The 2005 Annual Reports of the Banks in the BANK OF AFRICA Group are illustrated with satellite images of the different countries where they are present.

MOUNT KENYA

A volcano extinct for 3 million years, Mount Kenya peaks at 5,199 metres above sea level, and ranks second in Africa, after Kilimanjaro. The picture shows its glacier and perpetual snow, and the different colours indicate the succession of flora, from African savannah to alpine vegetation, via various kinds of tropical plant life.

Message from the Managing Director

After six months of activity in 2004 and building our development strategy, the bank saw a number of significant events during the course of the year 2005.

Thanks to an intensive training of all our personnel at the beginning of the year, the migration of the information processing system of the bank to the standard of BANK OF AFRICA Group was successfully carried out with the assistance of the data-processing subsidiary company from BANK OF AFRICA Group network.

Within the framework of our development of the retail sector, the bank opened its third branch in a residential district of Nairobi, Westlands, in July 2005 as had been scheduled. With this target, the commercial team had prior to this adapted to the local market conditions, and developed a number of banking products for the retail sector like saving accounts, kids accounts, personal loans, car loans, etc...

Initially and in order to enable the distribution of the of cash withdrawal card SESAME which is the official card in all the network of BANK OF AFRICA Group, the bank signed in December 2005 a contract with KENSWITCH which has a wide network of ATMS in the country.

In the corporate sector, the bank launched B-WEB, an internet based banking product. The bank also participated in various syndicated loans and bond issues raised by some of its major customers.

In a very competitive market where there are 42 registered banks in the country, BANK OF AFRICA - KENYA managed to perform favourably well compared with the competition. The change of the overall strategy has began to bear fruit. Among other things we have seen the number of customer accounts almost doubling in the year.

The year 2006 will see the bank embark on its elaborate plan outlined in July 2004 when it first started its operations in Kenya; key among them will be the commissioning of another branch in the country as disclosed at the opening ceremony of the third branch last July.

In a favourable political and economic environment, the bank closed the year 2005 with a balance sheet of KES 5.3 billion against KES 4.9 billion at the end of 2004. Deposits on the other hand increased from KES 3.19 billion at the end of 2004 to KES 4.12 billion as at 31st December 2005 while the loan portfolio remained fairly stable in the range of KES 3 billion.

The total staff establishment of the bank increased from 53 to 60 by 31st December 2005.

Finally our 2005 operational results for the first time were positive at KES 7.486 million and a net profit of KES 3.8 million.

Philippe LEON-DUFOUR

Managing Director

Key facts

During year 2005

March

Bank's migration of existing Information Technology System to Groupe BANK OF AFRICA system.

April

Participation in the Groupe BANK OF AFRICA's meeting in Niamey, Niger.

July

Launching of our internet banking product called B-WEB.

August

Official launching of the third branch in WESTLANDS.

October

Participation in the KES 800 million bond issue from our customer Athi River Mining Ltd.

November

Participation as co-sponsor in AVCA Conference (African Venture Capital Association) in Mombasa.

December

Signing of an agreement with KENSWITCH which will enable the bank to distribute our SESAME ATM card.

Participation in the CELTEL bond issue of KES 4.5 billion partially guaranteed by FMO.

Participation in the Groupe BANK OF AFRICA's meeting in Ouagadougou, Burkina Faso.

Key figures 2005 (in KES '000)

At 31/12/2005

Activity	
Deposits *	4,123,179
Loans *	3,002,651

Income	
Operating income *	301,411
Operating expenses *	293,925
Profit before income tax *	7,486

Structure	
Total Assets *	5,349,258
Average number of employees	60

(1 EURO = 85.75 KES)

Board of Directors

Members of the Board of Directors are 5, as follows :

M. Paul DERREUMAUX, Chairman

M. Georges ABALLO, Director

M. Alexandre RANDRIANASOLO, Director

M. Francis SUEUR, Director

M. Philippe LEON-DUFOUR, Managing Director

Auditors

PriceWaterhouseCoopers

Capital

The authorised and issued capital of the bank is KES 500,000,000 divided in 500,000 ordinary shares with a par value of KES 1,000 each. The following is the bank's shareholding structure, as at 31st December 2005.

