ANNUAL REPORT AND FINANCIAL STATEMENTS 2011

EQUITY Bank • Your Listening, Caring Partner

Corporate Philosophies

Equity Bank was founded as Equity Building Society (EBS) in October 1984 and was originally a provider of mortgage financing for the majority of customers who fell into the low income population. The society's logo, a modest house with a brown roof, resonates with its target market and their determination to make small but steady gains toward a better life, seeking security and advancement of their dreams. The vast majority of Africans have historically been excluded from formal sources of capital, such as banks, building societies and other regulated financial institutions. They therefore knew little about these resources, which makes financial literacy and education strategically important to Equity Bank's growth. Also due to its rural banking orientation, promotion of agribusiness is a significant and strategic intervention by Equity.

Having been declared technically insolvent in 1993, Equity's transformation into a rapidly growing retail/ microfinance bank is widely considered to be an inspirational success story. One industry analyst voiced a popular opinion that "by providing banking services to the masses and generally expanding its distribution channels and services, Equity Bank will be a star performer." By 2011, Equity Bank had more than 7.15 million customers – nearly half of bank accounts in Kenya. The company's vision is "to be the champion of the socio-economic prosperity of the people of Africa". While resounding for-profit, Equity retains a passionate commitment to empowering Kenya's poor to improve their livelihoods and prospects for self sufficiency. Equity Bank has been severally voted the "best bank in retail banking" due to, among other factors, the customer dedication and talented management team. In addition to enjoying widespread recognition domestically, the company has attracted a lot of global accolades and awards, as other developing countries in Africa and Asia seek to learn from Equity's low margin, high-volume model.

Equity has chosen to differentiate itself from the industry by specifically targeting mass banking. Being different by offering affordable products and focusing on innovation is part of our success. The bank has also focused on getting the basics of banking business right i.e strict operational performance measurements, robust risk management and high degree of automation. The bank's business model has been based on three focal areas:

1. Market research and innovation with the objective of moving financial access further down the income pyramid;
2. Customer service as a key differentiator and ;
3. Robust risk management practices.

Undoubtedly the business model has been a huge success prompting the development of a regional diversification strategy. The model has already been replicated in Uganda, South Sudan, Rwanda and Tanzania by establishment of wholly owned subsidiaries. Equity's longer term dream is to become a Pan- African bank.

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.

POSITIONING STATEMENT

Equity provides Inclusive Financial Services that transform livelihoods, give dignity and expand opportunities.

OUR TAGLINE

Your Listening Caring Partner.

OUR MOTTO

Growing Together In Trust.

OUR VALUES

Professionalism
Integrity
Creativity & Innovation
Teamwork
Unity of Purpose
Respect & Dignity for Customers
Effective Corporate Governance

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Financial statements:

Notice of Annual General Meeting

Notice is hereby given that the Eighth Annual General Meeting (AGM) of Equity Bank Limited will be held on Friday, 30th March 2012 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 2011 together with the Chairman's, Directors' and Auditors' reports thereon.
3. To approve a first and final dividend for the year ended 31st December 2011 of KES 1/= per ordinary share of KES 0.50 cents each, subject to withholding tax, where applicable.
4. Election of Directors:
   a) Ernest Nzovu retires by rotation in accordance with Article 100 of the Company's Articles of Association and being eligible, offers himself for re-election as a director;
   b) Shem Migot- Adholla 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) Helen Wanjiru Gichohi retires by rotation in accordance with Article 100 of the Company's Articles of Association and being eligible, offers herself for re-election as a director;
   d) Dennis Aluanga having been appointed as a director by the Board on 21st July 2011 as an alternate to Babatunde Temitope Soyoye retires in accordance with Article 101 of the Company's Articles of Association and, being eligible, offers himself for election as a director;
   e) David Raymond Ansell having been appointed as a director by the Board on 8th December 2011 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 2012.
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,
7th March 2012

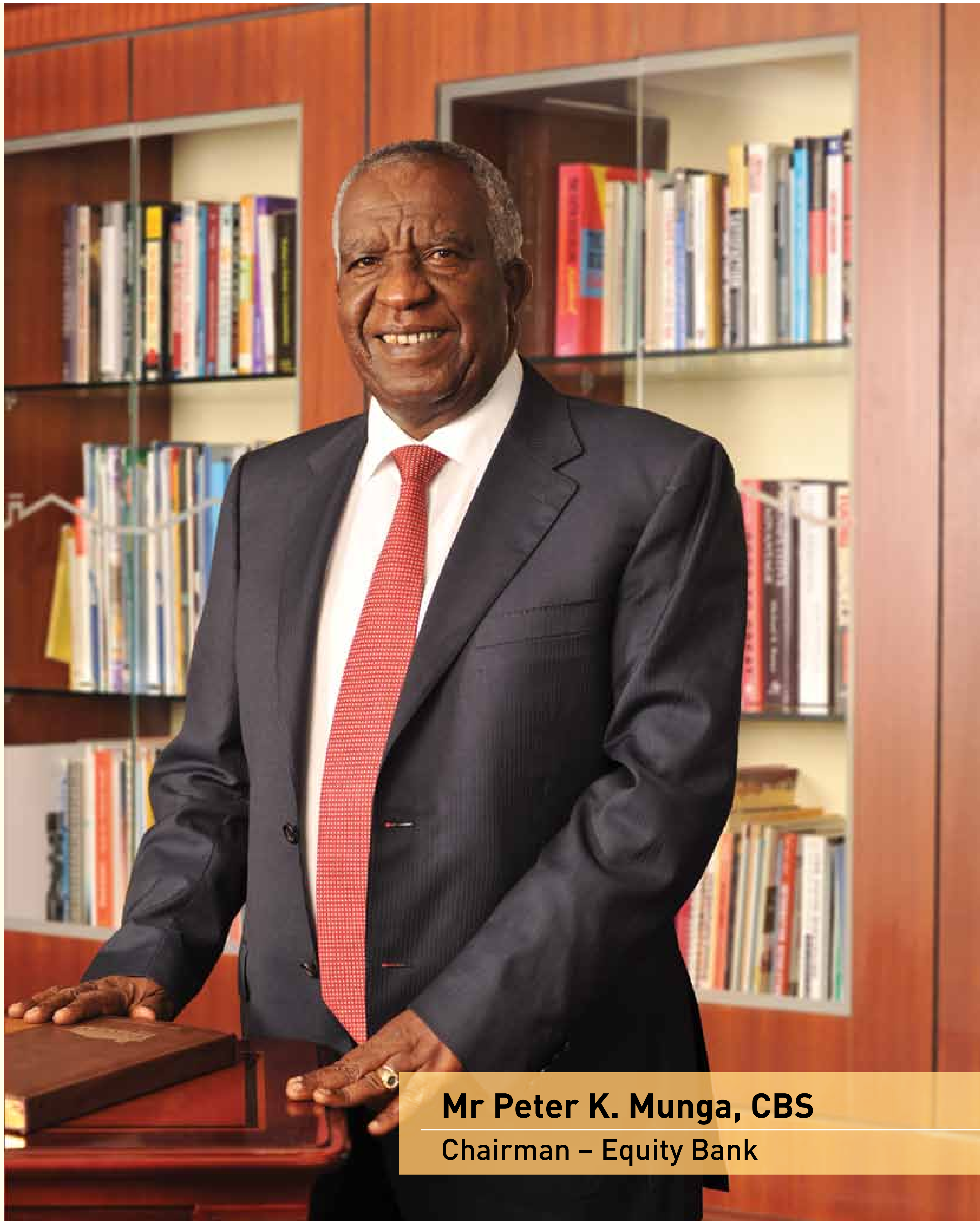
Notes

1. A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company. To be valid, a form of proxy must be duly completed by the member and lodged with the Company Secretary at the Company's Head Office situated at EQUITY CENTRE 9TH FLOOR, Hospital Road, Upper Hill, P. O. Box 75104-00200, Nairobi, not later than 10.00 am on Wednesday, 28th March 2012, failing which it will be invalid. In the case of a corporate body the proxy must be under its common seal.
2. Subject to approval of shareholders, the Board of Directors has resolved to recommend to members at the forthcoming Annual General Meeting a dividend for the year ended 31st December 2011 of KES 1/= per share, to be paid to shareholders on the register of members of the Company at the close of business on Friday 16th March 2012. The dividend will be paid on or about 10th April 2012.

Bank Information

PRINCIPAL PLACE OF BUSINESS:	Equity Centre, 9th Floor Hospital Road, Upper Hill P.O. Box 75104-00200 NAIROBI Tel: +254-020-226200 Fax: +254-020-2737276 Cell: +0711 02600/ 0732 112000 info@equitybank.co.ke www.equitybank.co.ke
REGISTERED OFFICE:	Equity Centre, 9th Floor Hospital Road, Upper Hill P.O. Box 75104-00200 NAIROBI
LAWYERS:	Coulson Harney Advocates, 1st Floor, Block A Nairobi Business Park Ngong Road P.O. Box 10643 – 00100 NAIROBI
	Hamilton Harrison & Mathews ICEA Building, Kenyatta Avenue, P.O. Box 30333-00100 NAIROBI
BANKERS:	Central Bank of Kenya P.O. Box 60000 - 00200 NAIROBI
AUDITORS:	Ernst & Young Kenya-Re Towers, Upperhill Off Ragati Road P.O. Box 44286 - 00100 NAIROBI
SECRETARY:	Mary Wangari Wamae Equity Centre, 9th Floor Hospital Road, Upper Hill P.O. Box 75104-00200 NAIROBI

Chairman's Statement



Mr Peter K. Munga, CBS
Chairman – Equity Bank

Chairman's Statement

I am delighted to report that 2011 is yet another year that Equity Bank has reported strong results despite the challenging external operating environment. The year was characterized by challenging local and global macro-economic environment with sovereign debt crises in the Euro zone and slowed economic performance in the United States of America dominating the headlines with credit rating downgrades of major economies such as United States, Italy, Greece, France, Portugal, and Spain.

In the East Africa region, where the Bank has its operations, the economies experienced high inflation due to surge in oil and food prices, and the consequential higher import bills resulted to a sustained widening of the current account, deficits which led to significant depreciation of local currencies. We believe these shocks are cyclical and the regions macro-economic stability will be restored.

To stabilize the exchange rates and tame the galloping inflation, regional Central Banks tightened monetary policies with consequential increase of interest rates which has pushed up funding costs and constrained private sector demand for credit. The tightened monetary policy also constrained liquidity leading to high funding costs in deposits. Against all these odds, I am pleased to announce that Equity Bank has once again delivered impressive performance in 2011.

In spite of the difficult operating environment, the East Africa region's gross domestic product (GDP) in 2011 are estimated to be at an average of 6.4% with Kenya expected to post GDP growth rates of 4.5%; Uganda 5.2%; Tanzania 7.1%; and Rwanda 8.8%.

Our performance in 2011

The Group Chief Executive and Managing Director's statement has set out clearly the Bank's continuing impressive performance.

The Bank's earnings per share have improved strongly rising from Kshs 1.93 to Kshs 2.79 per share. The return on equity increased from 28% to 34% while return on assets increased from 5.8% to 6.1%. Profit before tax grew by 42% from Kshs 9.04 billion to Kshs 12.8 billion, a level never seen before in the Equity Bank's history.

Against uncertain global economic recovery and despite stiff competition in many of our markets, the strong performance by the Bank once again demonstrates our ability to deliver substantial and sustained value for our shareholders and other stakeholders.

During the year, in line with our vision of being "…the champion of the socio-economic prosperity for the people of Africa…", the bank opened a new subsidiary in Rwanda through which we are looking to replicate the Bank's success in Kenya in the fast growing Rwandan economy.

On the customers' front, the number of customers grew from 5.9 million to 7.15 million and this growth places Equity as the largest bank in Africa in customer numbers and demonstrates the social and financial inclusivity of our business model.

Regional expansion

The Bank has continued to pursue its goal of becoming a Pan-African bank and has moved to further enhance its presence in the East Africa region. Indeed it is encouraging that our subsidiaries are contributing positively to the results of the Bank with Equity Bank Uganda returning to profitability and Equity Bank South Sudan continuing to contribute positively to the performance of the Bank. During the year Equity Bank Rwanda started its operations and we are optimistic that the investment in Rwanda will start contributing positively to the Group's results in the near future. The management of the Bank is committed to strengthening the operations of the subsidiaries while at the same time increasing efficiency and productivity to increase their profitability and grow the balance sheets.

Corporate Governance

Strong management and corporate governance are key components of our business model. This year, I am pleased to announce the strengthening of our Board through appointment of two board members Mr. Dennis Aluanga and Mr. David Raymond Ansell.

Dennis, who is a Partner at Helios Investment Partners and a Board member of Nation Media Group, brings to the Bank wealth of experience from his successful professional career at Nation Media Group and Investment Promotion Services (IPS). Dennis is alternate director to Babatunde Temitope Soyoye.

Chairman's Statement

David is the Chairman of the Board of the Bank's wholly owned subsidiaries in Uganda, Rwanda and Tanzania. He is also a director of Housing Finance and a member of the Advisory Board of Private Equity New Markets for BankInvest in Denmark. David worked for 32 years at Citibank in England, Taiwan, Czech Republic, Russia and Africa before retiring in 2001. His background in financial services will bring valuable insights to the Board. Please join me in welcoming the new members to the Board.

The Board will continue to play its role effectively under the corporate governance structure. The non-executive directors will continue to maintain oversight on the management of the Bank, through board meetings as well as through the various board committees.

Dividends

The Board is committed to maximization of shareholders' value and return, whilst balancing the need to re-invest in the business to finance future growth. Taking these considerations into account, the Board is recommending a dividend of Kshs 1.00 per share which is a 25% increase over last year's payout.

2012 outlook

With the continuing sluggish economic growth in developed economies, growth in global economy will be driven by emerging economies and this underlines the positive outlook for the African continent. With our Pan African vision, the Bank is uniquely placed to optimize on these emerging opportunities in Africa through the on-going geographical expansion.

Despite the fragile global economic environment, slowdown in capital investments and private sector credit, the services sector remains buoyant. Regional diversification following East African Community harmonization as well as cross-border investments present an opportunity for business growth.

In Kenya, a public sector credit investment supported by a USD 600 million international borrowing will support private sector growth and a quicker stabilization of macroeconomic stability. We also predict that diaspora remittances to the region will remain strong and food and oil prices would improve in 2012. The International Monetary Fund (IMF) has predicted inflation in Kenya of 12% and 6.5% for the years ending June 2012 and June 2013 respectively. On the government front, we believe that the implementation of the new constitution will enhance certainty for investors and strategic partners further contributing positively to economic growth.

In addition, the successful creation of South Sudan as Africa's youngest state has opened up further opportunities and access to markets for East African businesses.

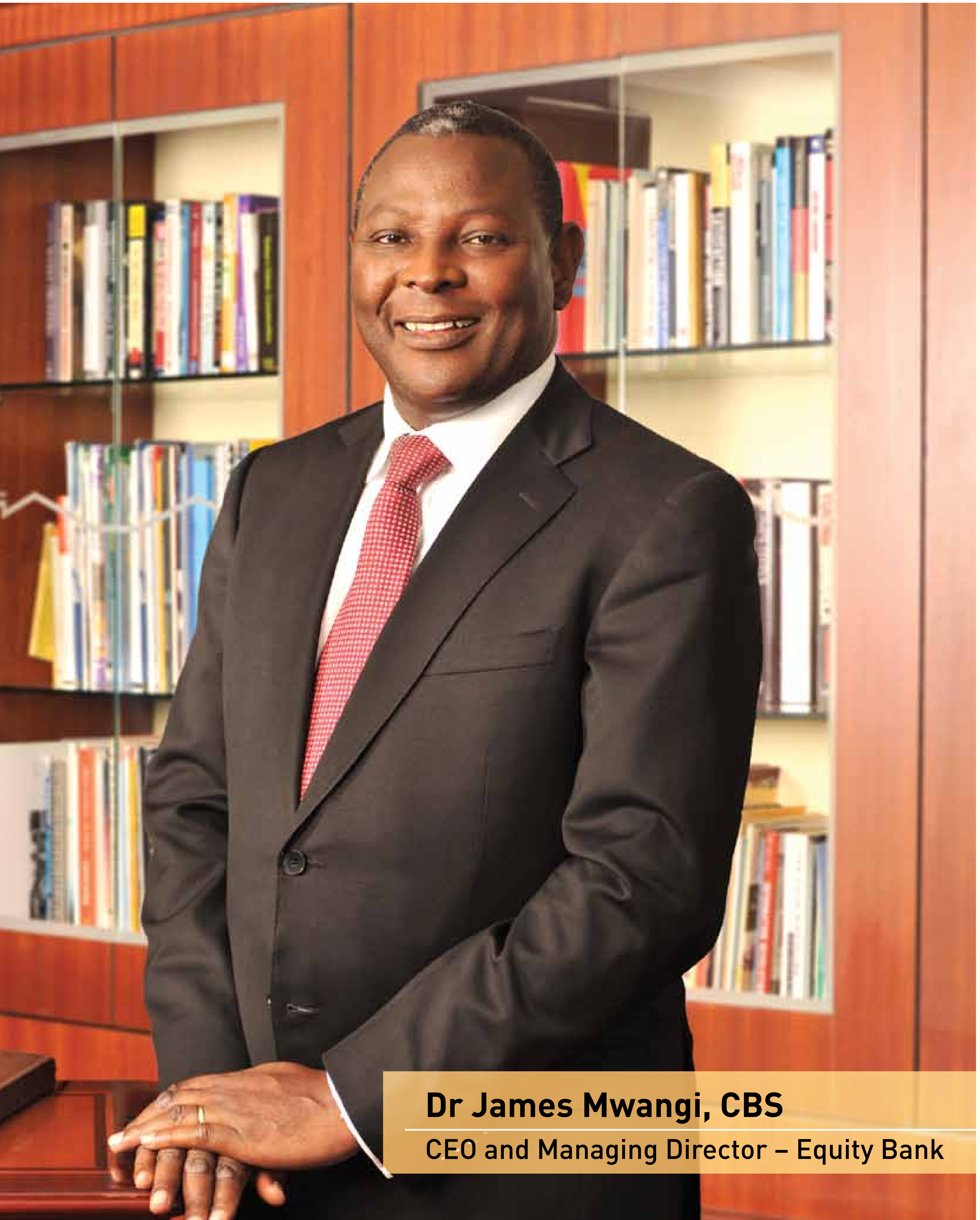
Conclusion

Finally, on behalf of the Board of Directors I wish to express my sincere appreciation to our customers for their untiring support, management and staff of the Bank across the entire region for the hard work they have put to deliver yet another exceptional performance. This exemplary performance could not have been achieved without your dedication and commitment.

Thank you

Mr. Peter Munga, CBS
Chairman – Board of Directors

CEO and Managing Director's Statement



Dr James Mwangi, CBS
CEO and Managing Director – Equity Bank

CEO and Managing Director's Statement

It gives me great pleasure to present to you Equity Bank's annual report and financial statements for the year 2011.

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

Financial Performance

In line with our objective to maximize value for all stakeholders, and despite the challenging macro economic environment characterised by high interest rates, high inflation and volatile exchange rates, Equity Bank (the Bank) restrained increasing its customers loan interest rates until mid-November 2011, and the eventual re-pricing of the loan book was capped at a maximum interest rate of 25% per annum against an average banking industry loan interest rate of 32%. The Bank's loan book not only grew by 45% from Kshs 78.3 billion to Kshs 113.8 billion but also improved in terms of asset quality with its non-performing loans reducing from 4.5% to 2.8% to close with a net non-performing loan of 1.3% as a percentage of gross loan book.

Profit before tax grew by 42% to close at Kshs 12.83 billion up from Kshs 9.04 billion in the previous year while profit after tax grew by 45% to Kshs 10.33 billion up from Kshs 7.13 billion. Gross total income grew to reach Kshs 28.67 billion boosted by a 46% growth in interest income. Whilst total operating expenses grew by 23% to Kshs 15.99 billion, the net cost to income ratio reduced 60% to 56% reflecting the improved asset quality and cost efficiencies in 2011 derived from the agency and mobile phone enabled banking operations.

Overall, revenues improved by 29% to reach Kshs 28.67 billion in 2011 up from Kshs 22.15 billion reported in 2010. The significant growth was driven by growth in loans and increased transaction volumes. The operating expenses grew by Kshs 3 billion from Kshs 11.3 billion to Kshs 14.3 billion. This was largely due to investments in Information Technology infrastructure, regional subsidiaries and additional branches opened during the year which saw our regional branch network increase from 163 to 186. Shareholders dividend grew by 25% from Kshs 2.9 billion to Kshs 3.7 billion with dividend per share growing from Kshs 0.80 to Kshs 1.00.

Strong asset growth saw our total assets grow by 37% from Kshs 143 billion to Kshs 196 billion. The Bank increased customer deposits by 38% from Kshs 104 billion to Kshs 144 billion. This was partly attributed to the growth in customer numbers which increased from 5.9 million to 7.15 million clients. Growth in customer numbers was as a result of enhanced customer experience and improved access to banking services through increased use of alternative delivery channels such as agents and the convenience afforded by mobile phone enabled technology.

The Bank's return on equity rose from 28.4% to 33.6% reflecting enhanced return to shareholders whilst the return on assets improved from 5.8% to 6.1%, making the Bank one of the most profitable banks in the continent.

In summary, the excellent performance under challenging global and local operating environment is attributed to benefits of heavy investment in ICT; investments in alternative delivery channels; innovations particularly in mobile banking & agency banking; social & impact investments that have helped to build the Bank's brand in addition to the foregoing focus on product development and research, cost & risk management while leveraging on knowledge, skills, passion and enthusiasm of staff.

