BANK OF AFRICA – KENYA

ANNUAL REPORT

2011

GROUPE BANK OF AFRICA

Pour l'essor de notre continent.
Developing our continent.

Table of contents

BANK OF AFRICA – NIGER

8 Branches in Niamey.
8 Regional Branches.

BANK OF AFRICA – MALI

15 Branches in Bamako.
8 Regional Branches and 2 Local Branches.

BANK OF AFRICA – SÉNÉGAL

18 Branches in Dakar.
7 Regional Branches.

BANK OF AFRICA – BURKINA FASO

14 Branches in Ouagadougou.
11 Regional Branches.

BANK OF AFRICA – CÔTE D'IVOIRE

12 Branches in Abidjan.
8 Regional Branches and 1 Local Branch.

BANK OF AFRICA – GHANA

14 Branches in Accra.
5 Regional Branches.

BANK OF AFRICA – BÉNIN

23 Branches in Cotonou.
19 Regional Branches.

BANQUE DE L'HABITAT DU BÉNIN

1 Branch in Cotonou.

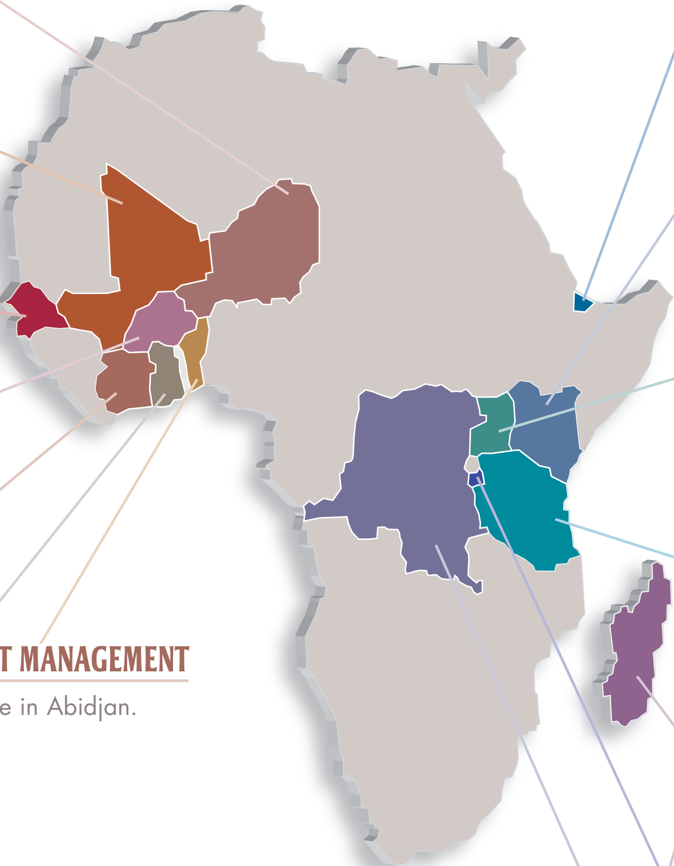
Group Banks and Subsidiaries

BOA-FRANCE

4 Branches in Paris.
1 Branch in Marseille.

BOA GROUP REPRESENTATIVE OFFICE

Head Office in Paris, France.



BANK OF AFRICA – MER ROUGE

3 Branches in Djibouti.

BANK OF AFRICA – KENYA

10 Branches in Nairobi.
12 Regional Branches.

BANK OF AFRICA – UGANDA

19 Branches in Kampala.
11 Regional Branches.

BANK OF AFRICA – TANZANIA

10 Branches in Dar es Salaam.
6 Regional Branches.

BANK OF AFRICA – MADAGASCAR

20 Branches in Antananarivo.
47 Regional Branches.

BANQUE DE CRÉDIT DE BUJUMBURA

(BCB) Integrated into BOA network in 2008.

7 Branches and 3 Counters in Bujumbura.
11 Branches and 2 Counters in Provinces.

BANK OF AFRICA – RDC

7 Branches in Kinshasa.
1 Regional Branch.

AGORA

BOA-ASSET MANAGEMENT

Head Office in Abidjan.

ÉQUIPBAIL – MADAGASCAR

ACTIBOURSE

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

AÏSSA

ATTICA

BANK OF AFRICA FOUNDATION

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

BANK OF AFRICA Group strong points

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

GROUP TURNOVER 2011

± 385 M€

1,200,000 bank accounts

A strong network

More than 4,500 people at your service.

About 340 dedicated operating and service support offices in 15 countries.

A continuously expanding base of Automated Teller Machines and Electronic Payment Terminals, numbering around 450 at 30 June 2012.

Close to one million two hundred thousand 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.

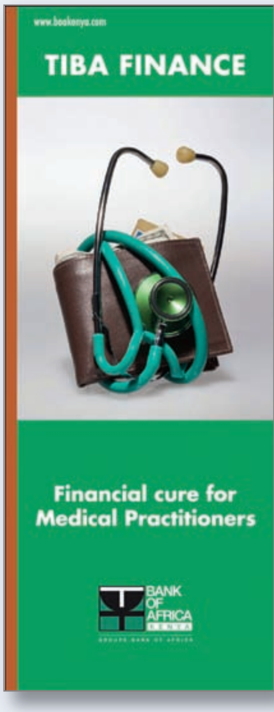
Unique experience in Africa

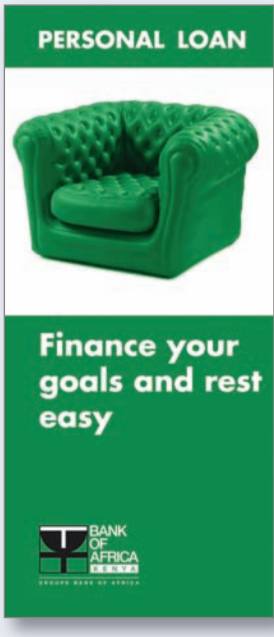
Continuous development for 30 years.

Main products of the Bank

BOA ENGLISH SPEAKING NETWORK		BOA-KENYA
Accounts	Current Account (Local & Foreign Currency)	■
	Goodwill Account	■
	Remunerated Current Account	
	Salary Account	■
	Personal Current Account	■
	Wakili Current Account	
	Jipange Account	■
Investment Products	Call Deposits Account	■
	Chama Account	■
	Children Savings Account « Cool Kids Account »	■
	Classic Saving Account	
	Family Savings Account	
	Forexave Account	
	Ero Savings Account	
	Gold Plus Account	
	Investment Plan Account	■
	Ordinary Savings Account	■
	Fixed Deposit Account	■
	Premium Plus Account	
	Reward Saving Account	
	Schools Fees Account	
	SESAME Savings Account	
	Term Deposit	■
Electronic Banking	B-SMS / B-Phone	■
	B-Web	■
	SESAME ATM Card (Kenswitch Network)	■
	TOUCAN Card	■
M-Payment	M-Pesa	■
	MTN Mobile Money	
Loans	2 in 1 loan	
	Bridging Overdraft	■
	Instant Cash	
	Motor Cycle Loan	
	Motor Vehicle Loan	■
	Personal Loans	■
	Personal Motor Loan	■
	Salary Advance	■
	Schools Fees Loan	■
	Super Kikapu	
	Tax Bridging Finance	
	Warehouse Receipt Financing	
Transfers & Changes	Foreign Exchange	■
	Moneygram	■
	Travellers Cheques	■
	Western Union	■
	MTN Mobile Money	
Complementary Products & Services	Banker's Cheques	■
	e-tax Payments	
	Utility Bill Payments	

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 2011

Comments from the Managing Director

It is my pleasure to present the Annual Report and Statement of Audited Accounts as at 31st December 2011 for BANK OF AFRICA – KENYA.

Kenya's economy is reported to have grown by 4.5 percent in 2011, less than the forecast mainly due to rising inflation caused by increasing fuel and food prices. This growth was grounded on strong performance across all the key sectors of the economy with agriculture recording marked improvement after two consecutive years of decline. The country also shook off the effects of the post-election violence with peace prevailing across the country. Considerable growth was also recorded in tourism, telecommunications, transport and construction sectors. It is also widely believed that the optimism and economic growth resilience was partly supported by the ongoing implementation of the new Constitution ahead of the 2012 elections.

The first half of the year started off well with a stable macroeconomic environment as evidenced by increased lending to the private sector, low inflation and stable interest rates. However, in the second half of 2011, Kenyan banking industry experienced adverse market conditions that impacted negatively on banking operations and profitability. The conditions were mainly macro-economic factors and regulatory interventions that resulted in abrupt and steady rise in the cost of funding with liquidity tightening in the banking industry.

From September 2011, the Central Bank of Kenya increased the benchmark policy rate by 11 percentage points in 3 consecutive periods to close the year at 18% p.a., as it struggled to tame inflation and stabilize a rapidly weakening shilling. Inflation rates peaked at 19.72% in November and dropped to 18.93% in December while the shilling strengthened from an all-time high of KES 107 in October to close the year at KES 85 to the US Dollar. Kenya needs a permanent solution to its poor balance of payments structure.

In response to the increase of the CBR rate, many banks saw an increase in the cost of deposits, as well as interbank and swap costs with the rates peaking to a high of 30% p.a. while the average base lending rate rose to 24% p.a. The prevailing high interest rates have had a negative impact on economic growth and have put considerable financial strain on businesses and individual borrowers.

Against this background, BANK OF AFRICA – KENYA achieved some remarkable milestones. The Bank continued with the implementation of its retail network expansion strategy and added 5 new branches to the network, making it 22 in total. Two branches were remodeled and one relocated to create space and serve customers in a more serene setting. All through the year, concerted marketing efforts continued to increase both brand and product awareness. The Bank's structure was also realigned with growing demands from increased branches and centralization of transaction processing was finalized at Head Office to provide improved customer service and support from the center.

During the year, the Bank increased its share capital by KES 1.5 Billion to support business growth and branch expansion, achieved a balance sheet size of KES 38.7 billion compared to KES 26.7 billion as at December 2010 and realized a net profit of KES 432 million for the period under review, a 22% increase over 2010.

Besides the various corporate social responsibility activities in supporting children's homes in Bugoma, Kericho, Changamwe etc, BOA-KENYA made a contribution of KES 6.7 million to the "Kenyans for Kenya" initiative, a national effort by the private sector to alleviate the suffering of the starving. The Bank also supported for the second year running the "All about Pink" program, a breast cancer awareness initiative started in conjunction with the Nairobi Women's Hospital.

These results could not have been achieved without the strong support and loyalty of our customers who have continued to place their confidence in BOA-KENYA and trust us with their business. To our shareholders, we are grateful for the continued strong financial and advisory support given regularly. Lastly, to the BOA colleagues, we thank them for their relentless loyalty and committed passion for the BOA brand.

Kwame AHADZI

Managing Director

Highlights 2011

Kericho Branch launch.

BANK OF AFRICA Group Chairman Mohamed BENNANI and BOA-KENYA MD Kwame AHADZI toast during the cocktail held in honor of the Chairman's visit to Kenya.

MARCH

BOA-KENYA sponsored Annual General Meeting and Dinner Dance of the Law Society of Kenya.

APRIL

Held Cool Kid's quarterly emptying day, an event for children account holders.

MAY

Opened Kisii Branch in Western Kenya and Meru in the Central region.

Participation in the Group BANK OF AFRICA network management meetings, in Dakar, Senegal.

JULY

Opened Kitengela Branch to the south of Nairobi.

SEPTEMBER

Made a contribution for Kenya initiative to alleviate famine afflicting the Horn of Africa and Kenya.

OCTOBER

Participation in a major CSR called "BOA ALL ABOUT PINK", a breast cancer awareness initiative that was well attended.

Participation in the Group BANK OF AFRICA Directors meetings, in Marrakech, Morocco, which was also attended by one hundred BOA customers.

NOVEMBER

Opened Galleria Branch in Karen area of Nairobi.

DECEMBER

Opened Greenspan Branch in Eastern part of Nairobi.

Key figures 2011

J. KILONZO,
J. MUTOKA, Deputy MD
Mr PASTOURET and
C. KASAINE Celebrate
the Twin Win awards.
1st Position in Customer
Service, 2nd Position
in SME Banking.

ACTIVITY	on 31/12/2011
Deposits*	23,986
Loans*	21,640

INCOME	on 31/12/2011
Net interest income *	1,371
Operating income *	1,905
Operating expenses *	1,350
Profit before tax *	555
Profit after tax	433

STRUCTURE	on 31/12/2011
Total assets *	38,734
Number of Employees	303

(*) In KES millions (Euro 1 = KES 110.059, as at 31st Dec 2011)

Corporate Social Responsibility Initiatives

2011 was a busy year for BANK OF AFRICA – KENYA from a Corporate Social Responsibility (CSR) perspective. The Kenyan operation of the BANK OF AFRICA lived up to the Group's philosophy of investing in the communities we do business in.

SOCIAL

Besides supporting children's homes in areas where we opened branches, we also made a significant contribution to the Kenyans for Kenya initiative, one of the biggest philanthropic efforts in the country's history.

Staff from BOA-KENYA head office and branches visited various children's homes where they made donations of foodstuffs and other necessities to make the lives of the children, most of them orphans, better.

