Focused on development in the heart of Africa

BANK OF AFRICA – KENYA

2012 Annual Report

BOA Group celebrates its 30th Anniversary

BANK OF AFRICA KENYA

GROUPE BANK OF AFRICA

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BANK OF AFRICA Group celebrates its 30th Anniversary

This year we are celebrating our Group's 30th Anniversary.

BANK OF AFRICA was established at a time when the West African banking sector experienced serious difficulties. The founder's goal of the first BANK OF AFRICA, BOA-MALI, created in 1983 and then headed by Paul DERREUMAUX, was to fill a gap by creating a private African bank, with African capital, and dedicated to serving the African economy.

The original shareholders felt keenly the immense potential of a project that would help bring Africa together for a better future.

Investors – both private and public, both national and international – had also placed their trust in this project and helped it to develop into what it is today – a group with a presence in 15 African countries through 16 commercial banks as well as numerous financial companies.

The majority shareholder, BMCE Bank, has put at the disposal of BOA Group its multiple skills, as well as its international and continental experience. Alongside other shareholders, it also provides the necessary capital for BOA to develop and expand throughout the continent.

All the BOA subsidiaries have now adopted BMCE Bank's business model, which is based on extending banking services to citizens on a large-scale and assisting both private and public economic players with advice and financing to manage their companies and implement their projects.

Almost 5,000 staff members of all nationalities conduct their work with conviction and commitment. These women and men comprise teams that have expanded as the Group has developed, by knowing how to make the most of their differences, in order to become even stronger and more effective together.

But BOA is above all the hundreds of thousands of customers – retail clients of all classes and ages, companies of all sizes and economic sectors, associations, public services, investors, industrialists, and entrepreneurs – who each day place their trust in its professionalism.

This year, as we celebrate the Group's 30 years of existence, I would like to pay tribute to our shareholders, those who were with us from the start and those who joined later; to our customers; to our 5,000 staff members; and to the authorities in each host country who provide us with their continuous support.

Thank you for your trust,
thank you for your work,
thank you for your support,
thank you, everyone,
and long live the BANK OF AFRICA Group!

Mohamed BENNANI
Chairman and Managing Director

Photo : © E. Legouhy

30 years of growth and expansion

Bank network

1983 BANK OF AFRICA – MALI

15 Branches and 1 Business Centre in Bamako.
8 Regional Branches and 13 Local Branches.

1990 BANK OF AFRICA – BENIN

22 Branches, 1 Business Centre and 2 Port Branches in Cotonou.
21 Regional Branches.

1994 BANK OF AFRICA – NIGER

Created in 1989: NIGERIAN INTERNATIONAL BANK (NIB). Integrated into BOA network in 1994.

8 Branches in Niamey.
8 Regional Branches.

1996 BANK OF AFRICA – CÔTE D'IVOIRE

Created in 1980: BANAFRIQUE.
Integrated into BOA network in 1996.

13 Branches and 1 Business Centre in Abidjan.
8 Regional Branches and 1 Local Branch.

1998 BANK OF AFRICA – BURKINA FASO

14 Branches and 1 Business Centre in Ouagadougou.
13 Regional Branches.

1999 BANK OF AFRICA – MADAGASCAR

Created in 1989: BANKIN'NY TANTSAHA MPAMOKATRA (BTM) / National Bank for Rural Development.
Integrated into BOA network in 1999.

21 Branches in Antananarivo.
56 Regional Branches.

2001 BANK OF AFRICA – SENEGAL

17 Branches and 1 Business Centre in Dakar.
10 Regional Branches.

2004 BANQUE DE L'HABITAT DU BENIN

2 Branches in Cotonou.

2004 BANK OF AFRICA – KENYA

Created in 1981: BANQUE INDOSUEZ Kenyan Branch > CREDIT AGRICOLE–INDOSUEZ > CALYON.
Incorporated under Kenyan law, integrated as a subsidiary into BOA network in 2004.

14 Branches in Nairobi.
12 Regional Branches.

2006 BANK OF AFRICA – UGANDA

Created in 1985: SEMBULE INVESTMENT BANK Ltd > ALLIED BANK. Integrated into BOA network in 2006.

20 Branches in Kampala.
13 Regional Branches.

2007 BANK OF AFRICA – TANZANIA

Created in 1995: EURAFRICAN BANK – TANZANIA Ltd (EBT). Integrated into BOA network in 2007.

10 Branches in Dar es Salaam.
9 Regional Branches.

2008 BANQUE DE CRÉDIT DE BUJUMBURA

Created in 1909 in Brussels: BANQUE DU CONGO BELGE (BCB). 1922: BCB Branch in Usumbura, Burundi. 25 July 1964: BANQUE DE CREDIT DE BUJUMBURA (BCB). Integrated into BOA network in 2008.

7 Branches and 3 Counters in Bujumbura.
12 Regional Branches and 2 Counters in Provinces.

2010 BANK OF AFRICA – RDC

7 Branches in Kinshasa.
1 Regional Branch.

2010 BANK OF AFRICA – MER ROUGE

Created in 1908: BANQUE INDOSUEZ MER ROUGE (BIRM). Integrated into BOA network in 2011.

3 Branches in Djibouti.

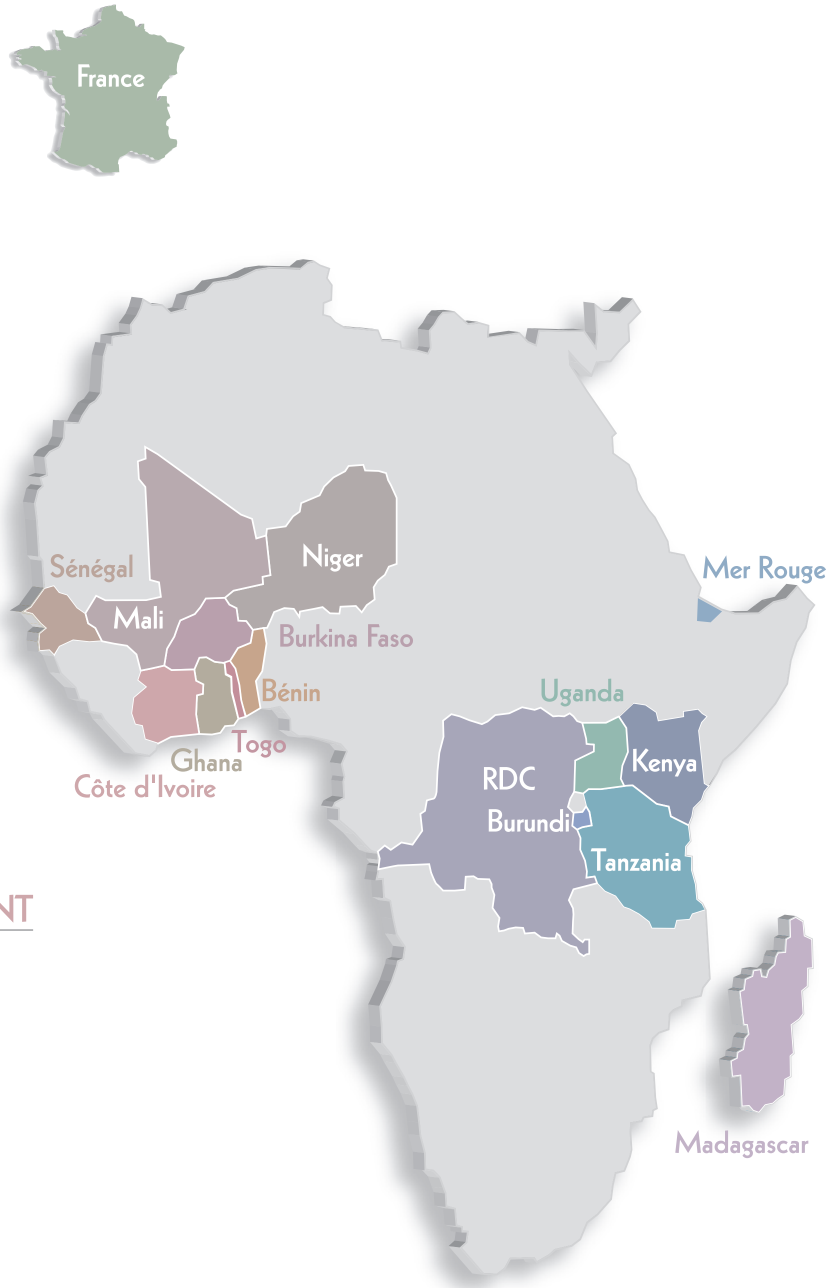
2011 BANK OF AFRICA – GHANA

Created in 1999: AMALBANK.
Integrated into BOA network in 2011.

14 Branches and 1 Business Centre in Accra.
5 Regional Branches.

2013 BANK OF AFRICA – TOGO

3 Branches in Lomé.



Subsidiaries

1997 ACTIBOURSE

Head Office in Cotonou.
1 Liaison Office in Abidjan.
1 contact in each BOA company.

2002 AÏSSA

Head Office in Cotonou.

2002 AGORA

Head Office in Abidjan.

2004 ATTICA

Head Office in Abidjan.

2009 BOA-ASSET MANAGEMENT

Head Office in Abidjan.

2010 BOA-FRANCE

4 Branches in Paris.
1 Branch in Marseille.

Other entities

1999 BANK OF AFRICA FOUNDATION

Head Office in Bamako.
Presence in 11 countries where the Group operates.

2000 BOA REPRESENTATIVE OFFICE

Head Office in Paris.

www.bank-of-africa.net

30 years of experience serving customers

A strong network*

5,000 people at the service of more than one million customers.

About 370 dedicated operating and service support offices in 16 countries.

A continuously expanding base of Automated Teller Machines and Electronic Payment Terminals, numbering around 450.

Close to 1,450,000 bank accounts.

A wide and varied offer

Full range of banking and financial services.

An attractive range of bank insurance products.

Tailored solutions for all financing issues.

Successful financial engineering.

A leading banking partner, BMCE BANK,

which is part of FinanceCom, a major Moroccan financial group.

Strategic partners, including:

PROPARCO,

INTERNATIONAL FINANCE CORPORATION (IFC - WORLD BANK GROUP),

WEST AFRICAN DEVELOPMENT BANK (BOAD),

NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO),

BELGIUM INVESTMENT COMPANY FOR DEVELOPING COUNTRIES (BIO),

and investment fund AUREOS.

Unique experience in Africa

Continuous development for 30 years.

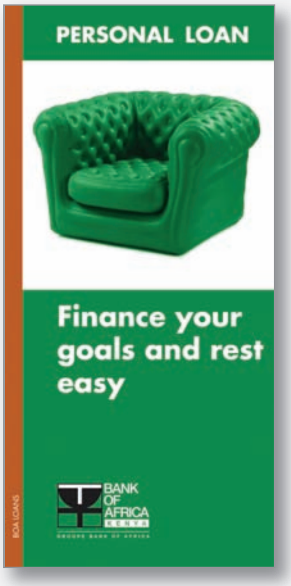
(*): As at 31 December 2012

The commitments of the Group for 30 years

- Quality of customer service
- Dynamic, accessible staff
- Financial solidity
- Cohesive network
- Wide range of financing solutions
- Expertise in financial engineering
- Strong partners

Group turnover 2012: 451.7 million euros

Main products of the Bank



Accounts	Current Account (Local & Foreign Currency)
	Goodwill Account
	Remunerated Current Account
	Salary Account
	Personal Current Account
	Wakili Current Account
	Jipange Account
	Elite Account
	Mwanariadha Account
Investment Products	Call Deposits Account
	Chama Account
	Children Savings Account "Cool Kids Account"
	Ordinary Savings Account
	Fixed Deposit Account
	Student Account
Electronic Banking	B-SMS / B-Phone
	B-Web
	SESAME ATM Card (Kenswitch Network)
	TOUCAN Card
M-Payment / M-Banking	B-Mobile
	M-Pesa
Loans	Motor Vehicle Loan
	Personal Loans
	Personal Motor Loan
	Salary Advance
Transfers & Changes	Foreign Exchange
	MoneyGram
	Travellers Cheques
	Western Union
Complementary Products & Services	Banker's Cheques
	Utility Bill Payments
	Custodial Services
BOA Company Services	BOA-KENYA thus offers a wide range of products and services to the attention of Corporates and SMEs, organizations, institutions and professionals.

Activity Report 2012

Comments from the Managing Director

It is my pleasure to present the Annual Report and Statement of Audited Accounts as at 31st December 2012 for BANK OF AFRICA – KENYA (BOA-KENYA).

During the year, economic activity was on a rebound after slowing down significantly in the last half of 2011 and into early 2012. Growth picked up on account of improved weather conditions and macroeconomic stability. New discoveries of oil and gas reserves have boosted investor confidence and further attracted foreign direct investments. This growth has also been driven by continued regional integration, trade diversification and increased foreign investment flows.

The International Monetary Fund (IMF) had predicted Kenya's GDP growth to rise to about 5.8 percent in 2012.

The year started with a sustained high Central Bank Rate (CBR) at 18 percent for the fifth month in a row leading to high cost of credit. The effects of the high interest rates were directly reflected in the stock of gross non-performing loans (NPLs) and the slowdown in credit uptake in the first 6 months of 2012. However, banks continued to deploy enhanced appraisal standards to mitigate credit risks and the Central Bank closely monitored the trends. The progressive lowering of the CBR to 11 percent by December, following improvement in inflation numbers and expectations, was a welcome relief which ultimately led to declining NPLs and reduced lending rates.

Early in the year, the Central Bank reaffirmed the need to ensure that inflation continued to decline and to maintain exchange rate stability through monetary policy. Given that sustained monetary and fiscal discipline, the inflation rate fell month on month, from 18 percent in January to close the year at 3.20 percent. The decline in food prices as a result of improved weather conditions, lower oil prices and easing demand pressures in the economy helped the cause. The exchange rate also stabilized, ending at KES 86 to 1 USD.

The banking industry continued to demonstrate robustness and innovation as witnessed by the introduction of new technology driven products, even in the wake of leadership changes in certain key players. The retail market in particular, can only get more exciting and fiercely competitive, going forward. And, in order to ensure that the banking sector remained robust and stable, the Central Bank of Kenya issued new prudential and risk management guidelines. These changes are expected to ultimately strengthen corporate governance and business practices. BOA-KENYA is on track in implementing these guidelines and has been in compliance with the existing stipulated requirements.

I am glad to report that the overall economic outlook is positive as demonstrated by the latest Standard and Poor rating of B+ and Moody's B1 both with a stable outlook. There is increased participation of foreign investors at the Nairobi Securities Exchange and a surge in diaspora remittances, which are increasing by about 30 percent every year. The only perceived drawbacks would be the persistent economic challenges in the Euro Zone and balance of payment pressures and the high current account deficit. Besides, political stability is still a major factor to watch as the country prepares for the March 2013 general elections. A smooth transition into the next administration and a successful implementation of the devolved system of government will help boost Kenya's democratic credentials.

