenya Shillings</i>	Group		Bank	
	2008	2007	2008	2007
<b>Cost</b>				
Software licensing and other	210	124	206	124
Auditors' remuneration	7	3	4	3
Other	2,302	1,282	2,061	1,282
Balance at 31 December	2,519	1,409	2,271	1,409

17. (a) Investment in associates

*In millions of Kenya Shillings*

Investment in Housing Finance	1,156	442	1,156	442
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During the year, the Bank acquired 4.9% more shares at Housing Finance through a rights issue resulting in a total shareholding of 24.9%. Housing Finance is a banking institution whose principal activity is provision of mortgage products.

	Group		Bank	
	2008	2007	2008	2007
Share of associate's balance sheet	3,559	2,700	3,559	2,700
Current assets	3,251	7,663	3,251	7,663
Non current assets	11,043	7,015	11,043	7,015
Current liabilities	7,645	1,908	7,645	1,908
Non current liabilities	2,997	1,440	2,997	1,440
Revenue	1,533	1,158	1,533	1,158
Profit after tax	136	74	136	74
Share of income from associated company	34	15	34	15

(b) Investment in subsidiary companies

<i>In millions of Kenya Shillings</i>	Principal activity	Percentage shareholding	Group		Bank	
			2008	2007	2008	2007
Equity Bank Uganda Ltd	Banking	100%	-	-	2,925	-
Equity Consulting Group Ltd	Consultancy	100%	0.5	0.5	0.5	0.5
Equity Insurance Agency Ltd	Insurance brokerage	100%	-	0.1	0.1	0.1
Equity Nominees Ltd	Custodial services	100%	0.1	-	0.1	-
Equity Investment Services Ltd	Investment banking	100%	50	-	50	-
Finserve Africa Ltd	IT outsourcing	100%	0.1	-	0.1	-
			51	0.6	2,976	0.6



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31ST DECEMBER 2008

#### 17. (b) Investment in subsidiary companies (Continued)

The Bank had six wholly owned subsidiary companies as at 31st December 2008; Equity Bank Uganda Limited, Equity Consulting Group, Equity Investment Services Limited, Equity Nominees Limited and Finserve Africa Limited and Equity Insurance Agency Limited. Three of the six subsidiaries were dormant as at the end of the year; Equity Investment Services Limited acquired Juanco Investment Bank Limited during the year, which has since changed its name to Equity Investment Bank Limited.

All the subsidiaries except Equity Bank Uganda Limited are incorporated in Kenya. Equity Bank Uganda Limited was the former business of Uganda Micro Finance Limited which the Bank acquired 100% in June 2008 and was converted to a commercial bank in December 2008.

#### 17. (c) Goodwill arising from the acquisition of Uganda Microfinance Limited (UML)

<i>In millions of Kenya Shillings</i>	<b>KShs</b>
Purchase price for 100% stake	1,666
Add: Acquisition costs	34
<hr/>	
Total acquisition cost	1,700
Less: Fair value of net tangible assets and separable identifiable intangible assets	(813)
<hr/>	
Goodwill	887
<hr/>	

The goodwill of KShs 887 million arose from the acquisition of Uganda Microfinance Limited which has been determined in accordance with IFRS 3. It represents the difference between the total purchase consideration (including acquisition costs) paid to acquire 100% stake in UML and the fair value of the net tangible assets and the separable identifiable intangible assets.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2008

**18. INCOME TAX**

Recognised in the income statement

<i>In millions of Kenya Shillings</i>	<b>Group</b>		<b>Bank</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Current tax expense</b>				
Current year	1,063	454	1,016	454
<b>Deferred tax expense</b>				
Origination and reversal of temporary differences	49	34	22	34
Total income tax expense	1,112	488	1,038	488
<b>Reconciliation of effective tax rate</b>				
<i>In millions of Kenya Shillings</i>				
Profit before income tax	4,988	2,363	4,757	2,363
Income tax using the enacted corporation tax rates	1,029	454	951	454
Non-deductible expenses	83	34	87	34
Total income tax expense in income statement	1,112	488	1,038	488
Income tax recognised in the balance sheet				
Balance brought forward	209	147	209	147
Charge for the year	1,063	454	1,016	454
Paid during the year	(772)	(392)	(711)	(392)
	500	209	514	209
Made up of:				
Tax payable	514	209	514	209
Tax recoverable	(14)	-	-	-
	500	209	514	209