Qualitative Milestones and Global Recognitions

In October 2011, the Bank was awarded an investment grade credit rating of Long term AA – and Short term A1+ rating by Global Credit Rating Company which reflects the Bank's established domestic franchise value, improved financial performance and risk appropriate capitalization cushioning.

The social and economic impact contribution of the Bank has been manifest as reflected by the many accolades it has received in recent past, for example; the Bank was named by Africa Investor as the 2011 winner of the Best Initiative in Support of SMEs and the Millennium Development Goals. As well, Equity Bank was listed as one of the 16 global emerging Markets New Sustainability Champions and the only financial service provider by a World Economic Forum Report in 2011 which meets the threshold of sustainability based on a criteria covering, innovation, growth and corporate sustainability.

The success and impact of the Bank earned the CEO the African Banker of the Year Award for the second year running at the 2011 African Banker Awards in Washington D.C and also the Inaugural Africa Leadership Network award in recognition of leadership in bringing prosperity to Africa. As the team leader of the Bank, the CEO was named by Ernst & Young as the Eastern Africa Master Entrepreneur of the Year in 2011 and was vested with honour of Chief of Burning Spear (CBS) together with the Chairman of the bank for contribution in economic development of Kenya by His Excellency the President of the Republic of Kenya.

The bank was also recently voted the most impactful brand on Kenyans, the third most valued brand in Kenya and the third most prestigious brand in Kenya.

Brand Visibility, Business Development and Innovation

The Bank embarked on brand awareness campaigns that resonated well in the market and with our customers. The Bank also continued to enjoy improved efficiency from its robust IT platform, resilience and robustness of the Equity business model and the benefits of economies of scale arising from high volumes and reach.

We remain focused on ensuring that we capitalise on the value that our unique banking model brings to our customers and other stakeholders. During the year there were tremendous improvements in the following areas:

Agency Banking

2011 was the year of embedding the agency model which allows the Bank to leverage on third party infrastructure moving away from the traditional brick and mortar branch network model. The roll out of the agency banking has been successful and the number of agents has grown from just 875 at the beginning of the year to 3,339 agents by end of the year. I am happy to report that more than 20% of all cash transactions are coming from our agency network. We will continue to promote this model as we take banking to the door steps of our customers.

We hope to replicate the success of the agency model in the region and are lobbying for suitable legislation to be enacted in Uganda, Tanzania and South Sudan. The National Bank of Rwanda (BNR) has already set the pace by passing agency guidelines to allow for agency banking.

Agricultural products

Agriculture is one of the drivers of economic pillar in the region and the Bank has continued to support agriculture related activities. During the year, the Bank partnered with the Ministry of Agriculture through the Cotton Development Authority (CODA), National Irrigation Board, and farmers in Bura irrigation scheme to facilitate various agricultural projects and through such partnerships, a contract farming method was adopted with ginneries committing to buy all the cotton from the farmers cultivating on more than 700 acres in the expansive Bura Irrigation and Settlement Scheme. This has contributed to the revitalization of the cotton production in the country.

Partnerships with lenders

During 2011, the Bank leveraged on its strong credit rating to diversify its funding structure and sourced an additional Kshs 7.2 billion long term funding from various development partners and lenders in order to match long term loans advanced to the growing Small and Medium Enterprises (SME) sector.

Capacity building and leadership development

We are committed in developing our human capital in building sustainable business in the competitive economic environment in which the Bank operates in, with the key critical success factor being having the right people in the right roles. To this end, the Bank has continued to enhance its human capital through training and leadership development for its staff, and where necessary, has complimented existing talent pool with additional hires from reputed local and global organizations.

Community partnership

Investing in the communities in which we operate is something that has always been important to Equity Bank and in 2011 the Bank continued to support high impact community social partnership programs in Kenya.

The Bank continues to sponsor the best Kenya Certificate of Secondary Education (KCSE) boy and girl in each participating district under the Equity Bank University Sponsorship program which is now on its 11th consecutive year. So far 1,050 highly talented students have benefited from this programme with some of them joining the bank in various capacities after their studies.

An additional 240 will join this year to bring the total to 1290 beneficiaries. In addition, in 2011, the Bank, through a partnership with the MasterCard Foundation and Equity Group Foundation rolled out the financial literacy and entrepreneurship program dubbed Financial Knowledge for Africa (FiKA) to its customers and the wider community. I am happy to report that, so far 306,000 entrepreneurship trainees have graduated from the FiKA program and we are on course to reaching our target to train 1,000,000 entrepreneurs by 2014. I am confident that the graduates are now properly equipped with financial management and entrepreneurship knowledge that will enable them take their businesses to the next level.

As well, Equity Group Foundation in partnership with MasterCard Foundation, and supported by United State Agency for International Development (USAID) and UK Agency for International Development (UKaid) enrolled additional 2,144 students to the flagship 'Wings to Fly' scholarship program in 2011. This program has so far secured 7,300 scholarships and we are on course to meet the program's targets to sponsor 10,000 students by 2015.The program is unique in that, it provides these academically gifted yet financially disadvantaged students with tuition, books, uniforms, and pocket money and the students also receive leadership training, career guidance, counselling, and mentoring to ensure they achieve their full potential.

The Bank has continued to partner with the Government of Kenya and other donor agencies in the government to people (G2P) payments. During the year the Bank continued to partner with UKAID, Oxfam and Save the Children Fund in facilitating social payments under the Hunger Safety Net program (HSNP). So far over 60,000 households are covered by the programme.

The Bank will continue partnering with other organizations in similar high impact social projects.

2012 forecast

The outlook for 2012 remains positive and the Bank expects to enhance its market share through regional expansion by opening more branches and rolling out electronic delivery channels and agency banking in the countries where we have presence. This year the Bank has already started operations in Tanzania through a subsidiary which opened its doors to customers in February 2012.

In 2012 we shall continue strengthening our business model while paying special attention to continuous improvement of our asset quality through prudent lending and risk management. We will increase the efficiency of our operations through enhanced use of technology and automation for better customer experience. We will continue to improve our staff productivity and continue leveraging on agency and mobile phone banking. Special emphasis will be paid to cost management practices.

Conclusion

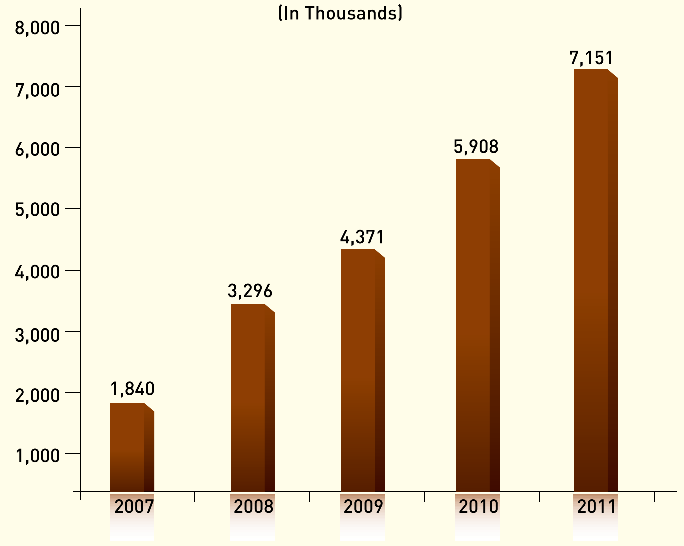
I wish to take this opportunity to express my sincere gratitude to you, our customers, shareholders, development partners & strategic business partners for your overwhelming support to the Bank that has been the reason for the excellent performance in 2011. I also wish to thank my board of directors for your oversight and guidance received throughout the year. I would also like to appreciate the management and staff for your passion, focus and dedicated contribution to the continued success of the Bank. All our human and material resources will be harnessed in order to meet day to day challenges that may confront us as we strive to achieve our vision of championing social economic prosperity of the people of Africa.

Thank you

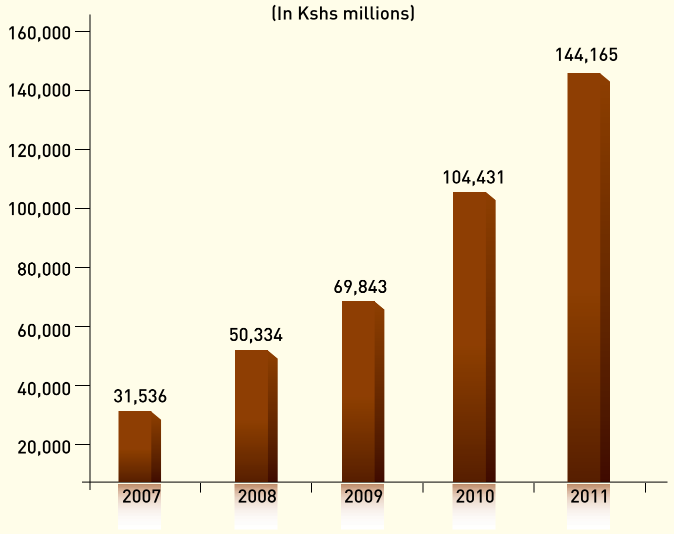
Dr James Mwangi, CBS
CEO and Managing Director

Financial Highlights

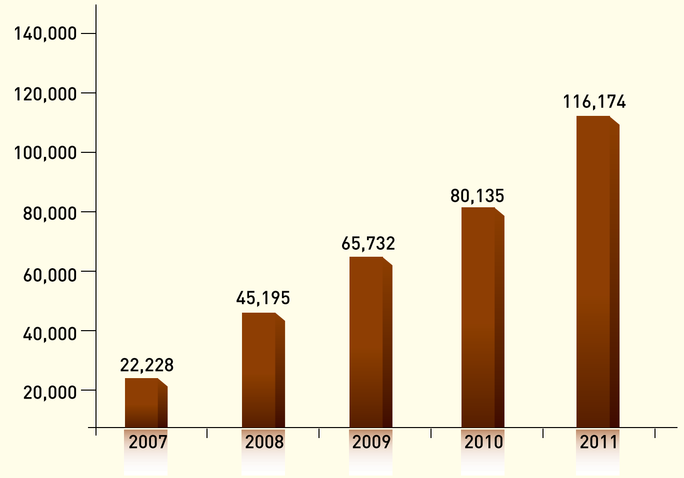
GROWTH IN CUSTOMER NUMBERS
(In Thousands)



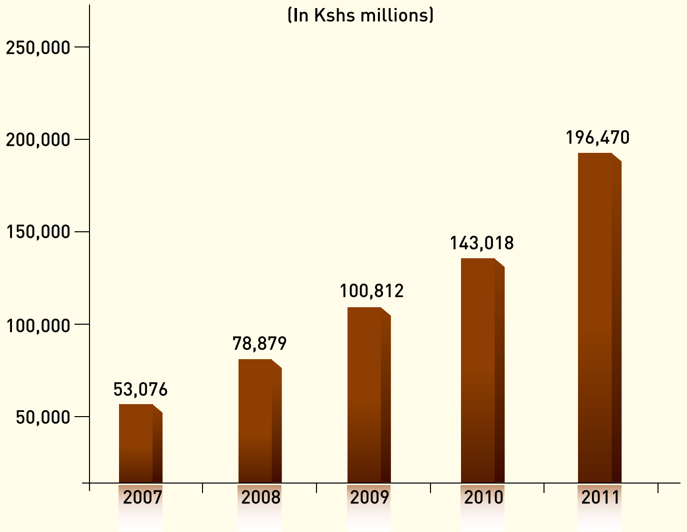
GROWTH IN CUSTOMER DEPOSITS
(In Kshs millions)



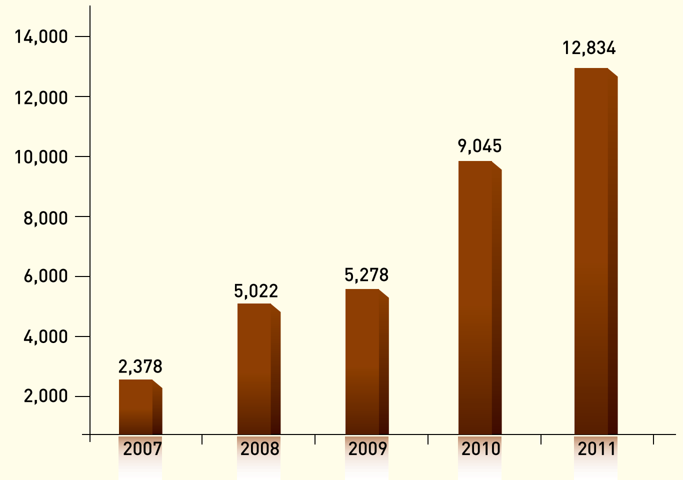
GROWTH IN GROSS LOAN PORTFOLIO
(In Kshs millions)



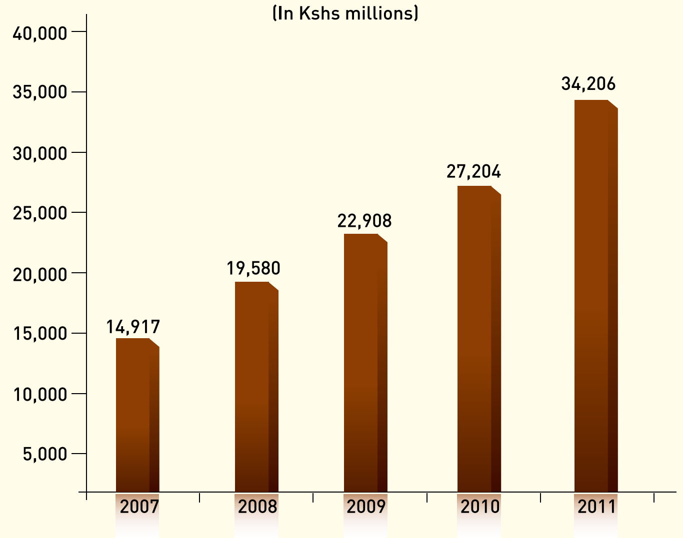
GROWTH IN TOTAL ASSETS
(In Kshs millions)



GROWTH IN PROFIT BEFORE TAX
(In Kshs millions)

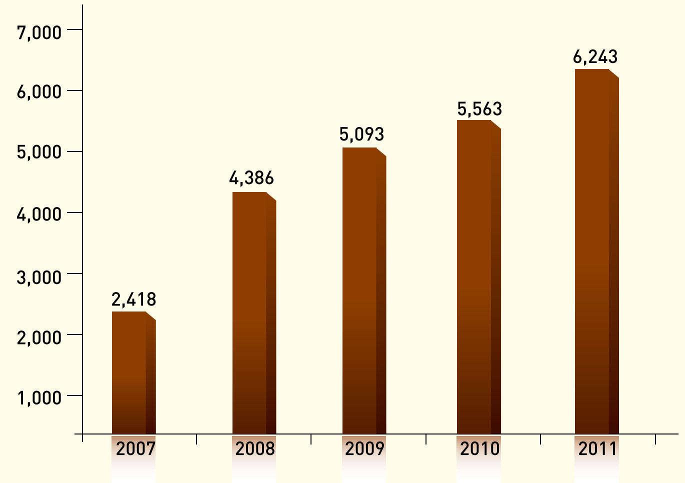


GROWTH IN SHAREHOLDERS' FUNDS
(In Kshs millions)

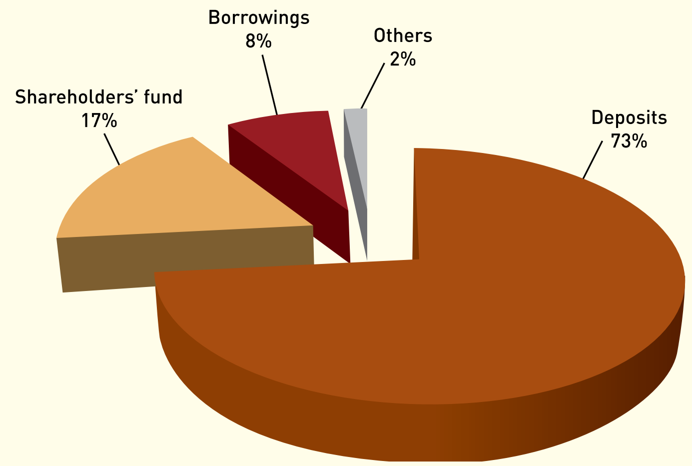


Financial Highlights

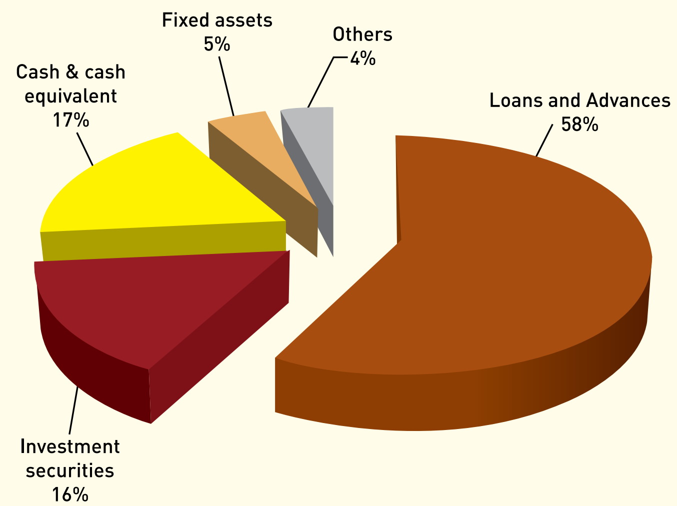
GROWTH IN STAFF NUMBERS



DISTRIBUTION OF LIABILITIES



DISTRIBUTION OF ASSETS



Key Achievements and Accolades

I. CORPORATE RECOGNITION

GCR Rating 2011
Long term AA -"...very high credit quality"
Short term A1 + "...highest certainty of timely payment"

The accorded investment grade ratings reflect Equity's established domestic franchise value, improved financial performance and risk appropriate capitalization cushioning.

Beneficiaries get their cash through Equity Bank. To save them from having to travel 65 kilometers to the nearest main branch, Equity Bank has appointed bank agents in various market centers in the pilot areas. As a result, people who are not WFP beneficiaries can also access banking services through the bank agents.

Excerpt from World Food Program website: www.wfp.org

Best Initiative in Support of SMEs and the Millennium Development Goals - 2011

"Equity Group Foundation's Scholarships have passed the authentic test with a testimony from none other than the President. Such scholarships may have similar impact to the Tom Mboya air lifts many years ago that benefitted the likes of Obama Senior and Wangari Mathai"

Quote from an article that appeared in Business Daily on Tuesday 7th February - title of the article : CSR; Business ought to tell the story of community programmes in a captivating way

Best Bank in Kenya - Euromoney 2011 Awards for excellence

"...It has only come to prominence in the past decade, growing rapidly and organically, and focusing on the mass market and small businesses, particularly in rural areas. It is a model particularly suited to a region where agricultural livelihoods and informal employment remain vitally important to the economy..."

"One of these days, a Kenyan could very well wake up in an Equity –financed house, eat his breakfast from Equity-financed furniture, drive to work in Equity-financed car, spend the whole morning in an Equity-financed office building, break for lunch and walk into the nearest Equity Bank branch to replenish his pockets and then go back home the same way he came. If he stumbles into a police case, he might have to deal with Equity trained policemen, who may then haul him before a former Wings to Fly student now sitting as the presiding judge who, in the worst scenario may commit him to jail to join his fellow Equity-trained inmates"

Excerpt from an article that appeared in The Standard on 30th Jan 2012 with the title; Is Equity's Dominance Sign of the Future?

EQUITY BANK LIMITED AND SUBSIDIARIES
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

Key Achievements and Accolades

Equity Bank , New Sustainability Champion – September 2011

Equity Bank Group was listed as one of the 16 global emerging Markets New Sustainability Champions by a World Economic Forum Report in 2011. Titled: Redefining the Future of Growth: The New Sustainability Champions, the World Economic Forum listed Equity Bank as the only financial service provider in the Emerging markets covering India, Brazil, Egypt, South Africa, China, Philippines and Costa Rica which meets the threshold of sustainability based on a criteria covering, innovation, growth and corporate sustainability.

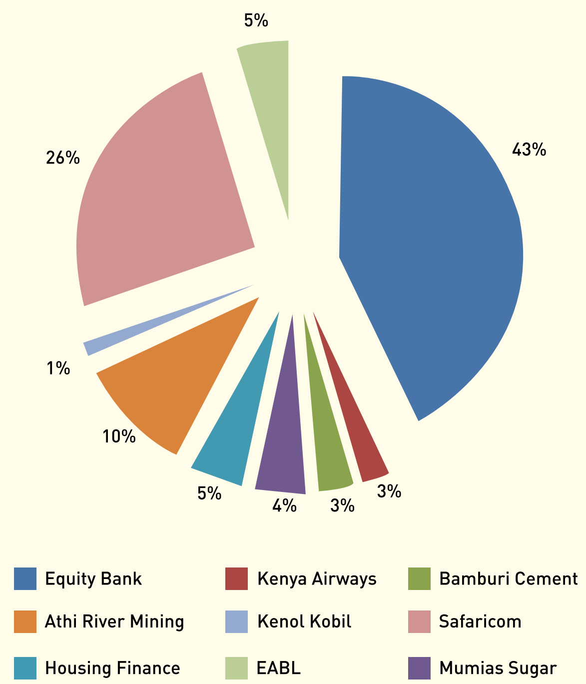
Equity Bank Group was picked as one of the 16 finalists from an initial pool of more than 1,000 companies drawn from 11 million.

Equity Bank lauded at Clinton Global Initiative

Washington, D.C. 28th September . . . leaders attending the annual Clinton Global Initiative (CGI) meeting lauded Equity Bank's business model which is geared at ensuring financial inclusivity for the unbanked and which has revolutionized banking in Kenya.