Against this backdrop, the Bank continued on its expansion path with 4 new branches opened bringing the total branch network to 26. The Bank's balance sheet registered a 26 percent growth closing at KES 48.9 billion compared to KES 38.7 billion as at December 2011. Net loans and advances to customers increased by 37.9 percent to KES 29.8 billion compared to KES 21.6 billion in December 2011. Customer deposits were KES 35 billion reflecting a 34 percent growth. Profit before tax was KES 636 million for the period under review, representing 15 percent increase over 2011. Performance was subdued by the high cost of deposits in the first three quarters of 2012.

The year 2012 marked the end of the Bank's Triennial Development Plan (2010-2012) under which we sought to increase our footprint in Kenya, improve market share in SME finance and deliver consistent superior customer service to our customers. I can confirm that we have scored well on all these targets and received different banking awards. The Bank also now has its first local Board Chairman. During the last quarter of the year, the Bank laid the foundations for its new 3 years Marketing Action Plan (acronymed PACA), which is a business model to focus more on the retail sector, so as to increase customer numbers and de-concentrate the deposit base. This ambitious initiative is in full gear and the staff are fully energised and committed to ensure the objectives are met successfully.

The Bank also continued with its promise to set aside part of the profits for sustainable Corporate Social Responsibility (CSR) initiatives in our communities. In conjunction with the Kenya Red Cross, the Bank supported water projects in Kajiado District that finally availed clean drinking water to several Maasai communities, including two primary schools.

These results would not have been achieved without the strong support and loyalty of our customers, and we remain grateful for the partnership. We also wish to thank our shareholders for the continuing faith in our business model and the financial support. Government and Central Bank interventions have been proactive to keep the sector active and we thank them. To our colleagues, I say 'thank you' for the passion for the BOA brand and the commitment demonstrated this far in the implementation of the PACA strategy.

Kwame AHADZI

Managing Director

Highlights 2012

February

BOA-KENYA scooped 2 awards during the 7th Edition of Banking Awards held in Nairobi: Best Bank in “Customer Satisfaction” and Second Best in “Technology Use”.

March

BOA-KENYA sponsored The International Francophonie Day.

The Bank hosted a Treasury Media Breakfast in Nairobi to educate the media houses on Foreign Exchange Risk Management.

Sponsored Sia TOLNO Concert at Alliance Francaise.

Launch of Mwanariadha Account.

May

Participation in the 2012 BANK OF AFRICA network management meetings, in Marrakech, Morocco.

September

Executive Committee Management training on Leadership, Change Management, Innovation and Creativity held in Naivasha.

October

Held Corporate Golf Tournament in Nairobi for BOA-KENYA Corporate and SME clients.

November

Commissioned Borehole in Kajiado County in partnership with Kenya Red Cross.

December

Participation in the 2012 BANK OF AFRICA Directors meetings, in Arusha, Tanzania.

1 - MTN s Fred NYONGESA and CEO of Think Business Mr OLOO present to Silpah OWICH of BOA-KENYA an award, second Best Bank in Technology Use.

2 - BOA-KENYA Chairman, Ambassador Dennis AWORI, teeing off.

Key figures on 31/12/2012

Total Assets*	48,958

Activity

Deposits*	35,100
Loans*	29,882

Income

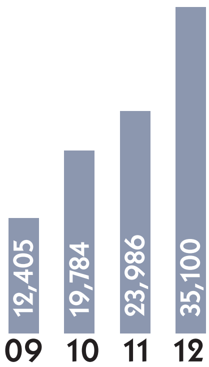
Net interest income*	1,641
Operating income*	2,340
Operating expense*	(1,650)
Profit before tax*	636
Profit after tax*	474

Structure

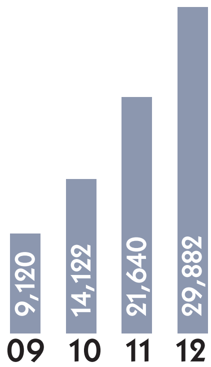
Number of Employees	345

(*) In KES millions (Euro 1 = KES 113.54, as at 31st Dec 2012)

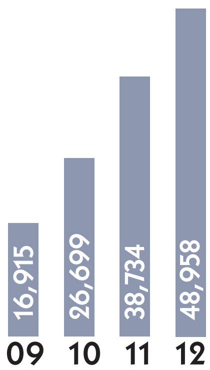
Evolution from 2009 to 2012



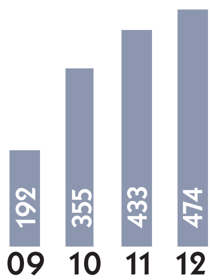
Total Deposits*



Total Loans*



Total Assets*



Profit after tax*

1 - 2012 BOA Meetings
Network management Plenary,
in Marrakech, Morocco.

2 - Mr BENNANI, BOA Group CEO,
speaking to Directors, in Arusha, Tanzania.

Corporate Social Responsibility Initiatives

During the year 2012, in pursuit of its CSR strategy, BANK OF AFRICA – KENYA (BOA-KENYA) continued to support the community through a number of initiatives. Some of the activities included the following.

Social

Towards the end of 2011, BOA-KENYA donated KES 7 million towards the sustainable development of communities in Kajiado County which is classified as an Arid to Semi-Arid region. Working with the Red Cross Society of Kenya, the Bank was able to identify 2 communities in Kajiado Central who were having major issues with the supply of inadequate and poor quality water supply.

The project aimed at providing safe water to Impiro location (Impiro and Enyornyor sub-locations) through upgrading and rehabilitation of the two existing water supply systems. The target project benefits 2,572 Men, Women and Children from Impiro and Enyornyor Communities. This includes a total of 532 pupils from both Impiro and Enyornyor primary schools. The 2 projects will also benefit a total population of 30,000 livestock (Cows, Sheep and Goats).

To enhance sustainability of the implemented projects the committee undertook capacity building initiatives through training sessions, Community Based project Management for the Water Management Committees and also training sessions on Operation and Maintenance skills for the operators.

The community from Impiro and Enyornyor.

Women filling containers with water.

Mr Kwame AHADZI, BOA-KENYA MD
and the Kajiado County Commissioner, Mr Arthur OSIYA
walk down towards the Enyornyor water project
flanked by students and parents from the school.

Mr Kwame AHADZI unveils the plaque at the water kiosk and assists the women fill their containers with water.

The project has enabled the drilling / rehabilitation of bore holes at the 2 sub-locations, building of water kiosks for the residents and separate water troughs for their livestock as well as providing clean drinking water for students that is located away from the community source. This means that residents stop trekking for over 3 km in search of water for human and livestock consumption and the improved levels of sanitation meant that diarrheal diseases were avoided.

On 16th November 2012, a team from BOA-KENYA led by the Managing Director, Mr. Kwame AHADZI, visited the two communities and officially commissioned the projects handing them over to the communities who will run and manage them.

BOA-KENYA has sponsored the trip and the stay of a delegation for the 5th Edition of BOA International Marathon in Bamako.

Mr Kwame AHADZI with the "Green Army" team.

Extra-curricular

BOA-KENYA participated for the first time in inter-bank competitions organized by the Kenya Institute of Bankers. The football team "Green Army" performed well on their debut to reach the Semi Finals in the tournament.

BOA-KENYA Managing Director, Kwame AHADZI, encouraged the team to uphold the spirit of teamwork on the pitch and consequently in the organization. He also reiterated that engaging in sports activities is a good opportunity to promote Brand visibility for the Bank.

Economy

BOA-KENYA held a series of investment clinics targeting Chama Account holders. The forums aimed at educating clients on investment opportunities, managing family businesses, forex trading and maximize wealth creation.

BOA-KENYA Head of Retail Banking, Wilfred ONDERI, charts with Chama account holders.
James MWORIA, CEO Centum Investment, facilitates during the Nairobi Chama Clinic.

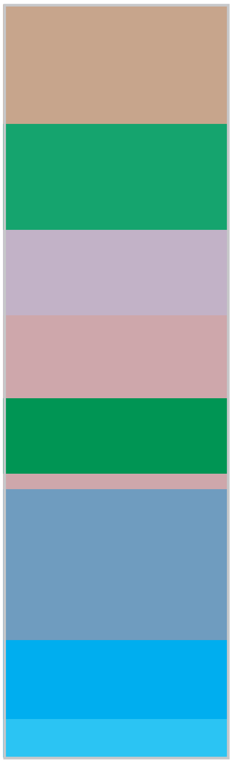
Board of Directors

The Directors who held office during the year up to 15th March 2013 were:

Ambassador Dennis AWORI, Chairman	Vincent de BROUWER
Kwame AHADZI	Jean-Geo PASTOURET
Mohamed BENNANI	Alexandre RANDRIANASOLO
Abdelkabir BENNANI	Bernardus A. M. ZWINKELS

Capital

The Bank, as at 15th March 2013, had issued 3,400,000.00 shares with a nominal value of KES 1,000.00. The following is the Bank's shareholding structure as at 15th March 2013.
Shareholding Position based on number of shares (%).



15.84%	BANK OF AFRICA – BENIN
14.01%	AFH-OCEAN INDIEN
11.65%	BANK OF AFRICA – MADAGASCAR
11.00%	BANK OF AFRICA – CÔTE D'IVOIRE
10.00%	BOA GROUP S.A.
2.00%	AGORA S.A.
20.00%	NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)
10.41%	AUREOS EAST AFRICAN FUND LLC
5.09%	AUREOS AFRICA FUND LLC

Report and Financial Statements

for the year ended 31 December 2012

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2012 in accordance with Section 157 of the Kenyan Companies Act, which disclose the state of affairs of BANK OF AFRICA – KENYA Limited ("the Bank" or "Company") and its subsidiary (together the "Group").

Principal activities

The Group is engaged in the business of banking and the provision of banking related services.

Results and dividend

Profit for the year of Shs 762 million (2011: Shs 577 million) has been added to retained earnings. The Directors recommend the approval of a final dividend of Shs 236,872,000 (2011: Shs 136,000,000).

Directors

The Directors who held office during the year and to the date of this report were:

Ambassador Dennis AWORI	**Chairman**	**(Appointed 30th April 2012)**
Paul DERREUMAUX		Resigned 2nd March 2012
Alexandre RANDRIANASOLO		
Davinder Singh SIKAND	Alternate Director: Shakir MERALI	
Vincent de BROUWER		
Kwame AHADZI	Managing Director	
Jean-Geo PASTOURET	Deputy Managing Director	
Bernardus ZWINKELS		
Abdelkabir BENNANI		Appointed 28th March 2012
Brahim BENJELLOUN-TOUIMI		Resigned 10th January 2012
Mohamed BENNANI		

Auditor

The Company's auditor, PricewaterhouseCoopers, continues in office in accordance with Section 159(2) of the Companies Act and Section 24(1) of the Banking Act.

By order of the Board

Anne GITAU
Secretary
15th March 2013

Corporate Governance

Corporate governance outlines the way companies are run and managed, the role of the Board of Directors and a framework of internal controls. The Board of BANK OF AFRICA – KENYA Limited is keen in ensuring the adoption of good corporate governance.

The Board

The Board is made up of the Chairman, the Managing Director, the Deputy Managing Director and six Non-Executive Directors. All Directors are subject to periodic re-appointment in accordance with the Company's Articles of Association. On appointment, each Director receives information about the Bank and is advised of the legal, regulatory and other obligations of a Director.

The full Board meetings were held as shown in the table below. Directors are given appropriate information that guides their control over strategic, financial, operational, compliance and governance matters. The Managing Director is in charge of the day to day operations while the Board oversees the performance of the executive management.

The following table shows the number of Board meetings held during the year and the attendance of individual Directors.

Board meeting membership and attendance in 2012

	2 March	2 June	27 September	14 December
Ambassador Dennis AWORI	N	A	A	A
Paul DERREUMAUX	A	N	N	N
Mohamed BENNANI	A	A	A	A
Abdelkabir BENNANI	N	A	A	A
Davinder Singh SIKAND	A	AP	AP	A
Vincent de BROUWER	A	A	A	A
Alexandre RANDRIANASOLO	A	A	A	A
Bernardus ZWINKELS	A	A	A	A
Kwame AHADZI	AP	A	A	A
Jean-Geo PASTOURET	AP	A	A	A
Shakir MERALI				
(Alternate to Davinder Singh SIKAND)	A	A	A	AP
Brahim BENJELLOUN-TOUIMI	N	N	N	N

A – Attended AP – Absent with apology N- Not Applicable

Board Audit & Risk Committee

The overall responsibility of the Board Audit and Risk Committee is to review the financial condition of the Bank, its internal controls, performance and findings of the internal and external auditors, findings of the regulatory authorities, and recommend appropriate remedial action. The committee also reviews the various risks faced by the Bank and the management of such risks.

Directors' Remuneration

The remuneration of all Directors is subject to regular review to ensure that levels of remuneration and compensation are appropriate. Information on the aggregate amount of emoluments and fees paid to Directors are disclosed in Note 28 of the financial statements.

Board Performance Evaluation

Under the Prudential Guidelines issued by the Regulator, the Board is responsible for ensuring that an evaluation of its performance is done, and that of its committees and individual Directors. The results of such an evaluation are to be provided to the Central Bank of Kenya.

The Board conducted the 2012 comprehensive evaluation and that of its Members, the Chairman and Board Committees on 15 March 2013 with the aim of assessing their capacity and effectiveness relative to the mandates, and identifying any challenges that could form a basis for action in the coming year.

Board Performance Evaluation

The process was carried out using a set of self-assessment questionnaires that ranked performance on a range of 'Poor' to 'Very Good' and was developed by the Board Audit and Risk Committee in consultation with external sources that have undertaken this exercise in the past and have global good practice. It had the characteristics of group assessment and peer evaluation.

