ANNUAL REPORT & FINANCIAL STATEMENTS 2009

EQUITY Bank • Your Listening, Caring Partner

ANNUAL
REPORT
&
FINANCIAL
STATEMENTS
2009

EQUITY HEAD OFFICE

Corporate Philosophies

Equality + Opportunity + Trust = Equity

The most exciting aspect of Equity's journey- from a humble, floundering but deeply ambitious building society to an African Success story- is its partnership with the "bottom of the pyramid".

The establishment of Equity was inspired by a vision of the potentially high demand for financial services in the unbanked and the underserved, low-income segments of the population.
Commitment and a passion for an all-inclusive financial system combined with innovative, market- driven products and services are the force that propels the institution. The value added to the customer is based on mutual benefit, equality, opportunity, unity and common understanding. The principle of interactive financial service delivery has been entrenched and will be propagated from generation to generation.

At Equity Bank, it is business unusual, the continuation of a journey that we began a quarter of a century ago- thus far rewarding but with an equally challenging and hugely promising future.

Walking, caring and listening….together

Equity Bank is about making people's dreams come true. Looking at what we have achieved thus far makes us reflect on where we have come from and how we continue to grow together in trust. We feel a sense of pride in our achievements and efforts to bring social and economic empowerment to our people, our nation, our continent.

Equity Bank has a great team of professionals who have partnered with the members to achieve success through teamwork and calculated risk taking. The humility, friendliness, accessibility and willingness of the staff to understand the customer are what make Equity Bank " Your Listening Caring Partner". Our objective is to enable our people to fully exploit their potential in a highly competitive environment while building a culture that values people, rewards performance and supports the business. Equity's foundation is a culture of service through a select mix of values that complete the picture.

At Equity Bank, it is not about what we have done in the past. It is about what we are doing and what we will do in the future. This non- complacent view of our journey of walking together, caring, trusting and listening to one another is the cornerstone of our future.

Our Purpose

We exist to transform the lives and livelihoods of our people socially and economically by availing them modern, inclusive financial services that maximize their opportunities.

Our Vision

To be the champion of the socio-economic prosperity of the people of Africa.

Our Mission

We offer inclusive, customer-focused financial services that socially and economically empower our clients and other stakeholders.

Our Values

Professionalism
Integrity
Creativity & Innovation
Teamwork
Unity of Purpose
Respect & Dedication to customer delight
Effective Corporate Governance

CONTENTS

Notice of Annual General Meeting

Notice is hereby given that the Sixth Annual General Meeting (AGM) of Equity Bank Limited will be held on Friday, 26th March 2010 at 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 2009 together with the Chairman's, Directors' and Auditors' reports thereon.

3. To approve a first and final dividend for the year ended 31st December 2009 of KES 0.40/= per ordinary share of KES 0.50/= each, subject to withholding tax, where applicable.

4. Election of Directors:
   a) Benson Irungu Wairegi 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) Fredrick Mwangi Muchoki 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;
   c) Temitope Olugbeminiyi Lawani retires in accordance with Article 100 of the Company's Articles of Association and being eligible, offers himself for re-election as a director;
   d) Helen Gichohi having been appointed as a director by the Board on 23rd October 2009 retires in accordance with Article 101 of the Company's Articles of Association and, being eligible, offers herself for election as a director.

5. To approve the remuneration of the directors for the year ending 31st December 2010.

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 Kenyan Companies Act (Cap 486) and to authorize the directors to fix their remuneration.

7. As Special Business to consider, and if thought fit, to pass the following resolutions:

   (i) Approval of the Equity Bank Employee Share Ownership Plan:
   Ordinary Resolution:
   "THAT pursuant to regulation 109 in Part IX of the Capital Markets (Collective Investment Schemes) Regulations, 2001 the establishment by the Company of the Equity Bank Employee Share Ownership Plan, as constituted by a Deed of Settlement dated 29th August, 2005, and varied by a Deed of Variation dated 11th November, 2009, be and is hereby approved".

   (ii) Amendment of the Articles of Association of the Company:
   Special Resolution
   To consider and if thought fit to pass the following Special Resolution, that Articles 137, 138, 139 and 140 of the Articles of Association of the Company be and are hereby deleted in their entirety and replaced with the following new regulations in their place:

Notices – Article 137 to 140 (both inclusive)

137. Nature of Notice

Any notice to be given to or by any person pursuant to these Articles (other than a notice calling a meeting of Directors) but including a notice of an Annual General Meeting of the Company shall be in writing and shall be sent in accordance with these Articles and the Statutes.

138. Service of Notices, Documents and Information

138.1 Subject to these Articles and the Statutes, the Company may give any notice, send or supply any other document (including a share certificate) or information to any member:

(a) by delivering it to him personally;

(b) by leaving it at or sending it by post in a prepaid envelope to such member at his registered address; or

(c) by sending it by electronic means to an address for the time being notified to the Company by the member (generally or specifically) for that purpose.

138.2 Subject to these Articles and the Statutes, the Company may give any notice or send or supply any other document or information to any member by making it available on an official Company website or such other website as may be prescribed for such purpose, where:

(a) that member has agreed (generally or specifically) that the document or information may be sent or supplied to him in that manner and has not revoked that agreement;

(b) that member is notified in accordance with Article 138.1 or Article 138.3 of:

i) the fact that the document or information has been made available on the website;

ii) the address of the website; and

iii) the place on the website where the document or information may be accessed and how it may be accessed.

138.3 If at any time, by reason of the suspension or curtailment of postal services within Kenya the Company is unable to give the notification required by Article 138.2(b) by post, such notification may be given (without prejudice to any other means of giving such notification) by a notice advertised in at least one leading national daily newspaper. Such notification shall be deemed to have been received by all members entitled to receive the same at noon on the day when the advertisement appears or, if more than one advertisement is placed, at noon on the day when the last advertisement appears.

138.4 The provisions of this Article apply, subject to the provisions of the Statutes, in relation to any notice, document or information referred to in these Articles, including documents required by section 148(1) of the Act to be laid before the Company in a general meeting, whether or not the provisions of the Article(s) in question use the words "give", "send" or "supply" or uses other words (such as "deliver" or "provide") to refer to the sending or supplying of a document, notice or information.

138.5 Where a notice or other document or information is:

(a) delivered to a member personally or left at his registered address in Kenya, it shall be deemed to have been received on the day it was so delivered or left;

(b) sent by post to a registered address in Kenya, it shall be deemed to have been received at the expiration of 24 hours (where first class post is used) or 48 hours (where second class post is used) or to an address outside Kenya at the expiration of 96 hours after the time when the envelope containing the same is posted and, in proving such receipt, it shall be sufficient to prove that such envelope was properly addressed, prepaid and posted;

(c) sent or supplied by electronic means, it shall be deemed to be received on the day that it was sent;

(d) made available on a website, it is deemed to have been received when it was first made available on the website, or (if later) on the date on which the notification pursuant to Article 138.2 (b) is received or deemed to be received;

and in calculating when a notice or other document or information is deemed to be received, no account shall be taken of any part of a day that is not a working day in Kenya.

138.6 A member present in person or by proxy at the meeting of the Company or a meeting of the holders of a particular class of shares is deemed to have received notice of the meeting and, where required, of the purposes for which it was called.

138.7 If on two consecutive occasions notices or other documents have been sent by post to any member at his registered address or his address for the service of notices in Kenya but have been returned undelivered, such member shall not thereafter be entitled to receive notices or other documents or information from the Company until he shall have communicated with the Company and supplied in writing a new registered address or a new postal address for the service of notices and other documents and information as the case may be or an address to which notices and other documents and information may be sent to him using electronic means.

139. Joint Holders

139.1 Any notice, document or information given to that one of the joint holders of a share whose name stands first in the Register in respect of the share shall be sufficient notice to all the joint holders in their capacity as such. For such purpose, a joint holder whose registered address is not within Kenya and who has not given the Company a postal address as his address for the service of notices and other documents and information or an address to which notices and other documents and information may be sent to him using electronic means shall be disregarded. The joint holder to whom, in accordance with this Article, notice may be given such that the notice is sufficient notice to all of the joint holders in their capacity as such shall be called the **"First Named Holder".**

139.2 In the case of joint holders of a share, the consent or deemed consent (generally or specifically) of the First Named Holder that any notice or other document or information may be sent by the Company to those joint holders in electronic form or by being made available on a website and/or the notification to the Company by such First Named Holder of an address for the purposes of receipt of any communications by electronic means shall be effective consent and/or notification (as the case may be) of all joint holders of such share. The First Named Holder may also effectively revoke any such consent and/or notification of address.

140. Deceased and Bankrupt Members and Transferees

140.1 A person entitled to a share by transmission on supplying to the Company such evidence as the Directors may reasonably require to show his title to the share and on supplying also a postal address for the service of notices and other documents and information or an address to which notices and other documents and information may be sent to him using electronic means, shall be entitled to have sent or supplied to him at such address any notice or other document or information to which the member but for his death or bankruptcy would have been entitled. Such sending or supply shall for all purposes be deemed to be sufficient sending or supply of such notice or other document or information on all persons interested (whether jointly with or claiming through or under him) in the share. Until such evidence and address have been supplied, any notice or other document or information may be sent or supplied in any manner in which it might have been sent or supplied if the death or bankruptcy or other event giving rise to the transmission had not occurred.

140.2 Every person who becomes entitled to a share by transmission, transfer or otherwise shall be bound by any notice in respect of that share which, before his name is entered in the Register in respect of such share, has been duly served on or delivered to a person from whom he derives his title.

Notice of Annual General Meeting

140 A. Suspension of Postal Services

Any notice (other than a notice of general meeting) or other document or information required to be given by the Company to members and not expressly provided for by the provisions of these Articles or by the terms of issue of any shares shall be sufficiently given if given by a notice advertised in at least one leading national daily newspaper. Such document or information shall be deemed to have been received by all members entitled to receive the same at noon on the day when the advertisement appears or, if more than one advertisement is placed, at noon on the day when the last advertisement appears. The holder of a share warrant shall be entitled to receive notices or other documents or information only by advertisement in the manner provided for in this Article 140 A.

140 B. Statutory Requirements as To Notices

Nothing in any of the Articles 138 to 140 B shall affect any requirements of the Statutes that any particular offer, notice or other document be served in any particular manner."

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,

17th day of February 2010

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 2010** failing which it will be invalid. In the case of a corporate body the proxy must be under its common seal or signed by an officer or attorney of the corporation.

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 2009 of Kshs 0.40/- per share being 80% of nominal value, to be paid to shareholders on the register of members of the Company at the close of business on **25th March 2010**. The dividend will be paid on or about **9th April 2010.**

Bank Information

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

Mr. Peter K. Munga, EBS
Chairman - EQUITY BANK

Chairman's Statement

"The financial sector remained resilient with the leading banks recording improved performance in 2009. The sector's assets increased by 11 percent to Ksh.1.31 trillion at the end of September 2009..."

It is a great honour for me to present to you the Bank's report for the year ended 31st December 2009. As the founding chairman, I am proud of the great strides we have made over the last quarter of a century to assume the position of leadership in the socio-economic transformation of the people of Africa. It also gives me a lot of pleasure to inform you that the executive leadership and staff, under the capable guidance of the board, delivered another year of exceptional performance despite operating in a challenging environment.

Operating Environment

The year 2009 was characterized by the economy still recovering from the ravages of post election violence, global economic crisis and prolonged drought. The economic growth as measured by GDP at 2. 5 percent was better than the 1.7 percent registered in 2008. However, this performance was far below the high of 7.1 percent in 2007. Indeed, the third quarter of 2009 registered zero real GDP growth compared to the same period the previous year.

Post election violence negatively affected agriculture which is the mainstay of the majority of Kenyans. The violence also destroyed businesses, further affecting economic performance. The multiplier effect of the post election violence on the economy had a greater negative impact than initially thought. Complicating the situation, the drought that had started in early 2008 continued in the year under review further worsening the food shortage. This, in turn led to higher food prices and inflation. The prolonged drought also had the negative effect of diverting resources at the household level from other investment opportunities to support food purchases as prices went up due to shortage.

Further, the economy had to bear an additional burden of higher energy costs and power rationing. This was occasioned by falling water levels in the major hydro power generating dams in the country and the increased reliance on the more expensive diesel power supply. Inflation remained high for most of the year but took a downward trend from a high of 14.6 percent to 5.3 percent in December 2009. The situation would have been worse if fuel prices had risen much earlier in the year.

The Nairobi Stock Exchange (NSE) 20 Share Index closed at 3247 in 2009, which was below the high of 5646 points registered in 2006. The effects of the global economic crisis, which saw foreign investors pull out of the Exchange may have played a part in the subdued activity at the NSE.

The financial sector remained resilient with the leading banks recording improved performance in 2009. The sector's assets increased by 11 percent to Kshs.1.31 trillion at the end of September 2009 and the capital adequacy ratio stood at 20 percent and was above the statutory minimum of 12 percent. This is an indicator that the sector has a substantial cushion against periodic shocks. The number of branches at the end of September 2009 stood at 918, an increase of over 154 branches from the corresponding period in 2008.

Banks continued to expand their lending portfolio. Deposits increased to Kshs.1 trillion in October 2009 due mainly to deposit mobilization and expansion of branch networks by banks. In addition, new regulations for SACCOs were on the drawing board while credit information sharing became a reality in Kenya. This sharing is likely to reduce the portfolio of bad debts for banks.

In addition, remittances from the Diaspora remained fairly steady during the year despite earlier concerns. Kenyans living abroad remitted USD 609 million compared to USD 611million in 2008.

Tea prices improved from USD 2.33 per kilo in 2008 to USD 2.72 a kilo at the Mombasa tea auction. Better tea prices helped to cushion low volumes caused by the drought, thereby boosting tea export earnings from Kshs.62 billion in 2008 to Kshs.69 billion in 2009.

During the year, the Kenya Shilling remained resilient driven by the sustained inflows from Tea exports and Diaspora remittances.
The USD/Kshs exchange rate opened the year at a mean of 78.27 and closed at 75.82.

Equity Bank performance

We have continued to record phenomenal growth and exemplary performance in key areas. This superb performance has been supported by diligent execution of our business model, which has proven to be a worthwhile vehicle for the socio-economic transformation of our people. I am pleased to inform you that the Kenyan operation closed the year with over 4 million bank accounts that translates to over 50 percent of all bank accounts in the country. At the same time, we have continued to grow the business in Uganda and Southern Sudan.

In recognition of our superior performance, the bank received numerous accolades both locally and internationally during the year under review. Such recognition included: Being named as the Micro Finance Bank of the Year in Africa by the African Bankers Awards for the second year running; Recognized as the Best Performing A100 company in Africa by Africa Investor Series Awards; The 2009 African Business of the Year by the Commonwealth Business Council; The Emerging Markets Most Sustainable Bank of the Year in Africa and Middle East by The International Finance Corporation and the Financial Times; Africa Investor Financial Reporting Award; The Best Bank in Kenya for the second year running, the best bank in micro finance, as well as the best bank in technology use by the Kenya Banking awards. The Bank received a strong credit rating (Short-term A1, Long-term AA-) by Global Credit Rating Agency and last but not least, as your Chairman, I was humbled and pleased to have won the YARA award.

Regional Expansion

As you are aware we started operations in Uganda through the acquisition of the Uganda Microfinance Limited in 2008. I am pleased to report that we successfully converted the microfinance company to a fully fledged commercial bank, which was launched in March 2009. The bank's shares were successfully cross-listed on the Uganda Securities Exchange in June of the same year. We have increased the Uganda branch network to 44 and rolled out alternative delivery channels. We are optimistic that this year we shall be able to start enjoying the fruits of the huge investment that we have made in the last one and half years. During the year, the Bank also launched operations in Southern Sudan, with one branch in Juba and two branches planned for this year.

Corporate Governance

During the year under review, your board continued to serve with dedication and provide strategic direction. The board worked tirelessly to ably steer the Bank through the challenging environment of 2009. As a commitment to diversify its skills set, the Board of Directors approved the appointment of Dr. Helen Gichohi. The bank will greatly benefit from her wide experience. However, we also lost one of our own. It is with great sadness that I note the demise of our brother and fellow board member, Dr. Ezekiel Alembi who made invaluable contributions to the Bank, academia and society at large. May the almighty rest his soul in eternal peace.

Dividend

The Board is recommending a dividend of 40 cents per ordinary share for the year ended 2009, representing a 35 percent dividend payout. This would amount to a 33 percent increase from the last financial year and signifies our confidence in the future outlook of the business.

Future Outlook

We expect the economic environment to improve significantly in 2010 driven by the onset of good rains

"In the 2010 financial year, we shall continue to consolidate our leadership position in Kenya while effectively managing our expansion program in the region..."

and expected harvests, the recovery from the global economic crisis, the impact of the economic stimulus package and the renewed confidence arising from the promise of the new constitution. A similar positive outlook is projected for the region especially with the realization of the East African Customs Union.

As the global economy recovers, we expect increased demand for our major exports such as tea, horticulture and tourism to make a significant contribution to economic growth. The various projects under the economic stimulus package offer opportunities in infrastructure, education, energy and the social sector. Inflation is expected to remain under control as a result of the favorable weather conditions. Therefore, our investment in the agricultural sector is expected to improve. The new constitution is expected to provide a stable political environment in the medium term. All of these factors present real opportunities for the Bank.

Your Bank has clear strategies that will ensure continued growth and a superior return on your investment. We are well placed to take advantage of the new agency law, opportunities emanating from the fibre optic cable, convergence of banking with telecommunication, bancassurance and financial innovation.

In the 2010 financial year, we shall continue to consolidate our leadership position in Kenya while effectively managing our expansion program in the region. In order to accomplish these goals, we shall continue to put more emphasis on effective corporate governance, the competence of human capital, strategic partnerships with our stakeholders, and a robust technological system. This will ensure that we continue to offer products and services that truly benefit our members in Kenya and the region.

Conclusion

In conclusion ladies and gentlemen, I want to sincerely thank the management and staff for delivering such impressive results under a challenging environment. I also want to appreciate my fellow board members for their devotion and commitment that has enabled us steer this institution to success.

Finally, members and all our stakeholders, on my own behalf and that of the board, management and staff, we sincerely thank you for the support that you have continued to extend to this great institution. We are grateful for the confidence that you have shown in the team that serves you and count on your continued support in the new year. On our part, we commit to delivering even greater value to your investment. We shall continue implementing the business model that has worked so well in the past and to look for new ways to deliver an even greater return. This will ensure that we continue to serve our duty of being the "champions of the socio-economic transformation of the people of Africa."

Thank you.

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

DR. JAMES MWANGI, MBS
CEO & Managing Director - EQUITY BANK

CEO and Managing Director's Statement

"The Bank recorded yet another major milestone by surpassing the Kshs 100 billion mark in total assets which represents a 28% increase from Kshs 78.9 billion the previous year..."

It gives me great pleasure to present to you the Bank's annual report for the year ended 31st December 2009. During the year, the Bank performed gallantly despite a challenging local and global environment characterized by slow economic growth, high inflation, drought, famine and the lingering effects of the global financial crisis.

We continued to live our purpose of transforming lives and livelihoods of our people socially and economically by availing to them modern, inclusive financial services.

