# ANNUAL REPORT AND FINANCIAL STATEMENTS 2010

EQUITY Bank • Your Listening, Caring Partner


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# Corporate Philosophies

## A Truly Transformational Corporate Philosophy

The Equity journey has been a truly transformational experience; not just for the customers but also for the Bank as a whole. Through a unique business model that integrates a social mission with financial intermediation, the Bank has truly emerged as a movement for social economic transformation which is propelled by a commercial engine. Our philosophy of doing good while doing well has often made it appear as if our social mission was larger than our economic mission, yet we continue to grow into one of the largest and most profitable financial services providers in the region, creating immense value for all our stakeholders.

Our business model has become the subject of case studies in some of the world's leading business schools such as Stanford, Strathmore, Columbia, Yale and Lagos. At this point in time, we have a moment to reflect and re-strategize on how to upscale our various initiatives for more impact and reach. For us, it has not been about what we have done in the past but the direction we are heading and what we need to accomplish in future. It is all about using the lessons we have learnt in the past to re-define our future while remaining grounded on our core purpose of transforming lives and livelihoods of our people socially and economically, by availing modern inclusive financial services that maximize their opportunities.

We have come a long way to where we are in pursuit of our dream. Our dream is that of an African continent where its people determine and shape their destiny and restore their dignity and hope.

## 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 TAGLINE

Your Listening Caring Partner.

## OUR MOTTO

Growing Together In Trust.

## OUR VALUES

**P**rofessionalism
**I**ntegrity
**C**reativity & Innovation
**T**eamwork
**U**nity of Purpose
**R**espect & Dignity for Customers
**E**ffective Corporate Governance

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# Notice of Annual General Meeting

Notice is hereby given that the Seventh Annual General Meeting (AGM) of Equity Bank Limited will be held on Wednesday, 30th March 2011 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 2010 together with the Chairman's, Directors' and Auditors' reports thereon.

3. To approve a first and final dividend for the year ended 31st December 2010 of Kshs 0.80/= per ordinary share of Kshs 0.50/= each, subject to withholding tax, where applicable.

4. Election of Directors:
   a) Peter Kahara Munga 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) Babatunde Temitope Soyoye 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) Julius Kangogo Kipng'etich retires by rotation in accordance with Article 100 of the Company's Articles of Association and being eligible, offers himself for re-election as a director;
   d) Alykhan Nathoo having been appointed as a director by the Board on 13th May 2010 as an alternate to Temitope Olugbeminiyi Lawani retires in accordance with Article 101 of the Company's Articles of Association and, being eligible, offers himself for election as a director.
5. To approve the remuneration of the directors for the year ending 31st December 2011.
6. To note that the auditors Messrs Ernst & Young, being eligible and having expressed their willingness, will continue in office in accordance with section 159 of the Companies Act (Cap 486) and to authorize the directors to fix their remuneration.

7. 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,

28th February 2011

**Notes**
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 EQUITY CENTRE 9TH FLOOR, Hospital Road, Upper Hill, P. O. Box 75104-00200, Nairobi, not later than 10.00 am on Monday, 28th March 2011, failing which it will be invalid. In the case of a corporate body the proxy must be under its common seal.

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 2010 of Kshs 0.80/= per share being 160% of nominal value, to be paid to shareholders on the register of members of the Company at the close of business on Friday 18th March 2011. The dividend will be paid on or about 8th April 2011.

# Bank Information

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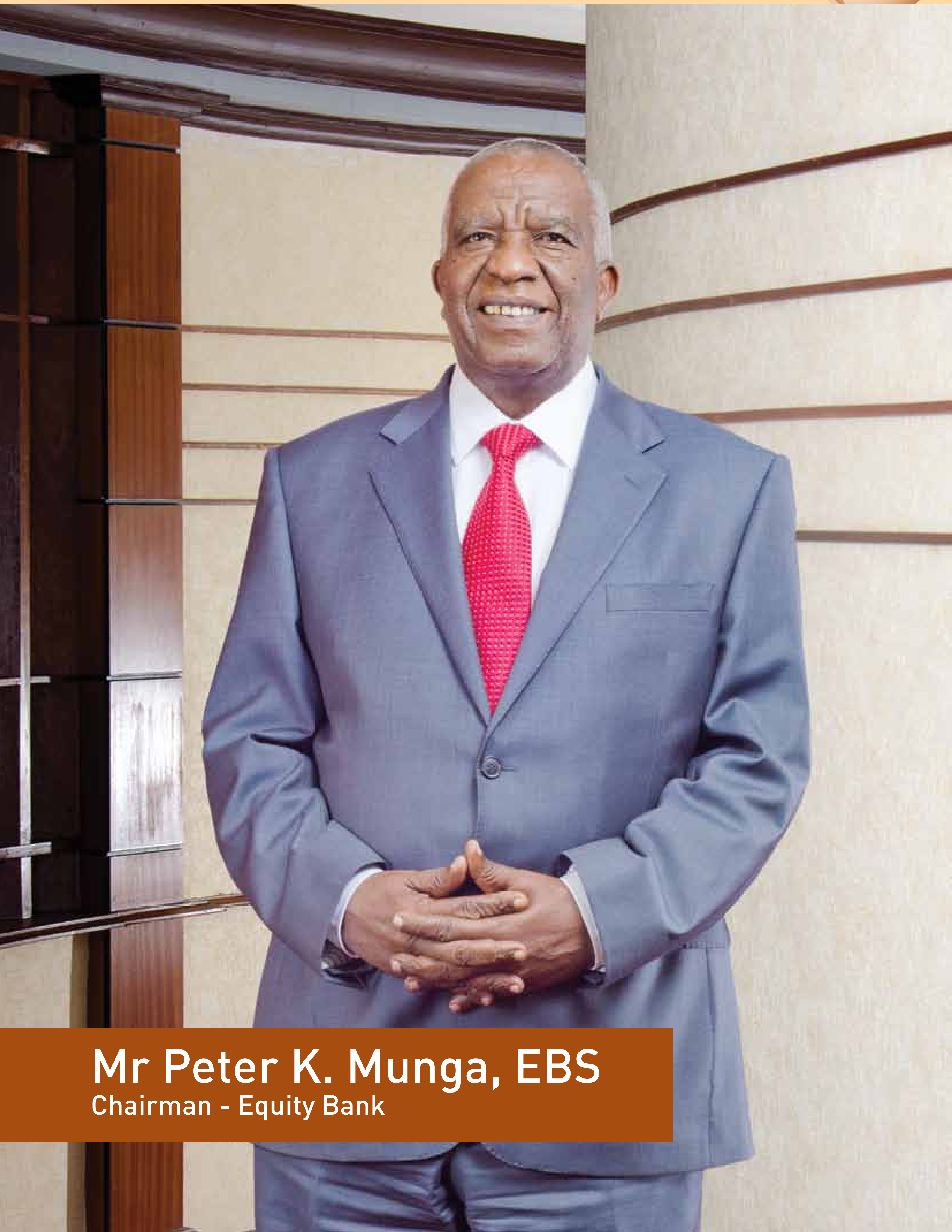
|---|---|
| PRINCIPAL PLACE OF BUSINESS: | Equity Centre, 9th Floor<br>Hospital Road, Upper Hill<br>P.O. Box 75104-00200<br>NAIROBI<br><br>Tel : +254-020-2262000<br>Fax : +254-020-2737276<br>Cell: 0711 026000 /0732 112000 |
| REGISTERED OFFICE: | Equity Centre, 9th Floor<br>Hospital Road, Upper Hill<br>P.O. Box 75104-00200<br>NAIROBI |
| LAWYERS: | Coulson Harney Advocates,<br>1st Floor, Block A<br>Nairobi Business Park<br>Ngong Road<br>P.O. Box 10643 – 00100<br>NAIROBI |
| BANKERS: | Central Bank of Kenya<br>P.O. Box 60000 - 00200<br>NAIROBI |
| AUDITORS: | Ernst & Young<br>Kenya-Re Towers, Upperhill<br>Off Ragati Road<br>P.O. Box 44286 - 00100<br>NAIROBI |
| SECRETARY: | Mary Wangari Wamae<br>Equity Centre, 9th Floor<br>Hospital Road, Upper Hill<br>P.O. Box 75104-00200<br>NAIROBI |

# Chairman's Statement



**Mr Peter K. Munga, EBS**
Chairman - Equity Bank

# Chairman's Statement

I am greatly honoured to present the Bank's report for the year ended 31st December 2010. It has been yet another year of great achievement and progress in our quest to transform the lives and livelihoods of our people socially and economically by availing to them modern and inclusive financial services. This has been reflected by the delivery of an exemplary performance by the executive leadership and staff, under the stewardship of the board.

## Operating Environment for 2010

The year 2010 was a year of global economic recovery, albeit an uneven one. The speedy recovery in the East was sharply contrasted by the sluggish growth experienced in the West. Sovereign debt became a major source of concern in the Eurozone and austerity measures in public spending became common policy. Despite all this, the global economy grew at 3.7% with two thirds of this growth occurring in emerging markets.

The Kenyan economy made significant gains in 2010 posting an impressive GDP growth rate of 5.4%, well above the 2.7% witnessed in 2009 and 1.7% in 2008. However, it was still below the record high of 7.1% registered in 2007 which is necessary for Kenya to realize the goals and targets envisaged in the *Kenya Vision 2030* national long-term policy blueprint.

The aggressive growth rate that characterized 2010 can be attributed to four main factors:

- Favourable weather conditions
- Increased liquidity and access to the banking system
- Prudent macroeconomic management, and;
- Increased investor confidence following the implementation of the new constitution and the East African Protocol.

These factors combined to create a turnaround in agriculture, manufacturing, construction, and service industry which have been favoured by a reliable supply of electricity and resilient domestic demand. Inflation levels steadily declined from 5.3% in December 2009 to 4.51% in December 2010.

Financial intermediation recorded the fastest growth of 20.3% for the third quarter of 2010 and NSE Share Index Activity rose from 3,247 in 2009 to 4,337 in 2010.

The overall financial sector contributed 11.1% of GDP growth in the third quarter of 2010. This % due to an increase in credit to the households and Private Sector which increased by 19.6% and 22.7% respectively.

The Kenyan Shilling appreciated against the Sterling Pound, the Euro, the Japanese Yen and the Tanzanian shilling at the end of November 2010. However, the shilling depreciated against the dollar, the South African rand and the Ugandan shilling to trade at an average of Kshs 80.974, Kshs 21.591, and Kshs 28.559 respectively in the same period.

There continues to be excess liquidity in the market with a deposit base of 1.2 trillion being matched by loans and advances amounting to 900 billion; approximately 70% of total savings and an indicator that there is room for further lending if the price is right. In addition, credit risk has been declining due to better risk management practices such as the establishment of the Credit Reference Bureau that helps banks share customer credit information and ultimately reducing the portfolio of bad debt for banks.

The number of branches of the entire Kenyan banking system increased from 918 in September 2009 to 1030 in September 1030; an increase in 112 branches. This rapid growth was most evident in the rural areas which have seen the number of branches grow by 140% over the last 5 years.

Diaspora remittances continued to increase from USD 609 million in 2009 to USD 641 million in 2010. The rapid increase in inflows from the Kenyan Diaspora over the last few years has aided in replenishing the country's foreign currency reserves and in complementing the contributions made from the tourism sector which saw tourist arrival and departure expand by 20% and 16% respectively.

Tea prices increased from USD 2.72 per kilo to USD 2.80 at the Mombasa Tea Auction. The gains from higher tea production were also boosted by a depreciating shilling which opened the year at Kshs 75.82 and closed at Kshs 80.52 to the dollar. The depreciating shilling made Kenya's tea more competitive in the international market and ultimately led to increased purchases.

# Chairman's Statement

### Equity Bank Performance

Our strong connections with our clients, powerful innovations and efficient execution have all contributed to an impressive performance in all key areas. We ended the year with 5.4 million customers in Kenya, representing over 57% of the banked population. Our subsidiaries in Uganda and South Sudan have also made significant progress in connecting with the previously unbanked population in the region, closing the year with 474,000 and 28,000 customers respectively.

Our strong performance has continued to attract recognition from prestigious local and international bodies. Equity Bank was named the best performing Ai 40 Company in the 2010 African Investor Series Awards held at the New York Stock Exchange. Dr James Mwangi Group Managing Director and CEO was voted The African Banker Of The Year by the 2010 African Banker Awards. Dr James Mwangi was also awarded an Honorary Doctorate of Letters by Africa Nazarene University for innovative ideas that have transformed the lives of millions of Kenyans, with specific mention of the revolutionary *Mkesho* mobile-centric bank account. Dr Mwangi was also honoured by Women Entrepreneurship Development and Gender Equality (WEDGE) group, an International Labour Organisation (ILO) women's economic empowerment program. The Bank's *Fanikisha* loan products target women entrepreneurs at various levels of business and has extended over Kshs 9 billion to over 136,000 women who have grown their businesses through the financing facility.

In recognition of Equity Bank's tradition of innovation that benefits social and economic transformation, the bank received prestigious awards from the ICT industry players. The Computer Society of Kenya recognized Equity Bank as the best in mobile technology application in 2010, citing the *Mkesho* product, a mobile centric bank account developed in partnership with Safaricom. The Chief Information Officer (CIO) East Africa Magazine, an information and communication magazine for the ICT industry held its inaugural CIO 100 Awards in 2010 and awarded Dr James Mwangi the Leadership Award while Equity Bank received the second runners up for the overall CIO 100 Awards.

Finally, we are proud that the Bank for the third consecutive year emerged as the Interbank Sports champion. I commend the staff for the passion, commitment and fairness that they displayed when representing the Bank at the annual sports event.

### Regional Expansion

Following the branch expansion we undertook in 2009 in Kenya and Uganda, we concentrated our efforts in 2010 on reaping the fruits of these significant investments. However, we did also moderately increase our regional branch network to 165 in 2010 from 152 in 2009 as part of our strategy to ensure that we are fully represented in all high potential areas in the region. Our Agency Banking model combined with innovative telecommunications integration will continue to offer cost-effective alternatives to expensive brick and mortar branch expansion.

### Corporate Governance

In fulfilling its duty and commitment to ensure that the Board has the best skills, the Board of Directors approved the appointment of Mr Alykhan Nathoo as Alternate Director. Mr Nathoo's great experience and intellect will be of great value to the institution.

### Dividend

Reflecting our strong confidence in the future growth of the Bank, the Board recommends a dividend of KShs 0.80 per ordinary share for the year ended 2010. This is double the KShs 0.40 per ordinary share paid out in the previous financial year.

### Outlook for 2011

The global economy is expected to grow by 3.3% in 2011 and much of this will be driven by domestic demand which can only be sustained by rising wages and a subsequently stronger purchasing power. Consequently, curbing inflation will be of paramount importance especially where it touches on food, asset and commodity prices which hit those on low incomes hardest.

The forecast for 2011 remains strong, as based on economic indicators, the Central Bank's Market Survey as well as the International Monetary Fund (IMF) forecast which predict an expected GDP growth of 5.7%. The key growth sectors will include ICT, manufacturing, agriculture, financial services and transport.

There is sufficient concern about inflationary pressures that will arise from the La Nina dry spells

"We ended the year with 5.4 million customers in Kenya, representing over 57% of the banked population..."

coupled by increase in international commodities and oil prices. However, the expectation is that these inflationary pressures will be temporary in nature particularly due to the seasonal trend in weather patterns. It is also expected that the impact of the drought on electricity generation shall be minimal due to higher levels of efficiency that have taken place in hydroelectric power generation.

The government's commitment to infrastructure spending will be the pillar that propels economic acceleration. About Kshs 180 billion has been set aside for the reconstruction of roads, ports and electricity infrastructure with the intention of making Kenya the regional hub and gateway to East Africa. Additionally, the government has embarked on social spending programs touching on the youth, women's empowerment, as well as management of the Constituency Development Funds and other rural development projects. These initiatives, coupled with the promulgation of a new constitution, hold the promise for a better tomorrow and increased confidence from the investor community.

Economic growth is expected to benefit from support from bilateral and multilateral lending agencies. The successful negotiation of the Extended Credit Facility provided by the IMF to the Government of Kenya provides the basis for similar agreements with other lenders. This will help ease Balance of Payment terms and provide the country with additional foreign exchange reserves.

Lastly, the continued harmonization of the East African Community processes under the Common Market Protocol will continue to boost regional trade and access to new markets. Closely related to this will be the much anticipated creation of Africa's newest state: South Sudan. The opportunity to help reconstruct this newly independent state will present new avenues for Kenyan businesses and provide economic gains for both countries.

### Conclusion

I would like to thank the management and staff for their passion and commitment that has enabled them to deliver exemplary results. My deep appreciation is also extended to my fellow board members for the invaluable guidance they have extended to the bank's leadership.

On my own behalf and that of the entire board, management and staff, I extend my sincere appreciation to you, our shareholders and members, for the strong and passionate support that you have provided to the Bank. Your enthusiasm has been truly inspiring to us and we look forward to working closely with you in providing inclusive financial services that transform lives and livelihoods, give dignity and expand opportunities for the people of Africa.

**Thank you.**

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

## CEO and Managing Director's Statement

Dr James Mwangi, MBS
CEO and Managing Director - Equity Bank

# CEO and Managing Director's Statement

I am pleased to present to you the Bank's annual report and financial statements for the year 2010.

The year was characterized by a rebounding macroeconomic environment with improved GDP growth that was supported by credit expansion in the key sectors of agriculture, manufacturing and construction. The economy experienced a low and steady inflationary environment and slight weakening of the Kenya Shilling against major currencies. Interest rates on the other hand declined in tandem with the Central Bank of Kenya (CBK) Monetary Policy Committee's stance.

## Financial Performance

Against this background and in line with our objective to maximize value for all stakeholders, the Bank posted a 71% growth in profit before tax to close at Kshs 9.04 billion compared to Kshs 5.28 billion the previous year. Group total operating income went up by 41% to reach Kshs 22.2 billion up from Kshs 15.7 billion the previous year, driven by growth in loans and advances and increase in transaction volumes. Net interest income rose by 28% to Kshs 11.7 billion from Kshs 9.1 billion the previous year. Non-funded income increased by 60% to Kshs 10.4 billion from Kshs 6.5 billion the previous year, exemplifying our continuing diversification of products and services.

Operating expenses grew by 26% to Kshs 13.2 billion from Kshs 10.5 billion resulting from investments in capacity enhancement to support national and regional expansion. However, our operational efficiency was reflected in the cost to income ratio that declined to 60% from 67% the previous year.

During the year, the balance sheet grew impressively with total assets reaching Kshs 143 billion from Kshs 100.8 billion the previous year, representing a 42% increase. This impressive growth was reflected in the loan book that grew by 24% to close at Kshs 78.3 billion up from Kshs 63.4 billion the previous year. Despite this growth, the Bank maintained a high quality asset portfolio with an average non-performing loan book of 3.7%, down from 4.7% the previous year.

Customer deposits grew by 50% from Kshs 69.8 billion to Kshs 104.4 billion. The Bank continued to attract new customers and closed the year with a customer base of over 5.9 million thereby maintaining the lead position in terms of customer base. This outreach was achieved through a network of 165 branches, 557 Visa branded ATMs and 2,500 Point of Sale terminals (POS) across the region.

In addition to customer deposits, the other funding sources of the Group represented by the shareholders' funds and borrowed funds increased by 18% to Kshs 34.7 billion, up from Kshs 29.4 billion the previous year.

The Bank's Return on Equity rose to 28.5% from 20% the previous year, demonstrating our commitment to continuous enhancement of the return to shareholders.

## Business Development and Innovation

In 2010, we continued with our commitment to develop innovative products and services that meet the needs of our customers. Using the robust IT platform and optimizing on the benefits of our "Tier 4" data centre, the Bank rolled out Visa acquiring through the Bank's POS network to what is known as VISA POS Acquiring. This allows all VISA card holders to make payments for services offered at shopping outlets using their VISA pre-paid, debit and credit cards. It also enables them to withdraw cash directly from their accounts through the cashier's till. This service has further enhanced the Bank's commitment to offer convenient services.