In Kericho County, a team led by BOA-KENYA Managing Director Kwame AHADZI, visited Mogogosiek Children's Home in April and mingled with the children who were more than elated to welcome the team. BOA-KENYA planted trees to mark their visit in the home. The home was started by the African Inland Church over ten years ago and.

In May, staff from the Bank's Changamwe and Mombasa Town Branches visited a safe home for abused children in Nyali area. The school is managed by the Catholic Church and acts as a shelter for abused children aged between two and twenty two years both boys and girls.

In August, a team from both the BOA-KENYA Head Office and Bungoma Branch visited Kanduyi Children's Home in Bungoma County and mingled with the jubilant kids and donated various goodies.

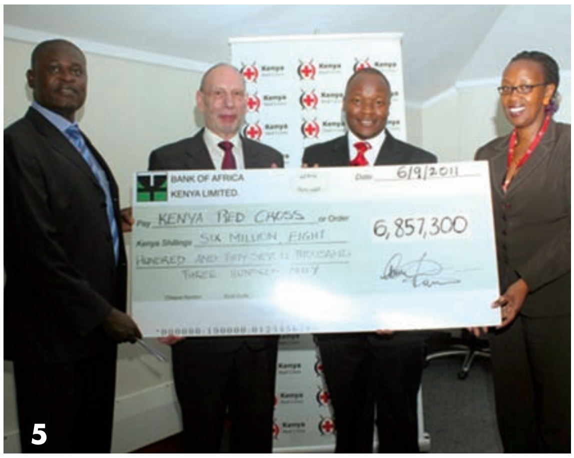
1 - Kericho Branch team planting a tree at Mogogosiek.

2 - Team led by Kwame AHADZI with Babies from Mogogosiek.

3 - Bungoma Branch Manager J. CHERUIYOT handing out Juices to Children from Kanduyi.

4 - K. AHADZI and J. CHERUIYOT with babies from Kanduyi Children's Home.

5 - J. MUTOKA (left) head of Wholesale Banking, Deputy Managing Director J. G. PASTOURET and J. OKUMU Marketing Manager present a cheque to R. MUTUNKEI of Red Cross.



In September, BOA-KENYA made a contribution to the "Kenyans for Kenya" initiative, a national effort driven largely by the private sector to alleviate the suffering of over ten million Kenyans faced with starvation. The Bank donated a total of Ksh 6.7 million to the initiative.

Of this amount, Ksh 4.7 million will go to funding construction of boreholes in the arid areas of northern Kenyan. The rest was directed to the purchase of foodstuffs for distribution by the Kenya Red Cross Society.

BOA-KENYA believes that long-term interventions are required to tackle the perennial food insecurity challenges facing the country.

BOA-KENYA Deputy Managing Director Jean-Geo PASTOURET made the donation to the Kenya Red Cross Society accompanied by Head of Wholesale Banking, Jotham MUTOKA and Head of Marketing, Joseph OKUMU.

October was the month when BOA-KENYA organized its flagship CSR event, the 'All about Pink' Breast Cancer Awareness Day. Over 100 customers participated in the event which is geared to raising awareness about need for regular testing for the disease. Some cancer survivors shared testimonies about their experiences with the disease.

The same month, BOA-KENYA staff visited New life Children's Home where they were entertained by children who sang and recited poems. The team donated foodstuffs and other items.

ECONOMY

As part of tradition BOA-KENYA has held a series of investment clinics targeting our Chama account holders. We have educated them in investment opportunities for example; Real estate in Kenya, formation and organization of groups, Management & execution of investment Groups.

In 2011 we hosted 1 Chama clinic in Eldoret, 1 in Mombasa, 3 in Nairobi all highly attended and facilitated by Top Investment Trainers in Kenya.

6 - 7 - Clients of BOA and Cate NDICHU, Head of Business Banking. Clients waiting for registration for Pap smear and breast check ups.

8 - The facilitator, P. WAMBUGU takes Chama members through a presentation on the opportunities that exist in the real estate market in Kenya.

9 - C. MUSYOKA, T. WAINAINA facilitators from Origins Limited and P. WAMBUA, Head of Treasury BANK OF AFRICA (Centre) preparing to begin on of BOA-KENYA Chama Clinics.

10 - K. AHADZI led by BOA-KENYA Ongata Rongai Branch at New life Children.

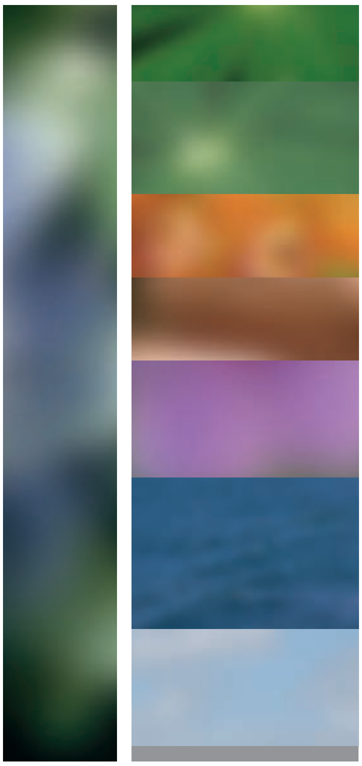
Board of Directors

The Directors who held office during the year up to 31st December 2011 were:

Paul DERREUMAUX, Chairman
Alexandre RANDRIANASOLO
Vincent de BROUWER
Davinder S. SIKAND
(Alt: Shakir M. MERALI)
Kwame AHADZI
Jean-Geo PASTOURET
Bernardus A. M. ZWINKELS
Brahim BENJELLOUN-TOUIMI
Mohamed BENNANI

Capital

The Bank, as at 31st December 2011, 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 31st December 2011:
Shareholding Position based on number of shares (%).



10.00%	BOA GROUP S.A. (FORMERLY AFRICAN FINANCIAL HOLDING)
15.00%	AFH-OCEAN INDIEN
11.00%	BANK OF AFRICA – BENIN
11.00%	BANK OF AFRICA – CÔTE D'IVOIRE
15.50%	BANK OF AFRICA – MADAGASCAR
20.00%	NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)
15.50%	AUREOS EAST AFRICA FUND LLC
2.00%	AGORA S.A.

Report and Financial Statements

for the year ended 31 December 2011

Report and Financial Statements

Director's Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2011 in accordance with Section 157 of the Kenyan Companies Act, which disclose the state of affairs of the Group and of the Bank/Company.

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 577 million (2010: Shs 463 million) has been added to retained earnings. The Directors recommend the approval of a final dividend of Shs 136 million (2010: Shs 198 million).

Directors

The Directors who held office during the year and to the 2nd of March 2012 were:

Paul DERREUMAUX	Chairman (Resigned 2nd March 2012)
Alexandre RANDRIANASOLO	
Davinder S. SIKAND	Alternate Director: Shakir MERALI
Vincent de BROUWER	
Kwame AHADZI	Managing Director
Jean-Geo PASTOURET	Deputy Managing Director
Bernardus ZWINKELS	
Brahim BENJELLOUN-TOUIMI	(Resigned 10th January 2012)
Mohamed BENNANI	Appointed 7th March 2011

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

2nd March 2012

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

	Date	Date	Date	Date
	21th February 2011	30th May 2011	17th October 2011	7th December 2011
Paul DERREUMAUX	A	A	A	A
Mohamed BENNANI	N	A	A	A
Alexandre RANDRIANASOLO	A	A	A	AP
Davinder S. SIKAND	A	A	AP	A
Vincent de BROUWER	A	A	A	A
Kwame AHADZI	A	A	A	A
Jean-Geo PASTOURET	A	A	AP	A
Bernardus ZWINKELS	A	A	A	AP
Brahim BENJELLOUN-TOUIMI	AP	A	A	AP
Mr. Shakir MERALI (alternate to Mr. Davinder SIKAND)	A	A	A	A

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 will also review 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.

Green Span Branch.

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 2011 comprehensive evaluation and that of its Members, the Chairman and Board Committees on 02 March 2012 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.

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 Board Member was availed the questionnaire before the board meeting convened to discuss the evaluation. At the evaluation meeting, the ratings given by each member of the Board and its committees were discussed by all members under the direction of the Chairman of the Board. Overall ratings were agreed taking into account the individual ratings and comments.

Overall, the Board concluded that it was operating in an effective manner but identified the macroeconomic environment as the key focus for the Board's attention in the year 2012 and beyond as well as continued appointment of more local Directors to the Board.

ii. Director Peer Evaluation

Directors were evaluated using a peer evaluation method. The Board Chairman appointed a peer evaluator for each member who then completed the evaluation questionnaire for the appointed peer. The Executive Directors were also evaluated on effective implementation of strategy and board policies.

iii. Board Chairman's Evaluation

The Chairman was evaluated by the Board Members in his absence. The process was steered by a Non-Executive Board Member. At a meeting thereafter with the Chairman on the results of the evaluation members concluded that the Chairman has been effective in his role.

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 & Risk Committee and provides and independent confirmation that Group business standards, policies and procedures are being complied with.

Report and Financial Statements

Statement of Director's Responsibilities

Bungoma Branch opening.

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
Director

Kwame AHADZI
Director
2nd March 2012

Report of the Independent Auditors

to the members of BANK OF AFRICA – KENYA Ltd.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of BANK OF AFRICA – KENYA Limited (the Company) and its subsidiary (together, the Group), as set out on pages 22 to 87. These financial statements comprise the consolidated statement of financial position at 31 December 2011 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, together with the statement of financial position of the Company standing alone as at 31 December 2011 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.

Kisumu Branch staff.

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.

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 of the Company at 31 December 2011 and of the profit and cash flows of the Group 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.

The Ongata Rongai Branch staff.

Certified Public Accountants

Nairobi
2nd March 2012

Financial Statements

for the year ended 31 December 2011

Financial Statements

for the year ended 31 December 2011

Consolidated statement of comprehensive income

	NOTES	2011	2010
		SHS 000	SHS 000
INTEREST INCOME	5	4,391,138	2,802,291
INTEREST EXPENSE	6	(2,265,072)	(1,294,794)
NET INTEREST INCOME		**2,126,066**	**1,507,497**
FEE AND COMMISSION INCOME		749,328	526,689
FEE AND COMMISSION EXPENSE		(61,999)	(76,978)
NET FEE AND COMMISSION INCOME		**687,329**	**449,711**
FOREIGN EXCHANGE INCOME		387,173	208,869
OTHER OPERATING INCOME		7,147	225,887
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	14	(172,667)	(107,174)
FAIR VALUE LOSSES ON FINANCIAL ASSETS THROUGH PROFIT OR LOSS		(51,736)	(2,012)
OPERATING EXPENSES	7	(2,290,856)	(1,732,457)
SHARE OF INCOME OF ASSOCIATES	17(A)	25,832	35,117
PROFIT BEFORE INCOME TAX		**718,288**	**585,438**
INCOME TAX EXPENSE	9	(141,035)	(122,086)
PROFIT FOR THE YEAR		**577,254**	**463,352**
(of which Shs 432,725,000 has been dealt with in the accounts of the company)			
OTHER COMPREHENSIVE INCOME:			
GAIN ON REVALUATION OF AVAILABLE FOR SALE SECURITIES		(13,918)	159
TAX EFFECT ON GAINS ON REVALUATION OF AFS SECURITIES		5,966	(48)
CURRENCY TRANSLATION DIFFERENCES		7,767	(100,151)
TOTAL		**(185)**	**(100,040)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**577,069**	**363,312**
PROFIT ATTRIBUTABLE TO:			
OWNERS OF THE PARENT		491,868	396,592
NON CONTROLLING INTEREST		85,386	66,760
TOTAL		**577,254**	**463,352**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
OWNERS OF THE PARENT		491,683	316,860
NON CONTROLLING INTEREST		85,386	46,452
TOTAL		**577,069**	**363,312**

Consolidated statement of financial position

	NOTES	2011 SHS 000	2010 SHS 000
ASSETS			
CASH AND BALANCES WITH CENTRAL BANKS	11	4,522,936	2,797,407
GOVERNMENT SECURITIES - HELD TO MATURITY	12A	10,705,570	7,983,021
INVESTMENT SECURITIES - AVAILABLE FOR SALE	12B	63,604	2,660,883
ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	12C	433,527	-
PLACEMENTS WITH OTHER BANKS	13	3,579,842	998,708
AMOUNTS DUE FROM GROUP BANKS	28	1,196,385	736,713
GOODWILL ON PURCHASE OF SUBSIDIARY	29	15,610	15,610
INVESTMENT IN ASSOCIATE	17(A)	344,600	318,768
LOANS AND ADVANCES TO CUSTOMERS	14	29,982,267	19,557,600
CURRENT INCOME TAX		32,058	21,595
PROPERTY AND EQUIPMENT	15	1,107,105	856,064
INTANGIBLE ASSETS	16	104,935	112,024
PREPAID OPERATING LEASE RENTALS	30	4,864	4,949
DEFERRED INCOME TAX	18	74,665	37,550
OTHER ASSETS	19	699,682	352,727
TOTAL ASSETS		**52,867,650**	**36,453,619**
LIABILITIES			
CUSTOMER DEPOSITS	20	33,545,076	27,505,696
DEPOSITS FROM OTHER BANKS	21	4,399,495	2,158,171
AMOUNTS DUE TO GROUP BANKS	28	5,904,445	1,114,064
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS		-	105
LONG TERM LIABILITIES	31	2,701,674	1,595,792
CURRENT INCOME TAX		-	44,095
OTHER LIABILITIES	22	646,005	365,745
TOTAL LIABILITIES		**47,196,695**	**32,783,668**
EQUITY			
SHARE CAPITAL	23	3,400,000	2,200,000
SHARE PREMIUM	23	421,200	121,200
REVALUATION RESERVES	24	-	13,918
REGULATORY RESERVES	25	253,598	158,701
TRANSLATION RESERVES		(41,262)	(62,792)
RETAINED EARNINGS		743,983	477,047
NON CONTROLLING INTEREST		757,436	563,877
PROPOSED DIVIDEND	10	136,000	198,000
TOTAL EQUITY		**5,670,955**	**3,669,951**
TOTAL EQUITY AND LIABILITIES		**52,867,650**	**36,453,619**

