EQUITY
Bank • Your Listening, Caring Partner

ANNUAL REPORT AND FINANCIAL STATEMENTS 2012

Equity Bank Group Headquarters, Nairobi.

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 2012, Equity Bank had more than 7.8 million customers. 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 Africa'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 ie strict operational performance measurements, robust risk management and high degree of automation. The banks 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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Notice of Ninth Annual General Meeting

Notice is hereby given that the Ninth Annual General Meeting (AGM) of Equity Bank Limited will be held on Wednesday, 27th March, 2013 at **Kenyatta International Conference Centre (KICC)** Nairobi, Kenya from **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 2012 together with the Chairman's, Directors' and Auditors' reports thereon.

3. To approve a first and final dividend for the year ended 31st December 2012 of KES 1.25/- per ordinary share of KES 0.50/- each, subject to withholding tax, where applicable.

4. To elect directors:

   a) Mr. Benson Wairegi retires by rotation in accordance with Article 100 of the Company's Articles of Association and being eligible, offers himself for re-election as a director;

   b) Mr. Fredrick Muchoki retires by rotation in accordance with Article 100 of the Company's Articles of Association and being eligible, offers himself for re-election as a director;

   c) Mr. Temitope Lawani 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.

5. To approve the remuneration of directors for the year ending 31st December 2013.

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 (Chapter 486 of the Laws of Kenya) and to authorize the directors to fix their remuneration.

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

   Amendment of the Articles of Association of the Company:

   Special Resolution

   To consider and if thought fit to pass the following Special Resolution:

"That Articles 34A and 34B of the Articles of Association of the Company be and are hereby deleted in their entirety; Articles 104, 105, 126 and 138 of the Articles of Association of the Company be and are hereby amended as indicated below; that Article 128 of the Articles of Association of the Company be and is hereby deleted in its entirety and replaced with a new article as indicated below.

Proceedings of Directors

Article 104 of the Company be and is hereby amended by inserting the words "including by sending it by electronic means to an address for the time being notified to the Company by the Director for purposes of communication with the Company (the "e-mail address") or by making it available on an official Company website or such other website as may be prescribed for such purpose. Where a notice is made available on a website, directors shall be notified through electronic means of the fact that the notice has been made available on the website, the address of the website and the place on the website where the document or information may be accessed and how it may be accessed. Any notice served on a Director by electronic means shall be deemed to have been received on the day it is sent and where it is made available on a website, it is deemed to have been received when it was made available on the website or on the date on which the notification of its being made available on the website is deemed to have been received whichever is later" immediately following the word "notices" the first time it appears in the fourteenth line and deleting the words "but notices to Directors not resident in Kenya shall be sent by international courier to the director's usual place of business and shall be deemed to have been received by the Director when delivered to such address. It shall be necessary to give notice of a meeting of Directors to any Director for the time being absent from Kenya."

Article 105 of the Articles of Association of the Company be and is hereby amended by inserting the following sentence "Directors may hold meetings by telephone, either by conference telephone connection(s) or by a series of telephone conversations or by any communication equipment which allows all persons participating in the meeting to speak with and hear each other. A Director shall be deemed to be present at any Board or Committee meeting conducted by way of such communication equipment. A resolution passed at any meeting held in this manner, shall be valid and effectual as if it had been passed in a meeting at which Directors are physically present." in the second line after the first sentence and deleting the sentence immediately following which states "A Director shall be deemed to be present at any Board or committee meeting if he is able to hear and understand all of the proceedings of the meeting and be heard by all present by way of a telephone or other suitable means of communication and such Director indicates his willingness for the meeting to proceed on that basis."

Notice of Ninth Annual General Meeting

Dividends

Article 126 of the Articles of Association of the Company be and is hereby amended by inserting the words "through electronic funds transfer, including but not limited to, real time gross settlement, and mobile money transfer or" immediately following the word "paid" in the first line and further by inserting the words "electronic funds transfer" immediately following the word "such" in the fifth line.

Untraced members/Dormant accounts

Article 128 of the Articles of Association of the Company which reads "Any dividend unclaimed for a period of more than Twelve years from the date of the declaration thereof may at any time thereafter be forfeited by resolution of the Directors" be and is hereby deleted in its entirety and replaced by the following article:

"The Company may pursuant to and in accordance with the provisions of the Unclaimed Financial Assets Act (Act number 40 of 2011) ("**UFA Act**") by resolution of the Directors transfer to the Unclaimed Financial Assets Authority ("**UFA Authority**") any financial assets issued by or held by the Company. To give effect to any such transfer, the Directors may appoint any person to execute as transferor an instrument of transfer of such financial asset and the instrument of transfer shall be as effective as if it had been executed by the owner of or the person entitled by transmission to such financial assets. For purposes of this article, the term "unclaimed financial assets" shall have the meaning attributed to it in the UFA Act which is assets that:

(a) have been presumed abandoned and have become unclaimed assets under the provisions of the UFA Act;

(b) have been transferred to the Authority as unclaimed assets under this UFA Act;

(c) have been deemed under any other law to be unclaimed assets and payable to the UFA Authority, and includes all income, dividend or interest thereon but excludes any lawful charges thereon."

Service of Notices, Documents and Information

Article 138 of the Articles of Association of the Company be and is hereby amended by deleting clause 138.2 (a) which reads "that member has agreed (generally or specifically) that the document or information may be sent or supplied to him in that manner and has not revoked that agreement" in its entirety and deleting the numbering "(b)" of Article 138.2 (b).'

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

By order of the Board

Mary Wangari Wamae

Company Secretary

P.O. Box 75104 -00200

Nairobi

KENYA

28th February 2013

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**, Upper Hill, Nairobi, not later than 10.00 am on Monday **25th March 2013** 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 2012 of KES 1.25/- per share to be paid to shareholders on the register of members of the Company at the close of business on **15th March 2013**. The dividend will be paid on or about **26th April 2013**.

Bank Information

PRINCIPAL PLACE OF BUSINESS:	9th Floor, Equity Centre Hospital Road,Upper Hill P.O. Box 75104-00200 NAIROBI
REGISTERED OFFICE:	9th Floor, Equity Centre 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
COMPANY SECRETARY:	Mary Wangari Wamae 9th Floor, Equity Centre P.O. Box 75104-00200 NAIROBI

Mr Peter K. Munga, CBS
Chairman - Equity Bank Limited

Chairman's Statement

I am delighted to present the Bank's report for the year ended 31st December 2012. It has been another year of strong results in the face of challenging, albeit improving, global and domestic macro-economic conditions. Equity Bank Group is one of the region's leading banks whose purpose is to transform the lives and livelihoods of the people of Africa socially and economically by availing them modern, inclusive financial services that maximize their opportunities. While the Equity brand is associated with empowerment of the unbanked and the poorly banked segment of population, the Bank has evolved to become an all-inclusive bank for all.

The operating environment

The global economy was yet to fully shake off the fallout from the crisis of 2008-2009 and global growth dropped to almost 3 percent in 2012. Unlike in 2010 and 2011, the strong growth in emerging markets did not fully compensate for the slow growth experienced in the more mature economies, further exacerbating the economic slowdown. Developing countries recorded among their slowest economic growth rates of the past decade, partly because of the re-emergence of Euro zone uncertainty in May and June of 2012. According to the World Bank, while the real-side of the economy had yet to strongly rebound, financial market conditions improved significantly in the second half of 2012 as evidenced by the recovery of international capital flows to developing countries after a 30% fall in the second quarter of 2012. This led to developing-country stock market prices rising by over 12% from June 2012 to early 2013.

In East Africa where the bank has its operations, significant strides were made in recovering from the high inflation environment experienced in 2011. While tighter monetary policy action aimed at stemming inflation resulted in higher interest rates and slower private sector credit growth, it resulted in a return to stability in the foreign exchange and the wholesale money markets thereby setting a stronger foundation for economic growth.

We estimate Kenya's 2012 GDP growth rate at 4.3%, compared to 4.5% in 2011. This would be consistent with the growth demonstrated by the quarter on quarter growth numbers. According to the Kenya National Bureau of Statistics, the country's economy grew by 4.7% in the three months to September 2012, compared to 3.3 and 3.5 % in the second and first quarters respectively.

Our performance in 2012

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 has improved strongly rising from Kshs 2.79 to Kshs 3.26 per share. Since the listing on the Nairobi Securities Exchange (NSE) in 2006, the Bank has been paying a reduced tax rate of 20% instead of the usual 30%. Upon the lapse of the 5 year period in 2011, the tax rate reverted to 30% hence a decrease in the return on equity from 34% to 31% and return on assets decreased from 6.1% to 5.5%. Profit before tax grew by 36% from Kshs 12.83 billion to Kshs 17.42 billion demonstrating the resilience of the bank's business model.

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.

On the customers front, the number of customers grew to 7.8 million placing Equity as the largest bank in Africa in customer numbers and demonstrating the social and financial inclusivity of our business model.

Regional expansion

As a bank, we continue to share a common vision of championing the social economic prosperity of the people of Africa. The bank has done reasonably well as a group with Kenya continuing to contribute significantly to the overall performance.

Chairman's Statement

Equity Bank South Sudan registered remarkable performance despite the challenging operating environment, Equity Bank Uganda is consolidating its path to growth and improving profitability, while the two new subsidiaries (Rwanda and Tanzania) have recorded significant growth in their short period of operations. Overall during the year, the 4 regional subsidiaries together with Equity Insurance Agency and Equity Investment Bank made a contribution of 15% both in terms of revenues and total assets to the group. I am happy to report that following the passing of relevant legislation and prudential guidelines we were able to roll out agency banking in Rwanda in October 2012. Equity Bank Tanzania opened its doors in February 2012.

Qualitative Milestones and Global Recognitions

Though operating in a very challenging macro-econonmic environment, year 2012 will go into history as an year when our brand and the Kenyan flag flew high in the global and continental arena.

It is the year we received two remarkable awards namely the Ernst & Young World Entrepreneur of the Year 2012 and the Forbes Person of the Year 2012.

The Bank through the CEO was also invited to serve on two key global bodies; the G8 New Alliance for Food Security & Nutrition as well as the Global Agenda Council on New Models of Economic Thinking of the World Economic Forum.

In June 2012, Equity Bank was awarded Best Managed Company in Africa award by Euromoney magazine, based on a survey of market analysts at leading banks and research institutes in Africa. The Bank won the award on a strong brand pull, regional footprint and corporate governance. Equity Bank was also awarded the Most Innovative Bank in Africa Award at the African Bankers Awards held in Arusha and the CEO recognized by Africa Investor as the Africa Innovation Leader Of The Year 2012.

Closer home, Equity Bank was named Best Bank in Kenya, Best Bank (tier 1) and the Best Bank in Microfinance awards at the 2012 Think Business banking awards while the CEO was honored with Lifetime Achievement Award in Banking.

In September 2012, the bank was also awarded the Global Credit Rating: long term AA- and short term A1+. This represents:-

"Highest certainty of timely payment. Short-term liquidity, including internal operating factors and/or access to alternative sources of funds, is outstanding, and safety is just below that of risk-free treasury bills."

Corporate Governance

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, Benson Irungu Wairegi, Fredrick Mwangi Muchoki and Temitope Olugbeminiyi Lawani.

During the year in a bid to enhance the capacity in executive management Dr Julius Kangogo Kipng'etich was appointed as Chief Operating Officer of the Bank.

Similarly, Dr Helen Wanjiru Gichohi was appointed as the Managing Director Equity Group Foundation, a wholly owned subsidiary of Equity Bank Limited.

Further in order to strengthen Corporate Goverance structures in the Group, new directors were appointed to the regional subsidiaries.

Professor Herman Musahara and Mrs. Evelyn Rutagwenda were appointed as non-executive directors for Equity Bank Rwanda Limited while Mrs Mary James Ajith and Dr Kenyi Spencer were appointed to the board of Equity Bank South Sudan.

Professor Delphin Rwegasira was appointed to the board of Equity Bank Tanzania Limited.

Chairman's Statement

I am confident that the new directors will bring their diverse skills and competencies to the Group. Please join me in welcoming the new directors to the Equity family.

Dividends

The board takes into cognizance balancing between maximizing shareholder value as well as the need to plough back funds into the company for future growth. The board is recommending a dividend of Kshs 1.25 per share(2011- Kshs 1.00) which translates to an increase of 25% over the previous year.

Outlook for 2013

The IMF forecasts a gradual strengthening of global growth through 2013, averaging 3.5 percent on an annual basis, compared to 3.2 percent in 2012. This is due to the implementation of policy actions that have lowered acute crisis risks in the Euro area and the United States coupled with a modest uptick in emerging market growth. The global economic conditions appear to have stabilized as observed by bond and equity markets movements in the past 6 months and sustained capital flows to emerging markets.

The East African economies are expected to continue benefitting from the stability of interest rates at lower levels than those experienced in the second half of 2011 and the first quarter of 2012. The improvement in weather conditions, continued prudent macroeconomic management and improving business confidence will underpin the growth. This should see growth in Kenya accelerate to at least 5% forecast by the World Bank.

Conclusion

Finally, my appreciation for the teams that have enabled us make these great strides over the years. My thanks go to my fellow members of the board of directors, the management and staff of the Equity Bank Group, and last but not least to all our customers and development partners who have kept faith in us throughout this journey.

Thank You

Mr. Peter Munga, CBS

Chairman – Board of Directors

Dr James Mwangi, CBS
CEO and Managing Director - Equity Bank Limited

CEO and Managing Director's Statement

It is my pleasure to present to you Equity Bank's annual report and financial statements for the year 2012.

Financial Performance

In the year under review, the bank continued to execute its vision of being "...the champion of socio-economic prosperity of the people of Africa." Am happy to report that the Bank has continued to defy macro economic turbulence to deliver strong growth, with profit before tax increasing by 36% to Kshs.17.4 billion up from Kshs.12.8 billion realized the previous year.

The Group's total assets posted a 24% growth during the year to close at Kshs.243 billion up from Kshs.196 billion. Net customer loans reached Kshs.136 billion up by 19% from Kshs.114 billion. Investment in Government Securities grew by 35% to Kshs.40.8 billion up from Kshs.30.2 billion while cash and bank placements grew by 28% to Kshs. 45 billion up from Kshs.35.3 billion.

The growth in assets was mainly funded by a 16% growth in customer deposits to Kshs.167.9 billion up from Kshs.144.2 billion and Shareholders' funds and borrowed funds which grew by 25% and 80% respectively.

Total income grew by 28% to Kshs.36.8 billion up from Kshs.28.67 billion while total operating expenses grew by 22% to Kshs.19.58 billion up from Kshs.15.98 billion. The growth in income was driven by a 19% growth in loans from Kshs.114 billion to Kshs.136 billion and 35% growth in investment in Government Securities resulting in growth of 48% in net interest income from Kshs.16 billion to Kshs.24 billion.

Strategic growth of SME lending resulted in rapid growth in loan book and we sustained a quality loan book despite the challenging macro-economic environment. The group maintained a gross non performing portfolio of 3.1% with a coverage ratio of 78%, some of the best ratios in the regional banking industry. Continued strategic focus on agency banking, mobile banking and regional expansion started to bear fruits with the cost income ratio for the group coming down from 50% to 49%.

The strategic unique funding structure of strong savings deposits, strong shareholders funds and long-term low cost debt helped to enhance net interest margin by 1% through-out the year. The Group's strong and liquid balance sheet characterized by a high asset quality portfolio, strong liquid asset position, loan to deposit ratio of 81% and a liquidity of 46% allowed the Group to continue its strategic growth pursuit despite the increased uncertainty in the turbulent macro- economic environment.

Business Development and Innovation

The Bank continues to strengthen its unique business model through innovation, enhanced use of technology and automation for a better customer experience. In line with this objective, the bank in the year 2012 focused on a number of strategic initiatives as follows:

SME Banking

The year 2012 saw the bank strategically refocus on SMEs in order to consolidate the client graduation strategy . This was achieved by revamping the product offering to this segment, opening of 7 Supreme Branches, recruitment and training of additional relationship managers and officers and refocusing of Equity Investment Bank to SME advisory services. Consequently, lending to Small and Medium Sized enterprises (SMEs) increased by 45% to Kshs 63.69 billion during the year. Todate, the SME sector accounts for about 45.5 % of the bank's loan book.

CEO and Managing Director's Statement

Agency Banking

The number of Equity Group agents stood at 6,344 as at December 2012. Transactions by agents grew by 96% between 2011 and 2012. Agents' transactions accounted for 30% of total bank transactions.

Agency banking pioneered in Kenya by Equity Bank has proved very successful. It has been approved by regulators in both Rwanda and Tanzania with Rwanda having 300 active agents while the process of rolling out agents in Tanzania is in progress. Having gained wide acceptance, focus will now shift to the commercial dimension of the model to achieve full value for the stakeholders. The bank will roll out new products with the customers at the heart of its operation, so that the customer can realize the value of convenience offered to them by the model, which will in turn strengthen the bond with the bank and increase uptake of banking products.

Mobile banking

The year 2012 also saw continued success in the roll out of mobile banking services. The number of customers signed up on the mobile banking service grew to over 2.1 million as at the end of 2012. The bank will continue to innovate around this space to enhance affordability, acessibility and convenience in line with our objective of increasing financial inclusion in the region.

Global Partnerships

In line with the Bank's vision of championing socio economic prosperity of our people, the bank will continue to enter into strategic partnerships that will broaden financial access and deepen inclusion into the region.

The Bank today has one of the best IT systems in the industry. The core banking system Finacle has the capacity of handling 35 million accounts and currently has nearly 8 million accounts. Equity Bank's investment in a robust IT platform continues to pay dividends as the Bank ventures into strategic partnerships with a view to becoming a one stop shop for financial services in the region.

Last year, the Bank partnered with China Union Pay, which allows UnionPay card holders to make transactions from Equity Bank's ATMs and Points of Sale Terminals across the East Africa region.

Further, in a bid to extend financial inclusion in the East African region, Equity Bank in collaboration with MasterCard Worldwide has also introduced Mobile Point of Sale (MPOS) technology. The innovative technology will help businesses and retailers boost sales through broadened acceptance. As a result of the partnership, MasterCard debit and prepaid cards with chip-enabled technology will be issued, first into the Kenyan market and then extended into Uganda, Tanzania, Rwanda, and South Sudan, signaling the largest rollout of EMV payment cards in sub-Saharan Africa to date. The MasterCard MPOS solution will enable the use of mobile phones at point of sale (POS) terminals and accept electronic payments.

Partnership with lenders

In order to support lending to the Small and Medium Enterprises (SME's), agriculture and women entrepreneurs in the region, the bank entered into a long term loan agreement with the International Finance Corporation (IFC), a member of the World Bank Group, who extended a Kshs 8.3 billion (US$100 million) loan to Equity Bank Group to support lending to these segments. The financing will support the growth of Equity Bank Group's lending portfolio in Kenya, Uganda, Tanzania, South Sudan and Rwanda.

CEO and Managing Director's Statement

Brand visibility through Community Partnerships

The Wings to Fly scholarship program is a partnership between Equity Group Foundation and The MasterCard Foundation, supported by USAID, UKaid and KfW and is administered by Equity Bank. The *Wings To Fly* program has continued to grow from strength to strength since it was launched by His Excellency President Mwai Kibaki in 2011 with 5,000 scholarships worth USD 40.9M from The MasterCard Foundation. To date, the program has secured an additional 3,671 scholarships comprising of 600 scholarships worth USD 5M from UKAID, 2,678 scholarships worth USD 26.4M from USAID and 350 scholarships worth USD 3M from KfW. Another 43 scholarships worth USD 0.3M have been secured through the generous donation of individuals and corporates. This brings the total to 8,671 scholarships worth USD 75.6M which is part of a 10,000 scholarship target by 2015.

In an effort to broaden financial access and deepen financial inclusion, the Bank has also partnered with The MasterCard Foundation through the Equity Group Foundation to roll out a financial literacy program that has so far trained over 500,000 youth and women out of the target 1 million beneficiaries. Dubbed Financial Knowledge for Africa (FiKA) the programme is supporting the growth of SMEs as drivers of economic growth by empowering entrepreneurs with knowledge to better manage their businesses.

2013 Outlook

Despite the difficult prevailing market conditions, the Group's commitment to its long-term strategy has enabled the bank to capture emerging growth opportunities in Kenya and the region. We expect that the growth momentum will be sustained through maintaining an efficient operating structure, robust agency network and mobile banking, focus on SME to embed client graduation process, leveraging on technology, prudent lending and risk management. The bank will continue to implement a winning strategy that focuses on delivering value to the customer, disciplined cost management and increasing productivity of the subsidiaries.

The Group plans to enhance its market share through consolidation of the regional business; rolling out electronic delivery channels and expanding agency banking in the recently established countries.

Conclusion

Let me conclude my remarks by expressing a deep sense of gratitude to all who have enabled the bank achieve the success registered in 2012. This includes all our clients in the region for remaining loyal to the Bank and continuing to trust us. May I also thank the shareholders, development partners and strategic business partners for your continued support and the Board for its guidance and continued support.