## Convergence with Telcoms

Recognizing the changing consumer trends and the central role that the mobile phone played in 2010 in delivering convenience and technology driven services, the Bank forged partnerships with Telecommunication companies in Kenya. The value proposition for this convergence was to give the customer financial services that are convenient, accessible and affordable through their mobile phones. With this partnership, customers started accessing their accounts through their mobile handsets. This has heralded innovation not seen before in the country. In addition to transfering money, customers can also originate and pay loans using their handsets, apply and pay for their insurance premiums, and enjoy the security of their money since it sits in the Bank. The Bank also spearheaded the development and roll out of *Mkesho* mobile centric bank account with Safaricom's MPESA, ORANGE MONEY with Telkom Kenya as well as YU CASH with Essar.

# CEO and Managing Director's Statement

### Agency Banking

Upon establishment of a regulatory framework by the Central Bank of Kenya, the Bank rolled out agency banking in 2010.

Using this business model, the Bank is overcoming the expansion costs that come with the establishment of brick and mortar branches across the country. The agency banking model will accelerate the establishment of the Bank at the village level and give customers the freedom of banking from their door steps.Besides, agents are selected on the basis of a rigorous criteria that identifies people of high moral standing in the community and who can be trusted by the local community to be the custodians of their money. The agent has been empowered to carry out an array of transactions on behalf of the Bank. These include deposit taking, cash withdrawals,as well as origination of account opening and loan applications.

### Agricultural products

The Bank continued to innovate products that help farmers to commercialize their agricultural activities. In the year under review, the Bank rolled out *Kilimo Maendeleo*. This product targets the small scale farmers operating remittance accounts with the Bank. This credit facility is meant to finance farm developments such as building of farm houses, farming expansion and purchase of farm assets.

The Bank structured a loan product for coffee farmers. The loan is designed to meet short and medium term needs such as farm inputs, cherry picking advance, delivery pre-payment/parchment advance as well as pulping and processing.

Under *Kilimo Biashara*, the Bank embarked on financing sorghum farmers to purchase inputs like sorghum seeds and fertilizer. Through a partnership with East African Breweries Limited (EABL), the farmers are guaranteed a ready market for their produce.

### Commercial Mortgages

To actualize our vision and mission of socio-economic empowerment of the people of Africa and the need of access to decent housing, the Bank has purposely ventured into the mortgage financing market. With a view to revolutionalizing home ownership in the country and across the East African region, the Bank has to date lent in excess of Kshs 7 billion to individual home owners and real estate investors for purposes of acquiring and building affordable homes.

The mortgage loans can be used to acquire plots, construct desired homes, purchase developed units or develop residential and/or commercial estates.

The Bank strives to make fast decisions, offer competitive pricing hence value for money, and flexible terms and conditions with accommodative loan period that suits our customers' income flows. These services are dedicated to our customers through our experienced relationship managers across our network.

### Asset Finance leasing

In supporting the dynamic transport and general private sector, and also to satisfy the ever-increasing requirements of our customers, the Bank introduced asset leasing options for the corporate sector. This is an enhancement of our existing range of asset finance products, for the customers who prefer off-balance sheet finance.

### Partnerships with China Union Pay and China Development Bank

We also partnered with China Union Pay to become their sole agent in the region. Our members on VISA can now access their accounts from China Union Pay ATMs and POS all around the world. The East African business community that imports goods from China can now easily and conveniently transact business. China Union Pay cards will now be accepted at our over 557 ATMs, as well as 2,500 points of sale terminals and over 1,000 merchant outlets.

To respond to the challenge that the Small and Medium Enterprises(SMEs) face in accessing credit facilities, we signed a loan agreement of Kshs 4 Billion with China Development Bank that has enabled the SMEs to access long term credit facilities in all our branches at very affordable rates.

### Technology and Operational Efficiency

The Bank completed the migration to the new "Tier 4" data centre which will support the entire regional expansion footprint with enhanced system availability and resilience. The centre provides the highest system availability possible. It is designed to host mission-critical servers and computer systems with fully redundant subsystems (cooling, power, network links, storage etc) and compartmentalized security zones controlled by biometric access control methods. Additional modules were also introduced in the Enterprise Resource Planning (ERP) systems and stability was enhanced both in the ERP and the

# CEO and Managing Director's Statement

core banking systems. These systems were also implemented in the subsidiaries in Uganda and South Sudan. Additional investments in system security technology have served to secure the Bank's information platform. Further, the bank launched its help desk facility so as to enable rapid resolution of technology issues within the organization.

The Bank also enhanced its credit automation systems with the enhanced testing and adoption of credit scoring modules for loans. This was integrated with the ATM and mobile banking platforms. Finally, the Bank managed to integrate its technology systems with mobile technology so as to offer seamless and secure mobile banking transactions.

## Capacity Building and Leadership Development

During the year, the Bank remained focused on talent acquisition and leadership development. Approximately 76% of the Bank's employees are below 30 years of age. Career Development is therefore important for these employees and for this reason, leadership development and succession planning remained an important initiative in the Bank. The Bank therefore focused on multi-skilling of staff, talent and leadership development programs. This was critical in sustaining the performance of the Bank and for the development and retention of staff.

During the year, more than 85% of the staff attended technical skills and leadership development training programs. The technical skills programs involved instructor-led training programs and experiential training done throughout the year through cross-functional and regional postings. Staff also attended numerous management and leadership development programs. These were programs such as Fast Forward Leadership Development program, Executive Coaching, Strategy in Action, and a customized leadership development program that was delivered to the top 60 managers as part of the Bank's succession planning initiatives. Finally, staff attended training programs in places such as Boulder, St. Petersburg, Global Youth Enterprise, Wharton Business School and Harvard Business School. These initiatives were supported through extensive mentoring and coaching provided to staff at all levels. As a result of the skill and leadership development initiatives high performing and high potential staff were promoted to more challenging roles throughout the year.

## Outlook for 2011

2010 was a year that saw us focus on building capacity to support our national and regional expansion. With the heavy investment in Information and Communication Technology (ICT) and enhancement of staff capacity, the Bank is now well positioned to seize opportunities this year by leveraging on these investments. The Bank's investments in Uganda and South Sudan have so far performed well and are expected to contribute even more to our profits. The Bank plans to extend its footprint into Tanzania and Rwanda while continuing to leverage on the convergence with Telcoms and agency banking to drive expansion and reach in Kenya.

The outlook for 2011 for the business therefore remains positive. With the consolidation of gains made in the ICT infrastructure investments, capacity development and focus on enhancing customer experience and brand visibility, the Bank expects to enhance its market share in the growing regional market.

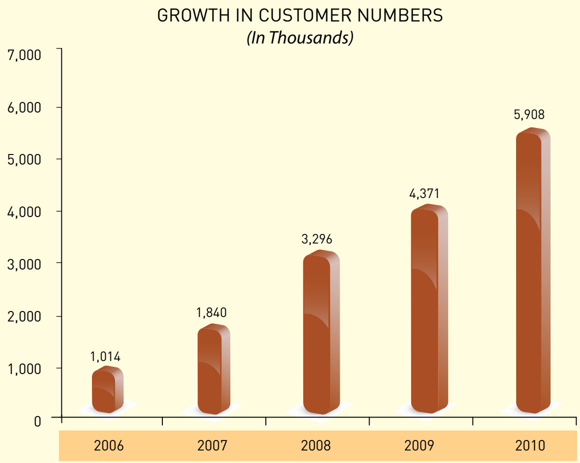
## Conclusion

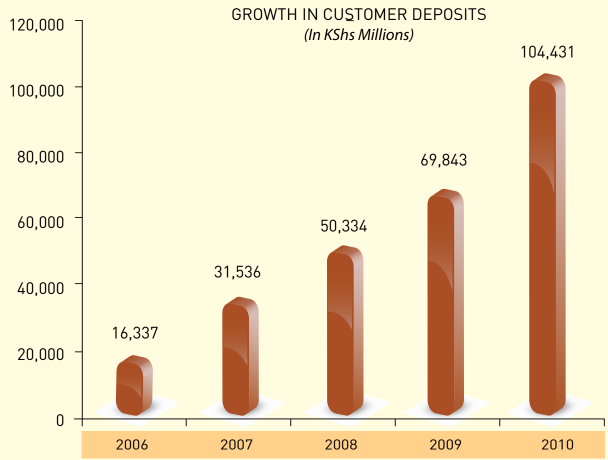
In conclusion, I wish to take this opportunity to express my sincere gratitude to our customers, shareholders and business partners for their dedicated loyalty to the Bank and continued confidence and trust in our business. I also wish to thank the Board of Directors for the oversight and guidance they have given the Bank. Lastly, I am grateful to the management and staff of the Bank for their devotion and sacrifice that enabled delivery of this excellent financial performance. Together, we shall continue to live our purpose of transforming lives and livelihoods of our people socially and economically by availing them modern, inclusive financial services while delivering even greater value to our stakeholders.

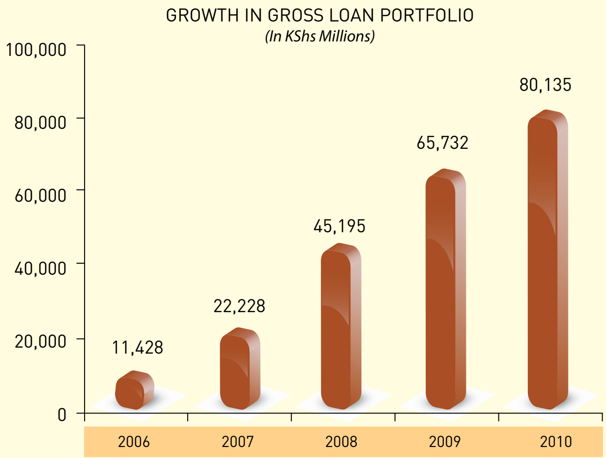
**Thank you.**

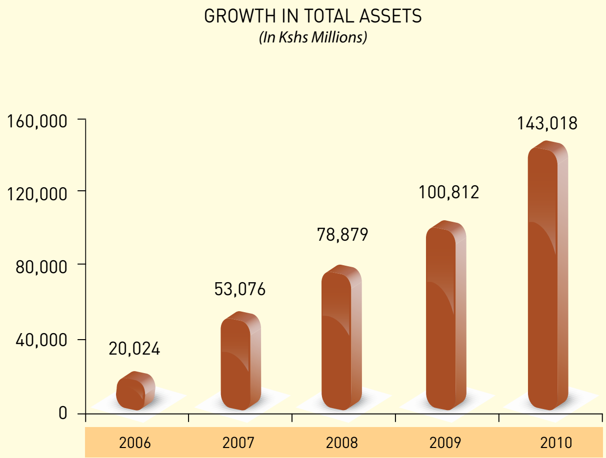
**Dr James Mwangi, MBS**
**CEO and Managing Director.**

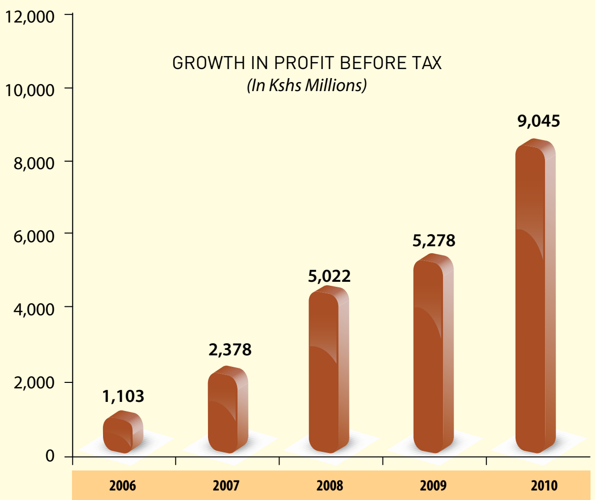
# Financial Highlights

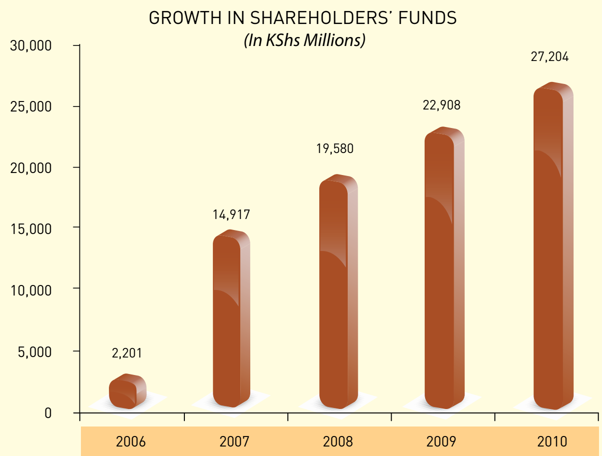


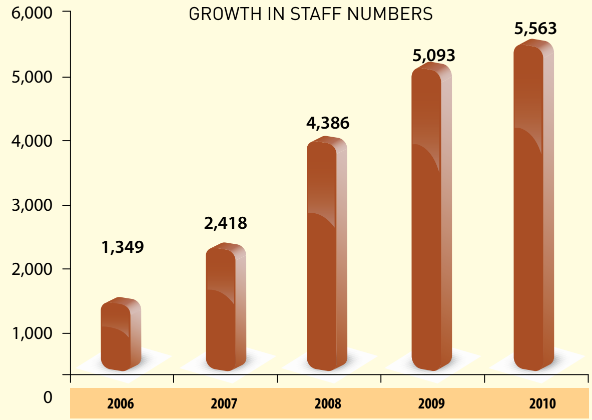



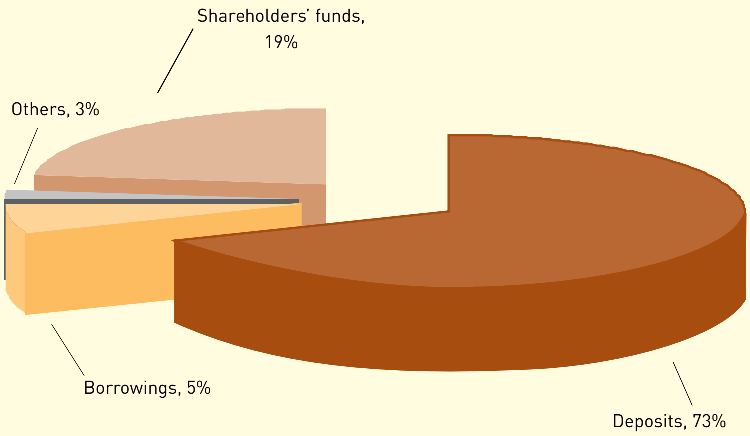



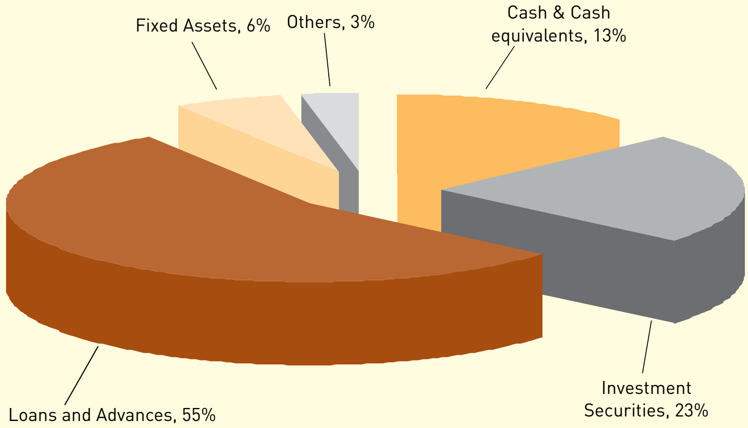
# Financial Highlights




## Distribution of Liabilities




## Distribution of Assets



# Key Achievements and Accolades

## Ai 40 COMPANY OF THE YEAR

Equity Bank was named the best performing Ai 40 Company in the 2010 African Investor Series Awards held at the New York Stock Exchange.

The African Investor Index Awards recognizes and rewards institutional investors, stock exchanges, corporate governance, stockbrokers and capital market regulators across the continent.

They reward exceptional business practices, economic achievements and investments across the investment spectrum in Africa .In addition to business success, the awards also emphasize responsibility towards society and good corporate citizenship.


*Mary Wamae (C) Equity Bank's Director of Strategy and Company Secretary receiving the Ai40 trophy in New York*

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*"Your innovative products are opening eyes of small holder farmers to transform their production from subsistence to commercialization. They are taking advantage of the opportunities along the value chain to improve their livelihoods and well being."*

*Prof Willis Oluoch Kosura to Dr Mwangi, after attending the AGRA Conference in Ghana in 2010*

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*Dr James Mwangi receiving the trophy and certificate recognizing him as the 2010 African Banker of the Year from Stephen Hayes of the Corporate Council of Africa (CCA)*

## AFRICAN BANKER OF THE YEAR 2010

Dr James Mwangi MD and CEO of Equity Bank was voted the African Banker Of The Year by the 2010 African Banker Awards. He was cited for revolutionising Kenya's banking industry, pioneering the first mobile banking technology in the world to reach out to the unbanked, and for championing the empowerment of ordinary people through inclusive finance.

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*"You have created Equity Bank and made it one of the leading banks within a short period of time benefitting millions of people who are your members."*

*Letter to Dr Mwangi from Dr Manu Chandaria, OBE; EBS, on receiving a doctorate from African Nazarene University 2010.*

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## DR JAMES MWANGI AWARDED HONORARY DOCTORATE OF LETTERS

In 2010, Africa Nazarene University awarded Dr James Mwangi together with Mr Michael Joseph (then Safaricom CEO) for innovative ideas that have transformed the lives of millions of Kenyans. The Award cited the introduction of *Mkesho*, a revolutionary mobile-centric bank account by Equity Bank and Safaricom.

*Dr Mwangi (centre) poses for a photo with, from left, Vice Chancellor, Prof Leah Marangu, former Safaricom CEO Dr Michael Joseph (2nd right) and Nazarene University Chancellor Dr Jerry Lambert (R).*

# Key Achievements and Accolades

## TREND SETTING IN ICT

The Computer Society of Kenya recognized Equity Bank as the best in mobile technology application in 2010, citing the *Mkesho* product, a mobile centric bank account developed in partnership with Safaricom.

At the same time, the Chief Information Officer (CIO) East Africa Magazine, an information and communication magazine for the ICT industry held its inaugural CIO 100 Awards in 2010 and awarded Dr James Mwangi the Leadership Award while Equity Bank received the second runners up for the overall CIO 100 Awards.

*Allan Waititu (L) Director of IT and Innovation Centre at Equity Bank receiveng the CIO Award*

*"Equity has made a name for itself by addressing the needs of the low income population who comprise a segment of the market traditionally neglected by large commercial banks. The Bank's history is entrenched in the collective consciousness, and it is virtually impossible to find someone in Kenya who does not know the story of how the Bank has grown .....into a banking powerhouse ."*

*Columbia Business School, Equity Bank Case Study 2009*

## ILO PROGRAM HONOURS CEO

Dr Mwangi was honoured by the Women Entrepreneurship Development and Gender Equality (WEDGE), an ILO women's economic empowerment program for championing entrepreneurship development among women and youth in Kenya. The recognition came as part of the Month of the Woman Entrepreneur (MOWE) celebrations in 2010, an annual event organized by WEDGE and celebrated in Kenya, Ethiopia, Tanzania, Zambia and Uganda. The Bank has developed the Fanikisha loan products that target women entrepreneurs at various levels of business. By 2010, the Bank had extended over Ksh 10 billion to over 136,000 women.

## INTERBANK SPORTS CHAMPIONS FOR 3 CONSECUTIVE YEARS

Equity Bank retained the trophy as the 2010 Interbank Sports champion.In keeping with the rules of the game where a winner is allowed to keep the trophy for good after winning it three consecutive times, Equity Bank is now the proud custodian of the prestigious silver trophy.

*"The model's success factors are general principles that do not depend on country specific conditions and it should be possible to replicate this in other countries. Having consolidated its position in Kenya, Equity is looking at growing in footprint in Africa. In the medium term it is planning to become a regional bank and in the longer term perhaps even a Pan-African bank."*

*Napier M. (2010). Real Money, New Frontiers: Case Studies in Financial Innovation in Africa. Juta and Company Ltd. Claremont, South Africa,*

# Statement on Corporate Social Responsibility

In 2010, Equity Group Foundation (EGF) crystallized as a fully fledged institution with its own structures and systems. It attracted professionals from both local and international markets who have brought knowledge, expertise and the experience needed to implement programs along the thematic areas identified for focus. This innovation and creative vehicle has fundamentally transformed the concept of philanthropy and corporate social responsibility to a level previously unknown. While Equity Group Foundation champions the socio economic transformation of the people of Africa and seeks partnerships along six cluster thematic areas, Equity Bank provides the infrastructure of delivery hence reducing the operational costs for the Foundation and increasing the rate of return on any social investment. The six social thematic areas of focus are, education and leadership development; financial literacy and access; entrepreneurship, agriculture, health, innovations and environment.

