



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

7. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(a) Bank

<i>In millions of Kenya Shillings</i>	Designated at fair values	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
<b>31 December 2008</b>							
<b>Assets</b>							
Cash and cash equivalents	-	-	-	-	12,018	12,018	12,018
Loans and advances	-	-	40,858	-	-	40,857	40,857
Investment securities	-	4,034	-	8,117	-	12,151	12,039
	-	4,034	40,858	8,117	12,018	65,026	64,914
<b>Liabilities</b>							
Deposits from customers	48,977	-	-	-	-	48,977	48,977
Subordinated debts	6,167	-	-	-	-	6,167	6,167
	55,144	-	-	-	-	55,144	55,144
<b>31 December 2007</b>							
<b>Assets</b>							
Cash and cash equivalents	-	-	-	-	11,996	11,996	11,996
Loans and advances	-	-	21,583	-	-	21,583	21,836
Investment securities	-	5,541	-	7,990	-	13,531	13,543
	-	5,541	21,583	7,990	11,996	47,110	47,375
<b>Liabilities</b>							
Deposits from customers	31,536	-	-	-	-	31,536	31,536
Subordinated debts	4,521	-	-	-	-	4,521	4,521
	36,057	-	-	-	-	36,057	36,057



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31ST DECEMBER 2008

#### 8. INTEREST INCOME

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

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





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31ST DECEMBER 2008

### 14. PROPERTY, EQUIPMENT AND LEASEHOLD LAND

#### (a) Property and equipment

##### Group - 2008

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



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

14. PROPERTY, EQUIPMENT AND LEASEHOLD LAND

(b) Property and equipment

Bank - 2008	Freehold land & buildings	Leasehold improve- ments	Motor vehicles	Office equipment, furniture & fittings	Computers	Village cell banking vans	Total
<i>In millions of Kenya Shillings</i>							
<b>COST</b>							
At 1 January 2008	40	1,077	49	677	1,623	37	3,503
Additions	-	650	-	452	685	-	1,787
Work in progress	-	336	-	96	52	-	484
At 31 December 2008	40	2,063	49	1,225	2,360	37	5,774
<b>DEPRECIATION</b>							
At 1 January 2008	7	192	31	186	451	32	899
Charge for the year	1	128	11	104	371	1	616
At 31 December 2008	8	320	42	290	822	33	1,515
<b>NET BOOK VALUE</b>							
At 31 December 2008	32	1,743	7	935	1,538	4	4,259
<b>Bank 2007</b>							
<i>In millions of Kenya Shillings</i>							
<b>COST</b>							
At 1 January 2007	40	503	51	453	942	31	2,020
Additions	-	574	-	224	689	6	1,493
Disposals	-	-	(1)	-	(8)	-	(9)
At 31 December 2007	40	1,077	50	677	1,623	37	3,504
<b>DEPRECIATION</b>							
At 1 January 2007	6	78	29	139	283	20	555
Charge for the year	1	114	3	48	175	12	353
Reversal on disposal	-	-	(1)	-	(6)	-	(7)
At 31 December 2007	7	192	31	187	452	32	901
<b>NET BOOK VALUE</b>							
At 31 December 2007	33	885	19	490	1,171	5	2,603



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31ST DECEMBER 2008

#### 14. (c) Prepaid lease

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

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

#### 14. (d) Investment property

*In millions of Kenya Shillings*

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

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

#### 15. Intangible assets

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

During 2008, the retail banking operations reconsidered their future requirements in relation to customer information software and has recognised impairment in line with its planned replacement in the near term.