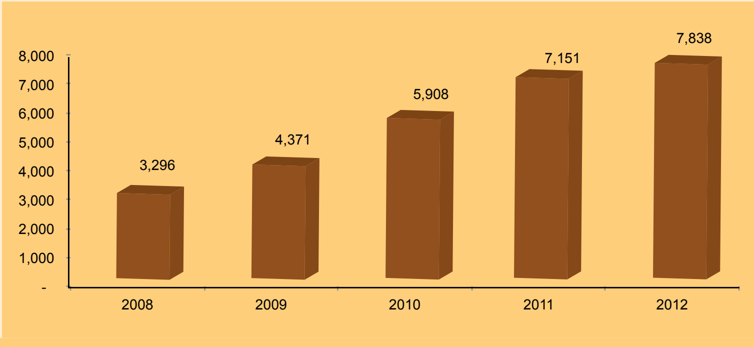
Finally, all the aforementioned achievement were made possible by a passionate and enthusiastic team at Equity Bank comprising over 7,000 staff members, board of directors and management. Team, we could not have done it without you! Thank you for continuing to live our brand pillars, essence and core values. I am confident that together guided by a common vision and purpose we shall be able to steer the bank to even greater heights of success and prosperity.

Dr James Mwangi, CBS

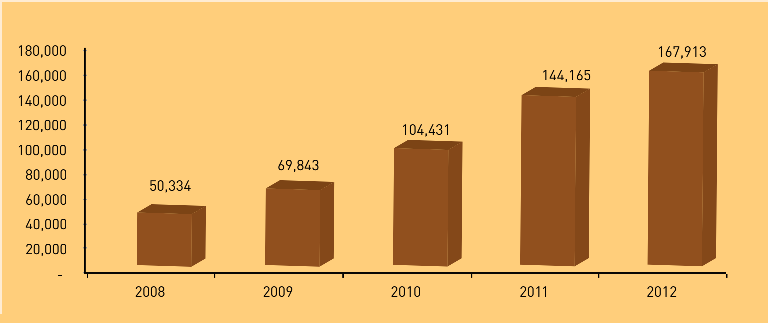
CEO and Managing Director.

Financial Highlights

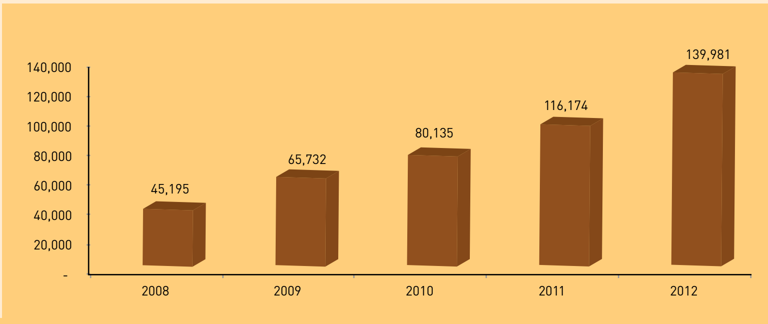
GROWTH IN CUSTOMER NUMBERS (In Thousands)



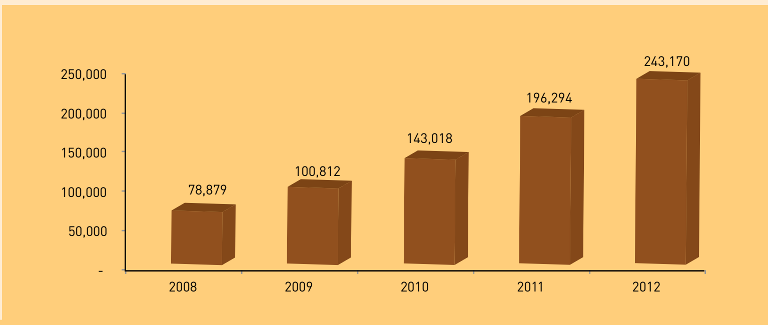
GROWTH IN CUSTOMER DEPOSITS (In Millions)



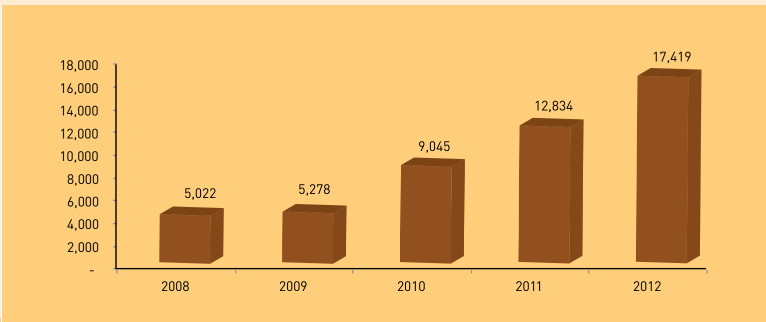
GROWTH IN GROSS LOAN PORTFOLIO (In Kshs Millions)



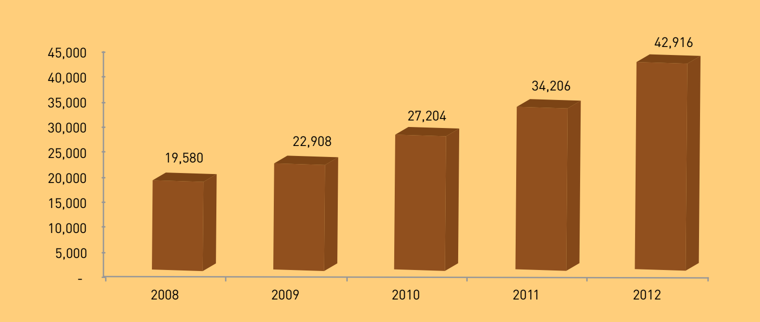
GROWTH IN TOTAL ASSETS (In Kshs Millions)



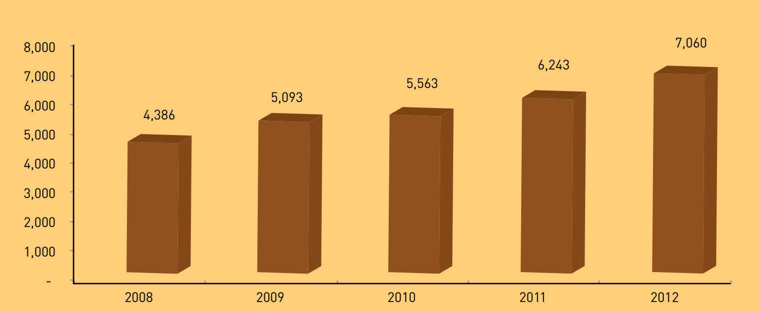
GROWTH IN PROFIT BEFORE TAX (In Kshs Millions)



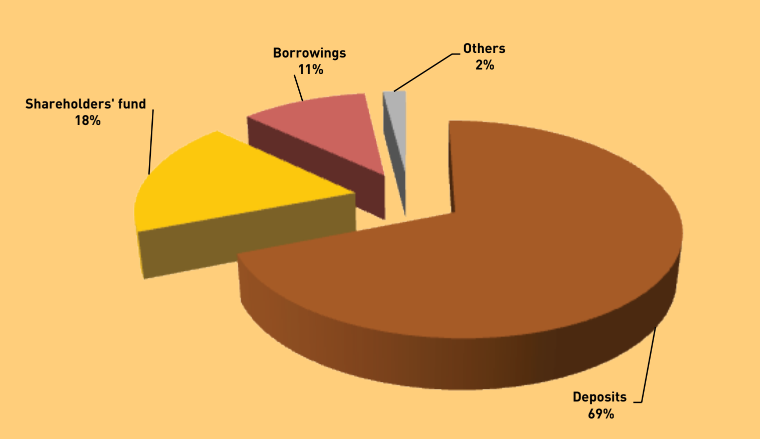
Financial Highlights



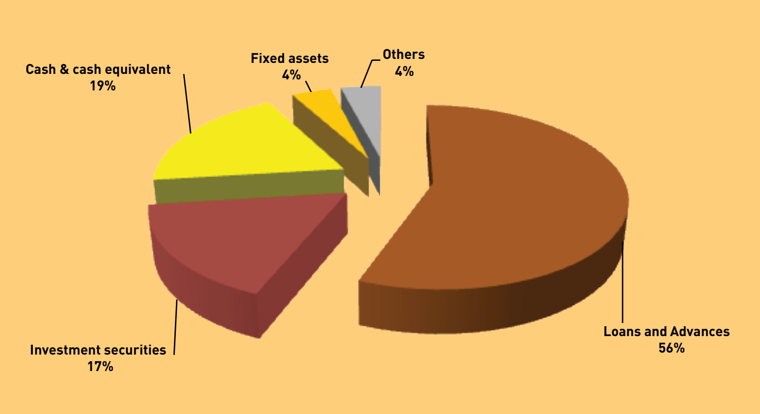
GROWTH IN SHAREHOLDERS' FUNDS (In Kshs Millions)



GROWTH IN STAFF NUMBERS



DISTRIBUTION OF LIABILITIES



DISTRIBUTION OF ASSETS

Key Achievements and Accolades

Corporate recognition

Best Managed Company in Africa by Euromoney

The Bank won the award on a strong brand pull, regional footprint and corporate governance.

Most Innovative Bank in Africa by Africa Banker

The annual awards reward outstanding talent and achievement in Africa's financial sector. Equity Bank staved off competition from three other nominees in the category including Nigeria's Access Bank and First Bank.

Best Bank in Kenya - 2012

Equity Bank was named Best Bank in Kenya at the Banking Awards 2012, while also receiving the Best Bank (tier 1) and the Best Bank in Microfinance awards at the same event.

"I hope this is a beginning of a very long partnership between MasterCard and Equity Bank . . . it's our first mobile point of sale launch on the African continent, and is a tribute to Equity Bank's ability to absorb technology but also their innovation and skill. That brings the powerful trifecta of EMV migration with mobile point of sale and financial inclusion. And who be better to partner with but our colleagues at Equity Bank; with 8 million customers spread over these East African markets, with their culture of dealing with people in low income but also making sure that they feel lifted as part of the financial sector."- ***Ajay Banga, President of MasterCard Worldwide***

Brand Recognition

GCR GLOBAL CREDIT RATING CO. Local Expertise • Global Presence

Long term AA -"...very high credit quality"
Short term A1 + "...highest certainity of timely payment"

"Highest certainty of timely payment. Short-term liquidity, including internal operating factors and/or access to alternative sources of funds, is outstanding, and safety is just below that of risk-free treasury bills."

Leadership Recognition

Ernst & Young World Entrepreneur of the Year

Equity Bank CEO and Managing Director Dr James Mwangi was in June named the Ernst & Young World Entrepreneur Of The Year 2012 at a ceremony held in Monte Carlo, Monaco. Dr Mwangi was picked from among the 59 country finalists shortlisted for the title across 51 countries. With the win, Dr. Mwangi became the first business leader from Sub Saharan Africa to win this prestigious award.

" James epitomizes the vision and determination that set entrepreneurs apart and is very worthy of the title Ernst & Young World Entrepreneur Of The Year 2012." said Jim Turley, Global Chairman and CEO of Ernst & Young.

Key Achievements and Accolades

Ruben Vardanian, President, Troika Dialog and Chair of the judging panel said, "Not only has James really transformed people's lives across Africa by offering them access to funding that they have never had before, Equity Bank continues to grow quickly through a strong financial performance." He was also among the finalists who were inducted to the Entrepreneur Of The Year Hall of Fame and the World Entrepreneurship Academy.

Forbes Africa Person of the Year 2012

Equity Bank CEO Dr James Mwangi was named the 'Forbes Africa Person of the Year 2012. Dr Mwangi won the award ahead of five finalists who included Aliko Dangote, Founder and President, Dangote Group and Her Exellency Joyce Banda the President of Malawi.

The award recognizes the individual that has made a significant impact in business through economic growth by creating employment and spearheading innovation in the African continent

*"Equity Bank has empowered over 1200 university students through university sponsorships. The Bank is also empowering these students with internship opportunities with the Bank and through mentoring. I commend the Bank and ask other companies to do likewise." **His Exellency Mwai Kibaki President of The Republic of Kenya"***

Life Achievement Award

Dr James Mwangi was honoured with the Life Achievement Award at the Banking Awards for his contribution to the banking industry; more so for his role and efforts in financial inclusion for previously unbanked citizenry.

Michael Wachira, Director Treasury and Trade Finance receiving the award on behalf of Dr Mwangi

All Africa Business Leader Award 2012 (AABLA)

Dr James Mwangi was recognized as the All Africa Business Leader 2012. The prestigious award presented by CNBC Africa in South Africa is a recognition and tribute to African Business Leaders who have made a qualitative and quantitative difference to the companies, industries and communities that they serve.

"There are many poor students in all sub-Saharan countries but what is lacking is the arrangement whereby an indigenous organization like Equity bank and EGF is able to work with communities and thereby be able to select brilliant but genuinely poor students."

*- **His Exellency Festus Mogae, Former President of Botswana***

Key Achievements and Accolades

Africa Innovation Leader Of The Year 2012

Commenting on the Awards, Hubert Danso, Chief Executive Officer and Vice Chairman Africa investor, said; "In this complex and competitive global investment and information environment, it's critical that Africa writes its own investment story. The achievements of the nominees, and winners of the 2012 Ai Investment and Business Leader Awards, play an important role in that process and assist domestic and international investors in identifying partners to participate in Africa's growth story."

G8 New Alliance for Food Security and Nutrition

Dr Mwangi was in 2012 appointed a member of the G8 New Alliance for Food Security. The New Alliance for Food Security and Nutrition Leadership Council that draws membership from top-level leaders in multi-stakeholder sectors such as government, international organizations, the private sector, civil society and academia. The New Alliance for Food Security and Nutrition (The New Alliance) is envisioned to be an enduring partnership between G-8 members. The New Alliance intends to build on the accountability work and collaborative efforts of the Comprehensive Africa Agriculture Development Programme (CAADP) and L'Aquila Food Security Initiative (AFSI). The Leadership Council will serve as a powerful advocacy and accountability voice for the New Alliance. The Alliance also seeks to strengthen the development of country-level performance indicators and the capacity of countries to assess their own progress over time.

Global Agenda Council on New Economic Thinking of the World Economic Forum

In 2012, Dr Mwangi was appointed to the Global Agenda Council on New Economic Thinking of the World Economic Forum. The Council was created by the World Economic Forum to bring together the leading thinkers across academia, the private sector, and the public sector, to focus on new economic thinking to address pressing challenges, individuals and societies face in market economies around the world. The Council will identify breakthrough ideas and new pathways to advance critical issues and ensure progress is made on the global agenda.

The World Economic Forum's Agenda Councils make up the world's foremost intellectual network, convening the most relevant and knowledgeable though leaders from businesses, government, academia and civil society to address key global issues. Serving as a global brain trust, insights and recommendations from the Councils not only help inform the Forum's programming, including at the Annual Meeting in Davos but also set the direction for global, regional and industry agendas.

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The social programs of Equity Bank Group continue to be implemented by Equity Group Foundation. During the year 2012, Dr. Helen Gichohi was appointed as the Managing Director of Equity Group Foundation, the social arm of Equity Bank Group. She brings over 25 year's international experience in managing social impact programs. Dr. Gichohi joined the Foundation from the African Wildlife Foundation where she served as the President. She has also been serving as a member of board of Equity Bank for a number of years.

During the period under review the Foundation implemented programs under the following pillars

1. EDUCATION

Under this pillar two major programs continued to be implemented as follows

- ***WINGS TO FLY* PROGRAM**

The program has grown exponentially from the initial intake of 166 in 2010 to the 3,484 scholars enrolled in 600 schools across the country in 2012. This rapid growth has largely been due to the financial support from The MasterCard Foundation with additional support from UKaid, USAID and a number of individuals and organizations who have been attracted to the program by its comprehensiveness and by the structures and systems in place to manage a scholarship program of this magnitude, especially the nationwide Equity Bank branch and agent network and support. Entwinklungsbank (KFW – the German Development Bank) will come on board in 2013 with one cohort of 350 scholars.

The scholarship initiative, grew from a US$50 million fund with the additional support of $17.4M from The United States Agency for International Development (USAID) to provide scholarships to 1678 *Wings To Fly* scholars and 488 existing scholars from the Orphans and Vulnerable Children (OVC) program as well as supporting the personnel and administrative costs of managing the project. During the year under review, the program grew its fund base to USD58.4M for 7,278 scholarships which is part of a 10,000 scholarships target. The students enrolled under the *Wings to Fly* scholarship program have demonstrated leadership qualities and academic excellence with many taking on roles such as school prefects, games captains, club leaders all the while upholding discipline and focus in their academic pursuits

The 2012 *Wings to Fly* class was commissioned on February 2012 at Moi Sports Centre Kasarani and presided over by His Excellency President Mwai Kibaki. A total of 2,144 scholars were admitted into the program bringing the total number of scholars to date to 3,484.

Accompanying the President at the function was the Vice President Hon. Kalonzo Musyoka, Minister for Education Prof Sam Ongeri, Acting Minister for Finance Hon. Njeru Githae, Assistant Minister for Housing Hon. Bishop Margaret Wanjiru, Permanent Secretary for Education Prof. Ole Kiyapi, and a host of high ranking government officials.

HE President Kibaki awarding one of the Wings To Fly Scholars.

Present during the commissioning ceremony were *Wings to Fly* partners including the President and CEO of The MasterCard Foundation Reeta Roy and the US Deputy Ambassador to Kenya Lee Brundvig. Members of the diplomatic corps included the German Ambassador to Kenya, Margit Hellwig-Bötte as well as high ranking officials from USAID and KfW.

- **UNIVERSITY SPONSORSHIP PROGRAM**

The 2012 University sponsorship class poses for a photo outside KICC after the commissioning

The 2012 intake of 250 top performing scholars brought to 1,290, the total number of students who have benefitted from this program since its inception in 1998.

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Equity Bank Group committed to spend Kshs 180 million towards the program at a sponsorship cost of Kshs 720,000 per student.

The Chief Guest, Education Minister Hon. Mutula Kilonzo who was represented at the commissioning event by Assistant Minister for Education Hon. Calist Mwatela, challenged higher institutions to develop globally competitive work force.

Naima Nurrain receives her sponsorship letter from the Assistant Minister for Education Calist Mwatela

The program offers university sponsorship to the top boy and top girl in all the districts where Equity Bank has a branch through an internship program and leadership training.

The programme imparts the scholars with the skills, values and mindset to make them responsible and accountable citizens. It aims to nurture and develop top performers to become future transformational leaders.

During their internship at the Bank, the students are inducted into leadership skills, life skills, work ethics, entrepreneurship, community service amongst other areas. The students also visit schools and motivate other students on academic excellence. The internship continues when the students are on vacation while at the university and it offers them an opportunity for employment upon graduation.

- **ADMISSION TO TOP WORLD UNIVERSITIES**

The program supports students to seek admissions to top world universities. The students are guided through the college application process all the way through to matriculating and excelling in their schools of choice.

Dr James Mwangi poses with some of the Equity Bank Scholars who received scholarships to study in some of the world leading universities

21 scholars in the Equity Bank University Sponsorship program received scholarships in 2012 by world leading universities to pursue various courses of study.

Trevor Omangi who attended Maseno School received a scholarship to study Mechanical and Aerospace Engineering in Seoul National University, South Korea. *"I am delighted to have this opportunity to study in a country that has championed technology in the recent years, I hope to take advantage of this diversity to expand the technology capability of my country,"* he said.

Shina Leboo who was the top girl in the 2010 KCSE exams in Uasin Gishu District was admitted to Harvard University, USA. *"Some girls from our community do not get the opportunity to study; some of them undergo Female Genital Mutilation, FGM and then go for early marriages which can be depressing. I will use my influence to sensitize members of my community on the need to educate their children especially girls because we are the change our community needs,"* she said.

So far, 69 of these students have secured admissions in globally competitive institutions of Higher Education. These include: Aberdeen University, Amherst College, Bowdoin College, Brown University, Columbia University, Cornell University, Duke University, Harvard University, Massachusetts Institute of Technology, Middlebury College, Princeton University, Seoul National University, Smith College, Swarthmore College, University of Cape Town, University of Manchester, University of Pennsylvania, Williams College, Karolinska Institute in

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Sweden and Yale University and Asheshi University in Ghana.

- **ANNUAL EDUCATION AND LEADERSHIP CONGRESS**

The Annual Education and Leadership Congress is the highlight of the leadership, mentoring and social transformation programs run by Equity Group Foundation (EGF) in partnership with The MasterCard Foundation with support from USAID and UKAID which seeks to develop the next generation of transformational leaders.

The congress brings together scholars drawn from both the *Wings To Fly* and the Equity University Sponsorship programs, and seeks to nurture leadership skills and create a global mindset in the scholars, by exposing them to mentoring opportunities from outstanding role models from the academia, the public service, entrepreneurship, non-profits, and influential captains of industry amongst others.

The 3rd Annual Education and Leadership Congress focused on globalization with the theme *"Developing a Global Edge"* and took place from 13th - 23rd August 2012 at the Kenyatta University. Through plenary sessions, panel discussions, workshops and focus group discussions, the congress explored the implications of an increasingly globalized world, highlighting solutions to global challenges and ways through which emerging leaders can enhance their competitiveness within the global context.

Approximately 4,500 scholars who included *Wings To Fly* scholars and Equity Bank university sponsorship beneficiaries and alumni attended the 2012 congress.