II. BRAND RECOGNITION

"Equity Bank was rated by 43% of Kenyans as the company that has made the greatest contribution towards the development of the Kenyan people. " - *Business Daily 19th August 2011*



Equity was also recognised as the 3rd most valuable brand that gives Kenyans pride- *Business Daily- Aug 2011*; The most Preferred Kenyan Brand- *Intrabrand Simpson-2011* and the only Triple A Brand in Kenya- *Brand Finance East Africa & TNS East Africa-July 2011*

III. LEADERSHIP RECOGNITION

African Banker of the Year - 2011

September 2011... Dr. James Mwangi was named the African Banker of the Year for the second year running at the 2011 African Banker Awards in Washington D.C.

Africa Leadership Network Award

Dr. James Mwangi has won the Inaugural Africa Leadership Network award in recognition of his leadership in bringing prosperity to Africa. "If Africa could produce many more indigenous leaders of this caliber we truly would be much further on our track to developing ourselves", said Fred Swaniker, Co-founder of the African Leadership Network.

Ernst & Young

Dr. Mwangi was named by Ernst & Young as the East Africa Master Entrepreneur of the Year in 2011.

Honorary Member and Certified International Retail Banker

Dr. Mwangi earned the distinction of Honorary Member of the International Academy of Retail Banking and is now a Certified International Retail Banker (CIRB)

State Recogntion

First Class Honour – Chief of the Order of the Burning Spear (C.B.S)

Mr Peter Munga, CBS- Chairman, Equity Bank
Was vested with the medal of CBS *"for his distinguished contribution in economic development"*

Dr. James Mwangi, CBS; CEO Equity Bank and Chairman Equity Group Foundation
Was vested with the medal of CBS *"for his outstanding contribution to economic development"*

Statement on Corporate Social Responsibility

Equity Bank continued implementing its social programs through Equity Group Foundation (EGF). Over the two years of its existence; Equity Group Foundation has worked with a clear focus of holistic social-economic transformation of the people of Africa. Its target is to socially transform at least 50 Million people over five years. Through strategic partnerships with development partners, Equity Group Foundation continued to upscale social programs in line with its vision.

1. EDUCATION PROGRAMS

During the year under review, Equity Group Foundation continued to be at the forefront in championing initiatives which aimed at improving the quality of lives of our people through investment in education programs.

WINGS TO FLY

"On behalf of the government, I thank the Equity Group Foundation and the MasterCard Foundation together with their partners for this noble program. I urge students who benefit from this program to make the best of the opportunity availed to them by taking their education seriously."

His Excellency Mwai Kibaki when he commissioned the 2012 class of the Wings to Fly program on 1st Feb 2012. The students sat for their KCPE in 2011 and were selected to join the program towards the end of 2011

The Wings To Fly is a comprehensive secondary school scholarship program that targets academically bright children from financially disadvantaged backgrounds. It is a partnership between The MasterCard Foundation and Equity Group Foundation. The scholarship initiative which began in 2010 has grown from a $ 50 million to $ 67 million fund with the support of additional partners. This includes support from UK Agency for International Development (UKaid) of £700,000 a year since 2010 for 600 students and United States Agency for International Development (USAID) with support of $ 17.4 million in 2011 which will cater for 1,136 Wings To Fly scholarships as well as another 488 scholars in secondary, tertiary and universities. The initiative has so far secured scholarships for nearly 7,300 students which is part of a 10,000 scholarship target. The program is unique in that besides providing these academically gifted yet economically disadvantaged students with tuition, books, uniforms, and stipends, they also receive leadership development, career guidance and mentoring to ensure they achieve their full potential.

One of the defining features of the Wings To Fly initiative is its transparency and inclusivity. The program is gender and region balanced. Application is open to any student who comes from a financially disadvantaged family background and has scored among the top five percentile in the Kenya Certificate of Primary Education (KCPE) examinations in the participating districts. Scholarship application forms are made available at Equity Bank branches and Equity Agents as soon as the KCPE results are announced. Interested candidates submit their applications to a District Scholarship Selection Board (DSSB) which reviews, shortlists, interviews and selects students to receive the scholarship using predefined criteria. DSSB is chaired by the District Education Officer (DEO) and coordinated by the Equity Bank branch manager in that District. The Board comprises of a minimum of 12 local representative stakeholders including Heads of Primary & Secondary Schools Associations, District Social Development Officers, religious leaders, Constituency Development Fund (CDF) chair, local Women& Youth leaders, and Equity Agent representatives, provincial and civic administration.

Aurelia tells her moving story during the commissioning of the 2012 Wings to Fly class.

Determined: a 28 year-old mother heard about the Wings to Fly program and decided to go back to school.

Aurelia was brought up by her grandmother. She sat for KCPE in 1998 and attained 412 marks out of 700 but could not proceed with her secondary education due to poverty. She became a house help to support her aging grandparent. After two years she left the house help job and started pursuing a tailoring course. In spite of her getting married in 2004 and being blessed with 2 children, Aurelia's thirst for education never died.

When she heard about the *Wings to Fly* program and with the support of her husband she enrolled in Standard 8 and registered for KCPE in 2011. She passed with 348 marks out of 500, emerging top girl in her school. Aurelia, 27 years, aspires to be a top class lawyer.

Statement on Corporate Social Responsibility

ANNUAL LEADERSHIP CONGRESS

The 2011 Equity Bank Annual Education and Leadership Congress, bringing together all the scholars drawn from both the *Wings to Fly* and the Equity Bank University Sponsorship Program was held in August 2011 at Kenyatta University under the theme; Nurturing Global Leaders. During the two- week congress, the scholars met and interacted with leaders from different parts of

the world . In 2011, some of the key mentors who spoke to the scholars included Prime Minister, Raila Odinga; Vice President, Kalonzo Musyoka; and the Deputy Prime Minister, Uhuru Kenyatta, as well as the Chairperson of The MasterCard Foundation's Board, Lois Juliber; Vice Chair of the Foundation, Professor Phillip Clay; and the President and CEO of The Foundation, Reeta Roy. Other key mentors included representatives from UKAID, business leaders, Vice Chancellors, professors, as well as leading scholars, master entrepreneurs, innovators, and other local and international motivational speakers.

The Congress is the highlight of the leadership, mentoring, and social transformation programs which seek to develop the next generation of transformation leaders. The cost of the annual congress is a joint initiative between Equity Bank, Equity Group Foundation and The MasterCard Foundation.

UNIVERSITY SPONSORSHIP PROGRAM

The year under review saw 250 top 2010 KCSE candidates join the Equity Bank University Sponsorship Program. Started in 1998, the University Sponsorship Program is an internship and leadership development program for top-achieving Kenyan students. The program runs upto 18 months between secondary school completion and enrollment to university. It rewards the top boy and top girl in every district where Equity Bank operates. The program offers beneficiaries university sponsorship to Kenyan public universities. So far the program has benefited more than 1,050 scholars who have interned at Equity Bank before joining university and during university holidays. Alumni of the program include Samuel Kirubi, Executive Director of Equity Bank Rwanda and Dr. John Muthee, Founder & CEO of (CSRAfrica.net), the premier online source of CSR work in Africa. The program has also been mentoring the scholars to apply for admission and scholarship to leading world universities

Minister for Education Prof. Sam Ongeri (4th left) in a Group photo with the 2010 Equity Bank university scholarships beneficiaries at Equity Centre, Nairobi after officially launching the class. To his right is the CEO of Equity Bank Dr James Mwangi

ADMISSION TO LEADING WORLD UNIVERSITIES

Over 40 scholars from the university sponsorship program have proceeded to study in some of the best universities worldwide including Harvard, Yale, and MIT in addition to those in Kenyan universities. Those who have joined the Ivy League Schools in the last few years include eight who study at Harvard University, five at Yale University, and more than twenty in other universities in the US, UK, South Africa, Turkey and Russia. From the 2011 class, an additional ten scholars gained admission to top universities including Seoul National University, Harvard, Duke and Princeton.

SPONSORING DRAMA AND MUSIC

The Bank, through Equity Group Foundation has continued to support the performing arts in schools. The year under review saw the Foundation extend a Kshs 10 million sponsorship towards the schools Drama and Music Festivals, as a way of supporting talent among the youth.

Students performing during the 2011 Kenya Schools Music Festival

2. FINANCIAL LITERACY (FiKA) AND ENTREPRENEURSHIP

Equity Group Foundation and The MasterCard Foundation have partnered to offer free financial education and entrepreneurship program targeting 1 million women and youth across the country by 2014. The MasterCard Foundation contributed USD 10.8 million towards the program that leverages on Equity Bank infrastructure in Kenya to reach out and train youth and women.

Deputy Prime Minister and then Minister for Finance Hon. Uhuru Kenyatta, Reeta Roy President and CEO The MasterCard Foundation, Dr. James Mwangi Equity Bank CEO, Prof. Marguerite Robinson Board Member The MasterCard Foundation and Dr. Manu Chandaria Chairman Comcraft Group during the FiKA launch ceremony.

The program, known as FiKA (Financial Knowledge for Africa) is empowering youth and women with the knowledge, skills, and attitudes they will need to adopt good financial management practices to ultimately transform their lives and livelihoods. FiKA is giving the beneficiaries a pathway to greater financial access (financial literacy training and access to savings and loans services) as well as providing financial advisory services to help develop, strengthen, and grow participants' microenterprises.

The FiKA program was officially launched the on 28th April 2011 by the Deputy Prime Minister and then Minister for Finance, Uhuru Kenyatta and hosted by Equity Bank, Equity Group Foundation, and The MasterCard Foundation. During the launch ceremony, over 1,000 graduates from all 47 counties received their certificates for having successfully completed their 12 weeks of financial training. By the end of 2011, the program had successfully trained and graduated 242,795 trainees.

FiKA graduands in a procession during a graduation ceremony

Equity Group Foundation hired master trainers to implement the FiKA program most of whom have masters' degrees in entrepreneurship or a related field, and who have many years of experience in business and entrepreneurship development. The trainers are stationed in Equity Bank branches across the country where they reach out to potential trainees and conduct the twelve-week training program. The training is conducted in groups, and the trainees choose the most appropriate day and time during the week, as well as a training venue that is most convenient to them.

A pilot entrepreneurship training program for 10,000 youth and women focused on developing practical and applicable small business knowledge has commenced.

At the end of the training, a graduation ceremony is held in the district where the newly trained graduates receive their certificates after having completed their 12 weeks of financial training. The testimonials of graduates regarding the impact this financial training has had on their lives are a strong indication of how financial knowledge will help increase financial inclusion for millions of Kenyans.

"…FiKA has helped me to learn crucial points in budgeting, especially the fact that I should budget before I receive the money and that I should factor savings in my budget. In the past, I have had orders worth over half a million, and sometimes would be paid up front. However, I ended up ruining some orders and clients because I could end up diverting the funds due to lack of planning and drinking all the money to the extent that I could even lack money to service the very order. So much money has passed through my hands, but so far no savings!

After learning about savings, I realised that there was another opportunity and I projected to start saving at least Kshs. 500 per day. Had I taken financial literacy training earlier, I could be further ahead economically by now. Nonetheless, , it is a second chance for me to rebuild my life both socially and economically."

Ronald Ngala, a potter and a member of Munasio Youth group in Ilesi Kakamega.

Ronald Ngala at his shop.

"Through the training, I have learned how to diversify my business and have been able to start a biogas project. I intend to start distributing biogas power to my neighborhood at a cost and thus increase my income. I am also doing brooding one day chicks for other people at a cost of Ksh 330 per day, which translates to about Ksh 7,000 per month for labour only. The training has taught me how to save, Recently I also stopped drinking beer, which I used to drink every day. I have been able to save Kshs 50,000 and borrowed a loan for Ksh 70,000, which I have used to finance my biogas project at a cost of Ksh 120,000. Thanks to the training…"

Washington Mwangi Githua from Up and Shine S.H.G, GITUGU in Kangema.

Washington Githua giving a testimony during the graduation.

The Most Rev. Dr. Eliud Wabukala, Archbishop of the Anglican Church in Kenya accompanied by Mr Gerald Warui Director HR & Customer Experience presenting a certificate to a FiKA graduate when he officiated at a graduation ceremony in Bungoma.

EGF Chairman, Dr. James Mwangi, President and CEO of The MasterCard Foundation, Reeta Roy issuing a certificate to a graduate in Turkana County.

3. AGRICULTURE SUPPORT TO SMALLHOLDERS FARMERS THROUGH INTERVENTIONS IN AGRICULTURE

Mature crop of Paprika in Bura.

Equity Bank through Equity Group Foundation continues to provide financial solutions to the many challenges that face smallholder farmers and other agricultural value chain players. This has been done through strategic partnership with organizations that support farmers both in private and public sector as well as Development Agencies. The flagship partnership has been Kilimo Biashara with Alliance for Green Revolution in Africa (AGRA) and International Fund for Agricultural Development (IFAD) through Government of Kenya Ministry of Agriculture. Under this partnership the bank has reached over 47,000 farmers and agro dealers with over Kshs 2.1 billion in loans. Some of the positive impact on the partnership is the entry into the seed multiplication business where small holder farmers have been contracted to grow certified seeds as a business for seed companies. The farmers have also entered into a new area of Paprika which is a first in the country in partnership with Equator Kenya.

WORLD FOOD PROGRAM (WFP) PARTNERSHIPS WITH EQUITY BANK

Equity Bank has been working with WFP in the Purchase For Progress programme (P4P) where farmers access finance to purchase farm-inputs for crops and to aggregate produce which they sell to WFP.

"Being part of a group I went for a loan from Equity bank I bought top dressing fertilizer and my yields are increasing. I now produce seventeen bags –four more than the year before and I am happy. Of these seventeen bags I keep five for home, two to pay school fees and I sold ten to WFP" this is an excerpt from Rosaline a member of the Kaptebee Sach-Agwan Youth Group as quoted by Issue 38 of Purchase for Progress Publication of November 2011 Update on Access to Finance.

These farmers have also benefited from the Financial Literacy program being implemented by Equity Group Foundation in partnership with The MasterCard Foundation through the FiKA program.

Equity Bank is also working with WFP both in Seasonal Cash for Asset and Unconditional Cash Transfer in marginal agricultural areas where WFP is providing food assistance. The beneficiaries have been able to access cash using the banks agency model for payments while benefiting from the FiKA training which has quite enhanced the payment process with knowledge on financial management. Over 160,000 beneficiaries have benefited with over Ksh1.3 billion.

REVITALIZATION OF COTTON INDUSTRY IN KENYA

A field of ready cotton for harvest in Bura area financed by Equity Bank

A partnership between Equity Bank, the Ministry of Agriculture, the Cotton Development Authority (CODA), National Irrigation Board (NIB), Cotton Ginners and Bura Farmers Association has begun to restore cotton production in Bura. In this partnership, Equity Bank provides credit for farm inputs and payment to farmers while NIB is responsible for maintenance of canals that channel water to farms in the Bura Irrigation scheme. The Farmer Association coordinates the farmers' activities and CODA jointly with Ministry of Agriculture offer extension services to support farmers in crop husbandry. The challenge of marketing of the cotton grown has been addressed by the involvement of selected cotton ginners who have committed to buy the seed cotton from the farmers at competitive prices. 385 farmers were advanced ksh 11,165,000/ for 577.5 acres from which cotton worth kshs 37.5m has been sold to ginners.

These has been replicated in Mpeketoni at the Coast and also in Nyanza Ahero irrigation scheme evidently showing that cotton is the same "white gold " that supported Kenyan farmers to fight poverty in the seventies.

PARTICIPATION IN AWARENESS FORUMS

Farmer forums continue to provide a perfect opportunity for the Bank through EGF to create more awareness about financial services. Equity Bank participated in all the Agricultural Shows across the country. The Bank also participated in the annual World Food Day in 2011 held in Nakuru where many farmers and value chain players were educated on financial management.

Left: Joseph Kuria proprietor of Baraka Farm receives a corn grinder from Esther Muiruri, General Manager, Agri-business after emerging as the best farmer.

4. ENVIRONMENT

SUSTAINABLE LIVELIHOOD PROJECT FOR COMMUNITIES AROUND THE MAU COMPLEX

This is a partnership between Kenya Forest service (KFS) supported by Food and Agriculture Organization (FAO) and Equity Bank, which aims at improving livelihoods of farmers around Mau forest catchment. The objective of the project is to start sustainable farm projects to reduce interference with the forest. The role of the bank is to provide financial intermediation to the farmers. Under the project 24 farmer groups have been introduced to banking and are accessing finances through the agency banking model while benefitting from FiKA training as they implement the livelihood projects.

EMPOWERING HOUSEHOLDS ON RENEWABLE ENERGY

The Bank with various stake holders in biogas promotion has been supporting farmers mitigate the challenges of fuel in their households. This is one of areas in climatic change adoption process as the intensive farming gets root, the implementation of the units will go a long way in helping in mitigation of methane production from the zero grazing units.

An installed Biogas unit in one of the beneficiary's home.

SAVE THE MAU INITIATIVE

Equity Bank, through Equity Group Foundation is a founding trustee of the Save the Mau Trust in partnership with East Africa Breweries Ltd, Nation Media Group Kenya Wildlife Service and the Green Belt Movement.

The initiative was founded with the objective of rehabilitating the Mau forest. In 2011, during the long rains in 2011, the initiative planted a total of 150,000 seedlings with over 3000 community groups mobilized and the visible participation of the local leadership. In addition, staff from Equity Bank in different parts of the country joined local communities in environmental conservation exercises including tree planting and clean ups.

Equity staff members joined local communities and other members of the Save the Mau Trust Fund for a series of tree planting exercises throughout the year.

Board of Directors

Front Left to Right: Mr Julius Kipng'etich (Board Member), Dr James Mwangi, CBS (CEO & Managing Director), Mr Benson Wairegi, EBS (Vice Chairman), Mr Fredrick Muchoki, HSC (Board Member), Mrs Mary Wamae (Secretary to the Board), Mr Peter Munga, CBS (Chairman), Mr Ernest Nzovu (Board Member),

Back Left to Right: Mr Babatunde Soyoye (Board Member), Dennis Aluanga (Board Member), Mr David R. Ansell (Board Member), Mr Temitope Lawani (Board Member), Prof Shem Migot-Adholla (Board Member), Mr Alykhan Nathoo (Board Member), Dr Helen Gichohi , OGW, MBS (Board Member)

MR. PETER MUNGA, CBS, NON-EXECUTIVE 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 was vested the First Class Chief of the Order of the Burning Spear (CBS) national decoration-the highest presidential award to a civilian, for distinguished contribution in economic development. 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, CBS, CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR

Dr Mwangi holds five 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 honoured thrice with Presidential national awards. Dr. Mwangi is a graduate of Advanced Management Programme (Strathmore-IESE Business School, Barcelona, Spain). He was vested the First Class Chief of the Order of the Burning Spear (CBS) national decoration-the highest presidential award to a civilian, for outstanding contribution in economic development. 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 or board member. He has wide experience in the banking industry and inclusive finance.

MR. BENSON WAIREGI, EBS – NON-EXECUTIVE VICE CHAIRMAN

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

TEMITOPE LAWANI – NON-EXECUTIVE DIRECTOR

Mr Lawani is co-founder and Managing Partner of Helios Investment Partners, LLP an Africa-focused private equity firm with approximately $1.8 billion in assets under management. Prior to Helios he was a Principal of TPG Capital ("TPG"), a leading global private equity firm managing over $50 billion in capital. He is also a former Mergers & Acquisitions and Corporate Development Analyst at the Walt Disney Company in Burbank, California. He also serves on Boards of Vivo Energy, First City Monument Bank PLC, Helios Towers Nigeria, InterSwitch Limited, Helios Towers Africa Limited and Finacity. He previously served as a member of the Board of Millicom International Cellular SA. He is a member of the Harvard Law School Dean's Advisory Board; the Overseers' Visiting Committee of the Harvard Business School; and the MIT OpenCourseWare Advisory Board. He received his BSc in Chemical Engineering from the Massachusetts Institute of Technology, Juris Doctorate (cum laude) from Harvard Law School and MBA (2nd Year Honors) from Harvard Business School.

JULIUS KIPNG'ETICH – NON-EXECUTIVE DIRECTOR

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

FREDRICK MUCHOKI, HSC – NON-EXECUTIVE DIRECTOR

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

DR. HELEN GICHOHI, OGW, MBS – NON-EXECUTIVE DIRECTOR

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 11 years. Prior to that, she was the director of the African Conservation Centre. Until recently she was a director of Kenya Wildlife Service.

ERNEST NZOVU – NON-EXECUTIVE DIRECTOR

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).

PROF SHEM MIGOT-ADHOLLA – NON-EXECUTIVE DIRECTOR, NON-EXECUTIVE CHAIRMAN EQUITY BANK SOUTH SUDAN

Professor Migot-Adholla holds a PhD in Sociology of Development, Masters of Arts in Sociology both from University of California, was a Special Graduate Student in Agriculture Economics (Michigan State University) and earned a Bachelor of Arts (University of East Africa). He is Chairman of the Board of Directors, Institute of Policy Analysis and Research (IPAR) Nairobi and sits on the Board of the Center for Corporate Governance and is also a Director of Housing Finance. 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.

BABATUNDE SOYOYE – NON-EXECUTIVE DIRECTOR

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

DAVID R ANSELL– NON-EXECUTIVE DIRECTOR, NON-EXECUTIVE CHAIRMAN EQUITY BANK UGANDA, RWANDA, TANZANIA

Mr. Ansell holds a BA degree in Mathematics from University of North Carolina-Wilmington and a BFT degree in Finance from the Thunderbird Graduate School of International Management as well as an Advanced Management degree from the Wharton School of Business. He worked 32 years for Citibank in England, Taiwan, Czech Republic, Russia and Africa before retiring in 2001. He serves as the Chairman of the Board of Equity Bank's wholly owned subsidiaries in Uganda, Rwanda and Tanzania. He is also a Director of Housing Finance and a member of the Advisory Board of Private Equity New Markets for BankInvest in Denmark.