AFRICAN FINANCIAL HOLDING	10%
AFRICAN FINANCIAL HOLDING - OCEAN INDIEN	15%
BANK OF AFRICA - BENIN	20%
BANK OF AFRICA - COTE D'IVOIRE	15%
BANK OF AFRICA - MADAGASCAR	20%
NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)	20%

Report of the independent Auditors

We have audited the financial statements of BANK OF AFRICA - KENYA Limited for the year ended 31 December 2005 set out on pages 9 to 35.

Respective responsibilities of Directors and Auditors

The Directors are responsible for the preparation of financial statements as described on page 2. Our responsibility is to express an independent opinion on the financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the Directors, as well as an evaluation of the overall presentation of the financial statements. We have obtained all the information and explanations that to the best of our knowledge and belief were necessary for the purposes of our audit and believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion proper books of account have been kept and the financial statements, which are in agreement with the books of account, give a true and fair view of the state of the bank's financial affairs at 31 December 2005 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

PriceWaterhouseCoopers

Certified Public Accountants

Nairobi 6th March 2006

Profit and loss account

(In Shs'000)

	Notes	Period ended 31 December	
		2005	2004
Interest income	5	332,928	102,374
Interest expense	6	-147,509	-27,768
Net interest income		185,419	74,606
Fee and commission income		48,464	25,455
Fee and commission expense		-10,526	-6,52
Net fee and commission income		37,938	18,935
Foreign exchange income		77,968	26,839
Other operating income		86	372
Operating income		301,411	120,752
Operating expenses	7	-293,925	-152,879
Profit on acquisition of business		-	171,326
Profit before income tax		7,486	139,199
Income tax expense/(credit)	9	-3,675	9,346
Profit for the year		3,811	148,545

Balance Sheet

(In Shs'000)

Assets

Assets	Notes	At 31 December 2005	At 31 December 2004
Cash and balances with Central Bank of Kenya	10	368,387	269,421
Government securities held-to-maturity	11	653,261	925,745
Placements with other banks	12	1,015,568	517,049
Amounts due from group companies	24	25,506	-
Loans and advances to customers	13	3,002,651	3,057,452
Tax recoverable		135	135
Property and equipment	14	62,29	22,464
Intangible assets	15	55,247	3,632
Deferred income tax	16	15,721	19,396
Prepaid operating lease rentals		5,373	5,458
Other assets	17	145,119	120,908
Total assets		5,349,258	4,941,660

Liabilities

Liabilities	Notes	At 31 December 2005	At 31 December 2004
Customer deposits	18	4,123,179	3,195,176
Deposits from other banks	19	323,327	803,29
Amounts due to group companies	24	66,868	46,524
Other liabilities	20	183,528	248,125
Total liabilities		4,696,902	4,293,115

Shareholders' equity

Shareholders' equity	Notes	At 31 December 2005	At 31 December 2004
Share capital	21	500	500
Retained earnings		152,356	148,545
Shareholders' equity		652,356	648,545
Total equity and liabilities		5,349,258	4,941,660

The financial statements were approved for issue by the board of directors on 6th March 2006 and signed on its behalf by:

Paul DERREUMAU

Chairman

Philippe LEON-DUFOUR

Managing Director

Alexandre RANDRIANASOLO

Director

Ramesh VORA

Company Secretary

Statement of changes in equity

(In Shs'000)

Statement of changes in equity	Notes	Share capital	Retained earnings	Total
Year ended 31 December 2004				
Shares issues at incorporation		2	-	2
Shares issued since incorporation		499,998	-	499,998
Profit for the year		-	148,545	148,545
At end of year	21	500	148,545	648,545
Year ended 31 December 2005				
At start of year		500	148,545	648,545
Profit for the year		-	3,811	3,811
At end of year	21	500	152,356	652,356

Cash flow Statement

(In Shs'000)