His Exellency President Mogae former President of Botswana Inspires over 4,500 Scholars on Leadership during the 2012 Annual Congress held at Kenyatta University

Former President of Botswana His Excellency Festus Mogae, was the keynote speaker. He urged Kenyan scholars to adopt leadership attributes that will prepare them for leadership in Kenya and Africa in the future. The former president, who is also a member of The MasterCard Foundation Board and the 2008 winner of the Mo Ibrahim Prize for Leadership reminded the scholars that they are being trained for future leadership of this country, Africa and the world. *"You must work hard towards achievement of your goals. Whatever you choose to be, you have to consistently work hard and be clear in your mind. Have courage and practice what you believe in even if you are ridiculed," he said.*

H.E. Mogae, who was accompanied by the President & CEO of The MasterCard Foundation Reeta Roy said that he could relate with most of the scholars' backgrounds, as he too grew up in a needy household. *"I studied on bursaries right through university and I had to work during my holidays to earn money,"* he shared.

There were over 65 speakers including several accomplished scholars, leading CEOs, business and other world class leaders who addressed the Congress participants to mentor and inspire them. Plenary sessions and conversations ranged from disciplined approaches, achieving academic success, making the right career choices, innovating for change, effective governance and leaving lasting legacies. Notable among the speakers were Hon. Mutula Kilonzo, Minister for Education; Reeta Roy, President & CEO, The MasterCard Foundation; Dwaine Lee, Director, Education and Youth, USAID – Kenya; Alistair Fernie, Head of DFID (Kenya & Somalia); Abbas Gullet, Secretary General of Kenya Red Cross; Anthony Mwai, Regional General Manager, IBM East Africa; Dr. Bitange Ndemo, Permanent Secretary, Ministry of Information & Communications; Eric Kimani, Philanthropist & Former CEO, Kenya Tea Development Agency; Fred Swaniker, Co-Founder, African Leadership Academy; Dr. Jane Mwai, Head of Employee Engagement, EABL; Patricia Ithau, CEO L'Oreal East Africa; Paul Kukubo, CEO, Kenya ICT Board & Co-Founder 3mice Interactive; Prof Shaukat. A. Abdul Razak, CEO National Council for Science and Technology and Tom Mshindi, Managing Director Nation Newspapers Division, Nation Media Group among others.

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2. FINANCIAL LITERACY AND EDUCATION (FiKA)

Equity Group Foundation continues to offer Financial Education to women and youth that commenced in October 2010. By end of year 2012; 518,487 women and youths had benefited from financial education which is a partnership between The MasterCard Foundation and Equity Group Foundation.

A training session for youth

The training which is offered free of charge, is facilitated by trainers who are stationed in Equity Bank branches across the country where they reach out to potential trainees and conduct the twelve weeks 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.

The training impacts the trainees with knowledge, skills and attitude change towards good money management therefore enabling them to make sound financial decisions and become financially included.

Esterina Naitisai being presented her FiKA graduation certificate at Loyangalani by the German Ambassador to Kenya Her Excellency Margit Hellwig-Bötte

The testimonies from the beneficiaries regarding the impact this financial training has had on their lives are a strong indication of how financial knowledge will go a long way to increase financial inclusion for millions of Kenyans.

Esterina Naitisai in one of her businesses.

Esterina Naitisai has three enterprises situated in Loiyangalani. Although Naitisai's businesses are doing well, she confides that she required training to better manage her investments.

".....I started with a small business. Since I was not able to keep a budget, the business monies were being mixed up and I was not able to separate the business money and personal money.

After enrolling in the financial education program, I have learned that each business should have its own budget so that each one of them can sustain itself. This way I am able to identify which money comes from which business and how much is used"

Another beneficiary of the training is Abigael Chepkirui owner Abijani Collections. Abigael says she was fortunate to have gone through the financial literacy training especially on the topics covering budgeting, savings and debt management. Today she can't hold back her joy. *"I can remember well how the trainer took us through the training. At the start, the trainer told us to close our eyes and think of our future in five years' time. Many questions ran in my mind about my family and my business goals. As the training progressed I realized record keeping and budgeting were key aspects I had to follow through for my business progress. I realized that this was what I had been missing all the while. I thought budgeting was for the rich who have a lot of money but after the training I*

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looked back and regretted how much money I have been wasting on other unnecessary things. I used to get money but I never accounted for every shilling.

After the training, I was however able to separate and categorize my expenditures right from the households' uses and the business stock/marketing uses. My Savings also improved. I drew a savings plan which enabled me to save and achieve various goals from the household to the business. I learnt that the reason we had not progressed in the business is not lack of money but lack of knowledge. I feel lucky it came at the right time and phase of my financial life." says Abigael

3. ENTREPRENEURSHIP AND INNOVATION

The Equity Group Foundation in partnership with The MasterCard Foundation and the International Labour Organization (ILO) is implementing a Pilot Entrepreneurship Training (EE) program that has a holistic focus on developing practical and applicable small business skills through providing entrepreneurship training and business advisory services to help develop and grow youth and women owned microenterprises. The program further seeks to document and disseminate learning's from the training program to the global microfinance industry.

The pilot entrepreneurship training aims to train 10,000 youth and women entrepreneurs in Kenya over a period of 2 years (5000 per year) selected from a pool of graduates from the Financial Literacy training program. Currently the trainees receive the trainings free of charge. The training is also reinforced by provision of credit for business growth to the entrepreneurs.

The program has managed to train 5,305 entrepreneurs in the Start and Improve your Business training. The beneficiaries are spread across the country.

In general the training uses a very practical approach to inculcate the entrepreneurship culture to become a way of life for the trainee. The training covers seven thematic areas in entrepreneurship and small business management that includes: marketing, record keeping, costing, business planning, stock control, buying, people and productivity.

The entrepreneurship Training is being implemented through three approaches:

a. **Practical business management Skills training;** where trainees are trained in the Start and Improve Your Business (SIYB curriculum). This is to facilitate knowledge acquisition on key principles for success in entrepreneurship and business.

b. **In- business mentoring and training;** where the trainer and mentor has one on one sessions with trainees at the business site to handhold and support trainees to achieve their business vision and objectives. The trainees also form business improvement groups for peer learning and group mentoring by the trainer. The mentoring is more like an after care done after the in class training.

c. **Business advice through multimedia;** where business tips and advice is disseminated through electronic media to trainees motivate and avail relevant business management and environment related information. This is to reinforce learning post class training

Rachael Nyambura Njoroge-A woman Entrepreneur owner of Queens Beauty Salon and Kinyozi Embu had this to say about the program; *"I started my business in early 2006 at Kasarani Nairobi with savings amounting to shs. 50,000/=. I later moved to Embu and joined Blessed Women youth group where after savings I was given a Loan of sh. 30,000 which I used to boost my relatively new business. That was back in 2008. Currently my Business is worth more than 500,000/= of assets, thanks to Equity Bank and Equity Group Foundation."* She poses.

Rachael N.N at her Queen's Beauty Salon and Kinyozi

As a result of Entrepreneurship Education and training, Rachael says that she can easily calculate her monthly net profit and track business growth over time.

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According to the records maintained from October 2012 to December 2012, her average monthly Net profits are 40,000/= which she claims that she would have not been able to realize were it not for the training, thanks to Equity Group Foundation for training her on business skills and management. Rachael has employed three staff and is currently training five more. She hopes to expand her business by starting a cosmetics/Agency shop and open other Queen's Beauty branches before end of year 2013.

- **VISIT BY STANFORD EXPERTS**

Equity Bank Group hosted education and business experts from Stanford University for a five-day exposure and strategy visit. Gina Klein Jorasch, Director of Education and Dissemination for the Stanford Institute for Innovation in Developing Economies (SEED) and Jesper B. Sørensen, the Walter Kenneth Kilpatrick Professor of Organizational Behavior in the Graduate School of Business at Stanford University commended the EGF on the success of the various programs the Foundation has undertaken in the areas of Education, Innovation, and Entrepreneurship.

The visit entailed a series of meetings and exploratory discussions with a view to a partnership to set up an Innovation Centre together with the Center for Social Innovation at Stanford Graduate School of Business and Stanford Institute for Innovation in Developing Economies (SEED).

Equity Bank and Stanford University closing session

4. AGRICULTURE

In 2012 Equity Bank together with Equity Group Foundation continued to support agriculture by developing innovative solutions jointly with likeminded partners and stakeholders in the agriculture and environment value chains. One of the key achievements was the development of a training manual for financial literacy in agriculture which has benefited many players in the value chain particularly farmers. This was achieved by recruitment of additional members of staff in agriculture who were recruited on the basis of their qualifications in the fields of crops, livestock and environment. They were trained in banking and marketing and more specifically trained to be trainers for farmers.

- **KILIMO BIASHARA**

Arising from the success of Kilimo Biashara which has been under implementation since 2008 in partnership with AGRA and IFAD through Ministry of Agriculture, a further funding for the project was injected by World Bank with funding from European Union Food Crisis Rapid Response Facility Trust Fund through Government of Kenya Ministry of Agriculture. This funding was channeled through four banks including Equity bank and was in form of a risk sharing facility. By the end of year 2012 a total of *Ksh 754,009,000* had been disbursed to *8,376* direct beneficiaries, whereby *8,028* small holders have been financed to the tune of *ksh 630,271,000* and *348* agro dealers accessed *ksh 123,828,000* in loans. To

Seed maize produce in Sandai Irrigation Scheme in Marigat

date Ksh 2.9 billion has been disbursed to over 55,000 borrowers in the Kilimo Biashara value chain. Through this project new areas of funding became apparent in regions such as Eldama Ravine, Kabarnet, and Kapenguria where farmers have been trained and are accessing credit to improve their production while being

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paid through agents for their proceeds. Many of them are involved in seed multiplication for seed companies thus improving their household incomes and food security at the same time. Farmers in Kabarnet are involved in rice seed multiplication.

Another area of intervention is the introduction of sorghum as a commercial crop for smallholder farmers in Western and Nyanza with East African Breweries providing market for the produce. This is in addition to commercialisation of sorghum farming in upper and lower Eastern province which has been in progress since 2009.

Gadam sorghum in Bondo-Nyanza

- **IRRIGATION SCHEMES PROGRAMME IN PROMOTING FOOD SECURITY**

With the support of Kilimo Biashara product, the Bank is engaged in enhancing food production in the country through promotion of non rain fed agriculture by working in partnership with Ministry of Water and Irrigation, Ministry of Agriculture and other partners. An example of such partnerships is one with KFW in a bilateral funding to Kenya Government for smallholder irrigation where farmers have water under the project. The farmers are benefiting from training from Equity group Foundation and accessing working capital loans from the Bank which they are using to grow crops both for local market and for export.

Crop of cabbages in smallholder irrigation scheme

- **TEA SECTOR**

In partnership with KTDA and KTDA Foundation, Equity Bank and Equity Group Foundation embarked on training tea farmers on financial literacy towards end of year 2012. A total of 26,074 farmers and 2150 KTDA staff were trained. The objective of the training is to equip farmers with knowledge and skills of financial management including savings, budgeting and debt management.

- **LIVESTOCK SECTOR**

Dairy has been a focus for the Bank as the enterprise is quite transformational. Many partners have come on board to support the sector so that it remains competitive and sustainable. Equity Bank participated in various forums organized by the processors especially Brookside dairies, New KCC, Sameer and many other processors all over the country where farmers are trained on credit facilities and other financial services especially in areas where dairy is a key livelihood subsector. The agency banking has helped the dairy farmers to access their money conveniently.

In the arid and semi arid areas, communities in Marsabit Moyale and Isiolo are involved in livestock trade as a livelihood activity by accessing credit through a partnership with Food for the Hungry, FH.

Livestock in arid and semi arid areas.

- **REVIVAL OF COTTON FARMING.**

For a second year, Equity Bank jointly with Equity Group Foundation worked closely with stakeholders in the cotton value chain. In Bura and Hola irrigation schemes a total of *ksh 55 million*, was advanced to farmers who produced high quality cotton.

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Martha Kambura thanks Equity Bank for the motorcycle she was awarded for producing the highest yield 2,393 kgs of cotton in one acre of land at Bura, on her side is Equity Bank CEO Dr James Mwangi who graced the Field day held for famers. Martha also graduated after completing Financial Literacy training.

- **CASH TRANSFER AS A FOOD SECURITY INTERVENTION**

In 2012 Equity Bank jointly with Equity Group Foundation continued to partner with various organizations to transfer cash as a food intervention to vulnerable communities.

World Food Programme: Targeted beneficiaries through Cash for Asset and Unconditional Cash Transfers in arid and semi arid areas.

UNICEF through Red Cross supporting 15,500 households in Lodwar, Isiolo and Garissa.

Actions Against Hunger (ACF) supported 300 households in Makueni.

Under this intervention Equity Bank facilitated access to cash by the beneficiaries using its infrastructure while Equity Group Foundation offered financial literacy to the beneficiaries.

5. ENVIRONMENT CONSERVATION AND SUSTAINABILITY

- **SUSTAINABLE LIVELIHOOD PROJECTS FOR COMMUNITIES AROUND MAU COMPLEX.**

Equity Bank and Equity Group Foundation continued to implement the Sustainable Livelihood Project. This is a partnership between Kenya *Forest service (KFS) supported by Food and Agriculture Organization (FAO) and Equity Bank jointly with Equity Group Foundation,* which aims at improving livelihoods of farmers around Mau forest water catchment area. The objective of the project is to support farmers to start sustainable on-farm projects to conserve the forest. The role of the Bank is to provide financial intermediation to the farmers. A total of 24 groups in Molo, Kericho and Nandi Hills are involved in this project. The individual members participating are 535. 20 groups have accessed credit worth over ksh 3.3 million to undertake diverse projects. They have also improved their financial status through savings as a result of the financial training.

Tegat farmers which is one of the groups has taken up bee keeping as an income generating activity where the project was able to finance 24 members a total of ksh 307,780 and purchased 52 bee hives.

An Apiary financed by Equity Bank for Tegat Farmers field school.

- **SUPPORT TO COMMUNITY BASED FARM FORESTRY ENTERPRISES (SCBFFE)**

During the year Equity Bank and Equity Group Foundation started implementation of the Support to Community Based Farm Forestry Enterprises (SCBFFE) project in partnership with Kenya Forest Service with support of World Bank funding from Japan Social Development Fund. The project covers three forest zones namely, Kitui, Mbeere and Tharaka which are all in arid and semi arid regions. The farmers have benefited from financial literacy training and 29 groups are accessing credit. They are engaged in environmentally friendly farm forest enterprises.

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- **SAVE THE MAU TRUST INITIATIVE**

Since the commencement of the project in 2009, which is a partnership between Equity Bank, East African Breweries, Nation Media Group, Kenya Wildlife Service and the Green Belt Movement a total of 714,650 seedlings have been planted. The initiative has

seen over 3000 community groups mobilized with participation of the local leadership. Over 100 tree nursery groups have been mobilized in the project area as well as schools adopting plantation of woodlots within their school compounds. The awareness that has been created has seen the local communities appreciating the linkages between the forest and the communities' socio-economic well being thus instilling a deep sense of ownership of the forest. Trust partners tree planting events have encouraged the local communities to participate in tree planting activities with others adopting planting of live fences along their farms and greatly emphasizing the need to create woodlots that would eventually be used for charcoal, firewood and even timber. Others have taken up water harvesting especially surface runoff by digging trenches and directing the water to their farms and some have introduced terracing on farms and planting of nappier grass thereby improving food security. The Initiative targets to plant one million tree seedlings by June 2013 in the first phase. The local communities have already started seeing the benefits of the re-afforestation with streams erupting serving as water sources to the communities in the region.

WHAT OTHERS SAY | Charles Onyango-Obbo

How Equity Bank chief is creating an 'accidental' army of capitalists

On Tuesday, I was one of the guest speakers at the Third Annual Equity Group Foundation Education and Leadership Congress at the Kenyatta University campus.

I am not a fan of these kinds of thing, but there were a couple of things in the invitation from Equity chief James Mwangi that whetted my curiosity.

The invitation said that the congress would be attended by "over five thousand scholars drawn from the Equity Bank university sponsorship programme and the 'Wings to Fly' programme". The university programme benefits the top-performing students in the university entry exams. Pretty straightforward.

However, it is the Wings to Fly programme that intrigued me. It offers full scholarships for academically gifted children from poor backgrounds. At least two are picked from every district in Kenya every year.

The congress goes on for all of two weeks. I just could not get my head around how a programme that has over 5,000 students looks like. Now Mwangi should know better than to invite nosy journalists into his business, because we work on the assumption that the real and most interesting story is not what is on the menu before us. It is what is behind the curtains and happens in the corridors. Anyway, he did.

The main event was held at the Amphitheatre at Kenyatta University. The theatre was full to the rafters and enveloped in that honest sweaty odour of the masses. Very different from the plastic cologne-and-perfume variety you would get at a conference held at a five-star hotel in central Nairobi.

It was intimidating. Fortunately, we were to speak separately to a smaller group of only the university scholars, some 400 of them.

Looking ahead, if these Equity Foundation programmes continue for just another 25 years and remain at the same level, they will have nearly 50,000 of what I would call "Equityzens". Because the gender split is nearly 50-50, if by the time half of them are married to people who are not alumni of the programme and have families of three children each, you will have 12,500

> The gods of capitalism and democracy have ensured that our politicians do not learn any lessons"

Equity men having 37,500 children, and Equity women having 37,500 children too — 75,000 in all. In all, that would give you 125,000 Equityzens.

What does this mean? If Mwangi were called by his maker to start a bank in the Hereafter in 25 years, and all Equityzens turned up for his burial, he would have the biggest funeral in East Africa.

We should be thankful that the gods of capitalism and democracy work in mysterious ways, and they have ensured that our politicians do not learn any lessons from the methods of foundations like Equity's.

Otherwise, a political party that chose not to bribe voters and instead used its money to set up a similar scholarship scheme could dominate every branch of the state and private sector completely within 20 years. And it would be impossible to defeat.

In fact, the first organisations in Africa to do what Equity is doing on a larger scale were the Catholic and Protestant missionaries. It is the Africans who are in their 40s and 50s who were the first to be educated with their parents' money. Before that, nearly 100 per cent of, especially, poor Africans (and they were the overwhelming majority) studied on Catholic or Protestant church scholarships.

Thus nearly all of the first generation of independence leaders was educated on church money. The best part was that the first crop of radical Africans was also a creature of the missionaries.

In Uganda, for example, many of the radicals and leftists to this day are chaps who flanked out of Catholic seminaries. These firebrand failed priests, though they oozed anti-church and anti-imperialist rhetoric, could never take away the privileges of the churches (tax breaks, huge land holdings) because they would be biting the hands that fed them.

The real success of the missionaries in Africa was that they bred, and "owned", the opposition and radical movements on the continent.

Likewise, while the Equity Foundation scholarship programme might partly be an investment into a future loyal customer base, the greater effect is that most Equityzens will come to represent the mass conversion of people who were born in poor families into leading champions of capitalism.

I doubt that even in his most inspired moments Mwangi would have planned that.

cobbo@ke.nationmedia.com
and twitter@cobbo3

23rd August 2012
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BOARD OF DIRECTORS

Dennis Aluanga
Non-Executive Director

Temitope Lawani
Non-Executive Director

Prof Shem Migot-Adholla
Non-Executive Director
Non-Executive Chairman Equity Bank South Sudan

Peter Munga
Non-Executive Chairman

Fredrick Muchoki
Non-Executive Director

Ernest Nzovu
Non-Executive Director

Mary Wamae
Secretary to the Board

Dr Julius Kipng'etich
Chief Operating Officer

David Ansell
Non-Executive Director,
Non-Executive Chairman
Equity Bank Uganda,
Rwanda, Tanzania

Alykhan Nathoo
Non-Executive Director

Dr James Mwangi
Chief Executive Officer and
Managing Director

Dr Helen Gichohi
Managing Director Equity Group
Foundation

Benson Wairegi
Non-Executive
Vice Chairman

Babatunde Soyoye
Non-Executive Director

Board of Directors

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 is the Chairman of National Oil Corporation and a Director in Micro-Enterprise Support Programme Trust (MESPT), British American Investments Company (Kenya Ltd), Rockefeller Foundation and Equatorial Nut Processors.

DR. JAMES MWANGI, CBS - CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR

Dr Mwangi holds four Honorary doctorate degrees in recognition of his contributions to the Kenyan society. He holds a Bachelor of Commerce degree and is a Certified Public Accountant. Dr Mwangi has been honored twice with Presidential national awards. He is currently the Chairman of Kenya's Vision 2030 Delivery Board charged with the responsibility of ensuring Kenya becomes a middle income country with global high standards of living by the year 2030. He serves on several international bodies as an advisor, is a Board member of the Africa Leadership Academy in South Africa and is the Chancellor Meru University College of Science and Technology. He has over 23 years of management experience.

BENSON I. WAIREGI, EBS - NON-EXECUTIVE VICE CHAIRMAN

Mr Wairegi holds a Master of Business Administration degree and Bachelor of Commerce degree from the University of Nairobi and is a Certified Public Accountant CPA (K). He is the Group Managing Director of British-American Investments Company (Kenya) Ltd. (Britam), the parent company to British-American Insurance Company (K) Ltd and British- American Asset Managers Limited. He is also a Director of Housing Finance (HF), Chairman of Kenyatta University Council and a former Chairman of the Association of Kenya Insurers (AKI) and former board member of the Board of Trustees of the Insurance Training and Education Trust respectively.