ALYKHAN NATHOO – NON-EXECUTIVE DIRECTOR

Mr. Nathoo holds a Master in 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. He is alternate to Temitope Lawani.

DENNIS ALUANGA – NON-EXECUTIVE DIRECTOR

Mr. Aluanga holds a Masters of Business Administration degree from the University of Edinburgh and is a Certified Public Accountant – CPA (K). He is a Partner at Helios Investment Partners and a Board member of Nation Media Group. He was previously the Chief Operating Officer at Industrial Promotion Services (East Africa). He is alternate to Babatunde Soyoye.

Board of Directors

JOHN STALEY – NON-EXECUTIVE DIRECTOR EQUITY BANK UGANDA, RWANDA, TANZANIA

Mr Staley 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.

ELIZABETH LWANGA – NON-EXECUTIVE DIRECTOR EQUITY BANK UGANDA

Ms. Lwanga has over thirty years experience in international development work with emphasis on Africa. She worked with the All Africa Conference of Churches as Communications Director; with the United Nations Development Programme as Head of UNDP's global Gender In Development Programme; and as Resident Representative and United Nations Resident Coordinator in Sierra Leone, Swaziland and Kenya. She also served as UNDP's Deputy Regional Director for Africa.

PROF GEORGE ALIBARUHO – NON-EXECUTIVE DIRECTOR EQUITY BANK UGANDA

Prof. Alibaruho holds a Ph.D degree (Economics), University of California. He has worked in various capacities for the United Nations, Economic Commission for Africa, World Bank, International Research Institute in Washington DC. He is a Member Global Register's WHO'S WHO in Executives and Professionals Rockefeller Foundation Fellowship & a Fellowship with CGIAR. He is currently the Dean of Kabale University in Uganda.

MARY WAMAE – COMPANY SECRETARY

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

The Executive Management

DR JAMES MWANGI, CBS – CEO & Managing Director

James holds five 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 was vested the First Class Chief of the Order of the Burning Spear (CBS) national decoration-the highest presidential award to a civilian, for outstanding contribution in economic development. 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 wide experience in the banking industry and inclusive finance.

MARY WAMAE – Company Secretary and Director of Corporate Strategy

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

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 14 years.

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.

PAUL NJAGA – Chief Finance Officer

Paul holds a Masters degree in Business Administration (Finance) from the University of Manchester (UK) and Bachelors degree (Hons) in Economics. Paul is also a UK Chartered Institute of Securities & Investment Diploma holder (Derivatives & Fixed Income Securities products) and a Certified Public Accountant (CPA K). Prior to joining Equity, Paul worked in London, UK, for BNP Paribas where he led the Policy & Projects Group. Whilst in London, Paul also served as the Deputy Chairman of Association for Financial Markets in Europe (AFME) and London Investment Banking Association (LIBA) accounting committees. Earlier in his career, Paul worked as a Senior Manager with PricewaterhouseCoopers UK & Kenya offices.

MAURICE A EWING, PhD, FRM – Chief Risk Officer

Maurice has a PhD and MA in economics from Princeton, a BA in economics and mathematics from Northwestern and the Chartered FRM from GARP. He has wide experience in all major areas of risk management, including: market, credit, operational and strategic risk across more than 30 emerging, newly-EU markets & Greece. He is a contributor to the Harvard Business Review and advisor to Federal Reserve Chairman, Ben Bernanke.

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.

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.

HILDAH 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.

COLLINS OTIWU – Finance Director

Collins holds an MBA (Finance), from University of Warwick (UK), Bachelor of Commerce, University of Nairobi. He is a Certified Public Accountant, CPA(K) and a Certified Information Systems Auditor (CISA). Prior to joining the bank, he worked at British Telecoms (BT) in London as the Group Head of Finance and Treasury, and British Petroleum (BP) in London as Senior Manager, Policy. He also worked at PwC both in London and Nairobi. He has 14 years experience.

ISAAC MWIGE - Director Corporate Banking

Isaac holds a Masters degree in International Business Administration from United States International University and a Bachelor of Business Administration from University of Eastern Baraton. He has over 14 years experience in Banking covering Corporate & Retail Banking and has previously worked with Standard Chartered Bank as the Director, Transaction Banking, East Africa, West Africa.

BILDARD FWAMBA - Internal Auditor

Bildard holds a Bachelor of Commerce (Accounting) Degree and is a Certified Public Accountant – CPA (K). He has 15 years experience in Finance and Audit and previously worked with Central Bank of Kenya and British American Insurance Co (K) Ltd. Bildard joined Equity Bank in 2004.

ELIZABETH GATHAI - Director of Credit

Elizabeth holds a Masters degree in Business Administration from the University of Nairobi, Bachelor of Commerce degree in finance, and a Certified Public Accountant CPA (K). She is a graduate of Advanced Management Programme (Strathmore- IESE Business School, Barcelona Spain) and Management Executive Programme (Maastricht School of Management (MSM)-Netherlands). She has 10 years of banking experience. Elizabeth joined Equity Bank in 2001.

The Executive Management

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 - Managing 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.

SAMUEL MAKOME – Managing Director, Equity Bank Tanzania

Samuel holds a Bachelor of Science (Engineering) Degree from the University of Nairobi and is an Associate of the Chartered Institute of Bankers (ACIB), London. He has over 19 years experience in Banking covering Corporate & Retail Banking, Operations and Risk Management and has previously worked with Citibank and Standard Chartered Bank, Africa. His International banking experience has seen him work across East, Southern and West Africa. Prior to joining Equity Bank three years ago, he was Executive Director with Bank of Africa, Uganda.

APOLLO NJOROGE - Executive Director, Equity Bank Uganda

Apollo holds a Masters degree in International Business Administration in Finance from United States International University, a Bachelor of Science (Hons) from University of Nairobi in Mathematics and Physics and a Diploma in Banking. Apollo served as the General Manager in Corporate Banking in Equity Bank Kenya before his current role. He has over 18 years banking experience.

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.

Report of The Directors

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31st December 2011 in accordance with Section 22 of the Kenyan Banking Act and Section 157 of the Kenyan Companies Act, which discloses the state of affairs of the Bank and its subsidiary companies.

1. ACTIVITIES

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

2. RESULTS

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

3. DIVIDENDS

The Board has recommended a dividend of KShs 1.00 (2010: 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

Dr. James Njuguna Mwangi *** -Chief Executive Officer/Managing Director

Benson Irungu Wairegi -Vice-chairman

Fredrick Mwangi Muchoki

Julius Kangogo Kipng'etich+

Ernest Mattho Nzovu

Babatunde Temitope Soyoye*+

Temitope Olugbeminiyi Lawani*

Prof. Shem Migot-Adholla

Dr. Helen Wanjiru Gichohi

Alykhan Nathoo **

Dennis Aluanga++

David Raymond Ansell+++

* British

** Canadian, Alternate director to Mr. Temitope Olugbeminiyi Lawani.

*** Executive director

\+ Retired by rotation on 30th March 2011 and was re-elected

++ Appointed to the board on 21st July 2011 as alternate director to Babatunde Temitope Soyoye

+++ American, Appointed to the board on 8th December 2011

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

Ernest Mattho Nzovu

Prof. Shem Migot-Adholla

Dr Helen Wanjiru Gichohi

Dennis Aluanga and David Raymond Ansell, having been appointed directors during the year will retire in accordance with Article 101 and being eligible offer themselves for election as directors.

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 7th March 2012.

By Order of the Board

Mary Wangari Wamae
CompanySecretary
7th March 2012

Statement on Corporate Governance

The Group and the Bank has built its business on very strong corporate governance principles based on the application of high and consistent ethical standards in our relationships with all customers, employees and other stakeholders. 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 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 Group while also demonstrating the spirit and ethos of the organization. The directors subscribe to the Code of Corporate Practices which is constantly reviewed and which guides them in the fulfilment of their duties and responsibilities to shareholders, customers, employees and respective communities. The code of corporate practices provides for the criteria and processes for the board selection.

During the year, eleven non-executive directors served on the board and seven full board meetings were held. Mr Peter Kahara Munga, Mr. Babatunde Soyoye, Mr Julius Kangogo Kipng'etich and Alykhan Nathoo retired from the Board on 30th March 2011 and were re-elected. As well, Mr Dennis Aluanga (alternate to Babatunde Temitope Soyoye) and Mr David Raymond Ansell were appointed to the board on 21st July 2011 and 8th December 2011 respectively.

The directors' attendance to the meetings was as follows:

	Full Board	Audit Committee	Credit Committee	Risk Management & ALCO Committee	Strategy & Investment Committee	Tendering & Procurement Committee	Governance, Board Nomination & Staff Remuneration
	Number of meetings held						
	7	5	15	4	3	4	3
	Number of meetings attended (maximum possible)						
Peter Kahara Munga	7 (7)				3 (3)		3 (3)
Dr. James Njuguna Mwangi	7 (7)				3 (3)		3 (3)
Benson Irungu Wairegi	6 (7)	4 (5)		2 (4)	3 (3)		
Frederick Mwangi Muchoki	7 (7)		15 (15)			4 (4)	
Ernest Mattho Nzovu	7 (7)		15 (15)			4 (4)	3 (3)
Julius Kangogo Kipng'etich	7 (7)	5 (5)		4 (4)	3 (3)		

	Full Board	Audit Committee	Credit Committee	Risk Management & ALCO Committee	Strategy & Investment Committee	Tendering & Procurement Committee	Governance, Board Nomination & Staff Remuneration
Prof. Shem Migot– Adholla	7 (7)		14 (15)	4 (4)	3 (3)		
Babatunde Temitope Soyoye	3 (7)						2 (3)
Temitope Olugbeminiyi Lawani	6 (7)				3 (3)		
Dr. Helen Gichohi	6 (7)	4 (5)				3 (4)	2 (3)

The board also conducts an annual 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. The remuneration of the directors is an item on the agenda at every Annual General Meeting of the members of the bank.

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 following is the composition of the board committees:

Board Committee	Members
i. Governance, Board Nomination and Staff Remuneration Committee	Mr. Babatunde Soyoye- Chair Mr. Peter Munga Mr. Ernest Nzovu Dr. Helen Gichohi Dr. James Mwangi
ii. Audit Committee	Mr. Benson Wairegi – Chair Mr. Julius Kipng'etich Dr. Helen Gichohi Mr Babatunde Soyoye
iii. Risk Management and ALCO Committee	Mr. Julius Kipng'etich– Chair Mr. Benson Wairegi Mr David Ansell Prof. Shem Migot-Adholla Mr Babatunde Soyoye
iv. Credit Committee	Mr David Ansell- Chair Mr. Fredrick Muchoki – Vice Chair Mr. Ernst Nzovu Prof. Shem Migot-Adholla
v. Tendering and Procurement Committee	Mr Fredrick Muchoki – Chair Mr Ernest Nzovu Dr Helen Gichohi
vi. Strategy and Investment Committee (incorporating Systems & Processes)	Mr. Temitope Lawani- Chair Mr. Julius Kipng'etich Mr. Benson Wairegi Mr. Peter Munga Prof. Shem Migot- Adholla Dr. James Mwangi
vii. Board Executive Committee	Mr. Peter Munga- Chair Dr. James Mwangi Mr. Benson Wairegi

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

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

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

Credit Committee reviews and oversees the overall lending policy of the Group. It ensures lending systems and procedures are adequate and adhered to and also ensures full compliance with the Banking Acts, prudential guidelines in specific jurisdictions and International Financial Reporting Standards to guarantee high quality asset portfolio. The committee comprises of four non-executive directors.

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

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

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

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. In accordance with the Companies Act Cap 486 Laws of Kenya, the Company Secretary is a member of the Institute of Certified Public Secretaries of Kenya(ICPSK).

RISK MANAGEMENT FRAMEWORK

The Board of Directors is the primary risk supervisor, exercising its role through various board committees. The Board has delegated the day-to-day operations of the Group and the Bank to 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.

The Group has instituted an end-to-end, forward-looking framework for risk management, in line with the Central Bank regulations and with a view towards eventual, advanced Basel III compliance. Within this framework all risks associated with the Group's business and operations, and those specific to the Group and the Bank, are actively owned and managed by the respective business units supported by an integrated risk management hierarchy. With the risk management function playing a monitoring and supporting role, this hierarchy utilizes, among other tools, a comprehensive risk register that records all extraordinary events (positive or negative) occurring across all departments in all subsidiaries. This risk register is then coupled with a risk control self-assessment platform that enables area experts across the Group to offer forecasts of risk; to be reconciled statistically with subsequently registered events, by risk function analysts. The combination of a historical register and a forward-looking assessment system enables the risk function's predictive analytics team to offer strategic guidance to the business function heads that leverages both operations and experience: blending quantitative and qualitative elements.

Predictive risk analytics are furthermore driven by the identification of key risk drivers that are considered in the formulation of quarterly and yearly forecasts as well as in the creation of stress tests. The Bank's provisions and capital (established by Board Risk & ALCO committee) are compared against plausible forecasts as well as stressed scenarios to enable an adequate allocation of financial cushioning in any eventual market circumstance. The sensitivity of the Bank's financial position then outlines for the Risk Management function the Bank's risk profile: a key factor used in assessing expansion, investment and operating opportunities and activities. Risk limits are also assessed to ensure the risk profile's alignment with business objectives and current market conditions. Moreover, the Bank has continued to strengthen the risk management team by creating a more comprehensive structure that now comprises a Chief Risk Officer and a Board Risk Management Committee that works with specialized units as well as the rest of the Senior Management team.

The Risk Function'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 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

The performance of the Group and the Bank's businesses is reported by management and the board who have to maintain proper books and records of the Group's activities and to lay before the Group's annual general meeting, an income statement and a statement of financial position reflecting a true and fair view of the Group's state of affairs.

Financial information on the Group's performance is prepared using appropriate accounting policies and standards, which are applied consistently. 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 Securities Exchange (NSE), Uganda Securities Exchange and other relevant ones in all countries in which the Bank operates.

In accordance with the Banking Act, Capital Markets Authority Act, continuing listing obligations and the Central Bank of Kenya prudential guidelines, the Bank ensures that shareholders and other stakeholders are provided with full and timely information on performance at least once every quarter. Operational procedures, controls and policies have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets.

DEVELOPMENT PARTNERS AND STRATEGIC ALLIANCES

The Group and the Bank has established business relationships, strategic alliances 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)
3. United States Agency for International Development (USAID)
4. Deutsche Gesellschaft fuer Internationale Zusammenarbeit (GIZ)
5. Hong Kong Shangai Banking Corporation(HSBC)
6. Bill and Melinda Gates Foundation
7. World Food Programme (WFP)
8. German Development Bank (KFW)
9. United Nations International Fund for Children (UNICEF) jointly with Red Cross
10. United Nations Capital Development Fund (UNCDF)
11. Swiss Foundation for Technical Co-operation (Swisscontact)
12. Consultative Group Assisting the Poor (CGAP)
13. Financial Sector Deepening Trust (FSD)
14. International Fund for Agricultural Development (IFAD)
15. Alliance for a Green Revolution in Africa (AGRA)
16. The World Bank jointly with the Kenya Forest Service
17. Food and Agriculture Organization (FAO)
18. Action Against Hunger (ACF)
19. Food for the Hungry (FH)
20. Millennium Promise of Earth Institute
21. Kenyatta University
22. China Development Bank
23. ResponsAbility Global Microfinance Fund
24. Dexia Micro Credit Fund
25. Blue Orchard Loans for Development SA
26. Deutsche Bank Microfinance Fund
27. Ontwikelinslanden N.V (FMO)
28. Micro Finance Sector Support Credit (Ministry of Finance)
29. Microfinance Enhancement Facility (MEF)
30. International Finance Corporation (IFC)
31. European Investment Bank (EIB)

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. Women's World Banking (WWB)
4. Global Network for Banking Innovation (GNBI)
5. Small Business Banking Network (SBBN)
6. Micro Finance Network (MFN)
7. Global Agenda Council on Emerging Multinationals 2010
8. World Economic Forum
9. Clinton Global Initiative
10. African Leadership Network (ALN)
11. UN Economic and Social Council

EQUITY BANK LIMITED AND SUBSIDIARIES
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

Statement on Corporate Governance

PARTICULARS OF SHAREHOLDING

The Group and 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 Securities Exchange (NSE) on the particulars of the shareholders as required by the law.

The following are details of key strategic shareholders of the bank:

HELIOS EB INVESTORS L.P. (HELIOS)

Helios invested in excess of kshs 11 billion in 2007 to become the largest shareholder in Equity Bank with 24.45% shareholding. Helios is an Africa-focused private investment firm which operates a family of funds and their related co-investment entities, aggregating more than $1.7 billion in capital commitments, pursuing a full range of investment types, including business formations, growth equity investments, structured investments in listed entities and large scale leveraged acquisitions across Africa. Helios' principals are Africans with a strong entrepreneurial track-record and sound experience in start-up and growth investments.

Helios manages capital on behalf of a group of investors, comprising of several leading global funds of funds, endowments and foundations, sovereign wealth funds, family offices, high net-worth individuals and development finance institutions, and all of Helios' own investment professionals. Notable among the investors are:

- U.S. Overseas Private Investment Corporation ("OPIC")
- CDC Group PLC
- International Finance Corporation ("IFC").

Helios has access to an extensive global network of strategic, operational and financial partners and works actively with senior management of companies in which it has invested, including through its representation on the board of the portfolio companies.

Among the other major investments undertaken by Helios in Africa are:

- The acquisition of Interswitch Limited, the leading electronic payments processing company in Nigeria.
- The US$ 50 million acquisition of a 16% shareholding in First City Monument Bank (FCMB) PLC of Nigeria;
- Vivo Energy, the joint venture between Helios and Vitol Group ("Vitol") acquired for US$1 billion Royal Dutch Shell PLC's ("Shell") downstream businesses in Africa.

BRITISH –AMERICAN INVESTMENTS COMPANY (KENYA) LIMITED (BAICL)

BAICL is the holding company for the British-American Group in East Africa. It is a company listed on the Nairobi Securities Exchange. British American Group is a global financial services firm and has two subsidiaries in Kenya namely British American Insurance Company (Kenya) Limited and British American Asset Managers (BAAM).

The largest shareholder in BAICL is British-American (Kenya) Holdings Limited which company is in turn controlled by British American Insurance Co. (Mauritius) Limited, a company incorporated in Mauritius where the Regional Office is located. The parent company of British American Insurance Co. (Mauritius) Limited is British American Holding Limited, a company registered under the International Business Companies Act of the Commonwealth of the Bahamas. The global operations of the Group are ultimately controlled by British American (UK) Limited, a company domiciled in the United Kingdom.