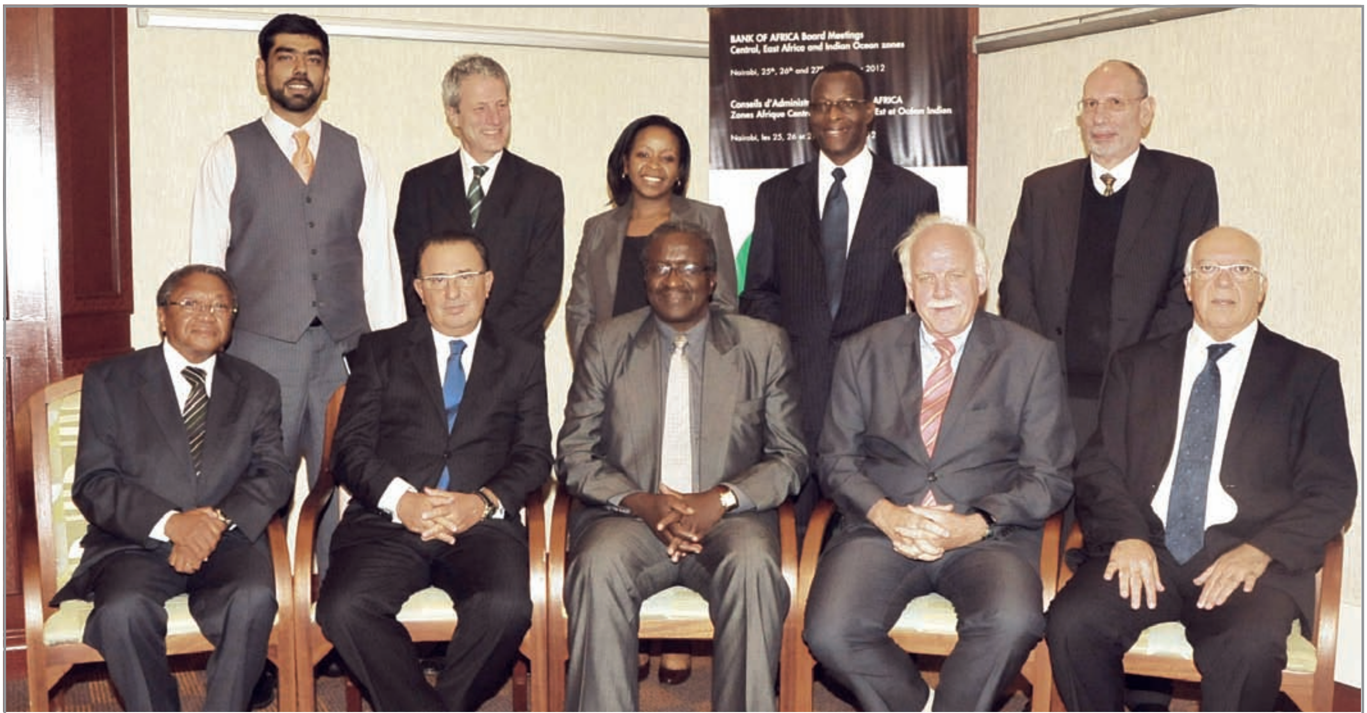
The discussions focus on the Board's processes and procedures in the following areas, among others:

- Bank Strategy evolution and follow through,
- Understanding and influencing the Bank's Risk profile in the context of the industry,
- Review of Board Composition and Mix relative to the mandate,
- Board Attendance and participation in discussions,
- Effectiveness of Board Committees namely Board Audit & Risk Committee and Board Credit Committee,
- Board Relationship with Executive Management.

(i.) Board Self Evaluation

Each member had an independent review of the performance of the entire Board and their views were collated by the Chairman. Within the context of broad risk management, the Bank's continuous assessment of performance under the triennial plan for the period ended 31 December 2012, as well as the development of the new 3 year plan, the Board rated itself satisfactory.

During the review, the Board acknowledged its limitation in the number of locals in its membership, even with the success in appointing a local Chairman, and undertakes to broaden its local base in the next 12 months by appointing independent Directors. Besides, it will organize corporate governance and risk management training programs as part of the continuous professional education for members in the year.



BOA-KENYA Board of Directors.

(ii.) Director Peer Evaluation

Under the guidance of the Chairman of the Board Audit Committee, peers were appointed to evaluate one another on personal attributes including: contribution to strategic development, independence of thought and mind, knowledge of banking or other relevant skills, and attendance. The results were discussed with each member for improvement.

(iii.) Board Chairman's Evaluation

The Chairman was evaluated in his absence under an arrangement spearheaded by a non-executive Director. Matters relating to conduct of meetings, decision making, relationship with the managing Director and Senior management, exercise of independence of mind, etc. were discussed. The findings were reviewed with him at a separate meeting. Overall, it was agreed that the Chairman has been effective in his role and commands the respect of all members.

Going concern

The Board ensures that the Bank has adequate resources to continue in business into the foreseeable future. For this reason, it continues to adopt the going concern basis when preparing the financial statements.

Internal controls

The Board has the responsibility of ensuring that adequate systems of internal control that provide reasonable assurance of effective and efficient operations are in place.

The Board strives to achieve a strong control environment including the evaluation of non-financial risks guided by written policies and procedures to identify and manage risk.

The Bank's Internal Audit department which is independent, reports to the Board Audit and Risk Committee and provides and independent confirmation that Group business standards, policies and procedures are being complied with.

The Nanyuki Branch.

Statements of Directors' Responsibilities

The Companies Act requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its profit or loss. It also requires the Directors to ensure that the Company and its subsidiary keep proper accounting records that disclose, with reasonable accuracy, the financial position of the Company and its subsidiary. They are also responsible for safeguarding the assets of the Company and its subsidiary.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the 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 Company and its subsidiary and of its profit or loss in accordance with International Financial Reporting Standards. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Nothing has come to the attention of the Directors to indicate that the Company and its subsidiary will not remain a going concern for at least twelve months from the date of this statement.

Jean-Geo PASTOURET	**Kwame AHADZI**
Director	Director

15th March 2013

Report of the Independent Auditor

To the members of
BANK OF AFRICA – KENYA Limited

Credit Department.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of BANK OF AFRICA – KENYA Limited (the "Company" or "Bank") and its subsidiary (together, the "Group"), as set out on pages 22 to 82. These financial statements comprise the consolidated statement of financial position at 31 December 2012 and the consolidated statement of comprehensive income, consolidated statement changes in equity and consolidated statement cash flows for the year then ended together with the statement of financial position of company alone as at 31 December 2012 and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Kenyan Companies Act and such controls as Directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgement including the assessment of 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 company'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 company's internal control. An audit also includes evaluating the appropriateness of the 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 that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Nairobi Branch counters.

The new Upper Hill Branch, in Nairobi.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the Group and Bank as at 31 December 2012 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

The Kenyan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

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

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

iii) the Company's statement of financial positions and statement of comprehensive income are in agreement with the books of account.

Certified Public Accountants

Nairobi
15th March 2013

Financial Statements

for the year ended 31 December 2012

Consolidated statement of comprehensive income

YEAR ENDED 31 DECEMBER	NOTES	2012 SHS 000	2011 SHS 000
INTEREST INCOME	5	7,629,606	4,391,138
INTEREST EXPENSE	6	(4,878,397)	(2,265,072)
NET INTEREST INCOME		2,751,209	2,126,066
NET FEE AND COMMISSION INCOME		945,012	687,329
FOREIGN EXCHANGE INCOME		260,767	387,173
FAIR VALUE LOSSES ON FINANCIAL ASSETS THROUGH PROFIT OR LOSS	12(c)	-	(51,736)
OTHER OPERATING INCOME		24,099	7,147
OPERATING INCOME		3,981,087	3,155,979
OPERATING EXPENSES	7	(2,817,342)	(2,290,856)
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	14	(302,924)	(172,667)
PROFIT FROM OPERATIONS		860,821	692,456
SHARE OF INCOME OF ASSOCIATE	17(a)	32,418	25,832
PROFIT BEFORE INCOME TAX		893,239	718,288
INCOME TAX EXPENSE	9	(131,691)	(141,035)
PROFIT FOR THE YEAR		761,548	577,254
(of which Shs 473,743,000 has been dealt with in the accounts of the Company)			
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX			
LOSS ON REVALUATION OF AVAILABLE-FOR-SALE FINANCIAL ASSETS		-	(13,918)
DEFERRED TAX DEBIT ON REVALUATION OF AVAILABLE-FOR-SALE FINANCIAL ASSETS		-	5,966
CURRENCY TRANSLATION DIFFERENCES		(127,361)	7,767
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		634,187	577,069
PROFIT ATTRIBUTABLE TO:			
OWNERS OF THE PARENT		598,247	491,868
NON CONTROLLING INTEREST		163,301	85,386
TOTAL		761,548	577,254
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
OWNERS OF THE PARENT		505,575	491,683
NON CONTROLLING INTEREST		128,612	85,386
TOTAL		634,187	577,069

The notes on pages 30 to 82 are an integral part of these financial statements.

Consolidated statement of financial position

AS AT 31 DECEMBER	NOTES	2012 SHS 000	2011 SHS 000
ASSETS			
CASH AND BALANCES WITH CENTRAL BANKS	11	8,115,774	4,522,936
INVESTMENT SECURITIES - HELD TO MATURITY	12(a)	11,165,696	10,705,570
INVESTMENT SECURITIES – AVAILABLE-FOR-SALE	12(b)	52,288	63,604
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	12(c)	-	433,527
PLACEMENTS WITH OTHER BANKS	13	2,013,941	3,579,842
AMOUNTS DUE FROM GROUP BANKS	28(a)	1,091,608	1,196,385
GOODWILL ON PURCHASE OF SUBSIDIARY	29	15,610	15,610
INVESTMENT IN ASSOCIATE	17(a)	377,018	344,600
LOANS AND ADVANCES TO CUSTOMERS	14	37,587,836	29,982,267
CURRENT INCOME TAX		11,664	32,058
PROPERTY AND EQUIPMENT	15	1,094,210	1,107,105
INTANGIBLE ASSETS	16	129,057	104,935
PREPAID OPERATING LEASE RENTALS	30	4,779	4,864
DEFERRED INCOME TAX	18	158,872	74,665
OTHER ASSETS	19	840,692	699,682
TOTAL ASSETS		**62,659,045**	**52,867,650**
LIABILITIES			
CUSTOMER DEPOSITS	20	44,710,247	33,545,076
DEPOSITS FROM OTHER BANKS	21	3,613,282	4,399,495
AMOUNTS DUE TO GROUP BANKS	28(b)	4,750,308	5,904,445
LONG TERM LIABILITIES	31	2,926,962	2,701,674
CURRENT INCOME TAX		13,161	-
OTHER LIABILITIES	22	471,744	646,005
TOTAL LIABILITIES		**56,485,704**	**47,196,695**
EQUITY			
SHARE CAPITAL	23	3,400,000	3,400,000
SHARE PREMIUM	23	421,200	421,200
REGULATORY RESERVES	25	339,646	253,598
TRANSLATION RESERVES		(133,932)	(41,262)
RETAINED EARNINGS		1,019,310	743,983
PROPOSED DIVIDEND	10	236,872	136,000
SHAREHOLDERS' FUNDS		5,283,096	4,913,519
NON CONTROLLING INTEREST		890,245	757,436
TOTAL EQUITY		**6,173,341**	**5,670,955**
TOTAL EQUITY AND LIABILITIES		**62,659,045**	**52,867,650**

The financial statements on pages 24 to 82 were approved for issue by the Board of Directors on 15th March 2013 and signed on its behalf by:

Jean-Geo PASTOURET Director | **Kwame AHADZI** Director | **Davinder SIKAND** Director | **Anne GITAU** Secretary

Financial Statements
for the year ended 31 December 2012

Bank statement of financial position

	NOTES	2012	2011
AS AT 31 DECEMBER		SHS 000	SHS 000
ASSETS			
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	11	6,167,146	2,889,002
INVESTMENT SECURITIES - HELD TO MATURITY	12(a)	8,567,568	9,014,580
INVESTMENT SECURITIES - AVAILABLE FOR SALE	12(b)	52,288	50,100
PLACEMENTS WITH OTHER BANKS	13	1,203,068	2,102,491
AMOUNTS DUE FROM GROUP BANKS	28(a)	811,892	923,688
INVESTMENT IN ASSOCIATE	17(a)	377,018	344,600
INVESTMENT IN SUBSIDIARY	17(b)	632,875	632,875
LOANS AND ADVANCES TO CUSTOMERS	14	29,882,472	21,639,691
CURRENT INCOME TAX		-	8,589
PROPERTY AND EQUIPMENT	15	578,526	526,576
INTANGIBLE ASSETS	16	66,122	72,876
PREPAID OPERATING LEASE RENTALS	30	4,779	4,864
DEFERRED INCOME TAX	18	44,539	32,043
OTHER ASSETS	19	569,632	492,245
TOTAL ASSETS		**48,957,925**	**38,734,220**
LIABILITIES			
CUSTOMER DEPOSITS	20	35,099,546	23,986,396
DEPOSITS FROM OTHER BANKS	21	3,066,804	3,074,741
AMOUNTS DUE TO GROUP BANKS	28(b)	4,568,934	5,505,369
LONG TERM LIABILITIES	31	878,422	926,688
CURRENT INCOME TAX		13,161	-
OTHER LIABILITIES	22	321,297	569,008
TOTAL LIABILITIES		**43,948,164**	**34,062,202**
EQUITY			
SHARE CAPITAL	23	3,400,000	3,400,000
SHARE PREMIUM	23	421,200	421,200
REGULATORY RESERVES	25	289,384	211,240
RETAINED EARNINGS		662,305	503,578
PROPOSED DIVIDEND	10	236,872	136,000
TOTAL EQUITY		**5,009,761**	**4,672,018**
TOTAL EQUITY AND LIABILITIES		**48,957,925**	**38,734,220**

The financial statements on pages 24 to 82 were approved for issue by the Board of Directors on 15th March 2013 and signed on its behalf by:

Jean-Geo PASTOURET	**Kwame AHADZI**	**Davinder SIKAND**	**Anne GITAU**
Director	Director	Director	Secretary

Consolidated statement of changes in equity

	NOTES	SHARE CAPITAL SHS 000	SHARE PREMIUM SHS 00	REVALUATION RESERVES SHS 000	TRANSLATION RESERVES SHS 000	REGULATORY RESERVES SHS 000	RETAINED EARNINGS SHS 000	PROPOSED DIVIDEND SHS 000	ATTRIBUTABLE TO EQUITY HOLDERS SHS 000	NON CONTROLLING INTEREST SHS 000	TOTAL EQUITY SHS 000
AT 1 JANUARY 2011		2,200,000	121,200	13,918	(62,792)	158,701	477,047	198,000	3,106,074	563,877	3,669,951
COMPREHENSIVE INCOME:											
PROFIT FOR THE YEAR		-	-	-	-	-	491,868	-	491,868	85,386	577,254
OTHER COMPREHENSIVE INCOME:											
NET CHANGE IN AVAILABLE-FOR-SALEW FINANCIAL ASSETS NET OF TAX	24	-	-	(13,918)	-	-	5,965	-	(7,953)	-	(7,953)
TRANSFER TO REGULATORY RESERVE	25	-	-	-	-	94,897	(94,897)	-	-	-	-
CURRENCY TRANSLATION DIFFERENCES		-	-	-	21,529	-	-	-	21,529	(13,762)	7,767
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		-	-	(13,918)	21,529	94,897	402,936	-	505,444	71,624	577,069
TRANSACTIONS WITH OWNERS:											
ISSUE OF SHARES		1,200,000	300,000						1,500,000	153,974	1,653,974
DIVIDENDS:	10										
- PAID (FINAL FOR 2010)		-	-	-	-	-	-	(198,000)	(198,000)	(32,039)	(230,039)
- PROPOSED FINAL FOR 2011	10	-	-	-	-	-	(136,000)	136,000	-	-	-
TOTAL CONTRIBUTION BY AND DISTRIBUTION TO OWNERS		1,200,000	300,000	-	-	-	(136,000)	(62,000)	1,302,000	121,935	1,423,935
AT 31 DECEMBER 2011		3,400,000	421,200	-	(41,262)	253,598	743,983	136,000	4,913,519	757,436	5,670,955
AT 1 JANUARY 2012		3,400,000	421,200		(41,262)	253,598	743,983	136,000	4,913,519	757,436	5,670,955
COMPREHENSIVE INCOME											
PROFIT FOR THE YEAR		-	-	-	-	-	598,247	-	598,247	163,301	761,548
OTHER COMPREHENSIVE INCOME		-	-	-	-	-	-	-	-	-	-
TRANSFER TO REGULATORY RESERVE	25	-	-	-	-	86,048	(86,048)	-	-	-	-
CURRENCY TRANSLATION DIFFERENCES		-	-	-	(92,670)	-	-	-	(92,670)	(34,691)	(127,361)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		-	-	-	(92,670)	86,048	512,199	-	505,577	128,610	634,187
TRANSACTIONS WITH OWNERS:											
ISSUE OF SHARES		-	-	-	-	-	-	-	-	54,226	54,226
DIVIDENDS:											
- PAID (FINAL FOR 2011)	10	-	-	-	-	-	-	(136,000)	(136,000)	(50,027)	(186,027)
- PROPOSED FINAL FOR 2012	10	-	-	-	-	-	(236,872)	236,872	-	-	-
TOTAL DISTRIBUTION TO OWNERS		-	-	-	-	-	(236,872)	100,872	(136,000)	4,199	(131,801)
AT 31 DECEMBER 2012		3,400,000	421,200	-	(133,932)	339,646	1,019,310	236,872	5,283,096	890,245	6,173,341

The notes on pages 30 to 82 are an integral part of these financial statements.