DR JULIUS KIPNG'ETICH - CHIEF OPERATING OFFICER

Dr Kipng'etich holds a Master of Business Administration degree and a Bachelor of Commerce (Accounting option) degree from University of Nairobi. He joined Equity after an eight year successful career as the Chief Executive Officer of Kenya Wildlife Service and was previously the Managing Director of Investment Promotion Centre. He is a member of the Kenya Tourist Board, and serves on the Boards of Kenya Forest Service, Police Oversight Board, Moi Girls' Eldoret, Starehe Girls' School, Starehe Boys' Centre, Kenya Tea Development Authority and the Kenya Red Cross Society. He is a leading member of the Mau Task Force, The Steering Committee for the Marketing of Kenya Stadia, The 1st University Council Member - Management University of Africa. He is also the Patron of AIESEC – University of Nairobi.

Board of Directors

DR. HELEN GICHOHI, MBS - MANAGING DIRECTOR, EQUITY GROUP FOUNDATION

Dr Gichohi holds a Ph.D. in Ecology from the University of Leicester in the UK. She also holds a Master of Science degree in Biology of Conservation and a BSc in Zoology from the Universities of Nairobi and Kenyatta University respectively. She joined Equity Group Foundation in December 2012 from the African Wildlife Foundation where she served for 11 years from 2001. She served as Director of the African Heartlands Program before rising to become Vice President for Programs in February 2002. In 2007 she was appointed the first AWF President and led the move of AWF's Headquarters to Nairobi, Kenya from Washington DC in the USA. In that capacity, she provided overall strategic leadership to AWF's Conservation Program spanning 14 countries across Africa.

TEMITOPE LAWANI - NON-EXECUTIVE DIRECTOR

Mr Lawani received his BS 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. He 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 forming Helios he was a Principal in the San Francisco and London offices of TPG Capital ("TPG"), a leading global private equity firm managing over $50 billion in capital. Tope is also a former Mergers & Acquisitions and Corporate Development Analyst at the Walt Disney Company in Burbank, California. He serves on Boards of Directors of Vivo Energy, First City Monument Bank PLC, Helios Towers Nigeria, InterSwitch Limited, Helios Towers Africa Limited and Finacity. He also serves as a member of the Harvard Law School Dean's Advisory Board; the Overseers' Visiting Committee of the Harvard Business School; and the MIT Open Courseware Advisory Board.

FREDRICK MUCHOKI O.G.W - NON-EXECUTIVE DIRECTOR

Mr Muchoki is a businessman with vast commercial experience. He is the Managing Director of Continental Business Systems, Presta and Office Equipment Limited, Mugumo Coffee Ltd, Online Mobile Com. Ltd and Summerdale Inn Ltd.

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).

Board of Directors

BABATUNDE SOYOYE - NON-EXECUTIVE DIRECTOR

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

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

Professor Shem holds a PhD in Sociology of Development, Master of Arts in Sociology, both from University of California, was a Special Graduate Student in Agricultural Economics (Michigan State University) and earned a Bachelor of Arts (University of East Africa). Prof Shem is a private consultant on agriculture and rural development, land policy reform and environmental issues based in Nairobi, Kenya. He is Chairman of the Board of Directors, Institute of Policy Analysis and Research (IPAR) Nairobi and sits on the Board of the Center for Corporate Governance and is also a Director of Housing Finance Company of Kenya Ltd. He has previously served as Vice-Chairman Board of Directors Kenya Wildlife Service between 2004 and 2007 and was Lead Specialist on Land Policy and Administration for Africa Region in the World Bank Headquarters. He also served (on secondment from the World Bank) as Permanent Secretary, Ministry of Agriculture and Rural Development, Government of Kenya, where he was responsible for formulation and implementation of agricultural and rural development policy as well as general oversight of 38 state corporations. Earlier he was Associate Research Professor at the Institute for Development Studies (IDS), University of Nairobi and has numerous publications focusing on land issues, pastoralism, farmers' institutions and rural development. He has working experience in many African countries as well as Haiti, Kyrgyz Republic and several Asian countries.

ALYKHAN NATHOO - NON-EXECUTIVE DIRECTOR

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

Board of Directors

DENNIS ALUANGA - NON-EXECUTIVE DIRECTOR

Mr Aluanga holds an MBA from the University of Edinburgh Business School, UK and is a Certified Public Accountant. He is a partner at Helios Investment Partners and serves as a non-executive director at Nation Media Group as well as at Property Development and Management Ltd. Dennis was the Chief Operating Officer at Industrial Promotion Services (East Africa) between 2008 and June 2011. Prior to joining IPS, he served in several capacities at Nation Media Group rising to the position of Chief Operating Officer.

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

Mr Ansell holds a Bachelors degree in Mathematics from the University of North Carolina at Wilmington, another Bachelors degree in Finance from the Thunderbird Graduate School of International Management and an Advanced Management Degree (AMP) from the Wharton School of Business. David R. Ansell was appointed as a Director of Equity Bank in 2012, and also serves as The Chairman of the Board of Directors of Equity's 100% owned subsidiaries in Uganda, Rwanda, and Tanzania. He also serves on the Board of Directors of the affiliated company, Housing Finance. During his working career from 1968-2001; he served in various assignments at Citibank in the Emerging Markets, including 16 years in Africa. His last assignment before retiring was as President of Citibank Russia. From 1989-1991, Mr Ansell left Citibank and served as Managing Director and the first CEO of Ecobank Transnational Inc, located in Lome, Togo, but he rejoined Citibank thereafter.

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.

Board of Directors

PROF. GEORGE ALIBARUHO - NON-EXECUTIVE DIRECTOR, EQUITY BANK UGANDA

Prof. Alibaruho holds a PhD degree (Economics), University of California, Berkeley. He has worked in various capacities for Makerere University, University of Nairobi, East African Community, World Bank, the United Nations, Economic Commission for Africa, World Bank, International Food Policy 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 Professor and Chair of the Department of Economics and the Dean of the Faculty of Arts and Social Sciences, Kabale University in Uganda.

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, Ethiopia., and Kenya and Zimbabwe. She also served as UNDP's Deputy Regional Director for Africa. She currently works as Innovations in Development Consultant.

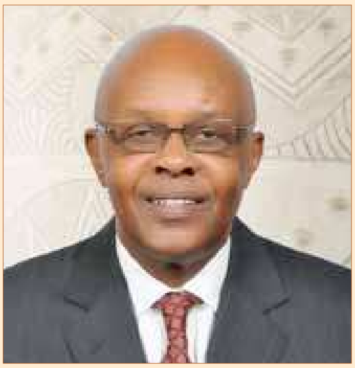
DR. KENYI SPENCER - NON-EXECUTIVE DIRECTOR, EQUITY BANK SOUTH SUDAN

Dr. Kenyi holds a professional certificate in International Trade from the International Trade Institute of Southern Africa (Affiliate of International Association of Trade Training Organization – University of Geneva, Switzerland), Masters degree in environmental management from the University of the Free State (Bloemfontein), South Africa 2000 – 2002, Practical Ecology from Technische Universitat Berlin, Germany and BSc. in Science and Applied Environmental Science from the National University of Lesotho. Dr. Kenyi is currently a consultant for the World Bank on Private Sector Development in a Post-Conflict country; he has executed many assignments for the World Bank and the Republic of South Sudan (RSS). He is also a deputy Chairman of Central Equatorial Development Agency (CEDA), a local institution tasked with infusion of scientifically oriented agriculture to Central Equatorial farmers, and a board member of the Juba Media Group. And previously, he worked as a Deputy Director, KB Environment & Trade Consultancy.

MARY JAMES AJITH - NON-EXECUTIVE DIRECTOR, EQUITY BANK SOUTH SUDAN

Mrs. Mary J. Ajith holds a law degree from Neelian University, Khartoum, Sudan and is currently a Legal Counsel, Ministry of Justice, Republic of South Sudan. Mary has also worked with various Gender and Child related organizations and holds a certificate on Gender and Development and Advance certificate on UN Women Peace and Security Council Resolution 1325.

Board of Directors



PROF. DELPHIN RWEGASIRA - NON-EXECUTIVE DIRECTOR, EQUITY BANK TANZANIA

Prof. Delphin G. Rwegasira is a Professor in Development at the University of Dar es Salaam's Economics Department. He has many years of international and regional economic experience. Until 2006, he had worked for four years as Senior Advisor at the International Monetary Fund's African Department. Previously, he was Executive Director of the Nairobi–based African Economic Research Consortium (AERC) and member of its international Board of Directors. He also served in the African Development Bank (AfDB) as Senior Advisor to the President, and Director of Development Research and Policy. In the early 1980s, he served as Associate Professor of Economics at the University of Dar es Salaam, and as staff Director at the Central Bank of Tanzania. Born in Tanzania, he holds a PhD in economics from Harvard University, U.S.A., and a first-class Bachelor's degree in Statistics and Economics from the former University of East Africa (University College Dar es Salaam). He has published internationally on development and financial issues, contributed to the work of a number of expert and policy groups, and served as a member of the United Nations Committee for Development Policy.

PROF. HERMAN MUSAHARA - NON-EXECUTIVE DIRECTOR, EQUITY BANK RWANDA

Prof. Herman holds a BA Education degree, Masters of Arts in Economics and a PhD in Development Studies. He is currently an associate professor and Director of planning and development NUR. Prof. Herman previously worked as the national coordinator, African Technology Policy Studies Network, Vice President organization for social science research in Eastern and Southern Africa among others.

EVELYN RUTAGWENDA - NON-EXECUTIVE DIRECTOR, EQUITY BANK RWANDA

Mrs. Evelyn Rutagwenda holds a Bachelor of Commerce from Makerere University Kampala and is a Certified Public Accountant – CPA(K). She previously worked as the Auditor General, for the Republic of Rwanda, as the Secretary General of Uganda National Chamber of Commerce and Industry (UNCCI), consultant/project accountant in Decentralization Secretariat (Institutional Capacity Building Project), Ministry of Local Government and also as Chief Auditor at UCA Auditing Services among others.

MARY WAMAE - SECRETARY TO THE BOARD

Mrs. Wamae holds an LLB degree from the University of Nairobi, a Diploma in Law from the Kenya School of Law and is a Certified Public Secretary (Kenya). She is a graduate of Advanced Management Programme (Strathmore - IESE Business School, Barcelona Spain). She is an Advocate of the High Court of Kenya and holds a Post Graduate Diploma in Gender and Development and has over 14 years private practice experience.

Executive management

DR. JAMES MWANGI, CBS - CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR

James holds four Honorary doctorate degrees in recognition of his contributions to the Kenyan society. He holds a Bachelor of Commerce degree and is a Certified Public Accountant. James has been honoured twice with Presidential national awards. He 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 ,is a Board member of the Africa Leadership Academy in South Africa , the Global Alliance for Food Security and Nutrition among others and is the Chancellor Meru University College of Science and Technology. James has wide experience in the banking industry and inclusive finance.

DR JULIUS KIPNG'ETICH - CHIEF OPERATING OFFICER

Julius holds a Master of Business Administration degree and a Bachelor of Commerce (Accounting option) degree from University of Nairobi. He joined Equity after an eight year successful career as the Chief Executive Officer of Kenya Wildlife Service and was previously the Managing Director of Investment Promotion Centre. He is a member of the Kenya Tourist Board, and serves on the Boards of Kenya Forest Service, Police Oversight Board, Moi Girls' Eldoret, Starehe Girls' School, Starehe Boys' Centre, Kenya Tea Development Authority and the Kenya Red Cross Society. He is a leading member of the Mau Task Force, The Steering Committee for the Marketing of Kenya Stadia, The 1st University Council Member - Management University of Africa. He is also the Patron of AIESEC – University of Nairobi. Julius joined Equity in 2004 as board member and management in 2012.

DR. HELEN GICHOHI, MBS - MANAGING DIRECTOR, EQUITY GROUP FOUNDATION

Helen holds a Ph.D. in Ecology from the University of Leicester in the UK. She also holds a Master of Science degree in Biology of Conservation and a BSc in Zoology from the Universities of Nairobi and Kenyatta University respectively. She joined Equity Group Foundation in December 2012 from the African Wildlife Foundation where she served for 11 years from 2001. She served as Director of the African Heartlands Program before rising to become Vice President for Programs in February 2002. In 2007 she was appointed the first AWF President and led the move of AWF's Headquarters to Nairobi, Kenya from Washington DC in the USA. In that capacity, she provided overall strategic leadership to AWF's Conservation Program spanning 14 countries across Africa.

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 14 years private practice experience.

Executive management

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.

GERALD WARUI - DIRECTOR OF HUMAN RESOURCE AND CUSTOMER EXPERIENCE

Gerald holds an Executive Masters of Business Administration degree from Jomo Kenyatta University of Agriculture and Technology (JKUAT). He is also 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 vast experience in operations and customer service. Prior to his current position, he served as the Director of Operations and Customer Service. He has served in Equity Bank for 15 years.

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

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 over 15 years experience.

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 nine years ago, Hildah had acquired extensive banking experience in operations, compliance, customer service and consumer banking for over ten years with Barclays Bank of Kenya.

Executive management

MICHAEL WACHIRA - DIRECTOR OF TREASURY AND TRADE FINANCE

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.

ISAAC MWIGE - DIRECTOR OF RELATIONSHIP 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 15 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.

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 over 11 years of banking experience. Elizabeth joined Equity Bank in 2001.

BILDARD FWAMBA - GENERAL MANAGER, INTERNAL AUDIT

Bildard holds a Bachelor of Commerce (Accounting) degree from Kenyatta University and is a Certified Public Accountant, CPA (K). He is also writing his dissertation for an MBA at Strathmore Business School. He has over15 years experience in Finance and Audit and previously worked with Central Bank of Kenya and British American Insurance Company. Bildard joined Equity Bank in 2004.

AYOTUNDE ABOABA - GENERAL MANAGER, RISK

Ayo holds a Masters Degree in Mathematical Finance from the University of Oxford, England, A Msc in Information Technology, A post Graduate Diploma in Actuarial Science, a Bsc degree in Maths and Statistics. Prior to joining the bank, Ayo served at Moody's Analytics; Independent FOREX Trader, LCH Clearnet as the Quantitative Analyst, UBS London as a credit Valuer, Dresdner Kleinwort as the Quantitative Structurer, Fitch Ratings as the Quantitative Developer and Barclays Bank as the Senior Analyst Programmer in London. Ayo joined Equity Bank in November 2012.

WINNIE NJAU-MBUGUA - EXECUTIVE DIRECTOR, EQUITY INSURANCE AGENCY

Winnie holds a Bachelor of Commerce (Insurance Major) degree from the University of Nairobi and is an Associate of Chartered Insurance Institute (ACII) from the Chartered Insurance Institute (UK) and a member of the Insurance Institute of Kenya. She has over 18 years experience in insurance brokerage as a senior manager handling large insurance portfolios in key insurance intermediary firms in the local insurance industry. Prior to joining Equity Insurance in 2007, she worked for Aon Minet Kenya Insurance Brokers Limited.

Executive management

JUMAANE TAFAWA - EXECUTIVE DIRECTOR, EQUITY INVESTMENT BANK

Jumaane holds an MPA in International Development from Harvard University.He joined Equity Bank in 2012. In addition to heading Equity Investment Bank, he also leads implementation of Equity Bank's SME strategy, business clubs and Equity Group Foundation Entrepreneurship and Innovation Center. Jumaane has over a decade of business strategy and small and medium enterprise (SME) development experience gained through his work in the private, government and nonprofit sectors, in 60+ countries. He has spent most of his career as a management consultant improving the effectiveness of multiple SME development programs across the world, especially across Africa.

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 - MANAGING 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. He is a graduate of Advanced Management Programme (Strathmore- IESE Business School, Barcelona Spain). 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 Masters degree in Organizational Leadership from the International Leadership University, 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 20 years experience in Banking covering Corporate & Retail Banking, Operations and Risk Management and previously worked with leading international banks including Citibank and Standard Chartered Bank, Africa. His International banking experience has seen him work across East, Southern and West Africa as well as in Asia and the UK.

APOLLO N. NJOROGE - EXECUTIVE DIRECTOR, EQUITY BANK UGANDA

Apollo holds a Bachelor of Science (Hons) from University of Nairobi in Mathematics and Physics, Masters Degree in International Business Administration in Finance from United States International University and a Diploma in Banking. Prior to his current posting he was the General Manager Corporate Banking in Equity Bank Kenya and has wide experience of 17 years in banking.

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 31 December 2012 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 17b.

2. RESULTS

The results for the Bank and group for the year are set out on page 51-118

3. DIVIDENDS

The Board has recommended a dividend of KShs 1.25 (2011: KShs 1.00) 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
Dr. Julius Kangogo Kipng'etich***	-Chief Operating Officer
Benson Irungu Wairegi	-Vice-chairman
Fredrick Mwangi Muchoki	
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

**** Alternate to Babatunde Temitope Soyoye

***** American

\+ Retired by rotation on 30th March 2012 and was re-elected

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:

Benson Irungu Wairegi

Fredrick Mwangi Muchoki

Temitope Olugbeminiyi Lawani

The following key changes happened during the year:

1. Appointment of Dr Julius Kangogo Kipng'etich as Chief Operating Officer of the Bank;
2. Appointment of Dr Helen Wanjiru Gichohi as the Managing Director Equity Group Foundation a wholly owned subsidiary of Equity Bank Limited.

5. AUDITORS

The auditors, Ernst & Young, have indicated their willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act and subject to Section 24(1) of the Banking Act.

6. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 28th February 2013.

BY ORDER OF THE BOARD

Mary Wangari Wamae - Company Secretary

28th February 2013.

Statement Of 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 our customers and having regard to the interests of all other stakeholders, including staff, regulators and the communities in which the Group operates.

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

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

The Board has also attracted outstanding directors who have shown great commitment and enthusiasm in discharging their duties and obligations to the Bank while also demonstrating the spirit and ethos of the organization. The directors subscribe to the Code of Corporate 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 selection criteria and processes for the board selection.

During the year, eleven directors served on the board with two alternates and five full board meetings were held. Mr Ernest Nzovu, Prof.Shem Migot-Adholla, Dr. Helen Wanjiru Gichohi, Mr. Dennis Aluanga and Mr. David Raymond Ansell retired from the Board on 30th March 2012 and were re-elected. As well, Dr Julius Kipng'etich and Dr Helen Gichohi joined the executive management in the capacity of Chief Operating Officer and Managing Director Equity Group Foundation respectively.

The director's attendance for 2012 was as follows:

	Board	Audit Committee	Credit Committee	Risk Management & ALCO Committee	Strategy & Investment Committee	Tendering & Procurement Committee	Governance, Board Nomination & Staff
	Number of meetings held						
	5	4	4	4	3	4	4
	Number of meetings attended (maximum possible)						
Peter Kahara Munga	5 (5)				1 (3)		4 (4)
Dr. James Njuguna Mwangi	5 (5)				3 (3)		4 (4)
Benson Irungu Wairegi	5 (5)	4 (4)		3 (4)	3 (3)		
Frederick Mwangi Muchoki	5 (5)		4 (4)			4 (4)	
Ernest Mattho Nzovu	5 (5)		4 (4)			4 (4)	4 (4)
Dr. Julius Kangogo Kipng'etich	4 (5)	4 (4)		4 (4)	3 (3)		

Prof. Shem – Migot Adholla	5 (5)		3 (4)	3 (4)	3 (3)		
Babatunde Temitope Soyoye	5 (5)	3(4)		3 (4)			4 (4)
Temitope Olugbeminiyi Lawani	3 (5)				1 (3)		
Dr. Helen Gichohi	5 (5)	3(4)				3 (4)	4 (4)
David Ansell	5 (5)		4 (4)	4 (4)			

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. Ernest Nzovu Mr Babatunde Soyoye
iii.	Risk Management and ALCO Committee	Prof Shem Migot-Adholla - Chair Mr. Benson Wairegi Mr David Ansell Mr Babatunde Soyoye
iv.	Credit Committee	Mr David Ansell- Chair Mr. Fredrick Muchoki – Vice Chair Mr. Ernst Nzovu Prof. Shem Migot-Adholla

Statement Of Corporate Governance

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 Dr. 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 provides independent oversight of the Group's financial reporting and internal control system, ensures that checks and balances are in place and the Group has and adheres to sound policies, processes and procedures that deliver business strategic plans effectively. The committee receives and reviews findings of internal and external audits and actions taken to address them. It is comprised of three non executive directors.

Risk Management and ALCO Committee ensures quality, integrity and reliability of the Group 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 Group.

Credit Committee reviews and oversees the overall lending policy of the Group and its subsidiaries ensures lending systems and procedures are adequate and adhered to and also ensures full compliance with Central Bank of Kenya prudential guidelines, Bank of Uganda guidelines, Bank of South Sudan guidelines (Sudan), National Bank of Rwanda (BNR), Bank of Tanzania guidelines, Banking Act and International Financial Reporting Standards to guarantee high quality asset portfolio.

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 the Company Secretary is a member of the Institute of Certified Public Secretaries of Kenya (ICPSK).

THE BANK'S RISK MANAGEMENT FRAMEWORK

The Bank's Board of Directors is the primary risk supervisor, exercising its role through various board-approved 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 that they are consistent with safe and sound banking practices.