Financial review

In line with our objective to maximize value for all stakeholders, the Bank posted a growth in profit before tax to close at Kshs 5.2 billion compared to Kshs 5.0 billion the previous year.

Group total operating income went up by 24% to reach Kshs 15.7 billion up from Kshs 12.6 billion in the previous year, driven by growth in loan and advances and an increase in transaction volumes. Operating expenses grew by 37% to close at Kshs 10.4 billion up from Kshs 7.6 billion due to the heavy investments made in local and regional expansion. The Bank made significant investments in Southern Sudan, which became operational in July 2009. Following the acquisition of Uganda Microfinance Limited (UML) and the subsequent conversion to a fully fledged commercial bank, significant costs were incurred in refurbishing and rebranding the existing branches. In addition, we opened 30 new branches in Kenya and Uganda whose contribution is expected to be realized this year.

We are pleased to report that during the year, the Bank recorded yet another major milestone by surpassing the Kshs 100 billion mark in total assets which represents a 28% increase from Kshs 78.9 billion the previous year. This impressive growth is attributable to a 43% growth in the loan book which closed at Kshs 63.3 billion up from Kshs 44.0 billion the previous year. Despite the growth, the Bank maintained a high quality asset portfolio with an average non performing loan book of 4.7%. The total provisions on loans and advances increased from Kshs 1.5billion to close at Kshs 2.9 billion. This gives the Bank a non performing loans coverage ratio of 43% up from 35% the previous year.

Customer deposits grew by 39% from Kshs50.3billion to close at Kshs 69.8billion. The Bank continued to attract new customers and closed the year with a customer base of over 4.3 million customers making us the largest by customer base. This outreach has been achieved through a network of 155 branches, 512 Visa branded ATMs and 2500 Point of Sale terminals (POS).

In addition to customer deposits, the other funding sources of the Bank represented by the shareholders funds and long term debt increased by 13% to Kshs 29.4billion, up from Kshs 26.0 billion the previous year.

Product Development, Research, and Innovation

Based on our commitment to remain market led and customer centric, and in response to the ever evolving needs and expectations of our members, we have continued to offer innovative and inclusive financial services. For example, we were the first bank in the region to roll out smart card, wireless, solar-powered, biometric point of sale infrastructure to make social payments to over 60,000 needy households in Northern Kenya under the Hunger Safety Net Program.

We continued to support the largest Automated Teller Machine (ATM) network in Eastern & Central Africa in the year under review, and were the first bank in the market to introduce intelligent ATMs that receive, sort, and credit the customer's account instantly. This functionality will be particularly useful for members who handle large amounts of cash and who need to have their ATM cash deposit reflect on their balances real time.

In order to extend the reach beyond brick and mortar, the Bank has focused on increasing its distribution by leveraging on the Telecommunication companies' platforms and the change in legislation that will allow Banks to roll out the Agency model. In this regard we have integrated our banking systems with Safaricom to offer MPESA at our ATMs. Given the large number of Kenyans using MPESA, it was important for us to ensure that our members have easy access points to withdraw their MPESA funds. We have also enabled functionality that allows customers to seamlessly move funds between MPESA and their bank account thus providing convenience for them. This strategy is projected to have a substantial impact on increasing outreach through enhanced accessibility, while providing convenience and making the services more affordable to our members.

During the year, we migrated our card management system to the Way4 solution. This system is rated as the leading card management system in the world and is capable of authorizing 180,000 transactions per minute, and maintaining and managing 60 million cards. We were also certified by VISA the biggest card association across the world for the issuing and acquiring of cards at points of sale. The Bank became the first in East and Central Africa to achieve Europay-Mastercard-Visa (EMV) certification for ATM and POS acquiring of smart chip cards. This technology ensures a secure means of transacting for both merchants and card holders.

Guided by the philosophy of being inclusive, convenience and accessible, the group has championed the inclusion of the agency banking model into mainstream banking and developed the technology platforms to support the model including M-commerce, phone based agency system, and point of sale based solutions. The bank is also playing a leading role in the convergence of banking services and Telecommunication Company owned cash transfer systems. In this regard, this enables M-PESA customers to access their money 24 hrs a day through the Bank's wide ATM network. Additionally, Equity Bank has partnered with Essar limited to provide Trust Account management for the Yu-Cash transfer system.

Control Systems and Operational Efficiency

The Bank embarked on the rollout of an oracle based Enterprise Resource Planning (ERP) system. This platform is expected to provide significant benefits in automation, controls and efficiency in functions such as finance, human resources, procurement and administration. The bank also commenced the roll out of a customer loan acquisition system that enables loan origination, credit scoring and collections.

The bank also invested in enhancing the technological infrastructure by acquiring state of the art servers and auxiliary equipment to support its new growth phase. This has enabled the transition to a "tier four" data centre which will result in significant gains, among them high system availability, enhanced resilience and failover capability.

In the spirit of continuous improvement and in order to optimize on the enhanced operating platform and infrastructure, the bank undertook business process engineering. This helped align the bank's internal processes with the new systems and infrastructure and has provided the bank with the capability to hub its regional services into a shared service center.

Brand Visibility

During the year, the Bank embarked on building the Equity brand and enhancing visibility in the region. The high impact "member campaign" elevated the brand into the public's collective consciousness and popular culture. The positive impact of this was seen in the increased number of accounts opened during the year. The campaign also helped project the brand as all inclusive and also created a sense of belonging and pride for all members.

Capacity Building and Leadership Development

The Bank continues to attract and retain talented staff and high performers from the banking sector and other industries. During the year 1,100 staff joined the bank. The new staff members were thoroughly inducted into the bank's unique corporate philosophies and culture. The objective of this unique induction process

CEO and Managing Director's Statement

"The Bank continued to be a learning organization characterized by significant investment in staff learning and development, through the provision of technical skills training, management training, leadership training and talent development programs and initiatives..."

is to inculcate the Bank's culture which is performance and value based. The Bank continued to be a learning organization characterized by significant investment in staff learning and development, through the provision of technical skills training, management training, leadership training and talent development programs and initiatives.

Talent management is one of the Bank's strategic priorities thus identification, development and retention of talent continued during the year. In particular, talented high performing and high potential staff were promoted to challenging roles that resulted in experiential learning of various competencies and leadership capabilities in preparation for potential succession in various positions. More than 70% of all the staff attended training programs throughout the year which averaged five days. During the year 400 staff members attended external training courses and conferences, 300 staff attended technical skills training programs, and 300 staff attended management training programs. The staff also attended the following leadership development programs – Unlocking the Bottom of the Pyramid by C.K. Prahalad, Executive Development Program for Directors, Strategy and Management in Banking, Fast Forward Leadership Development Program and the Strategy in Action Leadership Development program. In addition there is continuous mentoring and coaching of staff at all levels with the aim of ensuring that they all live the mission, vision and values of the Bank.

Future Outlook

Over the past year, we have invested and positioned ourselves to seize opportunities in the future and therefore you can expect that the focus going forward will be on leveraging the significant investments and the strong and recognizable brand to maximize on shareholder value, while also consolidating on the gains made.

Increasingly we expect to see non funded income becoming a major contributor to the bottom line and therefore we shall continue to forge strategic partnerships to empower customers and enhance the bank's financial services portfolio. We also remain committed to ensuring that financial services are accessible, convenient and affordable and in this regard the Bank is ready to roll out the Agency Model once the regulations are in place. The Bank will also continue with the strategy of retention of the microfinance customers as the acquisition strategy for the small and medium enterprises segment by provision of innovative products and services for this segment.

Conclusion

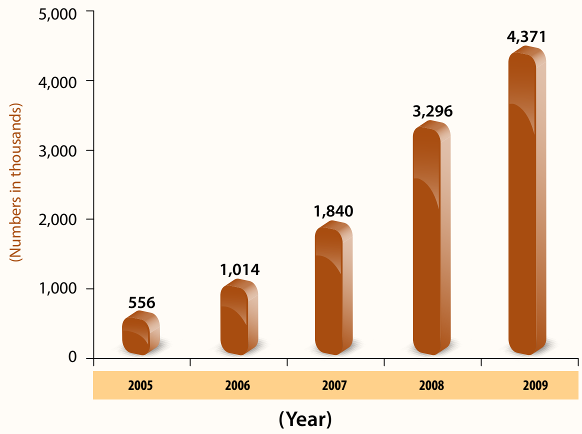
I wish to take this opportunity to thank the Board of Directors for their oversight and guidance given throughout the year. To all our members and other stakeholders for your unwavering trust, support and partnership. To my colleagues, staff and management I am grateful for your commitment, dedication and sacrifice. I am honored to be your team leader. With your support we are well positioned to deliver even greater value to all our stakeholders in the coming year.

Thank you.

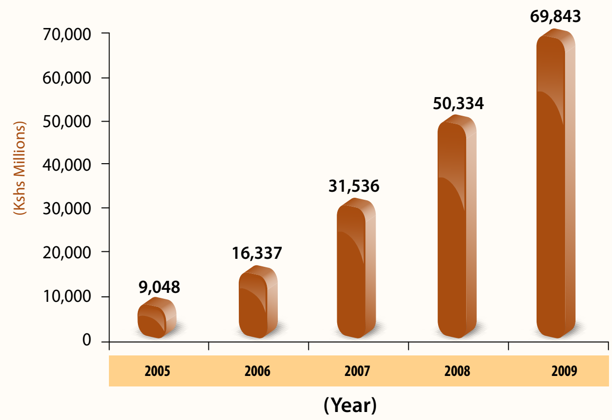
Dr. James Mwangi, MBS
CEO and Managing Director.

FINANCIAL HIGHLIGHTS

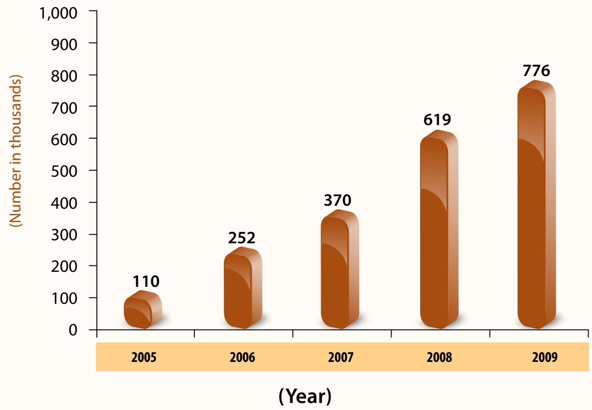
GROWTH IN CUSTOMER NUMBERS



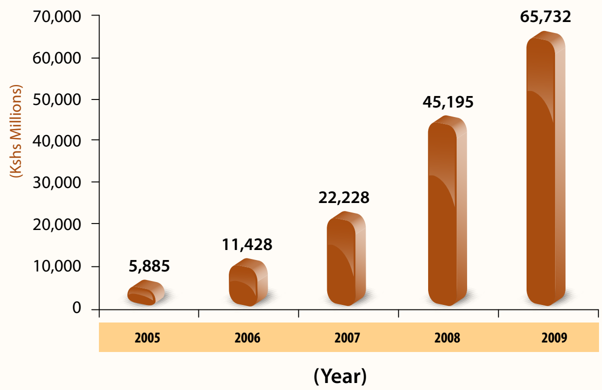
GROWTH IN CUSTOMER DEPOSITS



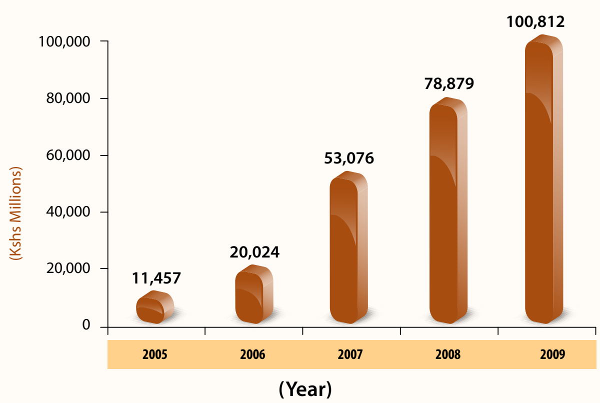
GROWTH IN NUMBER OF BORROWERS



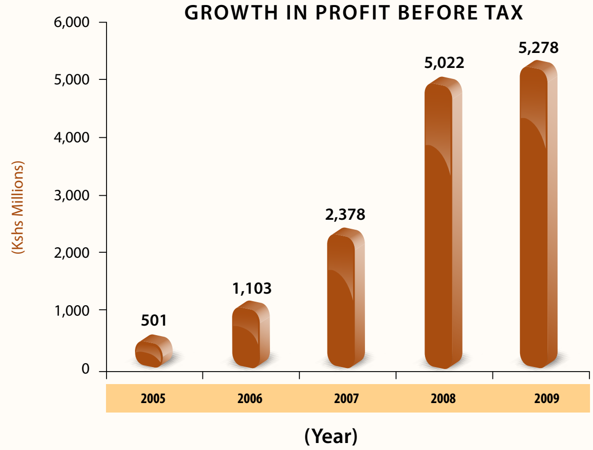
GROWTH IN GROSS LOAN PORTFOLIO



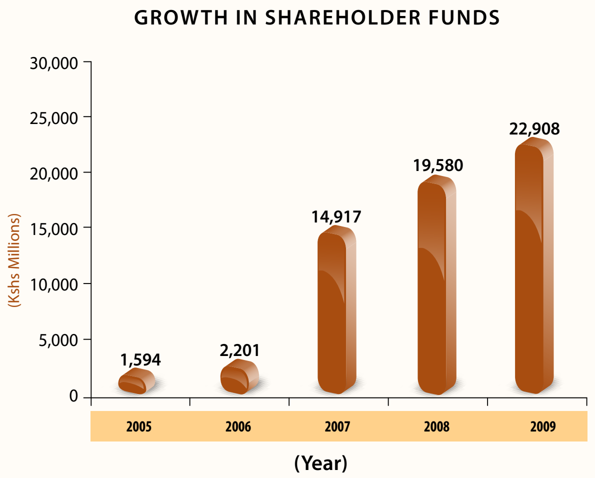
GROWTH IN TOTAL ASSETS

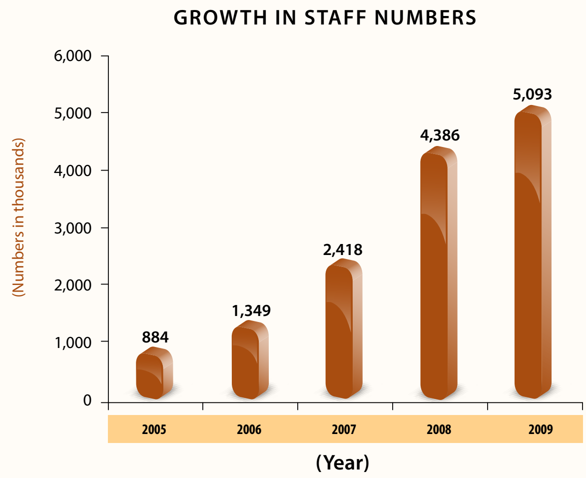


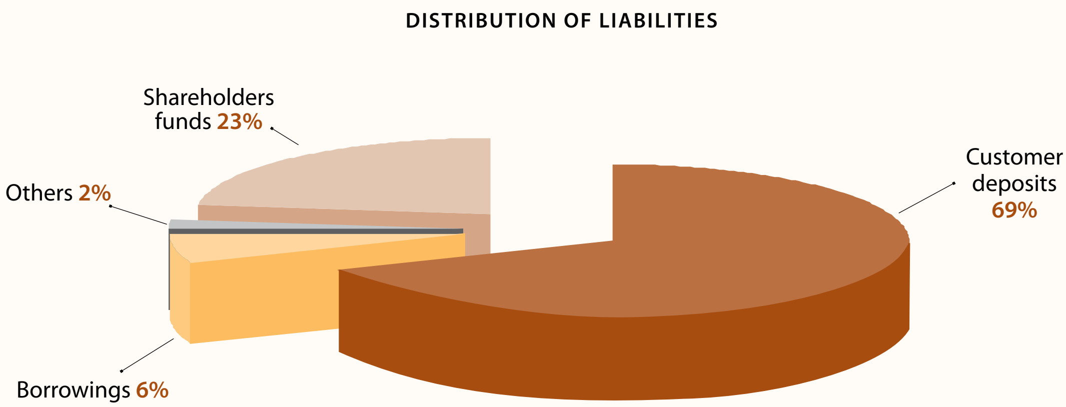
GROWTH IN PROFIT BEFORE TAX

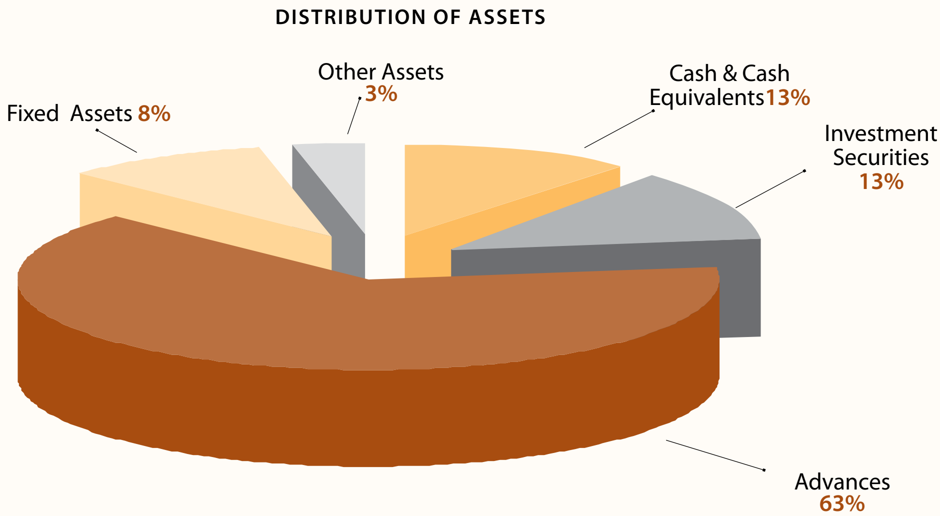


FINANCIAL HIGHLIGHTS









Key Achievements and Accolades

Global Vision Award

Dr. Mwangi is a holder of the Global Vision Award in Microfinance, alongside Nobel Peace Laureate Prof. Muhammad Yunus as 'Initiators of the Concepts of the Future that will shape the World Economy'

Emerging Markets Most Sustainable Bank of the Year 2009 in Africa & Middle East

Equity Bank was recognized by the International Finance Corporation (IFC) for its responsibility in providing solutions to the world's most pressing issues and meeting those objectives in a financially viable way.

"I have visited many organisations. I now know a good one when I see it. This is excellent." **Dawood A Lawat -** *Group Chairman British American Group*

African Business of the Year 2009

Commonwealth Business Council & Africa Business Awards awarded Equity Bank the prestigious African Business of the year 2009. "..for returning outstanding returns and growth rates coupled with innovative working techniques, and development of staff and the community it operates in."

Microfinance Bank of the Year 2008 & 2009

Equity Bank has for the second year running been named the Micro Finance Bank of the Year in Africa "for assisting local communities and aspiring entrepreneurs to raise finance, ultimately contributing to their growth and development."