Directors' shareholding as at 31st December 2011

DIRECTORS	SHARES	%
1. Dr. James Njuguna Mwangi	127,656,700	3.45
2. Peter Kahara Munga	22,417,690	0.61
3. Benson Irungu Wairegi	9,075,000	0.25
4. Fredrick Mwangi Muchoki	3,500,060	0.09
5. Julius Kipngetich	1,102,950	0.03
6. Ernest Nzovu	0	0
7. Temitope Lawani	0	0
8. Babatunde Soyoye	0	0
9. Prof. Shem Migot-Adholla	0	0
10. Dr. Helen Gichohi	0	0
11. Aly Khan Nathoo	0	0
12. David Raymond Ansell	0	0
13. Dennis Aluanga	0	0

As at 31st December 2011, the following was the shareholding and distribution:

NAME	NO. OF SHARES	%
Helios Eb Investors	905,162,550	24.45
British-American Investments Company (K) Ltd	393,713,630	10.63
Equity Bank Employees' Share Ownership Plan (ESOP)	154,597,000	4.18
Dr. James Njuguna Mwangi*	127,656,700	3.45
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
Leah Wanjiku Muguku	75,185,350	2.03
Maewa Holdings Ltd	64,371,200	1.74
AIB Nominee A/C Lily Properties Ltd	59,885,090	1.62
Other 28,610 Shareholders	1,640,653,790	44.30
TOTAL SHARES	**3,702,777,020**	**100.00**

**By virtue of his shareholding and units in British-American Investments Company Kenya Limited and Employees' Share Ownership Plan respectively, Dr. James Mwangi's total direct and indirect shareholding is 4.88%*

DISTRIBUTION OF SHARES

Shareholding	No. of Shareholders	No. of Shares	% Shares Held
1 - 500	8,991	2,457,672	0.07
501 - 5,000	13,913	26,266,527	0.71
5,001 - 10,000	2,239	17,629,326	0.48
10,001 - 100,000	2,826	81,341,643	2.20
100,001 - 1,000,000	458	148,739,111	4.02
1,000,001 and above	193	3,426,342,741	92.53
Total	**28,620**	**3,702,777,020**	**100.00**

Statement of Directors' Responsibilities

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which gives 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: 7th March 2012

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 2011, 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 as set out on pages 42 to 107.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Bank and the 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 control 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 31 December 2011 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 the 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 2012

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Group		Bank	
In millions of Kenya Shillings		**2011**	2010	**2011**	2010
Interest income	8	19,339	13,775	18,376	12,885
Interest expense	8	(3,116)	(2,062)	(2,815)	(1,829)
Net interest income		**16,223**	**11,713**	**15,561**	**11,056**
Net fee and commission income	9(a)	2,349	1,644	2,034	1,528
Net fee and commission income		**2,349**	**1,644**	**2,034**	**1,528**
Net trading income	9(b)	2,423	2,925	1,274	2,437
Other operating income	10	7,675	5,871	6,598	5,172
Operating Income before impairment losses		**28,670**	**22,153**	**25,467**	**20,193**
Net impairment loss on financial assets	11	(1,630)	(1,905)	(1,533)	(1,558)
Operating income after Impairment losses		**27,040**	**20,248**	**23,934**	**18,635**
Personnel expenses	12	(6,009)	(5,266)	(5,185)	(4,455)
Operating lease expenses	13	(919)	(609)	(687)	(547)
Depreciation and amortisation	14, 15	(1,745)	(1,489)	(1,483)	(1,258)
Other expenses	16	(5,688)	(3,934)	(4,475)	(3,063)
Total Operating expenses		**(14,361)**	**(11,298)**	**(11,830)**	**(9,323)**
Profit before tax and equity income		12,679	8,950	12,104	9,312
Share of profit of associate	17(a)	155	95	-	95
Profit before income tax		12,834	9,045	12,104	9,407
Income tax expense	18	(2,509)	(1,913)	(2,330)	(1,852)
Profit for the year		**10,325**	**7,132**	**9,774**	**7,555**
Attributed to:					
Equity holders of the parent		**10,325**	**7,132**	**9,774**	**7,555**
Earnings per share(basic and diluted)	**29**	**2.79**	**1.93**	**2.64**	**2.04**

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Group		Bank	
In millions of Kenya Shillings		**2011**	2010	**2011**	2010
Profit for the year		10,325	7,132	9,774	7,555
Other comprehensive income		-	-	-	-
Exchange differences on translation of foreign operations		(200)	(124)	-	-
Revaluation of property, plant and equipment and other reserves		(6)	(17)	-	-
Loss on available for sale financial assets	21	(72)	(1,103)	(72)	(1,103)
Other comprehensive income for the year		**(278)**	**(1,244)**	**(72)**	**(1,103)**
Total comprehensive income for the year net of tax		**10,047**	**5,888**	**9,702**	**6,452**
Attributed to:-					
Equity holders of the parent		**10,047**	**5,888**	**9,702**	**6,452**

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2011

In millions of Kenya Shillings	Note	Group 2011	Group 2010	Bank 2011	Bank 2010
Assets					
Cash and cash equivalents	19(a)	35,282	18,503	19,130	11,747
Loans and advances to customers	20(b)	113,824	78,299	106,486	72,902
Finance lease receivable	20 (c)	1	3	-	-
Investment securities	21	30,502	31,988	30,199	31,911
Amounts due from related parties	22(g)	124	106	1,094	1,239
Other assets	23	5,038	3,784	4,707	3,235
Tax recoverable	18	53	86	-	-
Investments in associate	17(a)	1,366	1,260	1,260	1,260
Investments in subsidiary companies	17(b)	-	-	6,672	5,084
Property and equipment	14	7,592	6,970	6,044	5,693
Prepaid leases	14(c)	29	30	4	4
Intangible assets	15	1,352	1,041	1,076	754
Goodwill	17(c)	887	887	-	-
Deferred tax assets	24	244	61	239	61
Total assets		**196,294**	**143,018**	**176,911**	**133,890**
Liabilities					
Deposits from customers	25	144,165	104,431	125,492	95,204
Tax payable	18	487	701	417	657
Other liabilities	27	2,565	2,714	2,186	2,258
Borrowed funds	26	14,792	7,963	13,769	7,464
Deferred tax liabilities	24	-	5	-	-
Total liabilities		**162,009**	**115,814**	**141,864**	**105,583**
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		17,715	11,204	17,974	11,941
Available for sale reserve	28(c)	(1,062)	(990)	(1,062)	(990)
Loan loss reserve	28(d)	521	414	420	382
Foreign currency translation reserve	28(f)	(525)	(325)	-	-
Revaluation reserve		34	40	-	-
Other reserves	28(e)	(113)	(113)	-	-
Proposed dividends	28(g)	3,703	2,962	3,703	2,962
Total equity		**34,285**	**27,204**	**35,047**	**28,307**
Total liabilities and equity		**196,294**	**143,018**	**176,911**	**133,890**

The financial statements were approved by the Board of Directors on 7th March 2012 and signed on its behalf by:-

Mr Peter K Munga, CBS
Director

Dr James Mwangi, CBS
Director

Mary Wangari Wamae
Secretary

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2011

Group

In millions of Kenya Shillings

	Share capital	Share premium	Retained earnings	Loan reserve	Available-for-sale reserve	Foreign currency translation reserve	Revaluation reserve	Other reserves	Proposed dividend	Total equity
For the year ended 31 December 2011										
At 1 January 2011	1,851	12,161	11,204	414	(990)	(325)	40	(113)	2,962	27,204
Total comprehensive income:										
Profit for the year	-	-	10,325	-	-	-	-	-	-	10,325
Other comprehensive income	-	-	-	-	(72)	(200)	(6)	-	-	(278)
Loan reserve transfers	-	-	(111)	107	-	-	-	-	-	(4)
Dividends:	-	-	-	-	-	-	-	-	-	-
Final for 2010 paid	-	-	-	-	-	-	-	-	(2,962)	(2,962)
Proposed for 2011	-	-	(3,703)	-	-	-	-	-	3,703	-
At 31 December 2011	**1,851**	**12,161**	**17,715**	**521**	**(1,062)**	**(525)**	**34**	**(113)**	**3,703**	**34,285**
For the year ended 31 December 2010										
At 1 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)
Loan reserve transfers	-	-	(76)	(35)	-	-	-	-	-	(111)
Dividends:	-	-	-	-	-	-	-	-	-	-
Final for 2009 paid	-	-	-	-	-	-	-	-	(1,481)	(1,481)
Proposed for 2010	-	-	(2,962)	-	-	-	-	-	2,962	-
At 31 December 2010	**1,851**	**12,161**	**11,204**	**414**	**(990)**	**(325)**	**40**	**(113)**	**2,962**	**27,204**

Statement of Changes in Equity

FOR THE YEAR ENDED 31DECEMBER 2011

Bank

In millions of Kenya Shillings

In millions of Kenya Shillings	Share capital	Share premium	Retained earnings	Loan reserve	Available for sale reserve	Proposed dividend	Total equity
For the year ended 31 December 2011							
As at January 2011	1,851	12,161	11,941	382	(990)	2,962	28,307
Total comprehensive income:							
Profit for the year	-	-	9,774	-	-	-	9,774
Other comprehensive income	-	-	-	-	(72)	-	(72)
Loan reserve transfers	-	-	(38)	38	-	-	-
Dividends:							
Final for 2010 paid	-	-	-	-	-	(2,962)	(2,962)
Proposed for 2011	-	-	(3,703)	-	-	3,703	-
At 31 December 2011	**1,851**	**12,161**	**17,974**	**420**	**(1,062)**	**3,703**	**35,047**
For the year ended 31 December 2010							
As at January 2010	1,851	12,161	7,395	336	113	1,481	23,337
Total comprehensive income:							
Profit for the year	-	-	7,554	-	-	-	7,554
Other comprehensive income	-	-	-	-	(1,103)	-	(1,103)
Loan reserve transfers	-	-	(46)	46	-	-	-
Dividends:							
Final for 2009 paid	-	-	-	-	-	(1,481)	(1,481)
Proposed for 2010	-	-	(2,962)	-	-	2,962	-
At 31 December 2010	**1,851**	**12,161**	**11,941**	**382**	**(990)**	**2,962**	**28,307**

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31DECEMBER 2011

		Group		Bank	
In millions of Kenya Shillings	Note	**2011**	2010	**2011**	2010
Cash flows from operating activities					
Net profit before taxation		12,834	9,045	12,104	9,407
Adjustments for:					
Depreciation	14(a)	1,583	1,343	1,338	1,133
Amortisation of intangible assets	15(a)	162	146	145	125
Profit on disposal of fixed Assets		(7)	-	(3)	-
Provision for non-performing loans	11	1,630	1,905	1,533	1,558
Share of profit for associate	17a	(106)	(46)	-	(46)
Dividends received	17a	(49)	(49)	(49)	(49)
Interest on term borrowings	8	763	602	806	553
Operating profit before working capital changes		**16,810**	**12,946**	**15,874**	**12,681**
Loans and advances		(37,159)	(16,938)	(35,118)	(14,592)
Other assets		(1,254)	(1,071)	(1,472)	(101)
Finance lease Receivable		2	-	-	-
Customer deposits		39,734	34,588	30,289	29,379
Due from related parties		(16)	(96)	144	-
Other liabilities		(151)	1,160	(73)	1,042
Cash generated from operations		**17,966**	**30,589**	**9,644**	**28,409**
Income taxes paid	18	(2,875)	(1,294)	(2,747)	(1,270)
Net cash generated from operating activities		**15,091**	**29,295**	**6,897**	**27,139**
Cash flows to/from investing activities					
Purchase of property and equipment	14	(2,225)	(1,893)	(1, 689)	(1,633)
Purchase of intangible assets	15	(473)	(310)	(467)	(310)
Proceeds from sale of property, plant and equipment	14	25	22	4	-
Investment in subsidiary		-		(1,588)	(1,647)
Dividend received	17(a)	49	49	49	49
Purchase of investment securities	21	(22,546)	(31,534)	(22,248)	(31,532)
Proceeds from sale of investments securities	21	23,959	10,628	23,888	10,362
Restricted balances with Central bank		3,913	(1,820)	4,255	(1,392)
Net cash (used in) generated from investing activities		**2,702**	**(24,858)**	**2,204**	**(26,103)**
Cash flows used in financing activities					
Dividend paid	28(g)	(2,962)	(1,481)	(2,962)	(1,481)
Proceeds from long term borrowings		8,096	2,631	7,502	2,129
Repayment of long term borrowings		(1,267)	(1,154)	(1,197)	(780)
Interest paid on term borrowings	8	(763)	(602)	(806)	(553)
Net cash flow used in financing activities		**3,104**	**(606)**	**2,537**	**(685)**
Net increase/ (decrease) in cash and cash equivalents		20,897	3,831	11,638	351
Effect of foreign currency translation reserve		(205)	(143)	-	-
Cash and cash equivalents at the beginning of the year	19(b)	13,440	9,752	7,492	7,141
Cash and cash equivalents at the end of the year	**19(b)**	**34,132**	**13,440**	**19,130**	**7,492**

1. CORPORATE INFORMATION

Equity Bank Limited (The "Bank") is incorporated, registered under the Kenyan companies Act cap 486 and domiciled in Kenya. The address of the Bank's registered office is 9th Floor, Equity Centre, 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,Southern Sudan and Rwanda. Its shares are listed on the Nairobi Securities Exchange and Uganda Securities Exchange.

The consolidated financial statements for the year ended 31st December 2011 were authorised for issue in accordance with resolution of the directors on 7th March 2012.

2. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS

The accounting policies adopted are consistent with those of the previous financial year.

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 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (Amendment) – 1 July 2010

IAS 24 Related Party Disclosures (Revised) – 1 January 2011

IAS 32 Classification of Rights Issues (Amendment) – 1 February 2010

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – 1 July 2010

Improvements to IFRSs (issued in May 2010)

The adoption of the standards or interpretations is described below:

IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (Amendment)

The amendment to IFRS 1 is effective for annual periods beginning on or after 1 July 2010. The amendment allows first-time adopters to utilise the transitional provisions of IFRS 7 Financial Instruments: Disclosures as they relate to the March 2009 amendments to the standard. These provisions give relief from providing comparative information in the disclosures required by the amendments in the first year of application. To achieve this, the transitional provisions in IFRS 7 were also amended. This is not applicable to the group as it is not a first-time adopter.

IAS 24 Related Party Disclosures (Revised)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified and simplified 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 amendment had no impact, as the definitions were already applied according to these amendments and the Group is not government related.

IAS 32 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. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities.This amendment had no impact on the Group as no such transactions were entered into.

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 the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). 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 recognised immediately in income statement. The adoption of this interpretation had no effect on the financial position or performance of the Group as no such transactions were entered into.

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 corrects an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. 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 had no impact on the financial statements of the Group as no defined benefit plans are used by the Group.

Improvements issued in May 2010

- IFRS 1 First-time Adoption of International Financial Reporting Standards (effective from 1 January 2011)

– Accounting policy changes in the year of adoption - The amendment clarifies that, if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34 Interim Financial Reporting, it has to explain those changes and update the reconciliations between previous GAAP and IFRS. This amendment had no impact on the Group, as the Group already reports in terms of IFRS.

– Revaluation basis as deemed cost - The amendment allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition, but before the first IFRS financial statements are issued. When such re-measurement occurs after the date of transition to IFRS, but during the period covered by its first IFRS financial statements the adjustment is recognised directly in retained earnings (or if appropriate, another category of equity). This amendment had no impact on the Group, as the Group already reports in terms of IFRS.

– Use of deemed cost for operations subject to rate regulation - The amendment expands the scope of 'deemed cost' for property, plant and equipment or intangible assets to include items used subject to rate regulated activities The exemption will be applied on an item-by-item basis. All such assets will also need to be tested for impairment at the date of transition. The amendment allows entities with rate-regulate activities to use the carrying amount of their property, plant and equipment and intangible assets balances from their previous GAAP as its deemed cost upon transition to IFRS. These balances may include amounts that would not be permitted for capitalisation under IAS 16 Property, Plant and Equipment, IAS 23 Borrowing Costs and IAS 38

– Intangible Assets. This amendment had no impact on the Group, as the Group already reports in terms of IFRS.

- IFRS 3 Business Combinations (effective from 1 July 2010):

– Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS - The amendment clarifies that the amendments to IFRS 7 Financial Instruments: Disclosures, IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). The amendment is applied retrospectively. This had no impact on the Group, as there is no contingent consideration on business combinations.

– Measurement of non-controlling interests (NCI) - The amendment limits the scope of the measurement choices only to the components of NCI that are present ownership interests which entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation. Other components of NCI are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS. This had no impact on the Group, as there is no NCI.

– Un-replaced and voluntarily replaced share-based payment awards - The amendment requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether by obligation or voluntarily), i.e. split between consideration and post-combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognised as post-combination expenses. This had no impact on the Group, as there have been no share-based payements entered into.

- IFRS 7 Financial Instruments - Disclosures (effective 1 January 2011) — Clarification of Disclosures - The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The group reflects the revised disclosure requirements in the notes.

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

- IAS 1 Presentation of Financial Statements - (effective 1 January 2011) – Clarification of statement of changes in equity. The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The Group reflects this analysis in Note 28.
- IAS 27 Consolidated and Separate Financial Statements (effective from 1 July 2010) - The amendment clarifies that the consequential amendments from IAS 27 made to IAS 21 The Effect of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures apply retrospectively for annual periods beginning on or after 1 July 2009 or earlier when IAS 27 is applied earlier. The amendment is applied retrospectively. This had no impact on the Group as there are no transactions subject to these amendments.
- IAS 34 Interim Financial Statements (effective 1 January 2011) - Significant events and transactions -The amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around circumstances likely to affect fair values of financial instruments and their classification. This will impact the interim report, but not the annual financial statements.
- IFRIC 13 Customer Loyalty Programmes - Fair value of award credit (effective 1 January 2011) - The amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme is to be taken into account. The amendment is applied retrospectively. This had no impact on the Group as there are no customer loyalty programs.

Standards issued but not yet effective

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 these standards when they become effective.

IAS 1 Financial Statement Presentation of items in Other Comprehensive Income (Amendment)

The amendment is effective for annual periods beginning on or after 1 July 2012 and requires that items of other comprehensive income be grouped in items that would be reclassified to income statement at a future point and items that will never be reclassified. This amendment will affect the presentation in the financial statements.

IAS 12 Income taxes – Deferred taxes: Recovery of underlying assets (Amendment)

The amendment is effective for annual periods beginning on or after 1 January 2012 and introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognised on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. If consumed, a use basis should be adopted. This amendment will have no impact on the Group after initial application as investment properties are measured using cost method.

IAS 19 Employee benefits (Revised)

The amendments are effective for annual periods beginning on or after 1 January 2013. There are changes to post employee benefits in that pension surpluses and deficits are to be recognised in full (no more deferral mechanisms) and all actuarial gains and losses recognised in other comprehensive income as they occur with no recycling to income statement. Past service costs as a result of plan amendments are to be recognized immediately. Short and long-term benefits will now be distinguished based on the expected timing of settlement, rather than employee entitlement although the Group will not be impacted by amendments relating to defined benefit plans, the impacts on the definitions of short-term and long-term employee benefits are still being assessed.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013 and will have no impact on the Group as the revised standard does not change the rules in applying equity accounting and the Group does not have any interests in joint arrangements.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

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

IFRS 1 First-time Adoption of international Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (Amendment)

The amendment is effective for annual periods beginning on or after 1 July 2011. The IASB has provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. A further amendment to the standard is the removal of the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions have also been removed. The standard now has these dates coinciding with the date of transition to IFRS. This had no impact on the Group as there are no investments in Zimbabwean entities.

IFRS 7 Financial Instruments: Disclosures - Transfer of Financial Assets (Amendment)

The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, where:

- Financial assets are derecognised in their entirety, but where the entity has a continuing involvement in them (e.g., options or guarantees on the transferred assets) . Financial assets are not derecognised in their entirety - The amendments may be applied earlier than the effective date and this fact must be disclosed. Comparative disclosures are not required for any period beginning before the effective date.
- This amendment will result in additional disclosures with regards to transfers of financial assets.

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 and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the Board will address impairment and hedge accounting. The completion of this project is expected during 2013. The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the group's financial assets but will potentially have no impact on classification and measurements of financial liabilities. The group is currently assessing the impact of adopting IFRS 9, however, the impact of adoption depends on the assets held by the group at the date of adoption, it is not practical to quantify the effect.

Financial assets

All financial assets are measured at fair value at initial recognition. Debt instruments may, if the Fair Value Option (FVO) is not invoked, be subsequently measured at amortised cost if:

- The asset is held within a business model that has the objective to hold the assets to collect the contractual cash flows and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding

All other debt instruments are subsequently measured at fair value.

All equity investment financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity instruments held for trading must be measured at fair value through profit or loss. However, entities have an irrevocable choice to recognise fair value changes in OCI by instrument for all other equity financial assets.

Financial liabilities

For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other IAS 39 classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

IFRS 10 Consolidated Financial Statements; IFRS 11 Joint Arrangements; IFRS 12 Disclosure of Interest in Other Entities

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model with a new definition of control that applies to all entities.

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

Control exists when an investor has:

- Power over the investee (defined in IFRS 10 as when the investor has existing rights that give it the current ability to direct the relevant activities)
- Exposure, or rights, to variable returns from its involvement with the investee

  And
- The ability to use its power over the investee to affect the amount of the investor's returns

IFRS 10 also provides a number of clarifications on applying this new definition of control, including the following key points:

- An investor is any party that potentially controls an investee; such party need not hold an equity investment to be considered an investor.
- An investor may have control over an investee even when it has less than a majority of the voting rights of that investee (sometimes referred to as de facto control).
- Exposure to risks and rewards is an indicator of control, but does not in itself constitute control.
- When decision-making rights have been delegated or are being held for the benefit of others, it is necessary to assess whether a decision-maker is a principal or an agent to determine whether it has control.
- Consolidation is required until such time as control ceases, even if control is temporary.

The changes will require management to make significant judgement to determine which entities are controlled and therefore required to be consolidated by the parent. Therefore, IFRS 10 may change which entities are within a group and the Group is still busy assessing the impact upon adoption of this new standard.

IFRS 11 Joint Arrangements IFRS 11 replaces IAS 31 and SIC-13. Joint control under IFRS 11 is defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. The reference to 'control' in 'joint control' refers to the definition of 'control' in IFRS 10.

IFRS 11 also changes the accounting for joint arrangements by moving from three categories under IAS 31 to the following two categories:

Joint operation — An arrangement in which the parties with joint control have rights to the assets and obligations for the liabilities relating to that arrangement. Joint operations are accounted for by showing the party's interest in the assets, liabilities, revenues and expenses, and/or its relative share of jointly controlled assets, liabilities, revenue and expenses, if any.

Joint venture — An arrangement in which the parties with joint control have rights to the net assets of the arrangement. Joint ventures are accounted for using the equity accounting method.

The option to account for joint ventures (as newly defined) using proportionate consolidation has been removed. Under this new classification, the structure of the joint arrangement is not the only factor considered when classifying the joint arrangement as either a joint operation or a joint venture, which is a change from IAS 31. Under IFRS 11, parties are required to consider whether a separate vehicle exists and, if so, the legal form of the separate vehicle, the contractual terms and conditions, and other facts and circumstances.

This standard becomes effective for annual periods beginning on or after 1 January 2013 and will have no impact on the Group as it is not party to any joint arrangements.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013 and the impact of adopting this new standard is still being assessed.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single framework for all fair value measurement (financial and non-financial assets and liabilities) when fair value is required or permitted by IFRS. IFRS 13 does not change when an entity is required to use fair value but rather describes how to measure fair value under IFRS when it is permitted or required by IFRS. There are also consequential amendments to other standards to delete specific requirements for determining fair value.

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

Clarification on certain aspects are also provided. The group will consider the new requirements to determine fair values going forward. IFRS 13 will be effective for the group 1 January 2013.

IFRS 7 Financial Instruments: Disclosures (Amendment) – Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendment amends the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendment is effective for annual periods beginning on or after 1 January 2013 and the Group is still in the process of determining how it will impact the note disclosures upon adoption.