The Bank 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 Bank'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 Bank to offer forecasts of risk; to be reconciled statistically with subsequently registered events, by risk function analysts. The combination of an 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 Head of Risk 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 Stock Exchange (NSE), Uganda Securities Exchange and other relevant ones in all countries in which we operate.

Statement Of Corporate Governance

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

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

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

1. The MasterCard Foundation
2. UK Agency for International Development (UKaid)
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. Duetsche Bank Microfinace Fund
27. Ontwikelinslanden N.V (FMO)
28. Micro Finance Sector Support Credit (Ministry of Finance)
29. Micro Finance Enhancement Facility (MEF)
30. International Finance Corporation (IFC)
31. European Investment Bank (EIB)
32. Technoserve

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
12. G8 New Alliance for Food Security & Nutrition
13. Global Agenda Council on New Models of Economic Thinking of the World Economic Forum

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 Ksh 11 billion in 2007 to become the largest shareholder in Equity Bank with 24.45%. 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.

Statement Of Corporate Governance

Helios manages capital on behalf of a group of investors, comprising of several leading global 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").

One of the few independent pan-African private equity investment firms founded and led by Africans, 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 PLC;
- Vivo Energy, a joint venture between Helios and Vitol Group formed to acquire Royal Dutch Shell PLC's downstream businesses in Africa for over US$1 billion.

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

Britam is a diversified financial services group in Kenya with interests in Insurance, Asset Management, Private Equity and Real Estate. It is a company listed on the Nairobi Securities Exchange. Britam Group has three subsidiaries in Kenya namely British-American Insurance Company (Kenya) Limited, British-American Asset Managers Limited and Bramer Properties Limited and Regional subsidiaries in Uganda and South Sudan. The largest shareholder in Britam is British-American (Kenya) Holdings Limited which is in turn controlled by British American Insurance Company (Mtius) Limited, a company incorporated in Mauritius.

Directors shareholding as at 31st December 2012:

DIRECTOR	NUMBER OF SHARES	%
Peter Munga	22,417,690	0.61
Dr. James Mwangi	127,656,700	3.45
Benson Wairegi	9,075,000	0.25
Julius Kangogo Kipng'etich	1,102,950	0.03
Temitope Lawani	0	0
Fredrick Muchoki	1,799,760	0.05
Ernest Nzovu	0	0
Babatunde Soyoye	0	0
Prof Shem Migot-Adholla	0	0
Dr. Helen Gichohi	0	0
Alykhan Nathoo	0	0
Dennis Aluanga	0	0
David Ansell	0	0

Statement Of Corporate Governance

As at 31st December 2012, 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	283,713,630	7.66
EQUITY BANK EMPLOYEES' SHARE OWNERSHIP PLAN	142,866,900	3.86
JAMES NJUGUNA MWANGI	127,656,700	3.45
EQUITY NOMINEES LIMITED A/C 00104	110,000,000	2.97
FORTRESS HIGHLANDS LIMITED	101,010,000	2.73
STANDARD CHARTERED NOMINEES NON-RESD. A/C 9069	93,726,800	2.53
ANDREW MWANGI KIMANI	90,426,800	2.44
AIB NOMINEE A/C SOLIDUS HOLDINGS LTD	90,114,910	2.43
STANDARD CHARTERED NOMINEES NON RESIDENT A/C 9054	88,098,530	2.38
OTHER 26,490 SHAREHOLDERS	1,670,000,200	45.1
TOTAL SHARES	**3,702,777,020**	**100.00**

*By Virtue of his shareholding and units in British American Investments Company (K) Limited and Employee Share Ownership Plan (ESOP) respectively , Dr James Mwangi's total direct and indirect shareholding is 4.88%.

DISTRIBUTION OF SHARES

	No. of	No. of	% Shares
Shareholding	Shareholders	Shares	Held
1 – 500	8,971	2,406,446	0.06%
501 - 5,000	12,546	23,336,600	0.63%
5,001 - 10,000	1,927	15,123,519	0.40%
10,001 – 100000	2,396	68,430,387	1.84%
100,001 - 1000,000	450	151,266,843	4.08%
1,000,001 and above	210	3,442,213,225	92.96%
Total	**26,500**	**3,702,777,020**	**100.00%**

Statement Of Directors' Responsibility

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

They are also responsible for designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free of material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors are also responsible for safeguarding the assets of the Group and the Bank.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and the Bank and of the operating results of the Group and the Bank.

The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal control.

Nothing has come to the attention of the directors to indicate that the Group and the Bank will not remain a going concern for at least the next twelve months from the date of this statement.

Director: ______________________

Director: ______________________

Secretary ______________________

28th February 2013.

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 2012, 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 51 to 118.

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 misstatement, 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 present fairly, in all material respects, the financial position of Equity Bank Limited and subsidiaries as at 31 December 2012 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
28th February 2013

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2012

		Group		Bank	
In millions of Kenya Shillings	*Note*	2012	2011	2012	2011
Interest income	8	**30,848**	19,339	**28,497**	18,376
Interest expense	8	**(6,884)**	(3,116)	**(6,385)**	(2,815)
Net interest income		**23,964**	**16,223**	**22,112**	**15,561**
Fee and commission income	9(a)	**2,301**	2,349	**1,809**	2,034
Net fee and commission income		**2,301**	**2,349**	**1,809**	**2,034**
Net trading income	9(b)	**2,090**	2,423	**821**	1,274
Other operating income	10	**8,472**	7,675	**7,133**	6,598
Operating Income before impairment losses		**36,827**	**28,670**	**31,875**	**25,467**
Net impairment loss on financial assets	11	**(1,608)**	(1,630)	**(1,456)**	(1,533)
Operating income after Impairment losses		**35,219**	**27,040**	**30,419**	**23,934**
Personnel expenses	12	**(7,172)**	(6,009)	**(5,905)**	(5,185)
Operating lease expenses	13	**(1,213)**	(919)	**(847)**	(687)
Depreciation and amortisation	14, 15	**(2,316)**	(1,745)	**(2,018)**	(1,483)
Other Operating expenses	16	**(7,269)**	(5,688)	**(5,589)**	(4,475)
Total Operating expenses		**(17,970)**	**(14,361)**	**(14,359)**	**(11,830)**
Profit before tax and equity income		**17,249**	12,679	**16,060**	12,104
Share of profit of associate	17(a)	**171**	155	**-**	-
Profit before income tax		**17,420**	12,834	**16,060**	12,104
Income tax expense	18	**(5,340)**	(2,509)	**(5,063)**	(2,330)
Profit for the year		**12,080**	**10,325**	**10,997**	**9,774**
Attributed to: **Equity holders of the parent**		**12,080**	**10,325**	**10,997**	**9,774**
Earnings per share (basic and diluted)	**29**	**3.26**	**2.79**	**2.97**	**2.64**

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2012

		Group		Bank	
In millions of Kenya Shillings	*Note*	2012	2011	2012	2011
Profit for the year		**12,080**	10,325	**10,997**	9,774
Other comprehensive income		**-**	-	**-**	-
Exchange differences on translation of foreign operations		**(74)**	(204)	**-**	-
Revaluation of property and equipment and other reserves		**(2)**	(6)	**-**	-
Profit on available fo sale financial assets		**(124)**	-	**(124)**	-
Gain on fair valuation	21	**454**	(72)	**454**	(72)
Other comprehensive income for the year		**254**	**(282)**	**330**	**(72)**
Total comprehensive income for the year net of tax		**12,334**	**10,043**	**11,327**	**9,702**
Attributed to:-					
Equity holders of the parent		**12,334**	**10,043**	**11,327**	**9,702**

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2012

		Group		Bank	
In millions of Kenya Shillings	*Note*	**2012**	2011	**2012**	2011
Assets					
Cash and cash equivalents	19	**45,134**	35,282	**35,467**	19,130
Loans and advances to customers	20(b)	**135,692**	113,824	**122,410**	106,486
Finance lease receivable	20 (c)	**-**	1	**-**	-
Investment securities	21	**41,101**	30,502	**32,792**	30,199
Amounts due from related parties	22(g)	**2**	124	**983**	1,094
Other assets	23	**7,243**	5,038	**6,459**	4,707
Tax recoverable	18	**55**	53	**-**	-
Investments in associate	17(a)	**1,457**	1,366	**1,113**	1,260
Investments in subsidiary companies	17(b)	**-**	-	**8,204**	6,672
Property and equipment	14	**9,072**	7,592	**6,530**	6,044
Prepaid leases	14(c)	**292**	29	**4**	4
Intangible assets	15	**1,415**	1,352	**1,123**	1,076
Goodwill	17(c)	**887**	887	**-**	-
Deferred tax assets	24	**820**	244	**744**	239
Total assets		**243,170**	**196,294**	**215,829**	**176,911**
Liabilities					
Deposits from customers	25	**167,913**	144,165	**142,386**	125,492
Tax payable	18	**2,365**	487	**2,258**	417
Other liabilities	27	**3,369**	2,565	**2,759**	2,186
Borrowed funds	26	**26,569**	14,792	**25,755**	13,769
Deferred tax liability	24	**38**	-	**-**	-
Total liabilities		**200,254**	**162,009**	**173,158**	**141,864**
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		**25,088**	17,719	**24,308**	17,974
Available for sale reserve	28(c)	**(732)**	(1,062)	**(732)**	(1,062)
Loan loss reserve	28(d)	**603**	521	**454**	420
Foreign currency translation reserve	28(e)	**(603)**	(529)	**-**	-
Revaluation reserve	28 (f)	**32**	34	**-**	-
Other reserves	28(g)	**(113)**	(113)	**-**	-
Proposed dividends	28(h)	**4,629**	3,703	**4,629**	3,703
Total equity		**42,916**	**34,285**	**42,671**	**35,047**
Total liabilities and equity		**243,170**	**196,294**	**215,829**	**176,911**

The financial statements were approved by the Board of Directors on 28th February 2013 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 31DECEMBER 2012

Group

In millions of Kenya Shillings

For the year ended 31 December 2012	Share capital	Share premium	Retained earnings	Loan loss reserve	Available-for-sale reserve	Foreign currency translation reserve	Revaluation reserve	Other reserves	Proposed dividend	Total equity
At 1 January 2012	**1,851**	**12,161**	**17,719**	**521**	**(1,062)**	**(529)**	**34**	**(113)**	**3,703**	**34,285**
Total comprehensive income:										
Profit for the year	-	-	12,080	-	-	-	-	-	-	12,080
Other comprehensive income	-	-	-	-	330	(74)	(2)	-	-	254
Loan reserve transfers	-	-	(82)	82	-	-	-	-	-	-
Dividends:										
Final for 2011 paid	-	-	-	-	-	-	-	-	(3,703)	(3,703)
Proposed for 2012	-	-	(4,629)	-	-	-	-	-	4,629	-
At 31 December 2012	**1,851**	**12,161**	**25,088**	**603**	**(732)**	**(603)**	**32**	**(113)**	**4,629**	**42,916**
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)	(204)	(6)	-	-	(282)
Loan reserve transfers	-	-	(107)	107	-	-	-	-	-	-
Dividends:										
Final for 2010 paid	-	-	-	-	-	-	-	-	(2,962)	(2,962)
Proposed for 2011	-	-	(3,703)	-	-	-	-	-	3,703	-
At 31 December 2011	**1,851**	**12,161**	**17,719**	**521**	**(1,062)**	**(529)**	**34**	**(113)**	**3,703**	**34,285**

Statement Of Changes In Equity

FOR THE YEAR ENDED 31DECEMBER 2012

Bank

In millions of Kenya Shillings

For the year ended 31 December 2012	Share capital	Share premium	Retained earnings	Loan loss reserve	Available for sale reserve	Proposed dividend	Total equity
As at January 2012	**1,851**	**12,161**	**17,974**	**420**	**(1,062)**	**3,703**	**35,047**
Total comprehensive income:							
Profit for the year	-	-	10,997	-	-	-	10,997
Other comprehensive income	-	-	-	-	330	-	330
Loan reserve transfers	-	-	(34)	34	-	-	-
Dividends:							
Final for 2011 paid	-	-	-	-	-	(3,703)	(3,703)
Proposed for 2012	-	-	(4,629)	-	-	4,629	-
At 31 December 2012	**1,851**	**12,161**	**24,308**	**454**	**(732)**	**4,629**	**42,671**
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**

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31DECEMBER 2012

		Group		Bank	
In millions of Kenya Shillings	*Note*	**2012**	2011	**2012**	2011
Cash flows from operating activities					
Net profit before taxation		**17,420**	12,834	**16,060**	12,104
Adjustments for:					
Depreciation	14	**2,016**	1,583	**1,734**	1,338
Amortisation of intangible assets	15	**300**	162	**284**	145
Unrealised exchange (gains) / losses		**(286)**	63	**(288)**	(67)
Profit on disposal of Property and equipment		**(4)**	(7)	**(6)**	(3)
Provision for non-performing loans	11	**1,608**	1,630	**1,456**	1,533
Share of profit of associate	17a	**(171)**	(155)	**-**	-
Dividends received	17a	**(80)**	(49)	**-**	-
Interest on term borrowings	8	**1,474**	763	**1,508**	806
Operating profit before working capital changes		**22,277**	**16,824**	**20,748**	**15,807**
Loans and advances		**(23,476)**	(37,159)	**(17,380)**	(35,118)
Other assets		**(2,205)**	(1,254)	**(1,495)**	(1,472)
Finance lease Receivable		**1**	2	**-**	-
Customer deposits		**23,748**	39,734	**16,893**	30,289
Due from related parties		**122**	(16)	**-**	144
Other liabilities		**804**	(151)	**573**	(73)
Cash generated from operations		**21,271**	**17,980**	**19,339**	**9,577**
Income taxes paid	18	**(4,002)**	(2,875)	**(3,728)**	(2,747)
Net cash generated from operating activities		**17,269**	**15,105**	**15,611**	**6,830**
Cash flows from investing activities					
Purchase of property, equipment & prepaid leases	14	**(3,782)**	(2,225)	**(2,236)**	(1, 689)
Purchase of intangible assets	15	**(363)**	(473)	**(331)**	(467)
Proceeds from sale of property and equipment	14	**27**	25	**22**	4
Investment in subsidiary		**-**	-	**(1,532)**	(1,588)
Dividend received		**80**	49	**-**	49
Purchase of investment securities	21	**(25,893)**	(22,546)	**(17,091)**	(22,248)
Proceeds from sale of investments securities	21	**15,625**	23,959	**14,829**	23,888
Net cash generated from / (used in) investing activities		**14,306**	**(1,211)**	**(6,339)**	**(2,051)**
Cash flows from financing activities					
Dividend paid	28(h)	(3,703)	(2,962)	(3703)	(2,962)
Proceeds from long term borrowings		13,581	8,096	13,745	7,502
Repayment of long term borrowings		(1,804)	(1,267)	(1,759)	(1,197)
Interest paid on term borrowings	8	(1,474)	(763)	(1,508)	(806)
Net cash flow generated from financing activities		**6,600**	**3,104**	**6,775**	**2,537**
Net increase in cash and cash equivalents		**9,563**	**16,998**	**16,047**	**7,316**
Effect of foreign exchange differences		323	(63)	290	67
Effect of foreign currency translation reserve on cash and cash equivalents		(34)	(156)	-	-
Cash and cash equivalents at the beginning of the year	19	35,282	18,503	19,130	11,747
Cash and cash equivalents at the end of the year	**19**	**45,134**	**35,282**	**35,467**	**19,130**

Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 31DECEMBER 2012

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, Hospital road, Upper Hill. 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, South Sudan, Rwanda and Tanzania. Its shares are listed on the Nairobi Securities Exchange and Uganda Securities Exchange.

The consolidated financial statements for the year ended 31st December 2012 were authorised for issue according with resolution of the directors on 28th February 2013.

2. Accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations:

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for available –for sale investments all of which have been measured at fair value which are measured at amortised cost. The consolidated financial statements are presented in Kenya Shillings and all values are rounded to the nearest million Kenya Shillings, except when otherwise indicated.

(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) Presentation of financial statements

The Bank presents its statement of financial position in order of liquidity. Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a currently legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

(c) Functional and presentation currency

The consolidated financial statements are presented in Kenya Shillings, which is the Bank's functional currency and have been rounded off to the nearest million.

(d) Basis of consolidation

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

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

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

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

2. Accounting policies (continued)

2.2 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.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Bank based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

Judgements

In the process of applying the Bank's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

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

The valuation of financial instruments is described in more detail in Note note 7.

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 profit or loss. 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

Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 31DECEMBER 2012

2. Accounting policies (continued)

2.2 Significant accounting estimates, judgments and assumptions

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.

3. Changes in accounting policy and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations:

IFRS 7 Financial Instruments: Disclosures (amendment)

The amendment provides enhanced disclosures for 'transferred financial assets that are derecognised in their entirety' and Transferred assets that are not derecognised in their entirety. The effective date is for annual periods beginning on or after 1 July 2011. Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe

Hyperinflation and Removal of Fixed Dates for First-Time Adopter

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 those standards when they become effective.

IFRS 1 Government Loans — Amendments to IFRS 1

The amendment is effective for annual periods on or after 1 January 2013. These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment has no impact on the Bank as the Bank is not a first time adopter of IFRS.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

3. Changes in accounting policy and disclosures (continued)

The amendment will become effective for annual periods beginning on or after 1 January 2013. These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Bank's financial position or performance but will result in additional disclosures with regards to set of financial instruments.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the Board will address impairment and hedge accounting. The Bank will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 – Consolidated Financial Statements, IAS 27 Separate Financial Statements

The standard becomes effective for annual periods beginning on or after 1 January 2013. It replaces the requirements of IAS 27 Consolidated and Separate Financial Statements that address the accounting for financial statements and SIC 12 Consolidation – Special Purpose Entities. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. 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. Currently, there are no other entities within the group that may require to be consolidated in the future on adoption of this standard. The Bank does not expect any impact on adoption of this standard. IFRS 11 – Joint Arrangements

The standard becomes effective for annual periods beginning on or after 1 January 2013. It replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. Because IFRS 11 uses the principle of control in IFRS 10 to define control, the determination of whether joint control exists may change. The adoption of IFRS 11 is not expected to have an impact on the accounting treatment of investments currently held by the Bank.

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 but will only relate to disclosures.

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. Clarification on certain aspects is 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.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of

Notes To The Consolidated Financial Statements

FOR THE YEAR ENDED 31DECEMBER 2012

3. Changes in accounting policy and disclosures (continued)

net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation surplus on property and equipment). The amendment affects presentation only and has no impact on the Bank's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 Employee Benefits – Amendments

The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognised in profit or loss and other comprehensive income. The effective date of the standard is 1 January 2013.

The amendments will not have an impact on the group's defined contribution scheme.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. The Bank does present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

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

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, 28 Investments in Associates, 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 revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact to the Bank by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Offsetting on the grounds of simultaneous settlement is particularly relevant for the Bank as to where it engages in large numbers of sale and repurchase transactions. Currently, transactions settled through clearing systems are, in most cases, deemed to achieve simultaneous settlement. While many settlement systems are expected to meet the new criteria, some may not. Any changes in offsetting are expected to impact leverage ratios, regulatory capital requirements, etc. As the impact of the adoption depends on the Bank's examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects at present.

These amendments become effective for annual periods beginning on or after 1 January 2014.

IAS 1 Presentation of Financial Statements

These improvements are effective for annual periods beginning on or after 1 January 2013. This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period. The opening statement of financial position (known as the third balance sheet) must be presented in a number of circumstances. The opening statement would be at the beginning of the preceding period. Under these circumstances the related notes are not required to accompany the third balance sheet.

3. Changes in accounting policy and disclosures (continued)

IAS 16 Property Plant and Equipment

Effective for annual periods beginning on or after 1 January 2013. This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, and equipment are not inventory.

IAS 32 Financial Instruments, Presentation

Effective for annual periods beginning on or after 1 January 2013. This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in with IAS 12 Income Taxes.

IAS 34 Interim Financial Reporting

Effective for annual periods beginning on or after 1 January 2013. The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

4. Significant accounting policies

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

(a) Business Combinations and Goodwill

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

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

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

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

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

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

(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.

Notes To The Consolidated Financial Statements (continued)
FOR THE YEAR ENDED 31DECEMBER 2012

4. Significant accounting policies (continued)

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 profit or loss.

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

(c) Foreign currency transactions

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

(i) Transactions and balances

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

(ii) Group companies

The assets and liabilities of foreign operations are translated into Kenya Shillings at the rate of exchange prevailing at the reporting date and their income statements are translated at 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 income statement.

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

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

Interest income and expense are recognised in the income statement on the accrual basis;

Interest income and expense presented in the income statement include:

- Interest on financial assets and liabilities on accrual basis taking into account the effective interest basis, Interest on available-for-sale investment securities on an effective interest basis.

4. Significant accounting policies (continued)

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 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.

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 of 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, except:

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

4. Significant accounting policies (continued)

Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences 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 or equity are also recognised in other comprehensive income or equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(i) Financial assets and liabilities

(i) Recognition

The Group initially recognises loans and advances, on the date that they are originated. 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 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
- 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.

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

4. Significant accounting policies (continued)

(iv) Offsetting Financial instruments

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, there is a currently 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 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 profit or loss (only applicable for loans and receivables and held-to-maturity assets).