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

16. Other expenses

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

17. (a) Investment in associates

*In millions of Kenya Shillings*

Investment in Housing Finance	1,156	442	1,156	442
-------------------------------	-------	-----	-------	-----

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

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

(b) Investment in subsidiary companies

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31ST DECEMBER 2008

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

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

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

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

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

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



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

**18. INCOME TAX**

Recognised in the income statement

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

Tax rates are as follows:

Kenya	20%
Uganda	30%

**19. EARNINGS PER SHARE**

**Basic earnings per share**

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

**Profit attributable to ordinary shareholders**

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

Basic and diluted earnings per share are the same.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31ST DECEMBER 2008

### 20. DIVIDEND PER SHARE

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

At the Annual General Meeting to be held on 26th March 2009, a final dividend in respect of the year ended 31st December 2008 of KShs 3.00 (2007 – KShs 2.00) for every ordinary share of KShs 5 is to be proposed. Payment of dividends is subject to withholding tax at the rate of 5% for resident and 10% for non-resident shareholders.

### 21. CASH AND CASH EQUIVALENTS

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

### 22. LOANS AND ADVANCES TO CUSTOMERS

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

*In millions of Kenya Shillings*

#### Retail customers

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

#### Corporate customers

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

<b>Gross amount</b>	<b>45,195</b>	<b>22,228</b>	<b>41,847</b>	<b>22,228</b>
---------------------	---------------	---------------	---------------	---------------



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

22. LOANS AND ADVANCES TO CUSTOMERS

b) Allowance for impairment

Specific allowance for Impairment

*In millions of Kenya Shillings*

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

(c) Finance leases receivable

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

23. INVESTMENT SECURITIES

*In millions of Kenya Shillings*

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

24. OTHER ASSETS

*In millions of Kenya Shillings*

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31ST DECEMBER 2008

### 25. DEPOSITS FROM CUSTOMERS

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

### 26. DEFERRED TAX LIABILITIES

#### Recognised deferred tax assets and liabilities

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

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

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



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

26. DEFERRED TAX LIABILITIES (CONTINUED)

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

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

Movements in temporary differences during the year – Group

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

Movements in temporary differences during the year – Bank

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31ST DECEMBER 2008

#### 27. OTHER BORROWED FUNDS

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

During the year, the following loan balances were outstanding:

- i) Medium term loan of US\$ 8,750,000 (KShs 680million) from Dexia Micro Credit Fund, a company incorporated in Luxembourg. The loan, which is secured by directors' guarantee, accrues interest at the rate at 8.11% p.a. US\$5,000,000 will mature on 11th December 2009 and US\$3,750,000 will mature 24th April 2010. The effective interest rate is 9.54%. A finance cost of KShs 66m has been included in the income statement account for the year.
- ii) Long term loan of US\$ 10,000,000 (KShs 778 million) from Blue Orchard Loans for Development SA, a company incorporated in Luxembourg. The loan, which is secured by directors' guarantee, accrues interest at the rate of 8.75% p.a. and will mature on 01th June 2012. The effective interest rate is 10.29%. A finance cost of KShs 81 million has been included in the income statement for the year.
- iii) Long term loan of US\$ 10,000,000 (KShs 778 million) from Growth Management Limited, a company incorporated in UK. The loan, which is secured by directors' guarantee, accrues interest at the rate of 9.5% p.a. and will mature on 1st July 2012. The effective interest rate is 11.18%. A finance cost of KShs 88million has been included in the income statement for the year.
- iv) Long term loan of US\$ 7,105,970 (KShs 552 million) from Deutsche Bank Microfinance Fund, a company incorporated in Germany. The loan, which is secured by directors' guarantee, accrues interest at the rate of 9.5% p.a. and will mature on 31st December 2014. The effective interest rate is 11.18%. A finance cost of KShs 63million has been included in the income statement for the year.
- v) Long-term term loans totaling KShs 3,221 million from FMO, a company incorporated in the Netherlands. The loans, which are secured by directors' guarantee, accrue interest rate at 10.43% p.a. KShs 1,507 million will mature on 15th September 2014 and another KShs1,714 million which was received during the year will mature on 15th June 2015. The effective interest rate is 14.18% and a finance cost of KShs 277 million has been included in the income statement for the year.
- vi) Medium term loan of KShs 90 million from Ministry of Youth Affairs. The loan, which is secured by directors' guarantee, accrues interest rate at 1% p.a. KShs 25 million will mature on 27th May 2010, KShs 25 million on 22nd November 2010 and KShs 40 million will mature on 6th January 2011. The effective interest rate is 1%. A finance cost of 1 million been included in the income statement.
- vii) Medium term loan of KShs 68 million from Ministry of Finance. The loan, which is secured by directors' guarantee, accrues interest rate at 6% p.a. The loan will mature on 31st December 2011. A finance cost of KShs 4 million has been included in the income statement.