"Equity has used its model well to grow small and medium sized businesses. We want to use it (the model) to benefit over 800 million chinese living in rural areas."
Liu Kegu - *Vice Governor China Dev.Bank*

Best Performing Ai 100 Company of the year in Africa 2008 & 2009

Equity Bank was cited for its sterling "financial performance reflected by the strong growth in revenue and profitability, and underpinned by a strong balance sheet"

Africa's CEO of the Year 2009

Dr Mwangi was named Africa's CEO of the year in the Africa Ai 100 CEO category Index for his "leadership, which has transformed Equity Bank from a technically insolvent building society to a fully fledged publicly listed commercial bank with over 54% of all bank accounts in Kenya"

Key Achievements and Accolades

Yara Laureate

Mr. Peter Munga, Chairman of Equity Bank was a co-winner of the 2009 Yara Prize in recognition "…for helping to innovatively strengthen agricultural value chains and increase Africa's food security."

Superbrand in East Africa 2008 & 2009

Equity Bank was recognised for two consecutive years as a banking superbrand in East Africa.

"Bank accounts at Equity are opened in three minutes. That's not true in my home town, New York which is the money centre of financial institutions."
Nancy N Barry - *Women World Banking President*

Best Ai Financial Reporting Company in Africa

The Ai Financial Reporting Awards are the only African Awards that recognise the crucial importance professional financial reporting has in informing investors and decision makers contemplating investments in Africa.

Best Bank in Kenya 2008 & 2009

Equity Bank was voted the Overall Best Bank in Kenya for the second consecutive year in a survey of 43 commercial banks in Kenya. The awards celebrate exemplary performers and successes of the sector.

"...by providing banking services to the masses and generally expanding its distribution channels and services, Equity Bank will be a star performer..."
African Alliance, Kenya Banking Industry Review: Sector Report, April 19, 2007, P. 49.

GCR GLOBAL CREDIT RATING
Local Expertise • Global Presence

Short-term; A1
Long-term; AA-

The ratings reflect the bank's sound performance over the past two years in particular strong capitalisation ratios as well as the Bank's dominant position in the market.

Key Achievements and Accolades

Kenya Institute of Bankers – Trophy of Excellence in 2009

Inter Banks Sports – overall winner for 2 years, 2008 & 2009 against a defending champion of 24 years

"While resoundingly for profit, Equity also retained a passionate commitment to empowering Kenya's poor to improve their livelihoods and prospects for self sufficiency. Industry experts routinely cited Equity Bank as the "Best Bank in retail banking" due to among other factors, their customer dedication and talented management team. In addition to enjoying widespread recognition domestically, the company began to attract international attention, as other developing countries in Africa and Asia sought to learn from Equity's low-margin, high-volume model."

Stanford Graduate School of Business, Equity Bank (A) Case E260

Global Leadership Recognition-Top 50 world business leaders

Dr. James Mwangi was named by Financial Times among the 50 emerging market business leaders in BRIC countries – Brazil, Russia, India and China – and other emerging market economies-who have shaped the economic performance of their respective regions.

The Financial Times recognized Dr. Mwangi for transforming the lives of many people in Kenya including house helps and low income earners who have been able to borrow as little as Sh500 from the Bank.

"James Mwangi talks about Equity Bank's mission with an evangelical enthusiasm. He lends for profit but says he also wants to transform the lives of poor Kenyans and his Bank is showing the two are compatible," said the Financial Times.

"By inspiring a passionate culture around its compelling social vision of bringing financial services to the "unbanked" poor and using IT to scale its high-volume, low-margin business model, Equity Bank transformed itself from an insolvent building society into Kenya's top-performing bank, and one of the most powerful brands in Africa."

Columbia Business School; Equity Bank Case Study 2009.

Key Achievements and Accolades

DAILY NATION
Thursday December 31, 2009

KENYAN DECADE IN REVIEW

Equity Bank's strategy was to move thousands of tiny transactions in order to remain profitable, and that worked wonders for a bank that, years earlier, was nothing but a struggling micro-finance institution. Photo/FILE

Banking on the poor no longer a risky business

Equity Bank helped disparage the notion that low-end markets were unbankable

By WACHIRA KANG'ARU

To the poor and lowly, banking halls were, 10 years ago, mystical, sacred places to be visited only when sacrifices were due.

Many believed entry into a banking institution was a privilege, a preserve of the rich, hence the squeaky-clean insides of the halls — and the huge cost of operating a bank account — kept many at bay, and helped fuel the myths associated with the facilities.

Most of the local commercial banks, especially the big five — Barclays, Standard Chartered, Kenya Commercial Bank, Co-operative and National Bank of Kenya — concentrated on corporate clients and big savers only. A minimum operating balance of Sh10,000 was imposed on customers, and a heavy penalty awaited those whose accounts failed to meet the threshold. The strategy was meant to lock out the 'unwanted, unbankable' masses whose peanuts bankers felt could not add to their margins.

In fact, the situation was so dire that, in the late 1990s, all the big five started closing down their branches in the rural and low-end regions of the country, on grounds that the two segments were unprofitable to continue investing in.

By 2000, when the trend changed, 230 branches — estimated to be over a third of the total branches in the industry then — were no more.

"The majority of the branches closed down were in the rural areas," the 2000 Annual Bank Supervisory Report by the Central Bank of Kenya confirms.

But, at the turn of the century, everything was turned upside down when a host of micro-finance institutions moved in to fill the void left by these fleeing big boys. It would not be long before competition for the lower end of the market reached fever-pitch, and some of the hurdles that had been placed in the way of the consumer regarding access to banking facilities started coming down. A new dawn had arrived with the first decade of the new century.

Equity Bank, a previously nondescript financial institution, soon broke the ranks and joined the league of the big four.

Suited their needs

Equity did the reverse of what the big banks were doing, and went unashamedly for the lower segment of the market, which it wooed with banking services that suited their needs and earnings.

Its strategy was to move thousands upon thousands of tiny volumes in transactions, and the only way to achieve this was to attract as many people as possible.

In 1999, for example, Equity Bank had only 46,000 customers, and less than 3,000 of these had borrowed about Sh4.8 million.

In line with its new growth strategy, the bank then took over shops — or what the big boys would have considered kiosks — and converted them into banking halls.

The idea was to demystify banking as it was perceived in the low-end segments of the market and, by bringing services closer to the people, and crushing the huge barrier that had kept many off, Equity managed to rope in a sizable number of people, to whom it gave easy access to development loans and other services.

While the big league ran the mantra of the Freemasonry, that "you must know one to be one" — in what was then known in the industry as "know your customer" — Equity rubbished the idea and welcomed all and sundry, from college students to farmers to pilots to seamen. It was an open party!

It took only Sh400, a national identification card and less than 10 minutes for one to open an account with Equity and other micro-finance institutions such as Family Bank. By 2007, Equity's customer base inched towards the two million mark, almost half of the whole industry. It had given out about Sh17 billion mostly to what commercial banks had tagged the 'rural' and 'poor'.

The big boys turned green with envy, and engaged the reverse gear on their branch re-organisation strategy. After closing some 230 branches between 1997 and 2000 and opening only 69 others between 2000 and 2005, Kenya's banks opened 183 within the space of two years (2005-2007).

Statement on Corporate Social Responsibility

EQUITY DOING GOOD

During the 2009 financial year, to realise its vision of championing the socio-economic prosperity of the people of Africa, Equity Group continued to invest heavily in corporate social responsibility initiatives. The level of investments continuously raises the question of whether Equity Group is not a large social programme. The Group's strategy seeks to embed corporate social responsibility into its core business. This is because Equity Group is focused on doing good to society as it continues to do well economically. As a result of the increased scale of social responsibility initiatives the Group established a foundation that acts as the institutional home for all its social initiatives and interventions and a single point of contact for partners. The Equity Group Foundation's vision is to influence the socio-economic prosperity of 50 million people in Africa during its first five years. Because of leveraging on its extensive Bank infrastructure and hence a high rate of return, the Foundation is becoming the partner of choice for organisations and institutions wishing to do good to society. To achieve its social responsibility objectives, the foundation is focused on six areas. These are: Education, Agriculture, Innovation and Creativity, Entrepreneurship and Financial Literacy, Health, and Environmental initiatives.

EDUCATION

Equity Bank continued to support academic excellence and leadership development by supporting various education initiatives. To enable transition of academically gifted needy orphans and vulnerable children from primary school to higher levels of education, Equity Group Foundation partnered with MasterCard Foundation to provide full high school scholarships and leadership development training. The program whose goal is to develop social transformational leaders of the future is currently sponsoring 166 and targeting 10,000 children over the next five years.

In another partnership with a Director of Master Card Foundation, the Foundation gave a sponsorship worth Kshs 2.5 million to sponsor 96 bright and needy children from Nairobi's Precious Gift Schools, who sat their Kenya Certificate of Primary Education (KCPE).

The Foundation continued with its pre-university sponsorship, mentorship and coaching program that has been its flagship program in education. The program founded in 1998 selects the top performing boy and girl in the Kenya Certificate of Secondary Education (KCSE) examinations in every district where

"All young people deserve an opportunity to reach their full potential," said Reeta Roy, President and CEO of the MasterCard Foundation. "We are proud to partner with EGF to enable students in Kenya to complete secondary school. EGF has the national scale, reach and financial systems to ensure this program benefits young people. "

The 2010 beneficiaries of EGF/MCF scholarships

STATEMENT ON CORPORATE SOCIAL RESPONSIBILITY

the Bank has a presence for an 18 month pre-university internship program. During the year under review, over 160 top performing students who completed the 2009 KCSE examinations joined the programme. Currently, this program has more than 600 alumni.

At the continental level the Group continued to support leadership development by sponsoring the African Leadership Academy (ALA) in South Africa. In support of ALA's mission to develop future leaders for Africa and in line with Equity Bank's mission of championing the social economic prosperity of Africa, the Bank donated US $20,000.00 to a revolving fund to finance practical entrepreneurship projects by students in the Academy. The Bank also gave an additional US$350,000 or Kshs 26 million funding to the Academy and offered its students an opportunity to join the Bank's mentorship and leadership training program during their summer holidays.

In addition to the aforementioned educational initiatives, the Bank supported schools in Kenya by donating 90 trophies for academic excellence at a cost of Kshs 600,000, donating 10,000 books, computers, and participating in Education days in all the 83 districts where Equity has presence.

AGRICULTURE

Agriculture provides livelihoods to the majority of the people in Africa. The Group's focus on Agriculture is evidenced by the various investments in this sector that seek to enable farmers improve their lives and livelihoods through better crop husbandry by use of certified seeds, fertilizer and transforming peasant farming. During the year the bank championed a green revolution in Africa through strategic partnerships with Alliance for Green Revolution in Africa (AGRA), IFAD and the Ministry of Agriculture. The partnership saw the bank create a revolving fund of over $50million for loans to peasant farmers. Under this initiative, the "kilimo biashara" program has supported 27,000 small scale farmers with very successful results in Transmara, Msabweni, Mpeketoni and Bungoma among others.

True to the organisation's culture of innovation and creativity, the group has introduced a value chain approach to agricultural financing that involves supporting farmers through the various stages of production, transport, processing and marketing cycles. This includes funding of inputs through a network of agro dealers, training for farmers on financial management and linking them with markets and buyers. Other initiatives under the value chain model were developed to meet specific agricultural financial needs of famers. Examples include; "Mifugo Biashara", for livestock farmers/pastoralists and traders and "Uvuvi Biashara" for fishermen and fish traders.
To implement these noble initiatives the bank has partnered with various players in the agriculture value chain like agro chemical manufacturers, AGMARK, Millennium Promise, GTZ, USAID, the Eastern Africa Grain council, the National Cereals and Produce Board (NCPB), and the World Food Program (WFP). The bank supports the modernisation of agriculture to increase

"Through partnerships in agriculture intervention farmers have benefitted from training access to credit and market linkages thereby commercialising agriculture. For example in Bura Irrigation Scheme the bank partnered with farmers in provision of credit which has seen more land brought under irrigation thereby increasing maize production and better returns to them."

Statement on Corporate Social Responsibility

Equity bank launched Mifugo Biashara targeting livestock farmers in Arid and Semi-Arid Lands and Uvuvi Biashara for fishermen and fishing industry.

The bank launched an Index Based Livestock Insurance (IBLI) jointly with International Livestock Research Institute (ILRI) with a consortium of Universities in the United States of America, UAP Insurance Company, with support of USAID, FSD, DFID and World Bank. The project billed as a world first uses satellite images on available foliage to determine the payouts. This will support pastoralists who often find themselves out of business during drought spans.

crop yields by enabling farmers to access non rain-fed agricultural technologies. Chief among these technologies is small scale irrigation schemes that utilize green houses and drip irrigation. Additionally, in partnership with the Government of Kenya, the bank has financed farmers in a number of irrigation schemes in the country, including, Bura, Bunyala, and Mwea. Other initiatives in the agricultural sector include participation in the World Food Day where the bank donated awards to the best farmers and farmer groups across the country and in Agricultural Society of Kenya (ASK) shows across the country. The Bank sponsored

In recognition of the Bank's initiative in agriculture, the Yara Foundation awarded the Bank's Chairman with the Yara 2009 Award for promoting a green revolution in Africa through agriculture and support of small holders farmers.

The bank also donated 2000 beehives worth Kshs 7.8million to farmers in Nyanza province the 2009 Agricultural Society of Kenya (ASK) to the tune of Kshs. 1 million.

The Bank also supported farmers through diversification of income streams by jump starting avocado and honey businesses, Equity Bank donated 47,000 avocado seedlings; 27,000 to Western Kenya, 20,000 to Nyanza, Kshs. 250,000 towards a Maize business fair at the farmers' exhibition in Eldoret and is initiating a program aimed at donating Sorghum seeds worth Kshs 10 million for Eastern Province.

The Bank partnered with Millennium Development Project through Millennium Promise of Earth Institute with an objective to introduce commercialization of agriculture to small scale farmers in a sustainable way. This was successfully done in Siaya- Sauri cluster where more than Kshs.9.4 million was disbursed to 917 farmers with a very encouraging recovery rate. The project is now entering a second phase covering more farmers and diversifying into other farming activities such as poultry and horticulture.

The Bank also developed additional insurance products for the agricultural sector. Arising from the challenges of rain-fed agriculture, the Bank has partnered with UAP Insurance and Financial Sector Deepening (FSD Kenya) to promote index based weather insurance. The aim of this project is to cushion farmers against losses incurred due to adverse weather conditions for sustainable commercial farming.

In the dairy sector, livestock insurance "Bima Ya Mifugo" was also introduced and it has taken off well. Farmers are well protected against perils that occur to their animals from time to time. Awareness about these interventions continues to be created to the target group in forums like farmers' field days, Agricultural Society of Kenya shows and exhibitions.

INNOVATION AND CREATIVITY

The Bank was able to further its mission of offering inclusive customer focused financial services aimed at improving lives and livelihoods of disadvantaged people by adopting innovations that facilitate access to financial services for people in remote villages. Key among these innovations is the Hunger Safety Net Program done in partnership with UKaid (formerly

DFID), the Government of Kenya and Oxfam GB. The program utilizes Biometric Point of Sale and smart card with electronic wallet technology to facilitate social cash transfers.

These cash transfers are to 60,000 vulnerable families in arid and poor districts and are done as an alternative to conventional food relief supplies. The program also utilizes an agency model that promotes an accessible, affordable and convenient payment system. This has brought financial services closer to the people and monetarized the local economies. This innovation has become a global best practice model for an effective

Statement on Corporate Social Responsibility

Equity has continued taking banking services closer to remote underserved populations through village mobile banking services. The services are offered through custom made 4-wheel drive vehicles, powered with GPRS connectivity, Laptops and solar panels for power needs. Dr. James Mwangi explains the mobile banking concept to Mr Tom Vilsack US Secretary of State for Agriculture in 2009.

public private partnership for social cash transfer payments. The need for electricity to power the agency units used for the above program also led to the introduction of a product financing solar panels, which has since lighted up these rural towns.

ENTREPRENEURSHIP AND FINANCIAL LITERACY TRAINING:

In partnership with UNDP the bank continued to provide entrepreneurship and financial literacy training to over 100,000 women under the *"Fanikisha"* initiative and has disbursed over Kshs. 6 billion.

Additionally, more than 40,000 youth groups

Equity bank partnered with the government to disburse the women enterprise fund targeting women groups who could not access conventional bank loans.

The bank invests heavily in financial education and training. Open days for financial education through personalised and edutainment have become an effective way of demystifying banking thereby encouraging more people especially the bottom of pyramid to embrace financial services.

received loans amounting to Kshs. 1.2 Billion. In an effort to bring these efforts to scale, Equity Bank partnered with the MasterCard foundation to provide entrepreneurship and financial literacy training to over 619,500 women and youth in the next three and a half years. The program aims at empowering women and youth entrepreneurs to scale-up their businesses and become competitive in their sectors.

HEALTH

Having recognized the negative effects of healthcare costs on household incomes, the Bank through it's insurance subsidiary Equity Insurance Agency launched a micro health insurance scheme under the name "Equihealth Insurance" to provide low income people with access to affordable and quality health care services. Additionally, the bank provides medical loans to cater for medical bills.

The Bank also invests in initiatives aimed at reducing the spread of HIV/AIDS, drug and substance abuse. Through community outreach programs, the Bank partnered with Kenyatta University in an initiative where the students work with communities to create awareness and provide counselling on HIV/Aids and substance abuse. Moreover Equity Bank has partnered with institutions such as the Meru Hospice to provide access to financial services to HIV/AIDS infected and affected people.

Under a partnership called 'Save the Mau, Turn a new leaf', Equity bank, Kenya Wildlife Services(KWS,) Nation Media Group , East Africa Breweries Limited, and the Green Belt movement joined together for the restoration of the Mau water complex initiative.

ENVIRONMENTAL SUSTAINABILITY

The Bank is a firm believer in environmental conservation and has continued to invest and support environmental related initiatives.

The Bank also financed the planting of tree nurseries by youth groups, the rehabilitation and clean up of the Nairobi River, community and school tree planting campaigns through the branch network. In partnership with Rototank, the Bank spearheaded massive harvesting and conservation of rain water among households. Notably the Bank is a signatory to the IFC Environmental and Social Governance (ESG) principles. In recognition of the Bank's work in conserving the environment, IFC and Financial times awarded the Bank as the Emerging markets most sustainable Bank of the year 2009, Africa and the Middle East.

SPORTS

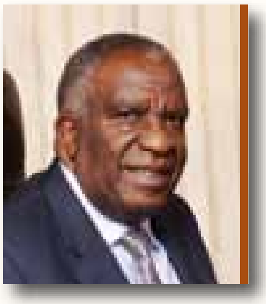
The Bank nurtured different talents by spending more than Kshs 7 million sponsoring various sports events. These were events such as the Cecafa championships, Sokotoko marathon, Mwea Classic marathon, Eldoret Kass marathon and Nyeri marathon. The Bank sponsored local rally driver Ben Muchemi in nine rounds of Kenya national rally championships. It also supported the Kenya national athletics team, which participated in the Olympics held in Beijing. This was by donating financial awards to the athletes who won Gold, Silver and/or Bronze medals during the Olympics.