The financial statements on pages 22 to 87 were approved for issue by the Board of Directors on 2nd March 2012 and signed on its behalf by:

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

Financial Statements

for the year ended 31 December 2011

Bank statement of financial position

	NOTES	2011	2010
		SHS 000	SHS 000
ASSETS			
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	11	2,889,002	1,806,977
GOVERNMENT SECURITIES - HELD TO MATURITY	12A	9,014,580	6,327,031
INVESTMENT SECURITIES - AVAILABLE FOR SALE	12B	50,100	1,779,758
PLACEMENTS WITH OTHER BANKS	13	2,102,491	379,348
AMOUNTS DUE FROM GROUP BANKS	28	923,688	890,748
INVESTMENT IN ASSOCIATE	17A	344,600	318,768
INVESTMENT IN SUBSIDIARY	17B	632,875	419,582
LOANS AND ADVANCES TO CUSTOMERS	14	21,639,691	14,122,485
CURRENT INCOME TAX		8,589	-
PROPERTY AND EQUIPMENT	15	526,576	356,194
INTANGIBLE ASSETS	16	72,876	64,774
PREPAID OPERATING LEASE RENTALS	30	4,864	4,949
DEFERRED INCOME TAX	18	32,043	8,363
OTHER ASSETS	19	492,245	220,147
TOTAL ASSETS		**38,734,220**	**26,699,124**
LIABILITIES			
CUSTOMER DEPOSITS	20	23,986,396	19,784,311
DEPOSITS FROM OTHER BANKS	21	3,074,741	1,684,446
AMOUNTS DUE TO GROUP BANKS	28	5,505,369	1,051,869
LONG TERM LIABILITIES	31	926,688	946,472
CURRENT INCOME TAX		-	44,095
OTHER LIABILITIES	22	569,008	242,684
TOTAL LIABILITIES		**34,062,202**	**23,753,877**
EQUITY			
SHARE CAPITAL	23	3,400,000	2,200,000
SHARE PREMIUM	23	421,200	121,200
REGULATORY RESERVES	25	211,240	131,413
REVALUATION RESERVES	24	-	13,918
RETAINED EARNINGS		503,578	280,716
PROPOSED DIVIDEND	10	136,000	198,000
TOTAL		**4,672,018**	**2,945,247**
TOTAL EQUITY AND LIABILITIES		**38,734,220**	**26,699,124**

Consolidated statement of changes in equity

	NOTES	SHARE CAPITAL SHS 000	SHARE PREMIUM SHS 000	REVALUATION RESERVES SHS 000	TRANSLATION RESERVES SHS 000	REGULATORY RESERVES SHS 000	RETAINED EARNINGS SHS 000	PROPOSED DIVIDEND SHS 000	TOTAL SHS 000	NON CONTROLLING INTEREST SHS 000	TOTAL EQUITY SHS 000
AT 1 JANUARY 2010		2,000,000	112,200	13,807	16,940	91,414	345,742	130,000	2,710,103	517,425	3,227,528
COMPREHENSIVE INCOME		-									-
PROFIT FOR THE PERIOD							396,592		396,592	66,760	463,352
OTHER COMPREHENSIVE INCOME:									-		-
NET CHANGE IN AVAILABLE-FOR-SALE FINANCIAL ASSETS NET OF TAX	24			111					111		111
TRANSFER TO REGULATORY RESERVE	25					67,287	(67,287)		-		-
CURRENCY TRANSLATION DIFFERENCES					(79,732)				(79,732)	(20,308)	(100,040)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		-	-	111	(79,732)	67,287	329,305	-	316,971	46,452	363,423
TRANSACTIONS WITH OWNERS											
DIVIDENDS:											
- PAID (FINAL FOR 2009)	10							(130,000)	(130,000)		(130,000)
- PROPOSED FINAL FOR 2010	10						(198,000)	198,000	-		-
ISSUE OF SHARES		200,000	9,000						209,000		209,000
TOTAL CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS		200,000	9,000	-	-	-	(198,000)	68,000	79,000	-	79,000
AT 31 DECEMBER 2010		2,200,000	121,200	13,918	(62,792)	158,701	477,047	198,000	3,106,074	563,877	3,669,951
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 PERIOD							491,868		491,868	85,386	577,254
OTHER COMPREHENSIVE INCOME:									-		-
NET CHANGE IN AVAILABLE-FOR-SALE 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											
DIVIDENDS:											
- PAID (FINAL FOR 2010)								(198,000)	(198,000)	(32,039)	(230,039)
- PROPOSED FINAL FOR 2011							(136,000)	136,000			
ISSUE OF SHARES	23	1,200,000	300,000						1,500,000	153,974	1,653,974
TOTAL CONTRIBUTIONS BY AND DISTRIBUTIONS 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	4,913,518	757,436	5,670,955

Financial Statements

for the year ended 31 December 2011

Bank statement of changes in equity

	NOTES	SHARE CAPITAL	SHARE PREMIUM	REVALUATION RESERVES	REGULATORY RESERVES	RETAINED EARNINGS	PROPOSED DIVIDEND	TOTAL
		SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AT 1 JANUARY 2010		2,000,000	112,200	13,807	81,337	173,534	130,000	2,510,878
TOTAL COMPREHENSIVE INCOME								
PROFIT FOR THE PERIOD						355,258		355,258
OTHER COMPREHENSIVE INCOME								
NET CHANGE IN AVAILABLE-FOR-SALE FINANCIAL ASSETS NET OF TAX				111				111
TRANSFER TO REGULATORY RESERVE	25				50,076	(50,076)		-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,000,000	112,200	13,918	131,413	478,716	130,000	2,866,246
TRANSACTIONS WITH OWNERS								
DIVIDENDS:								
- PAID (FINAL FOR 2009)	10						(130,000)	(130,000)
- PROPOSED FINAL FOR 2010	10					(198,000)	198,000	-
ISSUE OF SHARES	23	200,000	9,000					209,000
TOTAL CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS		600,000	112,200	-		(130,000)	65,000	647,200
AT 31 DECEMBER 2010		2,200,000	121,200	13,918	131,413	280,716	198,000	2,945,246
AT 1 JANUARY 2011								
TOTAL COMPREHENSIVE INCOME		2,200,000	121,200	13,918	131,413	280,716	198,000	2,945,246
PROFIT FOR THE PERIOD						432,725		432,725
OTHER COMPREHENSIVE INCOME								
NET CHANGE IN AVAILABLE-FOR-SALE FINANCIAL ASSETS NET OF TAX	24			(13,918)		5,965		(7,952)
TRANSFER TO REGULATORY RESERVE	25				79,828	(79,828)		-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,200,000	121,200	-	211,240	639,578	198,000	3,370,018
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		1,200,000	300,000	-	-	-	(198,000)	1,302,000
AT 31 DECEMBER 2011		3,400,000	421,200	-	211,240	503,578	136,000	4,672,018

Consolidated cash flow statement

	NOTES	2011 SHS 000	2010 SHS 000
CASH FLOWS FROM OPERATING ACTIVITIES			
INTEREST RECEIPTS		4,047,720	2,626,530
INTEREST PAYMENTS		(2,009,820)	(1,030,265)
NET FEE AND COMMISSION RECEIPTS		687,328	449,711
OTHER INCOME RECEIVED		209,483	303,433
RECOVERIES FROM LOANS PREVIOUSLY WRITTEN OFF		87,850	169,084
PAYMENTS TO EMPLOYEES AND SUPPLIERS		(2,016,605)	(1,638,331)
INCOME TAX PAID		(183,388)	(118,028)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**822,569**	**762,134**
CHANGES IN OPERATING ASSETS AND LIABILITIES			
LOANS AND ADVANCES		(12,898,731)	(5,420,464)
CASH RESERVE REQUIREMENT		(908,969)	(501,787)
OTHER ASSETS		(317,351)	(35,085)
CUSTOMER DEPOSITS		7,568,187	8,765,505
DEPOSITS (TO)/FROM OTHER BANKS		540,334	2,299,577
AMOUNTS DUE (TO)/FROM GROUP COMPANIES		4,721,927	762,514
OTHER LIABILITIES		397,049	109,437
NET CASH FLOW FROM OPERATING ACTIVITIES		**(74,986)**	**6,741,831**
CASH FLOWS FROM INVESTING ACTIVITIES			
INVESTMENT IN SUBSIDIARY		(213,293)	(50,100)
PURCHASE OF PROPERTY AND EQUIPMENT	15	(463,625)	(406,855)
PURCHASE OF INTANGIBLE ASSETS	16	(27,926)	(63,602)
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT		5,892	7,778
SALE/(PURCHASE) OF SECURITIES		(1,420,941)	(5,271,594)
NET CASH USED IN INVESTING ACTIVITIES		**(2,119,893)**	**(5,784,373)**
CASH FLOWS FROM FINANCING ACTIVITIES			
ISSUE OF ORDINARY SHARES	23	1,593,173	283,719
PROCEEDS FROM/(REPAYMENT OF) BORROWED FUNDS	31	1,108,853	546,173
DIVIDENDS RECEIVED		(37,813)	-
DIVIDENDS PAID	10	(198,000)	(165,214)
NET CASH FROM FINANCING ACTIVITIES		**2,492,490**	**664,678**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**271,334**	**1,622,136**
CASH AND CASH EQUIVALENTS AT START OF YEAR		4,286,794	2,664,658
CASH AND CASH EQUIVALENTS AT END OF YEAR	**27**	**4,558,128**	**4,286,794**

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, financial assets and financial liabilities 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 4.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Bank

The amendments to existing standards below are relevant to the Bank's operations:

STANDARD	TITLE	APPLICABLE FOR FINANCIAL YEAR BEGINNING ON/AFTER
IAS 1	Presentation of financial statements	1 January 2011
IAS 24	Related party disclosures	1 January 2011
IFRS 7	Financial Instruments: Disclosures	1 January 2011

- The amendment to IAS 1, 'Presentation of financial statements' is part of the 2010 Annual Improvements and clarifies that an entity shall present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The application of this amendment has no significant impact as the Bank was already disclosing the analysis of other comprehensive income on its statement of changes in equity.

• The amendment to IAS 24, 'Related party disclosures' clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The amended definition means that some entities will be required to make additional disclosures, e.g., an entity that is controlled by an individual that is part of the key management personnel of another entity is now required to disclose transactions with that second entity. Related party disclosures have increased following adoption of this amendment.

• The amendments to IFRS 7, 'Financial Instruments - Disclosures' are part of the 2010 Annual Improvements and emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendments have also removed the requirement to disclose the following:

- Maximum exposure to credit risk if the carrying amount best represents the maximum exposure to credit risk;
- Fair value of collaterals; and
- Renegotiated loans that would otherwise be past due but not impaired.

The application of the above amendment simplified financial risk disclosures made by the Bank.

Other amendments and interpretations to standards became mandatory for the year beginning 1 January 2011 but had no significant effect on the Bank's financial statements.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank

Numerous new standards, amendments and interpretations to existing standards have been issued but are not yet effective. Below is the list of new standards that are likely to be relevant to the Bank. However, the directors are yet to assess the impact on the Bank's operations.

STANDARD	TITLE	APPLICABLE FOR FINANCIAL YEAR BEGINNING ON/AFTER
IAS 1	Presentation of financial statements	1 July 2012
IAS 19	Employee benefits	1 January 2012
IFRS 9	Financial instruments	1 January 2015
IFRS 13	Fair value measurement	1 January 2013

• IAS 1, 'Presentation of financial statements'. The amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. Entities will be required to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled will be presented separately from items that may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

The title used by IAS 1 for the statement of comprehensive income has changed to 'statement of profit or loss and other comprehensive income', though IAS 1 still permits entities to use other titles.

• IAS 19, 'Employee benefits'. The amendment to IAS 19, 'Employee benefits' makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to the disclosures for all employee benefits. Key features are as follows:

- Actuarial gains and losses are renamed 'remeasurements' and can only be recognised in 'other comprehensive income' without any recycling through profit or loss in subsequent periods.
- Past service costs will be recognised in the period of a plan amendment and curtailment occurs only when an entity reduces significantly the number of employees.
- The amendment clarifies the definition of termination benefits. Any benefit that has a future service obligation is not a termination benefit.