IAS 32 Financial Instruments: Presentation (Amendment) – Offsetting Financial Assets and Financial Liabilities

The IASB issued an amendment to clarify the meaning of "currently has a legally enforceable right to set off the recognised amounts" (IAS 32.42(a)). This means that the right of set-off:

- must not be contingent on a future event; and
- must be legally enforceable in all of the following circumstances:
  - the normal course of business;
  - the event of default; and
  - the event of insolvency or bankruptcy of the entity and all of the counterparties.

The amendment is effective for annual periods beginning on or after 1 January 2014 and the Group is still in the process of determining how it will impact the Statement of Financial Position and Income Statement upon adoption.

IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine

This new interpretation provides guidance on how to account for stripping cost in the development phase of a surface mine. This interpretation will become effective 1 January 2013 and will have no impact, as the Group is not involved in mining activities.

3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous year.

(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 preparation

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

- Certain assets which are measured on a revaluation basis;
- Financial instruments at fair value adjustments recognised in profit or loss
- 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.

3. ACCOUNTING POLICIES (Continued)

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 reviewed on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimates are 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. 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 is 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.

4. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Business Combinations and Goodwill

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

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

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

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.

At the bank level, the bank prepares separate financial statements and accounts for the investment at cost by the recognition of dividends received.

(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.

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.

At company level, the investment in associate has been accounted for at cost.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 translated 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 average rates. 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 statement of comprehensive income on accrual basis.

Interest income and expense presented in the statement of comprehensive income 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 on financial assets and liabilities are considered to be 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.

(e) Fee and commission

Fee and commission income including account servicing fees, investment management fees, placement fees and syndication fees, are recognised as the related services are performed. Other fee 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) Leasing

(i) Determination

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.

(ii) Group as a lessee

Leases which do not transfer to the group 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iii) 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 reporting 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 income statement; and
- In respect to taxable temporary differences associated with investments in subsidiaries and associates 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 reporting date.

Current tax and deferred tax relating to items recognised in other comprehensive income are also recognised in other comprehensive income or equity 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 profit or loss.

(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

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- The group 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 is discharged or cancelled or expires. When an existing financial liability is replaced by 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 income statement.

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

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

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

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

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

effective interest rate. Losses are recognised in income statement 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.

(ix) 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.

(x) 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 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 chooses to carry the loans and advances at fair value through the income statement. The losses arising from the impairment are recognised in the profit or loss.

(xi) 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.

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.

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) Investment securities

(i) Fair value through profit or loss

Fair value through profit or loss investment securities are those that are classified as either held-for-trading or those which are specifically designated as such.

(ii) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the group has the positive intent and ability to hold to maturity, and which are not designated at fair value through the profit or loss 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.

(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 attributed to the acquisition,construction or production of an asset that necessarily takes a 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 assets and liabilities.

(l) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) Subsequent costs

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

(iii) Depreciation

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

The annual rates of depreciation (2.5% - 33.3%) 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.

(m) 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. (see 4n, above).

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 74 years.

(n) Intangible Assets

The group's intangible assets include the value of computer software. 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 group. 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 when the recognition criteria for intangible assets are met. All other expenditure is expensed as incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The intangible assets have a maximum useful life of five years.

(o) 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 expense 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 income statement. Impairement losses on goodwill are not reversed.

(p) Provisions

Provisions are recognised when the group 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.

(q) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term benefits

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

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

(r) Earnings per share

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

(s) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) 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.

(u) 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.

Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31DECEMBER 2011

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Exposure to credit risk

(i) Loans and advances to customers

		Group		Bank	
In millions of Kenya Shillings	Notes	**2011**	2010	**2011**	2010
Amortised cost	20	116,174	80,135	108,773	74,647
Individually impaired					
Grade 3 : Substandard		550	740	474	678
Grade 4:Impaired (doubtful)		1,840	1,547	1,789	1,480
Grade 5: Impaired (loss)		856	1,312	829	1,312
Gross amount		**3,246**	**3,599**	**3,092**	**3,470**
Allowance for impairment		(1,724)	(1,386)	(1,675)	(1,362)
Past due but not impaired		**1,522**	**2,213**	**1,417**	**2,108**
Collectively impaired					
Grade 1: Normal		111,013	75,165	105,006	70,055
Grade 2: Watch		1,915	1,372	676	1,122
Gross amount		**112,928**	**76,537**	**105,682**	**71,177**
Allowance for impairment		(626)	(451)	(612)	(383)
Carrying amount		**112,302**	**76,086**	**105,070**	**70,794**
Total carrying amount		**113,824**	**78,299**	**106,486**	**72,902**

(ii) Cash and cash equivalents

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Cash and balances with bank	9,015	9,792	6,392	4,569
Unrestricted balances with Central Banks	20,340	650	8,566	548
Restricted balances with Central Banks	1,150	5,063	-	4,255
Money market placements	4,777	2,998	4,172	2,375
	35,282	**18,503**	**19,130**	**11,747**

(iii) Investment securities

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Held to maturity				
As at 1st January	5,193	5,087	5,116	4,778
Purchase of Investment securities	17,936	836	17,638	776
Retirement of bonds	(221)	(730)	(150)	(438)
	22,908	**5,193**	**22,604**	**5,116**

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

(iii) Investment securities (continued)

In millions of Kenya Shillings	Group		Bank	
Available for sale	**2011**	2010	**2011**	2010
As at 1st January	26,795	7,098	26,795	7,066
Purchase of Investment securities	4,610	30,698	4,610	30,756
Sales of Investment Securities	(23,738)	(9,898)	(23,738)	(9,924)
(Loss) on fair valuation	(72)	(1,103)	(72)	(1,103)
	7,595	**26,795**	**7,595**	**26,795**
As at 31st December	**30,502**	**31,988**	**30,199**	**31,911**

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.

Write-off policy

The group writes off a loan balance when the 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.

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

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

Loans and advances to customers

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Against individually impaired				
Property	154	2,555	154	2,496
Equities	384	2,670	384	2,670
Other	91	618	91	605
Against collectively impaired				
Property	1,137	985	1,137	985
Equities	327	3,533	327	3,533
Other	310	678	310	
Against past due but not impaired				
Property	48,970	59,033	48,970	59,030
Equities	410	13	410	13
Other*	34,765	23,200	34,765	23,200
Total	**86,548**	**93,285**	**86,548**	**92,532**

*Other includes log books, cash cover, debentures and director's guarantees.

Loans and advances to customers

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:

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Concentration by sector				
Consumer	40,298	33,401	37,563	31,970
Micro Credit	13,956	9,039	13,419	8,702
Agriculture	3,303	2,598	3,302	2,598
SME	27,211	20,692	22,983	17,083
Large SMEs	31,406	14,405	31,506	14,294
	116,174	**80,135**	**108,773**	**74,647**

Refer to note 34 for the explanations.

5. FINANCIAL RISK MANAGEMENT (Continued)

(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 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:

At 31 December 2011

	Kenya	Uganda	Sudan	Rwanda
At 31 December	37%	33%	109%	162%
Average for the year	33%	26%	108%	162%
Maximum for the year	39%	33%	116%	162%
Minimum for the year	29%	20%	98%	162%
Minimum statutory requirement	20%	20%	20%	20%

At 31 December 2010

	Kenya	Uganda	Sudan	Rwanda
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%	-

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risks (Continued)

(i) Group - 2011

In millions of Kenya Shillings	Less than 3 months	3-6 Months	6-12 Months	1-5 Years	More than 5 years	Totals
Financial assets						
Cash and cash equivalents	34,131	-	-	-	1,467	35,598
Loans and advances to customers	7,012	4,838	11,285	65,936	41,264	130,335
Finance lease receivable	1	-	-	-	-	1
Investment securities	405	-	877	7,555	28,753	37,590
Amounts due from related parties	124	-	-	-	-	124
Accounts receivable and prepayments	1,263	-	-	-	-	1,263
Funds in clearing	869	-	-	-	-	869
Total financial assets	**43,805**	**4,838**	**12,162**	**73,491**	**71,484**	**205,780**
Financial liabilities						
Deposits from customers	59,535	3,442	4,941	6,744	89,676	164,338
Borrowed funds	1,048	1,278	426	4,600	10,168	17,521
Total financial liabilities	**60,583**	**4,720**	**5,367**	**11,344**	**99,844**	**181,859**
Liquidity Gap 31 December 2011	**(16,778)**	**118**	**6,795**	**62,147**	**(28,360)**	**23,921**

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
Financial Assets						
Cash and cash equivalents	17,595	-	-	113	1,031	18,739
Loans and advances to customers	7,292	3,147	10,128	42,170	26,047	88,784
Finance lease receivable	2	1	-	-	-	3
Investment securities	3,784	-	150	5,437	29,658	39,029
Total Financial assets	**28,673**	**3,148**	**10,278**	**47,720**	**56,736**	**146,555**
Financial liabilities						
Deposits from customers	38,797	3,279	2,708	2,666	73,100	120,550
Borrowed funds	1,736	-	-	2,044	4,998	8,778
Total Financial liabilities	**40,533**	**3,279**	**2,708**	**4,710**	**78,098**	**129,328**
Liquidity Gap 31 December 2010	**(11,860)**	**(131)**	**7,570**	**43,010**	**(21,362)**	**17,227**

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risks (Continued)

(ii) Bank - 2011

In millions of Kenya Shillings	Less than 3 Months	3-6 Months	6-12 Months	1-5 Years	More than 5 years	Totals
Financial assets						
Cash and cash equivalents	19,130	-	-	-	-	19,130
Loans and advances to customers	6,236	4,332	10,162	60,497	41,111	122,338
Investment securities	102	-	877	7,555	28,753	37,287
Amounts due from related parties	1,094	-	-	-	-	1,094
Accounts receivable and prepayments	919	-	-	-	-	919
Funds in clearing	810	-	-	-	-	810
Total Financial assets	**28,291**	**4,332**	**11,039**	**68,052**	**69,864**	**181,578**
Financial liabilities						
Deposits from customers	46,710	2,715	4,355	1,619	89,676	145,075
Borrowed funds	25	1,278	426	4,601	10,168	16,498
Total Financial liabilities	**46,735**	**3,993**	**4,781**	**6,220**	**99,844**	**161,573**
Liquidity Gap 31 December 2011	**(18,444)**	**339**	**6,258**	**61,832**	**(29,980)**	**20,055**

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
Financial assets						
Cash and cash equivalents	11,647	-	-	113	-	11,760
Loans and advances to customers	6,552	2,710	9,291	38,802	25,534	82,889
Investment securities	3,707	-	150	5,436	29,658	38,951
Total Financial assets	**21,906**	**2,710**	**9,441**	**44,351**	**55,192**	**133,600**
Financial liabilities						
Deposits from customers	32,517	2,708	2,054	720	73,100	111,099
Borrowed funds	1,237	-	-	2,610	4,998	8,845
Total Financial liabilities	**33,754**	**2,708**	**2,054**	**3,330**	**78,098**	**119,944**
Liquidity Gap 31 December 2010	**(11,848)**	**2**	**7,387**	**41,021**	**(22,906)**	**(13,656)**

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 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:

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
31 December 2011						
Assets						
Cash and cash equivalents	4,776	4,738	12	-	16	9
Loans and advances to customers	113,824	7,012	4,838	11,286	58,350	32,338
Finance lease receivable	1	1	-	-	-	-
Investment securities	30,502	405	-	877	6,686	22,534
	149,103	**12,156**	**4,850**	**12,163**	**65,052**	**54,881**
Liabilities						
Deposits from customers	144,165	59,535	3,442	4,941	5,968	70,279
Borrowed funds	14,792	1,048	1,278	426	4,071	7,969
	158,957	**60,583**	**4,720**	**5,367**	**10,039**	**78,248**
Interest rate sensitivity gap at 31 December 2011	**(9,854)**	**(48,427)**	**130**	**6,796**	**55,013**	**(23,367)**

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risks (Continued)

In millions of Kenya Shillings	Carrying amount	Less than 3 Months	3-6 Months	6-12 Months	1-5 Years	More than 5 years
31 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 31 December 2010	**24,925**	**(2,526)**	**(131)**	**7,570**	**37,561**	**(17,549)**

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
31 December 2011						
Assets						
Cash and cash equivalents	4,173	4,173	-	-	-	-
Loans and advances to customers	106,486	6,236	4,332	10,161	53,537	32,219
Investment securities	30,199	102	-	877	6,686	22,534
	140,858	**10,511**	**4,332**	**11,038**	**60,223**	**54,753**
Liabilities						
Deposits from customers	125,492	46,710	2,715	4,355	1,433	70,279
Long term borrowings	13,769	25	1,278	426	4,071	7,969
	139,261	**46,735**	**3,993**	**4,781**	**5,504**	**78,248**
Interest rate sensitivity gap at 31 December 2011	**1,597**	**(36,224)**	**339**	**6,257**	**54,719**	**(23,495)**

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5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risks (Continued)

In millions of Kenya Shillings	Carrying amount	Less than 3 Months	3-6 Months	6-12 Months	1-5 Years	More than 5 years
31 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
Long term borrowings	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 December 2010	**25,029**	**(711)**	**2**	**7,387**	**36,302**	**(17,951)**

Sensitivity analysis in millions of Kenya shillings:

	Group	Bank
2011 ± 1%	98	15
2010 ± 1%	249	250

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 group since the interest rates on the group's interest bearing assets and liabilities are fixed within the next one year.

Exposure to other market risks – non-trading portfolios

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

(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 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

5. FINANCIAL RISK MANAGEMENT (Continued)

(e) Operational risks (Continued)

- Documentation of controls and procedures
- Requirements for the yearly assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective.

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

(f) Capital management

Regulatory capital

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

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

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

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

Various limits are applied to elements of the capital base; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital.

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.

5. FINANCIAL RISK MANAGEMENT (Continued)

(f) Capital Management (Continued)

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

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Tier 1 capital				
Ordinary share capital (Note 28)	1,851	1,851	1,851	1,851
Share premium (Note 28)	12,161	12,161	12,161	12,161
Retained earnings	17,715	11,204	17,975	11,941
Less investment in equity instruments of other institutions- (Note 17 (a) and (b))	(1,366)	(1,260)	(7,511)	(6,023)
Total	**30,361**	**23,956**	**24,476**	**19,930**
Tier 2 capital				
collective allowances for impairment (Note 28d)	521	414	420	382
Qualifying subordinated liabilities	7,624	5,008	7,624	5,008
Total	**8,145**	**5,422**	**8,044**	**5,390**
Total regulatory capital	**38,506**	**29,378**	**32,520**	**25,320**
Risk-weighted assets				
Total risk-weighted assets	127,880	90,594	127,725	90,805
Capital ratios				
Total regulatory capital expressed as a percentage of total risk-weighted assets	30%	32%	22%	28%
Total tier 1 capital expressed as a percentage of risk-weighted assets	24%	26%	15%	22%

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	Held to maturity	Loans and receivables	Available for sale	Other amortised Cost	Total carrying amount	Fair value
31 December 2011						
Assets						
Cash and cash equivalents	-	-		35,282	35,282	35,598
Loans and advances	-	113,824	-	-	113,824	130,334
Finance lease receivable	-	1	-	-	1	1
Investment securities	22,604	-	7,595	-	30,502	37,591
	22,604	**113,825**	**7,595**	**35,282**	**179,609**	**203,523**
Liabilities						
Deposits from customers	-	-	-	(144,165)	(144,165)	(164,338)
Borrowed funds	-	-	-	(14,792)	(14,792)	(17,521)
				(158,957)	**(158,957)**	**(181,859)**
31 December 2010						
Assets						
Cash and cash equivalents	-	-	-	18,503	18,503	18,739
Loans and advances	-	78,299	-	-	78,299	88,784
Finance lease receivable	-	3	-	-	3	3
Investment securities	5,122	-	26,866	-	31,988	39,029
	5,122	**78,302**	**26,866**	**18,503**	**128,793**	**146,555**
Liabilities						
Deposits from customers	-	-	-	(104,431)	(104,431)	(120,550)
Borrowed funds	-	-	-	(7,963)	(7,963)	(8,778)
	-	**-**	**-**	**(112,394)**	**(112,394)**	**(129,328)**

7. FINANCIAL ASSETS AND LIABILITIES (Continued)

Bank

In millions of Kenya Shillings	Held to maturity	Loans and receivables	Available for sale	Other amortised Cost	Total carrying amount	Fair value
31 December 2011						
Assets						
Cash and cash equivalents	-	-	-	19,130	19,130	19,130
Loans and advances	-	106,486	-	-	106,486	122,338
Investment securities	22,604	-	7,595	-	30,199	37,287
	22,604	**106,486**	**7,595**	**19,130**	**155,815**	**178,755**
Liabilities						
Deposits from customers	-	-	-	(125,492)	(125,492)	(145,075)
Borrowed funds	-	-	-	(13,769)	(13,769)	(16,498)
	-	**-**	**-**	**(139,261)**	**(139,261)**	**(161,573)**
31 December 2010						
Assets						
Cash and cash equivalents	-	-	-	11,747	11,747	11,760
Loans and advances	-	72,902	-	-	72,902	82,889
Investment securities	5,105	-	26,806	-	31,911	38,951
	5,105	**72,902**	**26,806**	**11,747**	**116,560**	**133,600**
Liabilities						
Deposits from customers	-	-	-	(95,204)	(95,204)	(111,099)
Borrowed funds	-	-	-	(7,464)	(7,464)	(8,845)
	-	**-**	**-**	**(102,668)**	**(102,668)**	**(119,944)**

The table below shows certain financial assets and financial liabilities that have been measured at either fair value or analysed by the level of valuation method. The three levels of valuation methodology used are:

- Level 1 – use quoted prices in active markets for identical assets or liabilities
- Level 2 – use inputs for the asset or liability other than quoted prices, that are observable either directly or indirectly
- Level 3 – use inputs for the asset or liability that are not based on observable market data such as internal models or other valuation methods.

In millions of Kenya Shillings

Group and Bank

At 31 December 2011	Notes	Level 1	Level 2	Level 3	Total
Financial assets at fair value					
Available for sale financial assets					
Non-current and current investment					
Liquid investments	21	7,595	-	-	7,595
Other investments		-	-	-	-
Total financial assets at fair value		**7,595**	**-**	**-**	**7,595**

7. FINANCIAL ASSETS AND LIABILITIES (Continued)

In millions of Kenya Shillings

Group and Bank

At 31 December 2010	**Notes**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value					
Available for sale financial assets					
Non-current and current investment					
Liquid investments	21	26,806	-	-	26,806
Other investments		-	-	-	-
Total financial assets at fair value		**26,806**	**-**	**-**	**26,806**

8. INTEREST INCOME

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Interest income				
Cash and cash equivalents	84	106	53	91
Loans and advances to customers	16,560	11,362	15,635	10,498
Investment securities	2,695	2,307	2,688	2,296
Total interest income	**19,339**	**13,775**	**18,376**	**12,885**
Interest expense				
Deposits from banks	(201)	(12)	(160)	(6)
Deposits from customers	(2,152)	(1,448)	(1,849)	(1,270)
Borrowings	(763)	(602)	(806)	(553)
Total interest expense	**(3,116)**	**(2,062)**	**(2,815)**	**(1,829)**
Net interest income	**16,223**	**11,713**	**15,561**	**11,056**

9. FEE, COMMISSION AND TRADING INCOME

(a) Net fee and commission income

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Fee and commission income				
Retail banking customer fees	1,627	1,303	1,487	1,192
Corporate banking credit related fees	683	341	527	336
Other	39	-	20	-
Total fee and commission income	**2,349**	**1,644**	**2,034**	**1,528**

9. FEE, COMMISSION AND TRADING INCOME (Continued)

(b) Net trading income

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Bonds trading income	453	2,048	453	2,048
Foreign exchange gain	1,970	877	821	389
	2,423	**2,925**	**1,274**	**2,437**

10. OTHER OPERATING INCOME

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Rental income	1	1	1	1
Temporary Overdrafts/ Un-cleared effects	1,111	1,148	1,107	1,135
ATM-application & withdrawal fees	1,559	1,374	1,463	1,306
Salary remittance commission	984	775	849	731
Counter withdrawal charges	565	456	417	394
Other*	3,455	2,117	2,761	1,605
	7,675	**5,871**	**6,598**	**5,172**

**Other income relates to commissions charged on the various products offered by the group to the customers and dividend received from associate company.*

11. ALLOWANCES FOR IMPAIRMENT

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Balance at 1 January	1,758	2,327	1,745	2,185
Specific provisions for the year	1,319	1,509	1,239	1,458
General provisions for the year	347	471	332	146
Interest suspended during the year*	327	383	327	383
Write-offs during the year	(1,365)	(2,857)	(1,319)	(2,381)
IAS 39 adjustment-write back of over provisions	(36)	(75)	(38)	(46)
Balance at 31 December	**2,350**	**1,758**	**2,287**	**1,745**

**The interest suspended relates to the portion of interest income on non performing loans not charged to the income statement.*

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

11. ALLOWANCES FOR IMPAIRMENT (Continued)

Impairment loss for the year is arrived at as follows:

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Charge for the year: General provisions	347	200	332	146
Specific provisions	1,319	1,779	1,239	1,458
	1,666	**1,979**	**1,571**	**1,604**
IAS 39 adjustment -write back of over provisions	(36)	(74)	(38)	(46)
Net impairment loss on financial assets	**1,630**	**1,905**	**1,533**	**1,558**

12. PERSONNEL EXPENSES

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Salaries	5,618	5,046	4,847	4,307
Contributions to defined contribution plans	391	220	338	148
	6,009	**5,266**	**5,185**	**4,455**

13. OPERATING LEASE EXPENSES

Non-cancellable operating lease rentals paid are as follows:

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Lease rentals	**919**	**609**	**687**	**547**