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

28. OTHER LIABILITIES

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

29. SHARE CAPITAL AND RESERVES

(a) Authorised

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

Movement in ordinary shares

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

At 31st December 2008 the authorised share capital comprised of 370 million ordinary shares (2007: 362million), with a par value of KShs 5. All issued shares are fully paid.

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

The top ten largest shareholders as at 31st December 2008 were:

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31ST DECEMBER 2008

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

##### (a) Authorised (Continued)

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

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

##### (b) Share premium

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

##### (c) Available for sale reserve

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

##### (d) Statutory loan reserve

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

##### (e) Dividends

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

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

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

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

##### (f) Foreign currency translation reserve

This represents foreign exchange gains and losses arising on consolidation.

#### 30. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS

##### Group and Bank

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

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



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

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

**Nature of contingent liabilities**

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

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

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

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

**Commitments**

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

<i>In millions of Kenya Shillings</i>	Group		Bank	
	2008	2007	2008	2007
Capital commitments	107	97	81	97
Loans approved but not disbursed	362	375	309	375
	469	472	390	472

**31. OTHER CONTINGENCIES**

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

**32. RELATED PARTIES**

**a) Loans to key management personnel**

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31ST DECEMBER 2008

#### 32. RELATED PARTIES (CONTINUED)

##### b) Loans to employees

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

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

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

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

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

The total amount of loans and advances granted was in ordinary course of business and were advanced on commercial terms and at market rates. Included in the loans to directors and related parties is an amount of KSh1,255 million that relates to Equity Bank Uganda Limited with accrued interest receivable of KSh32million.

##### d) Key management personnel compensation

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

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

##### e) Directors' emoluments

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



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

**32. RELATED PARTIES (CONTINUED)**

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

**g) Amounts due from Subsidiaries**

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

**33. RETIREMENT BENEFIT OBLIGATIONS**

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

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31ST DECEMBER 2008

#### 34. FOREIGN CURRENCY EXPOSURE

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The board of directors has set limits on foreign currency positions. The foreign currency positions are monitored on daily basis and hedging strategies used to ensure that positions are maintained within the established limits. The amounts below summarize the foreign currency exposure position as at 31st December 2008.

##### a) Group

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

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



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

34. FOREIGN CURRENCY EXPOSURE (CONTINUED)

b) Bank

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

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2008

## 34. FOREIGN CURRENCY EXPOSURE (CONTINUED)

### b) Bank

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



## COUNTRYWIDE BRANCH NETWORK

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







## PROXY FORM



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

**PROXY FORM**

(PLEASE COMPLETE IN BLOCK LETTERS)

ANNUAL GENERAL MEETING - THURSDAY 26TH MARCH, 2009

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

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

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

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

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

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

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

**NOTES:**

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

**CUT ALONG DOTTED LINE**

**ADMISSION CARD**

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

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

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

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

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



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

**FOMU YA UWAKILISHI**

(TAFADHALI JAZA KWA HERUFI KUBWA)

MKUTANO MKUUU WA MWAKA- ALHAMISI 26 MACHI, 2009

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

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

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

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

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

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

Sahihi \_\_\_\_\_

**MAELEZO :**

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

**KATA KATIKA SEHEMU ILIYOWEKWA ALAMA****KADI YA RUHUSA**

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

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

Katibu wa Kampuni

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

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

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