## EDUCATION

EGF continued to champion educational initiatives aimed at creating transformational leaders by availing them opportunities to access education and leadership skills.

### Wings to Fly Program

In 2010, EGF scaled up its partnership with The MasterCard Foundation by rolling out the 'Wings to Fly' Program. This is a nine year initiative that is providing comprehensive secondary school education and leadership training to 5600 academically gifted yet economically and socially marginalized young Kenyans. The program defines social and economic vulnerability to include students who have lost one or both parents, students whose parents are living with HIV or chronic illnesses, families affected by disaster such as famine and all who are unable to educate their children.

In 2010, the program received financial support from UKaid. A total of 1200 scholars received scholarships at a launch ceremony presided over by His Excellency President Kibaki. Out of the 1200 scholars, 400 joined national schools accounting for 13% of the total national schools intake in 2011. The scholarship provides tuition fees, textbooks, uniforms, shopping and pocket money for the beneficiaries.

In addition to a focus on academic excellence and achievement, the program's curriculum places

*HE President Mwai Kibaki (left) witnessing the handing over of Ksh. 4 billion cheque by Reeta Roy, CEO and President of The MasterCard Foundation towards the Wings to Fly Program. On the right is Dr James Mwangi, Equity Bank CEO and Chairman of the Equity Group Foundation.*

emphasis on skills development and networks to help students succeed in secondary school and beyond. Potential scholars were selected through a transparent and community-owned selection process that was widely and publicly advertised to give as many deserving students

# Our Corporate Social Responsibility Continues to Soar...

*"We found a strong partner in the leadership and commitment of Dr James Mwangi and the Equity Group Foundation team. Together, we've designed a program that capitalizes on Equity Bank's infrastructure and extensive branch network that serves people living in poverty. This approach – that leverages the infrastructure, networks, local knowledge and employees of a bank and combines it with the resources of a global foundation -- is not only innovative, it's ground-breaking in global philanthropy."*

*Remarks by Reeta Roy- President and CEO of The MasterCard Foundation; From her speech during the Launch of ' Wings to Fly' program in Kenya on 24th January 2011*


*President Mwai Kibaki presents a scholarship to one of 2010 Wings to Fly scholars. Looking on (centre) is Vice President Kalonzo Musyoka and Equity bank CEO Dr James Mwangi.*

as possible the opportunity to apply. Students who ranked in the top 5th percentile in the Kenya Certificate of Primary Examinations were identified and screened based on factors of social and economic vulnerability. Local community partners, including Equity Bank branch managers, local chiefs, civil society leaders, religious leaders, women representatives and representatives from the Ministry of Education constituted the District selection Boards in each recruiting district.

The Program has the potential to make a significant impact on the lives of young people, including better educational outcomes, improved chances of success in life, increased gender equality in secondary education, new opportunities for students from economically disadvantaged backgrounds to access education and greater social integration among students.

### Annual leadership development congress

In August 2010 the Equity Group Foundation held its inaugural Leadership Conference at Kenyatta University. The conference brought together over one thousand beneficiaries of both the Equity Group and The MasterCard Foundation scholarship, as well as beneficiaries and alumni of the Pre university sponsorship program.

The two week program focused on leadership development for the scholars. A range of mentors who included world-class scholars, leading captains of industry, university vice-chancellors and professors, master entrepreneurs and motivational speakers spent time with the scholars mentoring them on how to become transformational leaders. They included Dr James Mwangi CEO of Equity Bank and Chairman of Equity Group Foundation, Reeta Roy, the President and CEO of The MasterCard Foundation, Prof Olive Mugenda, Vice Chancellor of Kenyatta University, Mr Mugo Kibati, the Director General of the *Vision 2030*

***Jubilant 2010 Wings To Fly Scholars during orientation program before joining secondary school***

# Statement on Corporate Social Responsibility

Delivery Board, Michael Joseph, then CEO Safaricom, Prof Githu Muigai, Academic and UN Special Rapporteur on Racism and Racial Discrimination, Prof Leah Marangu, Vice Chancellor of Nazarene University, Dr PLO Lumumba, Director of Kenya Anti Corruption Commission, Prof James Kombo, Acting Vice Chancellor of Daystar University, Ivy Mwai, Director of admissions at African Leadership Academy, Sheila Amdany, General Manager at Scan Group, Jane Wanjiru, Legal advisor with UNHCR in Geneva, Hannah Mureithi, Chairperson of the Kenya National Highways Authority, Prof. J.J Ongonga, Lecturer at Kenyatta University and selected principals of secondary schools including Mrs. Jacinta Akatsa of Precious Blood Riruta and Mr David Kariuki of Alliance High School.

With the generous support from Kenyatta University, the Leadership Congress will take place annually at the Kenyatta University main campus in Nairobi.

## Pre-University Sponsorship Program

In 2010, Equity Bank extended university sponsorship to 200 top students, comprising of top boy and top girl in the KCSE examinations in each district where the Bank operates. This brought the total number of beneficiaries so far to 800.

During the year, the Pre-University Scholars maintained the tradition of serving as role models and mentors to other students in their communities and in schools. They took up invitations to give motivational talks in schools to help other students focus on academic excellence. Beneficiaries of the 2010 sponsorship set a record in the country when eight of them obtained scholarships to some of the World's leading universities including Harvard, Yale and MIT. Another two joined London School of Economics and Wooster College in Ohio respectively. During the year, the program undertook to coach and prepare students in the application process to leading world universities. By December 2010, an additional four scholars had gained admission to Amherst College, Cornell University, University of Pennsylvania and Williams College in the US while one won the President's UK Scholarship Award tenable in several top UK Universities. The bank extended airfare to scholars who enrolled in the universities abroad in 2010.


*Dr. Mwangi presents a cheque to Anthony Siloy Bett for his airfare. Siloy joined Havard University in 2010.*

*Ann Daki Shokono, a pre university beneficiary from Marsabit mentors young people on academic excellence during a financial literacy day in Marsabit town in 2010.*

## AGRIBUSINESS INTERVENTION

In 2010, the EGF continued working closely with the Bank in implementing agribusiness initiatives. These initiatives were aimed at providing credit and access to markets that enhance earnings for smallholder farmers. The sector developed innovative products and partnerships that enhanced the value of the various interventions developed in the previous years.

Key areas included the development of drip irrigation financing targeting small scale farmers. This was a direct response to climate change challenges and its negative impact brought about by harsh and unpredictable weather patterns that adversely affect farmers. This non-rain fed agriculture is helping farmers to be in production throughout the year and thus enhancing food security in a sustainable way while increasing the incomes of small holder farmers.

# Our Corporate Social Responsibility Continues to Soar...

## Commercialisation of Sorghum Farming

Gadam sorghum crop in a farmer's field

'Kilimo Biashara' partnership between Equity Bank, Alliance For a Green Revolution in Africa (AGRA) and International Fund for Agricultural Development (IFAD) through the Ministry of Agriculture continued to be the flagship initiative for realizing the commercialization of agriculture, in line with the Agriculture Sector Development Strategy (ASDS) and Vision 2030. The Bank advanced over Ksh. 760 million to 11,657 farmers bringing the accumulated total to over Kshs 1.6 billion which has benefited over 39,000 farmers and agro dealers. One of the emerging developments was the introduction of sorghum as a commercial crop in Eastern Province where growth of maize has been hampered by inadequate rainfall. The initiative to support the farmers adopt sorghum farming has been a partnership between Equity Bank that has been offering inclusive financial intermediation, Kenya Agricultural Research Institute (KARI) providing certified seeds and extension services jointly with Ministry of Agriculture while the East African Breweries Limited provides the market. The partners jointly carried out sensitization to the farmers and farmers have taken up sorghum farming as a business.

## World Food Day Celebrations:

The Bank and EGF participated in the 2010 World Food Day celebrations in Siaya and carried out financial literacy training to the farmers.

*Best farmer in Nyanza province during the 2010 World Food Day celebrations shows off an irrigation kit donated to him by Equity Bank.*

## Partnership with World Food Programme (WFP) in cash transfer using Agency Banking in the greater Mwingi District

In our endeavour to support our people particularly the food insecure and vulnerable communities, Equity Bank partnered with WFP to pilot cash transfer through agency banking to the beneficiaries of WFP who have in the past received food donations. The target area in the pilot phase was the greater Mwingi district covering 3,700 households in Kyuso, Tseikuru and Ngomeni areas.

The Bank also participated in dairy training courses all over the country. In conjunction with GIZ (formerly GTZ) Private Sector Development in Agriculture (PSDA) the Bank promotes the use of energy saving initiatives through *Jiko Kisasa* and bio gas units. Equity also donated 2000 beehives to farmers to diversify their sources of income while conserving the enviroment.

## Interacting with Farmers in All ASK Shows in the Country

As part of our education and sensitization programme for farmers, the Bank participated in all Agricultural Society of Kenya shows across the country and won awards culminating in the Nairobi International Trade Fair where the Bank won "Best Bank" stand and "Best Financial Institution".

*H.E. The President presenting the Best Bank Trophy to Equity Bank during the 2010 Nairobi International Trade Fair. The Director of Treasury, Trade Finance & Marketing Michael Wachira received the trophy.*

In all the Shows, the Bank created interactive forums with the farmers and other show goers and educated them on the Bank's various products and services. At the same time, the Bank provided full banking services giving show goers convenience in accessing services. The show theme in 2010 was, *"Driving agribusiness in attaining food sufficiency and Vision 2030".*

# Statement on Corporate Social Responsibility

## FINANCIAL LITERACY AND ENTREPRENEURSHIP

Equity Bank worked closely with the Equity Group Foundation in its continued efforts to empower women and youth with knowledge, skills and attitudes required to adopt good management practices that will help them to scale up their businesses and ultimately transform their lives and livelihoods. These skills help them work towards their financial goals, empower them with the tools necessary to access finance and become more bankable.

The Equity Group Foundation scaled up these efforts in 2010. Through a partnership with The MasterCard Foundation, EGF rolled out a financial literacy training country wide that will benefit about 620,000 business owners.

This program also offered in collaboration with Kenyatta University has proved its impact in contributing to the Bank's commitment to financial inclusivity and the vision of championing the social economic transformation of our people.

*"Financial education was a true eye opener to me' the training helped me to have another perspective on money and how to spend. These days, I don't just spend because I have money, but I do so after planning for what is necessary. I normally outline all my monthly expenses for example food, clothes, transport so that I am able to compare with my income to avoid deficit or overspending. When making the budget I make sure that I differentiate and prioritize on my expenses. Now I know the difference between a "need" and a "want". Making a budget helps me monitor my finances and live within my financial boundaries.*

*To make my budgeting successful, I encourage my wife to be part and parcel of my budgeting process so that she can support me in my endeavour towards financial freedom. This has helped us because we have been able to have some savings set aside to help us invest. Budgeting was an essential part of our training. To me and my family I learnt a lot from it since it was a mirror to help me reflect on how I apportion my income to expenses"*

Mr Harrison Mkamburi a member of Spear Youth Group and a shop owner in Kongowea, Mombasa

*Director of HR & Customer Service Gerald Warui (seated far right) and Director of Corporate Strategy Mary Wamae (seated 2nd right) join the trainers during the opening of the Training of Trainers course at Equity Centre in 2010.. Next to Mary is James Wanjohi, General Manager at the Equity Group Foundation, MFO Training Officer Bailey Butzberger and Chris Khaemba, Dean of the Equity Academy. The Trainers were trained and certified by Micro Finance Opportunities (MFO) as Financial Education Master Trainers.*

## ENVIRONMENTAL PROTECTION

EGF through Equity Bank partnered with Save the Mau Trust as trustee in a joint effort with East African Breweries Ltd, Nation Media Group, Kenya Wildlife Service and the Green Belt Movement. The Trust set out to sensitize communities on the need to conserve the Mau as well as spearhead a campaign that involves Kenyans in rehabilitating the Mau ecosystem.

Equity branches also supported local communities in tree planting exercises and also engaged in various other interventions that benefit the communities in their areas of operation.

*Equity Bank staff joined local communities in Mau complex for tree planting exercises in 2010.*

# Our Corporate Social Responsibility Continues to Soar...

Monday, February 7, 2011 / The Standard

DOMINIC **ODIPO**} WINGSTO FLY

## The giant step we never took notice of

*"The brightest of socially and economically weak will be given wings that will enable them to carry not just themselves but also their families and communities into the future"*

On January 24, this country made a giant step forward in the education sector. Unfortunately, most of us did not notice it. This giant step was, as usual, buried in our never-ending media-cum-political civil wars and the breathtaking news from Egypt and Tunisia.

That day President Kibaki formally launched "Wings to Fly", an education scholarship and leadership development programme that could change the face of the country within two decades.

It was the sort of launch the whole nation should have been riveted to, the way youth glue onto those English Premier League matches. But that did not happen.

If you are born in Turkana, Wajir or West Pokot, you know your chances of studying in a top notch Kenyan secondary school are slim. These chances get even lesser if you are a girl and live in one of those districts.

Kenya's present education system consigns those who live and learn in such districts to automatic second class citizenship.

"Wings to Fly" is the boldest, biggest, and most visionary private sector initiative meant to shift this structural and regional imbalance that this country has seen since Independence. Under this ground-breaking programme, 12 of the best students in each of the 100 Kenyan districts will get full scholarships covering tuition, books, uniforms and pocket money, which will enable them to study in the best secondary schools locally.

These students will be selected through a transparent and home-grown process from among the most disadvantaged or those who would never otherwise get an opportunity to study in any secondary school.

The brightest of Kenya's socially and economically weak will be given wings that will enable them to carry not just themselves but also their families and communities into the future.

### NO DISCRIMINATION

There will be no discrimination among districts, tribes or dialects. The brightest but most vulnerable children from Turkana will have exactly the same opportunities as those from Nairobi or Kiambu.

Even though the President was present at the launch of this programme, it has no Government or public sector components. The programme is fully sponsored by Equity Bank Foundation and Canada-based MasterCard Foundation.

Of the initial 1,200 beneficiaries of this programme, 400 will be joining national schools this year, while 800 will enroll in some of the best provincial schools across the country. There are a number of reasons why "Wings to Fly" should be capturing much more of our attention than it appears to be doing. It is, first, the biggest programme of its kind ever launched in this country.

It carters for the socially and economically vulnerable from every corner of the country. It provides full scholarships, including pocket money and uniforms for all these students. It carters for both boys and girls and includes a tailor-made mentoring component.

The selection process has been carefully designed so that the people on the ground can own and reshape it to fit their particular circumstances. And since the programme is fully sponsored by private sector organisations, there will be no additional strain on the resources of the Ministry of Education.

There is no better and valuable investment than that we put in the education of children. There is nothing more important a good Samaritan can do than provide the full education of a vulnerable and disadvantaged child. There are no wings more valuable to a child than those which can fly him or her through the education system.

The initial phase of "Wings to Fly" will run for nine years and cater for at least 5,600 students. Given its potential impact on the future of this country, we should all be praying that this programme will be renewed and, ultimately, made a permanent component of our education system. But that is another matter.

"All these should remind us that underneath the political cacophony, some visionary Kenyans, in partnership with some big-hearted foreigners, are doing some great things to change the future of our country

Imagine what would happen if other big Kenyan companies followed the Equity Bank-MasterCard example and undertook to sponsor at least 12 bright but disadvantaged students from every Kenyan district through secondary school?

### OTHERS JOIN

Or, suppose other companies joined "Wings to Fly" so that, by next year, instead of sponsoring 12 students from every district through secondary school, the programme could carter for at least 100 such students? What would be the net impact of such a development on our national development under the Vision 2030 blueprint?

It is a great pity that "Wings to Fly" is in danger of being lost in the public imagination to the cascade of news we are receiving every day from Egypt and the local political scene. Nevertheless, all these should remind us that underneath the political cacophony, some visionary Kenyans, in partnership with some big-hearted foreigners, are doing some great things to change the future of this country.

**The writer is a lecturer and consultant in Nairobi. The opinions expressed herein are personal and not necessarily those of *The Standard*.**
***dominicodipo@yahoo.co.uk***

# The 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 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 Investments Company (Kenya Ltd) , Rockfeller Foundation and Equatorial Nut Processors.

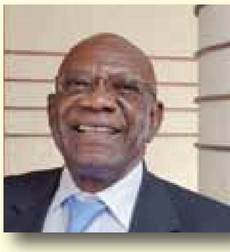
## Dr James Mwangi, MBS – CEO & Managing Director

Dr Mwangi holds four Honorary doctorate degrees in recognition of his contributions to the Kenyan society. He holds a Bachelor of Commerce degree and is a Certified Public Accountant. Dr Mwangi has been honored twice with Presidential national awards. He is currently the Chairman of *Kenya's Vision 2030* Delivery Board charged with the responsibility of ensuring Kenya becomes a middle income country with global high standards of living by the year 2030. He serves on several international bodies as an advisor and sits on the Board of the Africa Leadership Academy in South Africa. He has over 22 years of management experience.

## Mr Benson Wairegi – Vice Chairman

Mr Wairegi holds a Master of Business Administration degree and Bachelor of Commerce (Accounting option) degree from the University of Nairobi and is a Certified Public Accountant – CPA (K). He is the Group Managing Director of British-American Investments Company (Kenya) Ltd., the parent company to British-American Insurance Company (K) Ltd and British-American Asset Managers Limited. He is also a Director of 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, Master of Arts in Sociology, both from University of California, was a Special Graduate Student in Agricultural 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 and is also a Director of Housing Finance Company of Kenya Ltd. 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. He 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. She is also a director of Kenya Wildlife Service.

# The Board of Directors

## Mr Temitope Lawani – Board Member

Mr Lawani holds a Master of Business Administration degree and a Bachelor of Science - Chemical Engineering. He is a co-founder of Helios Investment Partners, a Board member of First City Monument Bank PLC, Africatel Holdings B.V., Corporate Development Analyst at Walt Disney Co and member of the Harvard Law School Dean's Advisory Board. He previously served as a member of the Board of Directors of Millicom International Cellular SA (Luxembourg; NASDAQ: MICC).

## 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. He 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. He previously served as Director of Kenya Revenue Authority (KRA) and Export Processing Zones Authority (EPZA).

## Mr Julius Kipng'etich – Board Member

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

## Mr Babatunde Soyoye – Board Member

Mr Soyoye holds a Master of Business Administration degree and Bachelor's degree in Electrical Engineering. He is a co-founder of Helios Investment Partners and a Board member of Africatel Holdings B.V.

## Mr Fredrick Muchoki – Board Member

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

## Mr Alykhan Nathoo – Board Member

Mr Nathoo holds a Master of Business Administration from Harvard Business School and a Bachelor of Arts with Distinction in Quantitative Economics from Stanford University. He has over 15 years of experience in Private Equity at Bain Capital, Dubai International Capital and most recently at Helios Investment Partners. He is a Partner at Helios Investment Partners with regional focus on Eastern and Southern Africa. He also sits on the Board of Continental Outdoors.

## Mrs Mary Wamae – Secretary to the Board

Mrs Wamae holds an LLB degree, a Diploma in Law and is a Certified Public Secretary. She is an advocate of the High Court of Kenya and holds a Post Graduate Diploma in Gender and Development. She has over 13 years of experience in legal private practice and joined the Bank in 2004.

# The Executive Management

**DR JAMES MWANGI, MBS – CEO & Managing Director**

James holds four Honorary doctorate degrees in recognition of his contributions to the Kenyan society. He holds a Bachelor of Commerce degree and is a Certified Public Accountant. James has been honoured twice with Presidential national awards. He is currently the Chairman of *Kenya's Vision 2030* Delivery Board charged with the responsibility of ensuring Kenya becomes a middle income country with global high standards of living by the year 2030. James serves on several international bodies as an advisor and sits on the Board of the Africa Leadership Academy in South Africa. James has over 22 years of management experience.