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- 2011

In millions of Kenya Shillings	Freehold land & buildings	Leasehold improvements	Motor vehicles	Office equipment, furniture & fittings	Computers	Village cell banking vans	Work-in-Progress	Total
COST								
At 1 January 2011	197	4,054	131	2,034	3,349	37	1,134	10,936
Additions	-	779	18	264	700	-	464	2,225
Transfers	-	90	-	-	734	-	(827)	-
Disposals	-	(3)	(17)	(3)	(9)	(4)	(10)	(46)
At 31 December 2011	**197**	**4,920**	**132**	**2,295**	**4,774**	**33**	**761**	**13,115**
DEPRECIATION								
At 1 January 2011	15	1,015	72	725	2,102	37	-	3,966
Charge for the year	3	559	23	264	733		-	1,583
Reversal on disposal	-	28	(16)	(9)	(25)	(4)	-	(26)
At 31 December 2011	**18**	**1,602**	**79**	**980**	**2,810**	**33**	**-**	**5,523**
NET CARRYING AMOUNT At 31 December 2011	**179**	**3,318**	**53**	**1,315**	**1,964**	**-**	**761**	**7,592**

14. PROPERTY, EQUIPMENT AND LEASEHOLD LAND (Continued)

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								
At 1 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 31 December 2010	**197**	**4,054**	**131**	**2,034**	**3,349**	**37**	**1,134**	**10,936**
DEPRECIATION								
At 1 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 31 December 2010	**15**	**1,015**	**72**	**725**	**2,102**	**37**	**1,134**	**3,966**
NET CARRYING AMOUNT At 31 December 2010	**182**	**3,039**	**59**	**1,309**	**1,247**	**-**	**1,134**	**6,970**

14. PROPERTY, EQUIPMENT AND LEASEHOLD LAND (Continued)

(b) Property and equipment

Bank 2011

In millions of Kenya Shillings	Freehold land & buildings	Leasehold improvements	Motor vehicles	Office equipment, furniture & fittings	Computers	Village cell banking vans	Work-in-Progress	Total
COST								
At 1 January 2011	40	3,345	85	1,776	2,924	37	1,054	9,261
Additions	-	641	13	167	724	-	144	1,689
Transfers	-	-	-	-	736	-	(736)	-
Disposals	-	-	(13)	-	-	(4)	-	(17)
At 31 December 2011	**40**	**3,986**	**85**	**1,943**	**4,384**	**33**	**462**	**10,933**
DEPRECIATION								
At 1 January 2011	9	928	54	651	1,889	37	-	3,568
Charge for the year	-	451	13	220	654	-	-	1,338
Disposals	-	-	(13)	-	-	(4)	-	(17)
At 31 December 2011	**9**	**1,379**	**54**	**871**	**2,543**	**33**		**4,889**
NET CARRYING AMOUNT At 31 December 2011	**31**	**2,607**	**31**	**1,072**	**1,841**	**-**	**462**	**6,044**

14. PROPERTY, EQUIPMENT AND LEASEHOLD LAND (Continued)

(b) 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								
At 1 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)	-
At 31 December 2010	**40**	**3,345**	**85**	**1,776**	**2,924**	**37**	**1,054**	**9,261**
DEPRECIATION								
At 1 January 2010	9	570	46	450	1,324	36	-	2,435
Charge for the year	-	358	8	201	565	1	-	1,133
At 31December 2010	**9**	**928**	**54**	**651**	**1,889**	**37**	**-**	**3,568**
NET CARRYING AMOUNT At 31 December 2010	**31**	**2,417**	**31**	**1,125**	**1,035**	**-**	**1,054**	**5,693**

14. (c) PREPAID LEASE

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

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Cost				
Balance at 1 January	33	36	5	5
Acquisitions	-	-	-	-
Disposals	-	(1)	-	-
Balance at 31 December	**33**	**35**	**5**	**5**
Amortisation and impairment				
Balance at 1 January	4	5	1	1
Amortisation for the year	-	-	-	-
Balance at 31 December	**4**	**5**	**1**	**1**
Carrying amounts				
Balance at 31 December	**29**	**30**	**4**	**4**

14. (d) INVESTMENT PROPERTY

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Cost				
Balance at 1 January	8	8	8	8
Depreciation	-	-	-	-
Balance at 31 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. 3 million, with an annual charge of KShs 0.11m. The directors are of the opinion that the fair value exceeds the carrying amount.

15. INTANGIBLE ASSETS

a) Group

In millions of Kenya Shillings	Intangibles 2011	Work-in-progress 2011	Total 2011	Intangibles 2010	Work- in-progress 2010	Total 2010
COST						
At 1 January	1,230	351	1,581	959	312	1,271
Additions	329	144	473	99	211	310
Transfers	-	-	-	172	(172)	-
At 31 December	**1,559**	**495**	**2,054**	**1,230**	**351**	**1,581**
Amortisation and Impairement						
At 1 January	540	-	540	394	-	394
Charge for the year	162	-	162	146	-	146
At 31 December	**702**	**-**	**702**	**540**	**-**	**540**
NET BOOK VALUE At 31 December	**857**	**495**	**1,352**	**690**	**351**	**1,041**

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

The WIP is composed of software in development.

b) Bank

In millions of Kenya Shillings	Intangibles 2011	Work-in-progress 2011	Total 2011	Intangibles 2010	Work- in-progress 2010	Total 2010
COST						
At 1 January	886	352	1,238	647	282	929
Additions	323	144	467	98	211	309
Transfers	-	-	-	141	(141)	-
At 31 December	1,209	496	**1,705**	886	352	**1,238**
Amortisation and Impairement						
At 1 January	484	-	484	359	-	359
Charge for the year	145	-	145	125	-	125
At 31 December	629	-	**629**	484	-	**484**
NET BOOK VALUE At 31 December	580	496	**1,076**	402	352	**754**

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

The WIP is composed of software in development.

16. OTHER EXPENSES

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Cost				
Software licensing and other	514	485	505	433
Auditors' remuneration	19	11	12	6
Other*	5,155	3,438	3,958	2,624
Balance at 31 December	**5,688**	**3,934**	**4,475**	**3,063**

*Other expenses mainly compromise of office expenses, promotion expenses and consultancy fees.

17. (a) INVESTMENT IN ASSOCIATES

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Balance as at 1 January	1,260	1,214	1,260	1,214
Share of profit	155	95	-	95
Dividends received	(49)	(49)	-	(49)
Balance as at 31 December	**1,366**	**1,260**	**1,260**	**1,260**

The bank has total shareholding of 24.85% in Housing Finance. Housing Finance is a banking institution whose principal activity is provision of mortgage products. The group's share of the associated assets, liabilities, revenue and profits is as shown below:

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Current assets	5,675	9,027	5,675	9,027
Non current assets	26,197	20,252	26,197	20,252
Current liabilities	8,482	9,416	8,482	9,416
Non current liabilities	18,672	15,606	18,672	15,605
Revenue	2,193	1,655	2,193	1,655
Profit after tax	623	380	623	380
Share of profit from associated company	155	95	-	95

17. (b) INVESTMENT IN SUBSIDIARY COMPANIES

In millions of Kenya Shillings	Principal activity	Percentage shareholding	Bank 2011	Bank 2010
Equity Bank Uganda Ltd	Banking	100%	3,965	3,965
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%	420	320
Finserve Africa Ltd	IT outsourcing	100%	0.5	0.5
Equity Bank Southern Sudan Ltd	Banking	100%	1,242	798
Equity Bank Rwanda Ltd	Banking	100%	1,044	-
Equity Bank Tanzania Ltd	Banking	100%	-	-
			6,672	**5,084**

During the year the bank invested additional capital in Equity Bank (Southern Sudan) Limited of Kshs 444 million and an additional capital to Equity Investment Services Limited of Kshs 100 million to comply with statutory requirements.

The Bank had nine wholly owned subsidiary companies as at 31 December 2011; Equity Bank Uganda Limited, Equity Bank Southern Sudan Limited, Equity Bank Rwanda Limited, Equity Bank Tanzania Limited, Equity Consulting Group Limited, Equity Investment Services Limited, Equity Nominees Limited, Finserve Africa Limited and Equity Insurance Agency Limited. Three of the nine subsidiaries were dormant as at the end of the year.

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

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

	2011	2010
In millions of Kenya Shillings	**KShs**	KShs
Balance at 1st January	887	887
Accumulated impairment	-	-
Balance at 31st December	**887**	**887**

18. INCOME TAX

Recognised in the income statement

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Current tax expense				
Current year	2,694	1,964	2,507	1,907
	2,694	**1,964**	**2,507**	**1,907**
Deferred tax expense				
Current year (Note 24)	(185)	(51)	(177)	(55)
Total income tax expense	**2,509**	**1,913**	**2,330**	**1,852**
Reconciliation of effective tax rate *In millions of Kenya Shillings*				
Profit before tax and equity income	12,679	9,045	12,104	9,312
Income tax using the enacted corporation tax rate	2,609	1,930	2,421	1,862
Non-deductible expenses	(100)	(17)	(91)	(10)
Total income tax expense in income statement	**2,509**	**1,913**	**2,330**	**1,852**
Income tax recognised in the statement of financial position				
Balance brought forward	615	(55)	657	20
Charge for the year	2,694	1,964	2,507	1,907
Paid during the year	(2,875)	(1,294)	(2,747)	(1,270)
	434	**615**	**417**	**657**
Made up of:				
Tax payable	487	701	417	657
Tax recoverable	(53)	(86)	-	-
	434	**615**	**417**	**657**

18. INCOME TAX (Continued)

Tax rates are as follows:

2011	Total	Kenya	Uganda	Sudan	Rwanda	Nominee	Insurance	Investment Services	Housing Finance
		20%	30%	15%		30%	30%	30%	30%
Profit before tax and equity income	12,679	12,104	19	609	(59)	79	224	(89)	155
Income tax using the enacted corporation tax rate	2,609	2,421	6	91	-	24	67	-	-
2010									
Profit before tax and equity income	8,950	9,312	(769)	349	-	-	67	(9)	95
Income tax using the enacted corporation tax rate	1,930	1,862	-	53	-	-	15	-	-

19. (a) CASH AND CASH EQUIVALENTS

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Cash and balances with bank	9,015	9,792	6,392	4,569
Unrestricted balances with Central Banks	20,340	650	8,566	548
Restricted balances with Central Banks	1,150	5,063	-	4,255
Money market placements	4,777	2,998	4,172	2,375
	35,282	**18,503**	**19,130**	**11,747**

(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 31 December

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Cash and cash equivalents	35,282	18,503	19,130	11,747
Restricted balances with Central Banks	(1,150)	(5,063)	-	(4,255)
	34,132	**13,440**	**19,130**	**7,492**

20. LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers at amortised cost

Retail customers

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Mortgage lending*	5,189	3,946	4,412	3,946
Personal loans*	56,853	41,557	54,283	36,262
	62,042	**45,503**	**58,695**	**40,208**
SMEs customers				
Secured lending*	54,132	34,632	50,078	34,439
	54,132	**34,632**	**50.078**	**34,439**
Gross amount	**116,174**	**80,135**	**108,773**	**74,647**

*Refer to note 34 for explanations.

(b) Allowance for impairment

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Balance as at 1st January	1,846	2,406	1,745	2,185
Charge for the year;				
Collective impairment	347	200	332	146
Specific impairment	1,319	1,779	1,239	1,458
IAS 39 adjustment- write back of overprovision	(124)	(74)	(38)	(46)
	1,542	**1,905**	**1,533**	**1,558**
Suspended interest	327	383	327	383
Write offs	(1,365)	(2,858)	(1,319)	(2,381)
	504	**(570)**	**541**	**(440)**
Total impairment	**2,350**	**1,836**	**2,287**	**1,745**
Net loans and advances	**113,824**	**78,299**	**106,486**	**72,902**

IAS 39 adjustment relates to the excess provision between IAS 39 requirements and the Regulatory Authorities (Central Banks) prudential guidelines.

20. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Finance leases receivable

	Group		Bank	
	2011	2010	**2011**	2010
Within one year	1	3	-	-
One to two years	-	-	-	-
	1	3	-	-
Unearned income	-	-	-	-
Present value of minimum lease payment	1	3	-	-
Provision for uncollectible lease payment	-	-	-	-
	1	**3**	**-**	**-**

Finance lease relates to a leasing loan product offered by Equity Bank Uganda Limited with a term of between 3-4 years at average interest rate of 30%.

21. INVESTMENT SECURITIES

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Held to maturity				
As at 1st January	5,193	5,087	5,116	4,778
Purchase of Investment securities	17,936	836	17,638	776
Proceeds from retirement of bonds	(221)	(730)	(150)	(438)
	22,908	**5,193**	**22,604**	**5,116**
Available for sale				
As at 1st January	26,795	7,098	26,795	7,066
Purchase of Investment securities	4,610	30,698	4,610	30,756
Sales of Investment Securities	(23,738)	(9,898)	(23,738)	(9,924)
Loss on fair valuation	(72)	(1,103)	(72)	(1,103)
	7.595	**26,795**	**7,595**	**26,795**
As at 31st December	**30,502**	**31,988**	**30,199**	**31,911**

22. RELATED PARTIES

(a) Loans to key management personnel

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Balance at 1 January	160	180	160	180
Interest charged	101	9	15	9
Loans disbursed	162	80	149	80
Repayments	(117)	(109)	(21)	(109)
Balance at 31 December	**306**	**160**	**303**	**160**

22. RELATED PARTIES (Continued)

(b) Loans to employees

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Balance at 1 January	1,582	1,348	1,582	1,257
Interest charged	123	109	123	97
Loans disbursed	1,830	995	1,830	898
Repayments	(934)	(771)	(934)	(670)
Balance at 31 December	**2,601**	**1,681**	**2,601**	**1,582**

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 related parties

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Balance at 1 January	2,651	1,420	2,651	1,420
Interest charged	188	72	188	72
Loans disbursed	1870	1,647	1870	1,647
Repayments	(1,525)	(488)	(1,525)	(488)
Balance at 31 December	**3,184**	**2,651**	**3,184**	**2,651**

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

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Remuneration to executive directors	447	419	415	369
Remuneration to Key Management	232	226	197	208
	679	**645**	**612**	**577**

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

(e) Directors' emoluments

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
As non-executive	26	28	20	21
As executives	447	419	415	369
	473	**447**	**435**	**390**

(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.

22. RELATED PARTIES (Continued)

(g) Amounts due from related parties

	Group		Bank	
	2011	2010	**2011**	2010
Equity Insurance Agency	-	-	108	162
Equity Bank Uganda Limited	-	-	66	102
Equity Bank Southern Sudan Limited	-	-	505	852
Equity Bank Rwanda	-	-	282	-
Equity Investment Bank Limited	-	-	1	-
Equity Investment Services Limited	-	-	8	17
Equity Group Foundation	124	106	124	106
	124	**106**	**1,094**	**1,239**

Related parties are only the subsidiary companies in addition to Equity Group Foundation.

23. OTHER ASSETS

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Investment property (note 14(d))	8	8	8	8
Accounts receivable and prepayments	1,263	1,040	919	598
Accrued income	2,168	1,537	2,155	1,488
Funds in clearing	869	560	810	527
Other	730	639	815	614
	5,038	**3,784**	**4,707**	**3,235**

24. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Plant, equipment and software	90	(35)	99	(30)
Available for sale securities	-	7	-	7
Allowance for loan losses	191	108	191	108
Allowance for accrued leave	31	(24)	18	(24)
Unrealized exchange losses	2	-	1	-
Unrealized exchange gains	(70)	-	(70)	-
Net tax liability	**244**	**56**	**239**	**61**

24. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

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

	2011			2010		
In millions of Kenya Shillings	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, equipment and software	99	(9)	90	61	(96)	(35)
Available for sale securities	-	-	-	-	7	7
Allowances for loan losses	191	-	191	-	108	108
Allowance for accrued leave	31	-	31	-	(24)	(24)
Unrealized exchange losses	2	-	2	-	-	-
Unrealized exchange gains	-	(70)	(70)	-	-	-
	323	**(79)**	**244**	**61**	**(5)**	**56**

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

	2011			2010		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, equipment and software's	99	-	99	61	(91)	(30)
Available for sale securities	-	-	-	-	7	7
Allowances for loan losses	191	-	191	-	108	108
Allowance for accrued leave	18	-	18	-	(24)	(24)
Unrealized exchange losses	1	-	1	-	-	-
Unrealized exchange gains	-	(70)	(70)	-	-	-
	309	**(70)**	**239**	**61**	**-**	**61**

Movements in temporary differences during the year – Group

In millions of Kenya Shillings	Opening Balance	Recognised in profit or loss	Recognised in OCI	Closing balance
2011				
Property, equipment and software	(35)	125	-	90
Available-for-sale securities	7	(7)	-	-
Allowances for loan losses	108	83	-	191
Provision for accrued leave	(24)	55	-	31
Unrealized exchange losses	-	2	-	2
Unrealized exchange gains	-	(70)	-	(70)
	56	**188**	**-**	**244**
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**

24. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

Movements in temporary differences during the year – Bank

In millions of Kenya Shillings	Opening Balance	Recognised in profit or loss	Recognised in OCI	Closing balance
2011				
Property, equipment and software	(30)	129	-	99
Available for sale securities	7	(7)	-	-
Allowances for loan losses	108	83	-	191
Provision for accrued leave	(24)	42	-	18
Unrealized exchange losses	-	1	-	1
Unrealized exchange gains	-	(70)	-	(70)
	61	**178**	**-**	**239**
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**

25. DEPOSITS FROM CUSTOMERS

Retail customers:

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Term deposits	6,057	5,920	5,894	5,895
Current deposits	33,209	8,271	28,796	6,406
Savings deposits	72,629	55,284	66,633	51,855
	111,895	**69,475**	**101,323**	**64,156**
Corporate customers:				
Term deposits	19,208	13,426	16,791	11,174
Current deposits	10,120	15,759	4,436	14,103
Savings	2,942	5,771	2,942	5,771
	32,270	**34,956**	**24,169**	**31,048**
	144,165	**104,431**	**125,492**	**95,204**

The summary of terms and conditions for the various categories of deposits are below:

a) **Term deposits -** These are high interest-bearing accounts that are opened for a specific period of time at a fixed rate of interest. Funds are fixed on the account for specified term periods of time. Interest is calculated daily and paid only on maturity of the deposits. Interest rates are offered at competitive and attractive rates.

b) **Current accounts –** These are non-interest bearing accounts that are due on demand. They are operated by both individuals and institutions with the use of a cheque book. They are subject to transaction activity fees and/or monthly maintainance charges.

c) **Savings accounts -** This is a deposit account designed for the average income earner that enables one to save some money and earn interest. The more one saves, the higher the interest. Interest on minimum monthly balances is paid into the account bi-annually.

26. BORROWED FUNDS

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Dexia Micro Credit Fund	1,108	1,051	1,108	1,051
Blue Orchard Loans for Development SA	852	808	852	808
Growth Management Limited	426	404	426	404
Deutsche Bank Microfinance Fund	605	574	605	574
China Development Bank Corporation	2,914	121	2,914	121
Ontwikelinslanden N.V (FMO)	3,221	3,221	3,221	3,221
Ministry of Youth Affairs	75	65	75	65
Micro Finance Sector Support Credit (Ministry of Finance)	344	23	344	23
Equity Bank Southern Sudan	-	391	-	391
Citibank N.A, Nairobi	-	806	-	806
Microfinance Support Centre	-	-	-	-
Microfinance Enhancement Facility (MEF)	1,278	-	1,278	-
ResponsAbility	1,278	-	1,278	-
KFW	1,668	-	1,668	-
Equity Bank Kenya limited	-	203	-	-
Tropical Bank limited-Uganda	86	70	-	-
Kenya Commercial Bank-Uganda	172	61	-	-
Diamond Trust bank-Uganda	65	60	-	-
Baroda Bank-Uganda	60	35	-	-
Eco Bank-Uganda	86	-	-	-
Imperial Bank	252	-	-	-
Barclays Bank-Uganda	-	70	-	-
Centenary Bank	34	-	-	-
Orient Bank	43	-	-	-
FINA Bank	138	-	-	-
Housing Finance Bank	87	-	-	-
	14,792	**7,963**	**13,769**	**7,464**

During the year, the following loan balances were outstanding:

i) Medium term loan of US$ 5M (KShs 426M) 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 KShs 15.7M (2010: KShs15M) has been charged to the income statement for the year.

ii) Medium term loan of US$ 8M (KShs 681.6M) 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 KShs 24.9M (2010: KShs 12M) has been charged to the income statement for the year.