Cash flow Statement	Notes	Period ended 31 December	
		2005	2004
Cash flows from operating activities			
Interest receipts		332,613	93,412
Interest payments		-132,426	-28,481
Net fee and commission receipts		37,938	18,935
Other income received		77,996	26,856
Recoveries from other assets previously written off		242	-
Payments to employees and suppliers		-273,375	-147,505
Income tax paid		-	-135
Cash flows from operating activities			
Before changes in operating assets and liabilities		42,988	-36,918
Changes in operating assets and liabilities:			
• Loans and advances		55,293	-468,433
• Cash reserve requirement		-45,464	-198,378
• Other assets		-24,211	-7,25
• Customer deposits		912,947	-985,941
• Other liabilities		-64,297	-44,015
• Treasury bills and bonds maturing after 91 days		517,453	-49,616
Net cash from operating activities		1,394,709	(1,790,551)
Cash flows from investing activities			
Net cash inflow from acquisition of business from Calyon		-	1,034,887
Purchase of property and equipment	14	-50,188	-5,305
Purchase of intangible assets	15	-62,3	-883
Proceeds from sale of property and equipment		23	380
Net cash used in investing activities		-112,465	1,029,079
Cash flows from financing activities			
Issue of ordinary shares		-	500
Net cash from financing activities		-	500
Net increase/(decrease) in cash and cash equivalents		1,282,244	-261,472
Cash and cash equivalents at start of year	23	-261,472	-
Cash and cash equivalents at end of year	23	1,020,772	-261,472

Notes

1. General information

BANK OF AFRICA KENYA is incorporated in Kenya under the Companies Act as a limited company, and is domiciled in Kenya. The address of its registered office is:

RE-INSURANCE PLAZA

TAIFA ROAD - P.O. BOX 69562

00400 NAIROBI

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

A. Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Kenya Shillings (Shs), rounded to the nearest thousand, and prepared under the historical cost convention as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the bank's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Adoption of new and revised standards

In 2005 several new and revised standards became effective for the first time and have been adopted by the bank where relevant to its operations. The adoption of these new and revised standards had no material effect on the bank's accounting policies or disclosures, except as follows:

IAS 16 (revised 2003) has required the disclosure of comparative figures for movements in property and equipment;

IAS 24 (revised 2003) has affected the identification of related parties and some other related party disclosures.

The comparative financial statements represent the results and financial position of the company since incorporation on 25 September 2003 to 31 December 2004. The company acquired the Kenyan operations of Calyon (formerly Credit Agricole Indosuez) on 30 June 2004 and commenced business on 1 July 2004.

B. Interest income and expense

Interest income and expense are recognised in the profit and loss account for all interest bearing instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. When loans and advances become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

C. Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

D. Translation of foreign currencies

The accounting records are maintained in the currency of the primary economic environment in which the bank operates, Kenya Shillings ("the functional currency"). Transactions in foreign currencies during the year are converted into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

E. Financial assets

The bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans, advances and receivables; held-to-maturity investments; and available-for-sale assets. Management determines the appropriate classification of its investments at initial recognition. The bank currently has the following categories:

a. Loans, advances and receivables

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the bank provides money, goods or services directly to a debtor with no intention of trading the receivable.

b. Held-to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Were the bank to sell more than an insignificant amount of held-to-maturity assets, the entire category would have to be reclassified as available for sale.

As at the balance sheet date the bank has not designated at initial recognition any financial liability as at fair value through profit or loss. Neither has the bank designated or acquired any available for sale instruments.

F. Impairment of financial assets

The bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the bank about the following loss events:

significant financial difficulty of the issuer or obligor;

a breach of contract, such as default or delinquency in interest or principal repayments;

the bank granting to the borrower, for economic or legal reasons relating to the borrower's financial
difficulty, a concession that the lender would not otherwise consider;

it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

the disappearance of an active market for that financial asset because of financial difficulties; or

observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

Assets carried at amortised cost:

The bank assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

G. Property and equipment

All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these assets.

Depreciation on other assets is calculated on the straight line basis to write down their cost to their residual values over their estimated useful lives, as follows:

Buildings	1.5%
Fixtures, fittings and equipment	20%
Motor vehicles	33.3%
Leasehold Improvement	10%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The bank assesses at each reporting date whether there is any indication that any item of property, plant and equipment is impaired. If any such indication exists, the bank estimates the recoverable amount of the relevant assets. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

H. Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of five years.

I. Income tax

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Kenyan Income Tax Act.

Deferred income tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

J. Accounting for leases

Prepaid The bank carries leasehold land as prepaid operating lease, stated at cost less accumulated amortisation. Amortisation is calculated to write down the cost of the lease over the lease term.

K. Employee benefits

Retirement benefit obligations

The company operates a defined contribution post-employment benefit scheme for all its employees. The scheme is funded from contributions from both the company and employees. The company and its employees also contribute to the statutory National Social Security Fund, which is a defined contribution scheme.

The company's contributions to both these defined contribution schemes are charged to the profit and loss account in the year to which they fall due. The company has no further obligation once the contributions have been paid.

Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

L. Derivative financial instruments

Derivatives, which comprise solely forward foreign exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently measured at fair value. The fair value is determined using forward exchange market rates at the balance sheet date or appropriate pricing models. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in the profit and loss account.

M. Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

N. Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

O. Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are classified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

P. Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

3. Financial risk management

A. Strategy in using financial instruments

By their nature, the bank's activities are principally related to the use of financial instruments including derivatives. The bank accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The bank also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances; the bank also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

Foreign exchange and interest rate exposures associated derivatives are normally offset by entering into counter- balancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

B. Credit risk

The bank takes on exposure to credit risk, which is the risk that a counter party will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration of the bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

The bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers. Such risks are monitored on a revolving basis and subject to annual or more frequent review.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Credit related commitments:

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the bank on behalf of a customer authorising a third party to draw drafts on the bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

C. Concentrations of risk

Economic sector risk concentrations within the customer loan and deposit portfolios were as follows:

At 31 December 2005	**Loans and advances**	**Credit commitments**	**Customer deposits**
Manufacturing	47%	17%	2%
Wholesale and retail trade	28%	43%	14%
Transport and communications	5%	6%	15%
Business services	-	-	3%
Agricultural	2%	-	1%
Electricity and water	1%	1%	5%
Social, community and personal service	-	-	8%
Other	17%	33%	52%
Total	100%	100%	100%

At 31 December 2004	Loans and advances	Credit commitments	Customer deposits
Manufacturing	45%	6%	5%
Wholesale and retail trade	27%	27%	12%
Transport and communications	8%	7%	25%
Business services	-	-	3%
Agricultural	-	-	1%
Electricity and water	5%	-	-
Social, community and personal service			10%
Other	15%	60%	44%
Total	100%	100%	100%

D. Currency risk

The bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The bank had the following significant foreign currency positions (all amounts expressed in thousands of Kenya Shillings) :

At 31 December 2005	USD	GBP	Euro	Other	Total
Assets					
Cash and balances with Central Bank of Kenya	41,674	1,718	8,965	-	52,357
Placements with other banks	301,963	74,047	440,182	10,581	826,773
Loans and advances to customers	1,087,785	8,914	31,971	6,125	1,134,795
Other assets	42,788	-	14,175	-	56,963
Total assets	1,474,210	84,679	495,293	16,706	2,070,288
Liabilities					
Customer deposits	1,435,693	85,733	422,408	8,837	1,952,671
Deposits from other banks	108,806	-	2,189	6,389	117,384
Amounts due to group companies	18,561	-	48,307	-	66,868
Other liabilities	898	495	11,5	140	13,033
	1,563,958	86,228	484,404	15,366	2,149,956

At 31 December 2005	Up to 1 month	1 to 3 months	3 to 12 months	Over 1 year	Non-interest bearing	Total
Assets						

Cash and balances with Central Bank of Kenya	-	-	-	-					
Government securities	-	245,76	199,699	2					
Deposits and balances due from banking institutions	969,05	-	-	-					
Amounts due from group companies	3	-	25	-					
Loans and advances to customers	2,635,469	168,265	86,13	1					
Property and equipment	-	-	-	-					
Intangible assets	-	-	-	-					
Deferred income tax asset	-	-	-	-					
Other assets	-	-	-	-					
Total assets	3,604,531	414,025	310,829	3					
Liabilities & shareholders'funds									
Customer deposits	2,531,393	464,738	141,025	-					
Deposits and balances due to banking institutions	308,735	-	2,188	-					
Amounts due to group companies	66,127	-	-	-					
Other liabilities	-	-	-	-					
Shareholders'funds	-	-	-	-					
Total liabilities & shareholders'funds	2,906,255	464,738	143,213	-					
Interest sensitivity gap	698,275	-50,713	167,616	3					
Total liabilities									
Net on-balance sheet position					87,748	-1,549	10,889	1,34	79,068
Net off-balance sheet position					17,878	-	-	-	17,878
Overal net position					89,041	-1,549	10,889	1,34	99,721

At 31 December 2004	USD	GBP	Euro	Other	Total
Total assets	173,834	110,938	993,124	29,39	1,307,286
Total liabilities	854,963	111,108	993,099	29,392	1,988,562
Net on-balance sheet position	-268	-170	25	-2	-415
Net off-balance sheet position	680,861	-	-	-	680,861
Overal net position	-268	-170	25	-2	-415

The off-balance sheet position represents the difference between the notional amounts of foreign currency derivative financial instruments and their fair values.