**MARY WAMAE – Company Secretary and Director of Corporate Strategy**

Mary holds an LLB degree, a Diploma in Law and is a Certified Public Secretary. She is an advocate of the High Court of Kenya and holds a Post Graduate Diploma in Gender and Development. Mary has over 13 years of experience in legal private practice and joined the Bank in 2004.

**GERALD WARUI – Director of Human Resource and Customer Experience**

Gerald is a Certified Public Accountant (CPA K) and a graduate of Advanced Management Program offered by Strathmore-IESE Business School, Barcelona Spain. A career banker, Gerald has served in Equity Bank for 13 years.

**MBAABU MUCHIRI - Director of Credit**

Mbaabu holds a Masters in Business Administration (MBA) and a Bachelor of Education degree. He is a Certified Public Accountant, a Certified Public Secretary, and a Certified Information Systems Auditor. Mbaabu has worked in Equity Bank since 2004 and has over 20 years of management experience having previously worked with the Central Bank of Kenya and Coca Cola.

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

Michael holds a Bachelor of Science degree in Economics and a Master of Science in Investment Management. Prior to joining Equity Bank, Michael worked in Brussels, Belgium for the Fortis Bank group. Michael has also worked as an Emerging Markets Proprietary Trader focusing on the Middle East and Africa for Cargill Financial Markets based in London.

**JOHN STALEY –Director of Mobile Banking and Payment Innovations**

John has a Masters of Science in Applied and Computational Mathematics and a Bachelor of Science in Physics. He also holds a Bachelor of Commerce degree and is a qualified Chartered Accountant. A specialist in implementing cost effective ICT solutions, John worked as the CEO of Credit Indemnity (Pty) Ltd in South Africa before joining Equity Bank.

# The Executive Management

**ALLAN WAITITU - Director of IT and Innovation Centre**

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 information technology and banking and previously served as Equity Bank's General Manager of Operations.

**HILDA MUGO - Director of Operations**

Hildah holds a masters degree in Business Administration - strategic management, a Bachelor of Business Administration in Entrepreneurship and is an Associate of Kenya Institute of Bankers. Prior to joining Equity Bank seven years ago, Hilda had acquired extensive banking experience in operations, compliance, customer service and consumer banking for over ten years with Barclays Bank of Kenya.

**EDWIN MUCAI - Chief Finance Officer**

Edwin holds a Bachelor of Commerce degree and is a chartered Institute of securities and investments Diploma holder. He is also a Certified Public Accountant. Prior to joining Equity, Edwin served as Vice President Finance with Deutsche Bank London. Earlier on in his career, Edwin had worked as an Assistant Director for Finance and as an Audit and Technical Manager-financial services with Price Waterhouse Coopers UK and Kenya.

**FRANCIS C G MILLS - ROBERTSON - Managing Director- Equity Bank Uganda**

Francis holds a BA (Hons) Social Sciences degree from the Kwame Nkrumah University of Science and Technology, Ghana and is an Associate member of the Oxford University Society. A Business leader with over 15 years cumulative experience in Banking and Finance, Francis last worked as the Executive Director, Consumer Banking at Standard Chartered Bank Ghana, before joining Equity Bank Uganda.

**PAUL GITAHI - Executive Director, Equity Bank, South Sudan**

Paul is a career banker with over 24 years experience and previously worked with ABC bank and Cooperative bank. He has extensive banking experience in operations, marketing and customer service. Paul served previously as the General Manager in charge of marketing in Equity Bank Kenya before taking up his present position.

**SAMUEL KIRUBI - Executive Director, Equity Bank, Rwanda**

Samuel holds a Masters Degree in Business Administration (finance) from Moi University and a Bachelor of Arts degree in Economics and statistics from Egerton University. Since joining Equity Bank in 2001, Samuel has gained vast experience in operations, marketing and customer service. Samuel was previously the Chief Operations Officer in Equity Bank South Sudan.

**JOSEPH IHA - Executive Director, Equity Bank Tanzania**

Joseph holds a Bachelor of Education in Accounting and Mathematics from the University of Nairobi and has also attended various professional courses in banking. He has over 12 years banking and leadership experience in Credit, Corporate banking and Operations. Prior to joining Equity Bank Tanzania, he worked as the General Manager, Credit in Equity Bank Uganda and General Manager, Corporate Banking Division at Equity Bank Kenya. Joseph joined Equity Bank in 2005.


# The Board of Directors

# Report of the Directors
## FOR THE YEAR ENDED 31st DECEMBER 2010

The directors have pleasure in submitting their report together with, the audited financial statements for the year ended 31 December 2010 in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan Companies Act, which discloses the state of affairs of the Bank and its subsidiary companies.

**1. Activities**

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

**2. Results**

The group's results for the year are set out on page 38.

**3. Dividends**

The Board has recommended a dividend of Kshs 0.80/= 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*
Julius Kangogo Kipng'etich
Ernest Mattho Nzovu
Babatunde Temitope Soyoye+
Temitope Olugbeminiyi Lawani*+
Shem Migot-Adholla
Helen Gichohi*
Alykhan Nathoo **++

* Retired by rotation on 26th March 2010 and was re-elected
** Appointed on 13th May 2010 as an alternate director to Mr Temitope Olugbeminiyi Lawani
\+ British
++ Canadian

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 by rotation:

1. Peter Kahara Munga
2. Babatunde Temitope Soyoye
3. Julius Kangongo Kipng'etich

Alykhan Nathoo, having been appointed a director during the year will retire in accordance with Article 101 and being eligible offers himself 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 28th February 2011.

**By Order of the Board**

**Mary Wangari Wamae**
**Company Secretary**
28th February 2011

# Statement on Corporate Governance

FOR THE YEAR 2010

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. This is consistent with the Bank's core value of effective corporate governance that has led to 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 the delivery on commitments to all stakeholders. The Group and the Bank has also kept abreast with international developments in corporate governance for the promotion of enhanced transparency, integrity and the rule of law.

The Board of Directors is responsible for ensuring proper and sound corporate governance within the Group. Good corporate governance is therefore a fundamental part of the culture and the business practices of the Group.

## OVERSIGHT ROLE OF THE BOARD OF DIRECTORS

The Board's most significant responsibilities include guiding the Group with a view to ensuring long-term, sustainable returns for shareholders whilst delivering exceptional services to our customers and having regard to the interests of all other stakeholders, including staff, regulators and the communities in which the Group operates.

The board provides strategic direction with a focus on consistent business performance in an atmosphere of transparency and accountability whilst also reviewing and monitoring proper corporate governance throughout the Group.

The Board has provided strong leadership to the Bank resulting in the Bank taking banking services to the furthest reaches of the Kenyan society, the East African Region and in the generation of great shareholder wealth. The Board of Directors has continued to supervise the delivery of strong business growth coupled with continued delivery of very strong financial performance.

The Board has also attracted outstanding directors who have shown great commitment and enthusiasm in discharging their duties and obligations to the Bank while also demonstrating the spirit and ethos of the organization. The directors subscribe to the Code of Corporate Practice which guides them in the fulfilment of their duties and responsibilities to shareholders, customers, employees and respective communities.

During the year, ten non-executive directors served on the board and seven meetings were held. Mr Benson Irungu Wairegi, Mr Frederick Mwangi Muchoki, Mr Temitope Olugbeminiyi Lawani and Dr Helen Gichohi retired from the Board on 26th March 2010 and were re-elected. Mr Alykhan Nathoo was appointed to the board on 13th May 2010 as an alternate to Temitope Lawani.

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 |
| Benson Irungu Wairegi | 7 |
| Frederick Mwangi Muchoki | 7 |
| Julius Kagongo Kipng'etich | 7 |
| Ernest Mattho Nzovu | 7 |
| Shem Migot-Adholla | 7 |
| Helen Gichohi | 6 |
| Babatunde Temitope Soyoye | 5 |
| Temitope Olugbeminiyi Lawani | 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 and meetings- amongst other critical areas. The results of this evaluation are submitted to the Central Bank of Kenya as required under the Prudential Guidelines for institutions licensed under the Banking Act.

## BOARD COMMITTEES

The Board has established seven board committees governed by charters and aligned to the bank's delivery of its vision and mission. The secretary to each board committee is the head of the relevant function within the Group and the Bank

**The Audit Committee** is responsible for the integrity of the accounting and financial reporting processes of the Bank. It ensures compliance with internationally accepted and applicable accounting standards to give a true and fair view of the financial position and performance of the Group. The committee receives and reviews findings of internal and external audits and actions taken in response to them.

**The Credit Committee** ensures that the Group maintains a high quality asset portfolio by reviewing and overseeing the overall lending policy of the Group and the Bank. It ensures lending systems and procedures are adequate and adhered to and that the Group is in full compliance with Central Bank prudential guidelines, banking act and International Accounting Standards.

**The Risk Management** and ALCO Committee is responsible for the quality, integrity and reliability of the Banks' risk management. The Committee is responsible for ensuring that there are updated documented policies, procedures and processes for risk management and monitors compliance with them. It regularly reviews the adequacy of the Risk Management framework and monitors the bank's risk and the mitigation of all identified risks.

**The Strategy and Investment Committee** supervises the development of corporate strategy and monitors implementation of the same. It ensures optimal resource allocation and reviews and considers proposed strategic investments and makes recommendations to the Board and advices the management accordingly.

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

**The 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 calibre staff. The committee also ensures the board appointments maintain a good mix of skills, experience and competence in various field of expertise.

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

**Access to management:** Board members have open access to management through the Chairman, Group Chief Executive Officer or Group Company Secretary. Regular presentations are made by management to Board and Board Committee meetings and directors may seek briefings from management on specific matters. The Board seeks additional information, where appropriate.

## The Bank's Risk Management Framework

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

In line with Central Bank regulations and Basel Accord requirements, the Group and the Bank has put in place a comprehensive end to end framework for risk management. All risks associated with banking institutions and those specific to the Group and the Bank are actively owned and managed by the respective business units supported by an integrated end to end risk management hierarchy and are monitored by the Bank's Risk Management Department. The Bank's business units have put in place robust processes and procedures that have inbuilt controls so as to curb all identified risks which have been carefully identified through their primary drivers, frequency, impact and potential magnitude. The Bank's risk limits are assessed regularly to ensure their appropriateness in line with business objectives and current market conditions. The Bank has continued to strengthen the risk management team through the revamped risk management structure that comprises of a General Manager who reports to the Board Risk Management Committee and works with specialized units and the rest of the Senior Management team.

The Risk department's Compliance Assurance docket 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. In

# Statement on Corporate Governance

FOR THE YEAR 2010(Continued)

addition, the compliance enforcement team works with businesses so as to close any gaps that are identified through audit and business reviews.

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 objectively and independently evaluates the existing risk and internal control framework and analyses business processes and associated controls.

The Bank has also continued to invest in building its operational resilience by deploying a state of the art technology and has migrated to a "Tier 4" data centre that will ensure high system availability, security and redundancy capability.

## FINANCIAL REPORTING AND DISCLOSURES

In accordance with the Group and 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 regulatory authorities such as the Retirement Benefits Authority, the Nairobi Stock Exchange (NSE), Uganda Securities Exchange and other relevant ones in all countries in which we operate.

Equity Bank adopted 20 new and amended International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretation Committee ( IFRIC) interpretations during the year and although they did not have any effect on the financial performance or position of the Group, they gave rise to additional disclosures.

## BUSINESS ETHICS AND CORE VALUES

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

**Code of conduct :** The Bank has a Code of Conduct which applies to all employees and directors of the Group and requires the observance of strict ethical guidelines.

The core values of the Group and the Bank which define staff conduct in the course of service are as follows:

**P**rofessionalism

**I**ntegrity

**C**reativity and Innovation

**T**eam work

**U**nity of Purpose

**R**espect and Dignity for Customers

**E**ffective Corporate Governance

## DEVELOPMENT PARTNERS

The Group and 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. The MasterCard Foundation
2. UK Agency for International Development (UKAID)
4. United States Agency for international Development (USAID)
5. Swiss Foundation for Technical Cooperation(SwissContact)
6. Bill and Melinda Gates Foundation
7. Consultative Group Assisting the Poor (CGAP)
8. Financial Sector Deepening Trust (FSD)
9. Alliance for a Green Revolution in Africa (AGRA)
10. The World Bank
11. United Nations Capital Development Fund (UNCDF)

# Statement on Corporate Governance
## FOR THE YEAR 2010(Continued)

The Group and the Bank are also members of the following network associations and forums

1. Association of Microfinance Institutions (AMFI)
2. Kenya Bankers Association (KBA)
3. Global Network for Banking Innovation (GNBI)
4 Global Agenda Council on Emerging Multinationals 2010
5. World Economic Forum
6. Small Business Banking Network (SBBN)
7. Micro Finance Network (MFN)
8. Women's World Banking (WWB)

### 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 2010 the details of shareholding was as follows (also refer to note 28 (a)):

| Name | No. of Shares | % |
|---|---|---|
| Helios EB Investors | 905,162,550 | 24.45 |
| British-American Investments Company (Kenya) limited | 407,411,530 | 11.00 |
| Nelson Muguku Njoroge | 159,325,050 | 4.30 |
| Equity Bank Employees Share Ownership Plan | 141,922,000 | 3.83 |
| James Mwangi Njuguna | 132,656,700 | 3.58 |
| Fortress Highlands Limited | 101,010,000 | 2.73 |
| Andrew Mwangi Kimani | 90,426,800 | 2.44 |
| AIB Nominee A/C Solidus Holdings Ltd | 90,114,910 | 2.43 |
| John Kagema Mwangi | 82,080,000 | 2.22 |
| AIB Nominee A/C Lily Properties Ltd | 59,885,090 | 1.62 |
| Other 28,118 Shareholders | 1,532,782,390 | 41.40 |
| **Total Shares** | **3,702,777,020** | **100** |

The shares are distributed as follows:

| Shareholding | No. of Shareholders | No. of Shares | % Shares held |
|---|---|---|---|
| 1 – 500 | 8,287 | 2,306,103 | 0.06 |
| 501 - 5,000 | 13,984 | 26,749,012 | 0.72 |
| 5,001 -10,000 | 2,299 | 18,131,562 | 0.49 |
| 10,001 - 100,000 | 2,931 | 85,763,489 | 2.32 |
| 100,001 - 1,000,000 | 438 | 131,416,928 | 3.55 |
| 1,000,001 and above | 189 | 3,438,409,926 | 92.86 |
| **Total** | **28,128** | **3,702,777,020** | **100** |

# Statement of Directors' Responsibilities
FOR THE YEAR ENDED 31st DECEMBER 2010

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: 28th February 2011

# 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, (the Group) which comprise the consolidated statement of financial position as at 31st December 2010, 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 information and the directors report set out on pages 38 to 103.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS
The directors of the Bank and group 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 and for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free of material misstatements, whether due to fraud or error.

### 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 financial statements presents fairly, in all material respects, the financial position of Equity Bank Limited and subsidiaries as at 31st December 2010 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

### REPORT ON OTHER LEGAL REQUIREMENTS
As required by the Kenyan Companies Act, we report to you, based on our audit, that:

i) we have obtained all the information and explanations which, to the best of our knowledge and belief, were considered necessary for the purposes of our audit;

ii) in our opinion, proper books of account have been kept by the Bank and the group, so far as appears from our examination of those books; and

iii) the Bank and group's consolidated statement of financial position, consolidated income statement and consolidated statement of comprehensive income are in agreement with the books of account.

Ernst & Young

Nairobi
8th March 2011

# Consolidated Income Statement
## FOR THE YEAR ENDED 31st DECEMBER 2010

| | | Group | | Bank | |
|---|---|---|---|---|---|
| *In millions of Kenya Shillings* | Note | 2010 | 2009 | 2010 | 2009 |
| Interest income | 8 | 13,775 | 10,792 | 12,885 | 9,691 |
| Interest expense | 8 | (2,062) | (1,622) | (1,829) | (1,413) |
| **Net interest income** | **8** | **11,713** | **9,170** | **11,056** | **8,278** |
| Fee and commission income | 9(a) | 1,644 | 1,382 | 1,528 | 1,253 |
| Net fee and commission income | | 1,644 | 1,382 | 1,528 | 1,253 |
| Net trading income | 9(b) | 2,925 | 286 | 2,437 | 225 |
| Other operating income | 10 | 5,871 | 4,838 | 5,172 | 4,517 |
| **Operating income before impairment losses** | | **22,153** | **15,676** | **20,193** | **14,273** |
| Net impairment loss on financial assets | 11 | (1,905) | (1,035) | (1,558) | (880) |
| **Operating income after impairment losses** | | **20,248** | **14,641** | **18,635** | **13,393** |
| Personnel expenses | 12 | (5,266) | (4,339) | (4,455) | (3,586) |
| Operating lease expenses | 13 | (609) | (645) | (547) | (471) |
| Depreciation and amortisation | 14, 15 | (1,489) | (1,174) | (1,258) | (1,042) |
| Other expenses | 16 | (3,934) | (3,263) | (3,063) | (2,724) |
| **Total operating expenses** | | **(11,298)** | **(9,421)** | **(9,323)** | **(7,823)** |
| **Profit before tax and equity income** | | **8,950** | **5,220** | **9,312** | **5,570** |
| Share of profit of associate | 17(a) | 95 | 58 | 95 | 58 |
| **Profit before income tax** | | **9,045** | **5,278** | **9,407** | **5,628** |
| Income tax expense | 18 | (1,913) | (1,044) | (1,852) | (1,065) |
| **Profit for the year** | | **7,132** | **4,234** | **7,555** | **4,563** |
| **Attributed to: Equity holders of the parent** | | **7,132** | **4,234** | **7,555** | **4,563** |
| **Earnings per share(basic and diluted)** | 29 | **1.93** | **1.14** | **2.04** | **1.23** |

# Consolidated Statement of Comprehensive Income

## FOR THE YEAR ENDED 31st DECEMBER 2010

| *In millions of Kenya Shillings* | | Group 2010 | Group 2009 | Bank 2010 | Bank 2009 |
|---|---|---|---|---|---|
| Profit for the year | | 7,132 | 4,234 | 7,555 | 4,563 |
| **Other comprehensive income** | | | | - | - |
| Exchange differences on translation of foreign operations | | (124) | (31) | - | - |
| Revaluation of property, plant and equipment and other reserves | | (17) | 11 | - | - |
| Net gain/loss on available for sale financial assets | 28(c) | (1,103) | 225 | (1,103) | 225 |
| Income tax charge/credit relating to components of other comprehensive income | | - | - | - | - |
| **Other comprehensive income for the year** | | **(1,244)** | **205** | **(1,103)** | **225** |
| **Total comprehensive income for the year net of tax** | | **5,888** | **4,439** | **6,452** | **4,788** |
| **Attributed to:** | | | | | |
| **Equity holders of the parent** | | **5,888** | **4,439** | **6,452** | **4,788** |

# Consolidated Statement of Financial Position

FOR THE YEAR ENDED 31st DECEMBER 2010

| *In millions of Kenya Shillings* | Note | Group 2010 | Group 2009 | Bank 2010 | Bank 2009 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 19(a) | 18,503 | 12,994 | 11,747 | 10,004 |
| Loans and advances to customers | 20(b) | 78,299 | 63,326 | 72,902 | 59,868 |
| Finance lease receivable | 20 (c) | 3 | 52 | - | - |
| Investment securities | 21 | 31,988 | 12,185 | 31,911 | 11,844 |
| Investment in associate | 17(a) | 1,260 | 1,214 | 1,260 | 1,214 |
| Goodwill | 17(c) | 887 | 887 | - | - |
| Property and equipment | 14 | 6,970 | 6,442 | 5,693 | 5,193 |
| Prepaid leases | 14(c) | 30 | 31 | 4 | 4 |
| Intangible assets | 15 | 1,041 | 877 | 754 | 570 |
| Investment in subsidiary companies | 17(b) | - | - | 5,084 | 3,438 |
| Amounts due from related parties | 22(g) | 106 | 10 | 1,239 | 2,022 |
| Other assets | 23 | 3,784 | 2,713 | 3,235 | 2,349 |
| Tax recoverable | 18 | 86 | 75 | - | - |
| Deferred tax asset | 24 | 61 | 6 | 61 | 6 |
| **Total assets** | | **143,018** | **100,812** | **133,890** | **96,512** |
| **Liabilities** | | | | | |
| Deposits from customers | 25 | 104,431 | 69,843 | 95,204 | 65,825 |
| Current tax liabilities | 18 | 701 | 20 | 657 | 20 |
| Deferred tax liabilities | 24 | 5 | - | - | - |
| Borrowed Funds | 26 | 7,963 | 6,487 | 7,464 | 6,114 |
| Other liabilities | 27 | 2,714 | 1,554 | 2,258 | 1,215 |
| **Total liabilities** | | **115,814** | **77,904** | **105,583** | **73,174** |
| **Equity** | | | | | |
| Share capital | 28(a) | 1,851 | 1,851 | 1,851 | 1,851 |
| Share premium | 28(b) | 12,161 | 12,161 | 12,161 | 12,161 |
| Retained earnings | | 11,204 | 7,110 | 11,941 | 7,395 |
| Available for sale reserve | 28(c) | (990) | 113 | (990) | 113 |
| Statutory loan loss reserve | 28(d) | 414 | 449 | 382 | 337 |
| Foreign currency translation reserve | 28(f) | (325) | (201) | - | - |
| Revaluation reserve | | 40 | 11 | - | - |
| Other reserves | 28(e) | (113) | (67) | - | - |
| Proposed dividends | 28(g) | 2,962 | 1,481 | 2,962 | 1,481 |
| **Total equity** | | **27,204** | **22,908** | **28,307** | **23,338** |
| **Total liabilities and equity** | | **143,018** | **100,812** | **133,890** | **96,512** |