Financial Statements

for the year ended 31 December 2012

Bank statement of changes in equity

	NOTES	SHARE CAPITAL	SHARE PREMIUM	REVALUATION RESERVES	REGULATORY RESERVES	RETAINED EARNINGS	PROPOSED DIVIDEND	TOTAL EQUITY
		SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AT 1 JANUARY 2011		2,200,000	121,200	13,918	131,412	280,716	198,000	2,945,246
PROFIT FOR THE YEAR		-	-	-	-	432,725	-	432,725
OTHER COMPREHENSIVE INCOME:								
NET CHANGE IN AVAILABLE-FOR-SALE FINANCIAL ASSETS NET OF TAX		-	-	(13,918)	-	5,965	198,000	(7,952)
TRANSFER TO REGULATORY RESERVE	25	-	-	-	79,828	(79,828)	-	-
TRANSACTIONS WITH OWNERS:								
DIVIDENDS:								
- PAID (FINAL FOR 2010)	10	-	-	-	-	-	(198,000)	(198,000)
- PROPOSED FINAL FOR 2011	10	-	-	-	-	(136,000)	136,000	-
ISSUE OF SHARES	23	1,200,000	300,000	-	-	-	-	1,500,000
TOTAL CONTRIBUTION BY AND DISTRIBUTION TO OWNERS		1,200,000	300,000	-	-	-	(62,000)	1,302,000
AT 31 DECEMBER 2011		3,400,000	421,200	-	211,240	503,578	136,000	4,672,018
AT 1 JANUARY 2012		3,400,000	421,200		211,240	503,578	136,000	4,672,018
PROFIT FOR THE YEAR		-	-	-	-	473,743	-	473,743
TRANSFER TO REGULATORY RESERVE	25	-	-	-	78,144	(78,144)	-	-
TRANSACTIONS WITH OWNERS:								
DIVIDENDS:								
- PAID (FINAL FOR 2011)	10	-	-	-	-	-	(136,000)	(136,000)
- PROPOSED FINAL FOR 2012	10	-	-	-	-	(236,872)	236,872	-
TOTAL DISTRIBUTION TO OWNERS		-	-	-	-	(236,872)	100,872	(136,000)
AT 31 DECEMBER 2012		3,400,000	421,200	-	289,384	662,305	236,872	5,009,761

The notes on pages 30 to 82 are an integral part of these financial statements.

Consolidated statement of cash flows

	NOTES	2012	2011
		SHS 000	SHS 000
CASH FLOWS FROM OPERATING ACTIVITIES			
INTEREST RECEIPTS		8,728,965	4,047,720
INTEREST PAYMENTS		(4,377,708)	(2,009,820)
NET FEE AND COMMISSION RECEIPTS		945,012	687,328
OTHER INCOME RECEIVED		284,013	209,483
RECOVERIES FROM LOANS PREVIOUSLY WRITTEN OFF		9,391	87,850
PAYMENTS TO EMPLOYEES AND SUPPLIERS		(2,991,603)	(2,016,605)
INCOME TAX PAID		(98,136)	(183,388)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**2,499,934**	**822,569**
CHANGES IN OPERATING ASSETS AND LIABILITIES:			
LOANS AND ADVANCES		(7,605,569)	(12,898,731)
CASH RESERVE REQUIREMENT		(4,161)	(908,969)
OTHER ASSETS		141,010	(317,351)
CUSTOMER DEPOSITS		11,165,171	7,568,187
DEPOSITS (TO)/FROM OTHER BANKS		(786,213)	540,334
AMOUNTS DUE (TO)/FROM GROUP COMPANIES		(1,154,137)	4,721,927
OTHER LIABILITIES		(174,261)	397,049
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		**4,081,774**	**(74,986)**
CASH FLOWS FROM INVESTING ACTIVITIES			
INVESTMENT IN SUBSIDIARY	17(b)	-	(213,293)
PURCHASE OF PROPERTY AND EQUIPMENT	15	(268,203)	(463,625)
PURCHASE OF INTANGIBLE ASSETS	16	(35,976)	(27,926)
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT		5,728	5,892
SALE/(PURCHASE) OF HTM BONDS		(5,870)	723,763
PURCHASE OF AFS BONDS		(2,187)	(1,711,177)
PURCHASE OF OTHER FINANCIAL ASSETS		-	(433,527)
NET CASH USED IN INVESTING ACTIVITIES		**(306,508)**	**(2,119,893)**
CASH FLOWS FROM FINANCING ACTIVITIES			
ISSUE OF ORDINARY SHARES		54,226	1,593,173
PROCEEDS FROM BORROWINGS	31	225,288	1,108,853
DIVIDENDS RECEIVED		-	26,277
DIVIDENDS PAID		(186,027)	(262,090)
NET CASH FROM FINANCING ACTIVITIES		**93,487**	**2,466,213**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**3,868,754**	**271,334**
MOVEMENT IN CASH AND CASH EQUIVALENTS			
AT START OF YEAR		4,558,128	4,286,794
INCREASE		3,868,754	271,334
AT YEAR END	**27**	**8,426,882**	**4,558,128**

The notes on pages 30 to 82 are an integral part of these financial statements

Notes to the Financial Statements

1. General information

BANK OF AFRICA – KENYA Limited is incorporated in Kenya under the Companies Act as a limited liability 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 applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets and, financial assets held at fair value through profit or loss, which have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Directors to exercise judgment in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2.1.1 Changes in accounting policy and disclosures

2.1.1.1 New and amended standards adopted by the Bank

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 January 2012 that have a material impact on the Bank or Group.

2.1.1.2 Standards amendments and interpretations issued but not yet effective

The following new standards, amendments to existing standards and interpretations have been issued and will be applicable for the Group's and Bank's accounting periods beginning on or after 1 January 2013.

STANDARD	TITLE	APPLICABLE FOR FINANCIAL YEAR BEGINNING ON/AFTER
IAS 1	PRESENTATION OF FINANCIAL STATEMENTS	1 JULY 2012
IFRS 13	FAIR VALUE MEASUREMENT	1 JANUARY 2013
IFRS 9	CONSOLIDATED FINANCIAL STATEMENTS	1 JANUARY 2015

IAS 1 amendments require entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The application of this amendment will mainly impact the presentation of the primary statements.

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The application of IFRS 13 may enhance fair value disclosures in a lot of circumstances.

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. Issued in November 2009 and October 2011, it replaces the parts of IAS 39, that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Directors are yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. The Directors will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

2.2 Consolidation

2.2.1 Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

De-facto control may arise in circumstances where the size of the group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquire on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the 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.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.2.2 Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.2.3 Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.4 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investments are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit of loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss as appropriate.

The Group's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income, with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

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 adjacent to 'share of profit/(loss) of an associate' in profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising from investments in associates are recognised profit or loss.

2.2.5 Separate financial statements

In the separate financial statements, investments in subsidiaries and associates are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

2.3 Foreign currency translation

2.3.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kenya Shillings, which is the Company's functional and presentation currency.

2.3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. If several exchange rates are available, the forward rate is used at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Changes in the fair value of monetary assets denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, are recognised in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

2.3.3 Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i.) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii.) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii.) all resulting exchange differences are recognised in other comprehensive income and accumulated in 'transaction reserve' in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2.4 Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified 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 deposits from banks or deposits from 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.

2.5 Financial assets and liabilities

2.5.1 Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale financial assets. The Directors determine the classification of its financial assets at initial recognition. The Bank uses trade date accounting for regular way contracts when recording financial asset transactions.

2.5.1.1 Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Bank as at fair value through profit or loss upon initial recognition. A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Bank designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed and can only be applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis or
- the financial assets consist of debt host and embedded derivatives that must be separated.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in profit or loss and are reported as 'Net gains/(losses) on financial instruments classified as held for trading'. Interest income and expense and dividend income and expenses on financial assets held for trading are included in 'Net interest income' or 'Dividend income', respectively. Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in 'Net gains on financial instruments designated at fair value through profit or loss'.

2.5.1.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Bank upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method.

2.5.1.3 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Directors have the positive intention and ability to hold to maturity, other than:

- those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Bank designates as available-for-sale; and
- those that meet the definition of loans and receivables.

Held-to-maturity investments are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

2.5.1.4 Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of comprehensive income and cumulated in a separate reserve in equity, revaluation reserve, until the financial asset is derecognised. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in profit or loss.

2.5.2 Financial liabilities

The Bank's holding in financial liabilities represents mainly deposits from banks and customers and other liabilities. Such financial liabilities are initially recognised at fair value and subsequently measured at amortised cost.

2.5.3 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial instruments is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes from Nairobi Securities Exchange, Bloomberg and Reuters.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indicators that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the reporting dates.

The Bank uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market-observable.

For more complex instruments, the Bank uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models such as present value techniques are used primarily to value derivatives transacted in the over-the-counter market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The impact on net profit of financial instrument valuations reflecting non-market observable inputs (level 3 valuations) is disclosed in Note 3.

2.5.3 Determination of fair value (continued)

The Bank uses its own credit risk spreads in determining the current value for its derivative liabilities and all other liabilities for which it has elected the fair value option. When the Bank's credit spreads widen, the Bank recognises a gain on these liabilities because the value of the liabilities has decreased. When the Bank's credit spreads narrow, the Bank recognises a loss on these liabilities because the value of the liabilities has increased.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Bank holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty credit risk. Based on the established fair value model governance policies, related controls and procedures applied, the Directors believe that these valuation adjustments are necessary and appropriate to fairly state the values of financial instruments carried at fair value. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary – particularly in view of the current market developments.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

2.5.4 De-recognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.5.5 Reclassification of financial assets

The Bank may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near-term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

On reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives are re-assessed and, if necessary, separately accounted for.

2.5.6 Classes of financial instruments

CATEGORY (as defined by IAS 39)		CLASS (as determined by the Bank)		SUBCLASSES
FINANCIAL ASSETS	Financial assets at fair value through profit or loss	Financial assets held for trading	Debt securities	
			Equity securities	
			Derivatives – non-hedging	
		Financial assets designated at fair value through profit or loss	Debt securities	
			Equity securities	
	Loans and receivables	Loans and advances to banks		
		Loans and advances to customers	Loans to individuals (retail)	Overdrafts
				Term loans
				Mortgages
			Loans to corporate entities	Large corporate customers
				SMEs
				Others
		Investment securities - debt securities		Listed
				Unlisted
	Held-to-maturity Investments	Investment securities - debt securities		Listed
				Unlisted
	Available-for-sale financial assets	Investment securities - debt securities		Listed
		Investment securities - equity securities		Listed
				Unlisted
	Financial liabilities at armortised cost	Deposits from banks		
		Deposits from customers	Retail customers	
			Large corporate customers	
			SMEs	
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS	Loan commitments			
	Guarantees, acceptances and other financial facilities			

2.6 Impairment of financial assets

2.6.1 Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the 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.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

(a) significant financial difficulty of the issuer or obligor;

(b) a breach of contract, such as a default or delinquency in interest or principal payments;

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

(d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

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

(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

(i.) adverse changes in the payment status of borrowers in the portfolio; and

(ii.) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by the Directors for each identified portfolio. In general, the periods used vary between 3 and 12 months; in exceptional cases, longer periods are warranted.

The Bank first 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. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. 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.

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 asset'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 profit or loss. 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. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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 (that is, 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 currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance 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. Impairment charges relating to loans and advances to banks and customers are classified in loan impairment charges whilst impairment charges relating to investment securities (held-to-maturity and loans and receivables categories) are classified in 'Net gains/(losses) on investment securities'.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

2.6.2 Assets classified as available-for-sale

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

2.7 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.8 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.9 Property and equipment

Land and buildings comprise mainly branches and offices. All equipment used by the Bank is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

2.9 Property and equipment (continued)

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

BUILDINGS	1.5%
FIXTURES, FITTINGS AND EQUIPMENT	20.0%
MOTOR VEHICLES	33.3%
LEASEHOLD IMPROVEMENT	10.0%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in 'other operating expenses' in profit or loss.

2.10 Intangible assets

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

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 on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

2.11 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12 Employee benefits

2.12.1 Pension obligations

The Group operates a defined contribution retirement scheme, the assets of which are held in a separate trustee-administered fund. The Group's contributions to the defined contribution scheme are charged to the income statement in the year to which they relate. The Group has no further payment obligation once the contributions have been paid.

2.12.2 Other entitlements

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

2.13 Provisions

Provisions for restructuring costs and legal claims are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.14 Income tax

2.14.1 Current income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the reporting date. The Directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. They establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2.14.2 Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from 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. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting 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 profit will be available against which the temporary differences can be utilised.

2.14.2 Deferred income tax (continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.15 Dividend payable

Dividends on ordinary shares are charged to equity in the period in which they are declared.

2.16 Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

2.17 Leases

Assets leased to customers under agreements, which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are classified as finance leases. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as the un-earned finance income, which is allocated to the accounting periods under the pre-tax net investment method to reflect a constant periodic rate of return.

2.18 Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing investments measured at amortised cost using the effective interest method, in the period in which it is earned/ charged. 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 age of the financial instrument or, when appropriate a shorter period to the net carrying amount of the financial asset or 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. Interest income includes coupons earned on treasury bonds and accrued discounts on treasury bills.

2.19 Fee and commission income

Unless included in the effective interest calculation in 2.18 above, fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan appraisal fees for loans that have been or are likely to be drawn down are deferred and recognised over the period of the loan using the effective interest method. Fees and commission expense are deferred and recognised on an accrual basis when incurred.

2.20 Dividend income

Dividends are recognised in profit or loss when the Group's right to receive payment is established.