- Annual benefit expense for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability.
- IFRS 9, 'Financial instruments' part 1: Classification and measurement and part 2: Financial liabilities and De-recognition of financial instruments.
- IFRS 9, part 1 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be 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.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Bank is considering the implications of the Standard, the impact on the Bank and the timing of its adoption by the Bank.

- IFRS 9, part 2 was issued in October 2010 and includes guidance on financial liabilities and de-recognition of financial instruments. The accounting and presentation of financial liabilities and for derecognising financial instruments has been relocated from IAS 39, 'Financial instruments: Recognition and Measurement', without change except for financial liabilities that are designated at fair value through profit or loss.
- Under the new standard, entities with financial liabilities at fair value through profit or loss recognise changes in the liability's credit risk directly in other comprehensive income. There is no subsequent recycling of the amounts in other comprehensive.
- Income to profit or loss, but accumulated gains or losses may be transferred within equity.

- IFRS 13, 'Fair value measurement'
- IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures; it does not say when to measure fair value or require additional fair value measurements. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.
- The principal market is the market with the greatest volume and level of activity for the asset or liability that can be accessed by the entity. The guidance includes enhanced disclosure requirements that could result in significantly more work for the Bank. The requirements are similar to IFRS 7, 'Financial instruments: Disclosures' but apply to all assets and liabilities measured at fair value, not just financial ones.

2.2 CONSOLIDATION

(i) Subsidiaries

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

ii) Associates

Associates are 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 by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against 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 obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also 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.

2.3 FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

The financial statements are presented in Kenya Shilling (KES) and figures are stated in thousands of KES.

(ii) 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.

2.4 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.

(a) 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'.

(b) 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:
(a) 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;
(b) those that the Bank upon initial recognition designates as available-for-sale; or
(c) 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.

(c) 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:

(a) those that the Bank upon initial recognition designates as at fair value through profit or loss;
(b) those that the Bank designates as available-for-sale; and
(c) 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.

(d) 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 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.

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

The Bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table as follows:

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

(a) 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.

(b) 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.

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

(c) Fees paid in connection with arranging leases

The Bank makes payments to agents for services in connection with negotiating lease contracts with the Bank's lessees. For operating leases, the letting fees are capitalised within the carrying amount of the related asset, and depreciated over the life of the lease.

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.

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

(a) Pension obligations

The Bank operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Bank has both defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognised in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to profit or loss over the employees' expected average remaining working lives. Past-service costs are recognised immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the Bank pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) 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

(a) 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.

(b) 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.
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 liabiltites 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 INTEREST INCOME AND EXPENSE

Interest income and expense for all interest-bearing financial instruments are recognised in profit or loss using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points 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.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.18 FEE AND COMMISSION INCOME

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

2.19 DIVIDEND INCOME

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

2.20 ACCEPTANCES AND LETTERS OF CREDIT

Acceptances 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.

A) IMPAIRMENT LOSSES ON LOANS AND ADVANCES

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, 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

A) IMPAIRMENT LOSSES ON LOANS AND ADVANCES (CONTINUED)

loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

B) HELD TO MATURITY INVESTMENTS

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

C) IMPAIRMENT OF GOODWILL

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The carrying amount of the goodwill are set out in Note 29.

D) 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. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. 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.

The Group's Audit 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 Audit 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 Audit Committee.

(A) 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 commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements 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

The Board of Directors has delegated responsibility for the management of credit risk to its Bank Credit Committee. A separate Bank Credit department, reporting to the Bank Credit Committee, is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the Bank Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. The Bank Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the branches concerned. Renewals and reviews of facilities are subject to the same review process.
- Developing and maintaining the bank's risk grading in order to categorise exposures according to the degree of risk of financial losses faced and to focus management on the attendant risks. Clients of the Bank are segmented into 5 grades which are in line with the Prudential guidelines issued by Central Bank of Kenya' i.e. Normal, Watch, Substandard, Doubtful and Loss grades. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures.
- Reviewing compliance of branches with agreed exposure limits, including those for selected industries, country risk and product types.
- Providing advice, guidance and specialist skills to branches to promote best practice throughout the Bank in the management of credit risk.

Each branch and company is required to implement the Bank's credit policies and procedures, with credit approval authorities delegated from the Bank's Credit Committee. Each branch 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

	2011	2010
	SHS 000	SHS 000
GROUP		
BALANCES WITH CENTRAL BANKS	3,132,492	1,813,270
GOVERNMENT SECURITIES HELD TO MATURITY	10,705,570	7,983,021
INVESTMENT SECURITIES – AVAILABLE-FOR-SALE	63,604	2,660,883
PLACEMENTS WITH OTHER BANKS	3,579,842	998,708
AMOUNTS DUE FROM GROUP BANKS	1,196,385	736,713
LOANS AND ADVANCES TO CUSTOMERS	29,982,267	19,557,600
OTHER ASSETS	699,682	352,727
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ITEMS:		
- ACCEPTANCES AND LETTERS OF CREDIT	3,235,822	2,064,606
- GUARANTEE AND PERFORMANCE BONDS	6,375,948	3,749,214
- COMMITMENT TO LEND	8,837,471	2,974,330
TOTAL	**67,809,083**	**42,891,072**
COMPANY		
BALANCES WITH CENTRAL BANK OF KENYA	2,339,474	1,279,065
GOVERNMENT SECURITIES HELD TO MATURITY	9,014,580	6,327,031
INVESTMENT SECURITIES – AVAILABLE-FOR-SALE	50,100	1,779,758
PLACEMENTS WITH OTHER BANKS	2,102,491	379,348
AMOUNTS DUE FROM GROUP BANKS	923,688	890,748
LOANS AND ADVANCES TO CUSTOMERS	21,639,691	14,122,485
OTHER ASSETS	492,245	220,147
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ITEMS:		
- ACCEPTANCES AND LETTERS OF CREDIT	1,690,608	974,566
- GUARANTEE AND PERFORMANCE BONDS	4,870,008	2,713,774
- COMMITMENT TO LEND	8,379,508	2,778,645
TOTAL	**51,502,393**	**31,465,567**

The above tables represent a worst case scenario of credit risk exposure to the Group and Bank as at 31 December 2011 and 2010, 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.

Loans and advances to customers, other than to major corporate entities and to individuals borrowing less than Shs 1 million, are secured by collateral in the form of charges over land and buildings and/or plant and machinery or corporate guarantees.
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:

	2011	2010
	SHS 000	SHS 000
GROUP		
NEITHER PAST DUE NOR IMPAIRED	29,306,109	18,836,671
PAST DUE BUT NOT IMPAIRED	417,342	558,288
INDIVIDUALLY IMPAIRED	417,438	317,586
GROSS	30,140,889	19,712,545
LESS: ALLOWANCE FOR IMPAIRMENT (NOTE 14)	(158,622)	(154,945)
NET	**29,982,267**	**19,557,600**
COMPANY		
NEITHER PAST DUE NOR IMPAIRED	21,123,998	13,642,776
PAST DUE BUT NOT IMPAIRED	206,847	290,468
INDIVIDUALLY IMPAIRED	379,332	257,806
GROSS	21,710,177	14,191,050
LESS: ALLOWANCE FOR IMPAIRMENT (NOTE 14)	(70,486)	(68,565)
NET	**21,639,691**	**14,122,485**

No other financial assets are either past due or impaired.

LOANS AND ADVANCES NEITHER PAST DUE NOR IMPAIRED

	2011	2010
	SHS 000	SHS 000
GROUP		
STANDARD (NORMAL GRADE)	29,306,108	18,836,671
COMPANY		
STANDARD (NORMAL GRADE)	21,123,998	13,642,777

LOANS AND ADVANCES PAST DUE BUT NOT IMPAIRED

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:

	2011	2010
GROUP	**SHS 000**	**SHS 000**
PAST DUE UP TO 30 DAYS	142,388	281,737
PAST DUE 31-60 DAYS	189,265	54,049
PAST DUE 61-90 DAYS	38,280	142,142
PAST DUE > 90 DAYS	47,409	80,360
TOTAL	**417,342**	**558,288**
COMPANY		
PAST DUE UP TO 30 DAYS	3,089	
PAST DUE 31-60 DAYS	156,313	214,047
PAST DUE 61-90 DAYS	28,040	14,429
PAST DUE > 90 DAYS	19,405	61,992
TOTAL	**206,847**	**290,468**
GROUP		
INDIVIDUALLY ASSESSED IMPAIRED LOANS AND ADVANCES COMPRISING:		
- CORPORATE	195,907	1,120
- RETAIL	35,619	56,768
- SME	185,912	259,698
TOTAL	**417,438**	**317,586**

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

COMPANY		
INDIVIDUALLY ASSESSED IMPAIRED LOANS AND ADVANCES COMPRISING:		
- CORPORATE	194,808	-
- RETAIL	27,888	11,513
- SMALL & MEDIUM ENTERPRISES	156,636	246,293
TOTAL	**379,332**	**257,806**

COLLATERAL REPOSSESSED

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

	2011	2010
GROUP AND COMPANY	**SHS 000**	**SHS 000**
NATURE OF ASSETS:		
MOTOR VEHICLES	15,045	3,050
TOTAL	**15,045**	**3,050**

CONCENTRATIONS OF RISK

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

	2011	2010
	SHS 000	SHS 000
GROUP		
BY ECONOMIC SECTOR		
WHOLESALE/RETAIL	8,387,634	5,522,572
MANUFACTURING	4,198,428	3,532,577
AGRICULTURE	1,339,253	1,057,657
CONSTRUCTION	3,354,298	1,556,817
TRANSPORT	1,809,118	1,165,670
INDIVIDUAL/PERSONAL	4,285,518	2,663,830
SERVICES	2,938,806	1,109,317
FINANCIAL INSTITUTIONS	1,223,961	956,926
TOURISM	33,954	11
COMMUNICATION	393,458	355,256
HOSPITALITY	93,775	126,242
OTHERS	2,082,686	1,665,670
TOTAL	**30,140,889**	**19,712,545**

	2011	2010
	SHS 000	SHS 000
COMPANY		
BY ECONOMIC SECTOR		
WHOLESALE/RETAIL	5,218,244	3,760,847
MANUFACTURING	3,577,422	3,359,956
AGRICULTURE	926,474	892,843
CONSTRUCTION	2,083,525	1,149,417
TRANSPORT	1,402,559	805,765
INDIVIDUAL/PERSONAL	3,235,961	1,622,264
SERVICES	2,938,806	1,109,318
FINANCIAL INSTITUTIONS	1,081,397	847,936
TOURISM	33,954	11
COMMUNICATION	393,458	355,256
HOSPITALITY	93,775	126,242
OTHERS	724,602	161,195
TOTAL	**21,710,177**	**14,191,050**

CONCENTRATIONS OF RISK (CONTINUED)

	2011	2010
	SHS 000	SHS 000
GROUP		
BY TENOR		
SHORT TERM CREDITS (<1 YEAR)	16,870,968	11,490,348
MEDIUM TERM CREDITS (> 1 YEAR < 5 YEARS)	10,654,081	6,807,942
LONG TERM CREDITS (> 5 YEARS)	2,314,603	774,001
BILLS/CHEQUES/NOTES DISCOUNTED	301,239	640,254
TOTAL ON BALANCE SHEET EXPOSURE	**30,140,889**	**19,712,545**
ACCEPTANCES AND LETTERS OF CREDIT	3,235,822	2,064,606
GUARANTEE AND PERFORMANCE BONDS	6,375,948	3,749,214
COMMITMENTS TO LEND	8,837,471	2,974,330
TOTAL NON-FUNDED EXPOSURE	**18,449,241**	**8,788,150**
TOTAL EXPOSURE	**48,590,130**	**28,500,695**
COMPANY		
BY TENOR		
SHORT TERM CREDITS (<1 YEAR)	13,540,184	9,103,943
MEDIUM TERM CREDITS (> 1 YEAR < 5 YEARS)	6,702,394	4,020,052
LONG TERM CREDITS (> 5 YEARS)	1,166,602	429,741
BILLS/CHEQUES/NOTES DISCOUNTED	300,997	637,314
TOTAL ON BALANCE SHEET EXPOSURE	**21,710,177**	**14,191,050**
ACCEPTANCES AND LETTERS OF CREDIT	1,690,608	974,566
GUARANTEE AND PERFORMANCE BONDS	4,870,008	2,713,774
COMMITMENTS TO LEND	8,379,508	2,778,645
TOTAL NON-FUNDED EXPOSURE	**14,940,124**	**6,466,985**
TOTAL EXPOSURE	**36,650,301**	**20,658,035**

(B) 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.