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

4. Significant accounting policies (continued)

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 other comprehensive income to profit or loss. 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 profit or loss.

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 profit or loss, is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. 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 profit or loss. 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 profit or loss. The losses arising from the impairment are recognised in 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 profit or loss, 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 credit loss expense. 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 classified as loans and receivables and 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 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. Amortised 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 profit or loss.

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.

(l) Property and equipment

(i) Recognition and measurement

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

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

4. Significant accounting policies (continued)

Some items at group level for equipment have been carried at Valuation.

After initial recognition, some classes of property and equipment at associate (not held by the group) are measured at fair value less accumulated depreciation and impairment losses recognized after the date of the revaluation. Valuations are performed on a need basis to ensure that the fair value of the revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is recorded in other comprehensive income and hence, credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case, the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost includes any other costs directly attributable to bringing the asset to a working condition for its intended use and the present value of the estimated costs of dismantling and removing the items and restoring the site on which they are located.

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

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment in order to write down the carrying amount to its residual value. 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.

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

4. Significant accounting policies (continued)

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.

(iv) Revaluation

Where assets are revalued, the whole class of the asset is revalued and carried at revalued amount.

(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, in line with the Group's policy on depreciation. (see 4 (L) (iii), above).

Depreciation is recognised in profit or loss 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 73 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 profit or loss 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.

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.

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount.

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. The CGU is used when assessing for impairment. 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 profit or loss 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.

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

4. Significant accounting policies (continued)

For assets other than goodwill 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 profit or loss. Impairment 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 profit or loss 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 profit or loss when they are due.

(ii) Short-term benefits

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

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

(r) Earnings per share

The group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the 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 and deducted from equity in the year in which they are declared. Proposed dividends are disclosed as a separate component of equity until declared.

(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.

Notes To The Consolidated Financial Statements (continued)

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

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

Risk management framework

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

The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Risk Management Committee is responsible for monitoring compliance with the group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the group. The Board Risk Management Committee is assisted in these functions by Risk Management Department. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board Risk Management Committee.

(b) Credit risk

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the group's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the group considers and consolidates all elements of credit risk exposure.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the group management through the Chief executive officer. 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.

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

5. Financial risk management (continued)

- *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 (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

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	2012	2011	2012	2011
Amortised cost	20	**139,981**	116,174	126,533	108,773
Individually impaired					
Grade 3 : Substandard		**701**	550	559	474
Grade 4:Impaired (doubtful)		**1,368**	1,840	1,281	1,789
Grade 5: Impaired (loss)		**2,243**	856	2,179	829
Gross amount		**4,313**	**3,246**	**4,018**	**3,092**
Allowance for impairment		**(3,402)**	**(1,724)**	**(3,401)**	**(1,675)**
Past due but not impaired		**911**	**1,522**	**617**	**1,417**
Collectively impaired					
Grade 1: Normal		**130,413**	111,013	118,418	105,006
Grade 2: Watch		**5,255**	1,915	4,097	676
Gross amount		**135,668**	112,928	122,514	105,682
Allowance for impairment		**(887)**	(626)	(722)	(612)
Carrying amount		**134,781**	**112,302**	**121,793**	**105,070**
Total carrying amount		**135,692**	113,824	122,410	106,486

(ii) Cash and cash equivalents

	Group		Bank	
In millions of Kenya Shillings	2012	2011	2012	2011
Cash and balances with bank	**11,091**	9,015	**7,179**	6,392
Unrestricted balances with Central Banks	**14,069**	20,340	**9,395**	8,566
Restricted balances with Central Banks	**1,689**	1,150	**-**	-
Money market placements	**18,285**	4,777	**18,893**	4,172
	45,134	35,282	**35,467**	19,130

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

5. Financial risk management (continued)

(b) Credit risk (Continued)

(iii) Investment securities (continued)

In millions of Kenya Shillings	Group		Bank	
Held to maturity	**2012**	**2011**	**2012**	**2011**
As at 1 January	**22,908**	5,193	**22,604**	5,116
Purchase of Investment securities	**9,866**	17,936	**1,064**	17,638
Retirement of bonds	**(1,666)**	(221)	**(870)**	(150)
As at 31 December	**31,108**	22,908	**22,798**	22,604

	Group		Bank	
Available for sale	**2012**	**2011**	**2012**	**2011**
As at 1 January	**7,595**	26,795	**7,595**	26,795
Purchase of Investment securities	**16,027**	4,610	**16,118**	4,610
Sales of Investment Securities	**(13,954)**	(23,738)	**(13,959)**	(23,738)
Reclassification to profit or loss	**(124)**	-	**(124)**	-
Profit (Loss) on fair valuation	**454**	(72)	**454**	(72)
	9,993	7.595	**9,993**	7,595
As at 31 December	**41,101**	**30,502**	**32,792**	**30,199**

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.

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

5. Financial risk management (continued)

(b) Credit risk (Continued)

Collateral on Loans and Advances

The group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired or when a borrower has cleared a loan and would like to obtain another facility at the time when the validity of the valuation has since expired.

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

Loans and advances to customers

In millions of Kenya Shillings	Group		Bank	
Against individually impaired	**2012**	**2011**	**2012**	**2011**
Property	**356**	154	**328**	154
Equities	**1**	384	**1**	384
Other	**248**	91	**244**	91
Against collectively impaired				
Property	**6,076**	1,137	**1,709**	1,137
Equities	**1**	327	**1**	327
Other	**631**	310	**180**	310
Against past due but not impaired				
Property	**52,658**	48,970	**52,658**	48,970
Equities	**9**	410	**9**	410
Other*	**38,086**	34,765	**38,085**	34,765
Total	**98,065**	86,458	**93,215**	86,458

*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:

Loans and advances to customers

	Group		Bank	
In millions of Kenya Shillings	**2012**	**2011**	**2012**	**2011**
Concentration by business lines				
Consumer	**42,652**	40,298	**38,819**	37,563
Micro Enterprises	**12,776**	13,956	**11,623**	13,419
Agriculture	**4,141**	3,303	**4,141**	3,302
Small and Medium Enterprises	**63,642**	46,338	**55,180**	43,612
Large Enterprises	**16,770**	12,279	**16,770**	10,877
	139,981	116,174	**126,533**	108,773

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

5. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the group 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 2012

	Kenya	Uganda	Sudan	Rwanda
At 31 December	46%	39%	88%	75%
Average for the year	39%	36%	101%	100.3%
Maximum for the year	46%	39%	116%	194%
Minimum for the year	31%	34%	88%	48%
Minimum statutory requirement	**20%**	**20%**	**20%**	**20%**

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%**

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

5. Financial risk management (continued)

(c) Liquidity risk (continued)

(i) Group - 2012

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	43,115	-		974	1,476	45,565
Loans and advances to customers	14,965	4,965	14,269	83,509	35,206	152,914
Investment securities	2,813	1,660	6,565	5,402	32,260	48,700
Amounts due from related parties	2	-	-	-	-	2
Accounts receivable and prepayments	2,783	-	-	-	-	2,783
Funds in clearing	1,411	-	-	-	-	1411
Total financial assets	**65,089**	**6,625**	**20,834**	**89,885**	**68,942**	**251,375**
Financial liabilities						
Deposits from customers	68,668	5,568	9,499	3,020	104,000	190,755
Borrowed funds	1,741	-	689	5,803	24,249	32,482
Total financial liabilities	**70,409**	**5,568**	**10,188**	**8,823**	**128,249**	**223,237**
Liquidity Gap 31 December 2012	**(5,320)**	**1,057**	**10,646**	**81,062**	**(59,307)**	**28,138**

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	17,520
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)**	**23,922**

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

5. Financial risk management (continued)

(c) Liquidity risk (continued)

(ii) Bank - 2012

	Less than 3 Months	3-6 Months	6-12 Months	1-5 Years	More than 5 years	Totals
In millions of Kenya Shillings						
Financial assets						
Cash and cash equivalents	34,605			974		35,579
Loans and advances to customers	13,119	3,940	12,377	73,883	35,206	138,525
Investment securities	1,885	308	537	5,401	32,259	40,390
Amounts due from related parties	854	-	-	146	-	1000
Accounts receivable and prepayments	2,438	-	-	-	-	2,438
Funds in clearing	1,218	-	-	-	-	1,218
Total Financial assets	**54,119**	**4,248**	**12,914**	**80,404**	**67,465**	**219,150**
Financial liabilities						
Deposits from customers	**51,360**	**1,845**	**6,962**	**807**	**104,000**	**164,974**
Borrowed funds	77	-	689	6,763	24,249	31,778
Total Financial liabilities	**51,437**	**1,845**	**7,651**	**7,570**	**128,249**	**196,752**
Liquidity Gap 31 December 2012	**2,682**	**2,403**	**5,263**	**72,834**	**(60,784)**	**22,398**

Bank - 2011

	Less than 3 Months	3-6 Months	6-12 Months	1-5 Years	More than 5 years	Totals
In millions of Kenya Shillings						
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	-	-	-	-	811
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)**	**20,005**

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

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:

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

5. Financial risk management (continued)

(d) Market risks (continued)

Group Interest Rate Risk

In millions of Kenya Shillings	Carrying amount	Less than 3 Months	3-6 Months	6-12 Months	1-5 Years	More than 5 years
31 December 2012						
Assets						
Cash and cash equivalents	18,286	17,424	-	-	862	-
Loans and advances to customers	135,692	14,965	4,966	14,269	73,901	27,591
Investment securities	41,101	2,813	1,660	6,566	4,780	25,282
	195,079	**35,202**	**6,626**	**20,835**	**79,543**	**52,873**
Liabilities						
Deposits from customers	167,913	68,668	5,568	9,499	2,673	81,505
Borrowed funds	26,569	1,741	-	689	5,135	19,004
	194,482	**70,409**	**5,568**	**10,188**	**7,808**	**100,509**
Interest rate sensitivity gap at 31 December 2012	**597**	**(35,207)**	**1,058**	**10,647**	**71,735**	**(47,636)**
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)

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 2012						
Assets						
Cash and cash equivalents	18,894	18,032	-	-	862	-
Loans and advances to customers	122,410	13,119	3,940	12,377	65,383	27,591
Investment securities	32,792	1,885	308	537	4,780	25,282
	174,096	**33,036**	**4,248**	**12,914**	**71,025**	**52,873**
Liabilities						
Deposits from customers	142,386	51,360	1,845	6,962	714	81,505
Long term borrowings	25,755	77	-	689	5,985	19,004
	168,141	**51,437**	**1,845**	**7,651**	**6,699**	**101,509**
Interest rate sensitivity gap at 31 December 2012	**5,955**	**(18,401)**	**2,403**	**5,263**	**64,326**	**(47,636)**
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)**

Sensitivity analysis in millions of Kenya shillings:

		Group	Bank
2012	± 5%	30	298
2011	± 5%	(493)	75

Sensitivity on profit or loss 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.

5. Financial risk management (continued)

(e) 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.

Notes To The Consolidated Financial Statements (continued)
FOR THE YEAR ENDED 31DECEMBER 2012

5. Financial risk management (continued)

(e) Capital management (Continued)

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

	Group		Bank	
In millions of Kenya Shillings	**2012**	2011	**2012**	**2011**
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	25,088	17,719	24,308	17,974
Goodwill	(887)	(887)	-	-
Less investment in equity instruments of other institutions- (Note 17 (a) and (b))	(1,457)	(1,366)	(8,796)	(7,511)
Total	**36,756**	**29,478**	**29,524**	**24,475**
Tier 2 capital				
Collective allowances for impairment (Note 28d)	567	521	454	420
Qualifying subordinated liabilities	14,762	7,624	14,762	7,624
Total	**15,329**	**8,145**	**15,216**	**8,044**
Total regulatory capital	**52,086**	**37,623**	**44,740**	**32,519**
Risk-weighted assets				
Total risk-weighted assets	162,506	127,880	148,660	127,725
Capital ratios				
Total regulatory capital expressed as a percentage of total risk-weighted assets	32%	30%	30%	25%
Total tier 1 capital expressed as a percentage of risk-weighted assets	23%	24%	20%	19%

6. USE OF ESTIMATES AND JUDGMENTS

Management discusses with the Board Audit committee all the developments, selection and disclosures of the Groups and the Banks critical accounting policies and estimates and the application of these policies and estimates as disclosed in notes 3 and 4 above.

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

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 2012						
Assets						
Cash and cash equivalents	-	862	-	44,272	45,134	45,565
Loans and advances	-	135,692	-	-	135,692	152,914
Investment securities	31,108		9,993		41,101	48,700
	31,108	**136,554**	**9,993**	**44,272**	**221,927**	**247,179**
Liabilities						
Deposits from customers	-	-	-	(167,913)	(167,913)	(190,755)
Borrowed funds	-	-	-	(26,569)	(26,569)	(32,482)
	-	**-**	**-**	**(194,482)**	**(194,482)**	**(223,237)**
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)**

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

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 2012						
Assets						
Cash and cash equivalents	-	862	-	34,605	35,467	35,579
Loans and advances	-	122,410	-	-	122,410	138,525
Investment securities	22,798	-	9,993	-	32,792	40,390
	22,798	**123,272**	**9,993**	**34,605**	**190,669**	**214,494**
Liabilities						
Deposits from customers	-	-	-	(142,386)	(142,386)	164,974
Borrowed funds	-	-	-	(25,755)	(25,755)	31,778
	-	**-**	**-**	**(168,141)**	**(168,141)**	**196,752**
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)**

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

7. Financial assets and liabilities (continued)

The table below shows certain financial assets and financial liabilities that have been measured at either fair value, 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 2012	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	**9,993**			**9,993**
Other investments					
Total financial assets at fair value		**9,993**			**9,993**

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**

8. Interest income

	Group		Bank	
In millions of Kenya Shillings	**2012**	2011	**2012**	2011
Interest income				
Cash and cash equivalents	**192**	84	**258**	53
Loans and advances to customers	**27,531**	16,560	**25,390**	15,635
Investment securities	**3,125**	2,695	**2,849**	2,688
Total interest income	**30,848**	**19,339**	**28,497**	**18,376**
Interest expense				
Deposits from banks	**(196)**	(201)	**(141)**	(160)
Deposits from customers	**(5,214)**	(2,152)	**(4,736)**	(1,849)
Borrowings	**(1,474)**	(763)	**(1,508)**	(806)
Total interest expense	**(6,884)**	**(3,116)**	**(6,385)**	**(2,815)**
Net interest income	**23,964**	**16,223**	**22,112**	**15,561**

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

9. Fee, commission and trading income

(a) Net fee and commission income

In millions of Kenya Shillings	Group		Bank	
Fee and commission income	**2012**	2011	**2012**	2011
Retail banking customer fees	**1,521**	1,627	**1,216**	1,487
Corporate banking credit related fees	**684**	683	**569**	527
Other	**96**	39	**24**	20
Total fee and commission income	**2,301**	**2,349**	**1,809**	**2,034**

(b) Net trading income

	Group		Bank	
In millions of Kenya Shillings	**2012**	2011	**2012**	**2011**
Bonds trading income	**124**	453	**124**	453
Foreign exchange gain	**1,966**	1,970	**697**	821
	2,090	2,423	**821**	1,274

10. Other operating income

	Group		Bank	
In millions of Kenya Shillings	**2012**	2011	**2012**	**2011**
Rental income	1	1	**1**	1
Temporary Overdrafts/Un-cleared effects	1,486	1,111	**1,473**	1,107
ATM-application & withdrawal fees	1,490	1,559	**1,393**	1,463
Salary remittance commission	1,012	984	**934**	849
Counter withdrawal charges	635	565	**416**	417
Other*	3,848	3,455	**2,916**	2,761
	8,472	**7,675**	**7,133**	**6,598**

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

11. Allowances for impairment

	Group		Bank	
In millions of Kenya Shillings	**2012**	2011	**2012**	2011
Balance at 1 January	**2,350**	1,758	**2,287**	1,745
Specific provisions for the year	**1,317**	1,319	**1,200**	1,239
General provisions for the year	**373**	347	**290**	332
Interest suspended during the year*	**410**	327	**380**	327
Write-offs during the year	**(79)**	(1,365)	**-**	(1,319)
IAS 39 adjustment-write back of over provisions	**(82)**	(36)	**(34)**	(38)
Balance at 31 December	**4,289**	**2,350**	**4,123**	**2,287**

**The interest suspended relates to the portion of interest income on non-performing loans not recognized in profit or loss.*

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

11. Allowances for impairment (continued)

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

	Group		Bank	
Impairment loss for the year is arrived at as follows:				
In millions of Kenya Shillings	**2012**	2011	**2012**	2011
Charge for the year : General provisions	**373**	347	**290**	332
Specific provisions	**1,317**	1,319	**1,200**	1,239
	1,690	1,666	**1,490**	1,571
IAS 39 adjustment -write back of over provisions	**(82)**	(36)	**(34)**	(38)
Net impairment loss on financial assets	**1,608**	**1,630**	**1,456**	**1,533**

12. Personnel expenses

	Group		Bank	
In millions of Kenya Shillings	**2012**	2011	2012	**2011**
Salaries	**6,776**	5,618	5,567	**4,847**
Contributions to defined contribution plans	**396**	391	338	**338**
	7,172	6,009	5,905	**5,185**

13. Operating lease expenses

Non-cancellable operating lease rentals paid are as follows:

	Group		Bank	
In millions of Kenya Shillings	**2012**	2011	2012	2011
Lease rentals	**1,213**	919	847	687

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 - 2012

In millions of Kenya Shillings

COST	Freehold land & buildings	Leasehold improvements	Motor vehicles	Office equipment, furniture & fittings	Computers	Village cel banking vans	Work-in-Progress	Total
At 1 January 2012	197	4,920	132	2,295	4,774	33	761	13,112
Additions		898	68	533	1,213	70	736	3,518
Transfers		548	6	100	258		(912)	-
Disposals			(9)		(30)		(9)	(48)
At 31 December 2012	**197**	**6,366**	**197**	**2,928**	**6,215**	**103**	**576**	**16,582**
DEPRECIATION								
At 1 January 2012	18	1603	79	980	2,810	33	-	5,523
Charge for the year	3	676	33	317	981	6		2,016
Reversal on disposal			(9)		(20)			(29)
At 31 December 2012	21	2,279	103	1,297	3,771	39	-	7,510
NET CARRYING AMOUNT								
At 31 December 2012	**176**	**4,087**	**94**	**1,631**	**2,444**	**64**	**576**	**9,072**

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

14. Property, equipment and leasehold land (continued)

(a) Property and equipment

Group - 2011

In millions of Kenya Shillings

	Freehold land & buildings	Leasehold improvements	Motor vehicles	Office equipment, furniture & fittings	Computers	Village cel 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**	**2810**	**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)

(b) Property and equipment

Bank 2012

In millions of Kenya Shillings

	Freehold land & buildings	Leasehold improvements	Motor vehicles	Office equipment, furniture & fittings	Computers	Village cel banking vans	Work-in-Progress	Total
COST								
At 1 January 2012	40	3,986	85	1,943	4,384	33	462	10,933
Additions		699	8	275	1,115		141	2,236
Transfers		124	6	99	256		(485)	
Disposals			(9)		(24)		(3)	(36)
At 31 December 2012	**40**	**4,809**	**90**	**2,317**	**5,729**	**33**	**115**	**13,133**
DEPRECIATION								
At 1 January 2012	9	1,379	54	871	2,543	33	-	4,889
Charge for the year	-	546	17	253	918			1,734
Disposals			(9)		(11)			(20)
At 31 December 2012	**9**	**1,925**	**62**	**1,124**	**3,450**	**33**	**-**	**6,603**
NET CARRYING AMOUNT								
At 31 December 2012	31	2,884	28	1,193	2,279	-	115	6,530

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

14. Property, equipment and leasehold land (continued)

(b) Bank 2011

In millions of Kenya Shillings

	Freehold land & buildings	Leasehold improvements	Motor vehicles	Office equipment, furniture & fittings	Computers	Village cel 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	-	-	1338
Disposals	-	-	(13)	-	-	(4)	-	(17)
At 31December 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. (c) Prepaid lease

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

In millions of Kenya Shillings

	Group		Bank	
Cost	**2012**	2011	**2012**	2011
Balance at 1 January	**33**	33	**5**	5
Acquisitions	**264**	-	**-**	-
Disposals	**-**	-	**-**	-
Balance at 31 December	**297**	**33**	**5**	**5**
Amortisation and impairment				
Balance at 1 January	4	4	1	1
Amortisation for the year	1	-	-	-
Balance at 31 December	**5**	**4**	**1**	**1**
Carrying amounts				
Balance at 31 December	**292**	**29**	**4**	**4**

14. (d) Investment property

In millions of Kenya Shillings

Cost				
Balance at 1 January	8	8	8	8
Depreciation	-	-	-	-
Balance at 31 December	**8**	**8**	**8**	**8**

* The depreciation on investment property is not reflected on this table since the charge is below KShs 1 million.

The Group and 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.