The financial statements were approved by the Board of Directors on 28th February 2011 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 2010

**Group**

*In millions of Kenya Shillings*

| **For the year ended 31st December 2010** | **Share capital** | **Share premium** | **Retained earnings** | **Statutory loan reserve** | **Available for sale reserve** | **Foreign currency translation reserve** | **Revaluation reserve** | **Other reserves** | **Proposed dividend** | **Total Equity** |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1st January 2010 | 1,851 | 12,161 | 7,110 | 449 | 113 | (201) | 11 | (67) | 1,481 | 22,908 |
| Total comprehensive income: | | | | | | | | | | |
| Profit for the year | - | - | 7,132 | - | - | - | - | - | - | 7,132 |
| Other comprehensive income | - | - | | - | (1,103) | (124) | 29 | (46) | - | (1,244) |
| Statutory loan reserve transfers | - | - | (76) | (35) | | - | - | - | - | (111) |
| Dividends: | | | | | | | | | | - |
| Final for 2009 paid | - | - | | - | - | - | - | - | (1,481) | (1,481) |
| Proposed for 2010 | - | - | (2,962) | - | - | - | - | - | 2,962 | - |
| At 31st December 2010 | 1,851 | 12,161 | 11,204 | 414 | (990) | (325) | 40 | (113) | 2,962 | 27,204 |
| **For the year ended 31st December 2009** | | | | | | | | | | |
| 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 |

# Consolidated Statement of Changes in Equity
FOR THE YEAR ENDED 31st DECEMBER 2010

**Bank**

*In millions of Kenya Shillings*

| For the year ended 31st December 2010 | Share capital | Share premium | Retained earnings | Statutory loan reserve | Available for sale reserve | Proposed dividend | Total Equity |
|---|---|---|---|---|---|---|---|
| As at 1st January 2010 | 1,851 | 12,161 | 7,395 | 337 | 113 | 1,481 | 23,338 |
| Total comprehensive income: | | | | | | | |
| Profit for the year | - | - | 7,554 | - | - | - | 7,554 |
| Other comprehensive income | - | - | - | - | (1,103) | - | (1,103) |
| Statutory loan reserve transfers | - | - | (46) | 46 | - | - | - |
| Dividends: | | | | | | | |
| Final for 2009 paid | - | - | - | - | - | (1,481) | (1,481) |
| Proposed for 2010 | - | - | (2,962) | - | - | 2,962 | - |
| At 31st December 2010 | 1,851 | 12,161 | 11,941 | 382 | (990) | 2,962 | 28,307 |
| **For the year ended 31st December 2009** | | | | | | | |
| As 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 |

# Consolidated Statement of CashFlows

## FOR THE YEAR ENDED 31st DECEMBER 2010

**Group**

| *In millions of Kenya Shillings* | Note | 2010 | 2009 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net profit before taxation | | 9,045 | 5,278 |
| Adjustments for: | | | |
| Depreciation of property and equipment | 14(a),(c) | 1,343 | 1,035 |
| Amortisation of investment property | 14(d) | - | 3 |
| Amortisation of intangible assets | 15 | 146 | 136 |
| Provision for non-performing loans | 11 | 1,905 | 1,035 |
| Interest on term borrowings | 8 | 602 | 803 |
| **Operating profit before working capital changes** | | **13,041** | **8,290** |
| Loans and advances | | (16,938) | (20,221) |
| Other assets | | (1,070) | (538) |
| Customers deposits | | 34,588 | 19,509 |
| Due from related parties | | (97) | (10) |
| Other liabilities | | 1,160 | (340) |
| **Cash generated from operations** | | **30,684** | **6,690** |
| Income taxes paid | 18 | (1,294) | (1,697) |
| **Net cash from operating activities** | | **29,390** | **4,993** |
| **Cash flows to/from investing activities** | | | |
| Purchase of property and equipment | 14(a) | (1,893) | (2,688) |
| Surplus on revaluation of properties and other reserves | | (17) | 11 |
| Purchase of intangible assets | 15(a),(b) | (310) | (392) |
| Proceeds from sale of fixed assets | 14 | 22 | 1 |
| Investment in associate | 17a | (95) | (58) |
| Dividend received | | 49 | - |
| Purchase of investment securities | 21 | (31,534) | (4,740) |
| Proceeds from sale of investments securities | 21 | 10,627 | 5,020 |
| Restricted balances with Central Bank | | (1,821) | (916) |
| **Net cash used in investing activities** | | **(24,972)** | **(3,762)** |
| **Cash flows used in financing activities** | | | |
| Dividend paid | 28(g) | (1,481) | (1,111) |
| Proceeds from long term borrowings | 20 | 2,631 | 406 |
| Repayment of long term borrowings | | (1,154) | (380) |
| Interest paid on term borrowings | 8 | (602) | (803) |
| **Net cash used in financing activities** | | **(606)** | **1,888** |
| **Net increase/ (decrease) in cash and cash equivalents** | | **3,812** | **(657)** |
| Effect of foreign currency translation reserve | | (124) | (31) |
| **Cash and cash equivalents at the beginning of the year** | 19(b) | **9,752** | **10,439** |
| **Cash and cash equivalents at the end of the year** | 19(b) | **13,440** | **9,751** |

# Statement of Cash Flows

## FOR THE YEAR ENDED 31st DECEMBER 2010

**Bank**

| *In millions of Kenya Shillings* | Note | 2010 | 2009 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net profit before taxation | | 9,407 | 5,628 |
| Adjustments for: | | | |
| Depreciation of property and equipment | 14(a),(c) | 1,133 | 922 |
| Amortisation of Investment property | 14(d) | - | 3 |
| Amortisation of intangible assets | 15 | 125 | 118 |
| Provision for non-performing loans | 11 | 1,558 | 880 |
| Interest on term borrowings | 8 | 553 | 734 |
| **Operating profit before working capital changes** | | **12,776** | **8,285** |
| Loans and advances | | (14,592) | (19,891) |
| Other assets | | (101) | (1,008) |
| Customers deposits | | 29,379 | 16,848 |
| Other liabilities | | 1,042 | (536) |
| **Cash generated from operations** | | **28,504** | **3,698** |
| Income taxes paid | 18 | (1,270) | (1,631) |
| **Net cash from operating activities** | | **27,234** | **2,067** |
| **Cashflow to/from investing activities** | | | |
| Purchase of property and equipment | 14(a) | (1,633) | (1,856) |
| Purchase of intangible assets | 15(a),(b) | (310) | (341) |
| Proceeds from sale of fixed assets | 14 | - | 1 |
| Investment in subsidiary | | (1,647) | (462) |
| Investment in associate | 17a | (46) | (58) |
| Purchase of investment securities | 21 | (31,532) | (4,488) |
| Proceeds from sale of investments securities | 21 | 10,362 | 5,020 |
| Restricted balances with Central Bank | | (1,392) | (538) |
| **Net cash used in investing activities** | | **(26,198)** | **(2,722)** |
| **Cash flows used in financing activities** | | | |
| Dividend paid | 28(g) | (1,481) | (1,111) |
| Proceeds from long term borrowings | | 2,129 | 328 |
| Repayment of long term borrowings | | (780) | (380) |
| Interest paid on term borrowings | 8 | (553) | (734) |
| **Net cashflow from financing activities** | | **(685)** | **(1,897)** |
| **Net increase/ (decrease) in cash and cash equivalents** | | **351** | **(2,552)** |
| **Cash and cash equivalents at the beginning of the year** | **19(b)** | **7,141** | **9,693** |
| **Cash and cash equivalents at the end of the year** | 19(b) | **7,492** | **7,141** |

## 1. CORPORATE INFORMATION

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.

The consolidated financial statements for the year ended 31st December 2010 were authorised for issue in accordance with the resolution of the directors on 28th February 2011.

## 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.

The accounting policies adopted are consistent with those of previous financial year. Ammendments resulting from improvements to IFRS to the following standards did not have any impact on the accounting policies, financial position and performance of the Bank:

- IFRS 2 Share-based payment: Group cash settled shared- based transactions effective 1st January 2010
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 01 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31and IAS 39.
- IAS 39 Financial Instruments : Recognition and Measurement- Eligible Hedged Items effective 01 July 2009
- IFRIC 17 Distribution of non cash assets to owners effective 01 July 2009
- Improvements to IFRSs Issued in May 2008

IFRS 5 Non current Assets Held for Sale and Discontinued Operations effective 01 January 2010 Issued in April 2009

The adoption of the standards or interpretations is described below:

**IFRS 2 Share-based Payment (Revised)**

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Group.

**IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)**

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1st January 2010.

# Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31st DECEMBER 2010

## 2. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

The change in accounting policy was applied prospectively and had no material impact on earnings per share

**IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items**

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

**IFRIC 17 Distribution of Non-cash Assets to Owners**

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position nor performance of the Group.

**Improvements to IFRSs**

In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the group.

**Issued in May 2008**

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position nor financial performance of the Group.

***Issued in April 2009***

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. This amendments, did not have any impact on the financial position or performance of the Group.

IFRS 8 Operating Segments: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 4 (w).

IAS 7 Statement of Cash Flows: States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact amongst others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement.

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

IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:-

- IFRS 2 Share-based payment
- IAS 1 Presentation of Financial Statements
- IAS 17 Leases
- IAS 38 Intangible of Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 *Hedge of a Net Investment in a Foreign Operation*

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 1st January 2011.

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

**IAS 24** ***Related Party Disclosures (Amendment)***

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

**IAS 32** ***Financial Instruments: Presentation – Classification of Rights Issues (Amendment)***

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

**IFRS 9** ***Financial Instruments: Classification and Measurement***

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and de-recognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have no effect on the classification and measurement of the Group's financial assets.

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

**IFRIC 14** ***Prepayments of a minimum funding requirement (Amendment)***

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

**IFRIC 19** ***Extinguishing Financial Liabilities with Equity Instruments***

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

***Improvements to IFRSs (issued in May 2010)***

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011.

The amendments listed below, are considered to have a reasonable possible impact on the Group:

*IFRS 3 Business Combinations*
*IFRS 7 Financial Instruments: Disclosures*
*IAS 1 Presentation of Financial Statements*
*IAS 27 Consolidated and Separate Financial Statements*
*IFRIC 13 Customer Loyalty Programmes*

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

## 3. BASIS OF PREPARATION

### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as issued by the IASB

### (b) Basis of measurement

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

- Certain assets which are measured on a revaluation basis and
- 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 consolidated 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, judgments and assumptions

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:

**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.

# Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31st DECEMBER 2010

## 3. BASIS OF PREPARATION (continued)

### Going concern (continued)

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.

### 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 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 21.

### Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each reporting 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 20(b).

### Impairment of available-for-sale investments

The Bank reviews its debt securities classified as available-for-sale investments at each reporting 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 a significant 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.

### Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit wil be 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.

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

## 4. SIGNIFICANT ACCOUNTING POLICIES

### (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.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the income statement.

### (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.

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (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 reporting 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 utilised.

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 utilised.

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.

## 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

**Financial assets**

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.

**Financial Liabilities**

The Group derecognises a financial liability when the obligation under the liability isdischarged or cancelled or expires. When an existing financial liability is replacedby another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of new liability. The difference between carrying value of the original liability and the consideration paid is recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) Financial assets and liabilities (Continued)

### (iv) Offsetting financial instruments

Financial assets and liabilities are set off and the net amount presented in the statement of financial position 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.

### (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 reporting date without any deduction for transaction costs.

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 reporting date, the Bank and 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) Financial assets and liabilities (Continued)

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

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

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

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

Impairment losses on available-for-sale 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 other comprehensive income and accumulated in equity.

### (viii) Renegotiated loans

Where possible, the bank seeks to restructure loans rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate(EIR) as calculated before modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (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 less allowance for impairment, except when the Group and the Bank chooses to carry the loans and advances at fair value through the income statement. The losses arising from the impairment are recognised in the income statement.

### (m) Investment securities

#### (i) Fair value through the income statement

Fair value through the income statement investment securities are those that are classificed 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. Amortsied cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Investment securities (Continued)

(iii) Available-for-sale

Available-for-sale investments are non-derivative investments that are neither classified as held for trading nor designated at fair value through profit and loss. These are those securities that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. 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 derecognised.

Foreign exchange gains or losses on available-for-sale debt security investments are recognised in the income statement.
The bank has not designated any loans or receivables as available for sale.

(iv) Borrowings

Borrowings are recognised initially at fair value. After initial measurement borrowings are subsequently measured at amortised cost using effective interest rate.

(v) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes up substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are recognised as an expense when incurred. The Bank did not have any qualifying assets during the year.

(vi) Guarantees, acceptances and letters of credit

Guarantees, acceptances and letters of credit are accounted for as off-statement of financial position transactions and disclosed as contingent

(n) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.
Some items at Group level for Freehold land and buildings have been carried at valuation.
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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Property and equipment (Continued)

(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, as a change in an estimate, if appropriate.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use.

Any gain or loss arising on derecognition of an asset is recognised in other operating income in the income statement in the year the asset is derecognised.

(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.

(p) Intangible Assets

The bank's other intangible assets include the value of computer software and customer core deposits acquired in business combinations. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the bank. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset. 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.

## 4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (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. Impairment losses are recognised in the income statement in those express categories consistent with the function of the impaired asset, except for a property previously re-valued where the valuation was taken to other comprehensive income in this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

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 statement of comprehensive income.

### (r) Leasing

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

#### Bank as a lessee

Leases which do not transfer to the bank substantially all the risk and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term. Contingent rental payable are recognised as an expenses in the period in which they are incurred.

### (s) Financial guarantees

In the ordinary course of business, the bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statement (within 'other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the bank's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (s) Financial guarantees (Continued)

Any increase in the liability relating to financial guarantees is recorded in the income statement in net impairment loss on financial assets. The premium received is recognised in the income statement in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

### (t) Provisions

Provisions are recognised when the bank has a present obligation( legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

### (u) 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.

### (v) 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.

### (w) 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.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31st DECEMBER 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (w) Operating segment (Continued)

#### (ii) Geographical segments

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

| *In millions of Kenya Shillings* | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Kenya | Uganda | S. Sudan | Total | Kenya | Uganda | S. Sudan | Total |
| Total assets | 129,410 | 7,115 | 6,493 | 143,018 | 92,517 | 6,174 | 2,121 | 100,812 |
| Net interest income | 11,056 | 600 | 57 | 11,713 | 8,279 | 890 | 1 | 9,170 |
| Total operating income | 20,492 | 951 | 804 | 22,247 | 14,476 | 1,172 | 86 | 15,734 |
| Total expenses | 11,027 | 1,720 | 455 | 13,202 | 8,889 | 1,438 | 129 | 10,456 |
| Profit before tax | 9,465 | (769) | 349 | 9,045 | 5,587 | (266) | (43) | 5,278 |

Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross Income and expense.

No revenue from transactions with a single external customer or counter party amounted to 10% or more of the bank's total revenue in 2010 or 2009

### (x) 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.

### (y) 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.

### (z) 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:

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

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

#### Risk management framework

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

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.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (b) Credit risk (Continued)

#### 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, 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 | 2010 | 2009 | 2010 | 2009 |
| Amortised cost | 22 | 80,135 | 65,733 | 74,647 | 62,053 |
| Individually impaired | | | | | |
| Grade 3 : Substandard | | 740 | 947 | 678 | 621 |
| Grade 4:Impaired (doubtful) | | 1,547 | 2,660 | 1,480 | 2,482 |
| Grade 5: Impaired (loss) | | 1,312 | 1,476 | 1,312 | 1,462 |
| Gross amount | | 3,599 | 5,083 | 3,470 | 4,565 |
| Allowance for impairment | | (1,386) | (2,074) | (1,362) | (1,899) |
| **Past due but not impaired loans** | | **2,213** | **3,009** | **2,108** | **2,666** |
| Collectively impaired | | | | | |
| Grade 1: Normal | | 75,165 | 58,514 | 70,055 | 56,407 |
| Grade 2: Watch | | 1,372 | 2,135 | 1,122 | 1,080 |
| Gross amount | | 76,537 | 60,649 | 71,177 | 57,487 |
| Allowance for impairment | | (451) | (332) | (383) | (285) |
| **Carrying amount** | | **76,086** | **60,317** | **70,794** | **57,202** |
| **Total carrying amount** | | **78,299** | **63,326** | **72,902** | **59,868** |

**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 3, 4 and 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.

**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 | 2010 | 2009 | 2010 | 2009 |
| Property | 2,555 | 2,449 | 2,496 | 1,997 |
| Equities | 2,670 | 2,136 | 2,670 | 2,136 |
| Other | 618 | 650 | 605 | 484 |
| Against collectively impaired | | | | |
| Property | 84,355 | 69,484 | 84,210 | 67,368 |
| Equities | 3,533 | 2,826 | 3,533 | 2,826 |
| Other | 678 | - | - | - |
| Against past due but not impaired | | | | |
| Property | 59,033 | 48,853 | 59,030 | 47,224 |
| Equities | 13 | 10 | 13 | 10 |
| Other | 1,254 | 518 | 539 | 431 |
| **Total** | **154,709** | **126,926** | **153,096** | **122,476** |

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) **Credit risk (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* | 2010 | 2009 | 2010 | 2009 |
| Concentration by sector | | | | |
| Consumer | 33,401 | 27,272 | 31,970 | 26,633 |
| Micro Credit | 9,039 | 9,283 | 8,702 | 7,332 |
| Agriculture | 2,598 | 1,921 | 2,598 | 1,921 |
| SME | 20,692 | 18,387 | 17,083 | 17,396 |
| Corporates | 14,405 | 8,870 | 14,294 | 8,771 |
| | **80,135** | **65,733** | **74,647** | **62,053** |

(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 | 40% | 20% | 106% |
| Average for the year | 41% | 34% | 101% |
| Maximum for the year | 49% | 43% | 134% |
| Minimum for the year | 29% | 20% | 86% |
| **Minimum statutory requirement** | **20%** | **20%** | **20%** |

## Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31st DECEMBER 2010

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

(i) Group - 2010

| *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 | 17,595 | - | - | 100 | 808 | 18,503 |
| Loans and advances to customers | 7,292 | 3,147 | 10,128 | 37,319 | 20,413 | 78,299 |
| Finance lease receivable | 2 | 1 | - | - | - | 3 |
| Investment securities | 3,784 | - | 150 | 4,811 | 23,243 | 31,988 |
| **Total Assets** | **28,673** | **3,148** | **10,278** | **42,230** | **44,464** | **128,793** |
| **Liabilities** | | | | | | |
| Deposits from customers | 38,797 | 3,279 | 2,708 | 2,359 | 57,288 | 104,431 |
| Borrowed funds | 1,736 | - | - | 2,310 | 3,917 | 7,963 |
| **Total Liabilities** | **40,533** | **3,279** | **2,708** | **4,669** | **61,205** | **112,394** |
| **Liquidity Gap 31st December 2010** | **(11,860)** | **(131)** | **7,570** | **37,561** | **(16,741)** | **16,399** |