(B) LIQUIDITY RISK (CONTINUED)

		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
GROUP						
AT 31 DECEMBER 2011						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	2,669,072	511,627	296,670	207,797	837,770	4,522,936
GOVERNMENT 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	-	-	-	-	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**

(B) LIQUIDITY RISK (CONTINUED)

	UP TO 1	MONTHS 1 TO 3	3 TO 12	YEARS 1 TO 5	>5	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
GROUP						
AS AT 31 DECEMBER 2010						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	2,471,865	147,056	177,903	583	-	2,797,407
GOVERNMENT SECURITIES-HTM	1,210,808	1,000,563	1,889,086	2,783,264	1,099,300	7,983,021
PLACEMENTS WITH BANKS	930,906	67,802	-	-	-	998,708
AMOUNTS DUE FROM GROUP COMPANIES	268,973	346,110	121,630	-	-	736,713
INVESTMENT SECURITIES-AFS	2,610,783	-	-	-	50,100	2,660,883
LOANS AND ADVANCES	9,683,131	1,227,390	1,065,100	6,808,049	773,930	19,557,600
OTHER ASSETS	360,812	-	-	-	56,978	417,790
TOTAL FINANCIAL ASSETS	**17,537,278**	**2,788,921**	**3,253,719**	**9,591,896**	**1,980,308**	**35,152,122**
LIABILITIES						
CUSTOMER DEPOSITS	12,746,903	5,395,606	7,769,607	1,593,580	-	27,505,696
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	1,600,070	317,799	240,302	-	-	2,158,171
AMOUNTS DUE TO GROUP BANKS	800,270	313,794	-	-	-	1,114,064
LONG TERM LIABILITIES	-	-	62,482	378,624	1,154,686	1,595,792
OTHER LIABILITIES	409,944	-	-	-	-	409,944
TOTAL FINANCIAL LIABILITIES	**15,557,187**	**6,027,199**	**8,072,391**	**1,972,204**	**1,154,686**	**32,783,667**
GAP	**1,980,091**	**(3,238,278)**	**(4,818,672)**	**7,619,692**	**825,622**	**2,368,455**

(B) LIQUIDITY RISK (CONTINUED)

	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
COMPANY						
AS AT 31 DECEMBER 2011						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	1,569,929	666,969	267,361	283,782	100,961	2,889,002
GOVERNMENT 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	-	-	-	-	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**

(B) LIQUIDITY RISK (CONTINUED)

	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
COMPANY						
AS AT 31 DECEMBER 2010						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	1,481,435	147,056	177,903	583	-	1,806,977
GOVERNMENT SECURITIES-HTM	1,203,738	800,468	963,826	2,259,699	1,099,300	6,327,031
PLACEMENTS WITH BANKS	311,546	67,802	-	-	-	379,348
AMOUNTS DUE FROM GROUP COMPANIES	423,008	346,110	121,630	-	-	890,748
GOVERNMENT SECURITIES-AFS	1,729,658	-	-	-	50,100	1,779,758
LOANS AND ADVANCES	8,161,296	861,360	650,000	4,020,159	429,670	14,122,485
OTHER ASSETS	220,147	-	-	-	14,281	234,428
TOTAL FINANCIAL ASSETS	**13,530,828**	**2,222,796**	**1,913,359**	**6,280,441**	**1,593,351**	**25,540,775**
LIABILITIES						
CUSTOMER DEPOSITS	6,974,843	5,227,816	5,994,547	1,587,105	-	19,784,311
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	1,309,010	135,134	240,302	-	-	1,684,446
AMOUNTS DUE TO GROUP BANKS	738,075	313,794	-	-	-	1,051,869
BORROWED FUNDS	-	-	59,542	238,169	648,761	946,472
OTHER LIABILITIES	286,779	-	-	-	-	286,779
TOTAL FINANCIAL LIABILITIES	**9,308,707**	**5,676,744**	**6,294,391**	**1,825,274**	**648,761**	**23,753,877**
GAP	**4,222,121**	**(3,453,948)**	**(4,381,032)**	**4,455,167**	**944,590**	**1,786,898**

(C) 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 risks

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.

(i) 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 2011. Included in the table are the Group's and the Company's financial instruments categorised by currency:

	USD	GBP	EUR	OTHERS	TOTAL
	SH 000	SH 000	SH 000	SH 000	SH 000
GROUP					
AS AT 31 DECEMBER 2011					
ASSETS					
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	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**

(C) MARKET RISK (CONTINUED)

	USD	GBP	EUR	OTHERS	TOTAL
	SH 000	SH 000	SH 000	SH 000	SH 000
GROUP					
AS AT 31 DECEMBER 2010					
ASSETS					
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	355,253	49,082	263,491	1,190	669,016
PLACEMENTS WITH BANKS	429,112	27,510	176,750	80,252	713,624
AMOUNTS DUE FROM GROUP COMPANIES	512,495	560	109,472	38,379	660,906
LOANS AND ADVANCES	4,570,229	121,070	838,908	345,206	5,875,413
OTHER ASSETS	80,597	(5,963)	7,476	1,314	83,424
TOTAL FINANCIAL ASSETS	**5,947,686**	**192,259**	**1,396,097**	**466,341**	**8,002,383**
LIABILITIES					
CUSTOMER DEPOSITS	3,164,509	138,469	981,511	14,180	4,298,669
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	1,339,329	-	50,244	11,559	1,401,132
AMOUNTS DUE TO GROUP BANKS	839,456	-	293,561	203,630	1,336,647
LONG TERM LIABILITIES	901,601	2,205	302,191	385	1,206,382
OTHER LIABILITIES	21,545	584	6,725	61	28,915
TOTAL FINANCIAL LIABILITIES	**6,266,440**	**141,258**	**1,634,232**	**229,815**	**8,271,745**
NET ON-BALANCE SHEET POSITION	**(318,754)**	**51,001**	**(238,135)**	**236,526**	**(269,362)**
NET OFF-BALANCE SHEET POSITION	**273,349**	**(27,487)**	**238,552**	**(219,154)**	**265,260**
NET OVERALL POSITION	**(45,405)**	**23,514**	**417**	**17,372**	**(4,102)**

(C) MARKET RISK (CONTINUED)

	USD	GBP	EUR	OTHERS	TOTAL
	SH 000	SH 000	SH 000	SH 000	SH 000
COMPANY					
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**

(C) MARKET RISK (CONTINUED)

	USD	GBP	EUR	OTHERS	TOTAL
	SH 000	SH 000	SH 000	SH 000	SH 000
COMPANY					
AT 31 DECEMBER 2010					
ASSETS					
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	264,393	26,122	201,821	-	492,336
PLACEMENTS WITH BANKS	62,207	-	-	67,127	129,334
AMOUNTS DUE FROM GROUP COMPANIES	510,325	-	28,587	5,059	543,971
LOANS AND ADVANCES	3,183,039	119,775	811,608	171,046	4,285,468
OTHER ASSETS	46,402	25,292	7,441	1,314	80,449
TOTAL FINANCIAL ASSETS	**4,066,366**	**171,189**	**1,049,457**	**244,546**	**5,531,558**
LIABILITIES					
CUSTOMER DEPOSITS	1,908,324	122,824	656,676	1,160	2,688,984
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	1,077,214	-	50,244	1,059	1,128,517
AMOUNTS DUE TO GROUP BANKS	714,471	-	293,561	-	1,008,032
BORROWED FUNDS	648,761	-	297,711	-	946,472
OTHER LIABILITIES	21,545	584	6,725	61	28,915
TOTAL FINANCIAL LIABILITIES	**4,370,315**	**123,408**	**1,304,917**	**2,280**	**5,800,920**
NET ON-BALANCE SHEET POSITION	**(303,949)**	**47,781**	**(255,460)**	**242,266**	**(269,362)**
NET OFF-BALANCE SHEET POSITION	**284,409**	**(24,232)**	**259,097**	**(229,654)**	**289,620**
NET OVERALL POSITION	**(19,540)**	**23,549**	**3,637**	**12,612**	**20,258**

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

(ii) 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.

(C) MARKET RISK (CONTINUED)

	MONTHS UP TO 1	1 TO 3	3 TO 12	>12	NON INTEREST BEARING	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
GROUP						
AT 31 DECEMBER 2011						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	-	-	-	-	4,552,946	4,552,946
GOVERNMENT 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**

(C) MARKET RISK (CONTINUED)

	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
GROUP						
AT 31 DECEMBER 2010						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	-	-	-	-	2,797,407	2,797,407
GOVERNMENT SECURITIES-HTM	1,210,808	1,000,563	1,889,086	3,882,564	-	7,983,021
PLACEMENTS WITH BANKS	930,906	67,802	-	-	-	998,708
AMOUNTS DUE FROM GROUP COMPANIES	423,008	346,110	121,630	-	154,035	1,044,783
GOVERNMENT SECURITIES-AFS AND FAIR VALUE THROUGH P & L	2,610,783	-	-	-	50,100	2,660,883
LOANS AND ADVANCES	9,683,131	1,227,390	1,065,100	7,581,979	-	19,557,600
OTHER ASSETS					417,790	417,790
TOTAL FINANCIAL ASSETS	**14,858,636**	**2,641,865**	**3,075,816**	**11,464,543**	**3,419,332**	**35,460,192**
LIABILITIES						
CUSTOMER DEPOSITS	15,154,842	3,822,983	6,196,984	20,957	2,309,930	27,505,696
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	1,600,070	317,799	240,302	-	-	2,158,171
AMOUNTS DUE TO GROUP BANKS	738,075	313,794	-	-	62,195	1,114,064
BORROWED FUNDS	-	-	62,482	1,533,310	-	1,595,792
OTHER LIABILITIES	-	-	-	-	409,944	409,944
TOTAL FINANCIAL LIABILITIES	**17,492,987**	**4,454,576**	**6,499,768**	**1,554,267**	**2,782,069**	**32,783,667**
INTEREST SENSITIVITY GAP	**(2,634,351)**	**(1,812,711)**	**(3,423,952)**	**9,910,276**	**637,263**	**2,676,525**

(C) MARKET RISK (CONTINUED)

	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
COMPANY						
AT 31 DECEMBER 2011						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	-	-	-	-	2,889,002	2,889,002
GOVERNMENT 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
INVESTMENTS HELD AS AVAILABLE FOR SALE	-	-	-	-	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	-	-	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**

(C) MARKET RISK (CONTINUED)

	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
COMPANY						
AT 31 DECEMBER 2010						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	-	-	-	-	1,806,977	1,806,977
GOVERNMENT SECURITIES-HTM	1,203,738	800,468	963,826	3,358,999	-	6,327,031
PLACEMENTS WITH BANKS	311,546	67,802	-	-	-	379,348
AMOUNTS DUE FROM GROUP COMPANIES	423,008	346,110	121,630	-	-	890,748
GOVERNMENT SECURITIES-AFS	1,729,658	-	-	-	-	1,729,658
INVESTMENTS HELD AS AVAILABLE FOR SALE	-	-	-	-	50,100	50,100
LOANS AND ADVANCES	8,161,296	861,360	650,000	4,449,829	-	14,122,485
OTHER ASSETS	-	-	-	-	234,428	234,428
TOTAL FINANCIAL ASSETS	**11,829,246**	**2,075,740**	**1,735,456**	**7,808,828**	**2,091,505**	**25,540,775**
LIABILITIES						
CUSTOMER DEPOSITS	11,692,712	3,655,193	4,421,924	14,482	-	19,784,311
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	1,309,010	135,134	240,302	-	-	1,684,446
AMOUNTS DUE TO GROUP BANKS	738,075	313,794	-	-	-	1,051,869
BORROWED FUNDS	-	-	59,542	886,930	-	946,472
OTHER LIABILITIES	-	-	-	-	286,779	286,779
TOTAL FINANCIAL LIABILITIES	**13,739,797**	**4,104,121**	**4,721,768**	**901,412**	**286,779**	**23,753,877**
INTEREST SENSITIVITY GAP	**(1,910,551)**	**(2,028,381)**	**(2,986,312)**	**6,907,416**	**1,804,726**	**1,786,898**

(ii) Interest rate risk

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.

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

(D) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

IFRS 7 specifies a 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) and exchanges traded derivatives like futures (for example, Nasdaq).
- 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 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.

FAIR VALUE HIERARCHY	LEVEL 1	LEVEL 2	LEVEL 3
GROUP			
AT 31 DECEMBER 2011			
GOVERNMENT SECURITIES:			
- AVAILABLE FOR SALE	-	13,504	-
- AT FAIR VALUE THROUGH PROFIT & LOSS	-	433,527	-
AT 31 DECEMBER 2010			
GOVERNMENT SECURITIES:			
- AVAILABLE FOR SALE	-	2,610,783	-
- AT FAIR VALUE THROUGH PROFIT & LOSS	-	-	-
COMPANY			
AT 31 DECEMBER 2011			
GOVERNMENT SECURITIES:			
- AVAILABLE FOR SALE	-	-	-
AT 31 DECEMBER 2010			
GOVERNMENT SECURITIES:			
- AVAILABLE FOR SALE	-	1,799,758	-

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.

(E) 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 700 million; (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.