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

15. Intangible assets

Group

In millions of Kenya Shillings

	Intangibles 2012	Work-in-progress 2012	**Total 2012**	Intangibles 2011	Work- in-progress 2011	**Total 2011**
COST						
At 1 January	1,559	495	**2,054**	1,230	351	**1,581**
Additions	297	66	**363**	329	144	**473**
Transfers	516	(516)	**-**	-	-	**-**
At 31 December	**2,372**	**45**	**2,417**	**1,559**	**495**	**2,054**
AMORTISATION AND IMPAIREMENT						
At 1 January	702	-	**702**	540	-	**540**
Charge for the year	300	-	**300**	162	-	**162**
At 31 December	1,002	-	**1,002**	702	-	**702**
NET BOOK AMOUNT						
At 31 December	**1,370**	**45**	**1,415**	**857**	**495**	**1,352**

The Group's intangible assets include the value of computer software. The WIP is composed of software in development.

15. Intangible assets (continued)

Bank

In millions of Kenya Shillings

	Intangibles 2012	Work-in-progress 2012	**Total 2012**	Intangibles 2011	Work-in-progress 2011	**Total** 2011
COST						
At 1 January	1209	496	**1705**	886	352	1,238
Additions	263	66	**331**	323	144	467
Transfers	516	(516)	**-**	-	-	-
At 31 December	**1,988**	**46**	**2,036**	**1,209**	**496**	**1,705**
AMORTISATION AND IMPAIREMENT						
At 1 January	629	-	**629**	484	-	484
Charge for the year	284	-	**284**	145	-	145
At 31 December	**913**	**-**	**913**	**629**	**-**	**629**
NET CARRYING AMOUNT						
At 31 December	**1,075**	**46**	**1,123**	**580**	**496**	**1,076**

The Bank's other intangible assets include the value of computer software. The WIP is composed of software in development

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

16. Other expenses

In millions of Kenya Shillings

	Group		Bank	
Cost	**2012**	2011	**2012**	2011
Software licensing and other	**760**	514	**677**	505
Auditors' remuneration	**37**	19	**12**	12
Other*	**6,472**	5,155	**4,900**	3,958
Balance at 31 December	**7,269**	5,688	**5,589**	4,475

*Other expenses mainly comprise of Office expenses, promotion expenses and consultancy fees.

17. (a) Investment in associates

In millions of Kenya Shillings				
Balance as at 1 January	**1,366**	1,260	**1,260**	1,260
Share of profit	**171**	155	**-**	-
Share of profit in associate	**-**	-	**(147)**	-
Dividends received	**(80)**	(49)	**-**	-
Balance as at 31 December	**1,457**	1,366	**1,113**	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	**2012**	2011	2012	**2011**
Current assets	**8,905**	5,675	8,905	**5,675**
Non current assets	**31,781**	26,197	31,781	**26,197**
Current liabilities	**12,572**	8,482	12,572	**8,482**
Non current liabilities	**22,968**	18,672	22,968	**18,672**
Revenue	**2,223**	2,193	2,223	**2,193**
Profit after tax	**687**	623	687	**623**
Share of profit from associated company	**171**	155	-	**-**

The share of profit from associated company is from 24.85%, while all the other figures relate to 100% of the associate's position and results.

(b) Investment in subsidiary companies

In millions of Kenya Shillings	**Principal activity**	**Percentage shareholding**	**Bank 2012**	**Bank 2011**
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%	100	0.1
Equity Nominees Ltd	Custodial services	100%	0.1	0.1
Equity Investment services Ltd	Investment banking	100%	420	420
Finserve Africa Ltd	IT outsourcing	100%	0.5	0.5
Equity Bank (South Sudan) Ltd	Banking	100%	1,242	1,242
Equity Bank (Rwanda) Ltd	Banking	100%	1,044	1,044
Equity Bank Tanzania	Banking	100%	1,432	-
			8,204	6,672

17. (b) Investment in subsidiary companies (continued)

The Bank had nine wholly owned subsidiary companies as at 31 December 2012; 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.

(c) Goodwill arising from the acquisition of Equity Bank Uganda Limited (formerly Uganda Microfinance Limited (UML))

In millions of Kenya Shillings	**2012 KShs**	2011 KShs
Purchase price for 100% stake	**1,666**	1,666
Add: Acquisition costs	**34**	34
Total acquisition cost	**1,700**	1,700
Less: Carrying amount of tangible and separable identifiable intangible assets	**(554)**	(554)
Less: Fair value adjustments of tangible assets and separable identifiable intangible assets	**(259)**	(259)
Goodwill	**887**	887

The goodwill of KShs 887 million arose from the acquisition of Equity Bank Uganda Limited (formerly Uganda Microfinance Limited) in April 2008, which has been determined in accordance with IFRS 3. It represents the difference between the total purchase consideration (including acquisition costs) paid to acquire 100% stake in Equity Bank Uganda Limited and the fair value of the net tangible assets and the separable identifiable intangible assets.

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

18. Income tax

Recognised in the income statement

	Group		Bank	
In millions of Kenya Shillings	**2012**	**2011**	**2012**	**2011**
Current tax expense				
Current year	5,878	2,694	5,569	2,507
	5,878	2,694	5,569	2,507
Deferred tax expense				
Current year (Note 24)	(538)	(185)	(506)	(177)
Total income tax expense	**5,340**	**2,509**	**5,063**	**2,330**
Reconciliation of effective tax rate				
In millions of Kenya Shillings				
Profit before tax and equity income	17,249	12,679	16,060	12,104
Income tax using the enacted corporation tax rate	**5,157**	2,609	4,818	2,421
Non-deductible expenses	183	(100)	245	(91)
Total income tax expense in income statement	**5,340**	**2,509**	**5,063**	**2,330**
Income tax recognised in the statement of financial position				
Balance brought forward	434	615	417	657
Charge for the year	5,878	2,694	5,569	2,507
Paid during the year	(4,002)	(2,875)	(3,728)	(2,747)
	2,310	**434**	**2,258**	**417**
Made up of:				
Tax payable	2,365	487	2,258	417
Tax recoverable	(55)	(53)	-	-
	2,310	**434**	**2,258**	**417**

Tax rates are as follows:

2012	**Total**	**Kenya**	**Uganda**	**Sudan**	**Insurance**	**Nominees**	**Others**
		30%	30%	20%	30%	30%	30%
Profit before tax and equity income	17,249	16,060	57	1,082	334	17	(301)
Income tax using the enacted corporation tax rate	5,157	4,818	17	216	100	6	-
2011							
		20%	30%	15%	30%	30%	30%
Profit before tax and equity income	12,679	12,104	19	609	224	79	(356)
Income tax using the enacted corporation tax rate	2,609	2,421	6	91	67	24	-

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

19. Cash and cash equivalents

	Group		Bank	
In millions of Kenya Shillings	**2012**	2011	**2012**	2011
Cash and balances with bank	**11,091**	9,015	**7,179**	6,392
Unrestricted balances with Central Banks	**14,068**	20,340	**9,395**	8,566
Restricted balances with Central Banks	**1,689**	1,150	**0**	-
Money market placements	**18,286**	4,777	**18,893**	4,172
	45,134	35,282	**35,467**	19,130

20. Loans and advances to customers

(a) Loans and advances to customers at amortised cost

In millions of Kenya Shillings

	Group		Bank	
	2012	2011	**2012**	2011
Agriculture	**4,141**	3303	**4,141**	3,302
Micro Enterprises	**12,776**	13,956	**11,623**	13,419
Consumer	**42,652**	40,298	**38,819**	37,653
	59,569	**57,557**	**54,583**	**54,284**
Small and Medium Enterprises	**63,642**	46,338	**55,180**	43612
Large Enterprises	**16,770**	12,279	**16,770**	10,877
	80,412	58,617	**71,950**	54,489
Gross amount	**139,981**	116,174	**126,533**	108,773
Current (settled no more than 12 months)	**34,544**	23,369	**29,733**	20,939
Noncurrent portion (settled more than 12 months after reporting period)	**105,437**	92,805	**96,800**	87,834
Gross amount	**139,981**	116,174	**126,533**	108,773

The terms and conditions normally provided for the loans and advances to customers are as follows:

Consumer and Micro - These are interest bearing facilities to retail customers. Collateral is required except for scheme loans to salaried customers. These loans are charged processing fees, insurance and legal fees.

Small, Medium and Large Enterprises - These are loans to small and medium customers and they are all interest bearing. Collateral is a requirement for all facilities. These loans are charged processing fees, insurance and legal fees.

Notes To The Consolidated Financial Statements (continued)
FOR THE YEAR ENDED 31DECEMBER 2012

20. Loans and advances to customers (continued)

(b) Allowance for impairment

In millions of Kenya Shillings

	Group		Bank	
	2012	2011	**2012**	2011
Balance as at 1st January	**2,350**	1,846	**2,287**	1,745
Charge for the year;				
Collective impairment	**373**	347	**290**	332
Specific impairment	**1,317**	1,319	**1,200**	1,239
IAS 39 adjustment- write back of overprovision	**(82)**	(124)	**(34)**	(38)
	1,608	1,542	**1,456**	1,533
Suspended interest	**410**	327	**380**	327
Write offs	**(79)**	(1,365)	**-**	(1,319)
	1,939	504	**1,836**	541
Total impairment	**4,289**	2,350	**4,123**	2,287
Net loans and advances	**135,692**	113,824	**122,410**	106,486

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

(c) Finance leases receivable

	Group		Bank	
	2012	2011	**2012**	2011
Within one year	-	1	-	-
One to two years	-	-	-	-
	-	1	-	-
Unearned income	-	-	-	-
Present value of minimum lease payment	-	1	-	-
Provision for uncollectible lease payment	-	-	-	-
	-	1	**-**	-

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

21. Investment securities

In millions of Kenya Shillings

	Group		Bank	
Held to maturity	**2012**	2011	**2012**	2011
As at 1 January	**22,908**	5,193	**22,604**	5,116
Purchase of investment securities	**9,866**	17,936	**1,064**	17,638
Proceeds from retirement of bonds	**(1,666)**	(221)	**(870)**	(150)
	31,108	22,908	**22,798**	22,604

In millions of Kenya Shillings	Group		Bank	
Available for sale	**2012**	2011	**2012**	2011
As at 1 January	**7,595**	26,795	**7,595**	26,795
Purchase of Investment securities	**16,027**	4,610	**16,027**	4,610
Sales of Investment Securities	**(13,959)**	(23,738)	**(13,959)**	(23,798)
Profit/loss on sale of investment	**(124)**	-	**(124)**	-
Gain on fair valuation	**454**	(72)	**454**	(72)
	9,993	7.595	**9,993**	7,595
As at 31 December	**41,101**	30,502	**32,792**	30,199

22. Related parties

The bank enters into transactions, arrangements and agreements involving directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

(a) Loans to key management personnel

	Group		Bank	
In millions of Kenya Shillings	**2012**	2011	**2012**	2011
Balance at 1 January	**306**	160	**303**	160
Interest charged	**39**	101	**35**	15
Loans disbursed	**310**	162	**272**	149
Repayments	**(77)**	(117)	**(57)**	(21)
Balance at 31 December	**578**	**306**	**553**	**303**

(b) Loans to employees

	Group		Bank	
In millions of Kenya Shillings	**2012**	2011	**2012**	2011
Balance at 1 January	**2,601**	1,582	**2,601**	1,582
Interest charged	**194**	123	**180**	123
Loans disbursed	**1,776**	1,830	**1,526**	1,830
Repayments	**(1,556)**	(934)	**(1,457)**	(934)
Balance at 31 December	**3,015**	**2,601**	**2,850**	**2,601**

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

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

22. Related parties (continued)

(c) Loans to related parties

	Group		Bank	
In millions of Kenya Shillings	**2012**	2011	**2012**	2011
Balance at 1 January	**3,184**	2,651	**3,184**	2,651
Interest charged	**157**	188	**157**	188
Loans disbursed	**3,479**	1,870	**3,479**	1,870
Repayments	**(3,364)**	(1,525)	**(3,364)**	(1,525)
Balance at 31 December	**3,456**	**3,184**	**3,456**	**3,184**

The total amount of loans and advances granted was in ordinary course of business.

(d) Key management personnel compensation

	Group		Bank	
In millions of Kenya Shillings	**2012**	2011	**2012**	2011
Remuneration to executive directors	**685**	447	**605**	415
Remuneration to Key Management	**448**	232	**275**	197
	1,133	679	**880**	612

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

(e) Directors' emoluments

	Group		Bank	
In millions of Kenya Shillings	**2012**	2011	**2012**	2011
As non-executive	**22**	26	**20**	20
As executives	**605**	447	**605**	415
	627	473	**625**	435

(g) Amounts due from related parties

	Group		Bank	
	2012	2011	**2012**	2011
Equity Insurance Agency	**-**	-	**45**	108
Equity Bank Uganda Limited	**-**	-	**110**	66
Equity Bank Southern Sudan Limited	**-**	-	**146**	505
Equity Bank Rwanda	**-**	-	**85**	282
Equity Bank Tanzania	**-**	-	**533**	-
Equity Investment Bank Limited	**-**	-	**2**	1
Equity Investment Services Limited	**-**	-	**18**	8
Equity Nominees	**-**	-	**42**	-
Equity Group Foundation	**2**	124	**2**	124
	2	124	**983**	1,094

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

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

23. Other assets

	Group		Bank	
In millions of Kenya Shillings	**2012**	2011	**2012**	2011
Investment property (note 14(d))	**8**	8	**8**	8
Accounts receivable and prepayments	**2,783**	1,263	**2,438**	919
Accrued income	**2,513**	2,168	**2,311**	2,155
Funds in clearing	**1,411**	869	**1,218**	810
Other	**528**	730	**484**	815
	7,243	5,038	**6,459**	4,707

24. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

	Group		Bank	
	2012	2011	2012	**2011**
Plant, equipment and software	**159**	90	180	**99**
Allowance for loan losses	**751**	191	751	**191**
Allowance for accrued Leave	**14**	31	5	**18**
Unrealised exchange losses	**(120)**	2	(124)	**1**
Unrealised exchange gains	**(66)**	(70)	(68)	**(70)**
Tax losses	**44**	-	-	**-**
Net tax liability	**782**	**244**	**744**	**239**

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

In millions of Kenya Shillings

	2012			2011		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, equipment and software	206	(47)	**159**	99	(9)	**90**
Allowance for loan losses	751	-	**751**	191	-	**191**
Allowance for accrued Leave	14	-	**14**	31	-	**31**
Unrealised exchange losses	4	(124)	**(120)**	2	-	**2**
Unrealised exchange gains	3	(69)	**(66)**	-	(70)	**(70)**
Tax losses	44	-	**44**	-	-	**-**
	1,022	**(240)**	**782**	**323**	**(79)**	**244**

* The deferred tax asset and deferred tax liability at group level in the statement of financial position have been separated as they relate to different tax jurisdictions as required by IAS 12. The net of the two amounts is analysed in the table above.

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

In millions of Kenya Shillings

	2012			2011		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, equipment and software	180	-	**180**	99	-	**99**
Allowance for loan losses	751	-	**751**	191	-	**191**
Allowance for accrued Leave	5	-	**5**	18	-	**18**
Unrealised exchange losses	-	(124)	**(124)**	1	-	**1**
Unrealised exchange gains	-	(68)	**(68)**	-	(70)	**(70)**
	936	**(192)**	**744**	**309**	**(70)**	**239**

Notes To The Consolidated Financial Statements (continued)
FOR THE YEAR ENDED 31DECEMBER 2012

24. Deferred tax assets and liabilities (continued)

Movements in temporary differences during the year – Group

In millions of Kenya Shillings

	Opening Balance	Recognised in profit or loss	Recognised in OCI	Closing balance
2012				
Property, equipment and software	90	69	-	159
Allowance for loan losses	191	560	-	751
Allowance for accrued Leave	31	(17)	-	14
Unrealised exchange losses	2	(122)	-	(120)
Unrealised exchange gains	(70)	4	-	(66)
Tax losses	-	44	-	44
	244	**538**	**-**	**782**

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	10	(10)	-	-
Allowance for loan losses	108	83	-	191
Provision for accrued leave	(24)	55	-	31
Unrealised exchange losses	-	2	-	2
Unrealised exchange gains	-	(70)	-	(70)
	59	**185**	**-**	**244**

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
2012				
Property, equipment and software	99	81	-	180
Allowance for loan losses	191	560	-	751
Provision for accrued leave	18	(13)	-	5
Unrealised exchange losses	1	(124)	-	(124)
Unrealised exchange gains	(70)	2	-	(68)
	239	**506**	**-**	**744**

24. Deferred tax assets and liabilities (continued)

Movements in temporary differences during the year – Bank (Continued)

	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)	-	-
Allowance for loan losses	108	83	-	191
Provision for accrued leave	(24)	42	-	18
Unrealised exchange losses	-	1	-	1
Unrealised exchange gains	-	(70)	-	(70)
	61	**178**	**-**	**239**

25. Deposits from customers

In millions of Kenya Shillings	Group		Bank	
Retail customers:	**2012**	2011	**2012**	2011
Term deposits	**12,720**	6,057	**12,093**	5,894
Current deposits	**33,393**	33,209	**27,949**	28,796
Savings deposits	**86,555**	72,629	**78,548**	66,633
	132,668	111,895	**118,590**	101,323
Corporate customers:				
Term deposits	**18,187**	19,208	**15,871**	16,791
Current deposits	**13,557**	10,120	**4,981**	4,436
Savings	**3,501**	2,942	**2,944**	2,942
	35,245	32,270	**23,796**	24,169
	167,913	144,165	**142,386**	125,492

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.

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.

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

26. Borrowed funds

	Group		Bank	
In millions of Kenya Shillings	**2012**	2011	**2012**	2011
Dexia Micro Credit Fund	**689**	1,108	**689**	1,108
Blue Orchard Loans for Development SA	**-**	852	**-**	852
Growth Management Limited	**-**	426	**-**	426
Deutsche Bank Microfinance Fund	**612**	605	**612**	605
China Development Bank Corporation	**4,308**	2,914	**4,308**	2,914
China Development Bank Corporation	**3,261**	-	**3,261**	-
Ontwikelinslanden N.V (FMO)	**3,221**	3,221	**3,221**	3,221
International Finance Corporation(IFC)	**8,615**	-	**8,615**	-
Ministry of Youth Affairs	**85**	75	**85**	75
Micro Finance Sector Support Credit (Ministry of Finance)	**315**	344	**315**	344
Microfinance Enhancement Facility (MEF)	**1,292**	1,278	**1,292**	1,278
ResponsAbility	**1,292**	1,278	**1,292**	1,278
KFW	**1,756**	1,668	**1,756**	1,668
Ministry of Finance (GOK)	**232**	-	**232**	-
Equity Bank-Uganda	**-**	-	**77**	-
Tropical Bank limited-Uganda	**-**	86	**-**	-
NC Bank Tanzania Limited	**27**			
Kenya Commercial Bank-Uganda	**1**	172	**-**	-
Diamond Trust bank-Uganda	**86**	65	**-**	-
Baroda Bank-Uganda	**-**	60	**-**	-
Eco Bank-Uganda	**-**	86	**-**	-
Imperial Bank	**161**	252	**-**	-
Centenary Bank	**193**	34	**-**	-
Orient Bank	**-**	43	**-**	-
FINA Bank	**160**	138	**-**	-
Housing Finance Bank	**96**	87	**-**	-
NC Bank Uganda Limited	**48**	-	**-**	-
Cairo Bank Uganda Limited	**32**	-	**-**	-
Bank of Africa Uganda Limited	**86**	-	**-**	-
	26,569	13,063	**23,326**	11,017
Current (settled no more than 12 months)	**2,506**	1,729	**2,429**	2,752
Noncurrent portion (settled more than 12 months after reporting period)	**24,063**	13,063	**23,326**	11,017
	26,569	14,792	**25,755**	13,769

26. Borrowed funds (continued)

At the end of the year, the following loan balances were outstanding:

i) Medium term loan of US$ 5M (KShs 689M) 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 6 July 2013. A finance cost of KShs 16.4M (2011: KShs 15.7M) has been charged to profit or loss for the year.

ii) Long term loan of US$ 7,105,970 (KShs 612M) 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 68M (2011: KShs 77M) has been included in profit or loss for the year.

iii) Medium term loan of US$ 50M (KShs 4.3B) 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 146.2M (2011: KShs 16.3M) has been included in profit or loss for the year.

iv) Medium term loan of US$ 37.5M (KShs 3.3B) 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 2017. A finance cost of KShs 10.5M (2011: nil) has been included in profit or loss for the year.

v) Loan of US$ 15M (KShs 1.3B) from ResponsAbility Global Microfinance Fund an unincorporated mutual fund, organised under Luxembourg law. The loan which is secured by directors guarantee 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 55.9M(2011: 23.3M) has been included in profit or loss for the year.

vi) 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 which is secured by directors guarantee 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 56.5M(2011: 19.7M) has been included in profit or loss for the year.

vii) Long term loan of US$ 19,571,940 (KShs 1.8B) from KFW, a public law institution registered in Germany with its headquarters in Frankfurt. The subordinated loan which is secured by directors guarantee 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 13.1M(2011: 0.94M) has been included in profit or loss for the year.

viii) Medium term loan of US$ 100M (KShs 8.6B) from International Finance Corporation, an organisation established by Articles of Agreement among its member countries including the Republic of Kenya. The loan which is secured by directors' guarantee accrues interest at the rate of LIBOR 6M + 2.75% margin plus interest tax as applicable and will mature on 15th March 2019. A finance cost of KShs 186.3 (2011: nil) has been included in profit or loss for the year.

ix) 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 June 2015 and another KShs 1.714B will mature on 15th June 2015. A finance cost of KShs 591.4M (2011: KShs 411M) has been included in profit or loss for the year.

x) Medium term loans totalling KShs 85M 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 35M on 10th April 2015. A finance cost ofKshs 0.8 M (2011: KShs 411M) been included in profit or loss.

xi) Medium term loan of KShs315M from Ministry of Finance. The loan, which is secured by directors' guarantee, Kshs 65M 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 15.2M (2011: KShs 12.9M) has been included in profit or loss.