(ii) 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 |
| Amounts due from related parties | - | - | 10 | - | - | 10 |
| **Total Assets** | **22,824** | **3,151** | **8,434** | **35,646** | **18,512** | **88,567** |
| Liabilities | | | | | | |
| Deposits from customers | 20,231 | 2,771 | 3,616 | 275 | 42,950 | 69,843 |
| Borrowed funds | 278 | 320 | 44 | 1,700 | 4,145 | 6,487 |
| **Total Liabilities** | **20,509** | **3,091** | **3,660** | **1,975** | **47,095** | **76,330** |
| **Liquidity Gap 31st December 2009** | **2,315** | **60** | **4,774** | **33,671** | **(28,583)** | **12,237** |

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (c) Liquidity risk (Continued)

#### (iii) Bank - 2010

| *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 | 11,647 | - | - | 100 | - | 11,747 |
| Loans and advances to customers | 6,552 | 2,710 | 9,291 | 34,338 | 20,011 | 72,902 |
| Investment securities | 3,707 | - | 150 | 4,811 | 23,243 | 31,911 |
| **Total Assets** | **21,906** | **2,710** | **9,441** | **39,249** | **43,254** | **116,560** |
| Liabilities | | | | | | |
| Deposits from customers | 32,517 | 2,708 | 2,054 | 637 | 57,288 | 95,204 |
| Borrowed funds | 1,237 | - | - | 2,310 | 3,917 | 7,464 |
| **Total Liabilities** | **33,754** | **2,708** | **2,054** | **2,947** | **61,205** | **102,668** |
| **Liquidity Gap 31st December 2009** | **(11,848)** | **2** | **7,387** | **36,302** | **(17,951)** | **13,892** |

#### (iv) 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 |
| **Total Assets** | **19,251** | **2,458** | **7,514** | **33,981** | **18,512** | **81,716** |
| **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 |
| **Total Liabilities** | **18,643** | **2,769** | **1,558** | **1,878** | **47,090** | **71,939** |
| **Liquidity Gap 31st December 2009** | **608** | **(311)** | **5,956** | **32,103** | **(28,578)** | **9,777** |

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

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

### (d) 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 2010** | | | | | | |
| **Assets** | | | | | | |
| Cash and cash equivalents | 2,998 | 2,898 | - | - | 100 | - |
| Loans and advances to customers | 78,299 | 7,292 | 3,147 | 10,128 | 37,319 | 20,413 |
| Finance lease receivable | 3 | 2 | 1 | - | - | - |
| Investment securities | 31,988 | 3,784 | - | 150 | 4,811 | 23,243 |
| | **113,288** | **13,976** | **3,148** | **10,278** | **42,230** | **43,656** |
| **Liabilities** | | | | | | |
| Deposits from customers | 80,400 | 14,766 | 3,279 | 2,708 | 2,359 | 57,288 |
| Borrowed funds | 7,963 | 1,736 | | | 2,310 | 3,917 |
| | **88,363** | **16,502** | **3,279** | **2,708** | **4,669** | **61,205** |
| **Interest rate sensitivity gap at 31st December 2010** | **24,925** | **(2,526)** | **(131)** | **7,570** | **37,561** | **(17,549)** |
| **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 |
| Borrowed funds | 6,487 | 278 | 320 | 44 | 1,700 | 4,145 |
| | **79,330** | **20,509** | **3,091** | **3,660** | **1,975** | **47,095** |
| **Interest rate sensitivity gap at 31st December 2009** | **3,444** | **(6,468)** | **60** | **4,764** | **33,671** | **(28,583)** |

**Sensitivity analysis**

*In millions of Kenya shillings:*

| | Group | Bank |
|---|---|---|
| 2010 ± 1% | 249 | 250 |
| 2009 ± 1% | 34 | 158 |

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 risks exposure for the Bank and group since the interest rates on the Group's interest bearing assets and liabilities are fixed within the next one year.

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) 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 2010** | | | | | | |
| **Assets** | | | | | | |
| Cash and cash equivalents | 2,375 | 2,275 | - | - | 100 | - |
| Loans and advances to customers | 72,902 | 6,552 | 2,710 | 9,291 | 34,338 | 20,011 |
| Investment securities | 31,911 | 3,707 | - | 150 | 4,811 | 23,243 |
| | **107,188** | **12,534** | **2,710** | **9,441** | **39,249** | **43,254** |
| **Liabilities** | | | | | | |
| Deposits from customers | 74,695 | 12,008 | 2,708 | 2,054 | 637 | 57,288 |
| Borrowed funds | 7,464 | 1,237 | - | - | 2,310 | 3,917 |
| | **82,159** | **13,245** | **2,708** | **2,054** | **2,947** | **61,205** |
| **Interest rate sensitivity gap at 31 st December 2010** | **25,059** | **(711)** | **2** | **7,387** | **36,302** | **(17,951)** |
| **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 31st December 2009** | **15,777** | **6,607** | **(312)** | **5,956** | **32,103** | **(28,578)** |

**Exposure to other market risks – non-trading portfolios**

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

## 5. FINANCIAL RISK MANAGEMENT (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)

**Regulatory capital (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* | 2010 | 2009 | 2010 | 2009 |
| **Tier 1 capital** | | | | |
| Ordinary share capital (Note 29) | 1,851 | 1,851 | 1,851 | 1,851 |
| Share premium (Note 29) | 12,161 | 12,161 | 12,161 | 12,161 |
| Retained earnings | 11,204 | 7,110 | 11,941 | 7,395 |
| Less investment in equity instruments of other institutions - (Note 17 (a) and (b)) | (1,260) | (1,214) | (6,023) | (4,652) |
| **Total** | **23,956** | **19,908** | **19,930** | **16,755** |
| **Tier 2 capital** | | | | |
| Collective allowances for impairment (Note 28d) | 414 | 449 | 382 | 336 |
| Qualifying subordinated liabilities | 5,008 | 5,350 | 5,008 | 5,279 |
| **Total** | **5,422** | **5,799** | **5,390** | **5,615** |
| **Total regulatory capital** | **29,387** | **25,707** | **25,320** | **22,370** |
| **Risk-weighted assets** | | | | |
| Total risk-weighted assets | 90,594 | 77,294 | 90,805 | 71,416 |
| **Capital ratios** | | | | |
| Total regulatory capital expressed as a percentage of total risk-weighted assets | 32% | 33% | 28% | 31% |
| Total tier 1 capital expressed as a percentage of risk-weighted assets | 26% | 26% | 22% | 24% |

## 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 2010** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and cash equivalents | - | - | - | - | 18,503 | 18,503 | 18,503 |
| Loans and advances | - | - | 78,299 | - | - | 78,299 | 78,299 |
| Finance lease receivable | - | - | 3 | - | - | 3 | 3 |
| Investment securities | - | 5,122 | - | 26,866 | - | 31,988 | 31,988 |
| | - | 5,122 | 78,302 | 26,866 | 18,503 | 128,793 | 128,793 |
| **Liabilities** | | | | | | | |
| Deposits from customers | 104,431 | - | - | - | - | 104,431 | 104,431 |
| Borrowed funds | | - | - | - | 7,963 | 7,963 | 7,963 |
| | **104,431** | **-** | **-** | **-** | **7,963** | **112,394** | **112,394** |
| **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 | - | - | 53 | | - | 53 | 53 |
| Investment securities | - | 5,087 | - | 7,098 | - | 12,185 | 12,185 |
| | **-** | **5,087** | **63,379** | **7,098** | **12,994** | **88,558** | **88,558** |
| **Liabilities** | | | | | | | |
| Deposits from customers | 69,843 | - | - | - | - | 69,843 | 69,843 |
| Subordinated debt | | - | - | - | 6,487 | 6,487 | 6,487 |
| | **69,843** | **-** | **-** | **-** | **6,487** | **76,330** | **76,330** |

# Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31st DECEMBER 2010

## 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 |
|---|---|---|---|---|---|---|---|
| **31st December 2010** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and cash equivalents | - | - | - | - | 11,747 | 11,747 | 11,747 |
| Loans and advances | - | - | 72,902 | - | - | 72,902 | 72,902 |
| Investment securities | - | 5,105 | - | 26,806 | - | 31,911 | 31,911 |
| | **-** | **5,105** | **72,902** | **26,806** | **11,747** | **116,560** | **116,560** |
| **Liabilities** | | | | | | | |
| Deposits from customers | 95,204 | - | - | - | - | 95,204 | 95,204 |
| Borrowed funds | - | - | - | - | 7,464 | 7,464 | 7,464 |
| | **95,204** | **-** | **-** | **-** | **7,464** | **102,668** | **102,668** |
| **31st 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 |
| Borrowed funds | - | - | - | - | 6,114 | 6,114 | 6,114 |
| | **65,825** | **-** | **-** | **-** | **6,114** | **71,939** | **71,939** |

# Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31st DECEMBER 2010

## 8. INTEREST INCOME

| | Group | | Bank | |
|---|---|---|---|---|
| *In millions of Kenya Shillings* | 2010 | 2009 | 2010 | 2009 |
| **Interest income** | | | | |
| Cash and cash equivalents | 106 | 7 | 91 | 115 |
| Loans and advances to customers | 11,362 | 9,484 | 10,498 | 8,286 |
| Investment securities | 2,307 | 1,301 | 2,296 | 1,290 |
| **Total interest income** | **13,775** | **10,792** | **12,885** | **9,691** |
| **Interest expense** | | | | |
| Deposits from banks | (12) | (4) | (6) | (4) |
| Deposits from customers | (1,448) | (815) | (1,270) | (676) |
| Borrowings | (602) | (803) | (553) | (733) |
| **Total interest expense** | **(2,062)** | **(1,622)** | **(1,829)** | **(1,413)** |
| **Net interest income** | **11,713** | **9,170** | **11,056** | **8,278** |

## 9. (a) NET FEE AND COMMISSION INCOME

| *In millions of Kenya Shillings* | | | | |
|---|---|---|---|---|
| **Fee and commission income** | **1,644** | **1,382** | **1,528** | **1,253** |

## (b) NET TRADING INCOME

| *In millions of Kenya Shillings* | | | | |
|---|---|---|---|---|
| Bonds trading income | 2,048 | 64 | 2,048 | 63 |
| Foreign exchange gain | 877 | 222 | 389 | 162 |
| | **2,925** | **286** | **2,437** | **225** |

## 10. OTHER OPERATING INCOME

| *In millions of Kenya Shillings* | | | | |
|---|---|---|---|---|
| Rental income | 1 | 1 | 1 | 1 |
| Temporary Overdrafts/Un-cleared effects | 1,148 | 1,047 | 1,135 | 1,039 |
| ATM-application & withdrawal fees | 1,374 | 1,176 | 1,306 | 1,158 |
| Salary remittance commission | 775 | 599 | 731 | 593 |
| Counter withdrawal charges | 456 | 383 | 394 | 375 |
| Other | 2,117 | 1,632 | 1,605 | 1,351 |
| | **5,871** | **4,838** | **5,172** | **4,517** |

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

# Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31st DECEMBER 2010

## 11. ALLOWANCES FOR IMPAIRMENT

| | Group | | Bank | |
|---|---|---|---|---|
| *In millions of Kenya Shillings* | 2010 | 2009 | 2010 | 2009 |
| Balance at 1st January | 2,406 | 1,125 | 2,185 | 989 |
| Specific provisions for the year | 1,509 | 967 | 1,458 | 741 |
| General provisions for the year | 471 | 209 | 146 | 168 |
| Interest suspended during the year | 383 | 315 | 383 | 315 |
| Write-offs during the year | (2,857) | (69) | (2,381) | - |
| IAS 39 adjustment-write back of over provisions | (75) | (141) | (46) | (28) |
| **Balance at 31 December** | **1,837** | **2,406** | **1,745** | **2,185** |

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* | 2010 | 2009 | 2010 | 2009 |
| Charge for the year : General provisions | 200 | 209 | 146 | 167 |
| Specific provisions | 1,779 | 967 | 1,458 | 741 |
| | 1,979 | 1,176 | 1,604 | 909 |
| IAS 39 adjustment -write back of over provisions | (74) | (141) | (46) | (28) |
| **Net impairment loss on financial assets** | **1,905** | **1,035** | **1,558** | **880** |

## 12. PERSONNEL EXPENSES

| | | | | |
|---|---|---|---|---|
| *In millions of Kenya Shillings* | | | | |
| Salaries | 5,046 | 4,146 | 4,307 | 3,456 |
| Contributions to defined contribution plans | 220 | 193 | 148 | 130 |
| | **5,266** | **4,339** | **4,455** | **3,586** |

## 13. OPERATING LEASE EXPENSES

Non-cancellable operating lease rentals paid are as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| *In millions of Kenya Shillings* | | | | |
| Lease rentals | 609 | 645 | 547 | 471 |

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- 2010**

*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** | | | | | | | | |
| As at 1st January 2010 | 194 | 3,274 | 84 | 1,819 | 3,069 | 37 | 597 | 9,074 |
| Additions | 3 | 600 | 47 | 209 | 301 | - | 733 | 1,893 |
| Transfers | - | 180 | - | 6 | 7 | - | (193) | - |
| Disposals | - | - | - | - | (28) | - | (3) | (31) |
| | | - | - | - | | | | |
| **At 31st December 2010** | **197** | **4,054** | **131** | **2,034** | **3,349** | **37** | **1,134** | **10,936** |
| **DEPRECIATION** | | | | | | | | |
| As at 1st January 2010 | 12 | 593 | 56 | 493 | 1,444 | 34 | - | 2,632 |
| Charge for the year | 3 | 422 | 16 | 232 | 667 | 3 | - | 1,343 |
| Reversal on disposal | - | - | - | - | (9) | - | - | (9) |
| **At 31st December 2010** | **15** | **1,015** | **72** | **725** | **2,102** | **37** | **-** | **3,966** |
| **NET BOOK VALUE At 31st December 2010** | **182** | **3,039** | **59** | **1,309** | **1,247** | **0** | **1,134** | **6,970** |

## 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 | | | | | | | | |
| As 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 | | | | | | | | |
| As at 1st January 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

(b) Property and equipment

**Bank 2010**

| *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** | | | | | | | | |
| As at 1st January 2010 | 40 | 2,707 | 57 | 1,634 | 2,663 | 37 | 490 | 7,628 |
| Additions | - | 532 | 28 | 137 | 261 | - | 675 | 1,633 |
| Transfers | - | 106 | - | 5 | - | - | (111) | - |
| Disposals | - | - | - | - | - | - | - | - |
| **At 31st December 20010** | **40** | **3,345** | **85** | **1,776** | **2,924** | **37** | **1,054** | **9,261** |
| **DEPRECIATION** | | | | | | | | |
| As at 1st January 2010 | 9 | 570 | 46 | 450 | 1,324 | 36 | - | 2,435 |
| Charge for the year | - | 358 | 8 | 201 | 565 | 1 | - | 1,133 |
| Disposals | - | - | | - | - | - | - | |
| **At 31st December 2010** | **9** | **928** | **54** | **651** | **1,889** | **37** | **-** | **3,568** |
| **NET BOOK VALUE** | | | | | | | | |
| **At 31st December 2010** | **31** | **2,417** | **31** | **1,125** | **1,035** | **-** | **1,054** | **5,693** |

## 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 | Work in progress | Total |
|---|---|---|---|---|---|---|---|---|
| **COST** | | | | | | | | |
| As 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** | | | | | | | | |
| As at 1st January 2009 | 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 2008 | 9 | 570 | 46 | 449 | 1,325 | 36 | - | 2,435 |
| **NET BOOK VALUE** | | | | | | | | |
| **At 31st December 2008** | **31** | **2,137** | **11** | **1,184** | **1,338** | **1** | **490** | **5,193** |

### 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** | **2010** | **2009** | **2010** | **2009** |
| Balance at 1st January | 36 | 36 | 5 | 5 |
| Acquisitions | - | - | - | - |
| Disposals | (1) | - | - | - |
| **Balance at 31st December** | **35** | **36** | **5** | **5** |
| **Amortisation and impairment** | | | | |
| Balance at 1st January | 5 | 4 | 1 | 1 |
| Amortisation for the year | - | 1 | - | - |
| **Balance at 31st December** | **5** | **5** | **1** | **1** |
| **Carrying amounts** | | | | |
| **Balance at 31st December** | **30** | **31** | **4** | **4** |

### 14. (d) INVESTMENT PROPERTY

*In millions of Kenya Shillings*

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

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. 3million, with an annual charge of 0.11m. The directors are of the opinion that the fair value exceeds the carrying amount.

### 15. INTANGIBLE ASSETS

**(a) Group 2010**

*In millions of Kenya Shillings*

| **Cost** | **Intangibles** | **Work in progress** | **Total** |
|---|---|---|---|
| At 1st January | 959 | 312 | 1,271 |
| Additions | 99 | 211 | 310 |
| Transfers | 172 | (172) | - |
| **Balance at 31st December** | **1,230** | **351** | **1,581** |
| **Amortisation and impairment** | | | |
| At 1st January | 394 | - | 394 |
| Charge for the year | 146 | - | 146 |
| **Balance at 31st December** | **540** | **-** | **540** |
| **Net book value** | | | |
| **Balance at 31st December** | **690** | **351** | **1,041** |

## 15. INTANGIBLE ASSETS (Continued)

### (a) Group 2009

*In millions of Kenya Shillings*

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

The Group's intangible assets include the value of computer software

## 15. INTANGIBLE ASSETS

### (b) Bank 2010

*In millions of Kenya Shillings*

| Cost | Intangibles | Work in progress | Total |
|---|---|---|---|
| At 1st January | 647 | 282 | 929 |
| Additions | 98 | 211 | 309 |
| Transfers | 141 | (141) | - |
| **Balance at 31st December** | **886** | **352** | **1,238** |
| **Amortisation and impairment** | | | |
| At 1st January | 359 | - | 359 |
| Charge for the year | 125 | - | 125 |
| **Balance at 31st December** | **484** | **-** | **484** |
| **Net book value** | | | |
| **Balance at 31st December** | **402** | **352** | **754** |

## 15. INTANGIBLE ASSETS (Continued)

### (b) Bank 2009

*In millions of Kenya Shillings*

| Cost | Intangibles | Work in progress | Total |
|---|---|---|---|
| As 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** |

The Bank's intangible assets include the value of computer software

## 16. OTHER EXPENSES

*In millions of Kenya Shillings*

| | Group | | Bank | |
|---|---|---|---|---|
| **Cost** | **2010** | **2009** | **2010** | **2009** |
| Software licensing and other | 485 | 375 | 433 | 322 |
| Auditors' remuneration | 11 | 8 | 6 | 5 |
| Other | 3,438 | 2,880 | 2,624 | 2,397 |
| **Balance at 31st December** | **3,934** | **3,263** | **3,063** | **2,724** |

## 17. (a) INVESTMENT IN ASSOCIATES

*In millions of Kenya Shillings*

| | | | | |
|---|---|---|---|---|
| Balance as at 1st January | 1,214 | 1,156 | 1,214 | 1,156 |
| Share of Profit | 95 | 58 | 95 | 58 |
| Dividends Received | (49) | - | (49) | - |
| **Balance as at 31st December** | **1,260** | **1,214** | **1,260** | **1,214** |

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 | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Current assets | 9,027 | 3,019 | 9,027 | 3,019 |
| Non current assets | 20,252 | 15,220 | 20,252 | 15,220 |
| Current liabilities | 9,416 | 6,989 | 9,416 | 6,989 |
| Non current liabilities | 15,606 | 7,177 | 15,605 | 7,177 |
| Revenue | 1,655 | 1,374 | 1,655 | 1,374 |
| Profit after tax | 380 | 234 | 380 | 234 |
| Share of profit from associated company | 95 | 58 | 95 | 58 |

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FOR THE YEAR ENDED 31st DECEMBER 2010

## 17 (b) INVESTMENT IN SUBSIDIARY COMPANIES

| | Principal activity | Percentage shareholding | Bank | |
|---|---|---|---|---|
| *In millions of Kenya Shillings* | | | 2010 | 2009 |
| Equity Bank Uganda Ltd | Banking | 100% | 3,965 | 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% | 320 | 117 |
| Finserve Africa Ltd | IT outsourcing | 100% | 0.5 | 0.5 |
| Equity Bank (South Sudan) Ltd | Banking | 100% | 798 | 395 |
| | | | **5,084** | **3,438** |

During the year the Bank capitalised a long-term loan receivable from Uganda of KShs 1,040 million, Invested addition capital in S. Sudan of KShs 403 million and an additional capital to Equity Investment Services Limited of kshs.203m to comply with statutory requirements.