	2011	2010
	SHS 000	SHS 000
CAPITAL MANAGEMENT		
TIER 1 CAPITAL		
SHARE CAPITAL	3,400,000	2,200,000
SHARE PREMIUM	421,200	121,200
RETAINED EARNINGS	503,578	280,716
INVESTMENT IN SUBSIDIARY AND ASSOCIATE	(916,524)	(703,231)
TOTAL	**3,408,254**	**1,898,685**
TIER 2 CAPITAL		
REVALUATION RESERVE (25%)	-	3,480
SUBORDINATED DEBT	683,359	648,761
STATUTORY RESERVES	211,240	131,413
TOTAL CAPITAL	**4,302,853**	**2,682,339**

(E) CAPITAL MANAGEMENT (CONTINUED)

	2011	2010
	SHS 000	SHS 000
RISK WEIGHTED ASSETS		
ON BALANCE SHEET	22,527,455	10,104,206
OFF BALANCE SHEET	4,335,568	890,433
TOTAL RISK WEIGHTED ASSETS	**26,863,023**	**10,994,639**
DEPOSIT LIABILITIES	**31,083,925**	**22,124,152**
CAPITAL RATIOS		
CORE CAPITAL/TOTAL DEPOSIT LIABILITIES (-CBK MINIMUM 8%)	11%	12.60%
CORE CAPITAL/TOTAL RISK WEIGHTED ASSETS (-CBK MINIMUM 8%)	12.7%	15.20%
TOTAL CAPITAL/TOTAL RISK WEIGHTED ASSETS	**16%**	**15.90%**
(-CBK MINIMUM 12%)		

5. INTEREST INCOME - GROUP

	2011	2010
	SHS 000	SHS 000
LOANS AND ADVANCES	3,420,497	2,056,999
GOVERNMENT AND OTHER SECURITIES	888,014	671,178
BALANCES WITH OTHER BANKING INSTITUTIONS	82,627	74,114
TOTAL	**4,391,138**	**2,802,291**

6. INTEREST EXPENSE - GROUP

	2011	2010
	SHS 000	SHS 000
CUSTOMER DEPOSITS	1,776,314	1,112.055
DEPOSITS BY BANKS	329,016	100,085
BORROWED FUNDS	77,842	71,900
OTHER	81,900	10,754
TOTAL	**2,265,072**	**1,294,794**

7. EXPENSES BY NATURE - GROUP

The following items are included within operating expenses:

	2011	2010
	SHS 000	SHS 000
STAFF COSTS (NOTE 8)	1,049,806	792,705
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 15)	170,861	129,184
AMORTISATION OF INTANGIBLE ASSETS (NOTE 16)	37,038	29,136
PROFIT/(LOSS) ON SALE OF PROPERTY AND EQUIPMENT	15,360	(1,241)
OPERATING LEASE RENTALS	10,430	2,908
AUDITORS' REMUNERATION	8,856	9,337
AMORTISATION OF PREPAID OPERATING LEASE RENTALS (NOTE 30)	85	85

8. EMPLOYEE BENEFITS EXPENSE - GROUP

The following items are included within employee benefits expense:

	2011	2010
	SHS 000	SHS 000
SALARIES AND WAGES	835,824	668,733
RETIREMENT BENEFIT COSTS		
- DEFINED CONTRIBUTION SCHEME	46,207	23,796
- NATIONAL SOCIAL SECURITY FUND	13,082	21,470
OTHER STAFF COSTS	154,693	78,706
TOTAL	**1,049,806**	**792,705**

9. INCOME TAX EXPENSE - GROUP

	2011	2010
	SHS 000	SHS 000
CURRENT INCOME TAX	172,184	164,035
DEFERRED INCOME TAX (NOTE 18)	(31,149)	(41,949)
TOTAL	**141,035**	**122,086**

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	718,288	585,438
TAX CALCULATED AT THE STATUTORY INCOME TAX RATE OF 30% (2010: 30%)	215,486	175,631
TAX EFFECT OF:		
INCOME NOT SUBJECT TO TAX	(96,148)	(81,265)
EXPENSES NOT DEDUCTIBLE FOR TAX PURPOSES	5,824	16,309
OTHER - FINAL TAX ON GOVERNMENT PAPER AT 15%	32,942	29,372
PRIOR YEAR OVERPROVISION OF DEFERRED TAX	(19,681)	(17,961)
UTILISATION OF PREVIOUSLY UNRECOGNISED TAX LOSSES	2,612	-
INCOME TAX EXPENSE	**141,035**	**122,086**

10. DIVIDENDS

At the Annual General Meeting, a final dividend in respect of the year ended 31 December 2011 of Shs 40 (2010: Shs 90) per share amounting to a total of Shs 136 million (2010: Shs 198 million) was proposed.
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

	2011	2010
	SHS 000	SHS 000
GROUP		
CASH IN HAND	1,390,444	984,137
BALANCES WITH CENTRAL BANKS	3,132,492	1,813,270
TOTAL	**4,522,936**	**2,797,407**
COMPANY		
CASH IN HAND	549,528	527,912
BALANCES WITH CENTRAL BANK OF KENYA	2,339,474	1,279,065
TOTAL	**2,889,002**	**1,806,977**

12. INVESTMENT SECURITIES

(A) HELD TO MATURITY

	2011 SHS 000	2010 SHS 000
GROUP		
TREASURY BILLS AND BONDS:		
- MATURING WITHIN 91 DAYS OF THE DATE OF ACQUISITION (NOTE 27)	501,945	2,021,566
- MATURING AFTER 91 DAYS OF THE DATE OF ACQUISITION	10,200,155	5,954,420
- LISTED DEBT SECURITIES	3,470	7,035
TOTAL	**10,705,570**	**7,983,021**
COMPANY		
TREASURY BILLS AND BONDS:		
- MATURING WITHIN 91 DAYS OF THE DATE OF ACQUISITION	-	2,004,206
- MATURING AFTER 91 DAYS OF THE DATE OF ACQUISITION	9,014,580	4,322,825
TOTAL	**9,014,580**	**6,327,031**

(B) AVAILABLE FOR SALE

	2011 SHS 000	2010 SHS 000
GROUP		
TREASURY BONDS	13,504	2,610,783
EQUITY SECURITIES AT COST (UNLISTED)	50,100	50,100
TOTAL	**63,604**	**2,660,883**
COMPANY		
TREASURY BONDS	-	1,729,658
EQUITY SECURITIES AT COST (UNLISTED)	50,100	50,100
TOTAL	**50,100**	**1,779,758**

The movement in investment securities available for sale may be summarised as follows:

AT START OF YEAR	1,779,758	742,463
ADDITIONS	9,259,813	37,452,488
DISPOSALS (SALE AND REDEMPTION)	(10,970,990)	(36,415,352)
GAINS FROM CHANGES IN FAIR VALUE TAKEN TO EQUITY (NOTE 24)	(18,481)	159
AT END OF YEAR	**50,100**	**1,779,758**

12. INVESTMENT SECURITIES (CONTINUED)

(C) ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011	2010
	SHS 000	SHS 000
GROUP		
TREASURY BONDS	433,527	-

Treasury bills and bonds are debt securities issued by the Government.

13. PLACEMENTS WITH OTHER BANKS

	2011	2010
	SHS 000	SHS 000
GROUP		
PLACEMENTS	2,296,947	102,837
LOANS AND ADVANCES TO OTHER BANKS	1,282,895	895,871
TOTAL	**3,579,842**	**998,708**
COMPANY		
PLACEMENTS	854,026	67,802
LOANS AND ADVANCES TO OTHER BANKS	1,248,465	311,546
TOTAL	**2,102,491**	**379,348**

14. LOANS AND ADVANCES TO CUSTOMERS

	2011	2010
	SHS 000	SHS 000
GROUP		
OVERDRAFTS	11,941,410	7,188,985
PERSONAL LOANS	3,311,395	1,084,686
MORTGAGES	646,010	254,937
COMMERCIAL LOANS	13,940,836	10,543,683
DISCOUNTED BILLS	301,238	640,254
GROSS LOANS AND ADVANCES	**30,140,889**	**19,712,545**
LESS: PROVISION FOR IMPAIRMENT OF LOANS AND ADVANCES		
INDIVIDUALLY ASSESSED	(100,533)	(104,228)
COLLECTIVELY ASSESSED	(58,089)	(50,717)
TOTAL	**29,982,267**	**19,557,600**
COMPANY		
OVERDRAFTS	10,102,821	6,100,905
PERSONAL LOANS	2,589,951	1,084,686
MORTGAGES	646,010	254,937
COMMERCIAL LOANS	8,070,398	6,113,208
DISCOUNTED BILLS	300,997	637,314
GROSS LOANS AND ADVANCES	**21,710,177**	**14,191,050**
LESS: PROVISION FOR IMPAIRMENT OF LOANS AND ADVANCES		
- INDIVIDUALLY ASSESSED	(61,602)	(52,042)
- COLLECTIVELY ASSESSED	(8,884)	(16,523)
TOTAL	**21,639,691**	**14,122,485**

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	SPECIFIC ALLOWANCES FOR IMPAIRMENT	COLLECTIVE ALLOWANCES FOR IMPAIRMENT	TOTAL
	SHS 000	SHS 000	SHS 000
GROUP			
AT 1 JANUARY 2010	**96,050**	**36,578**	**132,628**
PROVISION FOR LOAN IMPAIRMENT	99,398	7,776	107,174
AMOUNTS RECOVERED DURING THE YEAR	(21,550)	-	(21,550)
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(64,598)	10,278	(54,320)
EXCHANGE DIFFERENCE	(5,072)	(3,915)	(8,987)
AT 31 DECEMBER 2010	**104,228**	**50,717**	**154,945**
AT 1 JANUARY 2011	**104,228**	**50,717**	**154,945**
PROVISION FOR LOAN IMPAIRMENT	180,307	(7,640)	172,667
AMOUNTS RECOVERED DURING THE YEAR	(86,192)	-	(86,192)
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(78,470)	-	(78,470)
TRANSFER TO RETAINED EARNINGS	(15,634)	15,634	-
EXCHANGE DIFFERENCE	(3,705)	(623)	(4,328)
AT 31 DECEMBER 2011	**100,534**	**58,088**	**158,622**
COMPANY			
AT 1 JANUARY 2010	**64,141**	**8,747**	**72,888**
PROVISION FOR LOAN IMPAIRMENT	47,823	7,776	55,599
AMOUNTS RECOVERED DURING THE YEAR	(21,550)	-	(21,550)
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(38,372)	-	(38,372)
AT 31 DECEMBER 2010	**52,042**	**16,523**	**68,565**
AT 1 JANUARY 2011	**52,042**	**16,523**	**68,565**
PROVISION FOR LOAN IMPAIRMENT	52,688	(7,640)	45,048
AMOUNTS RECOVERED DURING THE YEAR	(10,907)	-	(10,907)
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(32,221)	-	(32,221)
AT 31 DECEMBER 2011	**61,602**	**8,883**	**70,485**

All impaired loans have been written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31 December 2011 was Shs 417 million (2010: Shs 318 million).

15. PROPERTY AND EQUIPMENT

	BUILDINGS & FREEHOLD LAND	MOTOR VEHICLES	FIXTURES, FITTINGS & EQUIPMENT	WIP	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
GROUP					
YEAR ENDED 31 DECEMBER 2010					
OPENING BOOK AMOUNT	139,927	16,093	457,135	39,707	652,862
EXCHANGE DIFFERENCE	(16,077)	(1,425)	(21,741)	(17,902)	(57,145)
OPENING NET BOOK AMOUNT	123,850	14,668	435,394	21,805	595,717
ADDITIONS	-	14,141	310,398	74,163	398,702
TRANSFERS	-	-	13,580	(21,805)	(8,225)
DISPOSALS	-	(175)	(771)	-	(946)
DEPRECIATION CHARGE	(2,735)	(8,503)	(117,946)	-	(129,184)
CLOSING NET BOOK AMOUNT	**121,115**	**20,131**	**640,655**	**74,163**	**856,064**
AT 31 DECEMBER 2010					
COST	133,450	47,935	976,417	74,163	1,231,965
ACCUMULATED DEPRECIATION	(12,335)	(27,804)	(335,762)	-	(375,901)
NET BOOK AMOUNT	**121,115**	**20,131**	**640,655**	**74,163**	**856,064**
YEAR ENDED 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**	**869,811**	**100,802**	**1,107,105**
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**

15. PROPERTY AND EQUIPMENT (CONTINUED)

	BUILDINGS & FREEHOLD LAND	MOTOR VEHICLES	FIXTURES, FITTINGS & EQUIPMENT	WIP	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
COMPANY					
YEAR ENDED 31 DECEMBER 2010					
OPENING NET BOOK AMOUNT	11,010	4,658	178,949	-	194,617
ADDITIONS	-	14,071	175,858	27,928	217,857
DISPOSALS	-	-	(561)	-	(561)
DEPRECIATION CHARGE	(180)	(5,143)	(50,396)	-	(55,719)
CLOSING NET BOOK AMOUNT	**10,830**	**13,586**	**303,850**	**27,928**	**356,194**
AT 31 DECEMBER 2010					
COST	12,000	35,335	458,067	27,928	533,330
ACCUMULATED DEPRECIATION	(1,170)	(21,749)	(154,217)	-	(177,136)
NET BOOK AMOUNT	**10,830**	**13,586**	**303,850**	**27,928**	**356,194**
YEAR ENDED 31 DECEMBER 2011					
OPENING NET BOOK AMOUNT	10,830	13,586	303,850	27,928	356,194
ADDITIONS	-	1,850	259,092	24,006	257,020
TRANSFERS			27,938	(27,928)	-
DISPOSALS	-	-	(30)		(30)
DEPRECIATION CHARGE	(180)	(7,074)	(79,354)	-	(86,608)
CLOSING NET BOOK AMOUNT	**10,650**	**8,362**	**483,558**	**24,006**	**526,576**
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**