BANK'S LEADERSHIP AND VOLUNTARY SERVICE TO SOCIETY

Finally, the Bank's leadership, led by Dr. James Mwangi the Chief Executive Officer and Managing Director supported corporate social responsibility by volunteering time and giving voluntary service to society. This was through time dedicated to Vision 2030 upon presidential appointment as the Chairman of the National Vision 2030 Delivery Board, membership to initiatives such as Clinton Global initiative, Global Philanthropists Forum, Commonwealth Business Council, and World Economic Forum. The leadership also volunteered in support of education initiatives through provision of training for District and Provincial Commissioners, Ambassadors and High Commissioners, presentation in Kenya Investment Conferences in Nyanza, Western, Coastal and Eastern province and by providing information and; supporting the writing of Case studies on Equity Bank by world's leading Business Schools and contributing to management knowledge. Dr. Mwangi also serves on the Board of African Leadership Academy in South Africa and has served as a member of the UN Advisors Board on inclusive finance. Dr. Mwangi serves as a member of Frontier 100 Initiative for Global Development (IGD) an initiative that brings together frontier market CEOs and US based CEOs committed to international development.

Dr. James Mwangi at the 2009 Clinton Global Initiative meeting in New York, USA.

Board of Directors



Mr. 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, 67, 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, Rockfeller Foundation and Equatorial Nut Processors.

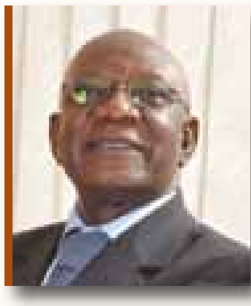
Dr. James Mwangi, MBS – **CEO & Managing Director**

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. 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 is currently the Chairman of Kenya's Vision 2030 Delivery Board and serves on several international bodies as an advisor on inclusive finance. James, 48, has wide experience in the banking industry.

Mr. 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. Benson, 57, is also a Director of Housing Finance (HF), Chairman of Kenyatta University Council and a member of the Board of Trustees of the Insurance Training and Education Trust.

Prof. Shem Migot-Adholla – **Board Member**



Professor Migot-Adholla holds a PhD in Sociology of Development, Masters of Arts in Sociology both from University of California, was a Special Graduate Student in Agriculture Economics (Michigan State University) and earned a Bachelor of Arts (University of East Africa). He is 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, and was Lead Specialist on Land Policy and Administration for Africa Region in the World Bank. He has also served as Permanent Secretary, Ministry of Agriculture and Rural Development, Government of Kenya. Shem, 68, is currently a consultant on agriculture and rural development, land policy reform and environmental issues.

Dr. Helen Gichohi, OGW, MBS – **Board Member**

Dr. Gichohi holds a doctorate in Ecology from the University of Leicester, in the UK. She also holds a Master of Science degree in Biology of Conservation and a Bachelor of Science degree in zoology from the University of Nairobi and Kenyatta University respectively. She is the president of African Wildlife Foundation where she has served for 9 years. Prior to that, she was the director of the African Conservation Centre. Helen, 50, is also a director of Kenya Wildlife Service.

Board of Directors

Mr. Temitope Lawani – **Board Member**

Mr. Lawani holds a Masters of Business Administration degree and a Bachelor of Science – Chemical Engineering. Temitope, 40, is 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.

Mr. Ernest Nzovu – **Board Member**

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. Ernest, 67, has for many years been a consultant in Human Resources Management and is a Director of Hawkins and Associates, Know How International Limited and KHI Training.

Mr. Julius Kipng'etich – **Board Member**

Mr. Kipng'etich holds a Masters of Business Administration degree and a Bachelors of Commerce (Accounting option) degree from University of Nairobi. Julius, 44, is the Chief Executive Officer of Kenya Wildlife Service and was previously the Managing Director of Investment Promotion Centre.

Mr. Fredrick Muchoki – **Board Member**

Mr. Muchoki, 57, is a businessman with vast commercial experience. He is Managing Director of Continental Business Systems and Presta Office Equipment Ltd.

Mr. Babatunde Soyoye – **Board Member**

Mr. Soyoye holds a Masters in Business Administration degree and Bachelors degree in Electrical Engineering. Babatunde, 42, 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.

Mrs. Mary Wamae – **Secretary to the Board**

Mrs. Wamae holds an LLB degree from the University of Nairobi, a Diploma in Law from the Kenya School of Law and is a Certified Public Secretary (Kenya). She is a graduate of Advanced Management Programme (Strathmore - IESE Business School, Barcelona Spain). She is an Advocate of the High Court of Kenya. She holds a Post Graduate Diploma in Gender and Development and has over 13 years legal private practice experience. Mary, 42, joined the bank 2004.

Executive Management

Dr. James Mwangi, MBS – **CEO & Managing Director**

James holds an Honorary Doctorate in Business Administration (Honoris Causa), from Kenya Methodist University, Doctor of Humane Letters (Honoris Causa) Kenyatta University, and 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). He is a graduate of Advanced Management Programme (Strathmore- IESE Business School, Barcelona, Spain). He is currently the Chairman of Kenya's Vision 2030 Delivery Board and serves on several international bodies as an advisor on inclusive finance. He has wide experience in the banking industry.

GERALD WARUI – **Director of Operations and Customer Service**

Gerald is a Certified Public Accountant (Kenya) and a graduate of Advanced Management Programme (Strathmore-IESE Business School, Barcelona Spain). He has more than 15 years of working experience in the banking sector having previously worked with Fidelity Bank. Gerald, 43, has worked for 12 years at Equity Bank.

Mary Wamae – **Company Secretary & Director of Corporate Strategy**

Mary holds an LLB degree from the University of Nairobi, a Diploma in Law from the Kenya School of Law and is a Certified Public Secretary (Kenya). She is a graduate of Advanced Management Programme (Strathmore - IESE Business School, Barcelona Spain). She is an Advocate of the High Court of Kenya. She holds a Post Graduate Diploma in Gender and Development and has over 13 years legal private practice experience.

MBAABU MUCHIRI - **Director of Credit**

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 18 years of management experience having previously worked with Central Bank of Kenya and Coca-Cola Africa. Mbaabu, 43, joined Equity Bank in 2004.

MICHAEL WACHIRA - **Director of Treasury and Trade Finance**

Michael holds a Bachelor of Science in Economics from the University of Buckingham (UK) and Master of Science in Investment Management from City University's Cass Business School (UK). Michael worked in Brussels, Belgium for the Fortis Bank group (Fortis Bank and Belgolaise Bank). Prior to joining the Fortis Group in 2000, Michael was an Emerging Markets Proprietary Trader focusing on the Middle East and Africa for Cargill Financial Markets based in the London and Istanbul. Michael, 38, joined Equity Bank in 2009.

JOHN STALEY – **Director of Shared Services**

John has a Masters of Science in Applied and Computational Mathematics from the University of the Witwatersrand and a Bachelor of Science in Physics from the University of Natal. He also obtained a Bachelor of Commerce (Honours) degree from the University of South Africa before qualifying as a Chartered Accountant (SA) in 1996. He has a wide range of experience in both finance and ICT, but has focused mainly on implementing cost effective ICT solutions in companies. He was the CEO of Credit Indemnity (Pty) Ltd and worked with Equity Bank in 2003. John, 45, joined Equity Bank again at the start of 2009.

Executive Management

DR. WAHOME GAKURU - **Director of Marketing, Advocacy and Policy**

Gakuru received his PhD from Arizona State University having majored in Public Administration and Policy. He holds MBA degrees from Willamette University, USA, and the University of Nairobi. 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 Gakuru was Head of Strategy Development at the National AIDS Control Council. He has over 15 years experience lecturing and has received many honors and awards including being a recipient of the prestigious Fulbright Scholarship. Gakuru, 43, joined Equity Bank in 2008.

ALLAN WAITITU - **Director of Projects**

Allan is a Certified Systems Engineer, a Novell Certified Network Engineer and a graduate of Advanced Management Programme (Strathmore-IESE Business School, Barcelona Spain). He has over 20 years experience in the information technology and banking industry. Allan, 44, joined Equity Bank in 2004.

DR. CATHERINE MUNENE - **General Manager - Human Resources**

Catherine received her PhD from Edith Cowan University, Australia having majored in adoption and evaluation of self service technologies. She also holds a Masters of Business Administration and a Bachelor of Commerce degree. She was an Assistant Professor of Marketing at USIU and also lectured at AUSI College and Edith Cowan University in Perth, Western Australia before joining Kenya Airways. Catherine, 36, joined Equity Bank in 2009.

ALLAN MWANGI - **General Manager - Finance**

Allan holds a Bachelor of Commerce (Accounting) Degree from Kenyatta University, and is a CPA (K) and member of ICPAK. He is a graduate of the Advanced Management Programme (Strathmore-IESE Business School, Barcelona, Spain). He has 15 years experience in Finance and Accounting having previously worked for Deloitte & Touche, Lonrho Africa and ABN AMRO Bank. Allan, 38, joined Equity Bank in 2003.

PETER GACHAU - **General Manager – Information Technology**

Peter holds a Bachelor of Education (Science) degree from Kenyatta University and a Post Graduate Diploma in Computer Science. He has over 16 years experience in Information Technology having previously worked for ABC Bank and ABN AMRO Bank among others. Peter, 48, joined Equity Bank in 2005.

SAMUEL MAKOME - **General Manager - Risk**

Samuel holds a Bachelor of Science (Engineering) Degree from the University of Nairobi and is an Associate of the Chartered Institute of Bankers (London). He has over 17 years experience in Retail Banking, Operations and Risk Management and has worked with major local and international banks including Citibank N.A, Kenya Commercial Bank, Standard Chartered Bank, Africa and was an Executive Director with Bank of Africa, Uganda. Samuel, 43, joined Equity Bank in 2009.

BILDARD FWAMBA - **General Manager - Internal Audit**

Bildard holds a Bachelor of Commerce (Accounting) degree from Kenyatta University and is a Certified Public Accountant (Kenya). He has over 12 years experience in audit having previously worked with Central Bank of Kenya and British American Insurance Company (K) Ltd. Bildard, 37, joined Equity Bank in 2004.

The Board of Directors

Mr. Temitope Lawani
Board Member

Mr. Julius Kipng'etich
Board Member

Dr. Helen Gichohi
Board Member

Prof. Shem Migot-Adholla
Board Member

Mr. Benson Wairegi
Vice Chairman

Mr. Peter K. Munga
Chairman

Dr. James Mwangi
CEO & Managing Director

Mr. Babatunde Soyoye
Board Member

Mr. Ernest Nzovu
Board Member

Mr. Fredrick Muchoki
Board Member

Mrs. Mary Wamae
Secretary to the Board

Report of the Directors
For the year ended 31st December 2009

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2009 in accordance with Section 22 of the Kenyan 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 seven wholly owned subsidiaries whose activities are as shown under note 17(b).

2. Results

The results for the bank and group for the year are set out on page 42.

3. Dividends

The Board has recommended a dividend of KShs 0.40 per share subject to the approval of shareholders at the Annual General Meeting.

4. Directors

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

Peter Kahara Munga	- Chairman
James Njuguna Mwangi	- CEO/Managing Director
Benson Irungu Wairegi	- Vice-chairman
Fredrick Mwangi Muchoki	
Peter Gachuba	**
Julius Kangogo Kipng'etich	
Linus Wang'ombe Gitahi	**
Ernest Mattho Nzovu	***
Babatunde Temitope Soyoye	*
Temitope Olugbeminiyi Lawani	*
Shem Migot Adholla	***
Ezekiel Alembi	****
Helen Gichohi	*****

* British
** Retired on 26th March 2009
*** Retired on 26th March 2009 and was re-elected
**** Retired on 26th March 2009 and was re-elected (Deceased)
***** Appointed on 23rd October 2009

Article 100 of the Memorandum and Articles of Association of the Bank provides for retirement of directors by rotation. The following directors are due to retire and being eligible offer themselves for re-election:

- Benson Irungu Wairegi
- Fredrick Mwangi Muchoki
- Temitope Olugbeminiyi Lawani

Helen Gichohi, having been appointed a director during the year will retire in accordance with Article 101 and being eligible offers herself for election as a director.

5. 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.

6. Approval of Financial Statements

The financial statements were approved by the Board of Directors on 17 February 2010.

By Order of the Board

Mary Wangari Wamae
Company Secretary
17th February 2010

STATEMENT OF CORPORATE GOVERNANCE

In keeping with the Group and the Bank's core value of effective corporate governance, the Group and the Bank has built its business on very strong corporate governance principles based on the application of high and consistent ethical standards in our relationships with all customers, employees, and other stakeholders. There is a strong commitment to conduct business in accordance with best business practices based on the principles of accountability and responsibility, compliance with relevant laws and regulations, risk management, appropriate checks and balances and delivery on commitments to all stakeholders. The Group and the Bank also kept abreast with international developments in corporate governance and follows the OECD principles of corporate governance for promotion of increase in transparency, integrity and rule of law and subscribes to EITI requirements.

OVERSIGHT ROLE OF THE BOARD OF DIRECTORS

The Board of Directors supervises the delivery of strong business growth with the Group and the Bank continuing to deliver strong financial performance. The Board has provided leadership to the Bank resulting in the Bank taking banking services to the furthest reaches of the Kenyan society, the Eastern Africa Region and in the generation of great shareholder wealth.

The Board has attracted directors who have shown great commitment and enthusiasm in involving themselves in the affairs of the Bank and who have demonstrated the spirit and ethos of the organization. The directors subscribe to the Code of Corporate Practices which guide them in the fulfillment of their duties and responsibilities to shareholders, customers, employees and the community.

During the year, twelve non-executive directors served on the board and seven meetings were held. Mr Linus Gitahi and Mr. Peter Gachuba retired from the board on 26th March 2009. Dr. Ezekiel Alembi and Professor Shem Migot Adholla were appointed to the board on 12th February 2009 while Dr. Helen Gichohi was appointed on 23rd October 2009.
Unfortunately, Dr. Alembi passed away on 16th January 2010 after one year of dedicated service to the Bank.

The director's attendance to the meetings was as follows:

Name of Director	Number of meetings attended
Peter Kahara Munga	7
James Njuguna Mwangi	7
Babatunde Temitope Soyoye	6
Temitope Olugbminiyi Lawani	5
Benson Irungu Wairegi	7
Frederick Mwangi Muchoki	7
Linus Wang'ombe Gitahi	2
Peter Gachuba	3
Julius Kangogo Kipng'etich	5
Ernest Mattho Nzovu	7
Hellen Gichohi	2
Prof. Shem Migot-Adholla	5
Dr. Ezekiel Alembi	5

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

BOARD COMMITTEES

The Board has established seven board committees which are all governed by charters and are aligned to the critical success factors which the Group and the Bank has identified as a tool to operationalise the vision and mission. The secretary to each board committee is the head of the relevant function within the Bank.

Audit Committee ensures that the Bank and it's subsidiaries has and adheres to sound policies, processes and procedures that deliver business strategic plans effectively and further reviews the financial conditions of the Group. The committee receives and reviews findings of internal and external audits and actions taken in response to them. The same is comprised of three non-executive directors.

Credit Committee reviews and oversees the overall lending policy of the Bank and it's subsidiarie ensures lending systems and procedures are adequate and adhered to and also ensures full compliance with Central Bank of Kenya prudential guidelines, Bank of Uganda guidelines, Bank of Southern Sudan guidelines, Banking Act and International Accounting Standards to guarantee high quality asset portfolio.

Risk Management and ALCO Committee ensures quality, integrity and reliability of the Banks' risk management. The Committee also discharges duties relating to corporate accountability and associated risks in terms of management assurance and reporting. The Committee is responsible for ensuring that there are updated documented policies, procedures and processes for risk management and monitors compliance with them and regularly reviews the adequacy of the Risk Management framework in relation to the risks faced by the Banks.

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

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROLS

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

In line with the Central Banks regulations and Basel II requirements, the Banks have put in place a comprehensive end to end framework for risk management. The Banks' business units have put in place robust processes and procedures to curb all identified risks which have been mapped indicating their drivers, frequency, impact, risk levels, trends, and risk owners. All risks associated with banking institutions and those specific to the Bank are actively owned and managed by the respective business units supported by an integrated four tier risk management hierarchy and monitored by the Bank's Risk Management Department. The Bank's risk limits are assessed regularly to ensure their appropriateness in line with business objectives and current market conditions. During the year, the Bank strengthened the risk management team by putting in place a revamped risk management structure comprising of existing and additional specialized units reporting into a General Manager who reports to the Board Risk Management Committee and works closely with the rest of the Senior Management team.

The Bank also continued to invest in building its operational resilience by investing heavily in technology and embarked on the construction of a tier 4 data centre that will ensure high system availability and disaster recovery capability. Experienced information system personnel were added to the risk management team.

The Bank's Internal Audit department plays a vital role within governance processes by keeping the Board and senior management aware of risk and control issues and by assessing the effectiveness of risk management. Reporting to the Audit Committee of the Board, the department plays the following vital roles:

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

The Bank's Compliance Assurance department reviews the compliance framework and specific compliance issues by all business units and supports and follows up on implementation of Internal Audit, External Audit and regulators' recommendations.

FINANCIAL REPORTING AND DISCLOSURES

In accordance with the Banking Act, Capital Markets Authority Act and continuing listing obligations 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 (IFRS) and the requirements of all the relevant statutes, rules and regulations. The Group also complies with all relevant requirements by all other authorities such as the Retirement Benefits Authority, the Nairobi Stock Exchange (NSE), Uganda Securities Exchange and relevant authorities in all countries in which we operate.

BUSINESS ETHICS AND CORE VALUES

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

Staff have committed to the core values of the bank which define their conduct in the course of service. These are;

- Professionalism
- Integrity
- Creativity & Innovative
- Team work
- Unity of Purpose
- Respect and dedication for Customer Delight
- 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) now UKaid
2. United Stated 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. The Mastercard Foundation
8. Millenium Promise of Earth Institute
9. The World Food Programme (WFP)
10. International Livestock Research Institute (ILRI)
11. The World Bank

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)
6. World Economic Forum

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) and the Nairobi Stock Exchange (NSE) on the particulars of the shareholders as required by the law.

As at 31st December 2009 the details of shareholding was as follows (also refer to note 29 (a)):

Name	No. of Shares	%
Helios Eb Investors	905,162,550	24.44
British-American Investments Company (Kenya) Limited	421,223,330	11.37
Nelson Muguku Njoroge	225,452,550	6.08
James Njuguna Mwangi	160,122,370	4.32
Equity Bank Employees Share Ownership Plan	150,184,000	4.05
John Kagema Mwangi	121,796,900	3.28
Fortress Highlands Limited	101,010,000	2.72
Andrew Mwangi Kimani	90,426,800	2.44
Aib Nominee A/C Solidus Holdings Ltd	90,114,000	2.43
Simon Kagwanja Thuo	63,383,950	1.71
Other 25,959 Shareholders	1,373,899,660	37.16
Total Shares	**3,702,777,020**	**100**

The shares are distributed as follows

Shareholding	No. of Shareholders	No. of Shares	% Shares held
1 - 500	6,387	1,795,896	0.04
501 - 5,000	13,054	25,601,224	0.69
5,001 -10,000	2,591	20,623,120	0.55
10,001 - 100,000	3,310	98,013,890	2.64
100,001 - 1,000,000	464	137,163,978	3.70
1,000,001 and above	163	3,419,578,912	92.35
Total	**25,969**	**3,702,777,020**	**100**

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31ST DECEMBER 2009

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank 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.