Tax rates are as follows:

Kenya	20%
Uganda	30%

**19. EARNINGS PER SHARE**

**Basic earnings per share**

The calculation of basic earnings per share as at 31st December 2008 is based on the profit attributable to ordinary shareholders of KShs 3,910 million (2007: KShs 1,891 million) and the weighted average number of ordinary shares outstanding of 366 million (2007: 275 million), calculated as follows:

**Profit attributable to ordinary shareholders**

<i>In millions of Kenya Shillings</i>	<b>Group</b>		<b>Bank</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net profit for the year attributable to equity holders of the Bank	3,910	1,891	3,753	1,891
Issued ordinary shares at 1 January	362	91	362	91
Effect of bonus shares issued during the year	-	181	-	181
Effect of new shares issued during the year	4	3	4	3
Weighted average number of ordinary shares at 31 December	366	275	366	275

Basic and diluted earnings per share are the same.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31ST DECEMBER 2008

#### 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 26th March 2009, a final dividend in respect of the year ended 31st December 2008 of KShs 3.00 (2007 – 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 resident and 10% for non-resident shareholders.

#### 21. CASH AND CASH EQUIVALENTS

<i>In millions of Kenya Shillings</i>	Group		Bank	
	2008	2007	2008	2007
Cash and balances with bank	4,467	5,798	4,069	5,798
Unrestricted balances with Central Bank	303	353	143	353
Restricted balances with Central Bank	2,327	1,785	2,325	1,785
Money market placements	5,669	4,060	5,481	4,060
	<b>12,766</b>	<b>11,996</b>	<b>12,018</b>	<b>11,996</b>

#### 22. LOANS AND ADVANCES TO CUSTOMERS

##### a) Loans and advances to customers at amortised cost

*In millions of Kenya Shillings*

##### Retail customers

Mortgage lending	564	163	337	163
Personal loans	29,889	12,651	28,386	12,651
	<b>30,453</b>	<b>12,814</b>	<b>28,723</b>	<b>12,814</b>

##### Corporate customers

Finance leases	3,010	2,427	3,010	2,427
Other secured lending	11,732	6,987	10,114	6,987
	<b>14,742</b>	<b>9,414</b>	<b>13,124</b>	<b>9,414</b>

<b>Gross amount</b>	<b>45,195</b>	<b>22,228</b>	<b>41,847</b>	<b>22,228</b>
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2008

22. LOANS AND ADVANCES TO CUSTOMERS

b) Allowance for impairment

Specific allowance for Impairment

*In millions of Kenya Shillings*

	Group		Bank	
	2008	2007	2008	2007
Balance as at 1st January 08	435	499	392	499
<b>Charge for the year</b>				
General Provision	421	113	421	113
Specific Provision	654	115	509	115
IAS 39 adjustment	(55)	(253)	(55)	(253)
	<b>1,020</b>	<b>(25)</b>	<b>875</b>	<b>(25)</b>
Suspended Interest	227	202	227	202
Write offs	(557)	(284)	(504)	(284)
	690	(107)	598	(107)
<b>Total impairment</b>	<b>1,125</b>	<b>392</b>	<b>990</b>	<b>392</b>
<b>Net loans and advances</b>	<b>44,070</b>	<b>21,836</b>	<b>40,857</b>	<b>21,836</b>
IAS 39 adjustment relates to excess provision between IAS 39 requirements and prudential guidelines.				