16. INTANGIBLE ASSETS - SOFTWARE

	2011	2010
	SHS 000	SHS 000
GROUP		
AT START OF YEAR	111,161	75,282
ADDITIONS	30,812	65,878
AMORTISATION	(37,038)	(29,136)
AT END OF YEAR	**104,935**	**112,024**
AT 31 DECEMBER		
COST	280,929	244,124
ACCUMULATED AMORTISATION	(175,994)	(132,100)
NET BOOK AMOUNT	**104,935**	**112,024**
COMPANY		
AT START OF YEAR	64,774	34,456
ADDITIONS	26,448	43,704
AMORTISATION	(18,346)	(13,386)
AT END OF YEAR	**72,876**	**64,774**
AT 31 DECEMBER		
COST	184,134	149,974
ACCUMULATED AMORTISATION	(111,258)	(85,200)
NET BOOK AMOUNT	**72,876**	**64,774**

17. INVESTMENT IN ASSOCIATE AND SUBSIDIARY

(A) INVESTMENT IN ASSOCIATES/INVESTMENTS HELD AS AFS – GROUP AND COMPANY

	2011	2010
	SHS 000	SHS 000
AT START OF THE YEAR	318,768	283,651
SHARE OF PROFITS	25,832	35,117
AT END OF YEAR	344,600	318,768

(B) INVESTMENT IN SUBSIDIARY

	2011	2010
	SHS 000	SHS 000
AS START OF THE YEAR	419,582	346,527
RIGHTS ISSUES	213,293	73,055
AT END OF YEAR	632,875	419,582

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

18. DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted income tax rate of 30% (2010:30%).
The movement on the deferred income tax account is as follows:

	2011	2010
	SHS 000	SHS 000
GROUP		
AT START OF YEAR	(37,550)	4,351
INCOME STATEMENT CHARGE/(CREDIT) (NOTE 9)	(31,149)	(41,949)
DEFERRED INCOME TAX ON CHANGES IN FAIR VALUE OF AVAILABLE-FOR-SALE-INVESTMENTS (NOTE 24)	(5,966)	48
AT END OF YEAR	74,665	(37,550)
COMPANY		
AT START OF YEAR	(8,363)	(2,967)
INCOME STATEMENT CHARGE/(CREDIT)	(17,714)	(5,444)
DEFERRED INCOME TAX ON CHANGES IN FAIR VALUE OF AVAILABLE-FOR-SALE INVESTMENTS (NOTE 24)	(5,967)	48
AT END OF YEAR	(32,043)	(8,363)

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:

	1.01.2011	CHARGED/ (CREDITED) TO P&L	CREDITED TO EQUITY	31.12.2011
	SHS 000	SHS 000	SHS 000	SHS 000
GROUP				
DEFERRED INCOME TAX LIABILITIES				
PROPERTY AND EQUIPMENT	58,267	14,747	15,225	88,239
DEFERRED INCOME TAX ASSETS				
PROVISIONS	(28,001)	(12,392)	-	(40,393)
FAIR VALUE OF AVAILABLE-FOR-SALE INVESTMENTS	5,966	-	(5,966)	-
TAX LOSSES	(73,465)	(6,769)	-	(80,234)
EXCHANGE DIFFERENCES	(318)	(26,735)	(15,225)	(42,278)
NET DEFERRED INCOME TAX LIABILITY/(ASSET)	**(37,551)**	**(31,149)**	**(5,966)**	**(74,666)**

	1.01.2010	CHARGED/ (CREDITED) TO P&L	CREDITED TO EQUITY	31.12.2010
	SHS 000	SHS 000	SHS 000	SHS 000
GROUP				
DEFERRED INCOME TAX LIABILITIES				
PROPERTY AND EQUIPMENT	35,202	23,066	-	58,267
DEFERRED INCOME TAX ASSETS				
PROVISIONS	(10,172)	(17,829)	-	(28,001)
FAIR VALUE OF AVAILABLE-FOR-SALE INVESTMENTS	5,918	-	48	5,966
TAX LOSSES	(26,316)	(47,149)	-	(73,465)
EXCHANGE DIFFERENCES	(281)	(37)	-	(318)
NET DEFERRED INCOME TAX LIABILITY/(ASSET)	**4,351**	**(41,949)**	**48**	**(37,551)**

18. DEFERRED INCOME TAX (CONTINUED)

	1.01.2011	CHARGED/ (CREDITED) TO P&L	CREDITED TO EQUITY	31.12.2011
	SHS 000	SHS 000	SHS 000	SHS 000
COMPANY				
DEFERRED INCOME TAX LIABILITIES				
PROPERTY AND EQUIPMENT	2,093	(14,153)	-	(12,060)
DEFERRED INCOME TAX ASSETS				
PROVISIONS	(16,421)	(3,562)	-	(19,983)
FAIR VALUE OF AVAILABLE-FOR-SALE INVESTMENTS	5,967	-	(5,967)	-
NET DEFERRED INCOME TAX ASSET	**(8,363)**	**(17,715)**	**(5,966)**	**(32,043)**

	1.01.2010	CHARGED/ (CREDITED) TO P&L	CREDITED TO EQUITY	31.12.2010
	SHS 000	SHS 000	SHS 000	SHS 000
COMPANY				
DEFERRED INCOME TAX LIABILITIES				
PROPERTY AND EQUIPMENT	(526)	2,619	-	2,093
DEFERRED INCOME TAX ASSETS				
PROVISIONS	(8,359)	(8,062)	-	(16,421)
FAIR VALUE OF AVAILABLE-FOR-SALE INVESTMENTS	5,918	-	47	5,965
NET DEFERRED INCOME TAX LIABILITY/(ASSET)	**(2,967)**	**(5,444)**	**47**	**(8,363)**

19. OTHER ASSETS

	2011	2010
	SHS 000	SHS 000
GROUP		
UNCLEARED EFFECTS	225,102	164,409
OTHER ASSETS	474,580	188,318
TOTAL	**699,682**	**352,727**
COMPANY		
UNCLEARED EFFECTS	186,790	152,824
OTHER ASSETS	305,455	67,323
TOTAL	**492,245**	**220,147**

20. CUSTOMER DEPOSITS

	2011	2010
	SHS 000	SHS 000
GROUP		
CURRENT AND DEMAND DEPOSITS	12,979,117	9,937,676
SAVINGS ACCOUNTS	3,079,570	2,112,285
FIXED DEPOSIT ACCOUNTS	17,348,955	15,350,502
MARGIN DEPOSITS	137,434	105,233
TOTAL	**33,545,076**	**27,505,696**
COMPANY		
CURRENT AND DEMAND DEPOSITS	9,124,707	7,141,456
SAVINGS ACCOUNTS	642,138	389,620
FIXED DEPOSIT ACCOUNTS	14,146,338	12,210,687
MARGIN DEPOSITS	73,213	42,548
TOTAL	**23,986,396**	**19,784,311**

21. DEPOSITS FROM OTHER BANKS

	2011	2010
	SHS 000	SHS 000
GROUP		
OVERNIGHT BORROWING	1,482,241	395,628
OTHER BALANCES DUE TO BANKS	2,917,254	1,762,543
TOTAL	**4,399,495**	**2,158,171**
COMPANY		
OVERNIGHT BORROWING	1,482,241	395,628
OTHER BALANCES DUE TO BANKS	1,592,500	1,288,818
TOTAL	**3,074,741**	**1,684,446**

22. OTHER LIABILITIES

	2011	2010
	SHS 000	SHS 000
GROUP		
ITEMS IN TRANSIT	21,962	9,971
BILLS PAYABLE	101,643	75,119
ACCRUALS	12,673	58,380
OTHER	465,126	186,575
CREDITORS	44,601	35,700
TOTAL	**646,005**	**365,745**
COMPANY		
ITEMS IN TRANSIT	21,962	9,971
BILLS PAYABLE	82,779	46,419
OTHER	464,267	186,294
TOTAL	**569,008**	**242,684**

23. SHARE CAPITAL

	NUMBER OF SHARES	ORDINARY SHARES
	SHS 000	SHS 000
(A) SHARE CAPITAL		
AT 1 JANUARY 2010	2,000	2,000,000
ISSUE OF SHARES	200	200,000
AT 31 DECEMBER 2010	2,200	2,200,000
ISSUE OF SHARES	1,200	1,200,000
BALANCE AT 31 DECEMBER 2011	**3,400**	**3,400,000**
(B) SHARE PREMIUM		
AT 1 JANUARY 2010		112,200
ISSUE OF SHARES		9,000
BALANCE AT 31 DECEMBER 2010		121,200
ISSUE OF SHARES		300,000
BALANCE AT 31 DECEMBER 2011		**421,200**

The total authorised number of ordinary shares is 3,400,000 with a par value of Shs 1,000 per share. In 2011 the Bank issued an additional 1,200,000 shares which were fully paid.

24. REVALUATION RESERVES - AVAILABLE-FOR-SALE(AFS) SECURITIES

	2011	2010
	SHS 000	SHS 000
GROUP AND COMPANY		
AT START OF YEAR	13,918	13,807
NET GAINS FROM CHANGES IN FAIR VALUE	-	159
DEFERRED INCOME TAX	(5,966)	(48)
GAINS REALISED ON SALE OF SECURITIES	(7,952)	-
AT END OF YEAR	**-**	**13,918**

25. REGULATORY RESERVES

	2011	2010
	SHS 000	SHS 000
GROUP		
REGULATORY RESERVES		
AT START OF YEAR	158,701	91,414
TRANSFER FROM RETAINED EARNINGS	94,897	67,287
AT END OF YEAR	**253,598**	**158,701**
COMPANY		
REGULATORY RESERVES		
AT START OF YEAR	131,413	81,337
TRANSFER FROM RETAINED EARNINGS	79,827	50,076
AT END OF YEAR	**211,240**	**131,413**

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 recognised 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.

	2011	2010
	SHS 000	SHS 000
GROUP		
ACCEPTANCES AND LETTERS OF CREDIT	3,235,822	2,064,606
GUARANTEES AND PERFORMANCE BONDS	6,375,948	3,749,214
CONTINGENCIES AND COMMITMENTS	-	-
TOTAL	**9,611,770**	**5,813,820**
COMPANY		
ACCEPTANCES AND LETTERS OF CREDIT	1,690,608	974,566
GUARANTEES AND PERFORMANCE BONDS	4,870,008	2,713,774
TOTAL	**6,560,616**	**3,688,340**

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.

	2011	2010
	SHS 000	SHS 000
OTHER COMMITMENTS		
GROUP		
FOREIGN EXCHANGE FORWARD CONTRACTS AND UNUTILISED COMMITMENTS	8,837,471	2,974,330
COMPANY		
FOREIGN EXCHANGE FORWARD CONTRACTS AND UNUTILISED COMMITMENTS	8,379,508	2,778,645

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 1,417 million in 2011 (2010: Shs 1,679 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.

26. ANALYSIS OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE CONSOLIDATED CASH FLOW STATEMENT

	2011	2010
	SHS 000	SHS 000
CASH AND BALANCES WITH CENTRAL BANKS (NOTE 11)	4,522,936	2,797,407
LESS: CASH RESERVE REQUIREMENT	(764,703)	(1,606,148)
GOVERNMENT AND OTHER SECURITIES (NOTE 12)	501,945	4,632,349
PLACEMENTS WITH OTHER BANKS (NOTE 13)	3,579,842	998,708
DUE TO BANKS AND NON-BANK FINANCIAL INSTITUTIONS (NOTE 21)	(1,482,241)	(2,158,171)
AMOUNTS DUE FROM GROUP BANKS (NET)	(1,799,651)	(377,351)
TOTAL	**4,558,128**	**4,286,794**

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 4.5% (2010: 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 AFRICAN FINANCIAL HOLDING (AFH) 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 placings 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:

(A) AMOUNTS DUE FROM GROUP BANKS

	2011	2010
	SHS 000	SHS 000
GROUP		
NATEXIS BANQUES	109,066	146,705
BOA-TANZANIA	131,428	364,920
BOA-FRANCE	177,613	28,587
BOA-RDC	128,324	121,630
BOA-MER ROUGE	55	
LA CONGOLAISE DE BANQUE	549,925	
OTHER GROUP ENTITIES	99,974	74,871
TOTAL	**1,196,385**	**736,713**
INTEREST INCOME EARNED ON THE ABOVE	20,736	5,716
LEDGER FEES EARNED ON THE ABOVE	20	6
COMPANY		
NATEXIS BANQUES	109,066	146,705
BOA-TANZANIA	128,336	364,290
BANK-UGANDA	2,518	229,536
BOA-FRANCE	5,464	28,587
BOA-RDC	128,324	121,630
BOA-MER ROUGE	55	-
LA CONGOLAISE DE BANQUE	549,925	-
TOTAL	**923,688**	**890,748**
INTEREST INCOME EARNED ON THE ABOVE	22,527	5,094
LEDGER FEES EARNED ON THE ABOVE	20	6

(B) AMOUNTS DUE TO GROUP COMPANIES

	2011	2010
	SHS 000	SHS 000
GROUP		
DUE TO AFH-SERVICES (INCLUDED UNDER OTHER LIABILITIES)	-	-
COMPANY		
DUE TO AFH-SERVICES (INCLUDED UNDER OTHER LIABILITIES)	-	-