Director: ______________________

Director: ______________________

Secretary: ______________________

Date: 17 February 2010

Report of the Independent Auditors
To the Members of Equity Bank Limited

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Equity Bank Limited and subsidiaries, set out on pages 42 to 105, which comprise the consolidated statement of financial position as at 31December 2009, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 31 December 2009 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 Group and Bank's statement of financial position, income statement and consolidated statement of comprehensive income are in agreement with the books of account.

Ernst & Young

ERNST & YOUNG

Nairobi
4th March, 2010

Consolidated Income Statement
FOR THE YEAR ENDED 31ST DECEMBER 2009

In millions of Kenya Shillings	*Note*	Group 2009	Group 2008	Bank 2009	Bank 2008
Interest income	*8*	10,792	7,979	9,691	7,169
Interest expense	*8*	(1,622)	(1,362)	(1,413)	(1,217)
Net interest income	*8*	9,170	6,617	8,278	5,952
Fee and commission income	*9*	1,490	1,624	1,253	1,308
Net fee and commission income		1,490	1,624	1,253	1,308
Net trading income	*9*	286	780	225	734
Other operating income	*10*	4,730	3,584	4,517	3,562
Total operating income		**15,676**	**12,605**	**14,273**	**11,556**
Net impairment loss on financial assets	*11*	1,035	1,020	880	875
Personnel expenses	*12*	4,339	2,954	3,586	2,584
Operating lease expenses	*13*	645	375	471	357
Depreciation and amortization	*14, 15*	1,174	749	1,042	712
Other expenses	*16*	3,263	2,519	2,724	2,271
Total expenses		**10,456**	**7,617**	**8,703**	**6,799**
Profit before tax and equity income		5,220	**4,988**	**5,570**	**4,757**
Share of profit of associate	*17(a)*	58	34	58	34
Profit before income tax		**5,278**	**5,022**	**5,628**	**4,791**
Income tax expense	*18*	(1,044)	(1,112)	(1,065)	(1,038)
Profit for the year		**4,234**	**3,910**	**4,563**	**3,753**

Consolidated Statement of Comprehensive Income
FOR THE YEAR ENDED 31ST DECEMBER 2009

	Group		Bank	
In millions of Kenya Shillings	2009	2008	2009	2008
Profit for the year	4,234	3,910	4,563	3,753
Other comprehensive income			-	-
Exchange differences on translation of foreign operations	(31)	(170)	-	-
Revaluation of property, plant and equipment	11	-	-	-
Net gain/loss on available for sale financial assets	225	(125)	225	(125)
Other comprehensive income for the year	**205**	**(295)**	**225**	**(125)**
Total comprehensive income for the year net of tax	**4,439**	**3,615**	**4,788**	**3,628**

Consolidated Statement of Financial Position
FOR THE YEAR ENDED 31ST DECEMBER 2009

		Group		Bank	
In millions of Kenya Shillings	***Note***	**2009**	**2008**	**2009**	**2008**
Assets					
Cash and cash equivalents	*21*	12,994	12,766	10,004	12,018
Loans and advances to customers	*22(b)*	63,326	44,070	59,868	40,857
Finance lease receivable	*22 (c)*	52	122	-	-
Investment securities	*23*	12,185	12,240	11,844	12,151
Investment in associate	*17(a)*	1,214	1,156	1,214	1,156
Goodwill	*17(c)*	887	887	-	-
Property and equipment	*14*	6,442	4,796	5,193	4,259
Prepaid leases	*14(c)*	31	32	4	4
Intangible assets	*15*	877	621	570	348
Investment in subsidiary companies	*17(b)*	-	-	3,438	2,976
Amounts due from related parties	*31 (g)*	10	-	2,022	182
Other assets	*24*	2,713	2,175	2,349	3,184
Tax recoverable	*18*	75	14	-	-
Deferred tax asset	*26*	6	-	6	-
Total assets		**100,812**	**78,879**	**96,512**	**77,135**
Liabilities					
Deposits from customers	*25*	69,843	50,334	65,825	48,977
Current tax liabilities	*18*	20	514	20	514
Deferred tax liabilities	*26*	-	94	-	67
Long term borrowings	*27*	6,487	6,463	6,114	6,167
Other liabilities	*28*	1,554	1,894	1,215	1,751
Total liabilities		**77,904**	**59,299**	**73,174**	**57,476**
Equity					
Share capital	*29*	1,851	1,851	1,851	1,851
Share premium	*29(b)*	12,161	12,161	12,161	12,161
Fair value reserve	*29(c)*	113	(112)	113	(112)
Statutory loan loss reserve	*29*	449	308	337	308
Other reserves	*29(e)*	(67)	(67)	-	-
Foreign currency translation reserve	*29(f)*	(201)	(170)	-	-
Revaluation reserve		11	-	-	-
Retained earnings		7,110	4,498	7,395	4,340
Proposed dividends	*29(g)*	1,481	1,111	1,481	1,111
Total equity		**22,908**	**19,580**	**23,338**	**19,659**
Total liabilities and equity		**100,812**	**78,879**	**96,512**	**77,135**

The financial statements were approved by the Board of Directors on 17th February 2010 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 2009

Group

In millions of Kenya Shillings

For the year ended 31 December 2009	Share capital	Share premium	Retained earnings	Statutory loan reserve	Available for sale reserve	Foreign currency translation reserve	Revaluation reserve	Other reserves	Proposed dividend	Total
At 1st January 2009	1,851	12,161	4,498	308	(112)	(170)	-	(67)	1,111	19,580
Total comprehensive income:										
Profit for the year	-	-	4,234	-	-	-	-	-	-	4,234
Other comprehensive income	-	-	-	-	225	(31)	11	-	-	205
Statutory loan reserve transfers	-	-	(141)	141	-	-	-	-	-	-
Dividends:										-
Final for 2008 paid	-	-	-	-	-	-	-	-	(1,111)	(1,111)
Proposed for 2009	-	-	(1,481)	-	-	-	-	-	1,481	-
At 31st December 2009	1,851	12,161	7,110	449	113	(201)	11	(67)	1,481	22,908
For the year ended 31 December 2008										
At 1st January 2008	1,811	10,543	1,754	253	13	-	-	-	543	14,917
Share capital issued	40	1,618	-	-	-	-	-	-	-	1,658
Total comprehensive income:										
Profit for the year	-	-	3,910	-	-	-	-	-	-	3,910
Other comprehensive income	-	-	-	-	(125)	(170)	-	-	-	(295)
Statutory loan reserve transfers	-	-	(55)	55	-	-	-	-	-	-
Dividends:							-			
Final for 2007 paid	-	-	-	-	-	-	-	-	(543)	(543)
Proposed for 2008	-	-	(1,111)	-	-	-	-	-	1,111	-
Other Reserves	-	-	-	-	-	-	-	(67)	-	(67)
At 31st December 2008	1,851	12,161	4,498	308	(112)	(170)	-	(67)	1,111	19,580

Consolidated Statement of Changes In Equity
FOR THE YEAR ENDED 31ST DECEMBER 2009

Bank

In millions of Kenya Shillings

For the year ended 31 December 2009	**Share capital**	**Share premium**	**Retained earnings**	**Statutory loan reserve**	**Available for sale reserve**	**Proposed dividend**	**Total**
At 1st January 2009	1,851	12,161	4,340	308	(112)	1,111	19,659
Total comprehensive income:							
Profit for the year	-	-	4,563	-	-	-	4,563
Other comprehensive income	-	-	-	-	225	-	225
Statutory loan reserve transfers	-	-	(29)	29	-	-	-
Dividends:							
Final for 2008 paid	-	-	-	-	-	(1,111)	(1,111)
Proposed for 2009	-	-	(1,481)	-	-	1,481	-
At 31st December 2009	1,851	12,161	7,395	337	113	1,481	23,338
For the year ended 31st December 2008							
At 1st January 2008	1,811	10,543	1,753	253	13	543	14,916
Share capital issued	40	1,618	-	-	-	-	1,658
Total comprehensive income:							
Profit for the year	-	-	3,753	-	-	-	3,753
Other comprehensive income	-	-	-	-	(125)	-	(125)
Statutory loan reserve transfers	-	-	(55)	55	-	-	-
Dividends:							
Final for 2007 paid	-	-	-	-	-	(543)	(543)
Proposed for 2008	-	-	(1,111)	-	-	1,111	-
At 31st December 2008	1,851	12,161	4,340	308	(112)	1,111	19,659

Consolidated Statement of Cashflows
FOR THE YEAR ENDED 31ST DECEMBER 2009

Group

In millions of Kenya Shillings	*Note*	2009	2008
Cash flows from operating activities			
Net profit before taxation		5,278	5,022
Adjustments for:			
Depreciation of property and equipment	*14(a) 14(c)*	1,036	633
Amortisation of Investment property	*14(d)*	3	-
Amortisation of intangible assets	*15*	136	99
Foreign currency translation reserve		(31)	(170)
Surplus on revaluation of properties		10	(1)
Revaluation of investment securities		225	125
Operating profit before working capital changes		**6,657**	**5,708**
Loans and advances		(19,186)	(20,425)
Other assets		(538)	(1,066)
Customers deposits		19,509	17,927
Due from related parties		(10)	-
Other liabilities		(340)	52
Cash generated from operations		6,092	2,196
Income taxes paid		(1,697)	(732)
Net cash from operating activities		**4,395**	**1,464**
Cashflow (to)/from investing activities			
Proceeds from sale of investment securities		4,795	2,965
Purchase of investment securities		(4,740)	(1,008)
Investment in associate		(58)	(680)
Purchase of property and equipment		(2,688)	(2,394)
Purchase of intangible assets		(392)	(282)
Proceeds from the sale of fixed assets		1	-
Net cashflow (to)/from investing activities		**(3,082)**	**(1,399)**
Cashflow (to)/from financing activities			
Proceeds from issue of new shares		-	2,959
Proceeds from long term borrowings		406	-
Re-payment of long-term borrowings		(380)	(1,671)
Dividends paid		(1,111)	(583)
Net cashflow (to)/from financing activities		**(1,085)**	**705**
Net increase in cash and cash equivalents		**228**	**770**
Cash and cash equivalents at 1st January	*21*	12,766	11,996
Cash and cash equivalents at 31st December	*21*	**12,994**	**12,766**

Statement of Cashflows
For the year ended 31st December 2009

Bank

In millions of Kenya Shillings	*Note*	2009	2008
Cash flows from operating activities			
Net profit before taxation		5,628	4,791
Adjustments for:			
Depreciation of property and equipment	*14(a) 14 (c)*	922	616
Amortisation of investment property	*14(d)*	3	-
Amortisation of intangible assets	*15*	118	96
Revaluation of investment securities		225	125
Operating profit before working capital changes		**6,896**	**5,628**
Loans and advances		(19,011)	(19,021)
Other assets		(1,008)	(939)
Customers deposits		16,848	17,442
Other liabilities		(536)	(153)
Cash generated from operations		**3,189**	**2,957**
Income taxes paid		(1,631)	(654)
Net cashflow from operating activities		**1,558**	**2,303**
Cashflow (to)/from investing activities			
Purchase of property and equipment		(1,856)	(2,271)
Purchase of intangible assets		(341)	(219)
Proceeds from the sale of fixed assets		1	-
Investment in subsidiary companies		(462)	(2,976)
Investment in associate		(58)	(713)
Purchase of investment securities		(4,488)	(1,824)
Proceeds from sale of investment securities		4,795	2,965
Net cashflow (to)/from investing activities		**(2,409)**	**(5,038)**
Cash flows (to)/from financing activities			
Proceeds from long term borrowing		328	2,119
Repayment from long term borrowing		(380)	(477)
Proceeds from issue of new shares		-	1,658
Dividends paid		(1,111)	(543)
Net cashflow (to)/from financing activities		**(1,163)**	**2,757**
Net (decrease)/increase in cash and cash equivalents		**(2,014)**	**22**
Cash and cash equivalents at 1st January	*21*	12,018	11,996
Cash and cash equivalents at 31st December	*21*	**10,004**	**12,018**

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 licensed under the Kenya Banking Act (Chapter 488), and continues to offer retail banking, microfinance and related services.

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

2. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

- IAS 1 Presentation of financial statements
- IFRS 8 Operating Segments
- IFRS 3 Business Combinations
- IAS 27 Consolidated and Separate Financial Statements
- IAS 16 Property, Plant and Equipment
- IAS 19 Employee Benefits
- IAS 20 Accounting for Government Grants and Disclosure of Government Assistance
- IAS 23 Borrowing Costs
- IAS 28 Investment in Associates
- IAS 36 Impairment of Assets
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRS 7 Financial Instruments: Disclosures
- IAS 8 Accounting Polices, Changes in Accounting Estimates and Errors
- IAS 10 Events after the Reporting Period
- IAS 18 Revenue
- IAS 40 Investment Property
- IAS 7 Statement of Cash Flow
- IAS 17 Leases

The adoption of these standards, amendments and interpretations did not have any effect on the financial performance or position of the Group. They did, however, give rise to additional disclosures.

The following standards, amendments and interpretations to published standards are mandatory and adopted for accounting periods beginning on or after 1 January 2009 but they are not relevant to the Group's operations:

	New Standard or Interpretation Name	**Effective Date**
IFRS 1 & IAS 27	Amendments to IFRS 1 First-time Adoption of IFRS and IAS 27 (Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009

2. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

	New Standard or Interpretation Name	Effective Date
IFRS 2	Amendments to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations	1 January 2009
IFRS 7	Improving Disclosures about Financial Instruments Amendments to IFRS 7	1 January 2009
IAS 32 & IAS 1	Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements -Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
IAS 39 & IFRIC 9	Embedded derivatives – Amendments to IFRIC 9 – Reassessment of Embedded Derivatives & IAS 39 Financial Instruments: Recognition and Measurement	annual periods ending on or after 30 June 2009
IFRIC 15	Agreements for the construction of real estate	1 January 2009
IFRIC 16	Hedges of a net investment in a foreign operation	1 October 2008
	Improvements to IFRS (May 2008) Refer annexure B	Mostly 1 January 2009

The Group has chosen not to early adopt the following standards, amendments and interpretations to existing standards that are issued, but not yet effective for accounting periods beginning on or after 1 January 2010.

	Standard or Interpretation Name	Effective Date
IFRS 1	First-time Adoption of International Financial Reporting Standards	1 July 2009
IFRS 1	Amendments to IFRS 1 - Additional Exemptions for First-time Adopters	1 January 2010
IFRS 2	Amendments to IFRS 2 - Group cash-settled share based payment transactions	1 June 2009
IFRS 3 R	Business Combinations	1 July 2009
	Improvements to IFRS (April 2009)	1 January 2010
IAS 27	Consolidated and Separate Financial Statements	1 July 2009
IAS 39	Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items	1 July 2009
IFRIC 17	Distribution of Non-cash Assets to Owners	1 July 2009
IFRIC 18	Transfer of Assets from Customers	1 July 2009

3. BASIS OF PREPARATION

(a) Statement of compliance

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

3. BASIS OF PREPARATION (Continued)

(b) Basis of measurement

The financial statements have been prepared on the historical cost and revaluation 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 review on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimates is revised and in any future years affected.

The most significant uses of judgment and estimates are as follows:

(i) Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(ii) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where

3. BASIS OF PREPARATION (Continued)

(e) Significant accounting estimates and judgments

possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

The valuation of financial instruments is described in more detail in Note 23.

(iii) Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.),concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).The impairment loss on loans and advances is disclosed in more detail in Note 11 and 22(b).

(iv) Impairment of available-for-sale investments

The Bank reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. The Bank also records impairment charges on available-for-sale equity investments when there has been asignificant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or' prolonged' requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

(v) Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit wil lbe available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

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) Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred including acquisition cost, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.
In the Bank accounts, investments in subsidiaries are accounted for at cost less accumulated impairments.

(b) Associates

The Group's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence.
Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment.

The income statement reflects the share of the results of operations of the associate. This is the profit attributable to equity holders of the associate and therefore is profit after tax and minority interests in the subsidiaries of the associates. Where there has been a change recognised in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Associates (Continued)

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the income statement.

(c) Foreign currency transactions

The Group's consolidated financial statements are presented in Kenya Shillings, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences arising from non-trading activities are taken to other operating income in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

(ii) Group companies

The assets and liabilities of foreign operations are translated into Kenya Shillings at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

(d) Recognition of interest income, dividend and interest expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

- 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(e) Fees and commission

Fees and commission income and expenses, other fees and commission income, including account servicing fees, investment management fees, placement fees and syndication fees, are recognised as the related services are performed. Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

(f) 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.

(g) Lease payments

Payments made under operating leases are recognised in the income statement 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.

(h) Taxes

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

(ii) Deferred tax

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax is recognised for all taxable temporary differences, except:

- Where the deferred tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) Deferred tax (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognised in other comprehensive income are also recognised in other comprehensive income and not in the income statement.

(i) 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) Initial measurement

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through the income statement.

(iii) Derecognition

The Group derecognises a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when:

- The rights to receive cash flows from the asset have expired.
- The Group and the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group derecognises a financial liability when the obligation under the liability is discharged or cancelled or expires.

(iv) 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.

4. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(v) 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.

(vi) 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 at the statement of financial position date.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

(vii) 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 income statement 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(vii) Identification and measurement of impairment (Continued)

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 debt investment 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.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The Group treats 'significant' generally as 20% and 'prolonged' as greater than 1 year. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement, is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement. Increases in the fair value after impairment are recognised directly in equity.

(j) 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 statement of financial position.

(k) 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 statement of financial position 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.

(l) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Investment securities

(i) Fair value through the income statement

Fair value through the income statement investment securities are those that are classification as either held-for-trading or those which are specifically designated as such.

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

(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.

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

(iii) Available-for-sale

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value, with unrealised gains/losses recognised as other comprehensive income in the available for sale reserve until the investment is derecognized.

Foreign exchange gains or losses on available-for-sale debt security investments are recognised in the income statement.

(iv) Borrowings

Borrowings are recognised initially at fair value.

(v) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(vi) 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.

(n) Property and equipment

(i) Recognition and measurement

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Recognition and measurement (Continued)

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 present value of the estimated 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. Freehold land is not depreciated.

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

Freehold land	Nil
Buildings	2.5%
Motor vehicles	25%
Office equipment, furniture and fittings	12.5%
Computer hardware	33.3%
ATM machines, core banking software and hardware	20%
Village cell banking vans	25%

Leasehold improvements are written off over their estimated useful life or the lease period, whichever is shorter. The assets' residual values, useful lives and methods of depreciation are reassessed at each financial year end and adjusted prospectively, if appropriate.

(o) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both. Investment property is measured at cost less accumulated depreciation and impairment losses.

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful life, from the date it is available for use. The estimated useful life of investment property is 75 years.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) 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.

(q) 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.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

For assets an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

(r) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) 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.

(t) Operating Segment

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 provides financial services to individuals and small and medium sized enterprises in each of the entities. For management purposes the results of each business unit (entity) is reviewed separately for the purpose of making decisions. There are therefore no distinct significant business segments within each entity to necessitate detailed disclosures.