(c) Finance leases receivable

Within one year	105	-	-	-
One to two years	69	-	-	-
	<b>174</b>	-	-	-
Unearned income	(49)	-	-	-
Present value of minimum lease payment	125	-	-	-
Provision for uncollectible lease payment	(3)	-	-	-
	<b>122</b>	-	-	-

23. INVESTMENT SECURITIES

*In millions of Kenya Shillings*

Held-to-maturity investment securities	4,067	5,553	4,034	5,553
Available-for-sale investment securities	8,127	7,990	8,117	7,990
Discount on treasury bonds	46	-	-	-
	<b>12,240</b>	<b>13,543</b>	<b>12,151</b>	<b>13,543</b>

24. OTHER ASSETS

*In millions of Kenya Shillings*

Investment property	11	11	11	11
Accounts receivable and prepayments	575	292	1,505	292
Inter group balances	-	-	179	-
Accrued income	623	861	624	861
Funds in clearing	781	1,208	779	1,208
Other	134	56	86	56
	<b>2,124</b>	<b>2,428</b>	<b>3,184</b>	<b>2,428</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2008

## 25. DEPOSITS FROM CUSTOMERS

<i>In millions of Kenya Shillings</i>	Group		Bank	
	2008	2007	2008	2007
<b>Retail customers:</b>				
Term deposits	254	108	254	108
Current deposits	3,471	2,057	3,471	2,057
Savings deposits	30,774	19,714	29,823	19,714
	<b>34,499</b>	<b>21,879</b>	<b>33,548</b>	<b>21,879</b>
<b>Corporate customers:</b>				
Term deposits	6,425	3,672	6,019	3,672
Current deposits	5,916	3,798	5,916	3,798
Savings	3,494	2,187	3,494	2,187
	<b>15,835</b>	<b>9,657</b>	<b>15,429</b>	<b>9,657</b>
	<b>50,334</b>	<b>31,536</b>	<b>48,977</b>	<b>31,536</b>

## 26. DEFERRED TAX LIABILITIES

### Recognised deferred tax assets and liabilities

Plant, equipment and software	(209)	(53)	(172)	(53)
Available for sale securities	25	-	25	-
Allowance for loan losses	101	-	77	-
Other	(11)	8	3	8
<b>Net tax liability</b>	<b>(94)</b>	<b>(45)</b>	<b>(67)</b>	<b>(45)</b>

Group deferred tax assets and liabilities are attributable to the following:

<i>In millions of Kenya Shillings</i>	2008			2007		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, equipment and software	-	(209)	(209)	-	(53)	(53)
Available for sale securities	25	-	25	-	-	-
Allowances for loan losses	101	-	101	-	-	-
Others	3	(14)	(11)	8	-	8
	<b>129</b>	<b>(223)</b>	<b>(94)</b>	<b>8</b>	<b>(53)</b>	<b>(45)</b>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2008

26. DEFERRED TAX LIABILITIES (CONTINUED)

Bank deferred tax assets and liabilities are attributable to the following:

<i>In millions of Kenya Shillings</i>	2008			2007		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, equipment and softwares	-	(172)	(172)	-	(53)	(53)
Available for sale securities	25	-	25	-	-	-
Allowances for loan losses	77	-	77	-	-	-
Others	3	-	3	8	-	8
	105	(172)	(67)	8	(53)	(45)

Movements in temporary differences during the year – Group

<i>In millions of Kenya Shillings</i>	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
<b>2008</b>				
Property, equipment and software	(53)	(156)	-	(209)
Available-for-sale securities	-	25	-	25
Allowances for loan losses	-	101	-	101
Other	8	(19)	-	(11)
	(45)	(49)	-	(94)
<b>2007</b>				
Property, equipment and software	(41)	(12)	-	(53)
Available-for-sale securities	-	-	-	-
Allowances for loan losses	20	(20)	-	-
Other	10	(2)	-	8
	(11)	(34)	-	(45)

Movements in temporary differences during the year – Bank

<i>In millions of Kenya Shillings</i>	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
<b>2008</b>				
Property and equipment, and software	(53)	(119)	-	(172)
Available-for-sale securities	-	25	-	25
Allowances for loan losses	-	77	-	77
Other	8	(5)	-	3
	(45)	(22)	-	(67)
<b>2007</b>				
Property, equipment and software	(41)	(12)	-	(53)
Available-for-sale securities	-	-	-	-
Allowances for loan losses	20	(20)	-	-
Other	10	(2)	-	8
	(11)	(34)	-	(45)