The Bank had seven wholly owned subsidiary companies as at 31 December 2010; Equity Bank Uganda Ltd, Equity Bank South Sudan Ltd, Equity Consulting Group, Equity Investment Services Ltd, Equity Nominees Ltd, Finserve Africa Ltd and Equity Insurance Agency Ltd. Three of the seven subsidiaries were dormant as at the end of the year.

All the subsidiaries except Equity Bank Uganda Ltd and Equity Bank South 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* | 2010 | 2009 | 2010 | 2009 |
| **Current tax expense** | | | | |
| Current year | 1,964 | 1,143 | 1,907 | 1,137 |
| | 1,964 | 1,143 | 1,907 | 1,137 |
| Deferred tax expense | | | | |
| Current year | (51) | (99) | (55) | (72) |
| **Total income tax expense** | **1,913** | **1,044** | **1,852** | **1,065** |
| **Reconciliation of effective tax rate** | | | | |
| *In millions of Kenya Shillings* | | | | |
| Profit before tax and equity income | 9,045 | 5,278 | 9,312 | 5,570 |
| Income tax using the enacted corporation tax rate | 1,930 | 1,119 | 1,862 | 1,114 |
| Non-deductible expenses | (17) | (75) | (10) | (49) |
| **Total income tax expense in income statement** | **1,913** | **1,044** | **1,852** | **1,065** |
| Income tax recognised in the statement of financial position | | | | |
| Balance brought forward | (55) | 500 | 20 | 514 |
| Charge for the year | 1,964 | 1,143 | 1,907 | 1,137 |
| Paid during the year | (1,294) | (1,697) | (1,270) | (1,631) |
| | **615** | **(55)** | **657** | **20** |
| Made up of: | | | | |
| Tax payable | 701 | 20 | 657 | 20 |
| Tax recoverable | (86) | (75) | | - |
| | 615 | (55) | 657 | 20 |

Tax rates are as follows:

| 2010 | Total | Kenya | Uganda | S. Sudan | Insurance | Investment services | Housing Finance |
|---|---|---|---|---|---|---|---|
| | | 20% | 30% | 15% | 30% | 30% | 30% |
| Profit before tax and equity income | 9,045 | 9,312 | (769) | 349 | 67 | (9) | 95 |
| Income tax using the enacted corporation tax rate | 1,930 | 1,862 | - | 53 | 15 | - | - |
| **2009** | | | | | | | |
| Profit before tax and equity income | 5,278 | 5,570 | (266) | (43) | 17 | (58) | 58 |
| Income tax using the enacted corporation tax rate | 1,119 | 1,119 | - | - | 5 | - | - |

## 19. (a) CASH AND BANK BALANCES

| | Group | | Bank | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Cash and balances with bank | 9,792 | 5,144 | 4,569 | 3,109 |
| Unrestricted balances with Central Bank | 650 | 1,013 | 548 | 877 |
| Restricted balances with Central Bank | 5,063 | 3,243 | 4,255 | 2,863 |
| Money market placements | 2,998 | 3,594 | 2,375 | 3,155 |
| | 18,503 | 12,994 | 11,747 | 10,004 |

### (b) CASH AND CASH EQUIVALENTS

For the purposes of the consolidated statement of cash flows cash and cash equivalents, comprise of the following as at 31st December

| | 2010 | 2009 | 2010 | 2009 |
|---|---|---|---|---|
| Cash and cash equivalents | 18,503 | 12,994 | 11,747 | 10,004 |
| Restricted balances with Central Bank | (5,063) | (3,243) | (4,255) | (2,863) |
| | 13,440 | 9,751 | 7,492 | 7,141 |

## 20. LOANS AND ADVANCES TO CUSTOMERS

(a) Allowance for impairment

*In millions of Kenya Shillings*

| | | | | |
|---|---|---|---|---|
| Specific allowance for Impairment | | | | |
| Mortgage lending | 3,946 | 2,871 | 3,946 | 2,871 |
| Personal loans | 41,557 | 37,528 | 36,262 | 33,947 |
| | **45,503** | **40,399** | **40,208** | **36,818** |
| **SMEs customers** | | | | |
| Secured lending | 34,632 | 25,334 | 34,439 | 25,235 |
| | **34,632** | **25,334** | **34,439** | **25,235** |
| **Gross Amount** | **80,135** | **65,733** | **74,647** | **62,053** |

## 20. LOANS AND ADVANCES TO CUSTOMERS (Continued)

### (b) Allowance for impairment

*In millions of Kenya Shillings*

Specific allowance for Impairment

| | Group | | Bank | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Balance as at 1st January | 2,406 | 1,125 | 2,185 | 989 |
| Charge for the year | | | | |
| Collective impairment | 200 | 209 | 146 | 168 |
| Specific impairment | 1,779 | 967 | 1,458 | 741 |
| IAS 39 adjustment- write back of overprovision | (74) | (141) | (46) | (29) |
| | 1,905 | 1,035 | 1,558 | 880 |
| Suspended interest | 383 | 315 | 383 | 316 |
| Write offs | (2,857) | (69) | (2,381) | - |
| | **(570)** | **1,281** | **(440)** | **1,196** |
| **Total impairment** | **1,836** | **2,406** | **1,745** | **2,185** |
| **Net loans and advances** | **78,299** | **63,326** | **72,902** | **59,868** |

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 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Within one year | 3 | 51 | - | - |
| One to two years | - | 4 | - | - |
| | 3 | 55 | - | - |
| Unearned income | - | - | - | - |
| Present value of minimum lease payment | 3 | 55 | - | - |
| Provision for uncollectible lease payment | | (3) | - | - |
| | **3** | **52** | **-** | **-** |

## 21. INVESTMENT SECURITIES

*In millions of Kenya Shillings*

**Held to maturity**

| | | | | |
|---|---|---|---|---|
| As at 1st January 2010 | 5,087 | 4,067 | 4,778 | 4,034 |
| Purchase of Investment securities | 765 | 1,020 | 765 | 744 |
| Proceeds from retirement of bonds | (730) | 0 | (438) | 0 |
| | **5,122** | **5,087** | **5,105** | **4,778** |

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31st DECEMBER 2010

## 21. INVESTMENT SECURITIES (continued)

*In millions of Kenya Shillings*

| | Group | | Bank | |
|---|---|---|---|---|
| **Available for sale** | 2010 | 2009 | 2010 | 2009 |
| As at 1st January 2010 | 7,098 | 8,173 | 7,066 | 8,117 |
| Purchase of Investment securities | 30,769 | 3,720 | 30,767 | 3,744 |
| Sales of Investment Securities | (9,898) | (5,020) | (9,924) | (5,020) |
| (Loss)/gain on fair valuation | (1,103) | 225 | (1,103) | 225 |
| | **26,866** | **7,098** | **26,806** | **7,066** |
| **As at 31st December 2010** | **31,988** | **12,185** | **31,911** | **11,844** |

## 22. RELATED PARTIES

### (a) Loans to key management personnel

*In millions of Kenya Shillings*

Specific allowance for Impairment

| | Group | | Bank | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Balance at 1st January | 181 | 545 | 180 | 544 |
| Interest charged | 9 | 10 | 9 | 10 |
| Loans disbursed | 80 | 162 | 80 | 161 |
| Repayments | (110) | (536) | (109) | (535) |
| **Balance at 31st December** | **160** | **181** | **160** | **180** |

### (b) Loans to employees

*In millions of Kenya Shillings*

Specific allowance for Impairment

| | Group | | Bank | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Balance at 1st January | 1,348 | 857 | 1,257 | 791 |
| Interest charged | 109 | 101 | 97 | 93 |
| Loans disbursed | 995 | 814 | 898 | 690 |
| Repayments | (771) | (424) | (670) | (317) |
| **Balance at 31st December** | **1,681** | **1,348** | **1,582** | **1,257** |

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

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

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31st DECEMBER 2010

## 22. RELATED PARTIES (continued)

### (c) Loans to related parties

*In millions of Kenya Shillings*

Specific allowance for Impairment

| | Group | | Bank | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Balance at 1st January | 1,420 | 1,060 | 1,420 | 1,060 |
| Interest charged | 72 | 25 | 72 | 25 |
| Loans disbursed | 1,647 | 726 | 1,647 | 726 |
| Repayments | (488) | (391) | (488) | (391) |
| **Balance at 31st December** | **2,651** | **1,420** | **2,651** | **1,420** |

The total amount of loans and advances granted was in ordinary course of business and were advanced on commercial terms and at market rates.

### (d) Key management personnel compensation

*In millions of Kenya Shillings*

| | Group | | Bank | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Remuneration to executive directors | 419 | 299 | 369 | 274 |
| Remuneration to Key Management | 226 | 197 | 208 | 189 |
| | **645** | **496** | **577** | **463** |

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

*In millions of Kenya Shillings*

Specific allowance for Impairment

| | Group | | Bank | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| As non-executive | 28 | 29 | 21 | 25 |
| As executives | 419 | 299 | 369 | 274 |
| **Balance at 31st December** | **447** | **328** | **390** | **299** |

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

### (g) Amounts due from related parties

*In millions of Kenya Shillings*

| | Group | | Bank | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Equity Insurance Agency | - | - | 162 | 142 |
| Equity Bank Uganda Ltd | - | - | 102 | 1,319 |
| Equity Bank Southern Sudan Ltd | - | - | 852 | 537 |
| Equity Investment Bank Ltd | - | - | - | 14 |
| Equity Investment Services Ltd | | | 17 | - |
| Equity Foundation | 106 | 10 | 106 | 10 |
| | **106** | **10** | **1,239** | **2,022** |

# Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31st DECEMBER 2010

## 23. OTHER ASSETS

| *In millions of Kenya Shillings* | Group 2010 | Group 2009 | Bank 2010 | Bank 2009 |
|---|---|---|---|---|
| Investment property (note 14(d) | 8 | 8 | 8 | 8 |
| Accounts receivable and prepayments | 1,040 | 937 | 598 | 700 |
| Accrued income | 1,537 | 1,041 | 1,488 | 1,003 |
| Funds in clearing | 560 | 518 | 527 | 514 |
| Other | 639 | 209 | 614 | 124 |
| | **3,784** | **2,713** | **3,235** | **2,349** |

## 24. DEFERRED TAX ASSETS AND LIABILITIES

**Recognised deferred tax assets and liabilities**

| | Group 2010 | Group 2009 | Bank 2010 | Bank 2009 |
|---|---|---|---|---|
| Plant, equipment and software | (35) | (119) | (30) | (119) |
| Available for sale securities | 7 | 22 | 7 | 22 |
| Allowance for loan losses | 108 | 111 | 108 | 111 |
| Provision for accrued leave | (24) | (8) | (24) | (8) |
| **Net tax liability** | **56** | **6** | **61** | **6** |

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

*In millions of Kenya Shillings*

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | Net | Assets | Liabilities | Net |
| Property, equipment and software | 89 | (5) | 84 | - | (119) | (119) |
| Available for sale securities | - | (15) | (15) | 22 | - | 22 |
| Allowances for loan losses | - | (3) | (3) | - | 111 | 111 |
| Provision for accrued leave | - | (16) | (16) | - | (8) | (8) |
| | **89** | **(39)** | **50** | **22** | **(16)** | **6** |

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

*In millions of Kenya Shillings*

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | Net | Assets | Liabilities | Net |
| Property, equipment and software's | 89 | - | 89 | - | (119) | (119) |
| Available for sale securities | - | (15) | (15) | 22 | - | 22 |
| Allowances for loan losses | - | (3) | (3) | 111 | - | 111 |
| Provision for accrued leave | - | (16) | (16) | - | (8) | (8) |
| | **89** | **(34)** | **55** | **133** | **(127)** | **6** |

## 24. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

**Movements in temporary differences during the year – Group**

| *In millions of Kenya Shillings* | Opening Balance | Recognised in profit or loss | Recognised in equity | Closing balance |
|---|---|---|---|---|
| **2010** | | | | |
| Property, equipment and software | (119) | 84 | - | (35) |
| Available-for-sale securities | 22 | (15) | - | 7 |
| Allowances for loan losses | 111 | (3) | - | 108 |
| Provision for accrued leave | (8) | (16) | - | (24) |
| | **6** | **50** | **-** | **56** |
| **2009** | | | | |
| Property, equipment and software | (209) | 90 | - | (119) |
| Available-for-sale securities | 25 | (3) | - | 22 |
| Allowances for loan losses | 101 | 10 | - | 111 |
| Provision for accrued leave | (10) | 2 | - | (8) |
| | **(93)** | **99** | **-** | **6** |

**Movements in temporary differences during the year – Bank**

| *In millions of Kenya Shillings* | Opening balance | Recognised in profit or loss | Recognised in equity | Closing balance |
|---|---|---|---|---|
| **2010** | | | | |
| Property, equipment and software | (119) | 89 | - | (30) |
| Available for sale securities | 22 | (15) | - | 7 |
| Allowances for loan losses | 111 | (3) | - | 108 |
| Provision for accrued leave | ( 8) | (16) | - | (24) |
| | **6** | **55** | | **61** |
| **2009** | | | | |
| Property, equipment and software | (172) | 53 | - | (119) |
| Available for sale securities | 25 | (3) | - | 22 |
| Allowances for loan losses | 77 | 34 | - | 111 |
| Provision for accrued leave | (67) | 73 | - | (8) |
| | **(137)** | **157** | | **6** |

# Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31st DECEMBER 2010

## 25. DEPOSITS FROM CUSTOMERS

| *In millions of Kenya Shillings* | Group | | Bank | |
|---|---|---|---|---|
| **Retail customers:** | **2010** | **2009** | **2010** | **2009** |
| Term deposits | 5,920 | 134 | 5,895 | 132 |
| Current deposits | 8,271 | 4,325 | 6,406 | 3,756 |
| Savings deposits | 55,284 | 39,985 | 51,855 | 38,595 |
| | **69,475** | **44,444** | **64,156** | **42,483** |
| **Corporate customers:** | | | | |
| Term deposits | 13,426 | 11,687 | 11,174 | 10,242 |
| Current deposits | 15,759 | 9,369 | 14,103 | 8,758 |
| Savings | 5,771 | 4,343 | 5,771 | 4,342 |
| | **34,956** | **25,399** | **31,048** | **23,342** |
| | **104,431** | **69,843** | **95,204** | **65,825** |

## 26 . BORROWED FUNDS

| | Group | | Bank | |
|---|---|---|---|---|
| *In millions of Kenya Shillings* | **2010** | **2009** | **2010** | **2009** |
| Dexia Micro Credit Fund | 1,051 | 664 | 1,051 | 664 |
| Blue Orchard Loans for Development SA | 808 | 759 | 808 | 759 |
| Growth Management Limited | 404 | 759 | 404 | 759 |
| Deutsche Bank Microfinance Fund | 574 | 539 | 574 | 539 |
| China Development Bank Corporation | 121 | - | 121 | - |
| Nenderlandse Financierings Maatschappij Voor | - | - | - | - |
| Ontwikelinslanden N.V (FMO) | 3,221 | 3,221 | 3,221 | 3,221 |
| Ministry of Youth Affairs | 65 | 115 | 65 | 115 |
| Micro Finance Sector Support Credit (Ministry of Finance) | 23 | 56 | 23 | 57 |
| Equity Bank Southern Sudan | 391 | - | 391 | - |
| Citibank N.A, Nairobi | 806 | - | 806 | - |
| Microfinance Support Centre | - | 33 | - | - |
| Triodos International Fund Management | - | 129 | - | - |
| Bank of Uganda | - | 18 | - | - |
| Oiko Credit | - | 54 | - | - |
| Tropical Bank | - | 60 | - | - |
| Development finance company of uganda | - | 40 | - | - |
| Orient Bank | - | 40 | - | - |
| Equity Bank Kenya limited | 203 | - | - | - |
| Tropical Bank limited-Uganda | 70 | - | - | - |
| Kenya Commercial Bank-Uganda | 61 | - | - | - |
| Diamond Trust bank-Uganda | 60 | - | - | - |
| Baroda Bank-Uganda | 35 | - | - | - |
| Barclays Bank-Uganda | 70 | - | - | - |
| | **7,963** | **6,487** | **7,464** | **6,114** |

26 **BORROWED FUNDS** (Continued)

During the year, the following loan balances were outstanding:

i) Medium term loan of US$ 5,000,000 (KShs 404 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 KShs15 million (2009: KShs168, 171 ) has been charged to the income statement for the year.

ii) Medium term loan of US$ 8,000,000 (KShs 646 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 6th July 2013. A finance cost of KShs12 million has been charged to the income statement for the year.

iii) Long term loan of US$ 10,000,000 (KShs 808 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 1st June 2012. The effective interest rate is 10.29%. A finance cost of KShs 82.7 million (2009: KShs 65 million) has been included in the income statement for the year.

iv) Long term loan of US$ 5,000,000 (KShs 404 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 KShs 46million (2009: KShs 71 million) has been included in the income statement for the year.

v) Long term loan of US$ 7,105,970 (KShs 574 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 KShs 64 million (2009: KShs 65 million) has been included in the income statement for the year.

vi) Medium term loan of US$ 1,500,000 (KShs121 million) from China Development Bank, a company incorporated in China. The loan which is secured by directors' guarantee, accrues interest at the rate of LIBOR 6M +2.2% plus interest tax as applicable and will mature on 28th November 2014. A finance cost of KShs 346,843 has been included in the income statement for the year.

vii) Long-term term loans totaling KShs 3,221 million from FMO, a company incorporated in the Netherlands. The loans, which are secured by directors' guarantee, accrue interest at varied rates depending on the CBK 91 T-bill rate plus a 3.5% margin at the beginning of each quarter. KShs 1,507 million will mature on 15th September 2014 and another KShs 1,714 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 KShs 307 million (2009: KShs 277 million) has been included in the income statement for the year.

viii) Medium term loan of KShs 65 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. KShs 40 million will mature on 6th January 2011 and Kshs 25 million on 6th March 2012. The effective interest rate is 1%. A finance cost of 1 million (2009: KShs 1 million) been included in the income statement.

ix) Medium term loan of KShs 22 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 KShs 2.3 million (2009: KShs 3 million) has been included in the income statement.

x) Short term loan of Kshs 391 million from Equity Bank Southern Sudan. The loan matures on 1st of January 2011 and accrues interest at the rate of 1%p.a. A finance cost of KShs 642,766 has been included in the income statement for the year.