(ii) Geographical segments

The Bank operates in three geographical markets that is Kenya, Uganda and Sudan. The table below shows that distribution of the Group's total assets, net interest income, total operating income, total expenses and profit before tax.

	2009			2008	
In millions of Kenya Shillings	Kenya	Uganda	Sudan	Kenya	Uganda
Total assets	96,512	6,174	2,121	77,135	4,892
Net interest income	8,278	890	1	5,952	665
Total operating income	14,273	1,172	86	11,556	979
Total expenses	8,703	1,438	129	6,799	720
Profit before tax	5,628	(266)	(43)	4,791	259

(u) 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.

(v) Sale and repurchase agreements

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

(w) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

5. FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

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

1. Credit risk
2. Liquidity risk
3. Market risks
4. 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.

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 Group Credit committee, 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,

5. FINANCIAL RISK MANAGEMENT (Continued)

Management of credit risk (Continued)

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.
- *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.

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Exposure to credit risk

Loans and advances to customers

		Group		Bank	
In millions of Kenya Shillings	***Notes***	2009	2008	2009	2008
Amortised cost	*22*	65,733	45,195	62,053	41,847
Individually impaired					
Grade 3 : Substandard		947	999	621	827
Grade 4:Impaired (doubtful)		2,660	1,200	2,482	1,200
Grade 5: Impaired (loss)		1,476	448	1,462	417
Gross amount		5,083	2,647	4,565	2,444
Allowance for impairment		(2,074)	(911)	(1,899)	(776)
Carrying amount		**3,009**	**1,736**	**2,666**	**1,668**
Collectively impaired					
Grade 1: Normal		58,514	41,356	56,407	38,259
Grade 2: Watch		2,135	1,192	1,080	1,144
Gross amount		60,649	42,548	57,487	39,403
Allowance for impairment		(332)	(214)	(285)	(214)
Carrying amount		**60,317**	**42,334**	**57,202**	**39,189**
Total carrying amount		**63,326**	**44,070**	**59,868**	**40,857**

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.

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.

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

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

In millions of Kenya Shillings

	Group		Bank	
Against individually impaired	2009	2008	2009	2008
Property	2,449	1,114	1,997	983
Equities	2,136	131	2,136	131
Other	650	48	484	-
Against collectively impaired				
Property	69,484	51,385	67,368	49,288
Equities	2,826	1,779	2,826	1,779
Against past due but not impaired				
Property	48,853	35,650	47,224	34,470
Equities	10	1,335	10	1,335
Other	518	63	431	-
Total	**126,926**	**91,505**	**122,476**	**87,986**

5. FINANCIAL RISK MANAGEMENT (Continued)

The Group and 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

	Group		Bank	
In millions of Kenya Shillings	2009	2008	2009	2008
Concentration by sector				
Consumer	27,272	17,072	26,633	17,072
Micro Credit	9,283	8,042	7,332	5,370
Agriculture	1,921	1,034	1,921	1,034
SME	18,387	12,242	17,396	11,566
Large SMEs	8,870	6,805	8,771	6,805
	65,733	**45,195**	**62,053**	**41,847**

(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 Group and 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:

	Kenya	Uganda	Sudan
At 31 December	32%	48%	79%
Average for the year	38%	53%	71%
Maximum for the year	44%	69%	82%
Minimum for the year	31%	31%	59%
Minimum statutory requirement	20%	20%	20%

5. FINANCIAL RISK MANAGEMENT (Continued)

(i) Group - 2009

In millions of Kenya Shillings	Less than 3 months	3-6 Months	6-12 Months	1-5 Years	More than 5 years	Totals
Assets						
Cash and cash equivalents	12,341	159	-	494	-	12,994
Loans and advances to customers	10,223	2,849	7,932	29,770	12,552	63,326
Finance lease receivable	19	4	25	4	-	52
Investment securities	241	139	467	5,378	5,960	12,185
Investment in associate	-	-	-	-	1,214	1,214
Goodwill	-	-	-	-	887	887
Property & equipment	-	-	-	2,788	3,654	6,442
Prepaid Leases	-	-	-	31	-	31
Intangible assets	-	-	-	70	807	877
Amounts due from related parties	-	-	10	-	-	10
Other assets	2,682	31	-	-	-	2,713
Tax recoverable	-	-	14	61	-	75
Deferred tax asset	-	-	6	-	-	6
Total Assets	**25,506**	**3,182**	**8,454**	**38,596**	**25,074**	**100,812**
Liabilities						
Deposits from customers	20,231	2,771	3,616	275	42,950	69,843
Current tax liabilities	20	-	-	-	-	20
Deferred tax liabilities	-	-	-	-	-	-
Long term borrowings	278	320	44	1,700	4,145	6,487
Other liabilities	1,532	21	-	-	-	1,554
Total Liabilities	**22,061**	**3,112**	**3,660**	**1,975**	**47,095**	**77,904**
Equity						
Share capital	-	-	-	-	1,851	1,851
Share premium	-	-	-	-	12,161	12,161
Fair value reserve	-	-	-	-	113	113
Statutory loan loss reserve	-	-	-	-	449	449
Other reserves	-	-	-	-	(67)	(67)
Revaluation reserve	-	-	-	-	11	11
Foreign currency translation reserve	-	-	-	-	(201)	(201)
Retained earnings	-	-	-	-	7,110	7,110
Proposed dividends	-	-	-	-	1,481	1,481
Total equity	**-**	**-**	**-**	**-**	**22,908**	**22,908**
Total liabilities and equity	**22,061**	**3,112**	**3,660**	**1,975**	**70,004**	**100,812**
Liquidity Gap 31st December 2009	**3,445**	**70**	**4,794**	**36,621**	**(44,930)**	**-**

5. FINANCIAL RISK MANAGEMENT (Continued)

(ii) Group - 2008

In millions of Kenya Shillings	Less than 3 months	3-6 Months	6-12 Months	1-5 Years	More than 5 years	Totals
Assets						
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
Other assets	1,684	429	-	-	62	2,175
Tax recoverable	-	14	-	-	-	14
Total Assets	**19,232**	**6,517**	**6,433**	**31,520**	**15,177**	**78,879**
Liabilities						
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
Total Liabilities	**14,394**	**2,613**	**1,836**	**3,409**	**37,047**	**59,299**
Equity						
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)
Foreign currency translation reserve	-	-	-	-	(170)	(170)
Retained earnings	-	-	-	-	4,498	4,498
Proposed dividends	-	-	-	-	1,111	1,111
Total equity	**-**	**-**	**-**	**-**	**19,580**	**19,580**
Total liabilities and equity	**14,394**	**2,613**	**1,836**	**3,409**	**56,627**	**78,879**
Liquidity Gap 31st December 2008	**4,838**	**3,904**	**4,597**	**28,111**	**(41,450)**	**-**

5. FINANCIAL RISK MANAGEMENT (Continued)

(iii) Bank - 2009

In millions of Kenya Shillings	Less than 3 Months	3-6 Months	6-12 Months	1-5 Years	More than 5 years	Totals
Assets						
Cash and cash equivalents	9,904	-	-	100	-	10,004
Loans and advances to customers	9,248	2, 458	7,107	28,503	12,552	59,868
Investment securities	99	-	407	5,378	5,960	11,844
Investment in associate	-	-	-	-	1,214	1,214
Property, equipment and prepaid leases	-	-	-	1,645	3,552	5,197
Intangible assets	-	-	-	-	570	570
Investment in subsidiary	-	-	-	-	3438	3,438
Amounts due from related parties	779	-	-	1,243	-	2,022
Other assets	2,355	-	-	-	-	2,355
Total Assets	**22,385**	**2,458**	**7,514**	**36,869**	**27,286**	**96,512**
Liabilities						
Deposits from customers	18,643	2,459	1,533	239	42,950	65,825
Long term borrowings	-	310	25	1,639	4,140	6,114
Other liabilities	1,214	21	-	-	-	1,235
Total Liabilities	**19,857**	**2,790**	**1,558**	**1,878**	**47,091**	**73,174**
Equity						
Share capital	-	-	-	-	1,851	1,851
Share premium	-	-	-	-	12,161	12,161
Fair value reserve	-	-	-	-	113	113
Statutory loan loss reserve	-	-	-	-	337	337
Retained earnings	-	-	-	-	7,395	7,395
Proposed dividends	-	-	-	-	1,481	1,481
Total equity	**-**	**-**	**-**	**-**	**23,338**	**23,338**
Total liabilities and equity	**19,857**	**2,790**	**1,558**	**1,878**	**70,429**	**96,512**
Liquidity Gap 31 December 2009	**2,528**	**(333)**	**5,956**	**34,991**	**(43,142)**	**-**

5. FINANCIAL RISK MANAGEMENT (Continued)

(iv) Bank - 2008

In millions of Kenya Shillings	Less than 3 Months	3-6 Months	6-12 Months	1-5 Years	More than 5 years	Totals
Assets						
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 related parties	182	-	-	-	-	182
Other assets	1,488	1,685	-	-	11	3,184
Total Assets	**18,470**	**5,907**	**4,800**	**30,790**	**17,168**	**77,135**
Liabilities						
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
Total Liabilities	**14,226**	**2,334**	**1,649**	**2,228**	**37,039**	**57,476**
Equity						
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
Total equity	**-**	**-**	**-**	**-**	**19,659**	**19,659**
Total liabilities and equity	**14,226**	**2,334**	**1,649**	**2,228**	**56,698**	**77,135**
Liquidity Gap 31 December 2008	**4,244**	**3,573**	**3,151**	**28,562**	**(39,530)**	**-**

5. FINANCIAL RISK MANAGEMENT (Continued)

(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.

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.

(d) Market risks

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. (refer to note 33).

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 instruments 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:

5. FINANCIAL RISK MANAGEMENT (Continued)

Market risks (Continued)

Group Interest Rate Risk

In millions of Kenya Shillings	Carrying amount	Less than 3 Months	3-6 Months	6-12 Months	1-5 Years	More than 5 years
31st december 2009						
Assets						
Cash and cash equivalents	4,211	3,558	159	-	494	-
Loans and advances to customers	63,326	10,223	2,849	7,932	29,770	12,552
Finance lease receivable	52	19	4	25	4	-
Investment securities	12,185	241	139	467	5,378	5,960
	79,774	**14,041**	**3,151**	**8,424**	**35,646**	**18,512**
Liabilities						
Deposits from customers	69,843	20,231	2,771	3,616	275	42,950
Long term borrowings	6,487	278	320	44	1,700	4,145
	76,330	**20,509**	**3,091**	**3,660**	**1,975**	**47,095**
Interest rate sensitivity gap at 31 December 2009	**3,444**	**(6,468)**	**60**	**4,764**	**33,671**	**(28,583)**
31st December 2008						
Assets						
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**
Liabilities						
Deposits from customers	50,334	12,678	1,659	1,194	1,538	33,265
Long term borrowings	6,463	-	-	389	2,300	3,774
	56,797	**12,678**	**1,659**	**1,583**	**3,838**	**37,039**
Interest rate sensitivity gap at 31 December 2008	**5,304**	**(2,211)**	**4,311**	**3,283**	**26,711**	**(26,790)**

Sensitivity analysis

In millions of Kenya shillings:

		Group	Bank
2009	± 1%	34	158
2008	± 1%	53	127

Sensitivity on the income statement is the effect of the assumed changes in interest rates on interest bearing assets and liabilities. The above sensitivity analysis is unrepresentative of the interest rate risk exposure for the Group and the Bank since the interest rates applicable on the interest bearing assets and liabilities are to a large extent fixed for the next one year.

5. FINANCIAL RISK MANAGEMENT (Continued)

Market risks (Continued)

Bank Interest Rate Risk

In millions of Kenya Shillings	Carrying amount	Less than 3 Months	3-6 Months	6-12 Months	1-5 Years	More than 5 years
31st December 2009						
Assets						
Cash and cash equivalents	3,491	3,391	-	-	100	-
Loans and advances to customers	59,868	9,248	2,457	7,107	28,503	12,552
Investment securities	11,844	99	-	407	5,378	5,960
	75,203	**12,737**	**2,457**	**7,514**	**33,981**	**18,512**
Liabilities						
Deposits from customers	53,312	6,131	2,459	1,533	239	42,950
Long term borrowings	6,114	-	310	25	1,639	4,140
	59,426	**6,131**	**2,769**	**1,558**	**1,878**	**47,091**
Interest rate sensitivity gap at 31 December 2009	**15,777**	**6,607**	**(311)**	**5,956**	**32,103**	**(28,578)**
31st December 2008						
Assets						
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**
Liabilities						
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)**

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.

5. FINANCIAL RISK MANAGEMENT (Continued)

Market risks (Continued)

(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.

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.

5. FINANCIAL RISK MANAGEMENT (Continued)

(f) Capital management (Continued)

- 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.

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

	Group		Bank	
In millions of Kenya Shillings	2009	2008	2009	2008
Tier 1 capital				
Ordinary share capital (Note 29)	1,851	1,851	1,851	1,851
Share premium (Note 2a)	12,161	12,161	12,161	12,161
Retained earnings	7,110	4,498	7,395	4,340
Less investment in equity instruments of other institutions- (Note 17 (a) and (b))	(1,214)	(1,156)	(4,652)	(4,132)
Total	**19,908**	**17,354**	**16,755**	**14,220**
Tier 2 capital				
Collective allowances for impairment (Note 11)	449	308	336	308
Qualifying subordinated liabilities	5,350	5,416	5,279	5,329
Total	**5,799**	**5,724**	**5,615**	**5,637**
Total regulatory capital	**25,707**	**23,078**	**22,370**	**19,857**
Risk-weighted assets				
Total risk-weighted assets	77,294	56,940	71,416	48,834
Capital ratios				
Total regulatory capital expressed as a percentage of total risk-weighted assets	33%	41%	31%	41%
Total tier 1 capital expressed as a percentage of risk-weighted assets	26%	30%	24%	29%

6. USE OF ESTIMATES AND JUDGMENTS

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 as disclosed in notes 3 (e) and 4 above.

7. FINANCIAL ASSETS AND LIABILITIES

Group

Accounting classifications and fair values

In millions of Kenya Shillings	Designated at fair values	Held to maturity	Loans and receivables	Available for sale	Other amortised Cost	Total carrying amount	Fair value
31st December 2009							
Assets							
Cash and cash equivalents	-	-	-	-	12,994	12,994	12,994
Loans and advances	-	-	63,326	-	-	63,326	63,326
Finance lease receivable	-	-	52	-	-	52	52
Investment securities	-	5,087	-	7,098	-	12,185	12,185
	-	5,087	63,378	7,098	12,994	88,557	88,557
Liabilities							
Deposits from customers	69,843	-	-	-	-	69,843	69,843
Subordinated debts	6,487	-	-	-	-	6,487	6,487
	76,330	**-**	**-**	**-**	**-**	**76,330**	**76,330**
31st December 2008							
Assets							
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**
Liabilities							
Deposits from customers	50,334	-	-	-	-	50,334	50,334
Subordinated debts	6,463	-	-	-	-	6,463	6,463
	56,797	**-**	**-**	**-**	**-**	**56,797**	**56,797**

7. FINANCIAL ASSETS AND LIABILITIES

Bank

In millions of Kenya Shillings	Designated at fair values	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
31 December 2009							
Assets							
Cash and cash equivalents	-	-	-	-	10,004	10,004	10,004
Loans and advances	-	-	59,868	-	-	59,868	59,868
Investment securities	-	4,778	-	7,066	-	11,844	11,844
	-	**4,778**	**59,868**	**7,066**	**10,004**	**81,716**	**81,716**
Liabilities							
Deposits from customers	65,825	-	-	-	-	65,825	65,825
Subordinated debts	6,114	-	-	-	-	6,114	6,114
	71,939	-	-	-	-	**71,939**	**71,939**
31 December 2008							
Assets							
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**
Liabilities							
Deposits from customers	48,977	-	-	-	-	48,977	48,977
Subordinated debts	6,167	-	-	-	-	6,167	6,167
	55,144	-	-	-	-	**55,144**	**55,144**

8. INTEREST INCOME

	Group		Bank	
In millions of Kenya Shillings	2009	2008	2009	2008
Interest income				
Cash and cash equivalents	7	219	115	219
Loans and advances to customers	9,484	6,143	8,286	5,357
Investment securities	1,301	1,617	1,290	1,593
Total interest income	**10,792**	**7,979**	**9,691**	**7,169**
Interest expense				
Deposits from banks	(4)	(34)	(4)	(23)
Deposits from customers	(815)	(495)	(676)	(460)
Borrowings	(803)	(833)	(733)	(734)
Total interest expense	**(1,622)**	**(1,362)**	**(1,413)**	**(1,217)**
Net interest income	**9,170**	**6,617**	**8,278**	**5,952**

9. (A) NET FEE AND COMMISSION INCOME

	Group		Bank	
	2009	2008	2009	2008
In millions of Kenya Shillings				
Fee and commission income	**1,490**	**1,624**	**1,253**	**1,308**

(B) NET TRADING INCOME

	Group		Bank	
	2009	2008	2009	2008
In millions of Kenya Shillings				
Bonds trading income	64	27	63	27
Foreign exchange gain	222	753	162	707
	286	**780**	**225**	**734**

10. OTHER OPERATING INCOME

	Group		Bank	
	2009	2008	2009	2008
In millions of Kenya Shillings				
Rental income	1	1	1	1
Other	4,729	3,583	4,516	3,561
	4,730	**3,584**	**4,517**	**3,562**

Other income relates to commissions charged on the various products offered by the Group to the customers.

11. ALLOWANCES FOR IMPAIRMENT

	Group		Bank	
In millions of Kenya Shillings	2009	2008	2009	2008
Balance at 1st January	1,125	435	989	392
Specific provisions for the year	967	654	741	509
General provisions for the year	209	421	168	421
Interest suspended during the year	315	227	315	227
Write-offs during the year	(69)	(557)	-	(504)
IAS 39 adjustment-write back of over provisions	(141)	(55)	(28)	(55)
Balance at 31st December	**2,406**	**1,125**	**2,185**	**990**

IAS 39 adjustment relates to the excess provision between IAS 39 requirements and Central Bank of Kenya prudential guidelines.