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

26. Borrowed funds (continued)

xii) On 31st December 2012, Equity Bank Uganda Limited borrowed KES 600,000 from KCB Bank Uganda Limited through the interbank money market at a rate of 8.0% for a period of 3 days. The funds were to be repaid in full on the maturity date of 3rd January 2013.

xiii) On 27 December 2012, Equity Bank Uganda Limited borrowed USD 1M from Diamond Trust Bank through the interbank money market at a rate of 2% for a period of 7 days. The funds were to be repaid in full on the maturity date of 3rd January 2013.

xiv) On 27th December 2012, Equity Bank Uganda Limited borrowed total funds of USD 1.5M from Imperial Bank through the interbank money market at USD average rate of 3% for average period of 7days. The funds were to be repaid in full on 3rd January 2013.

xv) Between 20th December and 31st December 2012, Equity Bank Uganda Limited borrowed total funds of UGX 6B from Centenary Bank through the interbank money market at an average rate of 12.5% for a period of 13days (2B) and 7 days (4B). The funds were paid in full on the maturity date of 2nd January 2013 and 7th January 2013 respectively.

xvi) Between 28th December and 31st December 2012, Equity Bank Uganda Limited borrowed total funds of UGX 2B from FINA Bank through the interbank money market at a rate of 12% for average period of 7 days. The funds were paid in full on the maturity dates of 4th and 7th January 2013 respectively.

xvii) On 27th December 2012, Equity Bank Uganda Limited borrowed UGX 3B from Housing Finance Bank Limited through the interbank money market at a rate of 12.5% for a period of 7 days. The funds were paid in full on the maturity date of 3rd January 2013.

xviii) On 28 December 2012, Equity Bank Uganda Limited borrowed UGX 1.5B from NC Bank Uganda Limited through the interbank money market at an average rate of 11% for an average period of 6 days. The funds were repaid in full on the maturity date of 2nd and 4th January 2013.

xix) On 27 December 2012, Equity Bank Uganda Limited borrowed UGX 1B from Cairo Bank Uganda Limited through the interbank money market at a rate of 11% for a period of 7 days. The funds were repaid in full on the maturity date of 3rd January 2013.

xx) On 28 December 2012, Equity Bank Uganda Limited borrowed USD 1M from Bank of Africa through the interbank money market at a rate of 3.25% for a period of 5 days. The funds were repaid in full on the maturity date of 2nd January 2013.

27. Other liabilities

	Group		Bank	
In millions of Kenya Shillings	**2012**	2011	**2012**	2011
Short term employee benefits	**21**	13	**-**	-
Creditors and accruals	**1,160**	686	**766**	340
Other	**2,188**	1,866	**1,993**	1,846
	3,369	2,565	**2,759**	2,186

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

28. Share Capital and Reserves

In millions of shillings	Group		Bank	
(a) Authorised	**2012**	2011	**2012**	2011
Issued and fully paid 3,702,777,02				
Ordinary shares of KShs 0.5	1,851	1,851	1,851	1,851

Movement in ordinary shares

	Group		**Bank**	
In millions of shillings	**2012**	2011	**2012**	2011
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 2012 the authorised share capital comprised of 3.7 billion ordinary shares (2011: 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.

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

28. Share Capital and Reserves (continued)

The top ten largest shareholders as at 31 December 2012 were:

Name	No. of Shares	%
HELIOS EB INVESTORS	905,162,550	24.45
BRITISH-AMERICAN INVESTMENTS COMPANY (K) LTD	283,713,630	7.66
EQUITY BANK EMPLOYEES' SHARE OWNERSHIP PLAN	142,866,900	3.86
JAMES NJUGUNA MWANGI	127,656,700	3.45
EQUITY NOMINEES LIMITED A/C 00104	110,000,000	2.97
FORTRESS HIGHLANDS LIMITED	101,010,000	2.73
STANDARD CHARTERED NOMINEES NON-RESD. A/C 9069	93,726,800	2.53
ANDREW MWANGI KIMANI	90,426,800	2.44
AIB NOMINEE A/C SOLIDUS HOLDINGS LTD	90,114,910	2.43
STANDARD CHARTERED NOMINEES NON- A/C 9054	88,098,530	2.38
OTHER 26,490 SHAREHOLDERS	1,670,000,200	45.1
TOTAL SHARES	**3,702,777,020**	**100.00**

The distribution of shares as at 31 December 2012 was as shown on page 48.

(b) Share premium

Share premium arose from the additional ordinary shares issued. This is shown on the statement of changes in equity.

(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.

(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) Foreign currency translation reserve

The foreign exchange transactions reserve represent translation of Uganda Shillings, Southern Sudan Pounds, Tanzania Shillings and Rwanda Francs to Kenya Shillings.

(f) Revaluation reserves

Revaluation reserve represent revaluation surplus on property, plant and equipment in Equity Bank Uganda Limited. The Group does not revalue its property and equipment.

(g) Other reserves

The other reserves represent pre-acquisition reserves from Uganda.

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

28. Share Capital and Reserves (continued)

(h) Dividends

The following dividends were declared and paid by the Bank and Group.

	Group		Bank	
In millions of Kenya Shillings	**2012**	2011	**2012**	2011
KShs 1.25 per ordinary share of KShs 0.5 (2011 – KShs1.00)	4,629	3,703	4,629	3,703
	4,629	**3,703**	**4,629**	**3,703**

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

29. Earnings Per Share

Basic earnings per share

The calculation of basic earnings per share for the group as at 31 December 2012 is based on the profit attributable to ordinary shareholders of KShs 12,080 million (2011: KShs 10,446 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 2012 is based on the profit attributable to ordinary shareholders of KShs 10,997 million (2011: KShs 7,555million) and the weighted average number of ordinary shares outstanding of 3,702 million.

	Group		Bank	
(in millions of Kenya Shillings)	**2012**	**2011**	**2012**	**2011**
Profit for the year attributable to equity shareholders	12,080	10,325	10,997	9,774
Number of shares: (in millions) Issued ordinary shares at 1 January	3,703	3,703	3,703	3,703
Weighted average number of ordinary shares at 31 December	3,703	3,703	3,703	3,703

	Group		Bank	
Earnings per share:	2012	2011	2012	2011
Basic earnings per share (in Kenya Shillings)	3.26	2.79	2.97	2.64
Diluted earnings per share (in Kenya Shillings)	3.26	2.79	2.97	2.64

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 27th March 2013, a final dividend in respect of the year ended 31 December 2012 of KShs 1.25 (2011 – KShs 1.0) 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.

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

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	2012	2011	2012	2011
Guarantees and standby letters of credit	5,985	5,016	5,167	4,900
Letters of credit, acceptances and other documentary credits	2,319	2,341	2,303	2,336
	8,304	**7,357**	**7,470**	**7,236**

Nature of contingent liabilities

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

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

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

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	2012	2011	2012	2011
Capital commitments	371	251	75	237
Loans approved but not disbursed	12,349	1,509	12,104	1,353
	12,720	**1,760**	**12,179**	**1,590**

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.

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

31. Off statement of financial position contingencies and commitments (continued)

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

	Group		Bank	
In millions of Kenya Shillings	**2012**	**2011**	**2012**	**2011**
Within one year	343	5	18	3
After one year but not more than five years	3,471	785	2,395	782
More than five years	3,720	2,970	2,792	2,953

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 profit or loss in the period in which they relate.

	Group		Bank	
In millions of Kenya Shillings	**2012**	**2011**	**2012**	**2011**
National Social Security Fund	67	17	13	12
Pension Scheme	218	375	183	326
	285	**392**	**196**	**338**

33. Foreign currency exposure – Group

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The board of directors has set limits on foreign currency positions. The foreign currency positions are monitored on daily basis and hedging strategies used to ensure that positions are maintained within the established limits. The amounts below summarize the foreign currency exposure position as at 31st December 2012.

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

33. Foreign currency exposure – group (continued)

As at 31 December 2012	UGX	USD	SSP	GBP	Euro	ZAR	JPY	Others	Total
In million of Kenya Shillings									
Assets									
Cash and cash equivalents	1,707	17,856	4,466	662	1,004	88	78	2,029	27,261
Loans and advances to customers	4,796	16,583	3,511	6	3	-	-	2,753	27,653
Investment securities	143	7,159	-	-	-	-	-	657	7,959
Finance lease receivable	-	-	-	-	-	-	-	-	-
Property and equipment	606	-	1,067	-	-	-	-	671	2,344
Prepaid leases	19	-	216	-	-	-	-	48	284
Intangible assets	21	-	2	-	-	-	-	27	50
Other assets	79	271	415	2	-	-	-	117	883
Tax recoverable	49	-	-	-	-	-	-	6	55
Total Assets	6,791	34,710	16,837	670	1,007	88	78	6,308	66,490
Equity and liabilities									
Customer deposits	5517	10,010	12,010	180	569	1		3064	31,353
Borrowed funds	638	22,265						27	22,931
Current tax liabilities								36	36
Deffered tax			542						542
Other liabilities	279	278	2	16	190			168	933
Statutory loan loss reserve	85		156						260
Retained earnings	(699)		1,174					(352)	113
Other capital reserve	32							29	61
Total liabilities and shareholder's funds	**6,434**	**32,553**	**12,012**	**196**	**759**	**1**		**3,295**	**55,697**
Net financial position	**356**	**2,157**	**4,824**	**474**	**248**	**87**	**78**	**3,013**	**10,793**
As at 31 December 2011									
Total Assets	6,742	21,091	14,046	167	686	11	3,779	809	47,331
Total Liabilities	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**

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 group's exposure to foreign currency changes for all other currencies is not material.

	Changes in UGX	Effect on profit before tax	Effect on equity
2012	**±15%**	**53**	**-**
2011	**±17%**	**367**	**-**

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

33. Foreign currency exposure – Group

Sensitivity analysis (continued)

	Changes in SSP	Effect on profit before tax	Effect on equity
2012	±7%	338	-
2011	±28%	1,320	

	Changes in USD	Effect on profit before tax	Effect on equity
2012	±7%	151	-
2011	±33%	543	-

Foreign currency exposure – Bank

As at 31 December 2012	USD	GBP	Euro	Zar	JPY	Others	Total
In million of Kenya Shillings							
Assets							
Cash and cash equivalents	13,197	631	857	88	78	1,087	15,938
Loans and advances to customers	14,269	6	3				
Amounts due from group companies	214	11	1			68	293
Other assets	256	-	-	-		-	256
	27,936	**648**	**861**	**88**	**78**	**1,155**	**30,765**
Equity and liabilities							
Customer deposits	4,902	136	426	2		11	5,478
Borrowed funds	20,152					77	20,229
Amounts due to group companies	121					16	137
Other liabilities	418	6	189				613
Total liabilities and shareholders funds	**25,593**	**142**	**616**	**2**		**104**	**26,456**
Net financial position	**2,343**	**505**	**245**	**86**	**78**	**1,051**	**4,309**
As at 31 December 2011							
Total Assets	16,390	114	487	11	38	571	17,611
Total Liabilities	17,344	63	461	1	-	6	17,875
Net financial position	**(955)**	**52**	**27**	**10**	**38**	**565**	**(263)**

The following tables demonstrates the sensitivity to a reasonable possible change in the US$ with all other variables held constant on the Banks profit tax due to changes in fair value of monetary assets and liabilities and the Bank's equity

	Changes in UGX	Effect on profit before tax	Effect on equity
2012	**±7%**	**164**	**-**
2011	**±33%**	**306**	**-**

Notes To The Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 31DECEMBER 2012

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.

	2012						2011				
In millions of Kenya Shillings	**Kenya**	**Uganda**	**Sudan**	**Rwanda**	**Tanzania**	**Total**	**Kenya**	**Uganda**	**Sudan**	**Rwanda**	**Total**
Total asset	206,023	9,978	19,656	3,392	4,122	243,170	167,587	9,169	17,844	1,694	196,294
Net Interest Income	22,123	985	488	167	201	23,964	15,659	853	(291)	2	16,223
Total Operating Income	32,181	1,443	2,425	423	355	36,827	25,642	21,351	1,657	20	28,670
Total expenses	15,762	1,386	1,343	656	432	19,579	13,532	1,332	1,048	79	15,991
Profit before tax	16,591	57	1,082	(233)	(77)	17,420	12,110	19	609	(59)	12,679

It is not practicable to segregate revenues from external customers for each product and service as the information is not available and the cost to develop it would be excessive.

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 2012 or 2011.

The group's operating segments are reported based on financial information provided to the Strategy and Investment committee as detailed on page 39 which is the key management committee and represents the decision making. The chairmanship and composition of this committee is as detailed on page 39.

The three customer facing lines of businesses include:

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.

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.

34. Operating Segment (continued)

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.

The products the group offers its customers include:

Equi loan - a credit facility granted to employees of reputable organizations that the bank has an MOU with. The facility is administered through a check off system from the employer where loan deductions are remitted to the bank for loan installment due.

Vijana loan - meant to cater for the youth majority of whom have business ideas but lack conventional collaterals, the bank set aside some funds to support these clientele. The lending is done through group methodology

Fanikisha loan - loan products tailored for women clients. They have a characteristic of flexibility on collaterals since majority of women don't have formal collaterals yet have good business ideas.

Farm input - facilities granted to customers in the agricultural sector of the economy for inputs and working capital needs.

Mortgage loan - facilities granted to 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 loan - granted to our customers for purchase of both movable and immovable assets. Majority of the customers are in business.

Trade finance - products for customers in business and facilitates purchase of goods and services and subsequent payments thereof. Various products are extended under trade finance including Bid bonds, LCs and Guarantees among others.

Development loan - a facility granted to customers in the construction to finance the project in terms of materials and other overheads. Majority of customers accessing this product are predominantly in SME and Corporate sectors.

Business Loan - credit facilities granted to business customers for working capital needs.

Biashara Imara - working capital facility provided to micro clients with no conventional collateral.

Notes

Notes

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ANNUAL GENERAL MEETING WEDNESDAY, 27TH MARCH 2013

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 Wednesday, the 27th day of March 2013 at 10.00 a.m., or at any adjournment thereof.

As witness to my/our hands this ____________________ day of ____________________ 2013

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 Monday, the 25th day of March 2013, 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 Wednesday the 27th day of March 2013 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

Name of Shareholder:

Address of Shareholder

CDS Account Number:

MKUTANO MKUU WA MWAKA, 27TH MARCH 2013

FOMU YA UWAKILISHI

Mimi/Sisi ____

____

Nambari ya Akaunti ya hisa ____

wa{anwani} ____

Nikiwa/tukiwa wanachama wa Kampuni ya Equity Bank, ninateua/tunateua ______________________

____

wa{anwani} ____

Au, akikosa kufika mwenyekiti aliyeteulliwa kihalali wa mkutano awe mwakilishi wangu/wetu kupiga kura kwa niaba yangu/yetu katika mkutano mkuu wa mwaka wa kampuni utakaofanywa Jumatano tarehe 27 March 2013 saa nne au wakati wowote uahirishaji unaweza kutokea.

Kama ilivyoshuhudiwa kwa sahihi yangu/yetu siku hii ya ______________________ 2013

Sahihi ____

Maelezo:

1. Fomu hii ya uwakilishi inapaswa kuwasilishwa kwa katibu wa Kampuni katika Jumba la Equity Centre Orofa ya 9, Upper Hill, s.l.p 75104, Nairobi- 00200, Kenya kabla ya saa nne asubuhi siku ya Jumatatu tarehe 25 March 2013, la sivyo haitakubaliwa.
2. Fomu ya uwakilishi sharti iandikwe kwa mkono na endapo mwakilishi ni mtu binafsi inapaswa kutiwa sahihi na mwenyehisa au na wakili wake na endapo ni shirika fomu ya uwakilishi sharti iwe na muhuri au kutiwa sahihi na wakili wake au afisa wa shirika hilo.

.... KATA KATIKA SEHEMU ILIYO WEKWA ALAMA ....

KADI YA RUHUSA

Kadi hii ya ruhusa lazima iwasilishwe na mwenyehisa au mwakilishi wake ili kuruhusiwa kuhudhuria Mkutano Mkuu wa Mwaka katika Jumba la Kenyatta International Conference Center (KICC) Nairobi, Kenya Jumatano tarehe 27 March 2013 saa nne asubuhi

Katibu wa kampuni:

____

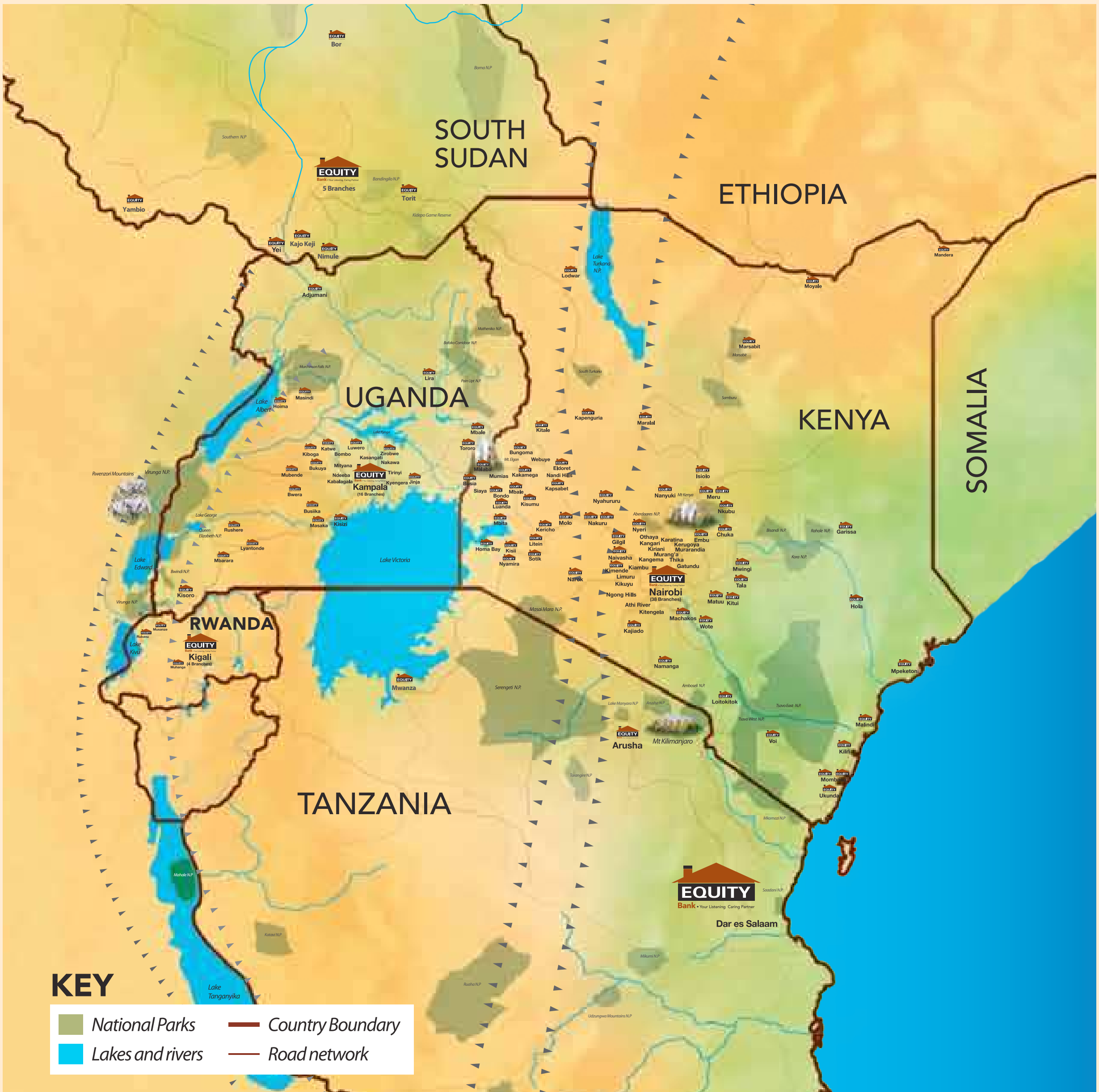
Jina la Mwenyehisa:

Anwani ya Mwenyehisa:

Idadi ya hisa zinazoshikiliwa:

Nambari ya Akaunti ya Hisa:

REGIONAL FOOTPRINT



Transforming lives in Africa, one branch at a time.

BRANCHES 208

(a) Branches in Kenya 147, Nairobi 44
(b) Branches in Uganda 38, Kampala 16
(c) Branches in South Sudan 9, Juba 5
(d) Branches in Tanzania 6, Dar er Salaam 4
(c) Branches in Rwanda 8, Kigali 4

Agent Outlets	**6,608**
Point of Sale Terminals (POS)	**12,449**
VISA branded ATMs	**620**

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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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