E. Interest rate risk

The bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Mismatch positions are reviewed on a weekly basis.

The table below summarises the bank's exposure to interest rate risks. Included in the table are the bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The bank does not bear an interest rate risk on off balance sheet items. All figures are in thousands of Kenya Shillings.

At 31 December 2004	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**Over 1 year**	**Non-interest bearing**	**Total**
Total assets	3,175,130	407,05	367,237	507,208	485,035	4,941,660
Total liabilities & shareholders'funds	2,732,533	117,833	21,137	-	2,070,157	4,941,660
Interest sensitivity gap	442,597	289,217	346,1	507,208	(1,585,122)	-

The effective interest rates by major currency for monetary financial instruments not carried at fair value through profit or loss at 31 December 2005 and 2004 were in the following ranges :

		2005		**2004**
Assets	In Shs	In US$	In Shs	In US$
Government securities	6.19%	-	5%	-
Deposits with banking institutions	8.5%	4%	-	-
Loans and advances to customers	11%	6%	10%	4%
Amounts due from group companies	9%	-	-	-
Liabilities				
Customer deposits	6%	2%	3%	1%
Deposits due to banking institutions	8%	4%	11%	2%
Amounts due to group companies	-	3%	-	-

F. Liquidity risk

The bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the bank and its exposure to changes in interest rates and exchange rates.

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. All figures are in thousands of Kenya Shillings.

At 31 December 2005	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and bank balances with Central Bank of Kenya	329,109	29,945	9,333	-	-	368,387
Government securities	-	245,76	202,927	204,574	-	653,261
Deposits and balances due from banking institutions	1,015,568	-	-	-	-	1,015,568
Amounts due from group companies	3	-	25,503	-	-	25,506
Loans and advances to customers	2,559,544	120,554	92,577	181,781	48,195	3,002,651
Property and equipment	-	-	-	58,276	9,387	67,663
Intangible assets	-	-	-	55,247	-	55,247
Deferred income tax asset	-	-	-	15,721	-	15,721
Other assets	139,968	2,167	2,922	197	-	145,254
Total assets	4,044,192	398,426	333,262	515,796	57,582	5,349,258
Liabilities & equity						
Customer deposits	3,497,529	478,605	145,761	1,284	-	4,123,179
Deposits and balances due to banking institutions	321,139	-	1,094	1,094	-	323,327
Amounts due to group companies	66,868	-	-	-	-	66,868
Shareholders' funds	-	-	-	-	652,356	652,356
Other liabilities	77,747	6,573	36,341	62,867	-	183,528
Total liabilities & equity	3,963,283	485,178	183,196	65,245	652,356	5,349,258
Net liquidity gap	80,909	-86,752	150,066	450,551	-594,774	-

At 31 December 2004	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Total assets	3,481,722	450,485	380,269	584,674	44,51	4,941,660
Total liabilities & equity	4,013,222	121,176	64,47	94,247	648,545	4,941,660
Net liquidity gap	-531,5	329,309	315,799	490,427	-604,035	-

G. Fair values of financial assets and liabilities

The fair values of the bank's financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates as set out above.

4. Critical accounting estimates and judgements in applying accounting policies

The bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

The bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity investments

The bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturing as held-to-maturity. This classification requires significant judgement. In making this judgement, the bank evaluates its intention and ability to hold such investments to maturity. If the bank fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to classify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

5. Interest income

Interest income	2005*	2004*
Loans and advances	276,895	80,244

Government securities	38,385	18,819
Balances with other banking institutions	17,648	3,311
Total	332,928	102,374

6. Interest expense

Interest expense	**2005***	**2004***
Customer deposits	122,839	20,888
Deposits by banks	24,67	6,88
Total	147,509	27,768

Operating expenses	**2005***	**2004***
Staff Costs (Note 8)	126,265	69,318
Depreciation (Note 14)	10,121	5,332
Amortisation of intangible asset (Note 15)	10,641	-
Loss/(gain) on sale of property and equipment	262	-355
Operating lease rentals	17,393	7,142
Auditors' remuneration	2,536	1,562
Amortisation of prepaid operating lease rentals	85	42

7. Operating expenses

The following items are included within operating expenses :

8. Staff costs

The following items are included within staff costs:

Staff costs	**2005***	**2004***
Retirement benefit costs :		
defined contribution scheme	4,98	2,413
National Social Security Fund	127	60

9. Income tax expense/(credit)

Income tax expense/(credit)	**2005***	**2004***
Deferred income tax (Note 16)	-3,675	9,346

The tax on the bank's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows :

Profit before income tax	7,486	139,199
Tax calculated at the statutory income tax rate of 30% (2004 : 30%)	2,246	41,76
Tax effect of :		
Income not subject to tax	-	-51,542
Expenses not deductible for tax purposes	1,505	436
Utilisation of previously unrecognised tax losses	-76	-
Income tax expense/(credit)	3,675	-9,346

10. Cash and balances with Central Bank of Kenya

Cash and balances with Central Bank of Kenya	2005*	2004*
Cash in hand	113,038	68,702
Balances with Central Bank of Kenya	255,349	200,719
Total	368,387	269,421

11. Government securities held-to-maturity

Government securities held-to-maturity	2005*	2004*
Treasury bills and bonds :		
Maturing within 91 days of the date of acquisition	245,76	-
Maturing after 91 days of the date of acquisition	407,501	925,745
Total	653,261	925,745

Treasury bills and bonds are debt securities issued by the Republic of Kenya.

12. Placements with other banks

Placements with other banks	**2005***	**2004***
Placements Included in cash and cash equivalents (Note 23)	910,607	42,925
Loans and advances to other banks	104,961	474,124
Total	1,015,568	517,049

13. Loans and advances to customers

Loans and advances to customers	**2005***	**2004***
Overdrafts	2,186,881	2,303,332
Personal loans	24,141	-
Mortgages	64,551	53,043
Commercial loans	785,458	753,979
Discounted bills	4,444	11,476
Gross loans and advances	3,065,475	3,121,830
Less : Provision for impairment of loans and advances		
Specific	-29,324	-30,878
Unidentified	-33,5	-33,5
Total	3,002,651	3,057,452

Loans and advances to customers (continued)	**2005***	**2004***
	Specific provisions	Unidentified provision
Year ended 31 December 2004		
At start of July	31,085	33,5
Exchange difference	-207	-
At end of year	30,878	33,5
Year ended 31 December 2005		
At start of year	30,878	33,5
Exchange difference	-1,554	-
At end of year	29,324	33,5

Movements in provisions for impairment of loans and advances are as follows :

14. Property and equipment

Property and equipment	Buildings & freehold land*	Motor vehicles*	Fixtures, fittings and equipment*	Total*
At 1 July 2004				
Cost or valuation and net book amount	12	554	7,966	20,52
Year ended 31 December 2004				
Opening net book amount	12	554	7,966	20,52
Additions	-	2,684	2,621	5,305
Disposals	-	-31	-40	-71
Depreciation charge	90	509	2,691	3,29
Closing net book amount	11,91	2,698	7,856	22,464
At 31 December 2004				
Cost or valuation	12	3,207	10,545	25,752
Accumulated depreciation	90	509	2,689	3,288
Net book amount	11,91	2,698	7,856	22,464
Year ended 31 December 2005				
Opening net book amount	11,91	2,698	7,856	22,464
Additions	-	2,065	48,123	50,188
Disposals	-	-	-241	-241
Depreciation charge	180	1,746	8,195	10,121
Closing net book amount	11,73	3,017	47,543	62,29
At 31 December 2005				
Cost or valuation	12	5,272	58,276	75,548
Accumulated depreciation	270	2,255	10,733	13,258
Net book amount	11,73	3,017	47,543	62,29

15. Intangible assets

Intangible assets	Computer software licences*
Year ended 31 December 2005	
Opening net book amount	3,632
Additions	62,3
Disposals	-44
Amortisation	10,641
At end of year	55,247
At 31 December 2005	
Cost	64,168
Accumulated amortisation	8,921
Net book amount	55,247

16. Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2004: 30%). The movement on the deferred income tax account is as follows :

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Deferred income tax	**2005***	**2004***
At start of year	-19,396	-10,05
Income statement charge/(credit) (Note 9)	3,675	-9,346
At end of the year	-15,721	-19,396

The deferred income tax asset, deferred income tax charge/(credit) in the profit and loss account, and deferred income tax charge/(credit) in equity are attributable to the following items:

	1.1.2005*	**Charged/ (credited)to P/L***	**31.12.2005***
Deferred income tax liabilities			
Property and equipment	92	3,724	3,816
Deferred income tax assets			
Provisions	-10,643	-1,247	-11,89
Other deductible			
Temporary differences	-8,845	1,198	-7,647
Net deferred income tax asset	-19,396	3,675	-15,721

17. Other assets

Other assets	2005*	2004*
Uncleared effects	122,054	72,757
Other	23,065	48,151
Total	145,119	120,908

18. Customer deposits

Customer deposits	**2005***	**2004***
Current and demand deposits	2,916,297	2,549,652
Savings accounts	22,177	2,117
Fixed deposit accounts	1,184,705	643,407
Total	4,123,179	3,195,176

19. Deposits from other banks

Deposits from other banks	**2005***	**2004***
Overnight borrowing	200,089	652,228
Other balances due to banks	123,238	151,062
Total	323,327	803,29

20. Other liabilities

Other liabilities	**2005***	**2004***
Items in transit	1,702	174
Bills payable	48,868	99,322
Due to Calyon Paris	97,205	126,726
Other	35,753	21,903
Total	183,528	248,125

21. Share capital

Share capital	Number of shares	Ordinary shares
Balance at 1 January and 31 December 2005	500	500

The total authorised number of ordinary shares is 500,000 with a par value of Shs 1,000 per share. All issued shares are fully paid.

22. Off balance sheet financial instruments, contingent liabilities and commitments

In common with other banks, the bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, the nominal amounts for which are not reflected in the balance sheet.

Contingent liabilities	2005*	2004*
Acceptances and letters of credit	186,698	102,855
Guarantee and performance bonds	509,57	430,221
Total	696,268	553,076

Nature of contingent liabilities

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

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.

Other commitments	2005*	2004*
Foreign exchange forward contracts	178,789	680,861

Nature of commitments

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer.

Foreign exchange forward contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate.

23. Analysis of cash and cash equivalents as shown in the cash flow statement

Analysis of cash and cash equivalents as shown in the cash flow statement	2005*	2004*
Cash and balances with Central Bank of Kenya (Note 10)	368,387	269,421
Less : cash reserve requirement (see below)	-243,842	-198,378
Government securities (Note 11)	245,76	-
Placements with other banks (Note 12)	910,419	42,848
Amounts due from group companies (Note 24)	-41,747	-46,524
Due to banks and non-bank financial institutions (Net)	-218,205	-328,839
Total	1,020,772	-261,472

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with central banks, treasury bills and other eligible bills, and amounts due from other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Central Bank of Kenya Banks are required to maintain a prescribed minimum cash balance with the Central Bank of Kenya that is not available to finance the bank's day-to-day activities. The amount is determined as 10% of the average outstanding customer deposits over a cash reserve cycle period of one month.

24. Related party transactions

The bank is controlled by African Financial Holding (AFH) incorporated in Luxembourg. There are other companies which are related to Bank Africa Kenya Limited through common shareholdings or common directorships.

In the normal course of business, current accounts are operated and placings of foreign currencies are made with the parent company and other group companies at interest rates in line with market. The relevant balances are shown below.

	2005*	2004*
Amounts due from group companies Due from Netherlands Development Finance Company (FMO)(included under other assets)	13,618	-
Due from AFH (included under other assets)	557	-
Amounts due from group banks	14,175	-
Bank of Africa - Madagascar	25,506	-
Interest income earned on the above	1,641	-
Ledger fees earned on the above	5	
Amounts due to group companies	1,074	923
Due to AFH (included under other liabilities)	171,799	-
Due to AFH (included under customer deposits)	172,873	923
Amounts due to group banks	45,026	19,679
Bank of Africa - Madagascar	21,842	26,845
Bank of Africa - Cote D'ivoire	66,868	46,524
Interest expense incurred on the above	1,697	137
Expenses		

Management fee paid to AFH	20,247	12,124
Commission on guarantee payable to AFH	188	-

Advances to customers at 31 December 2005 include loans to employees amounting to Shs 80 million (2004: Shs 70 million).

	2005*	**2004***
Interest income earned on loans to employees	4,784	2,363

No provisions have been recognised in respect of loans given to related parties (2004: nil).

	2005*	**2004***
Key management compensation		
Salaries and other short-term employment benefits	49,784	28,402
Directors' remuneration		
Salaries to executive directors (included in key management compensation above)	17,398	6,311

*In SHS'000

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