Impairment loss for the year is arrived at as follows:	Group		Bank	
In millions of Kenya Shillings	2009	2008	2009	2008
Charge for the year : General provisions	209	421	168	421
Specific provisions	967	654	741	509
	1,176	1,075	909	930
IAS 39 adjustment -write back of over provisions	(141)	(55)	(28)	(55)
Net impairment loss on financial assets	**1,035**	**1,020**	**880**	**875**

12. PERSONNEL EXPENSES

	Group		Bank	
	2009	2008	2009	2008
In millions of Kenya Shillings				
Salaries	4,146	2,856	3,456	2,515
Contributions to defined contribution plans	193	98	130	69
	4,339	**2,954**	**3,586**	**2,584**

13. OPERATING LEASE EXPENSES

Non-cancellable operating lease rentals paid are as follows:

	Group		Bank	
	2009	2008	2009	2008
In millions of Kenya Shillings				
Lease rentals	645	375	471	357

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

14. PROPERTY, EQUIPMENT AND LEASEHOLD LAND

(a) Property and equipment

Group- 2009

In millions of Kenya Shillings

	Freehold land & buildings	Leasehold improvements	Motor vehicles	Office equipment, furniture & fittings	Computers	Village cell banking vans	Work in progress	Total
COST								
At 1st January 2009	193	1,466	65	1,242	2,291	37	1,102	6,396
Additions	1	10	20	526	357	-	1,774	2,688
Transfers	-	1,798	-	55	426	-	(2,279)	-
Disposals	-	-	(1)	(4)	(5)	-	-	(10)
At 31st December 2009	**194**	**3,274**	**84**	**1,819**	**3,069**	**37**	**597**	**9,074**
DEPRECIATION								
At 1 stJanuary 2009	8	320	47	318	874	33	-	1,600
Charge for the year	4	273	10	175	571	1	-	1,035
Reversal on disposal	-	-	(1)	-	(1)	-	-	(2)
At 31st December 2009	**12**	**593**	**56**	**493**	**1,444**	**34**	**-**	**2,632**
NET BOOK VALUE At 31st December 2009	**182**	**2,681**	**28**	**1,326**	**1,625**	**1**	**597**	**6,442**

14. PROPERTY, EQUIPMENT AND LEASEHOLD LAND

(a) Property and equipment

Group 2008

In millions of Kenya Shillings

	Freehold land & buildings	Leasehold improvements	Motor vehicles	Office equipment, furniture & fittings	Computers	Village cell banking vans	Work in progress	Total
COST								
At 1st January 2008	40	816	49	677	1,393	37	491	3,503
Additions	-	422	-	452	265	-	1,259	2,398
Acquisition of subsidiary (restated)	153	-	20	113	217	-	-	503
Transfers	-	228	-	-	420	-	(648)	-
Disposals	-	-	(4)	-	(4)	-	-	(8)
At 31st December 2008	**193**	**1,466**	**65**	**1,242**	**2,291**	**37**	**1,102**	**6,396**
DEPRECIATION								
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 31st December 2008	**8**	**320**	**47**	**318**	**874**	**33**	**-**	**1,600**
NET BOOK VALUE								
At 31st December 2008	**185**	**1,146**	**18**	**924**	**1,417**	**4**	**1,102**	**4,796**

14. PROPERTY, EQUIPMENT AND LEASEHOLD LAND

(b) Property and equipment

Bank 2009

In millions of Kenya Shillings	Freehold land & buildings	Leasehold improvements	Motor vehicles	Office equipment, furniture & fittings	Computers	Village cell banking vans	Work in progress	Total
COST								
At 1st January 2009	40	1,465	49	1,129	2,078	37	976	5,774
Additions	-	54	9	450	160	-	1,183	1,856
Transfers	-	1,188	-	55	426	-	(1,669)	-
Disposals	-	-	(1)	-	(1)	-	-	(2)
At 31st December 2009	**40**	**2,707**	**57**	**1,634**	**2,663**	**37**	**490**	**7,628**
DEPRECIATION								
At 1st January 2008	8	320	42	290	822	33	-	1,515
Charge for the year	1	250	5	159	504	3	-	922
Disposals	-	-	(1)	-	(1)	-	-	(2)
At 31st December 2009	**9**	**570**	**46**	**450**	**1,324**	**36**	**-**	**2,435**
NET BOOK VALUE								
At 31DECEMBER 2009	**31**	**2,137**	**11**	**1,184**	**1,338**	**1**	**490**	**5,193**

14. PROPERTY, EQUIPMENT AND LEASEHOLD LAND

(b) Property and equipment

Bank 2008

In millions of Kenya Shillings

	Freehold land & buildings	Leasehold improvements	Motor vehicles	Office equipment, furniture & fittings	Computers	Village cell banking	Work in progress	Total
COST								
At 1st January 2008	40	816	49	677	1,393	37	491	3,503
Additions	-	421	-	452	265	-	1,133	2,271
Transfers	-	228	-	-	420	-	(648)	-
At 31st December 2008	**40**	**1,465**	**49**	**1,129**	**2,078**	**37**	**976**	**5,774**
DEPRECIATION								
At 1st January 2008	7	192	31	186	451	32	-	899
Charge for the year	1	128	11	104	371	1	-	616
At 31st December 2008	8	320	42	290	822	33	-	1,515
NET BOOK VALUE								
At 31st December 2008	**32**	**1,145**	**7**	**839**	**1,256**	**4**	**976**	**4,259**

14. (C) PREPAID LEASE

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

In millions of Kenya Shillings

	Group		Bank	
Cost	2009	2008	2009	2008
Balance at 1st January	36	21	5	5
Acquisitions	-	15	-	-
Balance at 31st December	**36**	**36**	**5**	**5**
Amortisation and impairment				
Balance at 1st January	4	3	1	1
Amortisation for the year	1	1	-	-
Balance at 31st December	**5**	**4**	**1**	**1**
Carrying amounts				
Balance at 31st December	**31**	**32**	**4**	**4**

14. (D) INVESTMENT PROPERTY

In millions of Kenya Shillings

Cost				
Balance at 1st January	11	11	11	11
Depreciation	3	-	3	-
Balance at 31st December	**8**	**11**	**8**	**11**

The Bank holds some investment property. This relates to land bought by Equity Building Society for resale to its members. The cumulative depreciation charge to the reporting date amounted to KShs. 3,000,000. The directors are of the opinion that the fair value exceeds the carrying amount.

15. INTANGIBLE ASSETS

(a) Group 2009

In millions of Kenya Shillings

Cost	Intangibles	Work in progress	Total
Balance at 1 January	809	70	879
Additions	135	257	392
Transfers	15	(15)	-
Brand intangible	-	-	-
Balance at 31st December	**959**	**312**	**1,271**
Amortisation and impairment			
Balance at 1st January	258	-	258
Amortisation for the year	136	-	136
Balance at 31st December	**394**	**-**	**394**
Net book value			
Balance at 31st December	**565**	**312**	**877**

15. INTANGIBLE ASSETS (Continued)

(a) Group 2008

In millions of Kenya Shillings

Cost	Intangibles	Work in progress	Total
Balance at 1st January	441	-	441
Additions	153	70	223
Brand intangible	215	-	215
Balance at 31st December	**809**	**70**	**879**
Amortisation and impairment			
Balance at 1st January	159	-	159
Amortisation for the year	99	-	99
Balance at 31st December	**258**	**-**	**258**
Net book value			
Balance at 31st December	**551**	**70**	**621**

15. INTANGIBLE ASSETS

(b) Bank 2009

In millions of Kenya Shillings

Cost	Intangibles	Work in progress	Total
Balance at 1st January	518	70	588
Additions	114	227	341
Transfers	15	(15)	-
Balance at 31st December	**647**	**282**	**929**
Amortisation and impairment			
Balance at 1st January	241	-	241
Amortisation for the year	118	-	118
Balance at 31st December	**359**	**-**	**359**
Net book value			
Balance at 31st December	**288**	**282**	**570**

15. INTANGIBLE ASSETS (Continued)

(b) Bank 2008

In millions of Kenya Shillings

Cost	Intangibles	Work in progress	Total
Balance at 1st January	369	-	369
Additions	149	70	219
Balance at 31st December	**518**	**70**	**588**
Amortisation and impairment			
Balance at 1st January	145	-	145
Amortisation for the year	95	-	95
Balance at 31st December	**240**	**-**	**240**
Net book value			
Balance at 31st December	**278**	**70**	**348**

16. OTHER EXPENSES

In millions of Kenya Shillings

	Group		Bank	
Cost	**2009**	**2008**	**2009**	**2008**
Software licensing and other	375	210	322	206
Auditors' remuneration	8	7	5	4
Other	2,880	2,302	2,397	2,061
Balance at 31 December	**3,263**	**2,519**	**2,724**	**2,271**

17. (A) INVESTMENT IN ASSOCIATES

In millions of Kenya Shillings

Investment in Housing Finance	1,214	1,156	1,214	1,156

The bank has total shareholding of 24.9% in Housing Finance. Housing Finance is a banking institution whose principal activity is provision of mortgage products. The Group's share of the associate's assets, liabilities, revenue and profits is as shown below:

	Group		Bank	
	2009	**2008**	**2009**	**2008**
Current assets	3,019	3,251	3,019	3,369
Non current assets	15,220	11,043	15,220	10,925
Current liabilities	6,989	7,645	6,989	6,372
Non current liabilities	7,177	2,997	7,177	4,270
Revenue	1,374	1,533	1,374	1,533
Profit after tax	234	136	234	136
Share of profit from associated company	58	34	58	34

17 (B) INVESTMENT IN SUBSIDIARY COMPANIES

In millions of Kenya Shillings	Principal activity	Percentage shareholding	Bank 2009	Bank 2008
Equity Bank Uganda Ltd	Banking	100%	2,925	2,925
Equity Consulting Group Ltd	Consultancy	100%	0.5	0.5
Equity Insurance Agency Ltd	Insurance brokerage	100%	0.1	0.1
Equity Nominees Ltd	Custodial services	100%	0.1	0.1
Equity Investment services Ltd	Investment banking	100%	117	50
Finserve Africa Ltd	IT outsourcing	100%	0.5	0.5
Equity Bank Southern Sudan Ltd	Banking	100%	395	-
			3,438	**2,976**

The Bank had seven wholly owned subsidiary companies as at 31 December 2009; Equity Bank Uganda Ltd, Equity Bank Southern Sudan Ltd, Equity Consulting Group, Equity Investment Services Ltd, Equity Nominees Ltd, Finserve Africa Ltd and Equity Insurance Agency Ltd. Two of the seven subsidiaries were dormant as at the end of the year.

All the subsidiaries except Equity Bank Uganda Ltd and Equity Bank Southern Sudan Limited are incorporated in Kenya.

17. (C) GOODWILL ARISING FROM THE ACQUISITION OF EQUITY BANK UGANDA LIMITED (Formerly Uganda Microfinance Limited (UML))

In millions of Kenya Shillings	KShs
Purchase price for 100% stake	1,666
Add: Acquisition costs	**34**
Total acquisition cost	**1,700**
Less: Carrying amount of tangible and separable identifiable intangible assets	**(554)**
Less: Fair value adjustments of tangible assets and separable identifiable intangible assets	**(259)**
Goodwill	**887**

The goodwill of KShs 887 million arose from the acquisition of Equity Bank Uganda Limited (formerly 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 Equity Bank Uganda Limited and the fair value of the net tangible assets and the separable identifiable intangible assets.

18. INCOME TAX

Recognised in the income statement

	Group		Bank	
In millions of Kenya Shillings	2009	2008	2009	2008
Current tax expense				
Current year	1,143	1,063	1,137	1,016
	1,143	1,063	1,137	1,016
Deferred tax expense				
Current year	(99)	49	(72)	22
Total income tax expense	**1,044**	**1,112**	**1,065**	**1,038**
Reconciliation of effective tax rate				
In millions of Kenya Shillings				
Profit before tax and equity income	5,220	4,988	5,570	4,757
Income tax using the enacted corporation tax rate	1,093	1,029	1,114	951
Non-deductible expenses	(49)	83	(49)	87
Total income tax expense in income statement	**1,044**	**1,112**	**1,065**	**1,038**
Income tax recognised in the statement of financial position				
Balance brought forward	500	169	514	152
Charge for the year	1,143	1,063	1,137	1,016
Paid during the year	(1,697)	(732)	(1,631)	(654)
	(55)	**500**	**20**	**514**
Made up of:				
Tax payable	20	514	20	514
Tax recoverable	(75)	(14)	-	-
	(55)	500	20	514

Tax rates are as follows:
- Kenya 20%
- Uganda 30%
- Sudan 15%

19. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share for the Group as at 31 December 2009 is based on the profit attributable to ordinary shareholders of KShs 4,234 million (2008: KShs 3,910 million) and the weighted average number of ordinary shares outstanding of 3,702million (2008: 3,702 million).
The calculation of basic earnings per share for Bank as at 31 December 2009 is based on the profit attributable to ordinary shareholders of KShs 4,563 million (2008: KShs 3,753 million) and the weighted average number of ordinary shares outstanding of 3,702 million (2008: 3.702 million),

	Group		Bank	
	2009	2008	2009	2008
Profit for the year attributable to equity holders of the Bank	4,234	3,910	4,563	3,753
Number of shares: (In millions) Issued ordinary shares at 1 January	370	362	370	362
Effect of new shares issued during the year	-	8	-	8
Effect of share split	3,332	3,332	3,332	3,332
Weighted average number of ordinary shares at 31 December	3,702	3,702	3,702	3,702

During the year, the Bank had a share split of 10 shares for every one share held. The computation of earnings per share for prior period has taken into account these changes.

	Group		Bank	
	2009	2008	2009	2008
Basic earnings per share(in Kenya Shillings)	1.14	1.06	1.23	1.01
Diluted earnings per share(in Kenya Shillings)	1.14	1.06	1.23	1.01

Basic and diluted earnings per share are the same.

20. DIVIDEND PER SHARE

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

At the Annual General Meeting to be held on 26th March 2010, a final dividend in respect of the year ended 31 December 2009 of KShs 0.40 (2008 – KShs 3.00) for every ordinary share of KShs 0.5 (2008 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

In millions of Kenya Shillings

	Group		Bank	
	2009	2008	2009	2008
Cash and balances with bank	5,144	4,467	3,109	4,069
Unrestricted balances with Central Bank	1,013	303	877	143
Restricted balances with Central Bank	3,243	2,327	2,863	2,325
Money market placements	3,594	5,669	3,155	5,481
	12,994	**12,766**	**10,004**	**12,018**

22. LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers at amortised cost

In millions of Kenya Shillings

Retail customers

	Group		Bank	
	2009	2008	2009	2008
Mortgage lending	2,871	564	2,871	337
Personal loans	37,528	29,889	33,947	28,386
	40,399	30,453	36,818	28,723
SMEs customers				
Secured lending	25,334	14,742	25,235	13,124
	25,334	14,742	25,235	13,124
Gross amount	**65,733**	**45,195**	**62,053**	**41,847**

22. LOANS AND ADVANCES TO CUSTOMERS

(b) Allowance for impairment

In millions of Kenya Shillings

Specific allowance for Impairment

	Group		Bank	
	2009	2008	2009	2008
Balance as at 1stJanuary	1,125	435	989	392
Charge for the year				
Collective impairment	209	421	168	421
Specific impairment	967	654	741	509
IAS 39 adjustment- write back of overprovision	(141)	(55)	(29)	(55)
	1,035	1,020	880	875
Suspended interest	315	227	316	227
Write offs	(69)	(557)	-	(504)
	1,281	**690**	**1,196**	**598**
Total impairment	**2,406**	**1,125**	**2,185**	**990**
Net loans and advances	**63,326**	**44,070**	**59,868**	**40,857**

IAS 39 adjustment relates to the excess provision between IAS 39 requirements and Central Bank of Kenya prudential guidelines.

(c) Finance leases receivable

	Group		Bank	
	2009	2008	2009	2008
Within one year	51	105	-	-
One to two years	4	69	-	-
	55	174	-	-
Unearned income	-	(49)	-	-
Present value of minimum lease payment	55	125	-	-
Provision for uncollectible lease payment	(3)	(3)	-	-
	52	**122**	**-**	**-**

23. INVESTMENT SECURITIES

In millions of Kenya Shillings

Held-to-maturity investment securities	5,087	4,067	4,778	4,034
Available-for-sale investment securities	7,098	8,127	7,066	8,117
Discount on treasury bonds	-	46	-	-
	12,185	**12,240**	**11,844**	**12,151**

24. OTHER ASSETS

In millions of Kenya Shillings	Group 2009	Group 2008	Bank 2009	Bank 2008
Investment property (Note 14(d))	8	11	8	11
Accounts receivable and prepayments	937	575	700	1,505
Inter- group balances	-	-	-	179
Accrued income	1,041	623	1,003	624
Funds in clearing	518	781	514	779
Other	209	185	124	86
	2,713	**2,175**	**2,349**	**3,184**

25. DEPOSITS FROM CUSTOMERS

In millions of Kenya Shillings	Group 2009	Group 2008	Bank 2009	Bank 2008
Retail customers:				
Term deposits	134	254	132	254
Current deposits	4,325	3,471	3,756	3,471
Savings deposits	39,985	30,774	38,595	29,823
	44,444	**34,499**	**42,483**	**33,548**
SMEs customers:				
Term deposits	11,687	6,425	10,242	6,019
Current deposits	9,369	5,916	8,758	5,916
Savings	4,343	3,494	4,342	3,494
	25,399	**15,835**	**23,342**	**15,429**
	69,843	**50,334**	**65,825**	**48,977**

26. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

	Group 2009	Group 2008	Bank 2009	Bank 2008
Plant, equipment and software	(119)	(209)	(119)	(172)
Available for sale securities	22	25	22	25
Allowance for loan losses	111	101	111	77
Other	(8)	(11)	(8)	3
Net tax liability	**6**	**(94)**	**6**	**(67)**

26. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

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

In millions of Kenya Shillings

	2009			2008		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, equipment and software	-	(119)	(119)	-	(209)	(209)
Available for sale securities	22	-	22	25	-	25
Allowances for loan losses	-	111	111	101	-	101
Others	-	(8)	(8)	3	(14)	(11)
	22	**(16)**	**6**	**129**	**(223)**	**(94)**

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

In millions of Kenya Shillings

	2009			2008		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, equipment and software's	-	(119)	(119)	-	(172)	(172)
Available for sale securities	22	-	22	25	-	25
Allowances for loan losses	111	-	111	77	-	77
Others	-	(8)	(8)	3	-	3
	133	**(127)**	**6**	**105**	**(172)**	**(67)**

Movements in temporary differences during the year – Group

In millions of Kenya Shillings	Opening Balance loss	Recognised in profit or in equity	Recognised	Closing balance
2009				
Property, equipment and software	(209)	90	-	(119)
Available-for-sale securities	25	(3)	-	22
Allowances for loan losses	101	10	-	111
Other	(11)	3	-	(8)
	(94)	**100**	**-**	**6**
2008				
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)**

26. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

Movements in temporary differences during the year – Bank

In millions of Kenya Shillings	Opening balance loss	Recognised in profit or in equity	Recognised	Closing balance
2009				
Property, equipment and software	(172)	53	-	(119)
Available for sale securities	25	(3)	-	22
Allowances for loan losses	77	34	-	111
Other	(67)	73	-	6
	137	**157**	**-**	**20**
2008				
Property, 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)**

27. LONG-TERM BORROWINGS

	Group		Bank	
In millions of Kenya Shillings	**2009**	**2008**	**2009**	**2008**
Dexia Micro Credit Fund	664	680	664	680
Blue Orchard Loans for Development SA	759	778	759	778
Growth Management Limited	759	778	759	778
Deutsche Bank Microfinance Fund	539	552	539	552
Nenderlandse Financierings Maatschappij Voor				
Ontwikelinslanden N.V (FMO)	3,221	3,221	3,221	3,221
Ministry of Youth Affairs	115	90	115	90
Micro Finance Sector Support Credit (Ministry of Finance)	56	68	57	68
Microfinance Support Centre	33	48	-	-
Triodos International Fund Management	129	119	-	-
Barclays Generator Lease	-	9	-	-
Danida	-	33	-	-
Bank of Uganda	18	19	-	-
Oiko Credit	54	68	-	-
Tropical Bank	60	-	-	-
Development Finance Company of Uganda	40	-	-	-
Orient Bank	40	-	-	-
	6,487	**6,463**	**6,114**	**6,167**

27. LONG-TERM BORROWINGS (Continued)

During the year, the following loan balances were outstanding:

(i) Medium term loan of US$3,750,000 (KShs285 million) from Dexia Micro Credit Fund, a company incorporated in Luxembourg. The loan, which is secured by directors' guarantee, accrues interest at the fixed rate of 8.11% p.a. and will mature on 24th April 2010. A finance cost of KShs52 million has been included in the income statement for the year.