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31ST DECEMBER 2008

#### 27. OTHER BORROWED FUNDS

<i>In millions of Kenya Shillings</i>	Group		Bank	
	2008	2007	2008	2007
Dexia Micro Credit Fund	680	763	680	763
Blue Orchard Loans for Development SA	778	636	778	636
Growth Management Limited	778	636	778	636
Deutsche Bank Microfinance Fund	552	452	552	452
Global Microfinance Facility	-	477	-	477
Nederlandse Financierings Maatschappij Voor Ontwikkelingslanden N.V (FMO)	3,221	1,507	3,221	1,507
Ministry of Youth Affairs	90	50	90	50
MFSSC	68	-	68	-
Microfinance Support Centre	48	-	-	-
Capital Loan Fund	119	-	-	-
Barclays Generator Lease	9	-	-	-
Danida	33	-	-	-
Bank of Uganda	19	-	-	-
Oiko Credit	68	-	-	-
	<b>6,463</b>	<b>4,521</b>	<b>6,167</b>	<b>4,521</b>

During the year, the following loan balances were outstanding:

- i) Medium term loan of US\$ 8,750,000 (KShs 680million) from Dexia Micro Credit Fund, a company incorporated in Luxembourg. The loan, which is secured by directors' guarantee, accrues interest at the rate at 8.11% p.a. US\$5,000,000 will mature on 11th December 2009 and US\$3,750,000 will mature 24th April 2010. The effective interest rate is 9.54%. A finance cost of KShs 66m has been included in the income statement account for the year.
- ii) Long term loan of US\$ 10,000,000 (KShs 778 million) 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%. A finance cost of KShs 81 million has been included in the income statement for the year.
- iii) Long term loan of US\$ 10,000,000 (KShs 778 million) 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%. A finance cost of KShs 88million has been included in the income statement for the year.
- iv) Long term loan of US\$ 7,105,970 (KShs 552 million) 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%. A finance cost of KShs 63million has been included in the income statement for the year.
- v) Long-term term loans totaling KShs 3,221 million from FMO, a company incorporated in the Netherlands. The loans, which are secured by directors' guarantee, accrue interest rate at 10.43% p.a. KShs 1,507 million will mature on 15th September 2014 and another KShs1,714 million which was received during the year will mature on 15th June 2015. The effective interest rate is 14.18% and a finance cost of KShs 277 million has been included in the income statement for the year.
- vi) Medium term loan of KShs 90 million from Ministry of Youth Affairs. The loan, which is secured by directors' guarantee, accrues interest rate at 1% p.a. KShs 25 million will mature on 27th May 2010, KShs 25 million on 22nd November 2010 and KShs 40 million will mature on 6th January 2011. The effective interest rate is 1%. A finance cost of 1 million been included in the income statement.
- vii) Medium term loan of KShs 68 million from Ministry of Finance. The loan, which is secured by directors' guarantee, accrues interest rate at 6% p.a. The loan will mature on 31st December 2011. A finance cost of KShs 4 million has been included in the income statement.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2008

28. OTHER LIABILITIES

<i>In millions of Kenya Shillings</i>	Group		Bank	
	2008	2007	2008	2007
Short term employee benefits	108	92	108	92
Creditors and accruals	635	518	538	518
Other	1,151	1,238	1,105	1,238
	<b>1,894</b>	<b>1,848</b>	<b>1,751</b>	<b>1,848</b>

29. SHARE CAPITAL AND RESERVES

(a) Authorised

	2008	2007
Issued and fully paid 370,277,702 ordinary shares of KShs 5 each	1,851	1,811

Movement in ordinary shares

<i>In millions</i>	Group		Bank	
	2008	2007	2008	2007
On issue at 1 January	362	91	362	91
Bonus shares issued	-	181	-	181
Additional shares issued	8	90	8	90
On issue at 31 December	370	362	370	362

At 31st December 2008 the authorised share capital comprised of 370 million ordinary shares (2007: 362million), 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 31st December 2008 were:

Name	Bank Shares	% Shareholding
Helios EB Investors	90,516,255	24.45
British-American Investments	41,910,289	11.32
Nelson Muguku Njoroge	22,545,255	6.09
James Njuguna Mwangi	19,898,505	5.37
John Kagema Mwangi	15,139,690	4.09
Equity Bank Employee Shares Ownership Plan (ESOP)	15,018,400	4.05
Andrew Mwangi Kimani	10,928,040	2.95
Fortress Highlands Limited	10,101,000	2.73
AIB Nominee A/C Solidus Holdings	9,011,400	2.43
Peter Kahara Munga	6,469,379	1.75
Other 9,550 shareholders	128,739,489	34.77
<b>Total Shares</b>	<b>370,277,702</b>	<b>100</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31ST DECEMBER 2008

### 29. SHARE CAPITAL AND RESERVES (CONTINUED)

#### (a) Authorised (Continued)

The distribution of shareholders as at 31st December 2008 was as follows:

Share range	No. of shareholders	Shares held	%
1 to 500	4,732	1,140,724	0.31
501-5,000	3,802	6,568,765	1.77
5,001-10,000	431	3,167,044	0.86
10,001-100,000	441	13,453,490	3.63
100,001-1,000,000	123	38,976,189	10.53
1,000,001 and above	31	306,971,490	82.9
	<b>9,560</b>	<b>370,277,702</b>	<b>100.0</b>

#### (b) Share premium

Share premium arose from the additional 8,067,797 ordinary shares issued during the year at a price of KShs 207 per share.

#### (c) Available for sale reserve

The fair value reserve is attributable to marking to market of investment securities classified under available-for-sale category.

#### (d) Statutory loan reserve

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

#### (e) Dividends

The following dividends were declared and paid by the Bank for the year ended 31st December 2007:

In millions of Kenya Shillings	Group		Bank	
	2008	2007	2008	2007
KShs 3 per ordinary share (2007: KShs 2)	-	543	-	543
	-	543	-	543

After 31st December 2008 the following dividends were proposed by the directors in respect of 2008. The dividends have not been provided for and there are no income tax consequences.

In millions of Kenya Shillings	Group		Bank	
	2008	2007	2008	2007
KShs 3 per ordinary share (2007: KShs 2)	1,111	543	1,111	543
	1,111	543	1,111	543

#### (f) Foreign currency translation reserve

This represents foreign exchange gains and losses arising on consolidation.

### 30. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS

#### Group and Bank

In the ordinary course of business, the Group and 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:

In millions of Kenya Shillings	Group		Bank	
	2008	2007	2008	2007
Guarantees and standby letters of credit	1,766	1,601	1,766	1,601
Letters of credit, acceptances and other documentary credits	129	1,165	129	1,165
	1,895	2,766	1,895	2,766
Derivatives/commitments were as follows:				
Forward foreign exchange contract amounts	(6)	(1)	(6)	(1)
	1,889	2,765	1,889	2,765



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2008

### 30. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS (CONTINUED)

#### 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.

#### 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>	Group		Bank	
	2008	2007	2008	2007
Capital commitments	107	97	81	97
Loans approved but not disbursed	362	375	309	375
	469	472	390	472

### 31. OTHER CONTINGENCIES

The Bank is defending some actions brought by borrowing consumers in relation to the loans advanced to them. While liability is not admitted, if defense against the actions is unsuccessful, fines and legal costs could amount to KShs 26.8 million. Based on legal advice, the directors do not expect the outcome of the actions to have a material effect on the Group's and the Bank's financial position.

### 32. RELATED PARTIES

#### a) Loans to key management personnel

<i>In millions of Kenya Shillings</i>	Group		Bank	
	2008	2007	2008	2007
Balance at 1 January	48	43	48	43
Interest charged	8	3	8	3
Loans disbursed	105	8	105	8
Repayments	(51)	(6)	(51)	(6)
Balance at 31 December	110	48	110	48



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31ST DECEMBER 2008

#### 32. RELATED PARTIES (CONTINUED)

##### b) Loans to employees

<i>In millions of Kenya Shillings</i>	Group		Bank	
	2008	2007	2008	2007
Balance at 1 January	428	188	395	188
Interest charged	60	25	51	25
Loans disbursed	1,067	317	1,013	317
Repayments	(698)	(135)	(668)	(135)
<b>Balance at 31 December</b>	<b>857</b>	<b>395</b>	<b>791</b>	<b>395</b>

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.