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26. BORROWED FUNDS (Continued)

iii) Long term loan of US$ 10M (KShs 852M) 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 31st May 2012. The effective interest rate is 10.29%. A finance cost of KShs 99.9M (2010: KShs 82.7M) has been included in the income statement for the year.

iv) Long term loan of US$ 5M (KShs 426M) 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 29th Jun 2012. The effective interest rate is 11.18%. A finance cost of KShs 50.8M (2010: KShs 46M) has been included in the income statement for the year.

v) Long term loan of US$ 7,105,970 (KShs 605M) 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 77M (2010: KShs 64M) has been included in the income statement for the year.

vi) Medium term loan of US$ 34.2M (KShs2.9B) 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% margin plus interest tax as applicable and will mature on 28th November 2014. A finance cost of KShs 16.3M (2010: KShs 346,843) has been included in the income statement for the year.

vii) Loan of US$ 15M (KShs 1.3B) from responsAbility Global Microfinance Fund an unincorporated mutual fund, organised under Luxembourg law. The loan accrues interest at a rate of LIBOR 6M +3.07% margin plus interest tax as applicable; US$ 10M matures on 11th August 2016 (long term) while US$ 5M will mature on 11th August 2014 (medium term). A finance cost of KShs 23.3M has been included in the income statement for the year.

viii) Medium term loan of US$ 15M (KShs 1.3B) from Microfinance Enhancement Facility (MEF) S.A. SICAV-SIF (Cyrano Pool) a public limited company incorporated in Luxembourg. The loan accrues interest at a rate of LIBOR 6M +3.0% margin plus interest tax as applicable and will mature on 1st September 2014. A finance cost of KShs 19.7M has been included in the income statement for the year.

ix) Long term loan of US$ 19,571,940 (KShs 1.7B) from KFW, a public law institution registered in Germany with its headquarters in Frankfurt. The subordinated loan accrues interest at a rate of LIBOR 6M +3.3% margin plus interest tax as applicable and will mature on 13th December 2018. A finance cost of KShs 0.94M has been included in the income statement for the year.

x) Long-term loans totalling KShs 3.221B 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 1.507B will mature on 15th September 2014 and another KShs 1.714B will mature on 15th June 2015. A finance cost of KShs 411M (2010: KShs 307M) has been included in the income statement for the year.

xi) Medium term loans totalling KShs 75M from Ministry of Youth Affairs. The loan, which is secured by directors' guarantee, accrues interest at the fixed rate of 1% p.a. KShs 50M will mature on 20th April 2014 and Ksh 25M on 6th March 2012. A finance cost of 0.6 million been included in the income statement.

xii) Medium term loan of KShs344 million from Ministry of Finance. The loan, which is secured by directors' guarantee, Kshs 94M accrues interest rate at the reducing balance rate of 6% p.a. and will mature on 27th December 2014; Kshs 250M accrues interest rate at the reducing balance rate of 4% p.a. and will mature on 27th June 2015. A finance cost of KShs 12.9M has been included in the income statement.

xiii) On 28 December 2011, Equity Bank Uganda Limited borrowed USD 1,000,000 from Tropical Bank Limited through the interbank money market at a rate of 3.75% for a period of 7 days. The funds were to be repaid in full on the maturity date of 4th January 2012

xiv) On 07th and 28th December 2011, Equity Bank Uganda Limited borrowed USD 1,000,000 and USD 1,000,000 from KCB Bank Uganda Limited through the interbank money market at a rate of 5.0% and 4.0% for a period of 33 days. And 7 days respectively. The funds were to be repaid in full on the maturity date of 9th and 4th January 2012 respectively.

xv) On 7 December 2011, Equity Bank Uganda Limited borrowed USD 750,000 from Diamond Trust Bank through the interbank money market at a rate of 2.25% for a period of 33 days. The funds were to be repaid in full on the maturity date of 9th January 2012.

26. BORROWED FUNDS (Continued)

xvi) On 5th December 2011, Equity Bank Uganda Limited borrowed USD 700,000 from Bank of Baroda through the interbank money market at a rate of 3.75% for a period of 31 days. The funds were to be repaid in full on the maturity date of 5th January 2012.

xvii) On 28th and 29th December 2011, Equity Bank Uganda Limited borrowed USD 500,000 and USD 500,000 from Ecobank Uganda Limited through the interbank money market at a rate of 4.0% each for a period of 7 days respectively. The funds were to be repaid in full on the maturity date of 4th and 5th January 2012 respectively.

xviii) Between 6th December and 28th December 2011, Equity Bank Uganda Limited borrowed total funds of USD 1,600,000 from FINA Bank through the interbank money market at a rate of 4.0% for average period of 14 days. The funds were to be repaid in full on the maturity dates of 4th and 6th January 2012.

xix) On 22nd December 2011, Equity Bank Uganda Limited borrowed USD 1,000,000 from Housing Finance Bank Limited through the interbank money market at a rate of 3% for a period of 32 days. The funds were to be repaid in full on the maturity date of 23rd January 2012.

xx) Between 7th December and 28th December 2011, Equity Bank Uganda Limited borrowed total funds of USD 2,250,000 and UShs 1,700,000,000 from Imperial Bank through the interbank money market at USD average rate of 3.7% and UShs rate of 26.5% for average period of 15days. The funds were to be repaid in full on the maturity dates between 2nd January and 27th January 2012.

xxi) On 28th December 2011, Equity Bank Uganda Limited borrowed UShs 1,000,000,000 from Centenary Bank through the interbank money market at a rate of 28% for a period of 7 days. The funds were to be repaid in full on the maturity date of 4th January 2012.

xxii) On 28 December 2011, Equity Bank Uganda Limited borrowed USD 500,000 from Orient Bank Limited through the interbank money market at a rate of 4% for a period of 5days. The funds were to be repaid in full on the maturity date of 2nd January 2012.

27. OTHER LIABILITIES

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Short term employee benefits	13	88	-	66
Creditors and accruals	685	708	340	392
Other	1,867	1,918	1,846	1,800
	2,565	**2,714**	**2,186**	**2,258**

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28. SHARE CAPITAL AND RESERVES

(a) Authorised

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Issued and fully paid 3,702,777,020				
Ordinary shares of KShs 0.5	1,851	1,851	1,851	1,851

Movement in ordinary shares

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
On issue at 1st January	3,703	3,703	3,703	3,703
On issue at 31 December	**3,703**	**3,703**	**3,703**	**3,703**

As at 31 December 2011 the authorised share capital comprised of 3.7 billion ordinary shares (2010: 3.7billion), with a par value of KShs 0.5. All issued shares are fully paid.

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

The top ten largest shareholders as at 31 December 2011 were:

Name	No. of Shares	%
Helios EB Investors	905,162,550	24.45
British-American Investments Company (Kenya) limited	393,713,630	10.63
Equity Bank Employees Share Ownership Plan	154,597,000	4.18
James Njuguna Mwangi	127,656,700	3.45
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
Leah Wanjiku Muguku	75,185,350	2.03
Maewa Holdings Ltd	64,371,200	1.74
AIB Nominee A/C Lily Properties Ltd	59,885,090	1.62
Other 28,610 Shareholders	1,640,653,790	44.30
TOTAL SHARES	**3,702,777,020**	**100.00**

The distribution of shares as at 31st December 2011 was as shown on page 39.

(b) Share premium

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

(c) Available for sale reserve

The available for sale reserve is attributable to marking to market of investment securities classified under the available-for-sale category. This is shown on the statement of changes in equity.

28. SHARE CAPITAL AND RESERVES (Continued)

(d) Loan loss reserve

The 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, Southern Sudan Pounds and Rwanda Francs to Kenya Shillings.

(g) Dividends

The following dividends were declared and paid by the Bank.

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
KShs 0.8 per ordinary share of KShs0.5	2,962	1,481	2,962	1,481
	2,962	**1,481**	**2,962**	**1,481**

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

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
KShs 1 per ordinary share (2010: KShs0.8)	**3,703**	2,962	**3,703**	2,962

29. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share for the group as at 31 December 2011 is based on the profit attributable to ordinary shareholders of KShs 10,325 million (2010: KShs 7,132 million) and the weighted average number of ordinary shares outstanding of 3,702million.

The calculation of basic earnings per share for Bank as at 31 December 2011 is based on the profit attributable to ordinary shareholders of KShs 9,774 million (2010: KShs 7,555million) and the weighted average number of ordinary shares outstanding of 3,702 million.

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Profit for the year attributable to equity shareholders	10,325	7,132	9,774	7,555
Number of shares: (in millions) Issued ordinary shares at 1st January	3,703	3,703	3,703	3,703
Weighted average number of ordinary shares at 31st December	**3,703**	**3,703**	**3,703**	**3,703**

29. EARNINGS PER SHARE (Continued)

Earnings per share:	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Basic earnings per share (in Kenya Shillings)	2.79	1.93	2.64	2.04
Diluted earnings per share (in Kenya Shillings)	2.79	1.93	2.64	2.04

30. DIVIDEND PER SHARE

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

At the forthcoming Annual General Meeting to be held on 30th March 2012, a final dividend in respect of the year ended 31 December 2011 of KShs 1.0 (2010 – KShs 0.8) 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	**2011**	2010	**2011**	2010
Guarantees and standby letters of credit	5,016	4,272	4,900	4,133
Letters of credit, acceptances and other documentary credits	2,341	273	2,336	250
	7,357	**4,545**	**7,236**	**4,383**

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. The Bank holds securities to the extent of amounts guaranteed from which payments are made in the event of default.

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

Commitments

Capital expenditure contracted for at the reporting date but not recognised in the financial statements is as follows:

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
Capital commitments	251	792	237	773
Loans approved but not disbursed	1,509	4,444	1,353	3,958
	1,760	**5,236**	**1,590**	**4,731**

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	**2011**	2010	**2011**	2010
Within one year	5	655	3	564
After one year but not more than five years	785	3,208	782	3,013
More than five years	2,970	2,952	2,953	608

32. RETIREMENT BENEFIT OBLIGATIONS

The company contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF).

The company also operates a defined contribution pension scheme for the staff. The contributions are charged to the income statement in the period in which they relate.

	Group		Bank	
In millions of Kenya Shillings	**2011**	2010	**2011**	2010
National Social Security Fund	17	64	12	10
Pension Scheme	375	156	326	138
	392	**220**	**338**	**148**

33. (a) 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 2011.

In millions of Kenya Shillings

As at 31 December 2011	UGX	USD	SSP	GBP	Euro	ZAR	JPY	Others	Total
Assets									
Cash and cash equivalents	759	9,299	11,864	167	682	11	3,779	603	27,164
Loans and advances to customers	4,997	11,368	1,406	-	4	-	-	43	17,818
Investment securities	26	-	-	-	-	-	-	-	26
Finance lease receivable	1	-	-	-	-	-	-	-	1
Property and equipment	740	-	507	-	-	-	-	145	1,392
Prepaid leases	21	-	-	-	-	-	-	-	21
Intangible assets	26	-	2	-	-	-	-	4	32
Other assets	120	424	267	-	-	-	-	13	824
Tax recoverable	52	-	-	-	-	-	-	1	53
Total Assets	**6,742**	**21,091**	**14,046**	**167**	**686**	**11**	**3,779**	**809**	**47,331**
Equity and liabilities									
Customer deposits	5,116	11,169	9,243	75	612	1	-	369	26,585
Borrowed funds	93	11,291	-	-	-	-	-	-	11,384
Current tax liabilities	-	-	40	-	-	-	-	-	40
Deffered tax	-	-	1	-	-	-	-	-	1
Other liabilities	27	276	49	32	62	-	-	17	463
Statutory loan loss reserve	97	-	55	-	-	-	-	-	152
Retained earnings	(784)	-	418	-	-	-	-	(58)	(424)
Other capital reserve	34	-	-	-	-	-	-	-	34
Total liabilities and shareholder's funds	**4,583**	**22,736**	**9,806**	**107**	**674**	**1**	**-**	**328**	**38,235**
Net financial position	**2,159**	**(1,645)**	**4,240**	**60**	**12**	**10**	**3,779**	**481**	**9,096**
As at 31 December 2010									
Total Assets	5,917	6,402	5,259	72	348	-	-	-	17,998
Total Liabilities	3,670	7,671	4,086	92	453	-	-	-	15,972
Net financial position	**2,247**	**(1,269)**	**1,173**	**(20)**	**(105)**	**-**	**-**	**-**	**2,026**

Sensitivity analysis

The following tables demonstrates the sensitivity to a reasonable possible change in the UGX, USD and SSP with all other variables held constant on the group's profit tax due to changes in fair value of monetary assets and liabilities and the groups equity due to changes in the fair value of the monetary assets and liabilities of the subsidiaries. The groups exposure to foreign currency changes for all other currencies is not material.

33. (a) FOREIGN CURRENCY EXPOSURE – GROUP (Continued)

Sensitivity analysis (Continued)

	Changes in UGX	Effect on profit before tax	Effect on equity
2011	±17%	367	-
2010	±14%	314	-

	Changes in SSP	Effect on profit before tax	Effect on equity
2011	±28%	1,320	-
2010	±15%	174	-

	Changes in USD	Effect on profit before tax	Effect on equity
2011	±33%	543	-
2010	±6%	82	-

33 (b) FOREIGN CURRENCY EXPOSURE – BANK

In millions of Kenya Shillings

As at 31 December 2011	USD	GBP	Euro	Zar	JPY	Others	Total
Assets							
Cash and cash equivalents	5,798	114	484	11	3,779	497	10,683
Loans and advances to customers	10,344	-	4	-	-	-	10,348
Amounts due from group companies	117	25	3	-	-	64	209
Other assets	151	-	-	-	-	-	151
	16,410	**139**	**491**	**11**	**3,779**	**561**	**21,391**
Equity and liabilities							
Customer deposits	6,988	52	455	1		6	7,502
Borrowed funds	10,128	-	-	-	-	-	10,128
Other liabilities	220	7	61	-	-	102	390
Total liabilities and shareholders funds	**17,336**	**59**	**516**	**1**	**-**	**108**	**18,020**
Net financial position	**(926)**	**80**	**(25)**	**10**	**3,779**	**458**	**3,371**
As at 31 December 2010							
Total Assets	4,687	69	226	-	-	391	5,373
Total Liabilities	5,591	89	331	-	-	391	6,402
Net financial position	**(904)**	**(20)**	**(105)**	**-**	**-**	**-**	**(1,029)**

Sensitivity analysis

The following table demonstrates the sensitivity to a reasonable possible change in the USD with all other variables held constant on the Bank's profit after tax due to changes in fair value of monetary assets and liabilities and the banks equity.

	Changes in USD	Effect on profit before tax	Effect on equity
2011	±33%	306	-
2010	±6%	54	-

34. OPERATING SEGMENT

A segment is a distinguishable component of the group and the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

i) Business segments

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

ii) Operating segments

The Bank operates in four geographical markets that is Kenya, Uganda, Southern Sudan and Rwanda. 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

	2011					2010				
	Kenya	Uganda	Sudan	Rwanda	Total	Kenya	Uganda	Sudan	Rwanda	Total
Total assets	167,587	9,169	17,844	1,694	196,294	129,410	7,115	6,493	-	143,018
Net interest income	15,659	853	(291)	2	16,223	11,056	600	57	-	11,713
Total operating income	25,642	1,351	1,657	20	28,670	20,398	951	804	-	22,153
Total expenses	13,532	1,332	1,048	79	15,991	11,028	1,720	455	-	13,203
Profit before tax	12,110	19	609	(59)	12,679	9,370	(769)	349	-	8,950

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 2011 or 2010

The group's operating segments are reported based on financial information provided to the Strategy and Investment committee as detailed on page 5 which is the key management committee and represents the decision making. The chairmanship and composition of this committee is as detailed on page 4.

The operating segments are categorised into

Lending - This segment offers loans and advances on pre-agreed terms and conditions. This segment has the following customer facing lines:

Consumer – This segment targets salaried customers or customers receiving other regular remittances like pension. Facilities granted under this segment are for the purposes of empowering such customers to meet their most immediate personal needs or personal development.

Micro credit - This segment targets customers running small and micro enterprises, facilities granted under this segment enable our customers meet their working capital needs, purchase business assets like machinery and other equipments. The sector mainly targets the youths and women who lack conventional collateral that are otherwise required for secured facilities.

Agriculture - This segment targets customers engaged in farming activities. Loans granted under this segment are for the purposes of enabling the farmers purchase farm inputs, purchase farm equipments and financing other farming activities.

34. OPERATING SEGMENT (Continued)

ii) Operating segments (continued)

Small and Medium Enterprises (SME's) – These are customers with small and medium enterprises. The facilities granted under this segment are for purposes of meeting working capital needs, property development or acquisition of assets.

Mortgage line - This segment targets customers in pursuit of housing needs. The mortgages are advanced for both residential and commercial purposes. Available to both salaried and business clients.

Asset finance - This business segment mainly targets customers who would want to acquire both movable and immovable assets like motor vehicles, equipment, plant and machinery among others .

Corporate – This segment comprises large enterprises. The facilities granted under this segment are designed for purposes of meeting working capital needs, large scale development, property acquisition, large investments and acquisition of assets.

Deposit mobilisation - This segment mobilise deposit collections from both individuals, SMEs and corporates.

Treasury and trade finance - The Treasury Department interfaces with local and international financial markets. By dealing in the foreign exchange, money markets and the fixed income markets, the bank is able to handle foreign exchange, deposit and government securities transactions for bank customers. The bank leverages on strong correspondent banking relationships with global banks to ensure seamless settlement of international transactions for bank clients. The Treasury Department also manages market-related risk for the group within the Alco risk guidelines.

The Trade finance department offers all round innovative solutions to trade related activities that our clients engage in with the aim of facilitating trade as well as minimizing risks related to both international and local trade. The department also offers facilities to finance trade related activities.

Notes

Proxy Form

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 Friday the 30th day of March 2012 at 10.00 a.m., or at any adjournment thereof.

As witness to my/our hands this ______________ day of ______________ 2012

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, Upper Hill, P.O. Box 75104, Nairobi - 00200, Kenya not later than 10.00 a.m. on the 28th day of March 2012, 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

ADMISSION CARD

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 Friday the 30th day of March 2012 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:

Fomu ya Uwakilishi

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 Ijumaa tarehe 30 Machi 2012 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 ____________________ 2012

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 Jumatano tarehe 28 Machi, 2012, 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.

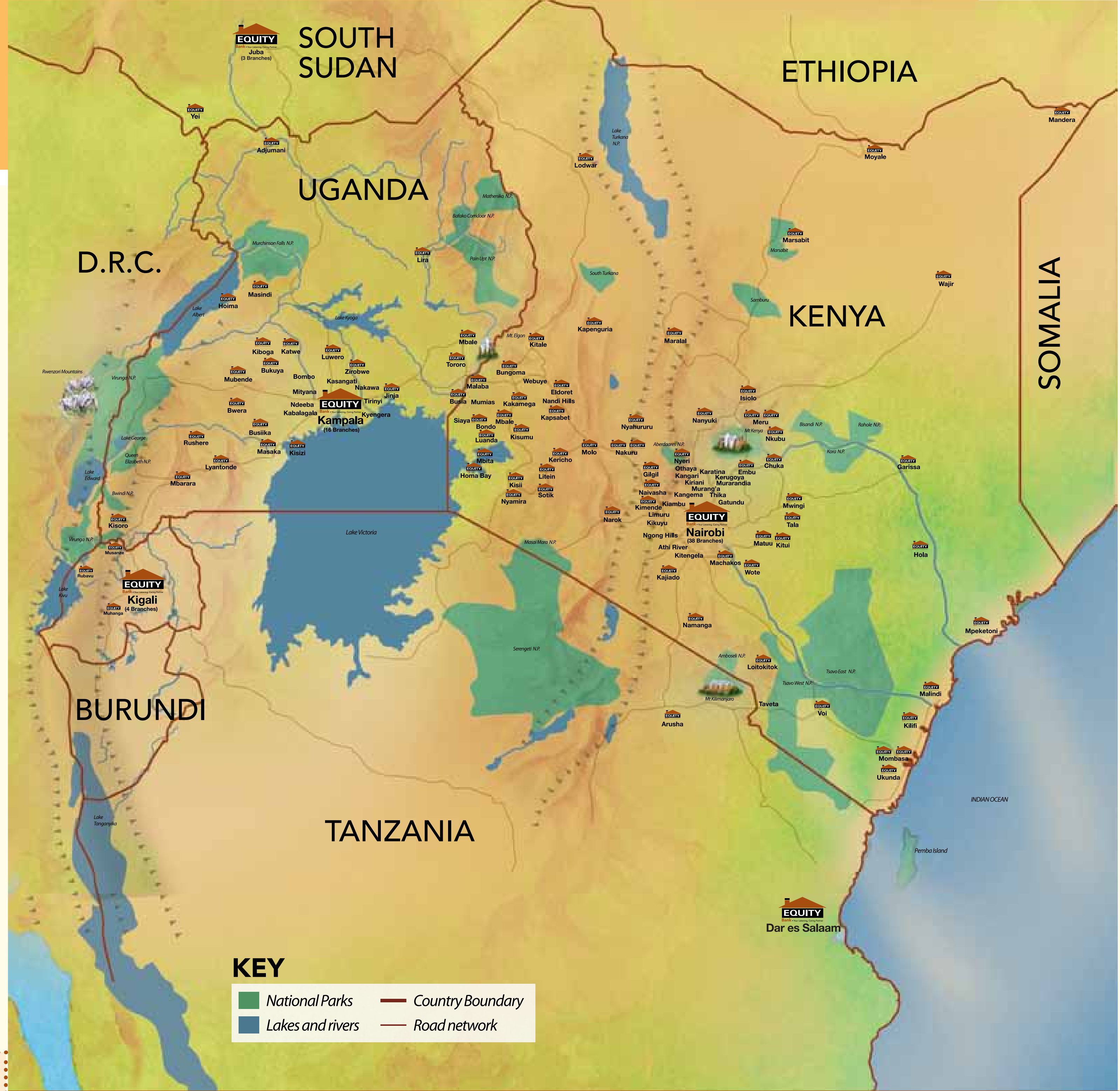
Katibu wa Kampuni:

Idadi ya hisa zinazoshikiliwa:

Jina la Mwenyehisa:

Anwani ya Mwenyehisa:

Nambari ya Akaunti ya Hisa:



Transforming lives in Africa, one branch at a time.

BRANCHES **186**

(a) Branches in Kenya 135, Nairobi 38
(b) Branches in Uganda 38, Kampala 16
(c) Branches in South Sudan 4, Juba 3
(d) Branches in Tanzania 2, Dar er Salaam 1
(c) Branches in Rwanda 7, Kigali 4

Agent Outlets	**4,105**
Point of Sale Terminals (POS)	**6,000**
VISA branded ATMs	**611**

EQUITY Bank • Your Listening, Caring Partner

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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