2.21 Acceptances and letters of credit

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

3. Critical accounting estimates and judgements in applying accounting policies

The Group 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.

3.1 Impairment losses on loans and advances

The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Group 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. Judgements may also change with time as new information becomes available. 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.

3.2 Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts from the cash generating unit have been determined based on value in use calculations. These calculations are based on financial budgets approved by the board covering a three year period. The discounts rates applied on the cash flows is based on the local currency lending rates for the respective countries where the subsidiary is based.

3.3 Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. Financial risk management

Introduction and overview
The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

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 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.

Risk management framework (continued)

The Group's Board Audit and Risk 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 Group's Board Audit and Risk Committee is assisted in these functions by Internal Audit, who undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Committee.

4.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from corporate and retail loans and advance and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties and reverse repurchase loans.

Credit risk is the single largest risk for the Bank's business; the Directors therefore carefully manage the exposure to credit risk. The credit risk management and control are centralised in a credit risk management team, which reports to the Board of Directors and head of each business unit regularly.

Management of credit risk

A separate Bank Credit department, reporting to the Bank Credit Committee, is responsible for oversight of the Bank's credit risk.

Each branch and entity 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 Credit Committee approval. Regular audits of branch and bank credit processes are undertaken by Internal Audit.

Maximum exposure to credit risk before collateral held

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 000	SHS 000	SHS 000
BALANCES WITH CENTRAL BANKS	6,171,871	3,132,492	5,316,680	2,339,474
INVESTMENT SECURITIES HELD TO MATURITY	11,165,696	10,705,570	8,567,568	9,014,580
PLACEMENTS WITH OTHER BANKS	2,013,941	3,579,842	1,203,068	2,102,491
AMOUNTS DUE FROM GROUP BANKS	1,091,608	1,196,385	811,892	923,688
LOANS AND ADVANCES TO CUSTOMERS	37,587,836	29,982,267	29,882,472	21,639,691
OTHER ASSETS	677,276	577,854	500,041	428,522
CREDIT RISK EXPOSURES ON OFF-BALANCE SHEET ITEMS:				
- ACCEPTANCES AND LETTERS OF CREDIT	2,368,026	3,235,822	1,422,728	1,690,608
- GUARANTEE AND PERFORMANCE BONDS	6,530,517	6,375,948	4,788,413	4,870,008
- COMMITMENT TO LEND	3,931,547	8,837,471	3,508,182	8,379,508
TOTAL	**71,538,318**	**67,623,651**	**56,001,044**	**51,388,570**

The above tables represent a worst case scenario of credit risk exposure to the Group and Bank as at 31 December 2012 and 2011, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the consolidated statement of financial position.

The Group holds the following types of collateral as security and other credit enhancements in respect to credit risk exposure:

- Mortgages - First ranking legal charge over the property financed.
- Other loans and advances - Debenture over the company's assets, legal charges over commercial and residential properties, Directors' personal guarantees and company guarantees.

Financial assets

Loans and advances are summarised as follows:

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 000	SHS 000	SHS 000
NEITHER PAST DUE NOR IMPAIRED	36,335,400	29,306,108	28,935,864	21,123,998
PAST DUE BUT NOT IMPAIRED	931,279	417,343	405,437	206,847
INDIVIDUALLY IMPAIRED	744,354	417,438	685,329	379,332
GROSS	38,011,033	30,140,889	30,026,630	21,710,177
LESS: IMPAIRMENT OF LOANS AND ADVANCES (NOTE 14)	(423,197)	(158,622)	(144,158)	(70,485)
NET LOANS AND ADVANCES	**37,587,836**	**29,982,267**	**29,882,472**	**21,639,691**

No other financial assets are either past due or impaired.

Loans and advances neither past due nor impaired

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 000	SHS 000	SHS 000
STANDARD (NORMAL GRADE)	36,335,400	29,306,108	28,935,864	21,123,998

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amounts of loans and advances that were past due but not impaired were as follows:

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 000	SHS 000	SHS 000
PAST DUE UP TO 30 DAYS	164,247	142,388	106,952	3,089
PAST DUE 31-60 DAYS	54,571	189,265	37,652	156,313
PAST DUE 61-90 DAYS	111,760	38,280	89,137	28,040
PAST DUE > 90 DAYS	600,701	47,409	171,696	19,405
TOTAL LESS THAN 90 DAYS PAST DUE	**931,279**	**417,342**	**405,437**	**206,847**

Loans and advances neither past due nor impaired (continued)

Individually assessed impaired loans and advances comprising:

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 00	SHS 000	SHS 000
- CORPORATE	195,417	195,907	194,809	194,808
- RETAIL	120,987	35,619	87,436	27,888
- SME	427,950	185,912	403,084	156,636
IMPAIRED LOANS AND ADVANCES	744,354	417,438	685,329	379,332

The Bank's policy is to dispose of any repossessed collateral on the open market at market value.

Collateral repossessed

During the year, the Group took possession of the following:

GROUP AND BANK	2012	2011
	SHS 000	SHS 000
MOTOR VEHICLES	48,680	15,045

Concentrations of risk

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

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 00	SHS 000	SHS 000
BY ECONOMIC SECTOR				
WHOLESALE/RETAIL	9,174,061	8,387,634	6,412,491	5,218,244
MANUFACTURING	6,498,662	4,198,428	5,856,175	3,577,422
AGRICULTURE	1,719,675	1,339,253	1,374,366	926,474
CONSTRUCTION	6,152,587	3,354,298	4,877,571	2,083,525
TRANSPORT	2,674,116	1,809,118	2,306,405	1,402,559
INDIVIDUAL/PERSONAL	4,539,543	4,285,518	3,671,752	3,235,961
SERVICES	2,523,467	2,938,806	2,523,467	2,938,806
FINANCIAL INSTITUTIONS	1,026,955	1,223,961	907,497	1,081,397
TOURISM	61,389	33,954	61,389	33,954
COMMUNICATION	737,208	393,458	737,208	393,458
HOSPITALITY	152,480	93,775	152,480	93,775
OTHERS	2,750,890	2,082,686	1,145,829	724,602
TOTAL ON BALANCE SHEET EXPOSURE	38,011,033	30,140,889	30,026,630	21,710,177
ACCEPTANCES AND LETTERS OF CREDIT	2,368,026	3,235,822	1,422,728	1,690,608
GUARANTEE AND PERFORMANCE BONDS	6,530,517	6,375,948	4,788,413	4,870,008
COMMITMENTS TO LEND	3,931,547	8,837,471	3,508,182	8,379,508
TOTAL NON-FUNDED EXPOSURE	12,830,090	18,449,241	9,719,323	14,940,124
TOTAL	50,841,123	48,590,130	39,745,953	36,650,301

4.2 Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Treasury maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

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 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 liquidity requirements of branches are met through short-term loans from Treasury to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

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 condition. All liquidity policies and procedures are subject to review and approval by the Assets and Liabilities Committee (ALCO). Daily reports cover the liquidity position of both the bank and branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customer. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month.

The table below presents the cash flows payable and receivable by the Group and the Company under financial assets and liabilities by remaining contractual maturities at the balance sheet date.

4.2 Liquidity risk (continued)

GROUP	MONTHS			YEARS		
	UP TO 1	1 TO 3	3 TO 12	1 TO 5	>5	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AT 31 DECEMBER 2012						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANKS	8,115,774	-	-	-	-	8,115,774
INVESTMENT SECURITIES-HTM	290,223	241,580	2,448,328	3,381,319	4,804,246	11,165,696
PLACEMENTS WITH BANKS	2,013,941	-	-	-	-	2,013,941
AMOUNTS DUE FROM GROUP COMPANIES	1,048,307	-	43,301	-	-	1,091,608
INVESTMENT SECURITIES- AVAILABLE FOR SALE	-	-	-	-	52,288	52,288
LOANS AND ADVANCES	15,856,633	1,960,044	2,461,079	11,710,909	5,599,171	37,587,836
OTHER ASSETS	723,251		73,637	-	43,804	840,692
TOTAL FINANCIAL ASSETS	**28,048,129**	**2,201,624**	**5,026,345**	**15,092,228**	**10,499,509**	**60,867,835**
LIABILITIES						
CUSTOMER DEPOSITS	19,122,712	14,140,069	6,367,050	3,790,627	1,289,789	44,710,247
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	3,206,130	-	407,152	-	-	3,613,282
AMOUNTS DUE TO GROUP BANKS	1,961,137	-	2,789,171	-	-	4,750,308
LONG TERM LIABILITIES	897	-	31,286	2,701,490	193,289	2,926,962
OTHER LIABILITIES	373,562	-	-	-	-	373,562
TOTAL FINANCIAL LIABILITIES	**24,664,438**	**14,140,069**	**9,594,659**	**6,492,117**	**1,483,078**	**56,374,361**
GAP	**3,383,691**	**(11,938,445)**	**(4,568,314)**	**8,600,111**	**9,016,431**	**4,493,473**

GROUP		MONTHS			YEARS	
	UP TO 1	1 TO 3	3 TO 12	1 TO 5	>5	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AT 31 DECEMBER 2011						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANKS	2,669,072	511,627	296,670	207,797	837,770	4,522,936
INVESTMENT SECURITIES-HTM	426,776	318,398	914,836	4,198,255	4,820,305	10,678,570
PLACEMENTS WITH BANKS	3,579,842	-	-	-	-	3,579,842
AMOUNTS DUE FROM GROUP COMPANIES	1,153,564	-	42,821	-	-	1,196,385
INVESTMENT SECURITIES-AFS	-	-	-	-	50,100	50,100
LOANS AND ADVANCES	14,910,650	1,370,097	689,457	10,029,301	2,982,762	29,982,267
OTHER ASSETS	731,740	-	-	-	-	731,740
TOTAL FINANCIAL ASSETS	**23,471,644**	**2,200,122**	**1,943,784**	**14,435,353**	**8,690,937**	**50,741,840**
LIABILITIES						
CUSTOMER DEPOSITS	18,114,647	7,248,359	4,203,009	2,943,913	1,035,148	33,545,076
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	3,483,852	-	567,509	348,134		4,399,495
AMOUNTS DUE TO GROUP BANKS	3,322,627	859,020	1,722,798	-	-	5,904,445
LONG TERM LIABILITIES	3,848	-	135,017	2,064,572	498,237	2,701,674
OTHER LIABILITIES	646,006	-	-	-	-	646,006
TOTAL FINANCIAL LIABILITIES	**25,570,980**	**8,107,379**	**6,628,333**	**5,356,619**	**1,533,385**	**47,196,696**
GAP	**(2,099,336)**	**(5,907,257)**	**(4,684,549)**	**9,078,734**	**7,157,552**	**3,545,144**

4.2 Liquidity risk (continued)

BANK	MONTHS			YEARS		
	UP TO 1	1 TO 3	3 TO 12	1 TO 5	>5	TOTAL
AT 31 DECEMBER 2012	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	6,167,146	-	-	-	-	6,167,146
INVESTMENT SECURITIES-HTM	-	-	799,535	2,963,786	4,804,247	8,567,568
PLACEMENTS WITH BANKS	1,203,068	-	-	-	-	1,203,068
AMOUNTS DUE FROM GROUP COMPANIES	768,591	-	43,301	-	-	811,892
INVESTMENT SECURITIES	-	-	-	-	52,288	52,288
LOANS AND ADVANCES	13,542,736	1,652,998	1,959,623	8,676,342	4,050,773	29,882,472
OTHER ASSETS	569,632	-	-	-	-	569,632
TOTAL FINANCIAL ASSETS	**22,251,173**	**1,652,998**	**2,802,459**	**11,640,128**	**8,907,308**	**47,254,066**
LIABILITIES						
CUSTOMER DEPOSITS	12,021,538	13,342,558	4,701,049	3,744,612	1,289,789	35,099,546
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	2,720,214	-	346,590	-	-	3,066,804
AMOUNTS DUE TO GROUP BANKS	1,952,801	-	2,616,133	-	-	4,568,934
LONG TERM LIABILITIES	-	-	31,287	708,994	138,141	878,422
OTHER LIABILITIES	321,297	-	-	-	-	321,297
TOTAL FINANCIAL LIABILITIES	**17,015,850**	**13,342,558**	**7,695,059**	**4,453,606**	**1,427,930**	**43,935,003**
GAP	**5,235,323**	**(11,689,560)**	**(4,892,600)**	**7,186,522**	**7,479,378**	**3,319,063**

BANK		MONTHS		YEARS		
	UP TO 1	1 TO 3	3 TO 12	1 TO 5	>5	TOTAL
AT 31 DECEMBER 2011	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	1,569,929	666,969	267,361	283,782	100,961	2,889,002
INVESTMENT SECURITIES-HTM	408,049	59,179	282,776	3,444,271	4,820,305	9,014,580
PLACEMENTS WITH BANKS	2,102,491	-	-	-	-	2,102,491
AMOUNTS DUE FROM GROUP COMPANIES	880,867	-	42,821	-	-	923,688
INVESTMENT SECURITIES-AFS	-	-	-	-	50,100	50,100
LOANS AND ADVANCES	12,541,150	885,882	300,285	6,077,614	1,834,760	21,639,691
OTHER ASSETS	500,834	-	-	-	-	500,834
TOTAL FINANCIAL ASSETS	18,003,320	1,612,030	893,243	9,805,667	6,806,126	37,120,386
LIABILITIES						
CUSTOMER DEPOSITS	10,462,074	6,838,364	2,741,224	2,909,586	1,035,148	23,986,396
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	2,222,082	-	504,524	348,134	-	3,074,740
AMOUNTS DUE TO GROUP BANKS	2,923,551	859,020	1,722,798	-	-	5,505,369
LONG TERM LIABILITIES	-	-	62,653	454,965	409,070	926,688
OTHER LIABILITIES	569,009	-	-	-	-	569,009
TOTAL FINANCIAL LIABILITIES	16,176,716	7,697,384	5,031,199	3,712,685	1,444,218	34,062,202
GAP	1,826,604	(6,085,354)	(4,137,956)	6,092,982	5,361,908	3,058,184

4.3 Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices and foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures with acceptable parameters, while optimising the return on risk.