##### c) Loans to directors and related parties

<i>In millions of Kenya Shillings</i>	Group		Bank	
	2008	2007	2008	2007
Balance at 1 January	163	147	163	147
Interest charged	27	16	59	16
Loans disbursed	362	131	1,615	131
Repayments	(344)	(131)	(343)	(131)
<b>Balance at 31 December</b>	<b>208</b>	<b>163</b>	<b>1,494</b>	<b>163</b>

The total amount of loans and advances granted was in ordinary course of business and were advanced on commercial terms and at market rates. Included in the loans to directors and related parties is an amount of KShs1,255 million that relates to Equity Bank Uganda Limited with accrued interest receivable of KShs32million.

##### d) Key management personnel compensation

<i>In millions of Kenya Shillings</i>	Group		Bank	
	2008	2007	2008	2007
Remuneration to executive directors	174	58	163	58
Remuneration to key management	202	108	175	108
	<b>376</b>	<b>166</b>	<b>338</b>	<b>166</b>

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>	Group		Bank	
	2008	2007	2008	2007
As executives	174	58	163	58
As non-executive	20	15	17	15
<b>Net amount at 31 December</b>	<b>194</b>	<b>73</b>	<b>180</b>	<b>73</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2008

### 32. RELATED PARTIES (CONTINUED)

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.

g) **Amounts due from Subsidiaries**

	Bank	
	2008	2007
Equity Insurance Agency	100	-
Equity Bank Uganda Ltd	82	-
	182	-

### 33. RETIREMENT BENEFIT OBLIGATIONS

The company contributes to a statutory defined contribution pension Scheme, the National Social Security Fund (NSSF). The company also operates a defined contribution pension scheme for the staff. The contributions are charged to the income statement in the period in which they relate.

The amounts recognized in the income statement for the year are as follows:-

	Group		Bank	
	2008	2007	2008	2007
National Social Security Fund Pension	9	4	7	4
	83	16	63	16
Net amount at 31 December	92	20	70	20



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31ST DECEMBER 2008

#### 34. 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 31st December 2008.

##### a) Group

As at 31 December 2008	UGX	USD	GBP	Euro	Zar	JPY	Others	Total
<i>In million of Kenya Shillings</i>								
<b>Assets</b>								
Cash and cash equivalents	448	1,279	101	211	(39)	(1)	41	2,040
Loans and advances to customers	3,212	180	-	-	-	-	-	3,392
Investment securities	89	-	-	-	-	-	-	89
Finance lease receivable	122	-	-	-	-	-	-	122
Property and equipment	565	-	-	-	-	-	-	565
Intangible assets	54	-	-	-	-	-	-	54
Other assets	146	1,762	(10)	(97)	(39)	(1)	(33)	1,728
Tax recoverable	7	-	-	-	-	-	-	7
	4,643	3,221	91	114	(78)	(2)	8	7,997
<b>Equity and liabilities</b>								
Customer deposits	1,357	859	91	56	-	-	-	2,363
Deferred Tax Liabilities	27	-	-	-	-	-	-	27
Long Term Borrowings	296	2,788	-	-	-	-	-	3,084
Other Liabilities	104	55	-	-	-	-	-	159
Total liabilities and shareholders funds	1,784	3,702	91	56	-	-	-	5,633
<b>Net balance sheet position</b>	<b>2,859</b>	<b>(481)</b>	<b>-</b>	<b>58</b>	<b>(78)</b>	<b>(2)</b>	<b>8</b>	<b>2,364</b>
<b>Sensitivity analysis</b>								
2008 ±	171	82						
2007 ±	-	38						

The sensitivity analysis calculates the effect of reasonable possible movement of the currency rate against the major currencies (US\$ and UGX) with all other variables held constant in the income statement.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2008