(ii) Long term loan of US$ 5,000,000 (KShs379 million) from Dexia Micro Credit Fund, a company incorporated in Luxembourg. The loan constitutes and will constitute a direct, general, unconditional and unsecured obligation of the issuer. The loan accrues interest at the rate of LIBOR 6M +2.5% plus interest tax as applicable, and will mature on 28 December 2012. A finance cost of KShs168, 171 has been charged to the income statement for the year.

(iii) Long term loan of US$ 10,000,000 (KShs759 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 fixed rate of 8.75% p.a. and will mature on 01th June 2012. The effective interest rate is 10.29%. A finance cost of KShs65 million (2008: KShs 81 million) has been included in the income statement for the year.

(iv) Long term loan of US$ 10,000,000 (KShs759 million) from Growth Management Limited, a company incorporated in UK. The loan, which is secured by directors' guarantee, accrues interest at the fixed rate of 9.5% p.a. and will mature on 1st July 2012. The effective interest rate is 11.18%. A finance cost of KShs71million (2008: KShs 88 million) has been included in the income statement for the year.

(v) Long term loan of US$ 7,105,970 (KShs539 million) from Deutsche Bank Microfinance Fund, a company incorporated in Germany. The loan, which is secured by directors' guarantee, accrues interest at the fixed rate of 9.5% p.a. and will mature on 31st December 2014. The effective interest rate is 11.18%. A finance cost of KShs50 million (2008: KShs 63 million) has been included in the income statement for the year.

(vi) Long-term term loans totaling KShs3,221 million from FMO, a company incorporated in the Netherlands. The loans, which are secured by directors' guarantee, accrue interest at varied rates depending on the CBK 91 T-bill rate plus a 3.5% margin at the beginning of each quarter. KShs1,507 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 based on the CBK 91 T-bill rate plus a 3.5% margin at the beginning of each quarter and a finance cost of KShs277 million (KShs 277 million) has been included in the income statement for the year.

(vii) Medium term loan of KShs115 million from Ministry of Youth Affairs. The loan, which is secured by directors' guarantee, accrues interest rate at the fixed rate of 1% p.a. KShs25 million will mature on 27 May 2010, KShs25 million on 22nd November 2010, KShs40 million will mature on 6th January 2011 and Ksh25 million on 6 March 2012. The effective interest rate is 1%. A finance cost of 1 million (2008: KShs 1 million) been included in the income statement.

(viii) Medium term loan of KShs57 million from Ministry of Finance. The loan, which is secured by directors' guarantee, accrues interest rate at the fixed rate of 6% p.a. The loan will mature on 31st December 2011. A finance cost of KShs3 million (2008: KShs 4 million) has been included in the income statement.

27. LONG-TERM BORROWINGS (Continued)

(ix) Medium term loan of UGX$ 833,000,000(KShs33 million) from Micro-Finance Support Centre. Accrues interest at the fixed rate of 13% p.a. and will mature on 12th August 2011. The effective interest rate is 13%. A finance cost of KShs5million (2008: KShs 5 million) has been included in the income statement for the year.

(x) Long term loan of UGX$ 3,200 million(KShs129 million) from Triodos international Fund Management. Accrues interest at the fixed rate of 14% p.a. and will mature on 1st July 2010. The effective interest rate is 14%. A finance cost of KShs15million (2008: KShs 15 million) has been included in the income statement for the year.

(xi) Long term loan of UGX$ 485,000,000(KShs18 million) from Bank of Uganda. Accrues interest at a rate of 7.4% p.a. and will mature on 4th July 2017. The effective interest rate is 7.4%. A finance cost of KShs1 million (2008: KShs 1 million) has been included in the income statement for the year.

(xii) Long term loan of UGX$ 1,325 million (KShs 54 million) from Oiko Credit. Accrues interest at the fixed rate of 14.47% p.a. and will mature on 16th January 2013. The effective interest rate is 14.47%. A finance cost of KShs 9million (2008: KShs 9 million) has been included in the income statement for the year.

(xiii) Term loan of UGX$ 1,500,000(KShs 60 million) from Tropical Bank. Accrues interest at a rate of 4% p.a. and will mature on 7th January 2010. The effective interest rate is 4%. A finance cost of KShs 11,507 has been included in the income statement for the year.

(xiv) Term loan of UGX$ 1,000,000(KShs 40 million) from Development Finance Company of Uganda (DFCU). Accrues interest at a rate of 5% p.a. and will mature on 7th January 2010. The effective interest rate is 5%. A finance cost of KShs 43,696 has been included in the income statement for the year.

(xv) Term loan of UGX$ 1,000,000(KShs 40 million) from Orient Bank. Accrues interest at a rate of 3.5% p.a. and will mature on 4th January 2010. The effective interest rate is 3.5%. A finance cost of KShs 151,202 has been included in the income statement for the year.

28. OTHER LIABILITIES

	Group		Bank	
In millions of Kenya Shillings	2009	2008	2009	2008
Short term employee benefits	50	108	48	108
Creditors and accruals	422	635	157	538
Other	1,082	1,151	1,010	1,105
	1,554	**1,894**	**1,215**	**1,751**

29. SHARE CAPITAL AND RESERVES

(a) Authorised

	2009	2008
Issued and fully paid 3,702,777,020(2008: 370,277,702)		
ordinary shares of KShs 0.5 (2008: KShs 5) each	1,851	1,851

Movement in ordinary shares

	Group		Bank	
In millions	2009	2008	2009	2008
On issue at 1 January	370	362	370	362
Additional shares issued	-	8	-	8
Share split	3,332	-	3,332	-
On issue at 31 December	**3,702**	**370**	**3,702**	**370**

At 31 December 2009 the authorized share capital comprised of 3.7 billion ordinary shares (2008: 370 million), with at par value of KShs 0.5(2008 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.

29. SHARE CAPITAL AND RESERVES

The top ten largest shareholders as at 31st December 2009 were:

Name	No. of Shares	%
Helios Eb Investors	905,162,550	24.44
British-American Investments Company (Kenya) Limited	421,223,330	11.37
Nelson Muguku Njoroge	225,452,550	6.08
James Njuguna Mwangi	160,122,370	4.32
Equity Bank Employees' Share Ownership Plan	150,184,000	4.05
John Kagema Mwangi	121,796,900	3.28
Fortress Highlands Limited	101,010,000	2.72
Andrew Mwangi Kimani	90,426,800	2.44
Aib Nominee A/C Solidus Holdings Ltd	90,114,910	2.43
Simon Kagwanja Thuo	63,383,950	1.71
Other 25,959 Shareholders	1,373,899,660	37.16
TOTAL SHARES	**3,702,777,020**	**100**

The distribution of shares as at 31st December 2009 was as shown on page 39.

(b) Share premium

Share premium arose from the additional 8,067,797 ordinary shares issued during the year 2008 at a price of KShs 207 per share.

(c) Fair value reserve

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

(d) Statutory loan loss reserve

The statutory loan loss 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 Central Bank of Kenya prudential guidelines.

(e) Other reserves

The other reserves represent pre-acquisition reserves from Uganda.

(f) Foreign currency translation reserve

The foreign currency translation reserve represent translation of Uganda Shillings and Sudan Pounds to Kenya Shillings.

(g) Dividends

The following dividends were declared and paid by the Bank for the year ended 31st December 2008:

In millions of Kenya Shillings	Group		Bank	
	2009	2008	2009	2008
KShs 3 per ordinary share of KShs 5	-	1,111	-	1,111
	-	1,111	-	1,111

After 31st December 2009 the following dividends were proposed by the directors in respect of 2009. The dividends have not been provided for and there are no income tax consequences.

In millions of Kenya Shillings	Group		Bank	
	2009	2008	2009	2008
KShs 0.4 per ordinary share (2008: KShs 3)	1,481	1,111	1,481	1,111
	1,481	1,111	1,481	1,111

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:

	Group		Bank	
In millions of Kenya Shillings	2009	2008	2009	2008
Guarantees and standby letters of credit	1,627	1,766	1,611	1,766
Letters of credit, acceptances and other documentary credits	558	129	495	129
	2,185	**1,895**	**2,106**	**1,895**
Commitments were as follows:				
Forward foreign exchange contract amounts	1	(6)	1	(6)
	2,186	**1,889**	**2,107**	**1,889**

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:

	Group		Bank	
In millions of Kenya Shillings	2009	2008	2009	2008
Capital commitments	734	134	722	81
Loans approved but not disbursed	863	335	679	309
	1,597	**469**	**1,401**	**390**

30. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS (Continued)

Group and Bank lease

The Group and Bank has entered into commercial property leases on a number of branches and office premises under operating leases. These non-cancellable leases have remaining terms of between one and 10 years. All leases include a clause that enables upward revision of the rental charges on an annual basis according to prevailing market conditions.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	Group		Bank	
In millions of Kenya Shillings	2009	2008	2009	2008
Within one year	521	498	520	497
After one year but not more than five years	2,283	2,422	2,277	2,417
More than five years	834	1,216	814	1,194

31. RELATED PARTIES

(a) Loans to key management personnel

	Group		Bank	
In millions of Kenya Shillings	2009	2008	2009	2008
Balance at 1 January	545	92	544	92
Interest charged	10	12	10	12
Loans disbursed	162	454	161	453
Repayments	(536)	(9)	(535)	(9)
Balance at 31st December	**181**	**549**	**180**	**548**

(b) Loans to employees

	Group		Bank	
In millions of Kenya Shillings	2009	2008	2009	2008
Balance at 1 January	857	428	791	395
Interest charged	101	60	93	51
Loans disbursed	814	1,067	690	1,013
Repayments	(424)	(698)	(317)	(668)
Balance at 31st December	**1,348**	**857**	**1,257**	**791**

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.

31. RELATED PARTIES (Continued)

(c) Loans to related parties

	Group		Bank	
In millions of Kenya Shillings	2009	2008	2009	2008
Balance at 1 January	1,060	138	1,060	138
Interest charged	25	55	25	55
Loans disbursed	726	2,495	726	2,495
Repayments	(391)	(1,632)	(391)	(1,632)
Balance at 31st December	**1,420**	**1,056**	**1,420**	**1,056**

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 related parties is an amount of KShs 700 million that relates to Housing Finance with accrued interest receivable of KShs 6 million.

(d) Key management personnel compensation

	Group		Bank	
In millions of Kenya Shillings	2009	2008	2009	2008
Remuneration to executive directors	299	174	274	163
Remuneration to key management	197	202	189	175
	496	**376**	**463**	**338**

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

	Group		Bank	
In millions of Kenya Shillings	2009	2008	2009	2008
As non-executive	29	20	25	17
As executives	299	174	274	163
	328	**194**	**299**	**180**

(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.

31. RELATED PARTIES (Continued)

(g) Amounts due from related parties

	Group		Bank	
	2009	**2008**	**2009**	**2008**
Equity Insurance Agency	-	-	142	100
Equity Bank Uganda Ltd	-	-	1,319	82
Equity Bank Southern Sudan Limited	-	-	537	-
Equity Investment Bank Limited	-	-	14	-
Equity Foundation	10	-	10	-
	10	**-**	**2,022**	**182**

32. 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.

	Group		Bank	
In millions of Kenya Shillings	**2009**	**2008**	**2009**	**2008**
National Social Security Fund	66	9	10	7
Pension	127	89	120	62
	193	**98**	**130**	**69**

33. FOREIGN CURRENCY EXPOSURE - GROUP

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 2009.

As at 31st December 2009	UGX	USD	SDG	GBP	Euro	Zar	JPY	Others	Total
In million of Kenya Shillings									
Assets									
Cash and cash equivalents	663	1,858	801	103	277	16	14	22	3,754
Loans and advances to customers	3,302	2,120	61	-	-	-	-	-	5,483
Investment securities	309	-	-	-	-	-	-	-	309
Finance lease receivable	52	-	-	-	-	-	-	-	52
Property and equipment	1,145	-	108	-	-	-	-	-	1,253
Prepaid leases	27	-	-	-	-	-	-	-	27
Intangible assets	67	-	-	-	-	-	-	-	67
Other assets	81	832	42	-	-	-	-	17	972
Tax recoverable	61	-	-	-		-	-	-	61
	5,707	**4,810**	**1,012**	**103**	**277**	**16**	**14**	**39**	**11,978**
Equity and liabilities									
Customer deposits	2,742	1,307	851	36	211	-	-	-	5,147
Long term borrowings	372	2,721	-	-	-	-	-	-	3,093
Other liabilities	1,176	52	35	-	-	-	-	-	1,263
Total liabilities and shareholder's funds	**4,290**	**4,080**	**886**	**36**	**211**	**-**	**-**	**-**	**9,503**
Net financial position	**1,417**	**730**	**124**	**67**	**67**	**16**	**14**	**39**	**2,474**
As at 31st December 2008									
Total Assets	4,643	3,221	-	91	114	(78)	(2)	8	7,997
Total Liabilities	1,784	3,702	-	91	56	-	-	-	5,633
Net financial position	**2,859**	**(481)**	**-**	**-**	**58**	**(78)**	**(2)**	**8**	**2,364**

Sensitivity analysis		
2009 ± 1%	14	7
2008 ± 1%	29	5

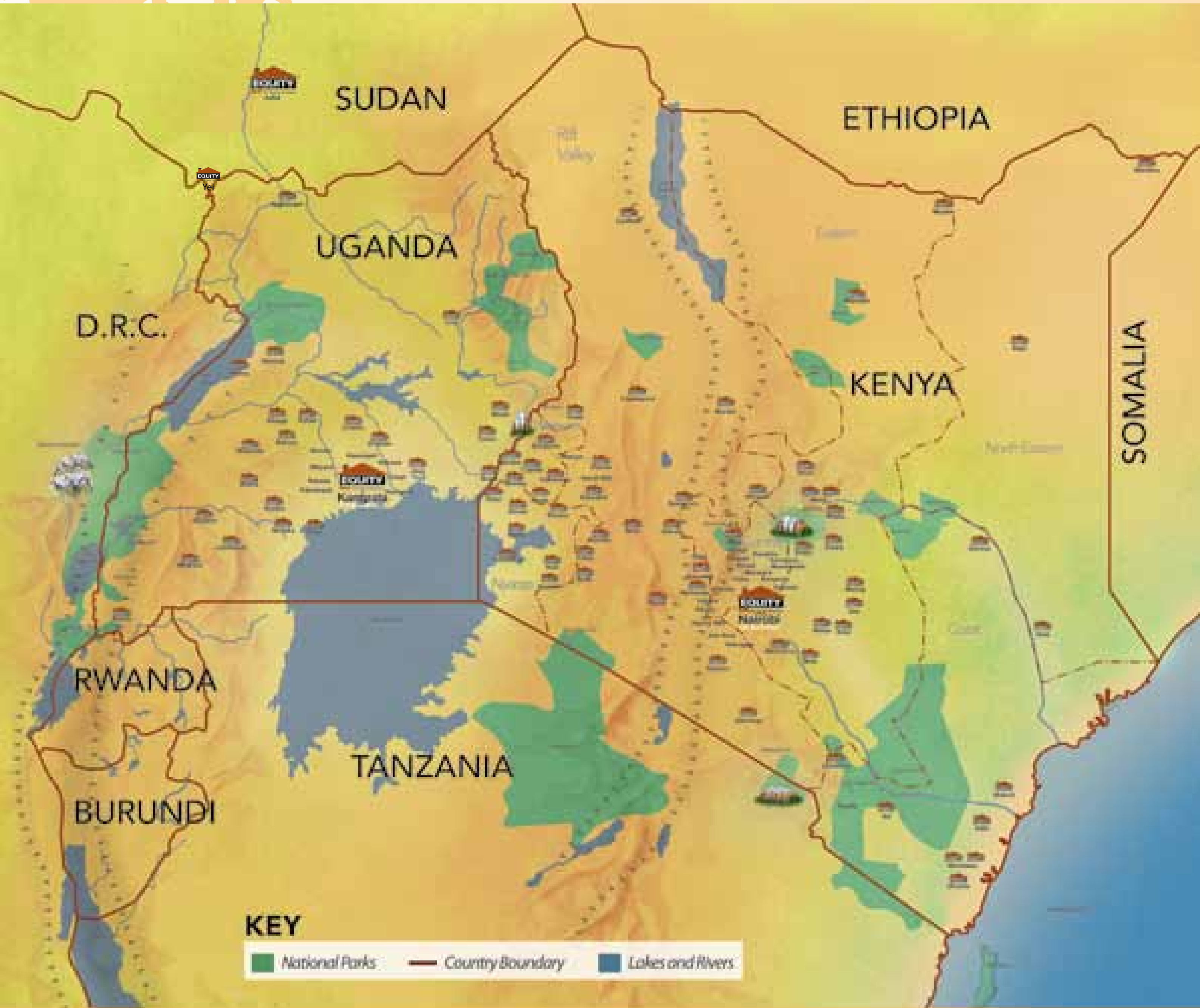
34. FOREIGN CURRENCY EXPOSURE - BANK

As at 31st December 2009	USD	GBP	Euro	Zar	JPY	Others	Total
In million of Kenya Shillings							
Assets							
Cash and cash equivalents	734	79	221	16	14	22	1,086
Loans and advances to customers	2,028	5	-	-	-	-	2,033
Other assets	830	-	-	-	-	(17)	813
Tax recoverable	-	-		-	-	-	-
	3,592	**84**	**221**	**16**	**14**	**5**	**3,932**
Equity and liabilities							
Customer deposits	899	36	199	-		-	1,134
Long term borrowings	2,721	-	-	-	-	-	2,721
Other liabilities	19	-	-	-	-	-	19
Total liabilities and shareholders funds	**3,639**	**36**	**199**	**-**	**-**	**-**	**3,874**
Net financial position	**(47)**	**48**	**22**	**16**	**14**	**5**	**58**
As at 31st December 2008							
Total Assets	3,069	91	58	(78)	(40)	8	3,108
Total Liabilities	3,702	91	56	-	-	-	3,849
Net financial position	**(633)**	**-**	**2**	**(78)**	**(40)**	**8**	**(741)**

Sensitivity analysis	
2009±1%	0.5
2008 ±1%	6

NOTES

Regional Footprint



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NOTE:

(a)	Branches in Nairobi	27
(b)	Branches in Kampala	20
(c)	Branches in Juba	2

Our Inspiration

That when years turn our vision dim and gray, we shall still see beauty in the tired wrinkles of our faces and shall take comfort out of the fact and knowledge that when we were given the opportunity we did all we could to empower our people to exploit opportunities and realise their full potential on the road to economic prosperity.

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