26. **BORROWED FUNDS** (Continued)

xi) Short term loan of Kshs 806 million from Citibank N.A, Nairobi. The loan accrues interest at the rate of 1.45%p.a. and will mature on 4th January 2011. A finance cost of kshs.227,247 has been included in the income statement for the year.

xii) Short term loan of UGX 2,000 million(KShs70 million) from Tropical Bank Limited. The loan accrues interest at a rate of 7.85% p.a. and will mature on 7th January 2011. A finance cost of KShs 15,263 has been included in the income statement for the year.

xiii) Short term loan to Equity Bank Uganda from Equity bank Kenya through the inter-bank money market of USD$ 2.5 million (KShs 41 million). USD500,000 & USD1,000,000 accrue interest at the rate of 1.85% and matures on 3rd January 2011, and 18th January 2011 respectively. USD1, 000,000 accrues interest at a rate of 1.7% and matures on the 24th of January 2011. A finance cost of KShs 162, 119 has been included in the income statement for the year.

xiv) Short term loan of UGX 1,742 million(KShs 61 million) from KCB Uganda. The loan accrues interest at a rate of 2% p.a. and will mature on 6th January 2011. A finance cost of KShs 88,023 has been included in the income statement for the year.

xv) Short term loan of UGX 1,740 million(KShs 60 million) from Diamond Trust Bank. The loan accrues interest at a rate of 2% p.a. and will mature on 6th January 2011. A finance cost of KShs 87,941 has been included in the income statement for the year.

xvi) Short term loan of UGX 1,001 million (KShs3 5 million) from Bank of Baroda. The loan accrues interest at a rate of 8.5% p.a. and will mature on 3rd January 2011. A finance cost of KShs.41,346 has been included in the income statement for the year.

xvii) Short term loan of UGX 2,000 million(KShs70 million) from Barclays Bank Uganda. UGX.500 million & UGX1,500 million accrue interest at the rate of 7.0% and 8.25% respectively. The funds will mature on the 4th January 2011 and 7th January 2011 respectively. A finance cost of KShs 25,642 has been included in the income statement for the year

27. OTHER LIABILITIES

| | Group | | Bank | |
|---|---|---|---|---|
| *In millions of Kenya Shillings* | 2010 | 2009 | 2010 | 2009 |
| Short term employee benefits | 88 | 50 | 66 | 48 |
| Creditors and accruals | 708 | 422 | 392 | 157 |
| Other | 1,918 | 1,082 | 1,800 | 1,010 |
| | 2,714 | 1,554 | 2,258 | 1,215 |

# Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31st DECEMBER 2010

## 28. SHARE CAPITAL AND RESERVES

(a) Authorised 2010

| | 2010 | 2009 |
|---|---|---|
| Issued and fully paid 3,702,777,020 | | |
| ordinary shares of KShs 0.5 | 1,851 | 1,851 |

Movement in ordinary shares

| | Group | | Bank | |
|---|---|---|---|---|
| *In millions* | 2010 | 2009 | 2010 | 2009 |
| On issue at 1 January | 3,703 | 370 | 3,703 | 370 |
| Additional shares issued | - | - | - | - |
| Share split | - | 3,333 | - | 3,333 |
| **On issue at 31st December** | **3,703** | **3,703** | **3,703** | **3,703** |

As at 31st December 2010 the authorized share capital comprised of 3.7 billion ordinary shares (2009: 3.7billion), with a par value of KShs 0.5. All issued shares are fully paid.

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

The top ten largest shareholders as at 31st December 2010 were:

| **Name** | **No. of Shares** | **%** |
|---|---|---|
| Helios EB Investors | 905,162,550 | 24.45 |
| British-American Investments Company (Kenya) limited | 407,411,530 | 11.00 |
| Nelso Muguku Njoroge | 159,325,050 | 4.30 |
| Equity Bank Employees Share Ownership Plan | 141,922,000 | 3.83 |
| James Mwangi Njuguna | 132,656,700 | 3.58 |
| Fortress Highlands Limited | 101,010,000 | 2.73 |
| Andrew Mwangi Kimani | 90,426,800 | 2.44 |
| AIB Nominee A/C Solidus Holdings Ltd | 90,114,910 | 2.43 |
| John Kagema Mwangi | 82,080,000 | 2.22 |
| AIB Nominee A/C Lily Properties Ltd | 59,885,090 | 1.62 |
| Other 28,118 Shareholders | 1,532,782,390 | 41.40 |
| **TOTAL SHARES** | **3,702,777,020** | **100** |

The distribution of shares as at 31st December 2010 was as shown on page 35 .

### (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) Available for sale reserve

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

### (d) Statutory loan 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 exchange transactions 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 31 December 2010:

| *In millions of Kenya Shillings* | Group | | Bank | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| KShs 0.4 per ordinary share of KShs0.5 | - | 1,481 | - | 1,481 |
| | - | 1,481 | - | 1,481 |

After the respective reporting dates the following dividends were proposed by the directors in respect of the years. The dividends have not been provided for and there are no income tax consequences.

| *In millions of Kenya Shillings* | Group | | Bank | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| KShs 0.8 per ordinary share (2009: KShs0.4) | 2,962 | 1,481 | 2,962 | 1,481 |
| | 2,962 | 1,481 | 2,962 | 1,481 |

## 29. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the Group as at 31st December 2010 is based on the profit attributable to ordinary shareholders of KShs 7,132 million (2009: KShs 4,234 million) and the weighted average number of ordinary shares outstanding of 3,702million.
The calculation of basic earnings per share for the Bank as at 31st December 2010 is based on the profit attributable to ordinary shareholders of KShs 7,555 million (2009: KShs 4,563million) and the weighted average number of ordinary shares outstanding of 3,702 million.

| | Group | | Bank | |
|---|---|---|---|---|
| *In millions of Kenya Shillings* | 2010 | 2009 | 2010 | 2009 |
| Profit for the year attributable to equity holders of the Bank | 7,232 | 4,234 | 7,555 | 4,563 |
| Issued ordinary shares at 1st January | 3,702 | 370 | 3,702 | 370 |
| Effect of share split | | 3,332 | - | 3,332 |
| **Weighted average number of ordinary shares at 31 December** | **3,702** | **3,702** | **3,702** | **3,702** |

In 2009 the Bank had a share split of 10 shares for every one share held. The computation of earnings per share for 2009 has taken into account these changes

| | Group | | Bank | |
|---|---|---|---|---|
| *In millions of Kenya Shillings* | 2010 | 2009 | 2010 | 2009 |
| Basic earnings per share(in Kenya Shillings) | 1.93 | 1.14 | 2.04 | 1.23 |
| Diluted earnings per share(in Kenya Shillings ) | 1.93 | 1.14 | 2.04 | 1.23 |

## 30. 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 30th March 2011, a final dividend in respect of the year ended 31st December 2010 of KShs 0.8 (2009 – KShs 0.4) for every ordinary share of KShs 0.5 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.

## 31. OFF STATEMENT OF FINANCIAL POSITION 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* | 2010 | 2009 | 2010 | 2009 |
| Guarantees and standby letters of credit | 4,272 | 1,627 | 4,133 | 1,611 |
| Letters of credit, acceptances and other documentary credits | 273 | 558 | 250 | 495 |
| | **4,545** | **2,185** | **4,383** | **2,106** |
| Commitments were as follows: | | | | |
| Forward foreign exchange contract amounts | (2) | 1 | (2) | 1 |
| | **4,543** | **2,186** | **4,381** | **2,107** |

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31st DECEMBER 2010

## 31. OFF STATEMENT OF FINANCIAL POSITION CONTINGENCIES AND COMMITMENTS (Continued)

**Nature of contingent liabilities**

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

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

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

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

**Commitments**

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

| | Group | | Bank | |
|---|---|---|---|---|
| *In millions of Kenya Shillings* | 2010 | 2009 | 2010 | 2010 |
| Capital commitments | 792 | 734 | 773 | 722 |
| Loans approved but not disbursed | 4,444 | 863 | 3,958 | 679 |
| | **5,236** | **1,597** | **4,731** | **1,401** |

**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 31st December are as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| *In millions of Kenya Shillings* | 2010 | 2009 | 2010 | 2009 |
| Within one year | 655 | 521 | 564 | 520 |
| After one year but not more than five years | 3,208 | 2,283 | 3,013 | 2,277 |
| More than five years | 2,952 | 834 | 608 | 814 |

## 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 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| National Social Security Fund | 64 | 66 | 10 | 10 |
| Pension | 156 | 127 | 138 | 120 |
| | **220** | **193** | **148** | **130** |

## 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 2010.

| As at 31st December 2010 | UGX | USD | SDG | GBP | Euro | Zar | JPY | Others | Total |
|---|---|---|---|---|---|---|---|---|---|
| *In million of Kenya Shillings* | | | | | | | | | |
| **Assets** | | | | | | | | | |
| Cash and cash equivalents | 722 | 3,414 | 4,639 | 126 | 459 | 20 | 13 | 30 | 9,423 |
| Loans and advances to customers | 3,927 | 2,994 | 547 | 4 | - | - | - | - | 7,472 |
| Investment securities | 17 | - | - | - | - | - | - | - | 17 |
| Finance lease receivable | 3 | - | - | - | - | - | - | - | 3 |
| Property and equipment | 899 | - | 259 | - | - | - | - | - | 1,158 |
| Prepaid leases | 25 | - | - | - | - | - | - | - | 25 |
| Intangible assets | 41 | | 2 | - | - | - | - | - | 43 |
| Other assets | 224 | (6) | (188) | (58) | (111) | (20) | (13) | (30) | (202) |
| Tax recoverable | 59 | - | - | - | | - | - | - | 59 |
| **Total Assets** | **5,917** | **6,402** | **5,259** | **72** | **348** | | | | **17,998** |
| **Equity and liabilities** | | | | | | | | | |
| Customer deposits | 4,250 | 3,984 | 3,232 | 88 | 437 | - | - | - | 11,991 |
| Borrowed funds | 175 | 3,282 | 391 | - | - | - | - | - | 3,848 |
| Current tax liabilities | - | - | 47 | - | - | - | - | - | 47 |
| Deffered tax | - | - | 5 | - | - | - | - | - | 5 |
| Other liabilities | 9 | 405 | 143 | 4 | 16 | - | - | - | 577 |
| Statutory loan loss reserve | 30 | - | 2 | - | - | - | - | - | 32 |
| Retained earnings | (834) | - | 266 | - | - | - | - | - | (568) |
| Other capital reserve | 40 | - | - | - | - | - | - | - | 40 |
| **Total liabilities and shareholder's funds** | **3,670** | **7,671** | **4,086** | **92** | **453** | **-** | **-** | **-** | **15,972** |
| **Net financial position** | **2,247** | **(1,269)** | **1,173** | **(20)** | **(105)** | **-** | **-** | **-** | **2,026** |
| **As at 31st December 2009** | | | | | | | | | |
| Total Assets | 5,707 | 4,810 | 1,012 | 103 | 277 | 16 | 14 | 39 | 11,978 |
| Total Liabilities | 4,290 | 4,080 | 886 | 36 | 211 | - | - | - | 9,503 |
| **Net financial position** | **1,417** | 730 | **124** | **67** | **67** | **16** | **14** | **39** | **2,475** |

## 33. FOREIGN CURRENCY EXPOSURE - GROUP (Continued)

**Sensitivity analysis**

The following tables demonstrate the sensitivity on the Group's profit before tax and Group's equity resulting from flactuations in the UGX, USD and SDG with all other variables held constant. The groups exposure to foreign currency flactuations for other currencies is not material.

| | Changes in UGX | Effect on profit before tax | Effect on equity |
|---|---|---|---|
| 2010 | ±14% | - | 314 |
| 2009 | ±1% | - | 14 |

| | Changes in SDG | Effect on profit before tax | Effect on equity |
|---|---|---|---|
| 2010 | ±15% | - | 174 |
| 2009 | ±1% | - | - |

| | Changes in US$ | Effect on profit before tax | Effect on equity |
|---|---|---|---|
| 2010 | ±6% | 82 | - |
| 2009 | ±1% | 7 | - |

## 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 | 2,317 | 122 | 330 | 20 | 13 | 367 | 3,169 |
| Loans and advances to customers | 2,054 | 4 | - | - | - | - | 2,058 |
| Amounts due from group companies | 405 | - | 8 | - | - | 309 | 722 |
| Other assets | (89) | (57) | (112) | (20) | (13) | (285) | (576) |
| | **4,687** | **69** | **226** | **-** | **-** | **391** | **5,373** |
| **Equity and liabilities** | | | | | | | |
| Customer deposits | 2,371 | 85 | 315 | - | - | - | 2,771 |
| Borrowed funds | 2,958 | - | - | - | - | 391 | 3,349 |
| Other liabilities | 262 | 4 | 16 | - | - | - | 282 |
| **Total liabilities and shareholders funds** | **5,591** | **89** | **331** | **-** | **-** | **391** | **6,402** |
| **Net financial position** | **(904)** | **(20)** | **(105)** | **-** | **-** | **-** | **(1,029)** |
| **As at 31 December 2009** | | | | | | | |
| Total Assets | 3,592 | 84 | 221 | 16 | 14 | 5 | 3,932 |
| Total Liabilities | 3,639 | 36 | 199 | - | - | - | 3,874 |
| **Net financial position** | **(47)** | **48** | **22** | **16** | **14** | **5** | **58** |

**Sensitivity analysis**

The following table demonstrates the sensitivity on the Bank's profit before tax and Bank's equity resulting from flactuations in the USD with all other variables held constant. The Bank's exposure to foreign currency flactuations for other currencies is not material.

| | Changes in US$ | Effect on profit before tax | Effect on equity |
|---|---|---|---|
| 2010 | ±6% | 54 | - |
| 2009 | ±1% | 0.5 | |

# Notes

# ANNUAL GENERAL MEETING

## WEDNESDAY, 30TH MARCH 2011

# PROXY FORM

EQUITY Bank • Your Listening, Caring Partner

I/We ______________________________________________________________

______________________________________________________________

CDS A/C No ______________________________

of (address) ______________________________

being a member(s) of Equity Bank Limited, hereby appoint: ________________________

______________________________________________________________

of (address) ______________________________

or, failing him, the duly appointed Chairman of the meeting to be my/our proxy, to vote on my/our behalf at the Annual General Meeting of the Company to be held on Wednesday the 30th day of March 2011 at 10.00 a.m., or at any adjournment thereof.

As witness to my/our hands this ________ day of ____________________ 2011

Signature(s) ________________________________________________________

This Form is to be used *in favour of /*against of the resolution (*Strike out whichever is not desired). Unless otherwise instructed, the proxy will vote as he/ she thinks fit.

**Notes:**

1. This proxy form is to be delivered to the Company Secretary at Equity Centre 9th Floor, Hospital Road, Upper Hill, P.O. Box 75104 - 00200, Nairobi, Kenya not later than 10.00 a.m. on the 28th day of March 2011, failing which it will be invalid.
2. A proxy form must be in writing and in the case of an individual shall be signed by the shareholder or by his attorney, and in the case of a corporation the proxy must be either under its common seal or signed by its attorney or by an officer of the corporation.

CUT ALONG DOTTED LINE

PLEASE ADMIT ____________________ ______________

____________________ to the Annual General Meeting of Equity Bank Limited which will be held at the Kenyatta International Conference Centre ("KICC"), Nairobi, Kenya on Wednesday the 30th day of March 2011 at 10.00 a.m. This admission card must be produced by the shareholder or his proxy in order to obtain entrance to the Annual General Meeting.

Company Secretary

Number of ordinary shares held:

Name of Shareholder:

Address of Shareholder:

CDS Account Number:

# MKUTANO MKUU WA MWAKA

## JUMATANO 30 MACHI 2011

## FOMU YA UWAKILISHI

EQUITY Bank • Your Listening, Caring Partner

Mimi/Sisi_______________________________________________

Nambari ya Akaunti ya hisa_____________________________________

wa (anwani)____________________________

Nikiwa/tukiwa wanachama was Kampuni ya Equity Bank, ninateua/tunateua

_______________________________________________________

Wa (anwani) ____________________________

au, akikosa kufika mwenyekiti aliyeteuliwa kihalali wa mkutano awe mwakilishi wangu/wetu kupiga kura kwa niaba yangu/yetu katika mkutano mkuu wa mwaka wa kampuni utakaofanywa Jumatano tarehe 30 Machi 2011 saa nne katika jumba la Kenyatta International Conference Centre (KICC) NAIROBI, au wakati wowote uahirishaji unaweza kutokea.

Kama ilivyoshuhudiwa kwa sahihi yangu/yetu__________ siku hii ya________ 2011

Sahihi ____________________________

**Maelezo:**

1. Fomu hii ya uwakilishi inapasawa kuwasilishwa kwa Katibu wa Kampuni katika Jumba la Equity Centre Orofa ya 9, Upper Hill, S.L.P. 75104 - 00200 Nairobi, Kenya kabla ya saa nne asubuhi siku ya Jumatatu tarehe 28 Machi, 2011, la sivyo haitakubaliwa.
2. Fomu ya uwakilishi sharti iandikwe kwa mkono na endapo mwakilishi ni mtu binafsi inapaswa kutiwa sahihi na mwenyehisa au wakili wake na endepo ni shirika fomu ya uwakilishi sharti iwe na muhuri au kutiwa sahihi na wakili wake au afisa wa shirika hilo.

KATA KATIKA SEHEMU ILIYOWEKWA ALAMA

**KADI YA RUHUSA**

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

Katibu wa Kampuni:_____________________

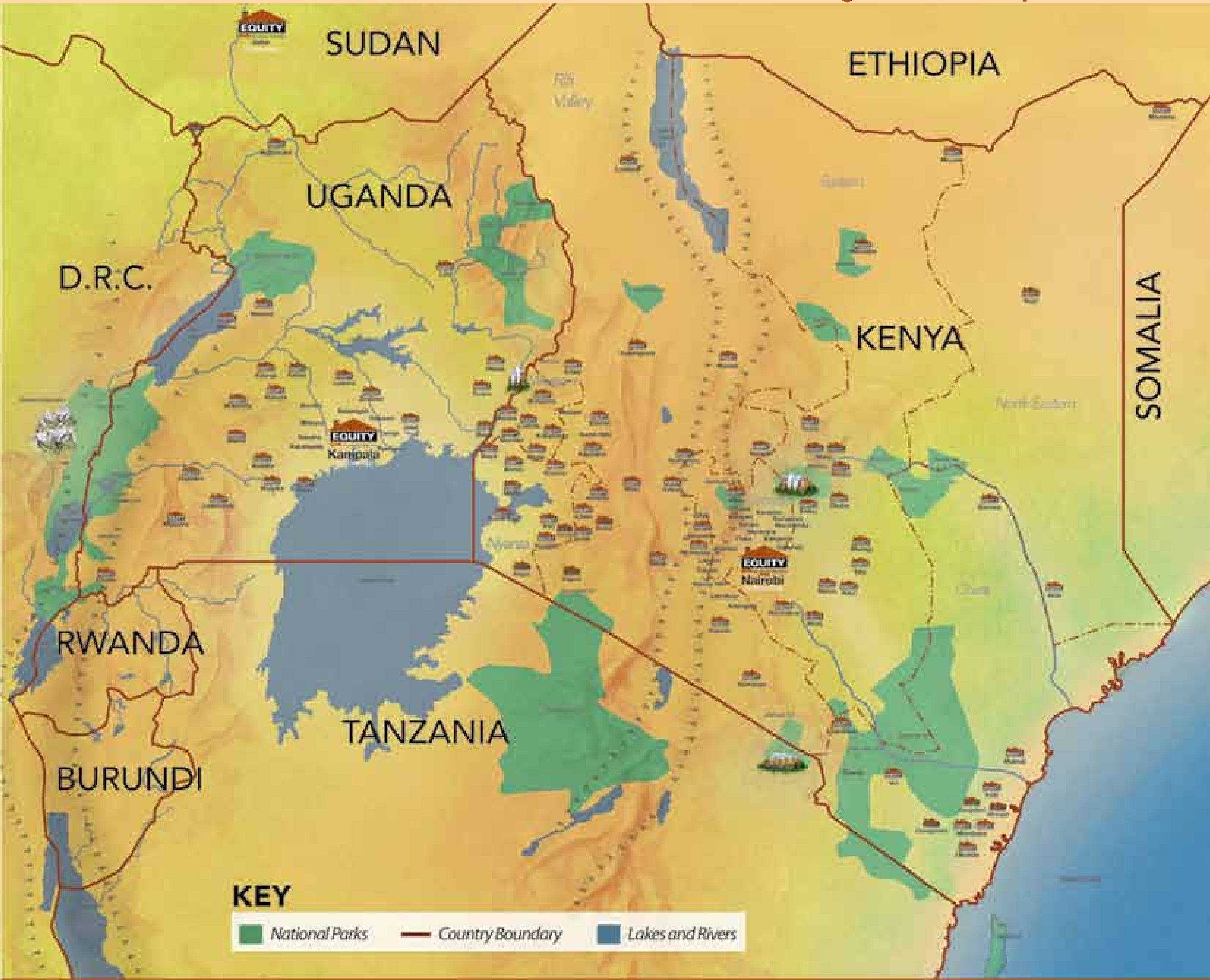
Idadi ya hisa zinazoshikiliwa:

Jina la Mwenyehisa:____________________

Anwani yaMwenyehisa:____________________

Nambari ya Akaunti ya Hisa:________________

## Our Regional Footprint




# Transforming lives in Africa, one branch at a time.

**NOTE:**

| | |
|---|---|
| **Branches** | **165** |
| (a) Branches in Kenya 122, Nairobi 30 | |
| (b) Branches in Uganda 40, Kampala 21 | |
| (c) Branches in S. Sudan 3, Juba 2 | |
| | |
| **Point of Sale Terminals (POS)** | **2500** |
| **VISA Branded ATMs** | **557** |

## 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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