34. FOREIGN CURRENCY EXPOSURE (CONTINUED)

b) Bank

	USD	GBP	Euro	Zar	JPY	Others	Total
<b>As at 31 December 2008</b>							
<i>In million of Kenya Shillings</i>							
<b>Assets</b>							
Cash and cash equivalents	1,127	101	155	(39)	(39)	41	1,346
Loans and advances to customers	180	-	-	-	-	-	180
Investment securities	-	-	-	-	-	-	-
Finance lease receivable	-	-	-	-	-	-	-
Investment in associates	-	-	-	-	-	-	-
Goodwill	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	-	-
Investment in subsidiaries	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-
Other assets	1,762	(10)	(97)	(39)	(1)	(33)	1,582
	3,069	91	58	(78)	(40)	8	3,108
<b>Equity and liabilities</b>							
Customer deposits	859	91	56	-	-	-	1,006
Long term borrowings	2,788	-	-	-	-	-	2,788
Other Liabilities	55	-	-	-	-	-	55
Total liabilities and shareholders funds	3,702	91	56	-	-	-	3,849
<b>Overall net balance sheet position</b>	<b>(633)</b>	<b>-</b>	<b>2</b>	<b>(78)</b>	<b>(40)</b>	<b>8</b>	<b>741</b>
<b>Sensitivity analysis</b>							
2008 ±	107	-					
2007 ±	38	-					

The sensitivity analysis calculates the effect of reasonable possible movement of the currency rate against the major currencies (US\$ and UGX) with all other variables held constant in the income statement.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2008

## 34. FOREIGN CURRENCY EXPOSURE (CONTINUED)

### b) Bank

	USD	GBP	Euro	Zar	JPY	Others	Total
<b>As at 31 December 2007</b>							
<b>Assets</b>							
Cash and cash equivalents	2,751	81	81	6	-	2	2,921
Loans and advances to customers	283	-	-	-	-	-	283
Investment securities	-	-	-	-	-	-	-
Finance lease receivable	-	-	-	-	-	-	-
Investment in associates	-	-	-	-	-	-	-
Goodwill	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	-	-
Investment in subsidiaries	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-
Other assets	14	-	-	-	-	-	14
	3,048	81	81	6	-	2	3,218
<b>Equity and liabilities</b>							
Customer deposits	229	82	-	25	1	-	337
Long term borrowings	2,964	-	-	-	-	-	2,964
Other Liabilities	78	1	2	-	-	-	81
Total liabilities and shareholders funds	3,271	83	2	25	1	-	3,382
<b>Overall net balance sheet position</b>	<b>(223)</b>	<b>(2)</b>	<b>79</b>	<b>(19)</b>	<b>(1)</b>	<b>2</b>	<b>(164)</b>



## COUNTRYWIDE BRANCH NETWORK

- Corporate
- Fourways
- Kangema
- Karatina
- Kiriaini
- Murarandia
- Kangari
- Othaya
- Thika
- Kerugoya
- Nyeri
- Tom Mboya
- Nakuru Gate House
- Meru
- Mama Ngina
- Nyahururu
- Community
- Community Corporate
- Embu
- Naivasha
- Chuka
- Muranga
- Molo
- Harambee
- Mombasa
- Kimathi
- Nanyuki
- Kericho
- Kisumu
- Eldoret
- Nakuru Kenyatta Avenue
- Kariobangi
- Kitale
- Thika kenyatta High Way
- Knut House
- Narok
- Nkubu
- Mwea
- Matuu
- Maua
- Isiolo
- Kagio
- Gikomba
- Ukunda
- Malindi
- Mombasa Digo Road
- Moi Avenue
- Bungoma
- Kapsabet
- Kakamega
- Kisii
- Nyamira
- Litein
- Westlands
- Industrial Area
- Kikuyu
- Garissa
- Mwingi
- Machakos
- Ongata Rongai
- Ol Kalao
- Kawangware
- Kiambu
- Kayole
- Gatundu
- Wote
- Mumias
- Limuru
- Kitengela
- Githurai
- Kitui
- Ngong
- Loitoktok
- Bondo
- Mbita Point
- Gilgil
- Busia
- Voi
- Enterprise
- Donholm
- Mukurwe-ini
- Eastleigh
- Namanga
- Kajjado
- Ruiru
- OTC
- Kenol
- Tala
- Ngara
- Nandi Hills
- Githunguri
- Tea Room
- Buru Buru
- Mbale
- Siaya
- Homabay
- Lodwar
- Mandera
- Wajir
- Meru Makutano
- Malaba