Management of market risk

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury unit, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk for both trading and non-trading portfolios is vested in ALCO. The Bank's Risk & Compliance department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

4.3.1 Currency risk

The Group 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 table below summarises the Group's and the Company's exposure to foreign currency exchange rate risk as at 31 December 2012. Included in the table are the Group's and the Company's financial instruments categorised by currency:

GROUP	USD	GBP	EUR	OTHERS	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AS AT 31 DECEMBER 2012					
ASSETS					
CASH AND BALANCES WITH CENTRAL BANKS	821,020	88,290	157,268	48,675	1,115,253
PLACEMENTS WITH BANKS	999,649	145,811	99,318	299,360	1,544,138
AMOUNTS DUE FROM GROUP COMPANIES	711,680	-	1,756	22,367	735,803
LOANS AND ADVANCES	11,068,134	46,883	981,594	344,629	12,441,241
OTHER ASSETS	114,093	12,444	17,962	129	144,627
TOTAL FINANCIAL ASSETS	**13,714,576**	**293,428**	**1,257,898**	**715,160**	**15,981,062**
LIABILITIES					
CUSTOMER DEPOSITS	5,308,172	213,919	952,416	110,784	6,585,291
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	3,136,737	-	253,516	70,396	3,460,649
AMOUNTS DUE TO GROUP BANKS	4,398,754	-	56,834	-	4,455,588
LONG TERM LIABILITIES	690,704		187,717		878,421
OTHER LIABILITIES	40,347	9,568	33,199	4,099	87,213
TOTAL FINANCIAL LIABILITIES	**13,574,714**	**223,487**	**1,483,682**	**185,279**	**15,467,162**
NET ON-BALANCE SHEET POSITION	**139,862**	**69,941**	**(225,784)**	**529,881**	**513,900**
NET OFF-BALANCE SHEET POSITION	(172,646)	(62,770)	228,889	(477,738)	(484,265)
NET OVERALL POSITION	**(32,784)**	**7,171**	**3,105**	**52,143**	**29,635**

4.3.1 Currency risk (continued)

GROUP	USD	GBP	EUR	OTHERS	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AS AT 31 DECEMBER 2011					
ASSETS					
CASH AND BALANCES WITH CENTRAL BANKS	750,670	49,885	220,729	1,510	1,022,794
PLACEMENTS WITH BANKS	1,976,549	264,918	923,507	565,652	3,730,626
AMOUNTS DUE FROM GROUP COMPANIES	434,577	562	119,035	24,456	578,630
LOANS AND ADVANCES	8,445,298	49,589	780,668	382,424	9,657,979
OTHER ASSETS	298,719	(33,194)	8,542	20	274,087
TOTAL FINANCIAL ASSETS	**11,905,813**	**331,760**	**2,052,481**	**974,062**	**15,264,116**
LIABILITIES					
CUSTOMER DEPOSITS	6,028,954	140,014	1,242,699	382,835	7,794,502
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	982,427	-	51,923	431	1,034,781
AMOUNTS DUE TO GROUP BANKS	4,309,736	-	1,600,108	2,318	5,912,162
LONG TERM LIABILITIES	683,360	-	243,328	-	926,688
OTHER LIABILITIES	1,613,944	5,083	28,259	450	1,647,736
TOTAL FINANCIAL LIABILITIES	**13,618,421**	**145,097**	**3,166,317**	**386,034**	**17,315,869**
NET ON-BALANCE SHEET POSITION	**(1,712,608)**	**186,663**	**(1,113,836)**	**588,028**	**(2,051,753)**
NET OFF-BALANCE SHEET POSITION	1,783,003	(202,298)	1,148,085	(497,120)	2,231,670
NET OVERALL POSITION	**(70,395)**	**15,635**	**34,249**	**90,908**	**179,917**

BANK	USD	GBP	EUR	OTHERS	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AS AT 31 DECEMBER 2012					
ASSETS					
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	673,105	77,427	118,014	-	868,546
PLACEMENTS WITH BANKS	732,338	135,269	67,242	268,149	1,202,998
AMOUNTS DUE FROM GROUP COMPANIES	646,951	-	1,756	-	648,707
LOANS AND ADVANCES	9,869,688	46,786	979,575	327,037	11,223,086
OTHER ASSETS	64,201	12,444	17,769	129	94,543
TOTAL FINANCIAL ASSETS	**11,986,283**	**271,926**	**1,184,356**	**595,315**	**14,037,880**
LIABILITIES					
CUSTOMER DEPOSITS	4,499,253	204,818	892,430	44,613	5,641,114
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	2,406,294		243,486	68,986	2,718,766
AMOUNTS DUE TO GROUP BANKS	4,333,545	-	56,834	-	4,390,379
LONG TERM LIABILITIES	690,704	-	187,717	-	878,421
OTHER LIABILITIES	16,569	1,013	930	1,568	20,081
TOTAL FINANCIAL LIABILITIES	**11,946,365**	**205,831**	**1,381,397**	**115,168**	**13,648,761**
NET ON-BALANCE SHEET POSITION	**39,918**	**66,095**	**(197,041)**	**480,147**	**389,119**
NET OFF-BALANCE SHEET POSITION	(85,038)	(59,886)	199,825	(477,738)	(422,837)
NET OVERALL POSITION	**(45,120)**	**6,209**	**2,784**	**2,409**	**(33,718)**

4.3.1 Currency risk (continued)

BANK	USD	GBP	EUR	OTHERS	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AS AT 31 DECEMBER 2011					
ASSETS					
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	521,982	23,546	173,074	-	718,602
PLACEMENTS WITH BANKS	766,558	209,397	730,253	550,165	2,256,373
AMOUNTS DUE FROM GROUP COMPANIES	256,248	-	5,464	2,928	264,640
LOANS AND ADVANCES	5,632,065	49,308	763,389	381,968	6,826,730
OTHER ASSETS	45,484	20,923	7,980	19	74,406
TOTAL FINANCIAL ASSETS	**7,222,337**	**303,174**	**1,680,160**	**935,080**	**10,140,751**
LIABILITIES					
CUSTOMER DEPOSITS	3,339,442	121,823	892,257	368,332	4,721,854
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	981,830	-	51,923	396	1,034,149
AMOUNTS DUE TO GROUP BANKS	3,871,850	-	1,600,108	-	5,471,958
LONG TERM LIABILITIES	683,359	-	243,328	-	926,687
OTHER LIABILITIES	**31,843**	**2,625**	**13,966**	**63**	**48,497**
TOTAL FINANCIAL LIABILITIES	**8,908,324**	**124,448**	**2,801,582**	**368,791**	**12,203,145**
NET ON-BALANCE SHEET POSITION	**(1,685,987)**	**178,726**	**(1,121,422)**	**566,289**	**(2,062,394)**
NET OFF-BALANCE SHEET POSITION	1,720,774	(178,909)	1,126,558	(561,105)	2,107,318
NET OVERALL POSITION	**34,787**	**(183)**	**5,136**	**5,184**	**44,924**

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

4.3.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Group 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 Group's and the Company's exposure to interest rate risks. Included in the table are the Group's and the Company's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Group does not bear any interest rate risk on off balance sheet items.

		MONTHS			NON-INTEREST	
GROUP	UP TO 1	1 TO 3	3 TO 12	>12	BEARING	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AT 31 DECEMBER 2012						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	2,298,332	-	-	-	5,817,442	8,115,774
INVESTMENT SECURITIES-HTM	290,223	241,580	2,448,327	8,185,566	-	11,165,696
PLACEMENTS WITH BANKS	2,013,941	-	-	-	-	2,013,941
AMOUNTS DUE FROM GROUP COMPANIES	1,048,307	-	43,301	-	-	1,091,608
INVESTMENT SECURITIES	-	-	-	-	52,288	52,288
LOANS AND ADVANCES	15,856,633	1,960,044	2,461,079	15,761,681	1,548,399	37,587,836
OTHER ASSETS	153,619		73,637	43,804	569,632	840,692
TOTAL FINANCIAL ASSETS	**21,661,056**	**2,201,624**	**5,026,345**	**23,991,051**	**7,987,761**	**60,867,836**
LIABILITIES						
CUSTOMER DEPOSITS	16,350,233	14,140,069	6,367,049	5,080,417	2,772,479	44,710,247
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	3,206,130	-	407,152	-	-	3,613,282
AMOUNTS DUE TO GROUP BANKS	1,961,137	-	2,789,171	-	-	4,750,308
BORROWED FUNDS AND SUBORDINATED DEBT	897	-	31,286	2,839,631	55,148	2,926,962
OTHER LIABILITIES	-	-	-	-	373,562	373,562
TOTAL FINANCIAL LIABILITIES	**21,518,397**	**14,140,069**	**9,594,659**	**7,920,048**	**3,201,189**	**56,374,361**
INTEREST SENSITIVITY GAP	**142,659**	**(11,938,445)**	**(4,568,314)**	**16,071,003**	**4,786,572**	**4,493,475**

4.3.2 Interest rate risk (continued)

GROUP	UP TO 1	MONTHS 1 TO 3	3 TO 12	>12	NON-INTEREST BEARING	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AT 31 DECEMBER 2011						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	-	-	-	-	4,552,946	4,552,946
INVESTMENT SECURITIES-HTM	426,776	318,398	941,836	9,018,560	-	10,705,570
PLACEMENTS WITH BANKS	3,579,842	-	-	-	-	3,579,842
AMOUNTS DUE FROM GROUP COMPANIES	1,153,564	-	42,281	-	-	1,195,845
INVESTMENT SECURITIES	-	-	-	-	50,100	50,100
LOANS AND ADVANCES	14,910,650	1,370,097	689,457	13,012,063	-	29,982,267
OTHER ASSETS	-	-	-	-	731,834	731,834
TOTAL FINANCIAL ASSETS	**20,070,832**	**1,688,495**	**1,673,574**	**22,030,623**	**5,334,880**	**50,798,404**
LIABILITIES						
CUSTOMER DEPOSITS	18,114,647	7,248,359	4,203,009	3,979,061	-	33,545,076
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	3,483,853	-	567,508	348,134	-	4,399,495
AMOUNTS DUE TO GROUP BANKS	3,322,627	859,020	1,722,798	-	-	5,904,445
BORROWED FUNDS AND SUBORDINATED DEBT	3,848	-	135,017	2,572,809	-	2,711,674
OTHER LIABILITIES	-	-	-	-	646,006	646,006
TOTAL FINANCIAL LIABILITIES	**24,924,975**	**8,107,379**	**6,628,332**	**6,900,004**	**646,006**	**47,206,696**
INTEREST SENSITIVITY GAP	**(4,854,143)**	**(6,418,884)**	**(4,954,758)**	**15,130,619**	**4,688,874**	**3,591,708**

BANK	UP TO 1	MONTHS 1 TO 3	3 TO 12	>12	NON-INTEREST BEARING	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AT 31 DECEMBER 2012						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	2,298,332	-	-	-	3,868,814	6,167,146
INVESTMENT SECURITIES-HTM	-	-	799,535	7,768,033	-	8,567,568
PLACEMENTS WITH BANKS	1,203,068	-	-	-	-	1,203,068
AMOUNTS DUE FROM GROUP COMPANIES	768,590	-	43,301	-	-	811,892
INVESTMENT SECURITIES	-	-	-	-	52,288	52,288
LOANS AND ADVANCES	13,542,736	1,652,998	1,959,623	12,727,114	-	29,882,472
OTHER ASSETS	153,619	-	73,637	43,804	569,632	840,692
TOTAL FINANCIAL ASSETS	**17,966,345**	**1,652,998**	**2,876,096**	**20,538,951**	**4,490,734**	**47,525,124**
LIABILITIES						
CUSTOMER DEPOSITS	12,021,538	13,342,558	4,701,049	5,034,401	-	35,099,546
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	2,720,214	-	346,590	-	-	3,066,804
AMOUNTS DUE TO GROUP BANKS	1,952,801	-	2,616,133	-	-	4,568,934
BORROWED FUNDS AND SUBORDINATED DEBT	-	-	31,286	847,136	-	878,422
OTHER LIABILITIES	-	-	-	-	321,297	321,297
TOTAL FINANCIAL LIABILITIES	**16,694,553**	**13,342,558**	**7,695,058**	**5,881,537**	**321,297**	**43,935,003**
INTEREST SENSITIVITY GAP	**1,271,792**	**(11,689,560)**	**(4,818,962)**	**14,657,414**	**4,169,437**	**3,590,121**

4.3.2 Interest rate risk (continued)

BANK	UP TO 1	MONTHS 1 TO 3	3 TO 12	>12	NON-INTEREST BEARING	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AT 31 DECEMBER 2011						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	-	-	-	-	2,889,002	2,889,002
INVESTMENT SECURITIES-HTM	408,049	59,179	282,776	8,264,576	-	9,014,580
PLACEMENTS WITH BANKS	2,102,491	-	-	-	-	2,102,491
AMOUNTS DUE FROM GROUP COMPANIES	880,867	-	42,821	-	-	923,688
INVESTMENT SECURITIES	-	-	-	-	50,100	50,100
LOANS AND ADVANCES	12,541,151	885,882	300,285	7,912,374	-	21,639,692
OTHER ASSETS	-	-	-	-	500,834	500,834
TOTAL FINANCIAL ASSETS	**15,932,558**	**945,061**	**625,882**	**16,176,950**	**3,439,936**	**37,120,387**
LIABILITIES						
CUSTOMER DEPOSITS	10,462,074	6,838,364	2,741,224	3,944,734	-	23,986,396
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	2,222,082	-	504,524	348,134		3,074,740
AMOUNTS DUE TO GROUP BANKS	2,923,551	859,020	1,722,798	-	-	5,505,369
BORROWED FUNDS AND SUBORDINATED DEBT	-	-	62,652	864,036	-	926,688
OTHER LIABILITIES	-	-	-	-	569,009	569,009
TOTAL FINANCIAL LIABILITIES	**15,607,707**	**7,697,384**	**5,031,198**	**5,156,904**	**569,009**	**34,062,202**
INTEREST SENSITIVITY GAP	**324,851**	**(6,752,323)**	**(4,405,316)**	**11,020,046**	**2,870,927**	**3,058,185**

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. 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.

4.3.3 Fair Value of Financial Instruments

Fair value hierarchy

IFRS 7 specifies a fair value hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Nairobi Stock Exchange).
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like LIBOR yield curve or counterparty credit risk are Nairobi Securities Exchange, Bloomberg and Reuters.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

	GROUP			BANK		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
FAIR VALUE HIERARCHY						
AT 31 DECEMBER 2012						
FINANCIAL ASSETS:						
- AVAILABLE-FOR-SALE	-	-	52,288	-	-	52,288
AT 31 DECEMBER 2011						
FINANCIAL ASSETS:						
- AT FAIR VALUE THROUGH PROFIT & LOSS	-	433,527	-	-	-	-
- AVAILABLE-FOR-SALE	-	13,504	50,100	-	-	50,100

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily NSE equity investments classified as trading securities or available-for-sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

4.4 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheets, are:

- to comply with the capital requirements set by the Central Bank of Kenya;
- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to maintain a strong capital base to support the development of its business.

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Kenya for supervisory purposes. The required information is filed with the Central Bank of Kenya on a monthly basis.

The Central Bank of Kenya requires each bank to: (a) hold the minimum level of regulatory capital of Shs 1 Billion as at 31 December 2012; (b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 8%; (c) maintain core capital of not less than 8% of total deposit liabilities; and (d) maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

The Bank's total regulatory capital is divided into two tiers:

- Tier 1 capital (core capital): share capital, share premium, plus retained earnings.
- Tier 2 capital (supplementary capital): 25% (subject to prior approval) of revaluation reserves, subordinated debt not exceeding 50% of Tier 1 capital and hybrid capital instruments. Qualifying Tier 2 capital is limited to 100% of Tier 1 capital.

The risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of – and reflecting an estimate of the credit risk associated with – each asset and counterparty. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

	2012	2011
	SHS 000	SHS 000
TIER 1 CAPITAL		
SHARE CAPITAL	3,400,000	3,400,000
SHARE PREMIUM	421,200	421,200
RETAINED EARNINGS	662,305	503,578
INVESTMENT IN SUBSIDIARY AND ASSOCIATE	(916,524)	(916,524)
TOTAL	**3,566,981**	**3,408,254**
TIER 2 CAPITAL		
SUBORDINATED DEBT	690,704	683,359
STATUTORY RESERVES	289,384	211,240
TOTAL REGULATORY CAPITAL	**4,547,069**	**4,302,853**

	2012	2011
	SHS 000	SHS 000
RISK WEIGHTED ASSETS		
ON BALANCE SHEET	29,819,798	22,527,455
OFF BALANCE SHEET	4,723,046	4,335,568
TOTAL RISK WEIGHTED ASSETS	34,542,844	26,863,023
DEPOSIT LIABILITIES	42,266,383	31,083,925
CAPITAL RATIOS		
CORE CAPITAL/TOTAL DEPOSIT LIABILITIES (CBK MINIMUM 8%)	8.4%	11%
CORE CAPITAL/TOTAL RISK WEIGHTED ASSETS (CBK MINIMUM 8%)	10.3%	12.7%
TOTAL CAPITAL/TOTAL RISK WEIGHTED ASSETS (CBK MINIMUM 12%)	13.2%	16%

5. Interest income

	2012	2011
	SHS 000	SHS 000
LOANS AND ADVANCES	6,147,315	3,420,497
GOVERNMENT AND OTHER SECURITIES	1,062,432	888,014
BALANCES WITH OTHER BANKING INSTITUTIONS	177,286	82,627
OTHER INTEREST INCOME	242,573	-
TOTAL	7,629,606	4,391,138

6. Interest expense

	2012	2011
	SHS 000	SHS 000
CUSTOMER DEPOSITS	4,008,116	1,776,314
DEPOSITS BY BANKS	447,646	329,016
BORROWED FUNDS	79,335	77,842
OTHER	343,300	81,900
TOTAL	4,878,397	2,265,072

7. Expenses by nature

The following items are included within operating expenses:

	2012	2011
	SHS 000	SHS 000
STAFF COSTS (NOTE 8)	1,310,721	1,049,806
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 15)	207,838	170,861
AMORTISATION OF INTANGIBLE ASSETS (NOTE 16)	42,954	37,038
PROFIT ON SALE OF PROPERTY AND EQUIPMENT	1,277	15,360
OPERATING LEASE RENTALS	11,587	10,430
AUDITORS' REMUNERATION	10,807	8,856
AMORTISATION OF PREPAID OPERATING LEASE RENTALS (NOTE 30)	85	85

8. Employee benefits expense

The following items are included within employee benefits expense:

	2012	2011
	SHS 000	SHS 000
SALARIES AND WAGES	1,058,261	835,824
RETIREMENT BENEFIT COSTS		
- DEFINED CONTRIBUTION SCHEME	63,274	46,207
- NATIONAL SOCIAL SECURITY FUND	10,332	13,082
OTHER STAFF COSTS	178,854	154,693
TOTAL	**1,310,721**	**1,049,806**

9. Income tax expense

	2012	2011
	SHS 000	SHS 000
CURRENT INCOME TAX	213,402	172,184
DEFERRED INCOME TAX (NOTE 18)	(84,206)	(31,149)
(OVER) PROVISION OF DEFERRED TAX IN PRIOR YEAR	2,495	-
TOTAL	131,691	141,035

The tax on the Group'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	893,239	718,288
TAX CALCULATED AT THE STATUTORY INCOME TAX RATE OF 30% (2012: 30%)	267,972	215,486
TAX EFFECT OF:		
INCOME NOT SUBJECT TO TAX	(161,428)	(96,148)
EXPENSES NOT DEDUCTIBLE FOR TAX PURPOSES	(27,149)	5,824
OTHER - FINAL TAX ON INTEREST ON GOVERNMENT PAPER AT 15%	49,801	32,942
PRIOR YEAR UNDER/(OVER) PROVISION OF DEFERRED TAX	2,495	(19,681)
UTILIZATION OF PREVIOUSLY UNRECOGNIZED TAX LOSSES	-	2,612
INCOME TAX EXPENSE	131,691	141,035

10. Dividends

At the Annual General Meeting held on 13 March 2013 a final dividend in respect of the year ended 31 December 2012 of Shs 66.67 (2011: Shs 40.00) per share amounting to a total of Shs 236,872,000 (2011: Shs 136,000,000) was approved. Payment of dividends is subject to withholding tax at a rate of 5% for resident and 10% for non-resident shareholders.

11. Cash and balances with central banks

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 000	SHS 000	SHS 000
CASH IN HAND	1,943,903	1,390,444	850,466	549,528
BALANCES WITH CENTRAL BANKS	6,171,871	3,132,492	5,316,680	2,339,474
TOTAL	8,115,774	4,522,936	6,167,146	2,889,002

12. Investment securities

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 000	SHS 000	SHS 000
(A) HELD TO MATURITY				
TREASURY BILLS AND BONDS	11,165,696	10,702,100	8,567,568	9,014,580
UNLISTED EQUITY SECURITIES	-	3,470	-	-
TOTAL	**11,165,696**	**10,705,570**	**8,567,568**	**9,014,580**
(B) AVAILABLE-FOR-SALE				
TREASURY BONDS	-	13,504	-	-
UNLISTED EQUITY SECURITIES	52,288	50,100	52,288	50,100
TOTAL	**52,288**	**63,604**	**52,288**	**50,100**

The fair value of the investment in unlisted companies was estimated by using the purchase price paid for acquisition.

The movement in investment securities available-for-sale is as summarised below:

AT START OF THE YEAR	63,604	1,779,758	50,100	1,779,758
ADDITIONS	13,357,188	9,259,813	13,357,188	9,259,813
DISPOSALS	(13,368,504)	(10,970,990)	(13,355,000)	(10,970,990)
CHANGES IN FAIR VALUE TAKEN TO EQUITY (NOTE 24)	-	(18,481)	-	(18,481)
AT YEAR END	**52,288**	**50,100**	**52,288**	**50,100**

(C) FAIR VALUE THROUGH PROFIT OR LOSS				
TREASURY BONDS	-	433,527	-	-

13. Placements with other banks

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 000	SHS 000	SHS 000
PLACEMENTS	1,650,703	2,296,947	926,381	854,026
LOANS AND ADVANCES TO OTHER BANKS	363,238	1,282,895	276,687	1,248,465
TOTAL	**2,013,941**	**3,579,842**	**1,203,068**	**2,102,491**

14. Loans and advances to customers

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 000	SHS 000	SHS 000
OVERDRAFTS	12,952,427	11,941,410	11,082,980	10,102,821
PERSONAL LOANS	1,933,571	3,311,395	1,933,571	2,589,951
MORTGAGES	7,309,007	646,010	1,194,051	646,010
COMMERCIAL LOANS	15,109,266	13,940,836	15,109,266	8,070,398
DISCOUNTED BILLS	706,762	301,238	706,762	300,997
GROSS LOANS AND ADVANCES	38,011,033	30,140,889	30,026,630	21,710,177
LESS: PROVISION FOR IMPAIRMENT				
INDIVIDUALLY ASSESSED	(366,446)	(100,533)	(131,756)	(61,602)
COLLECTIVELY ASSESSED	(56,751)	(58,089)	(12,402)	(8,884)
NET LOANS AND ADVANCES	37,587,836	29,982,267	29,882,472	21,639,691

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

	GROUP			BANK		
	SPECIFIC ALLOWANCES	COLLECTIVE ALLOWANCES	TOTAL	SPECIFIC ALLOWANCES	COLLECTIVE ALLOWANCES	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
31 DECEMBER 2011						
AT START OF THE YEAR	104,228	50,717	154,945	52,042	16,523	68,565
PROVISION FOR IMPAIRMENT	180,307	(7,640)	172,667	52,688	(7,640)	45,048
RECOVERIES	(86,192)	-	(86,192)	(10,907)	-	(10,907)
WRITE OFFS	(78,470)	-	(78,470)	(32,221)	-	(32,221)
TRANSFERRED TO RETAINED EARNINGS	(15,634)	15,634	-	-	-	-
EXCHANGE DIFFERENCES	(3,705)	(623)	(4,328)	-	-	-
AT END OF THE YEAR	100,534	58,088	158,622	61,602	8,883	70,485
31 DECEMBER 2012						
AT START OF THE YEAR	100,534	58,088	158,622	61,602	8,883	70,485
PROVISION FOR IMPAIRMENT	299,405	3,519	302,924	82,782	3,519	86,301
RECOVERIES	(9,391)	-	(9,391)	(9,391)	-	(9,391)
WRITE OFFS	(10,479)	(1,538)	(12,017)	(3,237)		(3,237)
EXCHANGE DIFFERENCES	(13,654)	(3,287)	(16,941)	-	-	-
AT END OF THE YEAR	366,415	56,782	423,197	131,756	12,402	144,158

All impaired loans have been written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31 December 2012 was Shs 744 million (2011: Shs 417 million).

15. Property and equipment

(a) GROUP	BUILDINGS & FREEHOLD LAND SHS 000	MOTOR VEHICLES SHS 000	FIXTURES, FITTINGS & EQUIPMENT SHS 000	WORK IN PROGRESS SHS 000	TOTAL SHS 000
31 DECEMBER 2011					
OPENING BOOK AMOUNT	121,115	20,131	640,655	74,163	856,064
EXCHANGE DIFFERENCE	(2,013)	(119)	(6,149)	(844)	(9,125)
OPENING NET BOOK AMOUNT	**119,102**	**20,012**	**634,506**	**73,319**	**846,939**
ADDITIONS	-	5,905	359,735	97,985	463,625
TRANSFERS	-	7,800	59,815	(70,502)	(2,887)
DISPOSALS	-	(1,443)	(340)	-	(1,783)
DEPRECIATION CHARGE	(2,689)	(12,195)	(155,977)	-	(170,861)
CLOSING NET BOOK AMOUNT	**116,413**	**20,079**	**897,739**	**100,802**	**1,135,033**
AT 31 DECEMBER 2011					
COST	131,233	53,688	1,412,977	100,802	1,698,700
ACCUMULATED DEPRECIATION	(14,820)	(33,609)	(543,166)	-	(591,595)
NET BOOK AMOUNT	**116,413**	**20,079**	**869,811**	**100,802**	**1,107,105**
31 DECEMBER 2012					
OPENING BOOK AMOUNT	116,413	20,079	869,811	100,802	1,107,105
EXCHANGE DIFFERENCE	(7,132)	(790)	(26,013)	(7,806)	(41,741)
OPENING NET BOOK AMOUNT	**109,281**	**19,289**	**843,798**	**92,996**	**1,065,364**
ADDITIONS	-	15,443	139,428	113,332	268,203
TRANSFERS	-	-	96,942	(127,608)	(30,666)
DISPOSALS	-	(5,034)	(10,237)	-	(15,271)
ACCUMULATED DEPRECIATION ON DISPOSAL	-	5,034	9,384	-	14,418
DEPRECIATION CHARGE	(2,519)	(13,141)	(192,178)	-	(207,838)
CLOSING NET BOOK AMOUNT	**106,762**	**21,591**	**887,137**	**78,720**	**1,094,210**
AT 31 DECEMBER 2012					
COST	123,192	62,665	1,522,581	78,720	1,787,158
ACCUMULATED DEPRECIATION	(16,430)	(41,074)	(635,444)	-	(692,948)
NET BOOK AMOUNT	**106,762**	**21,591**	**887,137**	**78,720**	**1,094,210**

(b) BANK	BUILDINGS & FREEHOLD LAND SHS 000	MOTOR VEHICLES SHS 000	FIXTURES, FITTINGS & EQUIPMENT SHS 000	WORK IN PROGRESS SHS 000	TOTAL SHS 000
31 DECEMBER 2011					
OPENING BOOK AMOUNT	10,830	13,586	303,850	27,928	356,194
ADDITIONS	-	1,850	259,092	24,006	284,948
TRANSFERS	-	-	27,928	(27,928)	-
DISPOSALS	-	-	(30)	-	(30)
DEPRECIATION CHARGE	(180)	(7,074)	(79,354)	-	(86,608)
CLOSING NET BOOK AMOUNT	**10,650**	**8,362**	**511,486**	**24,006**	**554,504**
AT 31 DECEMBER 2011					
COST	12,000	32,453	772,144	24,006	840,603
ACCUMULATED DEPRECIATION	(1,350)	(24,091)	(288,586)	-	(314,027)
NET BOOK AMOUNT	**10,650**	**8,362**	**483,558**	**24,006**	**526,576**
31 DECEMBER 2012					
OPENING BOOK AMOUNT	10,650	8,362	483,558	24,006	526,576
ADDITIONS	-	11,950	69,251	81,128	162,329
TRANSFERS	-	-	58,618	(58,618)	-
DISPOSALS	-	(5,034)	(9,596)	-	(14,630)
ACCUMULATED DEPRECIATION ON DISPOSAL	-	5,034	9,160	-	14,194
DEPRECIATION CHARGE	(180)	(7,597)	(102,166)	-	(109,943)
CLOSING NET BOOK AMOUNT	**10,470**	**12,715**	**508,825**	**46,516**	**578,526**
AT 31 DECEMBER 2012					
COST	12,000	39,369	890,417	46,516	988,302
ACCUMULATED DEPRECIATION	(1,530)	(26,654)	(381,592)	-	(409,776)
NET BOOK AMOUNT	**10,470**	**12,715**	**508,825**	**46,516**	**578,526**

16. Intangible assets

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 000	SHS 000	SHS 000
AT START OF THE YEAR	104,935	111,161	72,876	64,774
EXCHANGE DIFFERENCES	466	-	-	-
ADDITIONS	35,976	30,812	16,204	26,448
TRANSFERS	30,634	-	-	-
AMORTISATION	(42,954)	(37,038)	(22,958)	(18,346)
AT YEAR END	129,057	104,935	66,122	72,876
AT 31 DECEMBER				
COST	338,031	280,929	200,338	184,134
ACCUMULATED AMORTISATION	(208,974)	(175,994)	(134,216)	(111,258)
NET BOOK AMOUNT	129,057	104,935	66,122	72,876

17. Investment in subsidiary and associate

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 000	SHS 000	SHS 000
(a) ASSOCIATE				
AT START OF THE YEAR	344,600	318,768	344,600	318,768
SHARE OF PROFITS	32,418	25,832	32,418	25,832
AT YEAR END	377,018	344,600	377,018	344,600
(b) SUBSIDIARY				
AT START OF THE YEAR	-	-	632,875	419,582
RIGHTS ISSUE	-	-	-	213,293
AT END OF THE YEAR	-	-	632,875	632,875

Investment in subsidiary comprises the Bank's investment in BANK OF AFRICA – UGANDA Limited (BOAU). BOAU is incorporated in Uganda. The Bank owns 50.01% of the total shareholding in BOAU.

18. Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2011: 30%).
The movement on the deferred income tax account is as follows:

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 000	SHS 000	SHS 000
AT START OF THE YEAR	74,666	37,551	32,043	8,362
INCOME STATEMENT CREDIT (NOTE 9)	84,206	31,149	12,496	17,714
DEFERRED INCOME TAX ON CHANGES IN FAIR VALUE OF AVAILABLE-FOR-SALE-INVESTMENTS (NOTE 24)	-	5,966	-	5,967
AT YEAR END	158,872	74,666	44,539	32,043

18. Deferred income tax (continued)

The deferred income tax assets, 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:

	1.1.2011	CHARGED/(CREDITED) TO INCOME STATEMENT	CREDITED TO EQUITY	31.12.2011
	SHS 000	SHS 000	SHS 000	SHS 000
(a) GROUP				
DEFERRED INCOME TAX LIABILITY				
PROPERTY AND EQUIPMENT	58,267	14,747	15,225	88,239
FAIR VALUE OF AVAILABLE-FOR-SALE INVESTMENTS	5,966	-	(5,966)	-
DEFERRED INCOME TAX ASSET				
PROVISIONS	(28,001)	(12,392)	-	(40,393)
TAX LOSSES	(73,465)	(6,769)	-	(80,234)
EXCHANGE DIFFERENCES	(318)	(26,735)	(15,225)	(42,278)
NET DEFERRED INCOME TAX ASSET	**(37,551)**	**(31,149)**	**(5,966)**	**(74,666)**
DEFERRED INCOME TAX LIABILITY				
PROPERTY AND EQUIPMENT	88,239	(20,848)	-	67,391
DEFERRED INCOME TAX ASSET				
PROVISIONS	(40,393)	(12,496)	-	(52,889)
TAX LOSSES	(80,234)	31,771	-	(48,463)
EXCHANGE DIFFERENCES	(42,278)	(82,633)	-	(124,911)
NET DEFERRED INCOME TAX ASSET	**(74,666)**	**(84,206)**	**-**	**(158,872)**

	1.1.2011	CHARGED/(CREDITED) TO INCOME STATEMENT	CREDITED TO EQUITY	31.12.2011
	SHS 000	SHS 000	SHS 000	SHS 000
(b) BANK				
DEFERRED INCOME TAX LIABILITY				
PROPERTY AND EQUIPMENT	2,093	(14,153)	-	(12,060)
FAIR VALUE OF AVAILABLE-FOR-SALE INVESTMENTS	5,966	-	(5,966)	-
DEFERRED INCOME TAX ASSET				
PROVISIONS	(16,421)	(3,562)	-	(19,983)
NET DEFERRED INCOME TAX ASSET	**(8,362)**	**(17,715)**	**(5,966)**	**(32,043)**
DEFERRED INCOME TAX ASSET				
PROVISIONS	(19,983)	(12,496)	-	(32,479)
PROPERTY AND EQUIPMENT	(12,060)	-	-	(12,060)
NET DEFERRED INCOME TAX ASSET	**(32,043)**	**(12,496)**	**-**	**(44,539)**

19. Other assets

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 000	SHS 000	SHS 000
UNCLEARED EFFECTS	316,534	225,102	255,587	186,790
PREPAYMENTS	163,416	121,828	69,591	63,723
OTHER ASSETS	360,742	352,752	244,454	241,732
TOTAL	**840,692**	**699,682**	**569,632**	**492,245**

20. Customer deposits

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 000	SHS 000	SHS 000
CURRENT AND DEMAND DEPOSITS	15,171,235	12,979,117	11,661,936	9,124,707
SAVINGS ACCOUNTS	3,587,174	3,079,570	1,074,668	642,138
FIXED DEPOSIT ACCOUNTS	25,683,882	17,348,955	22,181,377	14,146,338
MARGIN DEPOSITS	267,956	137,434	181,565	73,213
TOTAL	44,710,247	33,545,076	35,099,546	23,986,396

21. Deposits from other banks

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 000	SHS 000	SHS 000
OVERNIGHT BORROWING	293,569	1,482,241	293,569	1,482,241
OTHER BALANCES DUE TO BANKS	3,319,713	2,917,254	2,773,235	1,592,500
TOTAL	3,613,282	4,399,495	3,066,804	3,074,741

22. Other liabilities

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 000	SHS 000	SHS 000
ITEMS IN TRANSIT	122,817	104,741	122,817	104,741
BILLS PAYABLE	60,552	39,775	36,327	20,911
ACCRUALS	93,797	72,821	35,348	60,147
OTHER LIABILITIES	123,441	379,388	122,640	378,529
CREDITORS	71,137	49,280	4,165	4,680
TOTAL	471,744	646,005	321,297	569,008

23. Share capital and share premium

	NUMBER OF SHARES	ORDINARY SHARES	SHARES PREMIUM
	SHS 000	SHS 000	SHS 000
AT 1 JANUARY 2011	2,200	2,200,000	121,200
ISSUE OF SHARES	1,200	1,200,000	300,000
BALANCE AT 31 DECEMBER 2011 AND 31 DECEMBER 2012	3,400	3,400,000	421,200

The total authorised number of ordinary shares is 3,400,000 with a par value of Shs 1,000 per share.

24. Revaluation reserves – available-for-sale securities

	GROUP AND BANK	
	2012	2011
	SHS 000	SHS 000
AT START OF YEAR	-	13,918
NET GAINS FROM CHANGES IN FAIR VALUE	-	-
DEFERRED INCOME TAX	-	(5,966)
GAINS REALISED ON SALE OF SECURITIES	-	(7,952)
AT END OF YEAR	-	-

25. Regulatory reserve

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 000	SHS 000	SHS 000
AT START OF YEAR	253,598	158,701	211,240	131,412
TRANSFER FROM RETAINED EARNINGS	86,048	94,897	78,144	79,828
AT END OF YEAR	339,646	253,598	289,384	211,240

The regulatory reserves represent an appropriation from retained earnings to comply with regulations. The balance in the reserve represents the excess of impairment provisions determined in accordance with regulations over the impairment provisions recognized in accordance with the Group's accounting policies.

26. 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.

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 000	SHS 000	SHS 000
ACCEPTANCES AND LETTERS OF CREDIT	2,368,026	3,235,822	1,422,728	1,690,608
GUARANTEES AND PERFORMANCE BONDS	6,530,517	6,375,948	4,788,413	4,870,008
CONTINGENCIES AND COMMITMENTS	3,931,547	8,837,471	3,508,182	8,379,508
AT END OF YEAR	12,830,090	18,499,241	9,719,323	14,940,124

Nature of contingent liabilities

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented, and reimbursement by the customer is normally immediate. Letters of credit commit the Group 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 Group will only be required to meet these obligations in the event of the customer's default.

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. At the end of the year, the unutilised commitments amounted to Shs 2,325 million in 2012 (2011: Shs 1,417 million).

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.

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

	2012	2011
	SHS 000	SHS 000
CASH AND BALANCES WITH CENTRAL BANKS (NOTE 11)	8,115,774	4,522,936
LESS: CASH RESERVE REQUIREMENT	(768,864)	(764,703)
GOVERNMENT AND OTHER SECURITIES	613,643	501,945
DEPOSITS FROM OTHER BANKS		
- OVERNIGHT BORROWINGS (NOTE 13)	2,013,941	3,579,842
DUE TO BANKS AND NON-BANK FINANCIAL INSTITUTIONS (NOTE 21)	(293,569)	(1,482,241)
AMOUNTS DUE FROM GROUP BANKS (NET)	(1,254,043)	(1,799,651)
AT END OF YEAR	8,426,882	4,558,128

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 5.25% (2011: 4.5%) of the average outstanding customer deposits over a cash reserve cycle period of one month.

28. Related party transactions

The Group is controlled by BANK OF AFRICA GROUP incorporated in Luxembourg. There are other companies which are related to BANK OF AFRICA – KENYA Limited through common shareholdings or common directorships.

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

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 000	SHS 000	SHS 000
(a) AMOUNTS DUE FROM GROUP BANKS				
NATEXIS BANQUES	33,993	109,066	33,993	109,066
BOA-TANZANIA	604,195	131,428	603,970	128,336
BOA-UGANDA	-	-	-	2,518
BOA-FRANCE	102,509	177,613	-	5,464
BOA-RDC	347,768	128,324	172,968	128,324
BOA-MER ROUGE	83	55	83	55
LA CONGOLAISE DE BANQUE	-	549,925	-	549,925
BOA-GHANA	878	-	878	-
OTHER GROUP ENTITIES	2,182	99,974	-	-
TOTAL	1,091,608	1,196,385	811,892	923,688

INTEREST INCOME EARNED ON THE ABOVE	25,667	20,736	11,482	22,527
LEDGER FEES EARNED ON THE ABOVE	-	20	-	20

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 000	SHS 000	SHS 000
(b) AMOUNTS DUE TO GROUP BANKS				
BOA-MADAGASCAR	796,741	541,074	796,741	541,074
BOA-UGANDA	-	-	1,822	32,007
BOA-TANZANIA	474,112	130,483	473,984	128,215
BANQUE DE CREDIT DE BUJUMBURA	217,986	349,960	217,986	349,960
BOA-COTE D'IVOIRE	355	339	355	339
BOA-RDC	7,593	737	768	359
BOA-GHANA	3,986	4,392	3,986	4,392
BOA-MER ROUGE	3,229,244	3,440,093	3,053,129	3,012,024
LA CONGOLAISE DE BANQUE	18,407	1,436,999	18,407	1,436,999
BOA-FRANCE	1,756	-	1,756	-
OTHER GROUP ENTITIES	128	368	-	-
TOTAL	**4,750,308**	**5,904,445**	**4,568,934**	**5,505,369**
INTEREST EXPENSE INCURRED ON THE ABOVE	**58,905**	**52,358**	**54,959**	**50,322**
(c) INVESTMENTS IN GROUP COMPANIES				
BOA FRANCE	50,100	50,100	50,100	50,100
(d) EXPENSES INCURRED WITHIN THE GROUP				
MANAGEMENT FEES PAID TO AFH-SERVICES	88,612	101,993	43,366	43,838

(e) LOANS TO EMPLOYEES AND DIRECTORS

Group

Advances to customers as at 31 December 2012 includes loans to employees amounting to Shs 734 million (2011: Shs 530 million).

Total loans to Directors amounted to Shs 35 million as at 31 December 2012 (2011: Shs 38 million).

Bank

Advances to customers as at 31 December 2012 includes loans to employees amounting to Shs 598 million (2011: Shs 429 million).

Total loans to Directors amounted to Shs 20 million as at 31 December 2012 (2011: Shs 38 million).

28. Related party transactions (continued)

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 000	SHS 000	SHS 000
INTEREST INCOME EARNED ON LOANS TO EMPLOYEES AND KEY MANAGEMENT	40,264	21,095	30,042	13,790
(f) KEY MANAGEMENT COMPENSATION				
SALARIES AND OTHER SHORT-TERM EMPLOYMENT BENEFITS	686,381	541,236	599,606	479,639
(g) DIRECTORS' REMUNERATION				
SALARIES TO EXECUTIVE DIRECTORS (INCLUDED IN KEY MANAGEMENT COMPENSATION ABOVE)	106,506	83,348	35,785	40,856
OTHER COMPENSATION TO NON-EXECUTIVE DIRECTORS	31,673	13,013	16,516	6,164
TOTAL	**138,179**	**96,361**	**52,301**	**47,020**

29. Intangible asset - goodwill

	2012	2011
GROUP	SHS 000	SHS 000
BALANCE AT 1 JANUARY 2011, 31 DECEMBER 2011 AND 31 DECEMBER 2012	15,610	15,610

The above goodwill is attributable to a strong position and profitability of BANK OF AFRICA – UGANDA Limited treated as a cash generating unit.

Impairment tests for goodwill

The recoverable amount of the cash generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the Board of Directors covering a three year period and discounted at rates comparable to that earned from risk assets. Based on the above, the Group does not consider the goodwill impaired.

30. Prepaid operating lease rentals

This relates to leasehold land for the Group's residential property. The amount is amortised over the remaining lease period.

	2012	2011
GROUP AND BANK	SHS 000	SHS 000
AT START OF YEAR	4,864	4,949
AMORTIZATION CHARGE FOR THE YEAR	(85)	(85)
AT END OF YEAR	4,779	4,864

31. Long term liabilities

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 000	SHS 000	SHS 000
BORROWINGS	1,973,914	1,758,683	187,717	243,329
SUBORDINATED DEBT	953,048	942,991	690,705	683,359
TOTAL	2,926,962	2,701,674	878,422	926,688
AT START OF YEAR	1,758,683	947,031	243,328	297,711
ADDITIONS / (REPAYMENTS)	213,302	794,192	(57,540)	(71,843)
ACCRUED INTEREST	1,929	17,460	1,929	17,460
TOTAL	1,973,914	1,758,683	187,717	243,328

The carrying amounts of long term borrowings approximate to their fair value. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that Directors expect would be available to the Group at the balance sheet date.

The borrowing is an unsecured 7 year term loan from PROPARCO signed for the development of the bank's lending business in foreign currency. The borrowing bears fixed interest rate of 5.58%.

The subordinated debt is an unsecured 7 year loan capital issued by International Finance Corporation (IFC) to enhance the Banks capital base. The debt has an initial five year principal repayment moratorium. The debt obligation of the Bank ranks ahead of the interest of holders of equity and is redeemable on maturity. This note bears an interest rate referenced to the 6 month Libor. The effective interest rate on the subordinated debt as at 31 December 2012 was 5.238%. The subordinated is treated as Tier 2 capital in line with CBK guidelines.

None of the borrowings were in default during the year.

Bank Statement of Comprehensive Income

YEAR ENDED 31 DECEMBER		
	2012	2011
	SHS 000	SHS 000
INTEREST INCOME	5,634,468	3,012,731
INTEREST EXPENSE	(3,993,892)	(1,641,878)
NET INTEREST INCOME	**1,640,576**	**1,370,853**
NET FEE AND COMMISSION INCOME	469,619	326,772
FOREIGN EXCHANGE INCOME	172,321	256,323
OTHER OPERATING INCOME	57,009	(74,915)
OPERATING INCOME	**2,339,525**	**1,879,033**
OPERATING EXPENSES	(1,649,626)	(1,305,268)
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	(86,301)	(45,048)
PROFIT FROM OPERATIONS	**603,598**	**528,717**
SHARE OF INCOME OF ASSOCIATES	32,418	25,832
PROFIT BEFORE INCOME TAX	**636,016**	**554,550**
INCOME TAX EXPENSE	(162,273)	(121,825)
PROFIT FOR THE YEAR	**473,743**	**432,725**
OTHER COMPREHENSIVE INCOME:		
GAINS ON REVALUATION OF AFS BONDS	-	(13,918)
TAX EFFECT ON GAINS ON REVALUATION OF AFS BONDS	-	5,966
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**473,743**	**424,773**

Personal notes

Personal notes

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BANK OF AFRICA – KENYA

GROUPE BANK OF AFRICA

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