(C) AMOUNTS DUE TO GROUP BANKS

	2011	2010
	SHS 000	SHS 000
GROUP		
BOA-MADAGASCAR	541,074	141,439
BOA-BANK TANZANIA	130,483	784,890
BANQUE DE CREDIT DE BUJUMBURA	349,960	172,692
BOA-CÔTE D'IVOIRE	339	325
BOA-RDC	737	7,724
BOA-GHANA	4,392	-
BOA-MER ROUGE	3,440,093	-
LA MER ROUGE	1,436,999	-
OTHER GROUP ENTITIES	368	6,994
TOTAL	**5,904,445**	**1,114,064**
INTEREST EXPENSE INCURRED ON THE ABOVE	**52,358**	**5,987**
COMPANY		
BOA-MADAGASCAR	541,074	141,439
BOA-UGANDA	32,007	41,434
BOA-CÔTE D'IVOIRE	339	325
BOA-RDC	359	7,724
BOA-TANZANIA	128,215	688,255
BANQUE DE CREDIT DE BUJUMBURA	349,960	172,692
BOA-GHANA	4,392	-
BOA-MER ROUGE	3,012,024	-
LA CONGOLAISE DE BANQUE	1,436,999	-
TOTAL	**5,505,369**	**1,051,869**
INTEREST EXPENSE INCURRED ON THE ABOVE	**50,322**	**1,268**
INVESTMENTS IN GROUP BANKS		
BOA-FRANCE	50,100	50,100

(D) EXPENSES

	2011	2010
	SHS 000	SHS 000
GROUP		
MANAGEMENT FEE PAID TO AFH-SERVICES	101,993	34,274
COMPANY		
MANAGEMENT FEE PAID TO AFH-SERVICES	43,838	-

(D) EXPENSES (CONTINUED)

Loans to Employees and Directors

Group
Advances to customers as at 31 December 2011 includes loans to employees amounting to Shs 530 million (2010: Shs 363 million). Total loans to Directors amounted to Shs 38 million as at 31 December 2011 (2010: Shs 29 million).

Company
Advances to customers as at 31 December 2011 includes loans to employees amounting to Shs 429 million (2010: Shs 272 million). Total loans to Directors amounted to Shs 38 million as at 31 December 2011 (2010: Shs 29 million).

	2011	2010
	SHS 000	SHS 000
GROUP		
INTEREST INCOME EARNED ON LOANS TO EMPLOYEES AND KEY MANAGEMENT	21,095	18,351
COMPANY		
INTEREST INCOME EARNED ON LOANS TO EMPLOYEES AND KEY MANAGEMENT	13,790	11,438
KEY MANAGEMENT COMPENSATION		
GROUP		
SALARIES AND OTHER SHORT-TERM EMPLOYMENT BENEFITS	541,236	350,347
COMPANY		
SALARIES AND OTHER SHORT-TERM EMPLOYMENT BENEFITS	479,639	318,012
DIRECTORS' REMUNERATION		
GROUP		
SALARIES TO EXECUTIVE DIRECTORS (INCLUDED IN KEY MANAGEMENT COMPENSATION ABOVE)	83,348	48,238
OTHER COMPENSATION TO NON-EXECUTIVE DIRECTORS	**13,013**	**13,251**
COMPANY		
SALARIES TO EXECUTIVE DIRECTORS (INCLUDED IN KEY MANAGEMENT COMPENSATION ABOVE)	40,856	34,229
OTHER COMPENSATION TO NON-EXECUTIVE DIRECTORS	**6,164**	**7,252**

29. INTANGIBLE ASSET - GOODWILL

	2011	2010
	SHS 000	SHS 000
GROUP		
AT START OF YEAR	15,610	15,610
AT END OF YEAR	**15,610**	**15,610**

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.

	2011	2010
	SHS 000	SHS 000
GROUP AND COMPANY		
AT START OF YEAR	4,949	5,033
AMORTISATION CHARGE FOR THE YEAR	(85)	(84)
AT END OF YEAR	**4,864**	**4,949**

31. LONG TERM LIABILITIES

	2011	2010
	SHS 000	SHS 000
GROUP		
BORROWINGS	1,758,683	947,031
SUBORDINATED DEBT	942,991	648,761
TOTAL	**2,701,674**	**1,595,792**
COMPANY		
BORROWINGS	243,329	297,711
SUBORDINATED DEBT	683,359	648,761
TOTAL	**926,688**	**946,472**
BORROWINGS		
GROUP		
AT START OF YEAR	947,031	1,141,613
ADDITIONS / (REPAYMENTS)	794,192	(170,506)
ACCRUED INTEREST	17,460	2,924
TOTAL	**1,758,683**	**947,031**
COMPANY		
AT START OF YEAR	297,711	331,407
REPAYMENTS DURING THE YEAR	(71,843)	(36,620)
ACCRUED INTEREST	17,460	2,924
TOTAL	**243,328**	**297,711**

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 2011 was 4.961%. The subordinated is treated as Tier 2 capital in line with CBK guidelines.

None of the borrowings were in default during the year.

APPENDIX

BANK STATEMENT OF COMPREHENSIVE INCOME

	2011	2010
	SHS 000	SHS 000
INTEREST INCOME	3,012,731	1,780,116
INTEREST EXPENSE	(1,641,878)	(891,483)
NET INTEREST INCOME	**1,370,853**	**888,633**
FEE AND COMMISSION INCOME	348,372	232,675
FEE AND COMMISSION EXPENSE	(21,601)	(34,255)
NET FEE AND COMMISSION INCOME	**326,772**	**198,420**
FOREIGN EXCHANGE INCOME	256,323	131,251
OTHER OPERATING INCOME	(74,915)	242,049
SHARE OF INCOME OF ASSOCIATES	25,832	35,117
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	(45,048)	(55,599)
OPERATING EXPENSES	(1,305,268)	(955,394)
TOTAL	**(1,143,076)**	**(602,576)**
PROFIT BEFORE INCOME TAX	**554,550**	**484,477**
INCOME TAX EXPENSE	(121,825)	(129,219)
PROFIT FOR THE YEAR	**432,725**	**355,258**
OTHER COMPREHENSIVE INCOME:		
GAINS ON REVALUATION OF AFS BONDS	(13,918)	159
TAX EFFECT ON GAINS ON REVALUATION OF AFS BONDS	5,966	(48)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**424,773**	**355,369**

Notes

Notes

BANK OF AFRICA – KENYA : www.boakenya.com

BANK OF AFRICA
KENYA
GROUPE BANK OF AFRICA

HEAD OFFICE

BANK OF AFRICA – KENYA
Reinsurance Plaza – Taifa Road – P.O. Box 69562 – 00400 Nairobi – KENYA
Phone: (254) 20 327 50 00 / 221 11 75 – Fax: (254) 20 221 41 66 Swift: AFRIKENEX
E-mail <headoffice@boakenya.com>

NAIROBI BRANCHES

EMBAKASI BRANCH
Airport North Road (Next to G4S) – P.O. Box 69562
00400 Nairobi
Phone: (254) 20 327 50 00 / 427 30
Fax: (254) 20 211 477
E-mail <embakasi@boakenya.com>

GALLERIA BRANCH
Galleria Mall - Opposite Bomas of Kenya Langata
P.O. Box 69562 – 00400 Nairobi
Phone: (254) 20 327 50 00 / 5315 / 6 – 20 2085366
Fax: (254) 20 221 41 66
E-mail <galleria@boakenya.com>

GREENSPAN BRANCH
Greenspan Mall - Donholm
P.O. Box 69562 – 00400 Nairobi
Phone: (254) 20 327 50 00 / 5141 / 4 – 20 2636559
Fax: (254) 20 221 41 66
E-mail <greenspan@boakenya.com>

NAIROBI BRANCH
Reinsurance Plaza – Taifa Road – P.O. Box 69562
00400 Nairobi
Phone: (254) 20 327 50 00 / 20 221 11 75
Fax: (254) 20 221 41 66 / 221 14 77
E-mail <nairobi@boakenya.com>

MONROVIA STREET BRANCH
Within Nakumatt Lifestyle – Monrovia Street
P.O. Box 69562 – 00400 Nairobi
Phone: (254) 20 327 50 00 / 316 500 / 502
Fax: (254) 20 315 556
E-mail <monrovia@boakenya.com>

NGONG ROAD BRANCH
Bishop Magua Centre – Opp Uchumi Hyper on
Ngong Road – P.O. Box 69562 – 00400 Nairobi
Phone: 254 (20) 327 50 00 / 54 09 / 11
E-mail <ngongroad@boakenya.com>

RIVER ROAD BRANCH
River Road (opposite Kipepeo Restaurant)
P.O. Box 11422 – 00400 Nairobi
Phone: (254) 20 327 50 00 / 222 52 75
Fax: (254) 20 249 04 2
E-mail <rroad@boakenya.com>

RUARAKA BRANCH
Baba Dogo House – P.O. Box 988 – 00618 Nairobi
Phone: (254) 20 327 50 00 / 56 05 – 856 62 70 / 1
Alternative lines: 0722 206 91 / 9 – 0733 333 01 / 5
Fax: (254) 20 856 62 750 00
E-mail <ruaraka@boakenya.com>

UHURU HIGHWAY BRANCH
(Opposite Nyayo Stadium) Next to Nakumatt Mega
Uhuru Highway – P.O. Box 27568 – 00506 Nairobi
Phone: (254) 20 327 50 00 / 650 15 3 / 4
Alternative lines: 0739 837 386
Fax: (254) 20 650 21 9
E-mail <uhuru@boakenya.com>

WESTLANDS BRANCH
Fedha Plaza – Mpaka Road – P.O. Box 14166
00800 Nairobi
Phone: (254) 20 327 50 00 / 52 72 / 8 – 445 05 66 / 7
Fax: (254) 20 445 05 68
E-mail <westlands@boakenya.com>

REGIONAL BRANCHES

BUNGOMA BRANCH
New nyanza hardware – P.O. Box 1066
50200 Bungoma
Phone: (254) 20 3 275 50 00 / 56 60 / 65
(254) 5 530 140
Fax: (254) 20 2211477
E-mail <bungoma@boakenya.com>

CHANGAMWE BRANCH
Magongo – Airport Road – P.O. Box 87941-80100
20200 Mombasa
Phone: (254) 20 327 50 00 / 52 54 - (0) 41 231 58 18
Fax: (254) 41 2312999
E-mail <changamwe@boakenya.com>

ELDORET BRANCH
Junction of Ronald Ngala and Uganda Road
(Opposite Barng'etuny plaza)
P.O. Box 9332 – 30100 Eldoret
Phone: (254) 20 327 50 00 / 56 30 / 35
Fax: (254) 20 211 47 7
E-mail <eldoret@boakenya.com>

KERICHO BRANCH
P.O. Box 1322 - 20200 Kericho – AM Plaza,
along the Main highway – Kericho
Phone: (254) 20 327 50 00 / 56 45 / 50
(254) 052 307 04
Fax: (254) 052 307 05
E-mail <kericho@boakenya.com>

KISII BRANCH
Kisumu Road – Oyru Plaza – P.O. Box 2707
40200 Kisii
Phone: (254) 20 327 50 00 / 56 77 / 80
E-mail <kisii@boakenya.com>

MERU BRANCH
Meru – Maua Road – P.O. Box 2086
60200 Meru
Phone: (254) 20 327 50 00 / 56 87 /91
E-mail <meru@boakenya.com>

MOMBASA BRANCH
Palli House – Nyerere Avenue – P.O. Box 87941
80100 Mombasa
Phone: (254) 20 327 50 00 / 51 04
(254) 41 231 58 18 / 9
Fax: (254) 41 231 29 99
E-mail <mombasa@boakenya.com>

NAKURU BRANCH
United Arcade – Kenyatta Avenue – P.O. Box 3976
20100 Nakuru
Phone: (254) 20 327 50 00 / 56 21 / 25
(254) 51 221 72 13
Fax: (254) 51 221 72 14
E-mail <nakuru@boakenya.com>

THIKA BRANCH
Muranga Motors Bldg – General Kago Road
P.O. Box 881 – 01000 Thika
Phone: (254) 20 327 50 00 / 56 13 / 6
Fax: (254) 672 01 81
E-mail <thika@boakenya.com>

KISUMU BRANCH
Jubilee House – Angawa Avenue – P.O. Box 750
40100 Kisumu
Phone: (254) 20 327 50 00 / 56 00 / 4
(254) 57 202 07 28 / 30
Fax: (254) 057 – 202 07 33
E-mail <kisumu@boakenya.com>

ONGATA RONGAI BRANCH
Magadi Road – P.O. Box 69562 – 00400 Nairobi
Phone: (254) 327 50 00 / 56 38 / 41
(254) 45 3 124 060
Fax: (254) 45 - 3124061
E-mail <rongai@boakenya.com>

KITENGELA BRANCH
Red Heron Centre, Namanga Road – Kitengela
Phone: (254) 327 50 00 / 55 03 / 5
(254) 45 3 124 060
Fax: (254) 20 221 41 66
E-mail <kitengela@boakenya.com>

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