## PROXY FORM



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

**PROXY FORM**

(PLEASE COMPLETE IN BLOCK LETTERS)

ANNUAL GENERAL MEETING - THURSDAY 26TH MARCH, 2009

I/We \_\_\_\_\_

CDS A/C No \_\_\_\_\_ of (address) \_\_\_\_\_

being a member(s) of Equity Bank Limited, hereby appoint \_\_\_\_\_

of (address) \_\_\_\_\_

or, failing him, the duly appointed Chairman of the meeting to be my/our proxy, to vote on my/our behalf at the Annual General Meeting of the Company to be held on **Thursday 26th March, 2009** at the **Kenyatta International Conference Centre (KICC) NAIROBI at 10.00 a.m.**, or at any adjournment thereof.

As witness to my/our hands this \_\_\_\_\_ day of \_\_\_\_\_ 2009

Signature(s) \_\_\_\_\_

**NOTES:**

- This proxy form is to be delivered to the Company Secretary at **14th Floor, NHIF Building, Upper Hill, P.O. Box 75104, Nairobi - 00200, Kenya** not later than **10.00 a.m. on Tuesday 24th March, 2009**, failing which it will be invalid.
- A proxy form must be in writing and in the case of an individual shall be signed by the shareholder or by his attorney, and in the case of a corporation the proxy must be either under its common seal or signed by its attorney or by an officer of the corporation.

**CUT ALONG DOTTED LINE**

**ADMISSION CARD**

Number of ordinary shares held \_\_\_\_\_

This admission card must be produced by the shareholder or his proxy in order to obtain entrance to the Annual General Meeting.  
Company Secretary

Name of Shareholder \_\_\_\_\_

Address of Shareholder \_\_\_\_\_

CDS Account Number: \_\_\_\_\_



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)

MKUTANO MKUUU WA MWAKA- ALHAMISI 26 MACHI, 2009

Mimi/Sisi \_\_\_\_\_

Nambari ya Akaunti ya hisa \_\_\_\_\_ wa (anwani) \_\_\_\_\_

nikiwa/tukiwa wanachama wa Kampuni ya Equity Bank, ninateua/tunateua \_\_\_\_\_

wa (anwani) \_\_\_\_\_

au, akikosa kufika mwenyekiti aliyeteuliwa kihalali wa mkutano awe mwakilishi wangu/wetu kupiga kura kwa niaba yangu/yetu katika mkutano mkuu wa mwaka wa kampuni utakaofanywa **Alhamisi tarehe 26 Machi 2009 saa nne** katika jumba la **Kenyatta International Conference Centre (KICC) NAIROBI**, au wakati wowote uahirishaji unaweza kutokea.

Kama ilivyoshuhudiwa kwa sahihi yangu/yetu \_\_\_\_\_ siku hii ya \_\_\_\_\_ 2009

Sahihi \_\_\_\_\_

#### MAELEZO :

- Fomu hii ya uwakilishi inapaswa kuwasilishwa kwa Katibu wa Kampuni katika Jumba la **NHIF Orofa ya 14, Upper Hill, S.L.P. 75104, Nairobi - 00200, Kenya** kabla ya saa nne asubuhi siku ya Jumanne tarehe **24 Machi, 2009**, la sivyoo haitakubaliwa.
- Fomu ya uwakilishi sharti iandikwe kwa mkono na endepo mwakilishi ni mtu binafsi inapaswa kutiwa sahihi na mwenyehisa au na wakili wake na endepo ni shirika fomu ya uwakilishi sharti iwe na muhuri au kutiwa sahihi na wakili wake au afisa wa shirika hilo.

#### KATA KATIKA SEHEMU ILIYOWEKWA ALAMA

#### KADI YA RUHUSA

Idadi ya hisa zinazoshikiliwa \_\_\_\_\_

Kadi hii ya ruhusa lazima iwasilishwe na mwenyehisa au mwakilishi wake ili kuruhusiwa kuhudhuria Mkutano Mkuu wa Mwaka.

Katibu wa Kampuni

Jina la Mwenyehisa \_\_\_\_\_

Anwani ya Mwenyehisa \_\_\_\_\_

Nambari ya Akaunti ya Hisa: \_\_\_\_\_